

TTF Saving the Lost Value

Corporate Actions and Script Dividends

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Context and Background

- Initiatives around **transparency** on costs and charges in the efforts to help achieve **better value for money** for consumers.

Script Dividend Context:

- Asset managers have a fiduciary obligation to maximize the value for their beneficial owners.
- Asset managers make decisions on **corporate actions** such as **scrip dividends**, rights issues, tenders and mergers.
- In a specific example of a scrip dividend, shareholders and/or asset managers can choose to receive their dividend in either **cash** or in **additional shares** in the company.
- **Sometimes one of the options (cash or stock) is worth more than the other.**

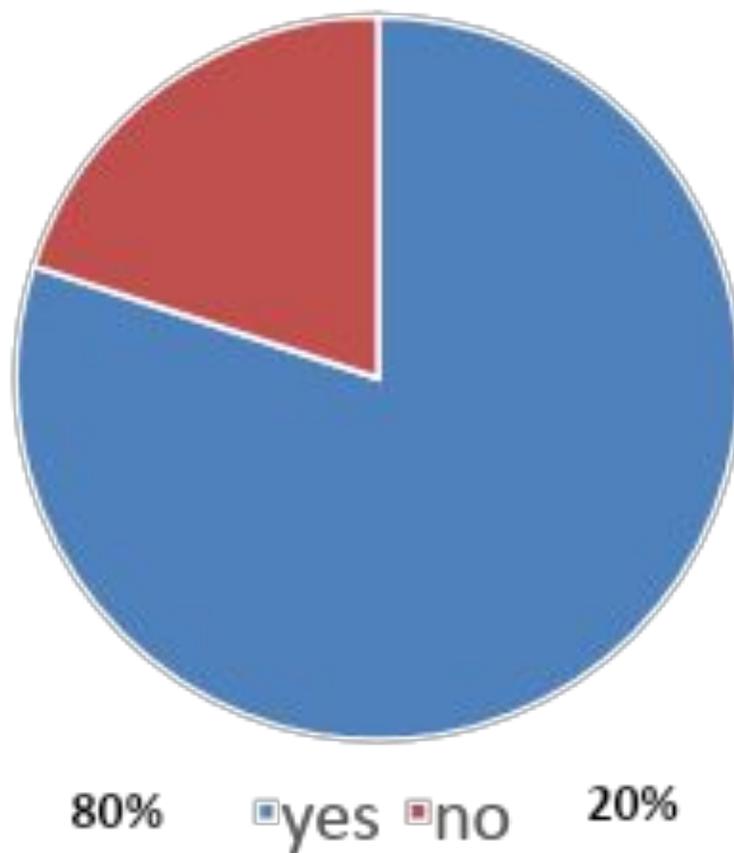
Implications for Pension Funds

- Trustees may not be aware of potential missed value in the decisions made on their behalf
- Potential loss of value from sub-optimal decisions
- Governance and due diligence issues, if this evidence is not explored
- Potential legal liability risk in the context of trustees' fiduciary duty to act in the best interests of scheme members

LGPS Survey 2020

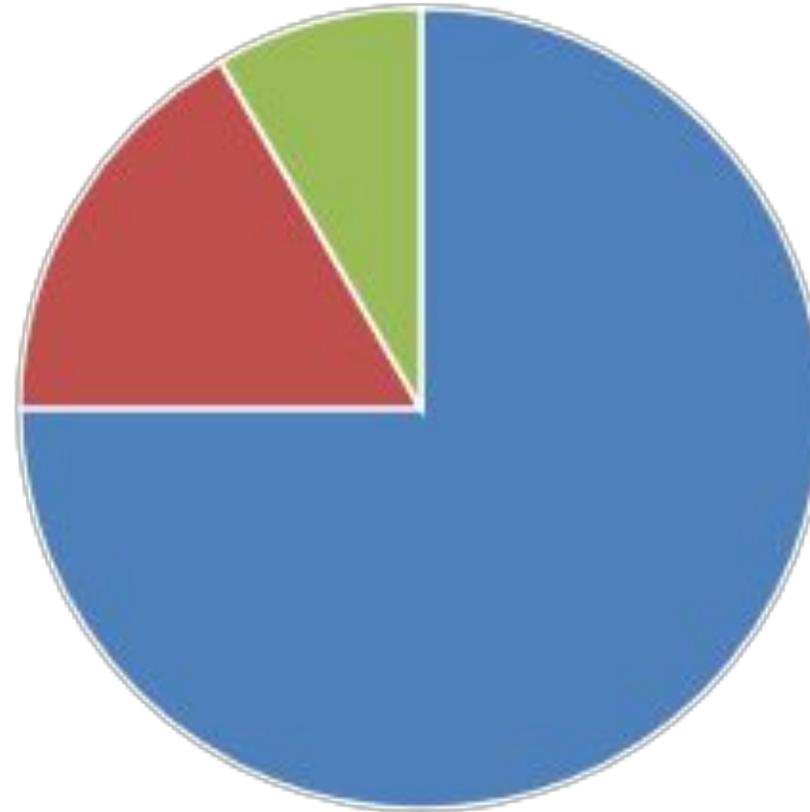
- A survey of investment fund managers of the LGPS. The survey was sent to 72 LGPS investment fund managers. Out of the 72 managers this was sent to, there are 20 fund managers that are currently managing LGPS equities. Fifteen of those have responded. Therefore, the **response rate by manager count** is approximately 75%.
- The estimated **response rate by assets under management** is around 65%. This represents around £90,348bn as the total value managed by those fund managers that responded/£138,924m as an estimate of the total equity holding of the LGPS (as at 31 March 2020).

Q3 Do you have a defined Corporate Action (CA) process to determine your response to the scrip option at the Election Date?



Is your CA process for scrip dividends informed by client choice?

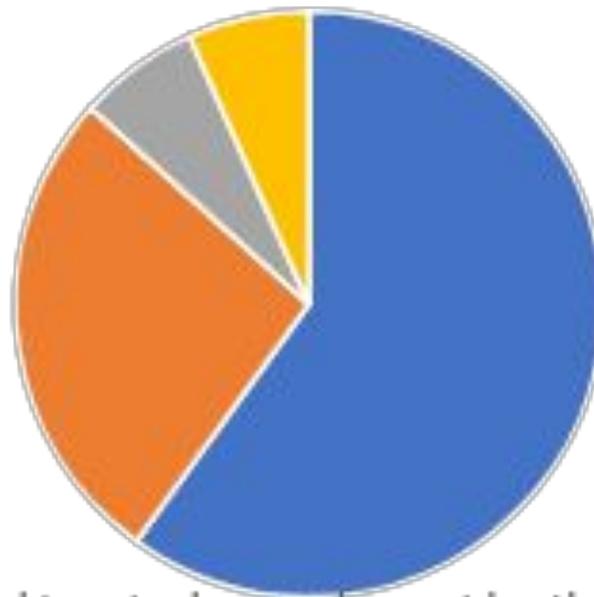
Q5. Is your CA process for scrip dividends informed by client choice?



■ No 60% ■ Yes 13.3% ■ Unkown 6.6%

Which of the following best describes your CA process in respect of scrip dividends?

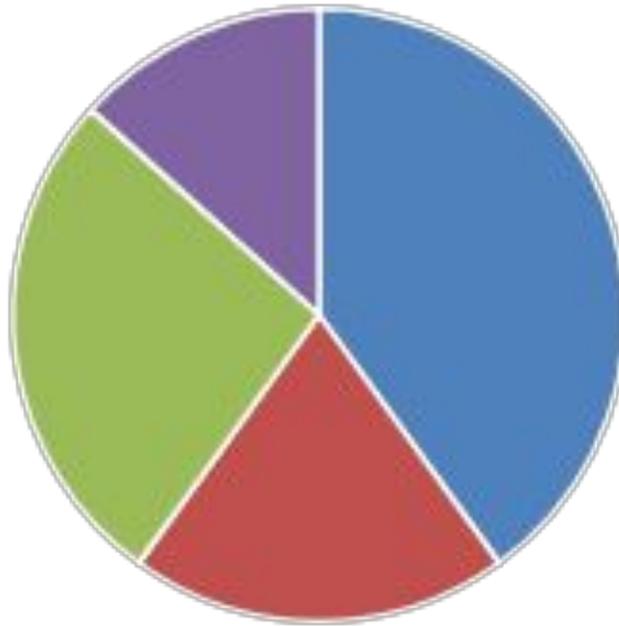
Q6 Which of the following best describes your CA process in respect of scrip dividends?



- Assess which option of taking stock or cash provides the best value for the client 53.3%
- Follow a set default route of either stock or cash 26.6%
- Other 6.6%
- No response 6.6%

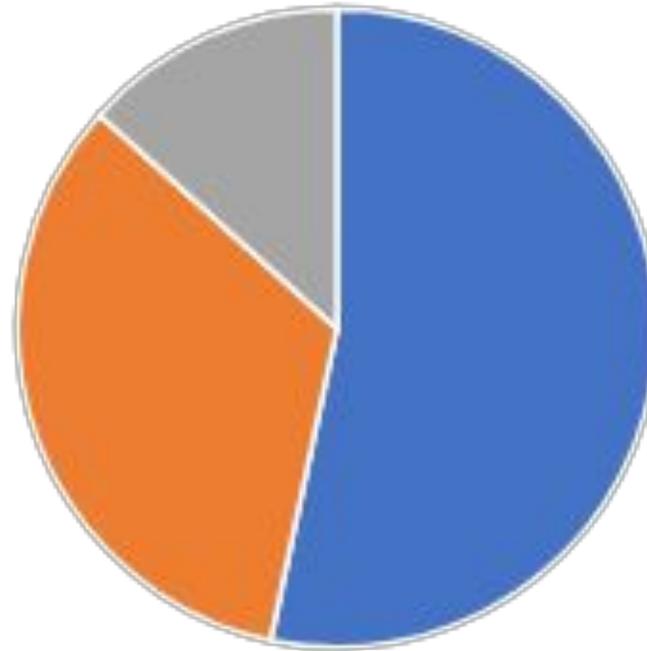
Q7. (i) Which of the following best describes the 'checking' element of your CA process in respect of scrip dividends?

Q7 Which of the following best describes the 'checking' element of your CA process in respect of scrip dividends?



- a) There is no check of the decision 40%
- b) The decision is checked by the CA team and may be referred back for reconsideration 20%
- c) The decision is checked by another manager within the firm and may be referred back or reversed 26.6%
- Unknown

Q8. Which of the following best describes your reporting of corporate actions to the LGPS client?



- a) CAs are not regularly reported but may be disclosed on request 53.3%
- b) CAs are included in high level reporting at an aggregate level 33.3%
- c) CAs are reported in detail including the decision made and the outcome realised 13.2%

Conclusions

- 80% of survey respondents have a defined Corporate Action (CA) process to determine a response to the scrip option at the election date.
- Over half (53.3%) of asset managers assess the option of taking stock or cash that would provide the best value for the client.
- 20% of asset managers checked the scrip dividend decision within the CA team with an option for this decision to be referred back for reconsideration.
- Further 26.6% of asset managers had scrip dividend decision checked by another manager within the firm with an option for this decision to be referred back or reversed.

However:

- 40% of asset managers had NO CHECK of the scrip dividend decisions.
- 26.6% of asset managers follow a default route of either stock or cash.
- 20% of the respondents DO NOT have a defined Corporate Action process.
- 60% of respondents stated that their CA process is NOT informed by client choice.
- Only 13.2% of respondents provide detail reporting on corporate actions.
- 53% of respondents DO NOT regularly report on corporate action.
- 33.3% of respondents said that they provide a high-level reporting on corporate action at an aggregate level.

Thinking points:

- Corporate action/script dividend decisions are classified by the FCA as an investment decision.
- Therefore, only those with the ability to make an investment decision can have the final say.
- However, it is possible for these processes to be carried out correctly and diligently, with no wrong doing on any part, but still not be beneficial to the underlying client.
- Therefore, to say that asset managers have all of their processes in place, may not necessarily mean that the underlying beneficiary is being catered for.
- **Do trustees want to be informed? Have a say? Do trustees want reporting?**
- **Script Dividends are not a top priority for AM (not a service differentiator)**
- **Opportunity to use technology to make Script Dividend decisions easy operatively and more ethical on the level of the client?**