27 July 2015

By e mail [www.esma.europa.eu](http://www.esma.europa.eu/)

Call for evidence - Impact of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis

Dear Sirs

We are pleased to enclose our response to the review.

Schroders manages over €440 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives. We welcome the opportunity to comment on the Best Practice Principles for providers of shareholder voting research and analysis.

We use a proxy advisory service as an administrator and as one source of research in making voting decisions. We supplement that with our own internal research and consultation and ensure that voting is in line with our own policies. We are, therefore, supportive of a strong Code of Practice. We feel that the Code has made a difference in the areas of concern to ESMA, but that there is benefit in focusing now on the ongoing governance around the code. This is particularly needed given the small number of large players in this sector. We would be happy to discuss our responses with you further should you so wish. Please contact either me or Jessica Ground, Head of Stewardship.

Yours faithfully

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Sheila A Nicoll

Head of Public Policy

**Schroders**

**3 General Questions**

*Q1: What is the nature of your involvement in the proxy advisory industry (proxy advisor, investor, issuer, proxy solicitor etc.)? To facilitate the comprehensibility of your response to this Call for Evidence, please describe your role in and your interaction with the industry.*

Schroders is an independent asset management house and our goals are completely aligned with those of our clients - the creation of long-term value. We manage over EUR 440 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

*Q2: Have you previously had concerns with the functioning of any areas of the proxy advisory industry? If yes, please specify.*

Proxy Agencies play a very important role in administering our voting, so we place a huge amount of trust and faith in their ability to successfully execute our instructions. It is particularly important that we have confidence that:

* voting instructions are carried out faithfully; and
* they provide us with correct data in a timely manner to contribute to our decision making process.

*Q3: Did you become aware of the BPP at the time of their publication, i.e. March 2014? If yes, how did you become aware of the BPP? If no, when did you become aware of the BPP and how?*

Yes, we were aware of the BPP before publication. We are a member of the UK Corporate Governance Forum and the UK Investment Association and so were consulted before publication of the BPP.

Q4: *What is your view on the width and clarity of the scope of entities covered by the BPP (i.e. do you consider that the BPP cover the European proxy advisory market appropriately)? Please explain.*

We are satisfied that that those we deal with who should be covered are covered, and have signed up to the Principles.

*Q5: In your view, are the BPP drafted in a way so that they address the following areas identified in ESMA’s 2013 Final Report? Please provide examples to support your response.*

*a. Identifying, disclosing and managing conflicts of interest;*

*b. Fostering transparency to ensure the accuracy and reliability of the advice;*

*c. Disclosing general voting policies and methodologies;*

*d. Considering local market conditions;*

*e. Providing information on engagement with issuers.*

See our response to questions 8 and 9 in relation to a. d. and e. above.

*Q6: What is your overall assessment of the quality of the signatory statements? Please provide examples referring to the areas identified under Q5*.

We have no comment

*Q7: In your view, are there proxy advisors which possibly fall within the scope of the BPP and have not signed the BPP? If yes, please: a. identify such entities; b. explain why you consider them to be within the scope of the BPP; and c. indicate their size and the coverage of their operations within the European market.*

We are aware of some proxy advisors who fall within the scope but have not signed. We have discussed this with them and understand that while they comply with the BPP they would like to see a more formal governance framework around the BPP.

*Q8: How would you describe the impact which the BPP have had on the proxy advisory industry in practice? Please provide examples to support your response.*

We believe it has had a positive effect. We now have a greater understanding of the proxy advisors’ process and this provides us with evidence that their engagement with companies can effect change.

*Q9: Have you observed any changes in signatories’ practices in the areas mentioned under Q5 since the publication of the BPP in March 2014 and specifically during the 2015 proxy season? Please provide examples to support your view and specify whether these changes addressed the concerns you mentioned in response to Q2, if any.*

Yes:

* Information and detailed disclosure around local market conditions has helped us since we are a small team covering many markets.
* We believe that there is better engagement between companies and proxy advisers, and a willingness to listen, as evidenced by the fact that the advisers will change their analysis in light of such engagement.

*Q10: To what extent do you consider the conduct of BPP non-signatories in relation to the areas identified under Q5 to be different from that of BPP signatories? Please provide examples to support your view.*

As noted in relation to question 7 above, those that we know have not signed nevertheless comply with the BPP. .

*Q11: Do you consider other measures than the BPP necessary to increase understanding of and confidence in the proxy advisory industry? If yes, please explain why and specify the measures which would in your opinion be suitable.*

An improved governance structure may help. Currently the Principles are owned by the signatories themselves, and could benefit from the establishment of an independent board to provide oversight.

*Q12: Do you have any other general comments that ESMA should take into account for the purposes of its review?*

As noted below in response to questions 27 and 30 below, we do have concerns over the timeliness of research, and of disclosure of conflicts of interest, especially during the peak voting season in some markets.

**5. Questions for investors**

*Q27: Please describe the way your institution currently uses services from proxy advisors, in particular as regards:*

*a. type of services;*

*b. number of proxy advisors contracted and, if applicable, reasons for choosing several rather than one provider.*

We currently contract with one Proxy Advisor, for the delivery of voting. We also receive analysis from them and from other providers. As a global asset management firm we vote at over 5,600 meetings annually meaning there are currently very few shareholder voting research and analysis agencies that can provide coverage of such a large universe. Cost and the ease of using a single platform are important additional factors, and the reason why we have historically used one provider for the vast majority of our needs.

*Q28: When using services from proxy advisors, how often do you deviate from their research/advice/recommendations in your voting choices? Please differentiate your answer across agenda items (e.g. say on pay, balance sheet approval, appointment of directors).*

We do use our Proxy Advisors’ shareholder voting research and analysis; however it is not the only factor in informing our voting. Our final decisions are made following our own engagement with the company, looking at other internal and external research, and in consultation with the relevant investment management team holding the shares on behalf of our investors (be that in a pooled fund or specific investment mandate). We do have concerns over the timeliness of research, especially during the peak voting season in some markets.

More specifically, we use our own analysis when considering the number of directorships held by directors, political donations and the impact of dilution on share plans.

*Q29: When selecting a proxy advisor from whom to purchase services and/or in the course of your contractual relationship with a proxy advisor, do you place any importance on whether the entity is a signatory to the BPP? If no, please explain why. If yes, have you been in dialogue with the proxy advisor(s) you are making use of as regards its (their) application of the BPP?*

We have not formally reviewed our contracts since the introduction of the BPP. It will however form any part of a request for proposal (RFP) process in the future.

*Q30: In your experience, to what extent have the BPP improved proxy advisors’ procedures for managing and disclosing conflicts of interest, and specifically the following two types?*

*a. The proxy advisor provides services to both the investor and the issuer;*

*b. The proxy advisor is owned by an institutional investor or by a listed company to whom, or about whom, the proxy advisor is providing research, advice and/or recommendations.*

*Please provide examples to support your response.*

We would ask that proxy advisors clearly flag these conflicts of Interest in a timely manner. Often the first time that we are aware of this type of conflict is when no research comes up on a particular company shortly before the AGM, which can be challenging during a busy voting season. Where there is a conflict we would advocate an independent 3rd party providing research.

Q31: In your experience, to what extent have the BPP enhanced clarity as regards proxy advisors’ methodologies and the nature of their information sources, thereby making it easier for you as an investor to better assess the accuracy and reliability of their research, advice and/or recommendations? Please provide examples to support your response.

We believe the BPP has enhanced clarity to an extent. We particularly welcome the proxy advisors’ methodologies being transparent on websites, the data consistency checks that are undertaken and the fact that research is being reviewed by a second person before publication.

*Q32: In your experience, have the BPP enhanced:*

*a. proxy advisors’ level of awareness of local market, legal and regulatory conditions which the companies you invest in are subject to?*

*b. proxy advisors’ disclosure of the extent to which they take the above conditions into account?*

*Please provide examples to support your response.*

We welcome the fact that the information appears to be more prominent in reports. However we believe that with regards to our own providers this was happening before the introduction of the BPP.

*Q33: In your experience, to what extent have the BPP enhanced clarity as regards the manner in which proxy advisors will disclose their communication with issuers to clients? If you consider there has been a change, has this affected the way you make use of their research, advice and/or recommendations? Please provide examples to support your response.*

In our experience we believe there has been an improvement in disclosure of communications especially regarding vote recommendation changes which occur post engagement.