

APPENDIX A: INSTITUTIONAL SHAREHOLDER COMMITTEE GUIDELINES

The Institutional Shareholders' Committee (ISC) was formed by the Bank of England thirty years ago and represents the key trade bodies, including the Association of British Insurers, the Association of Investment Trust Companies, the Investment Management Association, and the National Association of Pension Funds. In its last declaration on investor duties (in 1991), it urged funds automatically to vote shares with management, except in extreme cases.

Its new position is that shareholders "will not automatically support the board". Coming from the trade associations, this represents a significant development in the debate about engagement. The principles mean that funds should:

- Disclose their policy on activism, including voting and other forms of intervention;
- Monitor governance quality at all firms in which they invest using in-house resources or outside providers;
- Vote all shares at all meetings (unless there are cost-effectiveness or practical reasons for not doing so, with the emphasis on "*de minimis* limits");
- Apply activist strategies in cases such as board failures or inadequate policies on social responsibility;
- Measure and report on the effectiveness of activism.

The ISC has left the decision about whether and to whom voting decisions are disclosed to trustees to decide.

This initiative has much in common with the US [Securities and Exchange Commission](#) (SEC) proposal for mutual funds and fund advisors (the major difference being that the SEC's proposals call for mandatory disclosure of voting). Though voluntary, the ISC guidelines are widely considered to have been critical in helping to persuade the government to put off any decision about legislation for two years, to assess if this voluntary good practice strategy can work. USS Ltd was involved in the deliberations as a result of the Chief Executive's membership of the ISC's Shareholder Activism Working Party.

One criticism of the ISC guidelines is that they do not indicate to what end the activism should be directed – i.e., how institutional investors would like to see management respond to the long-term nature of their interests. Given the range of interests represented by ISC (from hedge funds to passive fund managers) this is understandable and the weakness can be addressed by referring to USS Ltd's corporate governance policies and similar policies from other long-term investors (e.g. the new Hermes Principles).

Recommendations

- USS Ltd should endorse the ISC guidelines for activism;
- USS Ltd should ask existing fund managers to explain their position on the guidelines;
- USS Ltd should indicate that it expects disclosure by fund managers on voting and engagement; and
- USS Ltd should include the ISC guidelines as part of the terms of any new contracts.