

Future of Boards

The Rise and Influence of
Investor Stewardship

Business
Leadership

The University of Cambridge Institute for Sustainability Leadership

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Foreword

The time for the real economy to transition, in earnest, to a sustainable model is now. The physical effects of climate change can be seen daily around the world in the form of floods, forest fires, extreme heat and an increase in ice melt that will lead to sea level rises. The physical system is damaged and the implications for interconnected economic and financial systems are real and profound. The preponderance of the free-riding negative externalities threatening the physical system, such as carbon emissions, are produced by public corporations. The bulk of the shares and bonds of these corporations are held by asset managers, which makes them particularly well positioned to use their voice to improve corporate governance outcomes.

Despite the efforts asset managers have undertaken to influence boards, the level of business model change at the corporate level has remained small. I suspect, the reason behind so little change is boards understand the costs and risks associated with a wholesale business model change to make their corporations sustainable. The amount of capex and research and development costs for many corporations will be crippling and highly damaging to cash flows, valuations and share prices.

The ultimate holders of most of the assets, at the end of the chain, are individuals. These are individuals who pay into insurance companies to protect their families and homes, they are paying into pension funds for their retirement, they are taxpayers funding a system they believe will secure their future, or paying into a sovereign wealth fund that hopes to improve economic growth in their country. Hence, when the time comes for the free-riding externalities to be internalised on corporate Profit & Loss statements and the necessary investments for transition have not been made, the burden of inaction will eventually fall on the shoulders of individual citizens who will ultimately pay the price – everyday people who entrusted their financial futures to investment institutions.

Therefore, fostering a culture of stewardship and creating an investment ecosystem where long-term, sustainable value creation is rewarded are critical to preserving the resilience of markets upon which countless people depend.

This impactful report examines the interaction dynamics between two of the most important decision-makers in the economic and financial systems: the corporate boards and the asset managers who hold an increasing share of companies' stocks and bonds. The paper assesses the drivers of investor stewardship by analysing large data sets on sustainability/environmental, social and governance (ESG)-related shareholder voting and corporate engagements. Additionally, the authors draw on interviews with some of the world's largest asset managers, as well as board members of public companies, to unpack their engagement dynamics and explore the enablers and barriers to successful stewardship.

Good stewardship is not just about holding companies and their boards accountable – it is also about actively empowering them and collaborating across the investment chain with stakeholders to create enabling market conditions for sustainability leadership.



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Executive summary

Boards are under increased scrutiny from an empowered investor base across an array of sustainability risks beyond their traditional mandate. The ascent of asset management firms as dominant investors within the institutional investor class has shifted the global balance of corporate power towards greater shareholder participation in the governance of public companies. Asset managers, as custodians of other people's money driven by a fiduciary mindset,¹ are increasingly expected not only to maximise short-term financial returns but also to align their power of capital allocation with their stewardship capabilities to steer markets towards longer term sustainable outcomes. As a result, public company boards are facing a wave of escalating, specific and increasingly prescriptive demands that extend beyond the conventional remit of board oversight.

This report aims to assist boards in contextualising the influence of investor stewardship on corporate governance, offering an evidence base to navigate asset managers' evolving governance preferences. The report maps the drivers, enablers and barriers of shareholder–board interactions, seeking to help boards anticipate investor expectations, mitigate the risk of shareholder dissent, and foster constructive dialogues on the governance frameworks essential for aligning corporate success with sustainability outcomes. We offer insights into what asset managers expect from company boards, the stewardship mechanisms they employ to exert their influence, and the way boards negotiate and respond to these demands.

Stewardship is defined as “the use of influence by investors to maximize overall long-term value including the value of common economic, social, and environmental assets, on which returns and clients' and beneficiaries' interests depend”.²

We focus our analysis on the stewardship activities of a geographically diverse sample of 40 of the world's largest asset managers by assets under management (AUM) from the US, Europe, Asia, Africa and Australia.³ Collectively, they hold approximately £44 trillion in AUM. We zoomed in on two primary levers of shareholder influence: **voting** at shareholder meetings and **private engagement** with investee companies and their boards. The report is grounded in (1) an analysis of the voting policies of our sample of 40 asset managers, (2) private engagement data from asset managers' annual reports, (3) 500 case studies of private engagements, (4) 10 years of shareholder voting records on environmental and social proposals sourced from Diligent Market Intelligence, a provider of shareholder voting analytics, and (5) 18 interviews with board members and senior representatives from the investment community across 10 countries.

Leveraging these five sources, we first aimed to understand asset managers' evolving governance expectations for boards of directors as articulated in their voting policies. We then identified general trends in shareholder voting on E&S proposals over the past decade. Next, we quantified asset managers' direct, private engagement activities across our sample, identifying recurring issues that

prompt them to engage with investee companies and mapping the range of outcomes achieved through these interactions. Finally, we enriched the analysis with insights from interviews.

We find that the governance expectations outlined by asset managers in their voting policies increasingly integrate sustainability criteria, reflecting a more holistic understanding of the drivers of risks and sustainable value creation that boards are expected to oversee. However, we also show that although voting is formally the most public and transparent avenue of shareholder participation, voting records on environmental and social matters over the past decade suggest the potential of voting as a tool for accelerating sustainability remains unrealised.

Conversely, private engagement with boards and their companies is generally the preferred channel through which asset managers seek to influence investee companies. Our data shows, in the last four years, asset managers have augmented their private engagements with investee companies, in particular on environmental and social matters. Bottom-up asset manager pressure through private engagements has emerged as a promising catalyst of investor-led sustainability in capital markets. While private engagements often start as reactive measures, many asset managers proactively seek to make themselves useful to boards, leveraging their influence and expertise to help boards align sustainability commitments with targets, corporate policies, business strategies, governance structures, executive incentive schemes, and capital allocation decisions.

Nonetheless, both asset managers and boards are constrained by conflicting incentives, costs and risks involved in absorbing negative externalities as they transition to sustainable business models, which might harm short-term profitability, particularly when compared to competitors who continue to pass these costs on to society and the environment. Thus, first movers – those companies that take substantive action on sustainability – are often penalised, discouraging early adoption of sustainable practices. Compounding this challenge are the insufficient incentives that would push asset managers and boards to embark on these transitions. Thus, well-designed legislative and regulatory interventions play a critical – and often overdue – role in creating the necessary frameworks and incentives for ensuring market alignment with sustainability imperatives.

In sum, asset managers are well-positioned to exploit their comparative advantages—in terms of economic footprint, economies of scale, expertise, and market intelligence—to correct market mispricing and amplify government-driven efforts toward a cleaner, more resilient, and resource-efficient economy. Their position in the investment chain grants them powerful levers of influence to harness the potential of markets to catalyse sustainable outcomes. On the other hand, while investor-led strategies are essential, they often remain too localised and fragmented to tackle system-wide issues such as climate change, biodiversity loss, and social polarisation. For investor voice to be truly effective, it must be reinforced by a broader redesign of market incentives driven by democratically accountable bodies. Without regulatory and policymaking support, bottom-up investor pressure alone is likely insufficient to address these complex sustainability challenges at scale.

Key findings

Sustainability/ESG criteria have become mainstream in the criteria asset managers claim to use to evaluate corporate boards, with 38 of the 40 asset managers in our sample referencing sustainability-related/ESG considerations in their voting policies. Climate risks are addressed in the voting policies of 28 asset managers, while human rights expectations are included by 26 entities. Evidence suggests that biodiversity and nature-related risks are also receiving attention, with 18 asset managers integrating some provisions on these issues.

Implications for boards:

Boards are increasingly expected to build capabilities for sustainability-related oversight and demonstrate leadership in addressing sustainability as a material determinant of risk and sustainable value creation. Some boards might think they are safe because many asset managers continue to engage in ‘virtue signalling’ without wielding their full influence to penalise laggards. However, this is a false sense of security. The underlying causes of investor concern – whether climate risk, nature-related risks, cost of compliance or governance failures – remain real and pressing, regardless of the fluctuations in investor voting support from one annual general meeting (AGM) to the next.

However, evidence shows that shareholder voting on environmental and social issues does not match the scale or speed needed to accelerate the sustainability transition. Despite the increase in the number of resolutions on environmental and social resolutions at the AGMs of public companies, particularly in the last five years, **the potential of voting as a driver of sustainability appears limited relative to the global number of public companies.**

Over the ten-year period from January 2015 to June 2024, we identified in the DMI database **3,684 environmental and social resolutions** balloted at AGMs of public companies across the US, Europe (EU, UK, Switzerland), Asia, and Australia, with **538 passing (14.60 per cent)**. Notably, **87 per cent (3,214)** of these proposals were initiated by shareholders, while the remainder were initiated by management. Environmental and social resolutions made up **9.8 per cent of the total 37,350 shareholder proposals** balloted during this period, and only **6 per cent (195) of these E&S proposals submitted by shareholders were successful**, stressing the limited success of these resolutions as a driver of change. The fact that resolutions are not being passed does not mean they do not have any impact, with boards often seeking to address issues raised at AGMs indirectly to preserve investor confidence and public legitimacy.

Implications for boards:

Boards should not rely solely on shareholder voting outcomes as the catalyst for action. While shareholder support can offer valuable momentum, the transformation towards sustainable business models demands continuous board leadership, rather than sporadic and reactive responses to input gathered at shareholder meetings. In addition, even when support for sustainability-related resolutions is small, the mere existence of such resolutions, whether passed or not, can signal potential weaknesses in the company’s long-term viability, raising red flags for the

market and critical stakeholders. As the shareholder voting landscape becomes more mature and sophisticated, boards must stay ahead of investors' evolving priorities by taking leadership in setting their companies on a sustainable path.

In the meantime, **we observed an upward trend in the use of private engagement with companies and their boards as the preferred channel of asset manager influence.** While there is no universal definition of what constitutes an engagement, our analysis based on the stewardship reports of the 40 large asset managers in our sample over the last four years indicates they reported an estimated **244,000 cumulative private engagements.** The annual private engagements reported by the asset managers in our sample have increased by **36 per cent**, from approximately **50,000 engagements** in 2020 to around **68,000** in 2023. The total number of **ESG-labelled engagements reported by asset managers increased by approximately 39% between 2020 and 2023.** **ESG engagements peaked in 2022 before declining by 20.3% in 2023,** likely against the backdrop of the ESG backlash in the US. Overall, while governance-labelled engagements comprised 42 per cent of the total, environmental and social engagements represented 32 per cent and 26 per cent, respectively.

Implications for boards:

The traditional approach of responding to shareholder resolutions during annual meetings is no longer sufficient. Boards must be prepared for ongoing, in-depth dialogues with asset managers who are increasingly focused on understanding how companies are contributing to and managing both firm-level and market-wide systemic risks. As asset managers hold boards to higher accountability standards, boards must ensure their makeup drives robust oversight and that executive leadership incentives align with sustainability performance drivers.

The private nature of these engagements makes them largely inscrutable. Nevertheless, drawing on a limited sample of 500 case studies extracted from the public disclosures of the 40 asset managers in our sample, **we identified the following most recurring drivers of private engagements:**⁴ (a) approximately **30 per cent** of engagements **focused on the quality of governance**, particularly board refreshment, the design of incentive packages, and board oversight capabilities; (b) slightly over **25 per cent** of engagements were initiated to **enhance the scope and quality of companies' disclosures** on material risks; (c) around **24 per cent** of engagements **scrutinised corporate policies and targets**, while a similar proportion addressing **corporate strategy**; (d) **risk management** accounted for approximately **17 per cent**; (e) **15 per cent** of engagements aimed primarily at **relationship-building**, fostering mutual understanding and sharing market intelligence; finally (f) the issue of **aligning capital expenditure with sustainability-related commitments**, policies and strategies was addressed only in around **8 per cent** of the engagements in our sample. The modest share of engagements dedicated to aligning pledges with investments warrants closer scrutiny.

Implications for boards:

As asset managers hold boards to higher accountability standards, boards must ensure their makeup drives robust oversight and that executive leadership incentives align with sustainability performance drivers. Boards can strengthen their oversight capabilities by fostering constructive,

rather than adversarial, relationships with asset managers, working together to ensure the cohesive alignment between public companies' commitments, targets, policies, strategies and capital allocation decisions.

Addressing widespread mispricing of assets in the economy – reflected in the failure to accurately incorporate the costs and risks associated with sustainability factors into the market valuation – is the single biggest reason for asset managers to engage with boards. Asset managers are recognising – albeit sometimes reluctantly – the responsibility that comes from their ability to leverage their often unique comparative advantages – in terms of size, economies of scale, expertise and market intelligence. Some large asset managers also increasingly frame their power of investment through an 'additionality' lens – understood as seeking to use the ownership position to make a positive contribution to the long-term viability of investee companies that would not otherwise have occurred. However, the impact of asset managers' additionality largely depends on the delicate trade-offs among their complex mix of conflicting incentives and the varying expectations from asset owners.

Implications for boards:

Boards have the opportunity to forge more productive relationships with asset managers who seek to sharpen their competitive edge by developing industry-leading stewardship capabilities on established priorities, such as climate and natural capital preservation, as well as more novel issues like antimicrobial resistance and regenerative agriculture. Partnering with these asset managers not only allows boards to adopt best industry practices but also provides a laboratory for pioneering 'next practices' – innovative governance approaches that proactively address future challenges and opportunities. By tapping into the expertise and resources of forward-thinking asset managers, boards can stay ahead of emerging trends and enhance their strategic oversight.

Our interviewees representing asset managers recognised company-specific risks increasingly compound into systemic risks, which encompass factors that affect the entire investment portfolio or market in ways that cannot be mitigated through diversification. Although systemic risks are known, there are disagreements regarding the urgency of mitigation efforts, the pace at which changes should be implemented, and the long-term impact of delayed action. Addressing systemic issues through asset managers' engagement faces occasional resistance from boards, especially when there is a real or perceived disconnect between the targeted issue, the required counter-measures, and the direct, measurable benefits to the company.

Implications for boards:

Boards are well positioned to provide leadership in bridging the gap between the company's best short-term interests and long-term systemic risks, thereby fostering conditions for sustainable value creation. Integrating systemic risk management into strategic planning is not a distraction from their core responsibilities but a necessary evolution of them. Balancing these needs would be better supported by more legal clarity regarding the scope and interpretation of fiduciary duties.

The growth of asset managers' private engagements also means that investors increasingly compete for the limited bandwidth of public companies, particularly in the industries deemed most exposed to sustainability risks. At the same time, the abundance of reporting data combined with resource constraints poses increasing outreach challenges for some asset managers, especially the smaller ones or those that seek to engage in foreign jurisdictions. Conversely, some board members of less exposed companies report persistent shareholder apathy regarding engagement.

Implications for boards:

To manage the increasing demands for engagement, boards should leverage technology to facilitate more efficient and scalable interactions with their investor base. In addition, boards are expected to upgrade their technological toolkit, including artificial intelligence (AI)-powered risk scenario analysis, to take their oversight capabilities to the next level.

The effectiveness of engagement largely hinges on the ability of asset managers to make themselves useful to companies and their boards. Engagements provide an opportunity for boards to tap into asset managers' market-wide perspectives and leverage their analytical insights into long-term trends to enhance strategic guidance and oversight capabilities. Thus, asset managers can serve boards as valuable allies in their interactions with executive management.

Implications for boards:

Asset managers' market intelligence can be a valuable resource for boards, enabling them to better gauge market sentiment, anticipate emerging trends, triangulate the information provided by management, and ask probing questions about the information they are not receiving.

While most interviewees acknowledged the materiality of sustainability factors in driving long-term corporate performance, we noted a sense of frustration over the avalanche of reporting requirements as many board members still fail to see how some of these are materially connected to the areas of strategic decision-making within their oversight remit. The reporting fatigue has also been signalled by some asset managers with less mature stewardship capabilities, who stated that the non-standardised reporting requirements of asset owners and other stakeholders add pressure to under-resourced stewardship teams and divert valuable time from more value-adding activities.

Implications for boards:

There is a great need for more 'whole-of-investment-chain' collaboration and regulatory efforts to align reporting requirements more closely with strategic priorities. This collaboration can alleviate reporting fatigue and ensure that both parties concentrate on value-adding activities rather than getting mired in perfunctory, tick-box exercises. By clearly linking sustainability reporting to strategic decision-making, boards can move beyond mere compliance, leveraging these insights to optimise business performance.

Some board members perceive an increased tension between the enhanced scrutiny and pressure from large institutional shareholders and the board's responsibility to equitably balance the

preferences of various stakeholder groups. The blurring of governance responsibilities can antagonise the shareholder–board relationship, stressing the directors’ challenge of ensuring that decisions are not disproportionately influenced by the most powerful voices.

Implications for boards:

To avoid the tension between shareholder demands and broader stakeholder interests, boards should claim their decision-making autonomy while developing robust mechanisms for engaging with a broader range of stakeholders and being transparent and proactive in communicating their strategies and the rationale behind their decisions.

There is an expectation the stewardship representatives delegated by asset managers display the credibility and industry expertise necessary to earn the trust of boards. Without this requirement, engagement efforts risk devolving into a perfunctory and mechanistic exercise driven by a checklist mindset, devoid of depth and nuance. The box-ticking approach to sensitive issues surrounding corporate sustainability is fundamentally at odds with the complexity of the challenges boards encounter in the exercise of their duties. As such, the role of board-facing stewardship professionals is critically important in improving the quality of interactions.

Implications for boards:

As boards operate under significant cognitive load, prioritising the quality rather than the quantity of interaction is essential. Only well-prepared meetings with high-calibre, seasoned stewardship professionals can create the intellectual space necessary for substantive discussions and instil confidence in boards that the feedback they receive is not only well intentioned but also profoundly informed and strategically sound.

Many board members noted the increasing weaponisation of ESG as a tool for pursuing political and social causes, often at the expense of the original intent of these principles. Some representatives of asset managers also observed signs of contagion effects spreading to European markets. In the EU, however, critical voices seem to be driven not necessarily by ideological rifts, but rather by short-term profit maximisation concerns, such as the underperformance of certain ESG-labelled funds impacted by the war in Ukraine. **The current debate provides an opportunity to reassess the underlying assumptions and norms governing the ESG landscape, with the goal of making sustainability efforts more targeted, strategic and systemic rather than merely additive.**

Implications for boards:

In the face of backlash, boards should resist the urge to overreact by prioritising transparency, rigour and accountability in explaining how ESG factors are materially linked to the company’s long-term performance. Rather than diluting efforts across a broad spectrum of cosmetic initiatives, boards should focus on the most material ESG issues that are demonstrably strategic levers for better performance, not merely a response to external pressure. The debate on ESG is also an opportunity to critically evaluate the assumptions behind materiality matrices, anchor them in a more robust evidence base, and engage with the stakeholder ecosystem to understand diverse perspectives.

Key questions for boards and asset managers

To help make the most of this report, we propose two sets of questions—one designed for boards and the other for asset managers— aimed at fostering an introspective, critical reflection on existing mindsets and practices. These questions are intended to stimulate constructive dialogue around the governance structures needed to align corporate success with long-term sustainability goals.

Questions for Boards

1. Do you allocate sufficient board bandwidth for understanding sustainability risks and drivers of sustainable value creation?
2. Have you implemented governance structures and processes at the board level to oversee these risks while capturing market opportunities for sustainable solutions; how might you do this?
3. How do you engage with shareholders to communicate how various sustainability pathways might influence your organisation in terms of climate, nature and social impacts, compliance risks, cost of capital, physical risks, and shifting consumer taste?
4. How is the board actively overseeing the alignment of sustainability commitments with targets, business strategy, leadership incentives, and capital allocation decisions?
5. What specific changes in strategy, processes, and leadership actions are required to embed sustainability into your competitive advantage?
6. Does the board require senior management to conduct stress tests on future projections, considering the financial impact of internalising the costs of carbon emissions, pollution and plastics, etc? At a minimum, does the board ask senior management to perform stress tests aligned with the Paris Agreement and the company's country's Nationally Determined Contributions?
7. Is the board actively challenging senior management to innovate in embedding circular economy and regenerative principles, resource efficiency, and resilience in your core operations?
8. What processes are in place to ensure the company delivers sustainability data that is comprehensive, accurate, and comparable, and do you transparently disclose the systems behind the setting of targets and the quality of sustainability data collection?
9. How does your board manage shareholder expectations in the face of potential trade-offs between sustainability commitments and near-term profitability?
10. What mechanisms exist to equitably integrate diverse shareholder views into board-level strategic discussions?
11. How are you staying ahead of shifts in institutional investors' priorities driven by climate, nature-related and societal trends?
12. Are you actively contributing to industry-wide sustainability efforts, such as collaborating on sectoral decarbonization pathways or addressing systemic challenges? Additionally, are you leveraging your influence to support sustainability regulation and advocate for a redesign of market conditions that would incentivise and reward sustainable business practices?

Questions for Asset Managers

1. Are your voting policies designed to encourage strategies that enhance the investee companies' sustainable value creation, and do they provide detailed guidance regarding your expectations?
2. How are you monitoring and advising investee companies on material topics, ensuring that the short-term performance of your portfolio of investment securities does not contribute to long-term systemic insecurities?
3. Are you considering the 'additionality' of your investments by seeking to create a positive change as a result of your ownership position?
4. Do you model each company or bond in your portfolio and stress-test their cash flows under various sustainability scenarios? At the very least, do your analysts add a 'cost of carbon' line to the Cost of Goods Sold section of the Profit & Loss statement to see how rising carbon taxes could impact the company's cash flows?
5. Do you hold investee companies accountable for misalignment between sustainability commitments, targets, policies, strategies, capital expenditures and incentive structures?
6. Do you regularly assess and vote against directors who fail to consider material sustainability factors in their oversight, accountability and strategic decision-making?
7. Do you and how do you use all your levers of influence – eg research, voting, individual and collaborative engagements, public campaigns, policy advocacy, divestment – synergistically to mitigate compounding market-wide sustainability risks and enhance the long-term sustainability upside of your portfolio?
8. Do you monitor and engage with investee companies and industry associations to align their lobbying practices with sustainability commitments?
9. Do you support market reforms aimed at redesigning business incentives to ensure that pursuing sustainability is economically viable and helps make climate-neutral and nature-positive products more competitive in the marketplace?
10. How can you leverage economies of scale by collaborating with like-minded investors to drive sustainability engagement, carefully navigating the antitrust considerations surrounding such collaborative efforts?
11. Are you transparent with policymakers and other stakeholders about the genuine potential of stewardship to achieve its intended purposes and its limits as a lever of effective change?
12. How can you engage in policy advocacy to drive an enabling regulatory framework and encourage regulatory initiatives aimed at imposing sustainability guardrails, and have you created procedures for robust internal oversight of policy advocacy efforts?

1. Introduction

Publicly listed companies are key engines of economic prosperity through job creation, capital formation, innovation and tax revenue. While the number of public companies has generally declined in the last two decades, their economic footprint has expanded, with their market capitalisation as a percentage of the global gross domestic product (GDP) doubling from 50 per cent in 1990 to 106 per cent in 2022.⁵ Evidence on trends in listed companies' revenue, employment and investment reinforces the outsize role they continue to play in the global economy.⁶ At the same time, the approximately **58,000 publicly listed companies** worldwide are estimated to be **responsible for up to 40 per cent of all climate-warming emissions**.⁷ Thus, who owns these companies profoundly affects how they are governed, in whose interest, and what role boards of directors play in making business success consistent with planetary boundaries.

In the last decades, **institutional investors⁸ have solidified their position** as the largest category of shareholders globally, representing **43 per cent of global market capitalisation**, with their ownership share exceeding 70 per cent in advanced markets such as the US and the UK.⁹ The investment decisions made by asset managers on behalf of their clients increasingly compound into systems-level effects that extend beyond the financial realm, significantly impacting both environmental and social systems on which long-term physical and financial wellbeing depends. As custodians of other people's money, institutional investors are therefore facing rising expectations to embrace their governance responsibilities and foster constructive relationships with corporate boards in order to address sustainability challenges that transcend firms, sectors, and generations.

The concept of 'institutional investors' masks the diversity of legal forms, investment styles (eg passive vs active) and timeframes (eg short-term vs long-term) that characterise these financial players. Within the broad class of institutional investors, asset management firms have become the dominant players in today's corporate ownership landscape. Between 2013 and 2022, the assets under management of the world's top 500 asset managers increased from US\$76.3 trillion to US\$113.5 trillion, with equity investments accounting for approximately 40% of their asset allocation mix.¹⁰ Whether operating as subsidiaries of asset owners, such as banks or insurance companies, or as independent investment management firms, asset managers have emerged as critical shapers of corporate governance standards, being particularly well positioned in the investment chain to project shareholder power in corporate boardrooms.

As large asset managers have massively expanded their economic footprint while the industry underwent significant concentration,¹¹ their status as '**universal owners**' that hold large, diversified, long-term portfolios representative of the entire global economy, has attracted increased scrutiny.¹² The promise of 'universal ownership' is that highly diversified asset managers with systemic, market-wide exposure to sustainability risks are not just betting on individual companies – they are invested in the long-term resilience of the entire global real economy that countries and the citizens therein are dependent upon for a stable and functioning economy. This promise is reinforced by the unique position of asset managers within the investment chain, acting as agents for asset owners like

pension funds and insurance firms, whose investment horizons extend over many decades. The expectation, therefore, is that asset managers, as fiduciaries of their clients, will be incentivised to act as stewards of the future by internalising the negative impacts of corporate conduct and contributing to long-term sustainable financial performance and systemic change.

In this context, as major shifts in stock ownership patterns have skewed the distribution of corporate power towards institutional shareholders, such as asset managers, investor stewardship has emerged as the key framework for guiding the exercise of investors' governance responsibilities, with over 20 countries having adopted Stewardship Codes in the last years to guide responsible investor behaviour.¹³

Driven by the rising focus on institutional investors' stewardship duties, asset managers have become increasingly assertive in projecting their influence in corporate boardrooms. Their shareholder rights, market exposure and professional stewardship capabilities allow them to gain insights into how boards oversee and act upon a range of issues beyond the traditional remit of board oversight and corporate decision-making.¹⁴ Therefore, it is increasingly pertinent to assess the strategies asset managers employ to influence boards and understand their evolving governance preferences.

1.1 About this report

This report is a follow-up to the series of four reports published in 2023 as part of Phase 1 of the CISL–DLA Piper Future of Boards programme. During [Phase 1](#), we mapped 22 global trends affecting boards and changes in board practice. As part of Phase 2, this report provides a deep-dive into the changing patterns of interaction between boards and institutional investors, in particular asset managers, amid the latter's growing focus on their stewardship duties.

The report aims to assist boards in contextualising the influence of investor stewardship on corporate governance, anticipating investor expectations, mitigating the risk of shareholder dissent, and fostering productive dialogues on the governance frameworks required to align corporate success with sustainability outcomes. The report offers insights into what asset managers expect from public company boards, the stewardship mechanisms through which they seek to exert their influence, and the way boards negotiate and respond to these demands. We also provide a list of prompts for reflection that could enable boards to better navigate the evolving landscape of investor expectations.

We focus our analysis on the stewardship activities of a geographically diverse sample of **40 of the world's largest asset managers**, which hold collectively approximately **£44 trillion in AUM**. We zoom in on two levers of shareholder influence: (1) shareholder **voting** and (2) private **engagement** with investee companies and their boards. In this way, we aim to provide a holistic account on how these two mechanisms of shareholder influence interact.

The next section outlines the sources and methodology underpinning this report (the full methodology can be found in the [Appendix](#)). We then offer a concise description of the key components of the investment chain through which people’s savings flow to companies, as well as summarise some of the key enablers and barriers to investor stewardship. Following this, we review the literature on some of the key mechanisms of investor influence. Next, in the empirical part of the report, we first map out the evolving governance expectations for boards of directors based on the analysis of the voting policies of our sample of asset managers, followed by the presentation of a ten-year overview of trends in shareholder voting on environmental and social resolutions. In section 6, we quantitatively present the evolution of private engagements with investee companies reported by the asset managers in our sample over the last four years, followed by a qualitative analysis of the recurring issues that prompt asset managers’ interventions and the range of outcomes achieved through these interactions, based on a sample of 500 engagement case studies. In section 7, we discuss the main threads in our report through the lenses of 18 interviews with board members of public companies and senior representatives from the investment community from ten countries. The conclusion summarises our findings and provides some forward-looking insights.

2. Methods and sources

We selected our sample of asset managers from the joint *Thinking Ahead Institute and Pensions & Investments* ranking of the world’s largest asset managers based on their assets under management (AUM). The sample includes 40 geographically diverse asset managers, which collectively manage approximately £44 trillion in assets: 15 American asset managers, 15 European asset managers (including the UK), five Asian asset managers, the four largest asset managers from Africa, and the biggest asset manager from Australia. The full sample is available in the [Appendix](#). Our analysis is based on five main sources of data:

Table 2.1. Data sources for this research

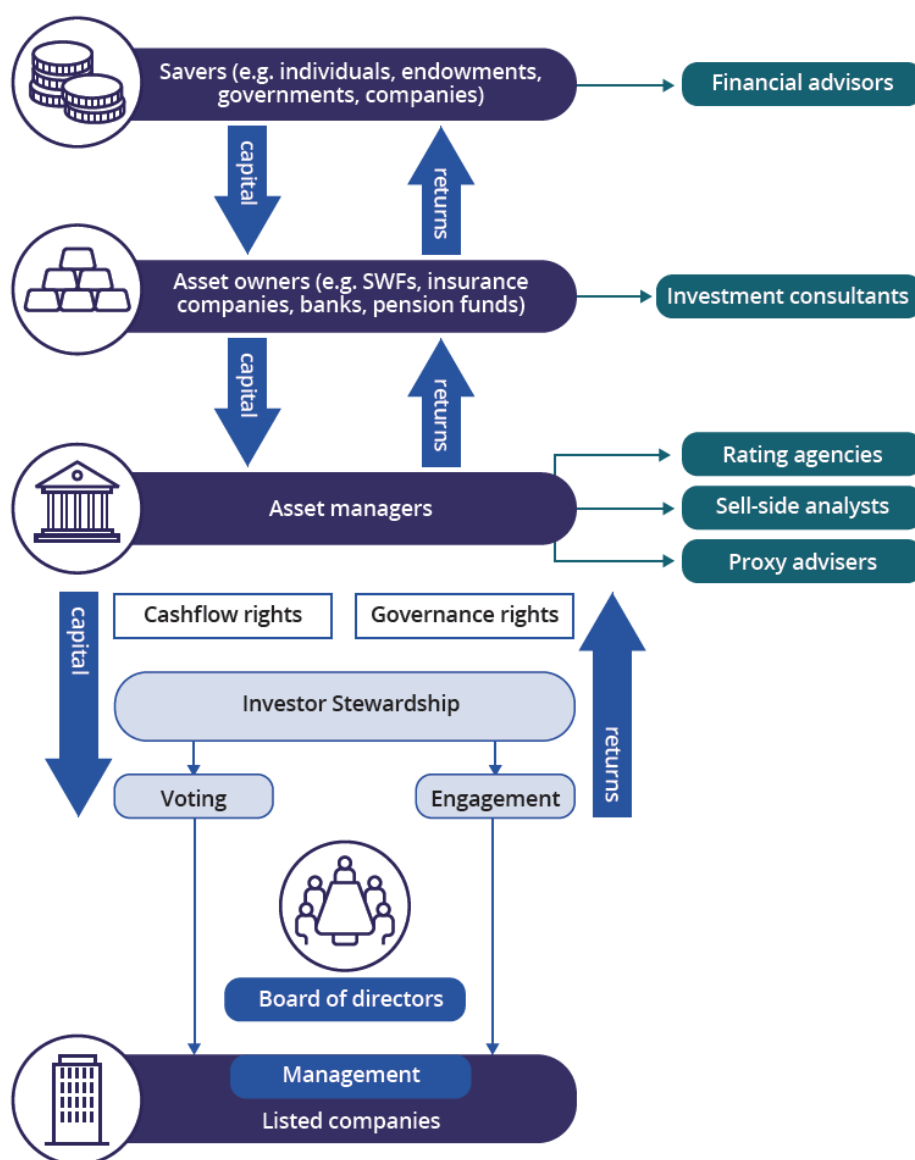
Data source	Description
Latest available voting policies of the 40 large asset managers in our sample	These documents outline the principles and criteria that inform how asset managers cast their votes at the annual general meetings of public companies. On average, the policies in our sample span 23 pages, with a range from three pages to 58 pages. We reviewed the policies using an inductive content analysis approach, identifying the key principles and expectations regarding board-related features and sustainability issues.
Shareholder voting records	Using data from Diligent Market Intelligence (DMI), a provider of global shareholder voting records and voting analytics, we retrieved data on the environmental and social resolutions (E&S) balloted at the AGMs of listed companies from the US, Europe, Asia and Australia between January 2015 and June 2024 (thus including data from the 2024 ‘proxy season’, the period of the

	year – typically from April to June – during which most companies hold their general meetings). DMI’s database contains profiles for over 2,400 investors and over 35,000 issuers. We relied on DMI’s labelling of resolutions to identify those related to E&S matters (see Appendix for details on our filtering of E&S resolutions). We excluded from the analysis resolutions related to the approval of charitable contributions and resolutions on the approval of political contributions. Resolutions of this nature disproportionately inflated the sample size while reflecting highly conjunctural short-term financial allocations rather than broader governance matters.
Asset manager private engagement data	We manually gathered private engagement data from the annual stewardship reports published by the 40 asset managers in our sample between 2019 and 2023. In some cases, the data was retrieved from reports called active ownership reports, responsible investment reports, or sustainability/sustainable investing reports. While many studies seek to capture this phenomenon via surveys, our data on engagement records enabled us to quantify more systematically the scope and distribution of these private engagement activities.
500 engagement case studies	Since numerical figures do not provide insights into the drivers of private engagements or the outcomes achieved through these interactions, we also compiled a small sample of 500 engagement case studies from asset managers’ disclosures, covering all 40 asset managers in our sample, with the number of case studies per asset manager varying from 5 to 20.
Interviews	We supplemented our evidence base by conducting 18 interviews: six with senior representatives from the investment community (including heads of stewardship, heads of active engagement and senior stewardship managers), who collectively oversee global stewardship activities for £6.3 trillion in assets under management; 12 with public company representatives, comprising eight board members, two senior executives and two board chairs of large professional services firms who collaborate closely with senior business leaders. The full list of interviewees is available in the Appendix. The interviews were completed between April 2023 and June 2024.

3. Mapping the investment chain

The exercise of investors' stewardship duties is shaped by the fiduciary relationships that structure the financial intermediation circuits through which the savings of ultimate beneficiaries are pooled, managed, and channelled via financial instruments. Consequently, stewardship is best understood through the lens of the **'investment chain'**. Today, the economic interests of a broad range of **savers** – ranging from employees and retirees to governments, companies and charities – are increasingly represented by institutional investors through a complex and ever-lengthening investment chain. Figure 1 illustrates the positioning of key players within the investment chain and shows where stewardship activities are embedded in this institutional architecture for organising society's savings.

Figure 3.1. The Investment Chain



Source: Adapted from Arjaliès et al. 2017 and Braun 2022

Simplistically, institutional investors are categorised into asset owners and asset managers. **Asset owners**, such as pension funds, insurance companies, banks, charities and sovereign wealth funds, pool capital from ultimate beneficiaries (eg, employees, retirees, policyholders, depositors and other citizens and organisations) and define investment objectives to optimise the risk-adjusted financial well-being of their beneficiaries. **Asset managers** are professional investment firms that act as agents responsible for implementing the fiduciary mandates of asset owners and executing investment strategies designed to achieve these objectives. They are tasked with the operational deployment of capital into various financial instruments and the day-to-day management of investment portfolios on behalf of their clients. It must be noted, some asset owners independently manage capital on behalf of their beneficiaries, while other asset owners choose a hybrid approach and invest in-house but also outsource some of their funds to third-party asset managers.

To aid their decision-making, these financial intermediaries rely on a suite of support services, such as investment consultants that provide guidance on portfolio strategies and stock selection, rating agencies whose assessments influence the attractiveness of assets, and proxy advisory agencies that provide recommendations on voting and other governance-related services.

As shareholders in public companies globally, asset managers wield not only financial benefits through their **cashflow rights**, such as dividends, but also wield **governance powers**, such as the right to elect board directors and vote on major corporate decisions. Proxy advisory agencies are especially relevant in this context, mitigating information asymmetries for investors by providing governance advice and voting infrastructure to assist investors in exercising their voting rights. In recent years, the governance rights of asset managers have increasingly been framed through the lens of investor **stewardship** responsibilities. Although the idea and practice of investor stewardship has existed for a long time,¹⁵ it has been picked up by regulators and formalised in the aftermath of the Global Financial Crisis. The first Stewardship Code was introduced in the UK in 2010, and since then, **over 20 countries** worldwide have adopted similar codes to provide a framework for guiding investor behaviour.¹⁶

The arsenal of stewardship can include a variety of levers of influence, including exclusions (‘negative screening’), ESG integration, voting, board appointments, behind-the-scenes private engagement, public campaigns, policy advocacy, divestment, and litigation strategies. In this report, we focus on two key channels of investor stewardship: asset managers’ **private engagements** with companies and their boards and their **voting** at investee companies’ AGMs.

The practice of engagement refers to the purposeful dialogue between companies and their shareholders to achieve targeted outcomes. Engagement is often a process rather than a one-time event, with each engagement potentially spanning up to several years before reaching its conclusion. Engagement activities range from emails and formal letters to phone calls, and meetings, and site visits. Generally, these interactions diverge from the more casual conversations typically overseen by investor relations professionals. Large asset managers, who generally possess the most advanced engagement capabilities among the broad class of institutional investors, typically begin the engagement process by defining priority themes and selecting companies with the highest exposure

to these themes. Company targeting through engagement efforts is usually grounded in research and benchmarking of the investee companies, which is supposed to inform the formulation of an engagement plan that should normally outline the engagement objectives, methods and escalation steps.

Many asset managers prefer private, direct engagement as an avenue of stewardship because it allows for continuous and potentially deeper interactions with investee companies compared to mere participation in annual shareholder voting. From asset managers' angle, this lever of influence often has advantages because it provides them with a confidential channel through which commercially sensitive issues can be raised without publicly embarrassing and potentially damaging the company's market position. However, engagement is not an isolated endeavour; it is part of a feedback loop in which these interactions can inform both investment decisions and voting choices.

On the other hand, shareholder voting provides a public and formal channel through which shareholders can have a say in the company's strategic direction and management by exercising their right to vote on key company decisions.

The rise of asset managers' stewardship activities has been largely driven by regulatory demands for institutional shareholders to take greater responsibility in overseeing and nudging companies towards long-term sustainable outcomes. In the aftermath of the 2007–09 Global Financial Crisis, institutional investors were cast as “absentee landlords”¹⁷ whose neglect of governance duties resulted in “ownerless corporations”¹⁸ often driven by excessive risk-taking and focus on short-term returns, without considering the inherent risks involved in such conduct. Since then, the increasing formalisation of stewardship duties has intensified the debate on the power of capital allocation and the strategic use of shareholder rights to intentionally align corporate success with sustainable outcomes.¹⁹ Through effective stewardship, asset managers can ensure that clients' assets are protected, and companies deliver long-term, risk-adjusted benefits for the ultimate beneficiaries. However, to better foreground the dynamics between asset managers and investee companies, we first review some of the key enablers and barriers of stewardship.

3.1 The enablers of investor stewardship

Scholars have advanced several arguments to explain the rise of investor stewardship. An increasingly common view that has gained increasing acceptance in many jurisdictions is that stewardship is anchored in the principle of fiduciary duty. This view holds that asset managers' responsibility to act in their clients' best interests inherently includes the duty to actively protect and promote the long-term value creation of their investee companies.²⁰ There is also growing support, albeit still debated, for the view that this involves an obligation to improve the long-term well-being of asset managers' beneficiaries by factoring sustainability into investment decision-making, voting and engagement.²¹

Second, regulators and many asset owners, such as members of initiatives like the Net-Zero Asset Owner Alliance and Climate Action 100+, are increasingly focused on aligning asset managers'

influence with the imperative to deliver long-term sustainable outcomes for society.²² With over 20 countries adopting Stewardship Codes or principles that encourage asset managers to take an active role as stewards of investee companies' long-term sustainable performance, the global regulatory landscape is evolving towards more responsible investment practices, albeit the approaches remain deeply influenced by local contexts and regional priorities.²³ However, investor coalitions are currently facing a turbulent period after several investors – both asset owners and asset managers – exited these alliances over the past two years.* As of August 2024, 22 members of Climate Action 100+, including major investors such as Vanguard, J.P. Morgan Asset Management, PIMCO, State Street Global Advisors, Goldman Sachs Asset Management, Nuveen and Invesco, have exited the alliance, while BlackRock has limited its membership to its non-US subsidiaries.²⁴ While these exits are isolated and are largely reactions to the anti-ESG movement in the US, they nevertheless highlight the fragility of sustainability efforts, which are neither inevitable nor irreversible but require continuous reinforcement across all levels of the investment chain to prevent further fragmentation and derailment. They also reflect asset managers' challenge of balancing competing stakeholder interests and navigating conflicting legal frameworks.²⁵

Third, another key driver of stewardship comes from vocal constituencies among the ultimate beneficiaries of institutional investors' services that demand the exercise of governance rights to promote sustainable business practices. For instance, some of the leading climate litigation cases have been filed by beneficiaries of institutional investors.²⁶ Furthermore, ongoing epochal trends in intergenerational wealth shifting towards younger constituencies reinforces the focus on the enhanced stewardship responsibilities of asset managers, as this demographic is more sensitive to sustainability challenges and the cataclysmic consequences of intergenerational risk-shifting at their expense.²⁷ Stewardship is therefore regarded as a fundamental responsibility, ensuring that the interests of institutional investors are closely aligned with those of the beneficiaries they serve.

Fourth, passively held equity assets – those managed with the goal of replicating the performance of a specific market index rather than attempting to outperform it – increased fivefold between 2012 and 2023, surpassing the volume of actively managed equity assets.²⁸ The rise of passive investment strategies, such as index funds and exchange-traded funds, is believed to alleviate the pressure for short-term gains and foster a long-term investment orientation given the challenge of divesting from specific companies. Since passive funds cannot simply sell off underperforming or poorly governed companies in an index, there is an expectation these fund managers – due to fiduciary, value creation and reputational reasons – will be compelled to leverage their positions to advocate improved governance practices and mitigate market-wide risk.²⁹ As stated by the BlackRock CEO Larry Fink, a passive asset manager “cannot express its disapproval by selling the company's securities as long as that company remains in the relevant index. As a result, our responsibility to engage and vote is more important than ever”.³⁰

* Among the institutions exiting the Asset Owners Net Zero Alliance include the Church of England Pensions Board and the Danish pension fund PKA.

This view is supported by the ‘shareholder welfare theory’, which posits that investors and companies should prioritise ‘shareholder welfare’ over solely maximising the market value of stock investments. This theory is predicated on the assumption that institutional investors should not equate acting in shareholders’ interests with merely enhancing short-term market price, because the ultimate beneficiaries of investments have ethical and social concerns alongside profit motives.³¹ In other words, it is counterproductive for shareholders to permit business activities that harm society and the environment, only to mitigate these effects later as citizens, taxpayers and consumers.

Finally, proponents of so-called ‘systemic stewardship’, sometimes called ‘systematic stewardship’, question the sufficiency of generating occasional ESG benefits alongside financial returns while preserving business-as-usual as the operating system of shareholder capitalism.³² A fundamental problem of ESG investing is that this approach “typically aims to protect individual portfolios from systemic environmental and social risks, without attempting to mitigate these risks in the real economy”.³³ Instead, advocates of systemic stewardship recognise that systemic risks, defined as “the risk to or arising from, environmental, social, or financial systems” create non-diversifiable risks –systematic – risks for investors.³⁴ Systemic risks – such as climate change, financial instability, biodiversity loss and social disruption – affect the entire portfolio and markets.

For instance, as shown in a 2015 CISL study, “changing asset allocations among various asset classes and regions, combined with investing in sectors exhibiting low climate risk, can offset only half of the negative impacts on financial portfolios brought about by climate change.”³⁵ Thus, climate risk, for example, is an ‘unhedgeable risk’ that requires a systemic lens.³⁶

Since there is no place to hide from systemic risks, proponents of systemic stewardship encourage widely diversified investors to use their influence not just to mitigate firm-level risks, but to drive positive change across the entire investment chain. Embracing a portfolio-level lens, investors are encouraged to focus “not on how to increase expected returns across the portfolio but on how to reduce systematic risks and thus how to enhance risk-adjusted returns for the portfolio”.³⁷ From this perspective, using capital allocation to make a difference that lasts requires a systems-level lens to investing and proactive efforts to “support and enhance the health and stability of the social, financial, and environmental systems on which they depend for long-term returns.”³⁸

This body of work underscores the role of strategic collaboration between investors and other stakeholders to safeguard the resilience of the economy by pre-emptively addressing systemic risks that transcend individual companies and industries.

3.2 The barriers to investor stewardship

The case for investor stewardship as a transformative force is still debated, with some scholars arguing that institutional investors have little to no interest in engaging with investee companies.³⁹

First, the increasing fragmentation of the public companies’ shareholder base due to the wide diversification of institutional investors’ portfolios translates into reduced power for any single

investor to influence corporate policy.⁴⁰ Second, asset managers' business models are fee-based rather than profit-sharing, which incentivises the expansion of assets under management over the focus on the performance of individual companies. The incentive to attract and retain clients, such as corporate pension schemes, can compel them to appease corporate managers rather than risk antagonising them through stewardship efforts.⁴¹ As John Bogle, the founder of Vanguard, put it: "Governance activism attracts attention and controversy [...] impeding the asset-gathering goals that money managers hold pre-eminent".⁴² Moreover, asset managers' bargaining power with investee companies is constrained by the need to allocate capital swiftly and efficiently in line with asset owner mandates, limiting their autonomy and leverage to drive meaningful change. Even if an asset manager had the flexibility to divest from non-sustainable firms, there are far too few sustainable companies to reinvest in at scale. Since asset managers must deploy capital where viable options exist, this presents a structural barrier to advancing long-term sustainability goals.

Next, stewardship activities can be resource intensive, which might hurt asset managers' competitiveness if these activities are not valued by clients. Moreover, since the costs of stewardship are borne by those who actively participate, while the resulting benefits are typically enjoyed by all shareholders, including those who did not participate, this feature might deter asset managers from committing resources to stewardship.⁴³ In addition, shareholder engagement is also viewed by some as carrying legal risks, in particular those related to anti-trust effects and the interpretation of fiduciary obligations.⁴⁴ Finally, practical obstacles arising from the lengthening of the investment chain as well as informational asymmetries between shareholders, managers and boards, also hinder the potential of stewardship.⁴⁵ Table 3.1 below summarises the main arguments in support of stewardship as well as its limitations.

Table 3.1. Stewardship enablers and barriers

Enablers of stewardship	Barriers to stewardship
Stewardship is a fiduciary duty.	Portfolio diversification translates into reduced power for any single investor to influence corporate policy.
Demand from end beneficiaries, especially younger constituencies more sensitive to environmental and social concerns.	The cost of stewardship and the 'free-riding' incentives due to the concentrated costs but shared benefits of engagement.
Asset owners and regulators are increasingly urging asset managers to engage in stewardship alongside offering sustainability-focused financial products.	Asset managers' pressure to allocate capital swiftly in line with investment mandates and limited sustainable investable opportunities in the market constrain the scope and depth of stewardship efforts.
Quasi-permanent shareholdings associated with passive investing enables a long-term view that can be enhanced through stewardship.	Passive investing is a low-cost strategy that makes the cost of stewardship too burdening for those funds that compete on price.

Investors want to maximise ‘shareholder welfare’ rather than ‘shareholder value’.	Lack of interest in the marginal performance of individual companies associated with the fee-based business models of asset managers.
Stewardship can mitigate risks that can otherwise cause systemic disruption.	Legal risks arising from shareholder stewardship.

4. Literature review

In recent years, significant attention has been devoted to understanding the mechanisms by which institutional investors influence corporate sustainability. Traditionally, divestment has served as the primary means for shareholders to express dissatisfaction with a company and its management.⁴⁶ Shareholder voting has also long been a focal point of research, as it provides the most democratic and transparent mechanism through which investors can influence corporate policies. More recently, a few disparate accounts have documented the role of private engagement by institutional investors, though this emerging area continues to grapple with data scarcity challenges.⁴⁷ This section provides a concise review of the existing evidence on these key mechanisms of investor influence.

‘*Governance by exit*’ – or divestment from companies with business practices that are misaligned with sustainability goals – is often championed as the preferable approach that investors should use to reduce their risk exposure and accelerate the sustainable transformation of the economic system. From this perspective, selling shares, or simply the threat of exit, leverages the power of market signals to create financial, reputational and strategic pressure on companies to align their corporate performance with sustainability goals.⁴⁸ However, the effectiveness of divestment is subject to mixed evidence. While divestment has been credited for inflecting reputational damage on the divested firms, other studies showed that it has negligible impact on market value and the cost of capital.⁴⁹ In addition, the increasing proportion of passively managed equity assets, such as market-tracking index funds, makes this option unviable for many asset managers. Divestment holds greater potential to affect companies in the debt markets, which studies have estimated to account for 90% of the new financing received by fossil fuel.⁵⁰

Meanwhile, divestment strategies continue to garner support from a broad spectrum of investors, with fossil fuel divestment commitments surpassing £30 trillion as of 2023.⁵¹

Shareholder voting has also received substantial interest for a long time, providing a public arena through which shareholders can hold management and the board accountable.⁵² Historically, voting was seen as a mere procedural formality and shareholder participation was low.⁵³ Although there are regional differences mirroring the varieties of national stock ownership patterns, shareholder power through voting has often been described as largely illusory, leading some influential scholars to argue that “the shareholder franchise is largely a myth”.⁵⁴ As the Organisation for Economic Co-operation and Development (OECD) concluded after a 2010 review of shareholder voting practices following

the 2007–09 Global Financial Crisis, “shareholders have been largely passive and reactionary in exercising their rights, in many cases voting in a mechanical manner relying on proxy voting advisers and generally failing to challenge boards in sufficient number to make a difference”.⁵⁵

Post-Global Financial Crisis, however, there has been a more pronounced focus on making the governance of public companies more participatory. This shift has been facilitated by the continuing concentration of voting power in the hands of institutional investors, who are more prone to vote than retail shareholders, coupled with regulatory enhancements of shareholder rights, cost-effective electronic voting, the expansion of proxy advisory firms, and increased focus on investors’ stewardship duties.

The degree of shareholder participation in corporate governance varies across markets, reflecting the diversity of legal and institutional frameworks that determine the condition governing shareholder proposals (eg the ease of submitting a proposal and threshold for approval), the mechanisms for exercising voting rights (in-person or electronically), and the legal effect of these votes (binding vs advisory).⁵⁶ In addition to legal rules, institutional investors’ behaviour is profoundly shaped by their fiduciary duties, cultural norms and political factors.⁵⁷

Despite differences in the formal and informal rules that govern shareholder voting, evidence shows that boards are inclined to implement shareholder proposals even in jurisdictions where the implementation of such proposals is legally non-binding.⁵⁸ The noise generated by low shareholder support and potential negative publicity tend to compel boards to address concerns and restore investor confidence. In addition, the influence of strategic shareholders, such as large asset managers, manifests itself even before issues go to the vote.⁵⁹ Furthermore, scholars showed that dissent votes carry substantial negative consequences for directors, being a potent currency in the market for director reputation.⁶⁰ Voting against the re-election of directors is a key signal that can determine companies to enact change, “in part because directors tend to be high-status individuals who are likely accustomed to automatic approval and may therefore feel affronted with even relatively modest numbers of votes in opposition”.⁶¹

As scrutiny of institutional investors’ voting power has increased, the voting policies that guide institutional investors have evolved as well. Scholars have identified the governance expectations articulated by investors through their public documents as “an emerging low-cost activism tool for universal investors”, showing that these governance preferences shape investment policies and company responses.⁶² Using a sample of 25 large US investors and 21 large European investors, one study found environmental and social provisions in the voting policies of 35 of 46 of the institutional investors in the sample.⁶³ On the other hand, other studies have found rather lax expectations and little specific guidance in institutional investors’ voting policies. One study, for instance, found that, based on an assessment of 25 large asset managers headquartered in Europe and five US-based asset managers, climate-related expectations set out in their voting guidelines are low and unsystematic, with only seven asset managers expecting companies to align with a 1.5°C scenario, and only two expecting companies to end fossil fuel expansion plans.⁶⁴

Studies also show that, in recent years, shareholders are voting in favour of ESG-focused resolutions less often than they used to.⁶⁵ For instance, Morningstar reported that shareholder support for a sample of 227 ESG resolutions at US-listed companies fell below 50 per cent for the first time in over three years in 2023.⁶⁶ Similarly, ShareAction reported that in 2023 only eight, or 3 per cent, out of a sample of 257 environmental and social resolutions passed, with many American asset managers changing their voting practices away from ESG support.⁶⁷ At the same time, the fact resolutions are not being passed does not mean they do not have any impact. A recent empirical study of the effect of shareholder resolutions on the non-financial performance of S&P 500 companies showed that targeted companies often improve their governance score in the aftermath of failed shareholder proposals. As the authors put it: "While firms may dismiss the specific issues brought up in most of the proposals they receive, they will engage indirectly with the concerns to seek to establish social approval and legitimacy".⁶⁸

Studies also underscore the growing divide between US and European managers voting on ESG, as well as a widening gap in the voting behaviour of US-based asset managers, which has become more salient in the context of the ongoing anti-ESG backlash.⁶⁹

Many reports on ESG voting focus on the voting records of samples of large institutional investors, indicating the growing pressure on asset managers to align their voting behaviour on environmental and social themes with their public rhetoric. To fend off enhanced scrutiny and criticism regarding their voting records, some leading asset managers, such as BlackRock, Vanguard and State Street, have launched initiatives to disintermediate the voting process by allowing eligible clients to vote directly on the assets they have entrusted to these firms. Although the uptake of this mechanism of shareholder democracy remains to be seen, BlackRock has this year expanded its voting choice option to three million US retail shareholders, in addition to the access previously granted to institutional clients.⁷⁰

A long-standing area of debate on shareholder voting is the extent to which institutional investors inform their votes with their own analysis or mechanically follow proxy advisers' recommendations without proper diligence, a phenomenon termed "robo-voting".⁷¹ The market structure of this industry dominated by two agencies (ISS and Glass Lewis), which account, according to a study of the European Securities and Markets Authority, for 97 per cent of the market, as well as the conflicts of interest in the industry, have raised for a long time questions about the perceived outsize influence over corporate governance.⁷² Many studies confirmed the growing reliance on proxy advisers not just for accessing the voting infrastructure services but also decision-making on how to vote on corporate matters.⁷³ Proxy advisers provide governance benchmarks on which investors can model their own voting policies, and previous studies have shown that around 20 per cent of the votes cast by ISS and Glass Lewis, particularly those cast on behalf of investors with fewer resources, mechanically follow the benchmark policies. On the other hand, most large-scale asset managers devise their own voting policies. Reports issued by ISS and Glass Lewis indicate that at least 80 per cent of the votes they cast are based on the investors' custom policies.⁷⁴ One recent study of 46 of the world's largest asset managers reported that 60 per cent of US asset managers and 71 per cent of European asset managers have a low reliance on proxy advisers' recommendations.⁷⁵ However,

this debate is ongoing, fuelled by methodological challenges that impede the measurement of proxy advisers' actual influence.

Overall, despite the burgeoning research on shareholder voting, many studies remain disconnected from a holistic understanding of the feedback loops between voting and other stewardship activities. In particular, since many institutional investors' stewardship activities with investee companies and their boards take place behind the scenes, little is yet known about the dynamics of these private interactions and their contribution to realising investment goals.

Evidence on asset managers' direct engagement is mostly based on surveys, single case study methodologies, or anecdotal insights. In recent years, shareholder–board engagement has received some attention in academic, industry and media circles.⁷⁶ A recent survey of 171 US-traded companies showed that board–shareholder engagement is on the rise particularly among larger companies, with the largest asset managers spearheading this trend.⁷⁷ Almost half of respondents stated that engagement led to some change in corporate policy.⁷⁸ The *PwC 2023 Annual Corporate Directors Survey* reported that 54 per cent of directors stated they had engaged with shareholders in the past year and 87 per cent found the interactions to be productive.⁷⁹ Scholars have also highlighted that direct engagements, in particular climate-themed engagements, are effective in curbing instances of greenwashing. Drawing on a “cheap talk index” of climate commitments based on 14,618 annual reports issued by MSCI World Index companies between 2010 and 2020, scholars have found that “engagement-driven climate initiatives effectively reduce cheap talk in corporate climate disclosures”.⁸⁰

Assessing the outcomes of stewardship through engagement, some scholars have traced the link between engagements on ESG issues and subsequent corporate performance. A pioneering study that employed one asset manager's proprietary dataset of 2,152 engagement sequences across 613 firms estimated that, on average, ESG engagements produce a cumulative abnormal return of +2.3 per cent in the year following the initial engagement.⁸¹ For successful engagements, the reported returns were higher, reaching +7.1 per cent. The reported success rate for engagements was 18 per cent, with the most successful reported outcomes focused on governance and climate issues, and each positive outcome requiring, on average, three interactions. Older studies also document that direct engagements can change corporate policy and yield positive outcomes.⁸² A more recent study found that the targets of successful engagements outperformed their peers by 2.5 per cent in the 14 months following the engagement.⁸³ On the other hand, critical reports suggest that engagement is often driven by a compliance-focused mindset that reduces the potential of engagement to routine box-ticking.⁸⁴

Overcoming the limitations of single-case methodologies that limit the applicability of their findings beyond the specific contexts of asset managers' portfolios under review, a key area of research that has received well-deserved attention in recent years is the co-ordinated efforts by networks of institutional investors to deliver stewardship outcomes. In a pioneering study, which draws on 1,654 co-ordinated engagements targeting 960 public companies, a group of scholars found that collaborative engagement structures, whereby a coalition of investors designate an engagement

leader, boost the success rate of engagement by 22 per cent to 25 per cent.⁸⁵ The study reported that public companies targeted through such two-tier co-ordinated engagements experienced an average increase of 4.7 per cent in annual abnormal buy-and-hold stock returns and 0.9 per cent in annual return on assets in the first two years following engagement initiation.

Overall, there is little evidence on the current governance expectations of asset managers regarding investee companies and their boards. Furthermore, evidence on the contribution of shareholder voting to sustainability remains inconclusive, despite the public scrutiny of this channel of influence. Little is also known about the breadth and depth of direct engagement activities conducted by asset managers, even though their position in the investment chain gives them a unique position for engaging with investee companies and their boards. Systematic evidence on the specific issues targeted through direct engagements, beyond catch-all categories like ‘ESG’, and the specific engagement outcomes pursued by investors, is also still lacking. We address some of these gaps in the next section, presenting our empirical findings from the analysis of shareholder voting and direct engagement with investee companies.

5. Investor stewardship through voting

Shareholder voting, at its core, is a mechanism for investors to express approval or disapproval of corporate strategies, governance practices, and the conduct of the boards and the companies in which they invest. In the words of the former American judge William T. Allen, “[t]he shareholder franchise is the ideological underpinning upon which the legitimacy of directorial power rests”.⁸⁶ Voting is the most public and formal means through which institutional investors fulfil their stewardship mandate, providing a relatively cost-effective way to influence corporate policy and signal investor preferences.⁸⁷ Asset managers’ voting decisions are usually guided by their voting policies or guidelines. The first part of this section presents our findings derived from the analysis of the voting policies of our geographically diverse sample of 40 of the world’s largest asset managers, taking stock of what asset managers expect from boards and their companies on key board-related and sustainability issues. The second part takes a ten-year perspective on trends in shareholder voting on sustainability/ESG topics, assessing the contribution of voting to accelerating urgent sustainability transitions.

5.1 Mapping asset managers’ expectations

As of 2023, 43 countries had mandated that institutional investors both adopt and disclose their voting policies.⁸⁸ Voting policies serve as a barometer of investor sentiment on key governance issues, providing insights into investors’ preferences that influence how companies are run. They are not binding, and investors can make voting decisions on a case-by-case approach, aligned with local market practices and tailored to company-specific circumstances. However, research indicates that

simply disclosing these voting policies can pressure companies to align their practices with investor expectations.⁸⁹

Originally, these documents focused on general principles concerning basic governance elements, such as board structure, director elections, capital structure, compensation, and shareholder rights. Most board governance-related expectations found in asset managers' voting policies remain grounded in established corporate governance norms—such as CEO/chair separation, board independence, and majority-independent audit and remuneration committees—that have been mainstreamed in some markets since the early 1990s. However, our review reveals an evolution in the scope and complexity of these policies, reflecting a more sophisticated understanding of the drivers of board quality, the legitimate remit of board oversight, and the good practices of corporate governance. This suggests a trend towards more mature, detailed and prescriptive guidelines that address an increasingly broad array of issues outside the conventional boundaries of governance. This section takes stock of asset managers' expectations for boards and their companies as articulated in the voting policies of our sample of 40 of the world's largest assets managers. Although many asset managers outsource voting to proxy advisory firms for efficiency reasons, the asset managers in our sample generally use proprietary voting policies.⁹⁰

5.1.1 Asset manager expectations on board accountability

The voting policies in our sample reflect three distinct corporate governance philosophies regarding asset managers' interpretation of boards' ultimate responsibility, an area which remains highly contentious in the academic, legal and industry circles (see table below). Among the 25 asset managers from the 40 in our sample that explicitly outline their expectations concerning boards' duties, 11 entities, mostly based in the US, assert the board's ultimate responsibility is to shareholders. In contrast, nine adopt a more holistic, stakeholder-oriented perspective on board accountability. The other five asset managers maintain the board's primary obligation is to act in the best interest of the company as a whole, rather than prioritising incumbent shareholders. These varying approaches reflect the historically ingrained legal and institutional features of the corporate governance regimes within which these asset managers operate.

Shareholder primacy: The largest group of asset managers, in particular US-based entities, underscore boards' fiduciary duties solely towards their shareholders. This approach typically focuses on maximising short-term shareholder value (eg earnings, dividends and share price) by acting in the best financial interests of shareholders, reinforcing the fiduciary responsibilities that have historically driven corporate governance in the US. However, the concept of acting in the 'best interests of shareholders' lacks a universally uniform definition, particularly when viewed across different regions, investment strategies, time horizons and risk appetites. One of the core challenges for asset managers lies in balancing short-term performance pressures with the need for longer-term, strategic investments, especially those focused on sustainable transformation. For example, funds investing heavily in capital expenditure to build sustainable business models may underperform in the short term, hurting asset managers' business, whose performance is evaluated

based on quarterly benchmarks. This highlights the importance of pushing asset managers to clearly define what they mean by ‘best interests’.

Stakeholder-oriented: A second cluster of asset managers explicitly adopt a more holistic view on the boards’ ultimate responsibility. These asset managers expect boards to balance the interests of a broader stakeholder group, including shareholders, without explicitly differentiating between shareholders and stakeholders in the exercise of business judgement. In this paradigm, long-term shareholder welfare is often linked to the integrity of the critical natural and social systems, and boards are expected to demonstrate leadership in meeting the company’s responsibilities to all its stakeholders. This entails not only limiting the adverse impacts of corporate operations on the systems on which they depend, but also seeking to reverse negative impacts by taking a regenerative approach to the capitals on which the long-term business success depends. However, voting policies stop short of providing specific guidance on navigating the inherent trade-offs between these responsibilities.

Company-focused: A third category of asset managers place the board’s ultimate responsibility on the success of the company itself, suggesting a focus on long-term organisational health as the primary lens through which boards should make decisions.

Table 5.1. Examples of provisions on board accountability from asset managers’ voting policies

Shareholder primacy	• “board members owe fiduciary duties to shareholders” (BlackRock) • “company boards [...] are elected to serve on behalf of all shareholders” (Vanguard) • “principally, a board acts on behalf of shareholders by protecting their interests and preserving their rights” (State Street) • “Directors of public companies play a critical role in ensuring that a company and its management team serve the interests of its shareholders” (Fidelity Investments) • “the board of directors should promote the interests of shareholders” (Goldman Sachs) • “In discharging their fiduciary duties, we expect boards to, among other things, be responsive to and act in the best interests of shareholders” (Capital Group) • “effective boards should act in shareholders’ best economic interests” (Wellington) • “Directors have, either by law or in De Facto terms, fiduciary responsibility for acting in the best interests of the company” (AXA) • “We also encourage investee companies to operate their businesses in the best interests of their shareholders over the long term” (Nomura) • “Boards should be sufficiently accountable to shareholders” (Macquarie) • “the board [...] is a fiduciary for all shareholders, and should be accountable to the shareholder body as a whole” (Janus Henderson)
Stakeholder-oriented	• “while the Board is accountable to the company and its shareholders, it must also take due account of other stakeholders and respect their interests” (Amundi) • “contribute to long-term value creation for both the company’s investors and other key stakeholders” (AllianzGI)

	• “deliver long-term sustainable value, meaning value that can be sustained over the long term, in balance with the interests of society and the environment” (BNP Paribas) • “to protect the interests of shareholders and relevant stakeholders in promoting the long-term success of the company” (Franklin Templeton (Martin Currie)) • “The board is accountable to all shareholders and relevant stakeholders” (Nordea) • “The board determines the strategic direction of the company, taking into account the interests of the company and all its stakeholders” (Ninety One) • “we expect board members of companies in which we have invested to act in the service of the shareholders [...] ensuring the long-term sustainability of the company for all stakeholders” (UBS) • “We expect directors of companies in which we invest to provide effective governance and to ensure that their companies act in the interests of all stakeholders” (HSBC) • “ensure that the company adds value for stakeholders” (Sanlam)
Accountability to the company	• “The board of directors is responsible for the management and long-term success of the company” (Legal & General) • “Supports the maximization of corporate value over the medium to long term” (Nippon Life) • “we strive to ensure that management and boards are held accountable for achieving the long-term value creation of the company and for acting responsibly towards a sustainable development of society as well” (Asset Management One) • “The board is responsible for overseeing management and for the long-term stewardship of the company for its long-term success” (Schroders) • “Boards are required to act in the best interests of the company” (Coronation)

5.1.2 Asset manager expectations of board governance

Board composition is often identified as the most critical lever through which asset managers can influence board performance. The key factors that shape board quality identified in asset managers’ voting policies include director independence, diversity, the skills matrix, time commitment, board tenure, the structure of board committees, and the separation of CEO and chair roles. Enhancing these dimensions is expected to strengthen the board’s oversight capabilities.

Table 5.2 below provides a snapshot of the frequency of various board-related provisions found in the voting policies of the 40 large asset managers in our sample. Subsequently, we provide a brief discussion on each of these issues.

Table 5.2. Overview of board-related asset manager expectations

BOARD GOVERNANCE TOPIC	No. of voting policies
Board independence	
Support for majority-independent boards	28
Board diversity	
Call for skills diversity	33
Call for diversity of experience	14
Call for diversity of thought	8
Presence of identity-based diversity quotas/targets	32
33% gender diverse board-level target	14
40% gender diverse board-level target	3
Explicit support for ethnic diversity	11
Explicit support for diversity in terms of nationality	5
Board skills	
Sustainability/ESG skills in the boardroom	5
Board commitment ('over-boarding')	
Up to five directorships	13
Up to four directorships	6
Up to three directorships	6
Board committees	
Support for majority-independent key committees	26
Explicit support for sustainability/ESG committees	5
Board tenure	
12 years' tenure	6
9 years' tenure	3
4 years' tenure	2
Against tenure cap	2
CEO–chair separation	
For	27
Against	4

a. Board independence

Within our sample, 39 asset managers underscore the importance of director independence as a driver of board quality. Among these, 28 asset managers explicitly support a majority-independent board as a hallmark of good governance. However, at least nine of these managers accept a lower threshold of one-third independent directors for controlled companies or other local market practices, recognising the different governance dynamics in such entities. However, most asset managers in the sample adopt a formalistic, checklist-type approach to assessing director

independence, such as whether the director has had prior relationships with the company that could compromise the independence criteria, without providing guidance on other dimensions of independence, such as independence of mind. This point becomes even more pressing when considering historical instances where formally independent boards failed to provide adequate oversight, resulting in significant destruction of shareholder value. For example, during the Global Financial Crisis, “at the banks that collapsed, 80% of the board members were independent, as were all members of their audit, compensation, and nominating committees”.⁹¹ Yet, their independence did not translate into vigilant governance or sufficient checks on risky practices.

b. Board diversity

Identity-based diversity criteria are central to how asset managers’ voting guidelines approach boardroom diversity. This focus underscores an evolving perception of the board not merely as a strategic decision-making and oversight body, but also as a representational entity. Some voting policies explicitly frame board membership as a reflection of the diversity found among a company’s workforce, customers, suppliers, investors, and the communities in which a business operates.

Within our sample, 23 asset managers expect boards to adhere to demographic identity-based diversity quotas or targets, in particular gender diversity. These requirements vary significantly depending on the jurisdiction, the size of the company, and their presence in stock market indices. Generally, the asset managers in our sample demand that, globally, at least one woman be included on the board. While higher standards set out in voting policies often mirror local laws, listing rules, or corporate governance codes, in some cases asset managers advocate more ambitious quotas that go beyond the baseline. The voting policies of 14 asset managers have set out elevated standards tailored to different circumstances. Specifically, ten voting policies recommend that one-third of board members should represent the underrepresented gender. Meanwhile, three voting policies call for a 40 per cent quota in companies operating within specific jurisdictions, particularly in the US and Europe. Aside from gender diversity, 11 voting policies underscore ethnicity as a diversity criterion and five policies spotlight diversity in terms of nationality. In many cases, the policies warn that failure to comply with targets and/or quotas can trigger a vote against the board chair or against the chair of the board’s nomination committee.

Beyond identity-based diversity criteria, some voting policies have a more complex understanding of board diversity, explicitly acknowledging that the strength of a board lies not only in its demographic makeup but also in the diversity of skills, experience, and ways of thinking that its members can bring to the table. Within our sample, 33 asset managers stress the need for an adequate balance of skills in the boardroom. In addition, 14 asset managers stress the importance of diversity of experience and eight asset managers emphasise diversity of thought as essential conditions for guarding against the pathologies of groupthink and improving the quality of deliberations and decision-making within the boardroom.

c. Board skills

The board's skill matrix is a key input in boardroom decision-making. To make credible commitments to sustainability, boards must possess the expertise to understand the costs, risks and opportunities tied to transitioning the company towards a genuinely sustainable business model. This requires board members with the skills and acumen to financially model a transition that ensures the company's long-term sustainable survival.

However, this topic is most frequently addressed in asset managers' voting policies solely through a skills diversity lens. Voting policies generally do not provide further insight into the specific skills composition of a board, which is left to the discretion of nomination committees. Only five asset managers explicitly view favourably or articulate an expectation for boards to add skills that would ensure sustainability-related oversight and disclose how their skill matrix contributes to the effective oversight of sustainability matters. For instance, the voting policy of AXA proclaims: "We will pay particular attention to the board members' experience and proven track-record in managing environmental and social issues. In the context of the energy transition, climate change, as well as natural capital degradation and biodiversity loss, competences of the board members on these issues will be sought as we consider them to be key and essential".⁹² Similarly, the voting policy Legal & General highlights: "Non-executive directors should continually update their skills and knowledge and agree on their specific training and developmental needs, which should include all aspects of social, environmental, and reputational risks faced by the business".⁹³

Generally, some of the good practices regarding asset managers' skills-related expectations, as highlighted in their voting policies, include:

- disclosing the mechanisms for identifying competencies and candidates, such as through competency profiles and skill matrices
- explaining the criteria used to recommend the skills structure of the board
- highlighting skill gaps and creating mechanisms for balancing the experience between long-serving and newly appointed directors
- conducting board evaluations that include assessments of individual director contributions and disclose the outcome of these evaluations
- disclosing whether the board has retrenchment devices, such as classified tenures, and mechanisms for ensuring board refreshment.

d. Board commitment

Board commitment is emphasised in at least 32 voting policies. However, commitment is typically gauged in a purely formalistic sense by factors such as attendance and cross-directorships. Of the 32 voting guidelines that have provisions concerning board attendance, 21 specify a minimum attendance requirement of 75 per cent, and one asset manager generally expects a 100 per cent attendance rate. Other asset managers offer generic guidance without setting out specific attendance expectations.

Conversely, at least 22 asset managers in our sample have included provisions concerning directors' time capacity to adequately fulfil their responsibilities. This capacity is evaluated through a checkbox approach based on the number of cross-directorships held by each board member. However, some asset managers' voting policies argue that imposing limits on the number of board seats a director can hold can facilitate board refreshment and enhance board representation.

Asset managers' preferences regarding the limitations on directorships for non-executive board members display a range of positions. Our review found that 13 asset managers in our sample favour a maximum of five directorships, six others prefer a limit of four board seats, while another group of six sets the cap at three concurrent directorships. Special roles, such as executive directorships, board chair positions and audit committee chairs, are typically considered equivalent to one or two additional directorships. A well-governed board is expected to establish, enforce and disclose their director commitment policies.

e. Board committees

Most asset managers in our sample have generic and formulaic provisions on board committees. A common preference among these asset managers is for substantial independence within key board committees, notably in remuneration, nomination/governance and audit areas, with 26 voting policies advocating these committees to be majority independent or entirely independent. Another 11 voting policies support independent directors on key committees without specifying acceptable thresholds.

Explicit support for the formation of sustainability/ESG committees is rare. Only four asset managers in our sample explicitly endorse the establishment of such committees. Other asset managers take a more flexible approach. The voting policy of AllianzGI states: "we would not necessarily expect companies to establish a separate sustainability committee, we would like to understand how the board has anchored responsibility for sustainability matters on the board".⁹⁴ However, the majority of asset managers do not specify expectations regarding the creation of sustainability/ESG committees.

f. Board tenure

Asset managers hold a wide spectrum of views on board tenure, ranging from the imposition of strict term limits to the complete elimination of such constraints. Across our sample, six voting policies consider directorships extending beyond 12 years to be excessive, three asset managers have a board tenure threshold of nine years, and two asset managers advocate a four-year mandate as the optimal tenure.

Other asset managers assess directors' tenure on a case-by-case basis or issue a general warning against directors with perceived 'excessive' tenures without specifying a precise duration. Conversely, two asset managers in the sample oppose term limits as a formulaic and counterproductive approach to board composition; for instance, the voting policy of J.P. Morgan Asset Management contends that "term limits impose artificial and arbitrary constraints on the

board, potentially disadvantaging shareholders by removing experienced and knowledgeable directors.”⁹⁵

g. Chair/CEO separation

The separation of the CEO/chair roles has been considered for a long time a good governance practice to prevent board capture and strengthen board accountability. Across our sample, at least 27 asset managers are generally against the combination of chair/CEO roles, although most of them accept the combination of roles provided that the board appoints a senior/lead independent director to counterbalance the concentration of power in the boardroom. On the other hand, four asset managers are generally against the separation of roles, particularly in the US market, while three others assess this issue on a case-by-case basis according to prevailing market practice.

5.1.3 Asset managers’ ESG/sustainability expectations

Asset managers’ voting policies address a broad array of issues that extend well beyond the traditional boundaries of corporate governance. In recent years, voting guidelines on ESG/sustainability issues have evolved to become more detailed, comprehensive and directive. They now increasingly specify sustainability/ESG-related criteria and metrics that companies are expected to meet and monitor.

Table 5.3 below provides an overview of the most frequently addressed ESG/sustainability-related topics in asset managers’ voting policies, indicating the number of voting policies which contain provisions on these topics.

Table 5.3. Frequent ESG/sustainability-related topics in asset managers’ voting policies

ESG/Sustainability-related topics	No. of voting policies
Sustainability/ESG oversight	38
Climate	35
Human rights	26
Workforce diversity	21
Labour rights and workplace conditions	19
Environment (biodiversity, natural resources)	18
ESG/sustainability-linked remuneration	14
Supply chain risks	11
Health risks	6
Energy policy	6
Animal welfare	5
Product safety and toxic/hazardous materials	5
Tax transparency	4
Circular economy and recycling	3
Income inequality	1

h. Board oversight of sustainability issues

Across our sample, at least 38 out of 40 asset managers' voting policies acknowledge the importance of managing sustainability-related risks and opportunities, favouring some form of sustainability oversight mechanism. The generic sustainability-related expectations articulated in voting policies can be classified into four categories:

- **Understanding of sustainability risks and drivers of value creation.** As a minimum, the first set of voting policies with provisions for sustainability oversight encourage boards to proactively educate themselves on the implications of sustainability transitions for their companies. This entails a comprehensive evaluation of how different sustainability trajectories could impact their organisations. For example, the voting policy of one asset manager underscores that well-managed companies “should consider the impact of company operations on the environment and the cost of compliance with laws and regulations relating to environmental matters, physical damage to the environment (including the costs of clean-ups and repairs), consumer preferences and capital investments related to climate change”.⁹⁶
- **Disclosure and reporting.** Most voting policies with sustainability-related provisions focus on transparency as a prerequisite for thorough analysis of investment risks and opportunities. At least 20 of these voting policies encourage enhanced disclosure of sustainability information to provide more visibility into the company operations.
- **Governance and accountability.** Third, setting up governance structures and processes to identify and mitigate sustainability-related risks is another common theme across our sample. While many voting policies on this topic remain underspecified, some asset managers explicitly mandate companies to set up board-level oversight mechanisms.
- **Integrating sustainability in business models and operations.** A minority of voting policies go beyond conventional expectations by advocating the integration of sustainability into every facet of a company's business functions. For instance, one asset manager's voting policy states, “we look for the companies in which we invest to demonstrate that sustainability is effectively integrated into their long-term strategy”.⁹⁷

i. Asset managers' climate-related expectations

Our analysis has discerned that 34 of the 40 asset managers in our sample generally endorse voting policies that support the oversight of climate-related risks. Among these, 21 asset managers, predominantly based in Europe, encourage companies to adhere to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Moreover, the majority of these voting guidelines aim to codify and standardise prevailing market practices, rather than imposing bespoke and pathbreaking viewpoints on their investee companies.

Since asset managers refrain from telling the companies what to do, the primary climate-related expectation of asset managers is that companies provide comprehensive and high-quality sustainability information that could feed into valuations, investment decision-making and engagement activities. Additionally, asset managers generally seek to understand the strategies and governance practices companies employ to future-proof their long-term business models. This

involves reporting on how they identify, measure and manage climate-related financial, physical and regulatory risks under various climate scenarios.

Table 5.4. Climate-related good practices

Climate-related good practices listed by various asset managers
• Understand the impact of climate change across company operations and along the company value chain. • Quantify the financial impacts of climate-related risks and opportunities, enabling investors to make informed decisions and the company to internalise associated costs and benefits. • Disclose Scope 1 and 2 greenhouse gas (GHG) emissions, with Scope 3 disclosures where applicable, aligning climate-related disclosures with the recommendations of the TCFD. • Set science-based GHG reduction targets validated by third parties, such as the Science Based Targets initiative (SBTi), with a credible decarbonisation plan, including interim and long-term targets. • Formulate a climate strategy, integrating the company's entire value chain in the climate strategy, and provide annual climate disclosures. • Establish formal board oversight of climate-related risks and opportunities, with a designated committee or directors responsible for climate governance; upgrade the board skills matrix to ensure that the board has both sufficient expertise and a balance of fresh and long-standing experience on climate issues to provide effective oversight and strategic guidance. • Link executive compensation to climate goals, incorporating climate-related key performance indicators (KPIs) into incentive structures. • Align capital expenditure with climate targets. • Disclose climate lobbying activities and ensure that the company's advocacy policy is aligned with the climate strategy and the goals of the Paris Agreement. • Hold regular advisory votes on the company's climate strategy, allowing shareholders to provide feedback and assess progress. • Integrate climate considerations into financial statements, demonstrating how climate-related matters are factored into financial reporting.

j. Biodiversity and nature-related expectations

As some companies' strategies are heavily reliant on the availability of natural capital and their supply chains are exposed to locations with nature-related risks, companies are increasingly expected to assess and report on key impacts and dependencies on nature. Our review has identified 18 asset managers which articulate biodiversity or nature-related expectations in their voting policies.

These asset managers expect companies to include biodiversity-related risks in regular risk assessments and advocate formal risk oversight and management strategies, with relevant metrics and timelines, and regular reporting on implementation progress. However, only four asset managers explicitly endorsed disclosures aligned with the Taskforce on Nature-related Financial Disclosures (TNFD) framework. Moreover, most existing policies stop short of formulating expectations to reverse negative biodiversity impacts and ensure net biodiversity gains. Only one asset manager identifies biodiversity loss as a global systemic risk, expecting companies to mitigate and reverse negative impacts.

Only three voting policies consider board oversight of biodiversity-related risks as part of their assessment of board performance. In these cases, failure to provide adequate disclosure of biodiversity-related strategy and risk management, as well as effective mitigation strategies within relevant timelines, can lead to dissenting votes against board directors.

Table 5.5. Biodiversity and nature-related good practices

Biodiversity and nature-related good practices listed by various asset managers
• Establish board oversight for biodiversity and natural capital issues, integrating these considerations into overall governance and strategic planning. • Ensure that board members possess the necessary expertise in biodiversity, natural capital and ecosystem protection to address these issues as part of the company strategy. • Assess and report on their key impacts and dependencies on biodiversity, focusing on high-impact areas like deforestation and water management. • Implement and disclose effective biodiversity mitigation strategies within clear timelines, particularly in sectors with a significant impact on natural capital. • Establish clear, measurable biodiversity targets and report regularly on progress using frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD). • Identify and capitalise on nature-related opportunities, including restoration and regenerative practices.

k. Human rights

Human rights-related provisions, which are represented in 25 of the voting policies under review, generally cover several dimensions of corporate human rights oversight. These policies mandate the disclosure of material risks associated with human rights issues, alongside the policies, standards and governance frameworks established to monitor and mitigate such risks. Additionally, a significant number of asset managers advocate compliance with international human rights standards for businesses, including the UN Global Compact and the *OECD Guidelines for Multinational Enterprises*.

Furthermore, approximately 25 per cent of voting policies encourage companies to monitor and prevent human rights-related risks within their supply chains.

Table 5.6. Human rights-related good practices

Human rights-related good practices listed by various asset managers
• Disclose human rights policies and standards, including (a) human rights-related risks the company considers most material, (b) plans to manage and mitigate these risks, (c) how the board ensures effective oversight of these risks, and (d) the assessment of the effectiveness of human rights risk management programmes. • Ensure company compliance with international standards as outlined by such documents as the <i>UN Guiding Principles on Business and Human Rights</i> and the <i>OECD Guidelines for Multinational Enterprises</i>. • Conduct assessment of the human rights risks in its operations or in its supply chain and report on its human rights risk assessment process. • Set up periodic independent monitoring programmes in conjunction with recognised human rights groups to monitor compliance. • Adopt vendor standards and codes of conduct for foreign and domestic suppliers to ensure that the company will not do business with suppliers that manufacture products using forced labour, child labour, or that fail to comply with applicable laws protecting employees' rights. • Conduct supplier reviews on a regular basis and disclose outcomes.

I. Workforce diversity

Workforce diversity-related expectations and recommendations are articulated in 20 of the voting policies under our review. Most expectations pertain to the disclosure of workforce diversity data, with 13 voting policies setting out some form of disclosure-related expectations around workforce diversity. The other asset managers encourage companies to commit to improve workforce representation data, with a minority of them expecting companies to formulate specific diversity policies and targets.

Table 5.7. Workforce diversity good practices

Workforce diversity good practices listed by various asset managers
• Disclosure data relating to workforce diversity consistent with applicable standards. • Formulate diversity policies and targets. • Explain how the board exercises oversight over workforce diversity strategies.

m. Labour rights

Almost 50 per cent of the voting policies in our review contain provisions on labour issues. These provisions generally target four issues. Some asset managers limited their explicit expectations to compliance with international labour conventions and standards. This expectation is typically correlated with encouragement for disclosure of workforce-related information, such as workforce turnover and how that compares with the sector average, skills and development training, compensation and benefits, including median gender pay and workforce demographics, which help asset managers understand the company's approach and efforts to improve their workforce management practices. Having processes in place to seek employee feedback, appointing some directors responsible for employee oversight, linking executive remuneration with employee satisfaction metrics and disclosing how employee issues are addressed in the boardroom are considered good practices. For instance, the voting policy of an American asset manager states: "We expect engaged boards to provide oversight of human capital management ("HCM"), that is, a company's management of its workforce, including human resources policies (including code of conduct), use of full-time versus part-time employees, workforce cost, employee engagement and turnover, talent development, retention and training, compliance record, and health and safety".⁹⁸

Table 5.8. Labour rights-related good practices

Labour rights-related good practices listed by various asset managers
• Regularly disclose key workforce metrics to provide stakeholders with insights into the company's management of workforce issues and build trust with both the employee and investor base. • Establish rigorous processes and controls to ensure compliance with international labour conventions and standards, with regular audits to uphold these commitments. • Appoint directors responsible for employee oversight, ensuring that the workforce's views are represented at the highest levels of decision-making. • Tie executive compensation to employee satisfaction metrics, aligning leadership incentives with the well-being and engagement of the workforce. • Create a structured feedback pipeline that channels employee concerns directly to the boardroom, with transparent reporting on how these issues are addressed, allowing investors to regularly assess employee relations.

n. ESG/sustainability-linked remuneration

Our analysis has identified 14 asset managers whose voting policies either actively advocate or generally favour the incorporation of sustainability and/or ESG metrics into the remuneration policies of their executives. Predominantly, these firms are located in Europe, with a single firm headquartered in each of the United States and South Africa. Generally, these performance metrics

should be clearly defined, material to the company’s risks and opportunities, aligned with strategic objectives, stretching (not paid out for business-as-usual), measurable and clearly explained to shareholders.

For instance, the voting policy of Amundi states: “Executive compensation plans should be aligned with the long-term performance of the company, and should discourage irresponsible risk-taking, strengthen employee loyalty, take into consideration their impact on inequality and aim to foster inclusive growth. [...] We require companies in all sectors to link executive variable compensation plans to relevant environmental and social performance criteria”.⁹⁹ The voting policy of a AllianzGI also announces that it “expects companies to integrate social, environmental (including climate) and governance KPIs into their remuneration policies based on their respective materiality analysis”.¹⁰⁰ The voting policy of Amundi states mentions: “The weight of these performance criteria should also be significant enough, preferably more than 20% as a best practice”.¹⁰¹

Table 5.9. Remuneration-related good practices

Remuneration-related good practices listed by various asset managers
• Ground remuneration policies in a thorough materiality analysis of the drivers of risks and opportunities tailored to each company. • Ensure that performance criteria are objective, quantifiable, challenging and clearly explained to shareholders. Keep the incentive plan focused by limiting the number of performance criteria to avoid diluting the importance of each measure. • Set performance periods that are not too short, typically no less than three years, and ensure a synergistic balance between sustainability/ESG-related metrics and other performance conditions. • Assign a meaningful weighting to sustainability-related KPIs to effectively drive desired behaviours and outcomes (typically no less than 10 per cent of the variable remuneration).

5.1.4 Other ESG/sustainability provisions in asset voting policies

The other sustainability/ESG-related topics which are addressed in the voting policies in our sample include supply chain risks, health risks, animal welfare, product safety, energy policy, circular economy, tax transparency and income inequality. However, these provisions can be found in the voting policies of less than 25 per cent of the asset managers in our sample. Moreover, guidelines on these topics are often formulated at a more generic or formulaic level.

5.1.5 How asset managers decide how to vote

Voting policies provide the key principles that asset managers consider in forming their voting intentions. In practice, however, many sustainability-related voting decisions are assessed on a case-by-case basis. Drawing on our sample of voting policies, the factors in Table 5.10 below provide an aggregate view of the composite criteria variously used by asset managers to inform their voting decisions on shareholder resolutions. Asset managers often justify their low support for environmental and social resolutions invoking deviations from one or more of these criteria. For instance, shareholder proposals are often cast by asset managers as being overly prescriptive, which suggests that they risk usurping management's role in making operational decisions and the board's duty to oversee such decisions. The questions below help to align shareholder proposals with asset managers' criteria.

Table 5.10. Criteria to inform voting decisions

Criteria variously used by asset managers to inform voting decisions
• Are the proponents of the resolution identifiable? • Does the resolution address an issue that is material for this company? • Based on the content and intent of the proposal, would the adoption of such a proposal provide material information to allow investors to better gauge investment risk and opportunities? • Would the proposal add value to the company and its shareholders? • Has the company already responded in some appropriate manner to the content of the request made in the proposal? • Has the board actively engaged and responded effectively to direct shareholder input on the issues highlighted in the proposal? • Are shareholders the best placed stakeholders to address the issue of the resolution? • Is the company's analysis and voting recommendation to shareholders persuasive? • Are there significant controversies, fines, penalties or litigation associated with the company's practices targeted by the resolution? • Is the proposal overly prescriptive or burdensome, thereby unreasonably restricting the management from conducting its business?

5.1.6 Conclusion

As shown in the previous section, asset managers are now more frequently incorporating sustainability criteria into their assessments of board oversight, reflecting a general expectation for boards to take a holistic view of the drivers of risk and opportunity that affect long-term corporate performance. While the incorporation of sustainability considerations in asset managers' voting guidelines signals progress, much work remains to be done to harness asset managers' shareholder

power to enforce the guidelines and best practices articulated in their voting policies. In the next section, we present an overview of some of the key trends in shareholder voting on environmental and social resolutions over the last ten years, exploring the significance of shareholder voting as a corporate accountability tool.

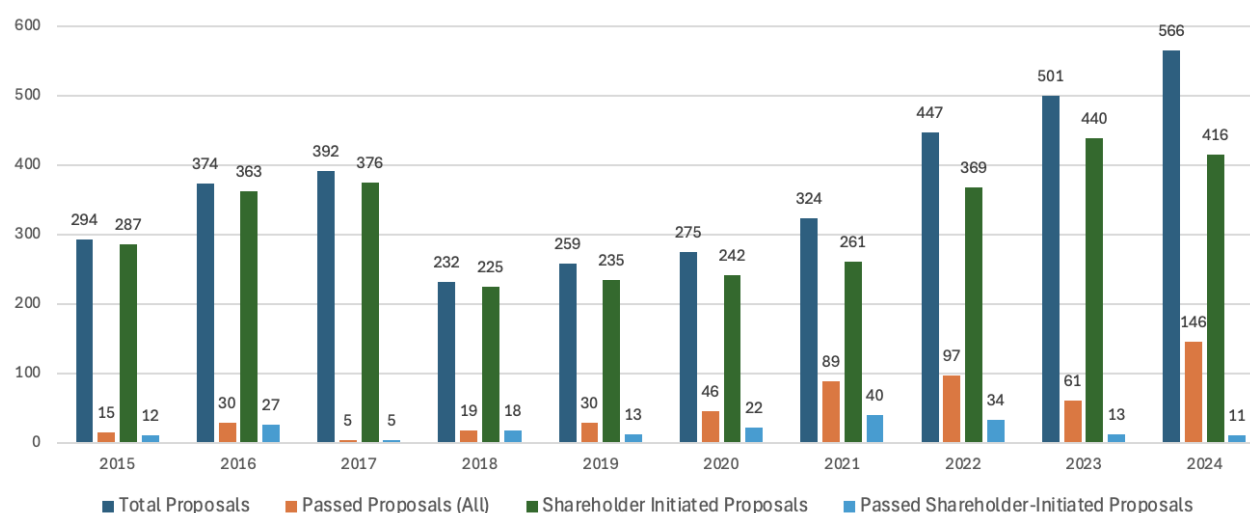
5.2 Trends in shareholder voting: a ten-year retrospective

Our overview of shareholder voting practices on environmental and social issues over the last decade indicates that, despite an increase in environmental and social resolutions, this established tool of investor stewardship remains largely untapped as a lever for aligning corporate success with sustainability outcomes. Drawing upon the Diligent Market Intelligence (DMI) database, we conducted a comparative analysis of environmental and social proposals presented at annual general meetings (AGMs) of approximately 35,000 public companies across Europe, the United States, Asia and Australia between January 2015 and June 2024. We primarily relied on DMI's categorisation of resolutions but made an adjustment by excluding routine resolutions related to charitable donations and political contributions. This refinement allowed us to focus on the 3,684 environmental and social proposals captured within the database. Recognising the significant variation in regulations governing shareholder proposals across jurisdictions – differences that fundamentally affect shareholder democracy – we made a clear distinction between proposals initiated by shareholders and those put forward by management.

5.2.1 Environmental and social resolutions: a ten-year perspective

Between January 2015 and June 2024, a total of 3,684 environmental and social proposals were considered at the AGMs of the companies in our sample, with 3,214 of these being shareholder-initiated. Despite the increase in the total number of E&S proposals in the last five years (see Figure 5.2 below), the level of support for the integration of these considerations into the governance of public companies through shareholder voting remained very low. Overall, only 538 E&S proposals (14.6 per cent) were approved in the last ten years with only 195 (6 per cent) of shareholder-initiated proposals being approved. The total number of E&S resolutions, whether initiated by management or shareholders, recorded an annual average of 223 resolutions in the US, 71 resolutions in Asia, 62 resolutions in the EU, UK, and Switzerland, and 12 resolutions in Australia. The annual average number of shareholder proposals was 222 in the US, 55 in Asia, 34 in the EU, UK, and Switzerland, and 10 in Australia, 39 in Europe, 226 in the US, 54 in Asia, and 10 in Australia (Figure 5.3). These numbers show just how small the proportion of E&S shareholder proposals is relative to the global pool of publicly listed companies. With approximately 58,000 companies worldwide, the minuscule number of E&S proposals suggests that the vast majority of companies are not subject to such direct influence through the public mechanism of shareholder voting.¹⁰²

Figure 5.1. Overview of environmental and social (E&S) resolutions at the AGMs of public companies across the US, Europe (EU, UK, Switzerland), Asia, and Australia (January 2015 – June 2024)



** Details about the DMI dataset are available in the Appendix*

Source: Diligent Market Intelligence

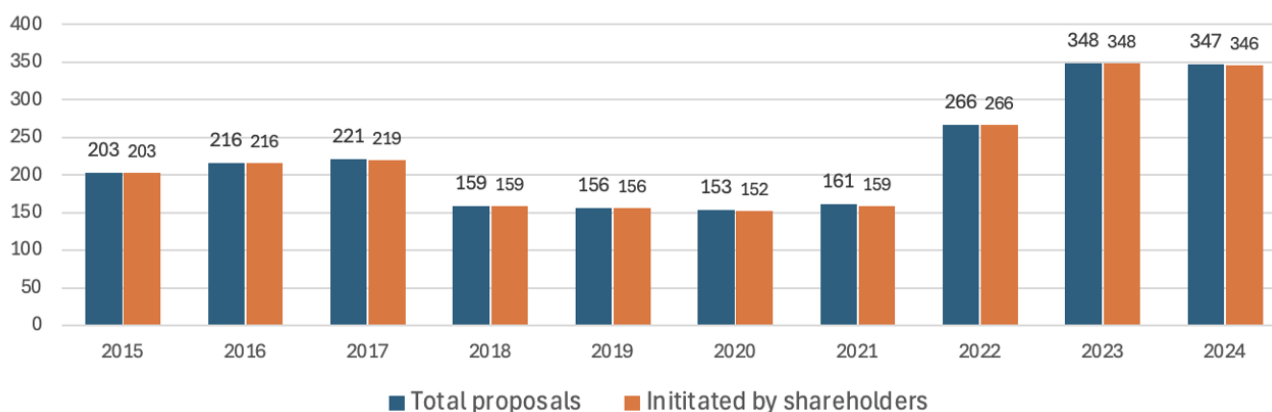
The table below presents an overview of shareholder voting data on E&S resolutions from January 2015 to June 2024 at the AGMs of public companies in the Diligent Market Intelligence database.

Table 5.11. Environmental and social resolutions (January 2015 – June 2024)

Region	Total proposals	Initiated by shareholders	Passed (all)	Passed (all) %	Passed (shareholder initiated)	Passed (shareholder initiated), %
USA	2230	2224	135	6	132	6
EU + UK + Switzerland	626	337	275	43.9	44	13
Asia	710	549	113	15.9	15	2.7
Australia	118	104	15	12.7	4	3.9
Total	3684	3214	538	14.6	195	6

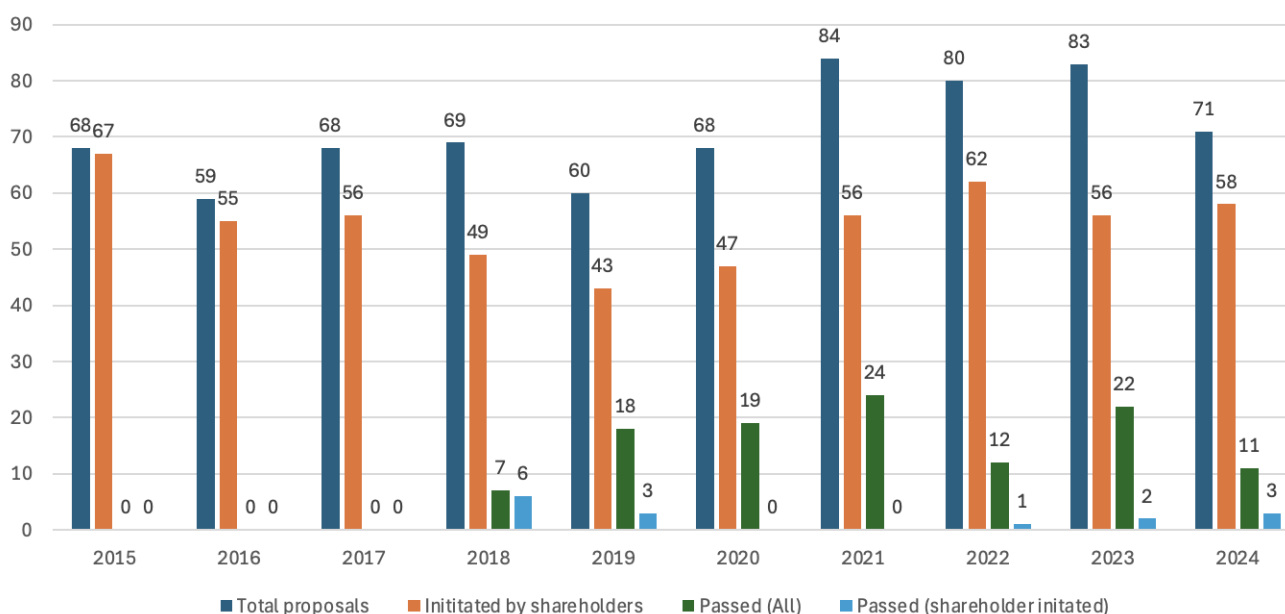
The US ranks first in the aggregate number of E&S proposals balloted at the AGMs of public companies over the past 10 years, with the number of shareholder-initiated proposals significantly increasing in the last 3 years. In sharp contrast to Europe, 99.1 per cent of E&S proposals in the US were initiated by shareholders, underscoring a strong tradition of shareholder activism fuelled by relatively low barriers for submitting proposals at AGMs of US-listed companies. However, despite the large volume of shareholder-sponsored proposals on environmental and social matters, only 132 (6.2 per cent) of these proposals passed, suggesting a contentious environment for the integration of E&S considerations into corporate governance mechanisms.

Figure 5.3. E&S resolutions at AGMs of US-listed companies (January 2015 – June 2014)



In Asia, the data shows a relatively stable level of interest in shareholder voting as a driver of environmental and social outcomes, with approximately 70 proposals balloted annually. Over the past ten years, 710 E&S proposals were presented at the AGMs of Asia-listed companies in our sample. Shareholder-sponsored resolutions accounted for 77 per cent of these proposals. While the overall pass rate was 15.9 per cent, shareholder proposals in Asia had a success rate of only 2.7 per cent, underscoring shareholder resistance to this mechanism for influencing corporate policy.

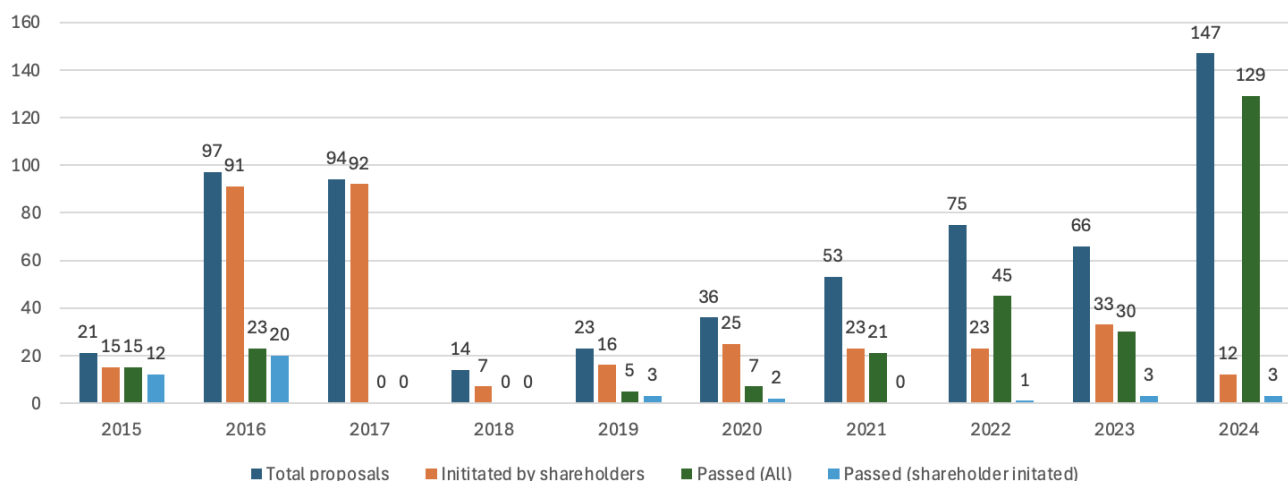
Figure 5.4. E&S resolutions at AGMs of Asia-listed companies (January 2015 – June 2014)



E&S proposals at companies listed in the EU, UK, and Switzerland have gained momentum over the past five years. The total number of E&S proposals has significantly increased, albeit from a very low base, with the surge primarily driven by management-initiated rather than shareholder-initiated proposals. Public companies in the EU, UK, and Switzerland recorded 626 environmental and social (E&S) proposals over the last 10 years, achieving the highest pass rate across regions at 44 per cent. However, the large share of management-sponsored proposals (46 per cent) suggests that, when

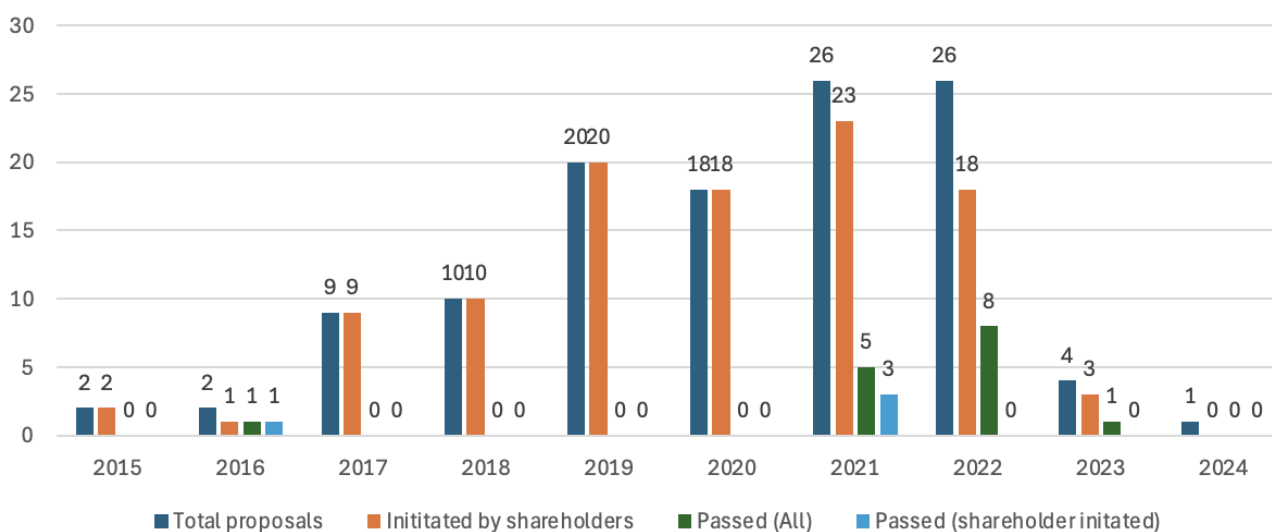
management brings proposals to a vote, they are already well aligned with shareholder expectations, making approval more likely. Despite the high overall pass rate, focusing specifically on shareholder-sponsored proposals reveals that only 44 out of 337 (13 per cent) were successful. This low success rate indicates that shareholder-driven initiatives face significant challenges in Europe, with investors likely preferring behind-the-scenes channels of influence.

*Figure 5.5. E&S resolutions at AGMs of Europe-listed (EU, UK, Switzerland) companies
(January 2015 – June 2014)*



In Australia, 118 E&S proposals were balloted at the AGMs of Australia-listed companies over the past decade. Interest in E&S proposals increased around 2007 from a very low basis and peaked between 2021 and 2022, before dropping significantly in 2023 and 2024. Most proposals (88 per cent) were initiated by shareholders, with only 14 proposals initiated by management over the past 10 years. The pass rate across all the E&S proposals was 15 per cent, while proposals initiated by shareholders had an even lower success rate of 3.9 per cent.

Figure 5.6. E&S resolutions at AGMs of Australia-listed companies (January 2015 – June 2014)



With regard to the voting practices of asset managers specifically, previous studies have found a mixed picture characterised by a sharp geographical divide in the voting practices of US vs European asset managers.¹⁰³ Generally, most studies find either low or inconsistent asset manager support for environmental and social resolutions, although this is subject to notable regional variation. Moreover, recent publications have shown a deviation from sustainability commitments, particularly among the largest asset managers.¹⁰⁴

In response to public criticism, asset managers frequently cite the inadequate quality of shareholder proposals – such as being too vague, setting impractical expectations, not being backed up by robust evidence, appearing over-prescriptive, or duplicating existing corporate actions that companies are taking without sufficient shareholder awareness – as a primary reason for their reluctance to support environmental and social resolutions. Conversely, critics argue that these rationales are merely excuses that mask a reluctance to challenge the status quo and prioritise short-term financial gains over long-term sustainability goals.

Asset managers face a complex set of incentives that can dissuade them from using their voting power to push for sustainability-related resolutions. First, their business model as fiduciaries of asset owners makes them sensitive to the preferences of their clients. Aligning their voting decisions with the diverse and sometimes conflicting interests of their clients—who may, in some instances, oppose specific resolutions—is a key challenge for asset managers. Second, though holding a long-term investment horizon is essential for asset managers' investment portfolios, they are equally judged based on their ability to deliver short-term financial returns for their clients. Thus, their voting behaviour is shaped by the resolution of this permanent trade-off, which might cause them to oppose resolutions that risk harming the short-term performance of their portfolio. Third, asset managers often have close relationships with the companies in which they invest, which can compel them to lean towards deference to incumbent corporate management. They are reluctant to jeopardise these connections by voting against recommendations of companies' management. Fourth, institutional inertia or ideological resistance to current sustainability challenges may also prevent some asset managers from deviating from the status quo.

In conclusion, despite the enhanced public scrutiny over shareholders' voting practices, especially concerning the voting behaviour of asset managers, a longitudinal overview of shareholder voting on E&S resolutions over the last decade shows that the potential of voting as a driver of corporate sustainability remains significantly underexploited. The data across various regions reveals a clear and consistent pattern: (a) the number of E&S resolutions remains relatively low globally; (b) with the notable exception of Europe, only a small fraction of these E&S proposals meet the required threshold for approval; and (c) aside from the US, the volume of shareholder proposals addressing E&S issues remains exceptionally low, with only 195 of these proposals passing over the past decade across the US, Europe, Asia, and Australia. In the following section, we delve into behind-the-scenes shareholder engagement as an alternative method of shareholder influence, a strategy particularly favoured by large asset managers.

6. Investor stewardship through private engagement

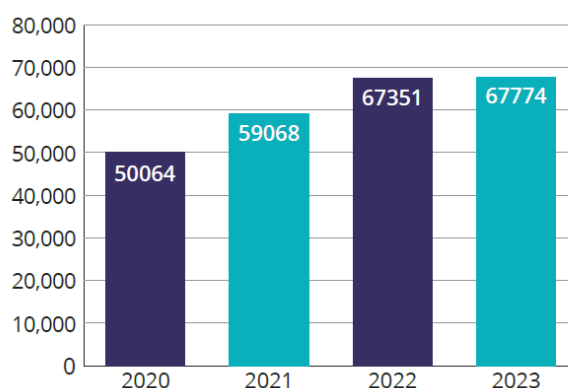
Private engagements are increasingly viewed as a catalyst for promoting investor-led sustainability in capital markets, effectively complementing regulatory measures.¹⁰⁵ In recent years, the proliferation of Stewardship Codes and enhanced scrutiny from market stakeholders has increased the level of asset managers' disclosure on their private engagement activities.¹⁰⁶ These disclosures remain imperfect, as the discretion afforded in defining what counts as an 'engagement' can inflate reported engagement numbers. Nonetheless, while the qualitative aspects of engagement, such as the nature and quality of interactions, cannot be adequately inferred from asset managers' reports, these disclosures help us to quantify the scale of the phenomenon and take stock of some of their key drivers and reported outcomes.

This section explores the dynamics of engagement between our sample of asset managers and their investee companies. Here, we adopt an asset manager perspective, reviewing the tactics, priorities and desired outcomes that they pursue, ultimately enabling boards to better align their practices with the expectations of asset managers. The first part presents the evolution of asset managers' private engagements over the four years. The second part draws on a dataset of 500 engagement case studies reported by the asset managers in our sample in their stewardship reports, mapping out the type of issues that determine asset managers to initiate engagements and map out the diversity of outcomes that tend to be achieved through these private interactions.

6.1 Overview of asset managers' private engagement trends

In the last four years, the number of asset managers' engagements with investee companies has steadily increased. While there is no universal definition of what constitutes an engagement, our analysis of the annual stewardship reports from the 40 large asset managers in our sample indicates that they conducted approximately 244,000 cumulative engagements between 2020 and 2023. Figure 6.1 depicts the number of engagements by the 40 asset managers in our sample. During this period, their reported private engagements increased by 36 per cent globally, stressing the growing focus on this mechanism of shareholder influence. While in 2020 the asset managers in our sample reported collectively approximately 50,000 engagements, annual engagements reached almost 68,000 by 2023.

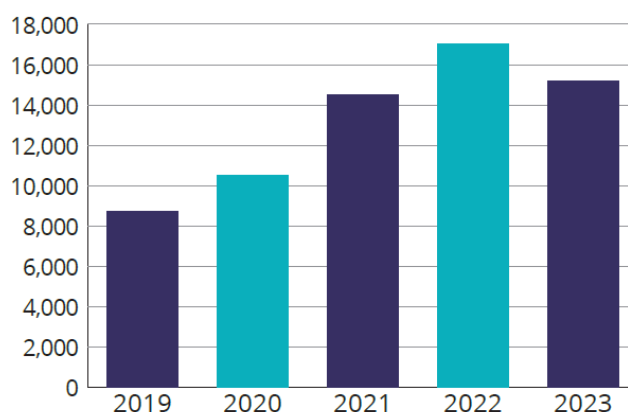
Figure 6.1. Private engagements of the 40 asset managers in our sample



* List of asset managers available in the Appendix

The upward trend has been particularly driven by industry leaders. Zooming in on the private engagements reported by the world's top ten asset managers in the last five years (2019 to 2023), their number has almost doubled, from approximately 8,700 cumulative annual engagements in 2019 to around 15,200 in 2023. The number of engagements peaked in 2022 and slightly decreased in 2023, likely against the backdrop of the ESG backlash in the US, which has prompted some of the largest US-based asset managers to backtrack from previous commitments to industry initiatives aimed at steering investee companies towards sustainable outcomes.¹⁰⁷

Figure 6.2. Private engagements of the world's top ten asset managers

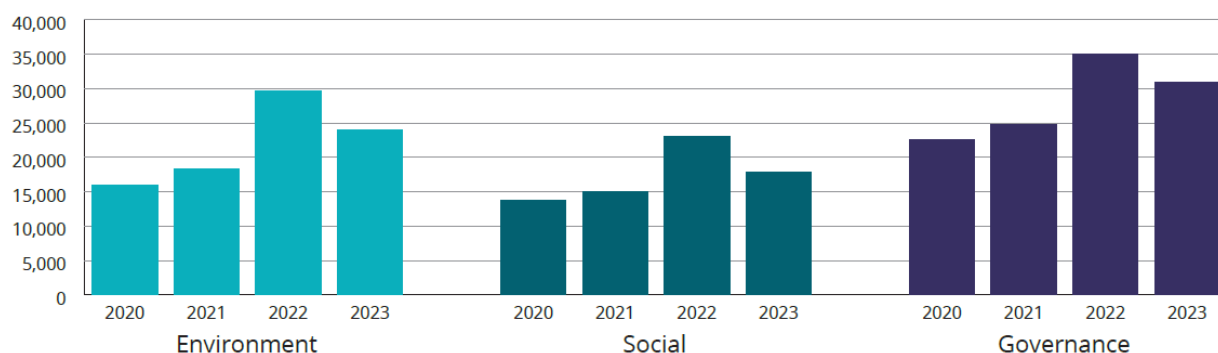


* According to the Thinking Ahead Institute, the world's top asset managers by assets under management (AUM) in 2022 were BlackRock, Vanguard, Fidelity Investments, State Street, J.P. Morgan, Goldman Sachs, AllianzGI, Capital Group, Amundi, and UBS.

Although not all asset managers report disaggregated figures of their ESG engagements, we estimate, based on available data, that the total number of ESG-labelled engagements reported by asset managers increased by approximately 39% between 2020 and 2023. ESG engagements peaked in 2022 before declining by 20.3% in 2023. Despite the growing ideological controversies and industry debate surrounding the assumptions underpinning ESG, most asset managers in our sample continue to report on their engagements by distinguishing between environmental, social and

governance-related engagements. The most significant growth has been observed in environmental and social engagements, which have reached a peak in 2022 before experiencing a decline in 2023.

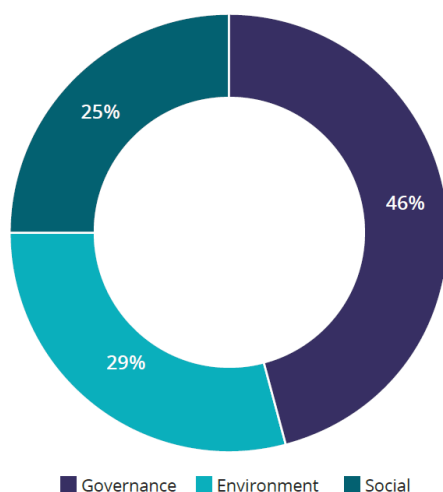
Figure 6.3. Reported ESG engagements (2020–23)



Source: own data based on asset managers' disclosures

As the figure below indicates, purely governance-related engagements account for 42 per cent of all the engagement activity in our sample, while the share of environmental and social engagements was split between 32 per cent and 26 per cent respectively.

Figure 6.4. Private engagements by category, %



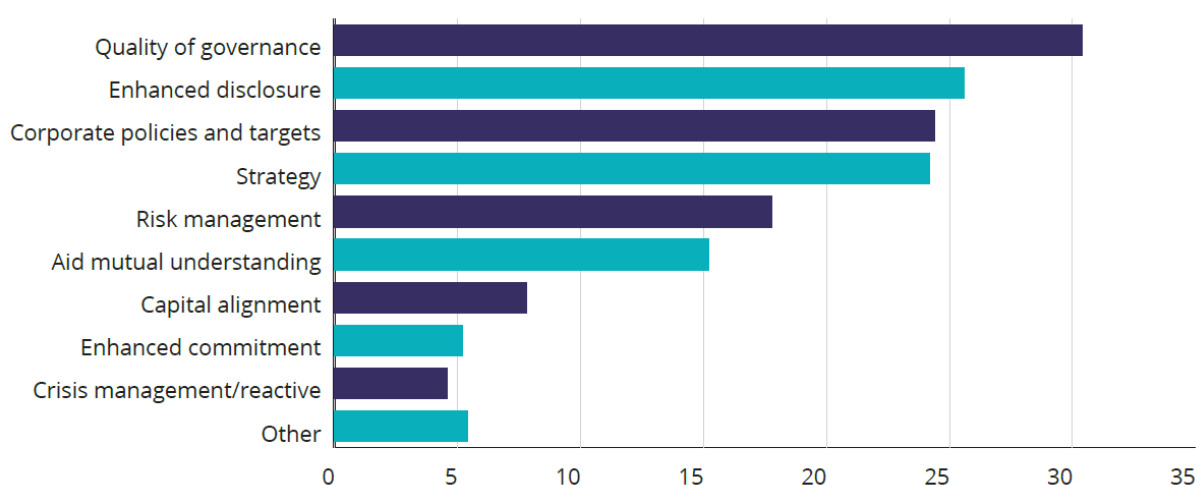
Source: own calculation based on asset managers' disclosures

The mere quantitative rise in the number of reported engagements with investee companies does not allow us to evaluate their substance. Although the quality of these private interactions remains opaque, in the next section we seek to unpack the practice of asset managers' engagements by analysing a small sample of 500 case studies sourced from the annual stewardship reports of the 40 asset managers in our sample.

6.2 Drivers and outcomes of asset managers' engagements

This section identifies a range of common issues reported in the disclosures of the asset managers as key drivers of their direct engagements. While the data is not statistically representative, reported case studies do not follow a standard template, and reporting entities may strategically disclose favourable case studies while omitting others, these case studies are meant to provide an indicative picture of the recurring issues that drive asset managers' interventions. The figure below shows the distribution of engagements in our sample categorised by the nature of the issues raised by asset managers.

*Figure 6.5. Drivers of asset managers' private engagements, %**



**Based on a sample of 500 unique engagements across 40 large asset managers. The aggregated percentages exceed 100 per cent because individual engagements can fall under multiple categories.*

6.2.1 Engagements to enhance governance quality

Within our sample, approximately 30 per cent of engagements were centred on issues related to the quality of board governance. These efforts predominantly aimed at influencing board composition, setting appropriate incentive structures for both the board and the executive leadership, and seeking to improve board oversight and decision-making capabilities.

Most governance-related engagements were conducted in the context of Annual General Meetings, reinforcing the feedback loop between direct engagement and shareholder voting. These discussions serve as an opportunity for shareholders to voice concerns, manage expectations, and influence management decisions before formal voting takes place. Interventions focused on board composition primarily aimed at better delineating the responsibilities between the board and management, enhancing board independence, revamping the board's skill matrix, and maximising board representation through the appointment of underrepresented directors. Engagements concerning remuneration generally focused on scrutinising performance criteria, including sustainability-linked criteria, and questioning the justification of some remuneration practices, such as one-off executive awards (eg retention awards). Some objections raised by asset managers involved the lack of stringency in executive performance criteria, misalignment of incentives with the

company's long-term strategy, the overweighting of the first years in the remuneration, and overly complex design of incentive structures. Finally, engagements focused on monitoring and strengthening board capabilities for effective oversight typically called on boards to explain how their current setup ensures the proper oversight of material issues and addresses oversight gaps through board sub-committees, advisory groups, site visits, or other mechanisms.

Engagement example 1

AXA advocated the incorporation of performance indicators related to access to healthcare into the remuneration package of a biotechnology company's management. The asset manager initiated an engagement "to encourage the company to progress from ad-hoc donations of products to more long-term strategic initiatives designed to expand access to important treatments in poorer areas. We also wanted the company to strengthen governance around access, to introduce incentivised targets for management as well as new KPIs related to access".¹⁰⁸

State Street has made board diversity one of its key priorities. One of its board evaluation criteria is focused on the requirement to "articulate goals and strategy related to diverse representation at the board level (including race, ethnicity, and gender, at minimum), including how the board reflects the diversity of the company's workforce, community, customers, and other key stakeholders."¹⁰⁹ For instance, State Street engaged with a Japanese conglomerate to explore opportunities for strengthening the involvement of independent directors. This engagement encouraged the facilitation of site visits for independent directors to gain deeper insights into the company's operations and the update of the skills matrix to ensure that board members possess the requisite expertise to address the company's strategic needs.

6.2.2 Engagements to enhance company disclosures

Engagements focused on enhancing the scope and quality of disclosures emerged as the second driver of asset managers' activities, accounting for 25.6 per cent of all engagements in the sample. The assumption driving this type of engagement is that corporate transparency on material risks enables asset managers to more accurately assess investment risks and opportunities, gauge companies' preparedness for the low carbon economy, identify companies with high-risk exposure yet insufficient risk oversight structures, and benchmark company performance against their peers.

Disclosure requests vary depending on company size, industry and risk exposure levels, but they typically converge on the demand for standardised, comparable, regular and granular sustainability information on material topics. This information helps investors enhance corporate accountability and spot inconsistencies between commitments and actual practices, such as public pledges made without credible targets, action plans, or earmarked resources, or climate strategies that contradict the company's advocacy and lobbying activities. Since asset managers often recommend specific

reporting frameworks, their focus on enhanced disclosure practices also empowers them to play an arbitrating role in 'picking winners' among ESG and sustainability-related reporting standards.

Engagement example 2

In response to the requests of the French asset manager Amundi, a Japanese electric utility has disclosed its “internal carbon pricing assumptions used under various climate scenarios, measures of physical risk with estimated negative impact in profit and asset exposure impacts”.¹¹⁰ Another investee company engaged by the same asset manager developed and disclosed its first human rights policy in response to direct engagement, while another disclosed how its capital planning was aligned with its decarbonisation strategy.

6.2.3 Engagements to scrutinise corporate policies

The third category of issues prompting asset managers' interventions pertains to the development of specific corporate policies on material risks. These engagements, accounting for approximately 23 per cent of our sample, were often initiated in response to issues identified in the companies' sustainability disclosures. Engagement requests in this area primarily targeted investee companies' general commitments – or lack thereof – to identifying and addressing risks associated with climate change, human rights abuses and biodiversity loss. Climate policy-related engagements generally focused on articulating the company's overall position on climate change, setting clear, measurable, science-based targets for emission reductions, specifying the company's approach to conducting regular assessments of climate-related risks and opportunities, and establishing board-level climate oversight and reporting mechanisms. Engagements on human rights policies generally advocated alignment with international conventions, the development of due diligence processes to identify human rights impacts, and the establishment of mechanisms to address adverse impacts within the supply chain. Engagements on corporate biodiversity policies typically advocated more ambitious commitments, such as a time-bound zero net loss of biodiversity target, discussing emerging approaches to assessing biodiversity risks, and exploring avenues for reducing dependency on inputs affected by biodiversity risk.

Engagement example 3

J.P. Morgan Asset Management initiated an engagement with an American food and beverages corporation in response to allegations of illegal land acquisition, environmental destruction, and violence against local communities by an Indonesian palm oil supplier. The investee company's assessment identified the alleged issues in the supply chain. In response, the company accelerated action to screen its suppliers according to the No Deforestation, No Peat, No Exploitation (NDPE) framework and committed to secure 100 per cent of its palm oil supply covered by the NDPE principles by 2022.¹¹¹

6.2.4 Engagement to ensure sound corporate strategies

Approximately 13 per cent of the case studies in our sample centred on corporate strategies. These interventions were prompted by concerns about the failure to align corporate strategies – or even entire business models – with long-term sustainability goals, as these misalignments were deemed as threats to business resilience. Most of these interventions derived from engagements on corporate policies on material sustainability and/or ESG risks, pushing for the translation of general policies into action-based strategies. Although many asset manager engagements are generally approached through a risk mitigation lens, discussions on corporate strategy often tapped into the opportunities arising from the sustainability transition, such as order demand for new product categories and efficiency gains from embedding circular economy principles into business models.

A substantial volume of these engagements was devoted to climate strategies. These interactions typically focused on assessing company processes for identifying physical and transitional climate risks, scrutinising the assumptions underpinning various climate scenarios, encouraging companies to embed climate oversight into the board mandate, and designing incentive-driven governance structures for executing the climate strategy. The integration of climate goals into product development and business strategy, but also the use of mitigation strategies, such as enhancing energy efficiency and leveraging low carbon technologies, was another area deemed essential to business resilience.

Notably, in only a few cases did engagements address the mismatch between commitments and resources, as well as the inconsistency between policy advocacy and climate policies and targets.

Engagement example 4

In response to an engagement by the American asset manager Franklin Templeton (specifically, the Martin Currie arm), the targeted company “publicly announced that it has further increased in its sustainability efforts by committing to science-based targets to reduce greenhouse gas (GHG) emissions and to achieve net zero emissions by 2050”.¹¹² Similarly, the South African asset manager Ninety One reported that, following one of its engagements in 2022, the investee company “made progress in setting targets to accelerate its renewable energy build-out and methane capture”.¹¹³

In 2022, the Swiss asset manager UBS initiated an engagement with an energy company following a climate strategy assessment that revealed the company was trailing its peers. In response to the asset managers’ requests, the company adopted medium-term targets for 2030 and incorporated in its climate disclosures sections on scenario analysis aligned with a 1.5°C temperature rise.¹¹⁴ Despite these advancements, the targeted company refrained from setting net-zero targets.

In 2021, Amundi started engagement with a hospitality company operating an asset-light, franchise-based business model, to evaluate the percentage of assets exposed

to vulnerable marine ecosystems, conduct impact assessments for the sites under its management, and set waste and recycling targets.¹¹⁵

Similarly, Amundi initiated an engagement with an American automobile company, advocating the phase-out of the production of internal combustion engine cars and vans by 2040 and 2035 respectively, and encouraging it to raise the sales target for electric vehicle (EV) sales to a 1.5°C-aligned level.¹¹⁶

6.2.5 Engagements to assess risk management

Engagements with investee companies to assess and enhance their risk management practices accounted for approximately 12 per cent of the engagements under review. Investment risks arising from exposure to fossil fuels, the accumulation of stranded assets and biodiversity loss were most frequently cited as reasons for asset managers' intervention. However, exposure to other risks also raised asset manager responses. For instance, due to the increased regulatory attention to supply chain due diligence in an increasing number of countries (see our [CISL Future of Boards 2023](#) report for details), investee companies were encouraged to conduct regular risk assessments and develop robust monitoring and traceability mechanisms to ensure responsible sourcing and supplier diversification.

Overall, improving risk awareness and establishing sound risk management practices were seen as crucial for protecting against future financial and reputational losses, as well as avoiding regulatory penalties. For instance, several asset managers expressed concerns that high levels of carbon exposure could jeopardise companies' access to capital markets, increase their cost of capital, and adversely affect their financial health.

Engagement example 5

Sumitomo, a Japanese asset manager, engaged with an investee company whose stock was undervalued due to the risk of accumulating stranded assets from climate change, and the company was not doing enough to assess and address climate-related risks. As a result, the asset manager urged the company to align its business strategy with climate risks. Following this engagement, Sumitomo disclosed that in 2021, the investee company committed to reducing its greenhouse gas emissions by 50 per cent by 2030 and achieving net-zero emissions by 2050. To underpin these commitments, the company developed a large-scale decarbonisation investment plan.¹¹⁷

6.2.6 Engagements to aid mutual understanding and build trust

Another key driver of asset managers' engagements is the need to build their relationship with companies and foster mutual trust. Around 10 per cent of the reported interactions in our sample were framed as opportunities to gain insights into company operations and boardroom dynamics and impart market intelligence. These engagements often reflected asset managers' interest in understanding how evolving risks and opportunities influence the overall strategy of the investee companies. The accumulation of social capital through these interactions is crucial for increasing the chances of success in other engagements.

Conversely, engagements can offer boards the opportunity to gather valuable insights from asset managers on market-wide trends. With their research and oversight capabilities across various industries and markets, asset managers possess an informational advantage that can be leveraged to help boards gain a deeper understanding of the macroenvironment, gauge market sentiment beyond quantitative assessments, and benchmark their performance against peers. Therefore, many reported engagements emphasised mutual exchange to clarify expectations, share best practices, provide feedback on strategies and disclosures, and offer strategic foresight into trends in the business and regulatory landscape.

Engagement example 6

In 2023, BlackRock's stewardship team engaged with a US-based mining company to gain insights into its strategies for addressing significant climate risks and capitalising on the anticipated doubling of copper demand by 2040, spurred by growth forecasts in renewable energy, electric vehicles and battery storage.¹¹⁸ The asset manager also requested enhanced disclosure of climate-related metrics and discussed the governance setup in place to manage material sustainability-related risks and opportunities.

Vanguard engaged with a South Korean appliance manufacturer to discuss the governance processes and policies through which the board governs risks in the company's global supply chain in response to allegations of forced labour.¹¹⁹ Vanguard advocated enhanced reporting on how the board's composition reflects its capability to oversee material risks, and shared its perspective on how the board should evolve to align with current market benchmarks. Although the engagement did not have an immediate, tangible outcome, Vanguard described it as an opportunity to enhance its understanding of the investee company's governance processes and policies.

6.2.7 Engagements to align capital expenditure with climate goals

Matching targets with resources is a key step towards credible board oversight of material risks. Across our sample, however, only approximately 8 per cent of case studies addressed the interplay between resource allocation and climate strategies. During these engagements, asset managers encouraged investee companies to provide details on the compatibility between their future investment plans and the existing climate targets and decarbonisation plans, calling for more consistency between capital allocation and strategic sustainability-related goals. Asset managers' interventions on these topics were often prompted by upcoming shareholder votes on climate resolutions, such as ahead of a vote on the company's proposed energy transition plan. Asset managers' leverage in their interactions with boards often increases ahead of AGMs, because they can tie their voting decision to various demands.

Engagement example 7

Following an engagement by the American asset manager Northern Trust, an American airline company disclosed how it is aligning its capital expenditure with its emissions reduction goals.¹²⁰ After a comparable engagement by the same asset manager, a major oil and gas corporation earmarked an investment into emissions reduction projects.¹²¹

Macquarie Asset Management intervened at an industrial company after determining it “was not advancing their efforts to further direct capital towards solutions to reduce carbon emissions”.¹²² Following the engagement, the asset manager “reached the conclusion that the company was not investing capital to substantially grow the business nor looking to develop new products and services to promote GHG emissions reduction”.¹²³ As a result, Macquarie reported its divestment from the company.

In 2022, Goldman Sachs Asset Management approached a French energy company to encourage “greater clarity around milestones for the climate plan between 2030 and 2050 and the linkage to planned capital expenditure and R&D spending”.¹²⁴

6.2.8 Reactive engagements in response to crises

A small number of engagements (4 per cent) in our sample were initiated in response to crises or controversies affecting portfolio companies. These reactive interventions were often prompted by specific crises or incidents, such as oil or chemical spills, tensions between management and the workforce, and allegations of wrongdoing with severe reputational costs. They also occurred following reports from regulators, the press, whistleblowers, or rating agencies or in the context of upcoming votes on shareholder proposals. During these engagements, asset managers' requests

typically focused on estimating the impact of the specific crisis or incident, scrutinising the existing procedures for escalating issues to the board, and assessing the company's response to the issues at hand.

Engagement example 8

J.P. Morgan Asset Management initiated an engagement with one of the largest oil enterprises in Mexico in response to a poor rating received by the company from an external rating agency due to controversial events around employee and community safety as well as other governance concerns.¹²⁵ Subsequently, the company reportedly began to regularly disclose its emissions level, committed investments to reducing methane emissions, and partnered to improve its emissions measurement. The same asset manager intervened at an American e-commerce company in response to controversies and risks arising from the working conditions in the company's warehouses. Due to limited responsiveness, the asset manager supported a shareholder proposal requesting the company to commission a third-party audit.¹²⁶

6.2.9 Engagement failures

Generally, engagement outcomes are hard to achieve, hard to measure and hard to maintain. Rigorously establishing a causal link between an asset manager intervention and a corporate action is a fundamental challenge. In addition, driving genuine and sustainable change is often conditional on factors that go beyond the arsenal of carrots and sticks available to asset managers. Therefore, outcomes are often shaped by circumstantial compromises that reflect the interplay of strategic mindsets, market forces, regulatory requirements, reputational considerations and corporate cultures.

The reporting of outcomes in asset managers' stewardship reports is in many cases vague. In addition, only a few asset managers showcase engagement failures, which would provide an opportunity to enhance transparency on corporate actions and inaction, and illuminate the limitations faced by asset managers in their stewardship activities.

In one case of engagement failure, for instance, despite Amundi's efforts to engage with a gas utility company regarding its methane reduction target, the targeted company showed "no intention to set a methane specific reduction target".¹²⁷ Additionally, Amundi reported that "while having several projects underway, the company has no intention to set a target on gas sales in the near term".¹²⁸ Similarly, the same French asset manager collaborated with a Malaysian company in relation to the company's decarbonisation plan, which included renewable energy capacity targets and interim emissions reduction goals. However, the investee company refused to commit to an early phase-out of its coal-fired power plants, maintaining a phase-out timeline extending to early 2045. Instead, the company committed to not building new coal plants, reducing coal generation capacity by 50 per cent by 2035, and closing one power plant ahead of schedule.

While in some cases outcomes are shaped by compromises between the asset managers and management, in other cases asset managers are expected to use escalation methods, such as voting against directors at the next shareholder meeting or divesting from the company's stock. However, few asset managers report on the specific escalation steps taken in response to a failed engagement. Exceptionally, in 2022, J.P. Morgan reported its divestment from the stock of a postal service and courier company due to an engagement that revealed a serious deterioration in communication between management and the unions. Similarly, the Australian asset manager Macquarie exited an investee company after it "reached the conclusion that the company was not investing capital to substantially grow the business nor looking to develop new products and services to promote GHG emissions reduction".¹²⁹

6.2.10 Conclusion

Overall, as we have shown above, asset managers' interventions via direct engagement can play an important role in enhancing corporate accountability and internalising negative externalities. Asset managers are well positioned to exploit their comparative advantages – in terms of economic footprint, economies of scale, deep expertise and market intelligence – to reduce portfolio mispricing and operationalise sustainability frameworks by aligning corporate pledges with corporate policies, targets, strategies, incentive structures and capital allocation decisions. Table 6.1 summarises the issues that drove the engagements of the asset managers in our sample and the corresponding outcomes reported by them, highlighting the range of benefits these engagements can secure.

The effectiveness of engagement is prone to significant obstacles. The opacity and lack of public oversight of this behind-the-scenes process limits stakeholders' ability to assess its success. In addition, just as in the case of shareholder voting, direct engagement is susceptible to conflicts of interest, such as when an investee company is also a client of the asset manager, which can compromise the engagement, or when portfolio managers' compensation is tied to revenues from lending securities, which can distort stewardship incentives. Third, effective engagement demands proper resourcing, including time, expertise, and access to overstretched boards and senior executives. Recent research has shown that asset managers' resources devoted to stewardship are small even at the largest asset managers.¹³⁰ This resourcing pressure risks limiting engagements to low-hanging fruits and turning them into box-ticking exercises. Moreover, as equity assets are moving into low-cost passive investment funds that compete on price, these fund managers might be concerned that stewardship resources could hurt their competitiveness. Fourth, targeted companies often hold the upper hand in shaping the agenda for shareholder engagements. The informational asymmetry between the investee companies and asset managers can lead to unbalanced power dynamics, allowing corporate managers to frame issues in their advantage and steer the conversation toward topics they are more comfortable addressing. This barrier is reinforced by asset managers' dependence on access to corporate managers, which could deter them from raising difficult or confrontational issues that could strain their relationship. Finally, asset managers, particularly those with smaller holdings in a company or those reliant on passive investment strategies that lack a credible threat of divestment, may find themselves without real bargaining power. Without real

leverage, such as substantial voting power, a meaningful threat of publicly announced divestment, or the backing of a large coalition of investors, their influence over corporate policy is severely limited.

The next section deepens the discussion of the interplay between voting and direct engagement by weaving together the insights we gathered from our interviews.

Table 6.1. Reported drivers of engagement and examples of report outcomes

REPORTED DRIVERS OF ENGAGEMENT	EXAMPLES OF REPORTED OUTCOMES
Improve governance quality (board composition and remuneration)	Board refreshment; adopted new compensation structures and performance metrics; secured commitment to improve board representation and upgrade skills matrix; split CEO–chair roles; lobbied for the appointment of new CEOs.
Enhance commitments and scope and quality of disclosures	Adhered to sustainability-related commitments, set targets and disclosed progress on their achievement; disclosed GHG emissions breakdown by activity, product, or service; spearheaded or participated in sectoral disclosure standardisation initiatives; published more comprehensive non-financial reports; aligned reporting with recognised frameworks.
Scrutinise corporate policies and targets on ESG/sustainability-related material risks	Adopted or amended corporate policies on climate, biodiversity, deforestation, water, human rights, labour rights, supply chain traceability, sustainable procurement, diversity, etc; anchored corporate policies in sustainability-related targets; advised boards on how to accelerate action on certain targets.
Advocate robust corporate strategies to ensure implementation of policies and targets	Augmented sales targets for sustainability-related business lines; phased out coal operations; excluded the provision of goods/services to certain high-emission industries; put climate strategy to vote; adopted or amended strategies for the implementation of sustainability-related commitments, targets and policies.
Assess risk management systems	Explained approaches on the management of material risks; conducted impact assessments (eg biodiversity assessments, facility-level human rights assessments, etc); improved quantification of sustainability risks.
Seek mutual understanding, build trust and discuss best practices	Learned about investee companies' progress in achieving their sustainability targets; benchmarked 'best in class' practices; shared market intelligence to enhance oversight capabilities; explained positions; discussed upcoming items on the general meetings' agenda; advised on best practice to achieve certain goals.
Align capital expenditure with	Published reports grounded in climate scenario analysis on the necessary capital expenditures for GHG emissions reductions;

sustainability/ESG-related goals	provided a breakdown of current and planned low carbon investments; decreased the emission intensity of planned investments; issued sustainability bonds to scale-up financing capacity to reach net-zero targets; stopped financing of high-emitting assets; accelerated investment in research and development to lower emissions from product use.
Develop responses to crisis situations	Exchanged views on crisis response scenarios; initiated internal investigations; hired external agents to review causes of crisis situations; increased monitoring and enhanced disclosures of material risks.

7. Discussion

The impact of asset managers' arsenal of stewardship tools on the investee company depends on the synergies between voting and direct engagement and the ambition of the change they are trying to influence. The outcomes of engagement can inform voting strategies. If the asset manager feels the engagement has aligned with its objectives, its voting decisions may become more targeted. Conversely, if direct engagement efforts fail to result in the changes desired by the asset manager, shareholders can leverage their voting power to push for action.

Our analysis of asset managers' thinking about corporate governance signals progress towards a more holistic understanding of the drivers of risks and opportunities that affect market outcomes, with many of them mainstreaming in their voting policies expectations and recommendations on an increasing range of sustainability challenges. The evolution of these policies reflects increased scrutiny by asset managers on corporate governance, resilience to evolving risks, and rising investor expectations for stronger board accountability—not just in delivering shareholder value, but in embedding sustainability considerations systematically into business decision-making. However, even if voting policies provide insights into asset managers' evolving thinking on what it takes to run a public company sustainably, evidence indicates that relying on voting to enforce these expectations is misguided. The scale and pace of change falls short of the urgency required to address the centrifugal forces undermining the integrity of the critical systems upon which long-term economic stability and value creation depend.

Shareholder voting has often been criticised as being rather symbolic than substantive.¹³¹ In recent years, this mechanism of shareholder influence has gained more prominence, particularly in the context of post-Global Financial Crisis scrutiny over institutional investors' governance responsibilities. As one of our interviewees, the head of stewardship at a large European asset manager, remarked, "If you go back to the 90s, voting wasn't done very consistently by many asset managers. I think that has been picking up as a practice in recent years." However, despite the greater emphasis on shareholder voting, the analysis of voting trends on E&S resolutions over the past decade shows that the absolute volume of E&S resolutions remains small across most markets and support for E&S resolutions is generally low.

Evidence also indicates significant geographical divergence in shareholder voting behaviour on E&S issues, suggesting that voting practices are heavily contingent upon regulatory and market contexts. For example, voting holds greater significance in the United States compared to Europe or Asia, largely because, according to the asset managers we interviewed, investors have less direct access to US-listed companies and their boards. This is due to the more insulated culture of corporate governance in the US, where boards operate with a high degree of authority and independence, and shareholder engagement is typically limited to formal channels such as AGMs or through investor relations departments. Consequently, voting is one of the few mechanisms through which investors can express support or discontent with a US-listed company's actions and its board. Nonetheless, although there is increasing public scrutiny of the voting behaviour of asset managers and

institutional investors more generally, the sentiment captured from our interviews is that shareholder voting remains a formally important but practically formulaic approach to stewardship, primarily because it is perceived as being adversarial in its approach and rudimentary in its effects.

Admittedly, losing shareholder support can stir company responses and carry important consequences even if the resolutions do not pass or are merely advisory. However, even if resolutions can certainly make a difference in some circumstances, overemphasis on shareholder voting as the only relevant interface between investors and boards can distract attention from alternative stewardship channels. As one of our interviewees representing the asset management community put it, **“voting is a signal of investor concern, but it is sent in Morse code; it’s not a sophisticated signal.”** Hence, our evidence indicates that the promise of voting as a driver of sustainability outcomes remains unrealised. Alternatively, direct engagement is often the preferred channel because, in the words of our interviewees from the investment community, **“engaging with boards and firm executives on a continuous, long-term basis can bring about change through incremental, non-confrontational means”**.¹³²

7.1 Unpacking asset managers’ engagements

As we have shown above, over the past four years asset managers reported significant rise in the number of engagements with investee companies. Our interviewees identified **regulatory action and asset owners’ requests as the primary drivers of this momentum in asset managers’ engagement** with investee companies. One interviewee who oversees stewardship activities on behalf of over US\$1 trillion of assets, emphasised: “regulation around things like SFDR [Sustainable Finance Disclosures Regulation] and reporting at the asset owner level has created more demand to be able to demonstrate actions that go in that direction”, thus placing more engagement responsibilities on asset managers. Asset owners with a long-term investment horizon, such as pension funds and insurance companies, are expected to be intrinsically interested in the long-term sustainability of the critical system on which markets flourishing depends. Therefore, the fiduciary mandates that they entrust to asset managers increasingly set out stewardship expectations. In this vein, another head of stewardship at a global asset manager captured this momentum, noting: “where [stewardship] was a ‘nice to have’ or even quite unique maybe a decade ago to showcase this to clients, now they will send you a list of companies that they expect you to engage on their behalf if you’re interested in their money.”

While legislative and regulatory actions are key drivers of increased investor engagement, the prevailing view among the board members we interviewed is that **investors’ expectations often exceed legal requirements**, though this varies across jurisdictions. In the words of the board member of a company quoted on the London Stock Exchange: “they [the investors] come and do due diligence on us, and they ask us what our policies are, and they then check that we’re fulfilling what our [ESG/sustainability] policies say on those kinds of things. They’re way ahead of legislation.”

One view of diligent stewardship is that asset managers should adopt a mindset which puts as much priority on long-term value creation as the short-term outcomes. As the representative of an asset

manager explained: “Additionality is really based on not only buying or selling the stock, but then also being able to have an additional impact through the engagement where you set clear measurable engagement objectives, and the company is moving based on your engagement”.

Other interviewees provided a more sceptical view. By opting for engagement rather than divestment from assets that are incompatible with sustainability imperatives, asset managers can strategically position themselves as responsible investors without making the financial sacrifices that divestment might require. However, this approach may risk perpetuating the very business practices they claim to hurt sustainability, as **engagement without tangible outcomes could be seen as mere window dressing that maintains the status quo under the guise of stewardship**. One interviewee representing a major European asset owner encapsulated this view, noting: “Stewardship, I would say, and it’s a bit of a cynical view, is a way to keep very high emitting assets. The argument is ‘we’re not going to divest; we’re going to engage, and this is how we have impact’.” On the other hand, while divestment sends a powerful signal, it does not improve a company’s sustainability performance.

A key challenge faced by asset managers is the effective integration of stewardship into investment decision-making. Some asset managers have developed tools for bringing actionable insights from stewardship activities closer to investment decision-making. As the head of stewardship at a leading asset manager noted: “From our asset management side, we are using non-financial indicators to help identify those that are correlated with value, which then become drivers integrated into the investment decision. Stewardship is not so easy to integrate, but there are ways you can get some qualitative information through stewardship that helps to form a view of a company's capacity for change and sometimes we also find quite a few errors in the ESG reporting metrics that we want to correct. So that changes our model. That information helps us to understand the degree to which a company can and will change in the future. So, if you've got a kind of a value strategy that is looking at investing in companies that are undervalued, that the market finds less appetising, we can imagine the stewardship strategy helping to turn that around”.

While the push for more comprehensive corporate disclosures seeks to address the current challenges of feeding reliable and comparable non-financial information into investors’ risk models, the methodologies for rigorously measuring non-financial risks remain underdeveloped compared to those for financial risks. This disparity complicates the pricing of trade-offs between strategic decisions and limits asset managers’ ability to seamlessly incorporate non-financial data into risk assessments and valuation frameworks.

7.2 How board members experience direct engagements

The board members of public companies we interviewed recognise the intense scrutiny from asset managers and other investors, whose **engagement requests and prescriptive expectations demand more board bandwidth**. One recently retired board chair of a global professional services firm stated: “Active shareholder participation has risen considerably [...] it is definitely something that’s changing and it’s moving ahead”. The UK board chair of another global professional services firm also

emphasised: “the pull comes from your investor community [...] the investor community today is really being quite demanding of what they want”. The deputy company secretary of one of the largest European consumer goods companies also shared this view: “we take from some of our significant investors that they have grown much more interested in the ESG area and ask us very probing questions quite rightly”. On the other hand, the board member of a large Asian conglomerate stated that although board interactions with the largest asset managers have intensified, many of their interactions are increasingly with proxy advisers rather than their shareholders: “more often than not, the rating agencies [eg ISS, Glass Lewis] come to us because they rate us. In the past, it happened to be quite difficult to get connected with them, but I think over the last few years they have been more accessible.”

Board members emphasised that **failure to address these demands can expose boards to harmful consequences**. As the executive board member and chief financial officer of a public company put it: “A number of investors would simply not invest in us [if we don’t comply]. When you get to your GM [General Meeting], the proxy voting services would recommend voting against us.” Another board member echoed this spirit, noting: “The investors that give me money, particularly the **institutional investors, walk away with their money if they don’t see that I am actually looking at the sustainability related risks**”. One stewardship professional also emphasised the escalation steps that asset managers can take: “if engagement has failed, we vote against the board. If it still fails, we will eventually consider divesting officially”. In addition, another board member declared that **failure to respond to reporting requirements could affect the company’s cost of capital**: “We have a very close concern, especially with the finance department, that if we’re not regarded as a sustainable company, we might have difficulty borrowing money, raising capital from the market or we might have to pay higher interests”.

Asset managers’ engagements increasingly focus on sustainability-related issues and expect boards to exercise diligent oversight of these risks. As one board member and head group general counsel of a large Asian multinational corporation, who emphasised the prescriptiveness of asset managers’ expectations, noted: “Long term shareholders, if they have an issue, they will come to us very quickly to have a conversation with the chairman, the chief executive. We are talking about shareholders who also have their own guidelines, so then we need to make sure that we know their guidelines exactly.” However, the focus on ESG/sustainability issues during engagements is driven by asset managers’ stewardship teams, but it **rarely comes up at the most senior level of interaction**. As the adviser to a board chair of a European company with a turnover of over US\$300 billion observed: “the investors who have an ESG team, this is all they’ll obviously talk about. That’s their job. But if you get their bosses, it very rarely comes up”.

Some board members we interviewed emphasised the **tension between the pressure from large shareholders to meet their demands and the board’s responsibility to balance the preferences of various stakeholder groups**. They highlighted the challenge of acting in the best interest of the corporation and all shareholders, both current and future, ensuring that decisions are not disproportionately influenced by the most powerful voices. One of our interviewees, a board member of a British public company, encapsulated this tension, stating:

“I think boards are very alert to this, your shareholders are the primary [stakeholder], that was the reason you’re there. But it’s not anymore. In my world, my stakeholders would be, yes, my shareholders, my partners, it would be our employees, it would be my clients, it will be my supply chain, it will be my regulators. And any one of those stakeholders who happens to be unhappy with us because we’ve done something really bad from a sustainability perspective will crucify us. So, I do think from a fiduciary duty, whilst legally it’s still kind of you ultimately report to your shareholders, let’s be really clear the perception and reality are different things.”

7.3 The effectiveness of engagements

Engagement is a two-way street rather than a unilateral act. Hence, many of our interviewees emphasised that **the effectiveness of engagement depends on the ability of asset managers to make themselves useful to companies and their boards**. As one interviewee representing a large asset manager observed: “In reality, we won’t get directors to make changes to their business unless the directors believe it’s in the interest of the company to do so, because they have their own fiduciary duty to the company [...] we need things that are good for the system and good for each individual company on an idiosyncratic basis as well.”

Engagements provide an **opportunity for boards to tap into the asset managers’ market-wide perspectives** and use their market intelligence to enhance their own strategic foresight and risk oversight capabilities: “ultimately the board can take those investor perspectives in and use that to better supervise and challenge the management team on whether they are taking the right decisions and whether they have an eye for all of the sustainability risks”. Similarly, another representative of an asset manager added that board directors can use their engagements with asset managers to **‘triangulate’ information received from management**, finding an outside perspective helpful in gauging market sentiment about the company and its management.

Some boards are proactively fostering strategic partnerships with asset managers who have positioned themselves in the market as the go-to stewardship leader on certain novel, often industry-specific areas of corporate governance, such as biodiversity or antimicrobial resistance, where they have developed comparative advantages. Boards can benefit from consulting with these asset managers. As one head of stewardship at a large EU-based asset manager put it: **“They [boards] want to have a benchmarking across multiple companies, or they want to have new insights on sort of longer-term trends or how we think regulation is developing. So that’s where you’re offering something.”**

Our interviewees also emphasised the **need for credibility and expertise to earn the trust of boards**. Without this requirement, **engagement risks devolving into a mechanistic exercise driven by a perfunctory checklist mindset**. The checklist mentality and formulaic approach to sensitive business issues is fundamentally at odds with the complexity of challenges boards encounter in the exercise of their mandates. As such, the role of board-facing stewardship professionals becomes critically important. One interviewee noted the “increasing professionalisation of stewardship and the formalisation of the profession itself”, which is expected to be a key enabler of good stewardship.

Earning the trust of corporate boards and influencing board processes requires these professionals to be credible experts who deeply understand the intricate trade-offs that companies face. As the head of stewardship at one of the world's largest asset managers put it, "there isn't such a thing as an ESG specialist", stressing that the diversity of challenges faced by companies requires not just general knowledge, but also deep pockets of industry-specific expertise tailored to the specific circumstances of each company. As one stewardship professional said: "you need to be an industry expert at minimum in terms of your knowledge level to be able to really challenge a company because they're obviously living and breathing all of the topics that they're exposed to". Therefore, professionalising stewardship efforts and building a solid evidence base are core factors that influence the effectiveness of engagements.

7.4 The rise of 'systemic engagements'

One of the recent trends underscored by the heads of stewardship we interviewed is the increasing focus on 'systemic stewardship'. Increasingly, **asset managers are recognising that so-called 'idiosyncratic risks' – diversifiable risks specific to a particular company or asset – can compound into systemic risks**, which encompass factors that affect the entire investment portfolio or market, impacting entire sectors in ways that cannot be mitigated through diversification. As the head of stewardship at one of the world's largest asset managers observed: **"a lot of investors now would recognise that the market performance as a whole is a bigger driver than the outperformance of the market"**. The focus on systemic risks has been reinforced by the rise of market-tracking index funds and other passive investment strategies, whose reliance on diversification minimises exposure to company-specific risks but enhances exposure to market-wide risks that influence the entire economy.

One head of stewardship described their approach to systemic stewardship in the following way: "We will use the systemic perspective to help identify materiality so we can look at materiality from a system perspective, and that may mean that certain things are of higher materiality collectively than they are at each individual company. If you were just to focus on every company, you'd probably just focus on governance, but if you focus on the system, you also will look at climate change much more. So, **in both cases the style of engagement is going to be: what we can achieve in the interests of the company?** But we can give more weight to those topics that are material systemically rather than those that [are] sort of more material idiosyncratically".

Another interviewee representing the asset management community differentiates between preparatory efforts associated with each type of risk, stating that although "the bulk our engagements on the ESG front will come from that bottom-up analysis [...] we have a top-down approach as well that looks at systemic issues. We've identified climate change, nature loss, social disparities and strong and effective governance as broader themes that we feel can affect the beta [market-wide risk management], which is very, very challenging to influence, almost impossible for any individual organisation to influence. But given the very fact of it being a systematic risk, meaning

it's hard to diversify away from, we recognise that there is an opportunity to mitigate the impacts created by the companies in which we are invested."

Another head of stewardship at a global asset manager stressed that **systemic risks are a high priority**, but instead of focusing on micro-level influence of individual companies that are affected by and contribute to systemic change, asset managers' engagement with sovereign bodies was perceived as a more effective approach to systemic stewardship. Referencing examples of asset manager engagement at the sovereign level in Indonesia and Brazil, the interviewee considered "sovereign engagement as the most crucial element for driving systemic change", thereby allocating fewer resources to company-level engagements on this category of risk.

7.5 Barriers to engagement

Despite the reported steady increase in the quantity of engagements, many interviewees highlighted various challenges that hinder the effectiveness of engagements as authentic drivers of positive change. The resource constraints of stewardship teams repeatedly came up in our interviews with representatives of asset managers. Furthermore, as one head of stewardship admitted: **"Too much of engagement often is still checking in with a company and asking sort of the obvious questions."** Similarly, another head of stewardship at a large asset manager stressed that **the perfunctory quality of many engagements hurts the credibility of this mechanism of shareholder oversight**: "I have no doubt that there are a number of engagements probably that have been conducted through an ESG lens, which have not been of the credibility or the quality that they should have been and that must be devastating to companies. And there should be a licence and an outlet for them to articulate that."

For this reason, some asset managers focus on doing 'more with less' and recognise the **need to focus on quality over quantity**, channelling constrained stewardship resources into a narrow number of companies where they can generate the most additionality. As one asset manager noted: "we don't do 1000 companies and then spread ourselves thin with all of the experts. We deliberately choose a much smaller number of companies per individual engagement specialist to then really have the ability to give it a push."

In addition, **some interviewees representing both asset managers and investee companies signalled a reporting fatigue across the investment chain**. The cascade of enhanced reporting requirements has not yet been widely perceived as a driver of better accountability and positive change. Some interviewees suggested that while reporting sharpens focus and creates essential organisational structures and practices for managing data flows, the preoccupation with meeting reporting requirements can overshadow the effort to generate substantive changes. As the representative of one of the largest European asset owners, who works with several independent asset managers, admitted:

"I mean, as a person, I would like to do that because it's good for the planet. But as a company, we're doing that because we want to report on it at the end of the day. [...] Every year we send them

[asset managers] an ESG questionnaire [...] then based on this questionnaire, we use answers to challenge them or ask them for more information.”

Some board members also expressed frustration over the rapid pace of change and the avalanche of reporting requirements, which they felt could harm business competitiveness and divert valuable board time and attention away from strategic issues. In the words of one board adviser: “they [regulators] are trying to sprint before they can crawl”. In addition, several interviewees expressed concern that “sustainability reporting costs a lot of money”, which they view as a fundamental barrier to their business transformation. The board member of a public company listed in Hong Kong also complained about the formulaic approach taken by some governance rating agencies:

“They used to rate us just by what we write in black and white. There’s a limited amount of information you can provide in what you write and there is quite a lot of workings underneath that you don’t necessarily see, and we always feel very aggrieved when we’re not given a right rating [...] [The report for proxy agencies] used to be 10 pages and then 20 pages and today it is 116 pages. So, our aim is to write as much as possible so they can see it.”

Another board member and chief financial officer in charge of a London-based public company’s sustainability reporting put it this way: “Our annual report is 242 pages, and 56 pages, so nearly 1/4 of our annual report is on ESG. The majority of it is around environmental, but there is an increasing focus around social. I’ll be honest with you: it’s a bit weird for a FT250 listed business.”

However, the same interviewee recognised that the impact of enhanced disclosures on the cost of capital is an important consideration: “you need to do all this stuff, but on the vice versa, if you want to access public capital, which is obviously part of the point of being listed, knowing that you fulfil certain criteria and standards gives them the confidence in which to invest”.

Another interviewee emphasised that asset managers are also grappling with informational challenges concerning impact attribution and the measurement of engagement outcomes: “Three years ago, when we started having this thing, we didn’t have to report on it, so we didn’t think about it. Now that we have to report on it, we don’t have data to report on, first because you can’t tell who has changed because of you and not because of your neighbour.”

Another representative of an asset manager mentioned the need to strengthen the evidence base of the direct engagement activity, which would boost the credibility of asset managers’ engagement requests: “It’s hard to convince a company to engage more with asset managers when you don’t have data to prove that this approach is actually effective.”

The growth of asset managers’ engagements also means that investors increasingly compete for companies’ limited bandwidth. The increased shareholder engagement activity experienced by companies is somehow at odds with previous reports that stress the limited personnel devoted to stewardship activities and the small proportion of portfolio companies engaged.¹³³ However, as one asset manager put it: “Now there are just so many investors that I can’t contact companies on behalf of active ownership. There used to not be so much pressing people at the door.”

The abundance of reporting data and scarcity of attention pose outreach challenges for asset managers, especially for those holding smaller equity stakes and those operating beyond their headquarters. Previous research highlights a ‘home bias’ in stewardship, where companies tend to engage more readily with domestic investors.¹³⁴ This sentiment was echoed by stewardship professionals who struggle to connect with companies outside their jurisdictions. A sustainable finance professional from a smaller stewardship team recounted their international engagement efforts: “We have a list of companies to engage with, and honestly, we received no responses last year... We got zero answers.”

Another issue that can hinder the effectiveness of asset managers’ stewardship is the insufficient collaboration between portfolio managers and stewardship teams. Often, those overseeing investments are not the same individuals conducting engagements, which can create an organisational disjunction that risks reducing engagements to mere tick-box compliance activities. As one head of stewardship stated: “I think demand [for stewardship] is rising and we do believe that over the long term [...] ideally that would be done by the investment teams growing into being their own stewards and not needing stewardship as a sort of separate enterprise but being completely aligned to the investments themselves.”

Engagement on systemic issues also often encounters significant challenges, particularly when boards perceive a conflict between their fiduciary duty and asset managers’ requests to act on systemic issues that are not yet clearly aligned with the directors’ interpretation of their fiduciary responsibilities. This perception can precipitate board resistance. There are instances where broad consensus on societal norms deems certain actions, such as child labour, bribery, or modern slavery, unacceptable regardless of the potential benefits to companies and their shareholders, notwithstanding the letter of the law. In these cases where the debate has been settled, investors can more effectively steer corporate policies. However, urgent action on many critical systemic challenges remains inhibited either a lack of legal certainty regarding the interpretation of boards’ duties.

One head of stewardship encapsulated this constraint: “Practically speaking, the company will have a kind of autoimmune response to a proposal that says, ‘I can cause you harm, but for the benefit of the rest of the world and the benefit of my wider portfolio’. I think not many companies will receive that message well, because of their fiduciary duty. They would say that’s not what we can. We can’t lose money unless there is a very clear mandate and a sign off from all the investors and there are practical reasons why that may not happen, because other investors may not share the same view.”

7.6 ESG backlash

Some of our interviewees also reflected on the impact of the ESG backlash gaining traction in the US, offering mixed views on the scale and implications of this phenomenon. Many board members observed the ‘politicisation of ESG’, while a few asset manager representatives noted contagion effects spreading to European markets. In the EU, **critical voices seem to be driven not necessarily by fundamental ideological rifts, but rather by concerns over the underperformance of ESG-labelled**

funds since the start of the war in Ukraine. The head of active ownership of a European asset manager observed: “After sort of a bit of a bull rally for sustainability commitments and work over the past three years, since 2021 we’re now a bit in a reversal with much more of an ESG backlash and political pressure in the US. That is sort of also influencing some of the European players. For instance, the climate survey that we do amongst asset owners has shown quite a deterioration in how important asset owners currently think climate change is compared to a year or two years ago.”

Most board members recognised that many of the underlying problems targeted by ESG investing are not going away, regardless of the whims of the investment community about ESG as a financial construct. However, some board members expressed criticism about the perceived **lack of democratic accountability of ESG-motivated market shifts, compounded by the weaponisation of ESG investing as an ideologically driven political project.** One source of discontent reported was the bypassing of democratically elected bodies. One interviewee representing a large European public company hypothesised that the stir around ESG is the result of the fact that “part of the SDG [Sustainable Development Goals] agenda is in danger of being hijacked by those with political views in mind. Where they can’t achieve their ends via the legislative route, they try regulatory routes or general NGO [non-governmental organisation] pressure and shareholder activism routes [...] that’s just a frustration that you’re increasingly hearing in boardrooms.”

On the other hand, the head of stewardship of the European office of one of the world’s biggest asset managers noted: “thus far that hasn’t been a major topic coming up from clients themselves here [in Europe]. They will have their own views on ESG integration. They’re not looking to clients in North America to inform those views. But I think in the general public discourse, it’s definitely drawn scrutiny [...]. So maybe people are more aware of when and how we choose to act, but I wouldn’t say that that’s actually changed or informed our strategy per se and the actual activity.”

Another European asset owner identified a critical inflection point in the path from corporate sustainability commitments made over the last years to real action. **After several years of pledges, companies are now reaching the stage where decision-making becomes crucial, and trade-offs become more apparent and inevitable:** “You see that a lot of companies are starting to *backtrack because they made commitments maybe three, five, or eight years ago, and now they’re facing hard decisions: Will we follow through to really achieve those goals, or will we water down the targets, extend timelines, or reassess our stance because it’s just really challenging to implement the necessary changes?*”

8. Conclusion

The shifting patterns of interaction between shareholders and boards reflect changes in corporate ownership – such as the rise of asset management firms in the ownership structure of public companies globally – and the dynamics at play in the investment chain. As asset managers have expanded their ownership footprint in public markets, their proximity to investee companies has made their influence on boards and the future of corporate sustainability more pronounced. However, asset managers need more explicit guidance from asset owners and stronger leverage to drive real change. While conviction from asset owners can provide a foundation, true leverage will also come from areas like mandatory regulations and legislation. These mechanisms should be designed to incentivize both asset managers and boards to create market conditions that would enable a better alignment between profitability and sustainability.

Asset managers' sustainability expectations are on the rise

As we have shown in this report, the governance expectations outlined by asset managers in their voting policies reflect an increasingly holistic understanding of the interplay between sustainability factors and long-term corporate performance. While significant regional variation in asset managers' expectations exists and voting guidelines differ greatly in terms of sophistication, granularity and prescriptiveness, we observe a general trend towards integrating sustainability-related provisions into the criteria that inform asset managers' stated governance preferences. Generic sustainability-related considerations, as well as more specific climate, environmental and human rights issues, have become mainstream in the voting policies of over half of the entities in our sample. In addition, a small minority of asset managers have begun to problematise a set of relatively novel issues on the corporate governance agenda, such as health risks, circular economy and income inequality, developing expertise in these areas and raising the bar for corporate conduct.

But shareholder voting falls short of catalysing systemic change

Our analysis of shareholder voting records also shows that although voting is formally the most democratic avenue of shareholder influence, it is very rarely a driver of corporate sustainability outcomes. In principle, shareholder voting is an essential accountability mechanism, moving corporate decision-making from the opaque confines of the boardroom black-box into the public sphere. Moreover, even if an E&S resolution does not meet the threshold for approval and is purely advisory in nature, it can cause sufficient stir to compel companies and their boards to react in a constructive manner to smooth shareholder dissent. Thus, dismissing shareholders' concerns can expose the company to severe reputational and financial risks. However, taking a longitudinal view of the evolution of shareholder voting on E&S resolutions over the past decade, the expectation that shareholder democracy will be driver of sustainable change in market conditions is contradicted by voting records. The low number of E&S resolutions relative to the number of public companies, the small proportion of shareholder-initiated proposals on these issues, and the generally low level of shareholder support these resolutions receive suggest that the emphasis on voting as a mechanism for unlocking positive change is largely misguided.

Shareholder voting faces several barriers that limit its effectiveness as a driver of sustainability. First, variation in laws and regulations across countries affect the ability of shareholders to propose and vote on sustainability-related resolutions. Second, large asset managers who can wield significant voting power face a mix of incentives that can dissuade them from proactively using such a public arena to enact corporate change. Furthermore, voting is plagued by a collective action problem. As two leading scholars of corporate governance put it a while ago, “When many are entitled to vote, none of the voters expects his votes to decide the contest. Consequently, none of the voters has the appropriate incentive at the margin to study the firm’s affairs and vote intelligently”.¹³⁵ In the case of asset managers, although they increasingly exercise their voting rights, voting is often perceived as an adversarial tool that can negatively impact their voice - potentially hindering more constructive private engagement efforts to influence change. In sum, shareholder voting, in its current form, falls short of catalysing the systemic changes necessary to address urgent sustainability challenges.

Private engagement with investee companies is the preferred lever of influence

Despite the current limitations of shareholder voting, we find that asset managers often prefer private engagements as the primary venue for their stewardship. So far, the overemphasis on voting practices and data scarcity on private engagements has obscured the dynamics of this channel of shareholder influence. Additionally, the professionalisation of this stewardship approach remains nascent, as asset managers continue to experiment with different strategies to develop effective engagement capabilities. However, as shown in this report, asset managers have consistently augmented their private engagement activity with investee companies in the last four years.

Private engagement can offer several advantages over voting. Unlike the public, episodic, and ternary (for/against/abstain) nature of voting, engagement provides a continuous and flexible approach, allowing investors to directly influence and elevate corporate conduct through open dialogue, information exchange, and negotiation. While this approach creates a transparency problem by reducing public oversight of how asset managers exercise their governance duties, direct engagement enables investors to convey their concerns and recommendations directly to corporate management, fostering a dialogue that is often less confrontational, more candid, and potentially more substantive. This direct interaction can encourage companies to consider meaningful changes without the immediate pressure of public scrutiny or the fear of shareholder backlash. Second, this process overcomes blunt ‘one-size-fits-all’ approaches, allowing for tailored, targeted and iterative interventions that address the unique circumstances and challenges faced by each individual company. Third, unlike the sporadic nature of shareholder voting, private engagement enables the accumulation of social capital over time between the asset manager and the investee company. Sustained interaction is meant to allow parties to build mutual trust and gain deeper insights into the drivers of costs, risks and opportunities of each company. As we have shown, constructive relationships between asset managers and investee companies can help boards evaluate the information provided by management and ask critical questions about the information they are not receiving.

Redesigning market incentives to empower sustainable transformation

Nevertheless, our analysis suggests that while private engagements can incrementally foster positive sustainability outcomes, they follow, almost by definition, a piecemeal approach, being frequently too narrow and disproportionately focused on disclosure requirements rather than substantive change. This approach, while still beneficial under certain circumstances, is slow and often overlooks the broader, systemic challenges that extend beyond the scope of any single firm, industry, or geography. While we find that engagements can unlock some sustainability benefits by fostering stronger alignment between sustainability goals, governance structures and capital expenditure, their impact is often too localised and fragmented to tackle industry-wide problems, such as climate change and biodiversity loss. For investor pressure to be truly effective, it must be complemented by a broader redesign of market incentives across the investment chain driven by democratically accountable bodies. Without policymaking support and regulatory guardrails, bottom-up investor pressure alone is likely insufficient to address these complex sustainability challenges at scale.

Appendix

Methodological appendix

We selected our sample of asset managers from Thinking Ahead Institute's ranking of the world's largest asset managers based on their assets under management (AUM). The full list of these entities is included in [Appendix List of our sample of asset managers](#). Our sample includes 40 geographically diverse asset managers: 15 American asset managers, 15 European asset managers (including from the UK), five Asian asset managers, the four largest asset managers in Africa, and the biggest Australian asset manager. The asset managers in our sample collectively manage approximately £44 trillion in assets.

This selection generally mirrors the ranking order of the Thinking Ahead Institute, with minor deviations owing to data limitations or distinct business models, such as a focus on fixed income or investment consulting. For this reason, we excluded the following entities from the sample: BNY Mellon, Prudential Financial and Ameriprise Financial from the United States; Natixis Investment Managers, Union Investment, Intesa Sanpaolo, LBBW, MEAG, Société Générale and DekaBank from Europe; and Mitsubishi UFJ Financial Group from Japan, as well as the Postal Savings Bank of China and the Agricultural Bank of China.

Analysis of voting policies

We collected the latest publicly available voting policies from the official websites of the asset managers in our sample. The voting policies under review exhibit significant variation in format, content and level of detail. On average, these policies span 23 pages, with a range from three pages to 58 pages. Using an inductive content analysis approach, we reviewed the 40 voting policies line by line to identify key principles and criteria related to board-related issues and sustainability. A coding scheme emerged from this review, which we refined iteratively. We then applied these codes systematically to the content of the policies and counted the number of policies that included provisions on each identified topic.

Analysis of shareholder voting data

The shareholder voting data in this report is based on data from Diligent Market Intelligence (DMI), a leading provider of shareholder voting records and voting analytics. We retrieved data from January 2015 to June 2024 (thus including data from the 2024 proxy season, the period of the year – typically April to June – during which most companies hold their general meetings. DMI's database contains profiles for over 2,400 investors and over 35,000 issuers. We filtered DMI's data by geographical criteria to focus on the United States, Europe, Asia, and Australia, as defined by DMI.

Our data focuses on environmental and social resolutions. We used Diligent Market Intelligence's (DMI) own system for the classification of resolutions to identify those related to environmental and social matters. DMI's definition includes the following categories of resolution: *Agricultural Practices*,

Climate Change, Diversity & Employment, Energy, Fair Pay, Financial, Health, Human Rights, Other Environmental, Adopt/Amend Political/Lobbying Contributions Policy, Create Political/Lobbying Contributions Report [S], Report on Lobbying, Report on Political Contributions, Social Other, Sustainable Governance, Working Conditions & Benefits.

We excluded from the analysis resolutions related to charitable donations and the approval of political contributions. First, resolutions on charitable donations and the approval of political contributions excluded often reflect circumstantial, short-term financial allocations rather than broader governance matters. Second, their high frequency relative to other resolutions disproportionately inflates the sample size. This excessive volume creates a misleading representation of governance trends by overwhelming the data with numerous but relatively inconsequential items.

Analysis of shareholder engagement records

We manually gathered publicly disclosed corporate engagement data from the annual stewardship reports (sometimes variously called responsible investment reports, sustainability reports, or active ownership reports) published by the 40 large asset managers in our sample.¹³⁶ While the qualitative aspects of engagement, such as the nature and quality of interactions, cannot be adequately inferred from asset managers' stewardship reports, these disclosures helped us to quantify the scale of the phenomenon and take stock of some of their key drivers and outcomes. The stewardship reports span four years (2020, 2021, 2022 and 2023). For the analysis of the engagement records of the world's top ten largest asset managers, we also included data from 2019, which was unavailable for most of the other asset managers.

Most asset managers in the sample reported both the total number of engagements and the breakdown of these engagements by ESG category. In the limited instances where an asset manager did not disclose the total number of engagements or theme-specific engagements for a particular year, we addressed these data gaps using the mean imputation method, estimating the missing values by calculating the mean engagement figures from the available data across other years.

Since numerical figures do not provide insights into the drivers of direct engagements or the outcomes achieved through these interactions, we also compiled 500 engagement case studies from the disclosures made by the asset managers in our sample in their annual stewardship reports. The case studies do not follow a standard template and reporting entities can selectively disclose favourable case studies while omitting others. However, most of them are written in a manner that provides insights into the specific issues that motivated the initiation of a private engagement, the activities undertaken by the asset manager as part of the engagement cycle, and the outcomes desired or achieved. Our dataset of case studies covers all 40 asset managers, with the number of case studies per asset manager varying from five to 20.

We coded the content of each case study based on the issues addressed by the asset manager. Following an initial review of the engagement records, we developed a coding scheme to

systematically categorise each engagement. The coding scheme included nine categories: quality of governance, enhanced disclosure, corporate policies and targets, strategy, risk management, mutual understanding/relationship-building, capital alignment (with sustainability commitments), crisis management and an ‘Other’ category for activities not covered by the predefined categories. Each case study was reviewed and assigned to the appropriate categories, with many case studies covering multiple issues coded across the relevant categories. The coded data were then analysed to identify engagement patterns. Subsequently, we identified the commonly reported outcomes from the engagements in our sample to capture the scope and depth of results that asset managers typically achieve through their private interactions with investee companies.

Interviews

We supplemented our evidence base by conducting 18 interviews (full list below) from 10 countries between April 2023 and June 2024. Our sampling approach was purposive, targeting senior representatives from both the investor and business communities. These individuals were chosen for their sophisticated understanding of the strategic context in which they operate, ensuring that they could provide rich, nuanced insights into our research topics. Our interview pool was divided between six interviews with senior representatives (head of stewardship, head of active engagement, or senior manager) of the investment community, who collectively oversee stewardship activities for approximately GBP 6.28 trillion in AUM, and 12 interviews with public company representatives, including eight public company board members, two interviews with senior executives, and two interviews with the board chairs of two large professional services firms that work closely with senior business leaders. We employed a semi-structured interviewing approach, using one interview guide for representatives of the investment community and another tailored for board members and other business stakeholders.

Table 10.1. List of interviewees

Position	Company type	Turnover/AUM	Country
Head of Stewardship	Asset Manager	£1 – 5 trillion (AUM)	US & UK
Head of Stewardship	Asset Manager	£1 – 5 trillion (AUM)	US
Head of Engagement	Asset Manager	£100 – 500 billion (AUM)	Netherlands
Head of Active Ownership	Asset Manager	£500 – 1,000 billion (AUM)	Italy
Senior Director	Asset Owner	£1 – 5 trillion (AUM)	Canada
Responsible Investment Analyst	Asset Owner	£100 – 500 billion (AUM)	Switzerland
Board Chair	Public Company	£0.5 – 1 billion	UK

Board Member	Public Company	£0.5 – 1 billion	UK
Board Member	Public Company	£50 – 100 billion	Hong Kong
Board Member	Public Company	£10 – 50 billion	UK
Board Member	Public Company	£1 – 5 billion	UK
Board Member	Public Company	£10 – 50 billion	Japan
Board Member	Public Company	£0.5 – 1 billion	UK
Board Member	Public Company	£0.5 – 1 billion	UK
Advisor to Board Chair	Public Company	£100 – 500 billion	Spain
Deputy Company Secretary	Public Company	£50 – 100 billion	UK
Board Chair	Professional Services Company	£1 – 5 billion	UK
Board Chair	Professional Services Company	£1 – 5 billion	South Africa

Background brief on shareholder–board interactions

The interaction between shareholders and boards in public markets has evolved in tandem with shifts in stock ownership patterns. Historically, the separation of corporate ownership from operational control, coupled with the predominance of individual rather than institutional shareholders, has insulated the boards of public companies with dispersed ownership structures from their shareholders.¹³⁷

During the era of ‘managerialism’ (1930s–1970s), the prevalence of shareholder dispersion in many advanced capital markets has led to significant managerial autonomy in the governance of public companies.¹³⁸ Prior to the 1970s, the most remarkable thing about shareholder power in the boardrooms of advanced capital markets was its absence.¹³⁹ Corporate accountability hinged on the belief that enlightened executives, guided by a sense of “ethical custom”,¹⁴⁰ are responsible for harmonising the goals of distant shareholders with the legitimate interests of workers and communities.¹⁴¹ In the absence of robust shareholder oversight, the composition of boards was dominated by insiders and affiliates, while their role was primarily relegated to advisory functions as “extensions of management”.¹⁴²

Table 10.2. Era of ‘managerialism’ (1930s–1970s)

Ownership	Dispersed ownership patterns; large direct share of ownership by households; no dominant, organised shareholders (exceptions in continental Europe and Asia)
Corporate governance	<i>Key question:</i> how the power exercised by managers balances shareholder, labour and community interests? <i>Focus:</i> managerial discretion in the context of minimal shareholder oversight arising from the separation of corporate ownership from managerial control

Role of the board	Passive, advisory, 'rubber stamping' role; composed mostly of insiders and affiliates rather than independent directors; minimal board oversight capabilities
Public interest	Best promoted by empowering corporate managers to weigh the interests of shareholders against those of other stakeholders to preserve corporate legitimacy
Accountability	Managerial goodwill and some regulation

From managerialism to shareholder capitalism

Fuelled by financial, technological and regulatory innovations, the rise of institutional equity ownership since the late 1970s has gradually shifted the balance of power from corporate managers to institutional investors.¹⁴³ In the US, a Business Roundtable study from the late 1970s concluded that the oversight function of boards was failing because "directors [did not] spend enough time on board work", their composition was "too homogeneous", board members were "handpicked by the chief executive officer", and they remained "poorly informed on company matters".¹⁴⁴ In response to the growing asymmetries in the balance of corporate power, institutional investors' grip over an increasingly large sway of the market allowed them to challenge the subordination of boards to corporate managers. As a result, the board of directors was gradually reinvented as an independent 'monitoring' body for disciplining managerial excesses and maximising financial performance as the ultimate corporate objective.¹⁴⁵

Institutional shareholders' advocacy for performance-monitoring boards shifted the focus of corporate governance towards enhancing managerial accountability to shareholders. Making boards more accountable to their shareholders' financial interests entailed a process of (1) appointing more independent¹⁴⁶ directors, (2) professionalising board structures by instituting nominating, compensation and audit committees, and (3) strengthening the link between executive remuneration and stock prices.¹⁴⁷ However, the renewed investor focus on managerial accountability was ultimately motivated by the objective of maximising shareholder returns. By mitigating the conflicts of interest ('agency costs') between shareholders and managers while maximising economic output, the public interest was thought to be served through the trickle-down effect of enhanced market efficiency. 'Shareholder primacy' postulates that "the best means to this end - the pursuit of aggregate social welfare - is to make corporate managers strongly accountable to shareholder interests, and (at least in direct terms) only to those interests".¹⁴⁸ Thus, most institutional investors typically adhered to a narrow view of corporate governance issues deemed material for decision-making.

During this period, institutional investors' oversight role was generally limited to narrowly defined governance issues aligned with the doctrine of 'shareholder primacy'. Episodic social campaigns, such as the South African apartheid divestment movement, typically orchestrated by pension funds and various socially responsible investors, are notable exceptions and important historical antecedents of the investor stewardship movement. For instance, the Interfaith Center on Corporate Responsibility was founded in 1971 as an investor coalition devoted to "using their financial stake in some of the world's most powerful companies to promote a corporate response to the human rights abuses occurring under the racist apartheid system in South Africa".¹⁴⁹

However, apart from a few notable examples, shareholder activism during this era was dominated by efficiency-driven investors using adversarial tactics aimed at unlocking short-term shareholder value through financial engineering. As the doctrine of ‘shareholder primacy’ and the disciplining threat of takeovers aligned managerial behaviour with shareholder value maximisation, institutional investors’ governance role remained largely perfunctory in most capital markets.

Table 10.3. Shareholder capitalism (late 1970s–2010s)

Ownership	Rise of institutional equity ownership, particularly in the US and the UK, but extensive family and individual ownership of listed companies in other regions, such as Europe and Asia.
Corporate governance	<i>Key question:</i> how should power is allocated within a company to ensure that management acts in the best interests of shareholders? <i>Focus:</i> ensuring that managers act in the best interest of shareholders.
Role of the board	Enhanced monitoring role; more independent and accountable to shareholders; staggered tenures; board structure generally limited to nominating, compensation and audit committees.
Public interest	Best promoted by reducing agency costs ¹⁵⁰ – or conflicts of interests between managers and shareholders – to maximise firm value as measured by share price, which enhances efficiency and wealth creation.
Accountability	Regulation; shareholder activism (mostly driven by financial incentives); the threat of takeovers, as facilitated by the market for corporate control, fosters market discipline.

From shareholder capitalism to asset manager capitalism

While the modern story of the role of institutional investors in steering corporate conduct can be traced back to the 1970s, the rise of the modern business sustainability movement from the 1990s onwards has energised the debate on the power of capital allocation in creating a more sustainable economy. The governance flaws exposed by the wave of corporate scandals at the turn of the century,¹⁵¹ as well as initiatives convened by the United Nations, such as the launch of the UN Principles for Responsible Investment in 2006, have problematised the responsibility of institutional shareholders as long-term stewards of capital.¹⁵²

The public conversation about the responsibility of institutional investors has been further galvanised by the systemic upheaval prompted by the 2007–09 Global Financial Crisis. In the aftermath of the crisis, many regulators across the world concluded that institutional investors’ role in the oversight of boards was ineffective due to the lack of robust monitoring and excessive short-term risk-taking, which reflected an abdication from their governance duties.¹⁵³ As a result, shareholders were cast as “absentee landlords”¹⁵⁴ whose lack of effective engagement on governance issues has led to “ownerless corporations” that operated with few accountability strings.¹⁵⁵

In the UK, following the Walker review, the Financial Reporting Authority took the lead in redefining the responsibilities of institutional investors by introducing the world’s first Stewardship Code in

2010.¹⁵⁶ This original code aimed to elevate corporate governance standards by enhancing the quality of shareholder–board engagement and deterring detrimental behaviours such as short-termism and excessive risk-taking.¹⁵⁷ Since then, over 20 countries have codified UK-inspired stewardship principles.¹⁵⁸ This trend has been reinforced by regional legislative initiatives focused on empowering shareholders and nudging the industry towards more responsible business practices, such as the EU Shareholder Rights Directive II and the EU Sustainable Finance Disclosures Regulation, that seek to strengthen shareholder rights and encourage institutional investors to steer company behaviour towards sustainable outcomes.¹⁵⁹

From the initial stewardship expectations focused on improving long-term returns to shareholders by enhancing monitoring, the focus of stewardship has evolved towards the proactive use of institutional shareholders' power to intentionally drive the sustainability performance of companies. In recent years, several jurisdictions, including the UK, Netherlands, Japan and Hong Kong, have revised their Stewardship Codes by incorporating sustainability more explicitly into their prescribed stewardship principles.¹⁶⁰ Investor stewardship on material sustainability-related issues has also become increasingly accepted across jurisdictions as compatible with the investment managers' fiduciary duties, albeit investors preserve wide discretion over the means to influence sustainability outcomes.¹⁶¹

Much of the post-2010 push for stewardship stems from changes in ownership patterns. First, the last 10–15 years have been characterised by the increasing concentration of stock ownership in the portfolio of asset managers. Second, the share of passively managed assets has more than doubled.¹⁶² The Thinking Ahead Institute reported that passively invested assets now account for 34.7 per cent of the total assets under the management of their sample.¹⁶³ Third, the prevalence of 'common ownership' – a situation where an investor, such as an asset manager, holds significant stakes in competing companies – has increased, raising questions about the legal and market implications of these trends.¹⁶⁴

Against this backdrop, a nascent paradigm of corporate governance has crystallised. Reflecting the trends in corporate ownership patterns as well as growing awareness of sustainability challenges, this emerging paradigm seeks to move the corporate governance focus beyond the narrow concern with firm-level, principal–agent conflicts between managers and shareholders towards the use of corporate governance devices to internalise negative externalities, mitigate systemic risks and deliver sustainability benefits.¹⁶⁵

One of the core themes of this paradigm is the role of asset managers in the new corporate governance regime. Scholars have noted an increasingly assertive role of asset managers in corporate governance, documenting how they can serve as quasi-regulatory actors in setting corporate norms and steer company behaviour.¹⁶⁶ Their influence over capital markets instigated some observers to proclaim, "the age of asset manager capitalism", highlighting the centrality of asset managers in the investment chain.¹⁶⁷

A key assumption underlying the elevated expectations regarding the responsibility of asset managers is the idea that the widely diversified, global portfolios of large asset managers automatically turn them into ‘universal owners’,¹⁶⁸ which implies that their shareholdings spanning across industries, markets and countries should make them inherently invested in the long-term sustainability of the economy rather than focusing on the short-term performance of individual companies.¹⁶⁹ Therefore, by holding equity stakes in most public companies globally, often through passive investment vehicles that lock in their ownership positions for an indefinite horizon, asset managers are presumed to have a fundamental interest in addressing challenges that undermine the long-term integrity of the critical systems on which sustainable value creation depends.

As these shifting corporate ownership patterns translate into new board–shareholder interaction dynamics, boards have been under increased pressure to evolve towards a wider representation of independent directors in boardrooms, the declassification of board tenures, the diversification of board composition, the creation of more governance-related and sustainability committees, and the increasing professionalisation of ESG oversight to deliver sustainability benefits alongside financial performance.¹⁷⁰

Table 10.4. Asset manager capitalism (2010s – present)

Ownership	Ownership concentration in the portfolio of large-scale global asset managers with widely diversified portfolios; prevalence of common ownership (ie horizontal shareholding in competing sectors); rise of passive investment strategies.
Corporate governance	<i>Key questions:</i> how power is allocated between the company and society at large? What are the duties of ‘universal owners’ with respect to systemic risks? How to address the novel, multi-layered set of principal–agent conflicts between corporate managers, institutional investors (record owners), and the interests of the beneficial owners of the assets (savers)?
Role of the board	More independent and diverse; move towards de-classified tenures; more engaged in strategy formulation; rise of governance-related and sustainability committees; wider oversight remit; increasing expectation to balance shareholder value and stakeholder interests while delivering social and environmental benefits.
Public interest	Best promoted by making companies directly account for their external impacts and encouraging institutional investors to address systemic risks (premised on the hypothesis that their status as ‘universal owners’ makes them more sensitive to portfolio-level, systemic risks.
Accountability	Regulation; stewardship across the investment chain, stakeholder pressure.

List of our sample of asset managers

Asset manager	Country	Assets under management, US\$ thousands ¹⁷¹	Asset manager (Continued)	Country	Assets under management, US\$ thousands
BlackRock	US	\$8,594,488	AXA Group	France	\$995,407
Vanguard Group	US	\$7,252,612	Schroders	UK	\$887,227
Fidelity Investments	US	\$3,655,574	Deutsche Bank	Germany	\$876,789
State Street Global	US	\$3,481,473	Sumitomo Mitsui Trust Holdings	Japan	\$855,024
J.P. Morgan Chase	US	\$2,766,000	Aegion Group	Netherlands	\$797,852
Goldman Sachs	US	\$2,547,000	Federated Hermes	US	\$668,901
Allianz Group	Germany	\$2,285,496	Nippon Life Insurance	Japan	\$642,528
Capital Group	US	\$2,175,965	Macquarie Group	Australia	\$542,791
Amundi	France	\$2,031,753	Generali Group	Italy	\$538,762
UBS	Switzerland	\$1,845,000	Nomura Asset Management	Japan	\$468,829
Legal & General	UK	\$1,444,393	Asset Management One	Japan	\$459,526
Invesco	US	\$1,409,204	abrdn	UK	\$452,400
Franklin Templeton	US	\$1,387,686	Nordea	Denmark	\$383,122
T. Rowe Price Group	US	\$1,274,700	Janus Henderson Group	UK	\$287,290
BNP Paribas	France	\$1,269,246	Baillie Gifford	UK	\$268,705
Northern Trust	US	\$1,249,500	Ninety One	South Africa	\$159,294
Morgan Stanley Investment Management	US	\$1,234,226	Old Mutual Investment Group	South Africa	\$72,308
Wellington Management	US	\$1,149,360	Coronation Fund Managers	South Africa	\$35,395
Nuveen	US	\$1,090,174			
HSBC Holdings	UK	\$1,087,000			

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³ Our sample includes 40 geographically diverse asset managers: 15 of the largest American asset managers by assets under management, 15 European asset managers (including those from the UK), five Asian asset managers, the four largest asset managers in Africa, and the largest Australian asset manager. The selection generally mirrors the ranking order of the Thinking Ahead Institute, with some deviations explained in the Appendix.

⁴ Since individual engagements can fall under multiple categories, the aggregated percentages exceed 100 per cent.

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