

# *Institutional Investors Provide Clarity on their Stewardship Responsibilities*

## INTRODUCTION

Representatives of **STEWARDSHIP TEAMS** from approximately **20 INSTITUTIONAL INVESTORS** across the globe, both asset managers and asset owners, have collaborated to **PROVIDE GUIDANCE TO THE CAPITAL MARKETS** on how they will fulfil their stewardship responsibilities in light of the increased uncertainty caused by the **CORONAVIRUS PANDEMIC (COVID-19)**.

Participating investors, managing a total of approximately **\$7.2 TRILLION IN ASSETS**, have shared their guiding principles that may be applicable on a global basis to assist companies and their boards in **NAVIGATING THESE COMPLEX TIMES**. There was an overarching sentiment the **COMPANIES SHOULD FOCUS ON ALL STAKEHOLDERS**.

This document **SUMMARIZES THE VIEWS** shared and should not be treated as legal and/or investment advice. Each participating investor will continue to evaluate each portfolio company on a **CASE-BY-CASE BASIS**. All views were based on information known as of **MARCH 25, 2020**.

## QUESTION

### WILL THE CURRENT CRISIS IMPACT INVESTORS IN THE UPCOMING ANNUAL GENERAL MEETING (AGM) SEASON?

**THE CLEAR ANSWER IS 'NO'.** From an operational perspective, it is “business as usual”, whether for engagement with companies, analyzing company practices and disclosures, and/or voting by proxy.

**MOST INVESTORS HAVE SPOKEN WITH THEIR SERVICE PROVIDERS,** ranging from custodians to proxy advisory firms (such as Institutional Shareholder Services, Glass Lewis, ETC.) regarding their business continuity plans – investors have received sufficient assurances that the service providers are **PREPARED TO DEAL WITH THE CURRENT DISRUPTION.**

Investors are anticipating that there may be **SOME DELAY TO RESEARCH PROVIDED BY PROXY ADVISORY FIRMS** at the peak of the proxy season but no concerns have been registered yet.

As in previous years, investors will **CONTINUE TO APPLY THEIR OWN POLICY GUIDELINES** and, for the most part, use the recommendations of proxy advisors as one of many inputs in their final decision.

## QUESTION

### DO INVESTORS HAVE A PREFERRED AGM FORMAT?

Investors will mostly **DEFER TO REGULATORY GUIDANCE** and appreciate companies’ efforts to hold AGMs in formats that aim to protect the well-being of those organizing and attending.

For companies holding a **VIRTUAL-ONLY AGM**, whereby shareholders can attend and vote online, investors will monitor as to how shareholders’ rights are upheld, especially the **ABILITY FOR SHAREHOLDERS TO ASK QUESTIONS.** A number of investors have suggested that companies provide shareholders with the opportunity to ask questions before the AGM, which can then be made public along with the company’s answers.

Some investors are worried about the limited number of platforms allowing for virtual-only general meetings as well as the efficiency, effectiveness and capacity of such providers.

Investors have made it clear that their preference would be to **REVERT BACK TO A HYBRID MODEL** (physical and online) after the uncertainty subsides.

## QUESTION

### DO INVESTORS HAVE AN ISSUE WITH COMPANIES POSTPONING THEIR AGMs?

Investors will **DEFER TO REGULATORY GUIDANCE**.

Investors appreciate the logistical, legal and economic challenges with holding AGMs and will **RELY ON COMPANIES' OWN JUDGEMENTS**.

Investors understand that companies will have to balance the uncertainty, together with **SECURING RELEVANT AUTHORIZATIONS** (such as the ability to issue shares, buybacks, etc.).

**THERE IS NO DEMAND FOR COMPANIES TO POSTPONE AGMS**. However, some investors would welcome the postponement of the AGMs if effective shareholder interaction cannot be guaranteed through a virtual-only meeting. Some investors also welcome the postponement of AGMs to spread the concentration of meetings at portfolio companies while others worry that this may lead to a concentration of meetings scheduled for the summer.

## QUESTION

### ARE INVESTORS EXPECTING COMMUNICATION FROM COMPANIES REGARDING THE IMPACT OF RECENT EVENTS?

**THE CLEAR ANSWER IS 'YES'**, whether it be through public disclosures or direct contact with management teams. Communication and transparency are key in times of uncertainty and sending a letter to shareholders may be appropriate in terms of **MAINTAINING CONFIDENCE IN COMPANIES' "EQUITY STORY"**.

Investors pursuing an active strategy have already established communication lines and companies should **NOT BE SURPRISED IF PORTFOLIO MANAGERS**, sometimes together with stewardship teams, **REACH OUT** to understand how the company is managing the current events.

**THERE IS NO CLEAR PREFERENCE AS TO WHETHER THE COMMUNICATION COMES FROM THE BOARD OF DIRECTORS AND/OR MANAGEMENT**.

Investors understand that the first point of communication will be the Investor Relations and Management teams; however, they would appreciate more information on **HOW THE BOARD OF DIRECTORS IS OVERSEEING THE SITUATION**.

Some investors have highlighted **THE LACK OF COMMUNICATION** coming from companies regarding the impact of recent events. There is, however, an understanding that companies are focused on handling the crisis internally and may still be trying to understand the impact on their businesses, employees, customers, suppliers, etc.

When companies communicate with the market, the **COMMUNICATION NEEDS TO BE AS CLEAR AS POSSIBLE** in relation to how current events have impacted their business, how cash flow is managed, and how the company will weather the storm (including whether there are opportunities identified within the new landscape). The **REQUEST FOR CLARITY SHOULD NOT BE CONFUSED WITH A REQUEST FOR DETAIL** – there is an understanding that these are fluid times.

**COMPANIES SHOULD PUBLISH AMENDED GUIDANCE** as soon as they have further clarity.

**COMPANIES SHOULD SPEAK WITH THEIR LARGEST SHAREHOLDERS** to provide them with clarity as to how they are managing the current situation and seek feedback from them. The current landscape can serve as a great opportunity for companies to **BUILD STRONGER, LONGER-TERM RELATIONSHIPS** with their shareholders. Particular attention should be paid to maintaining proper control over the dissemination of material, non-public information.

## QUESTION

### HOW ARE INVESTORS GOING TO APPROACH BOARD DECISIONS ON DIVIDEND PAYMENTS?

The way boards approach **CAPITAL ALLOCATION** (whether it be dividends, share buybacks, ETC.) has always been important; however, the recent events have made such decisions even more critical.

The way boards approach **CAPITAL MANAGEMENT** will continue to be evaluated on a **CASE-BY-CASE BASIS**.

Investors appreciate that certain sectors will be more impacted by the recent events than others and investors largely agree that there may be the need to **RETAIN CAPITAL WITHIN THE BUSINESS** – recent events will lay bare which investors have a long-term or short-term view of a company.

Certain investors have highlighted that the board of directors' duty is to the company and not the stock market, empowering the board of directors to make the right decision for the **LONG-TERM VIABILITY OF THE COMPANY**.

Some investors have highlighted that this year may be one where companies **NEED TO DEFEND PAYING DIVIDENDS** as opposed to not paying them.

Some investors have suggested that **SCRIP DIVIDENDS** could be a solution in the current context.

## QUESTION

### ARE INVESTORS GOING TO PLACE ADDITIONAL IMPORTANCE ON EXECUTIVE PAY?

**THE CLEAR ANSWER IS 'NO'**. Investors expect boards to **FOCUS ON MORE CRITICAL BUSINESS ISSUES** this year, and pay should not be an area of focus for them in the current context.

Most investors appreciate that **PAY DECISIONS FOR THIS YEAR** (i.e. the 2019 financial year) have been finalized and any changes to amounts owed/paid would have to be negotiated together with the board and management. They do note, however, that there will be **SOCIETAL PRESSURE** to demonstrate restraint and manage reputational risk, especially where there may have been significant lay-offs.

Investors will continue to identify **EGREGIOUS EXECUTIVE PAY** practices as per their usual internal guidelines and will not be expecting additional actions from boards this year.

**NEXT YEAR**, investors will analyze closely the strength of executive pay policies in place at portfolio companies and how compensation committees have applied **DISCRETION**. There may be increased attention placed on the disparity between executive pay and the wider workforce.

In light of the impact of recent events on share price, companies should be **MINDFUL WHEN GRANTING EQUITY TO EXECUTIVES** and its impact on **DILUTION**.

## QUESTION

### ARE INVESTORS GOING TO CONTINUE THEIR FOCUS ON ENVIRONMENTAL AND SOCIAL (E&S) ISSUES?

**THE CLEAR ANSWER IS 'YES'**. Topics such as climate change, cybersecurity, supply chain oversight and human capital will not be taken off the engagement agenda, even though most investors have **TILTED THE FOCUS** of their current engagements to business continuity plans and capital allocation.

The E&S topics will have to be adjusted for the implications of the current events but for certain sectors, these topics will actually become even more prominent and touch upon the **COMPANY'S LICENSE TO OPERATE**.

Investors are convinced that **E&S FACTORS REMAIN FUNDAMENTAL**, not secondary. Investors will continue to adhere to their principles and will evaluate E&S shareholder proposals as in previous years.

There is a strong agreement between investors that the current events **WILL REVEAL THOSE COMPANIES THAT HAVE KEPT A LONG-TERM FOCUS** and those that have not.

Some investors expect there to be a slowing of E&S initiatives on the **REGULATORY SIDE**.

## QUESTION

### WILL INVESTORS BE APPROACHING CORPORATE TRANSACTIONS AND ACTIVISM ANY DIFFERENTLY?

**INVESTORS DO NOT RULE OUT ACTIVISM** in this current landscape and will not ignore engagement requests from activists. They remain assured that activists could make some valid points regarding the targeted company and underperforming companies will be further exposed following this crisis.

There will, nevertheless, be **INCREASED SKEPTICISM REGARDING ACTIVIST CAMPAIGNS** in the current context. Investors largely believe that boards and management teams **DO NOT NEED FURTHER DISTRACTIONS** at this moment in light of more immediate concerns.

**CORPORATE TRANSACTIONS** will continue to be evaluated on a **CASE-BY-CASE BASIS**. For nearly completed transactions, there is a shared view that there may be no point in abandoning the transaction now.

Investors will, however, require companies **TO PROVIDE FURTHER EXPLANATION FOR NEW TRANSACTIONS** as the assumptions and valuations may have altered drastically. Furthermore, certain investors have cautioned that integration of businesses is difficult in normal circumstances, let alone in this context.

## CONTACT

If you have any **QUESTIONS, COMMENTS, or FEEDBACK**, please contact Ali Saribas at [ALI.SARIBAS@SQUAREWELL-PARTNERS.COM](mailto:ALI.SARIBAS@SQUAREWELL-PARTNERS.COM)