

The background of the slide is a sepia-toned anatomical drawing of a human torso, showing the ribcage and internal organs. A large, faint circular line is drawn around the central part of the drawing. The text is overlaid on this background.

# The anatomy of investor stewardship

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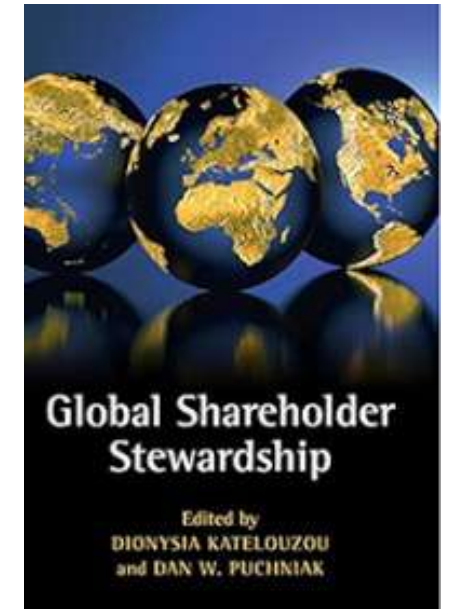
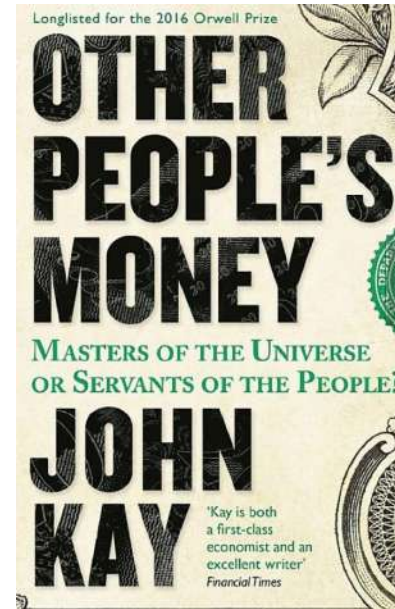
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# Why investor stewardship matters?

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- The UK asset management industry alone oversees £11 trillion of assets (FCA 2023).
- Institutional investors account for 62% (38%) of market capitalization in UK (EU) public equities (OECD 2020).
- ‘Other people’s money’ (Kay 2015)
- Scholarly and policy circles remain deeply divided on the role of institutional investors: eg proposed changes to UK Listing Rules.
- Despite global proliferation of stewardship codes, there remains ambiguity surrounding the spectrum and implementation of investor stewardship among policymakers, investors and consumers alike.
- Pressing need for an analytical framework of investor stewardship.





# The principal-agent narrative

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- Shareholders typically regarded as *principals* in their relationships with company managers.
- Institutional investors serve dual roles as principals for managers and *agents* for clients/beneficiaries
- Complexity of the investment chain
- Separation of ownership (of shares) from both control and nominal shareholders
- Resulting in a ‘double set of agency relationships’ and increased ‘agency costs of agency capitalism’ (Gilson and Gordon 2013)
- A focus on powers rather than responsibilities within this framework.



# Crafting a triangular framework for stewardship

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Exercise of  
power

On behalf  
of others

For others

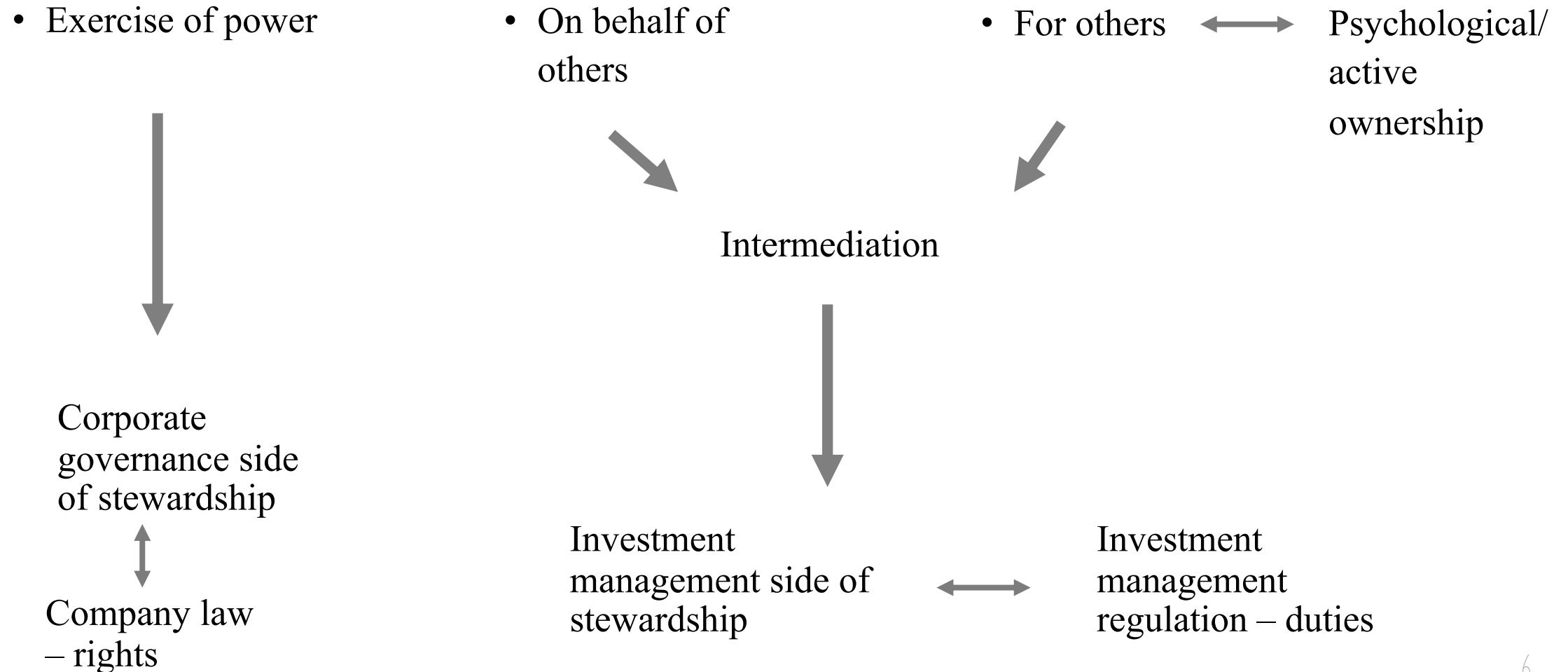
↓  
rule of law

↓  
accountability

(Fukuyama 2000, 2004)

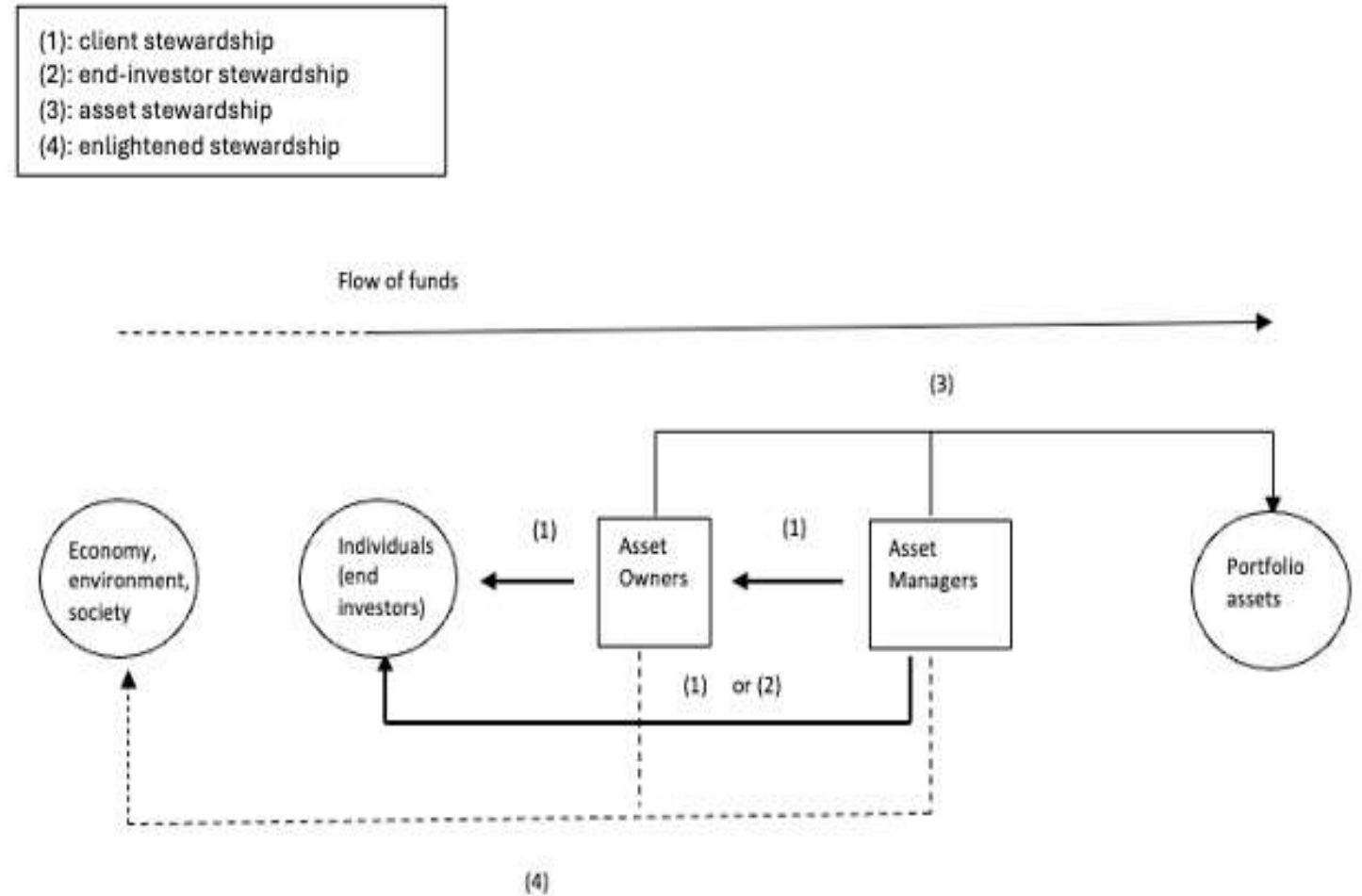
# The case of shareholder stewardship

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# Not just one stewardship relationship, but many...

What is the purpose of  
investor stewardship?



# Who are the others?

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- Presently, regulatory duties imposed on financial intermediaries are centred on client stewardship (1) and overlook other stewardship relationships.
- For instance, asset managers' responsibilities are commonly limited to immediate contracting parties.
- The question arises: can the others extend beyond those protected by contractual and trusteeship relationships?
- The Kay Review (para 9.9) proposed non-excludable fiduciary obligations extending to end-investors.
- Dual purpose of asset management encompassing both private and public dimensions.
- End investor stewardship, asset stewardship and enlightened stewardship all embody a public purpose, yet none are primarily governed by hard law.





# The Stewardship Codes Movement





## Navigating the gap-filing role of stewardship codes

- Stewardship codes extend beyond client-centric hard-law obligations to encompass all parties along the investment chain.
- UK Stewardship Code (SC) 2020 expands the notion of others, evident in Principles 4 and 7 for Asset Owners and Asset Managers.
- However, can an investor steward serve others who are not financially material?
- And, which others are to be prioritized when conflicts of interests arise?
- Does Principle 7 accommodate ‘financial materiality’, ‘double materiality’, ‘intrinsic materiality’?
- The Code’s Achilles’ heel lies in conditioning the other-serving function of investor stewardship on **materiality** and the avoidance of **conflicts of interests**.

- The *Anatomy of Investor Stewardship* is a testament to the emerging multi-level, multi-actor, multi-asset, multi-mean and multi-themed investor stewardship.
- However, the Varieties of Investor Stewardship bring forth notable challenges:
  - The others of whose behalf an investor steward acts are *not the same* as the others for who an investor steward acts.
  - Client stewardship aside, all stewardship relationships do not fall under the primary domain of hard law.
  - Risk of self-interest prevailing, potentially compromising the steward's role.
  - Risk that the investor steward may (re)turn to an agent serving solely clients and/or beneficiaries.

# Challenges amidst varieties



# Thank you!

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