MORROW SODALI

INSTITUTIONAL INVESTOR SURVEY 2021

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EXECUTIVE SUMMARY

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[1] 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.[2] 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.

For this reason and following a global health crisis, the interest and appetite of investors, especially asset owners, to hold boards and companies accountable for their performance against "non-financial" ESG criteria is set to match, and in some cases exceed, performance against traditional financial measures.

Therefore, understanding and thoughtfully responding to the concerns that are weighing on the minds of investors, it is necessary now more than ever to build investor trust and support as companies and their leaders are faced with navigating unique challenges. We hope that the findings of our IIS 2021 contribute to that objective.

It should not come as a surprise that over the past year, COVID-19 was identified by our survey as one of the top reasons prompting investors to engage with companies. With the mounting economic and operational pressures caused by the pandemic, investors and other stakeholders are asking companies to articulate their "Corporate Purpose", mission and values as a core part of how they conduct business.

Compensation to senior executives has also come under specific scrutiny as a result of the pandemic. Investors require cogent explanations where incentives have been paid, especially if government "handouts" have been taken and where financial performance has suffered. This scrutiny will continue into 2021 as company revenues and profitability continue to be affected by the pandemic.

We note that a number of identified survey trends over the past few years have continued, including investor preference to engage directly with the board on environmental and social issues. Undeniably however, investors rank climate risk as the most important ESG issue and engagement topic for the second year running. Expanding on data gathered from last year, investors are particularly interested in understanding ESG in the context of a company's business plan and the identification of clear connections to financial risks and opportunities in a company's climate-related disclosures.

> The IIS is the only independent survey of its kind that has become widely recognised as an important indicator of investor priorities in terms of analysis and engagement topics with Boards of Directors and management, over a forward 12-month horizon.

The growing importance of climate risk has now clearly translated into investor willingness to hold companies and boards accountable through 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.

Finally, we would like to sincerely thank all institutional investors who gave their time to contribute to this survey.

1. Global AUM = USD 110 trillion: https://www.consulting.us/news/5332/asset-and-wealth-management-industry-to-grow-to-147-trillion-by-2025
2. Morningstar, Global assets in sustainable funds hit record high of USD 1.65trn: https://www.internationalinvestment.net/news/4026468/global-assets-sustainable-funds-hit-record-usd-65trn-morningstar

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.

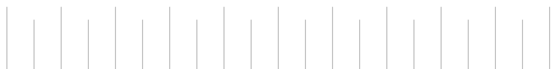
To enable year-over-year comparisons, a number of survey questions are repeated or follow similar themes. In addition, new questions are asked that reflect topical developments and themes.

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



GEOGRAPHICAL DISTRIBUTION

	2019	2020	**2021**
UK	37%	39%	**33%**
US	29%	27%	**17%**
Europe ex UK	17%	8%	**12%**
ROW*	17%	26%	**38%**

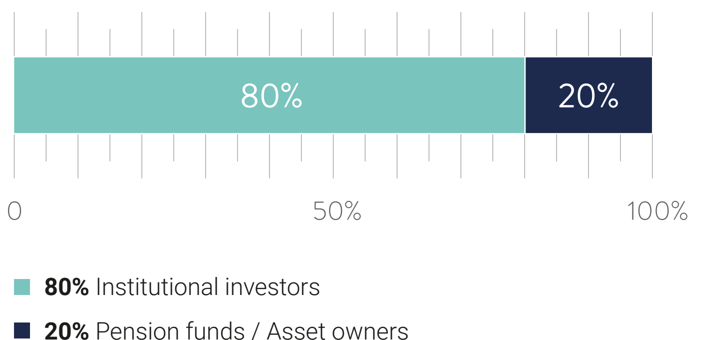
* Rest of the world including Australia & South Korea

ASSET SPLIT

AVERAGE PORTFOLIO SPLIT

7% of respondents did not disclose

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
- Remuneration and Voting
- ESG & Sustainability
- 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 support 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.

COMPANY ENGAGEMENT

> "The evidence reveals that investor efforts to engage companies on ESG-related risks and opportunities are associated with better shareholder returns."[1]
>
> Investor Influence Report, *CERES*

1. CERES, Investor Influence Report: **https://www.ceres.org/sites/default/files/reports/2019-04/Investor_Influence_report.pdf**

A. COMPANY ENGAGEMENT – ANALYSIS

CLICK HERE FOR OUR RECOMMENDATIONS

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

1. Directors' Duties in an Evolving Risk and Governance Landscape, Wachtell, Lipton Rosen & Katz: https://corpgov.law.harvard.edu/2019/09/19/directors-duties-in-an-evolving-risk-and-governance-landscape/
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 **96%** 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?

	Yes	No	Not Sure
Engaging	98%	2%	
Taking investments decisions	95%	5%	
Voting	85%	13%	2%

3. US SIF, https://www.ussif.org/blog_home.asp?Display=155

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

Link between ESG performance and financial performance

Legislation changes

Client focus

Civil society initiatives pressure

Strongly agree | Somewhat agree | Somewhat disagree | Strongly disagree | Not sure

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."[4]
>
> **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.

4. Harvard Business Review, The Investor Revolution: https://hbr.org/2019/05/the-investor-revolution

KEY FINDING 3

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

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."[5]
>
> **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.

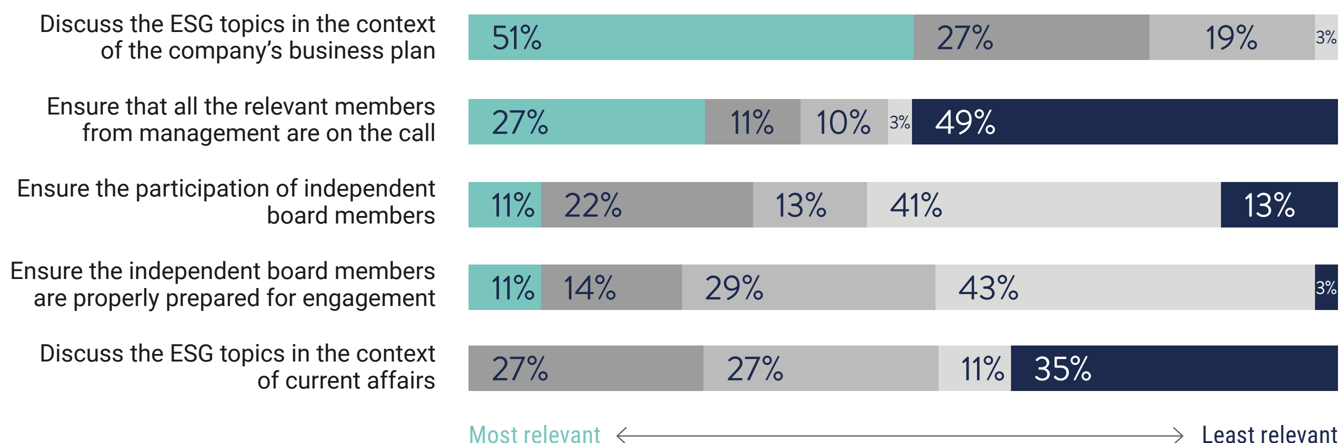
This is not surprising given that although COVID-19 started as a global health crisis, it has quickly turned into one of the worst economic crises we have faced in almost a century.

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?



5. The Rise of ESG Engagement, R. Johnson: https://www.ibanet.org/Article/NewDetailPreview.aspx?ArticleUid=c28b0cee-ff4b-460a-b5c4-e96fa5bbeeb6

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.

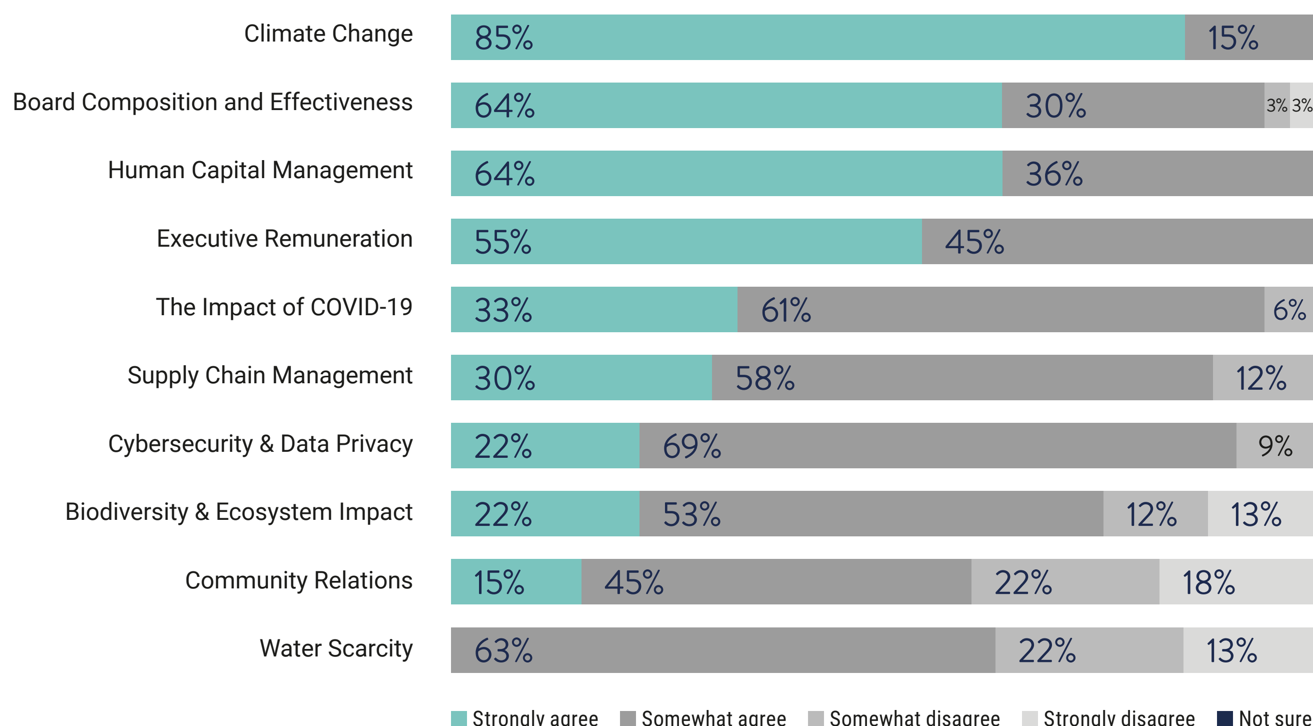
After climate, key issues prompting investors to engage with companies are Board Composition and Effectiveness (**64%**), Human Capital Management (**64%**), Water Scarcity (**63%**) and Executive Remuneration (**55%**). Other issues include Supply Change Management (**30%**), Cybersecurity and Data Privacy and Biodiversity and Ecosystem Impact 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."[6]
>
> *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?"



6. Directors' Duties in an Evolving Risk and Governance Landscape, Wachtell, Lipton Rosen & Katz: https://corpgov.law.harvard.edu/2019/09/19/directors-duties-in-an-evolving-risk-and-governance-landscape/

ESG & SUSTAINABILITY

> "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."[1]
>
> **Yngve Slyngstad,**
> CEO, *Norges Bank Investment Management*

1. TCFD, Supportive Quotes: **https://www.fsb-tcfd.org/supportive-quotes/**

B. ESG & SUSTAINABILITY – ANALYSIS

CLICK HERE FOR OUR RECOMMENDATIONS

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.

1. Larry Fink CEO Letter 2020: https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter
2. Larry Fink CEO Letter 2021: https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

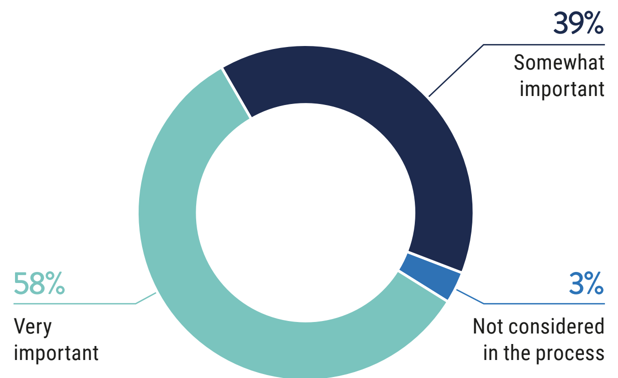
How important is climate change in your investment decision-making process?

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.



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.

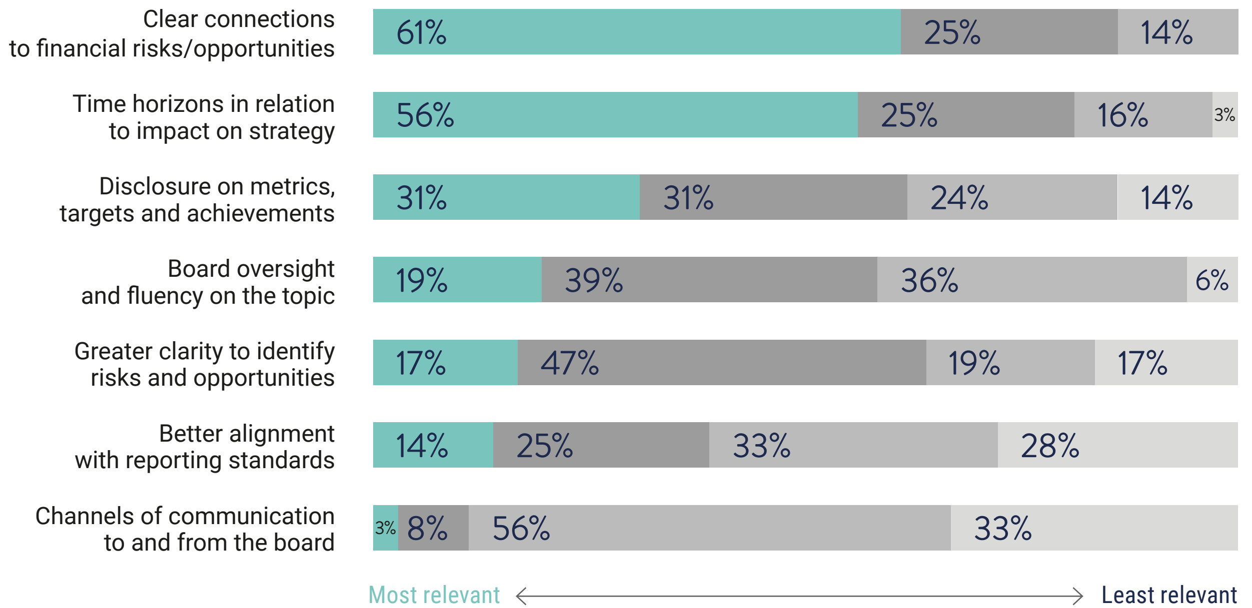
Most large asset managers and owners have built their own internal teams to conduct the analyses of ESG risks and opportunities for their investment and asset disposal strategies.

Do you review the climate-related disclosures of your portfolio companies?

> "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."[1]
>
> **Ban Ki-Moon**, Former Secretary-General of UN

1. Secretary-General's remarks at Climate Leaders Summit: https://www.un.org/sg/en/content/sg/statement/2014-04-11/secretary-generals-remarks-climate-leaders-summit

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



> "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.

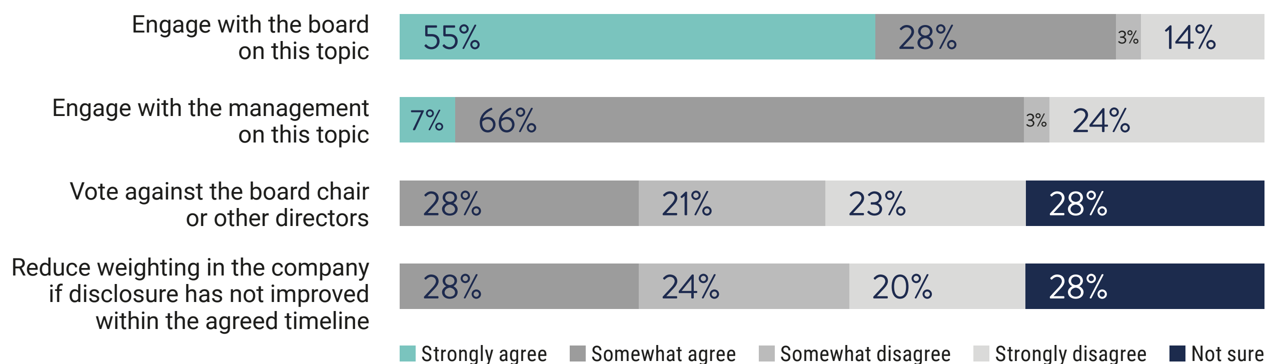
From our discussions with investors, the majority do not require more information, but rather want to be provided with better quality climate-related information. Specifically, **61%** of surveyed respondents are seeking improvements in climate-related disclosures that transparently show the clear links 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 ensure they do not contribute to climate change and ensuring physical risk resilience.

Do you consider that every company should disclose its "Corporate Purpose"?

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



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.

3. Purpose Governance, A New Role For Boards, GPC: https://corostrandberg.com/wp-content/uploads/2020/11/purpose-governance-2020-gpc-report.pdf

KEY FINDING 9

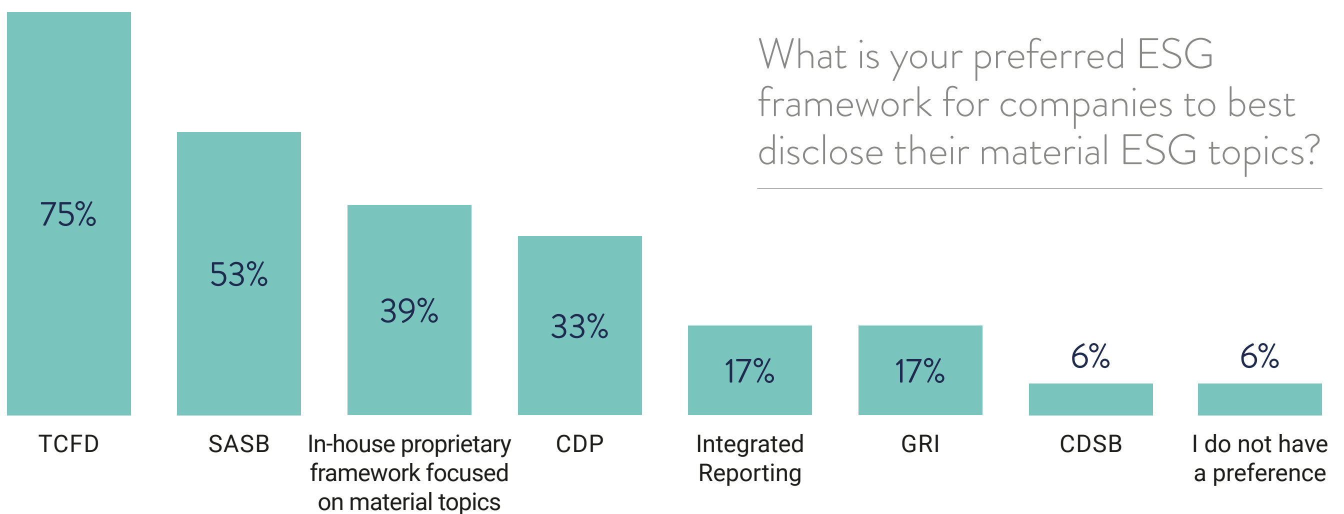
TCFD was overwhelmingly the most popular ESG reporting framework, followed by SASB and then in-house proprietary frameworks focused on material topics.

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.



> "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".

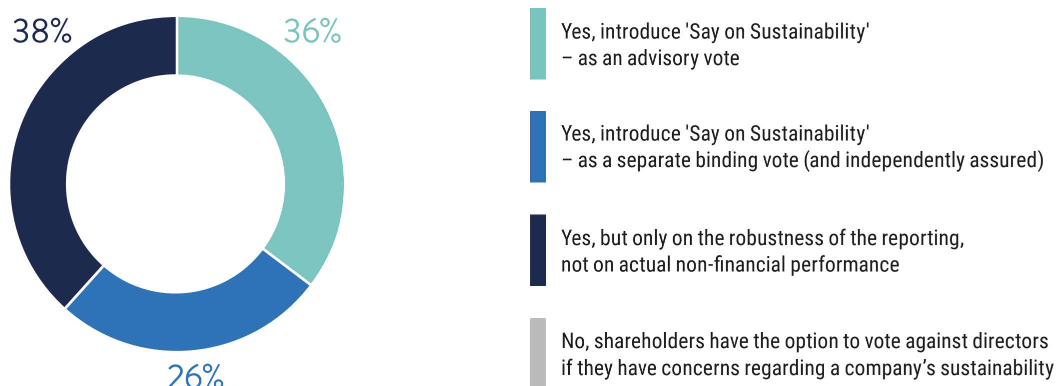
For example, a "Say on Climate" campaign has been sponsored by *The Children's Investment Fund Management (TCI)* and *The Children's Investment Fund Foundation (UK)*, and seeks to implement sustainable business practices around the globe by advocating for corporate climate action plans.

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 Global*[5]).

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?



4. WSJ, U.S. Companies Resist Activist Investor's Climate Campaign: https://www.wsj.com/articles/u-s-companies-resist-activist-investors-climate-campaign-11617102014
5. Say on Climate, Supporters: https://www.sayonclimate.org/supporters/

REMUNERATION & VOTING

"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

C. REMUNERATION & VOTING – ANALYSIS

CLICK HERE FOR OUR RECOMMENDATIONS

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*

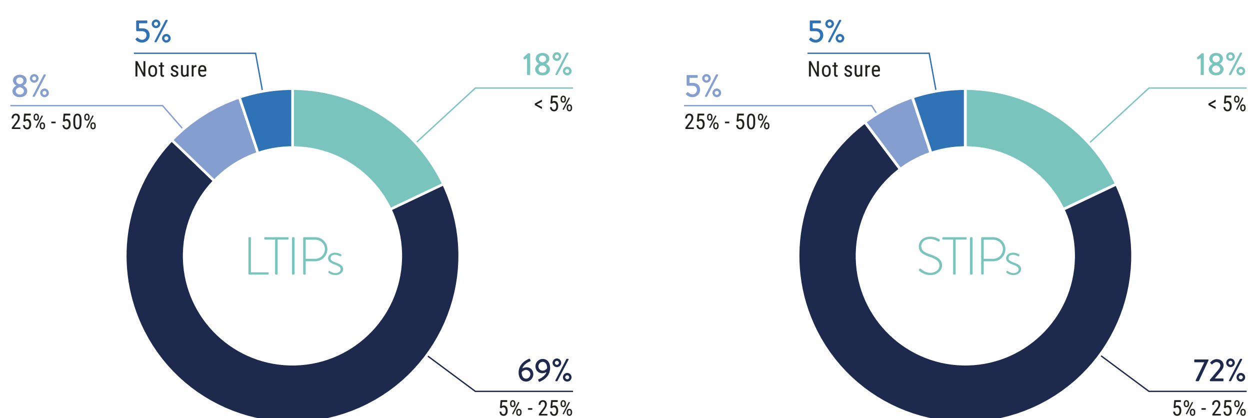
KEY FINDING 11

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?



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 LTI plans respectively.

Only **18%** of responders 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*.[1] Only **13%** of respondents favored a higher weight of ESG criteria than **25%** in long-term incentives (**10%** in the short-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.

1. Morrow Sodali, 2020 AGM Season Review, Australia: https://morrowsodali.com/insights/2020-agm-season-review-australia

KEY FINDING 13

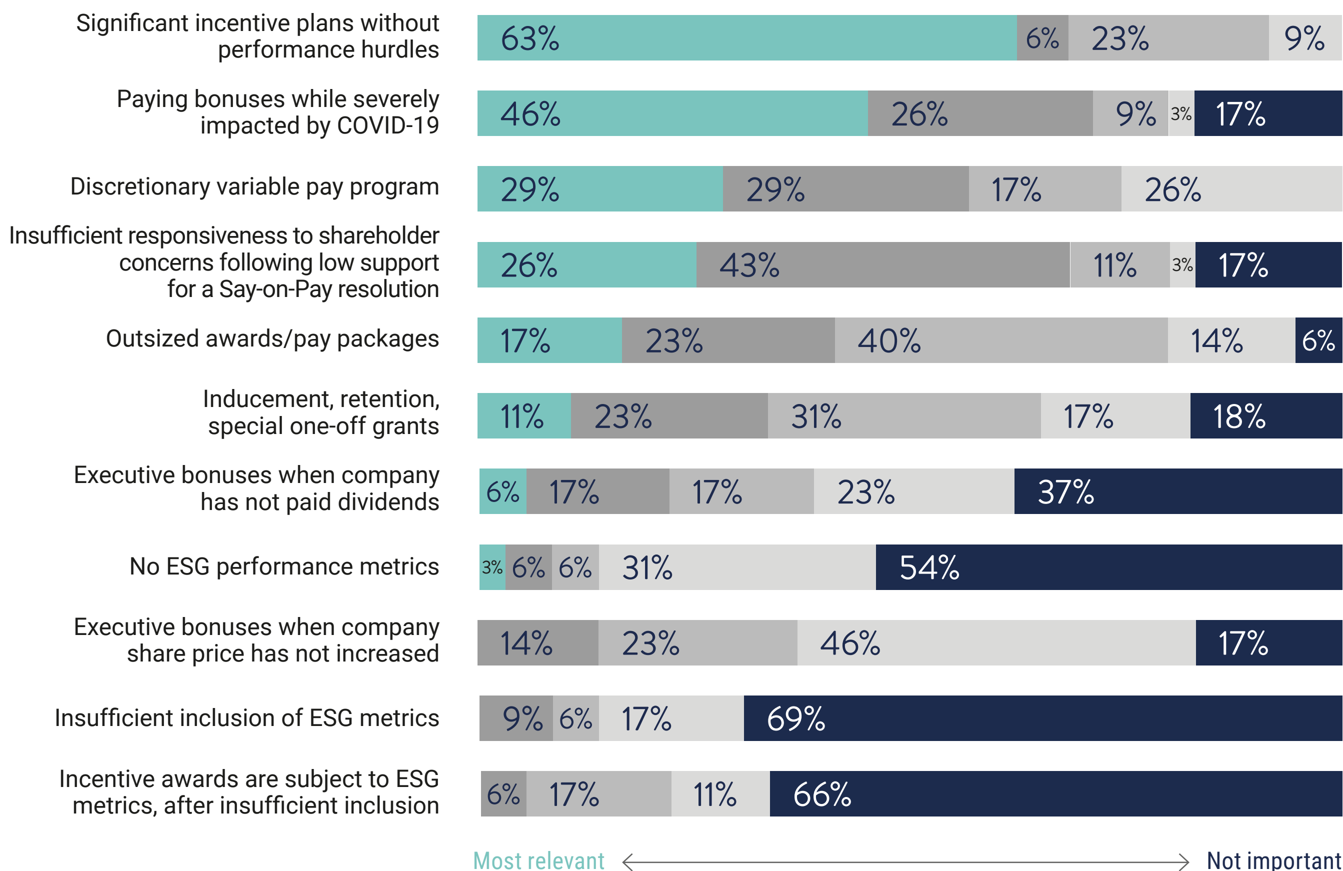
To avoid misalignment between pay and performance, companies should be wary of paying executive bonuses when severely impacted by COVID-19.

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?



2. Morrow Sodali, Institutional Investor Survey 2017: https://morrowsodali.com/news-events/articles/morrow-sodali-annual-institutional-investor-survey-2017
3. Morrow Sodali, Issues for Companies, 2020: https://morrowsodali.com/uploads/insights/attachments/880f0b9cf16b3e0747a1f018a4e6eebd.pdf

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.

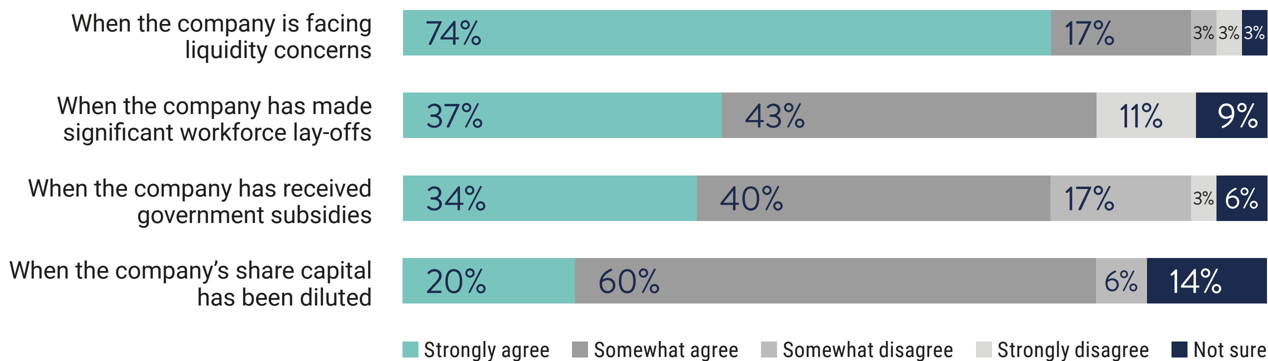
Similarly, companies applying for government aid, including employment related support programs such as *JobKeeper* subsidies in Australia, or companies that are heavily affected by COVID-19 are expected to refrain entirely from paying bonuses – where bonuses are paid under these circumstances then almost 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]

4. Morrow Sodali, 2020 AGM Season Review, Australia: https://morrowsodali.com/insights/2020-agm-season-review-australia
5. Institutional Shareholder Services (ISS): https://www.issgovernance.com/file/policy/active/americas/ISS-Policy-Guidance-for-Impacts-of-the-Coronavirus-Pandemic.pdf
Glass Lewis: https://www.glasslewis.com/coronavirus-covid-19-pandemic-governance-resources/
The Investment Association (IA): Executive Remuneration in UK listed companies, Shareholder Expectations during the COVID-19 Pandemic: https://www.theia.org/sites/default/files/2020-04/Remuneration%20and%20COVID-19.pdf
6. The Conference Board, Executive Compensation, What to consider in preparing for 2021: https://www.conference-board.org/blog/environmental-social-governance/executive_compensation

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



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 support the adoption of loyalty shares.

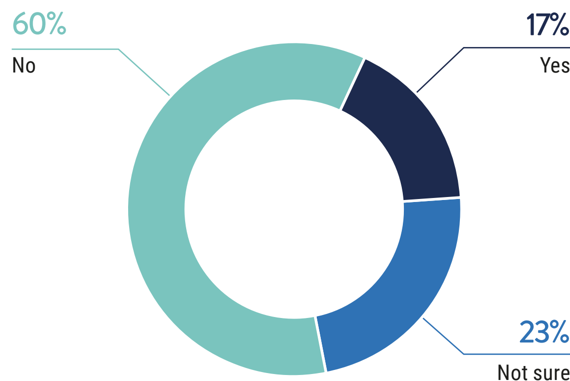
When transposing the *European Union Shareholder Rights Directive II (SRDII)*[8], some European countries took the opportunity to reconsider the introduction of loyalty shares, going beyond the content of the original *SRDII*. The Netherlands, Spain, Italy and France are major markets allowing the differentiation 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]

However, our survey results indicate that these concerns are not shared by the majority, with **60%** of surveyed investors supporting the adoption of loyalty shares.

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



7. World Economic Forum, Preparing for the Future of Work: https://www.weforum.org/projects/future-of-work
8. SRDII: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828
9. BlackRock, Key considerations in the debate on differentiated voting rights: https://www.blackrock.com/corporate/literature/whitepaper/blackrock-the-debate-on-differentiated-voting-rights.pdf

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]

1. Lazard's Shareholder Advisory Group: 2020 Review of Shareholder Activism: **https://www.lazard.com/media/451536/lazards-2020-review-of-shareholder-activism-vf.pdf**

D. SHAREHOLDER ACTIVISM – ANALYSIS

CLICK HERE FOR OUR RECOMMENDATIONS

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%**.[1]

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."

1. Activist Insight: Shareholder Activism | Q3 2020 YTD: https://www.activistinsight.com/q32020/

What are your preferred measures for influencing the boards of companies in which you invest?

Engagement at board level

Engagement with management

Collaboration with investors

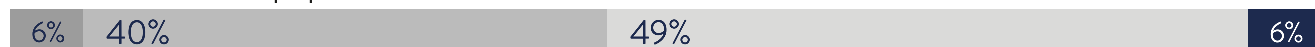
Individual votes against a director or directors

Supporting activism

The threat of divestment from the company

Public disclosure of vote decision before AGM

Put forward shareholder proposals



Public criticism

Most relevant ⟷ Not important

KEY FINDING 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.

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?

Poor strategic decisions

Weak governance policies and practices

Misallocation of capital

Credible activist business strategy

Lack of responsiveness to shareholder concerns

Sustainability or ESG-related issues

Significant and/or sustained compensation issues

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)."*[2] 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.

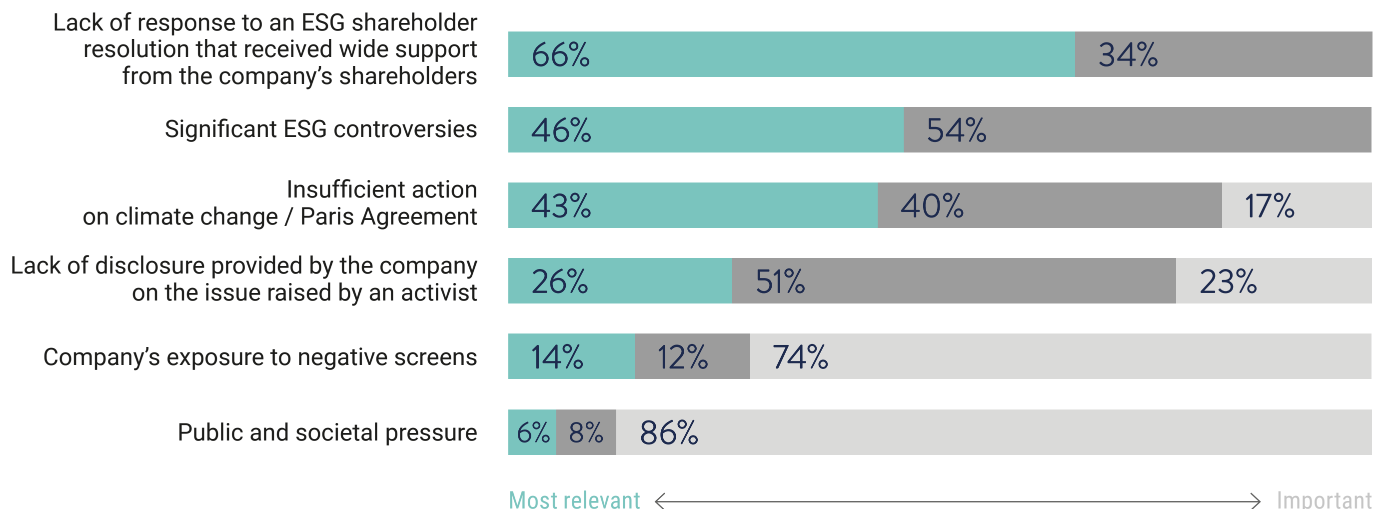
Interestingly, weak governance ranked at **49%**, down from **64%** last year and capital misallocation ranked at **37%** also down from **50%** last year.

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."

2. Lazard's Shareholder Advisory Group: 2020 Review of Shareholder Activism: https://www.lazard.com/media/451536/lazards-2020-review-of-shareholder-activism-vf.pdf

What ESG factors might lead you to support an activist?



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.[3] According to the *UN PRI Annual Report* in 2010 this number was USD 22 trillion in total assets, a staggering increase over 10 years.[4]

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."*[5]

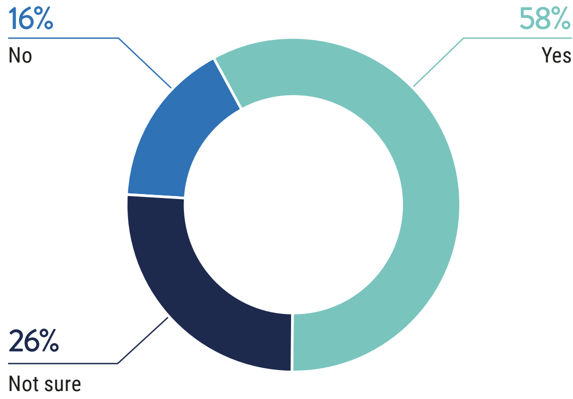
66% of respondents said they would support an activist if there is a lack of responsiveness to an ESG shareholder resolution that had received wide investor support. In last year's survey, **45%** of surveyed investors considered that supporting shareholder proposals was an effective method to influence 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 *Alphabet 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.

3. ESG Investing, From Tipping Point to Turning Point: https://www.ssga.com/library-content/pdfs/etf/spdr-esg-investing-tipping-point-to-turning-point.pdf
4. UNPRI, Annual Report 2010: https://www.unpri.org/about-the-pri/annual-report-2010/705.article
5. European Commission consultation on sustainable corporate governance, Letter to the European Commission, 03 February 2021: https://www.nbim.no/en/publications/consultations/2020/european-commission-consultation-on-sustainable-corporate-governance/

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



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** shareholders 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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CORPORATE GOVERNANCE ADVISORY SERVICES	BOARD SERVICES	PROXY CONTESTS, HOSTILE TAKEOVERS, SHAREHOLDER ACTIVISM AND SPECIAL SITUATIONS
CAPITAL MARKETS INTELLIGENCE SERVICES	PROXY SOLICITATION AND SHAREHOLDER MEETING SERVICES	M&A AND INFORMATION AGENT SERVICES
DEBT-RELATED SERVICES	RETAIL SERVICES AND ADDITIONAL CAPABILITIES	SERVICES FOR MUTUAL FUNDS AND ETFs - DI COSTA PARTNERS -

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