

INSTITUTIONAL VOTING INFORMATION SERVICE (IVIS) RESPONSE TO THE UK STEWARDSHIP CODE

OVERVIEW AND INTRODUCTION

The Investment Association (IA) is the trade body that represents UK investment managers. Our 200 members collectively manage over £5.7 trillion on behalf of clients in the UK and around the world. Our members hold approximately 30% of companies listed on the UK equity markets.

Our purpose may be summarised as follows:

- Promoting our members - We promote UK investment management, which is the largest industry of its kind in Europe and the second largest in the world.
- Supporting our members - The IA produces daily updates on legal and regulatory developments and creates guidance enabling UK investment managers to build effective business structures. We engage actively with policymakers and other stakeholders in the UK and around the world to ensure that our industry remains among the world's most competitive.
- Shaping investments - We shape the investment landscape to ensure that our members are able to deliver the best outcomes for their clients. This includes spearheading initiatives to ensure best practice in our industry, and engaging in the public debate surrounding our industry and its growing importance amid the rising Age of Asset Management.

SUSTAINABLE INVESTMENTS AND CAPITAL MARKETS

Under our Sustainable Investments and Capital Markets directorate, the IA helps the industry to support the economy with stable, long-term finance, ensuring investors have access to fair and effective markets and embedding the highest standards of sustainable governance in UK Plc.

Through our work on Corporate Governance and Engagement the IA sets out our members' expectations of UK listed companies. These guidelines are upheld through our corporate governance research service, the Institutional Voting Information Service (IVIS). In addition, we engage with companies on governance matters such as executive remuneration, board effectiveness, succession planning, and wider corporate governance, audit, accounting and other reporting issues.

IVIS was developed in 1993 to provide corporate governance research and analyse proposals submitted at shareholders' meetings. Its research covers companies in the FTSE All-Share Index as well as 50 largest FTSE Fledgling companies and each year it receives over 200 consultations and notifications on executive remuneration and other governance related issues.



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

For further information and for those interested in collective engagement, we can be contacted through IVIS@theia.org or through the contacts section of the IVIS website: <https://www.ivis.co.uk/contact-us>

BACKGROUND TO IVIS

IVIS monitors FTSE All-Share companies and the 50 largest FTSE Fledgling companies against the UK Corporate Governance Code, our Guidelines as well as other industry guidelines such as Pre-emption Group Guidelines. Following the merger of the ABI's Investment Affairs division with the IMA in June 2014, IVIS is now part of The Investment Association, which has assumed responsibility for guidance previously issued by the ABI.

Our Guidelines can be found on the IVIS website: www.ivis.co.uk. These guidelines set our members' expectations of UK listed companies. The guidelines are subject to periodic review and discussion by the IA's Corporate Governance and Engagement Committee to ensure they continue to represent Member interests and current market best practice. 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.

For each company meeting, IVIS prepares a report which has three distinct sections, the Proxy Report, the Corporate Governance Report (the CG Report) and the Environmental, Social & Governance Report (the ESG Report). The Proxy Report replicates the meeting agenda and concisely identifies areas of concern or other issues shareholders should be aware of prior to voting. The CG Report analyses the company's governance structure against the UK Corporate Governance Code, highlighting the board and committee structure as well as key risks, and other audit and accounting issues. The ESG Report monitors compliance with our Guidelines on Responsible Investment Disclosure.

IVIS does not provide voting recommendations. Instead, it highlights specific matters for members to consider prior to voting through a colour coding system. Each report is colour coded (or topped), with Red indicating a breach of best practice or our Guidelines, Amber raises awareness to particular elements of the report, and Blue indicating that there are no areas of major concern. We also use a Green Top in cases when an issue has been resolved by the Company. The issue which is driving the colour top is clearly outlined in the Key Issues section of the IVIS Report and we summarise the main issues in the STATUS bar of the report and, if appropriate, the conclusion. This approach means that members use the reports to make their own voting decisions and judgements, and encourages thoughtful and informed engagement.

IVIS is a subscription-based service and we do not publicly disclose the colour rating of each company. We have found that press interest is disproportionately focused on public confrontation between shareholders and high street names with little regard to the

underlying governance issues. We consider that this is counterproductive to the stewardship and engagement process. There is much to be said in favour of discreet engagement carried out in private.



As a part of the IA we receive requests to engage on various governance matters. Of the matters that we engage on the vast majority relate to the executive remuneration. IVIS has a formalised approach to remuneration consultations, to aid member engagement and company understanding of our approach.

The process starts with the company requesting to engage with the IA or IVIS on their proposals. This is usually done in the form of a letter or email. Given the confidentiality of such engagement, we would ask the company if they wish to obtain IVIS feedback only or if they wish us to seek feedback from members they have consulted on their proposals.

IVIS provides feedback based on the company's proposals when analysed against our Guidelines and other best practice provisions. We explain to the company how IVIS would approach the proposals, if they were to be considered by IVIS at that point. IVIS informs the company on potential breaches of best practice and potential areas of member concern. We would also seek additional explanations or rationale on the proposals, if necessary.

In most cases, however, companies would also like to receive feedback or views of our members. In such cases we would ask the company for the list of members they have consulted. IVIS will then send a summary of the proposals to these members along with the original proposal from the company.

Once member feedback is obtained, we would summarise all the feedback and provide it to the company.

The remuneration consultation may have further iterations. The company may amend the proposals based on investor feedback and seek further comments or it may decide not to make any changes but to provide more detailed rationale. IVIS would forward the communication from the company to members and seek any further comments which IVIS would relay back to the company.

The process is considered finished when the company issues the final letter summarising the changes or where the proposals are submitted for shareholder approval.

At each stage of this process, companies or members may request a meeting or a conference call. When members request a meeting with the company, this will usually take a form of collective engagement which is described in more detail below.

PRINCIPLE 1: DISCHARGE OF STEWARDSHIP RESPONSIBILITIES



The IA 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. As noted above, IVIS does not provide voting recommendations, our primary goal is to help our members to make informed voting decisions. 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 documents.
- We consider these for consistency with previous years, and highlight relevant 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 reports. We do not make judgements ourselves, but leave these for investors.
- While we are primarily guided by the UK Corporate Governance Code and our Guidelines, we also highlight other matters, which are not necessarily covered by these documents but which our members may wish to review more closely.
- Due to resources, apart from when we are planning to issue a Red Top, we do not invite companies to comment on the IVIS report in draft. Where we do so, this is to confirm factual accuracy. Companies normally receive free copies of the IVIS report following publication.

COMPANY CONTACT

- Where necessary, we engage with the company for further detail on any aspect of their 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 more widely disseminated by one phone call or meeting rather than by many.

SHAREHOLDER CONTACT

- Where appropriate we also engage with IVIS subscribers who are large shareholders in the company. This is to take account of individual explanations and take market views into account.
- These views then feed into the determination of 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 IA receives over 200 consultations and notifications on remuneration and other governance issues. These outline compliance with Guidelines, company strategy and business needs, and also allow constructive dialogue with investors.

- The aim is to aid understanding and communication, leading to improved 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 specific companies, we engage through collective meetings, and author collective letters. We may also contact members to check the appetite for such a collective engagement when we feel that the matter in question is considered to be contentious by a clear majority of members.



PRINCIPLE 2: CONFLICTS OF INTEREST

The primary source of conflict of interest for IVIS is that many IA Members are UK-listed asset managers and investment houses and therefore fall into our reporting universe.

- We manage this conflict by strictly adhering to our 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. The variety of member views means that no one institution is given more weight than another.
- The IVIS team is long-standing and highly experienced in providing thorough research and consistent policy application without bias.
- All of our reports are subject to thorough peer review, and where necessary wider internal discussion, to ensure the viewpoints put forward are consistent and without conflict.
- We believe the result is a robust and consistent approach.
- IVIS has a clear remit within the organisation to act independently and uphold the IA's guidelines irrespective of the report being on a member or any other listed company.

We also have a small number of 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 IA Members, our mandate is to apply our rigorous process consistently and we therefore continue to strictly adhere to our 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.
- Analysts are not aware of those listed company clients.

IVIS does not send draft reports to companies before publication (other than for confirming factual accuracy when we plan to issue a Red Top). This helps to minimise the risk of an analyst being put under pressure from companies and other advisors. Once an analyst prepares the report, it is subject to second check by another experienced analyst and a third check by the Head of IVIS or Director, Corporate Governance and Engagement. It is then discussed internally and a decision on the colour top is made.

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 or produce IVIS reports on.

Our role in monitoring and engagement may be broken down into following stages:

IVIS REPORTS FOR SHAREHOLDER MEETINGS



Whenever a company holds an Annual General Meeting (AGM) or a General Meeting (GM), IVIS would produce the report for that meeting. We would analyse the proposals submitted for approval and, in case of AGMs, we would also produce a CG and ESG reports (which are described in the Scope).

In the process of preparing the IVIS report, we would compare the proposals and structures against previous years to see if there are any areas of concern which we had previously highlighted. If the concerns remain we would highlight them. If they have been alleviated we would also note that in the IVIS report and we also comment on other positive developments (for example an improvement in disclosure). We also highlight instances of significant levels of dissent at the last AGM.

The reports include overview of financial performance of the company and focus on the measures the company considers as its key performance indicators. While IVIS normally does not comment on the company's performance against these indicators, they are taken into consideration in the overall analysis. For example, IVIS may comment on payments made to the directors in the context of the financial performance of the Company.

Our reports focus on matters that our members have asked us to highlight. As such, we would usually provide no comment on routine proposals such as the re-election of a non-executive director, who meets independence criteria of the UK Corporate Governance Code. However, if a director does not meet the independence criteria of the Code, we would highlight this in the report along with any company explanation.

The major part of the IVIS proxy report focuses on analysing the company's approach to remuneration. We outline the company's remuneration policy and emoluments paid, and in the narrative section we provide more detail on the remuneration structure and any potential concerns or breaches of best practice.

If we had engagement with the Company during the year, for example when there was a remuneration consultation, we would reflect this fact in the IVIS report together with a summary of member feedback.

We would discuss internally the colour top, taking into consideration the company's adherence to our Guidelines and best practice.

In terms of the CG and ESG Reports, we analyse companies against set of questions which are agreed by our members. The CG Report focuses on the following areas:

- Board and Committee Composition – we highlight the membership of the Board and Committees as well as any changes since the previous report. We highlight where any Directors do not meet the independence criteria set out in the UK Corporate Governance Code.
- Compliance statement - we disclose how the company assessed its compliance with the UK Corporate Governance Code as well as any explanations on deviations from the Code;
- Board composition and balance – we assess the Board composition, its performance evaluation procedures or how directors are re-elected;
- Remuneration packages and procedures – we reflect the composition of the remuneration committee and the notice period for service contracts;
- Accountability, audit and reporting – we answer questions relating to internal controls, material risks, the viability statement, composition of the audit committee, policy on audit tendering and audit and non-audit fees.

Our approach is to highlight potential departures from the UK Corporate Governance Code and include company rationale, when available. We do not judge whether the company's approach is appropriate as this is a matter for the shareholders. The CG Report can be

colour coded for a number of issues including: Board composition, executives on board committees and CEO succeeding the Chairman.



The ESG report monitors compliance with our Guidelines on Responsible Investment Disclosure. For the purpose of this report we assess the quality of disclosure provided by the Company in relation to its environmental, social and governance (ESG) matters, risks and key performance indicators. The report highlights when the company has any verification procedures in place. This report is not assessed on a colour top. We comment on the level of disclosure with four main disclosure levels: no guideline related disclosure, limited disclosure, moderate disclosure and full disclosure.

Once the IVIS report is published, a copy is sent to the company. At this stage, some companies provide additional rationale or explanations for their decisions. We may update an IVIS report to include these. IVIS often engages with companies following their AGM, so the companies can understand our concerns and adapt their future policies or reporting to address concerns.

COMPANY ENGAGEMENT BETWEEN SHAREHOLDER MEETINGS

As outlined in the Scope, IVIS helps to facilitate engagement between IVIS, our members and companies. The majority of engagement with companies is initiated by companies and relates to executive remuneration. Companies contact IVIS if they wish to seek views on their proposals relating to the Directors' pay. IVIS reviews the proposals against the Guidelines and would raise any potential concerns with members and the company.

IVIS also receives letters from companies, which are informing investors on the company's decisions, rather than seeking to consult with them. In such cases, IVIS would not normally seek the views of our members. We would, however, review the contents of the letter and inform the company on areas of potential concern.

Occasionally, we would receive a query from a member, which would prompt us to engage with the company to clarify an issue.

As mentioned above, some companies would engage with us to discuss our assessment included in the IVIS reports. While the majority of these discussions would focus on remuneration, a number of engagements also relate to compliance with the UK Corporate Governance Code as well as our ESG Report.

COLLECTIVE ENGAGEMENT

Occasionally, IVIS or the IA facilitates a collective meeting. These normally take place at the request of members to address an issue of concern such as executive remuneration or the appointment of the CEO as the Board Chairman. A request for a collective meeting may come from members but, if IVIS believes an issue is contentious enough to warrant such a meeting, it would engage with members to test the appetite for collective engagement. More details on collective engagement are disclosed under Principle 5 below.

REVIEW OF EMERGING TRENDS OR POTENTIAL CONCERNS

At all of the above stages, IVIS team would seek to identify emerging trends, unusual issues or new potential concerns. Some of these matters are discussed with members at formal committee meetings. These committee discussions shape the IVIS approach in terms of assessment and engagement, and may result in an update to our Guidelines.

PRINCIPLE 4: GUIDELINES ON ESCALATING ACTIVITIES

The main trigger for escalation would come from our members and would be focussed on facilitating communications between investors and investee companies.

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

- holding additional collective meetings with board members specifically to discuss concerns;
- expressing concerns through the company's advisers;
- meeting with the Chairman, senior independent director, or with all independent directors;
- Escalate matters to Investor Forum.
- intervening jointly with other institutions on particular issues.
- Making statements to the media.

As we do not hold shares, we cannot submit resolutions at shareholder meetings, nor requisition general meetings.

As noted above, we consider how market practice develops and how our approach to analysing companies and our guidelines can be updated.

PRINCIPLE 5: COLLECTIVE ENGAGEMENT

As noted in our introduction, as a representative of Institutional Investors, the IA has long been an advocate of investor engagement both in the debt 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 IA has 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 periodically by legal specialists. However, as they are for staff members, we do not currently disclose them publicly.

IVIS and the IA engage primarily on remuneration, corporate governance related matters, and capital management issues.

The collective engagement is primarily triggered by members but may also be prompted by IVIS when we believe a matter may be contentious enough to warrant such a meeting. Ultimately, it is our members' decision to engage and in the latter case, IVIS would contact members to test the appetite for collective engagement.

When members decide to engage collectively, IVIS would act as a secretariat – we would facilitate the meeting and communications between the company and members. However, while we would participate in the meeting, we would normally expect our members to discuss their concerns with the company, as, ultimately, they are the owners of the company. Following the engagement, we would normally seek feedback from members to see whether their concerns have been addressed or if further engagement is necessary.

Where there are situations better handled by the Investor Forum, we pass these on (see their website at www.investorforum.org.uk for more information).

PRINCIPLE 6: VOTING POLICY AND DISCLOSURE OF VOTING ACTIVITY

IVIS discloses all the IA guidelines on the IVIS website. As noted previously, IVIS does not hold shares, nor does it provide voting recommendations. Our processes are designed to

provide the right amount of information in a concise format that would allow our members to make informed voting decisions.



As mentioned above, rather than providing voting recommendations we have adopted a colour coding system to highlight specific matters to our members, who then decide how to cast their votes. As disclosed above under Principle 2, the decision on the colour top is taken following internal team discussion and takes into account factors such as compliance with our Guidelines and the UK Corporate Governance Code and other provisions generally considered best practice.

We do not provide a voting platform and we do not vote any shares. Therefore, we cannot disclose our votes or help our members to disclose their votes. As mentioned above, we are a subscription based service and do not disclose the colour tops publicly as we believe that this may result in a public focus on confrontation between shareholders and companies rather than a constructive dialogue, which is counterproductive to the stewardship and engagement process.

The IA has developed a Stewardship Reporting Framework, to assist members when they publicly report on their stewardship activities. These public reports may include case studies of engagements with individual companies.

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 to their stewardship activities. Each side of the dialogue needs to be confident that they can have a frank and open discussion and the IA and IVIS would not disclose details of such engagement when it is ongoing. Such a disclosure of an ongoing engagement, especially when the subject is picked up by the press, is likely to lead to confrontation, often with no or little regard to the underlying issues. The IA and IVIS may disclose information on the engagement and its outcome after the process is complete but the level of detail will vary in order to maintain the confidentiality and trust of each of the parties and to ensure that they are comfortable to use us as facilitators of engagement.

However, we believe that institutional investors need to demonstrate how they uphold their stewardship activities and provide examples of how they carry out their activities. We will in future report our activities against the Stewardship Reporting Framework which we outlined above.

While we keep records of our engagement with companies and members, they are not in a format that is readily auditable. Given our role as a facilitator of engagement and voting activity, rather than having the ownership obligation to engage or vote shares, we do not believe that it is necessary to have independent assurance of our processes. However, we will keep this issue under review.

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