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# The Asset Management Taskforce's Stewardship Report: Some points for UK companies

2 December 2020

"Investing With Purpose", the November 2020 report of the UK's Asset Management Taskforce, a grouping of the UK Government, asset managers, regulators and other stakeholders, is primarily aimed at improving stewardship and a focus on sustainability in the asset management and pensions industry. But a number of the report's recommendations, if implemented, may also have a significant impact on the companies in which the UK asset management industry invests, both public and private, and in the context of both equity and debt investments.

## Companies with listed equity securities

The report emphasises that asset managers should use their stewardship responsibilities to ensure that companies are meeting expectations on the sustainability of their businesses.

In particular, the report recommends that:

- Companies seeking to raise additional capital from investors must explain how they are focusing on sustainable growth and long-term drivers of value creation so that they are more resilient and sustainable going forward.
- All large UK incorporated companies should be required by UK companies law to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework, in order to allow the impact of climate change on individual companies to be assessed and priced into the financial system.
- Companies should improve the quality of their reporting and explanations in respect of the UK Corporate Governance Code's Comply or Explain regime. This includes a demand for better explanations of why a company fully complies with the relevant principles (to avoid compliance being seen as the "easy" option), as well as improved descriptions of reasons for non-compliance.

The report also emphasises the need for greater engagement between shareholders and companies.

Besides supporting the FRC's work on ensuring greater access to and participation in shareholder meetings, the report encourages greater use of the requisitioning of resolutions at shareholder meetings as an engagement escalation tool, which could ultimately lead to a more American style of shareholder activism in the UK.

The report notes with favour the success of Climate Action 100 in using shareholder requisitions to encourage high carbon emitting companies to make more proactive commitments to reduce greenhouse gas emissions and manage climate change associated risks.

The report suggests that shareholders are most likely to support resolutions that require company boards to meet set outcomes and recommends that the asset management industry, in conjunction with legal advisers, should work to develop model resolutions that have been pre-agreed among investors to escalate a range of critical concerns with companies, starting with the 2021 annual general meeting season.

The report also recommends that the Government should consider whether the existing requirements for the requisitioning of shareholder resolutions at annual general meetings (which currently require requisitions must be made either by (i) at least 100 shareholders holding an average of £100 of paid up shares each or (ii) the holders of 5% of a company's issued voting shares) should be relaxed in order to encourage more use of this stewardship tool.

## Companies with fixed income securities

The report notes, seemingly with an element of disapproval, that stewardship among fixed income investors has generally not been high, that engagement has largely been left to equity investors and that fixed income investors tend to speak only with the CFO and treasury functions at investee companies, and not the CEO or board.

In order to rectify this situation, the report recommends that:

- Fixed income investors should improve stewardship by setting expectations for the issuers of debt and holding them to account, as well as overcoming barriers to engagement, and that they should make full use of the rights available to them to do so.

- There should be greater engagement prior to the issuance of fixed income securities, to allow investors the opportunity to engage on covenants or on the structure of an issue, including to include specific ESG criteria. And, if possible, the same opportunity to engage should be taken when bond issuers seek to refinance. The report notes that green bond issuances already typically provide more opportunities for investor input and engagement.

- In common with equity issuers, companies seeking to raise additional debt from investors must explain how they are focusing on sustainability.

The report also notes that it is not clear that bondholder rights are fit for purpose in the context of modern capital structures, including in respect of voting rights possessed by equity holders that may materially impact outcomes for debtholders but over which they have no say. The report suggests that as stewardship in fixed income develops, there should be a debate about the barriers to bondholder engagement and whether bondholder rights should be strengthened, including relative to shareholders.

## Private companies

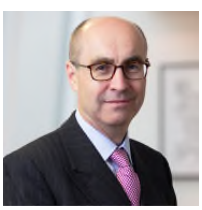
The report notes both the importance of private companies' role in society and market integrity, and that asset managers are significant investors in private companies as well as public securities. And, similar to the debt markets, the report notes that more emphasis is needed on stewardship in private markets.

In particular, the report recommends that:

- Asset owners and investment managers should identify common criteria for best practice stewardship in private asset classes.
- The UK Investment Association should consider the quality of UK Stewardship Code disclosures in relation to private markets.
- Large private companies should ensure that they are meeting investor, government and stakeholder expectations by improving their public disclosures against the Wates Corporate Governance Principles for Large Private Companies and compliance with the directors' duties set out in section 172 of the UK Companies Act.
- UK companies law should require that large private (as well as public) companies report in line with TCFD.
- There should be better engagement between investors and private companies undertaking an IPO, so that the quality of companies being listed and their ability to meet public market requirements improves.

"Investing With Purpose: placing stewardship at the heart of sustainable growth" is available to download here.

## Key contact



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