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London W1B 1AH

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Subject: Comments on the consultation document 'Improving Engagement Practices by Companies and Institutional Investors' of the Institute of Chartered Secretaries and Administrators (ICSA)

Dear Mr. Gillen, *Dear Seamus!*

Eumedion welcomes the opportunity to submit comments on the ICSA consultation document 'Improving Engagement Practices by Companies and Institutional Investors'. By way of background, and to put our comments in context, Eumedion is the Dutch based corporate governance and sustainability forum for institutional investors. We have 70 Dutch *and* non-Dutch participants – all with a long term investment horizon – and our general aim is to promote good corporate governance and sustainability in Dutch listed companies. Participants include a wide range of institutional investors: pension funds, mutual funds, asset managers and insurance companies.

Eumedion generally supports the approach to create a guide to good practices with the particular aim of encouraging more productive meetings between listed companies and investors in the UK market. In particular, we welcome that the initiative is a joint effort of listed companies' and institutional investors' experts, brought together in a Steering Group.

The importance of engagement

Our institutional investor participants endeavour to act as responsible and engaged shareholders. They believe that engaged ownership could support board in ensuring company's long term success and Boards and may lead to greater investor confidence in the strategy of a company and in its

implementation by management. Fit for purpose engagement between companies and shareholders strengthens the checks and balances within listed companies, which is key to creating long term value for the company and all its shareholders, including institutional investors who need to serve the interests of their clients as ultimate beneficiaries.

Collective engagement in the Dutch market

Collaboration is a key pillar of Eumedion's concept of shareholder engagement. We believe that collaborative engagement can be an effective and efficient way to monitor and influence the governance practices of companies, in particular in markets (e.g. the Netherlands) where shareownership has become highly dispersed and international. Therefore, one of Eumedion's most important services involves a (non commercial) platform that enables our participants to enter into collective dialogues with companies. The main features of the Eumedion collective engagement practices are:

- For each of 30 largest Dutch listed companies a 'lead investor' is assigned from the group of Eumedion participants who are holding shares in that particular company.
- The 'Lead Investor' is responsible for ongoing monitoring of the company and 'leading' the collaborative dialogue meetings with the company. In principle, he is also expected to physically attend each Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) of the company, at which he should be prepared to actively participate in the debate.
- The Lead Investor is facilitated by the Eumedion secretariat. The secretariat drafts analyses of the listed company on an on going basis and develops 'scans', in which company specific characteristics and potential issues are addressed including: remuneration policies, board composition, environmental and/or social issues, bylaws, etc. The scans can be the starting point for the dialogue. The scan is updated after each dialogue and disclosure made and/or action taken by the company.
- Other Eumedion participants who are holding shares in the company could join the dialogue, coordinated by the lead investor, as an 'Opt in Member'. The Lead Investor and the Opt in Members can invite – during the dialogue – other Eumedion participants to join the dialogue. The collaborative dialogue is conducted on behalf of Eumedion participants and not on behalf of Eumedion.
- Eumedion's general objective is to have a collaborative dialogue meeting with each of the companies twice a year: one meeting in the run up to the AGM (to discuss the proxy materials), and a second meeting to discuss more on going issues. In practice, the meetings are initiated by either the company or Eumedion's participants.
- The Eumedion secretariat is responsible for drafting minutes of every dialogue meeting. The minutes are circulated to the Lead Investor and the Opt-in-Members.

Eumedion recognizes that its participants, as institutional investors, always have the right to engage individually with a company and may determine that it is in the best interests of their ultimate beneficiaries to do so.

Below we make some comments on the specific questions raised in the consultation document.

QUESTION ONE – Do respondents agree that guidance in this area will help strengthen engagement practices? If they do not agree that guidance will have that effect, what else do they believe can be introduced to strengthen engagement practices?

What is not stated clearly in the consultation document is what, specifically, does ‘engagement practices’ mean in the context of the proposed guidance. The consultation document seems to primarily focus on company-investors meetings, and we would agree with that. Yet ‘engagement practices’ have a much wider scope and may also involve a wide range of other activities, as outlined in Principle 4 of the UK Stewardship Code. Therefore, we advise the Steering Group to further define to what sort of engagement activities the proposed guidance should apply to.

For company-investors meetings, we would generally welcome a simple and meaningful guide of engagement practices to help ensure the optimum conditions for dialogues. The guidance should not only help to manage the demands and expectations on both sides of the table, but also promote meetings that create more mutual trust and support companies to drive better long term performance through good governance.

QUESTION TWO – Do respondents agree with the need to develop a new conversation. Are there any other considerations that should be included in this new conversation?

We would certainly not argue that company-investors meeting in the Netherlands are generally more effective than in the UK. There is no evidence at all to support this. But we do have the impression that some of the elements of the so called ‘new conversation’ are already common practice in the Dutch market.

With the existing collaborative dialogue approach Eumedion participants are able to use their joint resources for engagement effectively and have been able to build a critical mass (approximately 20% of the shares) in a highly dispersed market (considerations 3 and 4). The Eumedion best practices on engaged ownership¹, require Eumedion participants to be transparent (on their website and/or in their annual reports) about their policies towards engagement, including dialogues (consideration 1). Last but not least, we feel that the quality of our meetings in which Eumedion participants jointly participate have generally been improved over the years, as was mentioned in the Eumedion evaluation of the Dutch AGM

¹ Best practice 2 of the Eumedion best practices on Engaged Ownership (http://www.eumedion.nl/en/public/knowledgenetwork/best-practices/best_practices-engaged-share-ownership.pdf).

Season 2012.² Also, our continuing dialogues' are meant to build constructive relationships with companies and are not only focused on long term financial performance, but predominantly involve governance issues and social and environmental matters.

QUESTION THREE – Do respondents agree that the measures outlined in Appendix E would significantly improve the quality of engagement meetings, and are there any other steps which could be taken?

We feel that many of the points and questions mentioned in Appendix E are worthwhile taking in consideration for both companies and investors in order to make their meetings more valuable and the preparation for their meetings more efficient. Nevertheless, the appendix material should not become overly detailed. For instance, 'frequency', 'agenda' and 'length' of the meetings are rather obvious issues that should be left to companies and their investors to jointly decide upon. The guidance needs to be relevant and flexible for both companies and investors and should be easily adaptable to various circumstances. Hence, we have a preference for labelling Appendix E as an 'indicative checklist' rather than 'measures'.

QUESTION FOUR – Should companies and institutional investors seek feedback on the quality of meetings as an integral part of the engagement experience?

We believe that the relevance of meetings could improve if companies and institutional investors seek feedback on their respective performances at meetings. In the Dutch market, it is becoming more and more common practice for companies and/or shareholders to provide and receive feedback. In most cases feedback reported in a rather informal way by a phone call or email exchange shortly after the meeting. In our opinion it is not necessary for companies and investors to provide and/or receive feedback after every single company-investor meeting. Only when parties find it appropriate, feedback should be sought.

QUESTION SIX – Do respondents consider the questionnaire format, and the content, outlined in Appendix F would constitute an acceptable basis for providing feedback on investor meetings? Might any other mechanism be used? If using the questionnaire format, should any content be added (or removed)?

We would have some concerns if feedback were to become a highly standardised part of the dialogue. This might be an attractive prospect for consultancy firms that aim to provide intermediary services; but entails the risk that companies and investors end up with a giant box-ticking exercise without much added value. We believe that feedback should be more customised and relevant, rather than standardised. In the same spirit, the proposal to have investors ranked by companies in the feedback process seems not to be an appropriate mechanism. The possible threat of a low ranking by the company an investor is

² http://www.eumedion.nl/en/public/knowledgenetwork/publications/2012_agm_evaluation.pdf.

having a conversation with, could influence his 'professional scepticism' in the conversation which may negatively affect his effectiveness to act as an engaged shareholder in the interests of his client-savers and pension scheme members.

QUESTION SEVEN – Do respondents consider that addressing these key issues will help strengthen good practice engagement?

Yes, we believe that addressing the four additional issues mentioned in the consultation document could encourage more productive dialogues. For having any meaningful impact on a company's governance in the increasingly dispersed UK market it is in institutional investors' interest to coordinate their engagement activities. In particular, the establishment of a broadly supported Investors' Forum as recommended in the Kay Review, is likely to be a vital step to better enable institutional investors to engage more effectively and collectively with companies, as recommended. A broadly supported Investors' Forum, in which the various categories of long term institutional investors are represented, will provide a robust platform to act collectively in a more frequent and effective manner. Participating institutional investors could share expertise, information and costs. As mentioned earlier, Eumedion already offers such a platform in place for the Dutch market.

QUESTION EIGHT – Do respondents have views on what other mechanisms can be used to encourage good practice engagement?

We advise UK companies, investors and policy makers to consider the introduction of longer notice periods for – at least regular - AGMs. This would leave (foreign) shareholders more time to analyse the items on the agenda, to enter – if appropriate – into a dialogue with the company and/or with other investors on controversial issues, to decide on exercising the voting rights and, finally, to have the votes processed through the voting chain. In the Dutch Company Law the minimum notice period for shareholder meetings was extended from 15 to 42 days in 2009. After that extension the dialogues between companies and investors in the run up to shareholder meetings have become much more frequent, effective and productive.

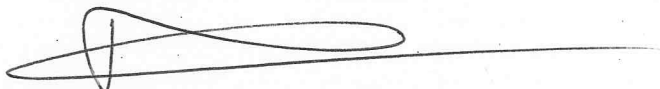
Enhanced institutional investors' transparency on their AGM priorities could be another mechanism to promote better companies-investors dialogues in the UK. In the Netherlands, long term institutional investors participating in Eumedion timely disclose their focus points before the upcoming AGM season.

Every autumn, in October, Eumedion submits a 'spearheads letter' to the 75 largest Dutch listed companies. In the letter Eumedion clarifies important general topics that Eumedion participants would like to bring to the companies attention and that they may put forward in the conversations in the run up to

and/or at the AGMs. Reference is being made to Eumedion's spearheads letter 2013 that was recently published.³

Again, Eumedion welcomes the ICSA's initiative and appreciates this opportunity for comment. We hope that our suggestions and clarifications are of assistance. If you would like to discuss our views in further detail, please do not hesitate to contact us.

Yours sincerely,



Rients Abma
Executive Director Eumedion

³http://www.eumedion.nl/en/news/eumedion_spearheads_letter_2013_propagates_more_meaningful_reporting_by_supervisory_directors.