

Financial Reporting Council  
Mr David Styles  
Director of Corporate Governance  
8<sup>th</sup> Floor  
125 London Wall  
London EC2Y 5AS

29 March 2019

Dear David,

### **FRC CONSULTATION ON REVISIONS TO THE UK STEWARDSHIP CODE**

Established in 1991, Investec Asset Management is a specialist investment manager, providing investment products and services to institutions, advisory clients and individual investors. We manage GBP 109 billion on behalf of these third-party clients.

Since the Code's publication in 2010, Investec Asset Management has been a supporter and a signatory. We believe it has been instrumental in evolving and improving the focus and quality of active ownership in the UK. Since then, we have supported and engaged with several other markets regarding their evolution around Stewardship Codes. We also note that in addition to these Codes the Shareholder Rights Directive in the EU has also become a powerful message around the importance and fiduciary duty around ESG integration and active ownership.

We welcome this timely consultation by the FRC and wish to highlight that we have participated in the more detailed feedback that you will receive from both the Investor Forum as well as the Investment Association. We hope that the summary of our feedback in this letter is a useful addition to those submissions.

### **Comments on the proposed changes to the UK Stewardship Code**

We are broadly supportive of all the changes that are proposed to the Code and particularly welcome the introduction of greater emphasis on the role that the asset owners play in UK Stewardship. We also think it is an important step to broaden the scope to other asset classes such as fixed income and private markets. Although the approach to Stewardship may differ across asset classes the fundamental principles should not only apply to listed equities in our view. Finally, we also welcome the introduction of a new 'Activities and Outcomes' report which will hopefully move the reporting focus away from policy and processes.

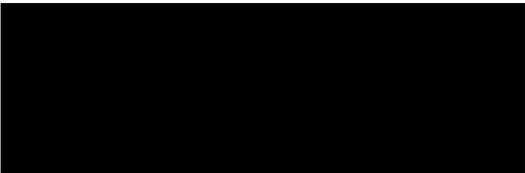
In addition to this feedback we would like to highlight four key areas of concern which we have tagged on to the relevant question from the consultation. These include the following;

- **Question 2:** There is no doubt that the expectations in the revised Code set high expectations of Stewardship and we think this is important. Effective Stewardship can be nothing short of a challenge and rightfully so. However, we believe that the expectations on asset owners in the Code could be too onerous and deter some smaller organisations to 'sign on' to the Code. Stewardship activities, especially engagement, is a resource intense undertaking and it shouldn't be something exclusive for large organisations. Furthermore, we also think it is important to establish some clearer distinctions between asset owners and managers responsibilities in order

to avoid unintended consequences such as uncoordinated and even conflicting engagements with companies. As an example, we would highlight the increase amongst some of our clients wishing to separate the ownership rights from the manager and outsource it to an engagement service provider in order to fulfil a more concentrated ownership impact. We are concerned that this undermines the importance to integrating these considerations in to the investment process and removes an important engagement tool for investors which is to align their investment view with the annual proxy vote.

- **Question 5:** We appreciate that the Code is seeking to become stronger by not allowing investors to be vague in their description and reporting around how they discharge their Stewardship duties and we are supportive of an annual Activities and Outcomes Report. However, we think this could pose challenges for some signatories and the opportunity to write a report that has strong, quantitative reporting will depend on the investors business model and style of investing. It is important that the guidance is focused on a principles-based approach and does not become either prescriptive or support a compliance driven response. We would also like to highlight the risk that the industry may rush to compare, benchmark and rank signatories and often these reports pay little attention to quality and substance or the type of business and investment style. The reporting guidance by the Investment Association has been useful and perhaps that could evolve further to provide guidance and support. Finally, with an increased focus by asset owners on Stewardship credentials we shouldn't undermine the competitiveness or attractiveness by other asset classes solely on the basis that they may not be able to demonstrate the same integrated Stewardship process.
- **Question 9:** We are supportive of the suggestion that Stewardship should apply to asset classes other than just equities, including fixed incomes and private equity. We believe it is important that the Code permit flexibility for different approaches to Stewardship in relation to these different asset classes, including how it relates to reporting.
- **Question 10:** We think it may be a step too far to seek details from signatories on how the Code applies across funds. We would prefer to refer to it at an institutional level and how that aligns with our business objectives. As mentioned above, we think it's important that there is an understanding that this is a general articulation and that the way it is applied to different asset classes and strategies may vary.

Yours faithfully,



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