

Dr. Zetsche
Chair
The Best Practice Principles for Governance
Research Providers Group

14th December 2013

The Church Investors Group Response to the Public Consultation on Best Practice Principles for Governance Research Providers

Dear Dr Zetsche,

The Church Investors Group (CIG) represents 44 institutional church investors predominantly located in Britain and Ireland with assets under management of over £12 billion. The CIG exists to help Christian investors develop and implement investment policies that reflect their faith and to promote best practice responsible investment including stewardship. CIG members have long placed a strong emphasis on exercising their voting rights through an active approach to proxy voting and use governance research providers in a variety of ways. Please take this letter as our response to, and broad support for, the principles suggested within the Consultation Document and the process through which they have been created (Q.1). Whilst we have not answered every question where the text of this letter includes a response to a specific question within the consultation document this is indicated.

By way of context members of the CIG take a number of different approaches to the management of their assets. This ranges from dedicated in-house investment teams to the use of external investment managers. Similarly, CIG members use governance research in different ways: some mandate external investment managers to vote on their behalf, with active oversight and interest in the decisions being taken; some retain control of voting rights and actively vote themselves. Whichever approach is used, the services of governance research providers are essential for our members in the exercising of their stewardship responsibilities.

In regards to the effectiveness of the 'Principles' (Q. 4) it is our view that governance research services should exist to aide investors, be they asset managers or asset owners, in exercising their responsibilities as stewards of the companies in whom they invest. However, we agree with the UK Stewardship Code that the institutional investor remains 'responsible for ensuring that activities are carried out in a manner consistent with their own approach to stewardship.' As such it is our belief that the Principles will only be effective when matched with active attention from institutional investors. Specifically it is our view that investors, where custom policies have not been generated, should take active responsibility for ensuring that the approach of their providers, especially in regards to the recommendation and execution of votes, is congruent with their wider communication with investee companies and in both the investors and company's long term interest. As such we would welcome the inclusion of an acknowledgement of investment managers and asset owners' duties in regards to the responsible use of governance research providers within the Principles (Q.12). Furthermore, we believe that institutional investor clients, whose assets under management governance research services are representing, should be responsible for oversight and regulation of the service they are provided with; this should not be left to a third party regulator (Q.28).

It is our view that the Church Investors Group provides a example of how asset owners, of all sizes, can play such a role. To aide our members the CIG has worked with two mainstream governance research providers to develop custom guidelines. These enable the provider to configure proxy voting recommendations that are appropriate for a church investor. In practice, this promotes the very best

standards in corporate governance and reflects the centre of gravity of the ecumenical church's underlying views on relevant issues (such as executive remuneration, shareholder proposals, etc) whilst sharing the burden of costs which, given the relative small size of many CIG members, would otherwise be prohibitive to a bespoke approach. By acting collaboratively CIG members are also able to ensure that they actively oversee and, where necessary, nuance the recommended vote to better fit the particular situation.

In regards to the Principles themselves it is our view that 'Principle One' adds significant value. The disclosure of research policies, voting guidelines, research methodologies and how local market conditions are considered should allow investors to assess objectively the existence of any divergence between the views of the research provider and their own practices (Q. 15, Q. 16). Furthermore, as long-term investors, CIG members are naturally supportive of issues that promote the creation and maintenance of healthy and sustainable markets in the long-term; we would hope that governance research providers, as key elements in the chain for equity investors, might also be encouraged to continue to disclose how they are contributing in this connection.

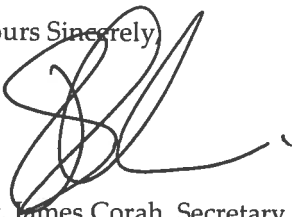
We also welcome disclosure of how feedback, particularly from issuers, is incorporated into the vote recommendation process (for those providers who recommend votes). CIG members recognise the benefits that can arise from encouraging dialogue with companies, whether that be conducted by governance research providers, investment managers, or by themselves. As such, where governance research providers do communicate with issuers, we feel it is important to understand how this informs their research and any subsequent vote recommendations. However, we do not mean to infer that governance research providers should be mandated to seek approval of, or feedback on, their research from issuers (especially as research providers in many ways act as 'critical friends' of issuers).

We feel that it is essential that the principles be applied on a global basis (Q.7). CIG members are aware of the desirability of exercising active ownership of companies irrespective of their location and a key part of the current strategic cycle is to build links with likeminded international groups to benefit from local expertise. Similarly we are keen that governance research providers be encouraged to work through international partners to gather research evidence and to engage with companies in the most appropriate context. Similarly we would expect governance research providers to consider the requirements of local best practice in their research and analysis.

We do not feel that the principles conflict with other legislation or best practice guidance. CIG members pay particular credence to the UK Stewardship Code and feel that voting forms an essential component of their wider approaches in this area (Q.5). As such we feel that the Principles are complementary, rather than contradictory, to the forms of investor behaviour we wish to conduct ourselves and promote more widely.

As a final consideration, members of the CIG have long called upon investment managers to integrate governance factors into their investment decision making. As such we would welcome governance research providers to continue to focus on developing high quality services that aid this process.

Yours Sincerely,



Dr. James Corah, Secretary to the Church Investors Group