We are delighted to publish Morrow Sodali’s sixth annual Institutional Investor Survey (IIS), which canvasses the views and opinions of more than a quarter of the world’s assets under management at a globally significant point in time.

Against the backdrop of the COVID-19 pandemic, Environmental, Social and Governance (ESG) impacts at listed public companies have been propelled to the forefront of investors’ minds as they assess the management of risks and opportunities, operational resilience, and shareholder value creation through a period of unprecedented market uncertainty and turbulence.

As is widely reported, the trend of capital inflows into ESG-oriented investing has exploded reaching a record high of USD 1.65 trillion in 4Q2020, up almost 29% from the third quarter. The COVID-19 pandemic has contributed to the acceleration of ESG investing. Importantly, the pace of investment in sustainable funds is expected to continue to increase in the race towards a net zero carbon economy by 2050.

The growing importance of climate risk has now clearly translated into investor willingness to hold companies accountable by the filing and co-filing of ESG-related shareholder resolutions. This notable shift in attitude marks a turning point in the relationship between companies and shareholders where the failure of polite dialogue to drive change will directly impact investment and voting behaviours.

Interestingly many investors stated to be in favour of a “Say on Sustainability”. While a number of companies worldwide have voluntarily adopted non-binding “Say on Climate” voting resolutions, the survey suggests that in the near future “Say on Sustainability” voting resolutions may also be on the table. However, in terms of a “Say on Climate”, there are notable differences depending on the region; on the one hand a number of European, Canadian and Australian corporations have been open to the idea, but on the other, there has been significant push-back from US companies and investors. It goes to say that similar differences could be expected concerning any future “Say on Sustainability” campaigns.

These, and other findings and insights can be found in our IIS 2021.
ABOUT THE SURVEY

For the IIS 2021, a total of 42 global institutional investors, managing approximately USD 29 trillion in Assets Under Management ("AUM") voluntarily participated in the survey. The data is therefore representative and can be extrapolated across the total global investable universe.

Responses were gathered from direct conversations or via an online survey. Participating investors represented a diverse spectrum of funds in terms of investment style, profile, size and geographical location, among other attributes. The data and findings will therefore be of interest to a wide range of listed companies across all sectors, boards of directors and other capital market stakeholders.

To enable year-over-year comparisons, a number of survey questions are repeated or follow similar themes. In addition, new questions are asked that reflect topical developments and themes.

ASSETS UNDER MANAGEMENT (AUM)

2021 SURVEY: USD 29 trillion of AUM
2020 SURVEY: USD 26 trillion of AUM
2019 SURVEY: USD 33 trillion of AUM

ASSET SPLIT

AVERAGE PORTFOLIO SPLIT

22% Fixed Income
62% Equity
16% Alternatives

7% of respondents did not disclose

GEOGRAPHICAL DISTRIBUTION

<table>
<thead>
<tr>
<th>Country/Territory</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>37%</td>
<td>39%</td>
<td>33%</td>
</tr>
<tr>
<td>US</td>
<td>29%</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Europe ex UK</td>
<td>17%</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>ROW*</td>
<td>17%</td>
<td>26%</td>
<td>38%</td>
</tr>
</tbody>
</table>

* Rest of the world including Australia & South Korea

INVESTOR TYPE

80% Institutional investors
20% Pension funds / Asset owners

OUR COMMITMENT TO THE COMPANY-INVESTOR RELATIONSHIP

We carry out this survey to find out what is really important to investors when analysing companies.

We conduct this annually at our own expense because we are committed to enhancing the relationship and understanding between companies and investors. It also informs our work helping client companies with shareholder engagement and a broad suite of corporate governance services. This also supports company-investor relations that can be made more fluid, efficient, and effective; companies know what to focus on and investors receive the information they need.

Ultimately what underpins Morrow Sodali’s activities is facilitating dialogue and understanding between companies and their institutional shareholders so they can achieve the best outcome possible. This survey forms part of that endeavour.
KEY FINDINGS

A total of 19 survey questions were asked across four categories:

- Company Engagement
- ESG & Sustainability
- Remuneration and Voting
- Shareholder Activism

Anecdotal feedback and opinions were also invited and analysed as part of the survey findings and observations as outlined in the table below:

A. COMPANY ENGAGEMENT

1. Investors are giving ESG more focus when engaging and investing, and a significant majority are taking ESG into greater consideration when voting.

2. Key drivers for increased ESG focus are the links to financial performance, followed by legislative changes and client interest.

3. Investors cite the discussion of ESG in the context of a company’s business plan as the key basis for effective company engagement.

4. Climate risk remains the number one engagement priority closely followed by human capital management, remuneration and board composition. COVID-19 was also a top engagement priority, as were cybersecurity and supply chain management.

B. ESG & SUSTAINABILITY

5. Climate change is very important to the investment decision-making process.

6. Every surveyed investor reviews a company’s climate-related disclosures.

7. The top three improvements investors are seeking from climate-related disclosures are clear links to financial performance, the time horizon to impact on strategy and the disclosure of metrics, targets and achievements.

8. Companies are expected to disclose their “Corporate Purpose”, and engagement with the board was given as the top action in the absence of disclosure.

9. TCFD was overwhelmingly the most popular ESG reporting framework, followed by SASB and then in-house proprietary frameworks focused on material topics.

10. Many investors support an annual “Say on Sustainability”. However, there are also many who consider the option to vote against the reelection of directors as sufficient to make their voices heard on this topic.
C. REMUNERATION & VOTING

11 ESG factors should be considered when designing executive remuneration plans.

12 For both short and long-term incentive plans, a weighting for ESG metrics and targets between 5% and up to 25% was most supported.

13 To avoid misalignment between pay and performance, companies should be wary of paying executive bonuses when severely impacted by COVID-19.

14 Large incentive payouts lacking performance hurdles and the payment of bonuses where COVID-19 impacts were severe, were the top two indicators of pay and performance misalignment that would result in negative votes on “Say on Pay”.

15 With COVID-19, the appropriateness of dividend payments when faced with liquidity problems, big lay-offs, taking government subsidies and dilution of share capital were ranked as concerns relatively equally.

16 A majority of survey respondents oppose the adoption of loyalty shares.

D. SHAREHOLDER ACTIVISM

17 Investors prefer to influence boards by engaging with directors, followed by direct engagement with management. Although ranking lower, collaboration with other investors and voting against directors are also viable influencers.

18 After financial performance, poor strategy, weak governance and misallocation of capital were the highest-ranking reasons for supporting an activist.

19 Lack of responsiveness to investor support for ESG resolutions and material ESG controversies could also result in support for an activist.

20 A clear majority are prepared to file or co-file an ESG-related resolution.
“The evidence reveals that investor efforts to engage companies on ESG-related risks and opportunities are associated with better shareholder returns.”

Investor Influence Report, CERES
Investor engagement with companies on ESG risks and opportunities is here to stay. In fact, a recent study from the Harvard Law School Forum on Corporate Governance found that successful engagement on ESG results in significant reductions in downside risk.\(^1\)

For this reason, good business sense dictates that a company’s financial and non-financial performance are both important contributors to sustainable value creation over the long-term. Engagement and voting are the primary avenues for investors to express their views and hold companies to account. Investor appetite is therefore growing for access and engagement with boards on ESG matters.

Just as the Investment Stewardship policies and engagement practices of the world’s leading investors are becoming highly sophisticated, so are their expectations in relation to the quality and calibre of informed engagement, a company’s responsiveness to their concerns and disclosures that provide evidence of good risk management and the delivery of sustainable returns.

Although large global passive funds have been criticised in the past because of relatively low dissenting votes at company meetings, the pendulum has shifted. The level of voting dissent is on the rise with investors such as index funds increasingly putting “their mouth where their money is” and voting against the election of directors where they believe the pace of change is not sufficient or too slow.

“Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies...BlackRock has been undertaking a multi-year effort to integrate ESG considerations into our investment processes, and we expect companies to have strategies to manage these issues.”\(^2\)

Larry Fink, BlackRock CEO

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2. Larry Fink’s Letter to CEOs, Feb 2016
KEY FINDING 1
Investors are giving ESG more focus when engaging and investing and a significant majority are taking ESG into greater consideration when voting.

Although this finding seems apparent today, it has only been in the last two years that engaging with companies on ESG topics has risen to the forefront. This is clearly evidenced in our survey results that show that a significant majority of surveyed investors are giving more focus to ESG topics when engaging and making investment decisions, 98% and 95% respectively.

In terms of investment, the inflows into funds that incorporate ESG is staggering. The most recent biennial report from the United States Forum for Sustainable and Responsible Investment shows that US-domiciled assets under management employing ESG investing strategies has increased 42 percent over the past two years, to a total of USD 17 trillion in 2020, up from USD 12 trillion since the start of 2018.3 That translates into one in every three dollars invested in the US now incorporating ESG investing strategies.

In the past, the norm was for management to regularly engage almost exclusively with their largest asset managers on issues related to financial performance. Although sustainability topics were covered, companies were not accustomed to receiving questions on E&S. Furthermore, in many markets it was the exception, not the rule, for company directors to be personally involved in shareholder engagement.

In fact, the identity and work of passive funds such as index funds was not well known or understood. It was not unusual for management and directors to be unaware of their presence on their register and whether they actually voted. They were often excluded from investor roadshows and routinely not engaged. This is even though the three largest index funds – BlackRock, Vanguard and State Street Global Advisors – now collectively cast on average about 25% of all the votes for S&P 500 companies.

In fact, because index funds cannot dispose of their shares, they heavily rely on engagement with companies on ESG matters and have a fiduciary duty to exercise their votes. Our survey results also show that 85% of surveyed respondents are giving ESG more focus when voting. It is worth noting that the Investment Stewardship teams of the largest active and passive funds have significantly grown with some increasing two-fold in the past ten years.

The conversation has therefore now radically changed. Directors and management much better appreciate and understand their passive shareholders, and investor roadshows have evolved that are either dedicated or incorporate ESG themes. Events such as ESG roundtables, information briefings and investor days are becoming more commonplace. In most cases, Chairs of the Sustainability committees and Risk and Audit committees participate alongside senior executives.

Excluding COVID-19, relative to last year, have ESG risks and opportunities been given more focus in your firm, when engaging, taking investment decisions and voting at AGMs?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engaging</td>
<td>98%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Taking investments decisions</td>
<td>95%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Voting</td>
<td>85%</td>
<td>13%</td>
<td>2%</td>
</tr>
</tbody>
</table>

If so, what is the reason for this increased focus?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Link between ESG performance and financial performance</td>
<td>49%</td>
<td>46%</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislation changes</td>
<td>44%</td>
<td>44%</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Client focus</td>
<td>41%</td>
<td>56%</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil society initiatives pressure</td>
<td>32%</td>
<td>54%</td>
<td>5%</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>

KEY FINDING 2
Key drivers for increased ESG focus are the links to financial performance, followed by legislative changes and client focus.

There are a growing number of publications that point to the impact of ESG on financial performance.

Our survey shows that investors are increasingly interested in how integrating ESG into long-term strategy leads to improved financial performance. The key drivers selected by investors were the link to financial performance (49%), followed by legislative changes (44%) and then client focus (41%).

“ESG issues have become much more important for us as long-term investors. We seek to analyze material issues such as climate risk, board quality, or cybersecurity in terms of how they impact financial value in a positive or a negative way. That’s the integrative approach we are increasingly taking for all of our investments.”

Cyrus Taraporevala, President and CEO, State Street Global Advisors

The impact of legislative changes and voluntary commitments can also be seen from how regulators, governments and third parties are helping shape and promote constructive ESG engagement between companies and their shareholders - from the introduction of stewardship codes at a country level, such as the UK Stewardship Code, to international initiatives such as Principles for Responsible Investing (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD).

Furthermore, the underlying clients of asset managers are seeking proof from them that they are in fact managing investments for ESG risks. Pension funds in particular are demanding sustainable investing strategies from their investment managers. This is in part driven by the significant jump in the number of client enquiries related to ESG in terms of how an individual’s pension is being invested and how asset owners are exercising their votes.

Finally, civil society initiatives are also putting pressure on investors to place a greater focus on ESG topics. This includes the activity of activists, civil society groups and NGOs who have been targeting investors, especially at companies that are exposed to potential E&S controversies, as part of their strategy to achieve change. These include groups such as Engine No. 1 that recently targeted Exxon and the #MeToo movement that resulted in similar movements across the globe.

Before the recent and accelerated focus on ESG, engagements with companies, when discussing sustainability initiatives, was generally considered superficial. Further, sustainability was rarely communicated as an integral component of a company’s strategy and business plan.

“When we find ourselves in a crisis situation like now with COVID-19, this is where ESG really matters. In a sense it confirms what we have done [on ESG] during all these years.”

Maria Ortino, Global ESG Manager, Legal & General Investment Management

However, this is precisely what investors expect from an effective engagement. Our survey shows that 78% want to discuss ESG topics in the context of the company’s business plan, particularly considering the COVID-19 crisis. They also expect that all relevant members of the management team participate on the call (38%). Importantly, a third of them also expect independent directors to participate in the engagement and one in four expect the directors to be “properly” prepared for the engagement (25%).

The request for director participation in engagement meetings underscores the fact that investors hold the board responsible for risk management and accountable across all three of the ESG pillars.

This is not surprising given that although COVID-19 started as a global health crisis, it has quickly turned into one of the worst economic crises we have faced in almost a century.

From anecdotal feedback gathered during the survey, investors expect the company to be in control of the engagement agenda and have a clear understanding of the issues they are facing and how they are managing them, with clear board oversight. A failed engagement is considered one where companies have not prepared and rather, sit back and wait for investors to lead the discussion.

Considering the disruption that COVID-19 has caused to many companies’ operations, revenue and profitability, as well as the reality of continued uncertainty into the future, it is critical that companies clearly articulate the impacts on their business plan and how they are adapting to preserve and build value over the long-term.

Companies need to be aware that the way they are responding to COVID-19, both publicly and in their stakeholder engagements, goes to the heart of their culture and values. The impact on their own employees and society more broadly means that their “social licence to operate” is under intense scrutiny.

Particularly in the context of increased engagement activity resulting from COVID-19, what can companies do to make engagement more effective?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Most relevant</th>
<th>Second most relevant</th>
<th>Third most relevant</th>
<th>Least relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discuss the ESG topics in the context of the company’s business plan</td>
<td>51%</td>
<td>27%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Ensure that all the relevant members from management are on the call</td>
<td>27%</td>
<td>11%</td>
<td>10%</td>
<td>49%</td>
</tr>
<tr>
<td>Ensure the participation of independent board members</td>
<td>11%</td>
<td>22%</td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td>Ensure the independent board members are properly prepared for engagement</td>
<td>11%</td>
<td>14%</td>
<td>29%</td>
<td>43%</td>
</tr>
<tr>
<td>Discuss the ESG topics in the context of current affairs</td>
<td>27%</td>
<td>27%</td>
<td>11%</td>
<td>35%</td>
</tr>
</tbody>
</table>
KEY FINDING 4

Climate risk remains the number one engagement priority closely followed by human capital management, remuneration and board composition. COVID-19 was also a top engagement priority as were cybersecurity and supply chain management.

Although COVID-19 has monopolised the news and was clearly a significant area of focus for many engagements over the past year, it is expected to subside over the next 12-18 months as vaccines are rolled out and restrictions are eased.

Climate risk however will not. A significant majority (85%) of surveyed investors cite climate change as the leading issue driving their engagements with companies. They consider climate change risk on their investment portfolios as material and are demanding robust and quantifiable disclosure around its impacts and the plan to transition to net zero.

After climate, key issues prompting investors to engage with companies are Board Composition and Effectiveness (64%), Human Capital Management (64%) and Executive Remuneration (55%). Other issues include Supply Chain Management (30%), Cybersecurity and Data Privacy, and Biodiversity and Ecosystem Impact; the latter two being tied equally at 22%.

Human Capital Management has been a prevailing theme for a number of years and of special significance as a result of the impact of COVID-19 on employee welfare - physically, economically and socially.

As set out in earlier findings, the focus on boards and their effectiveness reinforces investors’ views that ownership of ESG issues starts with the board. Boards are expected to demonstrate their stewardship and how they are undertaking risk management and fostering value creation.

“A corporation ignores environmental and social challenges at its own peril. Corporate boards are obligated to identify and address these risks as part of their essential fiduciary duty to protect the long-term value of the corporation itself.”

Wachtell, Lipton Rosen & Katz, Memo

To what extent do you agree with the following statement? “During the last year, this issue in particular has prompted me to seek engagement with companies?”

<table>
<thead>
<tr>
<th>Issue</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate Change</td>
<td>85%</td>
<td></td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Composition and Effectiveness</td>
<td>64%</td>
<td>30%</td>
<td>4%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Human Capital Management</td>
<td>64%</td>
<td>36%</td>
<td></td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Executive Remuneration</td>
<td>55%</td>
<td>45%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Impact of COVID-19</td>
<td>33%</td>
<td>61%</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>30%</td>
<td>58%</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cybersecurity &amp; Data Privacy</td>
<td>22%</td>
<td>69%</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biodiversity &amp; Ecosystem Impact</td>
<td>22%</td>
<td>53%</td>
<td>12%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Community Relations</td>
<td>15%</td>
<td>45%</td>
<td>22%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Water Scarcity</td>
<td>63%</td>
<td>45%</td>
<td>22%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

“We are investing for future generations, and would like companies to move from words to numbers in assessing climate risk in their investments, risk management, and reporting.”

Yngve Slyngstad,
CEO, Norges Bank Investment Management
As outlined in our survey, 2020 was a record year in terms of the dollar inflows into ESG. To an extent, these inflows can be explained by the fact that ESG funds largely outperformed traditional funds in an unprecedented year. ESG fund performance has therefore prompted an uptick of funds jumping on the “ESG bandwagon” and assessing companies based on their ESG performance and disclosures (in addition to a traditional fundamental analysis). It is also resulting in the launch of hundreds of new ESG products every quarter to feed this appetite.

Even the long-standing investment giants who have “preached” ESG for a number of years have stepped up their game. For the past two years, Larry Fink, the Chair and CEO of BlackRock, has highlighted climate change risk as a growing focus of the firm and its investment strategy in his annual letters to CEOs. In the 2020 letter, Mr. Fink wrote “Climate risk is investment risk”\(^1\) and has re-emphasized this point in his 2021 letter sent to companies in January.\(^2\)

His words have been supported by BlackRock’s actions – in the form of larger support for shareholder resolutions related to ESG during 2020, particularly climate change.

Investors are increasingly more likely to join a membership association or an initiative such as Climate Action 100+ to fortify their efforts in relation to a specific ESG matter. The most closely watched sectors include energy, mining, finance and insurance, and companies in these sectors are also more often targeted by environmental activists.

Against this backdrop and in the current economic and governance context, impacted heavily by COVID-19, the scrutiny and influence of beneficial owners, ESG rating agencies and proxy advisors in relation to ESG risk management and board accountability remains intense and needs to be effectively managed.

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KEY FINDING 5
Climate change is very important to the investment decision-making process.

Since 2015 the importance of climate change to investment decision-making has grown exponentially. Considering the commitment made under The Paris Agreement to limit the global temperature rise to less than 2°C of pre-industrial levels, the global economy is facing significant pressure to rapidly de-carbonise, a shift that materially impacts many sectors and industries.

The world’s largest asset managers have made their focus on climate change risk clearly known, as demonstrated by updated voting guidelines and engagement priorities. As other asset managers also transition their perspective on climate change, we found our discussions with other surveyed investors to echo similar sentiments expressed in these reports. A total of 97% of surveyed investors consider climate change risk as very important or somewhat important in their investment decisions.

“Climate change is the single greatest threat to a sustainable future but, at the same time, addressing the climate challenge presents a golden opportunity to promote prosperity, security and a brighter future for all.”

Ban Ki-Moon, Former Secretary-General of UN

KEY FINDING 6
Every surveyed investor reviews a company’s climate-related disclosures.

Given the acknowledgement of the material risk of climate change, it does not come as a surprise that all investors who participated in the survey say they review the climate-related disclosures of their portfolio companies.

These disclosures provide important insights into a company’s processes and thinking about what they identify as material risks, how they go about collecting data, how they manage these risks and which ESG framework they use to report them.

However, investors admit that this is a challenging exercise. That is because there is presently no real harmonisation in the reporting of climate-related disclosures, the risks are unique to each company’s situation and the analysis and scenario planning is complex and requires the work of expert climate scientists.

Most large asset managers and owners have built their own internal teams to conduct the analyses of ESG risks and opportunities for their investment and asset disposal strategies.

If so, what do you think could be improved in terms of the climate-related disclosures of the companies which you analyse?

**Clear connections to financial risks/opportunities**
- Most relevant: 61%
- Least relevant: 14%

**Time horizons in relation to impact on strategy**
- Most relevant: 56%
- Least relevant: 16%

**Disclosure on metrics, targets and achievements**
- Most relevant: 31%
- Least relevant: 14%

**Board oversight and fluency on the topic**
- Most relevant: 39%
- Least relevant: 6%

**Greater clarity to identify risks and opportunities**
- Most relevant: 47%
- Least relevant: 17%

**Better alignment with reporting standards**
- Most relevant: 25%
- Least relevant: 28%

**Channels of communication to and from the board**
- Most relevant: 56%
- Least relevant: 33%

“Activating a sustainable future for the environment is a core objective for Moody’s and we are proud to take a leading role in supporting the Say on Climate campaign.”

Robert Fauber, CEO, Moody’s Corporation

**KEY FINDING 7**

The top three improvements investors are seeking from climate-related disclosures are clear links to financial performance, the time horizon to impact on strategy and the disclosure of metrics, targets and achievements.

From our discussions with investors, the majority do not require more information, but rather want to be provided with better quality climate-related information. Specifically, 61% of surveyed respondents are seeking improvements in climate-related disclosures that transparently show the clear links between climate change and financial performance, instead of boilerplate statements and generic qualitative reports.

Other disclosure improvements include the time horizon to impact on strategy (56%), improved disclosure on metrics, targets and achievements (31%) and interestingly, board oversight and fluency (19%).

Investors are increasingly more interested in short to medium-term targets with regard to carbon emissions which help them in assessing the roadmaps for transition to a low carbon economy. Further, investors want to understand the practical actions companies are taking to both ensure they do not contribute to climate change and maintain their physical risk resilience.
Do you consider that every company should disclose its "Corporate Purpose"?

- **YES**: 86%
- **NO**: 14%

If so, what actions would you take with regard to companies that do not disclose their "Corporate Purpose"?

<table>
<thead>
<tr>
<th>Action</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engage with the board on this topic</td>
<td>55%</td>
<td>28%</td>
<td>3%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Engage with the management on this topic</td>
<td>7%</td>
<td>66%</td>
<td>3%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Vote against the board chair or other directors</td>
<td>28%</td>
<td>21%</td>
<td>23%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Reduce weighting in the company if disclosure has not improved within the agreed timeline</td>
<td>28%</td>
<td>24%</td>
<td>20%</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

**KEY FINDING 8**

Companies are expected to disclose their "Corporate Purpose", and engagement with the board was given as the top action in the absence of disclosure.

Alongside capital management, long-term strategy, and climate change, a clearly communicated company purpose is considered by investors to be one of the driving forces behind creating sustainable long-term value. A total of 86% of surveyed investors believe that companies should disclose their "Corporate Purpose". A "Corporate Purpose" defines both the "why" and "how" a company exists and interacts with its stakeholders and broader community – creating a sense of purpose across a wide range of ESG matters.

A recent phenomenon is the coining of the term “Purpose Governance”. In a recent report by the Governance Professionals of Canada Association, it is purported that the pre-eminent role of the board is to have oversight of an organisation’s purpose and to make sure it is fit for the future.³

A clearly defined company purpose is seen by investors as having a ripple effect throughout an organisation – helping to clearly set the values and culture of the company.

This, in turn, is reflected in corporate governance practices across the entity. One of the significant areas of corporate governance where investors seek to see this manifestation as a “hygiene check” is executive remuneration structures. Increasingly culture and values-based performance metrics and/or modifiers, and gateways, are being incorporated into remuneration structures to reinforce the company’s “raison d’etre”. Investors, however, expect these culture/values-based metrics to be relevant and measurable.

Given this importance, a clear majority of respondents in the investor survey (55%) indicated that engaging directly with boards was the most important action to take with companies that do not clearly define their "Corporate Purpose". This supports our understanding from discussions with investors that boards are seen as key architects in setting a company’s purpose and, as a result, the culture and values under which the company operates.

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**KEY FINDING 9**

TCFD was overwhelmingly the most popular ESG reporting framework, followed by SASB and then in-house proprietary frameworks focused on material topics.

With climate risk in the forefront of investors’ minds, it comes as no surprise that TCFD far outpaced other reporting frameworks in the popularity charts. The recommendations of the Task Force on Climate-related Financial Disclosures, or TCFD recommendations, developed voluntary, consistent disclosures for use by companies to provide information to investors, lenders, insurers, and other stakeholders on the risks and opportunities presented by climate change.

Three quarters of all surveyed investors nominated TCFD as their preferred ESG reporting framework, followed by 53% for SASB, down from 77% last year, while 39% preferred in-house proprietary frameworks focused on material topics, up from 9% last year.

The TCFD recommendations consider the physical and transition risks associated with climate change and what constitutes effective financial disclosures across industries. While the TCFD recommendations remain a voluntary disclosure framework, New Zealand and the United Kingdom are two countries already preparing for mandatory climate risk disclosures for financial institutions as early as 2023.

SASB, or the Sustainability Accounting Standards Board, is fast becoming the go-to framework for many companies and investors mainly for its straightforward application and investor focus. While many investors around the world prefer companies to choose their own reporting framework (provided that the investee companies disclose quality data on their key material topics), a number of institutional investors, including BlackRock, SSGA and Vanguard have specifically called out TCFD and SASB as the two reporting systems that listed companies should follow.

---

**What is your preferred ESG framework for companies to best disclose their material ESG topics?**

<table>
<thead>
<tr>
<th>Framework</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCFD</td>
<td>75%</td>
</tr>
<tr>
<td>SASB</td>
<td>53%</td>
</tr>
<tr>
<td>In-house proprietary framework focused on material topics</td>
<td>39%</td>
</tr>
<tr>
<td>CDP</td>
<td>33%</td>
</tr>
<tr>
<td>Integrated Reporting</td>
<td>17%</td>
</tr>
<tr>
<td>GRI</td>
<td>17%</td>
</tr>
<tr>
<td>CDSB</td>
<td>6%</td>
</tr>
<tr>
<td>I do not have a preference</td>
<td>6%</td>
</tr>
</tbody>
</table>

“At AllianceBernstein, responsible investing is part of who we are as a firm and is a cornerstone of our corporate responsibility mission. We have been integrating ESG factors into our investment decisions for many years. The TCFD’s recommendations represent a significant step in advancing the process of consistent and transparent climate-related financial disclosures globally. As investors, this will ultimately help us better understand climate-related issues and is in alignment with our commitment to our clients. We are proud to support the Task Force.”

Seth Bernstein, CEO, AllianceBernstein
KEY FINDING 10

Many investors support an annual “Say on Sustainability”. However, there are also many who consider that having the option to vote against the reelection of directors is sufficient to make their voices heard on this topic.

More than a half of all surveyed investors (62%) who participated in our survey would welcome a separate vote on sustainability, either as an advisory (36%) or a binding resolution (26%). It is not just investors who are in favour of an additional item to vote on at the annual meetings, if it means voting on something that is material and relevant. In some countries, including Spain and Switzerland, the law requires that large companies provide a report on non-financial information, which must be put to a shareholder vote as a separate point in the Annual General Meeting.

While not a “Say on Sustainability”, civil society groups have been calling for large companies around the world with high exposure to climate change risk to put a voluntary resolution to approve their climate change strategy and targets, or “Say on Climate”.

For example, a “Say on Climate” campaign has been sponsored by The Children’s Investment Fund Management (TCI) and The Children’s Investment Fund Foundation (UK), and seeks to implement sustainable business practices around the globe by advocating for corporate climate action plans.

The evolution of this topic should be watched closely and the response of investors to our survey suggests that the day when there are calls for a “Say on Sustainability” may not be far off.

However, it is important to note regional differences on this topic. For example, while a number of companies from Europe, Canada and Australia have already agreed to voluntarily allow a “Say on Climate” to shareholders, including Unilever, Royal Dutch Shell, Glencore, Rio Tinto, Woodside and the Canadian National Railway, in the US, there has been considerable opposition from both corporations and asset managers,4 (exceptions include Moody’s Corporation and S&P Global5).

In this regard, it should be noted that shareholders still have a mechanism to express their dissent with climate change risk management or insufficient ESG disclosures, by voting against individual directors; 38% of the surveyed investors nominated this as their preferred method.

Do you support the concept of a shareholder “Say on Sustainability” or an annual vote on sustainability reports?

- 38% Yes, introduce ‘Say on Sustainability’ – as an advisory vote
- 36% Yes, introduce ‘Say on Sustainability’ – as a separate binding vote (and independently assured)
- 26% Yes, but only on the robustness of the reporting, not on actual non-financial performance
- No, shareholders have the option to vote against directors if they have concerns regarding a company’s sustainability

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5. Say on Climate, Supporters: https://www.sayonclimate.org/supporters/
“The ‘one share, one vote’ principle is a result of market evolution since the end of the 19th century. History has taught us that investors need sufficient rights to sanction poor practices or performance by managers: the proportionality principle is the best method to make this monitoring and oversight effective.”

*BlackRock, Key considerations in the debate on differentiated voting rights, 2018*
2020 was an extraordinary year for companies, investors, and their stakeholders alike. Long-term trends in relation to non-financial performance measurement and stakeholder consideration in executive remuneration are being put to the test, with a focus on how companies are rewarding their executives during the COVID-19 pandemic.

Viewpoints and guidelines are published on an almost daily basis from investors and proxy advisors, industry associations or other stakeholder groups. In addition, several regulatory initiatives are under way. Our 2021 investor survey provides companies with insights on how investors are thinking about remuneration and pay outcomes and what factors may result in them voting against remuneration.

“We know that you, as directors, are also faced in the short-term with focusing on your companies’ financial resiliency. For instance, many companies are considering reducing their capital spending, share buybacks, dividend payments and expenses. We recognize that balancing the diverse—and sometimes competing—needs of employees, customers, shareholders, regulators, and the broader community will differ by company, industry, and region.”

Cyrus Taraporevala, President and CEO, State Street Global Advisors
KEY FINDING 11

ESG factors should be considered when designing executive remuneration plans.

Environmental and social considerations have become a firmly established part of how investors evaluate a company’s strategy and performance. In this regard, it is noteworthy that for our 2021 survey, all investors agree that ESG performance metrics should be included in both long and short-term executive incentive plans.

In comparison, when we asked investors in 2018 how important they found ESG performance metrics in short-term incentive programs, just under one-third felt it was "Not important". While investors were hesitant to require companies to include ESG considerations in short-term incentive plans in the past, the importance of ESG metrics for long-term incentive plans was already established, as shown in our 2018 survey when only a small minority of 8% considered them "Not important".

What is your preferred weighting of ESG performance metrics and targets in the following executive remuneration plans?

<table>
<thead>
<tr>
<th>Weighting</th>
<th>STIPs</th>
<th>LTIPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>5% - 25%</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td>Not sure</td>
<td>18%</td>
<td>18%</td>
</tr>
</tbody>
</table>

KEY FINDING 12

For both short and long-term incentive plans, a weighting for ESG metrics and targets between 5% and up to 25% was most supported.

Today, investors view ESG performance as an equally significant component of both short-term and long-term incentive plans. Nevertheless, companies should be aware that expectations on transparency and measurability remain the same for financial and non-financial performance. Long-term performance targets need to be set at the beginning of and measured over the performance period. A potential ESG metric should therefore allow quantification and align with long-term company strategy. If that is not the case, many investors prefer companies to focus on implementing ESG metrics in STI executive pay plans rather than in the LTIP.

Either way, investors clearly expect that the ESG impact on remuneration outcomes should be meaningful. This is strongly reinforced by the survey data which shows that 72% and 69% of respondents selected “5% up to 25%” as the appropriate weighting of ESG metrics in STI and LTIP plans respectively.

Only 18% of respondents would be satisfied with a relative weight of less than 5% of ESG criteria in both short and long-term plans. Nevertheless, some stakeholders remain concerned that ESG criteria may replace well-established financial criteria, with the former providing challenges in terms of measurability and auditing, or even potentially rewarding “business as usual” outcomes, as highlighted in Morrow Sodali’s Review of the Australian Proxy Season 2020. Only 5% of respondents favored a higher weight of ESG criteria than 25% in short-term incentives (8% in the long-term incentive).

To mitigate these concerns, alternative remuneration structures may be considered for ESG-inclusion, such as the introduction of respective minimum ESG requirements in clawback clauses, or so-called “gateways” or “underpins” to existing incentive pay plans. These binary policy features avoid increasing variable pay-outcomes for fulfilling basic performance requirements, such as establishing workplace health and safety conditions, ensuring human rights are upheld throughout the supply chain or following compliance standards, while at the same time directly reducing variable pay outcomes should related issues arise; and, for example, create severe reputational damage.

Target disclosure provides investors with assurance on the relevance and stretch of performance metrics, regardless of whether these be financial or non-financial. Discretionary pay components contravene this spirit.

While variable remuneration frameworks should avoid discretionary elements, directors eventually remain accountable for pay outcomes and are therefore expected to look beyond a strictly formulaic approach. Already in our 2017 survey, 100% of investors stated that they would vote against compensation committee elections when companies exhibit poor pay practices.2 This view has not softened to-date and discretionary pay decisions remain one of the most contentious pay practices. In Morrow Sodali’s Review of the 2020 US proxy season, one-off grants were identified as one of the most prolific remuneration issues, especially if awarded without performance conditions.3 63% of the 2021 survey respondents indicated the lack of performance hurdles as “Most important” when deciding to vote against a remuneration related proposal.

Still, director accountability may very well require the consideration of discretionary pay adjustments, in particular when key performance indicators reflect extraordinary market effects rather than company performance. Where discretion is applied, disclosure becomes key. Any explanation of discretionary pay decisions should include how they align pay and performance, why the underlying remuneration framework remains apt, how the board reached its decision independently (of management) and how they are in line with the pay structures of other stakeholders.

What are the indicators for misalignment of pay and performance that would lead you to vote against executive remuneration proposals?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>63%</th>
<th>23%</th>
<th>9%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant incentive plans without performance hurdles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paying bonuses while severely impacted by COVID-19</td>
<td>46%</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>17%</td>
<td>29%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary variable pay program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient responsiveness to shareholder concerns</td>
<td>26%</td>
<td>43%</td>
<td>11%</td>
</tr>
<tr>
<td>following low support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for a Say-on-Pay resolution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsized awards/packages</td>
<td>17%</td>
<td>23%</td>
<td>40%</td>
</tr>
<tr>
<td>Inducement, retention, special one-off grants</td>
<td>11%</td>
<td>23%</td>
<td>31%</td>
</tr>
<tr>
<td>Executive bonuses when company has not paid dividends</td>
<td>6%</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>No ESG performance metrics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive bonuses when company share price has not increased</td>
<td>14%</td>
<td>23%</td>
<td>46%</td>
</tr>
<tr>
<td>Insufficient inclusion of ESG metrics</td>
<td>9%</td>
<td>6%</td>
<td>69%</td>
</tr>
<tr>
<td>Incentive awards are subject to ESG metrics, after insufficient inclusion</td>
<td>6%</td>
<td>17%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Most relevant ← Not important

KEY FINDING 14

Large incentive payouts lacking performance hurdles and the payment of bonuses where COVID-19 impacts were severe, were the top two indicators of pay and performance misalignment that would result in negative votes on “Say on Pay”.

The COVID-19 pandemic will give many remuneration committees pause for thought when deciding pay outcomes for FY2021. In Australia, where companies have already dealt with remuneration decisions heavily affected by the pandemic environment, investors and proxy advisors penalised remuneration outcomes that were adjusted to enable incentive payouts where pre-determined performance measures were not met.4

Several institutions, such as proxy advisors or the UK Investment Association have updated their guidance on what can and cannot be supported in terms of executive pay in relation to COVID-19.5

The guidance clearly sets the expectation that company boards need to comprehensively explain their rationale when applying board discretion. Their explanations must not only explain why upward discretion has been applied but also why downward discretion has not been applied to the payout of variable pay. A lack of cogent rationale risks high dissenting votes in relation to pay at annual meetings in 2021.

First and foremost, variable pay outcomes need to be aligned with the shareholder experience while also reflecting the experience of other stakeholder groups such as employees.

Similarly, companies applying for government aid, including employment related support programs such as JobKeeper subsidies in Australia, or companies that are heavily affected by COVID-19 are expected to refrain entirely from paying bonuses – where bonuses are paid under these circumstances then almost half of all surveyed investors might consider it an appropriate reason to vote against remuneration related proposals.

Burden-sharing is not limited to executives foregoing a proportion of their remuneration. Investors are willing, and even expecting, boards to distribute negative COVID-19 impacts among other stakeholders, including themselves.

Beyond retrospective pay decisions, the COVID-19 lens of investors will also affect forward-looking revisions to remuneration structures and frameworks that will come under careful scrutiny at this time of market uncertainty. As Paul Washington of the US Conference Board puts it, “2021 may not be a time for immediate major shifts in executive compensation, but for deeper analysis and dialogue that could lead to fundamental changes.”6

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In the context of COVID-19, under what circumstances do you believe it is inappropriate for companies to pay dividends?

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>When the company is facing liquidity concerns</td>
<td>74%</td>
<td></td>
<td>17%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>When the company has made significant workforce lay-offs</td>
<td>37%</td>
<td>43%</td>
<td>11%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>When the company has received government subsidies</td>
<td>34%</td>
<td>40%</td>
<td>17%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>When the company’s share capital has been diluted</td>
<td>20%</td>
<td>60%</td>
<td>6%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

**KEY FINDING 15**
With COVID-19, the appropriateness of dividend payments when faced with liquidity problems, big lay-offs, taking government subsidies and dilution of share capital were ranked as concerns relatively equally.

In 2020, while liquidity considerations were a well-accepted reason for carefully considering the payment of dividends before undertaking employee lay-offs, in 2021, investors are increasingly expecting companies to communicate to them the mid to long-term implications of the crisis, including how it may affect dividend policies and human capital management.7

**KEY FINDING 16**
A majority of survey respondents oppose the adoption of loyalty shares.

When transposing the European Union Shareholder Rights Directive II (SRDII)8, some European countries took the opportunity to reconsider the introduction of loyalty shares, going beyond the content of the original SRDII. The Netherlands, Spain, Italy and France are major markets allowing the differentiation of voting rights depending on how long investors hold their shares in a specific company, aiming to foster long-term investment decisions.

Simultaneously, the UK government is currently reviewing the relaxation of the rules of the London Stock Exchange to allow dual-class shares, easing start-ups’ access to capital markets, which has proven to be the preferred structure for US tech companies.

Institutional investors on the other hand, who have very long-term investment horizons, have been repeatedly calling for the full implementation of the one-share-one-vote principle across these markets. They believe that multiple share classes may result in the entrenchment of certain shareholder groups and oppress minorities. Investors and proxy advisors have frequently raised the view that empirical evidence does not show a connection between issuing shares with different voting rights and a more stable shareholder base, as summarised in recent commentary by BlackRock.9

Our survey results are in line with this, showing that these concerns are shared by the majority, with 60% of surveyed investors opposing the adoption of loyalty shares.

Would you support the adoption of loyalty shares / voting rights by a portfolio company?

- Yes: 17%
- No: 60%
- Not sure: 23%
SHAREHOLDER ACTIVISM

According to Lazard’s 2020 Global Activism Review, “...global activity saw a strong snap back in Q4, with 57 new campaigns launched (up 128% from Q3 levels).”\(^1\)

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The results of our 2021 survey reflect the growing support for activist campaigns, both traditional and ESG-related.

Although as at the end of Q3 2020 activist investor demands worldwide were down as a result of COVID-19, they were only down by 14% compared to the prior corresponding period. Interestingly, proxy fights worldwide last year were only down by 4%.

This shows that even at a time of record market uncertainty and volatility, activists will not resile from pushing a financial or ESG-related agenda where they believe they can force change to unlock shareholder value.

As observed, the COVID-19 crisis is in fact emboldening civil society activists, interest groups and some traditional investors to lodge shareholder proposals, with 2020 being another record year for the number of ESG-related shareholder proposals made and the level of voting support they received.

“In line with the ancient proverb, ‘It is better to be a warrior in a garden, than a gardener in a war,’ boards should regularly look at their companies from an activist’s perspective, identify where their weaknesses are, and take measures both to reinforce these and to deal with any potential activist attack.”

In recent years, institutional investors have become more vocal on requiring board members to attend their engagement meetings and calls. This makes sense as investors seek to better understand the decision-making processes behind strategic decisions, look for insight on how the board is defining the “culture at the top”, and to what extent stakeholder interests are being considered.

It is then no surprise that 94% of respondents overwhelmingly agree that engaging with board members is the most effective way to influence boards followed by 51% who preferred engaging with management. Notably, 23% of surveyed investors strongly agree that collaboration with other shareholders is an effective way to influence boards, which is almost double compared to the responses from our 2018 survey, where only 12% of surveyed investors supported investor collaboration.

It is noteworthy that an increasing number of investors view voting against company directors as one of the top preferred measures to influence boards, with it ranking fourth at 20%.
Aside from poor financial performance, what other factors might lead you to support an activist?

<table>
<thead>
<tr>
<th>Poor strategic decisions</th>
<th>63%</th>
<th>9%</th>
<th>14%</th>
<th>14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak governance policies and practices</td>
<td>49%</td>
<td>40%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Misallocation of capital</td>
<td>37%</td>
<td>40%</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>Credible activist business strategy</td>
<td>20%</td>
<td>6%</td>
<td>29%</td>
<td>46%</td>
</tr>
<tr>
<td>Lack of responsiveness to shareholder concerns</td>
<td>14%</td>
<td>66%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Sustainability or ESG-related issues</td>
<td>9%</td>
<td>34%</td>
<td>46%</td>
<td>11%</td>
</tr>
<tr>
<td>Significant and/or sustained compensation issues</td>
<td>9%</td>
<td>6%</td>
<td>63%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Most relevant ← Least relevant

KEY FINDING 18
After financial performance, poor strategy, weak governance and misallocation of capital were the highest-ranking reasons for supporting an activist.

As companies have learned to adapt in light of the pandemic, and the stock markets have generally recovered, there have been recent signs of an increase in cases of traditional activism. According to Lazard’s 2020 Global Activism Review, “…global activity saw a strong snap back in Q4, with 57 new campaigns launched (up 128% from Q3 levels).” We expect the M&A market to heat up again as COVID-19 subsides, and activists will likely return to play a key role. Activists are likely to focus on companies that underperformed their peers and those that demonstrated poor judgment in responding to the crisis.

When investors were surveyed about the reasons for which they might support an activist’s campaign (excluding financial performance), poor strategic decisions ranked the highest at 63%, significantly up from 23% when compared to last year’s survey.

Interestingly, weak governance ranked at 49%, down from 64% last year and capital misallocation ranked at 37% also down from 50% last year.

Long-only investors such as M&G Investments are pushing companies to add new, independent perspectives to the board, believing it would greatly allay shareholder concerns on capital allocation and board oversight.

In November 2020, the French company Unibail Rodamco Westfield failed to approve a rights issue in the face of a public activist campaign seeking the appointment of 3 new board members. Long-only shareholders, including Allianz Global Investors and BMO Asset Management, supported the activist’s objectives, preferring “a reconstituted board that includes direct shareholder representation to re-evaluate the merits of the rights issue with access to non-public information.”

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### What ESG factors might lead you to support an activist?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Important</th>
<th>Most relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response to an ESG shareholder resolution that received wide support from the company’s shareholders</td>
<td></td>
<td>66%</td>
</tr>
<tr>
<td>Significant ESG controversies</td>
<td></td>
<td>46%</td>
</tr>
<tr>
<td>Insufficient action on climate change / Paris Agreement</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>Lack of disclosure provided by the company on the issue raised by an activist</td>
<td></td>
<td>26%</td>
</tr>
<tr>
<td>Company’s exposure to negative screens</td>
<td></td>
<td>14%</td>
</tr>
<tr>
<td>Public and societal pressure</td>
<td></td>
<td>6%</td>
</tr>
</tbody>
</table>

#### Key Finding 19

Lack of responsiveness to investor support for ESG resolutions and material ESG controversies could also result in support for an activist.

A clear majority are prepared to file or co-file an ESG-related resolution.

ESG issues have played an increasingly important role in activist campaigns in recent years and we believe the number of ESG-related proxy proposals will only increase in 2021. According to SSGA, the assets under the management of investment firms and other asset owners who are signatories of the United Nations’ Principles for Responsible Investment (UN PRI) amounted to USD 103.4 trillion this time last year. According to the UN PRI Annual Report in 2010 this number was USD 22 trillion in total assets, a staggering increase over 10 years.

In January this year, a group of institutional investors with USD 2.4 trillion in AUM, including Europe’s largest fund manager Amundi SA, filed a climate change-related shareholder resolution against HSBC Holdings PLC, calling on Europe’s largest lender to set targets for reducing its fossil fuel exposure.

Also, worth mentioning in this context is NBIM’s recent letter to the European Commission, where the investor writes, “Improving the ability of shareholders to exercise their ownership rights would support shareholders in promoting long-term value creation and responsible business conduct. We encourage the European Commission to consider further EU harmonisation of rules that would remove obstacles to cross-border voting and streamline the filing process for shareholder proposals.”

66% of respondents said they would support an activist if there is a lack of responsiveness to an ESG shareholder resolution that had received wide investor support. In last year’s survey, 45% of surveyed investors considered that supporting shareholder proposals was an effective method to influence companies to adopt E&S related policies. It is notable that BlackRock supported eight out of nine environmental shareholder proposals in the second half of 2020, according to their publicly disclosed reports.

As this document goes to print, nine “Say on Climate” proposals have already been filed this year. One of the most prominent activists leading the charge is The Children’s Investment Fund (TCI) which has filed shareholder resolutions with companies in the UK, Europe and US, the most recent targeting Alzheimer Inc. and Charter Communications Inc. The credit rating firm Moody’s adopted a “Say on Climate” voluntarily last December, becoming the first US company to do so following pressure from TCI. Furthermore, TCI was successful with their first “Say on Climate” proxy fight against AENA SA, the Spanish airport operator.

The fact is that many investors – not just activists – view ESG factors as crucial measures when considering a company’s performance, and a failure to properly identify, disclose and manage these risks poses a significant risk to sustainable value creation.

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Would you consider filing or co-filing an ESG-related shareholder resolution?

- Not sure: 26%
- No: 16%
- Yes: 58%

**KEY FINDING 20**
A clear majority are prepared to file or co-file an ESG-related resolution.

Finally, in our 2021 survey, a majority of 58% of surveyed investors would consider filing or co-filing an ESG-related shareholder resolution.
LOOKING FORWARD

The momentum driving ESG, and sustainability more broadly, has now entered the mainstream on an international level. A diverse set of stakeholders representing civil society is applying concerted pressure for the common purpose of achieving positive impacts, economically and socially, for the benefit of future generations. The way companies engage, participate and contribute is now under the microscope and their beneficial owners are telling them that they will be held to account for their actions.

Our 2021 survey offers a number of practical suggestions and insights that can help companies to achieve constructive engagement that resonates with their investors and helps build trust and support.

1. Take control of your engagement agenda. Clearly articulate how you are responding to COVID-19, how it has impacted your business strategy and what you have done to adapt.

2. Directors are expected to engage with asset managers and owners on ESG issues and demonstrate knowledge and fluency. They should be able to discuss the links to financial and non-financial performance, their approach to risk management and sustainable value creation.

3. Consider integrating ESG metrics into short and/or long-term incentive schemes to drive the right behaviours and align senior executives with your commitment to sustainable performance.

4. Analyse relevant ESG reporting frameworks to identify which best meets the company’s needs. Also canvass the views and preferences of your stakeholders to help inform your process and produce disclosures that are useful and resonate.

5. Identify your material issues and prioritise them. Investors are mainly focused on climate change, requiring high standards of climate risk disclosure. That said, in light of the pandemic and the racial equity movement, human capital management, diversity, equity and inclusion, along with other social issues such as supply chain management have become top of mind for investors.

6. Clearly set out and disclose your “Corporate Purpose”. The board should take responsibility for it and it should guide the company’s strategy and activities. A clearly articulated “Corporate Purpose” that employees live by will demonstrate a company’s potential to do good and benefit society at large.

7. Monitor the evolution of the adoption by companies of an annual “Say on Climate” or “Say on Sustainability” to stay informed of potential developments in this area.

8. Do not ignore ESG activism. Traditional investors have a healthy appetite to file or co-file ESG-related shareholder proposals where companies fail to demonstrate responsiveness to investor concerns and material ESG controversies.
COMPANY OVERVIEW

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world.

The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 700 corporate clients in 80+ countries, including many of the world’s largest multinational corporations. In addition to listed and private companies, its clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

WE ARE

GLOBAL
A world leader in proxy solicitation, M&A, shareholder services, and governance advisory.

TRUSTED
Over 45 years Morrow Sodali has achieved an unbroken track record of success for our clients.

INTEGRATED
One firm serving clients from offices and partners in major capital markets around the world.

EXPERIENCED
We have provided advice and services on more than 1,000 shareholder meetings, 143 M&A transactions, 29 tender offers and 17 contested meetings in the last 12 months alone.

SERVICE ORIENTED
Our high retention rate (95%) among annual meeting and corporate governance clients demonstrates our commitment to clients and the quality of service.

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<table>
<thead>
<tr>
<th>CORPORATE GOVERNANCE ADVISORY SERVICES</th>
<th>BOARD SERVICES</th>
<th>PROXY CONTESTS, HOSTILE TAKEOVERS, SHAREHOLDER ACTIVISM AND SPECIAL SITUATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPITAL MARKET INTELLIGENCE SERVICES</td>
<td>PROXY SOLICITATION AND SHAREHOLDER MEETING SERVICES</td>
<td>M&amp;A AND INFORMATION AGENT SERVICES</td>
</tr>
<tr>
<td>DEBT-RELATED SERVICES</td>
<td>RETAIL SERVICES AND ADDITIONAL CAPABILITIES</td>
<td>SERVICES FOR MUTUAL FUNDS AND ETFs - DI COSTA PARTNERS -</td>
</tr>
</tbody>
</table>
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