ICGN Global Stewardship Code

Member Consultation

November 2015

Invitation to comment

A cornerstone of ICGN's policy programme relates to investor responsibilities and making successful long-term stewardship a reality. ICGN has established a leadership position in both shaping stewardship policy and facilitating its development in financial markets around the world, and this remains an important area of focus for ICGN's members.

This initiative to develop a global stewardship code which builds on ICGN's existing policy framework, including the ICGN Global Governance Principles, and adds to ICGN's guidance on stewardship. A global stewardship code might serve several purposes, but three primary applications include the following:

1. Serve as an international "passport" for institutional investors seeking to signal their stewardship policies and practices either when investing in markets without stewardship codes or when they invest in multiple markets with differing stewardship codes. This ICGN Global Stewardship Code is intended to complement—and not supersede-- other stewardship codes that are in place in different markets around the world. Rather, a commonly recognised global stewardship code could help investors to efficiently communicate fundamental stewardship standards in a global context.

2. Serve as a point of reference for investors on what stewardship entails and how to implement it in practical terms.

3. Serve as a point of reference to guide jurisdictions seeking to establish their own stewardship codes by providing an overarching model of stewardship that can be adapted to the individual situations of countries or regions.

We are seeking ICGN Member views on this draft global stewardship code until 31 December 2015. In addition to general comments on any aspect of the text of this Code and the overall purpose of this initiative, we are also seeking your feedback on the following specific questions.

1. Do you agree or disagree with the stated purposes of ICGN Global Stewardship Code? Are there other applications you might envisage?

2. Do you believe the draft ICGN Global Stewardship Code is appropriately positioned to complement stewardship codes that are in place in other jurisdictions or to serve as a guide for the development of stewardship codes ?

3. Do you agree with the seven principles of the Code? Is there a principle that should be excluded – or another principle that should be included?

4. Are there aspects of the guidance points that you do not agree with or are there further guidance points to consider?

5. Are there aspects of the roles of asset owners, asset managers and companies that you do not agree with or are there further guidance points to consider?

Please forward any feedback by 15 January 2016 to Marlice Johnson at ICGN: marlice.johnson@icgn.org

ICGN Global Stewardship Code Principles

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Preamble

A cornerstone of ICGN's policy programme relates to investor responsibilities and making successful long-term stewardship a reality. ICGN has established a leadership position in both shaping stewardship policy and facilitating its development in financial markets around the world, and this remains an important area of focus for ICGN's members.

ICGN's policy guidance has approached stewardship practices through several published documents.[1] The ICGN *Principles for Institutional Investor Responsibilities*, dating back to 2003 and most recently updated in 2013, is ICGN's most complete statement on responsible investment and stewardship practices. It provides guidance on both internal investor governance and external stewardship, including key stewardship principles that have influenced the development of stewardship codes in jurisdictions around the world. ICGN's *Model Mandate*, published in 2012, complements the *Principles for Institutional Investor Responsibilities* by outlining model contract language for investment management agreements between asset owners and asset managers to integrate core stewardship practices into the asset management process. Included in the scope of the *Model Mandate* were sections on systemic responsibility, long-termism and integrating environmental, social and governance (ESG) risks into investment analysis and decision making.

The more recent publication of ICGN's *Global Governance Principles* (2014) builds further on responsibilities and best practices of institutional investors, and positions stewardship responsibility for investors on the same footing as an investee company's responsibility to maintain good corporate governance practices. Building from these policy foundations, ICGN has made further contributions to consultations about stewardship developments in a number of jurisdictions, including the European Union, Japan, UK, Australia, Hong Kong and Malaysia. All such codes are publicly available on a dedicated section of the ICGN website.

ICGN also voiced support for the inclusion of investor responsibilities as a component of the 2015 updating of the G20/OECD Corporate Governance Principles, which includes specific reference to the fact that "some countries have begun to consider adoption of codes on shareholder engagement ("stewardship") that institutional investors are invited to sign up to on a voluntary basis." In addition, ICGN served as a peer reviewer on the Principles for Responsible Investment's 2015 report on fiduciary duty in the 21st Century. ICGN's global stewardship code also complements the United Nations Environment Programme Financial Initiative's (UNEP FI) 2015 publication on aligning the financial system with sustainable development, particularly with regard to perspectives of long-term investor stewardship.

This initiative to develop a global stewardship code builds on ICGN's existing policy framework, and adds to ICGN's guidance on stewardship. A global stewardship code might serve several purposes, but three primary applications include the following:

1. Serve as an international "passport" for institutional investors seeking to signal their stewardship policies and practices either when investing in markets without stewardship codes or when they invest in multiple markets with differing codes. It is not practical for investors to be signatories of stewardship codes in every country they invest in. A commonly recognised global stewardship code could allow investors to efficiently communicate fundamental stewardship standards in a global context.

2. Serve as a point of reference for investors on what stewardship entails and how to implement it in practical terms.

[1] For ICGN policy documents, please see: https://www.icgn.org/policy

3. Serve as a point of reference to guide jurisdictions seeking to establish their own stewardship codes by providing an overarching model of stewardship that can be adapted to the individual situations of countries or regions.

This ICGN Global Stewardship Code is intended to complement—and not supersede-- other stewardship codes that are in place in different markets around the world. Local or regional codes reflect domestic realities and governance standards. If there is a difference or conflict between the ICGN code and the local code, it is ICGN's expectation that the domestic investor in the local market should first adhere to standards of stewardship articulated in the domestic stewardship code.

Section 1: ICGN Global Stewardship Code Principles

Stewardship can be defined in general terms as the careful and responsible management of something entrusted to one's care. This suggests a fiduciary responsibility on the part of those agents entrusted with management responsibility to act on behalf of the end beneficiary.

The global stewardship code presented below draws from ICGN's own policy work in stewardship and fiduciary responsibility, and builds from other codes that have been launched in markets around the world. It offers a basic "skeleton" of key stewardship responsibilities, and is drafted with a view towards application in either developed or emerging markets.

The preconditions to effective stewardship in a given market include having a critical mass of investors willing to take on stewardship and the willingness of companies to engage with investors in good faith. Asset owners play a particularly important role here to ensure that stewardship responsibilities are built into investment management mandates as a standard feature of asset management practices. It is also very important to have regulatory encouragement for stewardship activities to take place. Many markets have both domestic and foreign investors.

The risk of an overly prescriptive approach to a stewardship code would be to encourage a counterproductive "tick box" compliance mentality of investors – which is not what lies behind the intent of ICGN Global Stewardship Code. In this context, it is important to highlight the intangible qualities of tone and culture as critical components to a stewardship code's success in any market.

The ICGN Global Stewardship Code builds on ICGN's own policy work in stewardship and is informed by the development of stewardship codes in markets globally. It is based on seven core Principles outlined below.

Principle 1: Addressing internal governance, conflicts of interest and obstacles to effective stewardship

Investors should review their own governance practices to ensure consistency with the aims of the stewardship code and their ability to serve as fiduciary agents for their clients and end beneficiaries.

Principle 2: Disclosing and implementing stewardship policies on responsible investment practices

Investors should commit to implementing stewardship policies, and have a publicly disclosed policy framework outlining the scope of this commitment.

Principle 3: Monitoring investee companies

Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Principle 4: Exercising voting rights responsibly

Investors should exercise their voting rights diligently and responsibly.

Principle 5: Engaging with companies and collaborating with other investors

Investors should engage with companies held in investment portfolios to build mutual understanding and promote responsible governance practices, and should be prepared to collaborate with other investors to communicate areas of concern.

Principle 6: Ensuring long-term perspective and integration of environmental, social and governance (ESG) factors

Investors should focus on promoting the long-tem performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.

Principle 7: Enhancing transparency, disclosure and reporting

Investors should disclose publicly on their stewardship activities and report to clients on how these policies have been implemented.

Guidance on application

Principle 1: Addressing internal governance, conflicts of interest and obstacles to effective stewardship

Investors should review their own governance practices to ensure consistency with the aims of the ICGN Global Stewardship Code and their ability to serve as fiduciary agents for their clients and end beneficiaries.

Guidance points:

- Investors should be overseen by boards or other governance structures that act independently and without bias to advance beneficiary or client interests. This may involve the need to ring-fence investment activities for clients from commercial pressures.
- Investors should deliver value by promoting and safeguarding the interest of clients and beneficiaries over a time horizon which matches that of the client--which in many cases requires a long-term perspective;
- Investors should have appropriate capacity in terms of human and financial resources and experience to oversee effectively and manage their stewardship obligations in the interests of beneficiaries and clients
- Investors should seek to avoid conflicts of interest which may compromise their integrity, and where conflicts exist they should to be identified and managed.
- Investors should rigorously review their investment activities and their client interests to identify real or potential conflicts of interest. Such conflicts of interest should be disclosed, along with the remedies to mitigate them in a statement of adherence to the Global Stewardship Code.
- Comprehensive compliance capabilities should help in minimizing conflicts and ensuring investors have effective policies to deal with issues including insider information, market manipulation or other offences.
- Investors should reinforce their obligations to act fully in the interests of beneficiaries or clients by setting fee and remuneration structures that provide appropriate alignment over relevant time horizons.
- Investors should disclose to their beneficiaries or clients an explanation of how their remuneration structures and performance horizons for individual staff members advance alignment with the interests of beneficiaries or clients.

Principle 2: Disclosing and implementing stewardship policies on responsible investment practices

Investors should commit to implementing stewardship policies, and have a publicly disclosed policy framework outlining the scope of this commitment.

Guidance points:

- Stewardship policies should address the components of the ICGN Global Code, along with any other stewardship code the investor may have committed to.
- Stewardship policies should be reviewed and endorsed at the highest level of the investor's management and governance structure.
- Investors should be encouraged, whether as asset owners or asset managers, to incorporate stewardship practices into the terms of investment management agreements.

- A statement of commitment to principles of the ICGN Global Code – or any other stewardship code committed to—should be published on the investor's website.

Principle 3: Monitoring investee companies

Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Guidance points:

- Investors should regularly monitor investee companies in order to asses their individual circumstances, performance and long term potential.
- Monitoring companies encompasses a wide range of factors including a company's strategy, business model, financial performance, risk management and the effectiveness of the company's governance and leadership. This includes building awareness of material ESG factors that may influence a company's sustainable long-term success.
- A particular dimension of monitoring under the Global Code is to develop an understanding of the company's corporate governance practices. I particular, investors should assess the quality of explanations of any deviations in governance that a company may report from a "comply or explain" perspective and make considered and reasoned judgements.
- While many investors monitor companies in terms of their equity holdings, monitoring companies is also for important for bondholders and other creditors, particularly with regard to how financial policies may affect creditors relative to shareholders.
- Even for investment funds without a specific corporate governance mandate, all investment professionals should be aware of corporate governance factors and the role they may play in terms of a company's long term performance.

Principle 4: Exercising voting rights in an informed and responsible manner

Investors should exercise their voting rights diligently and responsibly.

Guidance points:

- Investors with voting rights should exercise these rights in a responsible and informed way across their entire portfolio.
- Within the context of an overall stewardship policy, investors should develop and disclose their voting policies.
- Investors should be prepared to vote against management resolutions if these resolutions are regarded as inconsistent with good business or governance practices.
- Investors should seek to explain to companies the reasons underlying voting against any significant resolution, preferably before the shareholders' meeting.
- Investors should disclose their actual voting records. Investors in developing or emerging markets where active voting is yet to be established may prefer not to publish their voting records in their initial stewardship activities, but should be aware that public disclosure of voting is regarded as good practice.
- Asset managers and asset owners should include voting activity in client and beneficiary reporting and, where possible, seek to confirm whether or not such votes have been cast in accordance with their instructions.

- Investors should disclose the extent to which they use proxy research and voting services, including the identity of the provider and the degree to which any recommendations are followed.
- Investors should disclose their approach to stock lending and voting in a clear policy which should clarify the types of circumstances where shares would be recalled to vote.

Principle 5: Engaging companies and collaborating with other investors

Investors should engage with companies held in investment portfolios to build mutual understanding and promote responsible governance practices, and should be prepared to collaborate with other investors to communicate areas of concern.

Guidance points:

- Engagement by investors should take the form of constructive dialogue with companies. It can reflect communication or dialogue in many forms, including meetings, telephone calls, letters, emails or other forms of communication.
- Investors should engage with companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients. This includes a range of material factors such as strategy, financial performance, shareholder rights, stakeholder relations, board effectiveness, risk management, ethics and business conduct, remuneration and broader ESG considerations.
- Investors should seek to engage not only with company executive management, but also with independent directors who are elected by shareholders.
- Particularly for companies adhering to codes of corporate governance on a "comply or explain" basis, investors should be prepared to engage on questionable governance practices or poor company explanations.
- As part of the overarching stewardship policy, investors should establish policies relating to the engagement process to establish a framework for company dialogue. Part of this policy should address how engagement might be escalated in cases company engagement results in unresolved concerns.
- Investors should be open to joining forces and collaborating with other investors – both domestic and overseas investors—to leverage the voice of minority investors and exert influence, where required. Collaboration can be direct, but also through organizations like ICGN and other investor membership organisations in the Global Network of Investor Associations (GNIA).[2]

Principle 6: Ensuring long-term perspective and integration of environmental, social and governance (ESG) factors

Investors should focus on promoting the long-tem performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.

Guidance points:

- Investors should understand the objectives and timeframes of their clients and beneficiaries.

[2] For a list of GNIA members and contact details, please see: https://www.icgn.org/policy/global-network-investor-associations

- Particularly for pension funds and other long-term savings or retirement funds, investors should focus on a promoting company's long-term sustainability and commercial success over short-term considerations.
- Investors should build awareness of factors that may affect a company's long-term prospects. This should include an understanding of how ESG factors may influence a company's long-term performance, as risks or opportunities.
- Investors should develop ways to monitor and assess ESG related risks to help to support the monitoring, voting and engagement dimensions of stewardship.
- Investors should encourage companies to adopt "integrated thinking" with regard to how ESG factors affect long-term financial performance and sustainable value creation and should also encourage robust integrated reporting by companies to link ESG and other qualitative factors more clearly with company strategy and operations.
- To the extent a company's ESG disclosures are insufficient to allow for investors to gain an appropriate understanding of a company's sustainability-related risks, investor engagement should encourage more robust ESG reporting and disclosures.

Principle 7: Enhancing transparency, disclosure and reporting

Investors should disclose publicly on their stewardship activities and report to clients on how these policies have been implemented.

Guidance points:

- Public disclosure regarding stewardship should normally be reviewed at least annually, and address the investor's activities with respect to the Principles of the Global Stewardship Code or other stewardship codes that the investor may be adhering to.
- Investors should maintain records of client meetings, voting and engagement to document summaries of stewardship activities. Investors can also reference engagements made collectively, including through investor bodies such as ICGN and other GNIA members.
- Investors should be encouraged to disclose their major stewardship priorities and forward-looking engagement strategy.
- Client reports may contain more granular accounts of stewardship performance than is documented publicly.
- Public disclosure of voting activity is called for asgood practice.
- External assurance of stewardship code activities is encouraged as good practice.

Section 2: Implementing and monitoring the Global Stewardship Code

How does stewardship relate to fiduciary duty and systemic stability?

Applied in an investment and capital markets context, institutional investors are the agents— or stewards— on behalf of assets owned by the end beneficiaries of stewardship. These beneficiaries include individual savers, pensioners and holders of long-term insurance policies. They rely on institutional investors as their agents, which include both asset owners and asset managers to act in their interests. Institutional investors invest in a range of assets, including the equity and debt of listed companies, to produce investment returns for their beneficiaries. Particularly for pension funds and insurance companies funding annuities, the perspective of institutional investors is typically long-term. Both institutional investors and their beneficiaries therefore have a strong interest in ensuring that investee companies that are successful and sustainable over time. This also has broader systemic implications in terms of promoting healthy capital markets and economic development. Stewardship in its broadest sense relates to both the micro dimension of making companies more successful for sustainable value creation and to the macro dimension of enhancing overall financial market quality and stability.

Who does a stewardship code apply to?

A stewardship code most fundamentally applies to investors, as both asset managers and asset owners. Each has a different role to play. While companies as issuers are not themselves signatories to stewardship codes, they do have a role to play to make a stewardship code effective, through cooperating in good faith with investors, particularly in the engagement process, and more generally in respecting shareholder rights. Stewardship can be applied to equity holdings regardless of investment style; for example it applies to both actively and passively managed assets.

Particularly given voting and other ownership rights, stewardship in the first instance is focused arguably on an investor's equity holdings. However, bond holders and other creditors provide long-term risk capital to companies and also have an interest in promoting responsible and sustainable corporate governance practices. So a stewardship code can also be applied to fixed income investors, though certain provisions, such as those relating to voting, will not have the same relevance.

"Comply or Explain" systems of corporate governance

Supporting the premise of a global stewardship code is the critical role that investors play in the supporting the effectiveness of a "comply or explain" corporate governance framework. "Comply or explain" provides companies with flexibility to not adhere with provisions of a corporate governance code, without legal or regulatory sanction. This reflects recognition that not all aspects of a corporate governance code may be relevant for an individual company to apply to be well governed. But this approach also carries the obligation for companies to explain the reasoning as to why specific governance practices have not been adopted.

For a "comply or explain" system to be effective, a company's explanation of non-compliance with its corporate governance code needs to be monitored to ensure a company's explanations are robust. While regulators must be able to monitor company compliance to hard laws and regulations, they are less well placed to make sometimes subjective judgements as to the quality of a company's explanations. This is where institutional investors have a role to play to be proactive in engaging with companies whose explanations are unsatisfactory.

In the event that company explanations are inadequate, it is the role of institutional investors to use ownership rights to challenge companies when necessary. Without the active monitoring of explanations by investors, a "comply or explain" system would lack an ultimate means of enforcement or influence. A stewardship code therefore plays a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices.

The development of stewardship codes globally

Stewardship codes are a relatively new innovation, though voluntary codes of investor practice have been in place for longer periods. ICGN first published in 2003 what is now titled "*ICGN Principles for Institutional Investor Responsibilities*". Similarly, a voluntary code of investment practice has been in place in the United Kingdom (UK) dating back to 2003. The UK launched the first formal stewardship code in 2010 in part prompted by concerns about the diligence of the institutional investment community leading up to the recent financial crisis. This code defined the aim of stewardship as "to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper." Core components of the UK Stewardship Code include active monitoring, voting and engagement with companies, combined with management of conflicts and disclosures to the public and to clients.

The UK Stewardship Code was followed by codes in a range of other markets. Other early adopters in 2011 include Eumedion's Best Practices for Engaged Share Ownership (Netherlands), the Code for Responsible Investing (South Africa) and the European Fund and Asset Management Association's Code for External Governance (European Union). Since then new codes were established in a wide range of jurisdictions globally (see Appendix), and further codes are under development in other developed and emerging markets. The recently revised corporate governance principles of the G20/Organisation of Economic Co-operation and Development (OECD) also feature a new chapter outlining investor responsibilities that are consistent with the features of many stewardship codes.[3] The Principles for Responsible Investment has also contributed to the literature from a fiduciary responsibility perspective, particularly with regard to the integration of environmental, social and governance (ESG) factors into the investment process.[4] UNEP FI also contributed to this dialogue through its 2015 publication on aligning the financial system with sustainable development, bringing social and environmental factors into focus as a component of investor responsibility.[5]

Common components to stewardship codes are provisions for investors to develop policies on stewardship, actively monitor companies, vote at shareholder meetings, engage with companies, address conflicts of interest and publicly disclose stewardship activities.[6] In some markets, notably South Africa and Malaysia, traditional stewardship considerations are enhanced by provisions relating to sustainability issues, including the need for investors to assess company environmental, ethical and social performance. Sustainability factors are particularly relevant in a stewardship code when business ethics and corporate responsibility also feature as part of a country's own code of corporate governance.

Making stewardship work: the evidence and the obstacles

[3] *G20/OECD Principles of Corporate Governance*, September 2015
[4] Principles for Responsible Investment: *Fiduciary Duty in the 21st Century*, September 2015.
[5] United Nations Finance Initiative Environment Initiative: *The Financial System We Need: Aligning the Financial System with Sustainable Development*, 2015

Since stewardship codes have not been in place for an extended period of time, there is a limited base of evidence to assess their effectiveness. While stewardship practices by investors are generally improving, particularly among signatories to stewardship codes, it is difficult at this point in time to draw definitive conclusions about the effectiveness of stewardship codes in terms of delivering their stated objectives.

In its report after five years of the UK's Stewardship Code in practice, the Financial Reporting Council (FRC) reported the progress that had continued to build in terms of numbers of signatories and the increased quality and quantity of engagement, as reported by listed companies.[7] At the same time, however, the FRC also voiced caution about the experience to date. It noted, even after five years, that "the development of a culture of stewardship may take time". In particular it noted the importance of culture in terms of establishing a solid governance and stewardship framework, and noted challenges and potential obstacles in achieving this culture. Specific concerns related to:

- a "tick box" mentality reflecting superficial implementation of stewardship practices;
- "lumpy" engagement coverage, with some (larger) companies attracting most investor attention, but with other companies receiving limited, if any, attention;
- imbalanced engagement themes: too much engagement on remuneration and too little on matters of strategy;
- the need for collective engagement to become more organised.

Additional factors, including, internal conflicts of interest, inappropriate performance metrics and remuneration structures, excessive portfolio diversification, insufficient resourcing and the growth of passive funds have been cited as creating obstacles to effective investor stewardship practices.[8]

Given these obstacles and disincentives, and the absence of a strong evidence base in support of stewardship codes, there remain questions regarding the costs versus the benefits of stewardship. Many of these factors ultimately relate to internal governance challenges at individual institutional investors, and the success of stewardship codes will require serious attention by investors to their internal governance and conflicts – and not just on the execution of the external stewardship practices.

ICGN is alert to these challenges, yet remains of the view that stewardship codes and practices warrant ongoing attention and efforts to overcome these obstacles and achieve successful stewardship in practice. Among other things, this is why the ICGN Global Stewardship Code places greater relative emphasis on internal governance culture and practices relative to other stewardship codes that are in place.

Monitoring Global Stewardship Code Compliance

ICGN is introducing this Global Stewardship Code as a framework for individual jurisdictions to use with regard to developing their own stewardship codes, as well as for institutional investors to consider for adoption to the extent they do not adhere to other codes or wish to demonstrate on a cross-border basis their commitment to good stewardship.

Its application should be governed and monitored by market forces in the spirit of promoting good corporate governance and the sustainable success of companies. While the ICGN encourages asset managers and asset owners to make constructive use of the Code, it

[7] Financial Reporting Council, *Developments in Corporate Governance and Stewardship*, January 2015

[8] Butterworths Journal of International Banking and Financial Law, *Is institutional investor stewardship still elusive?,* Simon Wong, September 2015.

does not intend to monitor statements of compliance to the Code by either asset owners or asset managers.

Monitoring of the asset manager's compliance to the Code should be undertaken by the asset owner to ensure that the asset manager is robust in its approach to supporting the Code. Monitoring of the asset owner's Code compliance should be undertaken by the asset owner's trustees to ensure that the asset owner is taking the necessary steps to conform to the Stewardship Code on behalf of the asset owner's end beneficiaries.

It is the responsibility of ICGN to ensure that the Code remains relevant and fit for purpose over time. This will call for periodic reviews and updates of the Code itself.

Specific considerations for asset owners, asset managers, companies and regulators

While stewardship codes are most fundamentally a statement of investor responsibilities, the effective implementation of stewardship activities requires constructive coordination of key market participants.

It is important to recognise that participants in the capital markets will have differing perspectives and considerations under a Global Stewardship Code. The following summary complements the seven Principles of the Global Stewardship Code and focuses on the specific requirements for key market participants to support its successful application.

1. Asset Owners

Asset owners, at the top of the "asset chain" (pension funds and insurance companies in particular) need to champion principles of stewardship. They play a particularly important role in the institutionalisation of stewardship practices. Their support-- in form and in substance-- is critical to making stewardship a standard industry norm. To achieve this, asset owners can take a number of supportive actions, including:

- Publicly adopting the ICGN Global Stewardship Code or applying stewardship codes in place in other markets;
- Ensuring appropriate policies are in place with top management support to adhere to stewardship principles;
- Encouraging stewardship code adoption by asset managers.
- Incorporating stewardship practices into investment management agreements with asset managers, such as outlined in the *ICGN Model Contract Terms between Asset Owners and Managers;*
- Ensuring effective oversight of asset manager stewardship activities and their consistency with the asset owner's own investment policies and guidelines;
- Forming investor associations or other means for collective engagement;
- Ensuring investment consultants/advisors have an appropriate understanding of stewardship and fiduciary responsibility;
- Providing appropriate training in stewardship and fiduciary responsibility to trustees;
- Publicly disclosing stewardship policies and commitments to beneficiaries.

2. Asset Managers

In many cases asset managers provide stewardship services on behalf of asset owners and their beneficiaries, often including monitoring, engaging and voting. In addition to following the principles of the Global Code, asset managers can take further supportive actions including:

- Publicly adopting the ICGN Global Stewardship Code or applying stewardship codes in place in other markets;
- Ensuring appropriate policies are in place with top management support to adhere to stewardship principles;
- Addressing internal conflicts or obstacles to effective stewardship practices, including internal resources;
- Agreeing to introduce stewardship code commitments in investment management agreements with asset owners;
- Developing and implementing stewardship policies and practices, relating to monitoring, voting and engagement in line with the Global Code or other stewardship codes;
- Showing willingness to challenge investee companies on governance and other management practices, including voting against management resolutions, when required, at shareholder meetings;
- Forming investor associations or other means for collective engagement;
- Providing appropriate resourcing as required, particularly with regard to monitoring, voting and engaging. In some cases may be useful for governance specialists to guide governance policies and voting, and to coordinate with fund managers.
- Fund managers should also devote time to stewardship, and should receive appropriate training in governance stewardship and fiduciary duties, including engaging and voting, as required;
- Developing methods or risk based tools to identify and prioritise portfolio companies for further analysis and engagement which can include ESG and other stewardship issues. This is particularly important for asset owners and managers with passively run portfolios, where the number of companies held in portfolios may be large.
- Disclosing their approach to stock lending, and ensuring transparency to clients, including how stock lending of individual shares may have affected voting activity. In order to preserve the integrity of the shareholders' meeting it is important that shares are never borrowed or lent for the primary purpose of voting them.
- Reporting publicly on basic stewardship policies and activities, and providing clients with more granular and regular reporting.

3. Companies (as issuers of equity and debt to investors)

Companies, as issuers of equity and debt securities, are not signatories to stewardship codes, but if stewardship practices are to be effective they must play a role in supporting the spirit and ambitions of stewardship. In particular this requires that they act in good faith in facilitating engagement and constructive dialogue between the company and its investors. This includes willingness to meeting with investors acting collectively. Given the corporate governance dimension of stewardship, ICGN believes that a company's board members (including non-executive directors) should have the responsibility to meet with key investors to build understanding and dialogue about governance matters. For listed companies with their own pension funds, companies also act as asset owners, and companies should call for appropriate stewardship practices in corporate pension funds.

4. Regulators

Most regulators are likely to focus on stewardship codes in their own jurisdictions (to the extent they are in place), rather than on a Global Stewardship Code. This Global Code can be used as a tool by regulators or other bodies wishing to develop new stewardship codes by providing a framework that can then be customised on the basis of a jurisdiction's market features. Regulators should also recognise that many investors are invested in many individual markets around the world, and to the extent that stewardship codes begin to take shape in new markets they should appreciate that institutional investors may find it impractical to be signatories to stewardship codes in each market that has one. Accordingly, regulators are encouraged to recognise that adherence to this ICGN Global Stewardship Code provides an alternative framework for stewardship that reflects global norms. ICGN hopes that this Global Code will be accepted by the regulatory community as an acceptable substitute for stewardship compliance in the event an investor may not be a signatory to all stewardship codes in all markets.

Appendix

1. A selection of model contract terms to embed stewardship practices in investment management agreements

Integrating stewardship activities in investment management agreements between asset owners and asset managers can play an important role in embedding stewardship as a component of institutional investment. ICGN's *Model Contract Terms Between Asset Owners and Managers* (2012). This *Model Contract* contains detailed provisions of contract terms that can be inserted into investment management agreements to promote stewardship practices. Some of the key model contract clauses, including possible alternative clauses, are summarised below – sometimes with an indication of the circumstances under which one alternative may be more appropriate than another. The *Model Contract* itself includes additional clauses that are of relevance, as well as suggestions as to how these might be structured in schedules attached to investment management agreements.

An asset owner's ability to negotiate acceptance and wording of these specific clauses is likely to vary between managers, investment vehicles and situations. Not all clauses will be suitable for all contracts, and asset owners may need to consider whether they should seek clauses such as those below in the fund management agreement or within a side letter or the equivalent. Questions of enforceability may be particularly relevant to this consideration.

Proposed model terms for high-level commitment

The Manager acknowledges that it acts as a fiduciary on behalf of the Client and its investors/beneficiaries.

The Manager will not make investments which would contravene the Investment Policy Statement/Statement of Investment Principles or would be in contravention of the restrictions on investments referred to in the Regulations governing the Client's authority.

Proposed model terms for integration of long-term factors including ESG issues

The Manager will have an investment process which incorporates relevant long-term factors such as ESG issues consistent with the Client's responsible investment policy.

Proposed model terms for investment horizon

The Manager acknowledges that the risks which the Client and its investors/beneficiaries face are not solely related to deviations from market benchmarks. The Manager acknowledges its need to consider long-term and systemic risk factors in order to manage risks which are relevant on the Client's long-term investment horizon and to the Client's fiduciary responsibilities.

Proposed model terms for systemic responsibility

The Manager acknowledges that both it and the Client rely on the integrity of the marketplace to generate returns for the Client's investors/beneficiaries. The Manager will play a positive role in supporting the maintenance of appropriate and fit-for-purpose market regulation and infrastructure and will at least annually report to the Client on its activities in this regard.

Proposed model terms for ongoing due diligence

The Manager will facilitate access by the Client to its staff and systems such that the Client can gain assurance on an ongoing basis that the Manager is appropriately implementing the Client's responsible investment policy, monitoring key long-term risks and integrating such factors into its investment and risk management decision-making.

Proposed model terms for stewardship and engagement

The Manager will engage in stewardship activities as are appropriate in the circumstances to monitor and influence the management of the investee companies/underlying funds/underlying assets, where such activity is considered by the Manager to be likely to enhance the value of such securities or assets and in the best financial interests of the Client.

Proposed model terms for voting

The Manager will enable the Client or its designated agent to direct the exercise of any voting rights attaching to the Portfolio investments.

The Manager will procure the exercise of any voting rights attaching to the Portfolio investments in accordance with the Client's expressed voting guidelines, with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim of adding value to, and/or preserving value in, the Portfolio, as well as reducing unwanted risk exposures.

The Manager will procure the exercise of all voting rights attached to the Portfolio investments on the Client's behalf, in accordance with the Managers' voting policy and any market-specific guidelines approved by the Client.

The Manager will have in place appropriate policies to manage any conflicts of interest in relation to voting matters and shall report at least quarterly on all votes involving companies where the Manager or an affiliate have a contractual relationship or other material financial interest.

Proposed model terms for fees, remuneration and culture

The Manager will ensure that the pay structures of its staff align their interests appropriately with those of the Client and its investors/beneficiaries, as well as the investment time horizon of the Portfolio.

Proposed model terms for conflicts of interest

The Manager will establish and maintain a conflicts of interest policy. The Manager will inform the Client of material amendments to, and waivers of, this policy from time to time, within [one month] of such event. The Manager will ensure that it adheres to this policy such *that it effectively identifies and manages conflicts with the Manager's duty to the Client or otherwise entailing a material risk of damage to the interests of the Client or its investors/beneficiaries. Where the Manager does not consider that the arrangements under its conflicts of interest policy are sufficient to manage a particular conflict, it will inform the Client of the nature of the conflict so that the parties can agree how to proceed.*

Proposed model terms for reporting

In addition to reporting requirements set forth elsewhere, the Manager will prepare no later than x business days after the end of the relevant [quarter], reports covering the reporting period, including:

- *Standards and High Level Commitment*
- *Systemic Risk*
- *Monitoring*
- *Stewardship, voting and stock lending*
- *Portfolio turnover*
- *Developments and conflicts*
- *Commission and counterparties.*

2. References

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Individual Country/Regional Stewardship Codes

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European Union: Code for External Governance, European Fund and Asset Management Association, 2011

Hong Kong: Consultation Paper on the Principles of Responsible Stewardship, Securities and Futures Commission, 2015

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Switzerland: Guidelines for institutional investors, governing the exercising of participation rights in public limited companies, Ethos Foundation, 2013

United Kingdom: The UK Stewardship Code, Financial Reporting Council, 2012