The IVIS Response to the UK Stewardship Code

Overview and Introduction

The ABI is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK’s capital. They are the risk managers of the UK’s economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.

The main prompts for ABI engagement with companies are remuneration consultations and the ABI’s Institutional Voting information Service (IVIS). Each year we receive over 200 consultations and notifications on remuneration issues, and since 1993 IVIS has monitored Annual and General meetings at FTSE All-Share Companies.

Our response focuses on our engagement from the shareholder perspective. It should be noted that, as the ABI and IVIS, we do not own shares in each company we monitor and therefore many of the Code provisions are not relevant. Our aim is to disclose how we carry out the wishes of our clients by applying the principles of the Code that are relevant to our activities.

For further information and for those interested in collective engagement, we can be contacted through IVIS@abi.org.uk or through the contacts section of the IVIS website: www.ivis.co.uk/contact.aspx.
Background to IVIS

IVIS monitors FTSE All-Share companies in line with the UK Corporate Governance Code and ABI Guidelines, which are owned by the ABI Investment Committee, comprising 16 large UK Institutions. These guidelines can be found on the IVIS website: www.ivis.co.uk. They cover a wide range of issues that are important to the alignment of the interests of investors and companies; including share capital management; pre-emption rights; corporate responsibility; executive remuneration and corporate governance.

While ABI members account for approximately 15% of the FTSE All-Share, IVIS subscribers in total account for approximately 30%. These additional subscribers are like-minded long term providers of capital to UK plc.

For each company meeting, IVIS prepares a report which has three distinct sections. The first of these replicates the proxy form and concisely identifies areas of concern. The second covers the UK Corporate Governance Code, and the third monitors compliance with the ABI Guidelines on Responsible Investment Disclosure.

We do not give voting advice, but each report outlines the key issues through a conclusion and status. Each report is also Colour Coded, or Topped, to reflect any breaches of best practice or to highlight areas of concern. The colour which indicates a serious breach of best practice is Red, followed by Amber to highlight an area of concern. A Blue Top indicates that the report contains nothing contentious, and a Green Top indicates an issue that has been resolved. This approach means that subscribers to our service use the reports to make their own voting decisions and judgements, and encourages thoughtful engagement.

We do not publicly disclose the colour rating of each company. This is because we have found that press interest, in particular, is often disproportionately focused on public confrontation between shareholders and high street names with little regard to the underlying issues. We consider that this is counterproductive to the stewardship and engagement process. There is much to be said in favour of discreet engagement in private.
Principle 1: Discharge of Stewardship Responsibilities

The ABI and IVIS are not shareholders and therefore do not have direct stewardship responsibilities. We consider ourselves to be facilitators, aiding the building of a consensus, and working to improve the quality of engagement between companies and their investors. The following points set out how we discharge this facilitation role, and the role that an IVIS Report plays in this process.

IVIS

- In each case we consider the disclosures made by the company in any of its public documents including RNS disclosures, annual reports and meeting notices.
- We consider these for consistency with previous years, and highlight changes or areas of interest.
- We note where the company is fully compliant with the UK Corporate Governance Code.
- Where there are explanations for departure from the Code, we replicate these in our report. We do not make judgements ourselves, but leave these for investors.
- Due to resources, apart from exceptional circumstances, we do not invite companies to comment on the report in draft. Where we do so, this is only to confirm factual accuracy.

Company Contact

- Where necessary, we engage with the company for further detail on any aspect of the disclosures.
- This tends to be at Company Secretary or HR Director level but where appropriate we will engage with the Chairman of the board, the SID, Remuneration Committee Chairman, or other board members.
- On remuneration matters in particular we avoid, where possible, speaking to executive directors given their participation in the schemes under review.
- Where a company representative is unavailable we will contact relevant advisers, such as lawyers, brokers or remuneration consultants, for more information.
- By extracting additional non-price sensitive information from the company we consider that we facilitate the engagement process.
between companies and investors by allowing information to be quickly and widely disseminated by one phone call rather than by many.

Shareholder Contact

- Where appropriate we also engage with IVIS subscribers who are large holders of the company.

- These views are then used to determine the colour top of the report which means that the IVIS reports represent the real views of owners.

The following points are relevant to our approach to a consultation or a specific issue-led engagement. Where appropriate, the outcomes and investor views would be taken into account at the point of writing the relevant IVIS Report.

- Each year the ABI receives over 200 consultations and notifications on remuneration issues. These outline compliance with guidelines, and also allow constructive dialogue with investors. The aim is to improve the alignment of new proposals with the interests of investors in advance of the company meeting.

- Where requested by members on particular corporate governance related issues at particular companies, we engage through collective meetings, and author collective letters.

- Where a company rates poorly against the ABI Guidelines on Responsible Investment Disclosure, our engagement includes writing to the Company setting out the reasons. This often leads to detailed engagement and improved disclosure in the following year.

**Principle 2: Conflicts of Interest**

The primary source of conflict of interest for IVIS is that many ABI members are UK-listed Insurers and therefore fall into our reporting universe.

- We manage this conflict by strictly adhering to ABI guidelines at these companies as with any other.

- The potential conflict at these companies means that we rely more heavily on the views of the large shareholders.

- We believe the result is a robust and consistent approach.

We also have a very few corporate clients who subscribe to the service either through their HR team or the Company Secretary office. They use it as a
way of tracking market trends and performing comparator analysis of remuneration.

- As with UK-listed Insurers, our mandate is to apply our rigorous process consistently and we therefore continue to strictly adhere to ABI Guidelines.

- Corporate subscribers have neither sought, nor received, any advantage over their peers.

- We consider the number of these clients and the revenue they generate to be immaterial to IVIS.

**Principle 3: Monitoring of Investee Companies**

As described in the Scope of our response, we do not hold shares in the companies with which we engage. The catalyst for any engagement is either an Annual or General Meeting, or where the company has initiated a consultation on remuneration or any other corporate action. Occasionally, the ABI secretariat initiates engagement at the request of our members based on a particular market issue.

Although at present all records of meetings, emails and phone conversations are retrievable, they are not in a format that is readily auditable. We are currently reviewing our processes in this regard.

**Principle 4: Guidelines on Escalating Activities**

We act on behalf of our members and contribute to communications between investors and investee companies.

When our members request it, and where appropriate, we will take any of the following actions:

- holding additional meetings with management specifically to discuss concerns;

- expressing concerns through the company’s advisers;

- meeting with the Chairman, senior independent director, or with all independent directors;

- intervening jointly with other institutions on particular issues.

Of course, as we do not hold shares, we cannot submit resolutions at shareholders meetings, nor requisition general meetings.
Principle 5: Collective Engagement

As noted in our introduction, as a representative of institutional investors, the ABI has long been an advocate of investor engagement both in the bond and equity markets. As facilitators, we consider our responsibilities under collective engagement to be the same as those as disclosed under our response to Principle 1: Disclosure of Stewardship Responsibilities.

Alongside those responsibilities, however, the ABI has clear policies on the treatment of insider information, competition law, acting in concert, and security of information. As these are critical to our modus operandi, our team receives regular training in all of these aspects of internal governance, and the policies are updated annually by a team of employment law specialists. However, as they are for staff members, we do not currently disclose them publicly.

Principle 6: Voting Policy and Disclosure of Voting Activity

This principle is not applicable to us because we do not hold shares.

Principle 7: Reporting on Stewardship and Voting Activity

We agree that transparency is an important feature of effective stewardship but we also agree that Institutional investors should not be expected to make disclosures that might be counterproductive. Complete public transparency of details of engagement between companies and shareholders could lead to confrontation. Therefore, as facilitators rather than owners, we consider confidentiality to be critical to the services we provide to members, investors and investee companies. Whether the issue is about resetting bond covenants, discussing a new remuneration structure, or consulting about board changes, confidentiality ensures that companies can continue to come to the ABI to discuss important issues without prejudice.

In addition, where the engagement is collective, the activity and results will be captured by the disclosure of the participating institutions. It does not aid transparent stewardship by double-counting these instances. We therefore currently do not disclose our activity separately, but this may be something to revisit in the future.