

**Present:**

|                     |                                      |     |
|---------------------|--------------------------------------|-----|
| Will Pomroy (Chair) | Hermes Investment Management Limited | WP  |
| Edward Beale        | Western Selection PLC                | EB  |
| Amanda Cantwell     | Practical Law Company Limited        | AC  |
| Jo Chattle          | Norton Rose Fulbright LLP            | JC  |
| Jonathon Compton    | BDO LLP                              | JCO |
| Louis Cooper        | Non-Executive Directors Association  | LC  |
| Ian Greenwood       | Korn Ferry                           | IG  |
| David Hicks         | Charles Russell Speechlys LLP        | DH  |
| Damien Knight       | MM & K Limited                       | DK  |
| Efe Odeka           | UHY                                  | EO  |
| Kamalprit Lally     | Wedlake Bell LLP                     | KL  |
| Darshan Patel       | Hybridan LLP                         | DP  |
| Phillip Patterson   | PricewaterhouseCoopers               | PP  |
| Julie Stanbrook     | Practical Law Company Limited        | JS  |
| Carmen Stevens      | Jordans Limited                      | CS  |
| Peter Swabey        | ICSA                                 | PS  |
| Kerin Williams      | Prism Cossec                         | KW  |
| Jack Marshall       | Quoted Companies Alliance            | JM  |

**In attendance:**

|              |                |    |
|--------------|----------------|----|
| Fiona Ellard | Investor Forum | FE |
|--------------|----------------|----|

- 1. Welcome to Fiona Ellard, COO of the Investor Forum, as guest speaker to talk about the Investor Forum and its engagement with smaller companies.**

WP welcomed FE to the Corporate Governance Expert Group meeting.

Introduction to the Investor Forum

The Investor Forum was established in 2014 as a result of the Kay Review, which recommended that there needed to be a shift in the culture of the stock market and movement away from short-termism and the fragmentation of companies. The Forum is designed to allow shareholders to collaborate and engage with companies through their collective engagement framework and address identified areas of common concern.

The Forum has two fundamental purposes:

1. To support long-term investment approaches; and

## 2. Create an effective model for collective engagement with UK companies.

The Investor Forum currently has 47 members. Whilst the Forum has an ongoing dialogue to acquire more members, they do not actively set out to get more members. The Forum are, however, keen to acquire, in particular more international asset owners and managers, but will not consider activists with unaligned objectives as members. Non-members can participate in the Investor Forum's work, but they have to be aligned in terms of their interests.

### Collective engagement

FE described and outlined the Investor Forum's collective engagement framework. A member will submit an initial proposal and the Forum will then contact other members on the share register to determine whether there is common interest. Common issues which are addressed through the Forum include those around succession planning and capital allocation.

The Forum opens individual engagements up to its members, who will in turn decide themselves whether to opt in or out. A strategy document is then developed that explores the legal framework and identifies key issues and engagement tactics. A letter is then drafted and sent to the chair of the company in question. An individual engagement can take months as there is a continued dialogue between the Forum and the company.

The Forum does not address issues relating to remuneration, instead this matter is left to the Investor Association.

### Key lessons learned by the Forum from its collective engagement

- The quality of dialogue needs to improve
  - The focus needs to switch to drivers of long-term value creation, such as culture and ethics
- Boards need to be able to demonstrate their effectiveness
  - Board diversity is important as investors are increasingly aware of codes and regulations
- Long-term value creation is an issue for both investors and companies
- Non-financial factors
  - These have become more of an issue and are potential indicators of long-term value
  - Investors are doing lots of work around ESG - there is, however, currently a lack of comparative data.

### Issues with smaller companies

FE explained the Investor Forum's work with a smaller PLC. FE mentioned that the main difference with smaller companies was their propensity to have a concentrated shareholder register and thus there is less need for coordinated collective shareholder engagement, however, the Forum has still supported more engagements with smaller companies than originally envisaged. Around 10 per cent of the Forum's work focusses on working with companies outside the FTSE 350.

### Stewardship Code

FE highlighted the Forum's work to outline the components of Stewardship, which included a definition of stewardship which explains the different characteristics of types of engagement.

## 2. APOLOGIES

Apologies were received from Ria Banerjee, Nigel Brown, Richie Clark, Edward Craft, Rory Cray, Tamsin Dow, Peter Fitzwilliam, David Fuller, Nick Gibbon, Tracy Gordon, Nick Graves, David Isherwood, Daniel Jarman, Colin Jones, Peter Kohl, Karina Lazarova, James Lynch, Carmen Stevens, Daniel Redman, Anthony Robinson, Jack Shepherd and Melanie Wadsworth.

## 3. MINUTES OF LAST MEETING (20 November 2018)

The minutes of the last meeting were approved.

## 4. ISSUES FOR DISCUSSION

|    | ITEM  | ACTION  |
|----|---|---|
| a) | <p><b>ISS roundtable with Rachit Gupta 13 June 2019</b></p> <p>WP informed the group that the QCA are holding a roundtable event for company directors with Rachit Gupta, Deputy Head of UK Research &amp; Head of UK Small and Mid-Cap Companies at Institutional Shareholder Services.</p>  | None.   |
| b) | <p><b>Recently submitted and outstanding consultations:</b></p> <ul style="list-style-type: none"> <li>i. <b>FRC - Proposed revision to the UK Stewardship Code (submitted 29/03/19)</b></li> <li>ii. <b>FCA &amp; FRC - Building a Regulatory Framework for Effective Stewardship (submitted 30/04/19)</b></li> <li>iii. <b>NEX Exchange – Proposed amendments to the NEX Exchange Growth Market Rules for issuers (deadline 31/05/19)</b></li> <li>iv. <b>BEIS - Initial consultation on Kingman's recommendations (deadline 11/06/19)</b></li> </ul> <p>WP led a discussion about the consultations the group was responsible for. It was mentioned that comments were still being received on both the BEIS consultation and the NEX Exchange consultation.</p> <p>In regard to the audit consultations, there is a risk that there will be multiple new rules created, as a result of the separate consultations. The starting point of these consultations should be to establish the purpose of a company, define the role of audit and then pull the rest together, rather than this disjointed approach.</p> | <b>ALL</b> to send comments on the outstanding consultations to <b>JM</b> . |
| c) | <p><b>Future meetings and speaker priorities for 2019.</b></p> <p>The group expressed an interest in having representatives from the following organisations as guests for a future meeting:</p> <ul style="list-style-type: none"> <li>• FRC</li> <li>• BEIS.</li> </ul>   | <b>JM</b> to invite potential guest speakers.                               |

## 5. COMMUNICATIONS AND FUTURE MEETINGS

|    | ITEM  | ACTION |
|----|---|--------|
| a) | <p>The QCA are running a series of Corporate Governance Workshops that will explore the QCA Corporate Governance Code and demonstrate how it can be used and applied effectively. Louis Cooper, Chief Executive of the Non-Executive Directors Association (NEDA), will be the course leader at the workshops, and will discuss the Code and share practical examples and case studies along with a range of speakers.</p> <p>This was tabled for information only and not discussed.</p> | None.  |
| b) | <p>The project for updating the QCA Audit Committee Audit Guide is progressing and is on course for release in June.</p> <p>This was tabled for information only and not discussed.</p>   | None.  |
| c) | <p>YouGov are surveying companies that adopted the QCA Corporate Governance Code to identify any ways in which we might be able to improve the Code and see if we can find evidence that following the QCA Code has helped companies. This will be published in May/June.</p> <p>This was tabled for information only and not discussed.</p>  | None.  |
| d) | <p>Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller growth companies. They are currently in the process of collating the findings from the interviews and focus groups they conducted and will be released in May/June.</p> <p>This was tabled for information only and not discussed.</p>   | None.  |
| e) | <p>The bi-annual QCA Small &amp; Mid-Cap Sentiment Index survey is currently in the field and is being administered by YouGov. This is the 22<sup>nd</sup> wave of the survey going back eight years. All QCA members are encouraged to contribute their views.</p> <p>This was tabled for information only and not discussed.</p>  | None.  |

## 6. ANY OTHER BUSINESS

It was mentioned that the FRC & ICAEW published a guide to help smaller companies with their financial reporting. It was suggested that the QCA have a conversation with the ICAEW with the aim of ensuring that the QCA Audit Committee guide was suitably differentiated and providing real value-add.

PS highlighted that the ICSA are due to publish a consultation to review the quality and effectiveness of board evaluations, which will ask a number of leading questions.

## **7. NEXT MEETING**

Tuesday 16 July 2019, 9.00am – 10.30am (Venue: Norton Rose Fulbright LLP, 3 More London Riverside, London, SE1 2AQ)