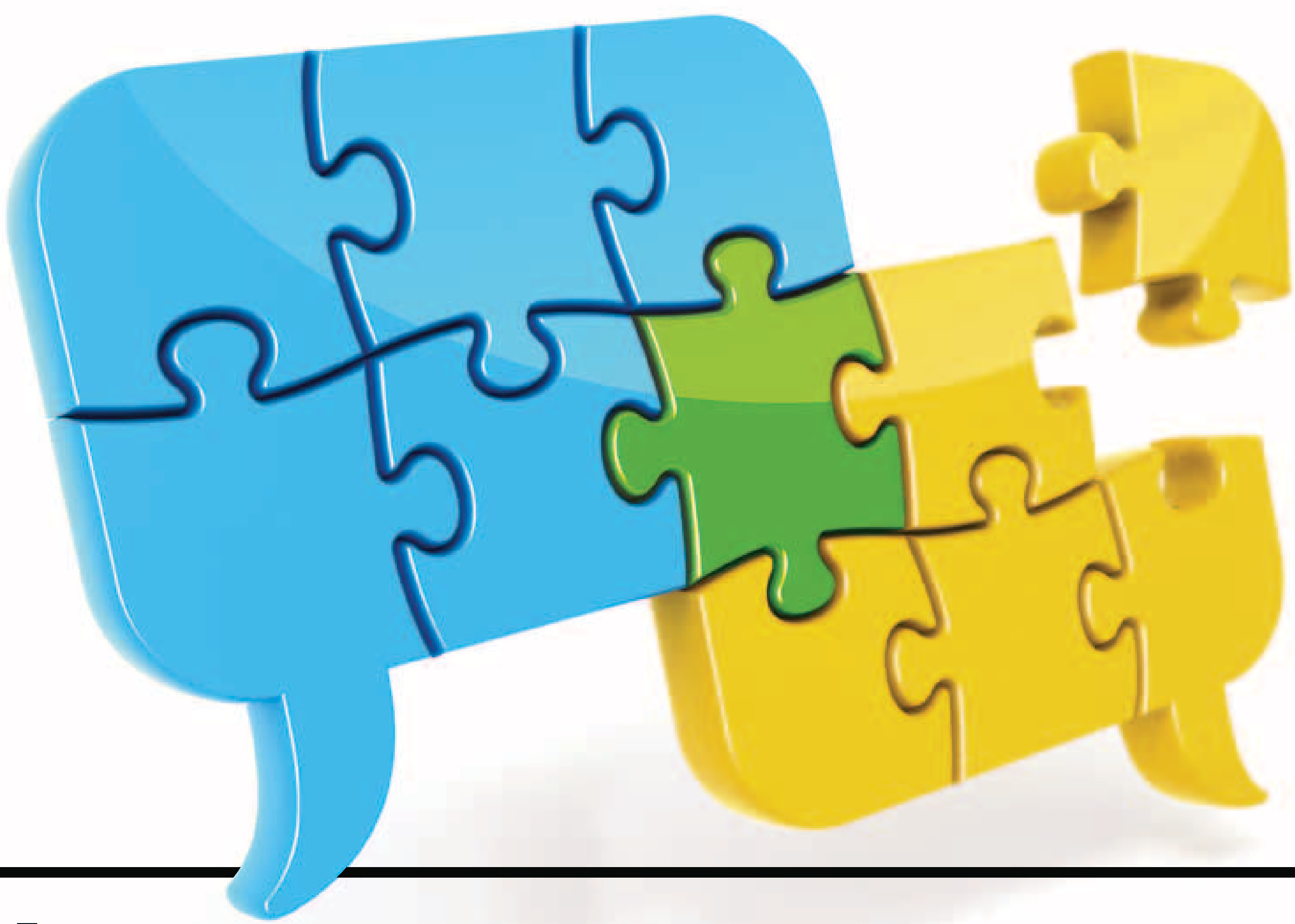
# Enhancing stewardship dialogue

## Guidance prepared by the Institute of Chartered Secretaries and Administrators

Commissioned by the 2020 Investor Stewardship Working Party



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*“A key principle of the guidance is that that there should be a regular and consistent process of engagement, over time, between a company and its key investors, in order to establish, develop and maintain relationships.”*

**More information**

For more information, visit **www.icsaglobal.com/stewardship**

# Contents

# Foreword

The relationship between companies and their investors lies at the heart of our capitalist system. When it is working well, common cause is taken on the journey through the risks and opportunities offered to the company by our erratic world economy, thus offering some stability in planning the company's strategy. There is good evidence that such stewardship is rewarding for the investor, and the company also benefits. The relationship can, however, be trivial, with the company's shares being traded solely on their spot value. At its worst, good companies, through ignorance, can have much-needed support withdrawn at difficult or even potentially rewarding times. Investors, for whatever reason, can fail to use the governance tools they have been given when companies behave badly. In the UK, these tools are considerable. Companies, for their part, also have a role to play in improving the quality of the interaction with their owners, and being responsive to investors' concerns.

We can do better, but as this guidance points out, the current system can work well when companies and/or investors try hard to make it work.

The most important point – as stressed in the guidance – is for both parties to have the right attitude in committing to continual improvement of a relationship based upon truth and trust, with an open two-way exchange. To strengthen the quality of the dialogue, at a time remote from the results announcements, we have suggested that there is a conversation on the things that really matter in creating and destroying value, that is on strategy, risk and long-term comparative performance.

I wish to thank the 2020 Investor Stewardship Working Party for their initial vision in identifying what is needed to strengthen the stewardship dialogue, the Institute of Chartered Secretaries and Administrators for accepting the commission to produce this guidance, and those who contributed to the development of the thinking by participating in the consultation exercise. Most of all I would like to thank the members of the Steering Group who have contributed so generously with their time, intellect and passion to identifying ways in which we can make this particular aspect of capitalism work better.

Sir John Egan
Chair, Steering Group

# Executive summary

## Introduction

1. This guidance, developed jointly by companies and institutional investors, is intended to facilitate good engagement practices. This is important in supporting long-term investment, based on increased levels of trust between a company and its owners.

2. The guidance has been designed to provide practical advice on:

   - making meetings between companies and institutional investors more productive – helping make the best use of all participants' time, and creating the optimum conditions for dialogue
   - creating a more meaningful dialogue between companies and institutional investors – outside of the traditional results season – on strategy and long-term performance
   - improving the feedback process – in both directions – between companies and institutional investors on the quality of meetings
   - using the learning developed as a result to improve engagement practices

3. The guidance emphasises four key messages:

   **A** **the need to develop an engagement strategy**

   **B** **the importance of getting housekeeping issues right**

   **C** **strengthening the conversation on strategy and long-term performance**

   **D** **providing feedback in a way that adds value for all participants**

4. A key principle of the guidance is that that there should be a regular and consistent process of engagement, over time, between a company and its key investors, in order to establish, develop and maintain relationships. For these reasons, both companies and institutional investors need to have a clear understanding of each other's expectations in terms of the nature and frequency of engagement; avoid an automatic presumption that there is 'no need' to pursue engagement; and should review this understanding periodically to ensure its continuing relevance.

5. The guidance suggests there may be benefits for a company in developing a critical mass of shareholders who can provide constructive engagement, and outlines some considerations for the use of collective meetings.

6. The one particular area of engagement which the guidance recommends strengthening concerns the conversation on strategy and long-term sustainable performance. Once a year, a company and its owners should focus on the company's approach to creating value, and protecting that value, looking at issues such as strategy, performance, succession, board effectiveness, culture, risk and reputation. Individual issues, such as remuneration, should be placed in that context, rather than dominating the wider strategy discussion.

7. Feedback – in both directions – between companies and institutional investors, is an important means of assessing the degree to which each other's expectations have been met in terms of the quality and quantity of engagement activity. Honest, nuanced, constructive and, as necessary, challenging feedback is best for all parties.

# Background

### Introduction

1. This guidance, developed jointly by companies and institutional investors, is intended to facilitate good engagement practices. This is important in supporting long-term investment, based on increased levels of trust between a company and its owners.

### The work of the 2020 Investor Stewardship Working Party

2. In 2011, a group of six institutional investors came together to clarify what was meant by better 'investor stewardship' and to find ways to help investors and companies put this into practice in order to further the aims of the UK Stewardship Code.[1] The Working Party, consisting of Aviva Investors, BlackRock, Governance for Owners, RPMI Railpen Investments, Ram Trust (now Spinnaker Trust), and USS (now USS Investment Management), and supported by Tomorrow's Company, published its report – *2020 Stewardship – improving the quality of investor stewardship* – in March 2012.[2]

3. This guidance deals with the report's first two recommendations (paragraph 6 below). The report's two remaining recommendations (encouraging institutional investor signatories of the Stewardship Code to be more transparent about the degree to which they intend to exercise stewardship; and helping companies work to achieve a critical mass of stewardship investors on their share register) are being addressed elsewhere by the 2020 Investor Stewardship Working Party.

4. It was acknowledged in the 2020 Stewardship Report that 'in reality, not all shareholders can or indeed should have the same interest in dialogue and engagement with the company. But looking at it from the point of view of the company, a board needs a critical mass of stewardship investors with whom it can form longer-term relationships and consult over difficult issues.' This guidance is prepared with that caveat in mind.

### Regulatory and other developments

5. In July 2012, the Kay Review of UK Equity Markets and Long-Term Decision Making[3] was published. The Government's response to the Kay Review[4] was published in November 2012. The UK's Financial Reporting Council published a revised Stewardship Code, which took effect on 1 October 2012. These documents reinforced the importance of improving levels of trust between companies and their owners, of which stewardship is an important part.

### The creation of the Steering Group

6. In the context of these policy developments, the 2020 Investor Stewardship Working Party asked the Institute of Chartered Secretaries and Administrators to establish a steering group to take forward the first two recommendations in its report, namely:

   a. to create a simple guide to good engagement practice, jointly developed by companies and institutional investors, with the particular aim of encouraging more productive meetings; and
   b. to help companies and institutional investors find more ways to seek feedback on the quality of their meetings and, over time, use this feedback to identify good stewardship and make improvements to practices.

7. The Steering Group was established in July 2012 under the leadership of Sir John Egan, with a membership representing a range of industry experts. It issued a consultation document[5] in October 2012. This guidance has been prepared following analysis of the views collected through the wide range of written consultation responses, and a series of public meetings held to discuss the issues raised by the consultation.[6]

8. A number of policy issues which arose during the consultation, and which are outside the scope of this guidance, were remitted by the Steering Group to the Government, and the FRC, for their further consideration.[7]

1 UK Stewardship Code, Financial Reporting Council – http://bit.ly/Xedwey
2 2020 Stewardship – Improving the quality of investor stewardship – http://bit.ly/WEHPih
3 Kay Review of UK equity markets and long-term decision making – http://bit.ly/Wl91mN
4 Ensuring equity markets support long-term growth BIS – http://bit.ly/Vusb5F
5 Good practice guide on stewardship engagement – http://bit.ly/Y0ci7x
6 Consultation responses – http://bit.ly/XFiq8w
7 Outstanding policy issues summary – http://bit.ly/VQniY5

# Guidance

## The engagement deficit

9. The consultation confirmed the generally-held view that the system of engagement between companies and their institutional investors is broadly satisfactory.

10. The consultation also confirmed, however, that there are obstacles which stand in the way of improving the quantity and quality of engagement, and that there was room for improving the engagement process.

11. Engagement appetite among institutional investors, for example, varies according to their investment style, and the level of resource they are prepared to commit to the process. Different investors have different expectations as to what shape the engagement with the companies in which they invest should take. Sometimes the activities of corporate governance and fund management within an investment house are not aligned, or an investor's voting behaviour does not match what has apparently been discussed in an engagement meeting.

12. For their part, companies' share registers are increasingly diversified, and it can be difficult for them to identify which shareholders should be prioritised for the purposes of engagement. This problem is exacerbated, particularly in smaller companies, by a lack of resources devoted to investor relations activity, making it difficult to cover a sizeable spread of the shareholder register.

13. Engagement during the AGM season is not always effective. Discussions and decisions on key issues can be left until the last minute. Topics such as remuneration become flashpoints, and distract from the more important discussion on strategy and long-term performance. Companies can sometimes find it difficult to engage with shareholders directly, as some investors opt instead to follow the recommendations of proxy voting, or other voting advisory, services in making voting decisions.

14. For both parties there can be a misunderstanding of 'how things work' on the other 'side', or an assumption that they do not need to communicate if things are going well. Wider policy issues – beyond the scope of the guidance – also stand in the way of efforts to improve engagement performance. Overall, this results in an engagement deficit.

## The benefits of a properly structured engagement programme

15. The guidance recognises that shortcomings in the engagement process can frustrate the aims of the Stewardship Code. The guidance has therefore been designed to help reduce the engagement deficit by providing practical advice on:

- making meetings between companies and institutional investors more productive – helping make the best use of all participants' time, and creating the optimum conditions for dialogue;
- creating a more meaningful dialogue between companies and institutional investors – outside of the traditional results season – on strategy and long-term performance;
- improving the feedback process – in both directions – between companies and institutional investors on the quality of meetings;
- using the resulting learning developed to improve engagement practices.

16. The guidance is backed up by academic and empirical research which provides evidence that strong engagement creates benefits for investors and companies.[8]

17. The guidance emphasises four key messages:

**A** **develop an engagement strategy** **(page 8)**

**B** **get the housekeeping right** **(page 10)**

**C** **strengthen the conversation on strategy and long-term performance** **(page 12)**

**D** **provide feedback** **(page 13)**

18. The guidance is intended to be flexible and non-prescriptive. Building on established good practice, it is designed to act as a 'health check' for companies and investors.

19. The guidance should also prove useful to an understanding of the UK attitude and approach to engagement – particularly for companies listing in the UK for the first time, and for institutional investors from outside the UK, such as sovereign wealth funds, becoming more involved with UK investee companies.

8 A non-exhaustive list of research studies includes Investor Activism Around the World, Dr Jeremy Grant University of Cambridge and Really Investing for the Long-Term: A Case Study, Alex van der Velden and Otto van Buul, Rotman, International Journal of Pension Management – http://bit.ly/15TEvnq

# Recommendations for achieving better engagement

## A Develop an engagement strategy

### Schedule an engagement programme for the year

- Companies should develop an investor engagement strategy to be followed each year, which is likely to involve a combination of one-to-one engagement with a number of larger institutional investors, and group meetings which are also likely to be attended by a wider range of smaller institutional investors
- Companies should ensure their investor engagement strategy meets the expectations of each of their key institutional investors
- Although the arrangements for engagement across the year in the context of the formal results reporting process are usually well-developed, both parties should consider whether improvements can be made, and what additional levels of engagement may be necessary outside the results cycle – for instance in relation to issues arising ahead of the company's AGM, or key strategic developments
- Both the company, and its institutional investors, will need to make a cost/benefit judgement on what amount, and type, of engagement activity will help them achieve their engagement objectives to the level required by their business model
- The engagement strategy should be subject to annual review so that all parties can be satisfied that their engagement objectives are being met
- The board should be involved in the annual review of the company's engagement strategy and approve it, given the requirements of the UK Corporate Governance Code[9] that the board assume responsibility for ensuring that a satisfactory dialogue with shareholders takes place
- Companies should be encouraged to refer to this annual review in the Corporate Governance section of their Annual Report & Accounts
- For their part, institutional investors should bear in mind that UK-authorised Asset Managers are required under the FSA's Conduct of Business Rules to produce, on their website or, if they do not have a website, in another accessible form, a statement of commitment to the Stewardship Code, or explain why it is not appropriate to their business model.[10] (It is understood that not all institutional investors' business models require resources to be applied to good stewardship.)

**Appendix 1** sets out a suggested framework for an engagement strategy.

### Ensure a regular and consistent process of engagement

- There should be a regular and consistent process of engagement, over time, between the company and key institutional investors, in order to establish, develop and maintain relationships – engagement should not just be driven by specific events or developments
- It is easier to discuss challenging issues with an investor, or a company – particularly if such a discussion needs to be held urgently – if a relationship has already been established
- Wherever possible, the engagement should involve the same individuals at the company and the investment institution, to create consistency and help build relationships
- Better planning, and earlier communication, can play a vital role in resolving issues before, if not well ahead of, the AGM season

*“It is easier to discuss challenging issues … if a relationship has already been established.”*

> *"Better planning, and earlier communication, can play a vital role in resolving issues before … the AGM season."*

### Do not assume there is no need to communicate or engage

- As part of the process of devising an engagement programme, both parties should come to a clear understanding of what level of communication is considered necessary throughout the year, and should only then conclude that there is no immediate need to pursue engagement
- The position should be reviewed annually

### Identify supportive/long-term investors

- Companies should consider building relationships with those investing with long-term objectives (rather than those involved in short-term trading), to enable regular engagement and dialogue with a critical mass of shareholders, as the basis for constructive engagement (both support and challenge)

### Consider collective meetings

- The company and those long-term investors should consider whether they wish to facilitate collective discussion of issues of common interest to all parties
- In addition, groups of investors may wish to discuss issues which are of common interest to them, and which they may wish to pursue collectively with one or several companies
- Collective engagement of this nature may deliver benefits to both companies and institutional investors – for instance, because company strategy is informed by open discussion of a range of views, engagement is made more cost effective, or a consensus can be reached on particular issues
- Collective discussion may also generate a wider and deeper range of analysis than would be possible in a one-to-one meeting, although there should be sensitivity to the fact that some issues are better discussed on a one-to-one basis, and that constructive discussion of such issues may be inhibited in a group meeting context
- Such collective approaches are in line with the recommendations of the Kay Review, and government policy, and provide the flexibility to evolve in response to the needs of investors and companies, as issues change through, and between, reporting cycles

### Explain your approach

- Unless a relationship is well established, the parties involved in an engagement interaction should spend time providing introductory background information about their organisations, and how their engagement approach differs from that of similar organisations (investors who are signatories to the Stewardship Code should be able to use their statement on their observance of the Code's principles for this purpose)

### Make best use of the AGM

- The AGM is an important governance mechanism by which institutional and retail shareholders can hold a company to account
- Companies and investors should seek early engagement on, and resolution of, potentially controversial matters to improve the success of the AGM
- For companies, the AGM provides a key communications opportunity,[11] and they should consider whether, by 'trying harder, and trying differently', more could be done to reap the potential benefits. For example, alongside the straight results content, they might consider presenting on wider issues such as their strategy, appetite for risk, values, corporate responsibility and their overall approach to governance

9 UK Corporate Governance Code, Financial Reporting Council – http://bit.ly/11wsJix
10 COBS 2.2.3, FSA Handbook – http://bit.ly/XFivXA
11 FRC Guidance on Board Effectiveness – http://bit.ly/Xguucn

# B Get the housekeeping right

### Invite the right organisations

- Large shareholders should usually be provided with the opportunity to be present at company presentations, although they may wish to opt out on the basis that they prefer not to attend collective meetings – in which case similar ground should be covered at a one-to-one meeting, if required by the investor
- The company should consider inviting to presentations other investors with a strong track record of engagement, and those investors with which it has developed a relationship
- Smaller investors may be as interested as their larger counterparts in participating in engagement meetings, and may be able to add significant value in discussion
- Companies should consider other asset classes, and give thought to how they can engage with any other (non-equity) providers of capital. They may, for example, and if appropriate, wish to coordinate meetings, and put into place arrangements for including debt investors in meetings with equity investors
- Such owners of non-equity capital need to take stewardship seriously because of the consequences of poor performance, for their debt repayment schedules for example
- Companies should address the need for a combination of one-to-one engagement and group discussions in their investor engagement strategy/programme

### Invite the right people

- Companies and investors should field the appropriate individuals who can speak knowledgeably and directly to the range of issues under discussion
- While attendance at results presentations is subject to well-established conventions, both parties should review the arrangements to ensure they remain fit for purpose
- The company should consider at which meetings the involvement of non-executive directors is appropriate
- Investors should, as appropriate, ensure the presence of both portfolio managers/analysts as well as governance specialists, and ensure their engagement interventions are aligned

**Appendix 2** outlines practical guidance on setting up and structuring meetings.

### Keep clear records

- Companies and investors need to keep clear and accurate records of engagement activities and ensure databases logging such information are kept up-to-date
- In cases where the company and investors have consciously decided not to engage, for a certain period, communications registering such agreements should be kept and reviewed
- All correspondence between parties should be acknowledged, and replies sent as the minimum courtesy

*“Smaller companies may be as interested as their larger counterparts in participating in engagement meetings.”*

> *“The company should consider at which meetings the involvement of non-executive directors is appropriate.”*

**Review governance arrangements**

- Companies should have appropriate governance arrangements in place to ensure that the engagement process satisfies the requirements of the UK Corporate Governance Code covering relations with shareholders
- Companies should be mindful of the need to help investors understand the roles and responsibilities which have been agreed within the organisation – involving the executive and non-executive directors, the company secretary and the IR team
- The IR team in particular, or the person responsible for IR activity, should have as a principal responsibility the need to develop long-term relationships with the company's shareholders
- Investors should be mindful of the need to help a company understand the roles and responsibilities which have been agreed within the organisation – involving the fund management and corporate governance teams
- It is important that there is a clear relationship between the outcomes of engagement discussions, and subsequent investor voting activity at general meetings – investors should explain where follow-through is not consistent ideally ahead of the AGM, to enable companies to engage further as appropriate
- Voting recommendations from proxy voting, or other voting advisory, services should not be adopted without due consideration
- As set out in the Stewardship Code:
  - asset holders/owners should be clear in mandates about their stewardship policy and expectations of asset managers in terms of engagement, stewardship and investment time horizons
  - asset holders/owners should make clear their stewardship policy and mandates to their clients/beneficiaries
  - asset managers should, in a timely way, disclose to their clients (the asset holders/owners) how they are following these policies, and especially how they are attending meetings, voting, etc
  - institutional investors should disclose the use made, if any, of proxy voting, or other voting advisory, services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services
  - investors remain responsible for ensuring such activities are carried out consistently with their own approach to stewardship

# C Strengthen the conversation on strategy and long-term sustainable performance

- The engagement strategy should make provision for the opportunity, once a year, for a company and its investors to meet to discuss the company's strategy and long-term performance, and the governance arrangements in place to sustain that performance
- This collective dialogue should focus on the company's approach to creating value, and protecting that value – individual issues such as remuneration should be placed in that context, and should not dominate the wider strategy discussion
- This meeting may be particularly appropriate for FTSE 350 companies, and might be held some four to nine months after the AGM – scheduled to avoid results reporting pressures, and spread over a reasonable timescale to allow for participation by investor bodies
- This meeting should be clearly separate from the formal schedule of meetings and presentations associated with the results calendar
- The company representatives might include the chairman, the senior independent director and the chairs of board committees. Other non-executive directors should be welcome to attend if they so wish
- Executive directors may attend, though may be asked to leave the meeting towards the end to allow for discussion between the non-executive directors and those investors present
- On the investor side, attendees should be able to represent both the fund management and corporate governance interests of the firm

**Agree the material issues for discussion in relation to the company's strategy and long-term performance**

- The dialogue in relation to the company's strategy and long-term performance should move beyond the agenda items traditionally covered during reporting season meetings
- Appropriate time should be spent discussing the key aspects of the value creation and protection narrative, placing appropriate emphasis on issues such as strategy, performance, succession, board effectiveness, culture, risk and reputation
- Such meetings should allow companies and investors to achieve more balanced discussions on issues – including remuneration – in the wider context of the value creation narrative

**Appendix 3** suggests a non-exhaustive content framework for the discussion on long-term strategy and performance, to be tailored to reflect the circumstances of each company.

> *"The engagement strategy should make provision for … a company and its investors to meet to discuss … strategy and long-term performance."*

# D Provide feedback

- Feedback – in both directions – between companies and institutional investors, is an important means of assessing the degree to which each other's expectations have been met in terms of the quality and quantity of engagement activity
- Feedback should allow the respective parties to determine what more can be done to secure improvements in the process
- Feedback should be related both to the content of meetings, and the engagement process
- Both parties should agree an appropriate feedback process as part of the engagement strategy – it may be of an oral or written nature, formal or informal
- A template structure for use by companies for feedback purposes can be obtained from the Investor Relations Society[12]
- It may be useful to have feedback questions to ask participants, for example
  - Have you met the right people?
  - Have we covered all the topics you expected us to cover?
  - Have there been any aspects of our discussion that have surprised or concerned you?
  - Overall, have you learned anything from the meeting that will influence your view of our company as an investment/investor?
- Companies may consider that it is more effective to receive feedback directly
- It may sometimes be valuable for feedback to be communicated through intermediaries
- Honest, nuanced, constructive and, as necessary, challenging feedback is best for all parties
- Feedback from one party on the quality and quantity of the engagement content, and process, should be accepted professionally and should not limit access to further meetings

12 www.irs.org.uk

> *"Honest, nuanced, constructive and, as necessary, challenging feedback is best for all parties."*

# Appendix 1
# Illustrative engagement strategy

| Frequency/topics | Purpose/agenda* | Who attends? | Outcomes |
|---|---|---|---|
| Interim and full year performance presentations, hosted by the company. | Report and illustrate performance and provide guidance about prospects for the next period(s) in the context of strategy. | Buy side and sell side equity analysts.<br><br>Credit analysts and relationship managers from debt providers. CEO, CFO, IR team.<br><br>Boards/NEDs to attend presentations selectively – not always and not all together. | Follow-up question process, either remotely or in one-to-one meetings.<br><br>Revised projections both published and unpublished.<br><br>Feedback on transparency of information and investor issues, facilitated by company advisors. |
| One-to-one meetings between companies and investing institutions, hosted by the shareholder.<br><br>Companies should provide shareholders the opportunity to meet with the CEO and CFO at least once a year.<br><br>Chairman and/or senior independent non-executive director(s) should be available to meet with major shareholders once a year as required. | Communication, interpretation and discussion of performance, prospects and 'live' current issues facing the company in the context of the company's strategy and risk appetite. | Portfolio managers, principals, buy side analysts and, where appointed, corporate governance analysts.<br><br>The CEO, CFO, IR team and other senior executives, if appropriate, plus chairman and NEDs to attend a sample of meetings. | Revised privately-held investment case.<br><br>Feedback on quality of meeting and investor issues facilitated by company advisors from and to companies and their shareholders.<br><br>Confirmation (or not) that an institution is content with its level of engagement, even if a meeting invitation is declined. |
| Periodic stewardship dialogue, hosted by the company. | Communication and discussion of the company's strategy, long-term performance, risk appetite and governance arrangements and their implications on all stakeholders (including performance and ESG matters). | Portfolio managers, principals, buy side analysts, sell side analysts and, where appointed, corporate governance analysts.<br><br>The board, led by the chairman and CEO, and other senior executives, including PDMRs, IR team. | |
| Informal 'round table' discussion with leading shareholders. | Airing and debating significant live issues. | Chairmen, SIDs, NEDs, IR team.<br><br>Investment directors, portfolio managers, corporate governance heads as appropriate. | Informal two-way feedback. |
| One-on-one discussions with leading shareholders. | Airing and debating very significant live issues. | Chairmen, SIDs, NEDs, IR team.<br><br>Investment directors, portfolio managers, corporate governance heads as appropriate. | Informal feedback. |

* A formal meeting agenda is considered best practice to establish a clear purpose and the need for the right participants at the meeting.

# Appendix 2
# Setting up and structuring meetings

To achieve more productive meetings it is important to have clarity on:

- the purpose of the meeting
- with whom the communication is to take place
- what is on the agenda
- what preparation is needed
- how long and how frequent the meeting should be

## Companies

The company's engagement strategy should cover the following areas.

### Purpose

- What, overall, the company is seeking to gain from each specific engagement
- Whether all its objectives will be achieved by having a meeting
- What other methods of communication will enhance engagement, and might be preferable to a meeting
- The design of, and attendance at, the meeting

### Participants

- Who is on the shareholder register, the proportion of shares held, and their level of interest in engagement
- When it is appropriate to meet one-to-one, and when meetings with several investors might be appropriate
- Which people and functions from the investor perspective the company would like to see at the meeting
- Whether the company has discussed some of these questions in advance in order to ensure the right attendance

### Preparation

- The primary point of contact for investors when dealing with the company
- Preparing for the meeting far enough in advance to set an agenda
- A record of what was discussed at previous meetings for information on the shareholder(s), topics discussed, issues raised, commitments made and any conclusions
- The range of topics to be covered
- A request for questions or topics for the agenda from the investor side
- Willingness and ability to cancel a meeting if this preparatory work suggests that there is no point in it

### Agenda, minutes and follow up

- Agreement to the agenda, and its advance circulation (unless, for example, a company wishes to discuss an issue which it would prefer to raise at the meeting)
- What specific questions are to be discussed, and with what desired outcomes – particularly for meetings outside of the results calendar, on issues relating to strategy and long-term performance
- Whether notes are to be taken at the meeting for circulation to all parties post-meeting
- Checking with meeting participants and seeking feedback on the content and quality of the meeting
- Follow up to see if action is being taken on points of concern

### Frequency and length

- How many meetings should be held and when they should be held
- How long the meeting should be – and how this will differ between results meetings, and other meetings set out in the engagement strategy
- Whether it is intended to put on a presentation or have a discussion
- Allowing for sufficient time for additional items to be raised

## Institutional investors/shareholders

The investor's engagement strategy should cover the following areas.

### Purpose

- What, overall, the investor is seeking to gain from each specific engagement
- Whether all its objectives will be achieved by having a meeting
- What other methods of communication will enhance engagement, and might be preferable to a meeting
- The design of, and attendance at, the meeting

### Participants

- Bearing in mind Stewardship Code Principle 5, which calls for collective engagement where appropriate, the circumstances under which the investor will favour collective engagement with other shareholders
- How to ensure that people of appropriate skill and seniority attend, to achieve the objectives of each meeting and each type of meeting (for example when both governance specialists and portfolio managers should attend)
- Which people and functions from the company perspective the investor would like to see at the meeting
- Whether the investor has discussed some of these questions in advance in order to ensure the right attendance
- Making clear to the company the investor's approach to participation if the investor chooses not to participate, and explaining why

### Preparation

- The primary point of contact for the company when dealing with the investor
- Preparing for the meeting far enough in advance to agree an agenda with the company
- A record of what was discussed at previous meetings for information on the company, topics discussed, issues raised, commitments made and any conclusions
- The range of topics to be covered
- Written material to study to be ready to engage effectively – including the Annual Report & Accounts or parts thereof, and other research and analysis
- A request for questions or topics for the agenda from the company side
- Willingness and ability to cancel a meeting if this preparatory work suggests that there is no point in it

### Agenda, minutes and follow up

- What specific questions are to be discussed, and with what desired outcomes – particularly for meetings outside of the results calendar, on issues relating to strategy and long-term performance
- Whether to take notes at the meeting for information
- Checking with meeting participants and seeking feedback on the content and quality of the meeting
- Follow up to see if action is being taken on points of concern

### Frequency and length

- How many meetings should be held and when they should be held
- How long the meeting should be – and how this will differ between results meetings, and other meetings set out in the engagement strategy
- Whether a presentation or a discussion is preferred
- Allowing for sufficient time for additional items to be raised

# Appendix 3 – Possible discussion on long-term strategy and performance

**Whole business or whole enterprise perspective**

**Qualitative**

**Strategy**
(where and how to compete)

**Business model**
(system sustaining advantage)

**Risk**
(things that keep management awake at night)

**Quantitative**

**Critical assumptions**
(things that confirm strategy remains valid)

**Driver of value creation**
(metrics or milestones)

**Triggers**
(signals that mitigation needed)

**Capabilities (e.g. technology) or shareholder and stakeholder (e.g. environment) perspectives**

**Key capabilities (examples):**
- Management and succession
- Technology
- Brand(s) and reputation
- Performance and MI systems
- (Board) governance
- Culture, values and behaviours
- Policies, processes and systems

**Key stakeholders (examples):**
- People
- Customers
- Suppliers
- Creditors
- Environment
- Community and charity
- Relationship finance

**Key questions:**
- Big picture, strategy, not short-term noise
- Strategic end game
- Value chain – non-financial KPIs in support of financial outcomes
- Compelling argumentation for any particular strategic rationale
- USPs and Critical Success Factors
- What's wrong with what exists
- Who/what needs to be fixed/changed
- How is pay linked to long term strategy – skin in the game
- Management commitment and alignment
- How well does the board perform (board evaluation review):
  - skills of board members – what they bring to the board
  - new skills needed
  - key issues
- Succession planning (historical proof)
- Employee turnover – versus peers; history etc
- R&D innovation, new product development
- Number of times whistle blowing has been used, and process
- Evidence of asset protection

# Steering Group

**Sir John Egan,** Chairman

**Rients Abma,** Executive Director, Eumedion, Netherlands

**Peter Butler,** Founder Partner Emeritus, Governance for Owners (2020 Stewardship Working Party)

**Amra Balic,** Director, EMEA Head of Corporate Governance & Responsible Investment, BlackRock (2020 Stewardship Working Party)

**Geoffrey Cooper,** CEO, Travis Perkins plc; Chair, Dunelm Group plc

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**Seamus Gillen,** Director of Policy, ICSA

**John Gollifer/Michael Mitchell,** General Manager, Investor Relations Society

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**John P M Higgins,** Senior Investment Advisor, Spinnaker Trust; Founder, GMI (2020 Stewardship Working Party)

**Jonathan Lloyd,** Company Secretary, Tesco PLC

**Bob Monks,** Founder, GMI

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# Observers

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## About this guidance

This guidance was prepared by the Institute of Chartered Secretaries and Administrators (ICSA) and commissioned by the 2020 Investor Stewardship Working Party.

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