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**The Investment Association**

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**Date: 20 May 2016**

Dear Chairman,

**Board oversight of profit expectations and dividend policy**

I am writing to you to highlight an issue which is of particular concern to members of The Investment Association, namely, the number of instances where companies have made significant changes to their profit expectations and/or have reduced the dividend policy following the appointment of new management.

In the last year, we have seen numerous examples of companies where new management have been appointed and within months the value of the assets being written down and future profit expectations being scaled back significantly. In many cases these impairments have impacted on the capital strength of the balance sheet and have led to a cut in the dividend. Often the reasons for rebasing expectations have been evident for some time, but previous management had chosen to ignore them and even increase the dividend in the face of these long term challenges.

As significant long term investors we believe that these actions highlight insufficient oversight on the part of independent directors and the audit committee. We consider that the Directors should be assessing the likely future profitability of the business and the valuation of its assets on an ongoing basis. If the prospects of the business are presented as being fundamentally different following the appointment of new management, leading to the revaluation of assets and a cut in the dividend, then it raises questions about the Board's oversight of the previous management and why these issues have not been addressed earlier.

We recognise that it is important for boards to seek management change when it is needed but investors will hold the independent directors to account when there is a significant revaluation of assets, profit forecasts and dividend policy following the appointment of new management.

In response to this issue, our members have asked IVIS (the Investment Association's corporate governance research unit) to highlight on an "Amber Top" the re-election of the non-executive directors of any companies where this situation arises following the appointment of new management. This policy will come into effect for AGMs after 1<sup>st</sup> August 2016.

If you have any questions on this issue or this new approach, please do not hesitate to contact me.



Yours faithfully,

**Andrew Ninian**  
**Director, Corporate Governance & Engagement**