

Being better stewards

What you need to know as a Stewardship Code signatory

April 2024

‘Being better stewards’ is one of our three pillars of responsible investment. Since its launch, the 2020 UK Stewardship Code has been recognised as a leading standard against which financial market participants can demonstrate their stewardship credentials. However, the process of reporting against the Code should also be viewed as an opportunity to learn and improve practices.

We’ve worked with asset owners and other industry participants to develop stewardship processes, identify gaps, and to draft reports. We’ve also been a signatory since submitting our first report in 2021. Here we set out our eight learnings to help you.



Be strategic.

Stewardship is an exciting area, and there are lots of interesting things you can do. Almost too many! Realistically, you won’t be able to do all of them – you’ll have to prioritise. This forces you to be clear on your fundamental goals: are you doing stewardship solely to increase shareholder/investor financial value? Do you also have impact goals? If so, you need to select thematic areas that you believe will be most effective at achieving those goals. Theme selection is hard – but

can be easier with expert support. It may also be one of the most important decisions you make in determining how much impact you have.

Once you’ve established your goals, stick to them for a set time period. During that period, more great ideas may come up for things to focus on. It will require some discipline to park those ideas until you’re ready to re-strategise.



Understand your gaps.

A sensible starting point or periodic discipline can be to undertake a gap analysis of current policies and practices against the principles of the Code. Understand the activities that you’re undertaking, but equally identify the areas where improvements or changes may be necessary, or where your governance budget means that it’s not appropriate to act. For example, we’ve seen many asset owners take steps to improve their manager engagement. We’ve helped asset owners put in place engagement frameworks and supported them in their engagement activities.

Don’t, therefore, expect early reports to show everything. Where steps are taken to improve policies and practices, or to establish monitoring and engagement processes, these can often form the basis for an initial disclosure, given they represent a commitment made to the Code. Where gaps exist, you can acknowledge these and the reasons why they exist. Subsequent disclosures then need to demonstrate how policies have been put in place or gaps have been closed, and the outcomes that have been achieved.

Ensure that your resource is properly focused and recognise that reporting takes time.

Becoming a Stewardship Code signatory is a significant commitment of time and resource. Potential signatories should not underestimate just the year-one commitment to becoming a signatory, but also the ongoing commitments to fulfilling the disclosure requirement. Acting on year-one learnings and feedback may make year two a more intense and governance-heavy experience. For organisations that are stretched, it may be better to spend their resource on doing, rather than disclosing.

Reporting is an area that can be outsourced, and we've worked with a number of organisations to prepare reports. There's a time commitment in ensuring that data is effectively shared with third parties, and it's sensible to ensure that adequate time is devoted to this step, and to maintain good records of all stewardship activity to support reporting.

Bigger is not necessarily better.

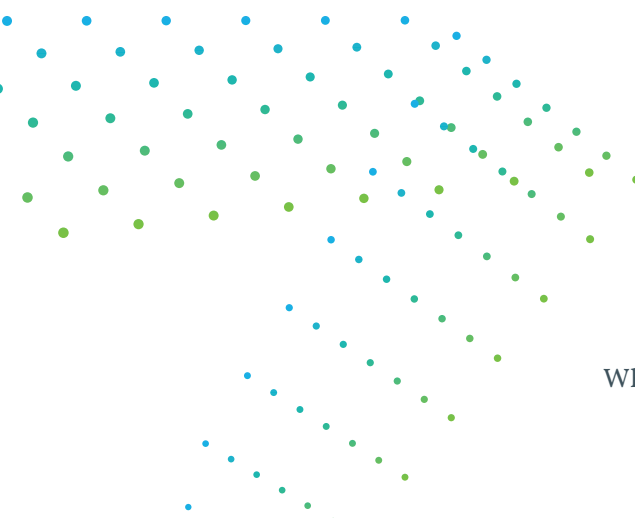
Stewardship Code reports have been getting longer from year to year as organisations try to squeeze in everything that they've done. While this is perhaps understandable – and we generally support the idea of more disclosure than less – it's perhaps worth spending time considering whether something is being reported just for the sake of reporting, or because it genuinely demonstrates the exercise of stewardship against one of the 12 principles.

While time may be spent on gathering examples and data to support disclosures, filtering out the significant can ease the burden of writing a report. Clearly, to ensure that you remain a signatory, there's a need to meet the requirements of the FRC. But reporting on incremental achievements and taking as read the foundations that have been set out in previous reports may ease the overall reporting burden.

Reporting on successes is great, but also report on how you've responded to failures.

The Context-Action-Outcome framework requires you to explain why you're acting, what action you're taking, and what happened because of your action. However, stewardship is an incremental process, and actions may not be successful on the first attempt, if at all! This does not negate the value of the stewardship process. Rather, it reflects the reality of trying to effect change where there are multiple stakeholders, often with competing goals.

Unsuccessful outcomes allow organisations to demonstrate how they've responded to the challenge eg through escalation processes or changing the goal of the engagement in response to the feedback received. In addition, reporting unsuccessful outcomes can also allow others to learn and evolve their own processes.





Reuse your content.

Reporting encompasses a great deal of storytelling. While many gravitate towards numbers, it's in the case studies and communication of actions taken and outcomes achieved where the considerable value is to be found. Underlying members may engage

more with stories that relate directly to them, either through location or industry, and asset owners may wish to repurpose elements of their reporting for other purposes.



Use the process of reporting to learn and evolve.

Stewardship, like everything, evolves. Organisations can always improve or extend their practices in order to improve their stewardship efforts. Using an external standard for benchmarking, and any general or specific feedback provided, is an opportunity to learn. Where goals and objectives have been set, either within policies or within prior reports, reporting can also be used as a means for self-assessment and reflection.

Where we have helped clients report, we typically follow preparation of the report with a list of learnings that we've established. This has ranged from areas where there are gaps in processes or data availability, to identifying how an existing process can be applied in a different way or in a different context. We've found this helps us set a forward-looking agenda and allows for continued improvement in processes.



Recognise you are not alone.

Asset managers are already doing a lot of stewardship work at the coalface so can be very helpful in terms of both delivering outcomes and supporting reporting efforts. However, simply reproducing manager reporting is not demonstrating stewardship outcomes unless you have been actively involved in the process in some way.

You need to engage early, set clear expectations, and make sure the monitoring and feedback processes are in place.

If you're interested in becoming a signatory, we can help. We've supported a number of organisations across insurance and pensions in preparing for and writing their submissions, with 100% success. We can manage the entirety of a reporting project or simply review your draft report. Please get in touch if you'd like to discuss your needs.



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