IMPACT LENS
PENSIONS FOR PURPOSE

Commissioned by

ROBECO
The Investment Engineers

In partnership with

BORDER TO COAST PENSIONS PARTNERSHIP

IGG Independent Governance Group

tpt Investment Management

Systemic stewardship – challenges & strategies for change

Systemic stewardship

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Executive summary

Systemic stewardship – challenges & strategies for change

Pensions for Purpose's new research, commissioned by *Robeco,* in partnership with *Border to Coast Pensions Partnership*, *IGG* and *TPT Investment Management* investigates how to address systemic risks through stewardship

Our *Pensions for Purpose* stewardship report sheds light on the current state of stewardship in investment management and its role in driving long-term, sustainable value.

We conducted 21 interviews – with 10 asset owners based in the UK, three trustees, three investment consultants, three asset managers/fiduciary manager and two further organisations: *United Nations Principles for Responsible Investment (UNPRI)* and *ShareAction*, to understand their views and approaches to:

- Stewardship priorities.
- Manager performance and accountability.
- Engagement strategies.
- Voting and escalation.

Data collection

We posed 15 questions to interviewees, aiming to gather insights from asset owners, trustees and consultants on stewardship; focusing on whether it creates long-term value, the integration of voting, engagement and escalation policies. We conducted interviews with LGPS pools, master trusts and defined benefit (DB) schemes, collectively managing over £200bn in assets.

Findings

1 **Stewardship priorities**
– climate change emerged as the dominant priority due to its systemic nature and investor net-zero commitments. Nature and biodiversity are increasingly important, complemented by other ESG themes like diversity, equity and inclusion (DE&I) and health.

2 Challenges – fragmentation in stewardship approaches leads to inconsistency, with smaller funds particularly constrained by limited resources. Ensuring alignment between asset owners and managers on voting and engagement strategies is a recurring issue.

3 Manager accountability – asset managers are critical in executing stewardship, but oversight and alignment with trustees' priorities vary. Practices such as split voting, regular reporting and stewardship assessments are gaining traction.

4 Escalation and engagement – escalation practices include voting against management, filing shareholder resolutions and public communications. Effective engagement combines direct actions, for example writing letters and attending meetings, with collaborative industry efforts to address systemic risks like climate change and biodiversity loss.

5 Collaboration – industry-level collaboration, such as Climate Action 100+ and Nature Action 100, amplifies investor voices and addresses resource constraints. Such initiatives enable systemic change while complementing individual asset-level engagements.

Best practice

The report presents seven best-practice examples mentioned during the interviews. These examples showcase how stewardship translates engagement into tangible results, highlighting diverse cases where persistent advocacy, collaboration and escalation strategies have led to meaningful corporate change across social, environmental and governance issues.

Systemic stewardship research team

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Introduction

Why did we conduct this research?

The topic of stewardship was a recurring theme in the discussions and events *Pensions for Purpose* organised throughout 2024.[1] Despite its undeniable importance for risk management and long-term value creation, conversations with members of the pension industry highlighted the challenges of establishing effective and systemic stewardship in a fragmented market such as the UK. Many funds lack the resources to conduct thoughtful stewardship in-house, making this a persistent obstacle.

The stewardship code

The *Financial Reporting Council (FRC)*, in its voluntary stewardship code, defines 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".[2]

A review of the code, launched in February 2024, revisited important elements, including the definition itself and the recognition of reporting burdens. The code highlights the materiality of environmental, social and governance (ESG) considerations in investment decisions, and outlines the role of asset owners and managers as 'guardians of market integrity'. It delineates reporting expectations, particularly for listed equity assets, which have more established stewardship practices.

The code identifies core stewardship activities:

- Investment decision-making.
- Monitoring assets and service providers.
- Engaging with issuers and holding them accountable on material issues.
- Collaborating with others.
- Exercising rights and responsibilities.

In investment literature, risks are commonly divided into 'idiosyncratic' or 'unsystematic' risks, which are specific to a particular business and can be mitigated through diversification, and 'systemic' risks, which impact the broader economy and cannot be mitigated through diversification, having the potential to affect diversified portfolios and the economy at large. Climate change, in particular, exemplifies a systemic risk that cannot be mitigated through traditional investment diversification strategies, but can be addressed through systemic stewardship.

Systemic stewardship

The concept of 'systemic stewardship' positions engagement as a core strategy for addressing systemic risks, rather than perceiving climate action as a trade-off between returns, risks and impacts. By addressing these risks, investors can improve the risk-adjusted returns of their portfolios, while supporting broader economic stability.[3] Systemic stewardship therefore reframes climate action not as a concession but as an essential component of responsible investment management. This type of engagement on a system level can be conducted by engaging directly with sovereigns on their climate policy and target setting as investors provide capital to governments with their sovereign bond issuance. In addition, there is a role for investors to engage with the multi-lateral process such as the COP meetings on climate or biodiversity.

With over 5,000 pension funds, the issue of systemic stewardship is particularly significant in the UK. However, before suggesting solutions to address the industry's gaps, it is essential to first gain an understanding of these through diverse and complementary perspectives. To achieve this, we initiated discussions with our partners and sponsor, benefiting from their diverse viewpoints as asset owners, asset managers and trustees to define the scope of the project. Additional contributions from organisations such as *ShareAction* and the *Church of England* further enriched the process, offering insights and essential feedback on the final questions to be put to interviewees. This collaborative effort resulted in the development of a comprehensive set of questions designed to gather actionable insights from stakeholders, including asset owners, trustees, investment consultants and asset managers, to help us understand the main gaps preventing stewardship from being translated into real-world outcomes.

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TPT Investment Management's view

Effective stewardship is built on a foundation of rigorous research, transparency and shared learning. This report highlights the evolving priorities and practices shaping stewardship today, underscoring the importance of collaborative engagement, robust accountability frameworks and targeted escalation strategies. By bringing together diverse perspectives, this research provides critical insights into the systemic challenges and opportunities in stewardship. Strengthening the link between engagement and real-world outcomes remains a key priority, ensuring that stewardship is not just a process but a driver of meaningful change in financial markets and society.

1 Stewardship priorities

Stewardship priorities

Environmental topics are at the forefront of stewardship priorities. Our interviewees frequently mentioned climate change as their main stewardship focus, recognising the climate crisis and global warming as the most pressing systemic risk.

Climate changed emerged as central to most strategies largely due to investors' net-zero commitments. Interviewees concentrate on engaging with companies to reduce carbon emissions and address systemic risks.

Nature and biodiversity is the second most common priority, often viewed as complementary to climate objectives. Within this scope, issues such as deforestation, water and nature loss were addressed as a part of broader environmental strategies.

Other less commonly mentioned themes were related to the social (S) and governance (G) aspects of ESG:

- Workplace issues, including human rights violations and modern slavery.
- Public health considerations, including antimicrobial resistance and broader health challenges.
- Corporate governance, with themes such as tax transparency and voting practices aligned with ESG priorities being emphasised.
- Diversity, equity and inclusion (D&EI) – with a focus on gender equality, board representation and fair labour practices.
- Digital rights and cybersecurity risks.

Fig 1 | Stewardship priority themes

1.1 How the priorities, sectors & themes were determined

"Our strategy is built on four priorities set by the trustees: climate change, nature and biodiversity, DE&I, and antimicrobial resistance as part of a broader public health theme. While these priorities guide our focus, we remain open to considering other relevant issues as they arise. This framework helps us maintain focus and ensure that our stewardship efforts are aligned with our overarching goals."

ASSET OWNER

One of the asset owners we interviewed mentioned how their strategy is trustee-led focusing on climate change, biodiversity, DE&I, and public health, while remaining adaptable to emerging issues.

Our interviewees highlighted many ways their stewardship themes were established. We divided these factors into five sections, 1 – materiality, 2 – membership relevance, 3 – external guidance, 4 – resource constraints and 5 – impact and alignment. Most organisations establish clear stewardship priorities based on ESG themes and material risks to the portfolio.

1 | Materiality

Some asset owners highlighted priorities that are shaped by the most material risks to the portfolio, identified through ESG ratings, systemic risk analysis and sector-specific factors. "Materiality plays a significant role in our approach. We focus on how relevant a theme is to our portfolios and the companies we invest in. For example, climate

Fig 2 | How were priorities, sectors and themes determined?

change is a key theme for us because it has a profound impact not just on individual companies but on the entire economy and the global landscape," said an asset owner.

2 | Membership relevance

Various asset owners highlighted that their stewardship themes were based on the demographic and professional characteristics of their membership.

"These priorities were chosen based on their relevance to the membership, which is primarily young, diverse and includes many workers in the gig economy. The trustees wanted to focus on issues that directly impact their members, particularly those related to retirement savings," said an asset owner.

However, it is important to note membership bases are vast and diverse, encompassing a wide range of opinions that are difficult to reconcile into a takeaway that satisfies everyone. Furthermore, member priorities can shift over time.

Another asset owner highlighted membership relevance by using surveys and demographics: "We also look at how important this theme is for our members. We considered member surveys, looking at the demographics of members and whether or not these particular themes would be important for them."

3 | External guidance

External advisers, frameworks like the *UN* sustainable development goals (SDGs) and industry collaborations were cited as providing additional guidance in setting thematic priorities.

"In addition to our asset managers, we collaborate with external investment advisers, including an ESG specialist. At the start of each year, we outline clear expectations for them through a chief information officer (CIO) letter. During regular monitoring meetings, we review their contributions to system-level stewardship, focusing on their impact at the policy/government level and the market/industry level," an asset owner told us.

4 | Focus of resources

Due to resource limitations, such as small teams, some asset owners have chosen a focused engagement approach, prioritising a limited number of themes to ensure quality over quantity.

"We prefer to focus on a small set of priorities due to resource constraints. We only defined two priorities last year: climate, due to our net-zero goal, is central to our investment strategy; and nature. It does not mean we do not engage in other areas but, if one wants to be realistic, quality is much preferable to quantity," an asset owner remarked.

5 | Impact and alignment

Some themes were evaluated according to their alignment with long-term sustainability goals and their real-world impact on beneficiaries.

"Our stewardship strategy aligns with our broader responsible investment (RI) objectives. It aims to deliver better long-term, risk-adjusted returns while driving systemic change in society. This approach benefits our members, not only by enhancing their lives on a systemic level but also by supporting the companies we invest in, creating value for all stakeholders," an asset owner told us.

Trustee views

Trustees develop stewardship strategies by aligning them with the fund's objectives and by addressing material risks such as climate change, biodiversity and social issues. High-level polices guide resource allocation and governance, with tools such as The *Institutional Investors Group on Climate Change (IIGCC)* framework helping to pinpoint portfolio risks. Some schemes have introduced specialist committees to drive progress, while trustees expect more from advisers, for example, better climate models and clear strategies for systemic change. Proactive moves taken by asset owners, such as adopting the Stewardship Code and setting annual themes, reflect a growing commitment to impactful stewardship.

Insight: The primary stewardship concerns identified were climate change, nature and biodiversity, DE&I, public health and governance. Themes are shaped by material risks, member relevance, external guidance, recourse constraints and alignment with sustainability goals. Strategies focus on systemic change, engaging companies and long-term risk-adjusted returns.

PENSIONS FOR PURPOSE'S PERSPECTIVE

Determining stewardship considerations involves assessing pressing needs and aligning resources with the greatest opportunities for impact. By carefully evaluating ESG themes, systemic risks and membership needs, schemes can focus efforts where they are most needed, ensuring stewardship actions are driving long-term positive change. Given resource constraints, a 'less is more' approach – aligning efforts with trustees' core values – helps optimise capacity while ensuring real-world impact. Trustees should also prioritise material financial risks over the full period that benefits will be paid, ensuring long-term sustainability.

1.2 Industry collaboration

Our interviewees emphasised the importance of asset managers' collective engagement, suggesting that interacting as a group amplifies voices, creating a unified, more powerful message capable of driving meaningful change. However, as this research highlights, challenges may arise in fostering engagement between UK and US managers due to the recent ESG backlash in the latter.

Joint initiatives were highlighted as a solution to the challenge of limited resources, a major issue when it comes to stewardship. In addition, this helps to balance the knowledge asymmetry between the company experts and the collaborative engagement team if knowledge is pooled among a larger number of investors. Sharing the workload allows more effective engagement and maximises impact despite resource constraints.

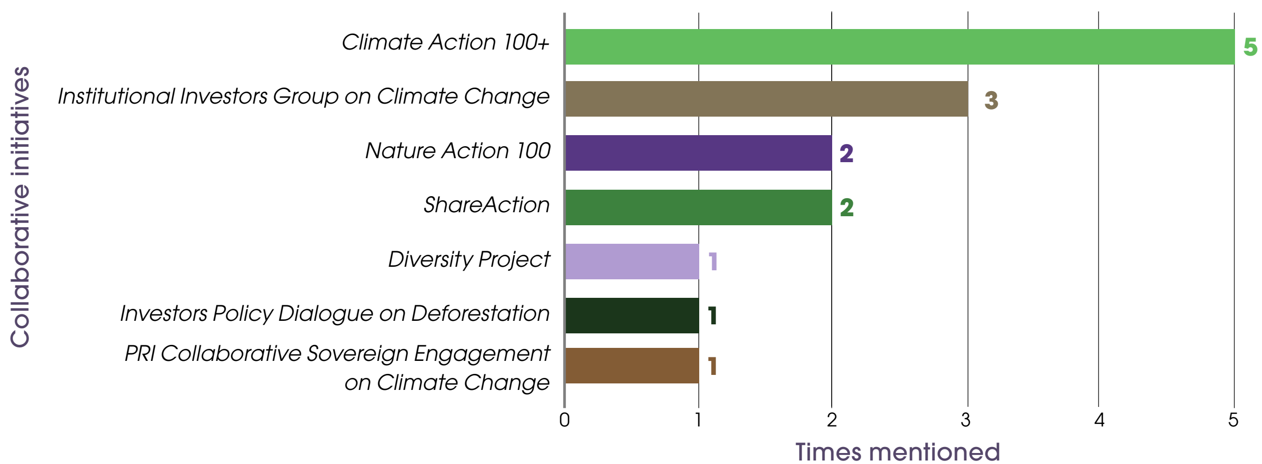
Seven groups were commonly mentioned as major industry initiatives prompting stewardship, led by *Climate Action 100+*, mentioned five times, followed by *IIGCC*, *Nature Action 100* and *ShareAction*.

INDUSTRY INITIATIVES

Climate Action 100+

A global investor-led initiative aimed at driving corporate climate accountability. Comprising over 700 investors managing $68tn in assets, it targets the world's largest greenhouse gas emitters to align with the Paris Agreement, focusing on three objectives: reducing emissions, improving climate governance and enhancing transparency through frameworks

Fig 3 | Collaborative initiatives referred to during the interviews



"Collaboration is essential for amplifying our impact. In my experience, many successful initiatives come from cooperative efforts. It's not just about having a stronger voice but also about the value of sharing knowledge and experiences. By partnering with other investors, we can tap into their expertise in specific areas, enhancing our own capabilities. I firmly believe in the power of collaboration, whether it's through engagement initiatives or developing frameworks for better practices."

ASSET OWNER

"Collaborative engagement amplifies our impact and helps distribute the workload, which is essential given our limited resources."

ASSET OWNER

like the *Task Force on Climate-related Financial Disclosures (TCFD)*. It engages with 166 high-emission companies across sectors such as oil, gas, utilities and transport.

The IIGCC Net Zero Engagement Initiative

Supports renewable energy generation by guiding investors in aligning portfolios with net-zero targets. It focuses on engaging companies to scale-up low-carbon technologies, improve accountability and accelerate decarbonisation. This collaborative effort empowers systemic change towards a sustainable energy future while addressing climate-related risks.

Nature Action 100

Is an investor-led organisation, with a global reach, focused on reversing biodiversity loss and protecting ecosystems. Launched in 2022 at COP15, it brings together over 200 institutional investors managing $28.6tn in assets. It targets 100 companies in sectors with the greatest impact on nature, such as food, forestry, chemicals and mining, aiming to hold them accountable for implementing nature-positive practices by 2030. The programme provides tools and benchmarks to guide corporate strategies in mitigating biodiversity loss.

ShareAction

Works to enhance stewardship by empowering investors to engage with companies on critical ESG issues. They provide tools, guidance and campaigns to promote active shareholder influence, aiming to drive corporate accountability, align investments with sustainable practices and create long-term positive impacts for society.

Diversity Project

Promotes greater inclusion across financial services, focusing on diversity in governance, workplace representation and investment decision-making.

It works to remove barriers, champion fair labour practices and create equitable opportunities, driving systemic change in corporate culture and fostering inclusive, high-performing organisations aligned with societal values. *Diversity Project* was highlighted in *Pensions for Purpose's* research 'Navigating diversity, equity & inclusion – an asset owner perspective'. The report showcased the project's significance in advancing DE&I initiatives, with our interviewees citing the topic as increasingly important for stewardship.

The Investors Policy Dialogue on Deforestation (IPDD)

Engages with governance and companies to address deforestation risks in global-supply chains. By promoting sustainable land use and deforestation, it drives policy change and corporate accountability, ensuring alignment with environmental sustainability goals and protecting biodiversity at a systemic level.

PRI Collaborative Sovereign Engagement on Climate Change

Addresses ESG risks in sovereign debt investments, by engaging with governments and institutions. The group promotes responsible fiscal policies, transparency and sustainable frameworks. It aims to integrate ESG into sovereign bonds, ensuring long-term resilience and alignment with global ESG governance.

Comparing engagement levels

Our interviewees raised the importance of balancing engagement at the individual asset-level with broader systemic engagement with regulators and governments. This type of engagement focuses on addressing foundational risks in the market, such as biodiversity loss or climate change, through regulatory reform and policy influence. While asset-level engagement is often preferred for its tangible impact, collaborative engagement with individual companies or sectors also drives change but differs from systemic efforts in scope and focus. Both approaches complement one another. Although asset owners recognise the relevance of engagement at the industry-level, efforts are usually delegated to asset managers but, as one trustee noted, they may not consider policy-level engagement to be their role.

> “Both types of engagement are essential: direct engagement with individual companies is valuable, but broader industry dialogue and working with policymakers are also drivers of change.”
>
> ASSET OWNER

> “As a small investment team of three, our resource management is critical. Decisions about whether to focus our time and effort – on engagement, policy development or broader initiatives – are made together with our investment subcommittee and trustee board to ensure we maximise impact and align with our priorities.”
>
> ASSET OWNER

Most funds tend to focus on engagement with individual companies, either directly or through asset managers. This approach offers immediate and noticeable influence over corporate behaviour. With direct engagement, funds address specific ESG requirements and ensure companies align with the SDGs. Smaller funds, or those with limited resources, often prefer company-level or manager-driven engagement due to capacity constraints. For these teams, focusing efforts on company engagement offers the best return for their stewardship. While collaborative engagement with companies or sectors prioritises specific ESG issues, systemic engagement is necessary for tackling broader, connected challenges requiring regulatory or policy-driven solutions. These two approaches are distinct but complementary, with systemic efforts creating the conditions needed for long-term market improvements.

Direct-asset engagement and industry-level collaboration are seen as complementary approaches to effective stewardship. While company engagement allows funds to address specific ESG issues and align with long-term goals, industry-level initiatives tackle systemic risks and create the conditions for market-wide improvements. In addition to industry-level engagement, sovereign engagement is a noticeably growing area of practice among investors. This was confirmed at ‘*PRI* in person’, where multiple panels were asked to vote and the results highlighted the importance of policy engagement and collaborative sovereign engagement.

PENSIONS FOR PURPOSE’S PERSPECTIVE

Collaborative engagement amplifies voices, enabling schemes with limited recourses to heighten their visibility and influence. Balancing direct company engagement with broader industry-level initiatives is crucial to build systemic stewardship. While direct efforts also lead to tangible, short-term results, systemic challenges like climate change and biodiversity loss require coordinated action.

> “We engage in public policy throughout the year to drive systemic change, recognising governments often act on ESG issues only when markets take the lead. While we advocate for minimum standards from governments, we also push companies to adopt and improve best practices. Real progress requires regulatory action and market-driven solutions, so we work with companies and with the regulators to address market failures and achieve meaningful change.”
>
> ASSET OWNER

Insight: Asset owners agree on the importance of engaging collectively, with limited resources and increased voices mentioned as the main reasons. Balancing direct asset engagement and industry-level alliances are vital for effective stewardship. While company-level engagement drives beneficial ESG improvements, at an industry-level systemic risks such as climate change and biodiversity loss may be addressed. Both approaches are seen, by interviewees, as complementary.

② Manager performance & accountability

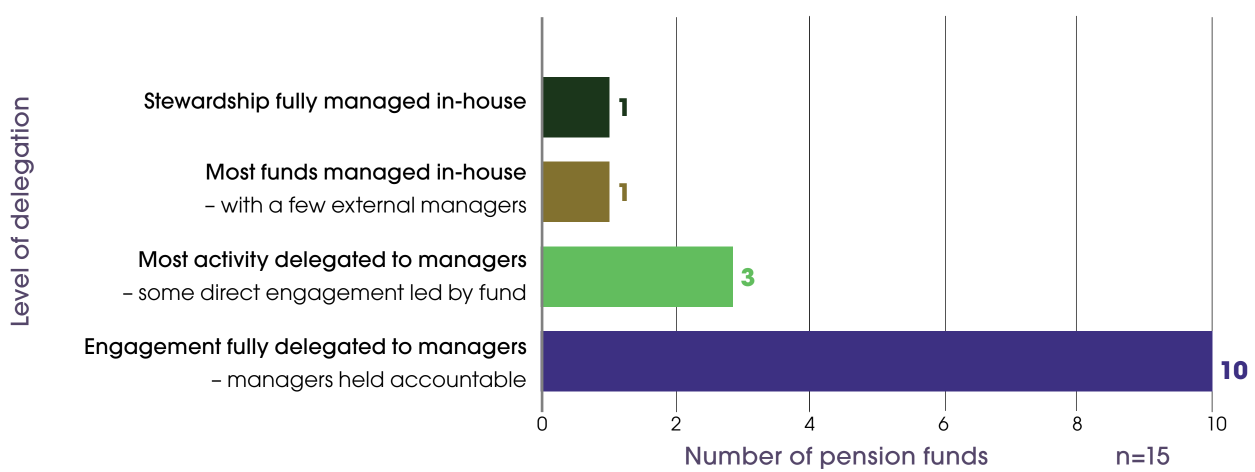
Manager performance & accountability

Pension funds often outsource a substantial portion of their stewardship activities to asset managers because of limited internal capacity. In addition, as asset managers are largely conducting engagement activities and investment, they tend to know companies well. The extent of delegation varies, with some funds retaining voting rights, while others rely more heavily on their managers' policies and processes. A common approach observed was that schemes do not directly engage with individual assets, which leads to a focus on monitoring the practices of managers.

This approach presents the challenge of ensuring alignment with trustees' stewardship priorities. Much of our discussions centred on the processes managers use to demonstrate accountability. According to one asset manager, there is a wide spectrum of client maturity in stewardship activities. Some are 'hands-on', actively monitoring systems, while others rely heavily on the manager to define and execute arrangements. Another challenge is trustees' capacity to have a full picture of the effectiveness of engagements. As one interviewee mentioned, monitoring engagement processes can take years and cannot be reduced to a mere analysis of metrics such as number of engagements and escalation measures.

Although most pension schemes, especially the smaller ones, lack the scale and resources to engage directly with companies, delegation is a natural part of the investment process. As one investment consultant observed, funds are still required to clearly communicate their expected outcomes to managers. Still, one trustee highlighted that many small schemes, mainly those investing through a platform, do not meet with their managers.

Fig 4 | Level of stewardship delegation to asset managers



Monitoring processes

Most of our interviewees receive quarterly investment performance updates from managers, supplemented by annual reports, which review stewardship activities and encourage transparent voting and engagement. Conducting stewardship primarily or entirely in-house strengthens accountability and allows trustees to effectively challenge fund managers on their practices. To ensure consistency across holdings, firms monitor external managers' engagement strategies and voting practices.

However, it is a challenge to effectively incorporate stewardship across active and passive managers. One fund highlighted that while active managers are encouraged to engage regularly with companies, passive managers often have less direct engagement due to the breadth of their holdings – the latter, however, can also count on larger teams to articulate engagement priorities.

Monitoring methods used for managers:

- Quarterly reports: to ensure alignment with the funds' stewardship objectives and support adjustments to investment strategies based on engagement activities and outcomes.
- Annual assessment of managers' stewardship activities: to evaluate voting records and engagement efforts, ensure alignment and address discrepancies in stewardship practices between different managers.
- Monitoring meetings: to give context to the effectiveness of stewardship.

Robeco's view on 'institutional alignment' reputational risks

Robeco has been a *PRI* member since 2006 and joined *Climate Action 100+* at its inception, consistently leading a significant number of companies. Since 2021, Robeco has co-chaired the steering committee that supported the launch of *Nature Action*. We also joined the *Net Zero Asset Manager Alliance* to align institutionally with our clients who are part of the *Net Zero Asset Owner Alliance*. With a recent exodus, mainly among US investment managers, from the *Net Zero Banking Alliance* and the *Net Zero Asset Manager Alliance*, finding managers who maintain institutional alignment across all relevant aspects of a pension fund's sustainability strategy has never been more important than it is today.

Escalation process

Schemes are starting to regularly rate and review investment managers' stewardship performance. An investment consultant mentioned clients usually evaluate managers based on their voting behaviour, emphasing how technology can provide clients with access to voting data, allowing them to hold managers to account.

- Rating system: one scheme is implementing an assessment process to rate how well managers engage with their priorities; the results are colour coded red, amber or green to clearly show their status.
- 'Watch list': one fund assesses their managers' stewardship efforts through quarterly reports, which detail engagement activities and outcomes. Discrepancies between the fund's objectives and managers' actions are monitored. Managers may be placed on a watch list if differences persists.

Criteria for termination

Most pension funds prioritise engagement with managers and investees over termination or divestment. One scheme cited 'lack of institutional alignment' as the reason for ending the relationship with a manager. A different example involved differing perspectives on ESG considerations in divestment, with a US-based asset manager.

Another fund noted that, while ESG practices are important, they would not alone justify divestment. Such a decision would also need to be supported by evidence of poor financial performance.

- 'Institutional alignment': one interviewee explained how they conduct annual reviews of asset managers, including stewardship assessments. If the managers' efforts do not align with the scheme's objectives, this lack of 'institutional alignment' can lead to the termination of the relationship. To ensure transparency, feedback is provided to managers whose contracts are ended.
- Financial performance as the primary consideration: poor ESG practices were noted as a contributing factor but would not be the sole reason for disinvestment. One scheme shared an example of a Chinese mandate, where ESG influenced their decision to terminate employment, however financial metrics were integral to that decision.

Trustees' views

While trustees are responsible for setting policies, managers are usually in charge of conducting engagement activities. However, this delegation can lead to inconsistencies. Some trustees noted the potential for misalignment caused by proxy voting that does not reflect their beliefs. To address this, one trustee instigated split voting to ensure alignment with their priorities, particularly on issues like climate and biodiversity, as it provides them with greater ownership of vote allocation. Another interviewee mentioned a case where voting responsibilities were reassigned from a manager to maintain adherence to the scheme's objectives.

One of the broader challenges discussed by our interviewees was many asset managers resist viewing government policy influence or industry-wide engagement as part of their responsibilities. Instead, they focus solely on individual asset-level engagement, which ultimately weakens cohesive stewardship outcomes.

2.1 Level of ownership

A common approach to fund ownership involves delegation of day-to-day stewardship activities to asset managers, while the fund retains priority setting. Funds review managers' policies to ensure they align with their own responsible investment policy, which serves as the foundation of the stewardship activities investment managers conduct on their behalf.

One investment consultant encourages their clients to set and communicate priorities to their managers. However, they find relatively small investors struggle with how to drive meaningful change. In practice, most clients take an element of ownership by asking tough questions of their managers throughout the year. While this approach has its merits, it often has limited effectiveness. Although a small subset of clients – representing a significant proportion of assets – actively engage in voting and stewardship, for the majority, practical constraints mean they rely on their asset managers and primarily monitor and review their activities.

Overall, our research identified a shift in stewardship, with a growing tendency for pension schemes to increase ownership and move away from total reliance on managers. This includes implementing split voting, increasing stewardship assessments of managers or, in a few cases, partially or fully conducting engagement in-house. Another emerging trend is the use of technology to deal with the high volume of voting data. For instance, one fund recently adopted a stewardship management platform to aggregate voting data across managers. This tool provides an 'at-a-glance' view of how managers voted at key meetings and simplifies a previously manual review process.

To ensure alignment, scheme strategies span from maintaining a small number of managers, who focus on a small set of priorities, to engaging with specific companies and introducing split voting. For example, an asset manager may handle engagements while voting rights are delegated to a stewardship provider. However, this approach can lead to differences in how shareholder resolutions are voted on compared to how asset managers vote for other clients. When such discrepancies arise, schemes actively engage with managers to seek clarification.

"We maintain a small number of asset managers, making it easier to build strong, long-term relationships, allowing our asset managers to fully understand our priorities and expectations. For example, in high-profile holdings like *BP* and *Shell*, they are clear on our emphasis on addressing carbon emissions and similar concerns."

ASSET OWNER

"Our understanding of engagement is that it is not about sending a million letters to tick an engagement box. We want to do proper research and have relevant conversations – that takes time."

ASSET OWNER

DIFFERENT LEVELS OF OWNERSHIP: RAISED BY THE INTERVIEWEES

1 Stewardship activities are fully managed in-house

One fund, who fully manage their stewardship in-house, argued their stewardship activities are better aligned with their trustees' priorities. Quarterly, trustees monitor stewardship activities, with full visibility on voting and engagements on each stock.

Each engagement has clear objectives, milestones and tracking. The asset owner's team may address several topics with a single company; each of these is treated as a separate engagement, which the trustees monitor. The process aims for consistency across engagement, voting, escalation and portfolio management, creating a feedback loop. When engagements are unsuccessful, the next step may include voting against individual directors or co-filing shareholder resolutions, often with other investors.

Engagement can fail. That asset owner estimates the majority of engagements (around 60-70%) do not achieve their objectives. Often, only partial progress is made and, in cases where a holding cannot reach the required goals, they may be downgraded or removed from the portfolio

"The trustees review details on climate action, gender equality and the Living Wage – assessing the engagements and voting decisions taken on these issues. They examine whether votes supported management, opposed or abstained, considering specific examples and questioning the actions taken. This quarterly review allows the trustees to ensure stewardship activities are carried out appropriately."

ASSET OWNER

"The consequence of unsuccessful engagement is a reassessment of the company's position in our portfolio. We categorise firms into 'adapting' or 'sustainable'. If a company is failing to adapt to stewardship tasks, it may be downgraded to 'at risk'. This lowering in status could be the result of a failed engagement."

ASSET OWNER

2 Most funds managed in-house, with a few external managers

In this case, the scheme's voting is in-house, even for holdings that are externally managed. Outsourced managers are expected to primarily align climate with the fund's goals. If necessary, the asset owner may engage directly with underlying holdings, informing the manager and hoping for their support.

The asset owner monitors external managers quarterly, evaluating the alignment of their engagement and voting policies. While the scheme retains control over its own voting, it seeks to prevent external managers from voting contradictorily on other holdings where managers oversee the voting process. As part of the annual assessment of managers, they examine specific companies and request detailed engagement examples and case studies. These findings are included in the annual stewardship report.

According to this scheme, the alignment of external managers with their policies is mixed. Some perform well, while others fall short. For example, emerging market managers, while newer to these practices, are open to guidance and learning best practices. Conversely, some managers in developed markets are culturally resistant to alignment, despite being able to implement such practices. This issue remains a point of contention during annual reviews. In both cases, it is important to recognise that managers have diverse clients holding different engagement priorities. As a result, managers struggle to respond to various demands, which underscores the importance of ongoing dialogue, rather than just communicating themes for stewardship priorities.

3 Most activities delegated to managers, with some direct engagement led by the scheme

There is an increasing, although slow, movement of funds expanding their level of ownership of engagement activities. Three schemes, at varying levels, combine in-house engagement with engagement promoted by managers. In one case, the scheme used to rely entirely on managers for stewardship activities but has recently begun engaging directly with companies, though on a much smaller scale compared to the managers. In another case, an asset owner combines their own in-house engagement programme, applied to individual companies and collaborative initiatives, with engagement conducted by their managers.

Ensuring alignment is a challenge. Strategies include annual meetings between managers and trustees to review engagement and voting activity; this, in turn, feeds into the annual stewardship code report which provides an overview of past votes. Managers are also expected to comply with the voting and engagement policies communicated as part of their selection and monitoring process. The latter involves quarterly reporting on manager voting and engagement which leads to discussions with managers around how they can enhance their reporting and clarify the objectives behind their engagement activities. According to one asset owner, although there is always a plan in place, it is not necessarily reflected in the reporting.

"Managers' assessment include an annual RI rating, with stewardship as a main contributor, alongside ESG integration. Managers must meet our minimum standards in these ratings, which are part of our ongoing evaluation process. The fund expects managers to meet a certain score, otherwise, the first step is to enhance engagement – but if that fails, then it's case for dismissal", as asset owner told us.

One scheme implemented split voting after receiving inconsistent responses when asking managers to share their voting intentions. According to the scheme, the split voting policy provides greater control over votes in important engagement areas. Although they are awaiting the first report under this new approach, there is already a sense of improved involvement compared to traditional practices.

> "We set engagement objectives with our developed markets manager focused on climate change, specifically reducing long-term emissions and achieving net-zero targets by 2050. These efforts are tracked through an engagement feedback loop, allowing us to monitor the progress of interactions between our manager and the investees. Over time, we use the outcomes of these engagements to potentially adjust our investments and conviction in those companies."
>
> ASSET OWNER

One fund commented on the divide between engagement from active and passive managers. They see active managers as having the best access to companies and a higher impact conviction due to their concentrated holdings. In contrast, index funds, which hold thousands of companies, have less capacity for individual engagement. However, passive funds still have processes and objectives for engagement on issues, like climate.

4 All activity delegated to managers, with the scheme focused on holding managers to account

Funds concentrating on holding managers accountable highlighted a robust due diligence process for appointing new managers. In one case, critical factors include ESG understanding, integration and alignment with the scheme's approach to stewardship. Only managers who share the fund's views on RI are appointed. After appointment, regular reviews are held to assess their voting and engagement practices, with a continuous emphasis on raising standards.

Regarding manager assessment, one scheme have recently established a process to evaluate managers' engagement compared to trustees' policies – classifying their performance into red, amber and green. Where managers fail to consider their priorities, the scheme will follow up with the managers.

In another case, monitoring is conducted at the company level, manager by manager, with engagement occurring quarterly, semi-annually or annually, depending on the asset class. This engagement involves open dialogue, where managers are asked to explain their rationale for holding specific companies and to discuss whether the methodology justifies engagement on those holdings. The fund engages at the managerial level, conducting ESG risk monitoring and assessing exclusions.

A small minority of our interviewees rely on specialist stewardship providers, primarily for assistance in drafting or guiding their RI policies. In some cases, these providers also support engagement and voting activities. In other cases, asset owners use voting templates supplied by the specialists. Notably, in one example, a specialist provider aided a scheme by mapping the SDGs and formulating its RI policy.

IGG's perspective on delegating stewardship to asset managers

Most schemes state engagement is their primary lever for climate risk management and have delegated engagement to managers. Trustees need to ensure they are satisfied that asset managers are acting in a way that is consistent with long-term investors' objectives. If gaps are identified, then trustees need to take another look at how they are managing that risk. It might be a case of being clearer on the extent to which climate and nature risks can be mitigated through engagement, focusing stewardship resource on objectives which are achievable in the current climate.

Trustees' views

As explained earlier, generally, asset managers conduct engagement, while trustees are responsible for setting trustee policies, producing implementation statements and monitoring compliance, mostly relying on proxy voting. However, managers set policies for pooled funds which most schemes invest in.

One trustee mentioned many of their fund managers rely on proxy voting services to guide their voting policies, sometimes resulting in voting outcomes not aligning with the trustees' beliefs. To address this misalignment, they've recently implemented split voting, allowing them to set their own voting policy, aligned with their investment principles. This gives trustees greater control of voting decisions, ensuring they accurately reflect their values.

“Managers we work with have provided a range of alternative voting frameworks, such as the *PLSA* guidelines. We review these different frameworks, selecting and blending elements to create a bespoke voting policy which reflects our objectives. This results in a stronger alignment between our stewardship activities and our broader investment beliefs.”

TRUSTEE

“If a manager fails to align with agreed-upon policies, in certain cases, I have taken control of parts of the engagement process. For example, when using a fiduciary manager whose voting record on climate issues declined significantly after 2021, I reassigned the voting responsibilities to a third party whose approach was more consistent with the trustees' policies. While this addressed the immediate concern, it's not ideal. Voting should be the culmination of the engagement process – an escalation tool rather than an end in itself. Nonetheless, when an asset manager consistently fails to vote in line with expectations, there are limited options. In this case, switching managers was impractical as they managed the entire scheme's assets and the cost advantages of their fee structure outweighed the concerns over voting discrepancies.”

TRUSTEE

2.2 Report updates from managers

Quarterly reports are the most common way for asset owners to receive updates from managers, with the results shared with trustees and investment advisers. These reports often combine investment and risk performance data with details on stewardship, including updates and progress on recent engagements. In one case, the scheme receives quarterly reports and an annual report, which they focus on more closely. These are reviewed by the investment and ESG teams, plus, in some cases, an ESG working group. Some schemes take a more layered approach, with a mix of company reporting, monitoring meetings, quarterly reports and ad hoc communications.

“Each manager annually gives an in-person presentation to our ESG working group. This group convenes quarterly, with managers appearing on a rotational basis to review their RI activities. Details of immediate or emerging issues are emailed.”

ASSET OWNER

Notwithstanding the importance of reports, one scheme noted meetings with managers are more valuable for gaining a full understanding of stewardship efforts.

“Manager monitoring meetings are most valuable for us, as they provide an insight into whether their efforts are yielding results. Honestly, I’m less concerned with the black-and-white paper reporting. For system-level stewardship, it’s more about nudging in the right direction and the most useful information comes from these conversations.”

ASSET OWNER

In the case of LGPS committee meetings, which involve a wide range of reports, engagement is covered in its own dedicated section, summarising quarterly activities.

“Our focus in these reports is on outcomes. For example, in the voting section, we highlight the success rate of the shareholder resolutions we supported and provide additional details on voting results.”

ASSET OWNER

Another fund also receives quarterly stewardship and engagement reports from fund managers but tailors its approach depending on the type of management.

For active managers, who usually manage fewer holdings, the reports provide in-depth information on individual engagements, detailing the original engagement objectives, progress updates and the long-term goals for each company. These updates are reviewed quarterly and offer insights into the outcomes of specific company interactions, helping to track the trajectory of each relationship.

For passive managers, who manage a significantly larger number of holdings, the reports are at a

Robeco's perspective on enhancing client impact

Robeco provides insights in key AGMs to clients that have an engagement and overlay service with us. Where possible we try to bring together the urgency of the AGM, pre-AGM engagement efforts and client support in that process to ensure we maximise the impact of our dialogue with the company.

higher level, focusing on aggregate data such as the total number of companies engaged with during the quarter and the nature of those engagements. These themes are broken down into ESG categories, like climate change, biodiversity or deforestation, helping the scheme understand the managers' direction and the systemic issues they are addressing. The asset owner provides feedback to managers, recommending a focus on certain systemic issues. In turn, managers provide examples of meetings, rather than overwhelming trustees with exhaustive lists of interactions, ensuring the information remains relevant.

Finally, one fund plans to evolve its stewardship reporting process. Currently, an annual questionnaire is sent to managers to gather data on significant votes and engagements for the implementation statement. In the future, managers will be asked to submit detailed stewardship or ESG reports. The evaluation process will remain qualitative but evidence-based, focusing on significant engagements and votes aligned with trustees' priorities. A red-amber-green (RAG) rating system will be introduced to provide an overview of each manager's progress. These ratings will then be presented to the trustees, who will decide whether to engage further with specific managers based on the results and their performance over time.

Trustees' views

One trustee explained their approach aligns with the production of the implementation statement, reviewed annually. Investment managers are invited to present directly to trustees, providing an opportunity for discussion of ESG matters and to request concrete examples of engagement. This often proves more effective than relying solely on formal written reports, which are harder to integrate into the statement.

The frequency of stewardship updates varies based on scheme size and structure. While most funds conduct a detailed annual review, larger schemes hold biannual meetings to discuss voting and engagement priorities, and assess progress against initial objectives. These meetings are supported by regular written reports on engagement outcomes, providing further detail.

However, another trustee, who meets quarterly with managers, expressed dissatisfaction with the retrospective nature of these reviews, which focus on past voting actions. "One thing I find a little unsatisfactory as an industry is that it's always backward looking," they remarked. To address this, they are exploring a forward-looking model that reviews future voting intentions. However, they recognise, although this approach could foster earlier engagement and greater influence, managers may be hesitant to disclose voting intentions in advance due to the sensitive, time-critical nature of such information.

2.3 Managers' stewardship efforts assessment

We interrogated schemes on how they assess managers' and investment consultants' stewardship efforts and what actions they would take if their managers' stewardship activities do not align with the scheme's objectives.

The complexity of measuring stewardship was raised by one interviewee, who argued engagement outcomes are challenging to quantify. The scheme views stewardship as one of many factors in investment decisions. It's hard, for instance, to specify whether one engagement was the sole factor responsible for changing a company's behaviour. Divestment is seen as a last resort due to the loss of influence; staying invested allows for ongoing dialogue.

> "The market is still at a stage where a shared language and mutual expectations about effective stewardship are being developed. This includes reaching consensus not only on what stewardship entails and what 'good' looks like but also on aligned goals such as achieving net-zero emissions at a fund or entity level. Establishing these shared definitions and expectations remains an ongoing effort within the industry."
>
> ASSET MANAGER

> "Some argue if engagement isn't working, divestment is the answer. However, we remain sceptical about divestment because we believe losing 'a seat at the table' diminishes our ability to influence. We prefer to stay invested and continue pushing for change."
>
> ASSET OWNER

One asset manager said they navigate a broad range of client expectations, from sophisticated demands for demonstrated outcomes and impacts to basic compliance with stewardship principles, such as being a signatory to the *UNPRI*.

Regarding termination, schemes broadly argued that, although it's important to keep it as an option, they prioritise engagement with managers, providing guidance and communicating at senior levels within the firm. Only if the issues persist or if they feel a lack of ongoing 'institutional alignment' with the manager, is a termination is considered. For asset owners, a robust due diligence process at the manager selection stage is fundamental.

DUE DILIGENCE

During the due diligence phase, managers are evaluated based on their alignment with the asset owner's objectives, engagement practices and ability to pursue thematic goals like net zero. Misalignment is addressed through dialogue and unresolved issues may prompt a reassessment of the relationship. This upfront discussion reduces the likelihood of future conflicts while recognising the industry's ongoing need for shared expectations on stewardship. Once a manager is selected, there is an ongoing opportunity to engage with them, setting requirements, making requests, and collaborating on areas requiring improvement.

> "As part of our due diligence process for selecting managers, we often refer to reports like *ShareAction's* 'Point of no returns'. This resource ranks the top 75 global fund managers on their stewardship practices on ESG issues like climate and biodiversity, and breaks down how managers perform, offering an A- E ranking, which helps us identify those who align best with our expectations before engaging with them directly."
>
> TRUSTEE

Structured oversight and dialogue

Assessment: One scheme assesses managers' stewardship efforts through presentations to its ESG working group of senior decision-makers. During these sessions, managers are expected to detail their activities, demonstrate their alignment with the scheme's RI policy and address any concerns raised. Continuous monitoring includes quarterly and ad-hoc reports, allowing the fund to track their progress and determine whether their activities support the fund's overarching goals. Any gaps or discrepancies are addressed directly in these forums. In cases where managers' efforts fall short or diverge from objectives, the scheme engages to understand the rationale and request adjustments.

Escalation: The fund does not have a formal escalation process, but persistent misalignment or failure to meet expectations could lead to a reassessment of the relationship. At such a point, the fund would weigh the overall impact of manager underperformance on the fund and consider ending the relationship if necessary.

Annual reviews

Assessment: Annual reviews, conducted by investment consultants, evaluate managers' engagement and stewardship activities. These reviews cover various aspects including system-level engagement. As advisers have different expectations for each manager, they don't follow a standardised approach for assessments. Instead, they aim to push managers to improve gradually, providing regular feedback on progress. Results of these assessments are shared with the trustee on a quarterly and annual basis.

Escalation: If a manager's stewardship activities do not align with the scheme's objectives – especially around critical issues like climate change – it can lead to relationship termination. The concept of 'institutional alignment' is a consideration in the scheme's decision-making process.

Enhanced monitoring and technology integration

Assessment: Recognising managers' votes may sometimes conflict with the scheme's, one fund is investing in enhancing monitoring, placing stronger emphasis on alignment. A new data-driven process evaluates whether managers meet baseline expectations, such as having actionable climate transition plans. Enhanced data is also critical in annual reviews and influences manager selection.

Escalation: The fund communicates minimum standards for engagement, especially on climate, including short-, medium- and long-term science-based targets and meaningful, actionable transition plans. Although results from the improved monitoring process are just starting to come in, they expect this enhanced data will help determine ongoing relationships and will be a factor in future manager reviews and selection.

Template reporting

Assessment: Managers are required to submit annual engagement templates for all asset classes, detailing engagement efforts and case studies aligned with trustee priorities. These reports are used to challenge managers on engagement quality and transparency. When case studies have been subpar, the scheme has pushed back, held calls to clarify the manager's efforts and encouraged better transparency going forward.

Escalation: While ESG deficiencies alone have not triggered manager termination, they have contributed to decisions when combined with financial underperformance.

"For example, in one China mandate, ESG deficiencies were monitored over time. Efforts to address them, including moving to a different share class, failed to yield sufficient improvement. Ultimately, the mandate was terminated, though financial underperformance remained the primary driver," the scheme said.

Watch list

Assessment: The fund seeks to ensure, during the due diligence and procurement phase, that managers' objectives align with their own, including engagement goals. This is monitored through quarterly reports, updates on engagements, and managers' perspectives on systemic risks and thematic priorities. However, they highlighted: "Occasionally, discrepancies arise; for example, when we feel a manager should push harder on a company's net-zero transition, while they argue doing so could harm the company's short- or long-term performance."

Escalation: If significant or repeated divergences occur in RI objectives or prioritised themes, the manager may be placed on a watch list. A thorough assessment would then determine if the relationship remains viable.

Oversight questionnaires

Assessment: These are conducted on a rolling annual basis, which include questions on voting and engagement practices. Any concerns identified during these reviews are flagged up and addressed with the relevant manager. Additionally, investment advisers provide a voting and stewardship report, assessing managers' voting activities for the previous scheme year. This report also compares performance between managers and evaluates alignment with the trustees' policies, helping identify deviations.

Escalation: This procedure is outlined in the scheme's voting and engagement policy. Initial steps involve the in-house investment team engaging directly with the manager. If issues persist, the matter is raised in a meeting with the investment sub-committee, followed by a review of the mandate. Termination remains a potential outcome in cases of continued misalignment.

Investment consultant view

Setting expectations for asset managers and aligning on the changes they can realistically drive is key. The ultimate goal of stewardship is to create real-world change, whether by reducing risk or adding value to outcomes.

> “The first step is understanding the goals asset managers aim to achieve. For some, this may simply involve promoting better disclosure to manage risk. However, this often falls short of the higher expectations many asset owners have, such as achieving real-world decarbonisation or advancing human rights practices. Clearly defining these desired outcomes and assessing how committed an asset manager is to achieving them is essential. This alignment helps asset owners work more effectively with managers and set clear priorities.”
>
> INVESTMENT CONSULTANT

Trustees’ views

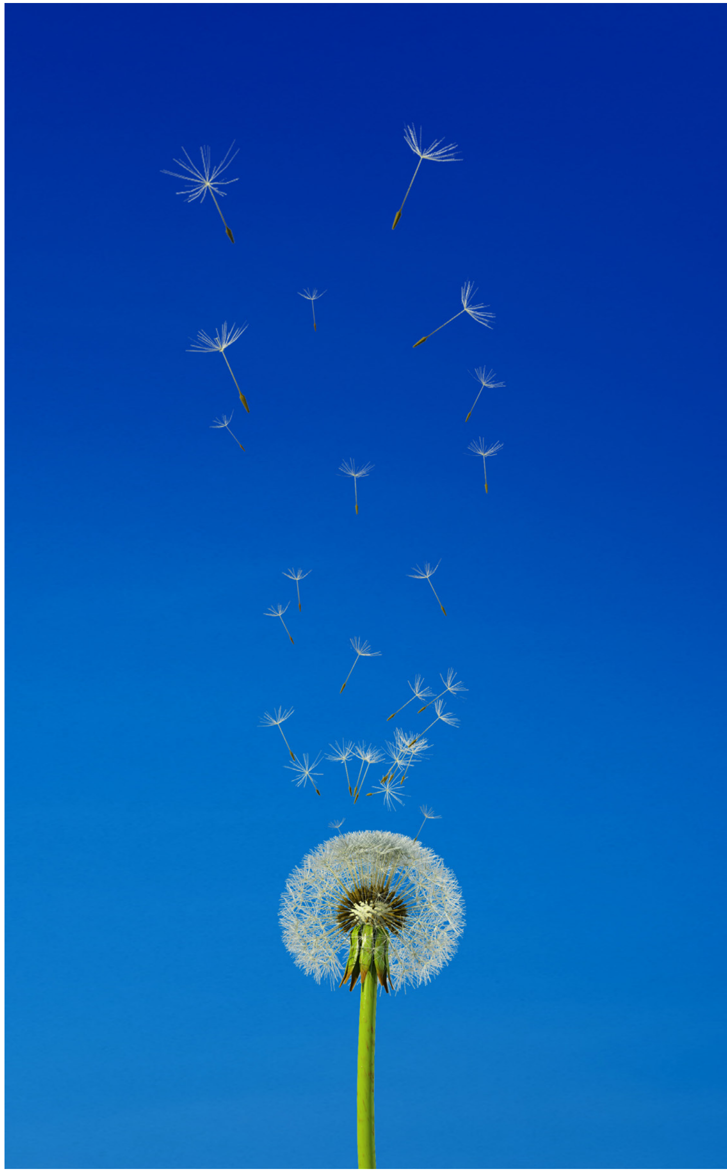
Trustees emphasised alignment in stewardship by integrating engagement reporting into implementation statements. They highlighted challenges with index funds, whose voting may not always match expectations due to their diverse client base. Rigorous research and manager ratings inform decisions, and transitions between managers are typically motivated by opportunities for improvement rather than dissatisfaction.

Annual dialogues with managers focus on reviewing voting practices and rationales, providing a platform to address divergences from expectations. Persistent misalignment may lead to escalation and, if unresolved, termination of the manager relationship. However, due diligence, including evaluations of voting records and principles, ensures alignment with scheme objectives and minimises conflicts.

Investment consultants are also held accountable through frameworks like the *Competition and Markets Authority’s (CMA)* investment objectives, ensuring their advice aligns with trustees’ broader priorities.

Robeco’s perspective on voting practices

We seek to deliver full alignment with clients when it comes to executing our voting policy on their behalf. Annually clients are consulted on upcoming changes and trends in the market, to ensure that we always are on the same page in executing and reporting towards the asset owners we serve.



2.4 Stewardship consistency

Ensuring consistent stewardship across all managers can be challenging and several of our interviewees have experienced their managers voting differently on the same issue. Here are actions they take

1 Understanding the rationale behind each manager's decision

The most common approach focuses on understanding the rationale behind each manager's voting activity. In instances where managers are unaligned, schemes emphasised reviewing each vote in detail and engaging with managers to understand the reason behind their decisions.

"The first step is ensuring there's alignment of values, understanding what drives a manager's voting decisions – whether it reflects a fundamental misalignment of values with the asset owner or simply a difference in engagement style. The goal is to help clients discern whether differences stem from values or approach, and address them accordingly."

ADVISER

A trustee said: "we occasionally encounter situations where one manager votes in favour of a proposal while another votes against it. When this occurs, we ensure these differences are explored during our dialogue with the respective managers, either through ongoing interactions led by the investment executive or during our annual engagement meetings. The goal is to understand the rationale behind each manager's decision – whether it stems from different levels of access to information, varying interpretations of the issue or unique priorities within their frameworks."

Another asset owner explained: "the process involves identifying which managers align with trustee policies, discussing discrepancies with others and understanding their varying rationale. In some cases, we have accepted differences on a case-by-case basis. However, the long-term solution is implementing a unified voting policy across managers. Currently, this policy covers 20% of our fund but we aim to expand it to 70%. The goal is to streamline the process, eventually applying a unified policy across all passive equity. For active equity, a single voting policy may be less effective due to differing objectives, particularly in impact investing. Active managers often require flexibility to align their voting and engagement with their specific priorities and strategies."

"Our approach is to focus on understanding why each manager voted the way they did. We've had instances where the managers weren't aligned, such as with *Shell*, where there were several resolutions. In this case, we reviewed each resolution in detail, considering guidance from the *Local Authority Pension Fund Forum (LAPFF)*, to understand the reason behind each manager's vote. The result was our managers voted differently but we didn't try to impose a single position. Generally, we are aligned, but *Shell* has been a standout case as the arguments on all sides were complex and convincing."

ASSET OWNER

2 Asking managers to follow the voting policy

Some schemes also ask managers to follow a unified voting policy to prevent misalignment. They emphasise the importance of dialogue with managers to understand their voting decisions and the reasons behind any deviations from the policy.

> “When you have managers voting in different ways, your voice is reduced. We try to minimise this by asking our managers to follow our voting policy. We discuss their voting decisions and the reasons behind them. When they deviate from our policy, we engage to understand their rationale. We also have some segregated mandates, where accounts are separately managed, allowing us to give voting instructions aligned with our policy. This steup strengthens our stewardship capabilities, as we can more directly influence how votes are cast. Additionally, we include stewardship expectations in our investment management agreements to further ensure alignment.”
>
> ASSET OWNER

3 Delegating voting activities to a third party

Delegating voting to a third party is considered when there is misalignment between a manager’s voting decisions and the trustees’ policies, especially in cases where both have differing expectations on decarbonisation. Asset owners have explored this option to prevent conflicting messages and to ensure a unified approach to voting.

> “A potential area of conflict could arise from managers being internally conflicted, particularly when catering to differing expectations from stakeholders about the pace of decarbonisation or reliance on technological solutions. In such situations, there’s little that can be done apart from delegating certain responsibilities, such as voting, to a third party if the manager’s approach doesn’t align with the trustees’ policies or priorities.”
>
> TRUSTEE

> “We’ve experienced misalignment, when our equity manager voted against something we would have supported. This led us to explore third-party stewardship providers to have more control and autonomy, including the ability to review and change significant votes based on trustees’ priorities. While this situation is rare, we aim to increase our influence in these decisions.”
>
> ASSET OWNER

> “By putting all of your voting rights and your engagement rights with one engagement service provider, you will prevent split voting and prevent mixed messages on behalf of one asset owner to a company from different engagement angles.”
>
> ASSET MANAGER

Insight: Most schemes substantially delegate stewardship activities to asset managers, focusing on assessing manager efforts. However, this can result in a challenge of aligning the engagement conducted by managers with trustees' priorities. To ensure consistency, assessment usually includes analysis of quarterly and/or annual reports, which in a few cases is accompanied by monitoring meetings to help asset owners gain context on managers' actions. To ensure alignment, most schemes argue a robust due diligence process should be in place when selecting a new manager. Pension funds also preferred engagement over termination. Instances where contracts have ended due to a 'lack of institutional alignment', have mainly been a result of ESG pushback in the US, which goes against the focus on climate as a theme in the UK and Europe.

PENSIONS FOR PURPOSE'S PERSPECTIVE

During our interviews, we observed a slow but steady shift among asset owners towards greater ownership of the stewardship process. Some are moving away from relying solely on managers by adopting split voting, particularly after identifying misalignments between voting outcomes and trustees' primary issues. While split voting represents a form of escalation, creating long-term shareholder value and meaningful real-world change is possible through consistent, day-to-day engagement, a responsibility largely handled by managers. As most pension schemes continue to depend on managers for their stewardship, ensuring managers are consistently assessed is essential. Asset owners acknowledged defining successful engagement is inherently complex, given the range of variables involved. This suggests assessments should extend beyond reporting, incorporating deeper context through ongoing dialogue. On the other hand, a significant concern raised by trustees was the imbalance between company-level engagement and broader industry engagement. They emphasised the need for a balanced approach from managers in addressing both. Industry collaboration was perceived as a good strategy for overcoming resource constraints and tackling the challenges of driving change.

3 Engagement strategies

Engagement strategies

Interviewees mentioned diverse methods to influence corporate behaviour and align investments with ESG. These approaches vary depending on the type of asset, geographic region and specific issues being addressed. The mostly common strategies are:

Letters

These are frequently the starting point for engagement. Asset owners or their managers cited using letters to initiate dialogue with companies, outline the most pressing matters and set expectations. Correspondence is often followed up with other engagement tools to deepen discussions.

> "The process typically begins with a letter that outlines our goals, such as increasing transparency, implementing new policies or improving practices."
>
> ASSET OWNER

Meetings

Our interviewees highlighted face-to-face or virtual meetings with portfolio managers as the most effective engagement methods. These interactions provide a platform for more strategic in-depth discussions and enable collaboration on long-term goals and objectives.

> "Direct conversations with companies are far more effective in driving meaningful change. This is why we're drawn to the specific stewardship provider we're considering partnering with - they have cultivated deep, meaningful relationships with companies over decades. These long-standing connections are crucial for influencing investments and achieving impactful outcomes."
>
> ASSET OWNER

Voting as a tool for stewardship

Voting at shareholder meetings influences corporate behaviour. Interviewees highlighted votes against management resolutions or in favour of shareholder proposals to signal concerns or raise unresolved issues can be effective.

> "We use voting as an essential tool for stewardship. Each year, we focus on a subset of companies where we actively cast votes or override our managers' votes. This approach allows us to clearly signal our stance on shareholder resolutions or express concerns when we feel a company is not acting responsibly on critical issues. For instance, we may vote against management or oppose remuneration policies to reflect our differing beliefs and encourage action. Voting in this way is a powerful mechanism for communicating our expectations and driving change."
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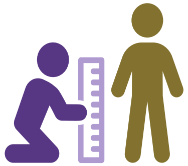
> ASSET OWNER



Tailored regional and thematic approaches

Engagement strategies are usually customised to reflect regional norms and specific issues. For example, having native speakers with cultural expertise at in-person meetings with local teams can be effective in achieving engagement outcomes.

> “For some companies, (particularly,) if you’re dealing with people in the US, sometimes a phone call with other shareholders works well. However, in China it’s not going to work unless you have a Mandarin speaker going into the office and having those relationships. It’s great to have a Mandarin speaker who’s dealing with Chinese companies who can translate things properly.”
>
> ASSET OWNER

On themes like the ‘just transition’, efforts focus on collaborative support rather than punitive measures, encouraging companies to adopt best practice.

“Our approach varies based on the issue at hand. For example, with just transition initiatives, the focus is on encouraging pioneering best practices rather than enforcing minimum standards. In these cases, we take a collaborative approach, offering support and case studies to help companies integrate meaningful changes,” an asset owner explained.

3.1 Aligning priorities with managers’ engagement

Some asset owners rely on asset managers and third-party stewardship providers for direct engagement, as they do not hold assets directly. This ensures alignment between the preferences of the owner and the manager’s action, which requires oversight and communication.

Due diligence in manager selection

Tools, like the *UNPRI’s* due diligence checklist, help assess asset managers’ stewardship capabilities. During the selection process, asset owners mentioned prioritising managers who are aligned with their ESG priorities.

> “To ensure stewardship practices meet our expectations, we use the *UNPRI’s* due diligence checklists during manager selection. These lists include assessment stewardship criteria, an essential resource for evaluating a manager’s capability to engage effectively with companies. While we rely on asset managers’ judgement and execution, the due diligence process helps us ensure their activities align with our goals.”
>
> ASSET OWNER

Regular reporting and dialogue

Ongoing discussions with asset managers were highlighted as essential to review activities and ensure accountability. Quarterly reports, combined with periodic meetings, let asset owners track managers’ progress.

> “It can be challenging as you’re not directly part of those conversations – you rely on quarterly reports from managers. This makes it crucial to carefully review the discussions your asset managers have had. Building a strong dialogue and relationship with the manager, along with trust and a clear understanding of the stewardship team’s perspectives, is essential.”
>
> ASSET OWNER

Direct engagement with managers

From an investment consultants’ perspective, using letters and feedback to influence asset managers’ approaches can be a good combination. “The most effective way for asset owners to engage with asset managers is through ongoing, consistent dialogue, guided by clear priorities and desired outcomes. This dialogue should include setting

expectations for stewardship actions and regularly assessing whether those actions have achieved their intended results. In essence, it mirrors the broader engagement process asset managers have with companies by focusing on the question:

> "What are we trying to achieve?' For asset owners, the key is to establish a clear framework for engagement and reporting. This ensures alignment, accountability and a focus on meaningful outcomes."
>
> INVESTMENT CONSULTANT

Insight: Asset owners use a range of strategies to influence corporate behaviour, which include letters, meetings, voting, and tailored regional and thematic approaches. Engagement is often delegated to asset managers, with scheme oversight enabled by tools like the *UNPRI*'s checklist, plus regular reporting and dialogue with managers. Collaborative approaches balance direct influence with long-term goals and align with ESG.

PENSIONS FOR PURPOSE'S PERSPECTIVE

Building trust through consistent, long-term relationships is critical to achieve strategic goals. Managers emphasised impactful engagement requires continuous dialogue, follow-ups and monitoring over several years. The most effective strategies combine multiple tools – letters, meetings, voting and escalation – while aligning asset owner and manager objectives. Continuous oversight, trust and having a clear framework for escalation is essential for driving meaningful and systemic change. Aligning a pension fund's engagement objective with managers is key to guarantee real-world outcomes and prevent alignment from becoming a box-ticking exercise. It is also important for trustees to meet with managers regularly and, instead of focusing merely on quantitative data, challenge managers on the real-world impact of their engagement activities.

④ Voting & escalation policies

Voting and escalation policies

Pension funds approach voting and stewardship in a variety of ways. Some funds develop detailed voting policies, while others leave voting decisions primarily to asset managers. While most funds agree that escalation is necessary when engagement efforts stall, how far they are willing to go varies: some funds are open to public tactics like shareholder resolutions and divestment, while others prefer private dialogue and consider divestment a rare, last-resort option.

These differences reflect varying levels of comfort with public confrontation and beliefs in the effectiveness of stewardship tools. In general, there is a consensus constructive engagement tends to be more effective than divestment. Engagement provides investors with a direct opportunity to influence companies, whereas divestment signals dissatisfaction and often lacks immediate impact unless it is across an entire industry. One notable example is the *Church of England's* decision in 2023 to divest from fossil fuels due to the lack of a genuine plan to achieve the goals of the Paris Agreement. The Church questioned the ambition of fossil fuel companies to decarbonise following pushbacks against plans to cut oil production in the current decade, pointing to a misalignment between the companies' focus on short-term profits and the long-term interests of their funds after several attempts at engagement.[1]

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4.1 Aligning voting with engagement objectives

Asset owners and trustees employ diverse voting strategies to reflect their voting practices and engagement objectives, particularly when addressing systemic risks like climate change and biodiversity loss.

Voting strategies

Some schemes opt for unified approaches, by delegating stewardship and voting to a single entity to ensure alignment. Others use split voting, allowing for tailored policies that reflect specific values and avoid default strategies.

A 'middle-of-the-pack' approach involves delegating voting decisions to managers while monitoring the alignment of their preferences through oversight services. For more proactive schemes, voting policies are designed to tackle systemic risks holistically, supported by regular reporting and engagement criteria written into agreements. Meanwhile, related strategies treat voting as an extension of engagement, using it as a routine and an escalation tool. Conditional voting rights represent another method, where stewardship providers must demonstrate effective engagement to maintain control over voting.

DIFFERENT TYPES OF VOTING PRACTICES

1 Unified voting compared to split voting

Some asset owners delegate all their stewardship activities, including voting, to a single entity to ensure consistency between their engagement objectives and voting practices. In contrast, a trustee cited split voting to retain control and align with their values. This approach avoids reliance on fund managers' default strategies by allowing the organisation to implement its own voting policies.

In contrast, a trustee shared how split voting lets them reflect on specific commitments, such as achieving net-zero emissions, and tailor their voting to address systemic risks without compromising engagement objectives. In addition, split voting helps to navigate "the variation in voting behaviour between American and European managers, particularly on ESG issues". According to the trustee, this geographical imbalance is substantial, given US managers, especially those based in states with significant ESG backlash, can be more conservative in their balloting, sometimes voting against issues like climate action, anti-slavery or biodiversity proposals, which can be frustrating for a European asset owner who expects a more progressive stance on such matters.

"We delegate the responsibility of voting to our RI adviser, whose voting recommendations, ensure the voting process aligns with our broader RI goals. Since the same organisation handles our stewardship activities and voting, there is an alignment in our approach to engaging with companies on environmental and social issues."

ASSET OWNER

"We have implemented split voting to ensure our voting preferences are properly reflected, especially in cases where managers may not align with our views. The European versus US divide in voting behaviour is something we monitor carefully, particularly with the US election potentially having influenced these dynamics."

TRUSTEE

2 Delegation with oversight – a'middle of the pack' approach

One scheme's voting decisions are delegated to managers, with no voting guidelines in place. However, the scheme uses a consultant's oversight service to evaluate how well managers' votes align with the scheme's core views. This service tracks instances where managers' votes differ from the scheme's preferences and gives insights into their rationale. While this approach allows for some alignment, it lacks the direct governance of more proactive voting strategies. One asset owner described this as a 'middle of the pack' approach, relying on the consultant's oversight tool to evaluate and discuss managers' voting decisions.

> "The consultant's oversight service tracks when managers vote differently from our priorities, and it helps us understand their rationale behind specific votes. This tool is crucial for ensuring alignment with our goals, although they are not as strong as some other pension schemes that have their own voting guidelines and direct governance over voting."
>
> ASSET OWNER

3 Voting policies focused on systemic risk

Certain schemes design voting policies to address systemic risks beyond the aims of the trustees. For example, while trustees may focus on issues like climate change, the wider voting strategy also tackles biodiversity and water use. These policies support shareholder resolutions that align with these goals, ensuring a holistic approach to systemic risks. Techniques like quarterly reporting, analysis and embedding stewardship criteria into investment agreements help minimise discrepancies and align with broader strategies.

According to an asset owner: "we have climate considerations in our voting policy. To minimise the chances of managers diverging from our policies, we conduct quarterly reporting, analysis and review sessions. Through our stewardship platform, we engage with managers to communicate our expectations, address any issues and reinforce our commitment to these standards. Where possible, we also incorporate stewardship criteria into investment management agreements and consider pass-through voting."

> "While trustees focus on climate change, gender equality and the living wage, our broader strategy also encompasses biodiversity. We aim to ensure our voting strategy reflects this integrated approach, with clear policies supporting shareholder resolutions related to climate and biodiversity. An example is our engagement on water policies. For instance, we engaged with *Domino's Pizza*, a major water user in Colorado, to ensure they have a robust water policy. We voted in favour of a shareholder resolution requesting the company to develop such a water policy."
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> ASSET OWNER

4 Interconnected voting and engagement

For some schemes, voting and engagement are viewed as inseparable components of risk management. One scheme's voting strategies use systemic goals, such as Paris alignment, but also allow for escalation, such as voting against directors. Divestment is only considered if the financial rationale for holding the asset weakens.

> "Our voting policy on climate and diversity issues reinforces our engagement. Eg, the presumption is to support resolutions aligned with the Paris Agreement, vote against boards lacking diversity (triggering a vote against management), and enforce strict climate expectations for companies under *Climate Action 100*, especially in oil and gas."
>
> ASSET OWNER

> "Voting is integral to our day-to-day risk management. We also engage with companies before AGMs to influence outcomes before voting, sometimes resulting in positive changes. Our voting strategy presumes to support resolutions aligned with the Paris Agreement, making voting a regular part of our engagement approach rather than just an escalation tool. If engagement and public criticism fail, we may consider divestment – but, it is never purely based on ESG issues alone; we would only consider divestment if the financial case for the holding has significantly weakened."
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> ASSET OWNER

Conditional voting rights

Some schemes use third-party stewardship providers for voting but assess the effectiveness of managers' engagement to decide whether to grant voting rights. In these cases, managers must show thoughtful engagement and align with the fund's priorities before permission is granted. Reviews are conducted annually, with voting behaviour monitored against independent benchmarks.

> "Third-party stewardship providers are typically given voting rights, though not always. We assess how well managers engage with companies, which influences whether they should be given voting rights. If a manager demonstrates effective engagement and incorporates this into their voting, we may grant them voting rights. However, they must provide evidence of sufficient engagement and their performance is reviewed annually. Additionally, another third-party provider analyses voting records every six months. This report helps us assess whether managers are voting in line with management too often, relying solely on their policy or deferring to the proxy provider."
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> ASSET OWNER

Consultants' views

Aligning voting with engagement involves three steps:
- Identifying the responsible party: who will undertake the activity on behalf of the client?
- Clarifying the desired outcomes: what objectives are they aiming to achieve?
- Assessing alignment with policies: how well do the asset manager's policies support these objectives?

To evaluate this, consultants examine the manager's policy commitments:
- What is written in the policy and how do managers vote on main issues?
- They also review the manager's voting history, for example, to analyse if they usually support climate-related resolutions.

The goal is to understand the reasons behind the outcomes. For example, if a manager supports climate resolutions 80% of the time, is that because the resolutions are poorly structured or because the manager does not prioritise climate issues? By understanding these reasons, they can determine whether a new policy or manager is needed.

Trustees' views

Trustees see voting as a critical component in engagement, serving as a visible signal of alignment with objectives and a tool for escalation when necessary. One trustee highlighted the importance of closely monitoring how managers vote, as it provides the first indication of whether their actions reflect the intended engagement journey. When misalignment has been identified, the trustee has shifted voting responsibilities to a third party to ensure consistency. Another trustee mentioned the value of developing a rigorous voting policy based on investment beliefs and values. This approach ensures the principles of ESG, sustainability and impact investing inform voting decisions and aligns them with comprehensive goals, including addressing systemic risks.

> "We also draw upon available voting templates to further inform our voting policy. For example, the templates from the *PLSA* provide guidance in shaping our approach. One historical example of this alignment can be found in the *Red Line Voting* system, which was developed by the *Association of Member Nominated Trustees* in the UK. This policy is sensitive to climate issues and has been a useful reference for developing our climate-friendly voting practices. However, challenges arise when fund managers are unable to implement segregated voting or when the *Red Line Voting* policy is too UK-centric for broader application. This has occasionally led to discrepancies in how managers vote compared to the ideals set out in the *Red Line Voting* guideline."
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> TRUSTEE

Border to Coast's perspective

As a long-term responsible investor, we wish to see long-term value in the companies in which we invest. From a climate change perspective, that means putting quality transition plans in place to mitigate the risks it poses while seizing the opportunity to help drive the transition to net zero.

Proxy voting is one of the most influential means at the disposal of investors engaging for this outcome. We believe it is essential that voting is aligned as part of a coherent stewardship strategy, otherwise companies receive mixed messages which can undermine other engagement activity investors may be party to.

At *Border to Coast*, we undertake all our own voting in line with our policies and objectives, including those in externally managed funds. This level of control may not be available to all asset owners and, as this report demonstrates, there are a range of approaches taken to the issue. However, the consensus is notable - voting is a key component of engagement and asset owners want to see true alignment with engagement objectives.

Robeco's perspective on voting policy

We integrate voting signals with our engagement and SI research across nearly 8,000 companies each year. Climate considerations are central to our voting approach. At the start of each voting season, we send a letter to the companies most exposed to climate risks, outlining our intentions to use voting as an escalation tool for underperformance on climate targets. This gives companies a chance to provide updated information, fostering productive dialogue. In particular for companies that are already under engagement we use this letter to further escalate our asks to the company. In many cases, we vote against the chair, head of the Sustainability Committee, or other relevant figures to express dissatisfaction with the lack of climate progress. This approach also extends to biodiversity and human rights issues, ensuring our climate engagement and research directly influence our voting decisions.

Insight: Schemes follow diverging strategies to align their voting with engagement objectives. Some schemes delegate stewardship and voting to a single entity to ensure alignment. Others, under the same argument, use split voting, allowing for tailored policies that reflect specific values. A 'middle-of-the-pack' approach involves delegating voting decisions to managers while monitoring their alignment with considerations through ongoing conversations.

PENSIONS FOR PURPOSE'S PERSPECTIVE

The concerns we identified during the interviews and literature review for this research largely stem from a narrow interpretation of stewardship. Often stewardship is reduced to the number of engagements, the reporting process or the outcomes of voting, undermining the primary objective of fostering long-term value creation. While employing a combination of engagement strategies is essential, as an industry, we must recognise asset owners largely depend on managers, making alignment on engagement objectives critical. Simply counting letters sent or the number of engagements conducted is overly simplistic and fails to capture the full picture. The real question is: "What is the objective of a specific engagement?", and following that engagement, "What tangible change was achieved or facilitated?"

4.2 Escalation practices

We asked interviewees about the most effective escalation practices when a company fails to meet their expectations. Interviewees identified seven escalation practices they consider effective. Voting against management emerged as the most common practice, mentioned 11 times, followed by co-filing shareholder resolutions, noted six times. Views varied on the ideal escalation sequence. A shared sentiment was that effective escalation relies on clear communication, such as explaining the rationale behind voting decisions to the company. Besides that, interviewees argued escalation practices generally follow unsuccessful engagement attempts, which should be prioritised to drive real-world change. Another common point was the importance of applying different practices in tandem instead of solely relying in one.

'Context-dependent escalation process'

One asset owner follows a context-dependent escalation process, where the severity and type of intensification depends on the issue. For critical areas like climate change, escalation may involve more aggressive actions like voting or divestment. However, the investment mandate can influence escalation options, with index funds having fewer divestment options and being reliant on voting and ongoing engagement.

“Voting against a company can signal disapproval but meaningful engagement is essential for real change. Managers must engage with companies to understand their perspectives and share best practices. Many companies recognise the need to meet net-zero targets but often lack clarity on how to proceed. Clear disagreement paired with constructive guidance can support tangible progress.”

ASSET OWNER

“For mandates tied to specific indices, escalation may focus more on using voting rights and engagement to influence change, as divestment options are more limited. This variability highlights that the tools and severity of escalation depend on the flexibility and objectives of the specific investment mandate.”

TRUSTEE

> "The escalation process is highly situational. A common starting point may involve voting against a shareholder resolution or targeting an accountable individual, such as a board member. The goal is to unite like-minded investors to present a strong, collective position to the company. This often follows repeated, unsuccessful engagements and requires support to drive change. Investors must embrace compromise, accepting partial progress – such as achieving 25% or 50% of the desired outcome – as a foundation for further improvement."
>
> CONSULTANT

Fig 5 | What do you consider the most effective escalation practice?

ESCALATION PRACTICES

1 Voting against management or individual directors

Voting against management was mentioned in at least half of our interviews as 'a powerful route' to signal dissatisfaction with a company's actions or lack of progress. Asset owners said this practice was a direct and impactful way to escalate issues with a company that is unresponsive to engagement. However, two main considerations were raised. Firstly, one asset owner emphasised the limited influence a single asset manager has by voting against management, highlighting the need for complementary actions to amplify impact. Secondly, they stressed shareholder resolutions and dissenting votes must be supported by ongoing dialogue to ensure companies understand and address investor concerns effectively.

"Voting against management can be impactful, particularly when it follows efforts to engage with the firm and is accompanied by clear communication of the reasons behind the vote. Holding individuals accountable for a lack of progress sends a strong message. While it is an indirect method and its ability to drive the desired change is unguaranteed, it can still be a significant way to push for action."

ASSET MANAGER

"Votes against management can signal dissent but have limited impact unless you're one of the largest asset managers. Legal restrictions prevent coordinating votes with other asset owners or managers, so collective action is not an option. To be effective, voting must be complemented by post-AGM letters and direct engagement meetings. These follow-ups give firms the contextual reasons behind the vote. Without this additional effort, companies may not fully understand the rationale behind the dissent, reducing its effectiveness."

ASSET OWNER

2 Shareholder resolution/signalling willingness to co-file one

Interviewees saw the use of shareholder resolutions (ie pursuing public action to formally raise the matter at the company's AGM) as a strategy to increase visibility on an issue. Asset owners highlighted them as an engagement and escalation tool to signal discontent on a company's stance on climate or other topics. One asset owner explained, even if shareholder resolutions don't often come into fruition, just the risk of having them in the ballot can help investors achieve their goals.

However, the geographical discrepancies between Europe and the US are an issue.

"Shareholder resolutions are a powerful tool for signalling escalation, as they appear on the ballot and companies are required to acknowledge and respond to them. If they receive enough support, they can even become binding, further increasing their potential impact."

ASSET OWNER

3 Pre-declaring votes

Asset owners highlighted pre-declaring votes, coupled with showing a willingness to co-file resolutions, is an effective escalation practice. One asset owner emphasised simply communicating their escalation policy and minimum standards, and making it clear that failing to meet these standards will trigger the policy, has a significant impact. By setting expectations upfront, this approach demonstrates a strong commitment to their objectives.

"On occasion, we may choose to make our positions public, including pre-declaring how we intend to vote. This helps to further signal our commitment to our objectives and hold companies accountable."

ASSET MANAGER

4 Public communication

Making positions public can be a powerful strategy, especially when combined with pre-declaring votes. One asset owner said this approach serves to further signal their commitment to their objectives. Critical public statements, through media or investor forums, increases pressure on companies, especially if it is combined with other escalation actions like requesting meetings or filing resolutions.

"We recently publicly criticised a company following reports they were weakening medium-term climate targets. Issuing a public statement is part of our escalation strategy, accompanied by actions like requesting meetings and potentially filing resolutions, which we are considering for next quarter. We're going to write to request a meeting but, as part of that escalation, we put out a public statement straight away."

ASSET OWNER

5 Letter to Chair

Letters to the board Chair serve as a direct way to communicate concerns and express dissatisfaction. This approach, alongside voting against directors and filing shareholder resolutions, helps apply pressure and hold management accountable. As one asset manager explained,

"From a private perspective, we often send a letter to the Chair of the board, indicating our discontent with the lack of progress."

ASSET MANAGER

6 Pre-proxy voting meeting

One asset owner alluded to their managers and third-party providers using pre-proxy voting meetings as an opportunity to engage directly with companies before voting. These meetings allow companies to explain their stance, address concerns and commit to implement changes. If the company shows a willingness to act, managers may align their votes with management despite initial reservations. This ensures votes are are informed by direct engagement rather than being automatic.

"Managers and third-party providers have engagements and also pre-proxy meetings with companies on topics they want to discuss. Ahead of a proxy vote they'll have a meeting to discuss how they are intending to vote and offer the company an opportunity to explain themselves, and they may sometimes still vote with management."

ASSET OWNER

7 Divestment

Divestment is a last resort in escalation strategies. While it can signal dissatisfaction with a firm's performance or slow progress on significant issues, it is not seen as a means of bringing change on its own. For some interviewees, divestment is a failure to achieve the desired impact through engagement. As one manager noted, it typically signals either the engagement was unsuccessful or the company shows no signs of change. For others divestment is applicable when a company consistently underperforms on critical issues and engagement has failed to bring meaningful change. Not always a viable option for passive or index funds, but a mechanism for actively managed funds, ultimately, it remains an instrument in the escalation toolkit, used only after all other avenues have been exhausted.

"One of our managers follows a 'three strikes and you're out' policy. The specific criteria for these strikes varies depending on the company and the issue being addressed during engagement."

ASSET OWNER

"Shareholder resolutions are perceived differently across regions. In the US, while companies may not welcome them, they are relatively common and companies are unlikely to be intimidated by them. By contrast, in Europe, particularly in the UK, shareholder resolutions hold more weight and companies often take measures to avoid them. As a result, the effectiveness of this escalation strategy can vary based on the geographical location."

ASSET OWNER

ASSESSING SUCCESSFUL ENGAGEMENT OUTCOMES

Measuring 'successful engagement' is challenging, but one trustee defined it as "progress, whether it's awareness, accountability or demonstrable change". Several interviewees acknowledged engagements rarely achieve all objectives due to the many factors involved. However, they highlighted strong communication with the investee, and a willingness to cooperate and maintain a dialogue, are crucial.

Below, we outline the conditions our interviewees identified for successful engagement.

Communication with the company

Successful engagement is the ability to build a relationship with the investee company, understand their challenges and work towards solutions. Asset owners mentioned firms may often need guidance to achieve change and to balance different investors' demands. They also argued change takes time and communication is key to understanding what is behind a company's actions.

> "Engagement is about persistence and gradual progress. Eg, when we requested country-by-country reporting from a US firm, they cited resource constraints and limited operations abroad. But, they implemented it over the next few of years, showing they were receptive and willing to move forward. It's about giving firms time to adapt while keeping the dialogue open."
>
> ASSET OWNER

Clear and measurable objectives

Trustees also said successful engagement depends on clear, measurable objectives (and realistic expectations), such as addressing climate change, biodiversity loss or social issues, and tracking progress with reliable data, like verified targets or investments in transition initiatives. It also requires a realistic understanding of whether engagement can influence a company's strategy within the given time frame.

> "Successful engagement starts with getting the company to recognise issues like climate change as significant risks. While a small minority still deny the reality of climate change, once awareness is established, the next step is encouraging action. The most successful engagements lead to measurable improvements, with early-stage efforts focused on awareness and mature engagements resulting in meaningful sustainability actions."
>
> TRUSTEE

Companies' willingness to engage

Asset owners highlighted successful engagement depends on how responsive companies are, with willingness and openness being the main factors. While initial responses are often negative, escalation techniques can sometimes capture their attention.

> "For example, *Barclays* was initially excluded from our portfolio due to controversies. When we later engaged with them, they showed little interest until we mentioned co-filing a shareholder resolution at their AGM. This prompted greater transparency from *Barclays* and although we didn't meet all our objectives we achieved 70-80%. As a result, we chose not to co-file the resolution to maintain a positive relationship and foster constructive dialogue. The company's willingness to engage is crucial and we use engagement tools strategically – not to antagonise but to help companies progress while staying firm when necessary."
>
> ASSET OWNER

CASES FOR DIVESTMENT

After discussing the factors for successful engagement, our interviewees identified the circumstances which may lead them to consider divesting from a holding. Since the ultimate goal of stewardship is to drive positive change, divestment should only be used as a last resort. One asset manager remarked: "While divestment can send a strong signal, its impact on an individual company is limited unless it involves a large-scale withdrawal of capital across an entire industry, which is rare."

This perspective leads them to favour engagement over divestment. Schemes mentioned, although divestment should remain an option, companies should be given the opportunity to re-enter portfolios if the necessary changes are eventually made.

Demonstrating materiality and competitive advantage

A consultant argued a successful engagement strategy often involves demonstrating how the effort offers a clear cost or competitive advantage to the company. When the request involves higher costs, engagement may be ineffective. In addition, an asset owner mentioned it needs to be supported by investment considerations and how the change may be financially material to the company.

> "A factor in successful engagement is whether it's supported by investment considerations. Will it materially impact the share price or company performance in the long term, assuming efficient markets? Clearly articulating how the engagement aligns with the company's fiduciary duty is essential."
>
> ASSET OWNER

> "Academic research shows engagement is most effective when it offers a clear cost or competitive advantage to a company. However, when the ask implies increased costs, engagement is less effective. In such cases, collective sector-wide action or policy engagement may be necessary. If a company, like oil and gas, is unlikely to change, divestment can be a viable option, especially if the weight of assets drives a significant cost-of-capital effect, as seen with thermal coal's incompatibility with net zero."
>
> INVESTMENT CONSULTANT

Company is unresponsive

Despite repeated engagement and escalation, a company remains unresponsive or unwilling to meet expectations, particularly on issues crucial for investment objectives, such as climate change. If a company is not making any effort to improve after clear communication and escalation strategies like shareholder resolutions, then divestment may be considered.

Sectors opposed to the investment objectives

One scheme highlighted the need for continual review of holdings and the application of strict criteria for companies in sectors fundamentally misaligned with sustainable goals. For example, businesses entirely focused on oil sands may be incompatible with long-term environmental or investment objectives.

Investment horizon and the nature of the portfolio

In long-term investments, the impact of systemic risks like climate change and biodiversity loss, will affect member outcomes. Under such circumstances, successful engagement requires a realistic expectation that it can influence a company's core business strategy. For example, in the case of fossil fuel companies whose business model relies on oil and gas extraction, engagement is unlikely to prompt them to cease these activities. When risks cannot be managed through engagement, divestment becomes essential to safeguard the portfolio's long-term resilience. Divestment is warranted when engagement proves ineffective or when the systemic risks associated with a particular investment are too great to ensure the portfolio's resilience.

PENSIONS FOR PURPOSE'S PERSPECTIVE

Although important, escalation practices should only follow unsuccessful engagement attempts. Mostly, engagement implies gradual progress and willingness to maintain dialogue with a company. However, asset owners need to align engagement goals with managers to guarantee meaningful conversations and realistic asks.

Insight: Escalation typically follows unsuccessful engagement attempts, which should be prioritised to drive real-world change. Voting against management is considered the most effective escalation strategy when companies fail to meet engagement expectations but it should be accompanied by ongoing dialogue to ensure companies fully understand investor concerns. Co-filing shareholder resolutions was identified as the second most effective strategy, as it increases the visibility of issues raised by investors. Divestment is viewed as a last-resort strategy, used when companies are either unresponsive or fundamentally misaligned with a fund's objectives, with no likelihood of improvement. While divestment can reflect dissatisfaction with lack of progress, in isolation it can be ineffective in driving change. Furthermore, divestment is not always an option for passive or index funds.

5 Literature review

Literature review

The *PLSA* 'Stewardship & voting guidelines 2024' highlights ESG considerations as drivers of long-term value for investees, with the green transition offering significant opportunities. As a result, there has been an increasing focus from investors on climate-related issues. The guidelines report over two-thirds of UK pension funds (68%) have committed to net-zero alignment, marking an 11% increase on 2022. Consistent with literature, the *PLSA* acknowledges climate change as a systemic risk with the potential to affect multiple sectors across the economy.

They also mention the importance of addressing biodiversity loss with the same urgency as climate change. To this end, the guidelines encourage pension schemes to use their voting power to support resolutions that push companies to address biodiversity issues and to vote against directors when efforts to tackle these challenges are insufficient.[1]

Divestment debate

A debate surrounding the rise in net-zero commitments and portfolio decarbonisation is the matter of divesting from companies and sectors classified as high-emitters or facing climate regulation. The literature argues divestment strategies can only be justified if 'exit' (divesting) is more effective in mitigating climate risks than 'voice' (engaging with companies). This is because in the event of significant climate distress, the losses across the entire portfolio would outweigh any potential gains from avoiding fossil fuel investments.[2]

Manager accountability represented an important part of our questionnaire. During an interview, one trustee highlighted *ShareAction*'s 'Point of no returns', as one of the reports they consult before selecting a new manager as it ranks the stewardship performance of the 75 largest global asset managers. This paper offered valuable context to our research findings, especially on the geographical challenges of UK asset owners engaging with US managers. Over half of the asset managers assessed by *ShareAction* have a 'very limited' approach to managing ESG risks. The top performers were predominantly UK or Europe-based, while those with the lowest scores were mainly in the US or Asia-Pacific region. A concerning finding was that the six largest global managers, with over $20tn in assets under management, scored in the low bands (D and E). Limited transparency between managers was also dominant. While many managers reported on engagement at an aggregate level, the quality of those disclosures was poor – under 20% provided detailed information of their activities and 36% disclosed no engagement on ESG issues. Furthermore, engagement outcomes, primarily voting, were also troubling, with 60% of managers failing to disclose engagement outcomes and the remainder reporting them in an ad-hoc manner.[3]

Despite UK investors giving stewardship and systemic risks, such as climate change, increasing attention, a recent white paper highlights its persistent ineffectiveness, often caused by engagement-reporting practices concentrated on activity over tangible impacts. According to the paper, investors tend to prioritise demonstrating action rather than achieving impactful results, creating significant reporting burdens and straining resources.[4] During our interviews, 'lack of resources' was consistently cited as a major obstacle to effective stewardship, with asset owners emphasising the need to be selective in setting priorities. Interviewees also noted not all engagement efforts generate results.

To tackle this challenge, the white paper advocates a more focused approach, encouraging investors to prioritise significant issues, likely to become material in the long term. For passive investment strategies, the paper suggests using these approaches to balance targeted engagement with individual assets while addressing systemic, industry-level challenges. This includes collaborating with regulators and governments to enhance disclosure standards and influence public policy, paving the way for more effective and scalable stewardship practices.

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6 Best practice

Best practice

In our literature review, we accentuated how stewardship is transforming engagement into tangible results by focusing on long-term value creation. To illustrate this, we have selected specific material outcomes mentioned by interviewees to show where various types of engagement have led to different levels of success. These examples highlight best practices in stewardship across a wide range of engagement types, situations and outcomes, which resulted in positive change.

CASE STUDIES – EXAMPLES OF BEST PRACTICE

1 | Racial discrimination & diversity

Engagement objective: Lead the company to review their diversity, equity and inclusion policies.

"An example of a successful engagement was with a bank on racial discrimination in their banking practices. In the case of *Royal Bank of Canada (RBC)*, shareholder resolution pressure led the company to agree to a third-party assessment of their policies."

Challenge: The slow pace of change; achieving tangible results often takes years.

Success factors:

- The continued pressure of public and private engagement.
- Collaboration with like-minded stakeholders.
- The willingness to escalate matters, with resolutions or voting against directors when needed.

2 | Gender equality

Engagement objective: Persuade the company to increase female diversity across its board.

"Last year we co-filed a shareholder resolution for *Charter Communications* – a media company in the US - because the gender representation on the board was lagging compared to its US peers and most companies in the *S&P 500* index of large firms. We thought it was important for the company to do more and we engaged with them but, as a result, we had no luck as they didn't respond to us.

We thought the only way we could progress was to escalate. We co-filed the shareholder resolution to request they add an additional female board member over a period of time and set a public policy in place on gender diversity and ethnic representation. As a result, they said they'd meet with us, which is great, because that was a way of getting a meeting that we couldn't do before and that they were actually going to appoint a female board representative. That was a positive outcome for us and we withdrew the shareholder resolution. That was a good resolution where there was a benefit to the wider society."

Challenge: Initial engagements were unsuccessful, due to lack of response from the company.

Success factors: Escalation, by co-filing a shareholder resolution.

3 | Water scarcity

Engagement objective: To encourage a company in an area with scarce water to conduct an *Impact and Management Platform (IMP)* assessment to evaluate the environmental and community effects of its operations.

"One notable example of our engagement efforts involved a company operating in a water-stressed area. We engaged with them directly to encourage them to conduct an *IMP* assessment to evaluate how their operations were affecting the local community and environment. This engagement was initiated by us because there weren't any other parties available to take it on. Despite our efforts, the company was initially unwilling to perform the requested assessment. As a result, we brought the issue to a vote at the company's AGM, where the resolution gained approximately 30% of the vote. While this did not pass, it successfully put the issue on the company's radar, demonstrating the power of shareholder engagement in raising awareness, even if it doesn't immediately lead to direct outcomes."

Challenge: Initial unwillingness from the company.

Success factors: Using voting to raise awareness of company issues.

4 | Emissions reduction

Engagement objective: To meet medium-term emissions reduction targets

"We engaged with *Shell* for over two years, focusing on achieving medium-term absolute emission reduction targets, including Scope 3 emissions. As part of our escalation strategy, we predeclared all of our votes, pressurising *Shell* to address these targets. They responded by committing to reduce oil production and Scope 3 emissions from oil – a success in isolation. But, they didn't set similar targets for gas, citing plans to expand gas production. This created a scenario where *Shell's* overall emissions could plateau rather than decline, challenging climate goals. While we're not fully satisfied, the commitment to oil emissions marks progress after years of engagement."

Challenge: Partial progress; *Shell's* reluctance to address gas emissions.

Success factors:
- Targeted focus: set clear objectives, such as Scope 3 reductions for *Shell*.
- Collaboration: maintaining dialogue and providing evidence supporting constructive engagement

Escalation tactics: Predeclaring votes with *Shell*.

5 | Sewage pollution

Engagement objective: To accelerate a sewer infrastructure upgrade to prevent pollution.

"A successful engagement involved *Yorkshire Water*, where we emphasised place-based impacts to drive change. We highlighted how routine pollution, such as sewage overflows, was affecting local communities and economies, particularly in North Yorkshire. For example, Scarborough Beach was closed twice in 2023 due to sewage contamination, impacting tourism and the local economy. By focusing on these tangible consequences, we prompted *Yorkshire Water* to accelerate a multi-million sewer infrastructure upgrade in the Scarborough area in three years. This laser-focused, place-based approach was instrumental in achieving this outcome."

Challenges: Balancing environmental goals with companies' operational priorities.

Success factors: Emphasising economic consequences with *Yorkshire Water* amplified pressure.

6 | Consumer health

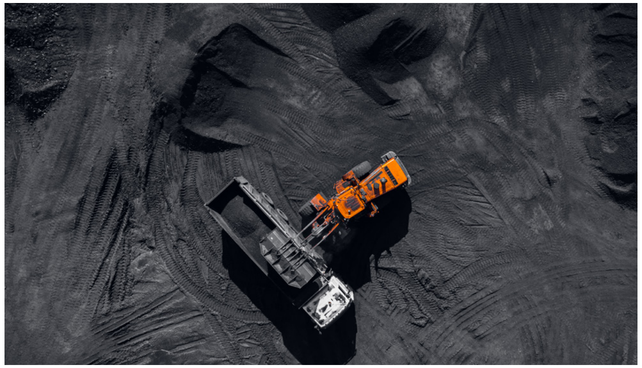
Engagement objective: Engage with the company to incorporate health into their strategy.

"One example involved a campaign led by *ShareAction* focused on consumer health. The target was a company whose product line predominantly consisted of unhealthy foods. The campaign aimed to encourage the company to reevaluate its offerings and incorporate health considerations into its strategy. *ShareAction* sought support for a shareholder resolution addressing this issue from a major asset manager. Initially, the manager was unwilling to support the resolution. At this point, *ShareAction* engaged directly with trustees, prompting them to put pressure on the asset manager. The trustees' intervention proved influential and the manager ultimately chose to support the resolution. This collective effort led to a step forward in addressing the company's practices. The case illustrates how collective action and the interplay between stakeholders can drive tangible outcomes in engagement."

Challenge: Convincing the asset manager to align with the campaign's goals required persistent advocacy, while mobilising trustees demanded clear communication and coordination.

Success factors:

- *ShareAction's* advocacy efforts were instrumental, particularly their ability to involve trustees and amplify their influence.
- By actively challenging the asset manager, the trustee demonstrated the importance of trustee engagement in stewardship efforts.
- The asset manager's willingness to reconsider its position in response to external pressure showed the value of maintaining an open dialogue and collaboration.



7 | Fossil fuels

Engagement objective: To pressure banks to update fossil fuels lending policies.

"One real-world example of successful engagement is through collaboration with *ShareAction*, focusing on banks' lending policies to fossil fuel companies. A couple of years ago, this initiative successfully encouraged several banks to update their lending criteria, ensuring they would no longer finance new oil and gas projects. This achievement resulted from a collective effort involving signatories from different organisations."

Challenge: The scale of the objective.

Success factors: The collaboration involving different organisations.

8 | Client satisfaction survey

In addition to this published Impact Lens research report, *Pensions for Purpose* conducted a client satisfaction survey, the findings of which were presented in a bespoke paper.

The survey aimed to capture clients' perspectives on areas such as engagement activities, stewardship reporting and feedback on improvements or best practice demonstrated by their managers.

Clients expressed positive feedback about this initiative, highlighting its uniqueness in fostering an open dialogue – a practice they noted was rarely observed among other managers. The report was based on insights gathered through eight in-depth, face-to-face interviews with asset owners and investment consultants identified by the client, complemented by a written survey.

7 Sponsor's view on the research

Sponsor's view on the research

Feedback from *Robeco*

Robeco will be celebrating 20 years of active ownership in 2025, which marks an ideal moment to collaborate with *Pensions for Purpose* with the review of stewardship practices among UK asset owners, trustees, asset managers and consultants. The findings show we have made significant progress from the early 2000's when proxy voting was only conducted sparsely by investors and engagement was a nascent practice. Proxy voting has become a mature instrument of escalation, grown from the more compliance-focused approach that was common in the early years.

Nowadays, asset owners look at their asset managers to execute voting and engagement against their stated priorities. Where it remains a key question, is how successful one can be if institutional alignment isn't fully guaranteed in the manager selection process? The Paris Agreement that laid the global expectations for achieving net zero by 2050, has been instrumental in helping asset owners, asset managers and the companies they invest in to achieve significant progress in climate reporting, target setting and developing transition strategies. A similar impact is foreseen to halt global biodiversity loss as stipulated by the Global Biodiversity Framework which was agreed by *UN* parties at the Kunming-Montreal Conference of the Parties (COP) in 2022. However, we need to recognise a significant undercurrent to this progress based on global ambitions, as we currently are witnessing a chill on these commitments due to the ESG backlash that is keeping many US investors and companies fully occupied.

After 15 years of predominantly focusing on corporate engagement by asset owners and their managers, we have witnessed a growing interest for policy engagement and sovereign engagement over the past five years. This level of strategic engagement in the financial sector will be critical to achieving our net-zero and nature goals. *Robeco* aims to continue steadfast with integrating its stewardship practices across all its investment strategies in the coming two decades as we seek to serve our clients in meeting their investment and sustainability objectives hand in hand.

Conclusion

What have we learned from the research?

In the words of environmentalist Robert Swan OBE, who was the first person to walk to both poles, "The greatest threat to our planet is the belief someone else will save it."

This powerful statement underscores the need for active, collective responsibility in tackling global challenges. Effective stewardship requires direct engagement, accountability and a commitment to addressing systemic risks such as climate change, biodiversity loss and governance issues. Despite growing attention from UK investors to systemic risks, literature on stewardship highlights persistent ineffectiveness, driven by engagement reporting focused on activity over outcomes. This prioritisation of reporting over impact creates significant burdens and strains resources.

Interviews revealed climate change and biodiversity loss are the most common stewardship priorities shaped by material risks, member relevance, external guidance and alignment with sustainability goals. Effective strategies balance targeted company-level engagement for specific improvements with wider industry initiatives to address systemic risks. Asset owners increasingly acknowledge the complexity of stewardship and emphasise the importance of collaborative engagement, particularly considering resource constraints.

Pension schemes adopt diverse approaches to align voting with engagement objectives: some outsource stewardship and voting to a single entity for consistency, others use split voting to tailor policies to specific values, while a middle-ground approach involves delegating voting to managers with ongoing monitoring to ensure alignment with the company's preferences. However, stewardship is often narrowly assessed through engagement metrics, such as the number of letters sent or votes cast, rather than focusing on alignment, objectives and tangible outcomes that bring lasting effects.

Assigning stewardship to asset managers is a common practice, with oversight maintained mainly through manager selection, reporting and monitoring. Yet, aligning managers' actions with trustees' concerns remains a challenge. Rigorous initial selection processes are crucial and funds often prefer engagement to termination when misalignments occur. Tools such as the *UNPRI*'s checklist and regular dialogue are vital in ensuring asset managers align with sustainability objectives.

Bridging the stewardship gap

Despite a gradual yet noticeable shift among asset owners towards greater ownership in the stewardship process, significant gaps persist in assessing asset managers' practices, limiting the ability to evaluate effectiveness in driving meaningful outcomes. While financial performance and high-level ESG policies often receive scrutiny, deeper aspects – such as engagement quality, proxy-voting decisions and real-world impacts – are frequently overlooked. As showcased earlier, one consultant provided an example of best practice for how asset owners can engage with their managers.

Sustaining and ensuring consistency in how managers are assessed has emerged as critical, particularly given limited resources lead most schemes to still depend on managers for stewardship. Defining successful engagement is inherently complex and requires assessments that go beyond reporting to embracing an ongoing dialogue.

Trustees also highlighted an imbalance between company-level and industry-wide engagement, calling for managers to adopt a more balanced approach. Sector collaboration is seen as a way to overcome resource constraints and tackle systemic challenges.

> "The most effective way for asset owners to engage with asset managers is through ongoing, consistent dialogue, guided by clear priorities and desired outcomes. This dialogue should include setting expectations for stewardship actions and regularly assessing whether those measures have achieved their intended results. In essence, it mirrors the broader engagement process managers have with firms by focusing on, 'What are we trying to achieve?' For asset owners, the key is to establish an engagement and reporting framework. This ensures alignment, accountability and a focus on meaningful outcomes."

Consistent dialogue between asset owners and managers, guided by shared priorities and desired outcomes, is essential. Establishing a clear framework for engagement ensures alignment when asset managers are engaging with companies on the scheme's behalf. By closing this gap, accountability can be transformed into action, bring change and unlock the full potential of stewardship.

Appendix

Participants*

Asset owners
Border to Coast Pensions Partnership
Coal Pension
HSBC Bank (UK) Pension Scheme
NatWest Cushon
Nest Pensions
now:pensions
Smart Pension Fund
Surrey Pension Fund
Trustees
BESTrustees
David Brown
Independent Governance Group (IGG)
Investment consultants
Hymans Robertson
LCP
Asset managers & fiduciary managers
Robeco
TPT Investment Management
Other organisations
ShareAction
United Nations Principles for Responsible Investment

**Participants, who gave permission to be named*

Asset owner questionnaire

Section 1 | Setting up stewardship priorities

1 | Can you provide an overview of your pension scheme's stewardship strategy, including any established priorities, sectors and themes? How were they determined?

2 | Do you collaborate with industry groups to amplify your voice and increase the effectiveness of stewardship?

3 | How does your fund balance engagement with individual assets and at an industry level with regulators and governments to address broader systemic risks, (either directly or indirectly through managers)?

Section 2 | Manager performance and accountability

4 | To what extent does your fund delegate stewardship activities to asset managers, and what is your fund's degree of ownership from priority setting to the monitoring process?

5 | Do you use a specialist stewardship/engagement provider?

6 | How frequently do you receive progress reports and updates on the outcomes of stewardship activities conducted by managers on your behalf, and how are these communicated?

7 | How do you assess the stewardship efforts of your managers and investment consultants and what actions do you take if your managers' stewardship activities do not align with your scheme's objectives? At what point would you end a relationship with a manager?

8 | How do you manage conflicts between asset managers you work with, when they vote differently on the same issue?

Section 3 | Engagement strategies

9 | What engagement methods do you or your asset manager use with companies? If you engage through your manager, how do you ensure your priorities influence their engagement strategies?

10 | How do you or your manager escalate concerns if the engagement is unsuccessful? At what point would they trigger more severe consequences?

11 | Can you provide an example of a real-world outcome from your engagement efforts?

Section 4 | Voting and escalation polices

12 | How does your voting strategy align with/support your engagement objectives? If you use external managers, how do you verify their voting is consistent with those goals?

13 | What are your most effective escalation practices when a firm fails to meet your expectations? How do you ensure external managers use these escalation strategies?

14 | What are the conditions for a successful engagement? When is divestment appropriate?

Section 5 | Looking ahead

15 | What are the barriers to more effective stewardship? What resources do you need to overcome these problems?

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