

Response to consultation on FRC Stewardship Code

Established in 1921, Hymans Robertson is one of the UK's longest established independent firms of consultants and actuaries. We work with a wide range of defined contribution and defined benefit clients across both public and private sector, providing advice on a range of investment strategy, implementation and governance issues. Responsible Investment is an area of growing importance across our client base and the concepts of Sustainable Investment, recognising the potential financial impact of ESG factors, and Effective Stewardship underpin our approach.

Q1. Do the proposed Sections cover the core areas of stewardship responsibility? Please indicate what, if any, core stewardship responsibilities should be added or strengthened in the proposed Principles and Provisions.

Yes. Distinguishing between different categories of signatory is a welcome change, particularly as the revisions better allow Service Providers to articulate their role in supporting clients in the exercise of stewardship responsibilities.

We note that the FRC has proposed that signatories with responsibilities across categories should determine their compliance with the Code based on their main activities. For organisations such as investment consulting firms who also provide fiduciary management services, we do not believe this to be appropriate. We propose that the FRC require signatories to demonstrate compliance with the Code in each category for which they intend to operate as a signatory.

Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

Yes.

Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions?

Yes. We recognise that not all Provisions may apply to all signatories and agree that a comply or explain approach allows sufficient flexibility in their application by signatories.

Q4. How could the Guidance best support the Principles and Provisions? What else should be included?

From a simple usability perspective, it would be sensible to repeat each of the Provisions alongside the Guidance.

Whilst the purpose of the Guidance should be to support signatories in disclosing how they meet the Principles and Provisions and should therefore allow flexibility in interpretation, there are certain aspects where a greater level of prescription would be beneficial for future users of disclosures.

Provision 25 requires signatories to explain their voting policy although does not make provisions to allow the users of the voting policy statements to make meaningful comparisons. Whilst many asset managers (and asset owners) will maintain a detailed voting policy, the structure and length of such policies often does not readily allow a meaningful comparison by users.

We propose that the FRC extends Provision 25 and the associated Guidance to require Asset Managers to publish a concise Statement of Voting Principles within their Policy and Practice Statement. Such a statement should oblige Asset Managers to explain the high-level objectives of their voting approach and the general principles which influence their voting on particular issues. The FRC could provide a suitable template for such disclosure.

Provision 26. The FRC should recommend the use of a standard reporting template for all voting disclosures to provide consistency across the industry and allow a high-level comparison between signatories.

Finally, the Guidance on Provision 5 for Asset Managers appears at odds with how the manager may be incentivised. Incentives may be aligned with the terms of the mandate given to the Asset Manager by the Asset Owner which may be independent of the profile and duration of the liabilities. The Guidance could be adjusted to require Asset Managers to disclose “the extent to which they are incentivised to align decision making with the profile and duration of the liabilities of the Asset Owner”.

Q5. Do you support the proposed approach to introduce an annual Activities and Outcomes Report? If so, what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness?

We believe that requiring organisations to evidence their stewardship practices is essential and we therefore support the introduction of an Activities and Outcome Report (“the Report”). We note that this is also consistent with the approach taken in other responsible investment codes which require disclosure of the actions taken against public policy statements.

We suggest that the FRC is not overly dogmatic in specifying reporting requirements at outset as this creates the risk of a “tick box” approach to stewardship, rather than promoting stewardship effectiveness. Instead, we recommend the FRC maintains a level of flexibility, allowing signatories to interpret reporting requirements in a manner appropriate to their own circumstances.

We further suggest that the FRC undertake a rolling review of signatory reporting to consider the scope and underlying evidence provided by signatories in meeting the reporting requirement of the Code. We propose the FRC use such a programme of review as the future basis for more detailed recommendations on the content of the Report, thereby allowing best practice to evolve over time.

Q6. Do you agree with the proposed schedule for implementation of the 2019 Code and requirements to provide a Policy and Practice Statement, and an annual Activities and Outcomes Report?

Yes.

Q7. Do the proposed revisions to the Code and reporting requirements address the Kingman Review recommendations? Does the FRC require further powers to make the Code effective and, if so, what should those be?

No response.

Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

Yes. We believe that best practice in stewardship begins with strong governance structures and clearly defined objectives which are linked to the purpose of the organisation and reinforced through the culture and values of that organisation. Our own research has highlighted organisational culture as a key characteristic demonstrated by strong practitioners of responsible investment. We believe it appropriate for the FRC to demand signatories both subscribe to these high standards and are prepared to articulate these publicly.

Q9. The draft 2019 Code incorporates stewardship beyond listed equity. Should the Provisions and Guidance be further expanded to better reflect other asset classes? If so, please indicate how?

We support the inclusion of stewardship beyond listed equity although note that any extensions covered by the Provisions and Guidance have been largely focused on bond investment. We suggest the FRC expand this to cover real estate, recognising that it also requires the exercise of stewardship and ongoing engagement.

Q10. Does the proposed Provision 1 provide sufficient transparency to clients and beneficiaries as to how stewardship practices may differ across funds? Should signatories be expected to list the extent to which the stewardship approach applies against all funds?

It will be important for future users of the Policy and Practice Statement (the Statement) to be able to establish the applicability of the disclosures within the Statement to a potential fund investment. To that end, the Provisions of the Code should require signatories to demonstrate when and where the Code is applied and, if appropriate, whether any element of the Code is not relevant to a particular fund or asset class.

Q11. Is it appropriate to ask asset owners and asset managers to disclose their investment beliefs? Will this provide meaningful insight to beneficiaries, clients or prospective clients?

Yes. Investment beliefs are a fundamental building block on which investment objectives and strategies are built and their use has been supported by both the Pensions Regulator and academic research. We have also championed the development of investment beliefs across our own client base. For organisations committed to demonstrating best practices in stewardship, we believe it is both incumbent on them to have defined their investment beliefs and informative to future relationships between parties for such beliefs to be disclosed.

Q12. Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?

Yes.

Q13. Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.

We support the use of "collaborative engagement" in place of "collective engagement".

We recognise that there are circumstances when an organisation which supports collaborative engagement may choose not to do so for a variety of reasons. We therefore suggest that first bullet point in the Guidance for Provision 20 be extended to state "disclose their policy on collaborative engagement including, where appropriate, the circumstances when collaborative engagement won't be pursued."

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

Whilst there may be some merit in investors having a mechanism for raising concerns, our preference is to avoid increased regulation. We therefore believe that focusing on improving engagement and seeking market-based solutions to address concerns about an investee company to be more appropriate.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

Yes. As set out in Q9, the Provisions and Guidance can be expanded to provide more detail on expectations in non-equity asset classes.

Q16. Do the Service Provider Principles and Provisions set sufficiently high expectations of practice and reporting? How else could the Code encourage accurate and high-quality service provision where issues currently exist?

Yes.

We note that recent initiatives have sought to highlight the important role played by Service Providers such as investment consultants in incorporating ESG factors into advice. Although the revised Code makes specific reference to ESG factors as they apply to Asset Owners and Asset Managers, we note that ESG is not necessarily a feature for all Service Providers and therefore believe it appropriate that ESG is not explicitly referenced in the Service Provider Principles and Provisions.

The Guidance for Provision 1 for Service Providers could be extended to reference the Principles that their clients are expected to follow in respect of relevant services. For consultants, that would implicitly force reference to ESG within their Statement, given the requirements of Principle E for Asset Owners.

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For and on behalf of Hymans Robertson LLP