THE INVESTMENT ASSOCIATION

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Stewardship in Practice

Asset Managers and Asset Owners

At 30 September 2016

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ABOUT THIS REPORT

This report looks at how asset managers, asset owners and service providers discharge their stewardship responsibilities with respect to UK companies. It covers the position as at the end of the year to 30 September 2016.

In the past the Investment Association (the IA) issued a report on stewardship that looked at the policy statements and activities of signatories to the FRC's Stewardship Code[2]. The Pensions and Lifetime Savings Association (PLSA) issued a separate report which looked at how its wider members viewed stewardship.

This year the two exercises have been co-ordinated and one report produced to provide a holistic view on stewardship by asset owners and asset managers. This report also focuses more on what happens in practice in terms of stewardship. It summarises the responses to two questionnaires – one for asset managers and service providers, and another for asset owners. The questions asked in each were aligned. The questionnaires were sent both to the signatories to the Stewardship Code and to the members of the IA and PLSA in order to determine the extent to which asset managers and asset owners undertake stewardship regardless of whether they are signatories. Only those service providers that are signatories to the Stewardship Code were sent a questionnaire.

Throughout this report the terms 'stewardship', 'engagement' and 'voting' are referred to. The Stewardship Code defines stewardship as: *"more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings"*. In this report 'engagement' is taken to mean the monitoring of and interaction with investee companies, 'voting' the exercising of voting rights attached to shares, and 'stewardship' as encompassing both engagement and voting.

The report is structured in seven sections:

- Section 1 describes the respondent sample, their commitment to the Stewardship Code, and whether stewardship is carried out in-house or outsourced.
- Section 2 looks at in-house engagement placing particular emphasis how it is resourced, how it is integrated into the investment process, the use of proxy voting and other service providers, the engagement issues that are prioritised, and how respondents rate the quality of engagement.
- Section 3 examines specific examples of engagement that respondents submitted. It illustrates the range of objectives for the engagement, who the dialogue was with and the outcome.
- Section 4 covers the activities of asset owners and asset managers that outsource engagement to external parties and shows to what extent stewardship is a factor when selecting these third parties, the key issues and how these parties are monitored.
- Section 5 looks at asset managers and asset owners that carry out voting in-house, showing in which markets they exercise their voting rights, and whether they inform companies when they intend to vote against or abstain and whether this is in advance or in arrears.
- Section 6 looks at practices when voting is outsourced and particularly how this is monitored.
- Section 7 focuses on the reporting of stewardship to clients/beneficiaries as well as publicly, particularly the disclosure of voting records in terms of frequency and content.

During the course of this exercise a Steering Group, chaired by the FRC's Director of Corporate Governance, provided direction and independent oversight. The members of the Steering Group are set out in Annex 1.

The IA and PLSA would like to thank all respondents for their contributions and the members of the Steering Group who gave their time.

[1] Broadly defined, Asset Managers act as agents and manage investments on behalf of their clients. They can be independent or owned by banks or insurers. Asset Owners are the underlying owners of assets and often outsource the management of those assets to Asset Managers. They include pension funds, insurance companies or charities. Service Providers offer services such as processing voting instructions, providing research and making voting recommendations. They do not hold equities for investment purposes and, where relevant, they are presented separately in this report. Thus, unless otherwise stated, references to "respondents" are to Asset Managers and Asset Owners only.

[2] See https://www.frc.org.uk/our-work/codes-standards/corporate-governance/uk-stewardship-code.aspx for more details. The Code aims to enhance the quality of engagement between institutional investors and companies. It sets out good practice on engagement with investee companies, which includes monitoring companies, entering into a dialogue with boards and voting at general meetings.

KEY FINDINGS

PROFILE OF RESPONDENTS (SECTION 1)

Representative number of responses. 77 asset managers responded and as at end of 2016 these held £565 billion in UK equities and represented approximately 60% of the UK industry's total assets under management.[3] All except two were signatories to the Stewardship Code. 51 asset owners responded and whilst these represent a small proportion of the UK pension universe, inevitably they are more engaged with stewardship issues than is typical. The asset owners were equally divided between those that are signatories to the Stewardship Code and those that are not, with lack of awareness being the most common reason for not being a signatory to the Code. Five service providers responded.

Asset managers tend to conduct stewardship in-house whilst asset owners outsource. Whilst there are exceptions, in the main the asset manager respondents carry out stewardship, both engagement and voting, in-house, whereas the asset owner respondents tend to outsource:

- 72 (94%) of asset manager respondents carry out engagement and 67 (87%) voting in-house; and
- 47 (92%) of asset owner respondents outsource engagement and 45 (88%) voting.

Institutional clients show demand for stewardship. The asset manager respondents noted that a large majority of their institutional clients expect them to exercise stewardship, i.e. both engagement and voting, and all asset owner respondents consider they have some stewardship responsibilities with 68% including it in their Statement of Investment Principles.

IN-HOUSE ENGAGEMENT (SECTION 2)

Significant resource which is integrated into the investment process. The total head count for the 76 respondents, 72 asset managers and four asset owners, that carry out engagement in-house is 1,543 - on average a team of 20 per respondent. This resource is predominantly made up of portfolio managers (82%) and it is mainly these individuals that engage with companies, with dedicated specialists acting on their own for only 8% of respondents. This indicates that for the majority stewardship is part of, and well integrated into, the investment process. Portfolio managers are also involved in voting decisions – for 34% of respondents in all voting decisions and 32% in controversial decisions and votes against.

The majority (79%) of respondents consider that they have sufficient resource. Where they do not it is mainly due to cost constraints.

A variety of approaches to monitoring investee companies. Almost all respondents monitor companies through a combination of in-house research and direct contact. A high proportion (88%) also use third-party research.

Respondents prioritise which companies to engage with. Engagement is prioritised where: the respondent is a large shareholder (79% of respondents); the company has significant issues (70%); and the holding is actively managed (63%). The two main issues respondents consider are the most important are company strategy and financial performance. However, the two issues they spend the most time engaging on are company strategy and executive remuneration. In part this may be due to the fact that engagement on executive remuneration can be driven by the companies seeking to secure votes on their remuneration policies and reports.

Engagement is judged to be high quality. Respondents considered that their engagement with nearly a quarter of companies was excellent, and good for 44%. UK companies' responsiveness was cited as the key reason for this. In terms of how this compares with the previous year: 57% of respondents indicated that there had been no change; 27% noted an improvement; and only 1% saw a deterioration. Overall, respondents reported that engagement leads to better investment decisions and thus improved long term returns for clients/beneficiaries, and that they rarely change their approach and processes as a result.

[3] IA estimate based on data from the Investment Association Asset Management Survey 2016-17.

IN-HOUSE ENGAGEMENT – PRACTICAL EXAMPLES (SECTION 3)

Variety of engagement objectives reflects the broad range of companies. 58 of the 76 respondents that engage in-house provided examples of companies where there had been engagement. They had a variety of objectives reflecting the broad range of the 52 companies selected. For 11 respondents the main objective was executive remuneration; seven engaged on board composition; four on strategy; three on executive management; three on environmental issues; and two on social and employee relations issues.

Engagement leads to positive results and who is contacted depends on the issue. 62% of respondents did not change their investment following the engagement as communication with the companies had improved and their concerns were addressed. The CEO and Chair were contacted the most frequently although this can depend on the issue. A combination of the portfolio managers and dedicated specialists, or only portfolio managers, led the engagement from the respondent's side regardless of the issue.

OUTSOURCED ENGAGEMENT (SECTION 4)

Engagement is considered to enhance value. Even though 52 respondents (47 asset owners and five asset managers) outsource, they consider engagement enhances value (77%). Thus 44% of these respondents question managers/external parties about their approach to engagement and 25% include specific criteria in their requests for proposals. Only 10% did not consider engagement a factor in manager selection. That said, only 37% set out their expectations with respect to stewardship in all mandates and a further 16% in at least half. This leaves 31% that do not address it in mandates albeit 23% intend to include it soon or will consider doing so.

Most engagement is on executive remuneration but strategy is the most important issue. Strategy is the main issue the 52 respondents considered a priority for engagement. However, most actual engagement is around executive remuneration. This is similar to when engagement is conducted in-house.

External parties are monitored. Review meetings and reports from external consultants are the main means of assessing outsourced engagement. Only 8% do not review their managers'/external parties' activities. The majority were quite satisfied (60%) rather than very satisfied (10%) with the reports they receive on stewardship. Reports could be improved if they were better integrated with investment and performance matters. Respondents would also appreciate more information on stewardship and the value it adds to investment returns. They had increased their scrutiny of stewardship by asking more stewardship-related questions, and spending more time reviewing reports and voting records.

IN-HOUSE VOTING (SECTION 5)

Shares voted in most markets. Of the 73 respondents, (67 asset managers and 6 asset owners) that vote their shares in-house, almost all (99%) vote their UK shares. Over 90% exercise their voting rights in the Rest of Western Europe and USA & Canada, and just over 75% in other regions – although fewer have holdings in these regions.

Advising management of voting intentions. Only 5% of respondents do not inform the company of the reason why they abstain or vote against, compared to almost one third that always do so with the majority doing so sometimes. Of those that do inform, 44% tend to do so in advance, while 25% do so in arrears. Insufficient resource is the main reason why companies are not always informed.

OUTSOURCED VOTING (SECTION 6)

Expectations lower as to which markets shares voted. Of the 55 respondents (45 asset owners and 10 asset managers) that outsource voting, the proportion that stated their shares were voted is lower than for those that vote in-house. 73% of respondents stated that their UK shares were voted, with around 65% stating that their shares were voted in the rest of Europe, and in the USA and Canada. 53% stated voting rights were exercised in Japan and 60% in emerging markets although, as for those that vote in-house, fewer have holdings in these regions.

Monitoring. Review meetings and reports from external consultants are the most common means of monitoring outsourced voting providers. For 11% of respondents voting is not monitored.

REPORTING (SECTION 7)

Asset managers. The frequency and content of asset manager reports to clients vary from client to client and tend to be prescribed in the mandates. 72% of the 77 asset manager respondents disclose votes publicly. This is an increase from prior years when it was around two-thirds. Most (55%) disclose all voting records and some (17%) a summary. Of the 55 asset manager respondents that disclose, many (62%) do not include the rationale for their voting decisions. Only a minority (7%) include the rationale for all votes, while 31% disclose the rationale for a combination of votes abstained, against, and in favour but controversial. Public disclosure of engagement is less widespread with only around half of the asset manager respondents doing so. Of the 38 that publish engagement reports, 34% do so annually and 21% quarterly, whereas for the 55 that publish voting records, 25% do so annually and 63% quarterly.

Asset owners. 35% of the 51 asset owner respondents report to their underlying beneficiaries annually, with a further 12% doing so either twice a year or quarterly. 22% do not report to beneficiaries at all. More than half make their voting records public. Of those that disclose their records, a third do not disclose their rationale for their voting decisions, while the remainder provide some explanation. Far fewer disclose engagement activities (20%).

1 PROFILE OF RESPONDENTS

NUMBER AND COMMITMENT TO THE CODE

Responses were received from 77 asset managers. These held a total of £565 billion of assets in UK equities as at end of 2016 and represented 60% of the total UK asset management industry's assets under management.[4] All asset manager respondents are signatories to the Stewardship Code except for two that indicated they intend to sign up in the future. The 75 signatories represent nearly half the total number of asset manager signatories on the FRC's website.

Fifty-one asset owners responded. These account for a small proportion of the UK pension universe – and inevitably those pension funds that responded are more engaged with stewardship issues than is typical. As such, their responses should not be taken as indicative of general practice, but of leading-edge stewardship amongst UK pension funds. Asset owner respondents are equally divided between those that are signatories to the Stewardship Code and those that are not – Table 1. The 25 signatories that responded represent just over one third of the total number of asset owner signatories on the FRC's website.

TABLE 1: ASSET OWNER RESPONDENT SIGNATORIES TO THE STEWARDSHIP CODE

	% of respondents
Yes	49%
No, and do not intend to sign up to the code in the future	39%
No, but intend to sign up to the code in the future	12%

(Sample base: 51 respondents)

The 26 asset owners that are not signatories gave a range of reasons for not signing up to the Code, with lack of awareness being the most common – Table 2. This suggests that a case could be made for better education, particularly for pension fund trustees, on the role of stewardship and the Stewardship Code in particular.

TABLE 2: ASSET OWNER RESPONDENTS' REASONS FOR NOT SIGNING UP TO THE STEWARDSHIP CODE

	% of respondents
Lack of awareness	38%
Insufficient time	15%
Other priorities take precedence	27%
Uncertainty about regulatory obligations	15%
Lack of belief in value added	12%
Other	35%
No response	4%

(Sample base: 26 respondents)

Five service providers responded to the questionnaire all of which are signatories to the Stewardship Code. As service providers do not manage or own equities a number of questions did not apply to them or were approached from a different viewpoint. Where relevant, service providers' responses are reported separately in this report from those of asset managers and asset owners.

A list of respondents can be found in Annex 2.

4 IA estimate based on data from the Investment Association Asset Management Survey 2016-17.

STRUCTURE AND OUTSOURCING

Asset owners and asset managers are commonly referred to as 'institutional investors', but tend to fulfil different roles. As set out in the Stewardship Code[5], asset owners: *"as the providers of capital set the tone for stewardship and may influence behavioural changes that lead to better stewardship by asset managers and companies"*. Asset managers, on the other hand: *"with day-to-day responsibility for managing investments, are well positioned to influence companies' long-term performance through stewardship".*

Thus, asset managers tend to be primarily responsible for carrying out stewardship and asset owners for specifying how they want their assets managed. These boundaries are sometimes blurred, particularly where large asset owners develop an in-house asset management arm or when an asset manager outsources investment and stewardship fully or partly.

This distinction is borne out by the results. Table 3 shows that 94% of asset managers carry out engagement and 87% voting mainly in-house. This is a notable increase compared to figures reported in the past when the corresponding figures were 78% for engagement and 73% for voting in-house[6].

TABLE 3: HOW STEWARDSHIP IS CONDUCTED – ASSET MANAGERS

Engagement

	% of respondents	Number of respondents
In-house	94%	72
Outsourced	6%	5

Voting

	% of respondents	Number of respondents
In-house	87%	67
Outsourced	13%	10

(Sample base: 77 respondents)

On the other hand, as expected, asset owners mainly outsource with 92% outsourcing engagement and 88% outsourcing voting.

TABLE 4: HOW STEWARDSHIP IS CONDUCTED – ASSET OWNERS

Engagement

	% of respondents	Number of respondents
In-house	8%	4
Outsourced	92%	47

Voting

	% of respondents	Number of respondents
In-house	12%	6
Outsourced	88%	45

(Sample base: 51 respondents)

Service providers contribute to asset managers' and asset owners' stewardship of investee companies. Of the five service provider respondents, two are investment consultants, while the other three provide corporate governance research, and in some cases process voting instructions and make voting recommendations.

[5] Financial Reporting Council, the UK Stewardship Code, September 2012.
[6] The Investment Association, Adherence to the FRC's Stewardship Code at 30 September 2014 – Table 10, p13.

DRIVERS OF STEWARDSHIP

Given that institutional asset owners represent around 80% of assets managed in the UK (with pension funds accounting for half of this)[7], their expectations are critical in shaping asset managers' stewardship activities. Therefore it is important that asset owners make their expectations regarding stewardship clear to their asset managers.

From the perspective of the asset manager respondents, over 60% have institutional clients that in their majority expect them to exercise stewardship, i.e. both engagement and voting. It is uncommon for institutional clients to expect that asset managers carry out only engagement or only voting – see Table 5.

TABLE 5: ASSET MANAGERS – PROPORTION OF INSTITUTIONAL CLIENTS THAT EXPECT STEWARDSHIP TO BE EXERCISED

	% of respondents		
	Engagement only	Voting only	Stewardship i.e. both engagement and voting
All clients	5%	17%	35%
ca. 75% of clients	4%	8%	27%
Half of clients	5%	0%	9%
ca. 25% of clients	8%	0%	8%
None	5%	4%	3%
Too difficult to estimate	1%	3%	6%
N/A - no institutional clients		4%	

(Sample base: 77 respondents)

From the perspective of the asset owner respondents, all that responded agreed to some extent that they have stewardship responsibilities. This indicates that the concept of stewardship is now established. However, in this context it should be noted that 16% did not respond and thus may not consider that they have stewardship responsibilities.

TABLE 6: ASSET OWNERS HAVE STEWARDSHIP RESPONSIBILITIES

	% of respondents
Strongly agree	59%
Agree somewhat	25%
No response	16%

(Sample base: 51 respondents)

Sixty-eight per cent of asset owner respondents have a stated policy on exercising their stewardship responsibilities. However, 12% do not have a stated policy and 16% did not respond.

TABLE 7: ASSET OWNERS – POLICY ON STEWARDSHIP

	% of respondents
Within the Statement of Investment Principles	68%
No	12%
No but plan to devise a policy within the next 12 months	2%
Other	2%
No response	16%

(Sample base: 51 respondents)

[7] The Investment Association, Asset Management Survey 2015-16, Chart 6, p27.

The specific areas and objectives asset owners prioritise varies. Maximising returns was the overwhelming priority for the majority, though integrating Environmental, Social and Governance (ESG) considerations into investment practices was also important, and each of the suggested criteria was selected as their top stewardship priority by at least one respondent (nine of the 51 respondents did not answer).

TABLE 8: ASSET OWNERS' UNDERSTANDING OF STEWARDSHIP RESPONSIBILITIES

	Rank
To maximise long-term risk-adjusted financial returns	1
Holding investment managers accountable for enhancing long-term value	2
Requiring investment managers to integrate material ESG issues into investment decisions	3
Directly engaging with investee companies and/or exercising voting rights	4
A regulatory requirement and/or obligation	5
Selecting investment managers with a clear commitment to stewardship	6
Directly/indirectly enhancing value of individual securities to which the fund is exposed	7
To incorporate the views of members/ beneficiaries into the investment strategy	8

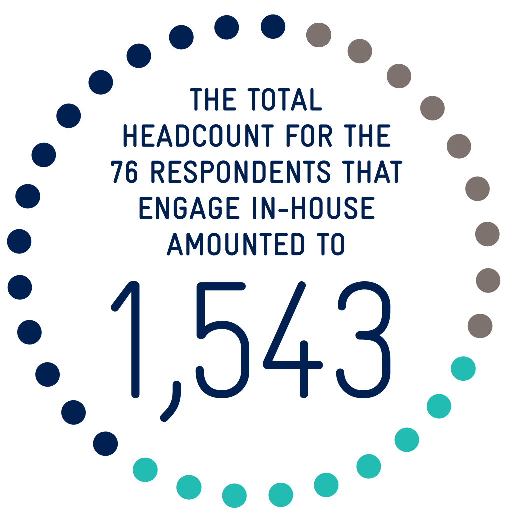
(Sample base: 42 respondents)

The extent to which asset owner respondents prioritise ESG issues and the extent to which stewardship is discussed with consultants and trustees is set out in Annex 3.

2 IN-HOUSE ENGAGEMENT

THIS SECTION LOOKS AT THE IN-HOUSE ENGAGEMENT OF 72 ASSET MANAGERS AND FOUR ASSET OWNERS. IT LOOKS AT HOW STEWARDSHIP IS RESOURCED, HOW IT IS INTEGRATED INTO THE INVESTMENT PROCESS, THE USE OF PROXY VOTING AND OTHER SERVICE PROVIDERS, THE ISSUES THAT ARE PRIORITISED, AND HOW RESPONDENTS RATE THE QUALITY OF ENGAGEMENT.

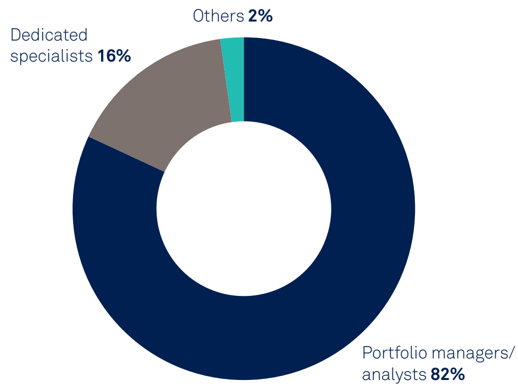
Much of this Section is not relevant for the service provider respondents, except where they are explicitly referred to.



RESOURCES

There is a significant resource responsible for stewardship. The total headcount for the 76 respondents that engage in-house amounted to 1,543 - on average a team of 20 per respondent. This is broadly similar to the results in prior years.

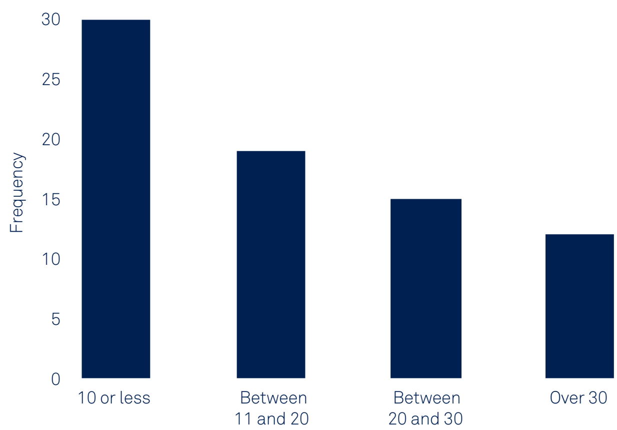
CHART 1: HEADCOUNT THAT EXERCISES ENGAGEMENT AND/OR VOTING IN RELATION TO UK COMPANIES.



(Sample base: 76 respondents)

The maximum headcount responsible for stewardship is 151 and the minimum is one. The distribution is set out in Chart 2.

CHART 2: DISTRIBUTION OF HEADCOUNT RESPONSIBLE FOR STEWARDSHIP.



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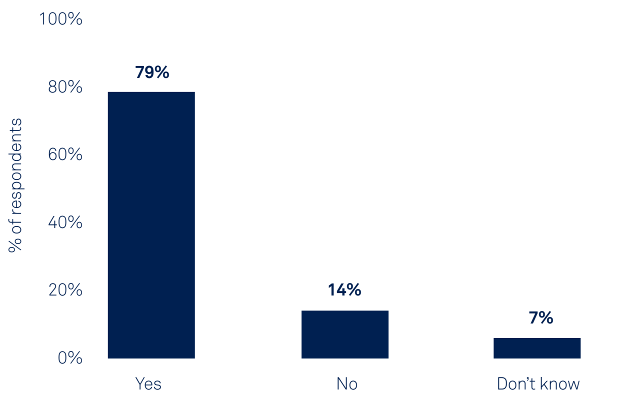
As to whether this is sufficient, the majority of respondents (79%) considered that it was whilst 14% did not – see Chart 3.

CHART 3: SUFFICIENT RESOURCE IS ALLOCATED TO VOTING AND/OR ENGAGEMENT IN-HOUSE



(Sample base: 76 respondents)

Where respondents consider there is insufficient resource this is due to cost constraints - particularly for smaller firms even though many indicated that they are preparing to increase, or have already increased, the size of their team. For example:

- *"Engagement and voting is a time-consuming and resource intensive activity; we believe that it is important, however, commercial realities mean that it is difficult to devote the level of resources that would be necessary in order that we can be available and offer the same quality of engagement to all companies in which we are invested."*
- *"[We have a] limited budget as a smaller firm; with recent growth we are looking to specifically enhance our stewardship personnel in order to properly address this important area."*

At the same time, some respondents stressed that they prioritise quality over quantity and that this should be noted when interpreting quantitative statistics around the volume of engagement, be it headcount, number of contacts with companies or other metrics. Although useful in terms of capturing the amount of activity, such data may not necessarily be indicative of the quality and effectiveness of the engagement.

INTEGRATION INTO THE INVESTMENT PROCESS

Engagement on company strategy and performance may often be handled by the portfolio managers/analysts, with specialists handling particular aspects such as corporate governance and Socially Responsible Investment (SRI). At times, this dual approach can give rise to questions as to whether those conducting stewardship represent the views of the portfolio managers responsible for the investment and how stewardship is integrated into the investment process.

In this context, the 76 respondents reported that it is predominantly portfolio managers that engage, in most cases along with dedicated stewardship specialists – see Table 9. It is the exception for dedicated specialists to engage alone – only 8% of respondents. The few respondents where others are also responsible for engagement clarified that this involves a combination of portfolio managers and a committee that focuses on Environmental Social and Governance (ESG) issues. The fact that portfolio managers have such a key role indicates that engagement on stewardship issues is well integrated into the investment process.

TABLE 9: PRIMARY RESOURCE RESPONSIBLE FOR ENGAGEMENT

	% of respondents
Portfolio managers/analysts only	36%
Portfolio managers and dedicated specialists	53%
Dedicated specialists only	8%
Other	3%

(Sample base: 76 respondents)

Respondents described the governance structure around these resources. The predominant model involves a portfolio management and ESG team working together and reporting to a senior investment function. For example:

- *"Analysts are responsible for the day to day monitoring of companies, including engagement and voting decisions. They are supported by the ESG Committee, made up of members from the investment, business development and compliance teams, which meets quarterly. ... The ESG Committee reports to the Executive Committee, which also meets quarterly and is comprised of the Chairman, CEO, Compliance Officer and Head of Research."*

- *"Both portfolio managers/analysts and dedicated specialists are part of equity investment function, reporting to Head of Equities."*

- *"Any activity around corporate governance, stewardship and voting policy is documented and considered at monthly management and quarterly board meetings, and notified to the boards/ACDs of the funds under our management."*

- *"... fund managers are accountable for stewardship and therefore we do not simply view the Governance team as a separate entity but it forms part of the wider fund management department. The Chief Investment Officer heads up the department and the Head of Governance reports to the CIO. [Asset Manager] also has a Stewardship Committee and Sustainability Review Committee that is chaired by the CIO. ... The Committees not only contain fund manager and specialist members but we also have revolving slots for our sales and institutional departments."*

- *"... analysts and [portfolio managers] are primarily responsible for analysing ESG issues and how they affect the valuation of companies. This work is guided, advised and supported by the stewardship team. There is a weekly equity committee which discusses stock ideas including ESG issues. The Head of Stewardship reports directly to the Head of Asset Management."*

- *"We have a Responsible Investment Oversight Committee that is constituted by various members of our investment staff. This committee reports into our Investment Committee, which, in turn, reports to [our] Board of Directors."*

- *"The ESG Investment Team is responsible for researching, analysing and engaging on ESG matters ... They provide our investment teams with expert knowledge and insights on the material ESG issues affecting the companies in which we invest and, through their voting activities, exercise the rights attached to the ownership of securities by our clients. The ESG Investment Team has access to senior executives and non-executives who are independent of both our fund management and global client servicing teams. This serves to maintain the integrity of decision making in respect of stewardship related matters."*

- *"[We have a] Corporate Governance Committee, comprised of senior analysts and portfolio managers, as well as ESG specialists, reporting to our Global Head of Equities [and a] Sustainable Investment Leadership Team, reporting to our Global Investment Management Operating Committee."*

- *"[Asset Manager] has an ESG Committee comprising members of senior management e.g. Chief Executive Officer, Chief Investment Officer, General Counsel, investment professionals and others. The ESG Committee is empowered by the Board of Directors to establish and implement ESG initiatives. The Investment Division oversees the attribution of ESG ratings among investment accounts. The Proxy Voting Committee oversees the exercise of proxy voting, including consultation with portfolio managers and input from service providers, in accordance with the firm's proxy voting policy."*

- *"Stewardship is owned by our fund management teams where we have an active position in a stock. The team debates and discusses issues, drawing on central stewardship resources for more difficult and complex matters, and reaches a collective conclusion. We have established mechanisms for escalating decision-making if need be, including a conflicts committee (whose membership includes independent non-executive directors) where there is a situation of conflict that needs oversight at the highest level. Where we have an active position in a stock, no voting decision is entered into the system until the relevant fund management team exercises its judgement on the votes - with internal debate used to reach a collectively agreed conclusion... Where there is only a passive (or quant) exposure to a company then engagement and the voting decision falls to the central corporate governance function. On* *engagement, the team is empowered to act on any company globally where there are concerns about the erosion of value for long-term shareholders."*

- *"Our stewardship … is led by our CIO. All fund managers and analysts engage with companies and discuss issues with the corporate governance team who vote, advise on key themes and developments and support with additional research if needed."*

In some cases there is no dedicated specialist team and engagement is carried out by portfolio managers only:

- *"[Asset Manager]'s investment professionals (research analysts and portfolio managers) are responsible for conducting stewardship activities, including ESG integration, rather than delegating this responsibility to an internal stewardship group. To support this effort, [Asset Manager] has an internal group that is responsible for oversight of our ESG Policy and provides ESG education to investment professionals, a Risk Management Team which evaluates portfolio exposures, and a Proxy Operations Department and Proxy Voting Committee responsible for administration and oversight of our proxy voting process."*
- *"… each team of portfolio managers will decide what is in the best interests of investors where a decision on a vote is required outside of an agreed general voting policy and will engage with companies directly where they believe it is appropriate."*
- *"There is no specific governance structure as the function is fully integrated into the investment process."*

Portfolio managers are involved in voting decisions. Over a third of respondents involve portfolio managers in all voting decisions and 32% in controversial decisions and votes against – see Table 10. For other respondents, portfolio managers feed into the voting process for various reasons, e.g. the vote concerns a large or an actively managed holding, there is an M&A voting resolution or there has been a change in the way an asset manager views a specific issue.

TABLE 10: PORTFOLIO MANAGERS/ANALYSTS INVOLVED IN VOTING DECISIONS

	% of respondents
All voting decisions	34%
Only controversial decisions and/or votes against	32%
Other	32%
No	2%

(Sample base: 44 respondents)

Furthermore, when it comes to meetings with investee companies, both portfolio managers and dedicated specialists tend to attend. It is only for 4% of respondents that they do not attend investee company meetings together.

TABLE 11: SPECIALISTS AND PORTFOLIO MANAGERS/ ANALYSTS ATTEND INVESTEE COMPANIES MEETINGS

	% of respondents
Always	5%
Often	48%
Sometimes	43%
No	4%

(Sample base: 76 respondents)

Many respondents have additional arrangements to ensure integration. Specific examples include the following:

- *"Members of the Corporate Governance team are regularly seconded to our investment teams. It is mandatory that all of our investment graduates rotate through the Corporate Governance team. Research is shared between the investment teams and our Corporate Governance team through our online Research Library which stores all analysis and interaction with companies from investment teams and corporate governance analysts."*
- *"Our ESG analyst co-ordinates ESG monitoring and engagement with investee companies. Individual fund managers have responsibility for company engagement … and liaise with ESG analyst. The*

investment team meet management or board members of holding companies, at least once a year, to discuss wide ranging topics. The ESG analyst provides a summary update prior to the meeting on any ESG issues or specific engagement objectives to be discussed with management. … The outcome of the meeting is logged and a decision made by the investment team and ESG analyst whether further engagement is required and if so, what form it needs to take."

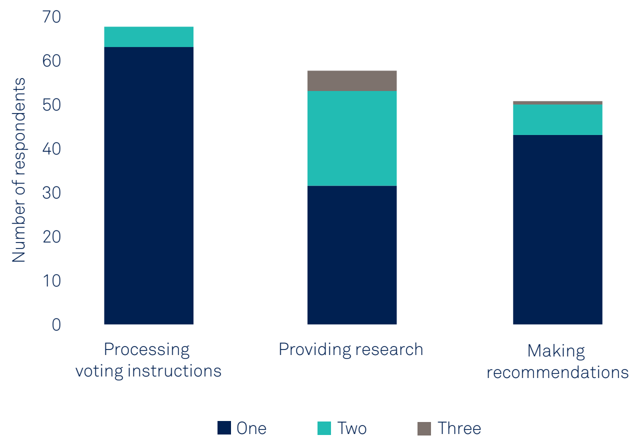
- *"… The [Responsible Investment] Team is embedded within the investment department and, as such, the work of the team – including proxy voting decisions and RI Team-led engagements – form an integral part of company research and engagement. Summarised write-ups alongside meeting notes are circulated to relevant analysts and portfolio managers as well as being stored within the investment department's database, and discussed with relevant team members. … Engagements are reviewed as part of the proxy voting and ESG stock review process. Insights passed on are monitored through their inclusion in internal review notes, at stock meetings and their use in the mainstream meetings of portfolio managers. Proxy voting decisions are systematically circulated to relevant portfolio managers and analysts ahead of general meetings. … Collaborative work is done to actively monitor and engage with investee companies, with a view to understanding the dynamics, opportunities and risks inherent in the business, address concerns and protect the interests of our clients and the capital they have invested."*

SERVICE PROVIDERS

Institutional investors often supplement their resources with service providers that process their voting instructions, provide research, make voting recommendations or offer other customised services. Chart 4 shows how many respondents use one, two or three service providers for three different services: processing voting instructions; providing research; and making vote recommendations.

Approximately 9 out of 10 respondents use proxy voting service to process voting instructions, and in most cases this involves only one service provider. About three quarters use service providers for research with more than half receiving research from one provider, 36% from two providers and 9% from three. Fewer respondents (about two thirds) use recommendation services and in this instance the preference is for one provider.

CHART 4: NUMBER OF PROXY VOTING OR OTHER ADVISORY SERVICES USED



(Sample base: 76 respondents)

Still, receiving recommendations from proxy voting advisers doesn't mean that respondents follow these without any additional assessment even when these are tailored to the respondent's own policy. Respondents use the advisers' recommendations to identify issues but always make a decision independently for 80% of their holdings (on average) – see Table 12.

TABLE 12: THE PROPORTION (%) OF UK HOLDINGS IN RESPECT OF WHICH RECOMMENDATIONS ARE:

	Average
Used to identify issues but own decision always made without regarding the recommendation	80%
Followed sometimes without own assessment	14%
Followed always without own assessment	8%

(Sample base: 41 respondents)

On average, respondents only follow recommendations without making any assessment of their own for 8% of holdings whilst those that follow the recommendations sometimes tend to do so where the recommendations are in line with their own voting policy but not for contentious issues. For example:

- *"All 'for' recommendations are followed unless we are aware of a controversy [or] the stock is held actively. 'Against', 'Abstain' [and] ' Refer' recommendations are all reviewed before voting; anywhere we still intend to vote against or abstain are engaged with company before voting. We change our view on around 10 per cent of these following engagement."*

- *"Policy recommendations for portfolio holdings are monitored by respective portfolio managers, who bring any contentious issues to the attention of the entire investment platform for review and decision-making. The ESG Research team also monitors an extensive focus list of companies put together in consultation with the investment platform. All policy recommendations in respect of the focus list companies are reviewed on a case-by-case basis, and vast majority are brought to the attention of analysts and portfolio managers. Policy recommendations are followed when appropriate, but we will depart from the policy to reflect company-specific circumstances."*

- *"Recommendations are followed when the rational of our proxy research provider's analysis is in line with our internal voting guidelines. We will make a decision on a case by case basis depending on each company. We endeavour to contact a company where we have questions with regards to our proxy voting research providers assessment and also before we register an 'against' vote. We will not follow the recommendations where we find there is misalignment with our internal voting guidelines and where we received additional information from the company after pre AGM engagement."*

- *"Third party recommendations serve as a monitoring tool. Recommendations are followed when they are consistent with our policy, our engagement during the year and our team's judgment. However, in the event where recommendations are not consistent with the above, the team makes its own decision on the issue."*

- *"We use our voting agency … to identify voting resolution issues which contravene our corporate governance guidelines. These are then examined by the ESG Team in reference to any ongoing engagement, as well as our assessment of their overall ESG profile according to our rankings. We may then agree with the recommendation, or override it, as appropriate. For very small holdings (< 0.1%), we may elect to follow the voting recommendation without an in-depth assessment."*

CONFLICTS OF INTEREST

Institutional investors have a duty always to act in the best interests of their clients/beneficiaries. However, conflicts of interest may arise when undertaking stewardship which need to be managed in order not to compromise this. The Stewardship Code requires institutional investors to have *"a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed"*. Previous reports have shown that signatories to the Code have such a policy and the vast majority make it public[8].

Of the 76 respondents, 30% indicated that they had to address a conflict of interest when engaging in the year to 30 September 2016. Most commonly the conflict arose where an investee company was also a client. There were also cases where the company concerned was the parent company or where one of the investee company's directors was a director or Board member of the respondent. Examples of conflicts of interest that respondents faced included:

- *"- A Company where the director of the investee company that we were engaging with also serves on our Board / parent Company Board. - Engaging with an investee company that is also a client or where we have commercial interests."*
- *"Engaging with an investee company whose pension scheme is also a client."*
- *"Director of the company is in a leadership position on our Board."*
- *"The investee company is a distributor of the firm's mutual funds."*
- *"We hold stakes in companies which advise investors on our fund products. We also have pension fund clients who are also publically listed companies."*
- *"... we identified a conflict of interest in respect of the exercise of our voting rights with regards to the acquisition of BG Group by Royal Dutch Shell due to the nature of the acquisition. The transaction involved two of the largest companies in the UK at a time when there was a material change in the macro environment, which increased the financial risk profile of the deal. The conflict arose between the index and active equity holdings at [Asset Manager] where a unified voting decision could not be agreed."*

The approach to managing conflicts of interests varies according to the nature of the conflict and from respondent to respondent. Respondents will follow a set policy, abstain from voting or vote in line with an independent service provider, and/or build Chinese walls. Respondents provided the following examples:

- *"Proxy voting for investee companies where such conflicts arise is carried out by an independent global committee made up of investment personnel from around the group."*
- *"Generally [we] do not vote on issues where there could be a conflict."*
- *"There are Chinese walls between the equities investment professionals and the [Parent Company] and [Asset Manager] Board Directors. The [Asset Manager] equities team is able to vote at General Meetings of an investee company without undue influence by [Parent Company] or [Asset Manager] Board Directors. There is a whistleblowing policy available to all staff which can be used if undue influence is exerted on equities investment professionals."*
- *"[We] notified head of asset management and reminded all stakeholders of the importance of Chinese walls [and] provided safe space to continue engagement."*
- *"In the first instance, any voting in these clients were performed in line with our agreed policy. Where the fund manager believes that voting should be outside our agreed policy it must be agreed with by the Head of Compliance and Head of Risk. In the second case, [Asset Manager] avoids holding shares in the client in the portfolio and where a holding is in a separate fund run by the same portfolios then any voting in these clients were performed in line with our agreed policy.*
- *"No such circumstances occurred in the period under review but if there were any, we would raise these with the CEO of [Asset Manager] and/or the Company Secretary of [Parent Company] (depending on the issue)."*

The five service provider respondents reported that conflicts of interest may arise when companies that are subject of analysis and reporting are also clients. In such cases, the service providers follow their conflicts of interest policy and some have their reports peer reviewed.

[8] The Investment Association, Adherence to the FRC's Stewardship Code at 30 September 2014 – Table 7, p11.

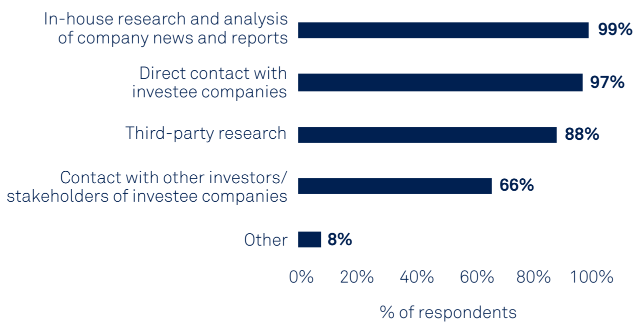
2

MONITORING OF INVESTEE COMPANIES

Monitoring investee companies is core to engagement as it is the primary means through which institutional investors can identify any issues at an early stage that may cause loss in value.

For almost all respondents, monitoring involves a combination of in-house research and direct contact with companies. A high proportion (88%) also use third-party research while two thirds monitor through contact with investors/stakeholders in the companies concerned – see Chart 5. Other ways in which respondents monitor companies include use of social media and employee forums or initiatives such as the PRI Collaborative Engagements framework.

CHART 5: MONITORING UK INVESTEE COMPANIES



(Sample base: 76 respondents)

The service providers monitor mainly through contact with other investors and stakeholders, and by conducting in-house research.

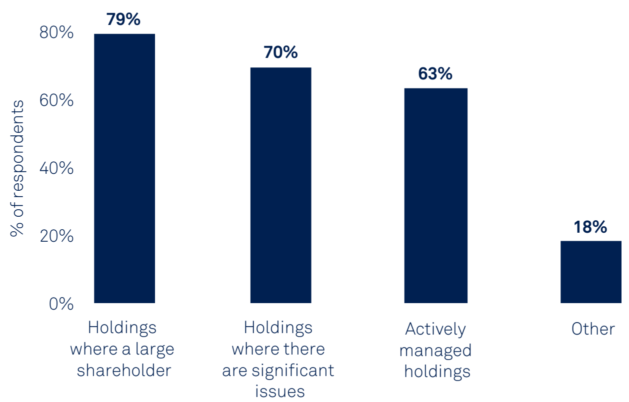
PRIORITISATION OF ENGAGEMENT

Institutional investors need to prioritise the companies and issues where they engage and escalate their activities, particularly in the context of constrained resources which, as discussed above, is specifically relevant for smaller asset managers.

Respondents noted that holdings where they are a large shareholder in the company concerned are a top priority (79% of respondents), followed by companies where there are significant issues (70% of respondents) and then holdings that are actively managed (63% of respondents) – see Chart 6. These are not mutually exclusive as in many cases respondents take all three into consideration.

Other criteria are also used to prioritise. Most commonly, these include where clients have expressed concerns, holdings that represent a material position – and, thus, risk – in the portfolio, and companies that are part of a strategic engagement plan.

CHART 6: PRIORITISATION OF ENGAGEMENT



(Sample base: 76 respondents)

As regards specific issues, the ones respondents consider the most important are set out in Table 13 and those that are most frequently addressed are in Table 14.

The top four issues respondents consider to be the most important are company strategy, financial performance, leadership and capital allocation. Previous reports show that these issues were considered the most important in the past[9],[10]

TABLE 13: MOST IMPORTANT ISSUES

	Rank
Strategy	1
Financial performance	2
Leadership - Chairman/CEO	3
Capital allocation	4
Executive remuneration	5
Composition (incl. diversity) of the board	6
Environment	7
Culture	8
Audit and reporting	9
Pay and conditions of (non-exec) employees, incl. health and safety	10
Human rights	11
Competition	12

(Sample base: 76 respondents)

Turning to the issues on which respondents actually spend the most time engaging on, company strategy, financial performance and leadership are still ranked in the top five. However, interestingly executive remuneration is the second most frequently addressed issue despite being ranked as the fifth most important. This is consistent with past reports[11] and shows how executive remuneration continues to dominate the dialogue between investors and companies.

TABLE 14: MOST FREQUENTLY ADDRESSED ISSUES

	Rank
Strategy	1
Executive remuneration	2
Financial performance	3
Leadership - Chairman/CEO	4
Capital allocation	5
Composition (incl. diversity) of the board	6
Environment	7
Audit and reporting	8
Competition	9
Pay and conditions of (non-exec) employees, incl. health and safety	10
Human rights	11
Culture	12

(Sample base: 76 respondents)

Twenty-two per cent of respondents had issues that they considered important but did not engage with companies on, the main reason being limited resources: *"Audit and audit-related matters are important but given a choice between meeting the Chairman of the Board or the Chairman of the Audit Committee we will usually choose to meet the Chairman of the Board."*

Nevertheless, several respondents indicated that there is always more that can be done in areas such as social and environmental issues, diversity, and culture. For example:

- *"We would have liked to engage more on matters pertaining to human rights and supply chains."*
- *"We would have liked to do more engagement on climate change, equality issues, diversity and sustainable development."*

[9] The Investment Association, Adherence to the FRC's Stewardship Code at 30 September 2014 – Table 21, p21; IMA, Adherence to the FRC's Stewardship Code 2013 – Table 21, p25.
[10] Investors now look at factors such as environment and corporate culture but these issues were not separate option in past questionnaires.
[11] The Investment Association, Adherence to the FRC's Stewardship Code at 30 September 2014 – Table 20, p20; IMA, Adherence to the FRC's Stewardship Code 2013 – Table 20, p24.

Two respondents highlighted tax transparency as one issue they would like to engage more while one has plans to *"start engaging with companies in the automotive industry on quality and product management, with Asian companies on corporate governance standards, with financial companies on culture and risk oversight and with F&B companies on the social risks of sugar".*

The service provider respondents prioritise issues depending on what their clients (asset owners and asset managers) consider important.

PRODUCTIVITY

One topic of particular interest is productivity. In March 2016, the IA published a report setting out how the investment industry can play its part in improving UK productivity[12]. Among other recommendations, it identified the following areas where asset managers should engage with investee companies:

- Clearer articulation and measurement of long-term drivers of productivity
- Encouraging companies to stop quarterly reporting
- Improving reporting on capital management strategy and outcomes
- Improving reporting on culture, human capital and accounting for intangibles

The 72 asset manager respondents were asked which of these issues they had engaged with UK companies on. Over half had engaged on three of these issues, and particularly on the long-term drivers of productivity – see Table 15[13]. More encouragingly, about two thirds plan to engage on these issues in the future – see Table 16.

TABLE 15: ENGAGEMENT WITH UK COMPANIES ON THE ISSUES IDENTIFIED IN THE IA PRODUCTIVITY ACTION PLAN

	% of respondents
Long-term drivers of productivity	55%
Reporting on capital management strategy	54%
Reporting on culture, human capital and intangibles	51%
Quarterly reporting	20%

(Sample base: 72 respondents)

TABLE 16: INTENTION TO ENGAGE WITH UK COMPANIES ON THESE ISSUES IN THE FUTURE

	% of respondents
Reporting on capital management strategy	66%
Reporting on culture, human capital and intangibles	66%
Long-term drivers of productivity	64%
Quarterly reporting	25%
No	12%

(Sample base: 72 respondents)

It is interesting to note that 20% engaged on discontinuing quarterly reporting and 25% intend to do so in the future – a lower proportion compared to the other recommendations. However, the IA has published a public position statement on this topic stressing that its members *"referred to quarterly reporting as a distraction that shifted company resources away from long-term strategic considerations"* and that they had concerns about *"the potential for the practice to promote myopic behaviour by senior management by channelling its focus on short-term fluctuations in performance"*[14]. To address this, the IA has called for companies to *"cease reporting quarterly and refocus reporting on a broader range of strategic issues"* as well as to *"focus on improvements in reporting on the long-term drivers of sustainable value creation and shift resources towards improved reporting on long-term strategy and capital management"*[15].

[12] The Investment Association, Supporting UK Productivity with Long-Term Investment, March 2016.
[13] The productivity related questions were asked only for asset managers.
[14] The Investment Association, Public Position Statement: Quarterly Reporting and Quarterly Earnings Guidance.
[15] Ibid.

At the time of the position statement (November 2016), the IA had estimated that 30 of the FTSE 100 and 139 of the FTSE 250 had stopped quarterly reporting since the mandatory requirement to do so was removed in December 2014. A review of quarterly reporting in the UK six months later revealed that 43 of the FTSE 100 and 167 of the FTSE 250 had stopped reporting quarterly[16].

COLLECTIVE ENGAGEMENT

Collective engagement with other investors is encouraged in the Stewardship Code where appropriate. This is particularly pertinent for smaller investors where critical mass is sometimes necessary for engaging with companies as well as to signal that concerns are widely shared among a company's shareholder base.

The majority of respondents – over three quarters – engaged collectively with other investors in the year to 30 September 2016 (see Table 17). For just over half of these, collective engagement involved direct communication with other stakeholders and/or engagement through representative bodies. 33% of respondents indicated that they engaged with other investors through the Investor Forum – see Table 18. Respondents also highlighted the importance of having a debate and sharing views on an issue with other investors prior to approaching a company. Nevertheless, concerns around compliance with relevant regulations (market abuse, insider information and concert party rules) inhibits some respondents from engaging with other investors.

TABLE 17: COLLECTIVE ENGAGEMENT WITH OTHER INVESTORS

	% of respondents
Yes	76%
No	23%
No response	1%

(Sample base: 76 respondents)

TABLE 18: MEANS OF COLLECTIVE ENGAGEMENT

	% of respondents
Communicating directly with other stakeholders	55%
Through other representative bodies	54%
Through the Investor Forum	33%
Other*	16%

(Sample base: 58 respondents)

Other ways in which respondents engaged collectively included participation in meetings organised by the IA, NGOs and think-tanks. Moreover, one respondent highlighted its participation in the 'Aiming for A' investor coalition which is a platform for engaging on climate change issues[17].

COMMUNICATION WITH COMPANIES

There are several ways in which investors can approach companies, ranging from face to face meetings to communicating policies and/or concerns through letters to companies' Boards. Respondents' preferred method was face to face meetings, followed by telephone or email exchanges and then collective meetings with other investors – see Table 19.

TABLE 19: PREFERRED METHOD OF ENGAGEMENT WITH COMPANIES

	% of respondents
Face to face meetings	1
Telephone/email exchanges	2
Collective meetings with the company and other investors	3

(Sample base: 76 respondents)

[16] The Investment Association, Implementation Update; Supporting UK Productivity with Long-Term Investment, August 2017. https://www.theinvestmentassociation.org/assets/files/press/2017/20170901-productivityactionplan.pdf
[17] Further details can be found at http://investorsonclimatechange.org/portfolio/aiming-for-a/.

Respondents considered direct engagement in general, and face-to-face meetings in particular, to be the most effective means to engage as they help build trust, and thus, long-term relationships with companies. For example:

- *"Our investment process relies on our convictions about, and trust in, the companies and their management, and as a result face-to-face meetings are felt best to underpin these."*

- *"Face-to-face meetings provide a more open and honest forum and they tend to be more effective with some form of commitment or action plan agreed."*

- *"The significant nature of many of our investments provides us with access to the management and boards of companies and as a general rule our preference is to engage privately and directly with our investee companies, as we believe it better serves the interests of our clients to build long-term relationships with companies."*

- *"The best way to engage with companies is on their home turf and not during the reporting season. It is only here that you can understand the business model and get a sense of the culture, leadership and morale of the employees. In this environment you can better assess in an independent fashion the investment case."*

- *"Our preference is for face-to-face meetings as we believe they yield the most productive levels of interaction. We prefer to engage in private but may use the public voice. We find engaging in confidence enables honest, open and frank discussions. Where appropriate, we will discuss stewardship issues with other shareholders of a company. There are also occasions, on matters that are public, where we will make our views and concerns known publicly. This may be through attendance at a company's general meeting, or in the context of a requisitioned resolution or general meeting. In exceptional circumstances, where we decide that it is necessary and appropriate, we may comment publicly about a controversial situation at a company. This will generally be in a situation where engagement has proven ineffective in addressing concerns or high profile, event driven controversies."*

The approach can change as the engagement process is escalated. As an illustration, one respondent described the following:

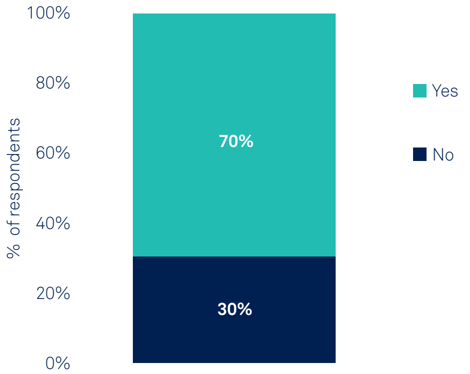
- *"[Asset Manager] has an established policy based on the escalation of engagement. Initial engagement takes place by direct contact with companies with face-to-face meetings or telephone/email exchanges. If initial discussions fail to result in improvements or if concerns are not being addressed, then [we] will usually escalate the issue sometimes resulting in a collaborative engagement initiative. Collaborative engagement is a useful medium that allows [us] to forge alliances with other investors, especially when dealing with companies where investor communication is limited. Such engagement on company specific issues may be informally carried out amongst like-minded investors to [us], or more formally through networks such as the Investment Association. The Corporate Governance team also meets weekly to discuss the issues and may use its voting power as a tool to escalate engagement through exercise of shareholder rights to trigger change at company level and effectively impact the market with one strong voice. The last stage of our engagement process is to make our concerns public. This is an unusual step for [us] and only occurs occasionally in the event where we have severe concerns."*

An important point highlighted above is that investors view public statements as the last stage in the escalation process and only when other attempts have proven to be ineffective and serious concerns remain.

The service provider respondents prefer face to face meetings with companies, followed by telephone/email exchanges and then collective meetings. However, this will depend on the preference of their clients.

Not all engagement is instigated by investors. 70% of respondents indicated that some engagement is initiated by companies – see Chart 7. It is likely that much of this is on executive remuneration following the introduction of the binding vote on remuneration policy in 2013. This strengthened the ability of investors to hold companies to account, and incentivised companies to reach out to their investors to determine their views. This accords with the earlier finding that investors engage with companies on remuneration issues more often than on other issues they may consider important.

CHART 7: SOME ENGAGEMENT INSTIGATED BY INVESTEE COMPANIES



(Sample base: 76 respondents)

Two of the service provider respondents reported that a considerable part of their engagement is instigated by companies.

Where respondents approach companies for further engagement, in the majority of cases (71%) companies are very responsive. However, 28% of respondents indicated that there have been cases where they received no response – see Table 20.

TABLE 20: APPROACHED UK COMPANIES AND NO RESPONSE

	% of respondents
Yes	28%
No	71%
No response	1%

(Sample base: 76 respondents)

Respondents stressed that generally it is unusual for companies not to respond once approached but in the rare cases where it does happen, it tends to be due to the small size of the respondent's shareholding and/or a lack of resources. For example:

- *"This is not common but does occur, most often the lack of response will come from smaller companies whom have more limited investor relations resources or from companies in which we represent only a very small % of their issued share capital."*
- *"It is very rare for companies not to respond to our analysts and [portfolio managers]. When this happens, there are normally good reasons based around black-out periods when management may risk compromising themselves or the investors."*
- *"Previously, when we used to contact UK companies after we had voted against one or more of their AGM resolutions but did not hold a material stake in the Company (i.e. shares were only held in passive / index funds), there were occasions where we didn't receive a response. However, for the large majority of the companies we are invested in, we received responses from companies, regardless of the size of our holding."*

Investors too may decline a request from companies to engage and almost half of respondents indicated that they had done so in the past – see Table 21.

TABLE 21: A REQUEST FROM A UK COMPANY TO ENGAGE DECLINED

	% of respondents
Yes	47%
No	49%
No response	4%

(Sample base: 76 respondents)

Most commonly this was due to the respondent's holding in the company being small, lack of any specific concerns, and limited resources. Several respondents stressed that they advised the company as to why they had declined their request to engage. Explanations provided included the following:

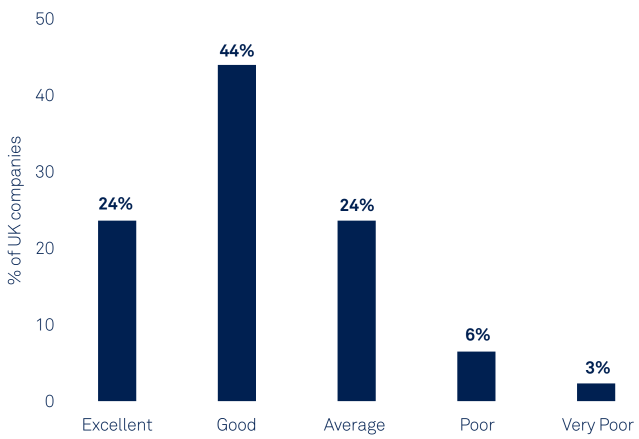
- *"This was mainly due to their immateriality within our portfolios or in terms of potential influence. These reasons were communicated to the companies concerned."*
- *"We very rarely decline offers to engage but these are isolated cases where we felt the issue had already been covered and there was no concern."*
- *"Typically because we were already comfortable with the issues raised, or the company received an above-average rating from us for ESG. This is always communicated to the company in these instances."*
- *"... in some cases we will not always take up the offer of a meeting if it is of a routine nature, we have seen the company recently, the results are fine and we don't have any issues to discuss."*
- *"A combination of us not feeling there is a problem, as well as resource constraints meaning that we must prioritise our efforts."*
- *"As both an active and index investor we have many small holdings in UK companies where we have no particular strong knowledge or opinion concerning the company. In such cases we may choose not to engage, particularly when the engagement concerns an executive remuneration pre-study. We will always notify the company of our decision."*
- *"... We prioritise by value of holding and the materiality of issues. For example, we are unlikely to engage with companies when they only want to talk about executive pay and we only have a passive holding. ..."*

The service providers noted instances of companies not responding to their invitation but considered that this may be due to their preference to prioritise engagement with shareholders directly.

QUALITY OF ENGAGEMENT

Overall, respondents rated the quality of their engagement with UK companies as high. On average, the engagement was excellent for nearly a quarter of the companies where they had engaged, and good for 44% of companies. It was only considered poor for 6% of UK companies and very poor for 3% – see Chart 8.

CHART 8: QUALITY OF ENGAGEMENT



(Sample base: 76 respondents)

UK companies' responsiveness was cited by several as a key reason why the quality was good. For example, one respondent stated that *"the willingness to engage with investors amongst UK companies is to be applauded"* and clarified that: *"broadly speaking the quality of these conversations is dictated by the significance of the agenda and will of course vary within an organisation; however, it is rare that the quality of engagement across the board is poor".*

Another respondent stated that: *"UK companies continue to provide access and be willing to discuss substantive issues and report on progress relative to engagement objectives"* whilst another stressed that: *"the quality of engagement often comes down as much to the style and tone that the investor brings to the discussion".*

2

In some instances there was a degree of frustration about the focus on remuneration. For example:

- *"The quality of discussion with companies has improved over the last few years, with a broader list of issues being observed by companies and raised by shareholders. Also, the link between particular ESG issues and strategy is becoming clearer in such discussion. However, there are still too many companies only wanting to get shareholder views and approval on executive pay, which is concerning."*

- *"An unacceptable number of companies continue to engage on remuneration matters where it is evident that the company is not interested in changing their proposals .... Having said this, a majority of engagements are constructive and, at least to some extent, successful."*

A few mentioned that their experience of good quality dialogue with UK companies was not replicated outside the UK. For example one respondent noted: *"UK company engagement is generally speaking very straight-forward, companies are responsive. We find the situation is much more challenging with US and emerging market companies."* Nevertheless, one respondent stressed that: *"UK companies engage in a similar manner to other companies organised in developed markets"*, and added that: *"there is a tendency for communications from UK companies to be overly reviewed/sanitised by legal departments".*

Where respondents rated the quality of engagement with some companies to be poor, this tended to reflect lack of communication. For example:

- *"A few companies have made concerted efforts to arrange meetings with chairmen to discuss any and all issues. Most companies have provided an adequate level of disclosure but do not go further than this and are dismissive of attempts to delve further and some are uncommunicative."*

- *"Only a few companies provided relevant and helpful answers. More than a third of companies did not answer at all."*

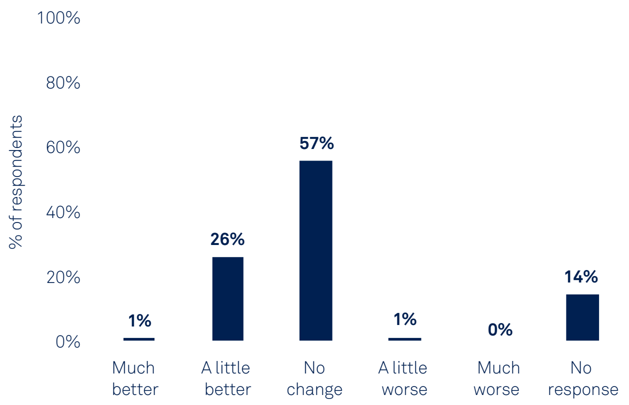
Outcomes remain important and can determine how investors rate the quality of engagement. As one respondent noted: *"there can be excellent engagement but no change following the engagement. The test is really in the degree of change achieved, if that is what is needed."*

Moreover, as the engagement extends over a long period, the actual dialogue with companies is only one part of the overall experience. A respondent explained this as follows:

"Some of the objectives of our engagements are to obtain investment insight, protect and enhance client interests and build relationships with companies. The actual quality of the dialogue in terms of the relevant issue discussed and the openness of the dialogue is positive and could be described as "excellent" in its quality. However, that's not the complete picture and that's not how we judge it. We are discussing long-term issues which take time to assess, so therefore the quality of the actual standalone conversation ranks as excellent or good but in terms of quality dialogue this can only be judged on a wider horizon."

In terms of how the quality of engagement compares with the previous year, 57% of respondents indicated that there has been no change, 27% noted an improvement and only 1% saw a deterioration – see Chart 9.

CHART 9: QUALITY OF ENGAGEMENT COMPARED TO THE PRIOR YEAR.



(Sample base: 76 respondents)

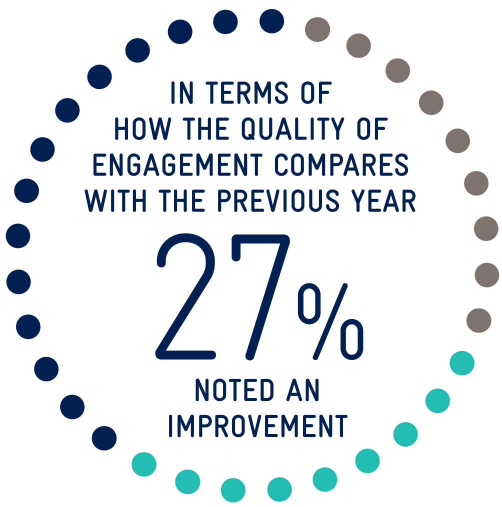
Ultimately, the most important question is whether engagement achieves change. For two thirds of respondents engagement with UK companies resulted in better investment decisions and for some considerably so. Although less pronounced, there were also changes to respondents' approach to stewardship and the engagement process– see Table 22.

Overall engagement leads to better investment decisions with respondents tending not to change their approach and processes significantly as a result.

TABLE 22: CHANGES AS A RESULT OF ENGAGEMENT

	% of respondents			
	Considerably	Somewhat	Not at all	No response
Approach to stewardship	3%	36%	55%	6%
Engagement process	4%	37%	51%	8%
The nature of dialogue with companies	3%	42%	47%	8%
Better investment decisions	13%	53%	22%	12%

(Sample base: 76 respondents)



3 IN-HOUSE ENGAGEMENT – PRACTICAL EXAMPLES

TO ASSESS FURTHER HOW STEWARDSHIP WORKS IN PRACTICE, THE 76 RESPONDENTS THAT ENGAGE IN-HOUSE WERE INVITED TO DESCRIBE AN ENGAGEMENT WITH A SPECIFIC COMPANY OUTLINING THE OBJECTIVE THEY SOUGHT TO ACHIEVE, HOW THEY APPROACHED THE COMPANY, AND WHETHER THE ENGAGEMENT WAS EFFECTIVE AND SUCCESSFUL.

In total, 58 respondents[18] provided specific examples, naming 52 individual companies. The companies included Next plc, Rio Tinto plc, Royal Dutch Shell Plc, Merlin Entertainments plc, Johnson Matthey PLC, Vodafone plc, Thomas Cook Group plc, Anglo American plc, Aberdeen Asset Management PLC, Capita plc, Reckitt Benckiser Group plc and many others. Notably, five respondents covered Sports Direct International PLC (which was also covered in previous IA stewardship reports), and three covered Shire plc.

OBJECTIVES AND OUTCOMES

Respondents had a wide variety of objectives, reflecting the broad range of companies selected. In many cases, there were several objectives with investors wanting to address concerns over a number of issues such as corporate performance, board composition, human capital management, and company strategy. For 11 respondents the main objective was executive remuneration, seven wished to engage on board composition issues, four on company strategy, and three on the performance of executive management. Notably, there were three examples of engagement on environmental issues and two on social and employee relations issues.

Examples of objectives and corresponding outcomes included the following:

- Remuneration

  "[The objective was] to address what we felt were short-comings in the approach to remuneration [and] in particular the need for a more robust focus on return metrics given the acquisitive nature of the business. We had extensive engagement with the company and its advisers and were pleased at the extent to which the objectives were achieved."

  "[The objective was to] remove a remuneration metric that we thought could unduly influence the decision making process through a strategically important period. Despite emphasising our concern through written communication and a call the company dismissed our concerns."

- Board

  "[The objectives were] changes to the governance structure of the company [and] the nomination of additional directors to the board with direct industry experience. ... [The] position of the executive chair was more fully defined and disclosed, with the company committing in writing to subject that individual to an appropriate compensation plan. [The] objective [was] achieved as one director with industry experience [was] appointed immediately, with a commitment to appoint a second one by the next AGM."

- Capital allocation

  "...we wished to impress on [Company] that we did not wish them to undertake any large-scale acquisitions, and instead would prefer paying down debt, and ultimately returning cash to shareholders. The company have not made large-scale acquisitions within the last year, and have indeed been paying down their debt. They have not yet returned capital to shareholders (other than through normal dividend pay-outs). We continue to engage on an ongoing basis and anticipate that capital will be returned over the coming 12 months. .... The engagement gave us greater confidence that the company's capital allocation policy was aligned with our own and will continue to be shareholder friendly."

- Performance

  "Share price performance and company metrics have been poor for several years. [The] company initiated a rights issue a year ago, after being forced by PRA to raise capital. Around this time we met with management to assess where the company was going in the future, whether its performance would improve, and whether we should retain it as a holding. The

[18] This included 56 asset managers and 2 asset owners that conduct in-house engagement.

meeting was informative and reassuring, and helped us to conclude that we should retain the holding rather than selling it."

- Environment

  "[The objective was] to encourage the company to take a more strategic approach to the phase-out of hazardous chemicals on the European market. [The objective was achieved] to a good degree in that the company increased the head-count of the department responsible for developing less hazardous chemicals."

- Social

  "The objective of engagement was to get, in addition to a strategy update, a better understanding of the current labour relations. We met with [Company]'s CEO in September and discussed, in some detail, labour relations at the company's ... subsidiaries.... [Company] has met its commitments following past productivity improvements by returning the airline to growth. This provides more career opportunities for staff. Our objectives were met. We have a better understanding of the progress the company has made so far and how it is planning to address labour issues."

  "[The objective was] to better understand allegations ... that [Company] were mistreating union members of staff. We also wanted to ensure that the company is taking steps to ensure that its staff ... is well treated in line with international standards (UN guidelines etc). Following our engagement, we have a much better understanding of these allegations. ... The CEO of [Company] indicated that [they] consider themselves to have very good relationships with their employees, providing secure jobs with good local pay. The relationship with local unions is good and they support membership of these organisations. In our opinion, the Executive Management of [Company] was very measured and thoughtful during our engagement process."

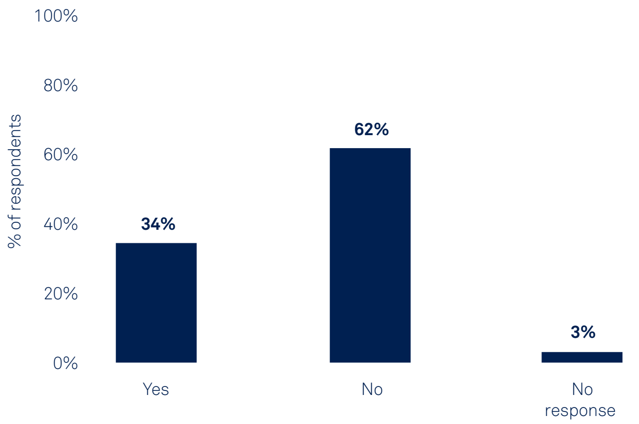
- Other

  "The principal objectives of our most recent engagement were to review recent quarterly results as well as the potential impacts of the recent US election on the outlook for both the company and the auto industry in general. It is notable ... that management proactively requested the opportunity to provide an update on its corporate governance practices. There was a frank and comprehensive exchange with the management team on both the financial and political issues as well as the presentation on governance practices. The outcome was that we believe that all of the initial objectives were met. For those questions and/or issues that remained outstanding at the end of the meeting, management gave a strong indication of willingness to either evaluate our comments, or to return with more definitive responses."

3

In most cases, respondents did not change the level of their investment/shareholding in the company concerned following their engagement but 34% did so – see Chart 10.

CHART 10: INVESTMENT CHANGED AS A RESULT



(Sample base: 58 respondents)

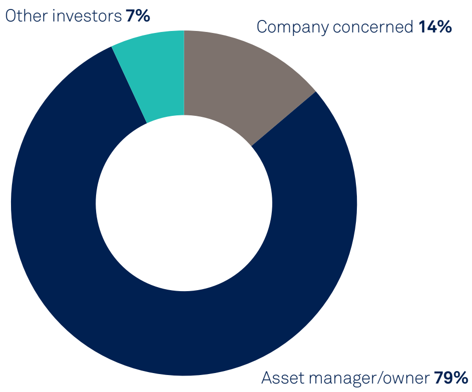
Where respondents remained invested or even increased their holding, this was not only due to companies addressing their concerns but also the outcome of improved communication. For example one respondent stressed that the meetings *"helped to overcome negative perceptions"* while another noted that it gave it *"more conviction in the security"* and as a result increased its position.

Still there were also a few examples where engagement resulted in respondents divesting from a company. One respondent stated that it decided to sell its position *"given the greater level of uncertainty around the range of outcomes for operating results"* and another divested due to the *"disappointing quality of the engagement".*

ENGAGEMENT PROCESS

In terms of the process, in the majority of examples the respondent instigated the engagement but for 14% it was the company concerned and for 7% the engagement was started by other investors – see Chart 11.

CHART 11: INSTIGATORS OF ENGAGEMENT



(Sample base: 58 respondents)

The CEO and the Chair of the Board were the most frequently contacted across all examples. Respondents also frequently contacted Investor Relations and the Senior Independent Director as well – see Table 23.

TABLE 23: INDIVIDUALS CONTACTED THE MOST FREQUENTLY IN THE COMPANY.

	Rank
Senior Executives incl. CEO	1
Chair of the Board	2
Investor Relations	3
Senior Independent Director	4
Other Non-Executive Directors	5
Company Secretary	6
Remuneration Committee Chair	7
Audit Committee Chair	8

(Sample base: 58 respondents)

Looking more closely at each example, depending on the objective of the engagement, respondents tended to communicate more with a specific individual within the company. For example, senior executives including the CEO were most frequently contacted when the objective related to the strategy of the company and employee related issues. The Chair was contacted most when investors had multiple issues they wished to address. Concerns about the Board in terms of composition and succession planning were most frequently communicated to the Senior Independent Director.

Similarly, looking at the more specific issues, the Chair of the Remuneration Committee was contacted most often when investors wished to discuss remuneration while the Chair of the Audit Committee was the point of contact for audit related issues – as expected. Notably, environmental issues were most frequently communicated to Investor Relations.

It was mainly a combination of both portfolio managers and dedicated specialists, or portfolio managers only that contacted the company – see Table 24.

Moreover, although the engagement objective may largely determine who an investor will contact within a company, it does not seem to bear any relevance to who from the investor does so. This indicates that the internal resource covers all engagement and investors do not tend to split responsibilities depending on the topic.

TABLE 24: WHO MOST FREQUENTLY CONTACTS THE COMPANY

	Rank
Portfolio managers/analysts and dedicated specialists	1
Portfolio managers/analysts	2
Dedicated specialists	3

(Sample base: 58 respondents)

3

COLLECTIVE ENGAGEMENT

For 33% of the examples, respondents engaged collectively with other investors. Most commonly it was the respondents or other investors that instigated the collaboration – only 5% of collective engagement was started by the company – see Table 25.

TABLE 25: WHO INSTIGATED THIS COLLABORATION?

	% of respondents
Company concerned	5%
Asset manager/owner	42%
Other investors	53%

(Sample base: 19 respondents)

All 19 respondents felt that the collective engagement was effective. Several associated this with the power achieved when investors join forces. For example:

- *"We got support from 4-5 other UK investors which gave the engagement greater importance we believe with the company."*
- *"We were not large holders by observed that getting a few of the largest holders on board (representing 10% of issued share capital) was effective."*
- *"While we had been engaging with the company directly for some time we had also been party to informal collaborative engagements through the trade associations. During 2016 we found the Investor Forum's coordinated collaborative engagement gained a great deal of momentum and were impressed with the way that the Forum demonstrated persistence and built a constructive enough relationship with the company to enable some progress to be made."*

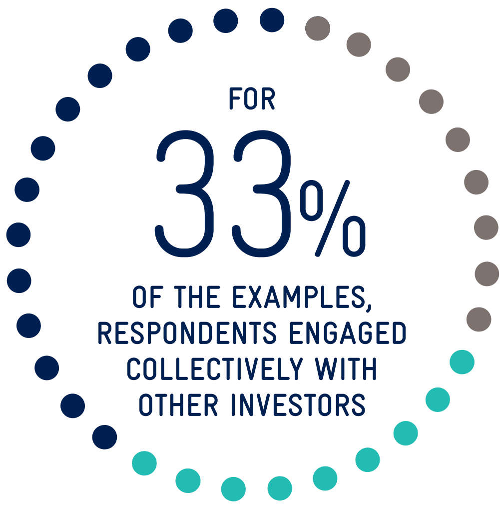
Moreover, one respondent gave an example where asset owners collaborated with asset managers and considered that this further helped it achieve its objectives.

VOTING AT AGMs

Some respondents provided information as to how they voted on individual resolutions at the AGM of the company concerned. These responses cannot be aggregated due to the diverse nature of companies and resolutions. However, they are informative as they illustrate the rationale behind specific voting decisions. Examples where respondents voted in favour or against are below.

- Votes for
  - *"A number of decisions taken by the remuneration committee needed further investigation. Having researched the actual decisions taken and spoken with the company we were satisfied with the rationale provided and that the circumstances warranted our support. On reflection this was more an issue of communication rather than the specifics of the proposals."*
  - *"[We] wrote to [Company] explaining our decision to vote in favour, but flagging that we would consider voting against in future, and absent progress on the issues [was] raised."*
  - *"This vote was to approve the remuneration report. We voted for this resolution, as the policy appeared to have been correctly applied. However, review of the policy caused us to give feedback on how to improve it given that it was due for consultation during the upcoming financial year. The report vote and three year policy review cycle is interesting given the Government's recent green paper on corporate governance reform. Whilst we have used the advisory resolution as a catalyst for engagement, it may not serve the same purpose for other investment managers, and the advisory vote may not be treated with an adequate degree of seriousness by management teams (this is a general point, not specific to the company concerned here)."*

- Votes against
  - *"Executive Directors received a significant bonus for FY2015 ... despite the Company reporting net losses and a large impairment charge for the year. There is the potential for annual bonus to be paid during a period of garden leave, thus effectively for an unworked notice period."*
  - *"Due to the lack of progress that had been made over the course of our engagement, we continued to vote against the re-election of the Board Chairman for the third consecutive year."*
  - *"In order to protect our holding against dilution, for FTSE 350 companies we only approve the authority for the disapplication of pre-emption rights for up to 5% of the share capital, not 10%."*
  - *"[Board Member] serves as a director on a total of four public company boards, including two as chairman. We therefore do not believe that [Board Member] has sufficient time available to effectively discharge his duties as a member of the board of directors. We therefore voted against his re-election to the board at this time."*
  - *"We believed that election of the proposed directors would not be in the best interest of shareholders and that they would not in our view exercise the necessary independent judgment. We therefore voted against the resolutions with respect to the appointment of those directors."*



4 OUTSOURCED ENGAGEMENT

4

THIS SECTION LOOKS AT THE ACTIVITIES OF THE 52 RESPONDENTS, 47 ASSET OWNERS (ALL PENSION FUNDS) AND FIVE ASSET MANAGERS, THAT OUTSOURCE ENGAGEMENT. THE RESULTS LARGELY REFLECT ASSET OWNER ACTIVITY. IT COVERS BOTH RESPONDENTS THAT OUTSOURCE ENGAGEMENT AND INVESTMENT MANAGEMENT (MAINLY ASSET OWNER RESPONDENTS) AND THOSE THAT MANAGE INVESTMENTS IN-HOUSE BUT OUTSOURCE ENGAGEMENT (MAINLY ASSET MANAGER RESPONDENTS).

The Section covers the extent to which stewardship is a factor when selecting external parties, how these parties are monitored and how often they are reviewed. This Section is not relevant for service providers due to the nature of their activities.

THE VALUE OF ENGAGEMENT AND MANDATES

77% of respondents that outsource engagement consider it can enhance value. Only one respondent disagreed – Table 26.

TABLE 26: ASSET MANAGERS /EXTERNAL PARTIES ADD VALUE (OR MITIGATE LOSS OF VALUE) THROUGH ENGAGEMENT

	% of respondents
Strongly agree	37%
Agree somewhat	40%
Disagree somewhat	2%
Strongly disagree	0%
Don't know	10%
No response	12%

(Sample base: 52 respondents)

In this context, 44% of respondents question managers/external parties about their approach to engagement and 25% include specific criteria in their requests for proposals – Table 27. For a small but significant number (10%) this is not a factor in selection. Some respondents were uncertain, with one stating that the decision is left to the investment consultants. Many smaller pension funds are likely to be reliant on consultants to inform and oversee their investment activities, including stewardship. Fewer than a third of respondents suggested that investment consultants had raised stewardship issues with them – see Annex 3.

TABLE 27: STEWARDSHIP TAKEN INTO ACCOUNT WHEN APPOINTING EXTERNAL PARTIES

	% of respondents
Specific criteria within Requests For Proposals	25%
Only select managers which are signatories to the UN Principles for Responsible Investment (PRI)	2%
Question prospective managers about their beliefs and approach to stewardship	44%
No, but plan to in the future	2%
No, these considerations are not relevant for manager selection	10%
Other	6%
No response	12%

(Sample base: 52 respondents)

37% of respondents set out their expectations with respect to stewardship in all mandates and a further 16% in at least half their mandates. This leaves 31% that do not cover it at all in mandates albeit 23% intend to include it soon or will consider doing so – see table 28.

TABLE 28: MANDATES COVER STEWARDSHIP

	% of respondents
All mandates	37%
About 75% of mandates	8%
About half of mandates	8%
About 25% of mandates	4%
No, but soon to be included	4%
No, but will give consideration in the future	19%
No	8%
No response	12%

(Sample base: 52 respondents)

The FRC recently introduced a 'tiered' structure for Stewardship Code signatories, ranking both asset owners and asset managers into one of two categories based on the detail and clarity of their statements on how they meet the principles and provisions in the Code.

Of the 52 respondents that outsource engagement, 56% are aware of this initiative (Table 29), while 60% are somewhat or very likely to take it into consideration (when contracting with or reviewing asset managers) in the future against just 10% that would not (Table 30). This suggests the tiering exercise is a helpful innovation to help asset owners identify asset managers approach to stewardship. Given that these respondents tend to be knowledgeable about stewardship this indicates a need for more education on/awareness of such initiatives.

TABLE 29: AWARENESS OF THE FRC'S PUBLIC TIERING OF SIGNATORIES

	% of respondents
Yes	56%
No	33%
No response	12%

(Sample base: 52 respondents)

TABLE 30: LIKELIHOOD OF TAKING THE TIERING INTO CONSIDERATION IN THE FUTURE

	% of respondents
Very likely	33%
Somewhat likely	27%
Somewhat unlikely	6%
Very unlikely	4%
Don't know	17%
No response	13%

(Sample base: 52 respondents)

ENGAGEMENT PRIORITIES

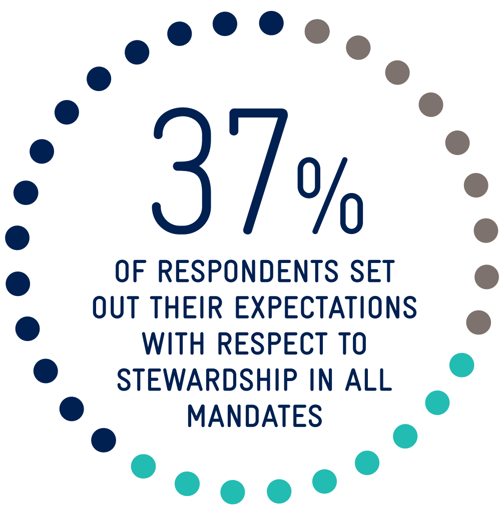
Respondents that outsource identified strategy as the main priority for engagement by appointed managers/external parties, followed by the company's financial performance, its impact on the environment, audit and reporting, and executive remuneration – see Table 31. This suggests that respondents are interested in engaging with the high level themes of the direction of companies (their strategy); the outcomes they achieve (financial performance; audit and reporting; and the proportionality of rewards paid to the executive team); together with their impact on society (the environment).

A company's culture, which might be considered to be closely related to its strategy scored less highly. Equally, impact on the environment was also deemed much more important than working practices or human rights obligations despite being similar, in terms of looking at the company's relationship with its stakeholders and wider society.

The biggest discrepancies between those issues prioritised by those outsourcing engagement (i.e. mainly asset owners) and those carrying out engagement in-house (i.e. mainly asset managers) were in relation to environmental issues, audit and reporting, and pay and conditions of employees, all of which were ranked 4 or 5 places higher by those that outsource as compared to those conducting engagement in-house. Leadership and capital allocation were both ranked five places higher by those that conduct engagement in-house as compared to those that outsource.

TABLE 31: MOST IMPORTANT ISSUES

	Rank
Strategy	1
Financial performance	2
Environment	3
Audit and reporting	4
Executive remuneration	5
Pay and conditions of (non-exec) employees, incl. health and safety	6
Composition (incl. diversity) of the board	7
Leadership – Chairman/CEO	8
Capital allocation/culture	=9
Human rights	11
Competition	12



This did not correspond entirely with the issues that respondents considered their asset manager/ external party had actually engaged on in the year. Those issues were executive remuneration, followed by the composition of the board, leadership, financial performance and impact on the environment – Table 32.

These top three issues were all ranked at least four places higher in the table of most frequently addressed issues than in the table of issues that respondents felt were most important. Conversely, strategy, audit and reporting, and pay and conditions of employees were all ranked significantly higher as issues that respondents would like to see the subject of engagement than those on which there had been engagement.

Compared to the responses of those that conduct engagement in-house, there was most significant deviation over the issues of board composition and impact on the environment (those that outsource ranked these higher than those that conduct engagement in house) and strategy, capital allocation and competition (those that conduct engagement in-house ranked these higher).

TABLE 32: MOST FREQUENTLY ADDRESSED ISSUES

	Rank
Executive Remuneration	1
Composition (incl. diversity) of the board	2
Leadership - Chairman/CEO	3
Financial Performance	4
Environment	5
Strategy	6
Audit and Reporting	7
Capital Allocation	8
Pay and conditions of (non-exec) employees, incl. health and safety	9
Culture	10
Human rights	11
Competition	12

COLLECTIVE ENGAGEMENT

Given the fragmented nature of shareholdings in major listed companies, a willingness to work with other investors is important to being able to exert influence over companies. Most respondents were aware of asset managers/external parties working collectively in engaging with investee companies, however 28% either said that their managers were either not engaging collectively or they were not sure if they were doing so – seeTable 33.

TABLE 33: AWARE OF ASSET MANAGERS/ EXTERNAL PARTIES ENGAGING COLLECTIVELY

	% of respondents
Yes	48%
No	15%
Don't know	13%
No response	24%

(Sample base: 52 respondents)

MONITORING ENGAGEMENT OF ASSET MANAGERS AND OTHER EXTERNAL PARTIES

The preface to the Stewardship Code states that: *"institutional investors may choose to outsource to external service providers some of the activities associated with stewardship"* and adds that: *"they cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship."*

Respondents, whether Code signatories or not, stated that they comply with this provision. Review meetings and reports from external consultants are the main means of assessing outsourced engagement. Only 8% do not review their managers'/external parties' activities – Table 34.

TABLE 34: MONITORING ASSET MANAGERS/EXTERNAL PARTIES

	% of respondents
Review meetings	56%
Report from investment consultants or other 3rd parties	40%
Formal verification (e.g. AAF01/06)	13%
Other (please specify)	10%
Not monitored	8%
No response	12%

(Sample base: 52 respondents)

Nearly half of respondents stated that they formally review the stewardship activities of their asset manager/external party annually, while 25% do so even more frequently. 15% stated that they do not review stewardship activities undertaken on their behalf, with one respondent commenting that there was no need as stewardship activities are assessed and criteria stipulated when awarding mandates – see Table 35.

TABLE 35: TIMEFRAME FOR REVIEWS

	% of respondents
Annually	44%
Half-yearly	8%
Quarterly	17%
Other	4%
Never	15%
No response	12%

(Sample base: 52 respondents)

Very few respondents considered that their external parties/managers had had any conflicts of interest in the year. Of those that did, all said they had been handled in a quite or very satisfactory manner (Tables 36 and 37).

TABLE 36: AWARENESS OF CONFLICTS OF INTEREST

	% of respondents
Yes	10%
No	31%
Don't know	37%
No response	23%

(Sample base: 52 respondents)

TABLE 37: SATISFACTION WITH HOW CONFLICTS WERE HANDLED

	% of respondents
Very satisfied	4%
Quite satisfied	6%
Not applicable as no conflicts arose	59%
No response	31%

(Sample base: 52 respondents)

Most respondents were satisfied with their asset managers/ external parties reporting of stewardship with the majority being quite satisfied (60%) rather than very satisfied (10%). Only one respondent was dissatisfied, and three were not sent reports – see Table 38.

TABLE 38: SATISFACTION WITH STEWARDSHIP REPORTS

	% of respondents
Very satisfied	10%
Quite satisfied	60%
Quite dissatisfied	2%
Currently no reports	6%
No response	23%

(Sample base: 52 respondents)

Better integration with investment matters and performance was the most commonly suggested means of improving stewardship reports, though more on stewardship; more quantification of the value it adds; and more material/portfolio specific reporting were also highlighted. Only 17% stated that no improvements were necessary – Table 39.

TABLE 39: IMPROVING REPORTING ON STEWARDSHIP

	% of respondents
More material and portfolio specific	15%
More integrated with reporting on investment matters and performance	33%
More evidence of activities undertaken	19%
Quantification of the value added	15%
Other	8%
No reporting	6%
No improvements necessary	17%
No response	21%

(Sample base: 52 respondents)

Most respondents had taken steps to increase their scrutiny of the stewardship of their asset managers/ external parties. More stewardship-related questions was the main means of doing so, followed by more time reviewing stewardship reports and a greater scrutiny of voting records. Again the number not undertaking any form of review was a small – though substantial – minority of 19%.

TABLE 40: INCREASING SCRUTINY OF ASSET MANAGERS'/ EXTERNAL PARTIES' STEWARDSHIP

	% of respondents
Asking more questions on stewardship matters during manager reviews	29%
More time reviewing reporting	23%
More attention paid to votes cast	13%
Other	10%
None	19%
No response	25%

(Sample base: 52 respondents)

Throughout these responses, a theme emerged of a substantial community of those that outsource, mainly asset owners, that consider stewardship to be a key component of the investment process and actively engage with asset managers/external parties over their stewardship activities. By and large, respondents are satisfied with engagement carried out on their behalf, though there is scope for improvement. There is a challenge now to raise the profile of stewardship and the scope of scrutiny of stewardship activities across a wider range of asset owners beyond this core.

5 IN-HOUSE VOTING

THIS SECTION LOOKS AT THE VOTING ACTIVITIES OF THE 73 RESPONDENTS, 67 ASSET MANAGERS AND 6 ASSET OWNERS, THAT VOTE THEIR SHARES IN-HOUSE. SIMILAR TO SECTIONS 2 AND 3, THE RESULTS LARGELY REFLECT ASSET MANAGER ACTIVITY.

THE SECTION SPECIFICALLY EXAMINES WHICH MARKETS RESPONDENTS EXERCISE THEIR VOTING RIGHTS, WHETHER THEY INFORM COMPANIES WHEN THEY INTEND TO VOTE AGAINST OR ABSTAIN, AND WHETHER THIS IS IN ADVANCE OR IN ARREARS.

Service providers often execute institutional investors' voting instructions, but as they do not hold equity for investment purposes, this section is not relevant to them.

MARKETS IN WHICH SHARES ARE VOTED

According to the Stewardship Code, it is best practice for institutional investors to seek to vote all shares held. In this context, respondents were asked which markets they seek to vote. The results are encouraging, indicating that almost all respondents vote their UK shares and the vast majority exercise their voting rights worldwide where they have holdings – Table 41.

In particular, most respondents (over 90%) exercise their voting rights in the Rest of Western Europe, and USA & Canada. This is lower at just above 75% for other regions although more respondents do not have holdings in these regions. If the results are recalibrated to cover only those markets where respondents have holdings, then between 93% and 98% exercise voting rights in all regions outside the UK.

TABLE 41: MARKETS WHERE SHARES VOTED

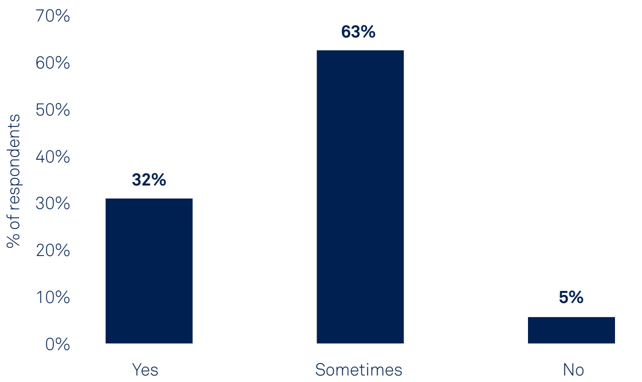
	% of respondents		
	Yes	No	N/A - no holdings
UK	99%	1%	0%
Rest of Western Europe	95%	3%	2%
Central & Eastern Europe	76%	2%	22%
USA & Canada	92%	3%	5%
Asia Pacific	81%	1%	18%
Japan	77%	5%	18%
Emerging Markets	77%	3%	20%

(Sample base: 73 respondents)

ADVISING THE COMPANY OF VOTING INTENTION

The Stewardship Code states that it is good practice for investors to inform the company when they intend to vote against or abstain on a resolution. Only 5% of respondents do not inform company management of the reason why they abstain or vote against, compared to almost one third that always do so. The majority inform the company sometimes – see Chart 12.

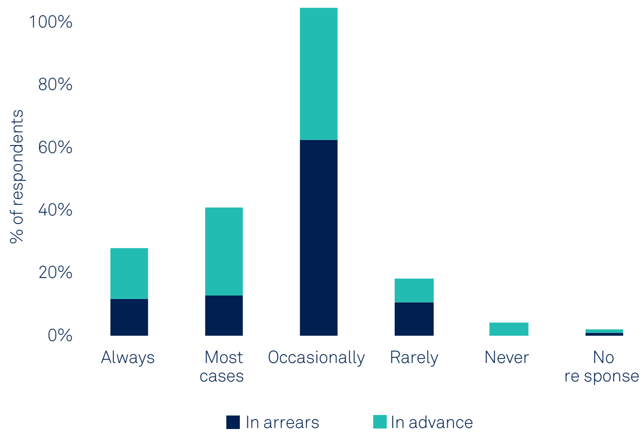
CHART 12: INFORM MANAGEMENT OF THE REASON WHEN ABSTAINING OR VOTING AGAINST A MANAGEMENT RESOLUTION AT A UK COMPANY MEETING



(Sample base: 73 respondents)

Of those that notify companies almost half (44%) do so always or in most cases in advance, while 25% do so in arrears. However, the most common approach is to inform companies occasionally in arrears – see Chart 13.

CHART 13: COMPANIES NOTIFIED IN ADVANCE OR IN ARREARS[19]



(Sample base: 73 respondents)

The main reason as to why respondents do not inform companies is insufficient resource. Whether companies are informed tends to depend on the importance of the issue, the size of the holding and the likely impact that the decision is going to have.

- *"Given the number of companies we own in our portfolios (including index funds), we seek to prioritise engagement where it is most likely to benefit our clients. Our general practice is to seek to have pre-vote discussions with companies where we hold more than 1% of their stock (or where we have a sufficiently significant active position in at least one of our portfolios) and where we have concerns that may indicate that we will not support one or more resolutions. In addition, every year we write to the large majority of the companies we hold to notify them of our voting policy (highlighting any changes we have made), and also direct them to our voting records, where they are able to see how we have voted at their AGMs etc and our reasons for not supporting any resolutions."*

- *"We will typically inform companies in circumstances where we are material shareholders and the issue in question is a substantial/controversial one."*

[19] The percentages add up to 100% for the 'in arrears' and 'in advance' separately.

5

- *"It depends on whether the voting outcome forms part of an existing engagement (output) or the vote has itself triggered an engagement. The size of the holding (in terms of issued share capital) is also a factor in whether we inform companies of voting decisions."*
- *"We actively vote on every issue. Whether we escalate this to management will depend upon our perception of the magnitude of the issue in question."*
- *"Based on our focus list for shareholder meetings, we focus on informing companies for those shareholder meetings where we expect to have the highest impact."*
- *"We operate a tiering system which categorises all of our investee companies depending on the value and size of our holding. Tier 1 and Tier 2 companies comprise c.99% by value of our equity investments and these companies will always be individually informed of an abstention or a vote against management and given the reason. Tier 3 companies are not currently informed in this manner."*
- *"We would inform management in cases where we believe the resolution is not in the best interests of shareholders and is substantive e.g. low threshold performance remuneration package . We will also speak to management to inform that we will vote in favour as long as e.g. they introduce more Non Executive Directors (NED) to the Board over the next 12 months."*

One respondent clarified that it informs companies for actively held UK equities but for not those held in passive funds. Other approaches involve relying on public disclosure of voting records to signal to companies whether they have voted against or abstained.

Notably, some respondents highlighted the importance of viewing voting in the context of the broader engagement with a company. For example:

- *"...before the voting stage is reached we do everything possible through multiple channels to persuade the company not to put forward resolutions that would potentially [be] voted down, believing it is far better for all parties for differences to be resolved before a confrontation develops and reputational damage is incurred by the company, to the detriment of all stakeholders."*
- *"Where we have a significant/meaningful holding in a company and have engaged with management, then any vote against a management resolution will have been discussed in our engagement with that company."*
- *"We discuss our views on broad policy and thematic ESG concerns with companies during engagement that may be held in conjunction with a vote. However, in line with our conflicts mitigation guidelines, we do not disclose or confirm our voting decision prior to a shareholder meeting. If we engage with a company after the meeting, we explain our vote rationale to companies if it is of concern to [asset manager] or the company."*

This reinforces the fact that engagement and voting are not separate activities but part of the same process whereby voting against or abstaining is the outcome of issues that remain unresolved following engagement rather than an indication that the investor is more 'actively engaged'.

6 OUTSOURCED VOTING

THIS SECTION LOOKS AT THE 55 RESPONDENTS – 45 ASSET OWNERS AND 10 ASSET MANAGERS – THAT OUTSOURCE VOTING TO EXTERNAL PARTIES. THUS SIMILAR TO SECTION 4 THE RESULTS LARGELY REFLECT ASSET OWNER ACTIVITY. THE SECTION LOOKS AT THE MARKETS WHERE SHARES ARE VOTED AND THE RESPONDENTS' OVERSIGHT OF EXTERNAL PARTIES.

As for Section 5, this Section is not relevant for service providers.

MARKETS IN WHICH SHARES ARE VOTED

The proportion of respondents that expect their shares to be voted is lower than for those that vote in-house. 73% of respondents expect their UK shares to be voted followed by the rest of Europe and the USA and Canada at around 65%. 53% of respondents with shares in Japan and 60% in emerging markets expect these voting rights to be exercised although as for voting in-house more do not have holdings in these regions – see Table 42.

TABLE 42: MARKETS WHERE SHARES VOTED

	% of respondents			
	Yes	No	N/A - no holdings	No response
UK	73%	5%	5%	16%
Rest of Europe	65%	9%	7%	18%
USA & Canada	64%	11%	5%	20%
Japan	53%	15%	13%	20%
Emerging Markets	60%	15%	9%	16%

(Sample base: 55 respondents)

MONITORING OF ASSET MANAGERS AND EXTERNAL PARTIES

Review meetings and reports from external consultants are the most common means of monitoring outsourced voting providers. For 11% of respondents voting is not monitored. A number of respondents reviewed reports from the service provider (as opposed to a face-to-face meeting) as a common means of assessing the quality of voting service.

TABLE 43: MONITORING EXTERNAL PARTIES

	% of respondents
Review meetings	44%
Report from investment consultants or other 3rd parties	40%
Formal verification (e.g. AAF01/06)	7%
Other (please specify)	22%
Not monitored	11%
No response	11%

(Sample base: 55 respondents)

73%

OF RESPONDENTS EXPECT THEIR UK SHARES TO BE VOTED FOLLOWED BY THE REST OF EUROPE AND THE USA AND CANADA AT AROUND 65%

7 REPORTING

THIS SECTION LOOKS AT THE REPORTING OF STEWARDSHIP AND TREATS ASSET MANAGERS SEPARATELY FROM ASSET OWNERS IN THAT ASSET MANAGERS' REPORTING IS PRIMARILY DIRECTED AT THEIR ASSET OWNER CLIENTS, AND SOMETIMES PUBLICLY, WHILST ASSET OWNERS PRIMARILY REPORT TO BENEFICIARIES. THIS SECTION IS NOT RELEVANT TO SERVICE PROVIDERS.

ASSET MANAGERS – REPORTING TO CLIENTS

Regardless of whether engagement and voting are outsourced or in-house, asset managers report to clients, and often, publicly on stewardship. Regular client reporting is best practice and Stewardship Code signatories are encouraged to maintain a clear record of their stewardship activities.

Reporting to clients can take different forms and is predominantly prescribed in the mandate, i.e. there is a bespoke agreement between the client and the asset manager on the frequency and content of reporting which will vary from client to client. For example, some may require quarterly reporting and others annually.

On voting, some clients may ask for a detailed record that, say, includes the rationale for voting decisions while others may request a summary report. Similarly, when reporting on engagement, this may be in the form of summary on the number of companies the asset manager has engaged with, or number of contacts, or it may cover specific examples where all details are provided – for example, the company name, the issue, the objective and outcome.

Due to the diverse nature of such reporting, summary statistics on this may not be insightful. However, asset managers have indicated that most commonly client reporting is quarterly, and in some cases annually, and tends to cover both voting and engagement rather than separate reports on each.

ASSET MANAGERS – PUBLIC REPORTING

In terms of public reporting, the IA developed a Stewardship Reporting Framework in the context of its Productivity Action Plan which covers both engagement and voting. Moreover, the Stewardship Code has a separate Principle on voting activities. Specifically, the Code considers it best practice for signatories to disclose publicly their voting records or disclose the rationale why not.

72% of the 77 asset manager respondents disclose votes publicly either as detailed records (which is most often the case) or as a summary – see Table 44. This is a notable increase from previous reports[19], where about two thirds publicly disclosed voting records. This also reflects asset managers responding to increasing pressure from stakeholders to be more transparent on how they exercise their voting rights.

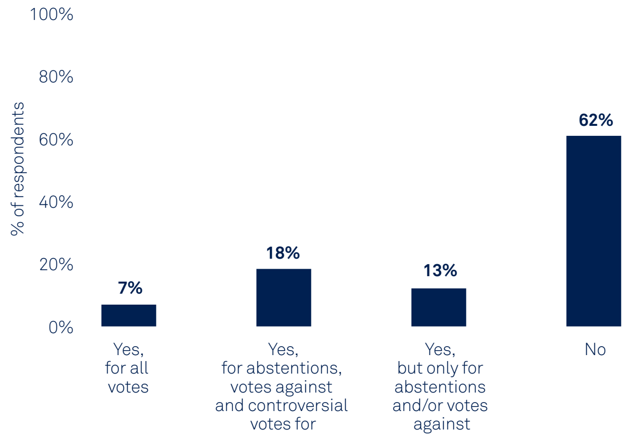
TABLE 44: VOTING RECORDS PUBLIC

	% of respondents
All voting records	55%
A summary	17%
No	26%
No response	2%

(Sample base: 77 respondents)

Although almost three quarters disclose their voting records, many of these (62%) do not include the rationale for their voting decision. Only a minority (7%) include the rationale for all votes, while 31% disclose the rationale for a combination of votes abstained, against, and votes in favour but controversial – see Chart 14.

CHART 14: RATIONALE FOR VOTING DECISIONS PUBLIC



(Sample base: 55 respondents)

Of those that do not include the rationale, the majority (70%) do not explain why they do not provide a rationale– see Table 45.

TABLE 45: DISCLOSE THE REASON WHY RATIONALE NOT PUBLIC

	% of respondents
Yes	21%
No	70%
No response	9%

(Sample base: 34 respondents)

Public disclosure of engagement is less widespread than voting, with half of respondents making reports of their engagement public – see Table 46.

TABLE 46: ENGAGEMENT DISCLOSED PUBLICLY

	% of respondents
Yes	49%
No	49%
No response	2%

(Sample base: 77 respondents)

[19] The Investment Association, Adherence to the FRC's Stewardship Code at 30 September 2014 – Table 27, p35.

In this context, asset managers may wish to keep details of their engagement with companies private. This is not only due to the sensitivities involved around the issues and companies but also not to harm the relationship with the investee company. Indeed, this is recognised in the Stewardship Code where it is stated that investors *"should not … be expected to make disclosures that might be counterproductive"* and that *"confidentiality in specific situations may well be crucial to achieving a positive outcome"*. As such, many asset managers report engagement to their clients but not publicly. For example, a respondent specified: *"A list of the companies we have engaged with during a quarter is disclosed publicly. We do not disclose objectives and outcomes in a public report. We do disclose engagement objectives and outcomes to clients."*

The public engagement reports commonly involve details on asset managers' engagement with a small sample of companies. This tends to include the name of the company, the issue engaged on and the asset manager's view of the outcome. In some cases, it is a brief outline of a sample of companies engaged with alongside a separate summary of the main issues. Some asset managers provide a list of companies they engaged with, without any further details while others may not name any companies but focus on the number of contacts they had and what general issues they engaged on.

For example, respondents commented:

- *"Information on engagement typically includes: company name, time and place of engagement, key staff involved in engagement, issues and objectives discussed, outcomes and outlooks (engagement closed, engagement to be continued)."*
- *"Our responsible investment annual review [hyperlink] contains examples of our company engagements, including objectives and outcomes. We also provide examples of ESG integration across other asset classes."*
- *"Case studies of engagement are posted on our website. The company is named and there is a description of the issue and its resolution or action point going forward."*
- *"…we produce a quarterly ESG report that is available publically. This lists all companies that [we] have engaged with and what topics were discussed. Additionally, we provide a number of case studies highlighting specific engagements, voting actions, objectives, outcomes and action points."*
- *"Some companies are named, depending on the stage of the engagement. Generally, the issue that was engaged on and the outcome/progress will be disclosed."*
- *"We normally don't disclose engagement activities publicly, we would only do so should the engagement become public, then we will report to our clients and prepare a report for our online Corporate Governance section explaining what is happening and why and what are the outcomes."*
- *"[We disclose] general information as to companies and issues discussed and outcomes. Sensitive or ongoing engagement is not disclosed."*

Engagement reports tend to be published annually (34% of respondents) and to a lesser extent quarterly (21% of respondents). By comparison, voting records are predominantly published quarterly (63% of respondents) with 25% publishing annually– see Table 47. Still, asset managers may choose to report different ways e.g. both quarterly but for the purposes of this analysis the lowest frequency is considered.

TABLE 47: FREQUENCY REPORTS ON ENGAGEMENT AND VOTING ARE MADE PUBLIC

	Engagement	Voting
Annually	34%	25%
Semi-annually	13%	7%
Quarterly	21%	63%
Monthly	5%	5%
No response	27%	0%

(Sample base: 38 respondents for 'engagement'; 55 respondents for 'voting')

ASSET OWNERS – REPORTING TO BENEFICIARIES

35% of the 51 asset owner respondents report to their underlying beneficiaries annually, with a further 12% doing so either quarterly or twice a year (however, 23% of respondents did not answer this question). 22% of respondents do not report to beneficiaries at all.

TABLE 48: FREQUENCY OF REPORTS TO CLIENTS/ BENEFICIARIES ON STEWARDSHIP

	% of respondents
Annually	35%
Twice a year	2%
Quarterly	10%
Other	8%
Do not report	22%
No response	23%

(Sample base: 51 respondents)

ASSET OWNERS – PUBLIC REPORTING

36% of the 51 asset owner respondents make their voting records public (however, against 23% of respondents did not answer this question). Of those that do so, half provide information on each vote, while half provide a summary of voting activity.

TABLE 49: VOTING RECORDS PUBLIC

	% of respondents
All voting records	18%
A summary	18%
No	41%
No response	23%

(Sample base: 51 respondents)

Of those that disclose, a third do not disclose their rationale for their voting decisions, while the remainder provide some explanation, at least for companies where they have voted against the board's recommendation.

TABLE 50: RATIONALE FOR VOTING DECISIONS PUBLIC

	% of respondents
All votes	17%
Abstentions, votes against and controversial votes for	17%
Only for abstentions and/or votes against	28%
No	33%
No response	6%

(Sample base: 18 respondents)

Perhaps because engagement is more qualitative and subject to lower levels of public scrutiny (votes at company AGMs are disclosed by the company and often reported in the media, for example) far fewer respondents disclose engagement activities (20%).

TABLE 51: ENGAGEMENT ACTIVITIES PUBLIC

	% of respondents
Yes	20%
No	57%
No response	23%

(Sample base: 51 respondents)

ANNEX 1: STEERING GROUP MEMBERS

David Styles	The Financial Reporting Council
Hannah Armitage	The Financial Reporting Council
Mike Everett	Standard Life Investments
Luke Hildyard	The Pensions and Lifetime Savings Association
Paul Lee	Aberdeen Asset Management
Liz Murrall	The Investment Association
Anastasia Petraki	The Investment Association
Graham Staples	Schroders Plc
Daniel Summerfield	USS
Peter Swabey	The Institute of Chartered Secretaries and Administrators
Susan Swabey	Smith and Nephew Plc

ANNEX 2:
RESPONDENTS

ASSET MANAGERS[20]

- 7IM
- AB
- Aberdeen Asset Management
- Allianz Global Investors
- Amati Global Investors
- Architas Multi-Manager Limited
- Artemis Investment Management LLP
- Aviva Investors Global Services Limited
- AXA Investment Managers
- BAE Systems Pension Funds Investment Management Limited
- Baillie Gifford
- BlackRock
- BNP Paribas Asset Management
- BP Investment Management Ltd
- Brewin Dolphin
- Candriam Investors Group
- Capital International
- Cavendish Asset Management Ltd
- Central Finance Board of the Methodist Church
- Cevian Capital
- Columbia Threadneedle Investments, EMEA
- Daiwa SB Investments (UK) Ltd.
- EdenTree IM
- Evenlode
- Fidelity International
- First State Investments
- Generation Investment Management
- Genesis Investment Management, LLP
- GVQ Investment Management Limited
- Harding Loevner
- Henderson Global Investors
- Hermes
- HSBC Global Asset Management (UK) Ltd
- Impax Asset Management
- Invesco Perpetual
- Investec Asset Management
- JPMorgan Asset Management
- Jupiter Asset Management
- Kames Capital
- KBI Global Investors
- Kempen Capital Management
- Lazard Asset Management Limited
- Legal & General Investment Management
- Liontrust
- Lofoten Asset Management Ltd
- Longview Partners
- Loomis, Sayles & Company, LP
- M&G Investments
- Majedie Asset Management
- Manulife Asset Management (Europe)
- Marathon Asset Management LLP
- Marshall Wace LLP
- Martin Currie Investment Management
- Miton Group plc

[20] One Asset Manager respondent has requested to be anonymous.

- Montanaro Asset Management Limited
- Newton Investment Management
- Premier Portfolio Managers Limited
- Pyrford International Ltd
- RBC Global Asset Management
- RLAM
- Robeco
- Ruffer
- Sarasin & Partners
- Schroders
- Slater Investments
- Standard Life Investments
- State Street Global Advisor
- SVM Asset Management
- T. Rowe Price International Ltd
- Taube Hodson Stonex LLP
- Thomas Miller Investment
- Toscafund Asset Management LLP
- TT International
- UBS Asset Management (UK) Ltd
- Veritas Asset Management LLP (VAM LLP)
- WHEB Asset Management

ASSET OWNERS

- 3i Group Pension Plan
- AbbVie Ltd
- Allied Domecq Pension Fund
- Bedfordshire Pension Fund
- British Airways Pensions
- BT Pension Scheme
- C Brewer & Sons Ltd Retirement Benefits Scheme
- Canal & River Trust
- Church of England Pensions Board
- DHL Trustees Limited
- Första AP-fonden (AP1)
- IBM UK Pensions Trust Limited
- ICI Pension Fund
- Invensys Pension Scheme
- Islington Council Pension Fund
- Jaguar Land Rover Pension Trustees Lts
- John Lewis Partnership Trust for Pensions
- KAS BANK N.V.
- Kelda Group Pension Plan
- Kent County Council Superannuation Fund
- Lancashire County Pension Fund
- London Business School
- London Pensions Fund Authority
- Merchant Navy Ratings Pension Fund
- Merseyside Pension Fund
- National Employment Savings Trust
- Northamptonshire County Council Pension Fund
- Orkney Islands Council

RBS Group Pension Fund
Renishaw plc
Rio Tinto
Royal County of Berkshire Pension Fund
Royal Mail Pension Plan
SAUL
Somerset County Council Pension Fund
Stagecoach Group Pension Scheme
Strathclyde Pension Fund
TfL Pension Fund
The Hodge Companies New Pension Scheme
The NAAFI Pension Fund
TPT Retirement Solutions
Trafalgar House Pension Trust
Trinity Mirror plc
University of Leeds
URENCO UK Ltd
USS Investment Management
Visteon Engineering Service Pension Plan
West Midlands Pension Fund
West Yorkshire Pension Fund
Whitbread Group Pension Fund
Wiltshire County Council Pension Fund

SERVICE PROVIDERS

Glass Lewis
Institutional Voting Information Service (IVIS)
Manifest
Mercer Limited
Willis Towers Watson

ANNEX 3:
ASSET OWNER PRIORITISATION AND DISCUSSION OF STEWARDSHIP ISSUES

91% of asset owner respondents agree that ESG factors can be material to investment returns, which is slightly lower than the 93% of respondents who agreed in 2015. However the number that strongly agreed increased from 37% to 44%. Again, this suggests an established core of asset owners who are committed to engaging with ESG issues and a potentially strong market for ESG investment products and services.

TABLE 52: ACTIVE CONSIDERATION OF ESG HAS A MATERIAL IMPACT ON RISK-ADJUSTED LONG-TERM INVESTMENT RETURNS

	% of respondents
Strongly agree	39%
Agree somewhat	37%
Disagree somewhat	6%
Strongly disagree	2%
No response	16%

(Sample base: 51 respondents)

The overwhelming majority of asset owner respondents do not have specific policies on controversial investments beneath their ESG policy in their Statement of Investment Principles. However, a small number have a policy in respect of each type of stock and at least one respondent screen each type of stock out of their portfolio altogether. This marks a small change from 2015 when cluster munitions were the only controversial investment screened by respondents from their portfolio. In the case of each category, over 90% of respondents do not have a policy.

TABLE 53: ISSUES WHERE THE ASSET OWNER HAS A SPECIFIC POLICY

Cluster munitions	
Yes we screen out of portfolio	6%
Yes	10%
No	69%
No response	16%
Tobacco	
Yes we screen out of portfolio	4%
Yes	6%
No	71%
No response	20%
Coal	
Yes we screen out of portfolio	2%
Yes	6%
No	75%
No response	18%
Other fossil fuels	
Yes we screen out of portfolio	2%
Yes	8%
No	71%
No response	20%
Human rights	
Yes we screen out of portfolio	2%
Yes	12%
No	67%
No response	20%

(Sample base: 51 respondents)

Asset owner respondents address stewardship issues in a various ways. The 37% of respondents that regularly discuss stewardship matters at trustee meetings are clearly particularly engaged, however those that discuss stewardship on an annual basis may also have a robust stewardship policy and provisions in agreements with external managers to ensure that they actively engage with the asset owner's investment, and thus no need to discuss the issue at every meeting. These figures were broadly similar to responses in 2015.

TABLE 54: FREQUENCY ASSET OWNERS DISCUSS RESPONSIBLE INVESTMENT, STEWARDSHIP ETC. IN THE PAST 12 MONTHS

	% of respondents
On an annual basis	25%
Never formally	8%
Regularly at trustee meetings	31%
Responsibility of a sub-committee	14%
Other	6%
No response	16%

(Sample base: 51 respondents)

About 20% of asset owner respondents did not have discussions about stewardship with their investment consultants, while a similar number said that they raised the issue with their consultants. This is slightly concerning – if investment consultants are not highlighting the importance of stewardship to asset owners who are less engaged than our survey respondents, they may fail to capture the benefits of active stewardship.

TABLE 55: INVESTMENT CONSULTANTS RAISE STEWARDSHIP ISSUES IN DISCUSSIONS

	% of respondents
Yes	31%
We do not have investment consultants	16%
No	20%
We raised it with them	18%
No response	16%

(Sample base: 51 respondents)

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