

# Stewardship Insights

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**The results of this year's Asset Manager Stewardship Assessment indicate that the relevance of stewardship is increasing, despite some setbacks.**

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**Furthermore, the issue of stewardship not only concerns asset managers – asset owners are also increasingly expected to fulfill their responsibilities.**

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Sarah Spirig, Investment Stewardship Specialist

## Investment stewardship

Stewardship as one of many sustainable investment approaches has gained increasing attention in recent years. Sometimes referred to as 'active ownership', it is often seen as a tool to achieve impact or exert influence in public markets. This is typically done through direct dialogues with invested companies (engagement) and through proxy voting. The growing importance of stewardship issues is driven by increased interest from key stakeholders, such as investors, regulators, and the emergence of various standards and initiatives in the field. As a result, the pressure has increased not only for asset managers, but also for asset owners like banks and pension funds to become active in stewardship.

Since the beginning of 2021, we at ZKB have intensified our focus on the topic of stewardship within the Manager Selection team. As in our standardised client mandate offering, we invest in fund solutions from various asset managers, a stewardship scorecard was developed to evaluate products at asset manager level. The aim of the stewardship assessment is to systematically review and evaluate asset managers' stewardship activities, both historically and against their peers. For the second consecutive year, we have used our ZKB stewardship scorecard to

review and evaluate a selection of asset managers. Currently, the assessment covers over 50 international fund providers.

The results of the stewardship analysis are then incorporated into the product selection process and have direct implications in the ESG due diligence process. The stewardship scores therefore serve as an extended selection criterion and form the foundation for our own engagement with the asset managers, through which, we seek to fulfil our responsibility by attempting to exert our influence. In order to do this, we enter into direct dialogue with the asset managers. The goal of these exchanges is to gain a better understanding of the various stewardship approaches, to discuss the results of our analysis and ultimately to initiate and request improvements.

## ZKB stewardship scorecard

The stewardship scorecard has been developed as a part of the ESG due diligence process for asset managers in order to create a foundation for a dialogue on the topic. The assessment is done with three criteria:

**Transparency and Credibility:** This criterion examines whether the asset manager has adopted stewardship processes and reporting schemes. In addition, memberships in initiatives and application of standards are evaluated.

**Voting:** This dimension primarily includes the exercise of voting rights, focusing on ESG shareholder proposals as well as specifically selected shareholder and management resolutions. Third-party research and rankings regarding proxy voting are considered too.

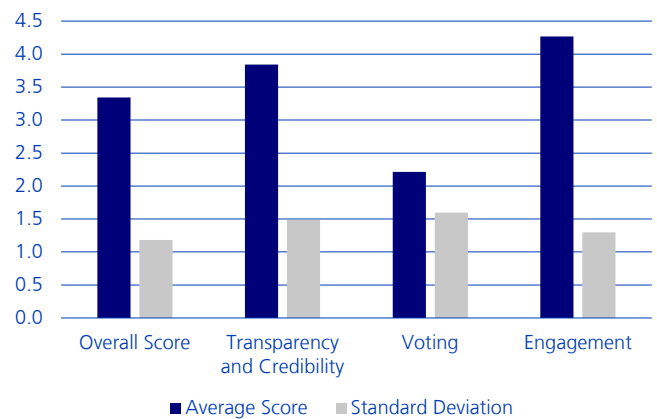
**Engagement:** The engagement assessment primarily examines the engagement guidelines and processes. These should comply with recognized best practice guidelines. Additionally, specific engagement case studies are assessed for their quality.

Combined, the three different assessment criteria include more than 20 indicators, which are evaluated based on publicly available information (stewardship reports and policies). A score of 0-6 (0 = poor, 6 = excellent) can be achieved for each of the three dimensions. The overall score is a combination of the three sub-criteria recalculated according to a specific weighting scheme. The selection of these indicators is based on best practice guidelines. Following the assessment, we conduct selected dialogues on the topic of stewardship with asset managers. These exchanges serve to validate the score achieved in the assessment and to improve the understanding of the stewardship approach. But most importantly, we use the dialogue as a feedback conversation to discuss the results of the analysis and initiate an engagement with the asset managers from our side. The prioritization of our dialogues is however not solely based on the overall ranking, but also depends on our exposure and allocation of our client's assets.

On the other hand, the proxy voting topic still provides room for improvement. Supporting the above statement, the smallest variation in scores is observed in the engagement dimension, while the largest standard deviation measured is concerning the voting behavior. Based on these initial results, the criteria of voting is looked at more detailed in further statements.

**Chart 1: The stewardship scores vary amongst and within the three assessment dimensions**

Average stewardship scores and standard deviation



Sources: Zürcher Kantonalbank

## Results of this year's stewardship analysis

**Asset managers generally achieve the highest score in the engagement criteria, while the largest variations are observed in their voting behavior**

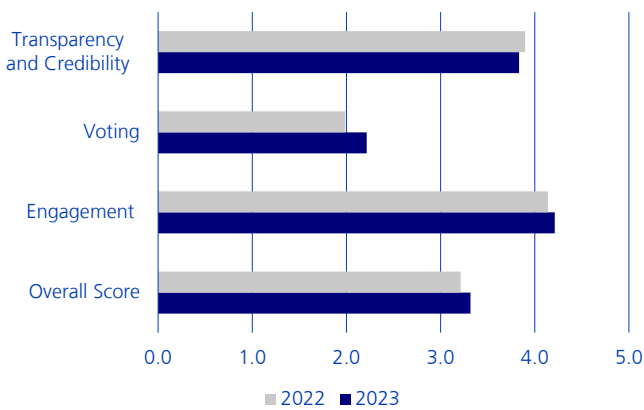
This year's analysis on asset managers' 2023 stewardship data and activities revealed that the asset managers are generally most advanced in their engagement efforts.

**The historical comparison highlights different development directions within the three assessment categories, yet indicates an overall improvement**

The numbers of this year's analysis show a slight improvement in the voting and engagement scores, positively impacting the overall stewardship score. This improvement is attributed to better processes and increased disclosure of various data points. Specific examples include engagement case studies and additional data points related to voting behavior. On the downside, the score in the credibility and transparency dimension declined, partly associated with the exits of several US managers from collaborative initiatives (particularly 'ClimateAction 100+'). In general, however, we observed that reporting concerning investor initiatives is also becoming increasingly transparent.

**Chart 2: The overall stewardship score improved slightly compared to last year**

Historical development of the stewardship scores



Sources: Zürcher Kantonalbank

**Increasingly detailed disclosure positively impacts the development of the voting score**

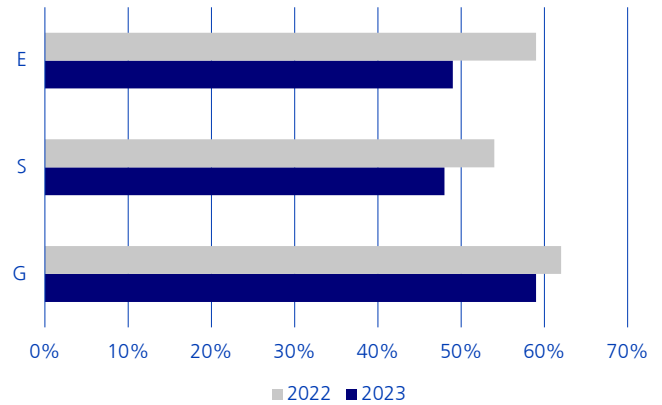
In particular, it was the disclosure of ESG shareholder proposal support quotas that showed the most significant impact on the positive development of the voting score. While public data on shareholder proposal support quotas was only available in 43% of cases in 2022, this rate increased to 59% in 2023, positively affecting the voting score. On the contrary, we observed a decrease in support for these ESG shareholder resolutions, which in turn has a negative impact on our voting score. Nevertheless, the increased disclosure currently outweighs the declining support in the overall development of the voting score.

**Support quotas for ESG-related shareholder proposals are declining, particularly for environmental topics**

We observe the greatest differences in scores on ESG shareholder resolution support quotas within the voting dimension. On average, these quotas are declining regardless of the topic, with the most rapid decline concerning environmental topics. More steady support quotas are seen in voting topics related to corporate governance. The declining ESG shareholder proposal support quotas are most evident in the US. In contrast, European asset managers' rates do not decline as significantly compared to the previous year.

**Chart 3: ESG shareholder proposal support quotas drop**

Percentage of ESG shareholder proposal support



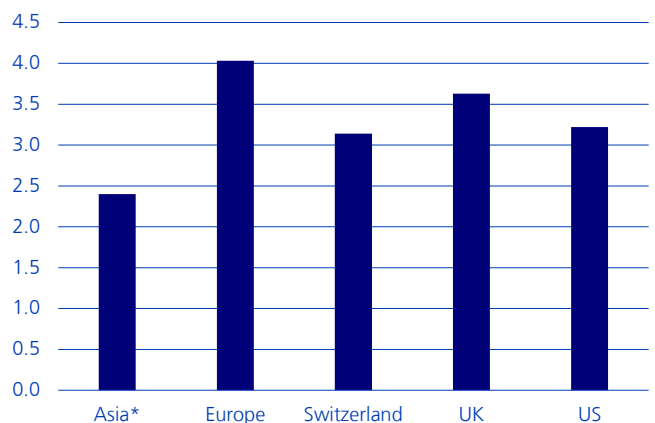
Sources: Zürcher Kantonalbank

**The stewardship scores reveal geographical differences**

According to our assessment, European asset managers clearly lead the stewardship ranking, followed by asset managers from the UK. Switzerland and the US have similar overall scores, despite clear differences among the three criteria. US managers often perform well in the areas of engagement and transparency but report significantly lower support quotas for ESG shareholder proposals, resulting in a lower voting score. For the other regions the differences between the three sub-scores are not as pronounced.

**Chart 4: European asset managers lead the stewardship ranking**

Average stewardship score by region



\*Sample size not representative

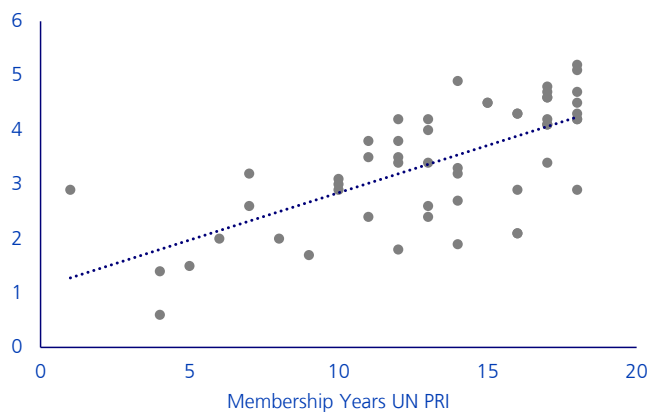
Sources: Zürcher Kantonalbank

### There is a positive correlation between asset managers' long-term sustainability commitment and the overall stewardship score

The longer an asset manager has been supporting the UN PRI (Principles for Responsible Investing) Initiative, the higher the stewardship score generally is, according to our observation. This suggests that memberships in initiatives and the resulting commitments positively impact the quality of stewardship activities. It also shows that asset managers who adopted sustainability considerations early on are still at the forefront with their responsible investment approaches when looking at stewardship.

#### Chart 5: Long-term sustainability commitment positively correlates with the stewardship score

Correlation between the membership years in the UN PRI initiative and the overall stewardship score



Sources: Zürcher Kantonalbank

#### Further insights into the data and dialogues reveal industry developments

The analysis revealed a positive growth trend in stewardship resources at asset managers. In addition, stewardship activities are increasingly being integrated and embedded into the investment processes. The engagement topic of climate, followed by biodiversity, continues to be of high priority, despite the setbacks of environmental topics on the voting side. Asset managers are gradually focusing their engagement activities accordingly. However, governance issues still account for the majority of engagements and voting decisions, as they are often

more closely linked to the traditional risk analysis of companies. Despite the declining support of ESG shareholder resolutions, voting as a stewardship instrument is becoming increasingly important and is often used as an escalation tool in different stages of engagements. For example, votes against the management of a company are used to signal dissatisfaction in relation to a specific, sometimes unrelated, topic.

#### But given all these findings, what constitutes best practice stewardship?

During our analysis and dialogues with asset managers, we identified several best practice stewardship approaches. Some of them are for example:

- **Combination of direct and collaborative engagement:** Utilizing both direct and collaborative engagement is generally recommendable, as these approaches complement each other. Collaborative engagement is beneficial for reaching companies in markets that are difficult to access, while direct engagement allows addressing more company specific issues.
- **Voting as an engagement tool:** The two stewardship approaches, voting and engagement, can be used together to enforce each other for increased influence on a firm. Voting can initiate an engagement, escalate an ongoing engagement, or signal satisfaction or dissatisfaction with an engagement progress or outcome.
- **Public voting rationales:** Making voting rationales publicly available is beneficial, as it helps other parties and stakeholders understand the reasoning behind specific voting decisions or unexpected voting outcomes and avoids misunderstandings.
- **Utilization of top-down and bottom-up approaches:** Combining top-down priority topics with individual bottom-up approaches is considered advantageous. This allows addressing strategically important topics for investors without neglecting sector- or company specific issues.
- **Clear objectives and communication:** Setting and pursuing clear and if possible measurable objectives by requesting a specific desired outcome of an engagement is beneficial. This allows progress to be appropriately documented and measured, making escalation processes more efficient.
- **Stewardship in passive instruments:** Engagement and voting should also be applied to companies invested

in through passive instruments. This can be achieved, for example, by working together with the analysts of active strategies or through collaborative investor initiatives.

### **Stewardship outlook**

The importance of stewardship among asset managers has grown in recent years due to increasing stakeholder interest. Stewardship reporting is becoming more comprehensive, and the processes around it are developing in a professional and institutionalized manner. However, the topic is not only concerning asset managers, asset owners are also increasingly recognizing their responsibility when selecting products and are starting to exert their influence. However, despite the increasing amount of initiatives and standardization observed in the industry, combined with improved data disclosure and the development of dedicated resources in the stewardship area, the ESG backlash in the US is noticeable - especially in voting results.

In spite of these setbacks, we still expect stewardship as a sustainable investing approach to become more important for asset managers over the next few years. Therefore, transparency and disclosure is expected to increase across the industry. For asset owners and institutional investors, it is anticipated that they will increasingly address the issue and take stewardship responsibility upon themselves. The stewardship topic is continuing to develop rapidly, with new approaches, such as the transfer of voting rights to the end investor (pass through voting), already emerging among some asset managers. With the introduction of new industry standards and best practice approaches, our annual stewardship assessment will be continuously updated to offer asset managers targeted feedback, enabling us to effectively engage on relevant topics.

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