Collective Intelligence

Communicating on Stewardship

Advice for Investors and Asset Managers

Pru Bennett, Sam Durant, Elena Fabritius and **Dan Lambeth**

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Communicating on Stewardship

Effective active ownership has a critical role to play in protecting and enhancing the long-term value of investments. Poor stewardship can lead to greater risks and potential loss of value for end investors. Stewardship reporting presents an opportunity for asset managers and owners to differentiate themselves from peers and to build positive reputation and brand recognition. Communicating a good stewardship strategy also helps to foster a culture of responsibility and accountability.

Effective stewardship is a critical aspect of good investment management, and therefore it is one of the key components asset owners will assess investment managers on as part of manager selection. If managers are unable to communicate their stewardship approach and outcomes effectively, this will work against them."

Alex Quant, Investment Consultant and Head of the ESG Research Team for XPS Investments

On the flip side, there is growing public scrutiny of the voting records of investors and debate on the risk of "engagement-washing" by firms overstating the impact of their activities. Good stewardship is often simply measured as the number of "against votes" by an asset manager in each reporting period: the more against votes, the better the steward. This simplistic approach ignores the impact of a well-executed company engagement strategy. The more constructive engagement an investor or fund manager undertakes, the better informed it becomes regarding voting decisions. This can lead to a higher percentage of votes supporting management and can encourage long-term structural improvements, rather than short-term, quick results. Such an approach may also help to inform investment decisions.

International developments

The UK Financial Reporting Council's (FRC) Stewardship Code, a principles-based and voluntary regime, was designed to reduce the risk of financial failure by encouraging greater oversight by asset managers through enhanced engagement. In particular, it sought to promote "purposeful dialogue" between investors and listed companies. The UK Code has been revised twice since its introduction in 2010, reflecting the evolutionary and important nature of stewardship practices. Key activities of an effective stewardship program detailed in the revised 2020 Code include purpose and governance, investment approach, engagement and exercising rights and responsibilities.

In 2021, the voluntary Stewardship Code imposed tougher reporting requirements on signatories, including the need to disclose the outcomes of their engagement work as well as the concrete benefits from stewardship activity. The higher benchmark resulted in a third of applicants being rejected in 2021. However, the most recent review in 2022 resulted in forty-three new signatories, reflecting notable improvements in how organizations are evidencing and reporting their stewardship activities.

> The UK Stewardship Code is creating a market for effective stewardship and reflecting the growing expectations from clients, beneficiaries and society that investors are active guardians of the assets they are responsible for. The Code requires signatories to evidence their approach to stewardship – policies are not enough."
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> *Claudia Chapman, Head of Stewardship at the Financial Reporting Council*

Beyond the UK, there are now many governments, regulators, industry bodies and international organizations focused on raising stewardship reporting standards with the explicit aim of demonstrating accountability. These bodies include the UN Principles for Responsible Investment and the European Union. In the US, there is a patchwork of industry groups and associations promoting reporting on stewardship activities, including the Framework for US Stewardship and Governance and the Council of Institutional Investors.

The Challenge

For asset managers, it can be difficult to develop a credible stewardship storyline across multiple asset classes and investment strategies. For example, equity and fixed-income investment specialists may adopt different ESG assessment methodologies and use different trading and research systems. Furthermore, while equity teams enjoy the benefits of share ownership, fixed-income teams may be required to adopt different approaches for engagement.

Asset owners, such as pension funds and insurance companies that outsource management to external managers, face the additional hurdle of "stitching" together a narrative based on different methodologies and perspectives on stewardship. It is critical for asset owners who outsource their investment management function to put in place effective systems and monitoring processes in order to ensure that approaches to stewardship are aligned.

Five principles for good communication

Communicating a strong stewardship narrative relies on credible, consistent and impactful storytelling, particularly against the backdrop of increasing skepticism about the effectiveness of engagement strategies.

Brunswick's approach is based on the following principles:

1. **Identifying the right format.** The right communications collateral and stakeholder engagement plan is crucial to achieving your objectives and reaching your target audiences. The format should also be aligned with other investor materials, including the annual report, to promote the same overall look and feel.

2. **Selecting specific and appropriate examples of engagement activity.** The quality of your report can only ever be as good as the evidence and proof points that underpin it. It is vital for your communications to provide evidence of your approach to stewardship and to ensure that all key regulatory focus areas have been addressed.

3. **Building a narrative across different asset classes and strategies.** This includes identifying common themes, driving consistent language and ensuring calibration across the entire firm. Drawing together different approaches within and across investment desks to build a cohesive narrative is key.

4. **Storytelling.** Your story must be credible, authentic, convincing and aligned with the outcomes of your voting and engagement activities.

5. **Making it discoverable.** Talking about your activity and its outcomes in the right places and making it easily discoverable will ensure that analysts, investors, regulators and broader stakeholders engage with it accordingly.

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From financial situations through to capital markets, regulatory and public affairs, climate and environmental action, social issues, crisis, cyber, litigation, and employee engagement, clients rely on Brunswick for ESG insight, advice, preparedness, and campaigns.

Covering all regions, our ESG experts are based in major offices across the globe.

To continue the conversation:

Pru Bennett
Partner, Sydney
pbennett@brunswickgroup.com

Elena Fabritius
Associate, London
efabritus@brunswickgroup.com

Sam Durant
Account Director, London
sdurant@brunswickgroup.com

Dan Lambeth
Partner, London
dlambeth@brunswickgroup.com