Singapore Stewardship Principles

For Responsible Investors

November 2016

STEWARDSHIP ASIA

imas
INVESTMENT MANAGEMENT
ASSOCIATION OF SINGAPORE

Preamble

The Importance of Investor Stewardship

Stewardship is about building and growing sustainable businesses to produce long-term benefits for all stakeholders, and in the process contributing to the community and economy as a whole. It goes beyond short-term considerations and includes the sustainability of a company's long-term performance.

Stewardship is important for the wider business and investment ecosystem, including investors and investee companies. In today's context, the investment value-chain linking ultimate asset owners to investee companies is increasingly complex. Many countries are seeing a trend towards fragmented ownership, especially in listed companies, with many shareholders each holding a small proportion of shares. Coupled with increasingly shorter shareholding tenure, the ownership mentality is arguably being eroded and replaced by a prevalent short-term view of investment and portfolio management. Hence, the emphasis on stewardship is relevant and timely.

The Stewardship Principles

These Stewardship Principles aim, by articulating the core behaviour and actions associated with investor stewardship, to enable investors to be active and responsible shareholders. They provide a view on the activities and functions that stewards should carry out, and how these should relate to the boards and management of investee companies.

They are not intended to be rigid rules to be enforced or prescriptive measures to be adhered to, nor are they intended to constitute a code. They are stated as broad principles, with suggested ways that these principles could be applied. Articulating and sharing stewardship activities, and the level of commitment to these Stewardship Principles, are matters that are left to each individual investor to adopt, on a wholly voluntary basis.

Adopting these Stewardship Principles ought not to be interpreted as an invitation for investors to manage the affairs of an investee company or to interfere in its operations. It underscores the role of the investors as responsible shareholders who appropriately engage the board and management of investee companies, and other shareholders, so as to ensure the long-term success of the companies.

The Responsible Investors

For the purpose of these Principles, the term "investors" is used in a broad sense to include institutional investors who are asset owners and asset managers.

For investors, stewardship extends beyond attendance and voting at shareholders' meetings. It may involve responsibilities and activities that include actively monitoring and engaging with investee companies on a range of matters and issues. These may include the mandate for the board, performance and performance measurement, risk management, capital structure and corporate governance. Engagement with investee companies should be proactive and conducted on both a routine basis and during times of concern or crisis.

Asset owners are the providers of capital to investee companies. Asset owners, at various parts of the investment value chain, are in effect stewards of assets entrusted to them by their own clients who are the ultimate owners and beneficiaries. By subscribing to these Stewardship Principles, and encouraging their corresponding asset managers and/or investee companies to exercise sound stewardship, asset owners can enhance the long term economic welfare generated within the investment ecosystem.

Asset managers act as agents on behalf of their clients. Though they are not the owners of the assets, asset managers are in effect stewards who are entrusted with the assets under management. Asset managers, given their mandate to manage investments, are more directly connected to investee companies. They are well-positioned to influence the long-term performance of companies through stewardship. By subscribing to these Stewardship Principles, asset managers can play an instrumental role in fostering effective stewardship between investors and investee companies.

Investors may choose to outsource to external service providers some of the activities associated with stewardship but they remain responsible for activities to be carried out in a manner consistent with their own approach to stewardship. Accordingly, service providers such as proxy advisors and investment consultants are encouraged to subscribe to these Stewardship Principles.

It is understandable that not all the Stewardship Principles are relevant to all market participants in the same way. The value chain is differentiated, and there are different applications for ultimate owners, asset owners, and asset managers, among others. Not all principles or guidance might be carried out to the fullest extent or be applied to the same degree. These Stewardship Principles are most applicable to Singapore-based institutional investors with equity holdings in Singapore-listed companies. These Principles, however, would also apply to other investor groups and to service providers that provide advice on investment and corporate governance to investors, including proxy advisors and investment consultants as indicated above.

A Matter of Principle

Ultimately, the effectiveness of these Stewardship Principles hinges upon their application in the right spirit rather than compliance merely in form. They are not intended to be a “box-ticking” exercise. They are also not intended, even unwittingly, to constitute an administrative burden to those who subscribe to these Principles. These Stewardship Principles are intended to help shape positive corporate behaviour and to benefit all stakeholders in the long term, by encouraging investors to be responsible and active stewards who contribute positively to the welfare of the economy, community and society at large.

STEWARDSHIP PRINCIPLES

The following seven Principles provide useful guidance to responsible investors towards fostering good stewardship in discharging their responsibilities and creating sustainable long-term value for all stakeholders.

1. **Take a stand on stewardship.**

   Responsible investors establish and articulate their policies on their stewardship responsibilities.

2. **Know your investment.**

   Responsible investors communicate regularly and effectively with their investee companies.

3. **Stay active and informed.**

   Responsible investors actively monitor their investee companies.

4. **Uphold transparency in managing conflicts of interest.**

   Responsible investors make known their approach to managing conflicts of interest.

5. **Vote responsibly.**

   Responsible investors establish clear policies on voting and exercise their voting rights in a responsible fashion.

6. **Set a good example.**

   Responsible investors document and provide relevant updates on their stewardship activities.

7. **Work together.**

   Responsible investors are willing to engage responsibly with one another where appropriate.

Principle 1: Take a stand on stewardship

Responsible investors establish and articulate their policies on their stewardship responsibilities.

GUIDANCE

1.1 Investors should clearly articulate their policies concerning their responsibilities as shareholders. Where applicable, these policies could be stated plainly on the investor's corporate website.

1.2 The stewardship policies should explain the methods by which investors will ensure that investment activities (including outsourced activities) are performed in line with their chosen approach to stewardship.

1.3 The policies should explain the rationale for their approach to stewardship; how it enhances and protects value for their clients and ultimate beneficiaries; and how it may be applied to various aspects of the investment process.

1.4 Investors should take steps to satisfy themselves that they adhere to their own stewardship approach in carrying out investment activities.

Principle 2: Know your investment

Responsible investors communicate regularly and effectively with their investee companies.

GUIDANCE

2.1 Investors should have meaningful and effective communications with investee companies. These communications should ensure mutual understanding and achievement of objectives, so as to meet the aims of long-term value creation, capital efficiency, and sustainable growth.

2.2 As part of these communications, investors could satisfy themselves that the investee company's board and board committee structures are effective, and that independent directors provide adequate oversight.

2.3 Investors may engage with their investee companies on a full spectrum of topics, including strategy, long-term performance, risk, financials, culture and remuneration, social and environmental considerations, and corporate governance.

2.4 Investors should have a policy for managing disclosures of material information that could lead to a breach of listing rules or other relevant legislation. The policy should indicate whether in exceptional circumstances they are willing to be made insiders, and the mechanism by which this could be done.

Principle 3: Stay active and informed

Responsible investors actively monitor their investee companies.

GUIDANCE

3.1 Investors should have monitoring activities in place so that issues may be identified and addressed early to avoid any consequential loss in investment value.

3.2 The monitoring process should cover both financial and non-financial factors as appropriate to the investee company. Should investors have concerns about the investee companies on these factors, particularly with regard to non-financial disclosures, they should raise these concerns directly with the investee companies and seek to address them.

3.3 Where investors observe any deviation from applicable corporate governance practices, including Singapore's Code of Corporate Governance, they should carefully consider the explanations given for the deviation, assess the reasons, and if necessary, take action as they see fit.

3.4 Where there is need for follow-up engagement, it should preferably begin with a confidential discussion. However, if the investee company does not respond constructively, investors may consider escalating their actions. Investors should have policies in place on escalation of engagement.

Principle 4: Uphold transparency in managing conflicts of interest

Responsible investors make known their approach to managing conflicts of interest.

GUIDANCE

4.1 Asset owners and asset managers should have clear written policies on identifying and managing conflicts of interest. These policies should be stated plainly on the investor's corporate website, and they should emphasise the asset owner's and asset manager's duty to act in the interests of its clients and/or beneficiaries and to be consistent with client mandates in fulfilling its fiduciary responsibilities.

4.2 When conflicts of interest arise, asset owners and asset managers should take all reasonable steps to prioritise their clients' and/or beneficiaries' interests over their own interest.

4.3 Investors should communicate to their service providers the need to disclose all potential conflicts of interest and to explain how they are managed.

Principle 5: Vote responsibly

Responsible investors establish clear policies on voting and exercise their voting rights in a responsible fashion.

GUIDANCE

5.1 Investors should actively seek to participate in the general meetings of investee companies, and exercise their voting rights responsibly and on an informed basis.

5.2 Investors should have a clear view on how to vote proxies relating to the investments they manage or own. These policies should include both general policies and specific policies on voting issues, and they should ensure that proxies are voted in the best interest of their clients, beneficiaries and/or investee companies.

5.3 Investors should maintain records of the votes exercised, and any deviation from their voting policies should be documented.

5.4 Investors should have clear policies on communicating information pertinent to voting, such as voting policies, votes exercised, and records of votes cast.

5.5 Investors should maintain records of voting outcomes.

Principle 6: Set a good example

Responsible investors document and provide relevant updates on their stewardship activities.

GUIDANCE

6.1 Asset owners and asset managers should proactively inform their clients, beneficiaries and/or investee companies about their approaches to stewardship, how they carry out their stewardship responsibilities and the extent to which they adhere to their own stewardship policies or to these Principles. This information could be communicated in the form of annual or more frequent updates.

6.2 Investors should maintain a record of ways in which they have carried out their stewardship responsibilities. This record could be shared on the investors' website.

Principle 7: Work together

Responsible investors are willing to engage responsibly with one another where appropriate.

GUIDANCE

7.1 Investors may, on occasion, find that collaboration with other investors, subject to regulations on disclosure, may be the most effective manner in which to engage their investee companies.

7.2 Collective engagement through formal or informal groups may be the most appropriate means of ensuring that investee companies are aware of concerns at times of significant corporate or wider economic stress, or when there are risks that threaten to destroy significant value.

7.3 Should collective engagement become appropriate, investors should disclose their rationale for doing so, including the circumstances which have prompted their action.

Singapore Stewardship Principles (SSP) for Responsible Investors

Working Group

Members	Association of Chartered Certified Accountants
	Asia Pacific Real Estate Association
	CFA Singapore
	CPA Australia
	Hermes Equity Ownership Services Ltd
	Investment Management Association of Singapore
	Institute of Singapore Chartered Accountants
	Securities Investors Association (Singapore)
	Singapore Institute of Directors
	Singapore Venture Capital and Private Equity Association
	Stewardship Asia Centre
Supported By	Monetary Authority of Singapore
	Singapore Exchange