

CLIMATE CHANGE TOPS THE AGENDA FOR INSTITUTIONAL INVESTORS IN 2021

INSTITUTIONAL INVESTORS HIGHLIGHT THE GROWING IMPORTANCE OF ESG IN INVESTMENT AND PROXY VOTING DECISIONS IN A NEW MORROW SODALI SURVEY

LONDON – May 11, 2021: When institutional investors with USD 29 trillion in assets under management were asked what issue was most likely to prompt them to engage with company boards, climate change topped the agenda.

This is among the key findings of the 2021 Institutional Investor Survey by Morrow Sodali, released today.

The annual global poll of over 40 institutional investors aims to find out what is really important for them when analyzing companies, and to highlight their main areas of focus in determining how to exercise their voting rights at ongoing shareholder meetings.

Survey questions are designed to identify the latest trends in [company engagement](#), including ESG ([Environmental, Social and Governance](#)) and sustainability, [remuneration](#) and [AGM-related issues](#), and [shareholder activism](#).

The 2021 iteration of the survey, which is now in its 6th year, underscores how the focus on ESG continues to intensify. The institutions surveyed see a clear link between ESG performance and good financial performance, and they want companies to improve their engagement and reporting on these topics.

While these include issues such as board composition, executive remuneration and human capital management, which are all being looked at more closely than ever before, climate change tops the agenda in terms of prompting investors to engage. The survey findings indicate that there is ample room for improvement in the quality of corporate ESG reporting, and investors in particular, want companies to discuss these topics in the context of their business plans. Companies should ensure that they have the right people engaging, in terms of both management and the board, and that these representatives are properly prepared to discuss the relevant issues.

Investors expect to see links between climate change and financial risks and opportunities identified, time horizons of the expected impact of climate change on corporate strategies explained, and metrics, targets and achievements clearly disclosed. With climate risk so clearly at the forefront of investors' minds, it comes as no surprise that TCFD far outpaced other reporting frameworks as the first choice of 75% of respondents.

The survey highlights a strong uptick in the popularity of TCFD, and many investors now expect companies to either align with it or explain why they believe it is not necessary. SASB was the second choice, and it was interesting to see that a large proportion of respondents (39%) reported using in-house proprietary frameworks. This is a message to the market that investors are becoming much more sophisticated in this regard.

The survey revealed that statements of company purpose are considered to be one of the driving forces behind creating sustainable long-term value, with a strong majority (86%) of investor respondents agreeing that every company should disclose its corporate purpose, and a substantial proportion (20%) saying the issue could lead them to vote against the board chair or other directors.

ESG is now firmly established as a key factor in how investors evaluate company strategy and performance, and predictably the overwhelming majority (95%) of respondents wanted to see it incorporated into executive incentive plans. Trends from past years show that investors wanted to see a proportion of incentives tied to sustainability measures, and when drilled down in 2021, the result is a strong consensus (69%) felt that 5–25% was a reasonable amount.

Particularly noteworthy was the response on annual incentives, where the survey showcases a significant upturn in support (95%) for the inclusion of sustainability performance metrics in short-term incentive plans. By comparison, when investors were asked how important they found ESG performance metrics in short-term incentive programs in 2018, 29% said ‘not important’ and an additional 8% had no opinion. This does raise interesting questions around which ESG targets can credibly be included in annual incentives, as that clearly is not the case for all types of metrics.

For the last three years, the Morrow Sodali survey has asked investors: “What would lead you to vote against executive remuneration proposals?”, and they have consistently indicated “misalignment of pay and performance” to be their primary concern. This year, the survey sought to examine this issue more deeply by asking what they considered the key indicators of such misalignment to be.

In response, investors identified incentive plans without performance hurdles (63%), bonuses paid by companies while severely impacted by COVID-19 (46%) and the adoption of discretionary variable pay programs (29%) as their key concerns.

Shareholder activism continues to evolve in 2021, and the survey reflected growing investor support for activist campaigns, both traditional and ESG-related. While most investors believe engaging with board members is the most effective way to influence boards, collaboration with other shareholders is rapidly becoming more acceptable. In 2021, 86% of respondents either “strongly agreed” or “somewhat agreed” that collaboration with other shareholders is an effective way to influence boards, a significant increase compared to the 2018 survey result (12%).

Aside from poor financial performance, poor strategic decisions were the factor most likely to lead an investor to support an activist. When asked what ESG factors might lead them to support an activist, 66% of respondents identified a lack of response to an ESG shareholder resolution as the most pressing issue.

Last year the survey proposed a slightly different but similar question about how investors would seek to influence boards to pay more attention to ESG issues, and this option received only 21% support. It is notable that the support for this option has increased dramatically in 2021. This clearly reflects the overarching theme of investor responses this year: the increasingly sharp focus on climate change at a global level.

To see the full results of Morrow Sodali’s Institutional Investor Survey 2021, visit [here](#).

ABOUT MORROW SODALI

[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.

For further information about Morrow Sodali, please visit www.morrowsodali.com.

CONTACT: Elena Cargnello, Corporate Director of Marketing, +44 204 5136913, e.cargnello@morrowsodali.com