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

NEW YORK/LONDON – March 10, 2020 – Institutional investors with assets under management of USD 26 trillion unanimously confirm that ESG (Environmental, Social and Governance) risks and opportunities played an increasingly important role in their investment decisions and their evaluation of portfolio companies during the past 12 months, according to Morrow Sodali's annual Institutional Investor Survey, released today.

The Morrow Sodali survey highlights the main areas of focus for institutional investors in determining how to exercise their voting rights at 2020 annual shareholder meetings. Survey results reveal that the broadly defined concept of ESG will have a direct practical impact on shareholder meetings, proxy voting, engagement and the various means by which investors fulfill their oversight and stewardship responsibilities.

Several findings stood out:

- Climate change is at the top of investors' ESG agenda. All companies, regardless of their sector, should expect increased investor scrutiny on how they approach this issue.
- Investors expect to be privy to the inner workings of the board, underlining the importance of board/shareholder engagement.
- In general pay-for-performance continues to dominate as a key pressure point for investors, but increasingly the emphasis is on how companies and boards respond to shareholder concerns and negative votes.
- Many investors express a need for more explicit non-financial information, which they see as an important indicator of underlying corporate culture, integrity and sustainability. With regard to climate change factors, it is of primary importance to investors that companies clearly show what is the connection to their financial risks and opportunities.

The Morrow Sodali survey, now in its fifth year, was conducted in January 2020. Forty-one global institutional investors, with USD 26 trillion of assets under management in total, responded to the survey.

The survey notably indicated that:

- Investors are more likely to support activists if the company has weak governance practices, an even more important factor than the credibility of the activist's proposed business strategy.
- An overwhelming majority of investors expect companies to demonstrate in their reporting a link between financial risks, opportunities and climate change, with a majority also believing that greater detail around the process to identify these risks and opportunities would significantly improve companies' climate-related disclosures.
- Second only to climate change, human capital management is cited by investors as an important sustainability topic that they will focus on when engaging with boards in 2020, with a specific focus on improved disclosure around board involvement in setting the corporate culture in addition to robust health and safety indicators.
- Investors widely agree that stakeholder engagement approach and outcomes should be included in companies' reporting together with their explanation of corporate purpose.
- ESG and sustainability are playing a more important role in fixed income investment decisions, with ESG rating agencies having established themselves as an essential factor in analyzing risks and opportunities, in addition to the credit rating agencies.

Kiran Vasantham, Director of Investor Engagement, said: “*With ESG now firmly in the investor mainstream, we strongly believe that companies must proactively manage this at the board level, essentially as a two-way communication area with their shareholders and investors. ESG is a journey, not a destination. Companies that fail to fully appreciate the need to engage risk losing touch with the expectations of their most loyal long-term providers of capital and weakening these important relationships. I am delighted and grateful that a broad cross-section of investors took part in the survey, as it provides valuable insights about asset managers’ priorities and a heads-up for companies about the ESG issues that will impact investment and voting decisions in 2020.*”

To access the full report of Morrow Sodali’s Institutional Investor Survey 2020, [click here](#). To access our previous surveys (2016, 2017, 2018, 2019), [click 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 40 countries, including many of the world’s largest multinational corporations. In addition to listed and private companies, its clients include mutual funds, ETFs, stock exchanges and membership associations.

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

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