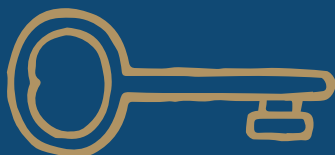


OWNERSHIP DAY

USE SHAREHOLDER RIGHTS
TO IMPROVE YOUR RETURNS



How to be an active owner

The easy guide to boosting long-term returns

www.ownershipday.co.uk

“We have long believed that environmental, social and governance (ESG) factors can influence company performance, and that consideration of ESG factors in the investment process can reduce investment risk and underpin long-term returns.”

F&C Investments

Barber, Brad. “Monitoring the Monitor: Evaluating CalPERS’ Activism” (Working Paper, UC Davis, 2006).

After pursuing corporate reforms, CalPERS (California Public Employees’ Retirement system), the largest pension fund in the state, took to public statements on subjects such as corporate governance, investment in tobacco firms, Sudan, South Africa, and the independence of audit committees.

Over a period from 1992-2005, the activism of CalPERS ‘focus list’ firms created small but positive yields seen by market reactions of 23 basis points totalling a shareholder value of \$3.1 billion. These shareholder proposals at firms chosen by CalPERS were designed to increase shareholder rights. There is a strong correlation which suggests that improving shareholder rights increases shareholder value.



What is Active Ownership?

Active ownership, also known as stewardship, is about how asset “owners” of all types - trustees, employer DC schemes, Investment Trust Boards - create the right long-term culture for their advisers to operate in.

The idea is simple: engaged, alert owners should tell their advisers to focus on the issues which reduce risk in the short-term and create value in the long run. This benefits owners, companies, beneficiaries and the economy.

How?

- Investee companies that are run for the long-term will produce more sustainable and higher-rated profits
- Companies that don't move from a short-term approach will be de-rated as their longer-term risks crystallise
- Companies that are run the right way will retain society's trust and be less of a reputational risk to their owners

Environmental, social and governance (ESG) factors- are key to active ownership. In a recent consultation the Law Commission stated:

“a report by Deutsche Bank referenced 100 academic studies and 56 research papers and concluded that ESG factors do have positive financial impacts”

Vigeo Rating and Cometa

Vigeo worked with Italian pension fund Cometa to provide a simple ex post investment, active engagement strategy. Vigeo identified whether investee companies were threatened by financial and reputational risk as a result of any serious social or environmental controversies in their operations and supply chains. Such risks include violation of human or workers' rights, significant environmental incidents, corruption, safety failures and conflicts of interest.

The resulting Watch List, detailed reports, and Vigeo's full engagement support provided Cometa with the tools to raise their concerns with companies and enter a dialogue to push for change in areas where these risks threatened future asset value.

How to be an active owner at your next meeting



You can begin to adopt the active ownership approach at your next meeting simply by asking some of these questions.

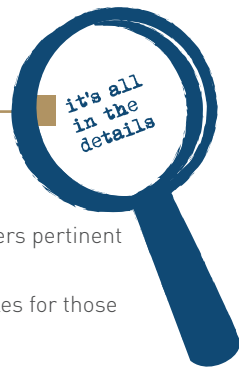
These questions will show how you want your advisers to change their thinking on creating long term value and will stimulate good quality discussion.

Don't be concerned by reactions to this new, more engaged strategy. The owner calls the shots and it's widely acknowledged that the most demanding clients get the best service.

Ask	The question
All	Ownership obligations are increasing for several reasons. How can you support us beyond your traditional service level?
All	If we force you to exclude short-term and purely financial risks, those of less than 5 years, what worries you most about the future?
Fund Manager	Aggressive tax planning has been criticised recently. How do you engage with companies that have low tax charges given that holding such investments represents a financial and reputational risk to you and your clients?
Fund Manager	Carbon footprint reporting and reduction is increasingly discussed. How do you discuss this with investee companies and assess their responses?
Fund Manager	Investee companies should know we want long-term engagement with them. How will you communicate this message and can you describe how you will deliver on it? What personnel will be involved?
Fund Manager	Voting is a key shareholder right. It has more engagement impact when companies can see the names of their shareholders on the register rather than simply the names of custodians. How do you ensure that the company is aware of who has voted and what the key issues are?
Fund Manager	Executive pay carries reputational risk. How do you decide that executive pay is fair in investee companies?
Actuary	Now that the Institute and Faculty of Actuaries' report on resource constraints is one year old can you say how its conclusions have affected your work?
Actuary/ Investment Consultant	We want to encourage wealth creation for the long-term. If we extended the term for recommendations what new types of investment would you be able to suggest to us?
Investment Consultant	Do you think the impact of climate change on asset returns and correlations can be accommodated by your current models? How should we mitigate this risk?
Lawyer	To what extent do you share the Law Commission's conclusions that trustees "may" consider non-financial factors such as ESG and quality of life?

Telling advisers that these questions are important to you means they are more likely to be answered. The answers will show your advisers in a different light and let you assess them in a different way. This thinking, and the questions it prompts, will help you to become a better owner.

Top Tips



- Know what you hold
- Assess how your investment decisions align with your strategic aims
- Identify two to three core issues and pursue them by asking asset managers pertinent questions about relevant investee companies
- Request voting reports from investment managers which include rationales for those cast on contentious votes, whether for or against management
- Collaborate with other asset owners to maximise impact

Emily Kenway, Head of Projects, ShareAction

First State Stewart Annual Responsible Investment Report, 2012

Following the discovery of distressing reports on serious health problems resulting from chemical products, First State engaged with a series of companies, such as Amore Pacific, Natura, and Beiersdorf to gain insight into their practices and encourage similar transparency with consumers. Natura, a Brazilian company, was extremely cooperative in outlining its approach. Specifically, the company was very straight forward in sharing its usage of the chemical, Triclosan. Following this admission, Natura pledged to remove this chemical from its products from 2008 given the potentially adverse effects on the environment and human health.

F&C Investments & The Banking Sector, 2013

Following on from the series of scandals, F&C in 2013 advocated for ethical performance to be factored explicitly into the remuneration assessment of senior executives at banks. Ahead of the voting season, F&C held one-to-one remuneration consultations with a number of high-risk banks including Goldman Sachs, Deutsche Bank, and Barclays.

We also wrote to the chairmen of the 60 largest banks in Europe, North America and Asia to provide guidance on F&C's banking sector voting policies. The letter underscored our key concerns about the sector and encouraged banks to more formally link remuneration, risk management and business ethics. This reflects our belief that appropriate ethics, culture and values in the banking sector are fundamental to the longterm sustainability of individual banks and the broader financial system.

Experts, evidence and advice

For more detail on all of the complex issues we have covered please see:

Examples of Active Ownership

Find successful Ownership 'stories' on our website
<https://www.ownershipday.co.uk>

The Stewardship Code

A key piece from the regulatory body the Financial Reporting Council (FRC). UK Fund Managers are required by the FCA to "comply or explain" with respect to the code. Asset owners are now encouraged to sign in their own right.

<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

Why be an active owner?

A valuable, short guide from the PRI looking at the concepts.
<http://www.unpri.org/why-be-an-active-owner>

Tomorrow's Value, from Tomorrow's Company

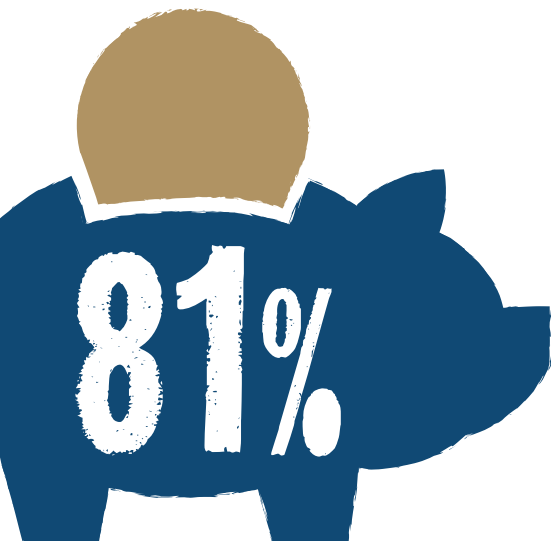
A detailed, recent report on the issues for pension funds but useful for all owners. Comes with prompts and questions on how owners set their own investment views, their SIPs (if applicable) and determine their required skill sets.

<http://www.tomorrowcompany.com/tomorrows-value-pension-fund-guide>

Stewardship Central on the NAPF website

A useful selection of advice, including questions for your manager which are updated every month.

<http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/Stewardship.aspx>



of NAPF pension fund members agree that extra-financial, or ESG, factors can have a material impact on investments in the long-term.

NAPF Engagement Survey 2013

Dear Owner...

Simon Howard, Chief Executive, UK Sustainable Investment and Finance Association



The idea that better engagement and stewardship – Active Ownership – mean better returns is fast gaining acceptance. This short guide aims to start owners, of all types, on that journey. The questions we suggest will allow owners to show how they want the assets they are responsible for to be managed. We think that good advisers will engage willingly and take the opportunity to build more productive relationships with investors and investees, giving comfort to owners that they are exercising their responsibilities appropriately on their behalf.

Increasingly, the level of engagement activity is being used to differentiate suppliers - and we encourage this. We would like to see 'ownership' strategies become established criteria in the adviser selection process across a whole range of professions.

The UK is uniquely placed to drive this forward as, witnessing the knowledge and innovation delivered by the organisations UKSIF works with throughout the UK financial services sector, we are world leaders.

Lindsay Smart, Head of UK and US Markets, Vigeo Rating



Vigeo are delighted to sponsor the 2014 Ownership Guide and support its aim to empower investors to strategically use their role as owners to improve long-term performance. To Vigeo ownership means an investor who guides their asset managers, saying which influences they wish to impact investment decisions made on their behalf.

The responsible owner engages in dialogue with their manager and works to guide voting in shareholder's general assemblies. Vigeo offers asset owners and managers specialised support in integrating environmental, social, and governance (ESG) factors (broken into six domains: environment, human resources, human rights, community involvement, business behaviour and corporate governance) into their ownership approach. Understanding the possible impact of these factors is for many investors a necessary

complement to financial data in understanding the likely future value of assets owned. Being active and including ESG factors within your expectations, is therefore, an important part of being an informed and responsible owner.

Vigeo offer owners the tools and advice necessary to demonstrate their ESG expectations to their managers, ensuring investments are reliably carried out. We also work with owners to help them formulate their own approach to engagement. For example, since 2004, Belfus Bank employ Vigeo for engagement activity under the Portfolio21 banner - to enhance financial management through engagement implementation. We hope this Ownership Guide will encourage UK investors to explore and undertake a responsible approach to ownership.

“A ‘healthy dialogue’ [with companies] does not mean we always agree with each other, but so long as exchanges remain respectful and open-minded, we believe that such engagement can help reinforce the importance of strong governance focused on long-term performance. This in turn can help companies achieve superior, long-term returns when compared with companies without such engagement.”

Seb Beloe, Head of Research, WHEB Group

Disclaimer: This publication should not be taken as financial advice or seen as an endorsement of any particular company or individual. Whilst every effort has been made to ensure the information contained in this document is precise, UKSIF cannot guarantee accuracy.



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