



REVIEW  
2015  
2016



THE INVESTOR FORUM

## WHO ARE WE?

A community interest company set up by investors in UK equities

## WHAT DO WE DO?

We organise and facilitate dialogue between shareholders and companies

## WHY DO WE DO THIS?

To help build and restore trust between companies and their shareholders

## HOW DO WE DO IT?

By listening to investor concerns and explaining these to boards in a comprehensive and consistent manner

## WHAT IS THE OUTCOME?

Better informed boards and a stronger level of trust and understanding – ultimately leading to improved long-term return for savers

### **The Investor Forum CIC**

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[www.investorforum.org.uk](http://www.investorforum.org.uk)

19 January 2017

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“Enlightened and engaged ownership really matters in holding boards accountable for their stewardship and the Investor Forum is a great initiative to facilitate this dialogue with a focus on sustainable and long-term value creation.”

Robert Swannell  
Chairman, Marks & Spencer plc

## Chairman's Introduction

The Investor Forum (the "Forum") was set up to help promote a longer-term approach to investing in UK companies and to provide a platform for collective engagement on strategic matters between investors and company boards.

This is critical, as it is only through successful long-term investment that we can improve the poor productivity levels in the UK economy. Ultimately, improving productivity will help grow real incomes for UK workers and returns for pensioners and savers.

In order for companies to make successful long-term investments, they must gain the trust of shareholders to allocate capital appropriately and execute their strategy effectively. Too often trust in business has been broken. This quickly leads to the cost of equity capital rising to a point where it far exceeds any realistic return on that equity. This is not sustainable and often results in a loss of jobs and a significant reduction in shareholder value.

Despite a long heritage of good governance, the UK has had far too many situations like this where shareholders as well as employees and customers have lost out. Therefore, rebuilding trust is a critical success factor for the UK's future business and investment success. The Forum is uniquely positioned to work with key stakeholders to help facilitate a better dialogue and make long-term investing work more effectively.

We have established the Forum as a Community Interest Company (CIC) and its overriding objective is to make the system work more effectively for shareholders and corporates. Ultimately, this will benefit customers, employees and the economy as a whole.

We believe that the creation and funding of the Forum is evidence of the willingness of institutional shareholders to invest in their stewardship efforts. It demonstrates the need for an effective escalation mechanism in order to exercise existing shareholder powers.

In order to earn our place in the investment chain, it is critical that we are transparent in our

activities. This is the first Review that the Forum has published, and the first time that our engagements have been disclosed publicly. Discretion is a crucial element in our approach to collective engagement and engagements will remain confidential whilst in progress in all but exceptional circumstances. We aim to facilitate a frank but constructive dialogue between investors and companies that focuses on long-term strategic issues and seeks to build trust and confidence.

### **Huge scope for opportunity**

As we describe in some detail in this report, we are taking a thoughtful and consultative approach to developing our own business model and structure in a sustainable way, and have put a comprehensive operating platform and engagement framework in place.

This means we are now in a strong position to increase our engagement activities and embed them more firmly in the UK investment landscape. We aim to become the principal resource for collective shareholder engagement with UK companies.

### **A practitioner approach to building shareholder trust in FTSE boards**

We are led by practitioners, with considerable experience as investors and in the board room, and our ultimate goal is to help companies and investors find solutions to their issues with a view to rebuilding trust and long-term value. We will therefore highlight best practice when we see it.

There is considerable scope for improvement – shareholders need to explain their long-term investment proposition in more detail and make it clear to companies what their expectations are and why they have invested in their stock.

At the same time companies need to think more carefully about how and when they engage with their investors on strategic issues and adopt a more holistic approach instead of focussing on shareholder engagement ahead of Annual General Meetings.

### Our Board

We have benefited hugely in our initial development stage from the broad experience and strong guidance of our Board and we are grateful for their support.

Daniel Godfrey, John Kay and Lindsay Tomlinson are not standing for re-election at the AGM. We would like to thank them in particular for their foresight and guidance in helping the Forum get off the ground over the last two years.

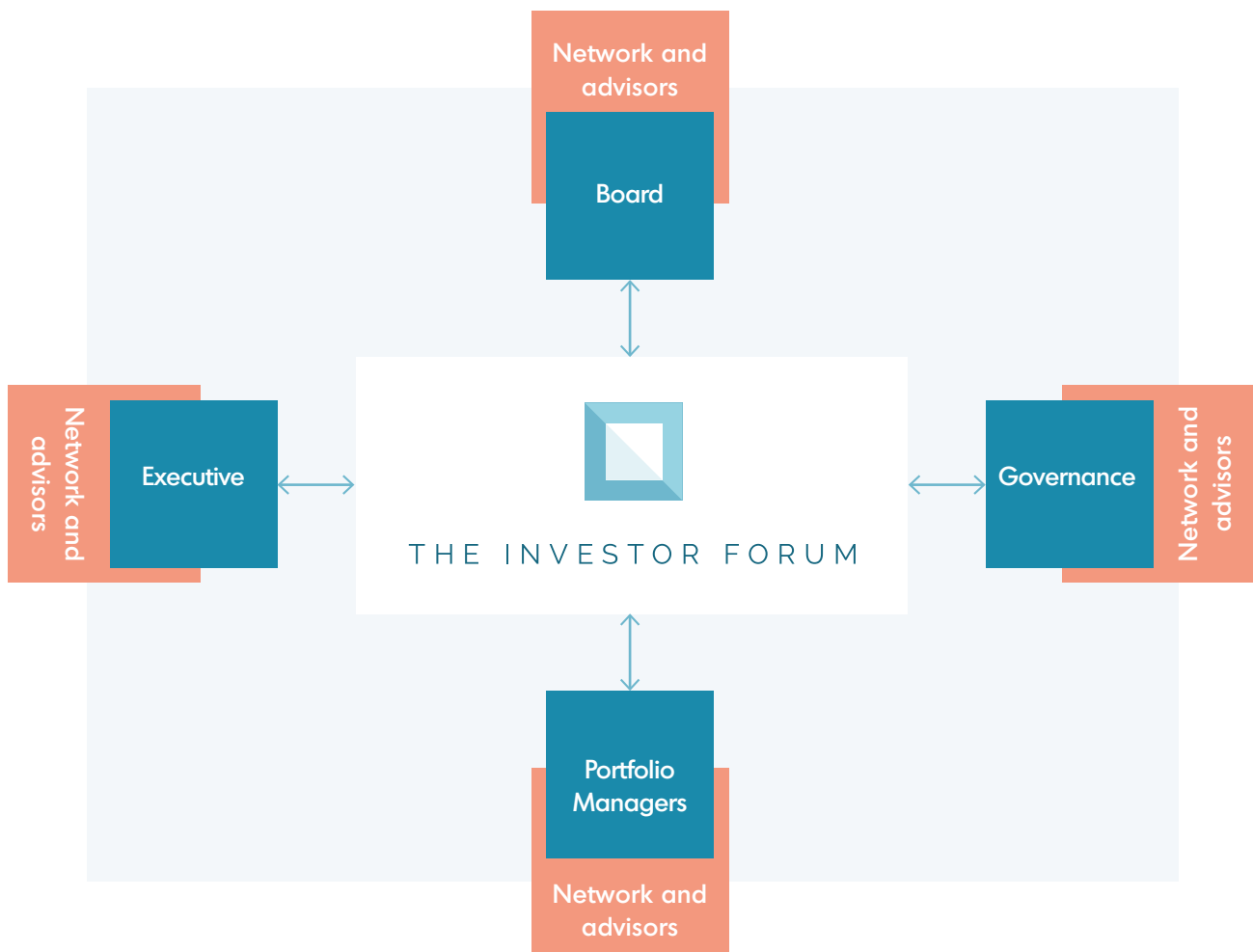
We are pleased to welcome Jessica Ground to our Board. She brings a huge amount of relevant experience in engagement through her role

as a UK portfolio manager and Global Head of Stewardship at Schroders plc and we look forward to working with her in the future.



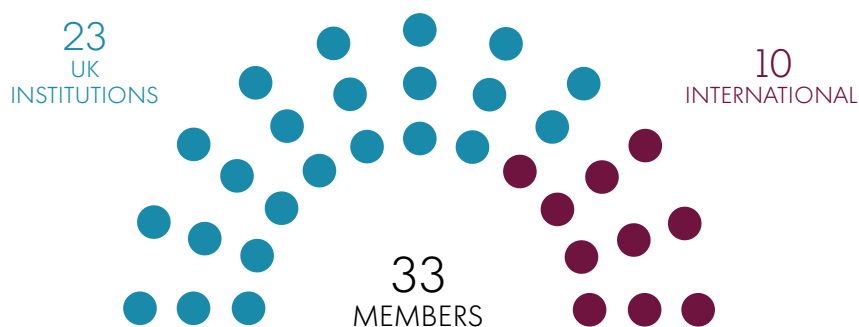
Simon Fraser  
Chairman  
19 January 2017

### Putting Stewardship at the heart of investment decision making



## Forum Snapshot

### MEMBERSHIP



23 LARGE FIRMS

6 BOUTIQUE

4 ASSET OWNERS



20 provided a 3 year underwriting commitment



~£12.5trn  
in Global  
AUM<sup>1</sup>



~£715bn  
invested in  
UK Equities<sup>1,2</sup>

Represents  
approximately  
**35%**  
of the  
FTSE All Share  
market cap

### ENGAGEMENT PARTICIPATION

In each full  
engagement:

RANGE OF  
PARTICIPANTS  
**5-17**

MARKET CAP OF  
COMPANY REPRESENTED  
**10% - 48%**

**42** investors have been involved including **8** non-members

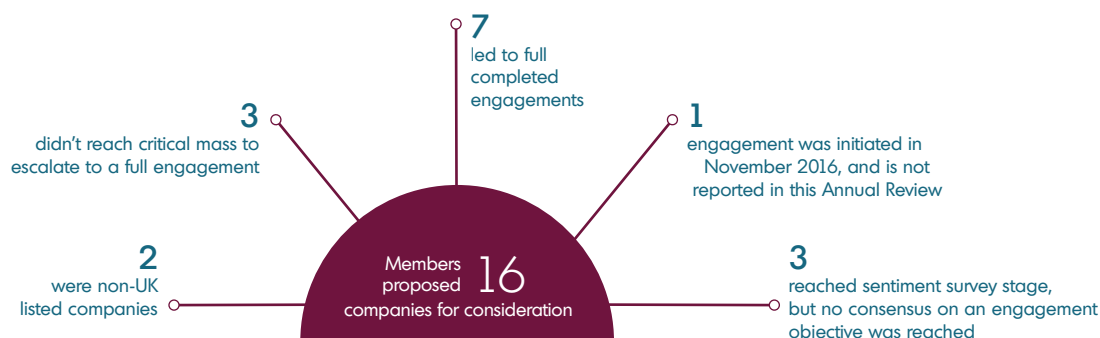
**138** bilateral  
conversations

**43%**  
WITH INTERNATIONAL  
FIRMS

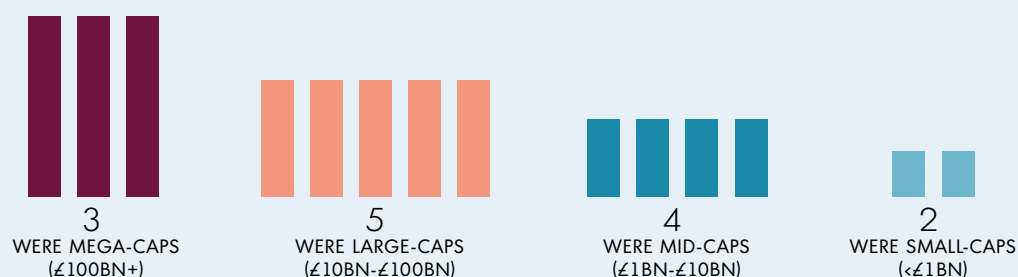
**59%**  
WITH THE 10 MEMBERS  
WHO MANAGE THE LARGEST  
AMOUNT OF UK EQUITIES

<sup>1</sup>As at 30/06/16 <sup>2</sup>Source: RD:IR

## ENGAGEMENTS 2015-2016



Of the 14 UK companies proposed:



6 proposals related to a form of corporate action

9 focused on value recovery and enhancements, 5 were responding to events

## COMPREHENSIVE COLLECTIVE ENGAGEMENT DASHBOARD

|                    | Governance<br>(by the Board) |                           |                    |                      |                  | Execution<br>(by the Management team) |                        |                             |
|--------------------|------------------------------|---------------------------|--------------------|----------------------|------------------|---------------------------------------|------------------------|-----------------------------|
|                    | Strategy                     | Leadership and Succession | Capital Allocation | Corporate Governance | Corporate Action | Operational performance               | Management Information | Reporting and Communication |
| Standard Chartered |                              | ✓                         | ✓                  | ✓                    |                  | ✓                                     |                        | ✓                           |
| Tate and Lyle      |                              | ✓                         | ✓                  |                      |                  | ✓                                     | ✓                      | ✓                           |
| Sports Direct      | ✓                            | ✓                         | ✓                  | ✓                    |                  | ✓                                     | ✓                      | ✓                           |
| Rolls-Royce        | ✓                            | ✓                         | ✓                  | ✓                    |                  | ✓                                     | ✓                      | ✓                           |
| RDS/BG             | ✓                            |                           | ✓                  |                      | ✓                |                                       |                        | ✓                           |
| Cobham             | ✓                            | ✓                         | ✓                  | ✓                    | ✓                | ✓                                     | ✓                      | ✓                           |
| Mitie              | ✓                            | ✓                         |                    |                      |                  | ✓                                     |                        | ✓                           |



## Executive Director Review

It has been a tremendous privilege to launch the Investor Forum and to make such significant progress towards creating a truly independent entity which can support the investment community in its collective engagement activity.

Reflecting on our experiences over the last two years, I have been encouraged by the strength of the governance and stewardship frameworks in the UK and the commitment of investors to collective engagement. However, in reviewing the lessons learned from engagement and the changing societal expectations, it is clear that there is an opportunity to increase the quality of engagement.

Too often the most important strategic and stewardship conversations are crowded out by a narrow discussion of short term financial performance, detailed AGM proposals or the complexity of remuneration schemes.

Equally, while there is a great deal of interaction between investors and companies, investors increasingly value interactions with non-executive directors to complement their access to executives.

### Long-term franchise value

The role of investors as providers of capital to support companies is vital to the growth of the UK economy. Investors in UK companies have a long history of engagement; the scrutiny and process of challenge by investors has been a hallmark of the UK market for many years.

There has been much discussion over the increasingly short-term nature of financial markets and the narrow focus on financial metrics as drivers of company share prices. This short-term focus has often displaced a more strategic review of the drivers of long-term competitive advantage.

In all too many cases, a narrow pursuit of shareholder value has created a series of incentives and short cuts which have undermined the long-term health of a franchise, often by focusing on the needs of one or more stakeholders to the detriment of others. Ultimately such behaviour damages the value of a company, and there have been too many unnecessary corporate failures.

The most successful companies are able to balance the, often competing, needs of multiple stakeholders and customers to create valuable products and services and deliver attractive financial returns. This is how long-term franchise value is created, maintained and enhanced.

### The importance of stewardship

Investors in UK companies take their stewardship responsibilities seriously, and there is a very strong tradition of robust challenge through private engagement. Nevertheless, with increasingly fragmented share registers and a much more international investor base, there is a need for an effective escalation mechanism. Collective engagement is an important tool in recovering and enhancing long term value.

To put this in context, the vast majority of UK companies are generally seen to be in good health. Perhaps 80% of the FTSE 350 companies at any given time enjoy strong shareholder support, while 20% of companies are subject to more scrutiny. Within that group, individual shareholder engagement will typically resolve 80% of the issues of concern. In the remaining 20% of cases, a more effective escalation mechanism is often required to resolve shareholder concerns. Our focus will be on this relatively small number of 15 – 20 complex situations.

The system is not broken but the stewardship landscape is evolving dramatically and societal scrutiny of the investment industry has rarely been more intense. The loss of public confidence in business moved up the political agenda significantly in 2016, with Theresa May placing governance and stewardship at the heart of the Government agenda. The Department for Business, Energy and Industrial Strategy (BEIS) has issued a Green paper on corporate governance reform and the House of Commons BEIS Select Committee is conducting a corporate governance inquiry.

In combination, 2017 will see a comprehensive review of the stewardship agenda. Asset owners and society more broadly are demanding more from investment managers. In turn, investment managers are becoming increasingly transparent about their stewardship activities. We hope that



the discussion of our collective engagement activity in this review is a helpful contribution to enhanced transparency. However there remains a great deal to do.

### **Stakeholder perspectives**

There is a continuing discussion around the extent to which wider stakeholder views and interests should be considered by company boards and whether legal or structural change is required. In tandem, investors need to evaluate how this wider agenda can be effectively incorporated into investment decision making.

The Companies Act 2006 already places a responsibility on directors to promote the success of companies for the benefit of its members, taking account of a range of stakeholders and the likely consequences of any decision in the long term.

Wider stakeholder views are often powerful indicators of franchise health and emerging risks. It is becoming clear that an increasing number of institutions are focusing on longer-term investment horizons and that insights from ESG professionals are being integrated with more traditional financial analysis to evaluate companies. Non-financial metrics are increasingly sought as additional reliable indicators of franchise health. Much work still needs to be done to integrate these perspectives into the deliberations of both companies and investors.

### **Collective engagement in action**

Collective engagement can make a material contribution to resolving some of the more complex situations. We believe that the Forum is an effective mechanism for escalation, and that our collective engagement framework can give both international investors and companies the confidence that we can deliver results.

Our intention is not to promote collective engagement as the default approach in every situation, but rather as an effective and professional escalation method in more complex situations.

Common to almost every collective engagement is a breakdown in communication and a significant divergence in expectations. Often there is intense media speculation and rumours of

investor unrest or disagreement within a company. These situations can become highly personalised, with individual directors singled out for blame. This toxic combination can lead to a breakdown of trust between one or more stakeholders and the company.

Our approach is to bring a comprehensive real-time investor perspective and a framework to contribute towards a solution.

Our practical experience over the last two years has clearly demonstrated that the underlying source of tension typically centres on one or more of 4 key issues:

- ◆ Strategy and capital allocation
- ◆ Leadership and succession
- ◆ Operational performance and management information
- ◆ Reporting and communication

### **Building a strong foundation**

With support from H M Treasury, we were delighted to secure a three-year funding guarantee from 20 investors in March 2016, and now look forward to a fully independent future. I would like to acknowledge the significant support of the Investment Association and our founding Members, without whom we would not have been able to make so much progress.

At the end of 2016, the Forum had 33 Members, with UK equity investments that represent 35% of the value of FTSE All Share Index. This represents a tremendous platform from which to facilitate collective engagement. Details of our collective engagement activity are reported in this review for the first time.

### **Conclusion**

Our core focus is to deliver results from collective engagement. The Forum can play a key role in strengthening the stewardship and governance of UK-listed companies.

There are broader debates spanning the purpose of companies, executive remuneration practices, diversity in the board room, and the wide range of environmental and social challenges facing companies.

We will not seek to replicate other voices or prescribe new policies in these debates, but we will seek to share insights that we gain from practical experience which can contribute to a longer-term investment approach or an enhancement in best practice.

I would like to take this opportunity to thank all my colleagues in the Forum team and our non-executive directors for their support and energy. Over the last two years we have built an important escalation mechanism for institutional shareholders. I am proud of the progress that we have made and the team is eager to demonstrate the value of collective engagement in 2017 and beyond.



**Andy Griffiths**  
Executive Director  
19 January 2017

## Purpose, Objectives and Key Activities

**The Forum's purpose is to position stewardship at the heart of investment decision-making by facilitating dialogue, creating long-term solutions and enhancing value.**

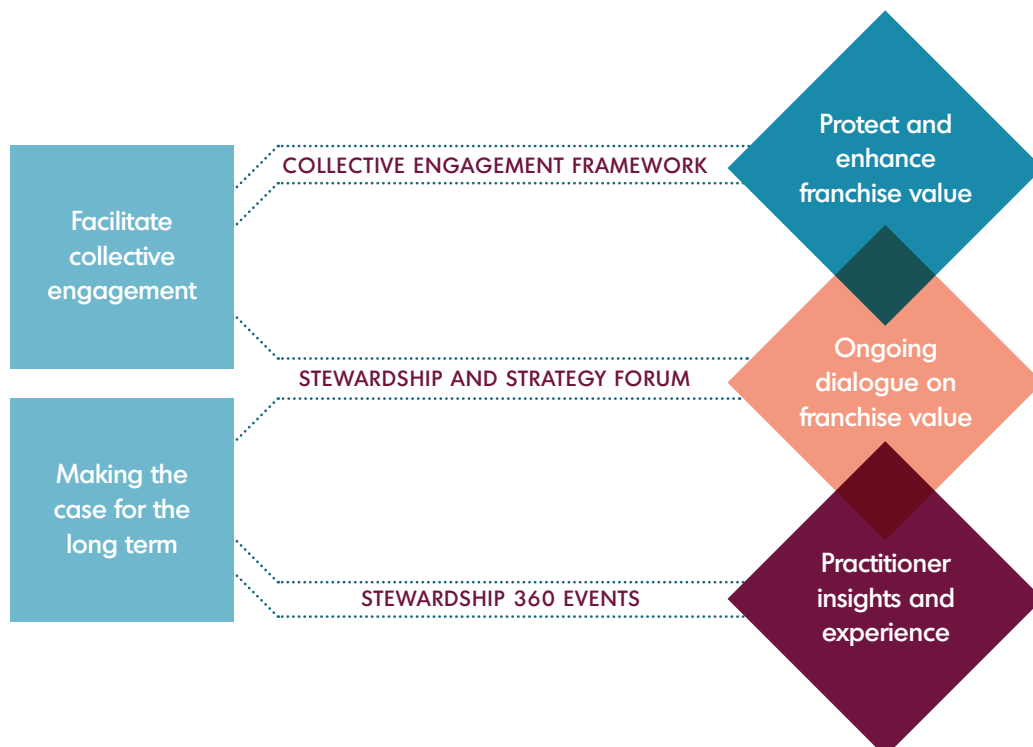
**It has two core objectives:**

- ◆ Make the case for long-term investment approaches.
- ◆ Create an effective model for collective engagement with UK-listed companies.

**To meet its objectives, the Forum focuses on three key activities:**

- ◆ Collective Engagements – between institutional investors and individual companies;
- ◆ Stewardship & Strategy Forums – pro-active company events with key investors combining both stewardship and strategy agendas; and
- ◆ Stewardship 360 Events – selective events to encourage open dialogues in order to develop best practice in long term investment and stewardship across the investment chain.

**A practical toolkit designed to facilitate dialogue, create long-term solutions and enhance value**



## Background to the Investor Forum

Following the financial crisis, the Rt Hon Dr Vince Cable, Secretary of State for Business, Innovation and Skills commissioned the Kay Review of UK Equity Markets and Long-Term Decision Making. The final report, published in July 2012, concluded that the key problem is a systemic short-termism mainly caused by a decline in trust and confidence and a misalignment of incentives throughout the UK equity investment chain. The UK equity markets had become increasingly fragmented, with ever more intermediation.

The Kay Review listed a number of key obstacles to long-term engagement between institutional investors and UK listed company management and boards. These were:

- ◆ a decline of trust and misalignment of incentives throughout the equity investment chain,
- ◆ fragmentation of ownership which has reduced the incentives for engagement and the level of control,
- ◆ internationalisation of ownership,
- ◆ perceived regulatory barriers inhibiting collective engagement, and
- ◆ a narrow engagement focus which crowded out discussion on fundamental drivers of long-term strategy and operational excellence.

Combined, these factors were said to have contributed to an industry structure that too often favoured exit over voice. One of 17 recommendations was that “an investors’ forum should be established to facilitate collective engagement by investors in UK companies.”

The Investment Management Association, The Association of British Insurers and the National Association of Pension Funds, formed the Collective Engagement Working Group in April 2013 to identify how institutional investors could work collectively in their engagement with listed companies to improve sustainable, long-term company performance and overall returns to savers. In December 2013, the Group concluded that an Investor Forum should be established by the end of June 2014.

On 2 July 2014, Simon Fraser and Andy Griffiths were appointed as Chairman and Executive Director respectively of the Investor Forum.

The Forum officially launched its principles and objectives on 27 October 2014 and announced a 15 person board which met for the first time in December 2014.

Speaking at the launch of the Forum in October 2014, Vince Cable said:

“The Investor Forum, recommended by Professor Kay, has a vital role to play in shifting the culture of equity markets to support public companies’ contribution to sustainable long-term growth. We now need to see it deliver on its objectives and build a critical mass of long-term investors who place stewardship at the heart of their investment strategies.”

## Developments in Stewardship: Past and Present

While the UK is regarded a world leader in the development of corporate governance and stewardship practices, periodic episodes of market crisis have continued to challenge notions of best practice all the way from the Maxwell collapse to the global financial crisis.

The most recent period of change began in 2009 with Sir David Walker's review of corporate governance in banks, which recommended that institutional investors abide by a new Stewardship Code. The Financial Reporting Council (FRC) was given the responsibility for overseeing the UK Stewardship Code in 2010.

While the Walker Review focused on the need to formalise responsibilities and increase the level of shareholder engagement through the Stewardship Code, the subsequent Kay Review of 2012 focused on the need to also improve the quality of stewardship and the mechanisms of collective engagement.

### The Stewardship Code's impact

There is evidence that Walker's recommendations have had a significant impact via a widespread adoption of the Stewardship Code. The Investment Association (IA) has been monitoring adherence to the Code since 2010. Over that time it has found a significant increase in the number of signatories to the Code, an increase in resources being dedicated to stewardship activities and in voting activity, and evidence of more integration between investment and governance decision-makers.

The FRC has recently made efforts to increase transparency regarding stewardship disclosure. In November 2016 they published the results of their exercise to categorise signatories to the Stewardship Code into tiers based on the quality of their Code statements and disclosures of their approach to stewardship. Of the nearly 300 signatories to the Code, more than 120 are in Tier 1 (representing nearly 90 per cent of assets under management of members of the Investment Association). A number of investors cited membership of the Investor Forum as important evidence of their commitment to stewardship.

Signatories to the FRC's Stewardship Code are required to 'comply or explain' with the Principles of the Code. The Code describes stewardship in the following way:

"Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole. Stewardship activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."

#### Stewardship Code Principle 5

**"Institutional investors should be willing to act collectively with other investors where appropriate.**

At times collaboration with other investors may be the most effective manner in which to engage. Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value."

### Quality and scope of stewardship activities

While the resources devoted to stewardship activities have clearly increased over recent years, the IA's June 2015 report noted the increasing focus of discussions on remuneration, particularly after the introduction of the binding vote on remuneration policies. This comes at the cost of dialogue on corporate performance, leadership, culture and strategy, and board and committee composition, which are higher priorities from the point of view of the investors surveyed.

“ In 2016 the Investor Forum took some significant steps to establish itself as the primary mechanism for collective engagements .... We encourage those with concerns about companies to approach the Forum where they consider collective engagement may be useful. ”

**FRC – Developments in Corporate Governance and Stewardship 2016 Report, January 2017**

The IA's 2016 Productivity Action Plan called for engagement practices to more formally incorporate a focus on long-term value creation and productivity. The Forum's activities are intended as one mechanism for enhancing the quality of engagement. In addition to our direct engagements with companies, we have also suggested that companies host Stewardship and Strategy Forums, as discussed in more detail on page 28 of this report.

### Continuing evolution of stewardship practices

The governance and stewardship landscape continues to evolve. In the UK there have been several important independent written contributions in 2016 from, among others, the IA, The Big Innovation Centre's Purposeful Company initiative and Tomorrow's Company on a range of issues from productivity and business purpose to executive remuneration.

The Prime Minister, Theresa May, has placed corporate governance at the heart of the Government agenda. The Department for Business, Energy and Industrial Strategy (BEIS) has recently issued a Green paper on corporate governance reform and the House of Commons' BEIS Select Committee is conducting a corporate governance inquiry.

In an international context we have seen the launch of 'The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth' by the International Business Council of the World Economic Forum and 'The Common Sense Corporate Governance Principles' signed by several leading US investors and corporations. The establishment of the Japanese Stewardship Forum and the Japan Investor Forum are important milestones in the efforts to improve corporate governance in Japan.

Both domestically and internationally we expect an increasingly lively debate on corporate governance and stewardship practices. Many parties are expected to provide input into the debate on what policy or legal changes are required to improve practices, or to what extent existing tools can and should be used more effectively.

Within this context, the Forum represents a new practical tool to help asset managers and asset owners to exercise their stewardship responsibilities effectively and for corporates to engage with key investors in an efficient manner. We have unique insights and practical experience of resolving issues between investors and companies, and hope over time to be able to make suggestions as to what can be done better.

*“The behaviour of a limited few has damaged the reputation of the many. And fair or not, it is clear that something has to change. For when a small minority of businesses and business figures appear to game the system and work to a different set of rules, we have to recognise that the social contract between business and society fails – and the reputation of business as a whole is undermined.”*

*So just as government must open its mind to a new approach, so the business community must too. ... we must continue to make improvements where these result in better companies and improved confidence in business on the part of investors and the public.”*

**Prime Minister Theresa May, November 2016**

*“Private enterprise and a respected business community is vital to the UK's future prosperity and contributes to the funding of our schools, hospitals and infrastructure. Irresponsible business behaviour and poor corporate governance ill serves workers, but it also tarnishes the reputation of business and undermines public trust in enterprise. We need to look again at the laws that govern business and how they are enforced. Good corporate governance shouldn't be a hindrance to business; it can contribute to companies' long-term prosperity and performance as well as showing to the world that a business is transparent, accountable and responsible.”*

**Iain Wright MP, Chair of the BEIS Select Committee**





# Review of Activities 2015-2016



## Collective Engagement Report: 2015-2016

Facilitating collective engagement is the core purpose of the Forum. We have worked diligently with investors, companies and policy makers to build a comprehensive, practitioner-based approach to engagement.

We have created a framework and approach that many leading asset managers now believe can be a valuable tool to escalate and resolve complex problems. This is a collective effort, which requires a significant investment of time and resource by the investment community. The objective is to facilitate positive outcomes that can enhance the long-term value of companies. Collective engagement doesn't "just happen"; it requires trust and discreet facilitation.

We have been encouraged that investors have asked the Forum to investigate 16 company situations for collective engagement in our first two years of operation. In many of these cases, institutions will already have devoted a considerable amount of time and resource engaging directly with companies, approaching the Forum when their individual efforts have not achieved the desired outcomes.

The nature of the engagements has been split between those issue-specific engagements (where investors were responding to events) and those more complex cases where franchise value was more broadly affected by a series of inter-connected issues and events (and where investors were seeking to recover value).

- ◆ The majority of the Forum's work has been in situations where investors were seeking to recover value after a series of disappointing developments.
- ◆ Six of the proposed engagements related to some form of corporate action by a company, where investors felt their interests could benefit from collective engagement.

As the Forum's approach becomes more widely accepted, it is hoped that we will be able to support investors in situations where an earlier escalation and a more proactive approach can protect and enhance value.

### An iterative process

The Forum has developed an iterative style of working with Members and companies, which we

refer to as our "Hub & Spoke" approach. The process and procedures are described in our **Collective Engagement Framework** as described on page 39. This approach has the following advantages:

- ◆ it allows open, but confidential, discussions between an individual Member and the Forum,
- ◆ it depersonalises issues and allows them to be gradually assimilated into a framework which seeks constructive outcomes, and
- ◆ flexibility to evolve and adapt as circumstances warrant.

A policy of discretion is designed to help rebuild trust between companies and investors. We collate, distil and communicate the views of a wide range of shareholders directly to boards, removing barriers to effective communication.

For engagement to be effective, significant time, effort and resource must be committed from Members and the Forum. There is clear evidence of tangible benefit where companies have been open to the process and engaged constructively. The active involvement of both investors and companies is required to create effective long-term solutions.

### Member participation

The Forum worked with 42 institutional investors in relation to its engagements during 2015 and 2016, including 8 who were not Members at the time of the engagement. As part of the collective engagement process the Forum may contact selected non-members that are material shareholders in a company to include a wide range of views and to seek the support of the broad ownership of the company.

138 detailed bilateral conversations were held – which have been defined as ongoing dialogue on a single company subject – with institutional investors:

- ◆ 43% of these conversations were with international institutions, demonstrating that non-UK investors can derive benefit from collective engagement.
- ◆ The 10 Members with the largest UK equity investments accounted for 59% of the conversations, indicating that some of the

largest investors in UK companies have supported and derived benefit from the Forum's approach to collective engagement.

- ◆ Active and index-tracking fund managers, integrated global managers, boutique houses, and asset owners have all participated in engagements. The wide range of participants demonstrate that the Forum's approach can be a valuable tool, irrespective of investment approach or assets under management.

### Company participation

In the Forum's first two years, companies involved in engagements with the Forum found themselves working with a new and untried mechanism. While this naturally generated some initial hesitation, the overwhelming number of Chairmen have been receptive to the Forum's activities.

Most of the companies that have been involved in collective engagement have been able to recognise value in the objective delivery of investor feedback and perspectives. In a number of cases, companies have confirmed that Forum engagement has helped:

- ◆ clarify or confirm the importance of key messages and the need for action;
- ◆ create a focus for comprehensive change; and
- ◆ contribute to improved communication between investors and companies.

The Forum will monitor feedback it receives from companies as part of its on-going review process, so that the approach can be enhanced over time.

“ We found the Investor Forum helpful in communicating a large variety of differing shareholder views to us in a clear framework ”

Sir Peter Gershon,  
Chairman of Tate & Lyle plc

### Engagement activity 2015-2016

Forum Members identified 16 companies as candidates for collective engagement during 2015 and 2016. 14 of the situations referred to the Forum were UK companies, 2 were listed in continental Europe. Of the 14 UK companies subject to review:

#### 8 resulted in comprehensive collective engagement:

- ◆ Standard Chartered plc – January 2015
- ◆ Tate & Lyle plc – July 2015
- ◆ Sports Direct International plc – July 2015
- ◆ Rolls-Royce plc – August 2015
- ◆ Royal Dutch Shell plc/BG Group plc – December 2015
- ◆ Cobham plc – April 2016
- ◆ Mitie Group plc – September 2016
- ◆ New initiation – November 2016 (in progress; not detailed in this review).

#### 3 situations did not result in a full collective engagement, but investor feedback was provided to the company:

- ◆ Tesco plc – March 2015
- ◆ HSBC plc – May 2015
- ◆ Glencore plc – September 2015

#### 3 situations were narrowly defined or did not achieve critical mass for collective engagement:

- ◆ Telecity plc – June 2015
- ◆ SABMiller/ABI – July 2016
- ◆ ARM plc – July 2016

**2 continental European situations did not lead to collective engagement as they are outside the Forum's current remit.** In both cases there was interest in a collective exchange of views. The Forum identified and connected investors who then engaged directly.

During the last two years we have discussed developments at many companies with investors. The cases formally raised with the Forum by investors are a small subset of companies with whom they directly engage. Interestingly, these cases illustrate the wide range of issues and sectors where investors have recognised that escalation through a trusted intermediary, such as the Forum, can be an important tool.

The key criteria for collective engagement by the Forum are:

- ◆ Is there an economic rationale?
- ◆ Is there a critical mass of support for engagement?
- ◆ Is there a prospect of a solution that can enhance value?

While the Forum has enjoyed open dialogue with Members on a wide range of issues, each case is reviewed on its merit, and the Forum only proceeds if there is a reasonable prospect that the criteria can be met.

If there is no agreement on engagement objectives, the Forum can still perform an important role in representing investor views succinctly and objectively to companies, as it did with HSBC, Tesco and Glencore.

The experience of the last two years demonstrates that where individual Members have escalated issues, the Forum has only proceeded to full collective engagement where all of the criteria were met. This discipline means that when collective engagement does proceed, the views presented to a company are comprehensive and the investor commitment to find a solution is high.

### Comprehensive Collective Engagement Dashboard

|                    | Governance<br>(by the Board) |                           |                    |                      |                  | Execution<br>(by the Management team) |                        |                             |
|--------------------|------------------------------|---------------------------|--------------------|----------------------|------------------|---------------------------------------|------------------------|-----------------------------|
|                    | Strategy                     | Leadership and Succession | Capital Allocation | Corporate Governance | Corporate Action | Operational performance               | Management Information | Reporting and Communication |
| Standard Chartered |                              | ✓                         | ✓                  | ✓                    |                  | ✓                                     |                        | ✓                           |
| Tate and Lyle      |                              | ✓                         | ✓                  |                      |                  | ✓                                     | ✓                      | ✓                           |
| Sports Direct      | ✓                            | ✓                         | ✓                  | ✓                    |                  | ✓                                     | ✓                      | ✓                           |
| Rolls-Royce        | ✓                            | ✓                         | ✓                  | ✓                    |                  | ✓                                     | ✓                      | ✓                           |
| RDS/BG             | ✓                            |                           | ✓                  |                      | ✓                |                                       |                        | ✓                           |
| Cobham             | ✓                            | ✓                         | ✓                  | ✓                    | ✓                | ✓                                     | ✓                      | ✓                           |
| Mitie              | ✓                            | ✓                         |                    |                      |                  | ✓                                     |                        | ✓                           |

“Working with the Investor Forum has helped us understand differing shareholder views in a very timely way. As a result, they made an effective contribution to our plans for change and shareholder engagement.”

Ian Davis  
Chairman of Rolls-Royce plc

“The Investor Forum helped us interpret the large number of different investor views we received during the final stages of our acquisition of BG at the start of 2016.”

Chad Holliday  
Chairman of Royal Dutch Shell plc

## Common themes in engagements

In the pages that follow we seek to draw out some key themes that have emerged from practical experience to enhance best practice. We have a practitioner's mindset and a practical mandate; by design our main focus is on improving the system we have rather than proposing new policy responses or "one size fits all solutions". Put simply, no two companies, nor engagements, are alike.

Discretion is a crucial component in identifying the underlying causes behind problems and in rebuilding trust to address difficult issues. However, transparency is an equally important and powerful driver of change and improvement.

The decision to disclose the range of activity we have engaged in has not been taken lightly. The intention in sharing these case studies is to demonstrate that many institutional investors take their stewardship responsibilities seriously. By supporting the Forum the investment community has begun to invest in a new escalation mechanism to enhance value in the most complex situations.

Common to almost every collective engagement brought to the Forum by investors is a breakdown in communication. This might be within the company, between the company and its shareholders, between the company and other stakeholders, between stakeholders or indeed within investment firms.

This typically results in a significant expectations gap between what shareholders and the company believe can be achieved and the underlying reality of the situation.

Often there is intense media speculation and rumours of investor unrest or disagreement within a company. These situations can become highly personalised, with individual directors or managers singled out for blame. This toxic combination leads to a significant breakdown of trust between one or more stakeholders and the company.

The underlying source of tension typically centres on one or more of four key areas:

- ◆ Strategy and capital allocation.
- ◆ Leadership and succession, including board composition.
- ◆ Operational performance and management information.
- ◆ Reporting and communication.

The Forum's approach is to bring a comprehensive investor perspective and a clear framework to contribute towards a solution. Maintaining discretion, creating a clear focus on the need for change and a space in which that change can be considered are all key to the approach.

The range of considerations addressed in the collective engagements to date has been wide. It is striking that when a situation is escalated to the Forum, investor concerns typically span a number of different issues, as illustrated in the **Collective Engagement Dashboard** which summarises the key focus of activity.

It is notable that engagement participants have expressed concerns relating to the execution of transactions and capital-raising exercises on a number of occasions. These have involved issues such as the quality of the scrutiny applied by non-executive directors, the representation of shareholder views in the process, skewed incentives which reward completion and the scale of fees paid. We plan to look into these issues further in order to enhance best practice.

Investors have proposed a number of collective engagements where the concerns have ranged not only across traditional financial issues but also broader Environmental Social and Governance (ESG) concerns. These cases provide practical evidence of the need to combine strategic and stewardship perspectives in evaluating the health and value of a company.

The Forum believes that investors can benefit from incorporating a broader stakeholder perspective when analysing a company franchise. Companies that can effectively balance and communicate the, often competing, needs of different stakeholders will most likely be best positioned to create and sustain long term-value.

Ideally, companies, shareholders and other stakeholders will have an on-going, open dialogue which helps to develop high quality and transparent decision-making on key strategic issues. Where this has not taken place or has broken down, the Forum has begun to demonstrate that it can play an important role in providing a constructive way forward.

## Standard Chartered plc

JANUARY 2015 – MARCH 2015

| Governance<br>(by the Board) |                           |                    |                      |                  | Execution<br>(by the Management team) |                        |                             |
|------------------------------|---------------------------|--------------------|----------------------|------------------|---------------------------------------|------------------------|-----------------------------|
| Strategy                     | Leadership and Succession | Capital Allocation | Corporate Governance | Corporate Action | Operational performance               | Management Information | Reporting and Communication |
|                              | ✓                         | ✓                  | ✓                    |                  | ✓                                     |                        | ✓                           |

### Background

In January 2015, the Forum was asked to initiate an engagement with Standard Chartered. Significant concerns had been raised publicly by shareholders for some time and the Forum's involvement marked a material point of escalation by institutions.

The Forum worked with 9 key shareholders through a series of bilateral discussions to develop a collective engagement strategy and a framework to address the concerns which were affecting the long-term value of the franchise.

Shareholders remained supportive of the core strategy of the bank but were clear that bold action was required by the company. The company had made itself available for individual discussions, but shareholders had concluded that the board was not addressing their concerns and that action was required to arrest the deteriorating performance.

### Engagement Objectives

- ◆ The development of a comprehensive and sequenced board and executive succession plan to restore confidence in the stewardship of the business.
- ◆ Stabilise and improve operational performance, with a focus on cost reduction, risk control and targeted restructuring rather than a full-scale strategic review.
- ◆ Restore market confidence in capital adequacy, credit quality and balance sheet strength.

### Outcome

- ◆ On 26 February 2015, the company announced the appointment of a new external CEO, a plan to appoint a new Chairman in 2016 and a series of immediate changes to the composition of Non-Executive Directors.
- ◆ This comprehensive plan of action was well received by shareholders. As a result, participating Members agreed to give management time to stabilise and re-position the business. It was agreed that the engagement had come to a natural conclusion in March 2015.

### Investor Forum Reflections

- ◆ The Chairman and CEO recognised the clarity of the Forum's feedback. An intense period of engagement clarified investor concerns and the need for immediate and comprehensive action to restore confidence.
- ◆ Feedback from investors was that the Forum amplified their individual concerns through a consistent framework that provided additional focus and the momentum to drive through change at the company.

## Tate & Lyle plc

JULY 2015 – DECEMBER 2015

| Governance<br>(by the Board) |                              |                       |                         |                     | Execution<br>(by the Management team) |                           |                                |
|------------------------------|------------------------------|-----------------------|-------------------------|---------------------|---------------------------------------|---------------------------|--------------------------------|
| Strategy                     | Leadership and<br>Succession | Capital<br>Allocation | Corporate<br>Governance | Corporate<br>Action | Operational<br>performance            | Management<br>Information | Reporting and<br>Communication |
|                              | ✓                            | ✓                     |                         |                     | ✓                                     | ✓                         | ✓                              |

### Background

The Forum was asked to initiate an engagement process in July 2015, following a series of profit warnings and a number of investor meetings with the Chairman. 41% of shareholders voted against the remuneration report at the company's AGM in July 2015, and it was immediately clear that the AGM vote had become a lightning-rod for several complex issues facing the company.

10 Members joined the engagement, representing 37% of the share capital. While there was a recognition that the board had increased its engagement with shareholders, there was a strong desire to ensure that the business better deliver on its strategy.

### Engagement Objectives

- ◆ Establish a comprehensive framework to restore confidence and enhance value.
- ◆ Improve operational control, business performance and delivery of the strategy.
- ◆ Improve management information to reduce the risk of further profit warnings.
- ◆ Increase transparency and consistency of reporting and financial forecasting.

### Outcome

The Forum's bi-lateral discussions with leading shareholders confirmed strong support for the company's "focus, fix & grow" strategy but

identified major concerns regarding the execution of this strategy. A range of concerns were highlighted and incorporated into an engagement strategy that was agreed and shared with the company via the Chairman and SID.

The incoming CFO was able to make a very positive impact, quickly gaining a firm grip on information flows, improving visibility and introducing measures to allow the company to react much more quickly to a more volatile business environment.

The strategic update in November 2015 was well received and, together with tangible actions to improve reporting in a number of specific areas which had been highlighted by the Forum, represented a significant effort to improve shareholder understanding of, and confidence in, the company.

The objectives outlined in the "Tate & Lyle 2020 Ambitions" in November 2015 represented a significant step forward. The five-year timeframe aligned company ambitions with the interests of shareholders seeking to evaluate companies over a long-term investment horizon.

At a meeting between the Forum and the company's Chairman, SID and CFO in December 2015, the company responded to each of the points raised in the engagement strategy. The meeting demonstrated a clear commitment by the company to address shareholder concerns.

### Investor Forum Reflections

- ◆ Following two years of disappointing performance, 2016 saw a more stable business evolution, improved shareholder relations and a re-rating.
- ◆ Shareholders recognise the company's progress and the constructive approach to engagement with the Forum. Most of the shareholders who engaged have remained invested, demonstrating a commitment to resolve problems and enhance value.



# Rolls-Royce plc

AUGUST 2015 – MAY 2016

| Governance<br>(by the Board) |                              |                       |                         |                     | Execution<br>(by the Management team) |                           |                                |
|------------------------------|------------------------------|-----------------------|-------------------------|---------------------|---------------------------------------|---------------------------|--------------------------------|
| Strategy                     | Leadership and<br>Succession | Capital<br>Allocation | Corporate<br>Governance | Corporate<br>Action | Operational<br>performance            | Management<br>Information | Reporting and<br>Communication |
| ✓                            | ✓                            | ✓                     | ✓                       |                     | ✓                                     | ✓                         | ✓                              |

## Background

The Forum received several enquiries from Members in the summer of 2015 given the deteriorating situation at the company. Given the complex nature of the challenges affecting Rolls-Royce, a number of investors concluded that collective engagement could help to recover value and inform the Operational Review due in November 2015.

### Key issues included:

- ◆ A longstanding difficulty in understanding the financials.
- ◆ A concern that sales growth may have been prioritised over profitability.
- ◆ Widespread uncertainty over pricing, profit recognition and cash conversion.
- ◆ Concern over the company's operational ability to deliver profitable growth.
- ◆ A divergence of views between shareholders over the group structure.
- ◆ The board's ability to set, and deliver against, a strategy given the profit warnings.

Following a further profit warning, dialogue intensified ahead of the Operational Review.

## Engagement Objectives

Through a process of bilateral meetings with 14 shareholders, together holding 34% of the share capital, an engagement strategy was developed and presented to the Chairman in October 2015. The main objectives were to:

- ◆ Clarify the key issues to be addressed in the Operational Review.
- ◆ Establish a framework for shareholders to develop a shared vision for Rolls-Royce.
- ◆ Identify a roadmap to build confidence in reporting, accounting and cash flow.
- ◆ Develop metrics that better reflect the long cycle-nature of the business.
- ◆ Understand shareholder views on engagement with an activist investor.
- ◆ Evaluate the board's ability to develop and control the execution of strategy.
- ◆ Recommend a Stewardship and Strategy Forum.

## Outcome

The Operational Review was well received by investors and began the process of addressing many of the engagement objectives. The Chairman, CEO and Director of Investor Relations engaged with the Forum in a clear and proactive way to discuss progress and to identify outstanding concerns.

Rolls-Royce held a key event in April 2016 which brought together executives and board members with a group of investors. The Forum provided input to the structure of the event, the key shareholder concerns and assisted in attracting good investor attendance from a range of institutions. Importantly the Forum helped to encourage involvement from both senior portfolio managers and governance professionals from the investing institutions.

## Investor Forum Reflections

- ◆ This was the most comprehensive engagement to date. The issues were complex, but the Forum was able to bring a focus to the wide range of investor concerns and importantly the company was committed to restoring confidence.
- ◆ The open approach of the company and the integrated engagement were key to enhancing investor confidence as the incoming CEO took the action needed to stabilise the business and deliver the company's pipeline of orders.
- ◆ Although the formal engagement was closed in May 2016, we have maintained close contact with the company. The Forum continues to support open communication with the company as it works to deliver on operational objectives, enhance reporting and transparency, and to articulate long-term strategic objectives more fully.



# Royal Dutch Shell plc

DECEMBER 2015 – OCTOBER 2016

| Governance<br>(by the Board) |                              |                       |                         |                     | Execution<br>(by the Management team) |                           |                                |
|------------------------------|------------------------------|-----------------------|-------------------------|---------------------|---------------------------------------|---------------------------|--------------------------------|
| Strategy                     | Leadership and<br>Succession | Capital<br>Allocation | Corporate<br>Governance | Corporate<br>Action | Operational<br>performance            | Management<br>Information | Reporting and<br>Communication |
| ✓                            |                              | ✓                     |                         | ✓                   |                                       |                           | ✓                              |

## Background

A number of Members (including 4 of the top 10 shareholders) approached the Forum in December 2015 to express concerns over the terms and value of the proposed acquisition of BG Group plc by Royal Dutch Shell plc (RDS). This followed a significant change in the business environment and material revisions to the synergy potential since the deal had been announced.

While there was recognition of the strategic rationale of the combination, there were also increasing concerns over the economics of the transaction. The acquisition created one of the most intense debates in the investment community for many years.

Given that this engagement involved companies during a formal offer period, the Forum took note of the City Code in its activities and processes.

## Engagement Objectives

At a meeting with the Chairman, the Forum asked RDS, on behalf of participating Members, to demonstrate in its subsequent meetings with shareholders that:

- ◆ The proposed premium paid remained appropriate in the materially changed environment and circumstances;
- ◆ The balance sheet of the enlarged group would have the financial strength to command the confidence of rating agencies and debt markets; and
- ◆ The enlarged group would retain the financial flexibility to maintain and grow the existing dividend and pursue an appropriate capital expenditure programme.

There was agreement that it was vitally important for the board to demonstrate that both the premium agreed, and the form of consideration proposed under the original terms, continued to be in the best interest of shareholders.

## Outcome

Following the subsequent round of meetings with shareholders and publication of the Prospectus, the Forum reviewed the status of participating Member concerns and subsequently conveyed these at a meeting with the RDS CEO. The following three principal areas of continued concern were discussed:

- ◆ Valuation and financial risk;
- ◆ Accountability for the financial commitments outlined in the Circular; and
- ◆ Post-completion governance and execution.

The need to establish a common understanding of the objectives for the enlarged group, the risks to be mitigated, and the level of reporting and transparency necessary were also discussed.

The engagement was closed in October 2016, as the majority of Members acknowledged the efforts that RDS had made to outline the strategy for the enlarged group and the early integration actions.

## Investor Forum Reflections

- ◆ There continues to be an active debate regarding the approach to long-term capital allocation.
- ◆ During the engagement, a number of our Members reflected on the longer-term threats that the company faces from decarbonisation, the impact on the energy sector and hence both the demand for, and the future price of, oil and gas.

## Cobham plc

APRIL 2016 – DECEMBER 2016

|          |                              |                       |                         |                     | Execution<br>(by the Management team) |                           |                                |
|----------|------------------------------|-----------------------|-------------------------|---------------------|---------------------------------------|---------------------------|--------------------------------|
| Strategy | Leadership and<br>Succession | Capital<br>Allocation | Corporate<br>Governance | Corporate<br>Action | Operational<br>performance            | Management<br>Information | Reporting and<br>Communication |
| ✓        | ✓                            | ✓                     | ✓                       | ✓                   | ✓                                     | ✓                         | ✓                              |

### Background

The engagement was initiated in April 2016, after the announcement of a rights issue to address a potential covenant breach. The decision to preserve the dividend payment while raising capital to address financial stress was widely criticised by investors. The rights issue was a major surprise that significantly eroded trust and confidence, and caused a number of shareholders to question the company's management of financial risk.

Significant concerns were raised with regard to:

- ◆ The long-term history of capital allocation.
- ◆ The deterioration in working capital management and free cash flow generation.
- ◆ The size of the capital raise, the scale of the rights issue discount and the aggregate fees paid, which were seen as tangible costs of a poorly executed diversification strategy.

Investors believed that in addition to the rights issue that was required to repair financial strength, a comprehensive plan was needed to strengthen and refresh both executive and board skills to better face the challenges ahead.

### Outcome

The Forum was able to amplify the voice of leading shareholders, and engaged persistently with the board of Cobham over time. Many of the concerns identified in the engagement strategy and shared with the Chairman in June came into sharp focus and were addressed with the profit warning that accompanied the trading statement in November.

By the end of 2016, Cobham had replaced its Chairman, CEO and CFO and the collective engagement was closed as investors await a new strategy and approach from the new team.

### Engagement Objectives

The Forum conducted in-depth discussions with several key shareholders in Cobham and agreed an engagement strategy that was sent to the Cobham board in June 2016.

### Investor Forum Reflections

- ◆ The Forum channelled investor concerns and created an engagement strategy that identified the need for a comprehensive package of change to restore confidence, which was ultimately acknowledged by the company.
- ◆ Investors are hopeful that channels of communication will improve with the new leadership team and that the company will better incorporate shareholder perspectives as it sets out its future direction. Once the new team has confirmed the strategic direction of the company and the board composition, we would welcome the company hosting a Stewardship & Strategy Forum as part of a process to rebuild trust.

## Mitie Group plc

SEPTEMBER 2016 – NOVEMBER 2016

|          |                           |                    |                      |                  | Execution<br>(by the Management team) |                        |                             |
|----------|---------------------------|--------------------|----------------------|------------------|---------------------------------------|------------------------|-----------------------------|
| Strategy | Leadership and Succession | Capital Allocation | Corporate Governance | Corporate Action | Operational performance               | Management Information | Reporting and Communication |
| ✓        | ✓                         |                    |                      |                  | ✓                                     |                        | ✓                           |

### Background

The engagement was initiated in September 2016 following a profit warning. Shareholders were concerned that the management of the business had not given sufficient focus to the core facilities and property management business and had become distracted by acquisitions in other segments. There were also concerns about balance sheet strength, profit and revenue recognition, free cash flow generation and dividend commitments.

Balancing that, shareholders saw a strong market position in the core business, where Mitie delivers value-adding services to clients typically in long-term partnerships.

During the course of this short engagement the company announced the appointment of a new CEO which was well received by shareholders.

### Engagement Objectives

- ◆ Restore investor confidence through a clear focus on the core business and a re-assessment of the appropriate risk appetite for the company.
- ◆ Review, and where appropriate, refresh the composition of the executive team and board.

### Outcome

The Forum wrote to the Chairman in October and had a very constructive meeting with the Chairman and CEO-elect in early November. It was evident that they had reviewed the feedback provided in detail and were actively prepared to engage, understand and address investor concerns.

Revenue recognition and cash conversion are acknowledged as a challenge for Mitie (and the sector) and one that we encouraged the new team to review objectively. Investors would value a dialogue on the right disclosure to understand the revenue mix and associated free cash generation better.

There will be several challenges ahead, particularly around expectations for profitability and growth, but with the appointment of a new CEO and the receptiveness of the Chairman, investors felt that there was no immediate need for further collective engagement, and so the engagement was closed in November.

### Investor Forum Reflections

- ◆ With the CEO change, the need for collective engagement was diminished, as investors wait to learn how the strategy will evolve. Nevertheless we were able to effectively convey investor concerns to the company. We believe our framework gave the new management an objective assessment of key shareholder concerns and the most important issues requiring attention from a shareholder perspective.
- ◆ We remain in contact with the company, and suggest they consider a Stewardship and Strategy Forum in late 2017, following the publication of the 2016 annual report and before the 2017 AGM, to showcase progress.

# Sports Direct International plc

JULY 2015 – PRESENT

| Governance<br>(by the Board) |                           |                    |                      |                  | Execution<br>(by the Management team) |                        |                             |
|------------------------------|---------------------------|--------------------|----------------------|------------------|---------------------------------------|------------------------|-----------------------------|
| Strategy                     | Leadership and Succession | Capital Allocation | Corporate Governance | Corporate Action | Operational performance               | Management Information | Reporting and Communication |
| ✓                            | ✓                         | ✓                  | ✓                    |                  | ✓                                     | ✓                      | ✓                           |

The Forum would not normally report on an on-going engagement in its Review. However, in light of our decision to make public our involvement, and recent announcements from Sports Direct, we have taken this opportunity to provide a comprehensive update.

## Background

Institutions have engaged with Sports Direct since its market listing and exercised fully their stewardship responsibilities, both individually and collectively. The Chairman of Sports Direct approached the Forum in early 2015 to discuss the “governance discount” that shareholders applied to Sports Direct.

The Forum has engaged extensively with the Chairman since then, facilitating a process of collective engagement between 12 investors representing 15% of the share capital (33% of the independent shareholders) and incorporating the views of a number of other investors.

During 2015 and 2016 the actions of the company, notably its employment practices, attracted significant media interest resulting in a breakdown in stakeholder relations. Mike Ashley's appearance at the House of Commons BIS Select Committee in June 2016 culminated in shareholders asking the board, via the Forum, to commit to an independent review of its governance and employment practices.

On 25 August 2016, the Forum took the unprecedented step of publicly announcing its concerns and the request for an independent review given the lack of tangible progress by the board in addressing shareholders' concerns.

## Engagement Objectives

Comprehensive improvement has been sought in the following areas:

- ◆ Corporate governance, board oversight and effectiveness,
- ◆ Related party transactions and potential conflicts of interest,
- ◆ Employment practices,
- ◆ Acquisition strategy and associated due diligence,
- ◆ Oversight of key supplier relationships and management of the store portfolio.

## Outcome

On 7 September 2016, independent shareholders voted against the reappointment of the Chairman at the AGM. Under new Listing Rules designed to protect the interests of minority shareholders, this required another vote within 120 days. On 20 September 2016, Sports Direct announced that having considered concerns raised by independent shareholders, facilitated by the Forum, the review would be led by an independent party with a wider scope.

Following the AGM the Forum engaged regularly with the Chairman regarding the Independent Review. The Forum provided a substantial list of names of potential review chairs that would meet with shareholder approval, and offered to make introductions if required. The Sports Direct Chairman rejected all but two of these names and ultimately neither candidate decided to progress discussions with the company. In late December the Chairman proposed an alternative candidate to the Forum, who did not meet the criteria that the company itself had used to reject candidates previously identified by shareholders.

The Forum clearly explained to the Chairman of Sports Direct from the outset that it is not the responsibility of shareholders, nor the Forum, to appoint a review Chair. It is the responsibility of company Directors to carry out a public commitment of the board and for shareholders to hold those Directors accountable for their actions.

At the General Meeting on 5 January 2017, a majority of independent shareholders again voted against the re-election of the Chairman.

The announcement on 13 January that the company will move ahead with a review led by RPC (Sports Direct's long-time legal adviser) is an important development. Shareholders recognise the change taking place at Sports Direct and the clear view of leading institutional shareholders is that an independent review is of vital importance to stabilising the current situation. While shareholders will no doubt raise questions over the independence of the review now to be conducted, this is an active decision by the board that shareholders can evaluate and judge in due course.

Independent shareholders continue to highlight the vital need to appoint a permanent CFO to strengthen the financial discipline of the company.

## Investor Forum Reflections

- ◆ A majority of independent shareholders have used their voting rights to demonstrate dissatisfaction with the current arrangements at Sports Direct, and have engaged consistently with the company, escalating through the Forum to seek change.
- ◆ The call for an independent review was driven by a desire to give Sports Direct the opportunity to gain “a clean bill of health” that would help the Chairman to meet his objective of adding Non-Executive Directors to strengthen the board and build a team of executives to support the entrepreneurial flair of Mike Ashley.
- ◆ Governance failings and operational mis-steps by the management of Sports Direct have contributed to a 54% decline in its share price since the Chairman approached the Forum in March 2015, representing a significant loss of shareholder value in the context of a 7% rise in the UK market over that time period.
- ◆ Sports Direct is changing and the Forum continues to work with shareholders to make the case for positive change.

## What companies can expect from the Investor Forum:

- ◆ **NO SHAREHOLDER SUPPORT, NO ENGAGEMENT:** shareholders escalate their concerns to the Forum and we only proceed with a critical mass of support
- ◆ **FOCUSED ON VALUE CREATION NOT BOX TICKING:** tests apply before proceeding – grounded in economic rationale, a long-term focus and constructive solutions
- ◆ **COMPREHENSIVE ENGAGEMENT STRATEGY AND MANDATE:** we will have spoken in-depth to the portfolio managers, sector analysts and governance professionals to understand their views
- ◆ **NO INTENTION TO SUPERSEDE DIRECT ENGAGEMENT:** we encourage participants to continue their individual interactions with the company
- ◆ **AGREED WAY FORWARD:** the views we convey are agreed by all engagement participants
- ◆ **ONGOING INTERACTION AND UP-TO-DATE VIEWS FROM PARTICIPANTS:** shareholders are aware if the company is unwilling to engage positively with the Forum
- ◆ **ABSOLUTE DISCRETION AND CONFIDENTIALITY:** all dialogue is confidential but public escalation strategies will be considered and agreed with engagement participants when necessary

## What we expect from companies:

- ◆ **APPROACH THE ENGAGEMENT WITH AN OPEN MIND:** shareholders have seen value in participating in the collective engagement under the auspices of the Forum, and we would expect a company to respect the role of the Forum in amplifying shareholder views in pursuit of a constructive dialogue.
- ◆ **BOARD LEVEL PARTICIPATION:** the approach is constructive, with the aim of helping the company to understand the range of views regarding the company's long-term potential, and obstacles to realising this potential.
- ◆ **NO INSIDE INFORMATION:** the Forum actively seeks to avoid obtaining inside information from companies without our prior consent.
- ◆ **A COMPREHENSIVE PLAN TO RESTORE CONFIDENCE:** we seek outcomes that enhance the value of the franchise for the benefit of all stakeholders.

## 10 key features of the Collective Engagement Framework:

1

**TRUSTED FACILITATOR, NOT AN ADVISER** – Members retain full voting and other investment rights in respect of their shareholdings. No control is ceded to the Forum or other Members.

2

**OPT IN/OPT OUT** – A Member actively chooses to participate in an Engagement involving a company in which it is a shareholder. It can also choose to opt out of an Engagement at any time.

3

**COMPLEMENTARY TO MEMBERS' DIRECT ENGAGEMENT** – Members are actively encouraged to continue their direct interaction with companies outside the Forum's auspices.

4

**CONFIDENTIALITY** – Members must agree to comply with confidentiality obligations during an Engagement. Disclosure of identities and public statements must be agreed by participants during an Engagement.

5

**NOMINATED GATEKEEPER** – Members retain full control as to whether or not they receive information, and who receives that information.

6

**HUB & SPOKE MODEL** – A bilateral model is the usual method of communication between the Executive and Members involved in Engagements.

7

**NO INSIDE INFORMATION** – The Forum is not intended to be a means of facilitating the exchange of inside information between companies and Members or among Members themselves. Participation in an Engagement will not exempt any person from any law or regulation governing the use and dissemination of inside information.

8

**NO-CONCERT PARTY AND NO-GROUP** – Members must agree that they will not, while participating in an Engagement under the auspices of the Forum, form a concert party in respect of the relevant company, including by requisitioning or threatening to requisition the consideration of a board control-seeking proposal or seeking to obtain control of the relevant company, or otherwise form a group that could trigger regulatory reporting or other regulatory requirements. The Executive will engage with the Takeover Panel and seek specialist advice when required.

9

**HEIGHTENED PROCEDURES** – At various points in an Engagement heightened procedures may be deemed necessary, including seeking specialist advice. Particular attention will be paid to the case of Engagements involving companies with dual U.S. or other foreign listings and companies or Members that are subject to the Bank Holding Company Act.

10

**CONFLICT OF INTEREST AVOIDANCE** – The Forum maintains control procedures to avoid conflict of interests which could impact either its own governance or individual Engagements. Members are reminded of their own obligations to manage conflicts of interest and should note that participation in an Engagement is not a substitute for, and does not release them from, those obligations.





## Other Activities



## Stewardship & Strategy Forum

During 2015 and 2016, the Forum met with a large number of institutional investors and many FTSE100 Chairmen. In almost all the conversations, we discussed how best to improve the dialogue between companies and investors. It became clear that there is an opportunity to further refine investor relations practices.

Drawing on this comprehensive feedback from company and investor practitioners, the Forum's proposed solution is the 'Stewardship & Strategy Forum', which seeks to combine the stewardship and strategy agendas in one meeting, creating an opportunity for a more holistic evaluation of a company's franchise.

The objectives are to increase confidence that companies are being managed in the long-term interests of shareholders and to create a stronger understanding between boards and investors.

The meeting would bring together key board members, executives, investment decision makers and governance practitioners, and enable shareholders to evaluate the contribution of the board and the executive in constructing, controlling and executing strategy.

We wrote to all FTSE 350 Chairmen introducing the concept in early 2016. While many support the format and concept, existing governance events and competing priorities in investor relations programmes have proved to be practical barriers to companies embracing this concept more actively.

Some companies have voiced concern that holding such an event would, in itself, indicate elevated levels of concern, rather than seeing the positive engagement case and being an exemplar of best practice.

All too often governance events are poorly attended, with companies struggling to "get the right people in the room". Often the agendas do not necessarily speak to the most pertinent issues for investors. We believe that there is a real opportunity to improve best practice in this regard.

It is extremely rare that a number of non-executive directors are in a room at the same time and available to meet with investors, and it is important that when those opportunities

arise, companies can mobilise a strong cross section of shareholders. Contrast this experience with attendance at company events hosted by executive management teams (typically results presentations and strategy days) that attract much larger audiences. Investor advocacy for such events will be important if more companies are to adopt this approach.

The political agenda is also placing more pressure on boards to pay closer attention to their responsibilities under Section 172 of the Companies Act 2006 to promote the success of the company for its members, taking account of the long term and wider stakeholders. This type of event is an ideal platform for company Directors to showcase how they have discharged these duties.

We recognise that each company will wish to construct its agenda in its own way, taking account of its specific business context and circumstances. However, a typical agenda might be structured to provide information, and facilitate debate on, the following areas:

A typical agenda:

### Stewardship

- ◆ Corporate Governance: how the board composition and governance structures support the achievement of the company's objectives.
- ◆ Financial Reporting, Audit and Risk Management: how key accounting judgements and the audit and risk control framework combine to give a true and fair view of the entity's financial position.

### Strategy

- ◆ Strategic Management: an exposition of how the business intends to generate and preserve value over the long term.
- ◆ Franchise value: a discussion of the key drivers of franchise health, long-term competitive advantage and business performance.

Many companies have some form of governance event, but the agenda tends to be dominated by remuneration discussions, rather than linking the skills of the board to the long-term strategic ambitions of the company.

It would be healthy for companies with a premium listing to host a Stewardship & Strategy Forum style event on at least a 3 yearly basis. Equally, it is well suited as a platform to communicate and proactively engage on major governance- or strategy-related changes. This will improve the scrutiny and challenge of the long-term strategic direction of the business: we believe that the FRC should consider incorporating this requirement into the UK Corporate Governance Code.

Companies can organise such an event independently but the Investor Forum is also available to discuss the concept in more detail with a company if investors ask for such an event to be organised. We are also available to canvass our Members, and other important investors, to help identify priority areas of focus, develop bespoke agendas or even facilitate the process on behalf of shareholders on a case-by-case basis.

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“ The Investor Forum is a force for good that can really help shareholders and company boards focus on the things that matter. ”

**Edward Bonham Carter**  
Vice Chairman of Jupiter Fund Management

## Stewardship 360 Programme: Making the case for long-term investment approaches

Making the case for the long term is one of the Forum's core objectives, and is explicit in everything it does, most notably in the approach to collective engagement.

Current and potential future activities are described in this area under the **Stewardship 360 Programme**. This title was chosen to inform the activities in making the case for long-term approaches, as it is believed that it is important to incorporate the views of the entire investment chain and broader stakeholders in seeking to create a culture of long-term investment.

The Forum will focus on issues where it can make a unique contribution based on its practical experience during engagements. In general, we won't put forward new policies but we will seek to promote best practice, advocate approaches that investors can use to maximise the tools available to them and highlight where existing laws and codes may impede stewardship activities. We will work closely with other investor organisations, particularly the Investment Association, to amplify the voice of investors.

During 2015 and 2016 we organised a number of events:

- ◆ The Lord Mayor hosted two roundtables for the Forum with company Chairmen and investment leaders in 2015.
- ◆ The Forum presented an update on our initial activities in December 2015 and launched our Collective Engagement Framework in October 2016.
- ◆ In January 2017 held a Senior Investor lunch with Andrew Smithers and a debate following our AGM entitled "The end of the era of shareholder value?" led by Professor John Kay and Sir David Walker.

We have also spoken at a number of conferences and participated in many Chairman and investment industry round tables.

In 2017 the intention is to hold a small number of key events, small group discussions on topical issues and write a series of short thought pieces resulting from these discussions.



## Partnerships & Projects

We have also partnered on two important projects during 2015 and 2016 – EY's Reporting on Long Term Value project and BankingFutures.

In deciding to participate in these two projects we identified opportunities to:

- ◆ contribute to and develop practical approaches that can enhance the understanding and creation of long-term value; and
- ◆ involve Members of the Investor Forum in unique projects.

“ In Wellcome’s charitable activities we recognise the power of collaboration in tackling scientific problems. In our investment portfolio we take our responsibilities as a shareholder seriously and believe that working collaboratively with other investors through groups such as the Investor Forum can help address business challenges. We are willing to be an active asset owner where we believe our actions will protect and enhance shareholder value, and to encourage strategic thinking which is consistent with our long term view and the company’s social licence to operate. ”

**Nick Moakes**  
Managing Partner of the  
Wellcome Trust Investment Division

“ The Investor Forum is delivering something that the investment world had lacked, which is an organisation that is as close as is possible to be to a one stop shop bringing investors and corporates together to improve engagement and stewardship. Hopefully the Forum is helping put an end to mixed messages delivered by advisers and intermediaries and is instead delivering the views of a significant proportion of the share register straight from “the horse’s mouth”. ”

**David Lis**  
Former CIO of Aviva Investors

“ The industry-led launch of the Investor Forum – and its track record of successful engagements and innovations – illustrate the strong commitment of asset managers to the long-term success of the UK market. ”

**Ida Levine**  
Director of European Public Affairs at Capital Group

## Collaboration with EY to Improve the Reporting of Long Term Value

The Forum was set up to foster a longer-term ownership culture across all shareholders of UK companies. An important aspect of this, and a common frustration raised with the Forum by companies and investors, is the lack of a framework for the measurement and reporting of the factors that drive long-term value in companies.

Over the last 30 years, the balance of drivers that create value has changed, with intangibles increasingly being the impetus behind 21st century companies. Most industries now show that intangible value typically represents more than 50% of market value: value that is rarely reported or communicated to investors and other stakeholders. Reporting is struggling to keep pace with the changing shape of business and seems unable to cater for the rise in the importance of a wider stakeholder group.

As companies find it increasingly difficult to articulate the importance of long term investments in sustaining their competitive advantage, incrementally there can be more dependency on the reliability of shorter term financial measures. Responding to the information signals provided, this can result in the overall market discounting those long-dated cash-flows excessively, as highlighted by the Bank of England.<sup>1</sup>

It is important for the audit profession to adopt a leadership position to address these challenges. We therefore welcome that EY has embarked on a major initiative to develop a comprehensive framework to measure long-term value. The Forum has partnered with EY to help facilitate this collaboration with the investment industry and other key stakeholders. Specifically, we have helped EY facilitate structured sessions with leading academics, senior investors and business leaders to provide input on the development of the Long Term Value Conceptual Framework.

In these sessions we heard very clearly that investors and CEOs want organisations to communicate information better about the assets that create value, including how the people, the intellectual capital and other strategic assets combine to create and sustain competitive advantages.

Solving this problem is not something that can be achieved by the efforts of one organisation alone. We therefore particularly welcome that EY has invested significant effort engaging with a wide range of key stakeholders as a catalyst for change. EY is currently in discussion to undertake a series of company pilots with investor involvement. We encourage companies and investors to help progress this initiative.

For more information about this project and for opportunities to participate, please visit [www.ey.com/longtermvalue](http://www.ey.com/longtermvalue) or contact a member of the Investor Forum team.

<sup>1</sup> The Bank of England. The Short Long. Speech by Andrew G Haldane, Executive Director, Financial Stability, and Richard Davies. May 2011.

## BankingFutures

As part of the Investor Forum's objective to make the case for long-term investment approaches, we have played an active role in the BankingFutures project, which was convened by two not for profit organisations, Leaders' Quest and Meteos in the summer of 2014 to rebuild a healthy UK Banking Sector.

Participating in BankingFutures has allowed the Forum to contribute to a project that is focused on systemic issues impacting one of the UK's most significant industries, in contrast to the largely company specific focus of much of our collective engagement activity.

The Forum helped the BankingFutures initiative bring together a selection of important voices from the investment community and a number of senior banking executives in the first phase of the multi stakeholder dialogue convened and facilitated by Leaders' Quest and Meteos. We also organised an event to socialise the emerging findings of the first phase of work with the Chairs of four of the UK's largest banks, UKFI, the FRC and senior executives from investment houses in September 2015.

BankingFutures published a report on 1 February 2016, by a group of senior bankers, investors and sector experts.

The report was based on the views of over 200 banking, investor, regulatory, customer and civil society stakeholders and called for bank leadership to take action to rebuild a healthy banking sector in the UK. The three key recommendations were:

- 1 **Banks to better serve the real economy's current and future needs.**
- 2 **Bank leaders commit to work with the Investor Forum to create banking and investment cultures that enable the sector to deliver long-term value.**
- 3 **Bank leaders commit to a public process involving consumers, civil society and regulators to improve their duty of care and respect for customers.**

**Commenting on the report, Andrew Bailey, Deputy Governor Bank of England, said:**

“The financial crisis was a painful reminder that commercial banks should operate for the good of the public, their customers. Now we must tackle the question of what banking system we do want. BankingFutures is an important initiative involving a wide group of stakeholders. It has a call to leadership, to respect customers and to support our economy. The report is an important start but it must not gather dust. Now we must all make the change happen.”

As part of the second phase of BankingFutures we are working alongside Leaders' Quest and Meteos to identify concrete actionable steps that banks and investors can take to make a material, positive contribution to the ability of banks to generate long-term value. A number of our Members are involved in this multi stakeholder dialogue and the group is expected to report its findings and recommendations in the third quarter of 2017.

For more information about the project, please contact a member of the Investor Forum team or visit [www.leadersquest.org/banking-futures](http://www.leadersquest.org/banking-futures).



### Reflections from Professor John Kay CBE

One of the principal recommendations of the Kay Review of equity markets was that major institutional investors should organise to work more effectively together through an Investor Forum.

The Forum began work in 2014. In the last two years, it has engaged in quiet diplomacy to contribute to change at about a dozen large British companies, judging – correctly in my view – that shareholders can best bring about improvements in strategy and governance by private persuasion rather than through a megaphone. I agreed to become a member of the initial Board for two years while the Forum was established.

Asset managers working together can make a real contribution to improving the performance of British business, and assist management and Boards in doing their jobs and fulfilling their duties. The duty of the directors of a company in Britain is to promote the success of the company for the benefit of the members. Shareholder value is the product of the success of the company, not the goal in itself.

The success of a company is necessarily multi-dimensional. A successful company is one that meets the needs of its customers, rewards its employees – both financially and by allowing them to take pride in what they do, makes

a contribution to the wider communities in which it operates, and in doing so earns sustainable long term returns for investors. The task of the corporate executive is not to maximise anything, but to steer the business on a course which over time achieves all these goals, because only through achievement of all these goals can that business survive in the long term.

The proximate accountability of corporate executives is to shareholders. Share ownership in Britain is unusually fragmented and in consequence such accountability is often best exercised collectively. Further, because a group of large asset managers together enjoy effective control over a majority of UK listed equity holdings, that group has a shared responsibility to restrain excess and review missteps – to help address some of the issues which have recently eroded the legitimacy of the UK corporate sector. A long-term constructive and consistent dialogue between shareholders and company boards is critical for business and ultimately economic success.

The Investor Forum has worked hard to establish a strong foundation, and I look forward to watching it establish itself as a truly effective model to bring about change and amplify the shareholder voice.





# Review of Operations

# Organisational Structure and Governance

## Introduction

Good governance can build trust. A strong degree of trust drives sensible decision-making, which in turn drives long-term results. Therefore, we believe that it is appropriate that we hold ourselves to the highest standards of corporate governance.

From the outset we have sought to adopt governance standards that are consistent with the very best corporate governance practices in the UK, whilst being mindful of the characteristics of a membership-led CIC and the unique issues that we face.

The Investor Forum CIC was incorporated as a Community Interest Company (CIC) in September 2014, with Members granted equal voting rights and a board of Directors drawn from across the investment chain and other key stakeholders. The board oversees the work of the executive officers.

## Board of Directors

We have an independent Board of Directors that is elected by our Members at an Annual General Meeting. The composition of the Board is intended to reflect member interests as well as having independent voices from industry and academia and representatives from the corporate world to bring a diversity of perspectives. The Chairman and Board are supported by a Senior Independent Director and two sub committees.

Since inception the Board has supported the growth of the Forum and provided wise counsel, practical advice and challenge. We are grateful for the time, experience and insights that they have provided pro bono.

## Founding Board Members

**Simon Fraser<sup>1</sup>**  
Chairman

**Andy Griffiths**  
Executive Director

**Edward Bonham Carter<sup>2</sup>**  
Jupiter

**Mark Burgess**  
Columbia Threadneedle  
Investments

**Daniel Godfrey**  
The People's Trust

**Chris Hitchen**  
RPMI Ltd

**Virginia Holmes**  
USS

**Professor John Kay CBE**  
Economist

**Ida Levine<sup>3</sup>**  
Capital International

**David Lis**  
ex Aviva Investors

**Nick Moakes**  
The Wellcome Trust

**Sacha Sadan**  
Legal & General  
Investment Management

**Robert Swannell**  
Marks & Spencer plc

**Lindsay Tomlinson**

\*Anne Richards, then  
CIO of Aberdeen Asset  
Management, was a  
Director from inception  
until March 2016

<sup>1</sup> Chairman of the Nominations and Remuneration Committee

<sup>2</sup> Senior Independent Director

<sup>3</sup> Chairman of the Operating Oversight Committee.

The **Nomination and Remuneration Committee** identifies, evaluates and recommends to the Board candidates for appointment or re-appointment as Directors. The Committee keeps the mix of knowledge, skills, diversity and experience of the Board under regular review and seeks to ensure an orderly succession of Directors. It also monitors the outside directorships and broader commitments of the non-executive Directors.

The Board has a policy for refreshment and diversity, and seeks to maintain a balance between Member representatives and independent Directors.

The **Operational Oversight Committee** has delegated authority from the Board to oversee the effective legal, audit, risk and financial management of the business.

### Business structure

From launch in October 2014 until June 2016, the Forum operated with a skeleton staff comprised largely of secondees and individuals working in a pro-bono capacity. The Investment Association has provided significant support including office space, back-office administration, and a seconded member of staff. The intention was always to establish an independent organisation within three years. We were able to demonstrate 'proof of concept' after 18 months and achieved financial independence in July 2016, a year ahead of schedule.

Following the appointment of a Chief Operating Officer in April 2016, core systems and controls were developed and the first membership fee invoices were issued in July 2016.

### Funding the Forum

A key action emerging from the Investment Association's Productivity Action Plan<sup>1</sup> in March 2016, was for the Forum to seek wider support and financing by launching an independent membership fee.

In March 2016, the Forum announced that 20 asset managers and asset owners had committed to funding the Forum for a period of three years. These commitments paved the way toward a sustainable operating model and provided a platform from which the Forum could launch a fee paying membership model.

H M Treasury recognised the leadership role played by the 20 institutions.

At the time, **Baroness Neville-Rolfe, then Parliamentary Under Secretary of State at the Department for Business, Innovation and Skills** said:

“ The Forum plays a valuable role in bringing investors together to support and challenge companies to ensure their strategies create long-term value. This advance means the Forum can continue to help build stronger, more competitive businesses, improve returns to savers and boost UK productivity and long-term growth. ”



“ The asset management industry has shown its support to the long term success of the UK equity market through its commitment to the Investor Forum. LGIM are delighted to have been a founding member and look forward to its continued success. ”

**Sacha Sadan**  
Director of Corporate Governance LGIM

<sup>1</sup> Supporting UK Productivity with Long-Term investment. The Investment Association's Productivity Action Plan, March 2016

## Organisation

The approach to our core activities has been incorporated into three key documents:

- ◆ **Collective Engagement Framework** – outlines our engagement process.
- ◆ **Governance Framework** – details all membership and organisational matters.
- ◆ **Employee Handbook** – contains all our internal procedures.

The Forum has adopted a series of policies and procedures designed to ensure all employees and associates maintain the highest levels of professional conduct. Policies are contained within the Employee & Associate Code of Conduct and the Employee Handbook, which are signed by new employees.

We completed our first external audit for the financial year ended September 2016 and were pleased to receive a positive recommendation and validation of our internal processes.

We would like to acknowledge the valuable support and advice from Tulchan Communications LLP in developing our external profile.

As a not-for-profit company, the financial objective is to balance costs with anticipated revenue. Over time we will seek to accumulate a reserve, equivalent to a maximum of six months of operating costs, to help manage the natural variability of income and expenditure.

The funding approach of a CIC is unique in that any reserves generated (i.e. income in excess of costs) cannot be returned to the original investors as the organisation is not for private gain. Any reserves must be used for the benefit of the community or else, in the event of the company being wound up, transferred to an “asset-locked body”.

It is proposed at the 2017 AGM that the Forum’s asset-locked body becomes “Business in the Community”, Prince Charles’ Responsible Business Network.

“With overseas investors now holding 54% of the value of the UK stock market, a collective approach towards engagement by long-term stewards of UK companies has become even more important. The Forum provides an effective platform to facilitate comprehensive, proactive and constructive dialogue between informed investors and companies.”

**Virginia Holmes**  
Investor Forum Board Member

## Collective Engagement Framework

The Forum put in place a legal, operating and governance structure which helps to meet the Forum's objectives whilst minimising legal and regulatory risks to participants. Particular attention has been paid to certain considerations applicable to U.S. investors.

The Forum has sought guidance from a panel of law firms, which has worked with the Board and the Executive to put in place a coherent framework for the management of engagements. This work culminated in the Forum publishing its "Collective Engagement Framework" on 18 October 2016. The full framework was made available to Members and a summary version is publically available on the Forum's website.

The Collective Engagement Framework has been designed to take into account the need to safeguard against:

- ◆ creation and dissemination of inside information, inadvertently or otherwise;
- ◆ creation of concert parties under the City Code;
- ◆ triggering group filing requirements under Section 13 of the U.S. Securities Exchange Act; and
- ◆ creation of concert parties or acquisition of control of, including by exercising a controlling influence over, any Company under the U.S. Bank Holding Company Act of 1956 (the "BHC Act").

The full Collective Engagement Framework document outlines the procedures which the Forum will typically follow to propose and manage Engagements and discusses the key regulatory and legal considerations taken into account when drawing up these procedures.

The process of undertaking a Collective Engagement has been separated into two phases:

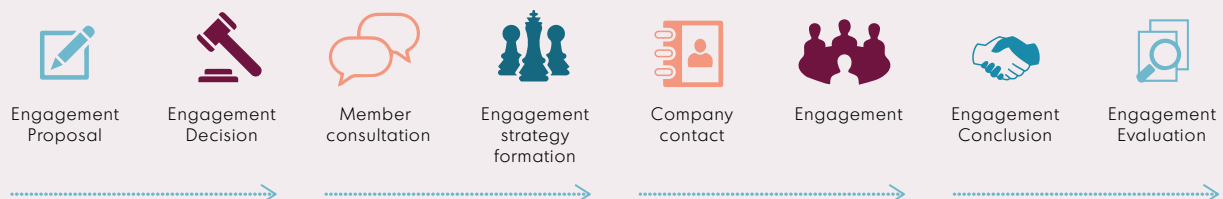
- ◆ **The Engagement Proposal Phase** – the decision whether or not to formally initiate an engagement; and
- ◆ **The Engagement Management Phase** – the management of an agreed engagement.

During the Engagement Proposal Phase, the proposed Engagement is first evaluated for consistency with the Forum's principles:

- (1) is it proactive and grounded in economic rationale?;
- (2) is there a long-term focus?; and
- (3) is there likely to be a constructive solution?

The Forum also evaluates whether there is a reasonable prospect of securing sufficient support among the Company's largest shareholders to foster a meaningful dialogue with the Company and whether there is a reasonable expectation of conducting the Engagement in accordance with the Forum's policies and procedures and all applicable laws and regulations. After consultation with Members, a decision is taken whether or not to proceed with the proposed Engagement.

### COLLECTIVE ENGAGEMENT PROCESS



Once the decision has been taken to proceed, Engagement Management procedures are followed. Members are canvassed to determine if they would like to participate in the Engagement, and selected Non-Members may be approached. The Executive will typically communicate on a bilateral basis with Members to develop an Engagement Strategy.

Communication with the company will be undertaken by the Executive in a constructive manner, with the aim of helping the company to understand the range of views of participants.

In so far as within its control, the Forum will seek to keep communication confidential with the Members participating in the Engagement. However, escalation strategies will be considered and agreed with Engagement participants when necessary, which could involve public communications.

Engagements will be monitored for consistency with the Forum's principles and Code of Conduct and with the objective of maintaining a safe and secure environment. Heightened procedures can be invoked if necessary, and specialist advice or regulatory guidance sought as required. An Engagement can be altered or terminated at any time.

Conclusion of an Engagement will be considered if:

- ◆ the outcome(s) specified in the strategy are achieved;
- ◆ it is determined that they are unlikely to be achieved;
- ◆ there is no longer sufficient Member support to pursue the Engagement;
- ◆ the Executive determine the Engagement is inconsistent with the Forum's remit;
- ◆ continuation of the Engagement may be prejudicial to the Forum or its Members; or
- ◆ for any other reason in the Forum's sole discretion.

A communication strategy will be agreed, including the possibility of public statements if necessary.

The Forum will undertake a review of each Engagement to understand better the reasons for success and failure and the lessons learned. As far as is practicable and agreed by participants, aspects of finished Engagements will be made public, typically in an annual review, to contribute to the wider discussion of stewardship and corporate governance. A periodic review of lessons learned, in discussion with wider stakeholders, will be undertaken to see how the process of engagement can be enhanced.

The Forum's procedures for conducting Engagements will also be regularly reviewed in light of practical experience, as well as to take into account changes to law and regulation. The Forum hopes that the publication of its policies and procedures will contribute to a further professionalisation and development of best practice in collective engagement and stewardship.

We would like to acknowledge the vital contribution made by the panel of law firms who have assisted in preparing and reviewing the Investor Forum's Collective Engagement Framework document: Davis Polk & Wardwell LLP, Freshfields Bruckhaus Deringer LLP, Macfarlanes LLP, Norton Rose Fulbright LLP and Skadden, Arps, Slate, Meagher & Flom (UK) LLP.



## Membership

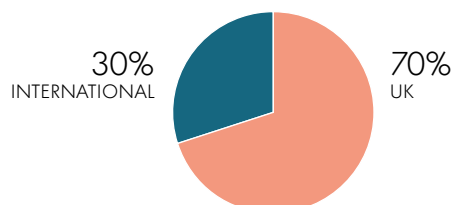
Full membership of the Forum is open to any institutional investor in a UK-listed company, irrespective of where that investor is located, including both asset managers and asset owners. As at 31 December 2016, the Forum had 33 full Members. All Members have consented to the publication of their names, and a full list is given on page 43. However, Members do have the option to remain anonymous if they so choose.

Over 80% of those who signed up in the first half of 2015 continued their involvement once a membership fee was introduced.

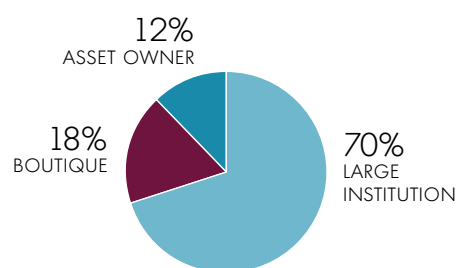
In 2017, we will seek to increase the membership base and particularly the representation of overseas asset owners, who in some cases own a significant portion of UK-listed companies. This group would add a valuable dimension to any collective engagement, and would demonstrate the value of the Forum in addressing the fragmented nature of holdings in the UK market.

We actively seek a diverse group of investment organisations within our membership – domestic and international, large institutions and boutiques, asset managers and asset owners. Our membership offer incorporates four fee tiers to recognise, amongst other things, global assets under management, UK equity investments, likely involvement in collective engagement activities, and involvement in the Stewardship 360 programme.

### Member domicile



### Member type



“ We have found our interaction with the Forum to be positive in terms of its aims and its proactivity in taking the concerns of investors and turning them into specific feedback for the investee company. Further, it is not simply a ‘broadcast’ of investor views to the firm, there is two way conversation that can be taken as far as the two sides of the table think it can constructively go. As a smaller investment manager we feel that the Forum has allowed us to augment our own interactions, constructively leveraging other investors’ views to gain a greater voice and reinforce key messages. ”

**Ben Peters**  
Fund manager and CEO, Wise Investments

### What Members can expect from the Investor Forum:

#### OUR APPROACH IS:

- ◆ Value-driven: we base collective engagement on economic rationale
- ◆ Discreet: we avoid unnecessary public confrontation
- ◆ Safe: we limit the legal and regulatory risks
- ◆ Constructive: we identify solutions
- ◆ Methodical: we have a consistent and robust process
- ◆ Best practice: we enhance stewardship by investors and boards alike

#### WE WANT TO HELP OUR MEMBERS:

- ◆ Realise long-term benefits for their clients and beneficiaries
- ◆ Maximise their return on engagement effort
- ◆ Be confident that collective engagements will be safe, secure and discreet
- ◆ Demonstrate a commitment to stewardship activities to all stakeholders
- ◆ Contribute to the long-term success of UK-listed companies for the benefit of the broader economy



To become a full Member of the Investor Forum and to participate in collective engagements, investors are asked to:

Sign:

- ◆ A Membership application form; and
- ◆ The No Concert Party and No Group Formation Undertaking.

Abide by the Investor Forum:

- ◆ Articles of Association;
- ◆ Code of Conduct; and
- ◆ Rules of Membership

This framework has been developed over the last two years with the valuable input of a panel of law firms, who have provided pro bono support and advice to help create the infrastructure that can support a professional approach to collective engagement, taking account of the requirements of both UK and US securities law and practice. This approach allows each Member and companies to have a clear understanding and expectations for how other investors will behave in a Collective Engagement which is facilitated by the Investor Forum.

The Forum invites non-investment organisations who are interested in the purpose and objectives of the Forum to join as Associate Members. Associates do not have the right to participate in Engagements, but are invited to contribute to the Stewardship 360 event programme and, where appropriate, join discussion groups.

## Our Members





Acknowledgements:  
Images – Page 13, 27 and 35: David Dummett Photography





# THE INVESTOR FORUM

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