UK Asset Owner Stewardship Review 2023:

Understanding the Degree & Distribution of Asset Manager Voting Alignment

17th November 2023

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ACKNOWLEDGEMENTS

This review would not have been possible without the tireless support of UK Asset Owner Roundtable and especially its chair Faith Ward, Chief Responsible Investment Officer at Brunel Pension Partnership. Faith is most truly dedicated to responsible investment and the integration of climate change into investment decision making and the entire project was very much her idea, which I am very honoured to execute for her. Besides Faith, many other individuals of the roundtable put enormous energy into the project including but not limited to Stephen Barrie, Leanne Clements, Shipra Gupta, Adam Matthews, Tasha Pascal, Helen Price, Vaishnavi Ravishankar, Diandra Soobiah, and Oliver Wright. I am deeply grateful to all of them. More specifically, while the asset manager data analysed here is publicly available, the analysis would not have worked without the following asset owners kindly providing their information: Boarder to Coast Pensions Partnership, Brunel Pension Partnership, Church of England Pensions Board, LGPS Central, LPPI, Merseyside, NEST, PPF, Scottish Widows and USS. That being said, the willingness of asset managers to constructively participate in the dialogues is hugely important and hence my deepest gratitude is due to Amundi, Blackrock, Calvert, Federated Hermes, JP Morgan Asset Management, Lazard, LGIM, Royal London Asset Management, Schroders, SSGA, UBS and Vanguard. Furthermore, five service providers / research organisations substantially simplified our information processing for which I am very grateful. These were Glass Lewis, Insightia, Minerva, Stewardchamps, and TPI. Similarly, four asset managers deserve gratitude who were willing to participate but did not have sufficient holdings in oil & gas issuers during our sample period to allow for statistically meaningful results (Baillie Gifford, Cardano, Generation, WHEB). Rory Sullivan at his team at Chronos Sustainability moderated the roundtables at feedback event hosted October 12th by David Harris and his team at London Stock Exchange. I am very grateful to Rory, David, and their teams for the support. Last but not least, I am very grateful to excellent research support by the SDGLabs.ai team including but not limited to Hampus Adamsson, Vinay Balasubramanian, Shikha Chakraborty, Florian Faust, Inès Kompalitch and Sufiyan N-Yo. Financial support from Brunel Pension Partnership is kindly acknowledged. All remaining errors are my own. Views expressed in this report do not necessarily reflect the views of the EU Platform for Sustainable Finance, DG FISMA, or the European Commission.

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Executive Summary

Following the 2023 Annual General Meeting (AGM) voting season, members of the UK Asset Owner Roundtable chaired by Faith Ward posed the question for academic review[1]- were asset owners and asset managers (still) aligned in their voting? The aim of review was defined as the need to understand how asset owners' long-term interests have been served by their managers when exercising their stewardship and proxy voting at major Oil and Gas companies within the global universe of the Transition Pathway Initiative (TPI). Specifically, UK asset owners have been concerned that despite unequivocal warnings from the United Nations and the IPCC of the risks of delayed action on climate change, short-term interests of asset managers may be trumping long-term interests of pension funds. Delayed action on climate increases the chances of a disorderly climate transition and missing the goals of the Paris Agreement. This in turn increases the risks to pension funds' long-term financial sustainability and the ability of those funds to serve the interests of their members/beneficiaries.

To address these review questions, we study three separate datasets. First, we study the actual votes cast by asset managers from 2015 to 2023 for TPI universe oil and gas companies and correlate them with the equal weighted average of asset owner voting instructions as contributed by the ten participating asset owners. This method allows us to define alignment as "voting like a UK asset owner" rather than voting for or against any specific resolution type (e.g., climate). To set a realistic threshold, we define "misalignment" itself as the correlation of the least correlated individual asset owner to the equal weighted asset owner average, which is 60%. Empirically, we observe misalignment between UK asset owners and asset managers to varying degrees. Specifically, misalignment is more pronounced (i) in recent years, (ii) for shareholder resolutions than for

[1] https://www.linkedin.com/posts/faith-ward-51080210_climatechange-investment-oilandgas-activity-7064536020536446976-dSAW?utm_source=share&utm_medium=member_desktop

management resolutions, (iii) for issuers in the Americas compared with European issuers, (iv) and, on average, for non-participating than for participating asset managers.

Second, we reviewed the voting rationales provided by asset owners, asset managers aligned with asset owners and asset managers misaligned with asset owners. This review revealed three insights: (a) Only very selected asset managers publicly reason like asset owners. (b) Some asset managers somehow see voting and ESG engagement as mutually exclusive and appear to fear the loss of access to management if they voted against management. (c) Among asset managers, there appears to be a substantial divergence as to their interpretation of shareholders' and even society's interests. Some asset managers are aligned with asset owners, while others have fundamentally different views that may be consistent with short term commercial interest but do not reflect scientific evidence.

Third, we reviewed the ESG Engagement success across all relevant issuers, which revealed three different engagement process types. Type 1 is "textbook style" persistent, long duration, large scale engagement with considerable progress. Type 2 appears to be "quick fix style" engagements which are characterised by less consistency, shorter duration, and more mixed progress. Type 3 engagements are "jumping the bandwagon style" as they appear to target only firms that already have been improved by others.

While all three analyses indicate a varying degree of misalignment between UK Asset Owner roundtable long term interests and asset manager stewardship processes and the first analysis also offers a distribution of the degree of misalignment, none of these analyses inform causal reasons for the observed misalignment. Consequently, an event was held at London Stock Exchange on October 12th, 2023, to explore potential explanations for misalignment but also the next steps that will enhance our understanding further with the expected outcome of narrowing the gap.

Drawing on the quantitative and qualitative review findings as well as these discussion notes from the event, five potential explanations may jointly be able to explain the misalignment to a significant extent. The extent to which these reasons apply will need to be clarified in future research.

The first reason may be some extent of cultural/political misalignment. The participating asset owners are all UK based while most participating asset managers are not UK based, which may lead to a slight cultural misalignment. As a next step, we will extend the equal weighted average of asset owner voting instructions to include asset owners from other jurisdictions such as the EU or the US to investigate the extent to which cultural misalignment leads to stewardship misalignment.

The second reason may be some rather fundamental misunderstanding as to the relevance of stewardship and voting itself or the urgency of climate change as a key priority theme within stewardship. Such a misalignment could have led to insufficient resource allocation to stewardship which might explain misalignment due to a lack of attention. We can investigate this potential explanation by analysing if those managers which display patterns of resource stretched behaviour (e.g., a strong inclination to copy/paste from proxy advisors) are more misaligned than those which do not display such patterns.

The third reason may be a conceptual misunderstanding of fiduciary duty itself. Following the prudent man rule, asset managers should target a high or even optimized return per unit of risk ratio. Engagement, if successful, has been found to be significantly risk reducing and hence aligns very closely with fiduciary duty. If an asset manager or its portfolio managers, however, is largely or predominantly incentivised by return or alpha, then the risk aspect is either ignored (return) or limited to classic risk factors such as beta, or size (alpha) with no consideration given to climate change as a systematic risk factor. We can explore this reasoning by studying if those asset owner mandates which are more successful in return, alpha or return/risk ratio are more or less misaligned.

The fourth reason may be a conceptual disagreement as to the most effective combination of stewardship processes. From the voting rationale review, it is evident that some asset managers appear to see voting and engagement as mutually exclusive while others view it as much more complementary. If those asset managers which view voting and engagement as mutually exclusive or conflicting would be more misaligned, then this would explain the misalignment. If such managers would furthermore be more successful in engagement as observed in the ESG engagement review, then there would be a case for tolerating an extent of voting misalignment at the benefit of ESG engagement success. However, if such "either voting or ESG engagement" managers would be less successful in ESG engagement or display low quality stewardship disclosure overall, then this fourth reason would not be a valid explanation of managerial misalignment with their client's long-term interests.

The fifth reason may be more systematic in terms of stewardship governance, as asset managers and/or the financial firms owning them tend to have many more commercial relationships with the issuers than the asset owners whom the asset managers serve. For instance, an asset manager may manage the corporate pension fund or might be owned by a bank whose investment bankers have a strong fee track record with the issuer. Such financial conflicts of interest of asset managers with respect to issuers may be another reason why some asset managers are misaligned with asset owners. While we cannot study this with respect to all potential financial conflicts of interest without much better disclosure of such conflicts of interest as part of routine stewardship disclosures, standard academic databases allow us to investigate if those asset managers for whom a selection of conflicts of interest are known display a stronger misalignment with asset owners for those firms where they are conflicted.

While it is very unlikely that any one of these reasons applies exclusively, only further research will allow us to understand which reasons are valid and to what extent they jointly apply.

1 Introduction to Review Setting

Following the 2023 Annual General Meeting (AGM) voting season, members of the UK Asset Owner Roundtable chaired by Faith Ward posed the question for academic review[2] - were asset owners and asset managers (still) aligned in their voting? The aim of review was defined as the need to understand how well asset owners' long-term interests have been served by their managers when exercising their stewardship processes, particularly proxy voting. All Oil and Gas companies within the global universe of the Transition Pathway Initiative (TPI) were selected as sample companies for the review. The sample time frame was meant to reach from before the Paris Agreement to today, which resulted in all voting seasons from 2015 to 2023 being selected.

UK Asset Owner roundtable members were kindly asked to contribute voting instructions to allow for an equal weighted index of asset owner voting preference to be computed. Ten UK asset owners participated. These were Boarder to Coast Pensions Partnership, Brunel Pension Partnership, Church of England Pensions Board, LGPS Central, LPPI, Merseyside, NEST, PPF, Scottish Widows and USS. The asset owners in turn invited asset managers to participate, which sixteen asset managers in principle interested: Amundi, Baillie Gifford, Blackrock, Calvert, Cardano, Federated Hermes, Generation, JP Morgan Asset Management, Lazard, LGIM, Royal London Asset Management, Schroders, SSGA, UBS, Vanguard and WHEB. Four of these sixteen had insufficient holdings in the sample companies during the sample time frame, which resulted in a final sample of twelve. These twelve asset managers have been anonymised in the following.

With ten UK asset owners as basis, an equal weighted asset owner voting preference index (AOPI)[3] could be built that fairly reflects to which extent an individual asset manager's voting

[2] https://www.linkedin.com/posts/faith-ward-51080210_climatechange-investment-oilandgas-activity-7064536020536446976-dSAW?utm_source=share&utm_medium=member_desktop

[3] We code Vote For as 1, Abstain as 0 and Vote Against as -1 to compute correlations.

outcomes are aligned with asset owners while neither advocating to always vote for or against climate resolutions or for or against corporate management. In other words, a common challenge in analysing voting correlation is the identification of what constitutes a sensible vote, as for instance not every climate change mitigation related resolution may result, if approved, in a business decision which is within the long-term fiduciary interest of asset owners. We overcome this challenge here by defining a sensible vote from an asset owner perspective not on the language of the resolution or the preference of corporate management but simply based on the actual voting preferences of the asset owners themselves. This also allows us to study all management and shareholder resolutions filed at annual general meetings (AGM) instead of just a limited set with climate change related wording. The only constraint we impose is that at least three asset owners are required to have voiced a voting preference for the AOPI to be valid.

In the following, we will first review the main analysis on voting (misalignment) for shareholder resolution and all AGM resolutions before geographically subsampling by issuer. Subsequently, we review selected voting rationales for resolutions with asset owners and asset managers were particularly diverse. Eventually, we review ESG engagements patterns and their effectiveness. We conclude by reflecting on the reasons for misalignment insofar identified and suggesting routes for future research.

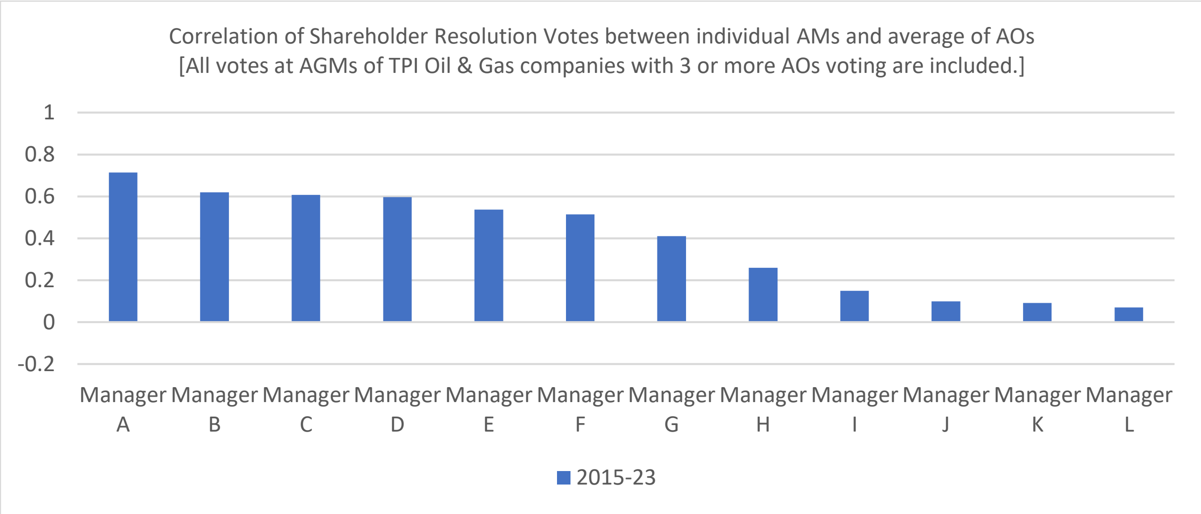
2 Analysis of Voting Misalignment

2.1 Analysis of Shareholder Resolutions

Having defined and computed the AOPI, we commence our analysis by studying the correlation between the votes of a single asset manager and the AOPI. At first, we look at shareholder resolutions over the entire sample period. As shown in Figure 1, correlations vary between about 70% for Manager A and about 7% for Manager L, whereby one third of the twelve managers exhibit a correlation below

20% and half of the asset managers correlate less than 50%.[4] These absolute correlation levels do not allow us to assess alignment, as we do not yet know to what extent asset owners would be correlated with themselves, but they are indicative of two insights. First, across all shareholder resolutions, no participating manager display a negative correlation, meaning that they would have been more likely to be on the opposite than on the same side of a vote when compared to asset owners. Second, with half the managers correlating less than 50%, some degree of misalignment appears likely.

Figure 1: Shareholder Resolution Voting Alignment of Asset Managers with AO average at Oil & Gas AGMs (2015-23)

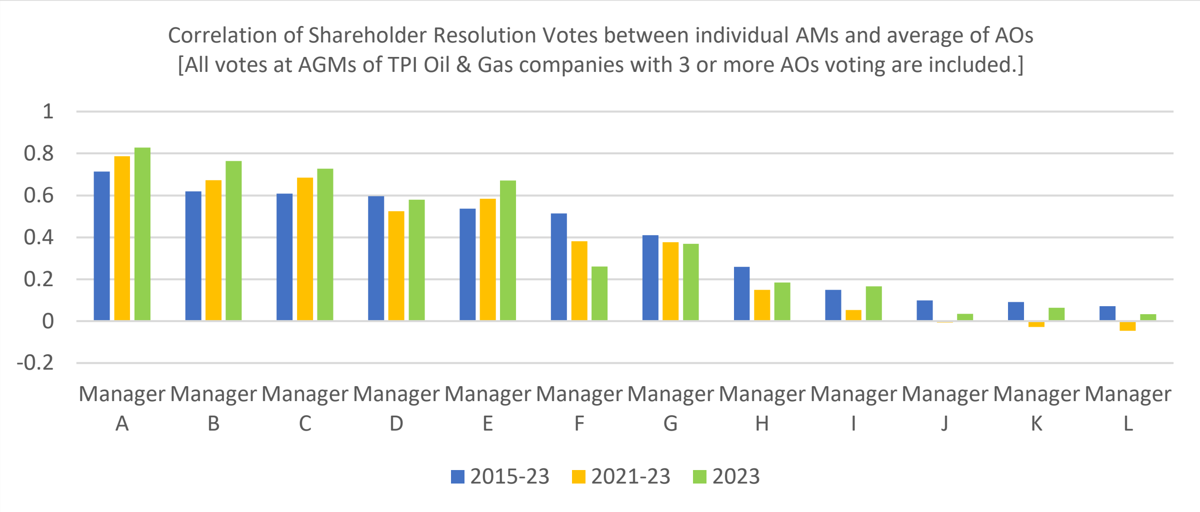


The rationale for the UK Asset Owner Stewardship Review included a sense though that voting alignment may have fallen over time. We investigate this concern by repeating the same analysis for the last three years (2021-23) and the last year. As visible in Figure 2, we indeed see a drop in alignment for six of the managers (F, G, H, J, K, L) with generally lower alignment numbers has risen for four already highly aligned managers (A, B, C, E). Hence, while on average alignment has dropped, a stronger divergence in views took place within the asset manager community, which could represent

[4] Please note that an earlier version of the research included an additional asset manager, which has resulted in previously shared asset manager identifiers changing between the versions. Relevant asset managers have been notified.

a shift between sustainability specialist and generalist asset managers and/or a reflection of the well-funded "anti-ESG" campaign.[5]

Figure 2: Shareholder Resolution Voting Alignment of Asset Managers with AO average at Oil & Gas AGMs across diverging time frames

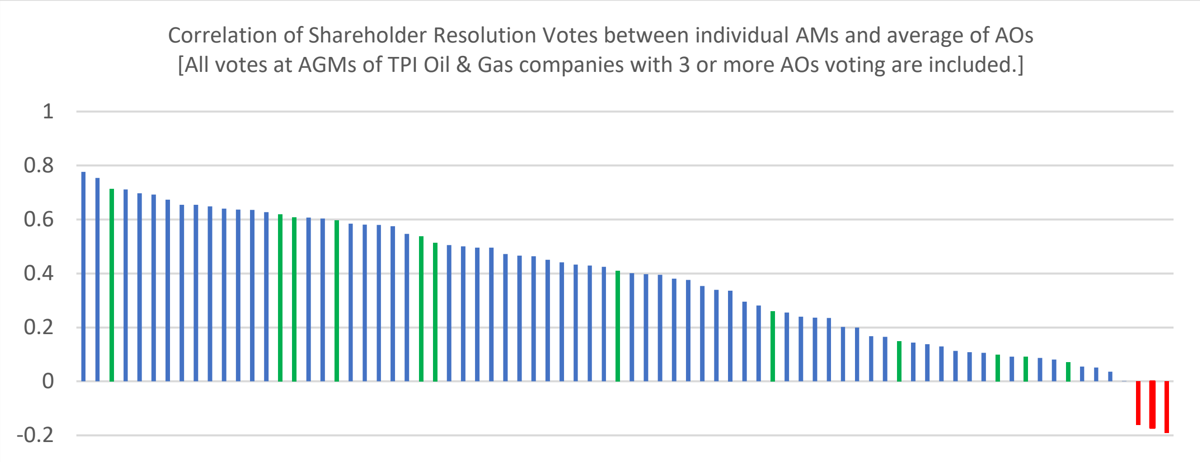


We are keenly aware, however, that the twelve managers in our sample volunteered to participate. Hence, it is quite likely that our sample is above average in its AOPI voting correlations. Hence, we gather data from Insightia and add any manager with 50 or more relevant votes to the analysis displayed in Figure 1. The result is displayed in Figure 3, whereby participating managers are highlighted in green. The first result is that among all managers, some are rather strongly negatively correlated to the AOPI. A correlation of above -20% for the least correlated asset managers and similarly negative for the next two lowest ranked asset managers implies that at least a few asset managers have systematic disagreements with asset owners. The second result is consistent with our expectation that participating asset managers would, on average, correlate higher than non-

[5] We define specialist asset managers as known to have majority of assets and considerable C-Suite resources focused on ESG investment strategies, whereas generalist asset managers are those asset managers where the C-Suite pays less attention as ESG is a considerable smaller part of their business model.

participating asset managers. That being said, the difference seems rather mild with many highly correlated asset managers not participating this year.

Figure 3: Shareholder Resolution Voting Alignment of participating Asset Managers and non-participating Asset Managers with AO average at Oil & Gas AGMs (2015-23)



2.2 Analysis of AGM Resolutions (Shareholder + Management)

Following our analysis of shareholder resolutions, we proceed to analysing all AGM resolutions, i.e., shareholder and management resolutions. Given that management resolutions (at least until fairly recently) have considerable majority for instance for board appointees we expect the tail of the distribution to lift. Indeed, we observe only two instead of four managers to trail the 20% mark. That being said, the number of managers correlating less than 50% has increased from six to nine when compared with analysing shareholder resolutions only, which indicates a more balanced distribution between asset managers.

We utilise the AGM resolution analysis to compute an absolute measure of misalignment by adding all asset owners individually to the analysis displayed in Figure 4. As Figure 5 shows, the least connected of the ten asset owners still has a correlation of about 60% with the AOPI, thereby suggesting that correlation values below 60% as less aligned than the asset owners among themselves and therefore constitute some level of misalignment.

Figure 4: AGM Voting Alignment of Asset Managers with AO average at Oil & Gas issuers (2015-23)

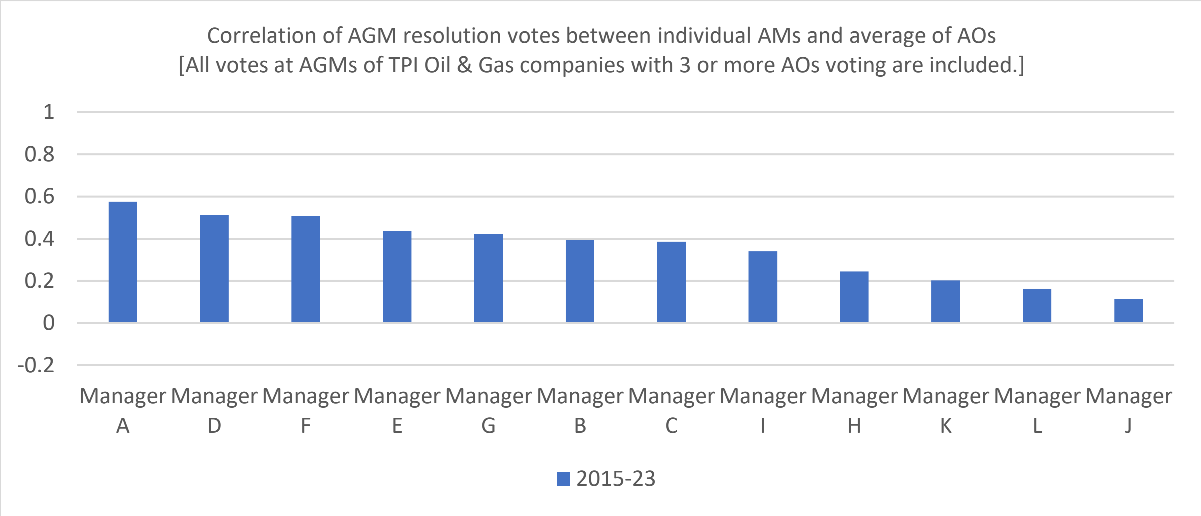
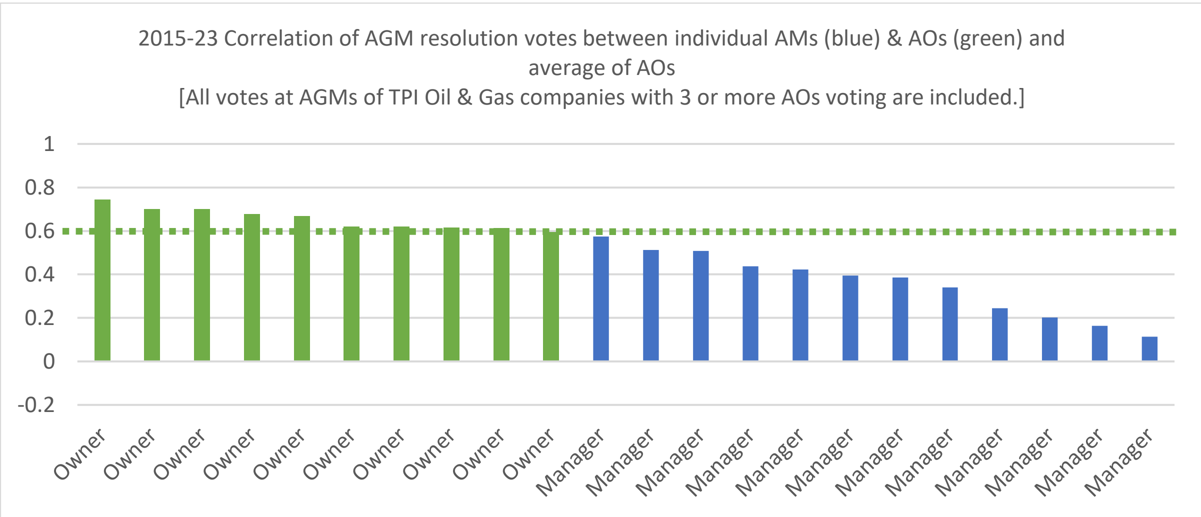
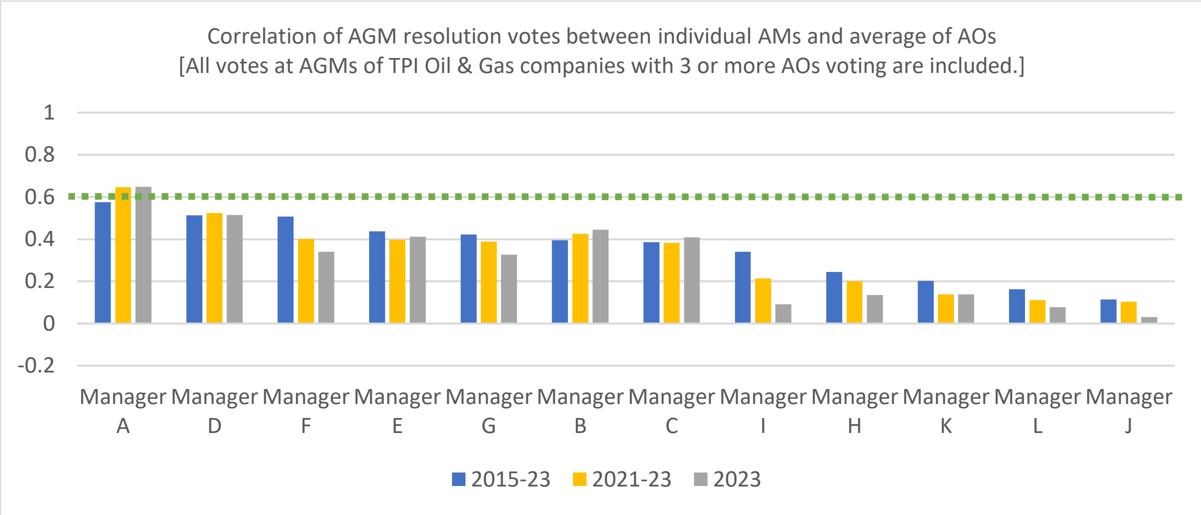


Figure 5: Comparison of AGM Voting Alignment of Asset Managers with Asset Owners vis a vis the AO average at Oil & Gas issuers (2015-23)



We use this 60% threshold now as absolute measure of alignment and indicate it in Figure 6 which studies AGM votes across the full sample, the last three years and last year. Based on this absolute alignment threshold, the best manager (i.e., A) was slightly misaligned over the full sample period but became aligned in recent years. Other managers (e.g., D, B, C) also reduce their distance of the alignment threshold, while some managers drastically fell in terms of alignment (e.g., F, I, L, J). This pattern again indicates a widening of misalignment between the least aligned asset managers and the asset owners as well as within the asset managers.

Figure 6: AGM Voting Alignment of Asset Managers with AO average at Oil & Gas issuers across diverging time frames.



2.3 Analysis of AGM Resolutions of European Issuers

With our absolute alignment threshold in mind, we subsample the TPI Oil & Gas issuers to look separately at European issuers as well as North and South American issuers. When looking at European issuers In Figure 7, we observe a significant uplift on the tail with all issuers correlating more than 30%. This reduction in misalignment maybe due to a great coherence of (political) views on ESG and in particular climate change mitigation in Europe.

When analysing the results across all sample periods for European issuers, we find that not only manager A but also manager B are essentially aligned in the last year, while managers D, E and C are not too far of the mark either. This suggests that some asset managers are developing a specialism in alignment with asset owner voting preferences. On the tail end of the distribution, however, we see a significant drop in alignment by managers F, G, J, I and K, which suggests that continuous review of alignment may well be necessary.

Figure 7: AGM Voting Alignment of Asset Managers with AO average at European Oil & Gas issuers (2015-23)

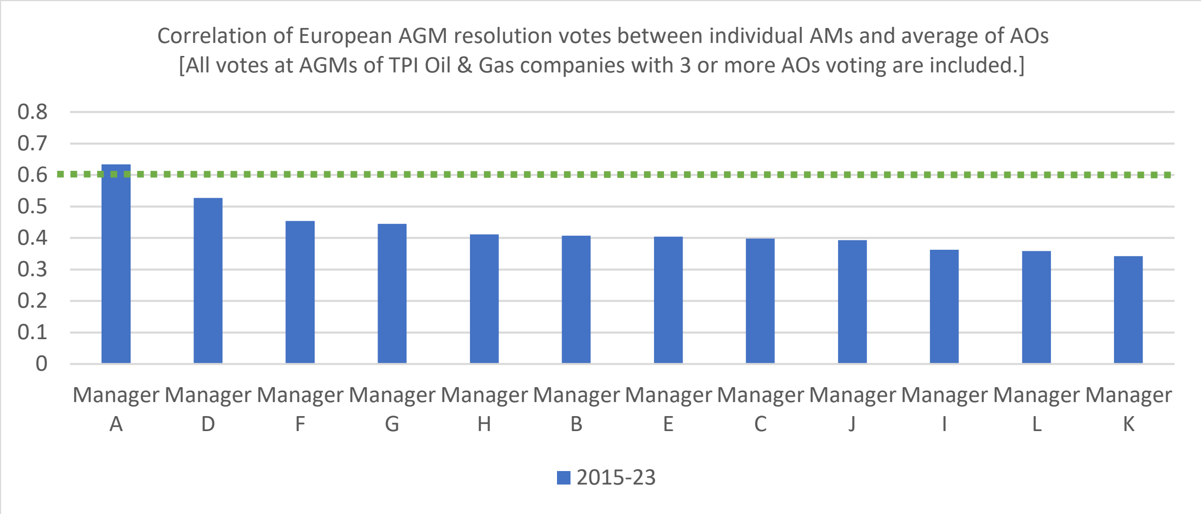
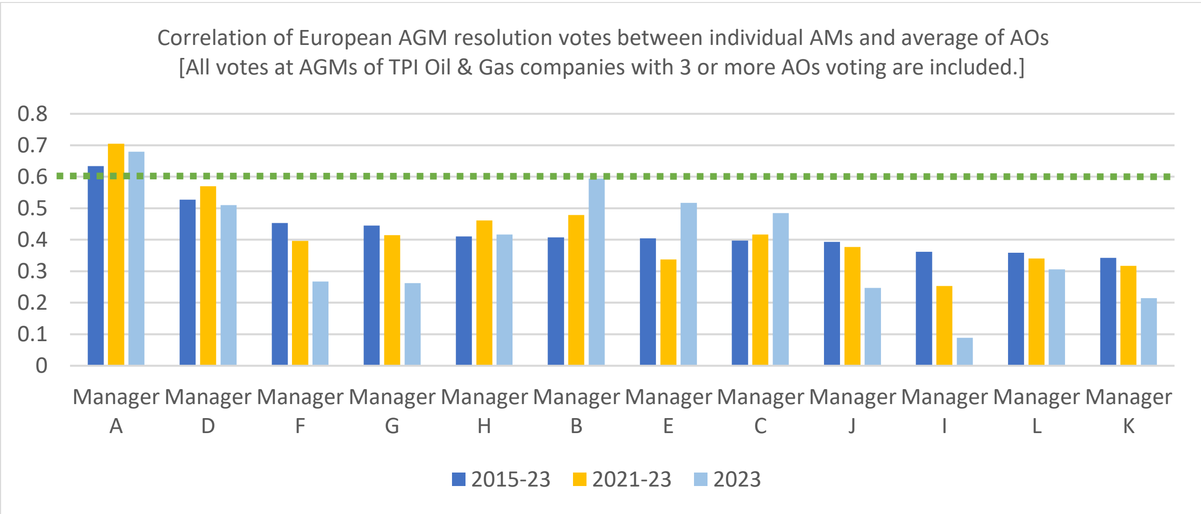


Figure 8: AGM Voting Alignment of Asset Managers with AO average at European Oil & Gas issuers across diverging time frames.



2.4 Analysis of AGM Resolutions of American Issuers

When looking at American issuers, we observe two stark contrasts. First, the alignment between the AOPI and the average asset manager is much lower than in Europe with the notable exception of manager C, which leads the field over the full sample period in the Americas whereas manager A has led in any other comparison. Second, there is a huge contrast within asset managers with seven managers displaying correlations above 30% and five displaying correlations below 5% of which four correlate negatively, down below -10% for managers L and J as shown in Figure 9. When including recent years in Figure 10, the negative correlations for these two managers reach nearly -20%. This indicates that for American issuers, there is not only a substantial *misalignment* between UK asset owners and several asset managers but with respect to at least two participating asset managers (i.e., those with substantially negative correlations), a fundamental *disagreement* appears as to what kind of AGM resolution is desirable at all.

Figure 9: AGM Voting Alignment of Asset Managers with AO average at Americas Oil & Gas issuers (2015-23)

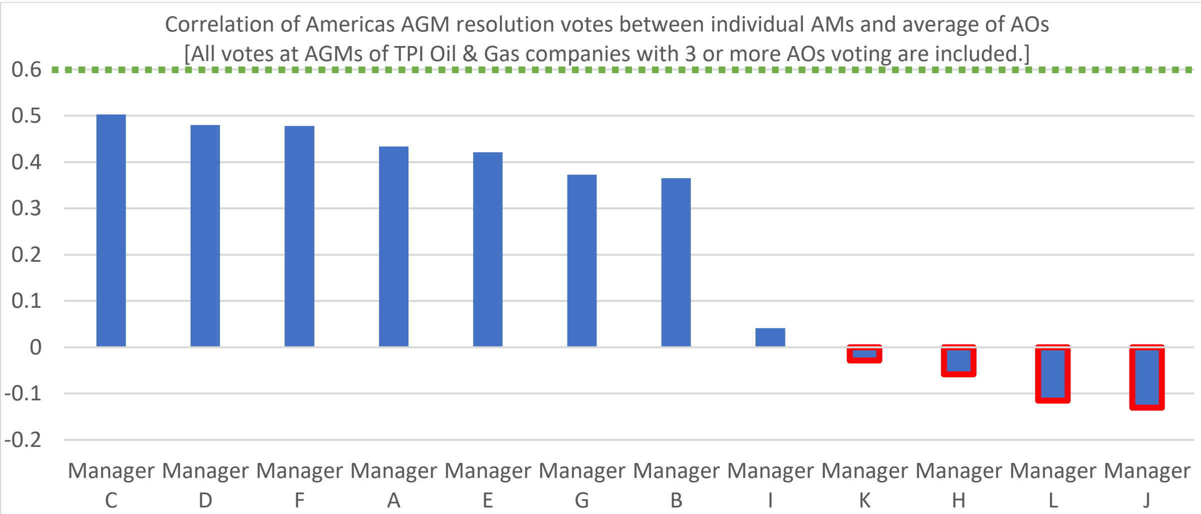
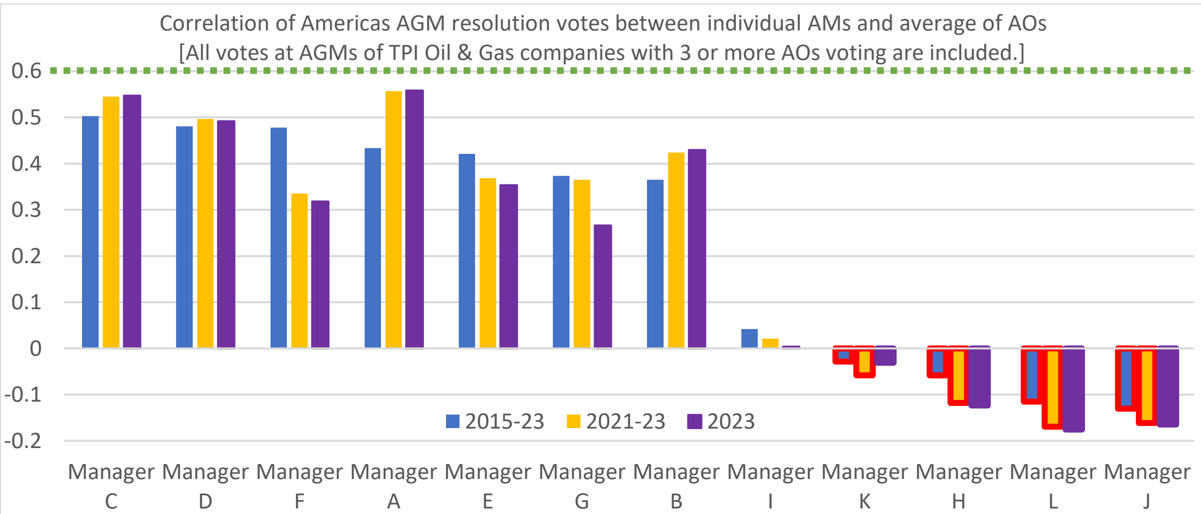


Figure 10: AGM Voting Alignment of Asset Managers with AO average at Americas Oil & Gas issuers across diverging time frames.



3 Analysis of Voting Rationales

To augment our analysis of voting misalignment, we investigate a selection of anonymised AGMs where votes demonstrate substantial disagreement between asset owners and the majority of asset managers as shown in Figure 11. Seven observations are noteworthy:

1. The participating asset managers are divided among themselves. While the majority of asset managers oppose the asset owners in these examples and instead side with corporate management, a minority of asset managers are aligned with the asset owners.
2. Some service providers offer institutional investors carefully worded, carefully balanced voting rationales, which weight the merits of both sides of the argument but eventually favour corporate management over asset owners (see first two rows). In this sense, asset manager misalignment may – to some extent – be outsourced.
3. Some managers have developed rather procedural standard responses such as “The request is either not clearly defined, too prescriptive, not in the purview of shareholders, or unduly constraining on the company”. Given that the standard response links four different potential voting rationales in an either/or structure, it essentially provides a voting rationale response which circumvents the request to provide one specific rationale. It might be worth reflecting if voting rationales could be phrased in a less opaque manner.
4. Other managers have understandings of climate science which appear to demonstrate divergence from science. One voting rationale against a climate proposal endorsed by 100% of the participating asset owners’ comments that “[w]e do not think that absolute scope 3 targets for 2030 suit shareholders or society.” While such targets might not suit near term

shareholder value, a strong value chain decarbonisation by 2030 is a central focus of the IPCC's 1.5-degree report.[6]

5. Multiple asset managers appear to conceive voting and engagement as conflicting or mutually exclusive activities as they, for instance, perceive "greater value in engaging with the company" rather than voting for a climate resolution endorsed by 100% of the participating asset owners. This is somewhat surprising as no large-scale evidence exists of conflicts between voting and engagement but maybe attributable to individual engagement tactics. It would be key for those asset managers which perceive significant conflict to make this rather explicit in their stewardship disclosure.
6. Some asset managers seem to diverge in their view of shareholder value drivers from other asset owners and other asset managers, as they argue in their vote 'against' that a climate proposal does not add shareholder value while other asset managers make the same argument for a vote 'for' the same climate proposal, whereby the latter is aligned with all participating asset owners. This could be due to different time scales in assessing shareholder value of different performance metrics. It would be crucial to explicitly define shareholder value and timing in stewardship reporting.
7. There maybe be a misunderstanding about the importance of risk reduction and prevention for fiduciary duty itself. Following the prudent man rule[7], asset managers should develop a process which aims to achieve a high return per unit of risk. Engagement, if successful, has been found to be significantly risk reducing and hence supportive of fiduciary duty.[8]

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[6] https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf
[7] See, for instance https://www.oecd.org/finance/private-pensions/2763540.pdf or https://crsreports.congress.gov/product/pdf/LSB/LSB10636
[8] https://academic.oup.com/rof/advance-article/doi/10.1093/rof/rfad034/7288195?searchresult=1

Figure 11: Review of voting rationales by various selected asset owners and asset managers compared to voting behaviour excluding omissions and abstentions.

Propo-nent	Proposal	AO Rationale	Aligned AM Rationale	Diverging AM Rationale	AO For	AO Against	AM For	AM Against
Share-holders	Approve Shareholder Resolution on Climate Change Targets	"Strengthens long term climate change strategy"	"We would welcome enhanced reporting of climate related risks and the adoption of greenhouse gas emissions reduction targets."	"Although we support the principles of this proposal, a vote AGAINST is applied as in our view, the wording of the proposal imposes inflexibility on the company that is challenging to justify at the present time, and could lead to unintended consequences ..."	100%	0%	18%	82%
Mana-gement	Approve the Transition Progress Update	"Vote Against Say on Climate proposals in case companies fail to meet the expectations in our climate strategy assessment. Further areas of improvement are; absolute targets in the intermediary term, alignment of the carbon intensity metric with the TPI methodology ..."	"Although, we acknowledge the considerable progress made in the climate plan and the 2021 delivery, we cannot fully support the plan in its current state as we cannot consider scope 3 targets and capex investments aligned with 1.5 degrees ..."	"A vote FOR the Energy Transition Progress update is warranted although it is not without concern because:- The Company's Scope 3 targets relate to intensity reduction, rather than absolute emission reduction"	0%	100%	62%	38%
Share-holders	Align Targets for Indirect Scope 3 Emissions with the Paris Climate Agreement	"We would welcome enhanced reporting of climate related risks and the adoption of greenhouse gas emissions reduction targets."	"While we do believe that there is greater value in engaging with the company to bring it in line with Paris targets, we view Scope 3 targets as critical to establish alignment with the aims of the Paris Agreement."	"We do not think that absolute scope 3 targets for 2030 suit shareholders or society." "The request is either not clearly defined, too prescriptive, not in the purview of shareholders, or unduly constraining on the company"	100%	0%	36%	64%
Share-holders	Shareholder Proposal Regarding Scope 3 GHG Target and Alignment with Paris Agreement	"Inadequate management of climate-related risks"	"Alignment of the existing 2030 reduction target covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement would aid shareholders"	"Prefer to directly engage with the company on the specific concern regarding their targets" "Company has amongst the most robust emissions targets of anyone. They have demonstrated Paris-alignment and are committed to TCFD reporting"	100%	0%	25%	75%
Share-holders	Request Company to Set and Publish Targets for Greenhouse Gas (GHG) Emissions	"Support for shareholder proposals that ask for targets, reporting and the development of strategies that are aligned with the Paris goals."	"We believe our vote for this item will maximise the value to our clients. We believe that the proposal is aligned to our net-zero ambitions"	"Proposal is not in shareholders' best interests." "Whilst we appreciate the aims of the proponent, we believe there is greater value in engaging with the company ..."	100%	0%	33%	66%
Share-holders	Shareholder Proposal Regarding Decommissioning Oil and Gas Infrastructure	"Disclosure requested will greatly support shareholder understanding of the company's climate risk and potential future liabilities."	"Information would allow shareholders and investors to better understand how the company is managing decommissioning obligations and how the company is managing related risks."	"Insufficient evidence at this time that proposal addresses a material risk to the company." "We do not believe this disclosure is in the best interest of shareholders."	100%	0%	38%	62%

4 Analysis of ESG Engagement Effectiveness

To analyse ESG engagements alongside voting for the participating asset managers, we pull the engagement data for the relevant asset managers from Stewardchamps[9] and match it with the company environmental assessments of TPI. Figure 12 displays our example KPI (i.e., TPI Oil & Gas company Management Quality Levels) over time from 2019 to 2023 for each of three anonymised asset managers in case the issue was targeted in the respective year. In case the issuer was not targeted according to the stewardship report of the asset manager, the cell in empty. Engagement which led to an increase in TPI Level are marked green. Engagements with mixed success are displayed as orange. Asset managers and issuers are anonymised as per review instructions.

The three displayed participating asset managers[10] display three types of patterns which one may consider stereotypical. Type 1 is "textbook style engagement". It is persistent, long in duration, large in scale and has considerable progress. Statistically, it targets about three quarters of the relevant companies and improves one third of them by one TPI level within five years. Type 2 appears less persistent and could be labelled as "quick fix style engagement". It is characterised by less consistency, shorter duration, and more mixed progress. While targeting nearly as many issuers as the manager in Type 1, only a small proportion are associated with improvements. Type 3 engagements are characterised by selecting engagement targets according to performance or possibly trajectory of performance. These engagements can be described as "jumping the bandwagon style" as they appear to target only firms that already have been improved otherwise.

[9] https://www.linkedin.com/company/stewardchamp/
[10] The participating asset managers in Figure 12 have been anonymised differently from the voting alignment analysis to protect confidentiality.

Figure 12: Manager ESG engagement targets displayed in relation to the development of an example KPI (i.e., TPI Oil & Gas company Management Quality Levels) over time from 2019 to 2023.

TPI Oil & Gas Company Number (#)	Manager X					Manager Y					Manager Z				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
1	3	3	4	3	3			4							
2	3	3	2	2	2	3	3								
3	4	4				4					4	4			
4															
5	4	4	4		4	4	4				4	4			4
6	4	4	4	3		4									
7	3	3	3												
8	4	4	4	4	4	4	4		4		4	4	4	4	
9															
10	4	4	4	4		4		4	4						
11	3	3	3	3											
12							3	3							
13	4	4	4	4	4	4	4		4				4	4	
14	1	1	1	1		1			1		1				
15	4	4	3			4		3	3						
16	3	3	3	2	2	3									
17	3	3	2	2		3			2						
18	3	3	3			3									
19	4	4	4			4									
20						3									
21	3	3	2	2		3									
22															
23	4	4	4												
24	4	4	4	4		4	4						4		
25						1									
26	4	4	4	4		4	4				4	4			
27						3	3	3							
28	4	4				4									
TPI #	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
29	4	4	2	2	2	4	4								
30	3	3	2	2	2	3									
31							3	3							
32	4	4	4	4		4									
33	4	4	4			4	4								
34	3	3	3					3							
35						2									
36	4	4	4	4	4										
37							4	4	3						
38	4	4	4	4		4						4	4		
39	3	3	3						1	1					
40	4	4	3	3	3	4	4				4	4			
41	4	4	4	4		4		4			4		4		
42	3	3	2	2	2	3									
43	4	4	4	4	4	4									
44	4	4	4			3									
45	3	3	3	3		3									
46	3	3	2	2	2	3									
47	3	3	3	3	3	3				3					
48	4	4	4	4	4	4	4				4				
49	3	3	3	2	2	3		3	2						
50	4	4	3	3	3	4	4			3	4				
51	3	3				3									
52						3	3								
53	4	4	4	4	3	4	4		4	3	4	4	4	4	
54															
55	3	3										3			
56	3	3	3			3									

Notes: Green / orange highlights represent improvements / mixed results of underlying issuers. Three selected participating managers anonymised.

5 Concluding reflection on potential causes of misalignment

All three analyses, in particular the voting record analysis itself, indicate a varying degree of misalignment between long term interests of UK asset owners and asset manager stewardship processes. The first analysis also offers a distribution of the degree of misalignment across subsamples, indicating much stronger misalignment for US issuers. Nevertheless, none of these analyses can at this stage, inform causal reasons for the observed misalignment.

Consequently, a roundtable style event was held at London Stock Exchange on October 12th, 2023, to discuss between participating asset owners and asset managers what may be the potential explanations for the misalignment and asset owner dissatisfaction with stewardship progress in general. Meeting notes written up by Rory Sullivan and his team at Chronos Sustainability emphasised the importance of clear communication and disclosure. Drawing on the quantitative and qualitative review findings above as well as these discussion notes, five potential explanations emerge which can (jointly) explain the misalignment to a significant extent. The extent to which these reasons apply will need to be clarified in future research.

The first reason may be some extent of cultural misalignment. The participating asset owners are all UK based while the majority of participating asset managers are multinational and often not UK based. To analyse this explanation in future research, we suggest as follows:

> *We aim to extend the equal weighted average of asset owner voting instructions to include asset owners from other jurisdictions such as the EU or the US to investigate the extent to which cultural misalignment leads to stewardship misalignment.*[11]

The second reason may be some rather fundamental misunderstanding as to (i) the relevance of stewardship and voting itself and/or (ii) the urgency of climate change as a key priority theme within stewardship. Such a misalignment could have led to insufficient resource allocation to stewardship teams which might explain misalignment due to a lack of attention or the quick fix style engagement pattern.[12] To analyse this explanation in future research, we suggest as follows:

> *We aim investigate stewardship resource insufficiencies by analysing if those managers which display patterns of resource stretched behaviour (e.g., a strong inclination to copy/paste from proxy advisors) are more misaligned than those which do not display such patterns.*

The third reason may be a conceptual misunderstanding of fiduciary duty itself. Following the prudent man rule[13], asset managers should develop a process which aims to achieve a high return per unit of risk. Engagement, if successful, has been found to be significantly risk reducing and hence aligns very

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[11] There was also a suggestion to at the roundtables to include smaller asset owners such as charities and endowments.

[12] Resource constraint asset managers are more likely to engage in "quick fix" engagement rather than "textbook" engagement simply as latter is more resource intense than former.

[13] See, for instance https://www.oecd.org/finance/private-pensions/2763540.pdf or https://crsreports.congress.gov/product/pdf/LSB/LSB10636

closely with fiduciary duty.[14] If an asset manager or its portfolio managers, however, is largely or predominantly incentivised by return or alpha, then the risk aspect is either ignored (return) or limited to classic risk factors such as beta and Fama-French factors (alpha) with no consideration given to climate change or any other sustainability aspect as a systematic risk factor. To analyse this explanation in future research, we suggest as follows:

> *We aim to explore this reasoning by studying if those asset owner mandates which are more successful in (i) return, (ii) alpha or (iii) return/risk ratio are more or less misaligned.*

The fourth reason may be a conceptual disagreement as to the most effective combination of stewardship processes. From the voting rationale review, it is evident that some asset managers appear to see voting and engagement as conflicting or even mutually exclusive while others view it as much more complementary. To analyse this explanation in future research, we suggest as follows:

> *We aim to explore analyse if those asset managers which view voting and engagement as mutually exclusive or conflicting would be more misaligned, then this would explain the misalignment. If such managers would furthermore be more successful in engagement as observed in the ESG engagement review, then there would be a case for tolerating an extent of voting misalignment at the benefit of ESG engagement success. However, if such "either voting or ESG engagement" managers would be less successful in ESG engagement or display low quality stewardship disclosure overall, then this fourth reason would not be a valid explanation of managerial misalignment with their client's long-term interests.*

The fifth reason may be more related to stewardship governance, as asset managers and/or the banks owning them tend to have many more commercial relationships with the issuers than the asset owners whom the asset managers serve. For instance, an asset manager may manage the corporate pension fund or might be owned by a bank whose investment bankers have a strong fee track record

[14] https://academic.oup.com/rof/advance-article/doi/10.1093/rof/rfad034/7288195

(expectation) with the issuer. Such financial conflicts of interest of asset managers with respect to issuers may be another reason why some asset managers are misaligned with asset owners. While we cannot study this with respect to all potential financial conflicts of interest without much better disclosure of such conflicts of interest as part of routine stewardship disclosures. Nevertheless, standard academic databases allow us to investigate a good proportion of circular financial relationships between financial services firms and non-financial issuers. Hence, to analyse this explanation in future research, we suggest as follows:

> *We aim to understand if those asset managers with known conflicts of interest display a stronger misalignment with asset owners in particular for those firms where they are conflicted.*

While it is very unlikely that any one of these reasons applies exclusively, only the further engagement and research highlighted in Figure 13 will allow us to understand which reasons are valid and to what extent they jointly apply.

Figure 13: Suggestions for further research and engagement

Immediate Engagement Activities	
1	Engage in bilateral meetings between individual asset owners and asset managers
2	Develop Stewardship Expectations to guide asset managers
Potential Future Research Activities	
3	Include owners from other jurisdictions
4	Understand if resource insufficiency drives misalignment
5	Explore if mandate design drives misalignment
6	Study interaction between voting and engagement with respect to potential conflicts
7	Consider conflicts of interest as explanation of misalignment