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Business Briefing



Future of Boards

The Rise and Influence of Investor Stewardship



DLA PIPER

The University of Cambridge Institute for Sustainability Leadership

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Authors

Lead Author/Researcher:
The lead author and researcher of this report is Dan Mocanu, with support from Gillian Secrett and Dr Livia Ventura.

CISL Future of Boards Research Team:
Dr Louise Drake, Bianca Drotleff, Fauzan Gani, Dan Mocanu, Aileen Noonan, Gillian Secrett (Lead), Dr Livia Ventura, Andrea Westall.

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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.





Michael Sheren

Fellow, University of Cambridge Institute for Sustainability Leadership

Sustainability Governance Expert, World Economic Forum

Former Senior Advisor, Bank of England

Former Co-Chairman,
G20 Sustainable Finance Study Group

1/ Executive summary

Boards are under increased scrutiny from an empowered investor base. As many long-term investors are taking a more hands-on approach, aligning their capital decisions with efforts to influence companies through stewardship activities, the old playbook of short-term share value maximisation is no longer enough. Boards are being compelled to expand their oversight responsibilities and take a proactive leadership role in driving sustainable value creation. What is at stake is ensuring that the business the board is responsible for is ready for a new future increasingly defined by sustainability concerns and that people's savings are invested in a future that is stable, resilient and likely to deliver long term benefits.

Publicly listed companies are key engines of economic prosperity through job creation, capital formation, innovation and tax revenue. At the same time, listed companies worldwide are estimated to be responsible for up to 40 per cent of all climate-warming emissions.[1] Who owns these companies profoundly affects how they are governed, in whose interest, and how effective boards of directors are in making business success consistent with planetary boundaries and sustainability outcomes.

The rise of asset management firms as the dominant class of shareholders in listed companies has shifted the global balance of corporate power, increasing shareholder participation in corporate governance. Asset managers, as custodians of other people's money driven by a fiduciary mindset,[2] are no longer merely expected to chase short-term financial gains. They are now increasingly called upon by regulators, their clients and civil society to wield their power of capital allocation and stewardship capabilities to steer markets towards long-term sustainable outcomes. As a result, public company boards are facing a wave of escalating, specific and increasingly prescriptive expectations that extend well beyond the conventional remit of board oversight.

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".[3]

The scope of analysis for this report focuses on the stewardship activities of a geographically diverse sample of 40 of the largest asset managers by assets under management (AUM) across five regions: America, Europe, Asia, Africa and Australia.

This report aims to assist boards in contextualising the influence of shareholder stewardship on corporate governance, offering an evidence base to navigate the evolving investor landscape. It seeks to empower boards to take a leadership role in driving sustainable value creation. The report maps the drivers, enablers and barriers of asset manager–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.

The report also aims to encourage more asset managers to engage in a meaningful way with boards to achieve this goal. Effective stewardship at its best requires a firm-wide commitment from asset managers, driven by a unified sense of purpose. Therefore, breaking down organisational silos, resourcing stewardship appropriately, and aligning staff incentives are critical steps to embedding stewardship into investment decision-making.

Leveraging quantitative and qualitative data, we aim to offer systematic 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.

The key findings of this research are summarised on page 6 together with a summary of key data from the research on page 7. The questions for boards and asset managers have been devised as a tool to aid both communities in their strategic thinking, planning and execution to deliver business success in service of a sustainable future.

Key Findings

Systemic pressures

Large asset managers increasingly recognise that company-specific risks are compounding into systemic risks, which cannot be mitigated through diversification alone. Therefore, some large asset managers increasingly frame their power of investment through an 'additionality' lens – understood as seeking to use their 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.

Shareholder voting influence

Asset managers' voting policies increasingly set expectations for boards to provide proactive oversight and address sustainability issues.

The potential of shareholder voting as a driver of sustainability remains as yet unrealised. Evidence shows that shareholder voting on environmental and social issues does not match the scale or speed needed to accelerate the sustainability transition.

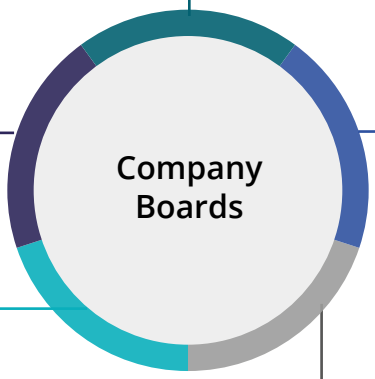
Legislation influence/ potential influence

There is a growing frustration over the avalanche of reporting requirements, with many board members failing to see how these are materially connected to decision-making.

Many board members noted the increasing weaponisation of environmental, social and governance (ESG) factors as a tool for pursuing political and social causes, often at the expense of the original intent of these principles. However, the current debate is viewed as an opportunity to critically reassess the underlying assumptions and norms governing the ESG landscape, with the goal of anchoring them in better evidence and making sustainability efforts more targeted, tangible and systemic.

While investor-led strategies are essential, they are often too localised and fragmented to address system-wide issues such as climate change, biodiversity loss, and social polarisation. For investor pressure to be truly effective, it must be complemented 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.

Legislative and regulatory interventions play a critical – and often overdue – role in establishing the necessary frameworks and incentives for aligning markets with sustainability imperatives.



Asset managers are competing for limited bandwidth of investee companies' boards and executive management.

Greater asset manager participation in the governance of listed companies has led to occasional tension between the pressure from large institutional shareholders and the board's responsibility to equitably balance the preferences of various stakeholder groups.

Private engagement influence

Private engagement with investee companies has emerged as the preferred method for asset managers to influence corporate decisions. 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. Private engagements by these 40 large asset managers increased by 36 percent, rising from approximately 50,000 cumulative annual engagements in 2020 to around 68,000 in 2023. Moreover, the world's top ten asset managers nearly doubled their reported private engagements with investee companies between 2019 and 2023, increasing from approximately 8,704 cumulative annual engagements in 2019 to 15,187 in 2023.

The recurring drivers of private engagement were found to be:
(1) the **quality of board governance**, in particular board composition, leadership incentives and oversight capabilities;
(2) the **expansion of corporate disclosures** to allow better assessment of material risks;
(3) and **the formulation of sustainability (eg climate) targets and their operationalisation** through dedicated corporate policies and business strategies.
On the other hand, only a minority of the engagements in our sample requested companies to match commitments and targets with corresponding investment. This is especially critical now, as companies reach a stage where, after several years of climate pledges, delivering results becomes crucial and trade-offs become more apparent.

The effectiveness of asset managers' engagements with companies and boards largely hinges on their ability to leverage their scale, expertise and market intelligence in a way that provides valuable insights to boards and their companies, and supports their strategic decision-making and oversight.

Stewardship representatives delegated by asset managers need credibility and industry expertise to earn the trust of their corporate interlocutors and instil confidence in boards that the feedback they receive is not only well intentioned but also profoundly informed and strategically sound.

Summary of key data from the research

Asset owner requirements

Define stewardship expectations for asset managers, hold them accountable, and reward good stewardship

E.g. Over 5000 signatories to the UN Principles for Responsible Investment; collaborative investor coalitions (e.g. Climate Action 100+, Net-Zero Asset Owner Alliance).

defines roles

key data from the research

Asset manager stewardship

"responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society" [4]

Voting

transparent mechanism through which shareholders can support, challenge, and hold companies accountable by voting their shares

- Today, voting policies increasingly define expectations regarding board oversight of issues beyond the conventional remit of governance.
- While significant regional variation exists, there is a trend toward integrating more sustainability-related provisions into asset managers' stated governance expectations.
- Heavily shaped by legal and regulatory contexts.
- Environmental and social resolutions are mostly focused on disclosure requests.
- So far, limited impact as a lever of corporate sustainability.
- More effective when used strategically in conjunction with other levers

Mutually-reinforcing

Private Engagement

the purposeful dialogue between companies and their shareholders to achieve targeted outcomes

- Offers a continuous and flexible approach where investors can directly influence corporate behaviour through open dialogue and negotiation.
- Often preferred by asset managers over the more adversarial voting channel.
- Overcomes blunt "one-size-fits-all" approaches.
- Enables the accumulation of social capital over time between investors and companies.
- Collaborative engagement between like-minded asset managers leverages economies of scale

Environmental and social resolutions (January 2015 – June 2024)*

Region	USA	EU + UK + Switzerland	Asia	Australia	Total
Total proposals	2230	626	710	118	3684
Initiated by shareholders	2224	337	549	104	3214
Passed (all)	135	275	113	15	538
Passed (all) %	6	43.9	15.9	12.7	16.6
Passed (shareholder initiated)	132	44	15	4	195
Passed (shareholder initiated), %	6	13	2.7	3.9	6

* Methodological details available in the Appendix to the technical report

Drivers of private engagement



Voices from the Boardroom

Growing shareholder participation in corporate governance

"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." **(Board member, Hong-Kong-based public company)**

"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". **(CFO and executive board member, UK-listed company)**

Board-shareholder engagement on sustainability no longer optional

"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". **(Board member, UK-listed company)**

"Institutional investors, walk away with their money if they don't see that I am actually looking at the sustainability related risks". **(Board member, multiple companies)**

Fiduciary duties under scrutiny

"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" **(Board Chair of UK-listed company)**

ESG backlash

"Part of the SDG [Sustainable Development Goals] agenda is in danger of being hijacked by those with political views in mind. That's just a frustration that you're increasingly hearing in boardrooms." **(Advisor to Board Chair, cross–listed public company)**

2/ Key questions for boards and asset managers

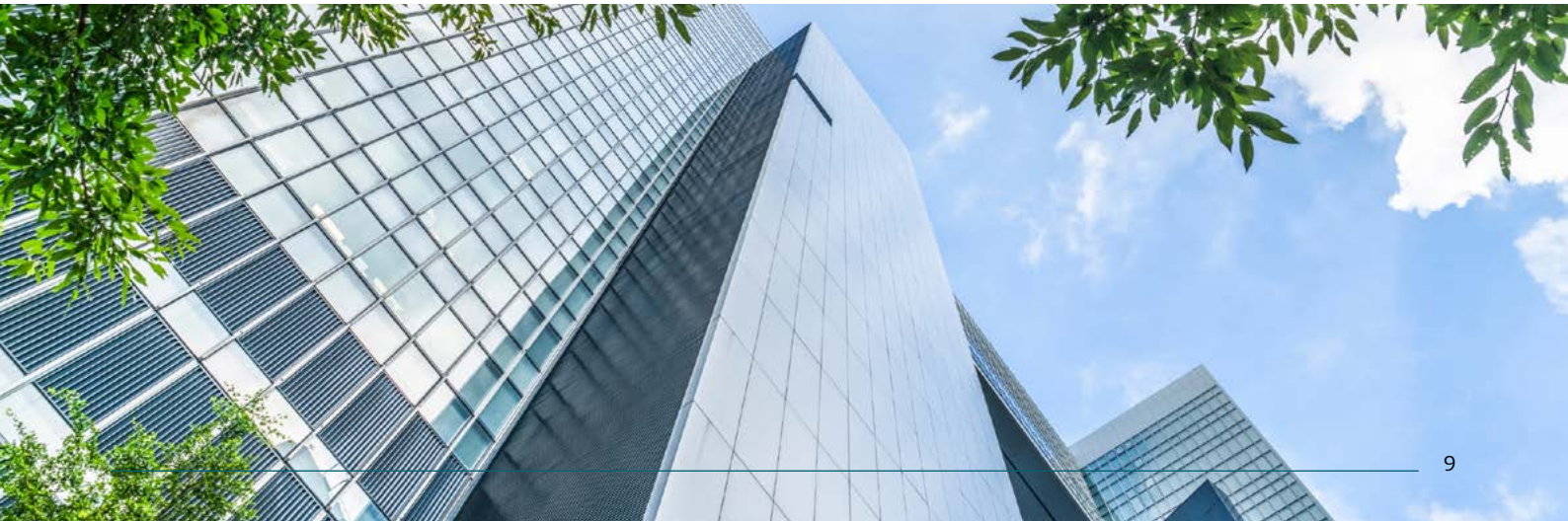
To help make the most of this report, we propose two sets of questions—one designed for boards and the other for asset managers— aimed at fostering an introspective reflection on the status quo. These questions are intended to stimulate constructive dialogue around the governance practices needed to 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 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. How do you strategically employ your diverse levers of influence—eg research, voting, individual and collaborative engagements, public campaigns, policy advocacy and divestment—in a synergistic manner to address compounding market-wide sustainability risks and unlock the 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?



3/ About the research

3.1 Why now – context for the research

The Future of Boards research has been a two-year collaboration between the University of Cambridge Institute for Sustainability Leadership (CISL) and the global law firm DLA Piper, exploring how business boards are responding to growing pressure and scrutiny from stakeholders and investors to manage both climate and nature-related risks, as well as their impact on people.

We carried out the work in two phases.

Phase 1: Future of Boards research identified 22 trends affecting company boards, including the increase in sustainability-related legislation and soft law across a range of jurisdictions around the world. It also assessed these trends for their likely impact on creating a more sustainable world for people and planet. The work was published in 4 reports:



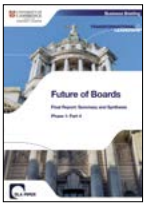
Part 1: Foundation and Methodology, sets out the context, rationale, theoretical underpinning and business logics used for analysis in the study, as well as the research design of this two -year project.



Part 2: Legal and Regulatory Frameworks for Sustainability, explores the changing legal context associated with sustainability, the underlying drivers and the practical implications for corporate boards (technical report).



Part 3: Trends in Board Practice: Insights from our Initial Exploratory Research, explores trends in board practice, including those in response to the evolving legislative context and wider pressures to achieve sustainability outcomes (technical report).



Part 4: Summary and Synthesis Report for Business, provides both a synthesis of the detailed findings from parts 1,2,3 and a summary of the key facts, and their potential implications for boards. (business briefing). To help boards better understand the landscape and navigate future shifts, it includes a set of 20 pivotal questions for boards to use as a tool to facilitate discussion and prepare strategically.

Phase 2 Future of Boards research explores several key findings identified in Phase in greater detail to understand the impact and implications for boards in terms of delivering business success that contributes towards a sustainable future for people and planet. The work is published in three reports:



The Rise and Influence of Investor Stewardship (business briefing), presents the executive summary and key findings from the research including 12 key questions for boards and 12 key questions for asset managers to use as a tool to facilitate discussion and action.



The Rise and Influence of Investor Stewardship (technical report), explores the stewardship activities of asset managers and their influence on boards in terms of driving sustainable value creation.



From Box Ticking to Sustainable Value Creation (executive summary), provides a brief summary of the use of relevant impact data and wider information in strategic decision making.



From Box Ticking to Sustainable Value Creation (technical report), explores the use of relevant impact data and wider information in strategic decision making (summary and research data), including 20 key questions for boards to use as a tool to facilitate discussion and action.

3.2 Approach and methodology

We focused on two levers of shareholder influence: (1) shareholder voting and (2) private, behind-the-scenes direct engagement with investee companies and their boards. We limited our analysis to the stewardship activities of a geographically diverse sample of 40 of the world's largest asset managers by assets under management (AUM) across five regions: 15 American asset managers, 15 European asset managers (including the UK), five Asian asset managers, four asset managers from Africa and one Australian asset manager. Collectively, they hold approximately £44 trillion in AUM. The full sample is available in the Appendix to the technical report.

Our analysis is based on five main sources of data:

Data source	Description
Latest available voting policies of the 40 large asset managers in our sample	These documents inform how asset managers cast their votes at annual general meetings (AGMs). We reviewed the policies using an inductive content analysis approach, identifying key principles and expectations.
Shareholder voting records	Using data from Diligent Market Intelligence (DMI), a global provider of shareholder voting analytics, we retrieved information on environmental and social resolutions, as labelled by DMI, that were balloted at the AGMs of listed companies in the US, Europe (EU, UK, and Switzerland), Asia, and Australia between January 2015 and June 2024. We excluded resolutions related to charitable donations and the approval of political contributions, as they tend to reflect short-term, conjunctural financial allocations and disproportionately inflate the sample size.
Asset manager engagement data	We manually gathered private engagement data from the stewardship reports of the 40 large asset managers in our sample (2019 and 2023).[5]
500 engagement case studies	We also compiled a small sample of 500 engagement case studies from public disclosures covering all 40 asset managers in our sample.
Interviews	Our evidence base was supplemented with 18 interviews: six with senior representatives from the investment community (heads of stewardship, heads of active engagement and senior stewardship managers), who collectively oversee global stewardship activities for £6.3 trillion in AUM; 12 interviews with public company representatives, comprising eight board members, two senior executives and two board chairs of large professional services firms. The interviews were completed between April 2023 and June 2024. The full list of interviewees is available in the Appendix to the technical report.



4/ Mapping asset managers' expectations

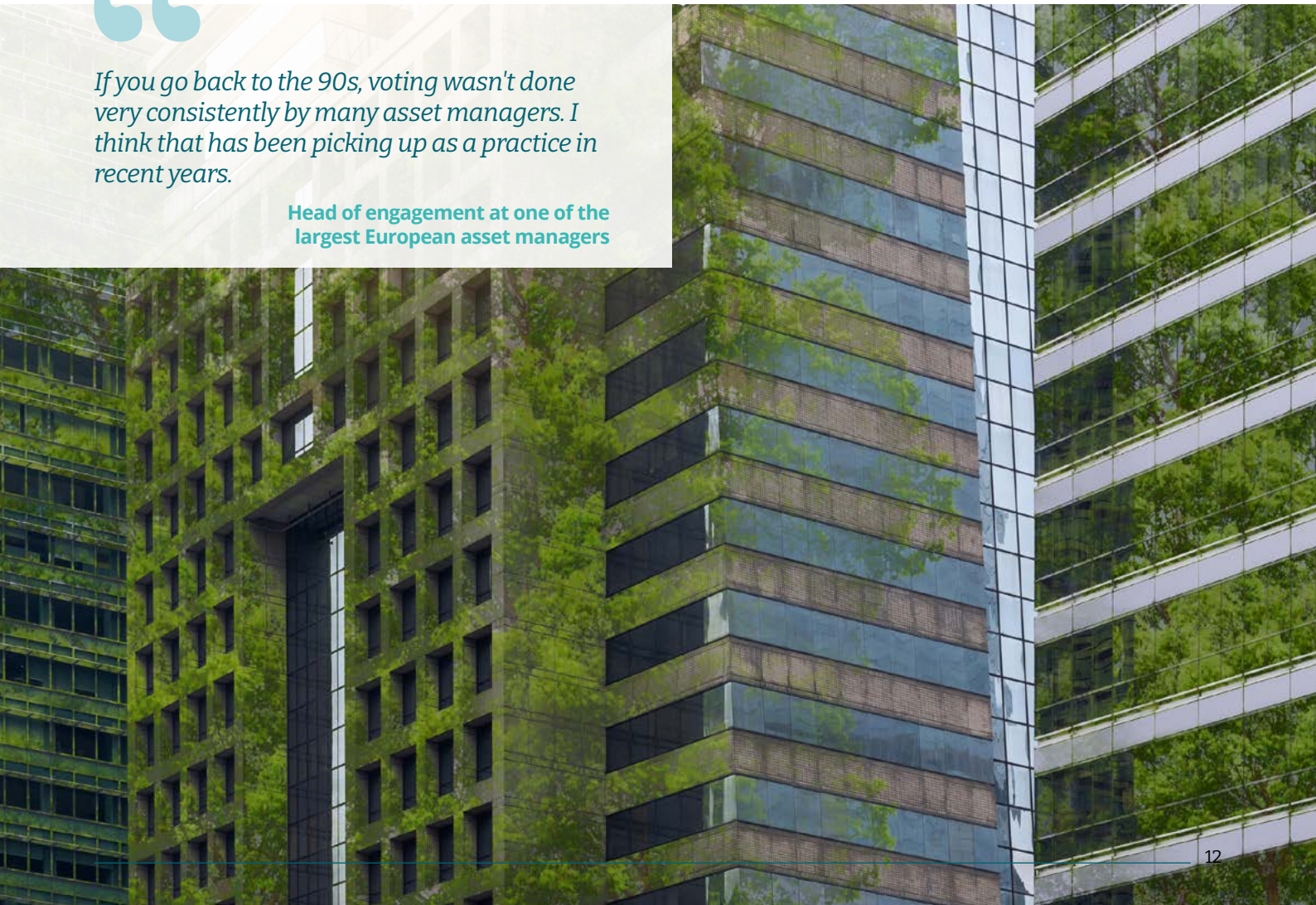
4.1 Key findings

Voting policies now encompass a broader range of sustainability issues, extending beyond traditional corporate governance. Across our sample of 40 asset managers, 38 embed at least some sustainability-related/ESG considerations into their voting policies. Climate risks are addressed in the voting policies of 28 asset managers, while human rights expectations are referenced by 26 entities. Evidence suggests that biodiversity and nature-related risks are receiving pronounced attention, particularly from European asset managers, with 18 entities in our sample integrating provisions on these issues. Therefore, boards are increasingly expected to enhance their oversight capabilities and demonstrate leadership in managing sustainability challenges as intrinsic determinants of risk and sustainable value creation.

> *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 interest.*
>
> **Board member of a Hong-Kong-based Asian conglomerate**

While the incorporation of sustainability considerations into asset managers' voting policies signals progress in their understanding of the material drivers of costs, risks and opportunities that shape long-term business performance, much work remains to fully harness their voting power to enforce the principles, guidelines and practices outlined in these policies.

> *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.*
>
> **Head of engagement at one of the largest European asset managers**



4.2 Implications for boards

- With asset managers embedding more sustainability considerations into their voting policies, acknowledging that the drivers of shareholder return are inseparable from sustainability performance, boards are being held to stricter accountability standards.
- The focus on sustainability in voting policies will likely continue to drive greater demands for transparency and disclosure regarding sustainability/ESG risks and performance. Asset managers, facing regulatory pressures and client expectations, will likely continue to push for more robust and standardised reporting. Therefore, boards are expected to strengthen their oversight of ESG data pipelines and corporate disclosures.
- Asset managers often grapple with balancing their role as active stewards of capital while maintaining positive relationships with investee companies, carefully avoiding excessive pressure that could strain these ties. Some boards may mistakenly believe they are shielded from investor scrutiny due to the reluctance of many asset managers to fully wield their influence for change. However, boards that ignore pressing sustainability issues risk being caught off guard when investor pressure shifts more decisively toward enforcing sustainability priorities to preserve market returns.
- While it may be unrealistic to expect asset managers to serve as the sustainability enforcement arm of capital markets—given the institutional constraints, conflicting incentives, and complex trade-offs they face—they often hold the upper hand in identifying sources of material risk. By tapping into the market intelligence of forward-thinking asset managers, boards can stay ahead of the curve, anticipating risks and improving their strategic foresight and oversight capabilities.

4.3 Evidence

As of 2023, 43 countries had mandated that institutional investors both adopt and disclose their voting policies.[6] 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 with a case-by-case approach. However, secondary research indicates that simply disclosing these voting policies can pressure companies to align their practices with investor expectations.[7]

Originally, these documents focused on general principles concerning basic governance elements, such as board structure, director elections, capital structure, compensation and shareholder rights. However, our review highlights a significant evolution in both the scope and complexity of what are now recognised as legitimate drivers of board quality and corporate governance, indicating a shift towards more detailed and prescriptive guidelines on a range of issues outside the conventional boundaries of board oversight. Below, we provide a synthesis of asset managers' expectations for boards and their companies as articulated in the voting policies of our geographically diverse sample of 40 of the world's largest assets managers.

> *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 risk.*
>
> **Board member of multiple companies in the financial and professional services industries**



Overview of asset manager expectations mentioned in our sample of 40 voting policies

Topic	No. of voting policies	Good practices identified in voting policies
Board independence		• Boards must ensure they are composed of a sufficient number of independent directors who not only meet formal independence criteria but also demonstrate genuine independence of thought and judgement.
Support for majority-independent boards	28	
Board diversity		• The composition of the board should not only reflect the demographic makeup of the company – including the workforce, customers, suppliers, investors and the communities in which it operates – but also embody a diversity of skills, experiences and contrarian perspectives essential for robust decision-making.
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 of nationality	5	
Board skills		• Boards are expected to ensure that their nomination committee effectively aligns the board skill matrix with the oversight of sustainability matters. • They should clearly explain the criteria used to recommend the board's skills structure, and conduct evaluations that assess individual director contributions, with outcomes disclosed transparently. • Furthermore, boards are encouraged to disclose any retrenchment devices, such as classified tenures, and ensure regular board refreshment.
Sustainability/ESG skills in the boardroom	5	
Board commitment ('over-boarding')		• Given the growing demands on boards' oversight capabilities, boards are expected to adopt and rigorously enforce director commitment policies that guarantee directors have ample time for thorough preparation and active engagement in board meetings, while also mitigating the risks associated with over-boarding.
Up to five directorships	13	
Up to four directorships	6	
Up to three directorships	6	

Topic	No. of voting policies	Good practices identified in voting policies
Board committees		• Boards are encouraged to ensure that key committees –such as audit, nomination and risk – are composed of a majority of independent directors to safeguard impartial decision-making, ensure essential expertise in the boardroom and mitigate potential conflicts of interest.
Support for majority-independent key committees	26	
Explicit support for sustainability/ESG committees	5	
Board tenure		• Boards must carefully design their term limit policies to balance the need for fresh and diverse perspectives with the retention of experienced, value-adding directors, without imposing arbitrary constraints on tenure.
12 years' tenure	6	
9 years' tenure	3	
4 years' tenure	2	
Against tenure cap	2	
CEO-chair separation		• Boards are encouraged to ensure a clear separation between the roles of CEO and Chair of the Board to promote balanced leadership, prevent the concentration of power and enhance independent oversight. • In cases where these roles are combined, it is crucial to implement mechanisms, such as appointing a senior or lead independent director, to counterbalance the concentration of power. Failure to do so may compromise the board's ability to provide effective oversight and maintain governance integrity.
For	27	
Against	4	
Sustainability/ESG oversight	38	• Understand the sustainability-related risks and drivers of value creation, assessing how various sustainability trajectories could impact the organisation in terms of financial, physical, regulatory and reputational risks. • Implement and disclose board-level governance structures and processes, supported by incentive mechanisms, to identify and mitigate sustainability risks. • Integrate sustainability into every facet of the company's business functions and long-term strategy. • Enhance disclosure of sustainability information using recognised frameworks to provide more visibility into the company's operations and sustainability performance.

Topic	No. of voting policies	Good practices identified in voting policies
Climate	35	• Understand the impact of climate change across company operations and along the value chain. • Quantify the financial impacts of climate-related risks and opportunities, enabling investors to make informed decisions and allowing 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 Task Force on Climate-related Financial Disclosures (TCFD) standards. • Establish science-based GHG reduction targets validated by third-party organisations, accompanied by a credible decarbonisation plan. • Develop a comprehensive climate strategy that integrates the company's entire value chain, providing annual disclosures on climate progress and outcomes. • Ensure formal board oversight of climate-related risks and opportunities, with a dedicated committee or directors responsible for climate governance. Enhance the board skills matrix to include climate expertise, balancing fresh perspectives with seasoned experience. • Incorporate climate-related key performance indicators (KPIs) into executive compensation structures to align leadership incentives with climate objectives. • Ensure that capital expenditures are consistent with the company's climate goals. • Transparently disclose the company's climate lobbying efforts, ensuring that advocacy activities align with the company's climate strategy. • Hold regular advisory votes on the company's climate strategy, allowing shareholders to provide input and assess the company's progress towards climate goals. • Incorporate climate considerations into financial statements, clearly demonstrating how climate-related risks and opportunities are factored into financial reporting and decision-making.
Human rights	26	• 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 UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multi-National Enterprises.

Topic	No. of voting policies	Good practices identified in voting policies
Human rights (continued)	26	• 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. • 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 or child labour, or that fail to comply with applicable laws protecting employees. • Conduct regular supplier reviews and disclose outcomes.
Workforce diversity	21	• Disclose data relating to workforce diversity consistent with applicable standards. • Formulate diversity policies and targets. • Articulate how the board oversees and evaluates the effectiveness of workforce diversity strategies, ensuring alignment with the company's broader goals and values.
Labour rights and workplace conditions	19	• 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, 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, allowing investors to regularly assess employee relations.
Environment (biodiversity, natural resources)	18	• 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. • Assess and report on their key impacts and dependencies on biodiversity and implement biodiversity mitigation strategies with clear timelines, particularly in sectors with a significant impact on natural capital. • Establish measurable biodiversity targets and report on progress using recognised frameworks, such as the Taskforce on Nature-related Financial Disclosures.

Topic	No. of voting policies	Good practices identified in voting policies
ESG/sustainability-linked remuneration	14	• Ground remuneration policies in a thorough materiality analysis of the drivers of risks and value creation. • 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 dilution. • Set performance periods that are not too short, typically no less than three years, and ensure a balance between sustainability/ESG-related metrics and other performance conditions. • Assign a meaningful weighting to sustainability-related KPIs to effectively drive desired behaviours and outcome (typically no less than 10 per cent of the variable remuneration).
Supply chain risks	11	• Implement robust due diligence processes to identify, assess and manage supply chain risks, including labour practices, environmental impact and geopolitical factors. • Transparently report on how these risks are monitored and mitigated, with clear executive-level accountability.

Other topics addressed in the voting policies from our sample	
Health risks	6
Animal welfare	5
Product safety and toxic/ hazardous materials	5
Energy policy	6
Circular economy and recycling	3
Tax transparency	4
Income inequality	1



5/ Investor stewardship through voting

5.1 Key findings

Evidence shows that shareholder voting on environmental and social (E&S) issues does not match the scale or speed needed to accelerate the sustainability transition. Despite the increase in the number of environmental and social resolutions at the AGMs of public companies in the US, Europe (EU, UK, Switzerland), Asia, and Australia—particularly over the last five years—the potential of voting as a driver of sustainability appears limited.

The data reveals a consistent pattern. First, the number of environmental and social (E&S) proposals balloted at AGMs of public companies in the US, Europe (EU, UK, Switzerland), Asia, and Australia over the past decade has remained very low relative to the global number of public companies. Second, only about 16 percent of E&S proposals, whether initiated by management or shareholders, reached the required approval threshold. While most resolutions fail to pass, they still have an impact, as boards often address the issues raised indirectly to maintain investor confidence and public legitimacy. However, the data underscores the difficulty of gaining broad shareholder support for these proposals. Third, outside of the US, the volume of shareholder-initiated E&S proposals is minimal. Shareholder-initiated E&S proposals accounted for 9.8 percent of the 37,350 shareholder proposals in our sample. Of those, only 195 (6 percent) were approved over the last decade across the US, Europe, and Asia and Australia.

> *Voting is a signal of investor concern, but it is sent in Morse code; it's not a sophisticated signal.*
>
> **Head of stewardship at a large American asset manager**

Voting is an essential corporate accountability mechanism, bringing corporate decision-making from the confines of the boardroom into the public sphere. It remains the most transparent forum through which corporate issues are negotiated, contested, and adjudicated, with contentious votes often having serious repercussions for companies and board directors. However, despite its potential, evidence shows that voting has yet to fully realise its promise as a driver of meaningful sustainability outcomes.

5.2 Implications for boards

- Relying on shareholder proposals to prompt board action on corporate sustainability is insufficient. Responsible boards are encouraged to proactively integrate sustainability considerations into their core strategies and business model, and seek opportunities to explain to their shareholder base how long-term shareholder value is intrinsically connected to sustainability performance.
- Boards are advised not to underestimate the influence of investor sentiment. The mere existence of sustainability-related resolutions, whether passed or not, can signal potential weaknesses in the company's approach to these issues, raising red flags for market stakeholders. Proactively assessing and addressing sustainability/ESG-related risks before they reach the ballot could help boards avoid contentious AGMs.
- Understanding voting policies and monitoring voting trends on ESG-related resolutions across the market might help boards anticipate areas where dissent may arise and take pre-emptive corrective action.
- Most E&S proposals call for enhanced disclosure of material risks, and companies that are more transparent about their sustainability performance are likely to gain greater trust from investors and reduce the need for shareholder-driven governance interventions.
- Boards face the challenge of adapting their ESG strategies to align with regional investor expectations, which often differ in both the intensity of ESG activism and the hierarchy of priority criteria.



5.3 Evidence

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 annual average number of E&S shareholder proposals during our timeframe was 222 in the US, 55 in Asia, 34 in the EU, UK, and Switzerland, and 10 in Australia, (Figure 5.3). With approximately 58,000 companies worldwide, the number of E&S proposals indicates that the vast majority of companies are not subject to such direct influence through the public mechanism of shareholder voting.[8]

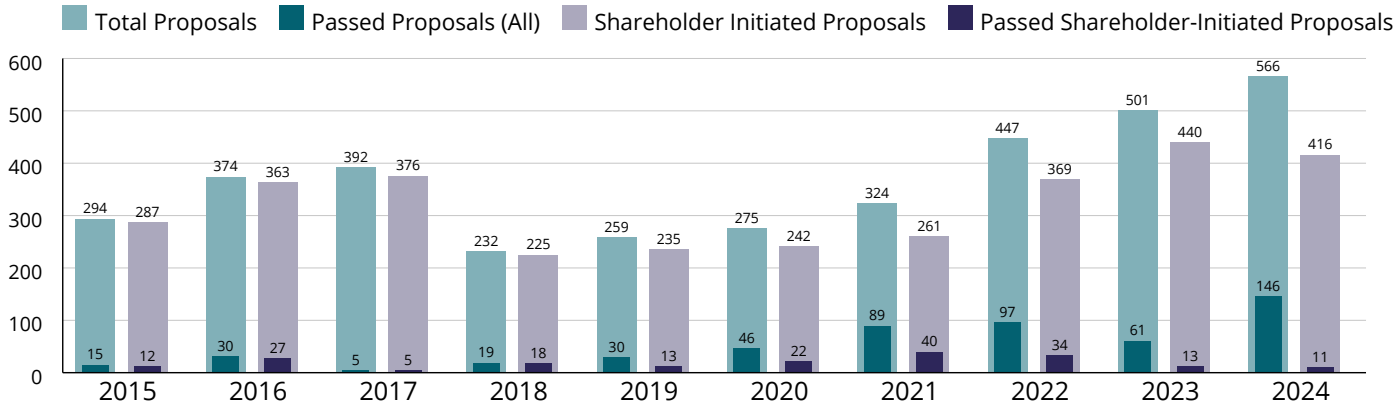


Figure 1: Overview of E&S Proposals Across the US, Europe (EU, UK, Switzerland), Asia, and Australia (January 2015 - June 2024). For methodological details, see the Appendix to the technical report.
Source: Diligent Market Intelligence

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 DMI database.

	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	16.4	15	2.7
Australia	118	104	15	12.7	4	3.9
Total	3684	3214	538	19.8	195	6.4

Table 1: Environmental and social resolutions (January 2015 – June 2024)

6/ Investor stewardship through private engagement

6.1 Key findings

Engagement with investee companies and their boards has emerged as asset managers' preferred route for influencing corporate change. 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 private engagements of the 40 asset managers in our sample have increased by 36 per cent in the last four years. The key issues addressed by asset managers in their engagements concern (1) the quality of board governance, in particular board composition and leadership incentives, (2) the scope and quality of sustainability disclosures, and (3) the formulation of sustainability targets and their operationalisation through corporate policies and business strategies. Only a minority of the engagements in our sample requested companies to match commitments and targets with corresponding investment. The modest share of engagements focused on aligning public commitments with investments warrants closer scrutiny. This is especially critical now, as companies reach a stage where, after several years of climate pledges, delivering results becomes crucial and trade-offs become more apparent.

> *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.*
>
> **Head of engagement of a big European asset manager**

Our interviewees identified regulatory action and asset owners' requests as the primary drivers of this momentum in asset managers' engagement with investee companies. 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.

Engagement is often advocated by asset managers as an alternative to divestment. While divestment sends a powerful signal, it does not improve a company's sustainability performance. At the same time, without tangible results, 'virtue signalling' stewardship risks reinforcing unsustainable practices, merely serving as window dressing that upholds the status quo under the guise of stewardship. Therefore, forging strong accountability mechanisms across the investment chain is crucial to ensure that engagement activities achieve sustainable outcomes in the interest of the ultimate beneficiaries. Moreover, our interviewees emphasised the need for asset manager 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.

> *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 like 'we're not going to divest; we're going to engage, and this is how we have impact'.*
>
> **Stewardship professional, European insurance company**



If engagement has failed, we vote against the board. If it still fails, we will eventually consider divesting officially.

Stewardship professional at a large European institutional investor

Board members recognise the intense scrutiny from asset managers and other investors, whose engagement requests and increasingly prescriptive expectations demand more board bandwidth. Failure to address these demands can expose boards to harmful consequences, such as loss of investor confidence, shareholder dissent and increased cost of capital. 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.

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. 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. 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.

Large asset managers increasingly recognise the importance of factoring systemic risks - factors that affect not only individual firms but also the entire investment portfolio or market in ways that cannot be mitigated through diversification - in their stewardship activities. This trend is reinforced by the increasing flow of capital into passively managed funds, which shifts asset managers' focus towards the overall sustainability of markets rather than the performance of individual companies.

[...] a lot of investors now would recognize that the market performance as a whole is a bigger driver than the outperformance of the market.

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 ask: what can we achieve in the interests of the company? But we can give more weight to those topics that that are material systemically rather than those that [are] sort of more material idiosyncratically.

Head of Stewardship, Europe, US-based global asset manager

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.

Head of Engagement at a large European asset manager

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.

Head of Stewardship (European office) at one of the largest American asset managers

6.2 Implications for boards

- The traditional approach of responding to shareholder resolutions during annual meetings is not sufficient. Boards must be prepared for ongoing, in-depth dialogues with asset managers who are increasingly keen to understand 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 leadership incentives align with long-term performance drivers.
- Boards must invest more in ensuring the strategic alignment between sustainability commitments, targets, business strategies and capital expenditure decisions.
- Boards can enhance their oversight capabilities by collaborating with asset managers, especially those with specialised expertise in understanding and addressing specific sustainability challenges. 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.
- Partnering with asset managers not only enables boards to benchmark themselves against industry standards and adopt best practices but also creates a dynamic environment for developing 'next practices' – innovative approaches to addressing emerging challenges and opportunities.
- 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, such as artificial intelligence (AI)-powered climate risk scenario analysis, to take their oversight capabilities to the next level.
- Boards are well positioned to provide leadership in bridging the gap between the company's best short-term interests and systemic risks. Integrating systemic risk management into strategic planning is not a distraction from their core responsibilities but a necessary evolution of them.
- As boards operate under significant cognitive load and widening oversight remit, prioritising the quality of engagement over its frequency is crucial. Well-prepared meetings with high-calibre, seasoned asset manager representatives are essential to fostering the intellectual space required for meaningful discussions. Such engagements provide boards with the assurance that the feedback they receive is not only well intentioned but also deeply informed and strategically sound.
- There is scope for more 'whole-of-investment-chain' collaboration and regulatory efforts to align reporting requirements with decision-useful criteria. This collaboration can alleviate reporting fatigue, freeing up resources for more substantive activities and less perfunctory, tick-box exercises. By clearly linking sustainability reporting to strategic decision-making, boards can move beyond mere compliance, leveraging these insights to improve business practices and long-term performance.



6.3 Evidence

In the last four years, the number of asset managers' private engagements with investee companies has steadily increased. Figure 2 depicts the number of engagements by the 40 asset managers in our sample over four years (2020 to 2023). In 2020, the asset managers in our sample reported collectively approximately 50,000 engagements; annual engagements reached over 68,000 by 2023.

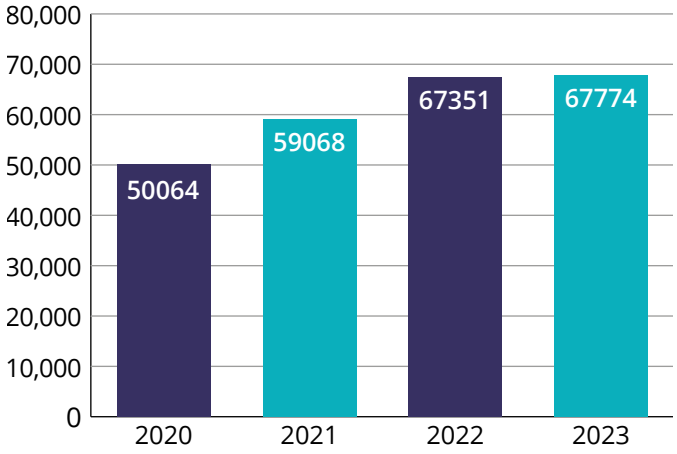


*Figure 2: Private engagements of the 40 asset managers in our sample**
** List of asset managers available in the* **Appendix of the Technical report**

> *Engaging with boards and firm executives on a continuous, long-term basis can bring about change through incremental, non-confrontational means.*
>
> **Head of Stewardship at a large American asset manager**

The upward trend has been particularly driven by industry leaders. The world's top ten asset managers by AUM almost doubled their private engagements with investee companies between 2019 and 2023 (see Figure 3). 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 large US-based asset managers to backtrack from previous commitments to industry initiatives aimed at steering investee companies towards sustainable outcomes.[9]

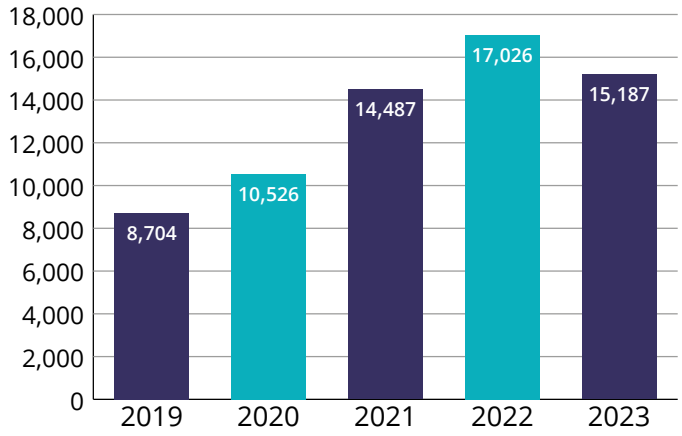


Figure 3 : Increase in private engagement by world's top 10 asset managers

> *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.*
>
> **Head of the European office of one of the world's largest American asset managers**

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. ESG engagements were on the rise between 2020 and 2022 but decreased in 2023 (see Figure 4).

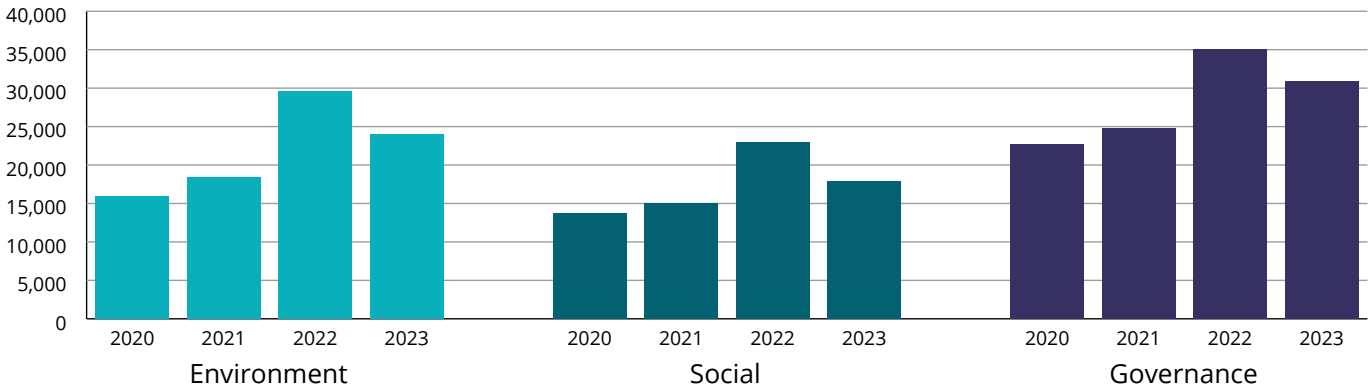


Figure 4: Reported ESG engagements (2020–2023) Source: own data based on asset managers' disclosures

However, the mere quantitative rise in the number of engagements with investee companies does not allow us to evaluate their substance. The opaque nature of these private interactions fuels scepticism regarding their effectiveness. Seeking deeper insight into asset managers' private engagements, we have further unpacked these interactions by analysing a small sample of 500 case studies sourced from the annual stewardship reports of the 40 entities in our sample. While the data is not statistically representative and reporting entities may strategically disclose certain case studies while omitting others, the data provides 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 by asset managers.

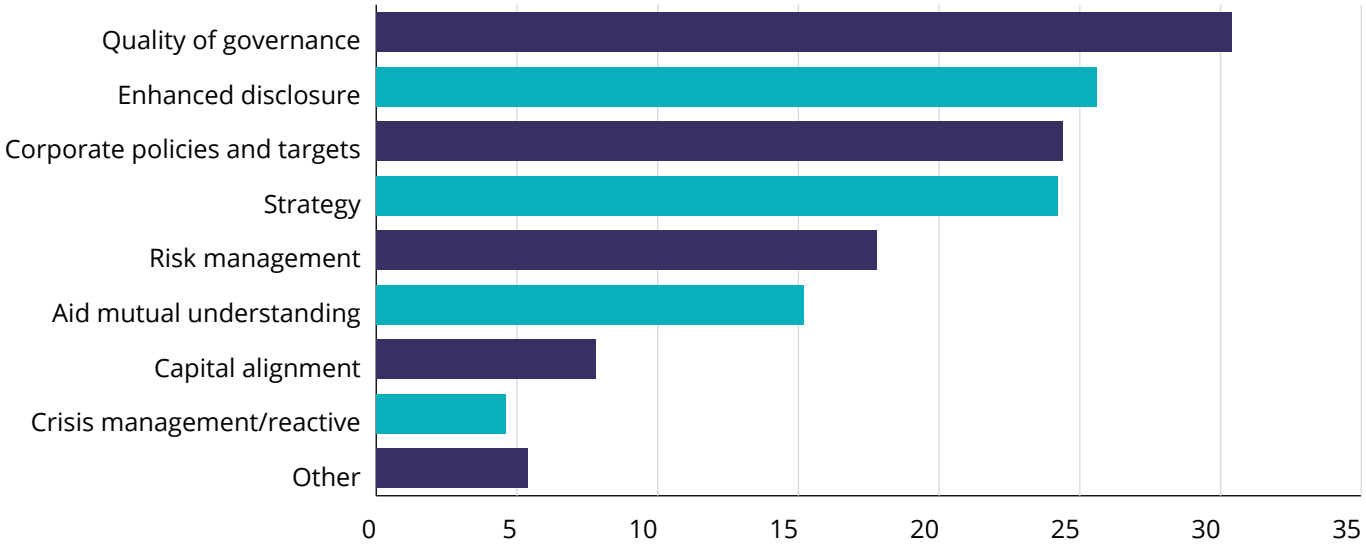


*Figure 5: Drivers of asset managers' private engagements, %**



Table 2 summarises the key issues that drove the 500 engagements in our sample and the common exemplary outcomes reported in relation to those engagements.

Reported drivers that trigger engagement	Examples of asset managers' 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 credible 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 targets; benchmarked 'best in class' practices; shared market intelligence to enhance board oversight capabilities; explained positions; discussed upcoming items on the general meetings' agenda; advised on best practices.
Align capital expenditure with sustainability/ESG-related goals	Published reports grounded in climate scenario analysis on the necessary capital expenditures for GHG emissions reductions; provided a breakdown of current and planned low carbon investments; decreased the emission intensity of 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 further 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.

Table 2: Drivers of engagement and exemplary outcomes

Engagement snapshots/case studies disclosed in stewardship reports:

An American asset manager 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 one of its Indonesian palm oil suppliers. 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, committing to 100 per cent NDPE coverage of its palm oil supply by 2022.[10]

An UK asset manager launched a private engagement with an American industrial firm to tackle hazardous substance management. The asset manager urged the company to devise a time-bound strategy for phasing out per- and polyfluoroalkyl substances (PFAS), which do not naturally decompose and persist in water, soil, and the human body over time. In 2022, the company pledged to discontinue the use of such substances in its manufacturing by the end of 2025.[11]

A Japanese asset manager engaged with an investee company whose stock was undervalued due to the risk of accumulating stranded assets from climate change. As a result, the asset manager urged the company to align its business strategy with climate risks. Following this engagement, the asset manager disclosed that in 2021, the 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 by 2023.[12]

In 2021, a French asset manager started engagement with a hospitality company operating a 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.[13] Similarly, the asset manager 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.[14]

In 2022, a Swiss asset manager 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.[15] Despite these advancements, the company refrained from setting net-zero targets.

Following an engagement by an American asset manager t, an airline company disclosed how it is aligning its capital expenditure with its emissions reduction goals.[16] After a comparable engagement by the same asset manager, a major oil and gas corporation allocated a substantial investment for emissions reduction projects.[17]

An Australian asset manager intervened at an industrial 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".[18] As a result, the asset manager reported its divestment from the company.

In 2023, the stewardship team of an American asset manager engaged with a large 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 and battery storage.[19] 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.

Another American asset manager embarked on an engagement with a multinational online retailer to improve its management of packaging materials and waste. A key focus was the company's insufficient disclosure regarding the total volume of plastic utilized throughout its supply chain. The asset manager advocated for improved transparency and the establishment of targets for reducing plastic usage. After two years of sustained engagement, along with several shareholder proposals that garnered substantial backing, the retailer released a report detailing its baseline plastic usage and unveiled initiatives to transition to 100% recyclable paper-based packaging in specific regions.[20]

7/ Taking leadership

We are at a critical point in time in terms of creating a sustainable future where everyone can thrive, where the interdependencies between people and nature and the way in which we use the resources and the environment around us are respected and protected for future generations. How investors think about ESG risks and opportunities, and the contribution of sustainable finance, is in the balance. After several years of pledges, companies are now reaching a pivotal stage where crucial decisions must be made, and trade-offs become increasingly apparent. There is still much talk in governments around the world about building sustainable futures, but priorities are shifting away to matters of security, defence and supporting livelihoods. But the urgency to act is now.

We have synthesised data from over the last ten years of voting records and five years of stewardship records to get a current picture of the investor landscape – to help boards, investors and asset managers to navigate the next phase of the road. The next few years are critical in terms of shifting the goal posts and bringing lasting change.

We believe that market forces can be a key driver of change, and that the mindsets and actions of investors, asset managers and boards of directors play an essential role in making change happen. Legislative, regulatory and industry initiatives and are starting to have an impact across the world. But real change will only happen at the pace and scale required if we could align profitable business outcomes with delivering a sustainable future which will require shifting the structures of markets themselves.

7.1 Leadership actions for boards

Company boards need to engage and build strong relationships with their shareholder base to align their business and sustainability ambitions – integrating purpose and values, governance and strategy – to deliver commercial performance by meeting society's needs in a sustainable way. This is the best way to ensure the long term success of the companies they are responsible for.

Boards can enhance their oversight capabilities by collaborating with asset managers, to understand and integrate specific sustainability challenges and systemic risks into their strategic planning. Market intelligence can also be a valuable resource enabling boards to better gauge market sentiment and anticipate emerging trends and opportunities for innovating new products and services.

Boards must invest more in ensuring the strategic alignment between sustainability commitments, targets, business strategies and capital expenditure decisions and ensure that leadership incentives align with long-term performance and sustainability drivers.

There is scope for boards and asset managers to facilitate increased collaboration across the investment chain with regulatory efforts to align reporting requirements with decision-useful criteria to drive strategic decision-making that improves sustainable business practices and long-term performance.

Company boards are encouraged to take a proactive and transparent role in advocating and supporting government policies that drive markets towards a sustainable future. This entails throwing their support behind legislative reforms, taxation frameworks and public incentives designed to discourage outdated 'business as usual' practices. Instead, these policies should be aligned to reward businesses that generate profit through long-term sustainability, with a focus on responsible interactions with people, the environment and the climate.

Company boards need to provide the vision and governance to ensure that their business competes with products and services that deliver superior sustainability performance at affordable prices, supported by appropriate legislation to penalise those that fail to do so.

7.2 Leadership actions for asset managers

Asset managers must be transparent and consistent with what they expect from boards. They should empower them to lead with purpose, without slipping into blunt micro-management. Where their competitive advantages give them an edge over investee companies, they should actively support boards in upgrading their capabilities – human, technological, informational – to sharpen their strategic decision-making and oversight. Their stewardship reporting should demonstrate verifiable alignment between words and deeds. When stewardship efforts fail, asset managers should consistently follow escalation steps.

Asset managers are also expected to become more introspective about their role as stewards of the future. Recognising that it is not feasible to diversify away from

systemic risks like climate change and environmental degradation, they need to develop sophisticated tools required for adequately assessing the drivers of risk and sustainable value creation, and price sustainability risks into their risk models.

They are also in a powerful position to drive the market-wide adoption of a global sustainability reporting baseline – an essential tool for correcting the systematic mispricing that has been plaguing markets for too long. However, disclosure is just the first step. True progress demands that asset managers encourage boards to discontinue harmful business practices, adopt ambitious, transparent and measurable sustainability targets, and hold management accountable for embedding these targets into policies and strategies backed up by investment. Capital must be directed towards companies that not only disclose sustainability information but also act to drive sustainable value creation.

As this study has shown, asset managers often face conflicting incentives and delicate trade-offs. Effective stewardship requires a firm-wide commitment from asset managers, driven by a unified sense of purpose that permeates every level of the organisation. Therefore, it is essential to break down silos between stewardship professionals and portfolio managers, and make stewardship efforts consistent across the organisation, such as by carefully managing conflicts of interest arising from share lending. Resourcing overstretched stewardship teams and aligning staff incentives are also essential action steps.

Finally, asset managers should support policymakers towards bold, decisive action, and collaborate with them in co-developing frameworks for internalising harmful externalities and managing systemic risks. The future of stewardship is not just about holding companies accountable – it is about actively empowering them and collaborating across the investment chain with stakeholders to create an enabling environment for sustainability leadership.

7.3 The role of asset owners/ investors

Effective stewardship of investee companies serves the long-term interests of asset owners. As the main client base of asset managers, asset owners are uniquely positioned to hardwire stewardship into the investment chain. We urge asset owners to define what good stewardship should look like, embed rigorous stewardship criteria into the selection of asset managers and the mandates assigned to them, and hold asset managers' stewardship efforts to higher standards of quality. As the global balance of corporate power shifts towards greater investor influence in the governance of public companies, asset owners should amplify their voices in promoting long-term value and shaping not just where capital flows, but also what kind of future people's savings are funding.

Good stewardship is demanding. Therefore, good stewardship should be rewarded. Rethinking performance metrics and linking fund managers' compensation to long-term goals and robustly measured stewardship outcomes – emphasising quality over quantity – are intuitive mechanisms required for stronger accountability. By actively shaping a market for stewardship – where meaningful voting and deep engagement are not mere afterthoughts or compliance checkboxes, but competitive differentiators in how asset managers are selected, evaluated and compensated – asset owners can protect and enhance long-term value creation in the interest of their ultimate beneficiaries.

7.4 The need for new policies

Policymakers need to continue their work on crafting regulatory frameworks to ensure that asset owners and managers take long-term accountability for the future they finance. The EU Taxonomy, the Corporate Sustainability Reporting Directive, and the Corporate Sustainability Due Diligence Directive, the US Securities and Exchange Commission's rules on climate-related information, along with initiatives to translate recommendations from bodies like the TCFD into legislation, such as enacted in the UK, are welcome steps forward. However, global multilateral co-operation is required to standardise reporting requirements and create a global sustainability reporting baseline that would hardwire transparency, comparability, accountability and assurance into the system. This collaborative approach is essential to engineer a market for sustainability reporting that mirrors the rigour and reliability of financial reporting.

We encourage policymakers across the globe to create an enabling legal environment where first-movers are rewarded for their sustainability leadership, while laggards are incentivised to adapt.[21] Policymakers are also expected to contribute to the design of policies that accurately reflect negative externalities and the need for transition in order to better align economic activities with sustainability goals.

Global leadership across the corporate and finance sectors needs to work together with policymakers to bring about national and international policy change.



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Head office
The Entopia Building
1 Regent Street
Cambridge CB2 1GG, UK

T: +44 (0)1223 768850
info@cisl.cam.ac.uk

Brussels
Sustainable Hub
Rue du Commerce 72,
B-1040 Brussels, Belgium

T: +32 (0) 2 894 93 19
info.eu@cisl.cam.ac.uk

Cape Town
Workshop17 NCG 146
Campground Road
Newlands 7780
Cape Town, South Africa

T: +27 (0)21 300 5013
info.sa@cisl.cam.ac.uk

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