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18 February 2025

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Dear Sirs

UK Stewardship Code Consultation

Redwheel is an independent, employee-owned asset management organisation, headquartered in London with $17.7bn AUM as at 31 December 2024 (around $5bn of which was invested in the UK market). At the time of writing, our firm has seven highly-autonomous investment teams specialising in active equity strategies across four capability sets: Value and Income; Emerging & Frontier Markets; Active Engagement; and Sustainable & Thematic. Our firm also offers a range of convertible bond strategies. As a business, we manage capital for a range of clients internationally, including for a number of UK domiciled pension schemes, and have a notable presence in the UK Value segment.

As a business, we have for many years supported the FRC's ambition to encourage the adoption of stewardship approaches that create value which is resilient over the long-run, and we are broadly supportive now of the proposals set out in the consultation documents which we see essentially as intended to ensure the Stewardship Code is underpinned by a definition of stewardship that is broadly acceptable to all, and to introduce a more streamlined approach to reporting backed up by counterpart guidance documentation. We are grateful for the opportunity we have had to participate in pre-consultation exercises to share our thinking and welcome the opportunity to participate now in the formal consultation on this important issue in order to put our thoughts on the proposals in writing.

Our response essentially follows the structure of the questions laid out in Appendix A of the consultation document.

Stewardship – definition

Much as they have done in the past, asset owners, asset managers and service providers have through the course of the pre-consultation period quite reasonably contributed a variety of different perspectives as to what stewardship arguably should be considered to be (in a conceptual sense), how it should be defined formally, and what role relevant parties should be expected to play in its realisation. This has led to much debate over recent months behind closed doors on the extent of support for the FRC's current definition of stewardship and how a future definition of stewardship might potentially be drafted. Despite many constructive conversations, a single universally acceptable definition of stewardship has nonetheless remained elusive.

In our opinion, disagreement appears to have stemmed mainly from the fact that the FRC is seeking to ensure that a formal definition of stewardship can cater for the needs and interests of a very wide range of market participants from across the globe, the specifics of differing investment approaches and asset classes, and a variety of investment time horizons; attempting to create a universally acceptable definition of stewardship in its most fundamental sense is laudable but we would observe that arguably a less ambitious approach might be better to enable high-level messaging to stay clear, precise, succinct and thus well-understood.

The suggestion of introducing counterpart guidance for interested parties is very much to be welcomed though, as a means to offer insight as to what might be considered to demonstrate good and bad stewardship in practice, enabling the readers of stewardship reports to better distinguish those market participants making an effective contribution to stewardship from those that are not.

As an active asset manager we are an intermediary in the chain of custody, sitting between asset owners (our clients, the providers of capital, who invest in the products we offer to the market) and issuers (the users/consumers of capital, whose securities are held within those products). We are also a service organisation; acting in our clients' interests is necessarily in our commercial interests. The stewardship of those client interests in their broadest sense (short- or long-term, financial or non-financial) is thus a key aspect of our client service proposition and accordingly we aspire naturally to achieve high standards when stewarding those interests in practice. As flagged, client interests may be financial i.e. related to the assets entrusted to us to be managed actively on their behalf; they may however also be non-financial i.e. related to areas of client-specific interest that cannot be well reflected within investment decision making, such as access to thought-leadership or alignment of values. As such, differing roles and responsibilities apply within Redwheel and in making our own contribution to the debate on what a market definition of stewardship could be – both in a conceptual sense and in terms of being a set of specific activities relating to responsible investment – we have approached this exercise very much with the issues laid out above in mind. We do this mindful also of the scope of reporting expectations under the current version of the UK Stewardship Code.

The stewardship of client financial interests is an area of significant focus for many active asset managers given the extent of its potential role in supporting the delivery of investment returns for clients over time. We view asset-related stewardship as one of the four principal building blocks of an investment process (the others being "Research", "Security Selection" and "Portfolio Management"). In practice, stewardship of client financial interests is normally led by our portfolio management teams and focuses primarily on those issues considered by the portfolio manager to be material, by which we mean likely to contribute to the protection/enhancement of the value of assets within the time horizon applicable to the relevant investment product. Material issues may thus be sustainability-related, but very often they are not. Nonetheless, the portfolio manager remains extremely important in this work given their role in evaluating what is and is not material, consistent with the fulfilment of fiduciary duties to clients and largely in line with the approaches adopted by our peers.

As regards the stewardship of client non-financial interests, approaches vary across the market. For Redwheel, the role of the asset management organisation as a corporate entity is significant in this context as work naturally tends to focus on periods extending beyond the time horizon of portfolio managers given the extent of client liability profiles; we believe that creating an expectation that portfolio managers should be directly involved in the stewardship of client non-financial interests can create a risk of conflict with fiduciary duty. Nonetheless, we believe that there should be broad consistency in the work undertaken by the corporate entity and the stewardship approaches adopted by individual portfolio managers to ensure coherence of the overall client service offering. Evidencing that as a business we "walk the talk" reassures our clients that whilst our portfolio managers engage in stewardship with investee companies, we also hold the mirror up to ourselves on those same issues. This in turn enables clients to gain a better sense of the importance we place on our commitment to act in their interests and our fundamental values. It can also serve to demonstrate the contribution our organisation makes to the work done collectively by our industry to support and promote well-functioning markets.

With these two important aspects of stewardship separated and distinguished from one another, from our perspective, we believe that the purpose of stewardship in an overarching sense would be best defined for asset managers simply as being -

to foster alignment of the interests of asset owners and issuers.

Within this definition, which does not presuppose a particular outcome, there is due focus on the primacy of the providers and consumers of capital without whom there would be no stewardship opportunity. There is also no presumption of outcomes having particular characteristics enabling good stewardship practices to be distinguished from bad through guidance that updates over time. Furthermore, there is no definition on the required scope of stewardship activities enabling them to relate on the one hand to assets and on the other to other aspects of the broader client service proposition. Reporting on related work would thus have in scope both the stewardship of client financial interests, and the stewardship of client non-financial interests, over a term that is not prescribed but which inherently would enable assessment of the extent of alignment; this is largely consistent with the current requirements of the Stewardship Code which encourages reporting on all these issues despite the current definition of stewardship relating only to asset-related stewardship. Perhaps most importantly, there is recognition implicitly that stewardship relies on two-way communication; the sharing of client perspectives with issuers sits alongside the sharing of issuer perspectives with clients.

Rather than impose a codified requirement to consider the impacts/benefits experienced by wider stakeholders (e.g. economy, environment and society, as referenced in Principle 1 of the current version of the Stewardship Code), we believe that need to consider others (and how) would be established through the provision of accompanying guidance promoting communication of specific related interests by asset owners to their asset manager agents. Work on related issues (i.e. discussions between asset manager and investee company and assessment of the ongoing significance of those issues in the specific investment context) could then be undertaken secure in the knowledge that it would meet client expectation. Historically, much of the guidance issued to asset owners by regulators has strongly suggested thematic approaches should be used when evaluating long-term sustainability risks within portfolios but without specificity on the use case; in the active management context, we would contend that such an exercise is best undertaken through close reference to the specific asset classes, geographies and assets in which client capital is invested. Furthermore, this guidance could usefully also encourage greater specificity in the setting of expectations as regards the prioritisation and allocation of resource to stewardship; for asset managers, meeting FCA expectations on the delivery of fair value and good outcomes for clients is a critical consideration and thus it could be helpful to encourage greater specificity as to how the extent of a manager's approach to stewardship would be appraised.

Turning to the proposals now advanced by the FRC, we note particularly that the revised definition of stewardship remains anchored on the stewardship of assets, with specific focus now on activity that supports the creation of "long-term, sustainable" value in this connection. Again, we very much support the FRC's ambition to inspire the adoption of stewardship approaches that create value which is resilient over the long-run (derived with reference to natural capital, social capital, human capital, produced capital, or otherwise); however, whilst we perceive the FRC's proposed definition to be consistent with the expectations that many long-term focussed investors have of 'good' asset-related stewardship undertaken by asset managers in comparatively benign market conditions, we believe that defining stewardship in the manner proposed is not only logically flawed (for instance, by demanding that stewardship should always have particular qualitative aspects when in practice it does not), it means also that activity that does not support the creation of "long-term, sustainable" value would not be considered to be stewardship and thus, for consistency, should be viewed as out of scope for stewardship reporting.

On this last point, from our client's perspective, some of the most valuable work our portfolio managers do as stewards of client assets is to argue in defence of a better takeout price in bid situations. The value created is neither long-term nor sustainable in context, as often the situation involves privatisation of previously publicly listed securities in relatively short order; however, through bidding up the exit price prior to formal acceptance of the offer we help our clients to realise higher returns on their investments, which enables them subsequently to allocate larger amounts of capital than they would otherwise have had. As such, our work in these situations enables clients (through the reinvestment of proceeds) ultimately to create additional value over the long-term, even if we are not tasked with supporting that value creation ourselves. We appreciate that the FRC invites reporters to offer their own definition as to what should be considered "long-term, sustainable"; however, we have concerns over how this flexibility might come to be used in practice and believe that guidance may be the most appropriate way to articulate permissible exceptions to the presumption that 'good' stewardship must be focussed on long-term value creation.

The rationale for use of the term "long-term, sustainable" we also find unclear, not least given the significance of the term "sustainable" as a prescribed term within the Naming and Marketing Rules that relate to the FCA's Sustainability Disclosures Requirements. Whilst we understand the FRC and FCA have separate and distinct remits, we believe there is a risk that by inviting asset managers to use this term in the stewardship context whilst the FCA's SDR regime continues to gain traction there could be sub-optimal outcomes for clients.

In summary, we believe we understand what the FRC is ultimately trying to achieve in amending its definition of stewardship – as a term, we agree that "stewardship" continues to be used very flexibly in the market and having greater consistency in this connection would be valuable to the development of the stewardship market – and indeed some of the commentary set out within the Consultation paper is very helpful in this regard (e.g. Para 12, Para 42).

However, whilst it appears ultimately that the FRC's proposals (when interpreted with respect to the commentary set out within the wider consultation document) would not conflict with our own approach to stewardship, we believe that market reaction would improve and underlying goals could be achieved more effectively through adoption of an approach focussed more on the specific expectations of relevant stakeholders: for instance, through development of simpler definitions that are specific to key constituencies (asset managers, asset owners, issuers, service providers) as well as through provision of relevant guidance (drafted with appropriate involvement from relevant stakeholders) to set expectations as to who at that time might be expected to have responsibility for what within the delivery of good stewardship in practice.

We would also encourage the FRC to embrace the facility represented by providing expanded access to supporting guidance documentation as a means to help convey evolving expectations (as well as what is considered to represent good and best practice at that time) under the Code; for instance, we would suggest that "the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries" should be understood not as a definition of stewardship *per se* but as representative of separate highly desirable aspects of good stewardship by asset managers. We believe it is vital for the successful evolution of stewardship approaches over time that the overall framework should remain aspirational; whilst we acknowledge the existence and potential relevance of systemic risks in an investment context, we would also comment that being unduly prescriptive about processes risks suppressing innovation in the delivery of outcomes.

We accept though that at this stage of the consultation, substantive revisions are unlikely, and that the definition is likely to be taken forward largely as proposed. In this event, we believe one small change in particular would be worth considering, a small adjustment to clarify that the FRC's definition of stewardship should be interpreted as only one example of an acceptable stewardship approach. Our concern remains that whilst the pursuit of greater clarity in the high-level definition is laudable, being definitive is not without risk of unintended consequences; the increased use of supplementary guidance could help to mitigate this risk and arguably would be better able to do so if "is" were replaced by "includes" or "comprises" to demonstrate more clearly that the FRC's proposal for stewardship should be considered as illustrative and not definitive.

Disclosure schedule, “How to report” and cross-referencing

Whilst we support the FRC’s intention to address the burden created by reporting against the Stewardship Code, it is important to note that given the breadth of the underlying principles of the Code this report represents a landmark document in our annual corporate reporting cycle. The content that sits within our Stewardship Report offers a comprehensive overview of activity in the prior year, and a key reference for communicating with clients as to how stewardship activity is overseen in practice and the enduring significance of our culture and values within this work. Having clear permission to cross-reference to other documents is welcomed, as is having the ability to report certain aspects of our approach on a more infrequent basis; however, in practice we do not envisage that we will be able to make significant use of these provisions given the attendant additional complexity of managing and maintaining live cross-reference links and the fundamental desirability of having one single coherent document that brings together all aspects of our work as a steward of client interests. This is something that our clients appreciate having in one place, and we do not consider production of an annual update to be inappropriate even if some aspects change little year on year.

The provision of “how to” guidance as suggested should however help to sharpen the commentary we provide in reports and reduce the overall reporting burden, as should the ongoing provision of case studies to highlight examples of best-practice reporting (in particular where such review and determination would involve input from peers).

Principles by respondent

We support the clarification on the applicability of the principles of the Code by business type. However, regarding the proposals that would be applicable to asset owners investing primarily through external managers, we would encourage the urgent production of guidance for asset managers on the issue of minimum/standardised reporting in order to facilitate the compilation of comparable stewardship information by asset owner clients.

Streamlining

We support the streamlining of the Principles.

On the issue of the removal of a Principle specific to escalation (which we know has been a point of contention in pre-consultation) we would observe that many of our engagements with investee companies start from a comparatively escalated position. We believe though that it would be useful to have greater clarity on what reporting on escalation activity should be intended to demonstrate with some worked examples. For us, the act of escalation presupposes a change to the intensity/focus of an engagement in order to improve the likelihood of engagement objectives being achieved within a relevant timeframe; inherently, this suggests no expectation to capture engagement that starts at a relatively more intense level and remains that way. We believe the assumption is, in essence, that through escalation the flexibility and adaptability of a manager’s approach can be observed. Clearer guidance in this area in the absence of a dedicated principle would be helpful.

Implementation schedule

Whilst we have reservations about the ambitious schedule for implementation of a revised Stewardship Code, we are supportive of the FRC’s approach here to the extent the that the feedback collated through this consultation enables the schedule to remain unaltered. Should the timeline slip, we would welcome introduction of amendments to the Stewardship Code at the start of the following calendar year in order to preserve our reporting cycle.

We wanted lastly to note that retaining our status as a signatory to the UK Stewardship Code is very important for us as a business in terms of evidencing the quality of our approach; our maintenance of our signatory status is also a requirement for a number of our clients. Ensuring that, as a revised Code is implemented, the FRC retains capacity to provide effective feedback on reporting under the new regime to address teething issues without unnecessarily compromising signatory status will be vital in order to retain market confidence in the value of stewardship reporting and role of the FRC as the primary regulator within the investment industry in this area.

We are grateful to the FRC for considering our comments. Should you require any clarifications, please do not hesitate to contact us.

Yours faithfully,

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