



REVIEW
2017



THE INVESTOR FORUM

WHO ARE WE?

A community interest company set up by institutional 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 returns for savers

The Investor Forum CIC

183 Euston Road, London NW1 2BE

www.investorforum.org.uk

25 January 2018

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Key Points

Creating practical solutions to enhance long-term value

The Investor Forum is a membership-funded not-for-profit organisation

7 of the 10 largest owners of UK Equities are Members¹

Members own 29% of the FTSE All-Share index by value¹

Company-specific collective engagement

- ◆ Evaluated 28 UK company engagements in the first 3 years
- ◆ Engaged with 18 UK companies at board level

Stewardship 360 Engagement

The Forum has worked with Members to create practical insights into thematic issues, completing two major projects in 2017:

- ◆ Apparel sector working practices
- ◆ BankingFutures – Pathway to long-term value report and investor survey

Stewardship & Strategy Forums

- ◆ Advocated and promoted the concept and advised three companies, shaping the agenda for board interactions with investors.

Team members have an average of more than 20 years of international investment experience as asset owners, fund managers and research providers.

“The Investor Forum provides a new mechanism for engaging with companies on the key long-term drivers of successful and sustainable performance. The Forum’s independence ensures an objective and independent viewpoint that carries more weight than any individual opinion.”

James Macpherson,
Deputy CIO Fundamental Equities, BlackRock

¹ Based on member provided data, RD:IR and FactSet as at 30 Nov 17

Chairman's Introduction



Simon Fraser
Chairman
25 January 2018

The Investor Forum (the "Forum") had a busy 2017 and, three years after our initial launch, has now firmly established itself as an independent organisation with a unique platform for collective shareholder engagement with UK-listed companies.

We are committed to putting stewardship at the heart of the investment decision-making process. We do this by facilitating a better dialogue that really focuses on the things that matter for the long-term success of the business. We have an established framework for collective engagement with individual companies and have been involved in ten direct engagements during 2017. This includes six FTSE 100 companies and in total has involved 31 different shareholders.

Proactive engagement

There are many conduits for listed company boards to communicate the role they play, but the effectiveness by which they do so varies hugely. Much can be done to improve trust by addressing key strategic issues and talking holistically about franchise value, culture, and the character and ambitions of the business.

We hope the Investor Forum can be a force to empower directors to rise to the heightened expectations being placed upon them, and to encourage investors to work collaboratively to assist this process.

During 2017, we further developed the two aspects of our work which are complementary to core company-specific engagement. Having originally been involved almost exclusively with companies who were already struggling with their shareholders, and where the share price had therefore usually already suffered a significant setback, the Stewardship and Strategy Forums and the Stewardship 360 programme have allowed us to take a more proactive approach to engage

with companies that are doing well, before value has been lost due to poor stewardship.

Organisational integrity

During the year we were pleased to have added three new Members. Additionally we anticipate that 100% of our existing Members will renew for another year. This has brought much needed stability to the organisation, which in turn has allowed us to add two new professionals to our team and move into our own dedicated space on Euston Road.

Our Board has continued to develop and, following the retirement of John Kay, Lindsay Tomlinson and Daniel Godfrey at the beginning of the year, we have been very pleased to welcome Jessica Ground from Schroders, Paul Coombes from the London Business School and James Macpherson from BlackRock. In addition, we are delighted that Peter Gershon, Chairman of National Grid plc will be joining the Board in January 2018, bringing his many years of industry and public company NED experience.

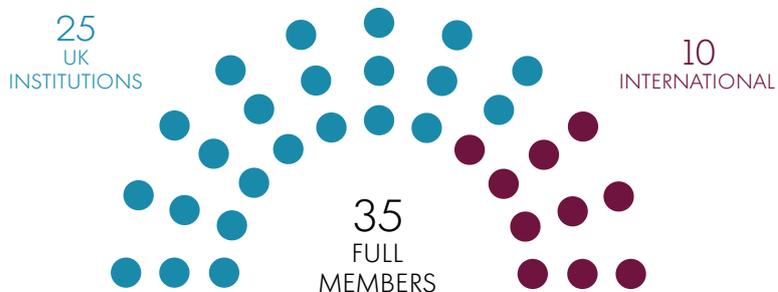
Conclusion

There is still much to do to further build the trust and working relationships between the multitude of ultimate owners and the boards of UK-listed companies. The UK Government, and the FRC, continue to encourage investors and boards to be much more considerate of all stakeholders in business, and are very focused on ensuring directors take their responsibilities seriously.

Looking forward, we will continue to focus on developing our collective engagement platform and will at all times strive to facilitate a better dialogue, create practical solutions and focus on protecting and building long-term value for the end shareholder.

Forum Snapshot

MEMBERSHIP



20 provided a 3 year underwriting commitment until June 2019

~£14.1trn
in Global
AUM¹

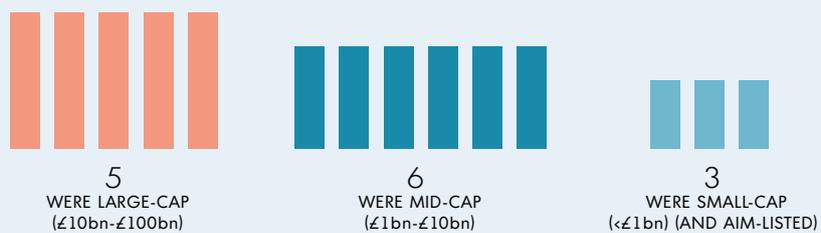
~£680bn
invested in
UK Equities¹

Represents approximately
29%
of the
FTSE All-Share
market cap

ENGAGEMENTS 2017



Of the 14 UK companies proposed:

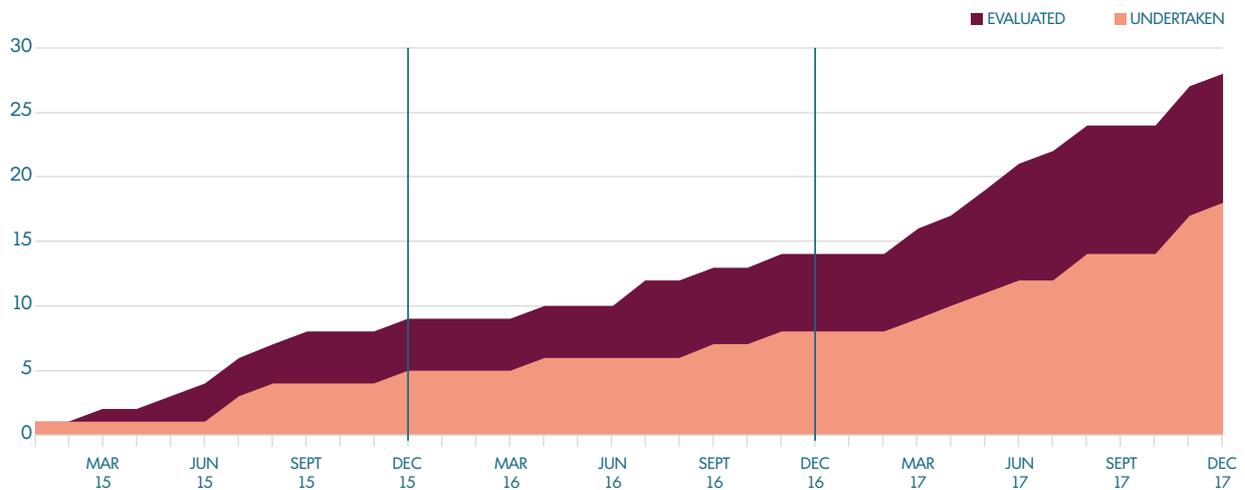


¹Based on member provided data, RD:IR and FactSet as at 30 Nov 17. Sources vary from previously quoted information

2017 COLLECTIVE ENGAGEMENT DASHBOARD

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership and Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting and Communication
Amerisur		✓		✓				✓
BT	✓	✓	✓	✓		✓	✓	
Eco Animal Health		✓		✓				
IP Group					✓			
LSE		✓		✓				
Rio Tinto		✓						
Worldpay					✓			

COLLECTIVE ENGAGEMENT ACTIVITY SINCE INCEPTION



ENGAGEMENT PARTICIPATION IN 2017

In each full engagement

RANGE OF PARTICIPANTS

2-15

MARKET CAP OF COMPANY REPRESENTED

7%-50%

31

investors have been involved including 2 non-members

96

bilateral conversations took place

Executive Director Review



Andy Griffiths
Executive Director
25 January, 2018

2017 has been a year of significant progress for the Investor Forum. We have seen a meaningful uptick in collective engagement activity as our approach becomes more widely accepted as a valuable tool for investors, and as our reputation grows. We have also established ourselves as an operationally and financially independent not-for-profit entity.

Review of 2017

This was a busy but productive year:

- ◆ In January we published our first review of engagement activities for 2015 and 2016.
- ◆ We led 10 collective engagements during the year, 6 of which were completed by year end.
- ◆ We undertook a major project to evaluate the supply chain in the Apparel sector.
- ◆ We completed the BankingFutures Pathway to Long-Term Value Report and Investor Survey.

At the same time, from an organisational perspective we:

- ◆ are on track, and expect to secure a 100% rate of renewal from our Members.
- ◆ moved into our own premises and were able to expand the team in the autumn.
- ◆ built our practitioner-led model to include six professionals, each with 20 years of experience.

We measure our success by the quality of the conversations that we are able to have with investors and companies, as well as the trust that our Members place in us and the contribution that our engagement can have in enhancing investor confidence in companies we engage with. We seek to ensure that investor voices are clearly heard, and given appropriate

consideration by company boards to restore confidence that objectives are aligned.

Changing landscape

Governance is moving to centre stage for investment institutions and companies alike as asset owners, politicians, regulators and wider society increasingly challenge the role of business and the effectiveness of capital markets.

No matter what the investment approach – passive, active, activist or arbitrage – stewardship considerations have become increasingly important to institutional investors. Index tracking investors are motivated to ensure that the index constituents are “as good as they can be”, lifting the tide to deliver the best market returns, as by definition they remain invested in all companies throughout the cycle. Active investors are increasingly seeking to make the case for “engaged ownership” as a key part of their investment proposition and as a driver of their ability to generate attractive long-term investment returns.

Meanwhile activist investors are becoming more prevalent in European markets, offering targeted and very distinctive propositions that often seek board seats and changes to corporate structure. We have also seen the rise of arbitrage investment strategies, particularly around specific events related to large transactions, where such funds may displace many of the long-term active owners as a deal deadline approaches.

The dividing lines between these different models are becoming increasingly blurred as practitioners find new ways to interact. Institutional investors are taking a practical stance, listening to the insights and perspectives of activist investors, while remaining mindful of the need to demonstrate that they are not acting in concert and to ensure

that their position as a long-term investor in a company is not misrepresented.

Institutions have differing holding periods for investments, but their focus is as an external agent with a clear interest in enhancing the valuation multiple and terminal value of a company, which are key drivers of a company's long-term value. This contrasts with an activist model which is very often focused on specific interventions to address perceived weaknesses within a company and to monetise the impact within a finite time period. This difference apart, it is clear that there are occasions when the interests of index, active and activist investors are aligned and can create a catalyst for significant change at a company.

In response to this evolving landscape, we are seeing a rise in advisory and investment bank approaches to companies seeking to identify, and if possible diffuse, any potential vulnerability to activist investors. As we look forward, we envisage a continuation of these trends, and a landscape increasingly shaped by well organised investor initiatives and likewise more proactive responses by companies to governance challenges.

Relationship between companies and investors

Our discussions with company chairs and investors during 2017 have left us in no doubt that a transactional focus on earnings trends and remuneration issues has crowded out the much more important discussion of culture, franchise health, and the drivers of long-term value creation. We expect, and hope, that the changing landscape will shift the nature of the conversations between companies and their shareholders, moving away from a narrow, short-term, agenda to a much greater focus on strategic direction and the drivers of value creation.

It is also increasingly apparent that smaller companies can struggle to generate a critical mass of investor interest and we anticipate that the upcoming MiFID II changes will exacerbate this trend further. We are therefore pleased to report that our approach has been as effective with AIM-listed companies as with the largest listed UK groups.

We will continue to promote the concept of Stewardship & Strategy Forums as a platform for companies and investors to have more holistic discussions about the future direction and value of the franchise.

Effective collective engagement

Finding ways to amplify investor voices to deliver a clear message to companies is at the heart of what we do.

It is rare that we uncover insights that a company is not aware of, but we are frequently able to step away from heated discussion about the symptoms of a problem and re-focus engagement on the key underlying issues which require attention. Our approach offers a discreet and professional mechanism to escalate individual investor concerns.

We do not seek to create a watered-down consensus from a wide range of investors, rather we seek to identify a conviction that change is required and then to communicate that perspective clearly to a company. Our engagement approach complements, and works in tandem with, ongoing direct investor dialogue and is structured to avoid the use, or generation of non-public information or create situations where investors might inadvertently act in concert.

In many respects, our role should not be necessary given the intense dialogue between companies and their investors. Nevertheless our experience over the last three years has proven that there is a role for experienced professionals to crystallise perspectives, communicate key issues and facilitate an enhanced dialogue. While conceptually simple, this work is far from straight-forward and much like a mountaineering expedition, the presence of an experienced guide is often times invaluable, no matter how well-prepared each participant might be at the outset.

We have also proven in 2017 that collective engagement can be effective in a range of situations, and that we can move rapidly to engage with companies if investors believe that clear and strong messages need to be delivered to prevent companies taking a course of action which shareholders would strongly object to.

2018 Strategic Objectives

Our core activity is company-specific collective engagement and this will continue to be the case. Recent experience has proved to us that there are opportunities to engage with boards on issues related to transactions, as well as capital allocation, succession planning and communication, in an even more proactive way.

Our primary objective for 2018 is therefore to continue to build on the quality and effectiveness of our engagements so that they can have the most impact. We will strive to make the Investor Forum:

- ◆ the natural home for collective engagements for all Members;
- ◆ well known by companies, so that all UK boards know who we are;
- ◆ known by the authorities as part of the UK investment architecture; and
- ◆ recognised by the broader public for our contribution to stewardship.

Our second objective for 2018 is to further develop the Stewardship 360 programme, extending beyond individual company engagements to maximize the impact of collective engagement. Following the success of the project to examine working practices in the apparel sector, in 2018 we intend to extend this work to the food sector who, along with their supply chain, are large employers in the UK.

Plans for further Stewardship 360 work will be agreed with investors and driven by investor demand and interest. We have capacity to tackle at least two significant issues a year. We will also convene expert sessions, in collaboration with our legal panel, associate members and other partners, on more specific topics to help develop and extend best practice.

Our final objective is to convince more companies to enhance their governance programme by embracing the Stewardship and Strategy Forum concept, to help increase understanding and build further trust between boards and investors.

Conclusion

It is essential that everything we do is driven by our Members, provides constructive feedback to the companies that our Members are invested in and is ultimately focused on helping the boards and management teams to build better businesses that are sustainable for the long-term.

A key part of what we have been able to achieve in 2017 is due to the advocacy of our Members and our not-for-profit model.

I would like to thank everyone who has contributed to building the Forum over the last three years, most notably to all of my colleagues and our non-executive directors whose expert advice has been instrumental in building the reputation that we now enjoy. I would also like to acknowledge the leadership and dedication shown by our Member-firms, whose commitment to stewardship is crucial to generating the insights and influence that can bring about constructive change to the UK equity market. We also appreciate the tremendous support that we have received from our legal panel, the wider investment community, the corporate sector and the regulators.

2018 will be another important year in which the investment industry will need to work hard to maintain and enhance the trust which its clients and broader society place in it. In our small way we look forward to playing a constructive role in that ongoing journey.

“By engaging collectively investors can get their message to boards in a clearer and more coherent manner. This helps boards focus on appropriate solutions more quickly. The Investor Forum is steadily building its reputation as the trustworthy fulcrum for well-structured conversations between companies and their owners, focusing on long-term, sustainable creation of value.”

Robert Swannell,
Chairman of UK Government Investments

Purpose, Objectives and Key Activities

Purpose

- ◆ 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.

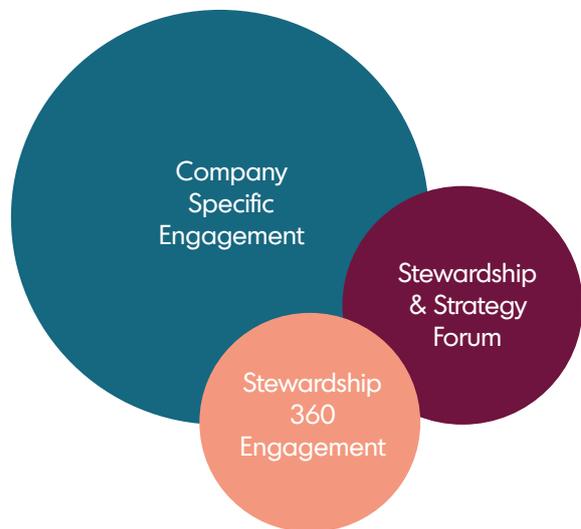
Objectives

It has two core objectives:

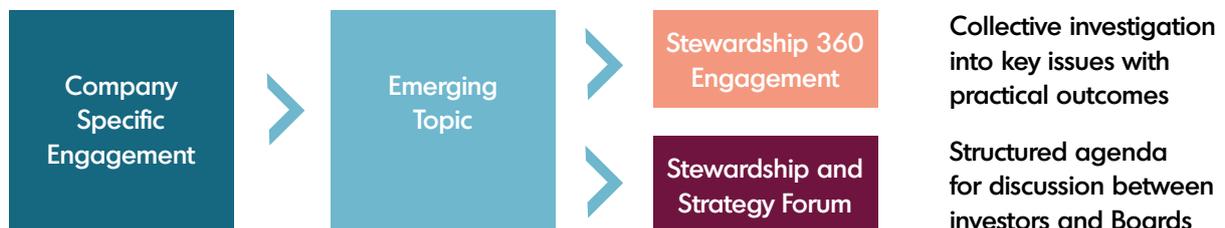
- ◆ Make the case for long-term investment approaches.
- ◆ Facilitate collective engagement with UK-listed companies.

Key activities

- ◆ The Investor Forum provides a comprehensive framework for Company Specific Engagement, consulting with Members to identify the underlying issues and to develop constructive solutions
- ◆ Stewardship 360 Engagement takes a closer look at key engagement issues and presents practical recommendations for Members
- ◆ We promote, facilitate and advise on Stewardship & Strategy Forums (SSF). An SSF is a meeting between a company and its investors where the Board can demonstrate its work and address concerns through a bespoke agenda which has been tailored to address Members’ interests



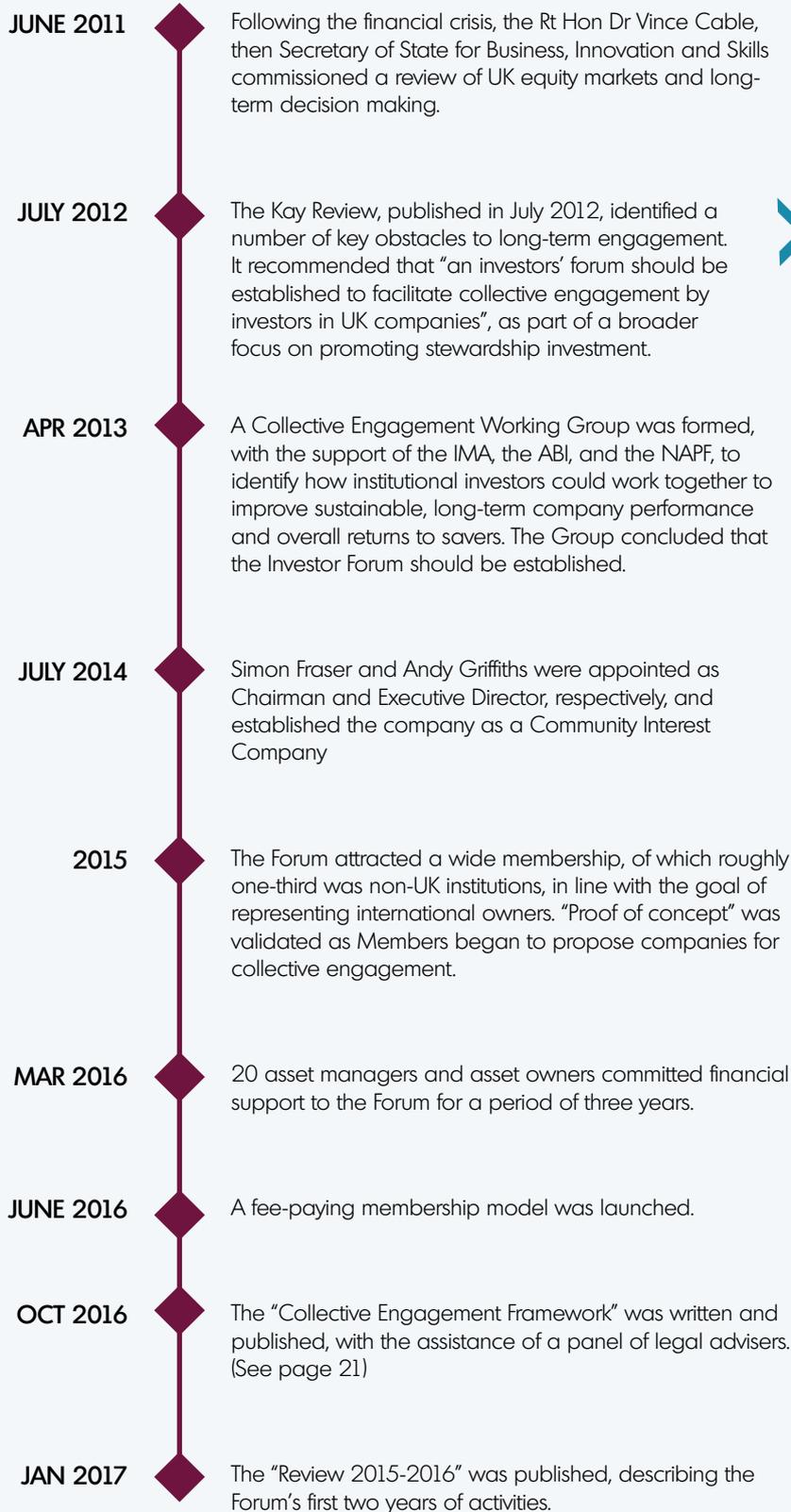
Magnifying the impact of collective engagement



“The Investor Forum’s collective engagement model brings an essential new dimension to investor stewardship. It is already demonstrating its potential to transform the quality of dialogue with boards.”

Paul Coombes, Chairman,
Centre for Corporate Governance,
London Business School

Background to the Investor Forum



Kay Review key obstacles to long-term engagement:

- ◆ 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.

Stewardship Landscape

It is clear that, 25 years on from the introduction of the Cadbury Code, there has been no reduction in the UK's focus on corporate governance. 2017 has been a year of unprecedented scrutiny and review: government, regulatory bodies and think tanks have all pushed forward with new proposals and reports (see table 1). Corporate governance has moved to centre stage for all investors; index investors are seeking to demonstrate that they are taking their responsibilities seriously while active investors are seeking ways to demonstrate the added value from their stewardship activities. Activists, meanwhile, stepped up the number of campaigns with UK and European companies.

Key themes running through these corporate governance initiatives are a greater focus on principles and 'soft' factors, such as culture, and less emphasis on detailed guidance, which is perceived to have supported a box-ticking approach. Since the introduction of the Cadbury Code in 1992, and with each subsequent review, detailed guidance has been expanded, legislation has been enacted and corporate reports have been extended to increase transparency and to report on compliance. There have been many benefits from these changes with more independent directors, more information for investors and more dialogue between boards and investors. However, during this period, we have also seen increasing complexity, whether relating to executive remuneration structures (which have not necessarily led to higher investor returns) or to annual reports (where increased disclosure has not necessarily led to greater understanding).

The UK government's 2017 review of corporate governance suggested that detailed guidance in the Corporate Governance Code should be reduced and that the emphasis on broad principles should be increased. This reflects a growing view that the original intentions of the 'comply or explain' approach are not being reflected in current practice: too many companies and investors are taking a box-ticking approach to compliance and companies are reluctant to choose to 'explain' rather than 'comply,' even if they feel this is the best course for their company. The FRC's proposals for the revised Code seek to address these concerns through a simpler and clearer structure. Importantly, the

FRC is emphasising both the need for meaningful explanations from companies, and the need for a non-mechanistic approach to evaluating these explanations by shareholders.

The Investor Forum held a series of Chair and senior investor roundtables during 2017 (see page 28) where we explored the quality of the relationship and dialogue between investors and corporates. These discussions highlighted the issue of the crowding-out of strategic conversations by transactional discussions, such as those about remuneration schemes and short-term financial metrics.

If 2017 was the year of Corporate Governance reviews then 2018 looks likely to be the year of Stewardship reviews. Companies comment that corporates are more closely scrutinised and held to account by investors against the Corporate Governance Code than investors are against the Stewardship Code. Building on the FRC's initiative to evaluate and tier Stewardship signatories in 2017, there is an appetite to enhance the effectiveness of the Stewardship Code. The first phase of the consultation on the Stewardship Code will focus on best practice and quality of Stewardship activities and reporting. As in the Corporate Governance debate, these soft factors are complex and hard to quantify – but also key to developing a deeper understanding of the relationship between corporates and investors.

Over time, we have seen an increasing fragmentation of UK share ownership with a significant increase in overseas ownership – now over 50% – and a wider spectrum of investment styles from passive to quant, and from active to activist. This fragmentation both illustrates the need for, and demonstrates the importance of, the role that the Investor Forum can play in developing a constructive dialogue between boards and investors that is focused on long-term solutions.

2017 has seen a deluge of new initiatives and 2018 will see implementation of new legislation and consultation to amend existing Codes. Significant change lies ahead for both companies and investors as the consultation on the Corporate Governance Code enters the final stage and the consultation on the Stewardship Code gets underway.

Table 1: Key corporate governance reports in 2017

Reports with an impact on regulation and Codes	
ISSUING BODY	REPORT
UK Government	White Paper: UK Corporate Governance Reform
FRC	Proposals for Revised Corporate Governance Code
FRC	Stewardship Code Consultation
FRC	Strategic Reporting Consultation
European Council	European Shareholder Rights Directive
Other reports on corporate governance and stewardship practices	
ISSUING BODY	REPORT
FCA	Asset Management Review
Investment Association (IA)	Stewardship Survey
Tomorrow's Company	NEDs – Monitors to Partners
Purposeful Company Task Force	Recommendations on the development and importance of company purpose
IA and ICSA	Stakeholder voice in Board Decision making
UK Government	Patient Capital Review: Access to long term finance
UK Government	UK Industrial Strategy
UK Government	Growing a culture of Social Impact Investing in the UK



“ Collective action plays an important role in sustainable stewardship practice and the FRC recognises the value of the work undertaken by the Investor Forum in 2017 in promoting a forum for collective engagement. ”

David Styles,
Director of Corporate Governance, FRC



Review of Activities 2017

Collective Engagement Report: 2017

Introduction

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

The framework and approach are now recognised by leading investors as 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.

“Even as a large investor, when individual engagement is not working, the Investor Forum is our first port of call. Simply put – the collective engagement provided by the Investor Forum works.”

Sacha Sadan, Director of Corporate Governance, Legal & General Investment Management

In September 2017 we increased the resources dedicated to engagement and now have six individuals, each with 20+ years of investment experience, available to contribute to engagement activity. We believe that this investment experience, combined with our comprehensive collective engagement framework, are essential ingredients to facilitate successful engagements.

Our experience has shown the value of our collective engagement framework and also the need for a strong team to facilitate engagement. There is no substitute for experience to give investors confidence that the Forum can amplify their individual voices and to gain the confidence of companies that the engagement process can be professional, discreet and constructive.

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 set out in our **Collective Engagement Framework** (as described on page 21). 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
- ◆ it has flexibility to evolve and adapt as circumstances warrant.

Our 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.

In our first three years, investors have asked the Forum to investigate 28 company situations for collective engagement. In many cases, institutions will already have devoted time and resource engaging directly with companies, and only approach the Forum when their individual efforts have not achieved the desired outcomes.

In 2017 it became clear that the Forum’s approach is well-suited to rapid escalation of important issues when investors believe it is necessary to send a clear message to companies who might be considering corporate actions or have a significant succession issue.

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

- ◆ The majority of the Forum’s work has been in situations where investors were seeking to recover value after a series of disappointing developments.
- ◆ A number of the proposed engagements related to some form of corporate action by a company, where investors felt their interests could benefit from collective engagement.
- ◆ While the majority of engagements in 2015 and 2016 were focused on value recovery, an increasing number of more proactive engagements were raised in the second half of 2017.

Engagement activity 2017

Investor Forum Members identified 14 companies as candidates for collective engagement during 2017. 10 of these proceeded to full engagements, 6 of which were completed within the year as well as one ongoing engagement from 2016. 4 engagements were on-going at year end. Details of these engagements are presented on pages 16 and 17.

The cases formally raised with the Forum by investors are a small subset of companies with whom they directly engage.

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 enjoys 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. This discipline means that when collective engagement does proceed, the views presented to a company are thoroughly considered and the investor commitment to find a solution is high.

Member participation

The Forum worked with 31 institutional investors in relation to its collective engagements during 2017, including 2 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.

96 detailed bilateral conversations – which have been defined as ongoing dialogue on a single company subject with an institutional investor – were held to inform these engagements.

In the pages that follow we seek to draw out some of the key themes that have emerged from this year’s engagements.

In this report, we have again tried to balance the sometimes competing needs for discretion and transparency. In our view, discretion continues to be a crucial component in taking the time to identify underlying causes behind problems, in rebuilding trust between companies and investors, and to work towards long-term solutions.

However, transparency is an important and powerful driver of change and improvement. We are committed to report on our activities when sensitivities have reduced so that all parts of the investment chain can draw lessons and improve best practice. During an engagement we only use public disclosure as an escalation mechanism in the most extreme situations.

Disclosure also helps to demonstrate the seriousness with which our Members take their stewardship responsibilities. By supporting the Forum the investment community has invested in an escalation mechanism to enhance value. The intensive nature of these collective engagements is a unique and constructive additional approach to resolve complex situations.

We have included details of seven collective engagements where engagement activity is now closed but have not commented on the four situations where there are ongoing discussions or sensitivities.

2017 Collective Engagement Dashboard

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership and Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting and Communication
Amerisur		✓		✓				✓
BT	✓	✓	✓			✓	✓	
Eco Animal Health		✓		✓				
IP Group				✓	✓			
LSE		✓		✓				
Rio Tinto		✓						
Worldpay					✓			

Amerisur plc

Engagement period: Dec 16 – May 17	Size: Small cap, AIM listed	Number of participants: 5	% of company: ~20%
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Participants believed that the investment thesis for the company was strong, but that governance practice and oversight by the Board were impacting the company's effectiveness. We engaged with the Chairman to raise the concerns of investors, which focused on issues that they felt should be addressed to better equip the organisation for its anticipated growth.

The company responded promptly and constructively to the engagement, announcing changes relating to remuneration policy, increasing shareholder communication through more regular RNS updates and launching an independent process to identify and recruit two new independent Non-Executive Directors (NEDs) with financial and exploration experience.

Members were encouraged by the approach taken in early 2017. While some felt at the time there was still more work to be done, the collective engagement closed in May, just prior to the AGM. One year on from the initiation, the company has indicated that there has not been any additional investor feedback on these issues.

BT Group plc

Engagement period: Feb 17 – July 17	Size: FTSE 100	Number of participants: 12	% of company: ~12%
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The engagement was initiated following the announcement of a deterioration in the outlook that compounded issues which emerged from the Italian accounting irregularities. The objective was to ensure that the company had a clear view of investor frustrations as well as an understanding of the need for prompt and decisive action to help restore the reputation of the company.

Shareholders emphasised the need to position the company for a period of transformational change in the industry, and asked for more information to understand how future capital allocation decisions will be taken. Investors also identified a need for a clearer framework to help them understand how the decisions affecting the long term franchise value of the company are taken.

BT took comprehensive action to address a number of issues that were weighing on investors' minds, but the process of rebuilding confidence is on-going. The engagement was closed in July, pending the arrival of the new Chairman. We have suggested that there would be significant value in a Stewardship & Strategy Forum event, and are hopeful that the company will be open to this in 2018.

IP Group plc

Engagement period: May 17 – July 17	Size: FTSE 350	Number of participants: 2	% of company: ~11%
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In reviewing the proposed transaction with Touchstone plc, two Members were concerned about potential dilution in their exposure to IP Group's underlying assets through the fundraising and combination and asked us to represent their concerns to the company.

This was not a full engagement, and was closed in July prior to the General Meeting which approved the transaction.

ECO Animal Health plc

Engagement period: July 17 – Dec 17	Size: AIM listed	Number of participants: 5	% of company: ~50%
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All participants were very supportive of the management team given the strong record of execution and positive growth, but there was a shared view that the governance of the company needed to be enhanced to equip the company for anticipated future growth.

The Chairman acknowledged the points raised regarding governance structures, board composition and related party transactions and engaged immediately in an extremely constructive manner.

As a result of the engagement, on 1st December 2017, the company announced a new independent NED, and the transition of the Chairman to a non-executive role. The engagement was closed following this announcement.

Worldpay plc

Engagement period: July 17 – Aug 17	Size: FTSE 100	Number of participants: 11 (inc 2 non-members)	% of company: ~25%
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Participants asked us write a collective letter to ensure that their views, which many had already expressed directly with Worldpay and its advisers, were fully recognised and reviewed by the Board in advance of a decision to recommend a proposed offer for the company.

Many of these investors had been shareholders in Worldpay since its IPO, and wished to remain owners of a business which they believed had the potential to create long-term value from a rapidly growing global footprint.

Investors had a number of concerns around process, consideration and structure of the transaction. The role of the Investor Forum was to present the position of shareholders but not to propose an alternative structure, or to otherwise disturb a proposed transaction; that was a matter for the Board, its advisers and, in due course, its shareholders.

The Forum was able to move quickly and effectively to represent investor views to the Board. Participants were pleased that the company took steps to amend the structure of the offer to include a secondary London listing. The announced measures addressed the issues that were raised in our discussions. As such, the engagement was closed in August, and shareholders voted in favour of the proposed combination in January 2018.

Rio Tinto plc

Engagement period: Nov 17 – Dec 17	Size: FTSE 100	Number of participants: 13	% of company: ~20%
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This engagement was initiated in response to media speculation regarding the process to appoint a new chairman. The participants were supportive of the company and its strategy, but, given the specific challenges facing the organisation, they held strong opinions on the criteria for this key appointment.

We wrote to, and spoke with, the Senior Independent Director who was leading the selection process to amplify the strength of investor views. This engagement was concluded when the company announced the appointment of a new chairman on 4th December.

London Stock Exchange plc

Engagement period: Nov 17 – Dec 17	Size: FTSE 100	Number of participants: 15	% of company: ~20%
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The Forum initiated an engagement with LSE to address participants' desire to better understand the CEO succession process following the launch of a campaign by an activist investor. The investors were seeking additional clarity given the complexity of the situation resulting from confidentiality agreements surrounding the process. Ultimately, investors chose to support the Board's position.

We have encouraged the company to take action in 2018 to demonstrate the effectiveness of the Board and its plans to restore confidence in the governance framework in order to enhance the long-term best interests of the company.

Reflections from collective engagement experience

Common to almost every collective engagement brought to the Forum 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 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. 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 a combination 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 develop 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.

We highlight below seven issues which have emerged from our work in 2017, which have broader applicability and merit further comment.

1. More proactive engagement

In four cases this year, companies were identified by investors as candidates for engagement before profit warnings or negative events that might have put them into the 'emergency ward' with a corresponding loss in shareholder value. Shareholders generally believed that these were good companies which could benefit from a clear statement of shareholder concerns and an amplification of key challenges, which if left unchecked could lead to future value destruction.

Moves towards earlier intervention to protect long-term value are a positive sign, and an indication of our Members' increased trust in the effectiveness of the Forum.

2. Succession

Succession is one of the most complex aspects of corporate evolution, and one that is perhaps least appreciated by investors. Done well it is almost invisible, but if it is done less well it can have long-lasting repercussions.

We have also found that the period between announcement and the date the new Chair takes his or her position can be a difficult one in which to engage with a company. Etiquette dictates that the serving Chairman should still receive correspondence from investors, but the company often enters an interim period from a leadership perspective. In two engagements this year, the transition caused a hiatus in engagement activity, but did offer an opportunity to present views to the incoming Chair.

The "Chairman-elect" will often undertake a series of shareholder meetings to gather views. We believe that in some instances a constructive letter from the Investor Forum prior to these meetings can be useful to provide valuable context, help frame a broad agenda and establish the common concerns which require active discussion.

3. AIM-listed companies

We were pleased that two engagements this year were with AIM-listed companies, indicating the broad range of situations which Members feel the Investor Forum can address. Our expectation had been that the presence of a handful of dominant shareholders in these smaller companies would limit the need for collective engagement.

In both cases, we were asked to facilitate an engagement to help the company transition from founder-led start-up models to a governance structure more appropriate for the size and position which the companies had attained, and which might guard against related-party transactions, misaligned remuneration structures, poor market communication, or lack of independent challenge within the board. These proved to be extremely effective interventions which saw prompt responses, and rapid reactions, from the companies.

4. Non-financial factors

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.

In a number of engagements, non-financial considerations around environmental or social factors were identified by participants. We would encourage companies to improve ESG disclosures to ensure that external benchmarks accurately reflect a company's position on these important issues. Investors have a keen awareness of best practice within a sector and are increasingly looking for companies to drive improvement. Additionally, we have seen evidence to suggest that external ESG benchmarks are increasingly impacting ownership decisions.

5. Empowering the board during transactions

The announcement of a significant corporate action can act as a catalyst for investors to engage collectively to emphasise key considerations and to protect their interests. On two occasions this year, the Forum was asked to write to the Chairman of companies following the announcement of a transaction.

As discussed on page 29, our focus has been on directing the Board's attention to the views of shareholders at critical moments, and empowering non-executive directors to provide high quality scrutiny and robust challenge to management and advisors. The intention is to help investors ensure that a rigorous process has been followed and that their concerns have been taken into consideration as the board reaches its decisions.

6. Varying levels of board engagement and awareness of issues

Many companies believe that they have a strong understanding of their investor base because of the range of investor meetings held. Some can become defensive when faced with the suggestion that the messages being filtered back to the Board may not fully capture the underlying causes of shareholder concerns.

A few companies appear dogmatic in their insistence that one-to-one meetings work best for their company and see no benefit in collective engagement. Experience over the last three years provides a significant number of examples where our collective approach has amplified the voice of individual investors and helped companies identify constructive solutions which address the underlying causes of investor frustration. There have also been situations where investors have seen a reluctance to engage with the Forum as an indication of the company's unwillingness to confront its problems. In such circumstances, active investors often conclude that exit from the investment is the only remaining option open to them.

7. Knowing when to stop

Calling an end to an engagement is an important milestone. It may be reached through the achievement of an engagement's objectives, or because the critical mass of support to continue has dissipated. The closure of an engagement is certainly not an indication by the Investor Forum that the company is "fixed". It is more that the concerns have been raised, the views of the participants expressed, and the baton passed back to the company to take what action it sees fit in light of the information it has learned, and to take further steps on its journey to rebuild trust.

Whilst the chairmen of a number of companies the Forum has engaged with have seen value in the process, others have been reluctant to acknowledge that the insights brought them anything new. In these latter cases, participants in the engagement are best placed to decide whether continued collective engagement can contribute to a recovery in value.

Lessons learned from collective engagement

- ◆ Effective succession is vital to maintain, or restore, investor confidence in the leadership team.
 - Poorly handled leadership changes can create significant tension between shareholders and companies.
- ◆ Focusing on long-term value creation is a challenge for both companies and investors.
 - It is important to find the space and a framework for high quality dialogue.
- ◆ Investors appreciate a framework for how capital allocation decisions are made.
 - Clear communication can help companies manage the competing perspectives and demands.
- ◆ Shortcomings in management information and control systems continue to be a source of major problems.
 - Misaligned incentives can create perverse outcomes.
- ◆ The expression of corporate governance concerns frequently indicates broader shareholder dissatisfaction.
 - What may look like a single issue can often signal a more significant erosion of support.
- ◆ As concerns harden, investors look for evidence of Board oversight and effectiveness.
 - Demonstrating the effectiveness of NEDs is vital to enhance shareholder confidence.
- ◆ Collective engagement can be an effective mechanism to equip smaller companies for sustainable growth.
 - Investors have a lot of experience in managing the transition to maturity.



“ Working with the Investor Forum on specific company engagements is a clear way of demonstrating one’s stewardship credentials. ”

**Edward Bonham Carter, Vice Chairman,
Jupiter Fund Management plc**



“ The Investor Forum’s consolidated feedback helped us confirm our intentions and assisted in broader shareholder communication. ”

**Sir Michael Rake,
Chairman Worldpay plc.**



“ This year the Forum has ensured that the shareholder voice is heard clearly in complex and fast developing situations. ”

**Jessica Ground,
Global Head of Stewardship, Schroders**

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 form a concert party or group in respect of the relevant company while participating in an Engagement under the auspices of the Forum. 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.

10
CONFLICT OF INTEREST AVOIDANCE – The Forum maintains control procedures to avoid conflicts of interest which could impact either its own governance or individual Engagements.

Stewardship 360

The focus of the Stewardship 360 (S-360) programme is to develop insights gained in collective engagement to maximise the value of the lessons learned. We do not seek to replicate the work of others, but extend our practical learnings through a programme which is driven by Member interest. We focus our activity in three broad areas.



Key issue engagement

Research and practical recommendations on issues that emerge from company collective engagement

Stakeholder engagement

Events that help position stewardship at the heart of investment decision-making

Long-term value engagement

Projects that support long-term investment approaches

In 2017 we completed a number of initiatives:

- ◆ **Key issue engagement** – Apparel sector working practices (see page 23)
- ◆ **Long-term value engagement** – BankingFutures Pathway to Long-term value (see page 26)
- ◆ **Stakeholder engagement** – Chairman / senior investor breakfasts to discuss the health of the relationship between companies and investors. (see page 28)

In addition we conducted roundtable discussions to explore:

- ◆ the role of engagement for Fixed income investors
- ◆ a review of the impact of MAR one year on (see page 30)

Extending this work in 2018, we have identified, in conjunction with our Members, a number of issues for further investigation.

“ Pension scheme members need companies which think strategically and equip themselves for long-term success. The Investor Forum makes sure everyone is on that same page. ”

Chris Hitchen,
Chair of the Border to Coast Pensions Partnership

S-360: Working Practices in UK-listed Apparel Companies

In the collective engagements we have facilitated, we have seen a number of instances where the continued pursuit of short-term targets has created a series of incentives and short-cuts that can undermine the long-term health of a franchise.

As the ultimate owners of the listed companies, investors have an important role to play in encouraging boards and management teams to adopt high standards and deliver sustainable businesses which can create valuable long-term investment returns. The Forum seeks to support our Members in identifying value drivers, highlighting best practice and, where necessary, calling out poor behaviour.

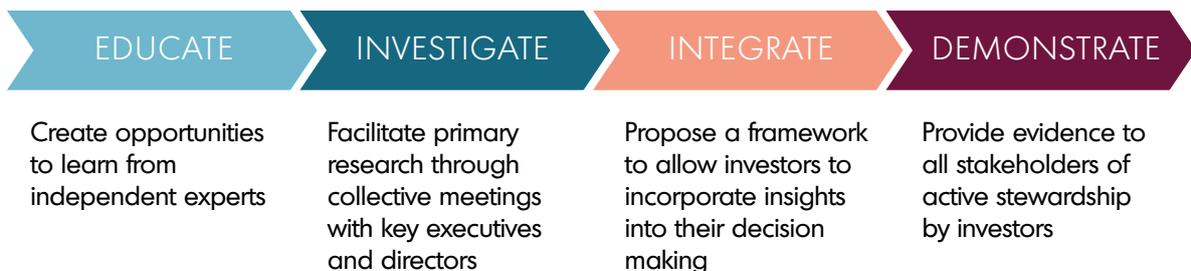
The collective engagement we facilitated with Sports Direct in 2016 illustrated the impact that revelations of poor employee treatment can have

on a company's franchise value, and ultimately the relationship between company management and shareholders. To understand whether Sports Direct was an isolated incident, the Forum worked with a number of investors to explore working practices within a wide range of UK-listed companies in the apparel sector.

Twenty-one of our Members participated in the project in some way – a clear demonstration of the importance that the investment industry places on understanding the activities of the some of the UK's largest regional employers, and on ESG factors as part of investment decision making more generally.

We developed a four stage approach to better understand and investigate employment practices in this sector.

S-360 Key issue engagement four stage approach:



APPAREL PROJECT



- ✓ 21 Members participated
- ✓ 4 distribution centres toured
- ✓ 8 meetings with UK-listed companies
- ✓ Member toolkit published

Project summary

1. Educate

The first stage involved education on the scale of illegal behaviour and types of precarious practice which exist in the workforce. We sought input from independent experts to enable investors to understand and frame the issues through a series of workshops for investors. We heard from the:

- ◆ **Gangmasters & Labour Abuse Authority (GLAA)**
- ◆ **Institute of Human Rights in Business** to get the facts on modern slavery in the UK
- ◆ **Association of Labour Providers**
- ◆ **Staffline Group plc** to understand the roles and responsibilities of labour supply agencies
- ◆ Founder of the **Fast Forward** and **Stronger Together** industry initiatives to hear what the industry can do in the UK to practically address the problems of labour exploitation.

2. Investigate

The Forum arranged for investors to undertake a series of meetings with seven companies to investigate current standards and practices, taking the form of store visits, presentations, and warehouse tours. Members were able to meet with a wide variety of people from senior management through supply chain and logistics managers, warehouse managers to shop floor employees. The objective was to establish “what good looks like” across luxury, online fast fashion, mid-range and the traditional retail offering, and identify areas for future engagement.

The majority of companies that we contacted welcomed the opportunity to demonstrate their commitment to their employees, were keen to discuss the challenges they face in ensuring their complex supply chain met the agreed standards, and solicited feedback from investors on areas for improvement. It was clear from “kicking the tyres” that a number of companies had taken significant steps in the last 18 months to improve pay levels, transparency over working hours and to provide opportunities for workers to transition from agency roles to employee status. We had many frank conversations on the steps taken by companies to protect their reputation, and were able to question senior management on their oversight of these issues.

Fourteen investment firms joined us for a behind-the-scenes tour of distribution centres in the North West of England, on occasions being the first investors to visit such facilities and ask questions of the logistics managers and Directors. We came away with some key insights into capital expenditure on automation, and the threats and opportunities this creates, as well as an increased understanding of employee working conditions.

3. Integrate

Investors clearly cannot visit every shop floor, check every payslip, walk with the pickers in the warehouses or sit with seamstresses in the outsourced manufacturing bases to check up on practice first hand. But there are clues that can be noted, metrics of concern that can be tracked, and conversations with the appointed representatives on the boards of listed companies that can help identify and manage human capital risks within companies. We proposed a toolkit to help investors evaluate the non-financial information companies disclose, diligence the practices employed, and identify potential risks to reputation and brand value.

We researched the plethora of industry initiatives that companies in the sector can join, to help investors find evidence of action to support the words of intent. In consultation with participants, we also compiled investor views on best practice in Modern Slavery Statement content, and sent this to the companies we had met who had not yet published a statement, to assist them in their considerations. We aimed to complement and build on the work done by others in this area, such as the Fashion Transparency Index, the ShareAction Workforce Disclosure Initiative, and the work of the Taylor Review into the modern workforce, bringing these important insights to the investment community.

We shared the findings of the project with the British Retail Consortium, as they were interested in what questions investors might ask their members in future. We hosted a roundtable to enable investors’ voices to be heard in Sir David Metcalf’s consultation on his Labour Market Enforcement Strategy. The Forum has also been invited to join the “Let’s Make it Work” advisory group on transparency in supply chain reporting, chaired by Baroness Young of Hornsey, to bring an investment

community perspective to its work on corporate reporting.

Government action to level the playing field for responsible, compliant businesses by holding all companies in the UK to high standards of labour practice is welcomed by investors.

4. Demonstrate

The Forum's project gave our Members another tangible example to demonstrate to their clients, and wider society, that they use their stewardship role as a force for economic and social good, and incorporate non-financial factors into their investment decisions. Each investor had an opportunity to take the insights they gained through this project and apply them to the wider market, or engage specifically with the companies they own to drive further change. A number of Members have referenced this project in stewardship reporting to their own clients.

Conclusion

We believe that the majority of listed companies in the apparel sector are aware of the risks facing their franchise value, and understand how their working practices can impact this – either positively through enhanced productivity by being an employer of choice, or negatively through damage to their reputation when poor standards are revealed.

However, there will inevitably be outliers. Supply chains are long and complex, and those companies that manage these well should attract an increased premium from investors, as the consequences of not doing so become better understood.

We will continue to assist Members of the Investor Forum in exercising their stewardship responsibilities, and encourage purposeful dialogue with companies on these issues. In 2018, we will extend this process to review at least one other sector with a significant low-skilled workforce in the UK, and their supply chain.

Case study – ASOS plc

Project participants met with ASOS's Head of Ethical Trade, CSR Director and Sourcing Director who explained the company culture and resource commitment to its supply chain governance, and its awareness of the changing demands of consumers in this area.

ASOS welcomed the group to their Barnsley distribution centre, where the Director of Supply Chain Development talked about the relationship between ASOS and XPO, their logistics partner. XPO management then took the group on a site tour, explained the day-to-day running of the operations and answered questions on labour supply and the treatment of temporary workers.

Participants felt that the visit gave them an insight into the company that they would not otherwise have had. It gave a clear sense of the scale of the investment that the company had undertaken, and an understanding of the opportunities for automation to increase productivity.

ASOS's participation in such initiatives as the UN Global Compact, ACT, the Accord and Fast Forward was viewed as positive evidence of its commitment to high standards of business practice. The company's Modern Slavery Statement was comprehensive and bold in its level of transparency and targets, and held up by investors as an example of best practice.

Brian McBride, Chairman of ASOS plc said:

"We welcome investor interest in this aspect of our business conduct. The engagement with the Investor Forum and their Members was useful to us in ratifying the value of our efforts to make our supply chain as resilient and responsible as our customers expect."

“ We approached the Investor Forum to help coordinate a collaborative engagement project on working practices. Engaging with companies as a large group of UK investors highlighted the importance of these issues to corporate senior management. The benefits were evident. ”

Amanda Young, Head of Responsible Investment,
Standard Aberdeen Investments

S-360: 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.

BankingFutures was a structured dialogue aiming to create a healthy, resilient and inclusive banking sector in the UK. The dialogue took place in two phases. Phase One began in June 2014 and sought to provide civil society, customer and regulatory input to a leadership group of senior banking executives, investors and experts on banking reform.

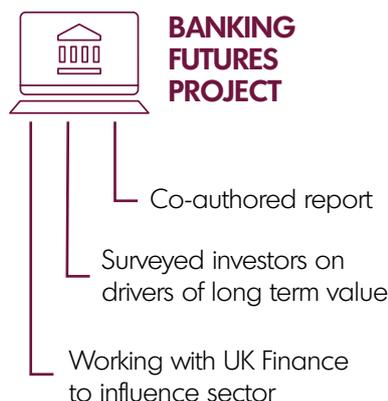
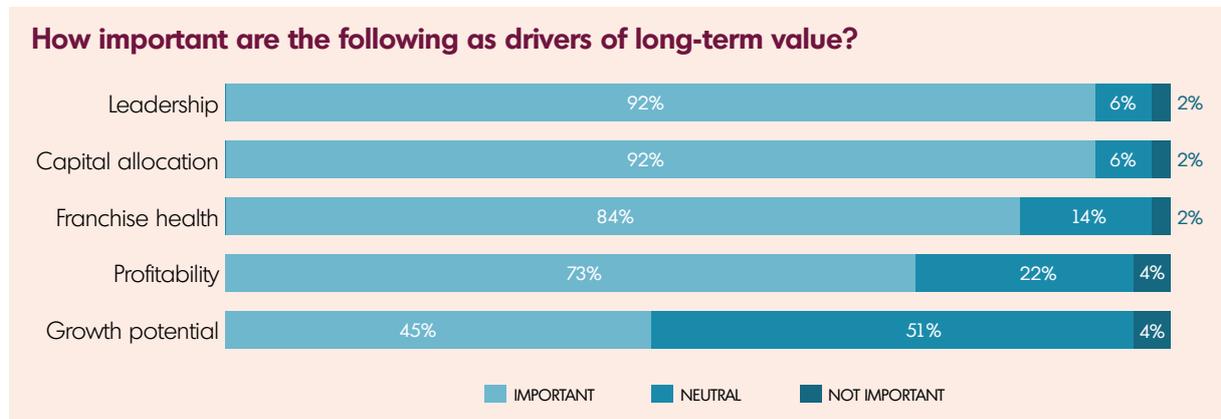
Phase Two involved the publication of two reports in July 2017, these were:

- ◆ Pathway to Long-Term Value: Identifying and Defining Long-Term Value Drivers for Banks
- ◆ BankingFutures – Banking Small Businesses: Forging Closer Ties between Banks and the Real Economy.

The Investor Forum co-authored the ‘Pathway to Long-Term Value’ report. The associated recommendations represent a series of tangible steps that banks and investment leaders can take to focus discussions on the issues that really matter to understand value – culture, employees, customers, risk appetite and the impact on society – and to enhance confidence. Banks can do much more to better articulate their approach to these important issues. This process has also revealed the need for a broader dialogue if investors are to understand long-term value and avoid an excessive focus on short-term issues and quarterly reports.

In December 2017, The Investor Forum published the results of a survey undertaken in response to the recommendations of the BankingFutures Pathway to Long-Term Value project.

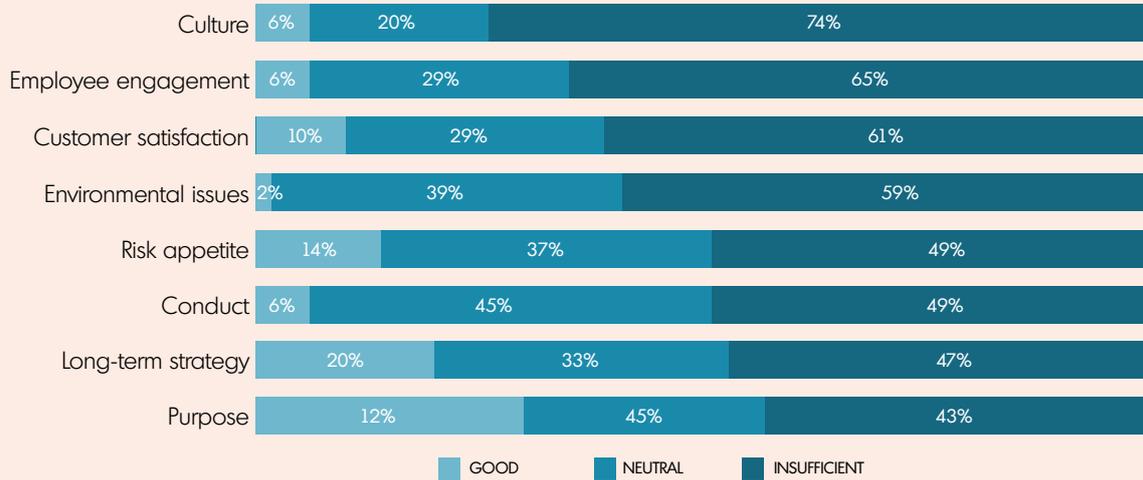
The results provided a strong signal from investors of the value of non-financial information but also the need for Banks to significantly improve the quality and consistency of the information they provide.



“ BankingFutures has revealed the value of talking and listening to the stakeholders that banks are here to serve. The sector has undergone significant structural and behavioural changes since the financial crisis – but the questions being asked by investors have not changed much. I hope BankingFutures will help change that ”

John Flint, CEO, Retail & Wealth Management, HSBC

How do you view the quality of information that banks provide on:



Insights that emerged from the survey of institutional investors included:

- ◆ non-financial information provides crucial insights which can help assess how banks can create long-term value;
- ◆ banks should reduce the emphasis on Quarterly reporting;
- ◆ investors would appreciate focused communication through a 2 page summary of long-term value drivers.

We shared these results with a number of banks through a taskforce created by UK Finance to investigate these issues. The clarity of the signals from investors together with the commitment of an industry body are a cause for real optimism that banks can create a much enhanced contribution to this debate and provide insights to inform long-term value.

The Investor Forum’s involvement in BankingFutures over the last three years, together with this survey, provided a practical opportunity for banks, investors and other stakeholders to work together to explore how to enhance trust in banks and increase the focus on creating sustainable long-term value. Several Members participated in the project. The full reports, together with the survey results, are available on our website.

The Investor Forum will continue work with UK Finance to support bank industry initiatives to enhance non-financial information, and in particular the focus on a two page summary of long-term value drivers.

**Investor feedback: Shifting the debate
Focus on long-term value:**

- ◆ 82% of investors agreed that a 2 page summary of long-term value drivers would be valuable in all investor updates
- ◆ 71% felt too much time is spent analysing a narrow range of short-term financial metrics
- ◆ 67% believe that banks should reduce the emphasis on Quarterly reporting
- ◆ Only 29% believe there is clear alignment between Asset Owner and Asset Manager timeframes

S-360: The health of the relationship between companies and investors

Companies and investors spend a lot of time engaged in dialogue, yet often the outcomes are not as effective as either side would want from the conversation. If it's not working, then what are the issues, and what can companies and investors do to address them?

One of the most frequently cited issues stems from the short-term, transactional nature of the discussion. Corporate governance needs to be

a source of value generation rather than an end in itself.

By bringing together chairmen and senior investors, the Forum looks to enhance the understanding of the two sides. We do this around key themes as well as company specific issues. The Forum hosted a number of roundtable events for chairmen and investors over the course of the year. Key observations arising out of these were:

Investors

- ◆ Dialogue can be crowded-out by short-term perspectives and proxy issues.
- ◆ Strategic issues should be prioritised in discussions.
- ◆ There is an appetite to de-emphasise quarterly reporting, and shift to quarterly Key Performance Indicator metrics.
- ◆ Boards should focus on creating long-term value rather than maximising short-term returns.
- ◆ Companies need to build relationships, confidence and trust over time, not just in adverse circumstances.
- ◆ Issues should be addressed before they become problems.

Chairmen

- ◆ It is a challenge to communicate effectively to wider society.
- ◆ Regulation is setting the agenda for boards, which crowds out other areas.
- ◆ Navigating the different investor perspectives and often conflicting messages isn't easy.
- ◆ Boards look to investors to set a proactive agenda for engagement.
- ◆ The influence, approach and accountability of the proxy voting advisers is a concern.
- ◆ It is getting harder for medium sized and smaller companies to get time with investors.

The view from the events was that the Investor Forum's focus on framing the discussion and amplifying the issues can help diffuse tension, clarify viewpoints and identify an appropriate course of action. There was interest in how the Stewardship & Strategy Forums could be used to improve the dialogue between Boards and investors.

The Board: Meeting shareholder expectations

Our engagement work over the last three years, has led us to believe that it is critical for boards to demonstrate how they discharge their responsibilities effectively. More can be done to showcase a board's contribution. Best practice should empower Non-Executive Directors to perform their role of independent scrutiny, particularly during important transactions or major strategic decisions.

Introduction

While investors have frequent contact with management and Investor Relations departments, access to the board is less frequent, generally limited to the largest investors, and sometimes involving governance professionals but not portfolio managers. These meetings usually involve the Chairman only, although Remuneration Committee Chairmen also meet investors extensively on that specific topic. Of course investors can always attend General Meetings in person, but most only do this on rare occasions and they are not ideal venues for strategic discussions.

This leads to a gap between shareholders' important legal role of nominating and voting for directors and their ability to gain insight into the quality of boards and the exercise of scrutiny. When engaging with company boards, investors are typically seeking to gain confidence that oversight and challenge is effective and that their interests will be advanced and protected.

Our experience

Our experience in engagements over the last three years has highlighted how often board effectiveness is called into question. It is very difficult for external observers to understand the internal dynamics, which can combine to inhibit open and frank discussions and high quality decision-making. Issues have arisen most commonly around succession planning, capital allocation, risk oversight, and the articulation of strategic direction. Actions which crystallise value, such as major transactions, are particularly critical moments for boards to step forward and demonstrate their contribution.

Disclosures regarding board processes vary widely. In the case of major transactions, disclosure by UK boards is lower than with US-listed companies. For example, in the course of our engagement with Worldpay Group plc, we observed a very different level of disclosure produced by Vantiv, Inc. regarding the proposed transaction than the disclosures produced by Worldpay. In this instance, the formation of special committees of independent directors and the actions which they took are detailed in the Vantiv disclosures, whereas Worldpay made no such disclosures.

In corporate actions, or in other strategic matters such as succession, it isn't always clear to investors whether due process is being followed, or whether it is simply not being disclosed. Providing transparency and evidence of process is a key mechanism to build confidence that directors are fulfilling their responsibilities to provide scrutiny and challenge. While disclosure, in and of itself, does not ensure a high quality process, it is a signpost from which investors can build a level of understanding and ask further questions if required.

In situations where confidence has been eroded or major decisions are being scrutinised, UK companies can do more to inspire confidence by evidencing considered process. Investors are predisposed to believe that boards execute due process, but increased evidence can help to ensure and re-inforce confidence. For example, formation of special committees of independent directors, chaired by a NED, could provide evidence of independent scrutiny at times of major strategic decisions, and could also ensure that NEDs have the time and resources required to make an effective contribution.

Directors' duties are codified in law and regulation, but their application is subject to judgment due to the 'comply or explain' nature of UK corporate governance. In 2018, the Companies Act and the FRC's Corporate Governance and Stewardship Codes are being re-visited. Law, regulation and best practice are continuing to evolve, as are investor expectations of directors. The Investor Forum is well placed to make a significant practitioner-based contribution to this debate, and we plan to further explore this issue in 2018.

S-360: Workshops

Stewardship from a Fixed Income Perspective

Institutions are increasingly integrating Environmental, Social and Governance (ESG) and stewardship activities across all the asset classes in which they invest.

A number of our Members approached us with an interest in understanding how fixed income stewardship practices can be enhanced. We hosted a workshop, attended by senior fixed income and governance professionals from 15 Members.

The key takeaways were:

- ◆ Misalignment of interest between equity and bond investors is less problematic than is commonly perceived.
- ◆ Best practice suggestions include encouraging equity and fixed income managers to hold joint meetings and engage with companies on an integrated basis.
- ◆ Governance teams are the natural facilitators of multi-asset class engagement activity given long experience of working with different investment teams, both within their organisations and externally.
- ◆ The Forum will canvas fixed income investor views in collective engagements going forward where appropriate.

Market Abuse Regulation – One Year On

Legal and compliance issues have an important impact on investor stewardship activities. Senior lawyers from Davis Polk & Wardwell, members of our Legal Panel, facilitated a workshop on the Market Abuse Regulation (“MAR”) which focused on two topics which impact communication between investors and companies: inside information and market soundings.

The key takeaways were:

- ◆ Engagement and stewardship – Early evidence does not yet show a meaningful impact on the quality of dialogue between investors and companies, but it will be important to monitor this.
- ◆ Greater onus on investors – Investors are now required to determine independently whether information they have received is inside information, alongside other information they possess. This determination can be challenging given a less clear materiality test on the required degree of market impact.
- ◆ Less clarity – MAR has created greater uncertainty in determining inside information as well as on the scope of the market soundings regime, compounded by less detailed guidance from the FCA.
- ◆ Company communications – There is some evidence that companies are approaching disclosure in a more formulaic manner.
- ◆ Extraterritoriality – MAR applies to companies with debt securities listed on an EU trading venue, causing non-European companies to be concerned about MAR’s impact on their practices.

Stewardship and Strategy Forums

There is a strong demand from investors for increased exposure to, and more insights from, board members, and in particular NEDs. While many companies hold some form of annual governance event or meeting, the agenda of these meetings can often be dominated by remuneration discussions, rather than linking the skills of the board to the long-term strategic ambitions of the company. We believe there is an opportunity to improve the effectiveness of these events, for the benefit of both investors and board members.

Outside of board meetings and the AGM, 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. It is important that when opportunities arise, companies can mobilise a strong cross-section of shareholders and identify a compelling agenda.

The Investor Forum has developed the concept of Stewardship & Strategy Forums (SSFs). The objectives of SSFs 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.

A SSF meeting brings together key board members, executives, investment decision makers and governance practitioners, and enables shareholders to evaluate the contribution of the board and the executive in constructing, controlling and executing strategy.

We recognise that each company will wish to construct the 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. Includes: succession planning, culture, stakeholder management.
- ◆ 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. Includes: human capital management, trends and ESG issues.

We continue to advocate for companies to host SSFs. In 2017 we worked closely with one company, curated feedback for another to inform an agenda and provided feedback to a third company to help structure their event. While this concept resonates with companies in principle, we have so far been disappointed with the uptake. We will work with our Members to further promote this concept in 2018 and are already in discussion with a number of companies.

“As long term asset owners, proper stewardship of companies in which we invest is vital to protecting our interests. The Investor Forum plays an important role in sharing best practice and enabling a collective approach to stewardship issues.”

Nick Moakes,
CIO, The Wellcome Trust

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
 - engagement is grounded in economic rationale, a long-term focus and constructive solutions
- ◆ **COMPREHENSIVE ENGAGEMENT STRATEGY AND MANDATE:** we will have spoken with the portfolio managers, sector analysts and governance professionals to understand their views
- ◆ **AGREED WAY FORWARD:** the views we convey are agreed by all engagement participants
- ◆ **ONGOING INTERACTION:** up-to-date views from participants. Participants are aware if the company is unwilling to engage positively with the Forum
- ◆ **NO INTENTION TO SUPERSEDE DIRECT ENGAGEMENT:** we encourage participants to continue their individual interactions with the company
- ◆ **CONFIDENTIALITY:** all dialogue is confidential although public escalation strategies may be considered when necessary

What we expect from companies:

- ◆ **APPROACH THE ENGAGEMENT WITH AN OPEN MIND:** shareholders have seen value in participating in 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
- ◆ **NO INSIDE INFORMATION:** the Forum actively seeks to avoid obtaining inside information from companies without our prior consent
- ◆ **BOARD LEVEL PARTICIPATION:** the approach is constructive, with the aim of helping the company to understand the range of participants' views and any obstacles to realising the company's long-term potential
- ◆ **A COMPREHENSIVE PLAN TO BUILD CONFIDENCE:** we seek outcomes that enhance the value of the franchise for the benefit of all stakeholders



Review of Operations

Organisational Structure and Governance

Introduction

Good governance can build trust. A strong degree of trust enables informed 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 Community Interest Company (CIC) and the unique issues that we face.

The Investor Forum was incorporated as a 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.

Board of Directors

We have an independent Board of Directors that is elected in January each year 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, academia and the corporate world to bring a diversity of perspectives. The Board oversees the work of the executive officers. 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.

Board Members

Simon Fraser¹
Chairman

Andy Griffiths
Executive Director

Ida Levine³
Capital International

Sacha Sadan
Legal & General
Investment Management

Edward Bonham Carter²
Jupiter

Jessica Ground
Schroders

David Lis⁴
NED; ex Aviva Investors

Robert Swannell
UK Government
Investments

Mark Burgess
Columbia Threadneedle
Investments

Chris Hitchen
RPMI Ltd

James Macpherson
BlackRock

Paul Coombes
London Business School

Virginia Holmes
USS

Nick Moakes
The Wellcome Trust

¹ Chairman of the Nominations and Remuneration Committee

² Senior Independent Director

³ Chairman of the Operating Oversight Committee.

⁴ Not standing for re-election in 2018

“As I step down from being a director, it is immensely gratifying that in the 3 years since inception, the Investor Forum has succeeded in becoming the recognised, authoritative body representing a large percentage of shareholders in UK companies and achieving significant and satisfactory outcomes in a number of high profile governance cases”

David Lis,
NED and Investor Forum Board member

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 late 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 initially provided operational 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 introduced and the first membership fee invoices were issued in July 2016.

We added three new Members in 2017 and membership renewals since July 2017 have been very strong and we hope to renew all Members for a second year of membership.

Organisation

The approach to our core activities is described in 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.

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. This was subsequently re-confirmed in September 2017.

At the beginning of October 2017 we transitioned to a fully independent accounting platform, replacing the previous support from The Investment Association which extended to the end of our 2017 financial year in September.

As a not-for-profit company, our 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 profit. 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 was agreed at the 2017 AGM that the Forum's asset-locked body is "Business in the Community", part of Prince Charles' Responsible Business Network.

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. To do so, the Forum sought guidance from a panel of law firms, culminating in the publication of its "Collective Engagement Framework" in October 2016. The full framework was made available to Members and a summary version is publicly 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 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 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.

Once the decision has been taken to proceed, 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 is 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 seeks to keep communication confidential with the Members participating in the Engagement. However, escalation strategies are considered and agreed with Engagement participants when necessary, which can involve public communications.

Engagements are 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 is considered if the outcome(s) specified in the strategy are achieved, it is determined that they are unlikely to be achieved, or if there is no longer sufficient Member support to pursue the Engagement, among other reasons. A communication strategy is agreed, including the possibility of public statements if necessary.

The Forum undertakes 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 to contribute to the wider discussion of stewardship and corporate governance.

The Forum's procedures for conducting Engagements are regularly reviewed in light of practical experience and 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.

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 31st December 2017, the Forum had 35 full Members. All Members have consented to the publication of their names, and a full list is given on page 39. However, Members do have the option to remain anonymous if they wish.

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.

In 2018, we will seek to increase the membership base and extend our interactions with international asset owners, who in some cases own an increasingly 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.

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

Sign:

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

Abide by the Investor Forum:

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

Our framework is designed to give confidence to Members and demonstrate to regulators and standard setters how we conduct ourselves.

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 high quality stewardship to all stakeholders
- ◆ Contribute to the long-term success of UK-listed companies for the benefit of the broader economy

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

Associate Members

The Forum invites non-investment organisations who are interested in and supportive of the purpose and objectives of the Forum to join as Associate Members.

Associate Members 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. The Forum collaborates with Associate Members on selected bespoke projects and other initiatives.

Associate Members and the Investor Forum work closely together on organising aspects of special events and/or co-hosting events to develop networks within the investment industry.

Forum employees are also available to brief Associate Members' staff with an annual update on governance and engagement practices or on other specific topics of the Associate's choice.

We continued to develop the relationship with EY in 2017.



Legal Panel

Since inception, the Investor Forum has received extensive pro bono support from a number of leading law firms, providing assistance in establishing the Forum's legal and governance structure and documentation. The Forum's Legal Panel played a key role in helping the Forum devise its operating procedures in order to create a safe and secure legal and regulatory environment in which to undertake collective engagement. This was published in 2016 as the Forum's "Collective Engagement Framework" (see page 36).

The Legal Panel continues to perform an invaluable role in the Forum's operations. They are available to assist the Forum in adapting its practices to any changes in the legal and regulatory environment. They are also available for "no names" discussions of topics which may

arise in company engagements, in order to help the Forum decide whether heightened procedures or professional advice might be required.

For the Forum's Members, the Panel has also made itself available for workshops on legal and compliance issues which could impact investor stewardship activities. The first workshops were held in 2017, with senior lawyers from Davis Polk & Wardwell facilitating a workshop on "Market Abuse Regime – One Year On" (see page 30).

Membership of the Legal Panel varies over time according to interest and requirements. We would like to thank the current members of our Legal Panel: Davis Polk & Wardwell, Macfarlanes, and Skadden, Arps, Meagher & Flom for all their ongoing support.

Davis Polk MACFARLANES

Skadden

Our Members



1 The merger to form Standard Life Aberdeen plc was effective from August 2017. Each predecessor entity was a paid-up Member at year-end.
 2 Evenlode replaced Wise Investments as a Member in July 2017 due to restructuring of its business.





THE INVESTOR FORUM

www.investorforum.org.uk
info@investorforum.org.uk

The Investor Forum CIC
183 Euston Road
London, NW1 2BE

