Seamus Gillen
Director of Policy
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30th November 2012

Dear Seamus

Re: Improving engagement practices between companies and institutional investors

I have pleasure in enclosing The Investor Relations Society's response to the above consultation.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community. The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two way communication with the markets and to create a level playing field for all investors. It has over 650 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

Thank you for giving us the opportunity to comment on 'Improving engagement practices between companies and institutional investors: Good practice guide on stewardship engagement'. Stewardship engagement is a key issue for our members. Investor relations officers act as the conduit between investors and management, disseminating the company's story and strategy to markets whilst relaying market sentiment to boards. We consider it crucial that in any discussion of company and institutional investor practices this is fully understood and recognised by all parties. We also consider that a realistic expectation of what is and is not possible with stewardship engagement is important. There are some shareholders who have little or no interest in working with companies in furthering investor stewardship. This is a reflection of the realities of modern markets rather than a value judgement. Therefore part of the task for all concerned parties in encouraging stewardship engagement is to recognise and value those investors who *are* prepared to engage. We welcome the Steering Group's identification of the importance of reaching a 'critical mass' of sufficiently likeminded investors and companies, identifying and working with a core group of stewards, to deliver a favourable outcome with sensible, practical steps.

This naturally leads to the question of what, in fact, actually constitutes 'stewardship engagement'. 'Stewardship' can mean at least three things in the investment context – asset managers' stewardship of their clients' investment, company management's stewardship in running the company on behalf of the investors who own it, and *investor stewardship* – investors taking an active governance role in companies they invest in. It is the last definition that investor relations teams recognise as stewardship in this context, and we consider the correct one for achieving the aims of the Stewardship Code. In our view, it is essential that all parties understand stewardship engagement in this context and we do have some concerns that this is not necessarily the case across the board. To avoid a mismatch of expectations we hope that one of the main outcomes from the work of the Steering Group's endeavours will be to reinforce this message.

We raise a number of points in our response below but our key thoughts are as follows:

- **Investor relations teams are at the forefront of stewardship engagement and must be recognised as such by all parties concerned.**

- **Many of the best practices espoused in this guide are already happening and have been for some time, as per best practice investor relations.**

- **Companies want more feedback from investors.**

- **While we support a feedback mechanism for investor meetings *in principle* we have very significant concerns over the practical implications of such a scheme.**

- **There needs to be give and take on both sides and recognition of investor responsibilities for stewardship engagement to improve.**

Finally, while the perception in the UK might exist that there is a lot to do with regards to engagement stewardship, we believe that there is in fact much to be positive about. In our experience, the impression from overseas observing UK practices on stewardship, and the wider issue of governance more generally, is that this is an area that is relatively robust in the UK.

We hope that you will find our consultation response useful and we look forward to continuing to help frame the stewardship engagement process in the UK.

Kind regards

E Burdett

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QUESTION ONE – Do respondents agree that guidance in this area will help strengthen engagement practices? If they do not agree that guidance will have that effect, what else do they believe can be introduced to strengthen engagement practices?

It is already best practice investor relations for the initiatives suggested to be in place. The role of the investor relations function is to enact and facilitate effective communication between company management and investors and we would like to make it clear that any discussion on stewardship engagement should recognise this. We note in Appendix D that while there is mention of the Chairman, CFO and CEO, the person with responsibility for investor relations (whether dedicated IR Director/Head of IR or Corporate Communications Director/Company Secretary etc) is not specifically mentioned. It is, however, the investor relations function that serves as the conduit between senior management and investors with its essential role in disseminating company strategy to markets while relaying market sentiment to the Board. In addition, IR departments typically report directly to the CFO, or even CEO, with a working relationship with the company Chairman. The role of investor relations in the wider corporate arena is therefore relevant to this question. We feel there is a balance to be struck between a dedicated IR function or a trained IR responsible manager. For instance, a shared role with strategy or treasury or financial control but with an IR qualification (such as our ‘Certificate in Investor Relations’) recognises the importance of the IR function while being pragmatic for smaller listed businesses that might lack the resources for the cost of dedicated IR. Insourced services where dedicated providers which meet certain standards could also be considered.

The on-going challenge for both issuers and investors is to make sure best practice investor engagement is adhered to in spirit as well as letter. Stewardship engagement is in both parties’ interest; allowing companies to explain long term strategy and direction while presenting investors the opportunity to make clear, rational investment decisions, taking the investment case as a whole. We are supportive of practical and robust initiatives that act to strengthen this, having endorsed the FRC’s Stewardship Code from its initiation. However, we contend that best practice investor relations is already delivering on the principles espoused in this consultant document. Our members reflect this with 86% meeting their top ten investors more than once a year and 67% of our members reporting to us that their top ten investors are *actively engaged.* We will continue to encourage this practice.

QUESTION TWO – Do respondents agree with the need to develop a new conversation. Are there any other considerations that should be included in this new conversation?

There are certainly elements of the stewardship engagement process that can be improved upon. As reflected in the paper, companies at times have frustrations over investor meetings. Lack of investor understanding of the company, different perspectives of fund managers and investor corporate governance departments, investor overreliance over third parties for consensus and voting (in particular, proxy services should not be seen as a direct substitute for engagement and there should be greater clarity on how such services are used), and the difficulty in arranging meeting time with investors are among the frustrations our members voice to us. However, in any consideration of a 'new conversation' we are mindful of seeking to avoid replicating established practices. While this is a positive and optimistic attempt for improved quality stewardship engagement, our preference is for evolution rather than revolution. Furthermore, a large aspect of how successful the existing conversation is between companies and investors is predicated on the level of accurate guidance investors rely on and again, there is a strong role for the IR department in this, with the current trend for companies to take this in-house. While we support moves towards increasing dialogue, we need to ensure that in the interest of our members the importance of this is understood by investors and that importantly, there is some form of applicable imperative on investors to adhere to mutually accepted standards. Currently, a perception exists among issuers that this is a one-way street with companies expected to meet a wide array of standards and best practices, with investors perceived as being far less accountable. For effective partnerships to be forged and held a joint recognition of rights and responsibilities is essential and we would ask that this be taken into consideration.

QUESTION THREE – Do respondents agree that the measures outlined in Appendix E would significantly improve the quality of engagement meetings, and are there any other steps which could be taken?

We think these might improve the quality of engagement meetings but again, we would question the lack of obvious pressure on investors to meet these proposals. Without fairly stringent external monitoring our concern is that there is little incentive for investors to participate or to be seen to be doing so. We are unsure over whether investors would undertake the required administration that would be the likely result of the measures proposed in Appendix E. In practical terms, meetings can see different people participating in different parts of the meeting, leading to our other concern which is the apparent disconnect that in some cases appears to exist between those responsible for investment decisions and investors' corporate governance departments. While our members say that many investment houses do integrate these functions effectively, they also say this is not always the case and that leads to a confused message from the investor side where there are conflicting views.

With regards to the proposal in the 'Companies' section of Appendix E, we are unsure as to the meaning of "one design and attendance at the meeting". In our members' experience, meetings are typically tailored towards participants and what the investors want to cover. One suggestion would be for investors to be encouraged to start their meetings with a summary of key points they wish to cover, although many already do this. With regards to meetings and results, companies following best practice already hold straight results meetings and ad hoc outside meetings to cover strategic matters. Investors will almost always want to see companies at results or at the very least be offered a meeting. Events like investor teach-ins, sales meetings, and small presentations on a particular subject cover the points raised in this part of Appendix E.

Under the "Agenda, minutes and follow up" section, our members find that investment and governance issues are already often discussed at the same meeting. In terms of specific questions to be discussed, we would strongly suggest that frameworks not be set around this – companies and investors will discuss areas of interest and relevance to one another without any requirement for prescription. In terms of checking with meeting participants on the quality of meetings we would suggest that a constructive way forwards would be for investors to appoint a team member to give feedback to IROs - this would be both helpful to the company and engender stewardship engagement more generally.

QUESTION FOUR – Should companies and institutional investors seek feedback on the quality of meetings as an integral part of the engagement experience?

In principle we support this. We agree with the principle of measuring the performance of investors given that companies (and IROs) are measured for their performance in meetings through the buying and selling of their stock. However, we do have a wide range of concerns over practical implementation. Foremost among these is the fear that a feedback mechanism might actually make engagement harder as an unintended consequence. The reason for this is that investors added to a meeting programme with short notice, and who might therefore not be well prepared, might see the risk of a bad ranking as a reason to avoid the meeting altogether, with the potential consequence of meetings becoming limited to already established investors. It would be essential, as stated in Appendix F for feedback to be anonymous to prevent investors giving a bad rating simply selling their stock from dissatisfaction. Furthermore, in general it is very difficult indeed to mark the quality of a discussion. If in a difficult and tense investor meeting an investor relays uncomfortable, yet accurate and genuine views on company performance that requires senior management action in the company's interest, will the IRO class this as a positive or negative meeting? There is the risk of rankings serving to undermine existing trust and understanding and encouraging an 'us and them' mind-set to develop which clearly is not in any parties' best interests. There is the secondary risk of companies overcompensating to avoid the above problem by engaging in a prescriptive tick box exercise designed to avoid repercussions for the company.

Despite the practical difficulties outlined, we absolutely support the principle of feedback. In general, both companies and investors should already be seeking feedback from one another and finding out how best to work together to reach common objectives. Different kinds of feedback will be generated at different times and in different formats with varying formality. In addition to day to day feedback direct to IRO's, one alternative for feedback is to consider an annual 'audit' carried out by a third party - broker or other adviser or consultant. However this raises the question of whether these would be regarded as independent by investors. Ultimately it is the role of the investor relations team to be most involved in the feedback process.

QUESTION FIVE – Do respondents consider that receiving feedback on meetings directly from investors might lead to more effective engagement compared to receiving the feedback from the company's brokers or advisers?

We feel this is unlikely to be relevant for all investor meetings. We also feel that the measure of quality is by nature subjective. Direct feedback between investors and IRO's will remain an important part of the process and should be encouraged at all levels. It is also important that any feedback like this is fed back to the company's Board. However, it should be noted that there can be instances with limited in-house resources where it may be necessary to use other advisers to assist in this feedback collection.

QUESTION SIX – Do respondents consider the questionnaire format, and the content, outlined in Appendix F would constitute an acceptable basis for providing feedback on investor meetings? Might any other mechanism be used? If using the questionnaire format, should any content be added (or removed)?

If a questionnaire approach was to be used we think this would constitute an acceptable basis for providing feedback. In terms of mechanism, an online application would probably be the only reliable and usable format. However, we are unsure at this stage whether a formal mechanism such as this is quite the right course of action. We think a constructive alternative would be a more collective approach, akin to one recommendation of the Kay Review of a forum for major investors to engage with UK companies and each other. Indeed, we have established our own 'IR Forum' to do just that and we would like to volunteer this as an opportunity for the development of stewardship engagement. We believe this is the right approach for companies and investors to exchange views and encourage understanding of one another's imperatives. We would also suggest the possible use of social media discussion groups to reinforce this.

QUESTION SEVEN – Do respondents consider that addressing these key issues will help strengthen good practice engagement?

Yes, in part. There is potential here for a strengthening of stewardship engagement and investor participation whilst being mindful of time and resource constraints on both company and investor and the concerns raised in our response.

QUESTION EIGHT – Do respondents have views on what other mechanisms can be used to encourage good practice engagement?

In addition to the approaches already suggested, our overall preferred mechanism for affecting good engagement policy developed and adhered to by both companies and institutional investors is a proactive, IRO empowering approach whereby there is mutual dissemination of broad agendas ahead of investor meetings reflecting allocations of time and/or detailed notes outlining how maximum value can be extracted from the meetings. We would also suggest a clear role for both the non-executive directors and executive team. It will take a combination of advice based on guidance, judgement based on experience, and relationship based on hard work, to do this well on almost all fronts.

We tend to take the view that any meaningful engagement must start with the asset owners. If we can define who they are, and encourage the development of certain minimum, fiduciary duties as long-term stewards, and explain to Boards what this role means, companies can then better respond in terms of what these stewards need to fulfil their obligations. We believe that best practice guidelines, widely disseminated, would go a long way in encouraging effective stewardship engagement without potentially jeopardising the good engagement practices that already take place. At all costs, we should seek to avoid an overly prescriptive approach with investor relations taking on a regulation/compliance adversarial tone in which investors do not engage with companies at all. Our view is that investor relations remains an 'art rather than science' and the role of best practice IR helping us achieve our common objective is clear.