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Conference Report

INVESTOR STEWARDSHIP IN AN UNCERTAIN WORLD

HOSTED BY

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REPORT BY

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INTRODUCTION

For an ever-growing number of investors, investor stewardship – the responsible allocation of capital and purposeful engagement – stands at the heart of their investment practices. What it precisely means, however, to be an effective steward of capital is hardly a settled matter. On the one hand, recent years have seen soft-law principles of investor stewardship continue to develop in the UK and abroad and the introduction of an increasing number of regulatory initiatives that aim to foster the efficient inclusion of sustainability in investment management and corporate governance. On the other hand, the economic and social challenges facing the commercial world are ever in flux and the last number of years have seen changes in stewardship reporting and practices along with the unprecedented uncertainties posed by Covid-19, climate change and global conflicts.

The Investor Stewardship in an Uncertain World Conference, convened on Friday, May 27th 2022 at King's College London, took stock of how investor stewardship has come to be understood and practiced by investors who have taken up the mantle of stewardship over recent years. The Conference was organised by Dr Dionysia Katelouzou of The Dickson Poon School of Law, King's College London in collaboration with the European Corporate Governance Institute and the British Academy. Investor Stewardship in an Uncertain World is the second conference organised under the auspices of the Global Shareholder Stewardship Project, which brings together leading experts in academia and practice to examine the development of investor stewardship principles across the globe and assess its effectiveness.[i]

The Conference sought to address the significant changes since the previous conference took place in 2019 and provided a forum for regulators, academics and practitioners to discuss the challenges to effective stewardship, especially in times of uncertainty. The focus on uncertainty was not by chance. By the end of 2019, a total of 35 stewardship codes have been released across 20 jurisdictions around the world.[2] Yet, when the "stewardship movement" took shape, few could have predicted the uncertainties to come in the following years. Society at large has faced significant challenges including the Covid-19 pandemic, climate change, the global escalation of armed conflict and the ever-increasing demand to tackle economic and social inequalities.

As the investment industry continues to grapple with these challenges, the Investor Stewardship in an Uncertain World Conference provided a forum for examining the effectiveness of investor stewardship while navigating significant short-term shock and unprecedented climate and social upheaval. The Conference aimed to understand how investors, companies, policymakers and academics currently approach investor stewardship, so to glean insights into both the efficacy of stewardship principles in times of challenge and what the future of stewardship might be as investors learn how to contend with these uncertainties. Characteristic of the circumstances surrounding the Conference, and indeed the conference topic itself, this Conference was held in a hybrid capacity to facilitate both wider participation and mitigate concerns presented by Covid-19. While all the presenters were available to present in person, questions were raised by both in-person and online attendees at the conclusion of each panel discussion.

i] See, King's College London: Global Shareholder Stewardship https://www.kcl.ac.uk/research/global-shareholder-stewardship

2] For a full list of all stewardship codes as of May 2020, see Dionysia Katelouzou and Dan W. Puchniak, "Global Shareholder Stewardship: Complexities, Challenges and Possibilities" in Dionysia Katelouzou and Dan W. Puchniak (eds), Global Shareholder Stewardship (Cambridge University Press 2022), Table 1.5.

Finally, the Conference hosted the launch of Global Shareholder Stewardship, a book co-edited by **Dr Katelouzou and Professor Dan Puchniak** which brings together contributors from the first Global Shareholder Stewardship conference to explore the dispersion of stewardship principles across the globe. In launching this book, the final panel of this Conference facilitated a discussion between the co-editors on how the book developed as well as providing an opportunity for the book's contributors to give insights into the themes and jurisdictions explored throughout the book.

The conference was opened by **Professor Marco Becht**, Goldschmidt Professor of Corporate Governance at the Université libre de Bruxelles and the Executive Director of the ECGI. Professor Becht's opening remarks emphasised the global nature of stewardship and the challenge for asset managers in deciding how interventionist they should be within companies as they navigate commercial interests and stewardship expectations in an uncertain world. Stewardship has never been as important as it is today, Professor Becht highlighted, though the uncertainties of the modern world make fulfilling the promises of stewardship all the more challenging with "tough choices" being made.

The Interim Executive Dean of The Dickson Poon School of Law, **Professor Alexander Türk** praised the Global Shareholder Stewardship Project for its global reach and inclusion of both academics and practitioners engaged in the sphere of investor stewardship. He highlighted the aims of the initiative in enhancing dialogue, disseminating good practice, guiding scholarship and shaping future stewardship policies through evidence-based recommendations. He also commended the organisation of the 2nd conference on Global Shareholder Stewardship, building upon the great work evidenced in the first conference shortly before the outbreak of the Covid-19 pandemic. In concluding the introductory remarks, Mr Charles Hamilton, a Research Funding Officer at the British Academy, commented that the British Academy were pleased to see their funding support such tangible results as evidenced by this conference.

INVESTOR STEWARDSHIP IN AN UNCERTAIN WORLD: PANDEMIC(S), CLIMATE CHANGE AND GLOBAL CONFLICTS

The opening panel of the conference was chaired by **Dr Dionysia Katelouzou with Professor Dan Puchniak**, from the Yong Pung How School of Law (YPHSL) at Singapore Management University, and **Professor Jennifer Hill**, the Bob Baxt AO Professor of Corporate and Commercial Law at Monash University, as discussants. In her opening remarks, **Dr Katelouzou** set out the trigger of this conference. "We meet at a dynamic and uncertain time for the investor and scholarly community", she said, and investor stewardship has become much more complex. The UK was the first country to introduce a Stewardship Code in 2010 (revised in 2012) with the aim to turn passive institutional shareholders into active stewards and integrate shareholder monitoring and engagement into investment management. While this aim was quickly recognised as inherently unachievable, the UK Financial Reporting Council (FRC) doubled its bet with the release of the 2020 Stewardship Code which expands stewardship both in terms of aims and targets.

First, stewardship is no longer viewed monolithically as a corporate governance tool to awake passive investors. Rather investor stewardship is seen as "greening" investment management externally and as enhancing the accountability across the investment chain (from asset managers to asset owners and from asset owners to beneficiaries). Secondly, stewardship is not only about public equity and firm-level engagement. Rather investor stewardship is taking place at different levels and across different assets. Finally, in terms of tools and practices, informal engagement retains a prime position in the arsenals of investor stewards, but collective action and shareholder resolutions are becoming popular stewardship tools.

Dr Katelouzou outlined the progress of the Global Shareholder Stewardship Project since the first conference in 2019 and thanked the contributors to the edited book Global Shareholder Stewardship, which built upon the contributions made during the 1st Global Shareholder Stewardship conference.[i] When originally discussing the idea of the book, stewardship was originally thought of as a new way to understand and explore shareholder activism and engagement. As the project developed, however, it became clear that investor stewardship was something much broader, covering investments beyond equity and embedding broader principles of stewardship both into investment practice and engagement with policymakers. Dr Katelouzou also acknowledged the continuing work of the Global Shareholder Stewardship group and the British Academy-supported project, Covid-19 and Investor Stewardship: The Need for Responsible Ownership in a Time of Emergency, which empirically examines the way investors, companies and standard-setters understood Investor Stewardship during the Covid-19 pandemic. The preliminary findings of this project demonstrate the bolstered focus by investors on "E" and "S" during the pandemic as well as how the

[i] For the 1st Global Shareholder Stewardship conference, see Dionysia Katelouzou and Henning Jacobsen, Global Shareholder Stewardship: A Conference Report (January 26, 2020), <https://ssrn.com/abstract=3610792>

attitudes of investors towards short- medium- and long-term performance shifted as the consequences of Covid-19 were felt economically and societally.

Building upon these introductory remarks, the panel outlined the overall theme of the Conference, that is an examination of investor stewardship in light of Covid-19 and the wider uncertainties across the globe, spanning pandemics, climate change and escalating international conflict. Dr Katelouzou acknowledged that these uncertainties entail a variety of risks, from environmental, geo- and socio-political, a common trait of which is the systemic nature of the risk they present. At the same time, global stewardship is becoming increasingly complex. The actors, targets, aims, practices and markets of stewardship are expanding, and so are the challenges and uncertainties. The questions for the conference participants, therefore, were how stewardship has been affected by those uncertainties and how it can minimise them.

Professor Hill focused her remarks on identifying four growing areas of complexity in the realm of investor stewardship. Seeking to define how investor stewardship has been developed, Professor Hill phrased it as doing what is right rather than just what is legal. The first source of complexity is the expansion of stewardship actors now that entities and actors beyond institutional investors have meaningfully engaged with investor stewardship. This has allowed for an understanding of stewardship that shifts away from the classic, and particularly American, the paradigm of activist hedge funds attracting institutional investors to push their ESG agenda forward. Secondly, there has been a similar expansion in how stewardship targets are understood. There has been a shift away from passive, portfolio-based approaches toward understanding stewardship at a systemic level with industry-wide rather than one-on-one engagement. That is not to say, however, that interventions within specific companies are not valuable for achieving a stewardship agenda especially since specific company interventions can sometimes trigger industry-wide changes. The third driver of stewardship coincided with a shift toward ESG concepts being integrated into Stewardship Codes with the UK Code 2020 being a leader in this development.

The early debates around ESG arose following the Global Financial Crisis of 2007-8 and are now a common place point of focus. However, focusing on ESG risks as opposed to traditional financial risks can prove challenging in the long-term, warned Professor Hill. How these shifts towards ESG will play out depends significantly on the fourth driver, which is a significant change in ESG engagement and shareholder activism paradigms. As previously alluded to, the American paradigm has been one of hedge fund activism. The global paradigm has, however, not mirrored the United States with jurisdictions such as Australia seeing collective action by institutional investors channelled through intermediary bodies. There is also evidence of transnational agency capitalism, wherein local investors spark a collaboration with international investors to bring them on board in delivering an activist change. Bringing these drivers back to Stewardship Codes, this leaves us with a central question, of whether it is the Codes that are driving ESG activism. Professor Hill concluded her remarks with an observation to the contrary: that it is the Stewardship Codes which are playing catch-up on broader principles and movements towards ESG.

Professor Puchniak outlined that one of the core impetuses for developing stewardship was encouraging a level of engagement for which the existing business models were not set up. While this represents a simple driver for stewardship, the current state of affairs is more complicated in part due to the expansion of "E" and "S" considerations. Looking at the first wave of stewardship development, the Stewardship Codes seen around the world were strikingly similar to the UK Stewardship Code 2012. This homogeneity is surprising given the significant differences in the corporate governance frameworks across countries. These divergences are evident not just in whether share ownership is dispersed or concentrated but also in the character of these investors with differing roles for institutional investment, family ownership and state ownership evident across countries. These differences, for instance with the UK having institutional ownership and Singapore having family ownership and a Family Stewardship Code, mean that how stewardship needs to be approached will differ across jurisdictions. Having outlined the existing context, Professor Puchniak went on to discuss contemporary issues in corporate governance and stewardship, namely the renewed debate over defining corporate purpose and, in Paul Davies' words, the shift in the focus of stewardship in the UK "from saving the company to saving the planet".[3] When putting this debate into a global context it is necessary to acknowledge the different starting points of different jurisdictions when it comes to understanding corporate purpose, with the UK being shareholder-focused in approach and the US even more so leaning towards a shareholder orientation. Comparatively, China has adopted a strong stakeholder position on paper, whereas Japan has traditionally adopted an approach favourable to lifetime employees but has taken more recent efforts to combat economic stagnation through an approach that centres more on shareholder value.

[3] Paul Davies, 'The UK Stewardship Code 2010-2020: From Saving the Company to Saving the Planet?' in Dionysia Katelouzou and Dan W. Puchniak (eds), Global Shareholder Stewardship (Cambridge University Press 2022).

India likewise takes a notably stakeholder-oriented approach in principle but struggles to overcome block-holder control in practice. Pushing ESG considerations in such a content can embolden block holders and excuse greater minority disadvantage, Professor Puchniak noted. These divergences demonstrate the risk of the latest ESG focused UK stewardship model being co-opted across the world for different purposes. One must understand first where the jurisdiction falls in the shareholder-stakeholder continuum before deciding how best to formulate the Stewardship Code. In other words, context is everything. Professor Puchniak concluded his comments by noting the current challenge of climate change. Since climate change does not know borders, the global nature of stewardship is all the more important. The results that countries should be aiming for should be largely uniform, that is reduction of climate risk, reducing carbon output and developing a more sustainable economy. However, achieving these shared goals does not mean that the approaches that should be taken by different countries should be uniform. Instead, achieving prosperity in this area requires a "diversity of approaches".

ADAPTING STEWARDSHIP FRAMEWORKS FOR AN UNCERTAIN ENVIRONMENT

The second panel of the conference brought together representatives of various regulatory bodies who play significant roles in shaping the stewardship frameworks in the UK and internationally. This panel was chaired by **Professor Luca Enriques**, Professor of Corporate Law at the University of Oxford. Professor Enriques firstly identified some of the key uncertainties facing investors and indeed society at large, ranging from Covid-19, climate change and Brexit. Professor Enriques then framed this panel as an opportunity to discuss how the existing stewardship frameworks are faring when faced with the uncertainties of the current day and what this might mean for the frameworks in future.

The first speaker, **Kerrie Waring** the CEO of the International Corporate Governance Network (ICGN), began her remarks by framing the development of stewardship codes in an international context, identifying the ICGN Statement on Institutional Shareholder Responsibilities in 2003 as one of the frontrunners for stewardship. The ICGN plays a key role as a forum for regulators, ICGN members and institutional investors and the ICGN Global Stewardship Principles, most recently published in 2020 and evidence this co-operation in furthering the stewardship agenda. Stewardship should not only be understood in the global context but also with a historical perspective, Ms Waring noted. While stewardship is certainly modern parlance, many of the key concepts found in stewardship, such as engagement, have a longer history in UK corporate governance, being notably evident in the Cadbury Report. These fundamental principles have not actually changed in any major way, with long-term service to beneficiaries and clients, effective governance, investor monitoring, engagement and reporting, and mediating conflicts of interests all present in the earlier ICGN stewardship principles.

What has instead changed is that there is now a greater appreciation for how we think about corporate success and how stakeholder concerns are linked to it. This involves consideration of not just the financial elements of doing business but also the human capital and natural capital elements. This also involves thinking about ESG considerations but what is occasionally overlooked particularly in light of the uncertainties of the last number of years is how important the G in ESG is – if we do not get the "G" right, then the environmental and sustainability agenda will not succeed. This entails greater focus on internal governance arrangements of institutional investors themselves, such as leadership, remuneration practice and independent oversight. Engagement also needs to be understood as not just with companies but also with wider governmental bodies and policy-making. There is a need to go back to basics when it comes to any future developments in stewardship codes. Updates to the stewardship codes will likely also reflect the increased focus on the Principles for Responsible Investment (PRI) and on having signatories evidence their positive contribution to the Sustainable Development Goals. The ICGN Global Governance Principles are reflective of these developments with attention paid to climate reporting, double materiality principles, and global standards on sustainability, human rights and supply chain integrity.

These points of focus by the ICGN will feed into the collaborate discussion on the future of stewardship and corporate governance with one immediate development being the launch of the "Model Mandate" hosted by the Financial Reporting Council (FRC).[ii] Effective governance and stewardship will be needed to tackle the systemic risks we now face. That is true with climate change and Covid-19 but also with other systemic uncertainties like data security and escalating conflict in the era of international disharmony in which we now find ourselves.

The subsequent two speakers focused on the national policy setting of stewardship from the perspective of two UK regulatory bodies. **Andrea Tweedie**, a Stewardship Manager at the FRC, outlined the significant changes brought into place in the 2020 iteration of the UK Stewardship Code. Three points were brought into focus, namely the benefits of a principles-based structure in times of uncertainty, how key elements of the Code had functioned in these times of uncertainty and, finally, the importance of reporting throughout these uncertainties. The principle-based approach of the 2020 UK Code allows for greater flexibility when compared with a rules-based approach. This flexibility is particularly valuable during times of uncertainty. The principles-based approach is also better at acknowledging that there is no singular path or one-size-fits-all approach to stewardship. Instead, stewardship mechanisms and frameworks will become stronger over time both internally and via external communication and engagement. Ms Tweedie then outlined how specific principles of the Code had fared during the pandemic and in times of stress. Principle 2, this being that the governance, resources and incentives of signatories support stewardship, requires stewardship to be embedded in the overall business structure. This is central to the operation of stewardship not just as an isolated limb of the business but as an integral part of investment management.

[ii] See, ICGN - GISD Alliance Model Mandate Launch (22 June 2022) https://www.icgn.org/icgn-gisd-alliance-model-mandate-launch

Principle 3 then requires signatories to put the best interests of clients and beneficiaries first when they manage conflicts of interest. This expectation requires careful consideration in times of uncertainty. Due to their encompassing nature, Principles 2 and 3 are significant for investors both generally and in times of uncertainty. A more novel development in the 2020 Code lies in Principle 4, which imposes the expectation on signatories that they identify and respond to market-wide and systemic risks to promote a well-functioning financial system. This new element of the Code garners heightened significance given the systemic nature of many of the uncertainties of the modern day. Once the key areas of risk have been identified for their potential impact, a collaboration between investors will be key. Ms Tweedie concluded her remarks by acknowledging that stewardship reporting is not an easy task, especially as reporting standards are constantly evolving and become. Importantly, however, there is no expectation that everyone has the “right” answers from the start. Acknowledging that there is no such thing as a perfect disclosure is especially true in times of uncertainty where the nature of what is being disclosed is unprecedented. A common example of that has been the increased reporting on business continuity with a particularly unprecedented emphasis on working from home during the pandemic. The focus for signatories should be on showing what they are doing to take the best approach at the time. This notion that perfection is not being demanded from signatories is likewise reflected in the fact that the FRC is, for the time being, no longer tiering the signatories and is instead focused on broadening the pool of investors who have become signatories to the Code.

Mark Manning, Technical Specialist on Sustainable Finance and Stewardship at the Financial Conduct Authority (FCA), explained that even though the UK stewardship Code is primarily under the ambit of the FRC, the FCA and FRC jointly issued a Discussion Paper in 2019 entitled "Building a Regulatory Framework for Effective Stewardship." [4] This influenced the structuring of the 2020 Code and emphasised how stewardship and active ownership through effective investor stewardship can influence market quality and help deliver value for clients in the long-term. This emphasis is indeed the reason why the FCA cares about stewardship: stewardship is integral to the outcomes for consumers of financial products over the long-term and is one vehicle by which investors who are regulated by the FCA can deliver on their duty to customers. At the time that the joint Discussion Paper was issued, much of focus was on preventing the negative implications of short-termism, reflected in both the Kay Review[5] and the EU Shareholder Rights Directive.[6] The 2019 Discussion Paper highlighted four attributes necessary for effective stewardship. These are firstly the need for clear purpose, especially in how asset managers, asset owners and other financial actors such as proxy advisors talk and understand what they seek to collectively achieve within the investment ecosystem. Secondly, engagement must be integrated throughout the investment process and not just the responsibility of an isolated stewardship team.

Thirdly, institutional culture and organisational structure should support stewardship. This institutional culture needs to come in a top-down fashion from leadership and must become a clear ethos of the organisation. While this is increasingly a point of focus, culture is by its very nature difficult to regulate. Fourthly, there is a need for transparency all along the investment chain and disclosure needs to deliver a clear narrative on what has been achieved. Mr Manning acknowledged that there are, of course, barriers to the implementation of effective stewardship because we need all the different parts of the investment ecosystem to work together. Regulatory intervention can address some of these barriers, but others will need to be addressed through co-operation between industry participants.

[4] Financial Reporting Council & Financial Conduct Authority, Building a Regulatory Framework for Effective Stewardship (DP19/1-2019).
[5] The Kay Review of UK Equity Markets and Long-Term Decision Making, Final Report (2012).
[6] Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (OJ L 132, 20.5.2017, pp. 1-25)

Some great work in this area include the Model Mandate and the Investment Consultants Sustainability Working Group. Barriers however remain, including informational asymmetries, misaligned incentives and frictions in having different parts of the investment ecosystem collaborate with one another. In the particular context of informational asymmetries, especially in the case of climate change, the focus for the FCA has been on how you can make sure investors have the right information to hold companies to account (e.g., TCFD disclosures). But what will be required going forward is to cut through the lip service to identify genuine stewardship practices, Mr Manning noted. For instance, if products are being touted as sustainable products, then they should ultimately have a sustainability objective alongside the financial return objective. There also must be a shift away from stewardship reporting on policies and practices towards a focus on actions and outcomes. The FRC's Stewardship Code 2020 is already making progress in this direction, but more may need to be done to ensure comprehensive, rather than 'cherry picked', reporting of stewardship outcomes. Going forward there also needs to be a better understanding of stewardship involving more than shareholder engagement, requiring instead engagement across asset classes. Likewise, stewardship engagement must be understood alongside the role of governments and regulators who also seek to address the uncertainties of the modern day. Rather than have the stewardship activities of private actors be seen as governments shirking their responsibilities, actions by both private and public bodies can be seen as complementary to one another.

The final speaker of the panel was **Emmet McNamee**, Head of Stewardship, Active Ownership 2.0 at the PRI. Linking stewardship to the work of PRI, Mr McNamee positioned stewardship as being one part of the overall responsible investment framework. He then focused on two contrasting issues, these being asset allocation on the one hand and stewardship and UCIT influence on the other hand. While these are not necessarily opposites, the conflict between these two issues is recently becoming increasingly clear. For instance, net-zero commitments entail risk but divestment which is often seen as an easy out may not be enough in order to reach net-zero. The key question will increasingly become how sustainable the assets in a portfolio are, rather than just asking how active the ownership strategy is. There is also increasingly a reputational risk for investors who fail to divest from companies which are seen by stakeholders and the public as failing to transition fast enough towards net-zero, which may add pressure for divestment. The resource intensity and free-rider problems associated with engagement can also add pressure in favour of divestment over engagement. Mr McNamee also remarked that the vast majority of changes in "E" and "S" are attributed to the activities of a rather small number of investors (about 20). There is also disillusionment with "weak" forms of stewardship and some engagement practices have fostered scepticism among stakeholders about what investors can or will do.

There is, however, an increasing appetite among asset owners to see asset managers with stewardship policies aligned with their own ethos. Along this vein we are seeing greater engagement with corporate governance particular with an "E" and "S" angle. The issue is, however, that the policies are quite often high level and abstract and it is rare to find a conflict between the policies of asset owners and managers on paper. While questions of stewardship are now seen at the due diligence stages, there is no clear model answer of yet. This uncertainty may be addressed in part by the new ICGN Model Mandate. Mr McNamee concluded that it is clear that stewardship engagement is more than just engagement between companies and investors or between asset managers and asset owners. There needs to be engagement with trade representatives for instance and we need to continue to think in broader terms about stewardship engagement. Facilitating wider collaboration also involves addressing power imbalances, for instance between smaller pension funds and larger asset managers.

. Investors must also get beyond a signalling and reactive approach. They need to stop reacting to things the company have already done badly and instead act proactively by getting involved earlier. For instance, investors need to not just reactively respond by threatening to oust directors and get involved instead in the nomination process in the first place. There is also a need to overcome some of the duplications when it comes to disclosure requirements as investors focusing heavily on reporting might find it is taking away time that could otherwise be used to actually exercise stewardship.

STEWARDSHIP ACCOUNTABILITY AND REPORTING

The third panel of the conference focused on the challenges surrounding transparency in stewardship and how investors have contended with their obligation to report on stewardship activities and integration. This panel was chaired by **Professor Kornelia Fabisik**, an Assistant Professor of Finance at the Frankfurt School of Finance and Management. This panel brought together representatives from pension funds and advisory firms to shed light on the challenges of reporting and accountability. In commencing the panel discussion, Professor Fabisik questioned the role that stewardship reporting plays and whether it is an effective means of holding signatories accountable.

The first panellist was **Jane Firth**, the Head of Responsible Investment at Border to Coast Pensions Partnership (BCP). Ms Firth emphasised the accountability of BCP in particular given the hybrid nature of their operations. As an alternative investment fund manager, BCP is regulated by the FCA but as a pension pool investing on behalf of Local Government Pension Funds, it is seen as an asset owner and is therefore accountable to its shareholders who are also its customers. Regulatory accountability also involves oversight from multiple regulators, namely the FCA, FRC and other bodies it is a member of, such as the PRI. Accountability for BCP also comes into play across the investment process; for example, holding its external managers to account. This begins with the invitation to tender and applies at each subsequent step of the selection, appointment, and ongoing monitoring process. This involves ensuring environmental, social and governance factors are integrated throughout the investment process rather than a manager paying lip service to responsible investment or greenwashing.

When it comes to making responsible investment decisions, BCP is a big believer in engagement over divestment, Ms Firth noted. In the particular case of achieving net-zero, divestment is not always helpful because while a portfolio, as a result of divesting from high carbon emitting companies, may have a lower carbon footprint and look greener, it has had no real-world impact. As well as engagement, voting is a powerful tool and the two together work hand in hand. However, if voting against a resolution at a company meeting it is important to articulate the voting decision and the rationale to the company. While such engagement is often time-consuming, it is a worthwhile exercise and encourages a dialogue with the company on how to change its behaviours. Some of the most effective engagement comes from collaboration between investors. Ms Firth noted that while collaboration is to be encouraged and certainly

greater engagement by asset managers is necessary, there is also a need to ensure that this does not lead to investors inundating companies with similar asks. There is a greater chance of success if the engagement is structured and focused on clear objectives. It is important when conducting collaborative engagement that investors settle on their aims, objectives and milestones and achieve some clarity of purpose before engaging with the company itself. However, setting out these common objectives might involve some trade-offs or balancing competing issues.

Next, **Paul Lee**, the Head of Stewardship and Sustainable Investment Strategy at the advisory firm Redington, focused on the stewardship role of investment consultants. Investment consultants can be influential in ensuring accountability for stewardship activities, which at present is not being achieved effectively. It is clear that asset owners are not good buyers of stewardship services because of the challenge of getting under the skin of what the fund manager is doing and checking whether their indirect stewardship efforts have any meaningful impact. Part of the issue is down to reporting stewardship anecdotes. Asset owners have to rely on anecdotes about stewardship activities to be a gain insight into and understand the fund manager's overall stewardship approach and delivery.

Understanding investor stewardship via anecdotes can be misleading, Mr Lee warned, as the story presented is chosen by the party disclosing rather than necessarily being the most material issue at hand. Therefore, when it comes to stewardship disclosures, we need to be tougher and focus on materiality. In addition, failing to focus on material issues reduces the tendency of companies to connect their disclosures regarding issues like climate change with their financial data and treating these two strands as separate leads to a lack of quality in reporting. The role of the investment consultant then is to assist the asset owner in sorting through these stewardship anecdotes to press managers to get a little bit tougher and harder on themselves and to talk about what is material. When touching on the disconnect between what fund managers say and do, Mr Lee outlined that one of the most striking disconnects his organisation comes across is in the area of diversity and inclusion. In their surveying of fund managers, Redington has found that a common response has been that their workplaces are well representative of societal demographics despite this being on the whole untrue in the investment industry.

In responding to audience queries on the role of divestment, Mr Lee argued that there is definitely a place for divestment but, just as with voting, it is actually the communication of the decision and the reasons behind it which is the powerful tool for delivering a chance of change. The publication of a process of divesting is what will drive change through divestment rather than simply exiting. This is especially so if one is open to reinvesting because then the company will be aware of what it will take to win investors back. Collaborative engagement may be a useful tool to effect change prior to divestment. However, there is a danger that collaboration can lead to companies being overwhelmed with too huge a range of views from investors as the views of investors - even in collective action - are far too infrequently corralled into a single and coherent message.

Peter Reilly, Managing Director of Governance and ESG at FTI Consulting, comes from the school of "sunlight being the best disinfectant." Mr Reilly framed effective engagement as being more than communicating with the board around the AGM season. Instead, it involves coming to the board with the key issues concerning investors and stakeholders months prior to the AGM when the board is actually making decisions. For many companies, reporting on stewardship was seen as a burden and reporting in generally was largely viewed as fulfilling a legal or regulatory requirement.

There is a conflict between the desire to disclose and the fear of reporting being a source of liability. The fear of over-reporting and triggering liability often prompts lawyers to cut down on what is included in the disclosures being made by companies. Companies then issue the disclosures required by law but avoid saying more than they are supposed to. Even though the fear of litigation is also not always a bad thing as it can ensure directors are more accountable, the key problem that arises then is when this risk of litigation results in a dilution of disclosure. This leaves us with incomplete reporting although one of the current developments in investment circles is increasing monitoring of the quality of company reporting. There is accordingly an increasing understanding that stakeholders expect more information and that investors will push for that.

There is also an understanding that when issuing reporting, the board should be speaking to multiple audiences and be accountable to multiple interest groups. We are therefore shifting to a broader understanding of those interests and associated risks to the company, even if this shift is happening at a pace slower than some might want. There is overall a huge value in reporting as once the company reports, it has to stand over it. The key focus then is making sure that reporting is about value rather than length. On the topic of engagement by investors, Mr Reilly argued that transparency will be key for facilitating investor engagement and stewardship but it is important for investors to assess whether that engagement has been fruitful to date. If not, there may be greater calls for divestment. When thinking about engagement with companies, investors should not just focus on whether their individual engagement has been successful but on whether there is room for collaborative engagement by multiple investors, especially when the ownership structure is dispersed. Mr Reily optimistically noted that even in a dispersed ownership structure there is strength in numbers, and, investors acting collectively are in a better place to present their views to the board on how best to approach stewardship practices going forward.

Marion Maloney, Head of Responsible Investment and Governance at the Environmental Agency Pension Fund, looked at the journey of stewardship from the environmental side. The members of this pension fund want the fund managers to act with urgency to address climate change, and a large part of the fund manager's role is managing those expectations. Over the past 20 years there has been a shift away from passive investment into active strategies and responsible investing. However, most funds have not done enough to adapt to climate change. The misapprehension that funds would need to take a financial hit in order to pursue a green agenda is something that needs to be dispelled. In terms of stewardship codes, Ms Maloney argued that the UK is much further ahead than many other countries. This is because stewardship is not just understood as relating to voting but is also part of governance, training and indeed the overall investment agenda. Stewardship and responsible investing, therefore, should be part of every discussion taken by the fund which is an approach expected by the UK Code 2020. Stewardship is not unique to particular asset classes and arises with private equity and debt.

Stewardship reporting is a big piece of the puzzle and while the issuing of stewardship reports can be a demanding task, Ms Maloney highlighted, the questions being addressed in these reports were issues being raised by clients well before the formalised requirement to report on these issues was introduced by the UK Code. Nevertheless, it is evident that nobody is doing enough to adapt to climate change and when it comes to reporting, the biggest issue is honesty. When making stewardship disclosures, companies and investors need to be able to admit when something they attempted did not work. This applies to the goals that are being set when addressing climate impact and whether those goals are effective or achievable. There is also a need to make reporting more digestible and there can be an oversaturation of information.

When it comes to engagement there is a decision to be made between continued engagement with a company and the option to divest. One strategy is to periodically review the companies to identify whether the promises made had been kept. Where expectations had not been met, the investor may opt for divestment. However, it is worth remembering that the capacity to hold parties accountable is significantly more difficult once you have opted for divestment.

The final speaker of this panel, **Dr. Hans-Christoph Hirt**, former Head of EOS at Federated Hermes, argued that what is needed is more humility. One can identify some improvements in practice as a result of the UK Code and other policy pushes towards stewardship, for instance, there are more interactions between investors and companies than ever before and there is even formal training now around stewardship and ESG. The original UK Code has been criticised for resulting in boilerplate reporting focused on policies and processes.

The new 2020 Code addresses some of these shortcomings but there is still much work to be done to move beyond reporting of actions towards outcomes. Dr Hirt highlighted that investors should be thinking about the objectives of stewardship and engagement which can be aimed at enhancing the returns of a specific portfolio in the short- to medium term, at systemic risks affecting market returns in the very long term or simply at exploring a controversy a companies are involved in linked to values. There is overlap between these objectives and there may be trade-offs. In this context, he remarked on some of the innovations in the UK Code 2020 and their potential weaknesses.

Firstly, there is the focus on systemic risk including climate change in Principle 4. Tackling systemic risk poses a challenge because the activity is effectively “free service” from which everyone benefits. Individual investors will ask how much they invest in such an activity. Secondly, there is Principle 7 which requires stewardship and material ESG issues to be integrated systematically into investment decision-making by the signatories. However, having reviewed a number of stewardship reports, according to Dr Hirt, it does not seem that systematic integration is happening in practice. Dr Hirt suggested that if stewardship is about alpha and out-performance, then stewardship teams and investment teams need to be very closely aligned. Dr Hirt then returned to potential trade-offs between different stewardship objectives. With climate engagement, for example, there can be instances where the objectives of an engagement focused on addressing systemic risks in the long term are not aligned with the financial interests of the company in question or a short-term focused investor. Dr Hirt also highlighted that there is a need to acknowledge existing limitations of stewardship resulting from insufficient staffing and expertise, especially when it comes to tackling the complex climate and social issues facing the world.

Finally, investors have yet to develop systematic approaches to demonstrate their contribution to specific stewardship-related outcomes. This reflects the challenge in establishing causation: "how can signatories demonstrate that their efforts contributed to a specific outcome or that - but for their efforts - this outcome would not have occurred?", Dr Hirt asked. Finally, Dr. Hirt addressed the question of engagement and divestment and argued that one must think about the motivation behind and objective of divestment. It can come from values or value perspective and be aimed at influencing the cost of capital or wider policy or simply be an expression of a risk-return analysis.

STEWARDSHIP AND ENGAGEMENT: NAVIGATING DISRUPTIVE TECHNOLOGIES

The fourth panel – chaired by **Dr Eva Micheler**, an Associate Professor of Law at the London School of Economics – focused on another source of uncertainty in the modern era, this being the impact of disruptive technologies on investor stewardship and engagement. Effective engagement requires both transparency and a forum for meaningful communication. Shareholder meetings can provide such a forum where shareholders are well positioned to voice their positions. Whether digitalised reporting and electronic meetings have facilitated this kind of meaningful engagement remains open to question. The pandemic has accelerated the already notable drive towards a digitalised commercial world and presented both challenges and opportunities for stewardship and engagement. . The aim of this panel was to explore what the role of digital engagement and wider disruptive technologies will have on stewardship in the years to come.

The first speaker, Anna McDonald, the Secretary of the Church of England's Ethical Investment Advisory Group, acknowledged that the impact of disruptive technology is not isolated to technology companies. For instance, algorithms are being used in agriculture, medicine and healthcare, and welfare more broadly, meaning there is technological disruption across the economy. One is also seeing significant technological innovation in carbon tech. One can even see the negative effects of technology in recent events on social media, namely the spreading of misinformation and conspiracy theories and the incitement of violence.

Some of the main issues that can arise are the potential biases built into algorithms and the potential misuse of data. There needs to be extreme sensitivity with how this data is used or categorised especially when it comes to categorising people and reducing humans to data points which often reinforces historical biases. This leaves us with a great dilemma as we balance the benefits of the transformative power of technology with the need to understand the systemic risks involved in technological disruption. Given the systemic implications of technological disruption, Ms McDonald highlighted that we need to approach these issues through this lens of systemic risk. The Church of England contends with these risks in light of their theological principles of investment – human flourishing, standing with the vulnerable, caring for creation and serving the common good. The question then for the Church of England has been how these principles fit into a world disrupted by technology. This raises the broader question for all investors over how their investment principles need to be re-examined in light of technological disruption.

The second speaker of this session, **Jakob Thomä**, Executive Director and co-founder of the 2° Investing Initiative, outlined the varying ways in which technology affects investment and the position of investors. This involves examining the role of technology in how it can either destroy or transform value and in how it can inform and empower investors. A focal point of his remarks was one of the greatest disruptions brought about by technology – climate change. Climate change, as noted by Mr Thomä, only exists because we have the technology to damage the environment. Given the wide-reaching implications of the climate change tipping point, value can be significantly destroyed. When it comes to addressing climate change, technology development is the key to unlocking renewables, thereby transforming the value of existing resources. Likewise the transformative implications of technologies in AI, nanotechnology and quantum computing are only beginning to be understood.

Technology also allows investors to stay informed, with risk models being transformed away from binary stress tests to more comprehensive tests. In the context of climate change, we can model this risk to look at the multitude of outcomes for the planet resulting from climate change. We can then ask: in how many worlds would we survive and predicting these simulations comes possible through technological innovation. Retail investors can also be empowered by technology particularly in grasping a better understanding of the investment approach of their funds and engage with them. Mr Thomä emphatically pointed out that it is time to reward the materiality of ESG. One cannot anymore simply present participants with an ESG score or disclose a carbon footprint as these are artificial figures that are difficult for the recipient to put into real terms. There is also a need to overcome the democracy gap that has arisen. If one looks at politics, the majority of citizens have voted for parties who support the Paris Agreement. In shareholder voting comparatively there is a far lower trend in companies being forced to support alignment with the Paris Agreement.

William Goodwin, the co-founder and Head of Product at Tumelo, discussed technological disruption and its implications for shareholder meetings and AGMs. The problem for Mr Goodwin is that it is increasingly more difficult to identify who the shareholders are. This is because of the technological innovations, such as investor apps, that have made it harder to track ownership and have extended the ownership chain from the legal owner to the ultimate beneficiary. For retail investors or even some pension funds the first step to investment now happens through investment apps which often outsource the backend administration. This means it is difficult for retail investors to know whether they are directly buying shares or just investing in a fund. . The focus for Tumelo, therefore, is to bring the experience of being a shareholder in a traditional AGM to an individual shareholder whose investments are all on their phone. In other words, how can a retail investor be made feel like an owner, Mr Goodwin asked. This disconnect is certainly present for parties who hold fractional shares but ultimately the dispersal of ownership which has been facilitated by technology can be significant for shareholder democratisation.

Technological innovation by services such as Tumelo aim to bridge this gap of separation between beneficiaries and the company by allowing investors to understand where their ultimate value lies and voice their preferences in how firms behave. Technology can unlock the ability to exercise the rights of ownership and letting investors identify their aggregated ownership.

Picking up on the discussion over shareholder engagement and AGMs, **Michael Kind** a Senior Campaigns Manager at ShareAction, acknowledged that AGMs before Covid-19 were a "pathetic picture." There was rarely anybody present other than the board and a few institutional investors if any. Very rarely were shareholder resolutions put to the board on ESG issues. This state of affairs was unfortunate because AGMs were usually the only opportunity for shareholders to engage with the entire board. Other meetings, even if aimed at engagement, are often with one director and some management staff rather than the wider or entire board. There was then a shift to digitalised meetings facilitated by newer technologies and accelerated by the Covid-19 pandemic. While having the pandemic be impetus for technological innovation is far from ideal, there was some excitement to see how online AGMs would function during Covid-19. Technology can not only facilitate the organisation of the meeting itself but also the filing of shareholder resolutions online or the filing of resolutions on behalf of shareholders. Online shareholder meetings broadened access but, according to Mr Kind, we have yet to see many investors taking up the opportunity arising and the quality of engagement still remains in question.

The challenge for investors remains on how to stay informed, especially for investors who are less sophisticated even with the benefit of technological engagement. Many funds still fail to list thoroughly their investments and prefer to give a simple overview. There is also an assumption that it is bad to move decision-making power to the hands of the retail investors, but the reality is that sophisticated investors have led us to a climate crisis.

VARIETIES OF STEWARDSHIP: RE-IMAGINING THE "E", "S" AND "G."

The fifth panel focused squarely on a term that has become ubiquitous in the investment industry – ESG. While the term ESG has entered common parlance in financial spaces, how the respective "E" "S" and "G" considerations ought to be embedded into practice remains widely debated. Often overlooked in the past, social considerations have been at the centre of the response to Covid-19. Environmental factors are of ever-evolving importance as the investment industry continues to grapple with the impact of climate change. Finally then, "G" widely underpins how effectively investors can engage with companies, with effective engagement and governance being necessary for investors to push either an "E" or "S" agenda. Chaired by **Professor Paul Davies** from the University of Oxford, this panel discussed how these ESG elements of investor stewardship might be re-imagined to tackle the challenges of the modern day.

Shireesh Vasupalli, the Deputy Head of Global Active Equities at GIC, structured his comments on ESG in three parts – how we guide ESG, how ESG works in practice and how ESG can be reimagined. In guiding ESG principles, a starting point for GIC is that companies with greater sustainable practices will offer better risk-adjusted returns in the long term. These companies also offer better downside protection in times of uncertainty or crisis. One can view the ESG strategies of investors as being either defensive or offensive, that is how to mitigate risk and how to be proactive in engaging with ESG. On the defensive side, climate change and ESG represent a risk to the portfolio. Assets can become stranded especially because climate risk gets priced far quicker now than in the past, meaning that the quality of the asset can swiftly change. This supports the investment philosophy that companies with good sustainability practices will offer prospects for better risk-adjusted returns which aligns both a sustainable philosophy with the client's best interests.

On the offense side, there are lots of innovative technologies to help reduce climate change, such as investing in carbon capture technology. ESG will need to account for the acronym of GIC– geopolitics, inflation and climate change – insofar as they affect or impede long-term value creation. There may also be trade-offs between one another. Mr Vasupalli also pointed that we must reimagine governance from a global perspective because there is a lack of design for corporate vehicles to access trillions of wealth globally. When it comes to identifying and responding to the risks posed by ESG factors, it will be difficult to weight these risks. It is also difficult to get data in this area that is of high quality, comparable and reliable. However, the focus will need to be on something akin to the Sustainability Accounting Standards Board (SASB) framework, addressing risks based on what elements have the most impact on a given business.

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Next, **Anne Foster**, Global Head of ESG at Quinbrook Infrastructure Partners, focused on stewardship beyond equity and outlined an understanding of ESG in a wider sense rather than just in how companies actively address ESG. Quinbrook focuses on investing in the energy transition. Some would argue that this makes Quinbrook's job easier to engage in ESG. This is in some ways true both in terms of the businesses in which they invest and the funds which they attract. Some businesses are inherently green or promote ESG considerations even if they were not oriented towards ESG by design. We are usually told to think about double materiality, that is there are financial goals and ESG goals and that doing both requires a trade-off, Ms Foster noted. While there will occasionally be trade-offs, not every investor will accept a reduced return. If we look far enough and long enough we will almost consistently find that ESG concerns being integrated into investment decisions will better protect investment capital for investors and can grow that capital.

For Ms Foster, this allows for investors to think instead about single materiality, that is that ESG and returns are not a trade-off. Thinking about ESG more widely also involves avoiding reducing ESG scores down to a single number. This allows ESG criteria to still be largely measurable even though they are all measured differently. Some singular metrics are useful, for instance with senior executive pay, but not all ESG factors can be distilled effectively in this way. Ultimately no data provider covers the full range of key metrics or data points and some countries approach this as part of the wider issue of due diligence. Thinking about ESG factors can also allow the investor to pre-empt regulatory change. In having a thorough ESG screening process, Quinbrook have, for instance, been able to adjust their processes in relation to modern slavery. This has meant that when regulatory intervention arises, the supply chains of these companies are unaffected because they have already pre-empted the regulatory changes and can continue operating in the market.

Caroline Escott, Senior Investment Manager at Railpen, focused her remarks on the need to reimagine the "G" in ESG. In order to influence any effective change, investors need to have a voice and management need to be incentivised to listen to the investors. Such an outcome can only be achieved through "reimagined" governance. While policymakers would suggest that they wish to promote effective stewardship and have taken welcome steps to do so, some regulatory reforms undermine this kind of engagement. A clear example of this lies in the increasing regulatory approval of dual-class share structures in the UK as evidenced in the Hill Review.[7]

There is accordingly a need for coherence, the UK Government is indicating that investors and pension funds need to play a more active stewardship role yet by allowing structures like dual-class shares, the Government is leaving investors with one hand tied behind their back. The lack of visible and co-ordinated investor pushback here might be down to the fact that the UK otherwise has such a good track record when it comes to corporate governance standards, or maybe the investor community simply does not prioritise the implications of dual class shares compared with other issues. The technology industry may continue to push for regulatory changes and so this is something that active investors should continue to push back on. This is why Railpen, together with the Council of Institutional Investors (CII) and some US pension funds, will shortly be launching the Investor Coalition on Equal Votes, to co-ordinate investor engagement with companies and policymakers on dual-class shares. This is not to say that dual-class structures are always wrong, Ms Escott noted, and it certainly is a case-by-case question. Nevertheless, these developments seem out of step with an agenda that seeks to promote a more active role for the investor.

The final speaker on the panel, **Harlan Zimmerman**, a Senior Partner at Cevian Capital discussed how they as an activist investor approach ESG. Mr Zimmerman firstly outlined how corporate governance standards have traditionally focused on the board of directors as a means to improve corporate performance. As an activist investor, improving the governance of the company is usually an important step for improving value creation. If you invest in a company that has good core assets but these assets are being underutilised and the company is not performing nearly as well as it could be, that is a governance problem. If it has longstanding operational underperformance, if it has the wrong strategy, structure or financials, then who is at fault other than the board, management team or shareholders in the ownership structure, Mr Zimmerman asked. To improve the companies, the single most effective way that Cevian Capital has found to create accountability and change thinking and behaviour is creating the right incentives and promote management accountability.

[7] HM Treasury, UK Listings Review (03 March 2021) https://www.gov.uk/government/publications/uk-listings-review

The "G" has always been important as it has always been linked to getting long-term value for all parties involved. The "E" and "S" comparatively were seen only as risk factors but now they are seen as part of the value creation in making companies "better" and more sustainable, which in turn means the companies will be more valuable over time. While companies increasingly discuss ESG, there is often too much greenwashing and companies with hard-working stewardship teams that are often too low down the organisation with little communication with the board. The lightbulb moment for Cevian Capital then is looking instead to incentives. The reality of the current world is that we are expecting corporate management to handle the single biggest challenge that companies have ever faced, this being the challenge of climate change.

The reality is that CEOs will be gone in 3 or 4 years on average so the key question is, according to Mr Zimmerman: do they have an incentive now to do the right thing for the future? If one asks whether those incentives will lead the company to where it plans to be in 20 or 30 years in terms of ESG, the answer is often no – in fact there is often a disincentive against reaching those ESG objectives. By tying the metrics to the directors' own remuneration, however, the board is forced to actually do the work. When it comes to benchmarking, therefore, bad metrics are often worse than no metrics. Some developments in this area, such as say-on-pay, have been important from a governance perspective. S but there is a need to make sure the metrics are measurable and tied to real-world numbers or values. The more confusing the metrics, the harder they are to scrutinise.

Many metrics are not quantifiable in terms of how they are constructed and this is also true for ESG metrics. Ultimately this allows the board to point out that they have integrated ESG into their metrics without that necessarily making a demonstrable difference. The problem here is one of complexity – what ESG means for each business will differ and if an investor is engaging with many different businesses, then the ESG issues that are raised across the portfolio will vary wildly. Mr Zimmerman concluded by remarking that investors and companies need to change the way they understand and approach ESG. That does not mean getting rid of ESG altogether, as if we did so then it would just be replaced with another broad term like sustainability which is also not ideal as the issue of complexity from business to business remains the same. Instead, if management teams and boards of directors really do begin to integrate ESG as something that creates value for shareholders and other stakeholders rather than something with standalone metrics, then companies and investors would not need to demonstrate how green they are in general, as that becomes one element of value creation.

Many other elements of value creation do not have or require standalone metrics and eventually the same might be said for ESG. Both pay structure and metrics will matter because they provide the incentives and accountability for directors to do the right thing even if they would not pursue the sustainable agenda otherwise. The reality is if directors believed they should pursue the long-term sustainable approach and successfully integrate ESG, they would have done it already and the world would not be facing the crises that currently exist. Therefore, there is no guarantee that companies will address these issues in the future unless we hit management teams where it hurts – their wallets, Mr Zimmerman noted. This also forces the board to think in new ways and come back to shareholders with readjusted metrics and ambitious plans about how they will approach ESG going forward. Shareholders can then accept that these efforts will be sincere once they have been tied to executive pay.

SYSTEMATIC STEWARDSHIP – WHAT IS IT AND HOW IS IT PURSUED?

The aim of this panel was to look at what lessons can be learned from Covid-19 going forward with a particular focus on the macro nature of the risks posed by Covid-19 and other uncertainties present in the market. Chaired by Professor **Jeffrey Gordon**, the Richard Paul Richman Professor of Law at Columbia University, much of this panel examined the macro lessons of Covid-19 from the perspective of systematic stewardship. In introducing his paper on the topic, Professor Gordon outlined systematic stewardship as a portfolio theory approach aiming at addressing systematic risk, including ESG concerns.[8] According to Professor Gordon, this is not a trade-off model and it is a purely economic defence of what a fund manager is doing. Focusing on the economic side of things provides a firm grounding for an asset manager who is worried about being criticised from imposing his own social view about how firms are run. One example of this would be the global financial crisis of 2007-8 where the collapse of one institution had significant systematic implications. The key question, therefore, becomes how combatting systematic risk affects the return on investment.

Dr Stephen Barrie, the Deputy Chief Responsible Investment Officer at the Church of England Pensions Board outlined some of the basic principles of investor stewardship that can have a broader scope than individual engagement. Dr Barrie argued that investors need to do the basics well, these being proxy voting, restricted lists for screening eliminating the most egregious businesses or services, having a robust monitoring and engagement framework for asset managers, having a portfolio strategy of integrating stewardship and ESG, and engaging with systematic stewardship generally. Speaking on the Transition Pathway Initiative (TPI), Dr Barrie outlined how this collaboration provides and benchmarks climate assessments for the public. What is particularly important about the TPI is that it is a tool designed to be decision-useful for investors, has an academic team at its heart driving the analysis, is led by asset owners and has a public methodology based on published disclosures of the companies it is assessing. It is thought of as providing a tool to the investor community, the wider financial ecosystem, companies and the public that can form part of the accountability architecture around climate change.

[8] Jeffrey Gordon, 'Systematic Stewardship' (2021) European Corporate Governance Institute - Law Working Paper No. 566/2021 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3782814

TPI is not prescriptive in that it does not expect strategies that solely favour divestment or engagement when it comes to addressing climate change. Systematic responses can be beneficial because many industry undertakings are collaborative efforts between different companies. In such instances, wider collaboration or even the setting of industry standards can help avoid disasters such as the Bento Rodrigues for which a joint venture of Vale and BHP were held accountable. Following this dam disaster, changes were pushed not just with either company or the joint venture but on an industry-wide level, demonstrating a more systematic approach to improving stewardship practices and accountability. The Brumadinho collapse prompted a change in response by the investors with Dr Barrie framing this as investors engaging with the "issue, not the issuers."

This resulted in the Investor Mining and Tailings Safety Initiative which recognised that stewardship expertise and ESG practitioners are needed along with publicly available disclosures published by companies from across the mining industry. This has helped bring about standardised industry-wide disclosure in the mining industry and assisted in the creation of a global industry standard on tailings which expects best practice as the minimum standard. There have been tailings disasters since Brumadinho and we expect there are to be disasters in the future. What has changed, Mr Barrie noted, is that investor attention and board attention have shifted in the mining sector and some of the risks have been mitigated through these initiatives.

This mode of engagement is collaborative and issue-focused even if it is going to come down to change with the issuers. This broad scope allows it to apply across asset classes with for instance private funds coming on board to apply the same standard to their mining holdings. Dr Barrie concluded his remarks by arguing there should be resistance against calling such initiatives non-economic as even though they entail ethical concerns and wider, even theological, considerations, there are clear economic consequences.

Andy Griffiths, Executive Director at the Investor Forum, remarked that investor stewardship is perhaps a simpler concept than often argued. After all, once you manage somebody else's money you are a steward. Stewardship is not about telling people what to do but rather about discharging the responsibilities that come with managing assets. This is certainly the case when establishing an investment relationship; ensuring that the relationship between asset owners and asset managers is set out in a clear mandate is essential. For years, these relationships have been quite transactional. For effective stewardship we need to get that relationship right, and it is noticeable that the relationship with real investors is often much clearer. Making such relationships operate well is necessary to support effective collaboration that is often needed to escalate the most important issues with companies, which cannot always occur through individual engagement alone. Collaboration among investors to fulfil stewardship objectives requires what Mr Griffiths refers to as a "critical mass" of support. The Investor Forum facilitates collaborative engagement with UK listed companies which allows investors to work together to create practical solutions to tackle material issues.

When trying to bring together different investors it is important to acknowledge that each investor has idiosyncrasies, no two investment firms and to two investee companies are alike, and so experienced facilitators are needed to blend interests and preferences together to create effective engagement outcomes. Ultimately capital is of course fungible, so we need to find systems that operate effectively for multiple parties from across the globe not just for domestic investors. Mr Griffiths emphasised that it is not the role of investors to impose solutions on companies.

They should ideally share a clear agenda with the Boards of companies about key priorities but ultimately it is the board who must set the strategy for the business and investors hold Directors accountable for delivery against the stated strategy. The investor's role therefore is to allocate capital, Directors are responsible for running companies and Investors intervene when the board is not meeting the expectations set out to investors.

Next, **Deborah Gilshan**, an advisor on investment stewardship, argued that stewardship needs to be reframed as being more than voting and engagement. Instead, stewardship should be seen as using the wide range of rights and tools available to shareholders, including proposing shareholder resolutions, voting, attending AGMs, making public statements, unilateral and collaborative engagements, and divestment. What is of particular interest is the process of stewardship and how it can be optimised to make it as efficient and as impactful as possible. There is a belief that asset owners can contest or challenge issues in the company and that asset managers might align themselves with such asset owners but will not themselves be the parties who commence the challenge. For example, the proponents of shareholder resolutions tend to be asset owners, not mainstream asset managers. Stewardship would be more impactful if more shareholders utilised all of their rights. Additionally, there must be a re-examination of how boards respond to shareholder stewardship and the role of the board in stewarding a company.

Often, when shareholders express concerns, there should be more of a willingness from the company to adjust their position (for example, on executive pay decisions when a pay vote receives a majority vote against from shareholders). There also needs to be a discussion about the utility, and futility, of engagement with individual companies if boards persist in being unresponsive to shareholder concerns. If this shift is achieved correctly, then there is potential for stewardship to demonstrate the social utility of finance as a public good. If this is not achieved, then finance risks being seen as complicit in a system that is not working and where the outcomes remain incomprehensive to the end saver and investor. Ms Gilshan concluded that there is a collective responsibility on all participants in the investment industry to make sure the stewardship system works efficiently and effectively for the end beneficiary.

Sarah Wilson, the CEO of Minerva, began her comments by stating the important role of ownership, particularly active ownership, as while some had called this the decade of asset management it would better be called "the decade of asset ownership." Ms Wilson acknowledged the importance of addressing environmental and social issues as while we can crash the financial system, we cannot crash the planet or society. The lessons for systemic risks have been clear from Covid-19 and although that does not mean that these lessons will prompt some revolution in investor behaviour, Ms Wilson predicted that there will be an uncomfortable shift away from traditional practice. A problem with adopting “collectivised guidelines” will be that these guidelines are slow to change with the market and markets are responsive to data as it emerges. Addressing environmental or societal risks, however, does not require a single metric for corporate governance but rather a market for data and a market for intelligent and argumentative panels (like this one) who will disagree at the margins.

This needs to expand beyond conventional financial thinking as politics, psychology, and geography all need to be considered. How we do stewardship in the UK is fundamentally different from how we do stewardship in other markets, such as Asia and the United States. The language will therefore not translate nor will models simply be carried over. As Ms Wilson explained, a fundamental reason for this is the global divergence in shareholder rights, for instance with American shareholders who do not have rights equivocal to those seen in Europe. When one examines different investors, one can see that asset owners have been weaponised especially now that the UK Pensions Act bakes into hard law an obligation to consult with companies and beneficiaries, thereby going far past the previous soft law provision.[9] Further divergences will arise between countries given that how countries frame their political issues differs and that investor stewardship often stands in the middle of political debates. Ultimately when it comes to addressing systemic risk or finding a systematic response, investors need to remember that a one-size-fits-all approach is not preferable nor will it help create trust in the financial system for the public. Furthermore, it might be appropriate to reframe shareholder activism as being active ownership and dispel the notion that active ownership creates a hostility between shareholders and directors when in reality they should be engaging with one another collaboratively.

The final speaker of the panel, **Thomas Tayler**, a Senior Manager in the Sustainable Finance Centre for Excellence at Aviva Investors, began his comments by stating that investors need to identify the elements of stewardship that work for them when they are fulfilling their duties to their beneficiaries and must ensure that they act in a transparent manner so that they can be judged on what they are or are not doing. Mr Tayler then argued that when thinking of stewardship in a systematic fashion, there is a need to think across asset classes. Yet, stewardship practices outside of equity investment have a lot of development to do. The credit markets are hugely important particularly for asset owners who are often more interested in credit than they are in equity. Thinking about engagement when companies enter the market for debt or re-financing will therefore be important going forward. We need to go one step further when thinking about systematic risk to thinking about systemic risk, Mr Tayler noted. This involves thinking not just about “risks that are in the system” but “risks to the system”.

Systematic engagement for market failures and systematic risk requires also that engagement be with regulators. Such engagement does not mean that investors are avoiding their responsibilities by placing the responsibility entirely on the regulator but rather realising that any systemic response requires engagement with policymakers. For instance, engagement with sovereign debt will be important given the huge levers this creates for governments. The government needs to create a pathway for investors to fulfil the expectations of stewardship. A core example of this lies with the Paris Agreement where one can ask the question of whether the state is doing its part in setting the stage for addressing climate change, at which point the investors should be examined for whether they have aligned their practices with the Paris Agreement. If the government does its part then the investors are left with no excuse. When thinking about responsible investment there is also often multiple considerations at play. For instance, one can look at an issue solely at how to decarbonise a business but one can also look at how to achieve a sustainable outcome in a manner that is environmentally friendly or socially positive. Thinking about wider systematic stewardship also involves thinking about the market impact of major systematic shocks. This is evidenced with Covid-19 causing short-term changes in market values and the invasion of Ukraine resulting in assets being stranded and rendered illiquid overnight.

[9] See, Pension Schemes Act 2021.

GLOBAL SHAREHOLDER STEWARDSHIP: BOOK LAUNCH

While the conference focused significantly on the unique challenges and uncertainties of the intervening years, the final session of the conference presented a distinct opportunity to bridge the gap between the first and second Global Shareholder Stewardship conferences. The final discussion of the evening centred on the launch of the Global Shareholder Stewardship book which builds upon the contributions made during the first conference in 2019.[10] The book was launched by its co-editors, Dr Dionysia Katelouzou and Professor Dan Puchniak with introductory remarks given by Professor Brian Cheffins, the SJ Berwin Professor of Corporate Law of the University of Cambridge.

A key theme across all the conference panels has been the value of collaborative engagement. It is fitting therefore to have a book launched at the conclusion of this conference which is very much the result of extensive collaboration by academics across the globe. Under the guidance of its co-editors, the book brings together contributions from 42 contributors who provided analyses of the state of stewardship in 22 jurisdictions as well as comparative and interdisciplinary perspectives. It is only through their valuable insights that this project could have come together and a comprehensive picture of global shareholder stewardship could be presented.

Professor Cheffins began his comments by remarking that making predictions about the future is a difficult exercise, doing so to observe that while it was clear from the 1st Global Shareholder Stewardship conference that the edited book would be a valued contribution to the field, nobody could have predicted the events that would intercede the last conference and the launch of the book. Professor Cheffins noted that while the book is an examination of the global developments in stewardship, the UK has always been influential in prompting changes in corporate governance. The UK Stewardship Code was a leading example of this influence, as the earlier iterations of the Code had a major impact that rippled around the world.

[10] Dionysia Katelouzou and Dan W. Puchniak (eds), Global Shareholder Stewardship (Cambridge University Press 2022).

This ripple effect occurred even though the success of the initial UK codes is open to question – why would the 2020 Code have been revised so significantly if the initial Code had been a success? Professor Cheffins emphasized that with stewardship having become an well-entrenched governance mechanism, the launch of this book comes at an opportune time. He concluded his remarks by saying that while Dr Katelouzou and Professor Puchniak take the concept of stewardship seriously, they do not come to this project as blind advocates for stewardship. Instead, they acknowledge its limitations, which in turn ensures academic balance and objectivity are achieved throughout the book.

Professor Puchniak began his remarks by thanking all the contributors to the book who helped shape it into a success. The real benefit has been bringing together diverse perspectives and maintaining a dialogue between academic mentors and friends. The creation of this dialogue would not have been possible without the support of the ECGI. His final and most important thanks went to his co-editor Dr Katelouzou who had proposed the entire concept originally in 2017 and invited him to be a co-editor. At the time there was very little written in this area and the problem was seen in far simpler terms – the UK market was dominated by institutional investors who were essentially "absentee" investors. T

he proposal to address this absenteeism was the introduction of soft law and the debate that emerged was whether that would be successful or not. From a global perspective it is interesting to see the influence the UK Code had had – after all, could the Code be deemed a failure in the UK if other countries were so willing to accept its principles, Professor Puchniak asked. It is perhaps even more surprising to see the principles of the UK Code hold influence in Asian jurisdictions given that Asia has far fewer institutional investors. Indeed, in many of those jurisdictions a rationally engaged steward already exists: controlling shareholders either in the form of family or state owners. In either case these stewards are already motivated and engaged.

However, surprisingly, as revealed and explained in the book, the UK Code, at least in its form, was virtually cut-and-paste into these jurisdictions. The aim of the book is to contribute some understanding to this global trend while also examining the shortcomings of the UK Code, which is often criticised as being too soft and lacking any real coercive power. Furthermore, when examining stewardship from a global perspective one must be cognizant of the bifurcated world of stewardship codes, with codes in some jurisdictions being issued by governments and stewardship codes in other jurisdictions being issued by private organisations – a fact that was largely unexplored prior to this book project. Governments have very different incentives than private parties or institutional investors. It was highlighted that, there is a clear difference between public and private incentives that can influence the stewardship framework depending on who is drafting the Code.

Finally, in taking a global approach the book does not only examine countries where Codes have been enacted but also examines countries, namely China and Germany, who have no such Codes but must contend with similar challenges. Going forward these global differences and the comparative weaknesses evident in some aspects of the Codes must be addressed as ESG comes increasingly to the foreground. This will matter as stewardship is spreading and the latest version of stewardship codes, for example the latest UK and Singapore codes, focus increasingly on ESG as their primary target.

Dr Katelouzou focused her remarks on the diffusion of stewardship principles. The book is a comparative exercise in examining all stewardship codes around the world and looking at how the UK stewardship principles, at the time the "seven magic" principles of the 2012 Code, had diffused around the world. The question going forward is whether we are expecting a diffusion 2.0 from theUK Code 2020. Are we expecting an ESG stewardship push or an enlightened form of stewardship?, Dr Katelouzou asked.

Perhaps there is some room for optimism with the 2020 iteration of the UK Code than with its predecessor especially since the current policy formation of stewardship aligns better with ESG. Out of the comparative exercise evidenced in the book, there is some hope for a reorientation of stewardship principles so that lessons can be learned from the wider experiences of all the jurisdictions examined. For this global approach to be effective, however, there is a need for humility, in that one cannot simply apply an Anglo-American lens to the comparative analysis.

About the European Corporate Governance Institute (ECGI)

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The ECGI is an international scientific non-profit association which provides a forum for debate and dialogue focusing on major corporate governance issues and thereby promoting best practice. It is the home for all those with an interest in corporate governance offering membership categories for academics, practitioners, patrons and institutions.

Its primary role is to undertake, commission and disseminate research on corporate governance. Based upon impartial and objective research and the collective knowledge and wisdom of its members, it can advise on the formulation of corporate governance policy and development of best practice. In seeking to achieve the aim of improving corporate governance, ECGI acts as a focal point for academics working on corporate governance in Europe and elsewhere, encouraging the interaction between the different disciplines, such as economics, law, finance and management.

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