



2020 Asset Owner Stewardship Survey



Summary of Results

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KEY TAKEAWAYS

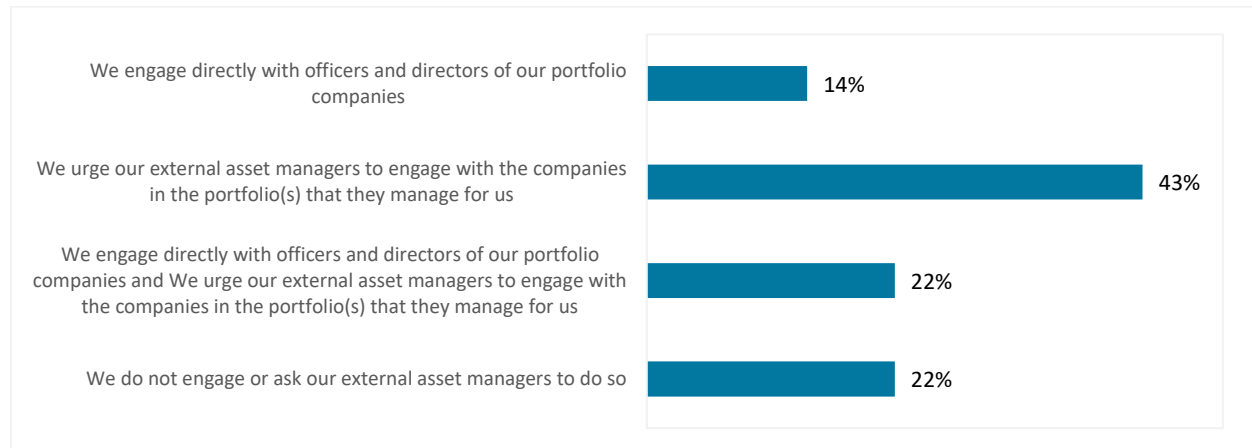
- The focus on stewardship continues to grow among asset owners.
- Respondents indicate a slightly stronger focus on engaging with companies compared to that on assessing ESG risks and opportunities. However, there is greater interest in bringing ESG assessment in-house.
- The majority of respondents report that the primary driver for a focus on ESG is to improve long-term competitiveness and sustainability of a company. The Department of Labor's June guidance¹ on ESG did not seem to have a widespread impact on the respondents..
- COVID-19 has led some investors to prioritize certain sectors, such as the health care industry.
- More than half the respondents leverage outside providers in identifying the companies regarding focus topics, while about 25% rely on internal research.
- More than one-third of respondents measure the progress made by their stewardship actions, and more than half of those who do not presently measure progress would like to. However, even those who are measuring progress feel they are lacking the proper tools and data.

SUMMARY OF RESULTS

ENGAGING WITH COMPANIES

The majority (78%) of respondents engage directly and/or instruct their managers to engage with companies. Only 22% of respondents do not engage with companies nor do they ask their managers to do so.

FIGURE 1: COMPANY ENGAGEMENT



ASSESSING ESG RISKS AND OPPORTUNITIES

Similarly, the majority (77%) of respondents report that they assess ESG risks and opportunities and/or they urge their managers to assess such risks and opportunities. The share of respondents that instruct their managers to assess ESG risks and opportunities is slightly smaller than that urge their external asset managers to engage with companies (34% versus 43%, respectively).

¹ <https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623>

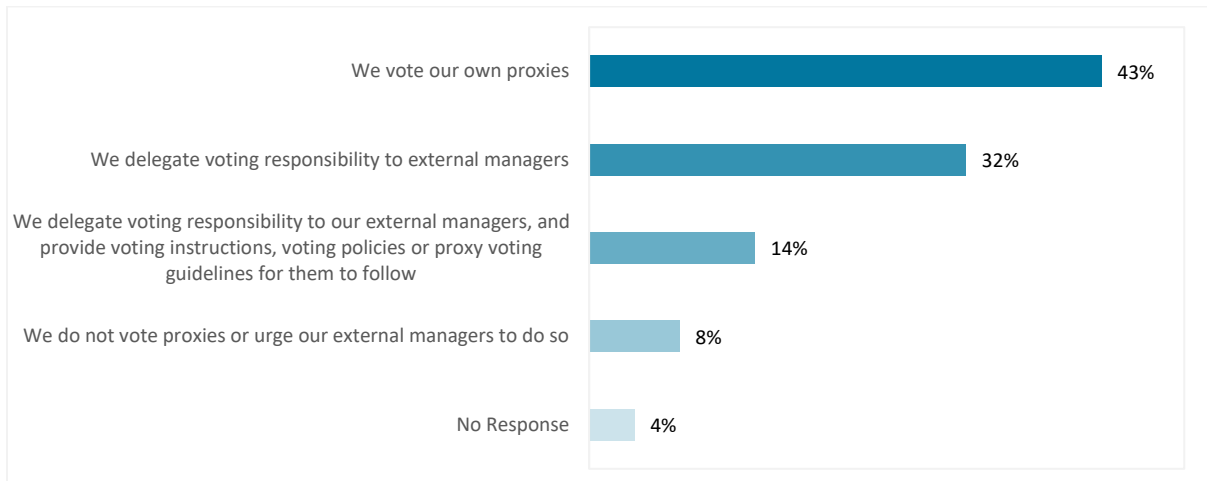
FIGURE 2: ESG RISK/OPPORTUNITY ASSESSMENT



PROXY VOTING

The majority (57%) of respondents either vote their own proxies or provide voting instructions to their investment managers. Almost one-third (32%) delegate voting responsibility to their managers. Only 8% stated that they do not vote proxies or ask their managers to do so. The remaining 4% did not respond.

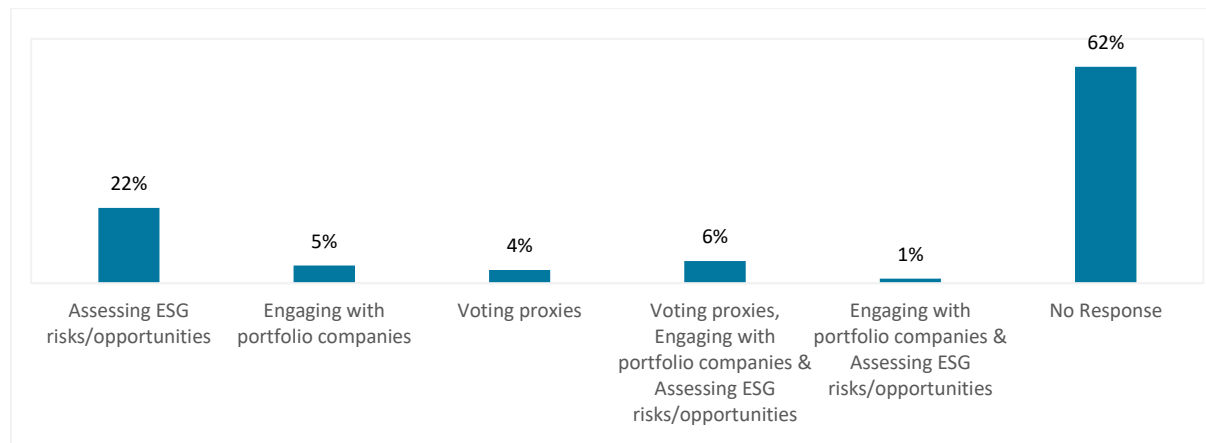
FIGURE 3: PROXY VOTING



CHANGES GOING FORWARD

Of those respondents that were not performing any of the tasks (company engagement, ESG risk/opportunity assessment, proxy voting) themselves, at least 38% intend to bring one or more of the tasks in-house going forward. The biggest change is the focus on bringing the assessment of ESG risks and opportunities in-house: 22% of respondents report their intention of bringing this assessment in-house as a single task, and 29% of respondents report this intention if looked at in conjunction with either voting proxies or company engagement. For further context, 56% of the respondents belonging to the No Response group (35% of total respondents) are either already voting in-house and/or are in active dialogue with their managers. The other 44% (27% of total respondents) are taking more of a hands-off approach across the activities highlighted in Fig. 4 below.

FIGURE 4: SHIFT TO IN-HOUSE



FOCUS TOPICS IN PAST YEARS

Respondents were asked to rank below listed ESG focus topics in order of how respondents perceived their importance over the past several years. Based on an average of each focus topic’s scores counting the ranking “Important” and “Very Important”, the top four topics in order of importance were Employee health and safety, Cyber security, Equal employment opportunity and Climate change risks.

TABLE 1: PAST ESG FOCUS TOPICS

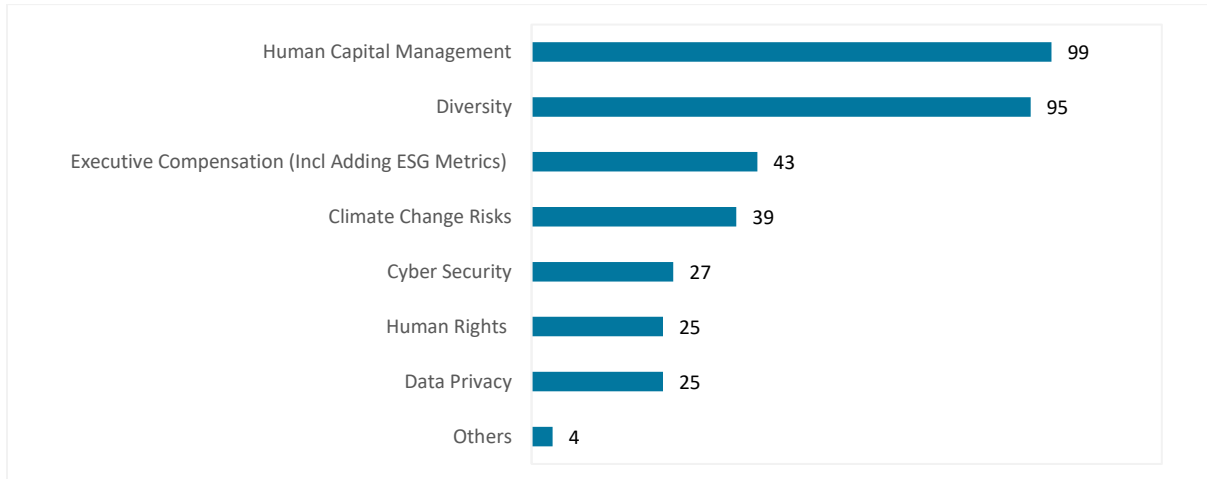
FOCUS ESG TOPICS	Not At All Important	Only Slightly Important	Somewhat Important	Important	Very Important	No Response
Gender diversity	4%	9%	15%	29%	33%	10%
Racial/ ethnic diversity	5%	8%	22%	29%	25%	11%
Skills diversity	6%	9%	22%	25%	30%	8%
Executive compensation	11%	10%	15%	32%	22%	10%
Adding ESG metrics to executive pay programs	20%	18%	16%	24%	10%	11%
Equal employment opportunity	9%	4%	13%	34%	30%	10%
Pay inequality (including gender, racial, etc.)	10%	4%	14%	33%	28%	11%
Employee health and safety	6%	3%	14%	29%	38%	10%
Sexual harassment	6%	1%	20%	25%	34%	13%
Other human capital management issues	5%	1%	10%	3%	6%	75%
Climate change risks	9%	5%	15%	27%	37%	8%
Human rights (supply chain, human trafficking, slave/child labor, etc.)	10%	4%	16%	25%	35%	9%
Data privacy	5%	4%	19%	28%	34%	10%
Cyber security	3%	5%	16%	24%	42%	10%
Other (please specify):	3%	3%	3%	1%	1%	90%
Other (please specify): - Text	(1) Employee engagement (2) See SEC IAC recommendations (3) Wages Theft					
Other Human Capital Management issues - Text	(1) Corporate governance (2) Palm oil, tailings dams, social media content (3) Governance issues					

FOCUS TOPICS FOR 2021

Asset owners were asked to indicate which ESG topics they intended to prioritize in 2021, allowing for several choices. Compared to previous years’ priorities, the ranking of ESG focus topics changed somewhat, with more focus being placed on Diversity and Climate change risks. Human Capital Management in the aggregate tops the focus topic list.

FIGURE 5: 2021 ESG FOCUS TOPICS

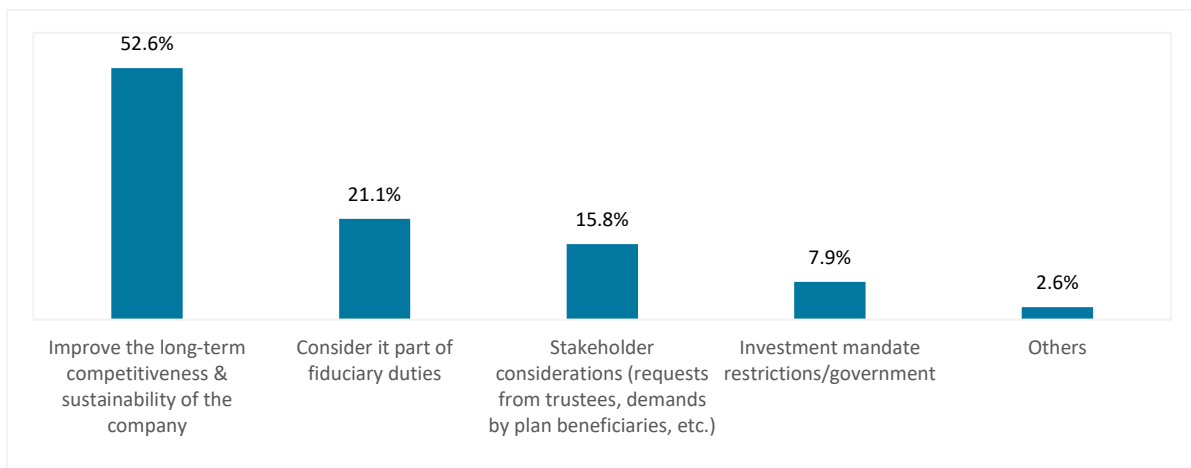
(representing number of respondents’ votes)



DRIVERS FOR ESG FOCUS

When asked about the main driver for their ESG focus, the majority of the respondents (52.6%) reported that they incorporate ESG to improve long-term competitiveness and sustainability of the company. About one-fifth of respondents (21.1%) consider ESG focus to be part of their fiduciary duty, while 15.8% cited stakeholder considerations as the main motivation. Only 7.9% pointed to the need to satisfy investment mandate restrictions or governmental mandates as the primary driver for their ESG focus.

FIGURE 6: PRIMARY DRIVERS FOR AN ESG FOCUS



IMPACT OF THE DEPARTMENT OF LABOR GUIDANCE

At the time of the survey, the Department of Labor (DOL) had only just provided its proposed rule regarding ESG investing, which was issued on June 23. Of the respondents who had seen the DOL guidance (41%), less than 10% felt that, if adopted, it would have a significant impact on present or future stewardship actions. Such stewardship actions include engaging with issuers on ESG, monitoring portfolio holdings for ESG risks, and voting shareholder proposals asking companies to report their material ESG risks. Some 70% of respondents saw no impact due to said DOL guidance. The other 59% of asset owners surveyed had either not seen the guidance or did not respond.

FIGURE 7: IMPACT OF DOL GUIDANCE – ENGAGING WITH ISSUERS ON ESG

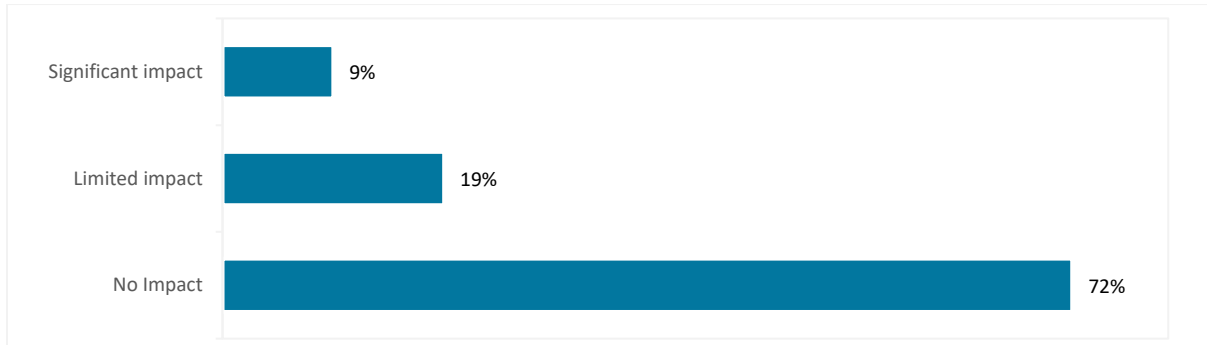


FIGURE 8: IMPACT OF DOL GUIDANCE - MONITORING PORTFOLIO HOLDINGS FOR ESG RISKS

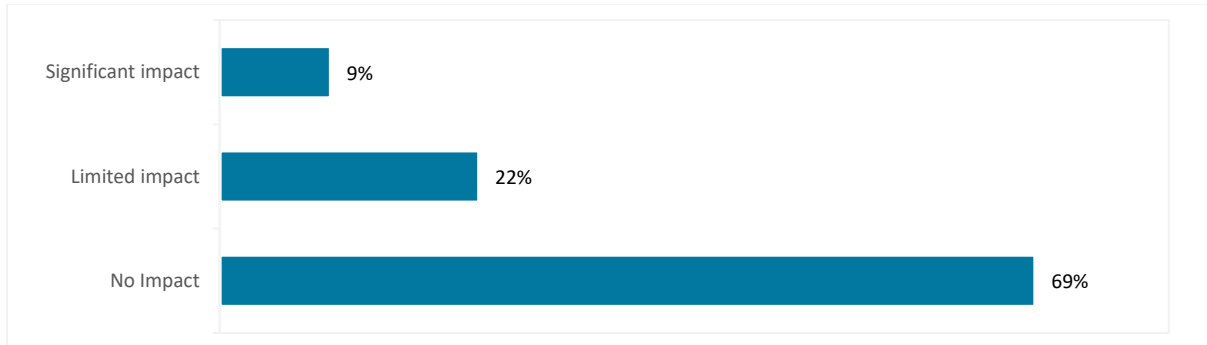
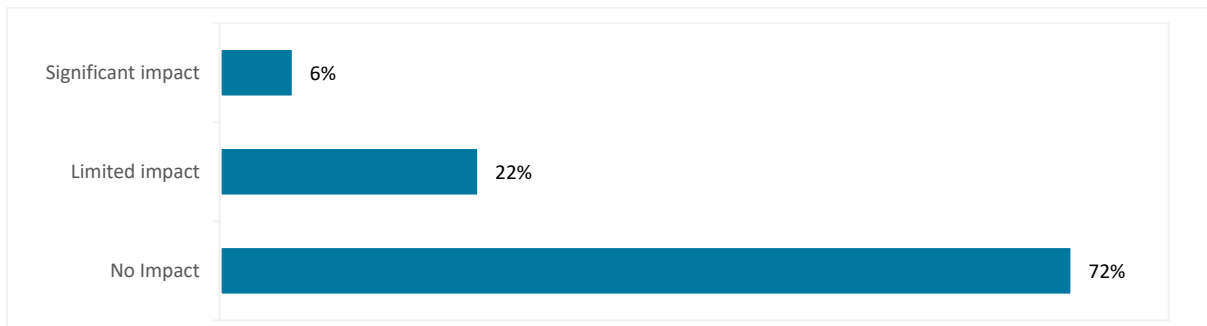


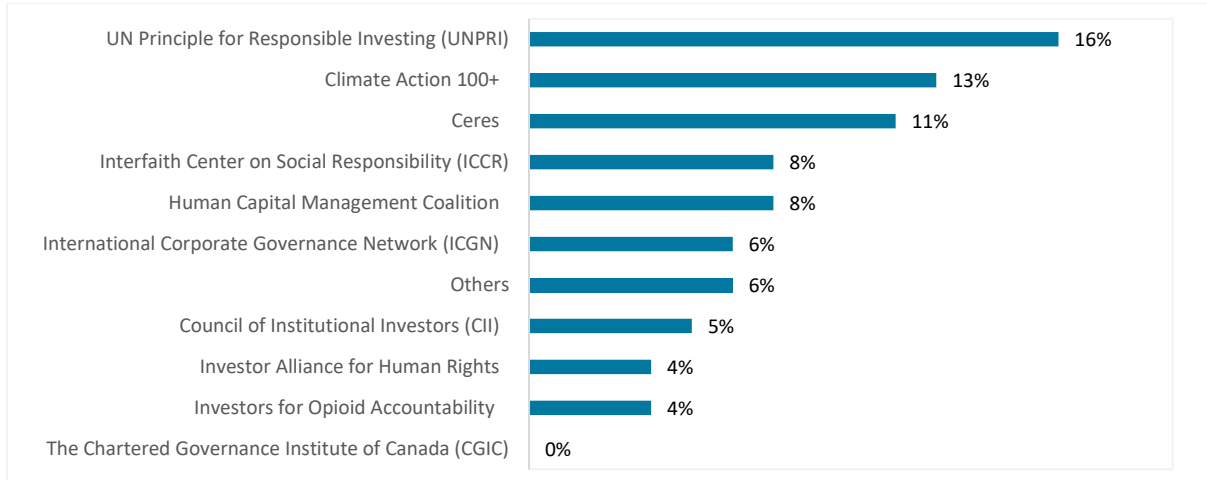
FIGURE 9: IMPACT OF DOL GUIDANCE - VOTING SHAREHOLDER PROPOSALS ASKING COMPANIES TO REPORT MATERIAL ESG RISKS



IMPORTANCE OF INVESTOR COALITIONS

More than half of respondents (51%) consider ESG-oriented investor coalitions to be valuable and participate in at least one of them. Of the choices provided, the UN Principle for Responsible Investing has the widest participation (16% of respondents), followed by Climate Action 100+ (13%) and then Ceres (11%).

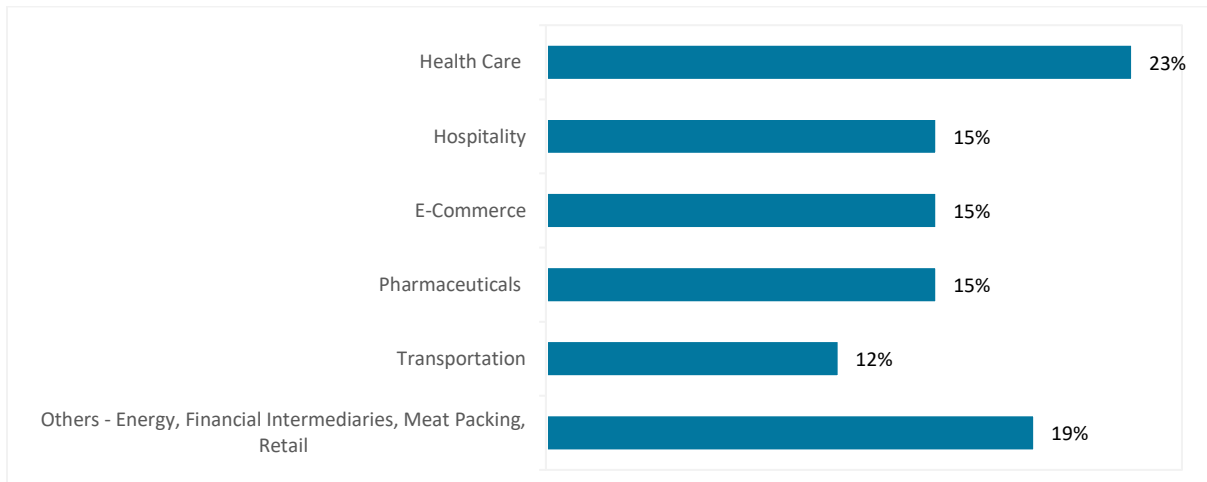
FIGURE 10: ACTIVE PARTICIPATION IN ESG-ORIENTED INVESTOR COALITIONS



FOCUS ON SPECIFIC INDUSTRIES DUE TO COVID-19

When asked whether respondents active in stewardship are prioritizing specific sectors due to COVID-19, 14% responded affirmatively. While several industries were cited, the industry reported as being the highest priority was the health care sector.

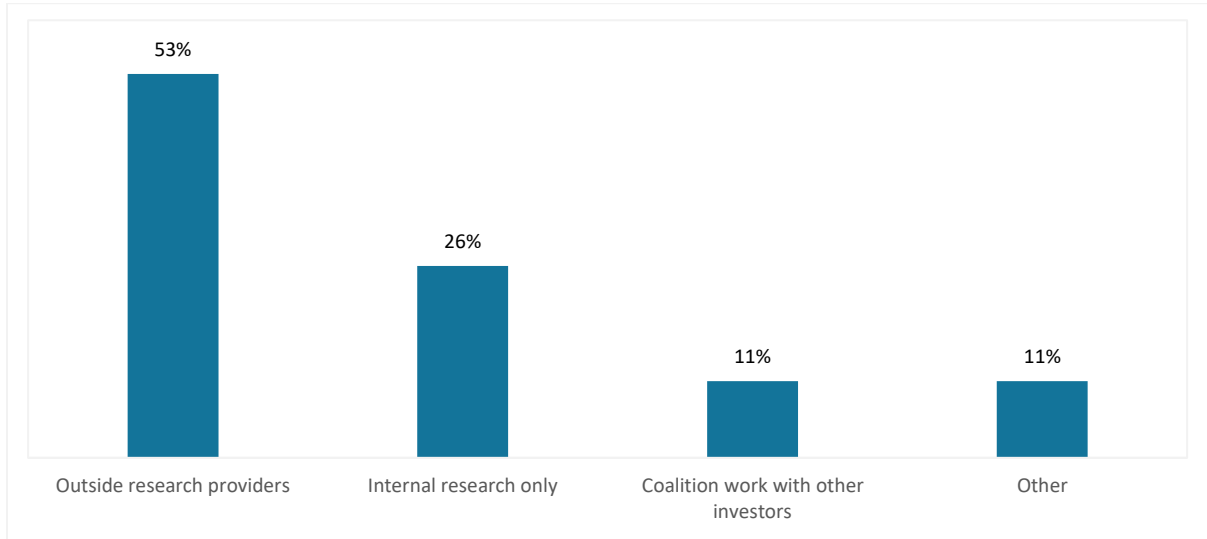
FIGURE 11: SECTORS PRIORITIZED DUE TO COVID-19



IDENTIFYING COMPANIES REGARDING FOCUS TOPICS

When asked how asset owners identify companies with which to engage on specific issues, the majority (53%) reported that they rely on outside research providers. Those that rely on internal research comprised 26% of respondents, and 11% rely on coalition work with other investors. The remaining share of those surveyed (28%) did not respond.

FIGURE 12: IDENTIFICATION OF COMPANIES WITH REGARD TO SPECIFIC ISSUES

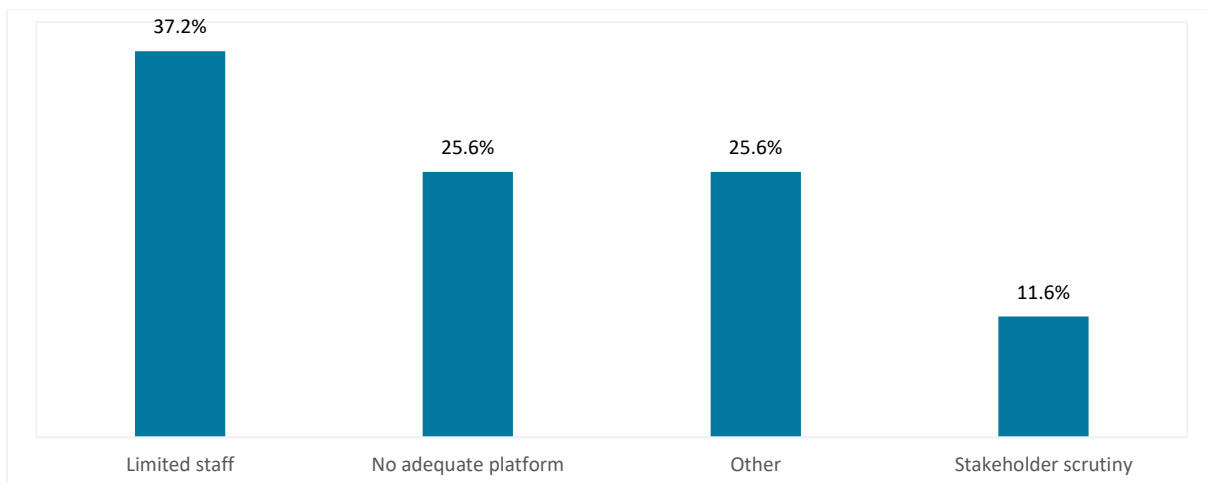


DISCLOSURE OF STEWARDSHIP ACTIONS

Of the asset owners surveyed, 31% presently communicate their voting and/or engagement activity to stakeholders in some form. Around half of respondents (47%) report that they do not communicate such activity, and the remaining 22% did not respond to the question.

Of the 47% that do not communicate their voting and/or engagement activity to stakeholders, the overriding majority (63%) cited staff or platform limitations as the reason for not communicating such activity. Only 11.6% were held back due to stakeholder scrutiny.

FIGURE 13: REASON FOR NOT COMMUNICATING ON VOTING/ENGAGEMENT



MEASURING THE PROGRESS OF STEWARDSHIP ACTIONS

At present, 37% of asset owners surveyed are measuring the progress made via their engagement and/or voting actions. Among this group, the overwhelming majority (71%) felt that they did not have the right tools or data at present to do this work effectively. Of the 63% who do not presently measure progress, the majority (56%) would

like to be able to do so. Aside from the aforementioned staff limitation, it is reasonable to assume that this group is also held back by the lack of relevant tools or data.

FIGURE 14: DO YOU MEASURE THE PROGRESS YOU ARE MAKING WITH YOUR ENGAGEMENT/VOTING ACTIONS?

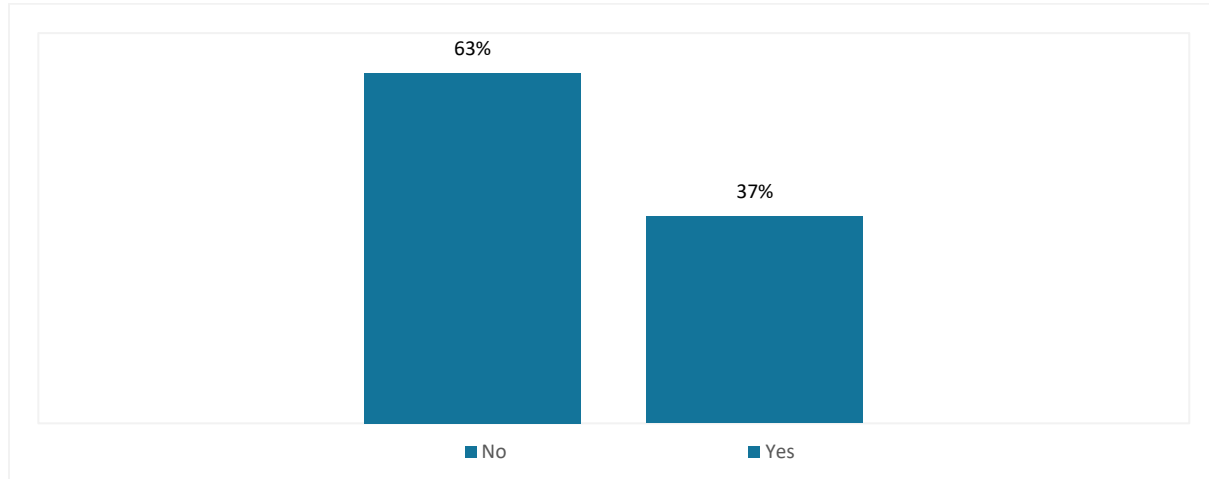


FIGURE 15: IF YOU DON'T MEASURE SUCH PROGRESS, WOULD YOU LIKE TO BE ABLE TO?

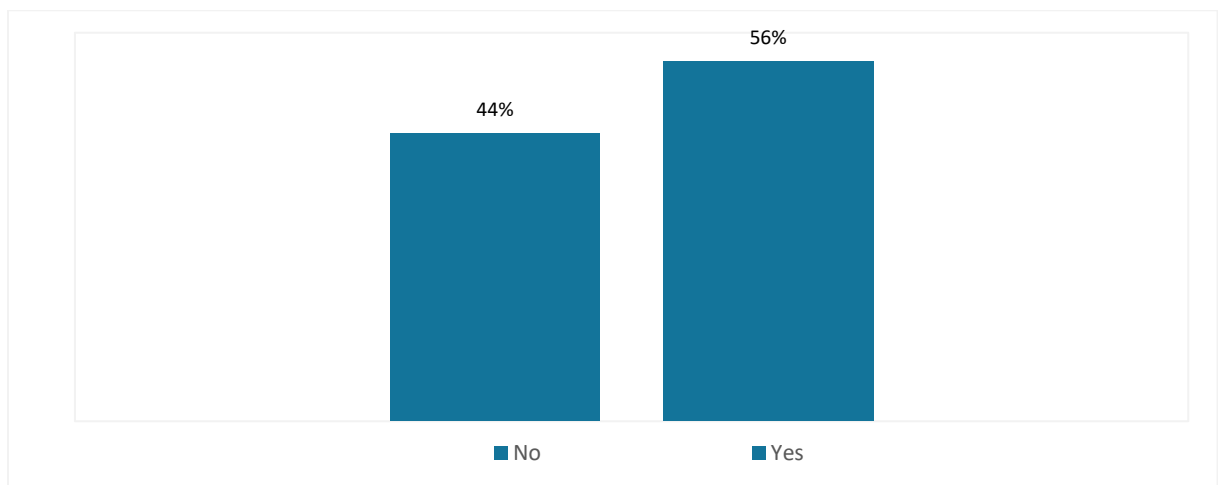
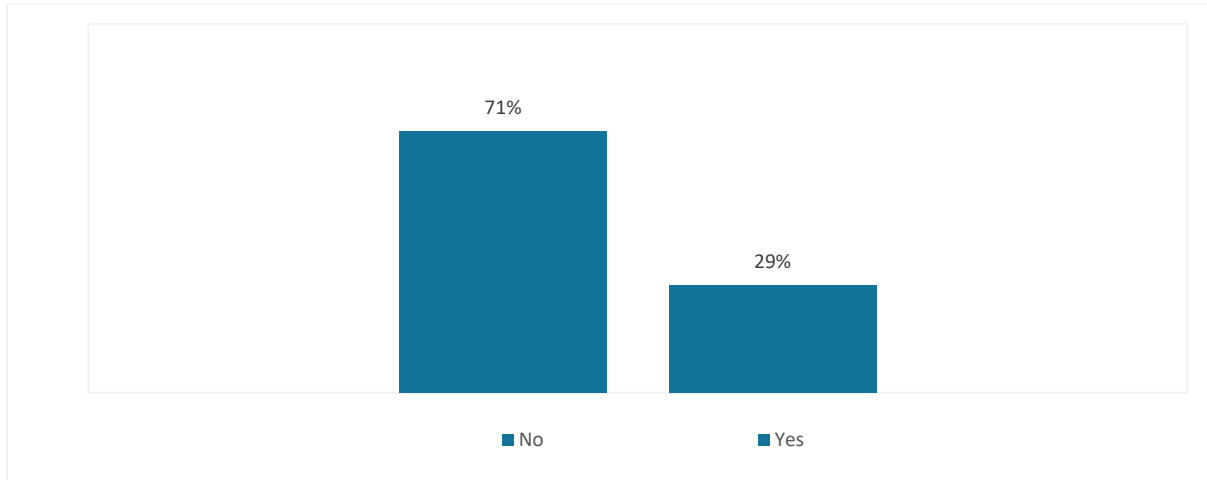


FIGURE 16: IF YOU DO MEASURE PROGRESS IN SOME WAY, DO YOU HAVE THE RIGHT TOOLS/DATA TO DO SO?



In summary, asset owners express an increased interest in becoming more directly involved in stewardship activities, including those related to company engagement, ESG assessment and proxy voting. However, survey respondents report that the primary obstacles to direct involvement are staff and time limitations, inadequate platforms or lack of appropriate technology, as well as lack of meaningful data.

APPENDIX: SURVEY PURPOSE AND OVERVIEW OF RESPONDENTS

Recent years have seen the emergence of a number of trends regarding investor stewardship and the focus on ESG. Stewardship is of increasing importance to asset owners and their investment managers. Proxy voting, an integral part of stewardship, has also evolved. In 2020, environmental and social shareholder proposals continued to outnumber those proposals concerning governance and compensation. Awareness of ESG and availability of data has also grown continuously. What effects do the pandemic, the growing awareness of ESG factors and the Department of Labor's ruling have on asset owners and their stewardship activity? What changes to stewardship are being contemplated and what are some of challenges related to stewardship?

As part of their work around stewardship, ISS Media conducted the ISS Stewardship Survey, an online questionnaire comprising 31 questions and mainly directed at North American asset owners. The survey was distributed to some 700 contacts and ran from July 14 to August 18, 2020.

ISS received 145 responses to the online survey. This included 97 responses from allocators (79 asset owners and 18 OCIOs), 35 responses from asset managers, and 13 from other investors. The asset owner group represented the full spectrum: Respondents included public and corporate pension funds, including health care pension funds, sovereign wealth funds, insurance companies, endowments, foundations and family offices.

The analysis contained in this report examines only the responses from asset owners (79 respondents). Of the asset owner respondents, nearly two-thirds (63%) are from the U.S., 14% of the respondents are from Canada, and the remaining 23% is split between different European and Asian countries.

The survey was designed to gain a better understanding of the present state of stewardship activity among asset owners and the areas where the respondents are likely to make changes, either in general or due to the pandemic. In summary, the survey looked at:

- How asset owners presently address tasks such as engaging with companies, assessing ESG risks and voting proxies, and to what extent they consider changes going forward;
- Focus topics in 2020 and previous years, and likely focus areas for 2021;
- Drivers for ESG focus as well as impact of the DOL guidance;²
- Importance of investor coalitions
- Questions around identifying companies for engagement, measuring progress and reporting activity

² <https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623>

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