Our stewardship expectations of investment managers

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We believe that investment managers should use their influence to improve returns, lower risk and drive improved real-world outcomes for their clients. Effective stewardship practices play a critical role in doing this.

To reflect the critical importance of stewardship, we set out below a new, enhanced set of stewardship expectations – criteria that we expect any manager to work towards meeting, across all asset classes. These expectations correspond to the Financial Reporting Council's definition of stewardship as:

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

One principle is overriding: that investment managers should use their influence to drive improvements in real-world outcomes for the benefit of our mutual clients. This means that they should:

Do the basics

- Allocate capital responsibly, including to address systemic risks and exploit the opportunities that addressing them creates. For example, those arising from both the transition to a low carbon economy and the physical impacts of climate change.
- Be a signatory to the UK Stewardship Code. We recognise that in limited cases this may not be appropriate, however we still expect investment managers to follow the principles of well-recognised stewardship standards, such as the UK Stewardship Code or EFAMA Stewardship Code.
- Resource stewardship activities for success. That includes having enough individuals with the knowledge and skills to analyse and influence the range of entities in which the manager invests, as well as providing them access to relevant data to inform investment and engagement decisions.
- Recognise that diversity of thought, gender, ethnicity and experience can improve decision making and stewardship.
- Incentivise staff so that their interests are aligned with those of our clients.

Engage to improve

We expect investment managers to use the tools available to them to influence the entities in which and through which they invest. This may be directly with an issuer or through an external investment manager or another party. While the exact mechanisms might differ, we expect that effective engagement will involve the following:

- Identify the most material issues and entities. Focus influence where it will have the largest impact.
- Set and communicate clear expectations for investee entities. Publish policies which clearly lay out:
  - Minimum expectations for those entities when addressing behaviours which contribute to systemic risk;
  - How the manager engages to drive better behaviour; and
  - A pathway for escalation, identifying the steps which will be taken either when your expectations are not met or in order to advance your engagement objectives.
- Set clear, time-bound, issuer-specific objectives for improved practices (not just disclosure) and monitor progress against them.
- Ensure any voting rights are available to be used and exercise them to support engagement objectives. This should include voting in support of well-conceived shareholder resolutions, but also withholding support from the responsible director(s) where progress or expertise is insufficient, and voting against the appointment of auditors where disclosures fall short. Where another party holds the voting rights, influence them to do the same.
- Collaborate with other stakeholders to maximise the influence of engagement efforts.

We also expect investment managers to use their influence as a buyer of services as well as an investor. Where investment managers have discretion to choose service providers and counterparties, they should include selection criteria related to the impact those providers have on the whole system. For example, by including criteria related to policies on fossil fuel financing where they select banks as a counterparty to derivatives.

Seek to change the system

Investment managers should use their influence on regulators, policymakers and clients to address systemic risk such as bio-diversity loss, climate change and inequality. We therefore expect that investment managers to:

- Take clear policy positions that seek to address systemic risks, in line with clients' best interests. Promote them by engaging with a broad set of policymakers, regulators and standard setters, through public statements, consultation responses and bilateral conversations.
- Engage with relevant industry groups to address systemic issues at a sector level.
- Align actions with words. The activities of the investment management firm, its interactions with company management, tenants, borrowers and other relevant stakeholders, and its membership of trade associations should all reflect its public positions.

Tell the world

Our clients need to understand the actions that investment managers take on their behalf. That calls for disclosures that show the quality as well as the quantity of engagement activity they carry out.

We therefore ask that managers report the following at both firmwide and mandate level:

- Case studies which demonstrate the types of engagement carried out at the entity level; how this corresponds with the manager's engagement policy; and what outcomes have been achieved, or what was done when objectives were not met.
- Case studies which demonstrate the process undertaken to determine voting decisions, and how these relate to and support engagement objectives. *
- Aggregate engagement statistics which allow clients to understand the number of entities which are under engagement; the topic of engagement; the type of objective that has been set; what engagement activities have been undertaken; and whether progress has been made.
- Aggregate voting statistics. *
- Information about the extent to which the manager has sought to influence policy and regulation, the policy positions advocated and the outcome of such processes.
- Comparisons over time for the above information to show the progress being made.

We encourage the use of industry templates (where possible) to standardise reporting, for example the Investment Consultants Sustainability Working Group ("ICSWG"), engagement reporting guide ("ERG"). We recognise that engagements often take place over an extended period.

We understand that confidentiality can usefully preserve relationships, but we believe that these issues can be resolved by anonymisation and careful drafting rather than requiring non-disclosure.

* for firms/mandates with voting rights

Any questions?

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