



## Investment Association Services Limited (trading as Institutional Voting Information Services) Stewardship Report 2021

I am pleased to introduce the 2021 Stewardship Report for the Investment Association's (IA) Institutional Voting Information Service (IVIS). This sets out how IVIS has applied the FRC's Stewardship Code for Service Providers for the period 1 January 2021 to 31 December 2021.

For IA members, as significant investors in UK listed companies, stewardship has always been important, but with increasing regulatory and client expectations on their stewardship activities and ESG integration, it is vital they demonstrate how they are delivering on their stewardship objectives and good outcomes for clients and wider society. In this Stewardship Report we set out how IVIS, the IA's voting research service, helps our members to deliver on their stewardship objectives. IVIS has always focussed on helping subscribers to make thoughtful and informed voting or engagement decisions rather than directing to a specific outcome, allowing investors to take account of the company's circumstances and explanations.

We have focused on the approach that IVIS has taken on the issues which IA members have asked IVIS to prioritise including the alignment of pension contributions, improving gender and ethnic diversity of Boards and Senior Leadership teams and climate change disclosures. We have provided an overview of the approach which IVIS has taken and demonstrate the progress made in 2021. With the ongoing impact of the pandemic, there have also been significant market wide issues during 2021, which have impacted the economy and investee companies. In this report, we highlight how IVIS responded to member expectations, including the focus on ensuring executive remuneration reflected the wider company performance and stakeholder experience during the pandemic.

However, the IA's approach to stewardship is much wider than IVIS. In 2021, the IA has worked with our members to create guidance on embedding stewardship in different asset classes such as fixed income, how we can strengthen the long-term relationships between investment managers and asset owners and developing guidance to overcome existing barriers to requisitioning resolutions. We look forward to publishing guidance on these issues shortly.

This Stewardship Report was approved by the IA Board at its April meeting. I would welcome feedback on our approach and reporting on stewardship.

Chris Cummings  
Chief Executive, The Investment Association



## Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.

### About IVIS

IVIS is a subscription service, which was developed in 1993 to provide corporate governance and voting research for investment managers and analyse proposals submitted at shareholder meetings. IVIS helps subscribers make an informed voting decision, it does not provide directed voting advice but highlights issues or concerns that subscribers should be aware of prior to voting. This helps to promote good stewardship, as it requires subscribers to make their own stewardship decisions on engagement and voting, taking account of their views and knowledge of individual circumstances of the company. IVIS also helps uphold the IA guidelines and Shareholder Priorities that IA members have identified as important issues for them as long-term investors in UK listed companies. IVIS is the main way that the IA assesses if UK listed companies are responding to these investor stewardship expectations.

IVIS provides subscribers with full access to all IVIS reports, alerts when an IVIS report is published, a weekly email summarising recently published reports and access to the IVIS database through the IVIS search functionality.

IVIS monitors and assesses FTSE All-Share companies and the 50 largest FTSE Fledgling companies against the UK Corporate Governance Code, the IA Guidelines as well as other industry guidelines such as the Pre-emption Group Guidelines. IVIS does not conduct analysis on any other listed or non-listed companies, asset classes or geographies.

For each company annual general meeting, IVIS prepares a report which has three distinct sections, the Proxy Report, the Corporate Governance Report (the CG Report) and the Environmental, Social & Governance Report (the ESG Report). The Proxy Report replicates the meeting agenda and concisely identifies areas of concern or other issues shareholders should be aware of prior to voting. The CG Report analyses the company's governance structure highlighting the board and committee structure, compliance with the UK Corporate Governance Code as well as other shareholder expectations on diversity, board effectiveness, succession planning, workforce engagement and audit and accounting issues such as Audit Committee and Auditor judgements. The ESG Report monitors compliance with the IA Long Term Reporting Guidance (which includes guidelines on human capital; productivity; capital management and ESG disclosures) and the company's approach to TCFD reporting.

IVIS does not provide voting recommendations. Instead, it highlights specific matters for subscribers to consider prior to voting through a colour coding system. Each report is colour coded (or topped), with Red indicating a breach of best practice and not conforming to our Guidelines, Amber raises awareness of particular elements of the report which require an investor judgement, and Blue indicating no areas of major concern. IVIS also uses a Green Top in cases when an issue has been resolved by the company after they have issued their Annual Report or Notice of Meeting. The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' sections of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the Proxy report and, if appropriate, the conclusion. This approach means that subscribers use the reports to inform their own voting decisions and encourages thoughtful and informed engagement with companies by IVIS subscribers on the issues identified.



In addition, as a part of the IA, IVIS receives requests from UK listed companies to engage with their Board on various governance and other ESG matters. Of the matters that IVIS is asked to engage on, the vast majority relate to executive remuneration. This process allows us to provide feedback to the companies and, if the company asks us to do so, seek feedback from IA members who are also consulted. This process allows both companies and shareholders to identify areas of potential concern early and resolve them before any final decisions are made or the final documentation is produced and published. The IVIS consultation service is not a paid for service.

## **Ownership of Investment Association Limited (trading as Institutional Voting Information Service (IVIS))**

IVIS is the trading name for the voting research services of Investment Association Services Limited, a wholly owned subsidiary of The Investment Association (the IA). Therefore, the governance, culture, and approach to stewardship of IVIS is linked to the IA approach to stewardship and its strategy to improve stewardship in the UK.

The IA is the trade association that represents UK asset managers. The IA champions UK investment management, supporting British savers, investors, and businesses. Our 270 members manage £9.4 trillion of assets and the investment management industry supports 114,000 jobs across the UK. The IA's mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

The organisation's purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity,
- Help people achieve their financial aspirations,
- Enable people to maintain a decent standard of living as they grow older,
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages over a third (37%) of all assets managed in Europe. IA members own on behalf of their clients nearly 40% of UK listed companies.

The core pillars of the IA's strategy are:

- Shaping policy and regulation
- Keeping the customer front and centre
- Working for effective markets
- Building stewardship, sustainability, and responsible investment
- Developing culture, diversity, and inclusion
- Driving competitiveness through innovation and resilience
- Helping firms succeed
- Promoting reputation



## The IA's Values

In early 2021, the IA developed a new set of values, which were established based on input by all employees through a series of workshops. The workshops led to the development of a values statement for the IA:

“At the IA, we are committed to serving our members, embracing new ideas and striving for excellence. We are inclusive, considerate and act with integrity in all we do”

The IA is now seeking ways to embed these values into the organisation and ensure that all employees live up to them on an ongoing basis. They are now embedded into our recruitment processes, and we have introduced a “thanks” system which allows individuals to recognise colleagues who have demonstrated these values in their work. In 2022, for the first time we included a section on values in the staff survey. Finally, our appraisal process has been adopted to incorporate an assessment of individual performance against the values – see Principle 2 for details of this.

## Stewardship and Corporate Governance

As noted above building stewardship and responsible investment is one of the pillars of the IA's strategy. The IA has a dedicated Stewardship and Corporate Governance team, which along with other IA teams delivers on this aim. The team has a broad remit, helping to work on a number of the IA's other strategic pillars:

- Shaping policy and regulation - such as engaging with UK government and regulators on the corporate governance, audit, corporate reporting, and stewardship regime in the UK
- Developing culture, diversity, and inclusion - within investee companies by promoting initiatives and actions to improve diversity of the Boards and senior leadership teams in UK listed companies and highlighting to subscribers those companies that have not met investor expectations on diversity
- Helping firms succeed - through helping them make informed voting and stewardship decisions via IVIS's research
- Promoting the reputation of the industry by improving stewardship outcomes in the UK.

The Director of Stewardship and Corporate Governance is a member of the IA Executive Committee and responsible to the IA Board for delivering on the IA work on stewardship. The IA see our role in stewardship as using the aggregate voice of our members to help deliver better run companies for members to invest in, by focusing on material risks to the long-term value of the company.

The Stewardship and Corporate Governance team is accountable to the IA's Stewardship Committee. The Committee's 3-year strategy focuses on the following areas:

- **Regulatory Environment for Stewardship and Corporate Governance:** To promote a coherent regulatory environment for stewardship and corporate governance that supports sustainable value creation in investee companies and drives alignment of expectations across the investment chain.
- **Improving Stewardship Practices:** To promote and facilitate the highest standards of stewardship practice by supporting member firms to integrate stewardship and



ESG considerations in the investment process, to meet emerging regulatory requirements and to engage effectively with client demand.

- **Creating a Sustainable Economic Recovery:** To help create a sustainable economic recovery which prioritises long-term value creation for clients alongside benefits for the economy, society, and the environment. To demonstrate the impact that investors can have through their role as stewards and the important role of stakeholder voice in a sustainable recovery.
- **Corporate Reporting and Audit:** To promote coherent reporting standards and practices that support sustainable value in investee companies and assist members to make informed investment decisions and meet their reporting requirements. To promote high quality, user-driven, audits.

IVIS contributes to the delivery of this strategy, particularly improving stewardship practices by helping members to integrate stewardship into their investment processes. This is achieved through IVIS highlighting material issues through the IVIS reports, upholding member guidelines on a sustainable economic recovery and promoting better reporting by UK listed companies.

## IVIS purpose and culture

Since IVIS' inception, the guiding purpose has been to aid subscribers in making informed voting and engagement decisions. The IA and IVIS are not shareholders in the companies analysed so do not believe that it is our role to provide directed voting advice. Instead, IVIS seeks to uphold IA guidelines and highlight the issues or concerns which IVIS believe subscribers should consider prior to voting. IVIS reports and the IA guidance are regularly reviewed by the Stewardship Committee to ensure that they are meeting member needs and providing high quality, independent research.

IVIS promotes a culture of dialogue rather than confrontation. IVIS does not provide voting recommendations. The reports seek to give members sufficient information - including the company explanations - so that subscribers can make an informed voting decision. Members can also identify those companies meeting shareholder expectations. IVIS aims to be market led, ensuring that it is highlighting the issues which our subscribers and IA members consider important to long-term value creation. While IVIS reports are based on publicly available documents, IVIS will contact companies when there is a need for clarification or further information. Company explanations are included in the reports to ensure they are fair and balanced, and members have all relevant information before voting.

Thanks to this approach, we believe the companies are willing to engage with us and have a genuine dialogue aimed at improving their approach to best practice and addressing shareholder concerns. For example, if a company does not meet all the provisions of the UK Corporate Governance Code and has decided to explain against a provision, IVIS will provide a summary of the company's explanation. This means that shareholders can understand the approach taken by the company and reasons for it. This in turn promotes effective stewardship. It also helps to support and promote the comply and explain approach to corporate governance in the UK.

The culture of dialogue is also applied internally. The IVIS team, being relatively small, can have regular discussions on corporate governance matters and keep up to date with relevant developments. When publishing the IVIS report, the colour top decision is normally discussed between the analyst and the Head of IVIS and in some more complex cases, or when there is no consensus, with the Director of Stewardship and Corporate Governance or





the entire team (usually only in unprecedented cases). On rare occasions, when the team is unable to arrive at a consistent view, IVIS may seek further clarification from the company or reach out to our members to get the investor view on the specific matter. The culture of dialogue has been a feature of IVIS from its formation and is linked to the values of inclusivity and consideration. The views of team members, irrespective of the level of experience are valued and questions raised are answered. Team members are welcomed and encouraged to share their opinion or challenge the Head of IVIS' judgement if they disagree with it. All analysts regularly challenge the Head of IVIS or the Director of Stewardship and Corporate Governance, on a wide range of matters such as the colour top assessment on remuneration issues, the assessment of disclosures surrounding diversity, succession planning, audit or TCFD disclosures. We regularly discuss specific remuneration or other company specific issues at our weekly team meeting to ensure that everyone can provide their perspective on the way that IVIS implements the colour top approach.

As noted under Principle 2, we have a range of experience in the IVIS team and part of the team culture is to share knowledge and experiences within the team. New joiners are encouraged to learn and develop through contact and knowledge transfer with their more experienced colleagues. The sharing of knowledge and a learning culture helps the junior member to increase their understanding, but also benefits the more experienced analysts solidify their knowledge, forcing them to consider how best to explain complex issues such as remuneration structures to colleagues. This approach, which has been applied for several years, is compatible with the IA value of striving for excellence.

### **IVIS culture under COVID**

2021 marked the gradual lifting of COVID restrictions. The year can be divided in two parts:

- working under lockdown including the work from home restrictions; and
- following the July lifting of the COVID restrictions.

The first part of the year, which includes the busy AGM Season, required the IVIS team to continue to manage the working from home environment. The system implemented in 2020 was therefore continued for 2021 with management of the team focussing on methods for the team to stay connected with each other and facilitating team discussions. Therefore, the communication methods outlined in the last IVIS Stewardship Report were maintained with the main communication occurring via MS Teams. The team would communicate either by messaging each other or having video calls to ask questions and stay connected with other team members.

Following the easing of restrictions in July 2021, the IA focussed on implementing a hybrid working system, where staff were expected to adopt a 50:50 model, so over the course of a month, employees would spend at least 50% of the time in the office. This was introduced on a gradual basis with staff being encouraged to work from the office 20% of the month in September, increasing to 40% in October and 50% in November. The return to office requirements were paused in December with the onset of the Omicron variant. This approach aimed at making the transition easier after a long period of COVID related restrictions and took into consideration those who might have felt uneasy about the return to the office. Regular team meetings and one-to-one discussions were also held to gather team member sentiment and input on the return to office and hybrid working implementation. Several incentives have been introduced to encourage the return to office, such as lunches, social gatherings, and wellbeing events. This gave the IVIS team an opportunity to see each other face to face again and the team implemented a spreadsheet



to log intended attendance in the office, to help coordinate the team returning to the office together. Given the flexible working arrangements and the fact that one team member works remotely 100% of their time, we were not able to have the full team in the office, but regularly there were 50-60% of the team present. This has helped to bring back the office team dynamics, and, due to better hybrid technology, further improved the communication with team members working remotely.

The IA continued with the support to employees ensuring that employees are spending time away from their screens and looking after their mental health and wellbeing. These included increased communication with regular town halls, wellbeing weeks and all staff events so employees can stay connected with the organisation and colleagues.

Throughout the year, the IA has run several staff surveys to monitor the overall wellbeing of its employees. The questions included topics such as the level of support when working from home, attitudes regarding returning to office, or the general wellbeing. The feedback from these questionnaires, as well as from other staff engagements, informed the IA's actions aimed at encouraging employees to return to office and to improve levels of wellbeing and satisfaction.

### **IVIS' role in upholding IA guidance**

The IA has a range of guidance or expectations of UK listed companies. These represent the aggregate views of IA members on issues which will impact on the long-term value of investee companies and which if managed appropriately by companies will have a positive impact on society, the environment and wider economy. The IA has a range of guidance, such as:

- [Principles of Remuneration](#) - expectations on the structure and outcomes of executive remuneration.
- [Shareholder Priorities](#) – For the last 3 years, the IA has produced Shareholder Priorities which set out member expectations on four issues which IA members consider have a direct link to long term value. These are climate change, audit quality, diversity, and stakeholder voice.
- [Share Capital Management Guidelines](#) – focussing on the share capital authorities that companies regularly submit for shareholder approval.
- [Long Term Reporting Guidance](#) – expectations on narrative reporting on a range of issues from productivity, capital management, human capital, and material ESG risks.
- [Other guidance](#) on issues including audit tendering, viability statements, virtual-only AGMs and quarterly reporting.

These guidelines and priorities are set by the IA in conjunction with two IA Committees: The Stewardship Committee and the Remuneration and Share Schemes Committee. These Committees are populated with individuals from a range of IA member firms, of differing size, business model and ownership models. The individuals are usually senior stewardship and corporate governance professionals but can also include portfolio managers or analysts. Once these guidelines are approved by the IA committees, the Stewardship and Governance Team including the IVIS team develop the approach which IVIS will take on these issues. These IVIS approaches are then discussed and approved by the relevant Committees. The updated guidelines are published on both IVIS', and the IA website. They are sent to company secretaries of FTSE 350 companies explaining the main changes and any relevant areas of concern or focus. We also communicate these guidelines to advisors such as remuneration



consultants, lawyers, other corporate governance or proxy solicitation companies and Regulators and Government departments.

The way that IVIS is used to help deliver IA member's and IVIS client's stewardship priorities has been most acutely demonstrated in the last couple of years, when the Stewardship Committee asked to focus on several specific issues. The Committee identified issues which were of particular importance to shareholders and long-term value creation and utilised IVIS to assist in achieving the desired stewardship outcomes. These issues would also allow shareholders to demonstrate that they could change company behaviours through their stewardship activities. The following case studies demonstrate the contribution of IVIS to effective stewardship by investors: executive pensions, diversity, and stakeholder experience through the pandemic. The Stewardship Committee considered these issues as being impactful on long term value for listed companies and identified significant appetite for change across the IA membership. Importantly, there was significant member support for the use of a colour top approach to those companies not responding to expectations.

These case studies demonstrate the long-term approach which the IA and IVIS take towards these issues and that IVIS' approach and expectations evolve over time, initially signalling to companies the changes that IVIS and IA members want to see from listed companies, which then evolve into colour top approaches. The expectations on listed companies and severity of the colour top increase over time, which gives companies time to respond, but still allows IVIS to highlight those companies that are not responding to member expectations.

### **Case Study – Alignment of pension contributions**

Following the publication of the UK Corporate Governance Code in 2018, which stated that, "The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce", IA members felt it was important to ensure that this provision of the new Code was appropriately and swiftly implemented by UK listed companies. IA members believed alignment of pension contributions is an important point of fairness but also helps to strengthen employee relations. In November 2018, the IA updated the Principles of Remuneration to state:

"The UK Corporate Governance Code states that pension contribution rates should be aligned with those available to the workforce. IA members consider this to be the rate which is given to the majority of the company's workforce. Investors expect new executive directors or any director changing role to be appointed on this level of pension contribution. The contribution rates for incumbent executive directors should be reduced over time to the contribution rate available to the majority of the workforce, members expect this to be achieved as soon as possible. Shareholders do not expect that compensation will be awarded for this change."

This was followed up in February 2019, when the IA outlined that IVIS would red top any company with a new remuneration policy that did not explicitly state that any new executive director appointed would have their pension contribution set in line with the majority of the workforce. In addition, we stated that IVIS would red top the remuneration report when a new executive director was appointed with a pension contribution that was above the level of the majority of the workforce. For existing executive directors receiving a pension contribution of 25% of salary or more, IVIS applied an amber top.

In 2020, the IA requested companies to outline a credible action plan to reduce the incumbent directors' pensions to the workforce level by the end of 2022 and IVIS red topped





any company where the committee had not disclosed such a plan and executive directors received a pension contribution of 25% of salary or more. In 2021, this threshold was reduced to pension contributions of 15% of salary or more and in 2022, IVIS will red top any company where executive pension contributions are not aligned to the majority of the workforce rate or there is no credible action plan to align pension contributions for incumbent directors by the end of 2022.

Since 2019, there has been significant progress. In 2019, twenty FTSE 100 companies committed that any new Director would be given a pension contribution in line with the majority of the workforce, in 2021, 97% of FTSE 100 companies analysed have aligned the pension contributions of all new directors.

With regards to incumbent directors, in 2019, only ten FTSE 100 companies reduced their pension contributions or committed to align them with the majority of the workforce by the end of 2022, in 2021, that had increased such that 57% of FTSE 100 companies had their pension contributions for incumbent directors aligned with the workforce level and 34% had credible action plans to align them by the end of 2022. Only 9% of companies did not have a credible action plan to align by end of 2022. With many of those companies committed to alignment in later years. During 2021, IVIS red topped six companies in the FTSE 100 for the lack of alignment of pension contributions. This shows that the continued focus, together with the stricter IVIS approach sends a powerful signal to companies on what investors want to achieve.

### **Case Study - Gender Diversity**

Investors view diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Diversity is a key ingredient of effective governance. There is a growing body of research indicating that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

The IA and our members have supported the Hampton Alexander Review, which was the UK government backed review to improve gender diversity in FTSE 350 companies. In April 2018, the IA wrote with the Hampton Alexander Review to thirty-five FTSE 350 companies with low female representation at leadership levels, calling for change. In 2019, the IA and Hampton Alexander Review wrote again to sixty-nine FTSE 350 companies, outlining concerns about the lack of gender diversity on their board. The letter, which was sent to companies who had no women or just one woman on their board, asked companies to outline what action they were taking to make progress and ensure they met the Hampton-Alexander targets of 33% of women on their board and leadership team by 2020. These letters were coupled with a new IVIS approach to highlighting the lack of gender diversity on Boards. From 2019, IVIS Red topped any FTSE 350 company if there were none or only one woman on the board (except for instances where the 33% Hampton Alexander target had been met), IVIS Amber topped FTSE 350 companies where there was more than one woman, but less than 25% of the board were women and Amber topped FTSE Small Cap companies where less than 25% of the board were women. In the following years, IVIS gradually increased the severity of our approach, with 2021 resulting in the following approach:

- FTSE 350 companies with female representation of 30% or less on their Board received a Red Top on the Corporate Governance Report
- FTSE 350 companies with female representation of 25% or less in their Executive Committee and its direct reports received a Red Top on the Corporate Governance Report.



- For FTSE Small Cap companies, the same thresholds applied but an Amber top was issued.

In 2021, IVIS red topped 106 FTSE 350 companies for either their board or senior leadership diversity, of those 81 were red topped for board diversity and 48 for senior leadership diversity. Which means that 23 companies received a red top for both Board and Senior leadership diversity. In the FTSE Small Cap and Fledgling, IVIS amber topped 150 companies for the same reasons. As published by FTSE Women Leaders (the successor of the Hampton-Alexander Review), women's board representation increased in 2021 across the FTSE 100 to 39.1%, FTSE 250 to 36.8%, and FTSE 350 to 37.6%. Representation of women in senior leadership has risen to 32.5% from 30.6% last year for FTSE 100 companies and to 30.7% from 28.5% last year for FTSE 250. For comparison, in June 2017, the representation of women in senior leadership in FTSE 350 was 24.5%. The IVIS approach has helped members to identify the companies where engagement or voting against the Chair might be required if insufficient progress has been made to improve diversity and is part of a set of tools at their disposal to help influence change.

To ensure companies continue to focus on diversity, FTSE Women Leaders Review report has set out new recommendations, including:

- the voluntary target for FTSE 350 Boards and for leadership teams is increased to a minimum of 40% women's representation by the end of 2025
- FTSE 350 companies to have at least one woman in the Chair, Senior Independent Director role on the Board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025
- extending the scope of the FTSE Women Leaders Review beyond FTSE 350 companies to include the largest 50 private companies in the UK by sales

In 2022, the IA supported these targets and the FCA consultation to introduce a comply explain target into the Listing Rules and require consistent disclosures on diversity from all listed companies. IVIS will take the following approach during the 2022 AGM season:

- Red top FTSE 350 companies where women represent:
  - 33.0% or less of the Board
  - 28.0% or less of the Executive Committee and their direct reports
- Red top FTSE Small Cap companies where women represent:
  - 25.0% or less of the Board.
  - 25.0% or less of the Executive Committee

Given the lack of progress in the FTSE Small Cap and the FCA requirements for all listed companies to meet the comply or explain target of 40% of the board being female, we have introduced a red top for FTSE Small Cap Companies to encourage progress in a segment of the market which previously has not been subject to such targets. It is a reflection that IA members wish to see progress from these companies.

## **Case Study - Ethnic Diversity**

Since the launch of the Parker Review, IA members have endorsed the call for the improved ethnic diversity on the Boards of investee companies. While they understood the challenges that collecting data on the ethnicity of their directors could pose, they called for improved



disclosure that would allow them to understand how companies were progressing towards meeting the Parker Review target.

In 2020, IVIS was asked by the IA members to include a question in its reports, whether there was a disclosure of the percentage of the Board coming from an ethnic minority background. Following the 2020 AGM season, the conclusion was that little progress was made. 11 companies had appointed directors from an ethnic minority background since the start of the Parker Review, while 37% of FTSE 100 companies did not have any ethnic minority representation on their boards. Generally, companies did not provide disclosures regarding the Board's ethnic diversity, with only 27% of the FTSE 100 companies providing such a disclosure.

Members emphasised the need for significant progress and called for companies to take urgent action to improve the ethnic diversity of their boards. As the lack of information on the ethnic diversity of boards prevented investors from holding companies to account on their progress. Investors wanted companies to communicate credible action plans to reach the Parker Review target.

Therefore, for 2021, IVIS was asked by its members to apply a stricter approach and to Amber top any FTSE 350 company that did not disclose either the ethnic diversity of their board or a credible action plan to achieve the Parker Review target. In 2021, IVIS Amber topped seven FTSE 100 companies and 63 FTSE 250 companies for not disclosing either the ethnic diversity of their board or a credible action plan to achieve the Parker Review target. IVIS has noted that the colour tops also resulted in an increased engagement from companies on this matter, with a number of companies providing additional disclosures following the publication of the IVIS reports. Based on the 2022 Parker Review Report, in December 2021, 89% of FTSE 100 companies had met the target (February 2020: 63% of companies had met the target) and 55% of FTSE 250 companies had met the target (February 2020: 31% of companies had met the target) for minority ethnic representation on their company boards. Another 5 FTSE 100 companies had announced appointments of directors with ethnic minority background and an additional 3 companies were at an advanced stage in the recruitment process.

For 2022, IVIS will take the following approach:

- Red top FTSE 100 companies that have not met the Parker Review target of one director from a minority ethnic group.
- Amber top FTSE 250 companies that do not disclose either the ethnic diversity of their board or a credible action plan to achieve the Parker Review targets by 2024.

These case studies are evidence of the way which IVIS is used to help drive stewardship outcomes and deliver change in company behaviours to meet IA member and IVIS subscriber stewardship objectives.

The IA or IVIS cannot claim credit for the improvements in each of these areas, but we believe that our focus on these issues and highlighting them through our priorities and IVIS reports does lead to companies responding and improving their performance on these issues. Companies respond to member expectations which are part of public debate and members reinforce the issues through their own engagement and voting.



## How IVIS responds to the current market environment – COVID

Following the outbreak of the COVID pandemic, the IA Committees discussed the approach to support companies throughout the pandemic but also to ensure the interests of shareholders, employees and other stakeholders are being considered by Boards. In April 2020, the IA issued guidance on Executive Remuneration During the Covid-19 Pandemic, and at the request of members, IVIS updated the approach it took to analysing companies through the 2020 AGM season.

Following the 2020 AGM season, the COVID remuneration guidance was reviewed following member feedback and updated for [2021](#). IVIS adapted its approach to reflect the key priorities outlined in the guidance. For 2021, IVIS included in its reports any relevant information regarding the COVID impact and company response, which affected other stakeholders. For example, IVIS highlighted companies which received government support (such as under the Coronavirus Job Retention Scheme for furloughed employees), implemented large scale redundancies, cancelled dividends, raised additional capital from shareholders or made other changes to employee pay and bonuses. These factors were relevant for our review of director remuneration to ensure the executive's experience was commensurate with the experience of other stakeholders, particularly employees.

### Case Study – Reviewing Directors' Pay vs Stakeholder Experience

As the COVID remuneration guidance was being developed, the members of the Remuneration and Share Schemes Committee discussed with IVIS, how it should monitor the adherence with this guidance and what colour top approach it should take. The consensus was that IVIS should highlight on a red top, where companies had paid bonuses and the company had received government support such as under the Coronavirus Job Retention Scheme and had not repaid it. Other company responses, impacting their stakeholders were also taken into consideration, such as if the company raised additional capital from shareholders, benefited from tax relief such as the business rate relief or cancelled their dividend. IVIS also focussed on any discretion exercised by the Remuneration Committee to reflect the impact of the pandemic and the COVID response on stakeholders and company performance.

During 2021, IVIS received letters from 170 companies, in responding to these we highlighted investor expectations on remuneration in the context of stakeholder experience. In addition, during 2021 we met with over 80 companies, depending on the proposals we discussed our expectations and approach. There were just over 40 of companies that engaged with IVIS specifically to discuss their proposed approach in relation to the pandemic and IVIS explicitly indicated to these companies what approach would result in a red or amber top. It also encouraged the companies to disclose in their annual reports, the rationale for any bonus payments in the context of the wider stakeholder experience.

Most companies responded to investor expectations on COVID. In 2021, IVIS red topped 21 companies in FTSE All Share and its Fledgling coverage which paid bonuses despite not repaying government support. Government statistics from September 2021 show that companies repaid £1.3 billion of furlough cash. Some UK listed companies repaid furlough money ahead of paying bonuses to their executives, to ensure they met their shareholder's expectations. Given the nature of the concerted effort to encourage the companies to respond to guidance, it is difficult to assess the individual contribution of IVIS, however, the number of engagements on these issues suggests that IVIS feedback is valued by the issuers and did help to drive behaviours of companies.



The COVID guidance remains relevant for the 2022 AGM season, with the expectations that companies that had taken government support during 2021 would not pay bonuses in 2022. IVIS continued to reiterate member expectations in our [letter to Remuneration Committee chairs](#) in November 2021 and our individual engagements with companies.

### **IVIS reflecting member views and evolving positions**

IVIS team members regularly attend meetings of the Stewardship and Remuneration and Share Schemes Committees where they can contribute to the discussions and gain understanding of member views and policies. After every Committee meeting a team meeting is held where the contents of the Committee discussions and feedback from members are shared with the team members who did not attend.

IVIS' participation in the Committee meetings also allows members to better understand the IVIS approach and question or challenge it. This allows IVIS to react swiftly and adjust our approach to best suit member's stewardship and voting needs and as a result to promote effective stewardship.

During the AGM season, IVIS analysts see the majority of FTSE listed companies approaches to governance, remuneration and other reporting issues. With this knowledge base they can identify trends and potential new concerns. In addition, throughout the year, trends and potential concerns are identified through the remuneration consultation process. These are then discussed with members, depending on their severity, either at the Committee meetings or on an ad-hoc basis where necessary (for example where a new area of concern is identified which is not covered by the guidelines). Depending on their significance, matters that are discussed at the Committee may inform the IVIS colour-top approach and may be reflected in the updated Guidelines.

After each AGM season IVIS and the wider IA policy team will review the findings from the AGM season. This allows IVIS to identify issues or concerns which are emerging. The IA share these findings with the Committees to get their perspectives, allowing members to identify other issues which may have been a concern to them. A decision can then be taken if the IA guidelines need to be updated or whether the approach IVIS takes to analysing companies needs to change. IVIS also provides data and observations which help to measure the effectiveness of the IA campaigns, such as alignment of executive pensions with the wider workforce, diversity, disclosure of climate risks. These then feed into policy and Guidelines reviews for the following year.

Following the 2021 AGM season, IVIS analysed companies to assess their remuneration decisions in response to the COVID pandemic. Whilst the conclusion was that most companies had adhered to the IA's COVID guidance, members agreed that the COVID guidance should be retained for 2022, as companies would be reporting on 2021 when there had still been significant COVID disruption. Members also signalled their evolving concerns regarding the following areas:

- Use of Remuneration Committee discretion
- How Remuneration Committees reflect the share price reductions when granting share awards
- Introduction and weightings of ESG metrics.

IVIS received additional guidance from the Remuneration and Share Schemes Committee regarding its approach in respect of discretion and ESG metrics. On share award grant sizes,





the IA's Principles of Remuneration were updated to clarify how members want the companies to proceed, recommending a scaling back of grant levels where there had been a significant share price fall. This change was also signalled in the letter sent to the Remuneration Committee chairs together with the updated Principles.

On the use of discretion, members felt that there were a substantial number of companies, where remuneration committees had exercised upwards discretion on variable pay, and they had not provided a compelling rationale in their Director's Remuneration Report. For 2022, members have asked IVIS to exercise more judgement in terms of the rationale when companies use upwards discretion, and flag on a red top where there was no, or poor rationale for the use of discretion.

On ESG metrics, in 2021 there was an increase in companies which included or intended to include ESG measures into their variable pay. Members consider that these measures should be linked to the long-term strategy and should have a meaningful weighting, these issues were set out in our letter to Remuneration Committee Chairs. Members have indicated to IVIS their preference was for a maximum weighting of 25% of the award, although they would accept a higher weighing depending on how critical the particular measure is for the strategy and long-term value of the business.

## **Member and Company Engagement**

IVIS and the IA are ideally positioned to assist the dialogue between members and companies. Whilst not wanting to interfere with the direct engagement between companies and their shareholders, the IVIS team can help members with the remuneration consultations which involves the preparation of remuneration summaries of the company's remuneration proposals. This approach is described in Approach to Remuneration Consultations below. However, company meetings are not limited to remuneration. Companies approach us to discuss wider corporate governance matters, such as board succession, diversity or ESG risks. Meetings are usually attended by representatives from IVIS and the Director of Stewardship and Corporate Governance or Head of IVIS and this facilitates broader discussions, as appropriate, even if the discussion is originated on remuneration matters, this often leads to other material governance and ESG issues from diversity to succession planning or climate change reporting.

Depending on the nature and confidentiality of the company meetings, IVIS may brief our members on the topics discussed or seek their views, which may be shared with the company and inform our approach at further engagements or when producing the IVIS report. Member feedback to companies is provided on an anonymous basis. As such we believe IVIS can provide an additional and frank voice in the engagement process and thus serve to improve stewardship.

Individual IA members may also approach IVIS either to seek our view or raise concerns. These may relate to a particular company, market, an area of corporate governance or the contents of the IVIS report. This may have result in various actions, for example:

- Contacting the company for further explanations/a meeting.
- Raising a matter at the Committee meeting.
- Informal discussions with other members.
- Update of the IVIS report.



These actions result in an improved communication with companies and more accurate IVIS reports.

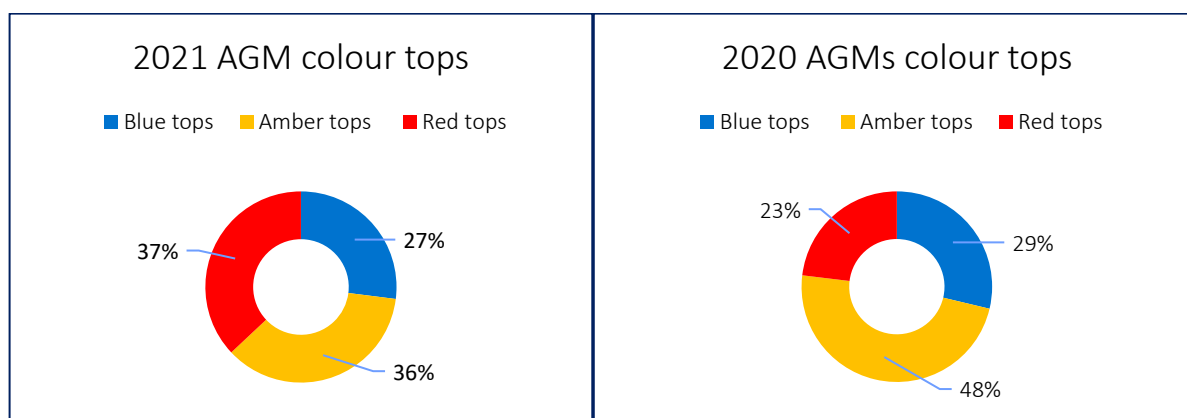
### Assessment of Effectiveness and Individual Feedback

IVIS receives regular feedback through the Stewardship and Remuneration and Share Schemes Committees. This serves as an assessment of our effectiveness. Members can flag issues, identify priorities, and request specific approaches to help them in exercising their stewardship activities. Members have fed back to IVIS that it plays crucial role in supporting their work and promoting improved company disclosure and outcomes and our reports and remuneration consultations facilitate comprehensive engagement with a greater number of companies.

As set out above, the approaches to pensions and diversity, have led to significant changes to company behaviour. The 2022 Shareholder Priorities will continue to evolve to ensure that the IA's positions on climate change, audit quality, stakeholder engagement and diversity are leading to better outcomes from companies and that shareholders are receiving the information they need from investee companies.

One area, we continue to monitor regarding the effectiveness of IVIS is the percentage of companies that receive a Red, Amber, or Blue top reports. In recent years, with the specific positions on diversity, pension contributions, remuneration outcomes in the context of COVID and stakeholder experience (highlighted above) and the approach we take to Amber topping reports where executives are receiving a significant increase to pay opportunity through variable pay or salary increase or if the company fails to meet our policy on post-employment shareholding guidelines, IVIS has seen the number of Red and Amber tops increase, resulting in less companies receiving a Blue top.

In 2021, when considering the Red tops accounted for 37% of AGM reports (2020: 23%) and 13% GM reports (2020: 17%), with Amber tops accounting for 36% of AGM reports (2020: 48%) and 14% of GMs (2020: 19%). The increase in the Red topped AGM reports appears to be driven by the more demanding approach regarding diversity, pension contribution alignment and the approach to executive remuneration and stakeholder experience during the pandemic as outlined in the case study above.



Historically, the vast majority of the colour tops were applied to the proxy reports with historically around 10-12% of reports being red topped each year, but with an increased focus on diversity and climate change reporting, it is now an often case for a report receiving colour tops on each of the main three parts (Proxy, CG and ESG).



The breakdown of the colour tops for each of the report part was as follows:

Report	2021			2020		
	Blue	Amber	Red	Blue	Amber	Red
Proxy	46%	31%	23%	41%	42%	17%
CG	51%	31%	18%	66%	26%	8%
ESG	91%	9%	N/A	100%	N/A	N/A

IVIS continues to understand the views of subscribers on our colour top approach to ensure that we are appropriately highlighting the severity of different issues on the appropriate colour top. At the current time, we consider that as members have asked for the various issues to be highlighted on a particular colour top, the current approach is still helpful to members, but we will continue to monitor if there is sufficient distinction and differentiation between them and enough companies receive a blue top. This is continuously kept under review. We believe that when colour tops are broken into sections of the Report, there is still a substantial proportion of blue and amber tops, with the red tops used to highlight the most significant concerns.

We have significant discussions with members when deciding what is the appropriate threshold for a red top on issues such as gender diversity. If we set the threshold too high, there will be a perceived safety in numbers and companies will not see the need to act. We strive to set the threshold at the level such that it is appropriately rare to require action by companies. We will keep this under review and continue to discuss with members to ensure that we continue to highlight the appropriate issues to allow them to make informed voting decisions.

## Principle 2 - Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

### Governance and Resources

The work of IVIS is overseen by the IA's Director of Stewardship and Corporate Governance. The Director of Stewardship and Corporate Governance is accountable to the IA CEO and IA Board for the running of IVIS and specifically the judgements and approach which IVIS takes. Neither the IA CEO nor the IA Board are involved or consulted on individual companies or the resulting colour tops of an IVIS Report to avoid any perceived or actual conflicts of interests which may exist.

As outlined above, the IA Guidelines and IVIS approach is set by the IA Stewardship Committee and Remuneration and Share Schemes Committee which comprises of individuals from member firms responsible for stewardship, corporate governance or portfolio management. This leads to a market-based approach focussing on the issues which are important to members, as shareholders in UK Plc. The IA Board does not approve the IA guidance given the potential conflicts which exists with the CEOs of listed investment management companies sitting on the IA Board.

The IVIS team currently comprises eight members, including the Head of IVIS and Deputy Head of IVIS. Five of the eight person IVIS team are women, and the team is made up of individuals from a diverse range of nationalities and ethnic backgrounds. Diversity within the IA and the investment management industry is of particular importance to the IA. The IA is



a signatory to the Women in Finance Charter, the Race at Work Charter and Change the Race Ratio to improve gender and ethnic diversity. The IA has set targets for improving gender diversity at the IA, voluntarily report our gender pay gap and will later this year set targets for improving ethnic diversity within our organisation. Investment 2020 is the IA's industry careers service focuses on widening access to diverse talent including school and college leavers, as well as graduates. IVIS has recently hired an Investment 2020 graduate as a trainee stewardship analyst. The role involves data support over the AGM season and will evolve over time as their experience grows.

The IVIS team comprises a balance of experienced corporate governance analysts and recent graduates. The IVIS team has a range of qualifications and experiences from specific corporate governance qualifications to a wider range of other educational subjects. Two IVIS team members have worked in corporate governance at other service providers. When necessary, IVIS uses temporary staff for data input only and as noted above, in 2022 we will receive assistance from the Investment 2020 graduate. IVIS does not use temporary staff for full company analysis.

The IA has a graduate programme which allows graduates with analytical skills to develop experience. IVIS currently employs two recent graduate analysts on a permanent basis; previous graduate IVIS analysts have moved to other roles within the IA. This works for both the IA and the individual as we can hire quality individuals with analytical skills and the individuals can gain valuable experience necessary at the start of their careers, with a view to positions across the company and industry. Graduates who have left the IVIS team have taken on roles in stewardship policy at the IA, joined member firms to fulfil stewardship at an investment manager or taken up other policy roles within the IA. The grounding in IVIS has been a beneficial starting point on understanding governance, stewardship and developing their analytical skills.

IVIS has an induction and training process which ensures that new staff are provided with a detailed understanding of corporate governance, IVIS activities and each element of the IVIS report and particularly remuneration structures in the UK market. Whilst we apply a "learn by doing" principle, which is the main way to develop skills and experience as an IVIS analyst, new joiners receive basic training, combined with mentoring from the team. Depending on the experience of the new analyst, some steps of the training process may not be needed.

The full training process would start with familiarising the new joiners with the IVIS service and its purpose. We provide specific training sessions on Corporate Governance, ESG and Executive Remuneration. The practical training would start with new joiners preparing reports on Investment Trusts, which do not have Executive Directors or employees, and therefore require less analysis. As they work through the reports, the team would be at their disposal to help with any questions. Normally, the Head of IVIS or the Deputy Head of IVIS would be their main point of contact but they are also encouraged to ask their questions to other team members. In normal circumstances, we work in an open plan office environment, and it is easy to approach a colleague with a question. During the pandemic, IVIS established a dedicated Teams Channels for the team to communicate and the Head of IVIS and Deputy Head of IVIS regularly check with the new joiners on their progress, answer any questions and provide feedback. As is the case for all IVIS analysts, the new analysts would receive feedback on their report and would have to make their own corrections. In the case of new analysts, the feedback is discussed in detail so that they have a chance to understand the approach and ask questions. The complexity of the companies allocated to the new analysts will increase as they progress. New joiners will also participate in company and committee



meetings with more experienced analysts and the Head of IVIS or Director, Stewardship and Corporate Governance.

Moreover, the IA has a Personal Development Programme process in place which gives staff members who wish to participate, the opportunity to discuss their professional development and career within the IA in a structured and documented way. During this process, staff meet with their line manager to identify and agree on a personal development plan, the training and development actions that follow, and an iterative ongoing review process. The IA has a training budget to fund external training or courses. IVIS analysts have been supported in their study for the Investment Management Certificate and currently some of the analysts are studying for or have included the achievement of the IMC as their objectives for 2022.

IVIS analysts also have access to the IA's external training which is offered to members, including member training courses and the online learning platform, which includes a wealth of industry-leading eLearning, covering a broad range of topics, including Governance, Risk & Compliance for Financial Services; Cyber Awareness & Resilience (approved by National Security Centre); Working in the 'New Normal'; Mental Health & Wellbeing; Workplace and Soft Skills. They can also participate in IA's conferences and seminars.

All members of the team receive regular updates on different aspects of corporate governance and related topics. The IVIS team regularly meets and discusses new development in the market or current issues relating to the work of IVIS. They are also kept up to date with member and market sentiment on issues. IVIS analysts can attend IA events, webinars or internal town halls with industry leaders, regulators and politicians and other thought leaders. As mentioned in Principle 1 above, team members attend the meetings of the relevant IA Committees, which enable them to better understand members' views, receive feedback or discuss trends and concerns. IVIS team members may also attend external events which is also a useful way of expanding their knowledge and expertise. As experience grows, they are involved in more tasks such as involvement in remuneration consultation process and increased participation in company meetings.

The IA has a performance management system aimed at ensuring the right outcomes against individual objectives and the wider priorities of IVIS and the IA. The analysts' performance is measured based on the quality of their work, accuracy of the IVIS reports as well as using their knowledge to promote best practice and members goals when engaging with the companies or their advisors. Employees are assessed on their performance throughout the year. This included the assessment of experience, efficiency, and adherence to the IVIS processes. For the first time in 2021, all IA employees were appraised against the IA values and employees are now required to demonstrate how they live up to the IA's new values. Each element (performance and values) influences the overall rating, which determines the level of discretionary annual bonuses paid to individuals. When reviewing pay levels and promotion at the IA, account is taken of performance and values (as measured in the annual assessment), role, market and internal budgetary considerations. Furthermore, the end of year assessments forms an important input into setting goals for the year ahead, whether in the development of specific skills and knowledge through training or experience, or in focussing on better demonstrating adherence to any (or all) of the values.

Under Principle 6, we set out an instance where failing to uphold the IVIS report writing processes had an impact on an individual's appraisal rating.





IVIS uses its own bespoke technology for writing and storing company reports and to enable client's various ways to search through the database. The system is website based and we continuously review how to evolve and improve the product. IVIS is currently working with its website developers to provide enhancements to its system and to create a basis for further implementation of new features for its clients. IVIS analysts receive specific training on the IVIS website.

We believe that our resources are sufficient to meet our clients' demands and to support good stewardship. This is based on the following facts:

- Our coverage is limited to FTSE All Share index plus the largest 50 companies in Fledgling index, meaning that each year we cover between 600 and 650 companies.
- We have increased the resource available to the team in 2022, with the employment of an additional Investment 2020 graduate focussing initially on data entry of company data
- The IVIS reports are designed to be concise – we analyse areas that our members have asked us to focus on.
- We do not provide voting recommendations and do not operate a voting platform.
- Some functions of our system are automated, reducing the need for repeated entry. We are currently working on further automation of some processes.

Given the nature of the work, with the condensed period requiring additional focus, during the AGM season the team is required to work extra time. This requirement is communicated to the candidates at the interview stage. Analysts will still be able to attend wellbeing initiatives to make sure they remain motivated and satisfied.

We believe that there is sufficient capacity to meet the needs with the existing team. However, in exceptional circumstances, such as illness, we have additional capacity with former IVIS analysts working at the IA, including in the wider Stewardship Team. For example, in the 2021 AGM season, one of our experienced analysts was unable to work for two weeks. The remaining team agreed to work additional time and the Director, Stewardship and Corporate Governance asked the former IVIS analysts to re-join the IVIS team on a temporary basis. We keep former analysts up to speed with developments in IVIS and those individuals have a role in setting the shareholder expectations including the IVIS approach with members, so they are well versed in the areas which IVIS cover. In such instances, we introduced an enhanced checking process to ensure that the IVIS reports were of sufficient quality.

## **Fees**

The IA is a Trade Association. The Company's aim is to have a surplus for between two and six months of expenditure in reserves with a target of four months. IVIS is an additional subscription service aimed at helping members to deliver their stewardship goals. IVIS has a single fee structure which gives access to all our resources (IVIS reports, search engines, IVIS alerts and weekly emails). Alternatively, reports can be purchased on an individual basis by those not wishing to subscribe. We believe that the fees are appropriate given the resource and expenditure required to deliver those services, given the nature of the IA's business and business model.



## IVIS Processes

The following points set out our processes in the delivery of the IVIS reports. Our Guidelines can be found on the IVIS [website](#). These guidelines set our members' expectations of UK listed companies. The guidelines are subject to periodic review and discussion by the IA's Stewardship Committee and Remuneration and Share Schemes Committee to ensure they continue to represent IA member interests and current market best practice (see Principle 1). They cover a wide range of issues that are important to the alignment of the interests of investors and companies; including share capital management; pre-emption rights; ESG risks; climate-change risks, executive remuneration and corporate governance. The IA's Stewardship Committee also set positions or approaches which IVIS should follow for example the way that IVIS should 'colour top' companies.

## IVIS Reports for Shareholder Meetings

When companies in the IVIS coverage hold an Annual General Meeting (AGM) or a General Meeting (GM), IVIS produce an IVIS report for that meeting. IVIS analyses the proposals submitted for shareholder approval and, in case of AGMs, produces additional Corporate Governance and ESG reports.

In each case IVIS considers the disclosures made by the company in any of its public documents including RNS disclosures, annual reports, and meeting documents such as the notice of meeting. IVIS considers these for consistency with previous year's disclosures and highlight relevant changes or areas of interest.

IVIS only prepares reports on companies listed in the UK and our analysis is based on UK corporate governance best practice. Our members expect all UK listed companies to follow UK best practice irrespective of their country of incorporation. IVIS notes that companies incorporated outside of the UK may have to depart from best practice due to local regulations applying to them. Where this is the case and where it is disclosed by the company, this is noted in the IVIS report.

In the process of preparing the IVIS report, the IVIS analysts scrutinise the proposals and structures presented to shareholders for approval and, where applicable, compare them against previous years' disclosures to see if there are any areas of concern which had been highlighted previously. Where resolved, this will also be highlighted alongside other positive developments (for example an improvement in disclosure). Significant levels of shareholder dissent at the last shareholder meeting and whether a company was included in the [IA's Public Register](#) is also highlighted. When this is the case, a summary of the Company's response and update statements is included where this has been made publicly available.

The IVIS Report has three sections, the Proxy Report, Corporate Governance Report and ESG report.

## Proxy Report

The proxy report includes an overview of financial performance of the company, focusing on the measures the company considers as its key performance indicators. While IVIS normally does not comment on the company's performance against these indicators, they are taken into consideration in the overall analysis. IVIS may comment on payments made to the directors in the context of the financial performance of the company.

IVIS reports focus on matters that IA members have highlighted. As such, IVIS usually provides no comment on routine proposals such as the re-election of a non-executive



director who meets independence criteria of the UK Corporate Governance Code and there are no issues of accountability of decision making to be raised. However, if a director does not meet one of the independence criteria of the Code, this is highlighted in the report along with any company explanation.

A significant part of the IVIS proxy report focuses on analysing the company's approach to executive remuneration. We outline the company's remuneration policy and emoluments paid, and in the narrative section provide more detail on the remuneration structure, implementation of the policy for the year under review and any potential concerns or breaches of best practice.

If IVIS has had engagement with the company during the year, for example when there was a remuneration consultation, this is reflected in the IVIS report together with a summary of member feedback.

The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' section of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the report and, if appropriate, the conclusion.

At any time during the drafting stage, we might contact a company if further information or clarification is needed to complete the report or where discrepancies have been identified in the company's reports. Where a report has been prepared on a Red top, a draft report is sent to the company before publication giving them one working day to provide a response, the company may provide factual corrections, further details or explanations on the highlighted issue or other matters.

## **Corporate Governance Report**

In terms of the Corporate Governance and ESG reports, companies are analysed against a standard set of questions which are agreed by our members. The Corporate Governance Report focuses on the following areas:

- Board and Committee Composition – we highlight the membership of the Board and Committees as well as any changes since the previous report. We highlight where any Non-Executive Director does not meet the independence criteria set out in the UK Corporate Governance Code.
- Other directorships - all other significant directorships held by directors as this may lead to conflicts of interest or concerns over the directors' time commitments.
- Director attendance to board and committee meetings – we note where a director has missed a significant proportion of Board or Committee meetings.
- Compliance statement - we disclose how the company assessed its compliance with the UK Corporate Governance Code as well as summarising a company's explanations for deviations from the Code. We also note any areas in which IVIS has identified any divergence from key areas of the Code which has not been identified or explained by the company.
- Board composition and balance – we assess the Board composition, its performance evaluation procedures or how directors are re-elected.
- Board effectiveness and engagement - we highlight material disclosures provided by the company with regard to board effectiveness, diversity, succession planning and the company's approach to workforce engagement.
- Accountability, audit and reporting – we answer questions relating to internal controls, material risks, the viability statement, policy on audit tendering and audit



and non-audit fees. We also highlight the Audit Committee and auditor's key judgements or risks of misstatement in relation to the audit.

- Audit quality - We also outline the materiality of the audit and whether the Audit Committee has discussed how they assess the quality of the audit. Finally, we assess whether the Audit Committee has made a statement as to whether they have taken account of the risks of climate change and any impact of alignment with the Paris Agreement into account whilst preparing the company's accounts.

Our approach is to highlight potential departures from the UK Corporate Governance Code and include any company rationale, when available. IVIS flags potential areas of concern, for individual shareholders to judge whether the company's approach is appropriate as this is a matter for the shareholders. The Corporate Governance Report can be colour coded for a number of issues including: Board composition, diversity of the Board, executives on board committees and the CEO succeeding the Chair.

## ESG Report

The ESG report monitors compliance with our Long-Term Reporting Guidance as well as the climate change related disclosures.

It is divided in five main headings, the first four cover areas of:

- Productivity;
- Capital Allocation;
- Human Capital and Culture; and
- ESG Risks and Opportunities.

They derive from the IA's Long Term Reporting Guidance which was published in 2017 due to member concerns over how companies are reporting on the long-term drivers of value creation and productive enterprise. The questions in these sections closely follow the areas of focus outlined in the Guidance. This part of the report would not trigger any colour top, it is used so our members can note whether the companies provide any disclosures in these areas.

The fifth part of the Report focuses on the Climate-related Risks, and covers questions based on the four pillars of the TCFD. This report can be amber topped depending on the Company's sector and its disclosure on climate change related issues aligned with the requirements of TCFD (see response to Principle 4 for further detail).

## Review process prior to the publication of IVIS reports

Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director of Stewardship and Corporate Governance. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy or comment when we plan to issue a Red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors.

IVIS routinely sends companies (except investment trusts) a copy of their IVIS report following publication. IVIS does not charge companies for a copy of their IVIS report. At this stage, some companies provide additional rationale or explanations for their decisions. IVIS



reports may be updated to reflect the feedback where appropriate. If the company provides material new information or an assurance on approach, IVIS would consider the appropriateness of the colour top of the IVIS report.

## **Principles regarding company contact and engagement when preparing the report**

By extracting additional non-price sensitive information from the company, we consider that we facilitate the engagement process between companies and investors by allowing information to be quickly and more widely disseminated. We focus the inclusion of additional information from companies on new information rather than where company presents existing information in a different way.

- Where necessary, we engage with the company for further detail on any aspect of their disclosures.
- This engagement tends to be at Company Secretary or HR Director level but where appropriate we will engage with the Chair of the board, the SID, Remuneration Committee Chair, or other board members.
- On remuneration matters we avoid, where possible, speaking to executive directors given their participation in the pay schemes we review.
- Where a company representative is unavailable, we will contact relevant advisers, such as lawyers, brokers, or remuneration consultants, for more information.

## **Company Engagement between Shareholder Meetings including the Remuneration Consultation process**

IVIS helps to facilitate engagement between IVIS, IA members and companies (which may include some companies outside our normal coverage). Most engagement with companies is initiated by companies and relates to executive remuneration. Companies contact IVIS if they wish to seek views on their proposals relating to the Directors' pay. IVIS reviews the proposals against the IA Guidelines and current best practice and would raise any potential concerns with members and the company.

The process starts with the company requesting to engage with the IA or IVIS on their proposals. This is usually done in the form of a letter or email. Given the confidentiality of such engagement, we ask the company if they wish to obtain IVIS feedback only or if they wish us to seek feedback from the members they have also consulted on their proposals.

IVIS provides feedback based on the company's proposals when analysed against our Guidelines and other best practice provisions. IVIS informs the company of potential breaches of best practice and potential areas of member concern. IVIS also seeks additional explanations or rationale on the proposals, if necessary.

In most cases, companies would also like to receive feedback or views of our members. In such cases the company is asked for the list of members they have consulted. IVIS will then send a summary of the proposals to these members along with the original proposal from the company. This summary is in a consistent format which covers the changes which are being proposed, the overall structure of remuneration, the company's rationale as well as any wider company context such as performance or tenure of the executives. IVIS provides its questions and comments, which shareholders may consider when reviewing the proposals. These may include – areas that need further clarifications from the company, indication of the likely colour top approach, potential concerns, or breaches of best practice.





Once member feedback is obtained, this is summarised and sent to the company on a generalised and anonymous basis, along with the IVIS feedback, based on our assessment of the proposals against the Principles of Remuneration.

The remuneration consultation may have further iterations. The company may amend the proposals based on investor feedback and seek further comments or it may decide not to make any changes but to provide more detailed rationale. IVIS would forward the communication from the company to members and seek any further comments which IVIS would then relay back to the company.

The process is considered finished when the company issues the final letter summarising the changes or where the proposals are submitted for shareholder approval. At each stage of this process, companies or members may request a meeting. When members request a meeting with the company, this will usually take a form of collective engagement which is described in more detail below.

IVIS also receives letters from companies, informing investors on the company's decisions, rather than seeking to consult with them. In such cases, IVIS would not normally seek the views of our members. We would, however, review the contents of the letter and inform the company on areas of potential concern, particularly any issues which will likely lead to a colour top.

Occasionally, IVIS receives queries from members, which prompts further IVIS engagement with a company.

At each stage of the consultation process, remuneration consultation summaries and feedback to companies are checked by a senior analyst, the Head or Deputy Head of IVIS or the Director of Stewardship to ensure they fairly reflect the company proposals and member or IVIS feedback.

Some companies engage with IVIS to discuss corporate governance matters such as board diversity, succession planning or other ESG issues such as say on climate. Companies may also want to discuss the assessment or analysis included in the IVIS reports, this is often ahead of the company preparing their next annual report, so that they can meet investor expectations. While most of these discussions focus on remuneration, a number of engagements also relate to compliance with the UK Corporate Governance Code as well as the ESG Report.

During 2021, IVIS received letters or communications from 170 companies (2020: 226 companies) on remuneration or corporate governance matters this resulted in 80 meetings with companies during 2021 (2020: 64 meetings). In some instances, this has impacted the approach the Remuneration Committee took from withdrawing proposals, amending proposals, or provided additional information or context on their decisions and the approach taken. Given that several shareholders and proxy advisors will also be providing similar feedback to companies we cannot provide any direct link to the impact we have. But the resulting follow-up letters and specific feedback to our questions show that Remuneration Committees consider and respond to our specific concerns. In 2021, we had one company commenting that the specific change to their proposals reflected our feedback and another confirming that the change to the original proposal was based on feedback from IVIS and one of our competitors.



This process helps IA members manage the level of remuneration consultations that they receive and allows companies to have direct feedback from IVIS and our members. Our members have confirmed that the remuneration summaries are helpful for their own analysis. The feedback provided by IA members and IVIS allows companies to understand the potential areas of concern and the severity of issues prior to the proposals becoming public, which allows companies to improve their disclosures and rationale, amend or withdraw proposals if they are unlikely to get shareholder support. Through IVIS feedback, IVIS try to encourage companies to provide better quality explanations of their decisions or decision making in the Annual Report, as we recognise that not all shareholders will have been consulted and aware of the issues raised during the consultation, those shareholders not part of the consultation will need to make an informed decision, so will need these additional explanations. A summary of shareholder views heard during the consultation will be included in the IVIS report.

The IA also maintains a Public Register of shareholder dissent. The Register highlights all companies that receive more than 20% of shareholders voting against any resolution. The Register includes the resolution and whether the company acknowledged the vote at the time of the meeting accompanied with a statement explaining what action it intends to take to understand the reasons behind the vote result. It also monitors those companies that have responded to the dissent with an update statement. IVIS highlights when companies have been on the Public Register for the last AGM and the company's response. We also have meetings with individual companies that are interested to understand the reasons for the significant vote against and what investors expect from the company's response. Whilst we cannot provide explicit rationale why a shareholder may have voted against; we are able to provide concerns raised by IVIS and general market sentiment on the issues raised.

### **Collective Engagement**

Occasionally, IVIS or the IA facilitates a collective meeting. These normally take place at the request of members to address an issue of concern such as executive remuneration or the appointment of the CEO as the Board Chair. A request for a collective meeting may come from members but, if IVIS believes an issue is contentious enough to warrant such a meeting, it would engage with members to test the appetite for collective engagement. Some companies also approach the IA and IVIS to engage collectively with members to meet a number of shareholders who they may not be able to see individually. We will arrange a collective meeting if there is sufficient demand from members.

We held one collective engagement in 2021 and so far we had one such meeting already in 2022. The collective meeting in 2021 was at the request of members, given their concern with the proposed use of discretion by a company that had been impacted by COVID. Those members that attended were clear that the company was taking an inappropriate reputational risk for the company. Following the meeting, the Company confirmed that it would not use its discretion to amend the remuneration outcome. Members consider that this is a useful mechanism to allow companies understand the views of members where they have consistent feedback to give to the company.

### **Review of Emerging Trends or Potential Concerns**

At all the above stages, the IVIS team seeks to identify emerging trends, unusual issues or new potential concerns. Some of these matters are discussed with members at formal committee meetings. These committee discussions shape the IVIS approach in terms of assessment, engagement, and may result in an update to our Guidelines.



## Approach to media enquiries

IVIS is a subscription-based service and does not generally disclose the colour tops publicly as we believe that this may result in a public focus on confrontation between shareholders and companies rather than a constructive dialogue, which can be counterproductive to the stewardship and engagement process. Press interest is usually disproportionately focused on public confrontation between shareholders and high street names with little regard to the underlying governance issues. However, the use of media may be appropriate in certain circumstances or when members believe that it would be helpful to create change within companies. Journalists occasionally become aware of the IVIS colour tops from sources outside the IA, and we may also disclose some cases by specific thematic issues as highlighted through our Shareholder Priorities such as board diversity, pension or climate change disclosures.

## Review of Governance Structures

Whilst the governance structure remains relatively stable, we keep it under review to assess whether improvements can be made. As outlined in the last year's report, in 2020, IVIS appointed a Deputy Head of IVIS to help the Head of IVIS in day-to-day management of the team and report writing process. This was an important improvement, contributing significantly to team management during the pandemic. In 2021, we focussed on the development of the Deputy Head of IVIS in their role.

As outlined last year, given the importance of engagement with the companies and the increased volume of the remuneration consultations, a designated senior analyst has been appointed to manage the remuneration consultation processes. In 2021, IVIS discussed with members of the Remuneration and Share Schemes Committee ways to improve the consultation process, we have produced guidance for companies and shareholders on IVIS' role and how the consultation process can support members. In addition, we have set up a new mechanism to allow members to provide feedback on consultations directly to the Senior Remuneration Analyst through booking time directly with them. We will assess the effectiveness of the new guidance and feedback mechanism in the autumn.

## Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.

As required by the SRD II and the FCA requirements for proxy advisors, IVIS has published the [Statement of Conflicts of Interests](#), where we have grouped together companies where there is a potential conflict of interest in the preparation of IVIS reports. They are grouped in the following four categories:

- Those IA members that are UK listed companies, which IVIS will produce an IVIS report on.
- Those IA members whose parent company is a UK listed company which IVIS produces a report on (the listed company is in brackets).
- UK listed companies which have an IVIS subscription.
- Those IA members who are a pension scheme managing money on behalf of a UK listed company covered by IVIS.

In total there are 34 identified companies.



The IA guidelines are formulated with the participation of the IA members in their capacity as stewards. These guidelines are therefore set in line with best practice and do not benefit any specific members. These guidelines are developed by the IA's Stewardship Committee which includes members with a range of ownership types not just UK-listed firms. The variety of member views means that no one institution is given more weight than another.

When drafting reports on companies, that are also IA members, we strictly adhere to our Guidelines. We have processes regarding the colour topping and drafting the IVIS reports and, as mentioned elsewhere in this report and demonstrated in the case study under Principle 6, analysts are appraised based on their adherence to these processes, which impacts on their year-end performance rating and potential discretionary bonus. Based on the above, analysts draft the IVIS reports on member companies following the same guidelines and processes as for any other company. We would also ensure that any conflicts of interests that may arise with any member discussions on specific companies or members are addressed. Such as individual committee members excusing themselves from the discussion if their employer is being discussed.

The IVIS team is long-standing and highly experienced in providing thorough research and consistent policy application without bias. The Head of IVIS, Deputy Head of IVIS and Director of Stewardship have 42 years of corporate governance and voting research experience and 33 years working with IVIS. All our reports are subject to thorough peer review, and where necessary wider internal discussion, to ensure the viewpoints put forward are consistent and without conflict. We believe the result is a robust and consistent approach.

IVIS has a clear remit within the organisation to act independently and uphold the IA's guidelines irrespective of the report being on a member or any other listed company. As noted above the Director of Stewardship has ultimate responsibility for the colour coding decisions and they are never referred to the IA CEO or IA Board.

Analysis of the colour tops of the companies on this conflicts list shows that in 2021 they received the following colour top assessments.

Report	2021		
	Blue	Amber	Red
Proxy	41%	44%	15%
CG	65%	9%	26%
ESG	97%	3%	N/A

The colour tops for proxy reports, which mainly refer to remuneration-related matters, are roughly comparable (with a higher number of amber tops and lower number of red tops). The two big drivers of red tops in 2021 were bonus payments when taking furlough money and pension contribution alignment. In our industry, we have historically seen more general alignment of pension policies between executives and the general workforce and the investment industry did not generally take furlough money, so was not subject to the same constraints on annual bonuses as other industries. We consider these reasons explain the colour top outcomes relative to the wider market during 2021.

The colour tops for the CG report, which mainly refer to diversity, differ from the overall outcomes, with a significantly more blue tops, lower number of amber tops and a higher number of red tops. This may be caused by the following factors:



- A relatively small sample of 34 companies compared to the overall sample of 650 companies.
- Size of member companies being more prevalent in the FTSE 350 (which would lead to a red top rather than amber top on diversity issues).

In addition, the internal assurance interviews outlined under Principle 6 shows that individual analysts do not feel under pressure regarding the preparation of reports for companies on the conflicts list. In addition to these IVIS processes, the IA has an external whistleblowing process. The IA employee handbook states that:

“The IA encourages employees to speak out if they think there is wrongdoing or bribery occurring which should be exposed. It is hoped that the issue could be raised with HR, a senior member of the Management team, Deputy Chief Executive or Chief Executive. However, if employees feel unable to do this (or wish to discuss the matter with someone outside the IA prior to pursuing it further), they are advised to contact Protect (<https://protect-advice.org.uk/>) which will be able to pass on concerns anonymously”

We have reminded the IVIS team members of these whistleblowing processes.

### **Other Companies/ consultants subscribers of the IVIS**

We also have a small number of corporate clients who subscribe to the service either through their HR team or the Company Secretary office. They use it as a way of tracking market trends and performing comparative analysis of remuneration.

As with UK-listed IA members, our mandate is to apply our rigorous process consistently and we therefore continue to strictly adhere to our Guidelines. Corporate subscribers have neither sought, nor received, any advantage over their peers. We consider the number of these clients and the revenue they generate to be immaterial to IVIS.

### **Personal conflicts of IVIS employees**

Situations giving rise to conflicts of interest may exist due to a member of the IVIS team (or a close family member) holding or trading shares in a company which IVIS produces an IVIS report for, or due to a personal or close relationship with employees of such companies. IVIS and the IA require members of the IVIS team to alert their manager to any such potential personal conflicts of interest prior to the commencement of any research.

In such cases, analysts are removed from the preparation or checking of such IVIS reports or engagement with these companies. During 2021, there were no cases where individual analysts excused themselves from the preparation of an IVIS report due to potential personal conflict of interest. However, there were two examples where the Director of Stewardship and Head of IVIS identified a personal conflict of interest and they excused themselves from the reporting checking process.

An example of a current conflict of interest is a team member with their spouse working for a Company in the FTSE 100. This conflict has been communicated to the Director of Stewardship and Corporate Governance, is noted in the internal conflicts of interests file and that team member is excluded from any engagement, preparation or checking and publishing of the IVIS report on that company.

Likewise, the Director of Stewardship has a current personal conflict with a Chair of a FTSE company. This conflict has been noted in the internal conflicts of interests file and the



Director, is excluded from any engagement, preparation or checking and publishing of the IVIS report on that company.

### **Review process prior to the publication of IVIS reports**

IVIS reports are subject to a review by a different member of the IVIS team prior to publication, in order to manage any conflict and ensure consistent adherence to the guidelines. Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director of Stewardship and Corporate Governance. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy when we plan to issue a red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors.

### **Consulting services**

IVIS does not provide any paid for or bespoke governance consulting services to companies. However, we may engage with companies outside of the proxy season over matters such as remuneration or corporate governance in general. Such consultations are limited to providing companies with feedback on their proposals, based on our guidelines. IVIS and the IA do not receive any fee for these consultation exercises. During these engagements we do not guarantee a particular colour top or IVIS approach.

## **Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

The IA represents the investment management industry, which plays a pivotal role in the UK and international economy. Our key purpose is to make investment better for savers and investors, for companies and their employees, and for the economy. The IA works with its members, constantly seeking their views and taking action in areas which need addressing.

Our members are seeking to deliver long term returns and are therefore interested in promoting sustainable market environment. Among their main priorities is to ensure that companies in which they invest are run to generate long term returns for shareholders and ultimately savers. Members want to ensure that companies are well governed and are addressing material risks to their long-term health. This is a vital part of the investment process because companies that effectively manage these risks are more likely to deliver the best results for shareholders and savers.

The wider work of the IA seeks to address a range of market wide and systemic risks to promote a well-functioning market. The current initiatives to address market wide and systemic risks focus around the impact of climate change, diversity, response to COVID pandemic and pensions (the approach to diversity, pensions and COVID pandemic was outlined in Principle 1 above). These issues are identified in consultation with members, considering the issues which are important to a wide spectrum of members, and which allow the IA and IVIS to have a consistent approach which can represent member views and drive change.





In 2020, the IA published [Shareholder Priorities for Listed Companies](#), which were updated in [2021](#) and [2022](#). In this document members outline main priorities which are designed to reflect the fact that members adopt a holistic approach to stewardship, expecting companies to be cognisant of a wide range of material issues including environmental, social and governance issues which, when pro-actively and smartly managed, can lead to the long term returns investors and savers seek.

The Priorities outline four areas that our members asked us to prioritise to drive long term value:

- Responding to climate change - Companies should proactively identify and manage climate related risks and opportunities as managing them is critical for companies to minimise the negative impacts of climate change on their long-term value and to help realise the financial opportunity of a sustainable transition.
- Audit quality - A high quality audit, where the auditor challenges management's judgements and assertions, displays independence from management and exercises professional scepticism, supports robust financial information. This enables investors to make informed investment decisions and helps to identify any concerns about the long-term viability of a company.
- Stakeholder engagement - The relationship between a company and its key stakeholders (such as its employees, customers, suppliers, and the environment and communities it impacts) is an important determinant of its long-term value. A well-managed stakeholder relationship helps companies to build a more robust strategy and make more informed business decisions. Companies who do not treat their stakeholders appropriately are unlikely to enjoy success in the long term and may suffer reputational damage which will further hinder success.
- Diversity - Members consider diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Whilst this is a matter of fairness, there is evidence that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

The document also explains how IVIS reports would reflect these issues and the intended colour top approach for companies not meeting member expectations.

## Climate change

The IA called on all listed companies to explain in their annual report what impact climate change will have on their business and how the company is managing risks and pursuing opportunities, in line with the four pillars of the Task Force on Climate-related Financial Disclosures (governance, risk management, strategy, and metrics and targets).

In 2020, IVIS introduced a new section to its ESG report, highlighting to investors whether the company made climate change-related disclosures, through four questions aligned with the four pillars of TCFD. IVIS did not introduce a colour top approach, recognising that companies are on a journey to considering the impact of climate change on their business model and strategy. In 2021, members asked IVIS to highlight on a colour top companies in the high-risk sector, who have not provided disclosure against all four pillars of TCFD (Governance; Risk Management; Strategy; Metrics & Targets). In 2022, IVIS will apply this colour top approach for any commercial company, irrespective of the sector.



IVIS identified 270 high-risk sector companies across its coverage in 2021 and amber topped 61 of them. A number of companies engaged with IVIS following the publication of the report to discuss IVIS approach or to confirm the intention on improve the disclosure in the future. During the year there were also companies that engaged with IVIS prior to the publication of their Annual Report, to discuss climate change issues either due to shareholder resolutions on climate, management resolutions to approve the Company's climate-related reporting, or to outline the Company's strategy on climate-related issues and discuss the ways to incentivise the management to deliver these targets. We met five FTSE 100 companies in 2021 explicitly to discuss these matters. We consider the introduction of the colour code approach to this part of the IVIS report, which in the past was not subject to the colour code assessment, has increased the profile and importance of this part of the report and we estimate that, going forward, IVIS will have an increased engagement with companies and members of climate-related matters as we apply the colour top approach to all companies in our coverage for 2022.

### **Accounting for Climate Change**

Investors rely on the quality and reliability of the audited information companies report to the market when making investment decisions and holding company management and boards to account. Under existing accounting and audit requirements, material climate-related matters should be treated the same as any other material factor and incorporated in the financial statements and associated notes. These should reflect both the physical risks of climate change and the transition risks arising from interventions designed to align with the Paris Agreement and transition the economy to net zero-emissions. IA members expect companies to reflect climate-related matters in their annual report and accounts and should consider using the framework and educational guidance provided by the IASB and the Investor Expectations for Paris-aligned Accounts published by the Institutional Investors Group on Climate Change (IIGCC).

In 2021, IVIS highlighted to investors those FTSE All-Share companies that included a statement in their annual report and accounts that material climate-related matters have been incorporated by asking the following question:

- Have the Directors considered the relevance of material climate-related matters, including the risks of climate change and transition risks associated with the goals of the Paris Agreement, when preparing the Company's accounts?

The inclusion of this question in the IVIS Report was aimed to encourage companies to review and report on the impact of climate change on their financial statements. This will require companies to start on the journey to reporting on the risks of climate change, which is needed for the company, their shareholders, and the wider economy. Particularly with the requirements on asset managers and asset owners to report on the impact of climate change on their portfolios. In 2021, 16 FTSE 100 Companies have confirmed in their Annual Reports that the relevance of material climate-related matters were considered by the Directors when preparing the Company's accounts.

### **Quality of Audit**

Investors have always recognised the importance of audit quality. They rely on the financial information to make informed investment decisions, the quality and robustness of the audits of company accounts are essential to making good investment decisions and to hold management and boards to account. For members, a high-quality audit is one where the



auditor challenged management's judgements and assertions, displayed independence from management and exercised professional scepticism.

The audit failures in the past have undermined the trust in audits and has serious ramifications for a broad range of key stakeholders. In 2020, IA members published their expectations of companies outlining what the Audit Committee's should do to ensure the audit quality. The expectations also covered the disclosure provided in the annual reports. To monitor company disclosures, IVIS has included two questions in its reports:

- Has the Audit Committee demonstrated how it assessed the quality of the audit, including how the auditor demonstrated professional scepticism and challenged management's assumptions where necessary?
- Has the Audit Committee demonstrated how it challenged management's judgements and what happened as a result?

Whilst these questions, on their own, do not drive a colour code, we have seen an increased engagement from companies on in these areas. In 2021, we held 3 company meetings specifically on audit quality, and we had numerous discussions of these issues with companies after the publication of the IVIS reports. In majority of cases, companies wanted to understand what disclosure is required to comply with these questions and IVIS provided relevant feedback. On some occasions, companies considered their disclosures were sufficient, in which case IVIS reviewed the company explanations and either revised the report or explained why the disclosure was insufficient.

Between 2020 and 2021, we have noted an improvement in disclosures. In 2021, 42 FTSE 100 companies outlined how the Audit Committee challenged management judgements, compared to 22 in 2020. 17 companies provided sufficient disclosures regarding the assessment of the auditor quality, compared to seven in 2020.

## **COVID and ESG**

Prior to the COVID pandemic IVIS had not identified the risk of a global pandemic as a material issue which companies should be addressing in their disclosures. IVIS would only have captured those companies that had identified a pandemic as a material risk to their business in the normal approach of disclosing a company's principal risks. IVIS did not have any specific questions on the risk of pandemics.

We set out under Principle 1 how IVIS considered the impact of COVID within the IVIS report. In addition, we continue to focus on the approach which companies have taken to stakeholder engagement during the pandemic and met the growing expectations of investors, government, regulators, and other stakeholders. The COVID pandemic has significantly impacted companies and their stakeholders. COVID was a common issue which all companies had to address in 2021. Investors expected companies to make quality disclosures outlining the approach taken to engaging, communicating, and supporting the company's stakeholders during the disruption caused by the pandemic. IVIS highlighted in its reports any COVID related engagement disclosures have been made by companies.

As outlined by the IA in the November 2021 letter to Remuneration Committee chairs, the pandemic has served as a reminder of the multitude of risks facing companies and particularly the impact of material ESG risks on the sustainable long-term financial health and value of companies. As a result, a greater number of companies are incorporating the management of material ESG risks and opportunities into their long-term strategy. The IA's



Principles of Remuneration have been updated to clarify that Remuneration Committees should consider incorporating the management of these material ESG risks as performance conditions in the company's variable remuneration and that they should select ESG metrics that are quantifiable and clearly linked to company strategy. The rationale for the selected ESG performance metrics and targets should be disclosed to investors.

Throughout 2021, IVIS regularly engaged with companies regarding the implementation of ESG measures into their remuneration structures. Given this increased trend, we have discussed with the members of the Remuneration and Share Schemes Committee, what are their preferences in terms of practical outcomes. Members have provided feedback on their preferred weighting of the ESG elements, as well as preferences regarding the measures. This allows us to give practical feedback to companies who intend to introduce ESG measures to their pay structures. In addition, considering the importance of the ESG risks and opportunities, when we engage with companies, we would ask those who have not introduced any ESG measures, whether they have considered doing so.

### **Future work**

On 25 February 2022, the Director, Stewardship and Corporate Governance sent a letter to FTSE 350 Chairs to invite them to participate in series of roundtables in April and May 2022 on a sustainable economic recovery. Investors consider now is the time to focus the key sustainability challenges and risks that could impact on the long-term value of companies over the next 10 years into the 2030s. As stewards of their clients' capital, it is the role of investors to support investee companies to adapt and strengthen their business model in response to these sustainability challenges.

The objective of these roundtables will be to strengthen dialogue about how companies and investors can work together to promote a sustainable economic recovery. We will seek to identify those issues which are of most significant concern to companies and the wider economy as we look out to 2030 and explore how investors and companies can work together to address them.

Through these initial roundtables, the IA hopes to identify key issues and concerns and explore them in further detail through a series of workshops over the next year to develop a roadmap for further action over the next decade with tangible actions for companies and investors to take. The IA's members have identified three key areas which are of particular concern to investors, when considering the long-term value of their investments: Natural Capital and Climate Change; Welfare and composition of the workforce; and Interactions with stakeholders and wider society.

As these issues and expectations develop over time, we expect that they will continue to be integrated into the IVIS reports.



## **Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.**

IVIS has two major groups of subscribers – IA members and company advisors. The IA members are the UK based global asset managers, and significant investors in UK listed companies. These clients are all institutional investors who invest on behalf of a range of institutional and retail clients. These clients constitute 52% of subscribers. These institutional investors are predominantly the largest investors in the UK and have a mix of investment styles including active and index investing.

The company advisors include remuneration consultants and legal advisors. This group constitutes 39% of our client base. We also have a small number of listed companies as subscribers (6%) and proxy solicitation firms (3%).

As set out in our response to Principle 1, IVIS has regular dialogue with its members, through the IA Committees, which meet every six weeks, and on an ad-hoc basis. We also have engagement with individual asset managers. With regard to company advisors, we have regular dialogue with them individually, so they can understand our approaches and expectations of companies. Through these conversations IVIS gets an understanding of the perspectives of companies on remuneration issues. As noted above, through the remuneration consultation process we have meetings with their clients which they sometimes attend and are able to hear our views. The IA also presents our views and expectations on a range of issues through our own webinars/events, at specific forums or events organised by other organisations or advisors. This allows us to present our views directly to advisors and companies. During 2021, we have participated in 15 speaking events to outline member expectations and the IVIS approach.

As explained above, the IA guidelines used by IVIS are approved by the IA members, including IVIS subscribers, and updates to the IVIS report and the colour top approach are also discussed by the Committees. Members can steer IVIS to focus on specific issues and also provide their feedback on effectiveness of the IVIS work and areas for improvement through these discussions or through direct feedback. For example, following the outbreak of the pandemic, the Stewardship Committee discussed the approach to support companies throughout the pandemic and fed back to IVIS what issues IVIS should focus on. IVIS reports were updated to include information in our reports where companies received government support, cancelled dividends, made changes to remuneration payments or raised capital. Our response to Principle 1 above, describes how we acted on member feedback in relation to alignment of executive pensions with the wider workforce as well as on diversity. For 2022, following the Russian invasion of Ukraine, as part of wider discussions on how to respond to the emerging problems members have asked IVIS flag through the IVIS reports any companies with significant exposure to Russia.

We also receive individual feedback, and we may act upon it when possible and where we believe it adds value. For example, prior to crystallisation of guidance on audit quality, IVIS included additional questions relating to audit and accountability, based on individual feedback from members. This approach to reviewing feedback from clients and members, is very helpful as it is direct and specific, it is usually in a forum which allows us to discuss and calibrate the differing member views to arrive at a consensus approach which represents



member views. This is confirmed through the IA committee process. We continue to evaluate and refine the approach we take discussing the IVIS guidelines and approach with members and the Committees to ensure that we get the most out of these discussions and focus on the most material issues which need to be addressed.

## **Principle 6 - Signatories review their policies and assure their processes.**

We endeavour to summarise complex matters in an easy to read, concise form, while at the same time making sure our view is balanced and includes the rationale from companies we analyse.

As set out in our response to Principle 1, the policies, and approaches which IVIS uphold are determined and updated following discussions with IA members through our Stewardship and Remuneration and Share Schemes Committees to ensure that they meet member and subscriber stewardship approaches and expectations. The IA Principles of Remuneration are reviewed annually and published alongside a letter to Remuneration Committee Chairs each November. We published our Shareholder Priorities for 2020, 2021 and 2022, which are available on our website. Other guidance and expectations are reviewed by members but not necessarily updated annually. As noted with our response to COVID, we responded to subscriber needs to update our reports to ensure that they were useful to shareholders at a time when dividends were being suspended/withdrawn.

As outlined in Principle 2, the IVIS approach to the report writing and checking processes delivers high quality reports which are factually accurate and consistently highlight matters against our guidelines or expectations and best practice. We also send reports to the companies we analyse (either prior to publication, in case of a red top, or post publication in other cases, other than investment trusts). Companies are encouraged to highlight any factual inaccuracies, comments or further information which may be helpful, and we update our reports if any factual errors exist, or a company has provided additional rationale or clarification, subject to the company confirming that such information can be included in the IVIS report. This feedback gives us an indication of quality of our research and if there are any issues with our report writing process or the quality of individual analyst's approach. In addition, company advisors, who also subscribe to IVIS would review the reports and may challenge our assessment. This may lead to a further review and engagement to obtain clarifications, which serves as another means of assessing the quality and accuracy of our reports.

In addition, we have a proactive subscriber base who will provide feedback on the IVIS colour tops or the assessments we make. This allows us to assess whether we are meeting subscriber expectations and whether our approach needs to change or be updated. This will often lead to discussions with the appropriate Committee to see if our approach needs to be amended. We believe that feedback from our subscribers and companies we analyse, combined with the culture of dialogue and multiple report checking layers ensures fairness and balance of the report as well as their accuracy and understandability.

The remuneration consultations processes are reviewed by the Remuneration and Share Schemes Committee. At each Committee session, members review IVIS summaries, provide feedback and discuss concerns. The Committee also makes proposals on how to improve the process and has recently made suggestions aimed at improving communication.





In 2020 we created internal process documents to ensure that the team members are taking a consistent approach to the key IVIS processes, these include:

- Report writing.
- Remuneration consultations.
- Colour top approach; and
- Analyst training.

The processes are reviewed and updated to reflect changes in IVIS approach or to improve them based on internal and external feedback. The adherence to these processes is reflected in the annual performance appraisal and can impact on the overall rating, which determines the level of a discretionary bonus.

### **Case Study – Breach of Processes**

During the year, there was a breach of IVIS Report Writing Processes, where a Company was given less than 24 hours to comment on the draft IVIS report which was to be issued on a red top. Our processes provide that any IVIS report which is to be issued on a red top should be sent to the company in advance and the company should be given 24 hours to comment on any factual inaccuracies or aspects of the draft report. The lack of time to respond to the draft report was flagged by the company directly to the Director of Stewardship and Corporate Governance, the Company was also concerned that their comments had not been fully reflected in the updated Report. The Director of Stewardship immediately discussed the issues with the Head of IVIS and the IVIS report which had been published was immediately unpublished. The Company was given additional time to respond to the report. We discussed additional changes which should be made to the report to reflect the company's feedback.

We discussed the situation with the analyst who had breached the IVIS processes to understand the reasons for the breach. This was caused by the analyst being out of the office the following day and their desire to finish the report and publish it prior to their annual leave. We have clarified to the analyst and the rest of the IVIS team that the processes take precedence in such situations, and should any similar issue arise in the future, they have to be flagged to the Head of IVIS and the best course of action agreed. The IVIS processes were updated to ensure that the Director of Stewardship must approve in advance any instances where a company is provided less than 24 hours to provide comments on the draft report. In addition, the processes were updated to clearly state the need to handover reports prior to any period of holiday or absence rather than shorten the report writing or publishing process. We also strengthened the process around incorporating company feedback and ensuring that any further changes were approved.

The breach of this process was considered as part of the analyst's annual appraisal. It was considered contrary to the "acting with integrity" value and resulted in the reduction of the analyst's rating on this value at their annual performance appraisal.

### **Case Study – Update of Processes**

During the year, there was a press article describing corporate governance concerns in a company IVIS covers. The article featured issues highlighted by IVIS and some of its competitors. Following the press article, the Company issued an RNS announcement suggesting that proxy advisors, including IVIS, apply a "box ticking" approach and are not open for dialogue. The Company also claimed IVIS did not engage with them. From an IVIS perspective, we highlighted concerns set out in our Shareholder Priorities surrounding diversity of their Board, which were different to the concerns identified by the Company in



their RNS. We had sent the company a copy of the IVIS report in advance of publication asking for any factual inaccuracies.

Whilst we are open for dialogue and engagement and believe we do not send any signals that would suggest to companies we do not want to engage with them. We have nevertheless updated our report writing principles, to make sure that when we contact companies regarding our reports, we state we are happy to take their views and comments into account and to answer any questions they may have, in addition to correcting any potential factual errors.

### **Assurance Process**

Our initial approach, given the size of the organisation, has been that an external assurance process would be disproportionate. As the IA does not have an internal audit function, we have developed an internal assurance procedure which is led by the Deputy CEO, supported by the Internal Counsel. As part of this internal review, they interviewed IVIS analysts with a focus on the following aspects:

- The IVIS processes – is the analyst aware of the IVIS processes and have they had adequate training?
- Conflicts of interest – including the management of personal conflicts and if individual analysts have felt under pressure regarding the approach to companies on the conflicts list.
- Engagement and dialogue with companies – exploring how the engagement with companies is working including whether the analysts feel under undue pressure to change the report or approach following engagement. Including if they are well supported by their managers in these engagements.
- Decisions on colour tops – do analysts feel that there is appropriate discussion and individual analysts have input into the colour top and the key conclusions of the report?
- Remuneration Consultation process - Is the remuneration consultation process with companies working and are we able to give sufficient information to companies on the approach which IVIS will take on the proposals?
- Conclusion - Are the processes working and covering all elements of IVIS and are there any ways that the IVIS processes could be improved?

### **Implementing proposals from 2020 assurance review.**

Following the 2020 assurance review one update was made to the process documents, the remuneration consultation process documents were updated to reflect the position which should be taken when engaging with a director of the company who is a recipient of the remuneration being discussed. In such cases, IVIS will seek for dialogue to be directly with the Remuneration Committee chair or another company employee so that engagement is not with the recipient of the remuneration. The Director of Stewardship has confirmed that the process documents have been updated. In 2021, there were no instances when the IVIS team had to use this provision of the processes, but its effectiveness will be reviewed when used.



## Outcomes of the interviews in 2021

Two interviewees were chosen at random from existing employees who worked as IVIS analysts during the 2021 AGM season. The selection of the interviewees was conducted under the supervision of the IA's counsel from Cleveland & Co. The Deputy CEO conducted the interviews, with counsel observing.

- Both interviewees were aware of the IVIS process documentation, and both had received training on it, although the second had only received training on the remuneration consultation process to the extent that they were involved, which was limited.
- Neither interviewee felt under any pressure due to conflicts of interest.
- Both interviewees said that the engagement process worked well and was fit for purpose. Neither felt under any undue pressure (although both noted that legitimate, if unsuccessful, representations were often made) and both felt issues could be escalated in the appropriate manner and that any such issues would be handled supportively and professionally.
- Both interviewees felt that decisions on colour tops were appropriately deliberated upon with a transparent process, that they had the correct amount of input and there was no undue or untoward pressure applied.
- One interviewee was very familiar with the remuneration consultation process and said that issues and information was flagged to companies in a comprehensive and timely manner. The other interviewee has less experience with them but had no reservations about the process.
- Both interviewees stated that they believed the IVIS approach and processes were fair and worked in their experience of them. Neither had any recommendations for improvement. Both were offered the opportunity to make any further relevant comments or observations but neither mentioned anything further.

The findings of this review were presented to the IA Finance, Audit and Risk Committee in March 2022. The Committee have asked us to consider how we continue to evolve our assurance processes during 2022 to ensure that they are sufficiently robust, including giving consideration to using an external auditor. We will be investigating the practicalities and costs doing so in advance of the next audit. We will report next year on the assurance approach we take for 2022.

## Fair, Balanced and Understandable

Through this stewardship report, IVIS have fairly reflected the approach IVIS, and the IA take to developing the IA guidelines and the IVIS approach to implement the guidelines. We have identified areas where we are developing our approaches, challenges we are seeking to address such as the balance of colour tops, or need to change approach as a result of member or company feedback. We have discussed how we have managed the conflicts of interest and how we responded to breaches of our processes. IVIS believe that identifying the areas of continued improvement helps to demonstrate that the report is fair, balanced and understandable.