



THE INVESTOR FORUM

Facilitate dialogue | Create long-term solutions | Enhance value

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Introducing the Investor Forum

Foreword

The Investor Forum has been set up by the investment industry to foster better relations between UK corporates and their owners.

The intention is to build partnerships across the investment chain. Put simply, we will bring together asset owners, investment managers and corporates to deliver a return on engagement for the benefit of all investors.

All long-term investors in UK companies, including international investors, are invited to join the Investor Forum.

Simon Fraser, Chairman

Purpose

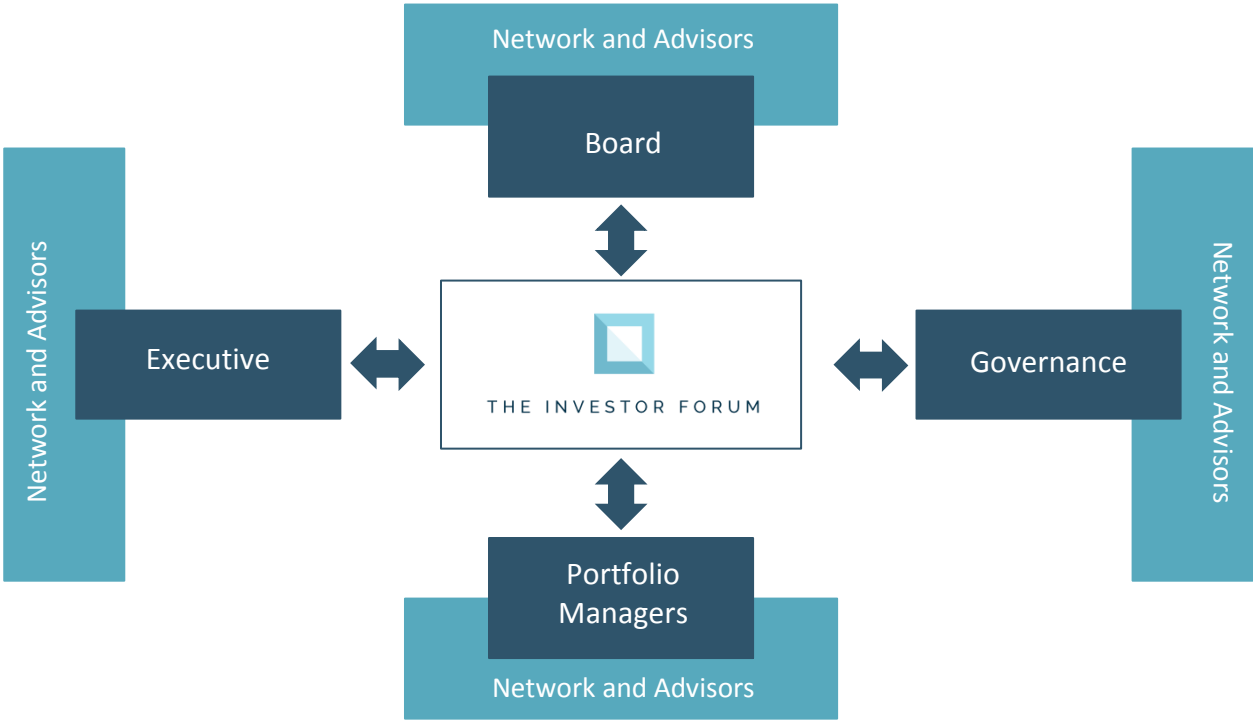
- *Position stewardship at the heart of investment decision making by facilitating dialogue, creating long-term solutions and enhancing value*

Objectives

- *Make the case for long-term investment approaches*
- *Create an effective model for collective engagement with UK companies*

Purpose

Positioning stewardship at the heart of investment decision making



Objectives

Making the case for long-term investment approaches

The approach of the Forum is informed by this central conclusion of the Kay Review:

"Our approach, which emphasises relationships based on trust and respect, is rooted in analysis and engagement, develops and extends the existing concept of stewardship in equity investment. This extended concept of stewardship requires that the skills and knowledge of the asset manager be integrated with the supervisory role of those employed in corporate governance: it looks forward to an engagement which is most commonly positive and supportive, and not merely critical."

Professor John Kay

The Investor Forum seeks to:

- *create a culture that combines the best research, governance and engagement practice in investment decision making*
- *encourage both asset owners and investment managers to invest in companies rather than trade securities*
- *build relationships and align the long-term interests of investors and companies*
- *develop solutions which embrace the diverse views of all stakeholders*
- *enhance trust throughout the investment chain*

Creating an effective model for collective engagement with UK companies

Engagement can enhance value for investors and companies when it:

- *is proactive and grounded in economic rationale*
- *brings together the right mix of skills and knowledge from investors and companies*
- *is conducted in a secure environment that permits tailored participation*
- *is focused on the long term and investors commit appropriate resources*
- *facilitates constructive solutions based on sustainable competitive advantage*
- *avoids unnecessary public confrontation*
- *exercises shareholder rights to the full extent necessary to protect value*

History

The Investor Forum has been developed by industry practitioners with the core objective of creating value.

In 2011, at the request of the Rt Hon Dr Vince Cable, Secretary of State for Business, Innovation and Skills, the UK Government commissioned a review of UK equity markets to be undertaken by the economist Prof. John Kay. In July 2012, the Final Report of his independent Review was published.

The Kay Review identified that traditional forms of shareholder engagement had focused disproportionately on corporate governance matters, leading to a vacuum in respect of companies' strategies for long-term, sustainable competitive advantage. He also highlighted impediments to engagement arising from increased international ownership, increasingly fragmented shareholding and the perceived regulatory barriers that inhibit collective engagement.

The review recommended the formation of an independent Investor Forum, to be championed and developed by the asset management industry. Following discussions between the major investment industry trade bodies¹, in April 2013 the Collective Engagement Working Group was established to consider how collective engagement in the UK could be enhanced. The Group was chaired by James Anderson, Global Head of Equities at Baillie Gifford, and comprised senior representatives of asset managers and asset owners, both domestic and international.

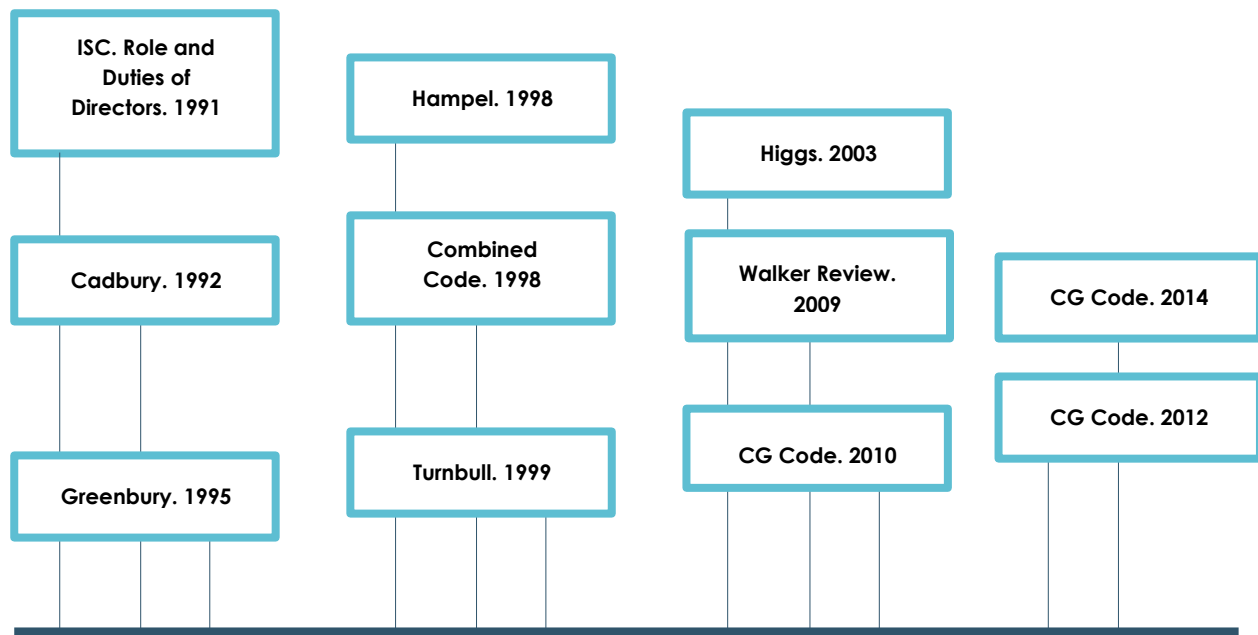
The Working Group issued its final report² in December 2013, which formally recommended the establishment of the Investor Forum to be carried forward by an implementation team, chaired by Sacha Sadan, Director of Corporate Governance at Legal and General Investment Management.

In October 2014, the Investor Forum was constituted as a Community Interest Company and a Board of Directors has now been appointed to represent the interests of the entire investment chain – asset owners, asset managers and company representatives.

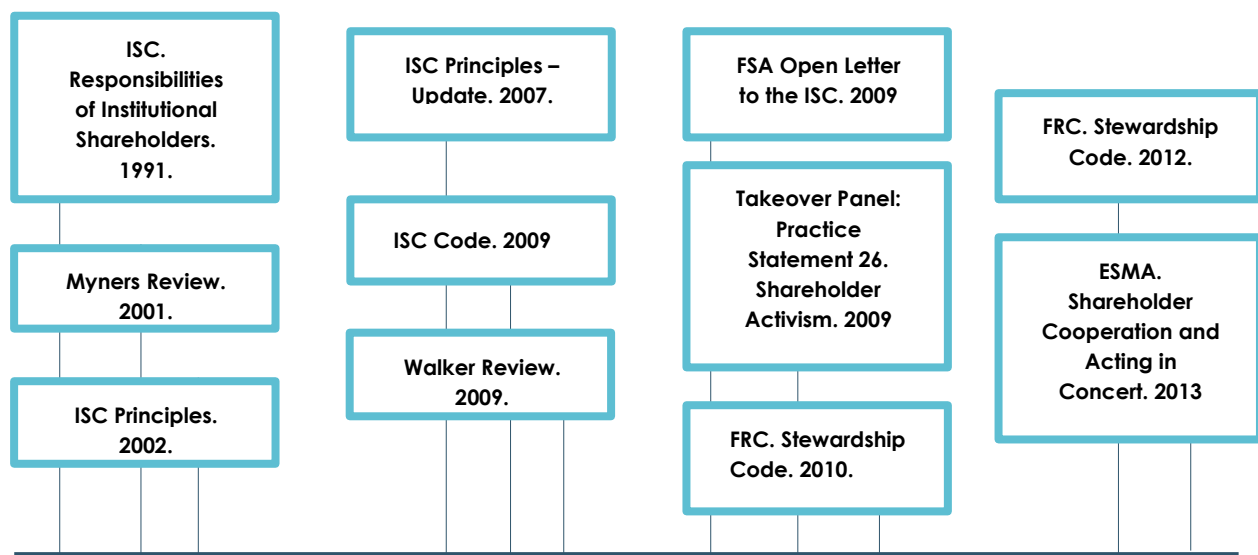
¹ Association of British Insurers, National Association of Pension Funds and the Investment Management Association

² <http://www.investmentfunds.org.uk/current-topics-of-interest/investor-forum/>

Considering the history of corporate governance principles and practice



Considering the history of engagement principles and practice



Motivation

The Investor Forum seeks to contribute to long-term investment performance by promoting cultural change and enhancing shareholder stewardship.

It is easy to forget the progress that has been made since the inception of the Cadbury Report over 20 years ago. The UK's principles-based approach – underpinned by the 'comply or explain' system of accountability – has achieved a quiet transformation in shareholder rights and governance. The success of this model relies on high quality dialogue between companies and investors.

Through this period the industry's stewardship practices have developed through changes to existing Codes of Practice and in reaction to pressure to increase the quantity of engagement by institutional investors. If shareholders are not sufficiently engaged, or engage on only a narrow set of issues, there may not be sufficient focus on contributing to the long-term performance of companies.

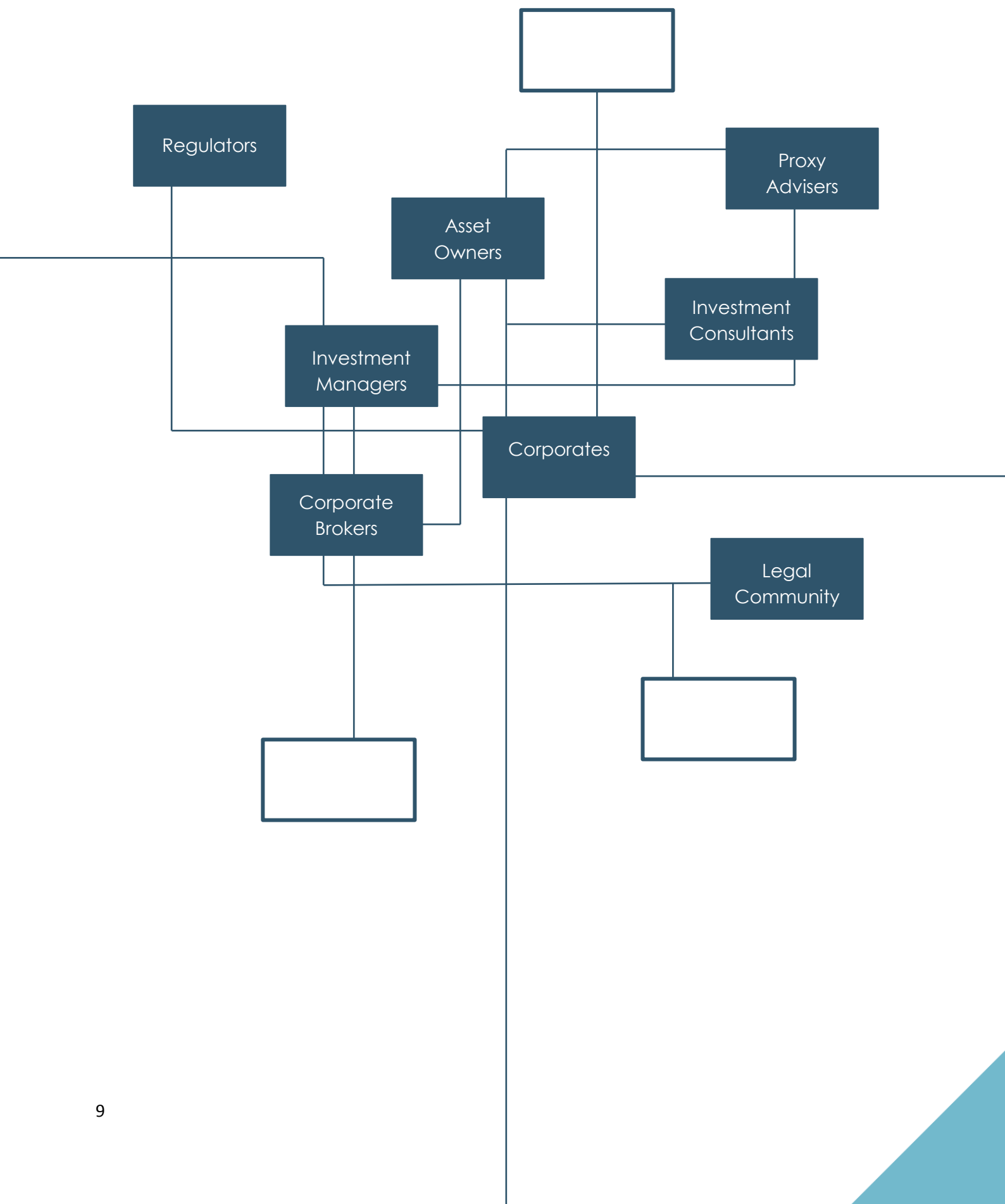
The Investor Forum has been launched by the industry following a comprehensive review of existing practices. The clear intention is to enhance the depth of dialogue between investors and companies by combining the best aspects of stewardship and investment decision-making.

The Forum will develop engagement practices that concentrate on companies' strategies for long-term, sustainable, competitive advantage as well as corporate governance. Enhancing stewardship in this way can reduce investment risk and increase shareholder confidence. In combination this approach can provide access to the most affordable capital for UK companies and generate attractive investment returns to UK savers.

It will be important to ensure participation from practitioners with the right blend of skills and knowledge from companies and the investment community. We intend to draw together executive and non-executive Directors from the corporate sector with the portfolio managers and corporate governance professionals that represent investors.

Since the financial crisis, there has been an erosion of trust in the financial system as a whole. A key focus of the Investor Forum will be to promote meaningful cultural change throughout the investment chain. The Investor Forum believes that relationships based on trust, respect and ongoing dialogue are key contributors to the performance of companies and securing good returns to savers. Anonymous trading by agents is not.

The investment chain: a complex web of interests



Approach

Formalising the collective professional beliefs and customs of practitioners

Where appropriate and requested by participants, the Investor Forum will facilitate the formation of investor groups to engage collectively. Our engagement approach will build strong relationships and seek to facilitate solutions. It will always be grounded in robust analysis and economic rationale.

The overall intention is to address emerging risks proactively and away from the AGM timetable, so that companies and investors have time to develop and agree on solutions. In the normal course of events, dialogue will be constructive and collaborative, with the intention of increasing understanding on both sides of the table.

To achieve this it is important that trust is maintained, and key to this is ensuring confidentiality for all participants. There is no requirement or expectation that a single view be established among investors, or public position be adopted, unless with the explicit consent of the institutions concerned and as a last resort.

To ensure wide participation, the engagement process will facilitate varying degrees of involvement by members. The responsibilities of participants across the entire capital structure will be agreed and clearly defined at the formation of an investor group.

A key intention of the Investor Forum is to facilitate the inclusion of international investors. While UK institutional investors have a rich history of stewardship and understanding of the associated compliance considerations, not all investors can draw on this experience. Many international investors face the dual application of regulation in their domestic markets in addition to the regulations governing investments in UK companies.

To create a safe and inclusive environment to support all investors in their engagement the Investor Forum has established a panel of leading law companies.

The Forum will work with the legal panel to provide clarity over the legal position on market abuse, material non-public information and concert parties, as well as the governance of investor groups.

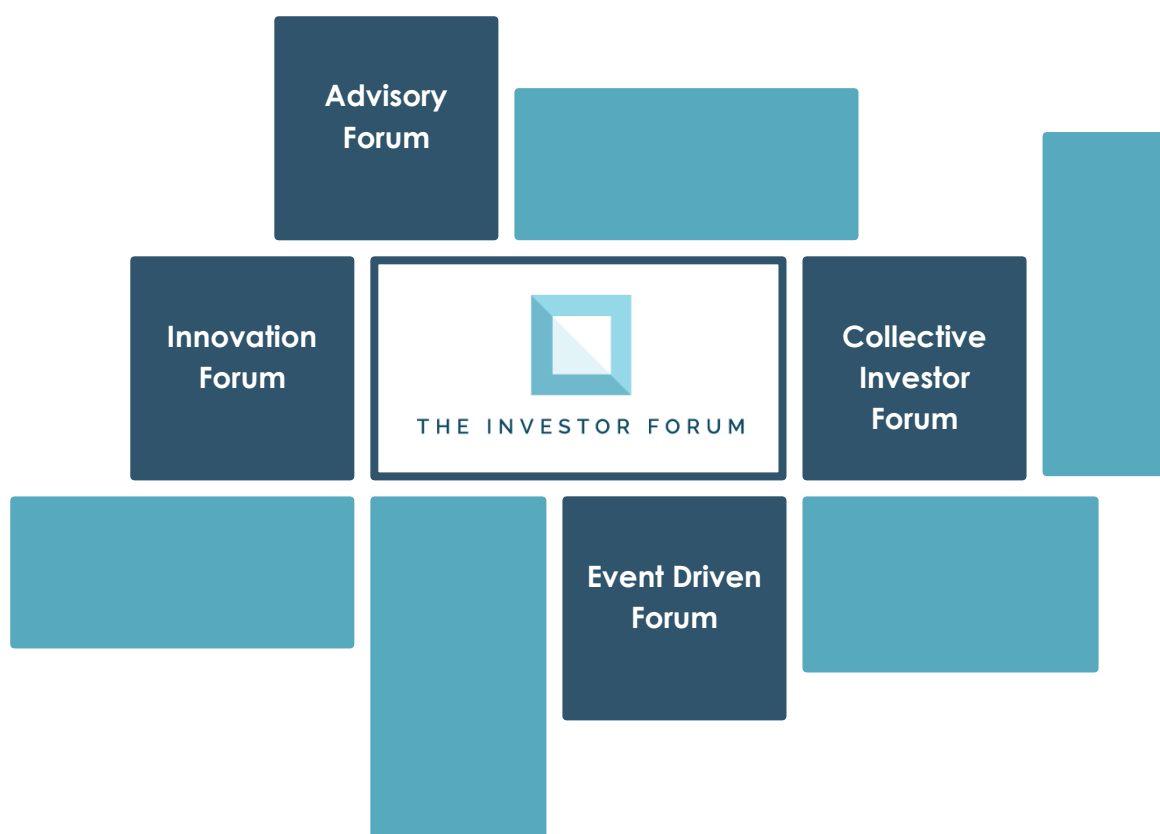
The legal panel will also be available to advise investor groups where general regulatory uncertainties arise. Where an investor group has been formed and its members decide that direct legal representation is appropriate in the circumstances, it is anticipated that a commercial approach would be required.

Providing Forums for Asset Owners, Asset Managers and Companies

As an independent organisation, with a single focus on facilitating solutions, the Investor Forum seeks to position itself as a trusted intermediary between investors and companies. It will provide this role where mandated to do so by investors or companies and where there is a strong value creation rationale. Any role would complement, rather than duplicate, existing interaction between individual asset managers and companies.

Each and every engagement is likely to have unique circumstances and requirements, but following consultation with institutional investors and companies the Forum has identified four areas of initial focus:

How can the Investor Forum help create value?



Innovation Forum

The Innovation Forum will publish research and arrange events which seek to provide leadership, develop culture and stimulate debate on long-term approaches to investment and engagement.

- Research Forums: to inform the activities of members and to identify the most material risks and opportunities relating to specific companies, sectors or themes.
- Company and Sector Forums: plan and facilitate events that encourage discussion on the long-term drivers of corporate success with a focus on the inputs essential to, rather than outputs of, successful business models.

Advisory Forum

The Advisory Forum will provide individual, in-confidence counsel to investors and companies. We seek to be a trusted advisor acting always as a sounding board, never as a principal.

With asset owners and managers, we can discuss developing situations at companies and provide advice on engagement, either as an individual institution or as part of a collective approach.

The Investor Forum can also act as an adviser to companies on interaction with shareholders on material investment matters. Typically this will be to act as an intermediary for shareholder feedback on company proposals or questions, particularly when companies are navigating major corporate changes.

Collective Investor Forum

The Collective Investor Forum will work with its members to facilitate comprehensive, proactive collective engagement between companies and investors. The intention is to address mid- to long-term issues at an earlier stage so as to broker solutions that enhance value. The focus is to limit the risk of strategic or operational drift at companies.

This Forum will typically be initiated where shareholders consider that the long-term competitive position of a company is at risk. In such cases, and where requested by members, the Forum will develop comprehensive engagement plans to support an Investor Group.

Event Driven Forum

The Event-Driven Forum will help ensure that shareholder rights are protected during material corporate actions and special situations. The Event Driven Forum will not advance specific views on the merits of corporate actions but rather seek to provide an un-conflicted framework that ensures shareholders' views are appropriately reflected and addressed. This is likely to be important during material mergers and acquisitions or significant company failures, but will also apply in circumstances that have wider significance for the reputation of the UK market.





THE INVESTOR FORUM

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