December 2023

Rules of Engagement

Introducing a standardized framework for escalating engagement with companies

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Executive summary

The world today faces many systemic threats. Climate change is making dangerous heat waves and fires more common and intense. The biodiversity crisis threatens global food security. Deepening inequalities put social stability at risk, and people's health is limited by poor diets, air quality and housing. These are serious dangers to both people and planet. Asset managers have a key responsibility to reduce these risks and mitigate their impacts, therefore protecting the long-term interests of their clients. One of the ways they can do this is by engaging with their portfolio companies.

Asset managers often cite the value and quality of their engagement with companies on environmental and social issues, with common reference to the use of escalation tools. However, disclosure on the efficacy of that engagement is limited, inconsistent and difficult to measure. Asset managers are under-utilising the escalation tools available to them in the context of the urgency with which systemic threats must be addressed. There is much more that asset managers can do to strengthen their engagement with companies by applying the weight of consequence through escalation.

ShareAction is introducing the concept of a standardised **escalation framework** to facilitate the application of escalation tools with companies through corporate debt and listed equity.[1] The **escalation framework** comprises:

- The **escalation toolkit**, which groups different escalation tools into five categories of increasing strength;
- The **escalation pathway**, which sets out how the asset manager will apply and progress through the escalation toolkit in a timely manner.

We also include expectations on **resourcing** and **reporting** on the escalation framework.

Summary of recommendations

- **Recommendation #1:** Publish a policy that contains an escalation toolkit which progresses in strength, applies to corporate debt and listed equity holdings, and details how companies are selected for escalation
- **Recommendation #2:** Publish sectoral expectations on core environmental and social factors, with time-bound milestones
- **Recommendation #3:** Establish the anticipated pace at which asset managers will apply escalation if investee companies miss milestones — and then implement this
- **Recommendation #4:** Measure and report comprehensively on the use of the escalation framework
- **Recommendation #5:** Ensure teams with escalation responsibilities are resourced appropriately and the framework is fully integrated into the investment and monitoring process

[1] We recognise that the scope of good stewardship and escalation methods extend beyond corporate debt and listed equity. For instance, bondholders have engagement access to sovereign and supra-national borrowers. Limited partners in private equity funds can engage the general partner to advocate for good stewardship of portfolio companies. Asset managers should engage with policymakers to ensure rules and incentives support good stewardship. However, because the methods of engaging and levers of influence in these instances can be different to directly engaging and influencing companies, we have not included them in the scope of this paper.

Glossary of terms used in this paper[2]

Stewardship: The UK Stewardship Code defines this as the "*responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society*". [3]

Engagement: the Financial Reporting Council (FRC) defines engagement as "proactive interactions aimed at accomplishing a specific objective with an issuer or group of issuers."[4] ShareAction does not consider standard due diligence and monitoring activities (such as attending earnings calls or regular meetings aimed at information gathering and relationship building) as engagement.	**Collaborative engagement:** defined in the UK Stewardship code as "collaboration with other investors to engage an issuer to achieve a specific change; or working as part of a coalition of wider stakeholders to engage on a thematic issue". [5]	**Capital allocation:** the process of making, sizing and changing over time investments in companies or assets.

Escalation: the intensification of engagement activities, following an insufficient response to concerns raised. ShareAction's view is that escalating engagement involves the deployment of additional, more forceful actions, such as requisitioning shareholder proposals.

[2] These definitions are based, in part, on the UK Stewardship Code, which we believe provides a good fundamental understanding of the terms used. We have added further detail to clarify ShareAction's own understanding of these terms.
[3] FRC (2022). *Review of Stewardship Reporting 2022.* Available at: https://media.frc.org.uk/documents/Review_of_Stewardship_Reporting_2022.pdf
[4] FRC (2022). *Review of Stewardship Reporting 2022.* Available at: https://media.frc.org.uk/documents/Review_of_Stewardship_Reporting_2022.pdf
[5] FRC (2022). *Review of Stewardship Reporting 2022.* Available at: https://media.frc.org.uk/documents/Review_of_Stewardship_Reporting_2022.pdf

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Introduction

Investors must engage to tackle systemic risks

The systemic risks we face in the world today put lives and wellbeing at risk, but also represent significant potential financial losses for asset managers' clients. US$58 trillion, more than half of global GDP, is dependent on nature[6] and there is a growing recognition that commonly used forecasts for the economic damage of climate change are gross underestimates.[7] A study by consultancy McKinsey estimated the global cost of ill health at US$12 trillion;[8] and this does not take into account the effects of the COVID-19 pandemic. The Inequality Trust calculates the cost of UK inequality alone at over GB£39 bn a year, [9] and a US study estimated that inequality in employment, education and earnings has cost the US economy nearly US$22.9 trillion since 1991.[10]

These issues will affect all asset managers, as articulated by the Principles for Responsible Investment (PRI), which states that "*overall value for clients and beneficiaries...includes the market value of the entire portfolio (as opposed to individual holdings or individual mandates); the long-term value-creation capabilities of firms and economies; and the common environmental, natural, intellectual, social, and institutional assets that underpin all economies*."[11] These "common assets" face various systemic threats that cannot be diversified away in any portfolio of size and breadth.

Smaller or more concentrated asset managers should also be concerned with systemic risks because of the potential for their effects to cascade across all, or most, parts of the economy.

Engagement can – and should – "level up"

Current asset manager engagement on these issues is having insufficient impact. In 2022, global energy-related CO_2 emissions reached a new high.[12] The pace at which we are consuming our planet's ecological resources is increasing: Earth Overshoot Day (when annual demand for ecological resources exceeds their regeneration rate) occurred earlier in 2023 than in any previous year - July 28th, compared to November 1st in 2000.[13] Disclosure from listed companies and asset managers around environmental and social risks and impacts is increasing, but real-world change is not happening at the scale and pace required to stay within safe planetary boundaries, nor to secure social foundations.

Asset managers must step up their stewardship efforts to address these systemic environmental and social challenges. This includes making action-directed asks of their portfolio companies, as well as those that are focused on better disclosure or governance. Governance and disclosure can be

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[6] PWC (2023). *Managing nature risks: From understanding to action.* Available at: https://www.pwc.com/gx/en/strategy-and-business/content/sbpwc-2023-04-19-Managing-nature-risks-v2.pdf

[7] IFA, University of Exeter (2023). *The Emperor's New Climate Scenarios: Limitations and assumptions of commonly used climate-change scenarios in financial services.* Available at: https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios_ifoa_23.pdf

[8] McKinsey (2020). *Prioritising Health: A prescription for prosperity.* Available at: https://www.mckinsey.com/industries/healthcare/our-insights/prioritizing-health-a-prescription-for-prosperity

[9] The Equality Trust (2014). *The Cost of Inequality.* Available at: https://equalitytrust.org.uk/sites/default/files/The%20Cost%20of%20Inequality.pdf

[10] Saraiva, C. (2021) "Inequality Has Cost the U.S. Nearly $23 Trillion Since 1990". *Bloomberg.* Available at: https://www.bloomberg.com/news/articles/2021-09-09/inequality-cost-u-s-nearly-23-trillion-since-1990-may-worsen?leadSource=uverify%20wall

[11] PRI (2023). *Definitions for Responsible Investment Approaches.* Available at: https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article

[12] IEA (2023). *CO2 Emissions in 2022.* Available at: https://iea.blob.core.windows.net/assets/3c8fa115-35c4-4474-b237-1b00424c8844/CO2Emissionsin2022.pdf

[13] Earth Overshoot Day (2023) *About Earth Overshoot Day*. Available at: https://www.overshootday.org/about-earth-overshoot-day/

important enablers of action, and escalating to change management or board members can be a powerful lever for achieving desired environmental or social outcomes. However, these levers are not change itself. When clients contract with an asset manager, a principal-agent relationship is created. This relationship requires asset managers to apply their expertise on their clients' behalf. This expertise encompasses the ability to analyse and evaluate corporate risk and opportunity across sectors and geographies some distance into the future. As well as being applied to investment decisions, that expertise can and should equally be applied to stewardship, complementing the more specific expertise of the company itself, in order to direct the company on a path that aligns to client interest and preference, including on environmental and social issues. The implicit understanding is that an agent is qualified to carry out this work on behalf of their principal, deploying skill and knowledge that, on the whole, is not possessed by the client.

Providing this strategic guidance in the interests of clients should not be conflated – as it often is – with "micromanaging". Rather, it is the proper expression of expectation and guidance on issues of systemic or material importance on behalf of client interest and preference.

The need for improved escalation

This paper focuses on escalation in particular as an area of engagement that needs to evolve. Why? Because escalation is currently a vague concept with no agreed definition. It is an umbrella term for any number of different engagement tools which can be used without reference to the frequency, sequence, or impact of their use. While asset managers often highlight the effectiveness of their engagement, the mechanisms they use remain opaque and the effectiveness is challenging to measure.

The lack of consistent transparency on escalation makes it difficult for clients and other stakeholders to see where engagement is being channelled, individually and across the economy. Why has one company been prioritised for escalation above others? Are these investor-investee conversations leading to change? Which tools are asset managers using, and with how much success? Without structure and transparency, escalation is obscured to portfolio companies, asset owners and other stakeholders.

Additionally, an asset manager only possesses one engagement "'voice" with which to represent the aggregate of all clients' interests. The asset manager therefore needs to ensure it is engaging to fairly reflect the full balance of client interests and their mandates, not defaulting towards the lowest common denominator. It must also provide enough transparency that clients can assess whether their interests, preferences and mandates are being represented adequately.

Engagement without consequence, while useful for relationship building and information gathering, has limited power to drive change. It can become a "tea and biscuits" affair which company management can ignore. On the other hand, establishing an escalation toolkit and utilising the tools within it – such as writing public statements and letters, asking annual general meeting (AGM) questions, (co)-filing and voting on resolutions, legal letters and/or litigation – can constructively catalyse change. Tools such as voting and capital allocation are therefore not opposed to engagement, rather they are important components of an effective engagement process.

The importance of escalation is recognised by investment bodies and regulators. Escalation is Principle 11 in the FRC's UK Stewardship Code 2020, stating that *"Signatories, where necessary, escalate*

stewardship activities to influence issuers."[14] It is also part of the EU Sustainable Finance Disclosure Regulation.[15] The Net Zero Asset Managers initiative[16] commitments include setting a clear escalation policy and Climate Action 100+ ("CA100+") expects lead asset managers to plan "*specified regionally appropriate escalation options*".[17] Asset owner networks similarly acknowledge the value of escalation: the UK Pensions and Lifetime Savings Association's ("PLSA") Stewardship & Voting Guidelines[18] state that policies should include "*well-defined criteria*" for escalation, while the Net Zero Asset Owner Alliance's Target Setting Protocol asks members to clearly define escalation procedures for themselves and set expectations for their managers where appropriate.[19] The Institutional Investors Group on Climate Change ("IIGCC") has also acknowledged the importance of systematic engagement – including time bound objective setting and escalation – in raising the bar on climate stewardship.[20]

Academic research shows that engagement that is public or includes the possibility of divestment can be effective in driving a stronger response by companies to shareholder concerns. Studies have found that the "*combination of shareholder engagement and threat of exclusion substantially increases companies' compliance with environmental standards.*"[21] Similarly, there have been several studies on the efficacy of public engagement strategies. One found that the threat of voting against directors prompted management to make changes,[22] while another study found that companies react not only when asset managers vote against them, but also when they perceive this becoming a potential threat.[23] Consequently, an escalation action initiated against one company can have a ripple effect on other companies within the same industry. Finally, studies have shown that the combination of engagement tactics is more impactful than any one tactic alone.[24] An effective escalation toolkit should therefore anticipate the use of multiple tactics, including the use of public actions and, ultimately, divestment.

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[14] Financial Reporting Council (2019) *UK Stewardship Code 2020*. Available at: https://www.frc.org.uk/getattachment/975354b4-6056-43e7-aa1f-c76693e1c686/The-UK-Stewardship-Code-Review-of-Early-Reporting.pdf

[15] European Union (2020). Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R2088-20200712

[16] The Net Zero Asset Managers Initiative (2021) *Commitment*. Available at: https://www.netzeroassetmanagers.org/commitment/

[17] Climate Action 100+ (2023). *Climate Action 100+ Signatory Handbook.* Available at: https://www.climateaction100.org/wp-content/uploads/2023/06/Signatory-Handbook-2023-Climate-Action-100.pdf

[18] PLSA (2023) *PLSA Stewardship Voting Guidelines.* Available at: https://www.plsa.co.uk/Policy-and-Research/Document-library/PLSA-Stewardship-Voting-Guidelines

[19] NZAOA (2023). *Target Setting Protocol.* Available at: https://www.unepfi.org/wordpress/wp-content/uploads/2023/01/AOA-Target-Setting-Protocol-Third-edition.pdf

[20] IIGCC (2022). *Net Zero Stewardship Toolkit.* Available at: https://www.iigcc.org/resources/net-zero-stewardship-toolkit

[21] Quigley, E, Bugden, E and Odgers, A (2020)." Divestment: Advantages and Disadvantages for the University of Cambridge". Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3849513; Mackenzie, C, Rees, W and Rodionova, T (2013). Do Responsible Investment Indices Improve Corporate Social Responsibility? FTSE4Good's Impact on Environmental Management." *Corporate Governance: An International Review*, available at: https://doi.org/10.1111/corg.12039

[22] Iliev, P, Lins, K, Miller, D (2015), "Shareholder Voting and Corporate Governance Around the World," *The Review of Financial Studies.* Available at: https://doi.org/10.1093/RFS/HHV008

[23] Saint-Jean, V (2023). "Exit or Voice? Divestment, Activism, and Corporate Social Responsibility". Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4476123

[24] Quigley, E (2023)."Evidence-based climate impact: A financial product framework". Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214629623003122

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An assessment of the current escalation landscape

Previous studies by both ShareAction[25][26] and the UK's Financial Reporting Council[27] have found that asset managers are not currently providing adequate transparency on stewardship, especially in relation to asset managers' escalation activities and evidence of engagement outcomes.

ShareAction conducted additional research into asset managers' escalation strategies for this report. We reviewed the stewardship and sustainability documents of 50 of the largest global asset managers,[28] finding that although the majority (80%) of asset managers reference escalation in their documents, disclosure on the application and the outcomes of escalation activities is limited.

Escalation tools must be timebound otherwise companies are able to ignore or delay on reacting to investor asks indefinitely. Asset managers should disclose milestones – timebound interim steps on the path to meeting expectations for companies – and the pace at which escalation intensity will increase for companies who fail to reach these milestones. Only three asset managers (6%) detailed pre-determined specific milestones for engagement that were timebound (e.g. companies disclosing carbon emissions metrics within a year of engagement). Eight (16%) policies referenced the pace at which escalation could be progressed if the expectations were not met. Thus, the vast majority of asset managers did not publish any information on timescales for escalation. The absence of time-binding can reduce the impetus for companies to change despite the urgency of the multiple crises that must be addressed.

On the results of escalation, 17 (34%) asset managers disclosed some detail on the outcomes of their escalation processes. However, the majority just disclosed either the number of failed escalations, or the number of successes – only seven (14%) asset managers disclosed both. Without sight of both types of outcomes, it is hard for asset owners to accurately assess the stewardship activities of their managers and their impact.

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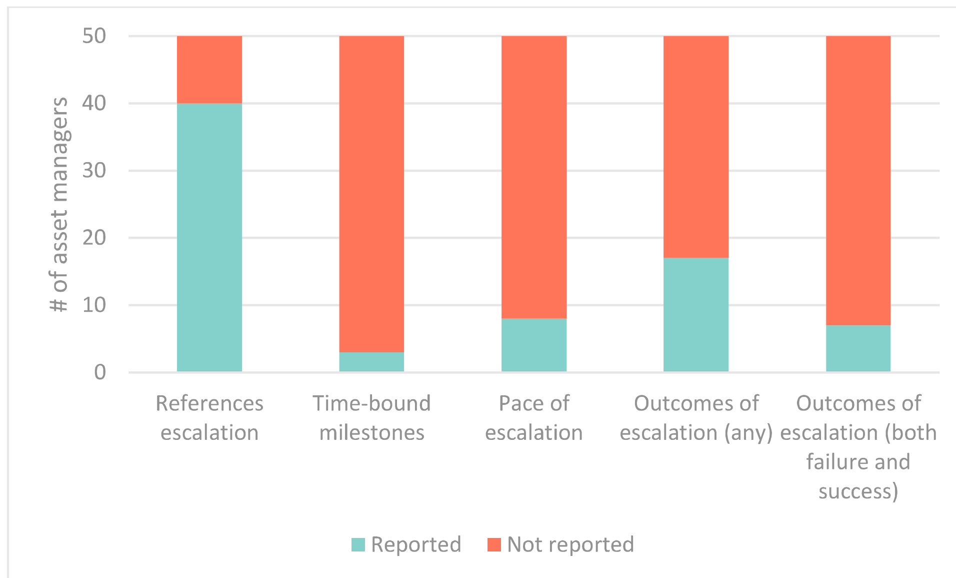
[25] ShareAction (2023). *Point of No Returns 2023. Part II: Stewardship and Governance.* Available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/PONR-PT2_2023-final.pdf

[26] ShareAction (2022). *Power in Numbers? An assessment of CA100+ engagement on climate change.* Available at: https://shareaction.org/reports/power-in-numbers-an-assessment-of-ca100-engagement-on-climate-change

[27] FRC (2022). *FRC finds improvements continue in stewardship reporting.* Available at: https://www.frc.org.uk/news-and-events/news/2022/11/frc-finds-improvements-continue-in-stewardship-reporting/

[28] The size of these asset managers was based on AUM as reported by the IPE. This review focused on asset managers who focus on corporate equity and/or debt.

Figure 1: Asset managers' disclosure on escalation is inconsistent and vague



A solid foundation

Asset managers should ensure that they resource their responsible investment and stewardship efforts appropriately, and then prioritise those resources effectively across different asset classes, sectors and geographies.

What this means in practice is that asset managers need to be selective and thoughtful in how they put their significant influence to best use. The severe and systemic issues that the world and its financial system face can only be tackled by an urgent application of influence.

We believe that using a standardised escalation framework will help in this endeavour. And while it is not always possible to measure whether an asset manager's engagement practices *caused* a particular outcome, a more standardised approach of categorising escalation would facilitate an assessment of the correlation of engagement to outcomes and how robustly the asset manager is conducting engagement.

Introducing a standardised escalation toolkit and pathway

This report provides practical guidance for asset managers on escalation practices and reporting. We propose an escalation toolkit and pathway as a foundation that accommodates bespoke flexibility, while ensuring the entire process is robust, transparent and oriented towards real-world change. This report also contains recommendations on the resourcing and reporting of escalation.

Effective and credible engagement requires investment in knowledge, time and resource, so asset managers need to prioritise in selecting engagement targets. However, companies are more likely to respond to engagement asks when they have broad endorsement from shareholders, backed by the application of consequence. This can result in a tension between quality and quantity of engagement. To deal with this, asset managers should:

- identify priority companies to conduct (and potentially lead) in-depth engagement and escalation when required (Direct Escalation), whilst also;
- supporting escalation initiated by other investors, even where the asset manager is not directly engaging with the company or has not itself progressed through prior escalation steps (Supporting Escalation)

This can mean co-signing public letters, joining collaborative meetings or even collectively pursuing litigation. Cases in which this may be appropriate include:

- Where the asset manager has observed engagement undertaken by other stakeholders on an issue covered in the asset manager's own sectoral expectations without an adequate response from the company;
- Where the asset manager has not had capacity to engage directly but the engagement asks are clearly aligned with the asset manager's sectoral expectations and the company is lagging the sectoral milestones

Supporting escalation in this way encourages progress across the sector, reinforcing the ripple-effect from an asset manager conducting deep engagement with their priority companies. It is important, however, that Supporting Escalation is reported separately from Direct Escalation. This enhances stakeholders' understanding of the scope and depth of an asset manager's stewardship activities.

We further note that asset managers can use particular tools in the toolkit without applying earlier steps. Voting and pre-declaring support for shareholder resolutions on appropriate environmental and social issues is part of basic stewardship hygiene.

Some asset managers are already strengthening their escalation approach, with clearer expectation-setting for companies, the application of more systematic time-bound escalation when expectations are not met, and more comprehensive reporting. This report therefore highlights several examples of our guidance already in practice, as well as providing guidance on how to overcome barriers to implementation.

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Collaborative engagement

Collaborative actions can be a very powerful escalation tool and may take many forms including self-organising investor-led collaborations, formal investor coalitions, and/or collaborations between investors and NGOs.

Collaboration amplifies key messages, gives more weight to individual asks, and increases the incentive of the company to take action. Academic research shows that collaboration can increase the success rate of engagements[29] and that coalition-building is a significant factor in increasing shareholder salience.[30] Both the size of shareholdings and the number of shareholders can be important success factors for collaborative investor engagement,[31] although larger coalitions may result in less ambitious asks because of the need to obtain consensus.

Collaboration shares capacity and reduces duplication, enabling asset managers to participate in a larger number of engagements. Collaboration also facilitates knowledge-sharing and consensus building, and can bring benefits for the target company by streamlining the engagement process and condensing the potentially wide range of asks.

Competition or anti-trust laws may be posited as a barrier to collaborative engagement on ESG issues. This is particularly the case in the US following the recent "ESG backlash". While we recognise the complexities of collaborative engagement in different legislative environments, using these concerns as a reason not to collaborate may also reflect excessive caution, a misperception of regulators' intent or simply an excuse for inaction. Regulators in several jurisdictions have made clear their commitment to sustainability and have communicated a desire to help remove blockages to collaboration on sustainability.

In the UK the Competition and Markets Authority (CMA) has recently published guidance on environmental sustainability agreements, the "Green Agreements Guidance".[32] This includes the section on "Agreements between shareholders to vote for promoting corporate policies that pursue environmental sustainability" which indicates that such activity is unlikely to infringe competition law and is therefore permissible. The UK's FCA has committed to "*helping asset managers put ESG matters at the heart of their investment decisions*",[33] and has called for UK investors to detail where they believe competition law has constrained their ability to collaborate.[34] The European Commission has recently included a new chapter in its Horizontal Guidelines to clarify that the antitrust rules do not

[29] Dimson, E, Karakaş, O, Li, X (2015). "Active Ownership", *The Review of Financial Studies.* Available at: https://academic.oup.com/rfs/article/28/12/3225/1573572?login=true

[30] James, E, Gifford, M (2010)."Effective Shareholder Engagement: The Factors that Contribute to Shareholder Salience ", *Journal of Business Ethics.* Available at: https://www.jstor.org/stable/40929268

[31] Slager, R, Chuah, K, Gond, J, Furnari, S, Homanen, M (2023). "Tailor-to-Target: Configuring Collaborative Shareholder Engagements on Climate Change," *Management Science.* Available at: https://pubsonline.informs.org/doi/full/10.1287/mnsc.2023.4806

[32] CMA (2023), *Green Agreements Guidance.* Available at: https://assets.publishing.service.gov.uk/media/6526b81b244f8e000d8e742c/Green_agreements_guidance_.pdf

[33] FCA (2021). "FCA acts to help investors make more informed ESG investment decisions". Available at: https://www.fca.org.uk/news/press-releases/fca-acts-help-investors-make-more-informed-esg-investment-decisions

[34] Man Institute (2022). *A Sustainable Future: Sacha Sadan, FCA Director of ESG, on the SDR Framework.* Available at: https://www.man.com/maninstitute/ri-podcast-sacha-sadan

stand in the way of agreements between competitors that pursue a sustainability objective.[35]. The International Chamber of Commerce further identified in a 2023 report that jurisdictions such as Brazil, India, Singapore, Belgium, Australia and Mexico have come out in favour of green collaboration, stating that *"the regulatory framework has been enhanced considerably."*[36]

ShareAction recommends that where competition law is seen to be a potential barrier to collaboration on ESG issues, asset managers should seek to address this with regulators (for example, through the CMA's open-door policy whereby businesses can approach the CMA for informal guidance).

[35] The European Commission (2023). "Antitrust: Commission adopts new Horizontal Block Exemption Regulations and Horizontal Guidelines". Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2990
[36] Mundy, S, Bryan, K (2023). "Antitrust regulators warm to climate collaboration," *Financial Times.* Available at: https://www.ft.com/content/68affe33-0091-4804-afab-16a364b43401

Detailed recommendations for asset managers

Recommendation #1: Publish a policy that contains an escalation toolkit which progresses in strength, applies to corporate debt and listed equity holdings, and details how companies are selected for escalation

Asset managers should publish an engagement policy that articulates its definition of "escalation", and contains an escalation toolkit that:

- lists and categorises escalation tools in order of strength;
- applies the policy across both corporate debt and listed equity, indicating how the different levers available will be used. If an asset manager holds both listed equity and debt in a company, stewardship efforts should generally be coordinated and core sustainability goals shared between relevant staff;
- details the process by which companies are targeted for escalation

ShareAction's model escalation toolkit (see below) provides a standard categorisation across listed equity and corporate debt that we invite asset managers to adopt.

Escalation toolkit

Adopting and disclosing a standardised escalation toolkit should lead to more robust and measurable escalation. Effective escalation means deciding which tool or tactic will be most impactful in light of each company's specific circumstances. But asset managers should be willing to consider the full toolkit, increasing the intensity of engagement in the event of ongoing inadequate response by the company.

We recommend categorising escalation tools by strength, with each step moved through in sequential, time-bound process to companies failing to meet engagement expectations. Reporting across the five strength categories of ShareAction's escalation toolkit would facilitate streamlined disclosure (compared to reporting on the use of each escalation tool individually) and enable comparable assessment of engagement intensity. Further, it provides transparency to companies on the consequences their strategic decisions will have on their interaction with asset managers, including their access to investor capital.

As an asset manager integrates its escalation toolkit, it should map any current escalations to the relevant strength categories, rather than reset those escalations to the first step in the toolkit.

ShareAction's model escalation toolkit

Figure 2: The escalation toolkit – for corporate debt and listed equity

<table>
<tr><th></th><th>Listed equity</th><th>Corporate debt</th><th></th></tr>
<tr><td rowspan="3">Business as usual dialogue and monitoring</td><td colspan="2">Regular calls and meetings with the company
Set clear and time-bound expectations on material responsible investment issues</td><td rowspan="12">STRENGTH</td></tr>
<tr><td></td><td>Reiterate environmental and social expectations during bond syndication
Request contractual protections of environmental and social factors in documentation</td></tr>
<tr><td colspan="2">Underpinned by broader systems engagement
(policy advocacy, sponsor academic research, contribute to investor forums, publish thought pieces etc)</td></tr>
<tr><td>Private persuasion (STEP ONE)</td><td colspan="2">Unilateral private calls/meetings with the company (non-routine, more frequent, with board members)
Unilateral letter(s) to senior management and/or the board</td></tr>
<tr><td>Broader challenge (STEP TWO)</td><td colspan="2">Collaborative calls/meetings with the senior management and/or the board
Collaborative private letters to senior management and/or the board
Challenge management on earnings calls, corporate events or roadshows
Unilateral public statements/letters to senior management and/or the board
Collaborative public statements/letters to senior management and/or the board
Be cited in the media challenging a company's position</td></tr>
<tr><td>From talk to action (STEP THREE) Voting: 3.1</td><td>Vote against standing items incl. director (re)election, audited accounts, management compensation
Vote for shareholder resolutions on ESG topics, against management recommendation
Ask questions or making statements of intent at annual general meetings</td><td></td></tr>
<tr><td>Intensified actions: 3.2</td><td>Pre-disclose voting intention (private/public)
(Co)Filing shareholder resolutions</td><td>Reject documentation amendment request
Convene bondholder meeting (subject to holding threshold) and represent to company</td></tr>
<tr><td rowspan="2">Exceptional measures: 3.3</td><td>Seek board seats
Call an extraordinary general meeting</td><td></td></tr>
<tr><td colspan="2">Legal processes</td></tr>
<tr><td rowspan="2">Capital allocation decisions (STEP FOUR)</td><td colspan="2">Divest/exclude from labelled funds*
Reduce exposure/underweight in all funds*
Engage index provider to exclude company at next rebalancing</td></tr>
<tr><td></td><td>Do not participate in primary issuance (new debt/ refinancings) for labelled funds*
Do not participate in primary issuance (new debt/ refinancings) for all funds*</td></tr>
<tr><td>Levers of last resort (STEP FIVE)</td><td colspan="2">Divest and exclude (communicated privately to company)*
Divest and exclude (communicated publicly)*</td></tr>
</table>

**While the capital allocation levers are less dynamic for passive funds, the lever still exists in the forms of engaging with index providers and providing replica "clean" indices for clients and encouraging transfering to these.*

Prioritisation process

Asset managers should ensure that they are resourced appropriately to steward the assets under their ownership and clearly set out their process for prioritising companies for in-depth engagement, to guide the allocation of that resource. Factors influencing the prioritisation process could include the size of holding, the degree of misalignment with any environmental or social criteria, materiality of the environmental or social risk, domicile of the company and/or the asset manager, and client and/or beneficiary preferences. The prioritisation process should be consistent, transparent and have a clear rationale. This will help protect asset managers' relationships with investees companies, as following an established and transparent process reduces the risk of engagement appearing subjective or ad-hoc.

Prioritised companies that meet the conditions for escalation (i.e. have breached expectation milestones) should enter the defined escalation framework, representing the start of a structured and transparent process of intensifying engagement to influence the company to meet expectations.

While exceptions may sometimes be appropriate, these should be rare and the rationale clearly articulated and disclosed.

Summary of steps

For all steps listed below, asset managers should ensure that they clearly disclose the reasons for each action to the target company, for example when they vote against standing items, such as voting against director election, or make capital allocation decisions as an escalation step.

Step 1 – Private persuasion

The first step of any escalation process will see the usual dialogue an asset manager has with a company 'step-up'. Routine meetings and/or calls with the company focused on information and updates to strategy should not be considered escalation. A "step-up" in dialogue could be reflected in the discussions held outside of the usual schedule or with more senior representatives (including members of the board), or more clearly stating disapproval.

This step signals to the company that a process of escalation has begun and provides opportunities for more in-depth discussion of the issues at hand. It allows complexities to be better understood, asset managers to promote and expand on the insights that they bring to the table, and signals the seriousness with which an asset manager views a specific topic. However, it is the least severe on the scale as it is an entirely private mechanism – solely between the asset manager and the company.

Step 2 – Broader challenge

The next step includes tools that see the conversation become somewhat public and/or collaborative, with asset managers sharing concerns with peers and other stakeholders. The distinction between routine engagement and escalation exists for collaborative as well as for individual actions. Collaborative meetings can be conducive to efficient engagement, but are not in of themselves escalatory. Collaborative escalation is where a group of investors together take escalation actions such as writing public letters or statements. These are effective tactics, which send a clear signal to other parties of the materiality of the issue at hand.[37] By bringing the debate into a public forum, they encourage other asset managers who have similar concerns to be confident in raising them, reinforcing their approach and combining the asks.

[37] Dimson, E, Karakaş, O, Li, X (2015). "Active Ownership", *The Review of Financial Studies.* Available at: https://academic.oup.com/rfs/article/28/12/3225/1573572?login=true

BARRIERS AND ACTIONS

Signing and/or writing public letters

Key perceived barriers

- Fear of damaging the investor-investee relationship.

Actions to take

- Ensure expectations have already been clearly presented to the company ahead of the letter.

These broader challenges are statements of intent and can provide renewed impetus to progress in subsequent engagement, after private persuasion alone has proved ineffective.

Importantly, they are mechanisms that allow those with smaller holdings to have their voice represented and counted.

The benefits to collaboration are laid out in the section titled "Collaborative Engagement" above. Where asset managers are members of a collaborative initiative, they should endeavour to play as full and constructive a role as their resources, expertise and strategy allow.

PRIVATE PERSUASION Example In Practice: Investor letter to major European banks

In February 2023, ShareAction co-ordinated 25 investors with $1.4 trillion in assets under management to send letters to, and conduct follow-up engagement with, five major European banks involved in financing companies with oil and gas expansion plans, urging them to tighten their climate policies. In response to this letter and further ShareAction follow-up engagement, BNP Paribas and Société Générale strengthened their financing restriction. ShareAction continues to co-ordinate investors in campaigning for major European banks to close the gaps in their climate policies and fully align with the Paris Climate Accord.

PRIVATE PERSUASION Example in Practice: Biodiversity collaborative initiatives

With biodiversity now declining at a dangerous pace,[38] asset managers are beginning to address the impact of their investments on the natural world. As an emerging topic, asset managers face challenges including data availability and reliability, and a lack of expertise on this complex topic. Collaborating with other stakeholders is therefore key, and initiatives include: the Investor Policy Dialogue on Deforestation (IPDD), a collaborative investor initiative that engages with public agencies and industry associations in selected countries to halt deforestation; and, Nature Action 100, a global investor engagement initiative which published a list of target companies in September 2023. Further information on this topic is available in ShareAction's Biodiversity Hub.

Step 3 – From talk to action

The next step in escalation if a company's response to change-seeking dialogue is unsatisfactory sees asset managers using their shareholder or capital-provider rights. These rights have the potential to drive (or at the least prompt consultation on) changes to company reporting, strategy or even board composition.

Voting

Voting is an incredibly important tool. Votes for shareholder resolutions, when against management recommendations, signal to the company that they are coming up short against expectations on significant issues. Supporting environmental and social resolutions conveys serious intent and underpins engagement on that topic, while allowing investors to come together behind a single suggested course of action. Failure to support resolutions whose intent is aligned with the asset

[38] IPBES (2019). "Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating'" Available at: https://www.ipbes.net/news/Media-Release-Global-Assessment

manager's expectations undermines the effectiveness of engagement on those expectations. Where the asset manager supports the intent of a resolution, but finds the wording problematic, the asset manager should engage with filers to optimise resolution wording. They should also continue to follow a "comply or explain" model, where they explicitly commit to support shareholder resolutions that help resolve environmental and social problems by default, and provide a public explanation whenever this commitment is not met. The regular use of votes is also an important part of governance hygiene for an asset manager, outside of this escalation framework.

Even votes which do not lead to a resolution being passed can be effective. For instance, in the UK, if more than 20% of votes are cast in favour of a shareholder resolution, then the company is bound by the UK Corporate Governance Code 2018[39] to explain what actions it intends to take to consult shareholders and understand the reasons behind the result. However, asset managers should ensure that they follow up on such majority votes, as companies may not always adequately follow-through on these requirements.

More information and advice on voting is available in ShareAction's annual Voting Matters report.[40]

Voting against directors

Voting against directors can be a very effective way of raising accountability,[41] indicating dissatisfaction with the oversight that the entire board, or a particular director, has provided to the company's managing of the issue at hand. One academic study found "*the career concerns of the leadership [can drive] pro-social change when shareholders demand it.*"[42] This makes voting against directors a powerful escalation tool, particularly when paired with public disclosure of the rationale behind the vote. However, a report by Majority Action shows that most large asset managers continue to under-utilise this tool, electing management-backed directors at the vast majority of companies.[43]

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[39] FRC (2023). *UK Governance Code.* Available at: https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/

[40] ShareAction (2022). *Voting Matters.* Available at: https://shareaction.org/reports/voting-matters-2022 The next version of this report will be published in early January 2024.

[41] Quigley, E (2023)."Evidence-based climate impact: A financial product framework". Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214629623003122

[42] Saint-Jean, V (2023). "Exit or Voice? Divestment, Activism, and Corporate Social Responsibility". Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4476123

[43] Majority Action (2023). *Climate in the Boardroom.* Available at: https://www.majorityaction.us/climate-in-the-boardroom-report-2023

Intensified actions

There are a number of tools that asset managers can use outside of the annual opportunity to vote, including asking questions or making statements of intent at AGMs. For example, pre-declaring voting intentions is a potent tool, but is being underutilised by asset managers.[44] Resources such as the PRI's Resolution Database allow asset managers to pre-declare to other PRI members.[45] This can be a useful mechanism for socialising voting intentions among peers, though also pre-declaring in the public domain would have a stronger effect. Both signal that the asset manager considers the resolution asks to be legitimate and important. Moreover, pre-declaring can provide the space and impetus for the target company to respond and accommodate the asks before the vote is held, leading to the vote being pulled. For example, As You Sow's 2023 Impact Report detailed 51 shareholder resolutions put forward that were withdrawn with agreement.[46]

Of course for resolutions to be voted on, someone must requisition them. Filing or co-filing shareholder resolutions should be considered by all asset managers, where regulation allows it. The PRI provides a guide to filing shareholder resolutions, with country-specific factsheets for key markets.[47] In some jurisdictions, including in the UK, if a special binding resolution is passed, company directors are legally bound to act on its recommendations.[48] Even in

BARRIERS AND ACTIONS

Asking AGM questions or making statements of intent

Key perceived barriers

- Fear of damaging the investor-investee relationship.
- Limited number of questions allowed to be asked and competing interests.
- Uncertainty what makes a pertinent question.
- Concerns questions may oversimplify complex topics.

Actions to take

- Ensure expectations have already been clearly presented to the company ahead of the AGM with adequate time for response.
- Put more complicated questions into written form and deliver to the company in advance, before asking a shortened version in the public forum.

Filing a shareholder resolution

Key perceived barriers

- Lack of experience.
- Too small a holding.
- Use of time and resource.
- Varying rules and regulations across different geographies.

Actions to take

- Ask advice from experts, including collaborative engagement organisations that support shareholder resolutions.
- Allow sufficient time to prepare and file.
- Co-file with other investors.
- European investors can consult ClientEarth's Know your rights paper to better understand available options in their region.

[44] ShareAction (2023). *Point of No Returns 2023. Part II: Stewardship and Governance.* Available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/PONR-PT2_2023-final.pdf
[45] Available at: https://collaborate.unpri.org/shareholder-resolution
[46] As You Sow (2023). *2023 Impact Review.* Available at: https://www.asyousow.org/reports/2023-shareholder-impact-review.
[47] Available at: https://www.unpri.org/investment-tools/stewardship/filing-shareholder-proposals
[48] PRI (2023). *Filing a shareholder proposal in the UK.* Available at: https://www.unpri.org/filing-shareholder-proposals/filing-a-shareholder-proposal-in-the-uk/10993.article#:~:text=UK%20shareholders%20have%20a%20clear,non%2Dbinding%20and%20binding%20r

cases where the outcome is non-binding, there will be reputational pressure on the company to act or respond thoughtfully to the asks of the proposal.

However, despite the efficacy of shareholder resolutions as an escalation tool to catalyse change, ShareAction's biennial asset manager survey found over 70% of respondents had not filed or co-filed a shareholder resolution in the prior 12 months.[49] Similarly, in 2020 the Investment Association noted that investors rarely use the tools available to them and encouraged a more proactive use of requisitioned resolutions.[50]

SHAREHOLDER RESOLUTION Example in Practice: Shareholder resolutions in Japan

Climate-focused shareholder resolutions are becoming more common in Japan, largely filed by large European investors. Key recent examples include a 2023 shareholder resolution submitted by investors including AkademikerPension, Storebrand Asset Management and APG Asset Management. This, the first shareholder proposal in eighteen years at a Toyota AGM, required Toyota to improve disclosure of its lobbying on climate change, and received 15% support.[51] In 2022, Amundi, Man Group and HSBC Asset Management asked J-Power, a Japanese utility company, to strengthen its decarbonisation efforts with a series of three proposals, which received between 18% and 26% support.[52]

SHAREHOLDER RESOLUTION Example in Practice: 2022 HSBC Climate Resolution

In 2022, ShareAction, alongside 11 institutional investors and retail shareholders, filed a resolution calling on HSBC to close its fossil fuel policy loopholes. Following engagement with this coalition, HSBC scaled up its climate commitments, and the resolution was withdrawn. Engagement with HSBC continued, and the bank subsequently strengthened those commitments further.[53]

SHAREHOLDER RESOLUTION Example in Practice: 2022 Civil rights audit and investigation into the risks of NDAs at Apple Inc

In 2022, two separate human and labour-rights shareholder proposals were filed at Apple Inc's AGM. The first, filed by a coalition including Nia Impact Capital, the Transparency in Employment Agreements coalition, whistle-blower Ifeoma Ozoma and Apple employees, pushed Apple to prepare a report on potential risks from its use of non-disclosure agreements in the context of harassment, discrimination and other unlawful acts. After Apple unsuccessfully asked the SEC to exclude the proposal, it passed with shareholder support, and Apple has subsequently committed to include language in all separation

esolutions; PRI (2023), A guide to filing impactful shareholder resolutions. Available at: https://www.unpri.org/filing-shareholder-proposals/a-guide-to-filing-impactful-shareholder-resolutions/10995.article

[49] ShareAction (2023). *Point of No Returns 2023. Part II: Stewardship and Governance.* Available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/PONR-PT2_2023-final.pdf

[50] The Asset Management Taskforce (2020). *Investing with purpose: placing stewardship at the heart of sustainable growth.* Available at: https://www.theia.org/sites/default/files/2020-11/Asset%20Management%20Taskforce_proof7.pdf

[51] Reuters (2023). "Toyota wins over shareholders at AGM after questions on strategy, governance," Reuters. Available at: https://www.reuters.com/business/autos-transportation/toyota-makes-its-case-agm-after-investors-question-strategy-governance-2023-06-14/

[52] Verney, P (2023). "ESG resolution round-up: Are climate proposals becoming mainstream in Japan?", *Responsible Investor.* Available at: https://www.responsible-investor.com/esg-resolution-round-up-are-climate-proposals-becoming-mainstream-in-japan/

[53] ShareAction (2022). "HSBC scales up climate commitments following investor engagement". Available at: https://shareaction.org/news/hsbc-scales-up-climate-commitments-following-investor-engagement

agreements for US employees explicitly noting that non-disclosure clauses do not prevent discussion of harassment or discrimination.

The second, filed by organisations including the SOC Investment Group and Service Employees International Union, asked Apple to conduct a Civil Rights Audit. This resolution also passed, and Apple committed in its 2022 ESG report to conduct this audit.

Although far less common, this step can also include bondholders not consenting to a company request to amend bond documentation, or convening a bondholder meeting (subject to minimum holding thresholds), which can put the company on notice of the scale of bondholder concerns.

Exceptional measures

There are a number of "exceptional measures" that asset managers may wish to consider as escalation tools short of divestment. These include seeking board seats, calling an extraordinary general meeting or legal processes (such as sending a legal letter or joining litigation).

Legal strategies:

Legal strategies, such as requests for information, complaint procedures or litigation, are available to asset managers, and can represent a strong, effective tactic to drive change. According to a recent Network for Greening the Financial System report, litigation (specifically in relation to the climate) may be brought for reasons including: claims for loss of shareholder value, award of damages for past emissions, violation of corporate due diligence laws, greenwashing, or a breach of directors' duties.[54] Legal strategies can work to influence companies in multiple ways, including internalising environmental or social externalities through damages awarded.

BARRIERS AND ACTIONS

Legal strategies

Key perceived barriers

- Time and financial resources needed.
- Lack of knowledge or experience.
- Not listed in current policies.

Actions to take

- Explore litigation funding options (third party firms which can provide financing for complex lawsuits in return for a share of the proceeds).
- Ensure policies include litigation as a potential tool.
- Seek existing legal expertise in-house and align across the organisation.

Pursuing legal strategies can be costly and resource-intensive. Asset managers can access external expertise on legal strategies relating to environmental and social risks, including expertise provided by some NGOs. There are also litigation funding options available if required, from foundations, or alternatively particular lawyers acting *pro bono*.

There is an increasing acceptance of legal strategies as a mechanism with which to address environmental and social concerns, with a UN environment programme report recording 2,180 climate change cases alone ongoing as of 31 December 2022.[55] Legal strategies are also starting to be

[54] Network for Greening the Financial System (2023). *Climate-related litigation: recent trends and developments.* Available at: https://www.ngfs.net/sites/default/files/medias/documents/ngfs_report-on-climate-related-litigation-recent-trends-and-developments.pdf

[55] UNEP (2023). "Climate litigation more than doubles in five years, now a key tool in delivering climate justice ". Available at: https://www.unep.org/news-and-stories/press-release/climate-litigation-more-doubles-five-years-now-key-tool-delivering

recognised in regulation, for instance in the Korean Stewardship Code.[56] New and innovative strategies are emerging, and investors such as AP7 are increasingly becoming litigants to pursue sustainability goals.

These "exceptional measures" are resource-intensive, but effective actions that could be considered before resorting to capital allocation measures. Alternatively, given the specific constraints or circumstances, moving straight to capital allocation measures may be more appropriate.

LEGAL STRATEGIES Example in Practice: Sexual harassment lawsuit brought against Alphabet by investors

In January 2019, AP7, the Swedish public pension fund, brought a lawsuit against Alphabet, Google's parent company, alleging that the company was in breach of fiduciary duty to their investors and eroding shareholder value. This was based on information regarding sexual harassment within the company. In 2020, Alphabet settled with AP7, and took several remedial actions, including undergoing extensive governance reforms and setting aside US$310 million to invest in programmes aimed at improving diversity and inclusion. AP7 continues to pursue legal action as part of its active ownership strategy.

Step 4 – Capital allocation decisions

The next step in escalation intensity is the use of capital allocation. This could come in the form of reducing holdings, or not participating in new equity or debt offerings. This is the point where an asset manager translates insufficient progress from a company into increased risk to clients' long-term interests and preferences.

Capital allocation measures, as well as being a natural outcome of unsuccessful escalation, can also exert additional pressure on the company, while the potential to be taken off an exclusion list or an under-weighting reversed can be an incentive to meet asset manager expectations. Internal ESG ratings should reflect the degree to which a company is meeting expectations and responding to engagement. A lower ESG rating and a reduction in capital allocation, including in ESG-labelled funds, could thus be a natural consequence of failed engagement. The opportunity to be included in these funds in future may also act as an incentive for the company to meet asset manager expectations.

BARRIERS AND ACTIONS

Reducing holdings for passive funds

Key perceived barriers

- Passive funds are limited in their use of the capital allocation lever as fund composition and rules are pre-set.

Actions to take

- Create new products which are aligned on relevant ESG issues and risks.
- Educate clients on the benefits of moving to these indexes.
- Remove or avoid potential barriers such as higher fees or liquidity terms.
- Engage index providers to introduce exclusion rules for most misaligned companies.

[56] Korea Institute of Corporate Governance and Sustainability (2017). Korea Stewardship Code. Available at: https://sc.cgs.or.kr/eng/main/main.jsp

Making such capital allocation decisions public significantly enhances the effectiveness of this tactic, as it signals the asset manager's disappointment at the failure of the company to meet expectations and underlines the sincerity of those expectations.

It is essential that capital allocation decisions and stewardship policies are aligned. For example, if an asset manager is reducing investment in an asset due to a failed engagement with expectations not being met on a particular issue, they should not vote against a resolution that aims to address that same concern.

Capital allocation decisions around debt financings (or refinancings) can play a particular and effective role in the escalation toolbox. Where a company is not meeting these common expectations, non-participation (or reduced participation) in a new debt issue can be an effective catalyst for engagement progress through the equity "voice". This model is sometimes referred to as 'divest debt, engage equity'.

While capital allocation is traditionally thought of as distinct from stewardship levers, we view it as part of the escalation toolkit. The most effective mechanism for asset managers to influence companies is through the combined use of capital allocation and engagement levers. This could involve over-weighting capital to sectoral leaders on a particular issue (such as transition), underweighting capital and engagement to laggards, and over-weighting engagement resources to those in between who are able to change, but showing insufficient ambition or urgency relative to investor expectations. In calibrating this coordinated application, there will be occasions where the asset manager may need to apply capital allocation levers set out in Steps 4 and 5 without having first progressed through the prior steps – for example in cases where the lack of responsiveness is materially mis-matched to the size and urgency of the issue at stake.

We recognise that capital allocation decisions are primarily made on the basis of expected financial risk-return. However, many of the systemic environmental and social challenges are financially material in the long-term, as well as being of non-financial interest to many clients. Financial risk/return and considerations of social and environmental impact are thus often complementary. Even when not complementary, asset managers have a duty to deliver outcomes beneficial to the full range of their clients' interests and preferences.

PARTIAL DIVESTMENT Example in Practice: Change in capital allocation at Insight Investment

In 2022, Insight Investment conducted several engagements with a European automotive company. These included initially understanding its decarbonisation strategy, and follow-up engagement focused on forced labour allegations in a Chinese plant. Insight Investment considered that several areas of improvement were necessary. Insight Investment sold bonds from the issuer held in its ESG strategies.

Step 5 – Levers of last resort

This final step in an escalation strategy is used when prior steps have failed to result in a positive outcome.

Many asset managers posit divestment as being in opposition to engagement. This is a false binary for a number of reasons. It overlooks the lever of partial divestment (excluding from labelled funds, underweighting across funds and non-participation in debt while remaining invested in equity). Furthermore, divestment is not final. Asset managers should make clear the conditions that would allow for re-investment, should the company start to meet asset manager expectations. In this way, divestment can be the final stage of an escalation process, with re-investment as a powerful incentive for progress.

Moreover, divestment for financial reasons is a daily occurrence for active asset managers, yet this loss of opportunity to influence the company's business strategy is not brought up as a major concern. Engagement resources are finite and there are opportunity costs that come with engaging with one company over another. In addition to ensuring that their engagement teams are resourced appropriately (see Recommendation #5), asset managers should be selective about where they deploy that resource, accepting that leaves many companies (potentially) outside their scope of direct influence.

The capital allocation tool should be used by the asset manager when a company has demonstrated that it is unwilling to meet expectations at the pace and scale required. Selling is primarily a means of reducing or removing their clients' exposure to companies who represent long-term risks to the interests (including non-financial) of their clients. If that comes with a loss of (previously ineffective) access to influence, that seems an acceptable trade-off. We note that divestment is used by investors for various reasons not linked to escalation, including to follow preferences expressed in client mandates, to reduce exposure (for instance to a sector) or to influence public perception of particular industries. These types of divestment are not within the scope of this report, which focuses on escalation strategies only.

DIVESTMENT Example in Practice: Divestment as the final step of engagement at Legal & General Investment management

Within its Climate Impact Pledge engagement programme, Legal & General Investment Management publishes a divestment list of companies that have both breached sector specific "red lines" and continued to show a lack of progress despite engagement. LGIM continues engaging with these companies and, following progress on these "red lines", publishes when they remove companies from this divestment list, making them eligible for re-investment.

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Recommendation #2: Publish sectoral expectations on core environmental and social factors, with time-bound milestones

Setting public expectations for investee behaviour

Asset managers should publicly disclose their foundational expectations by sector (or subsector), and the core principles on which they have been set, together with the time-bound intermediate milestones required to meet those expectations. Where the core principals deviate from existing, credible standards (such as a 1.5C low/no overshoot pathway), the asset manager should clearly state their rationale.

Principals and expectations should be applied across all investment strategies within the asset manager. Where the organisational structure requires non-identical expectations to be set across different funds or business units within an asset manager (for instance under a boutique model), then each variation to core expectations should also be disclosed.

This facilitates both effective business as usual engagement and subsequent escalation in driving real-world change. It means the companies being interacted with will understand clearly what is expected of them by their investors and by when. This affords companies time to incorporate investor expectations in their plans and to anticipate the reaction of their investors to their strategic choices, including implications for their access to capital.

The goals articulated by asset managers should be SMART – specific, measurable, achievable, relevant and time-bound. Goals must be in line with existing, credible, consensus-based frameworks (for example, the Paris Agreement, the Global Biodiversity Framework, the UN Global Compact principles, the SDGs, the Science Based Targets initiative, the International Energy Agency) to ensure companies operate in a way that respects planetary boundaries and societal foundations, especially where these have long-term implications for their clients' interests and preferences.

Asset managers often cite the preservation of their relationship with a company as a justification for not escalating, or concern about media coverage as a reason not to make a particular escalation public. However, escalation, including public actions, can often be accommodated within a constructive ongoing relationship over the longer-term. Relationships can emerge stronger from an escalation process, better aligning asset manager and company while reinforcing the seriousness of the issue. Clarity in advance on expectations and process from the asset manager are key factors in maintaining a healthy relationship through a process of escalation.

Where asset managers are members of existing engagement initiatives, such as CA100+, they may choose to adopt the expectations of that initiative. In such cases, asset managers should clearly set out those expectations (not just reference them) and indicate that they are sourced from the initiative. They should further indicate which expectations recommended by the initiative that the asst manager is not adopting, as well as any recommendations that are additional to, or amended from, those of the initiative.

Expectations and milestones should be set for all relevant social as well as environmental risks and impacts. Asset managers are encouraged to set milestones aligned to themes such as health, diversity, equity & inclusion (DEI), secure work and the just transition.

There is also developing research around the idea of investors collaborating to set standards, across whole sectors, as this is "*more likely to level the playing field and create the conditions for supportive*

legislation across jurisdictions".[57] This idea is captured in the "guardrails" approach suggested by The Shareholder Commons, where collectively-agreed minimum standards between investors allow competition within sustainable boundaries.[58] The initial mechanism for implementing guardrails would be a collective request from an investor group to a select group of companies to commit to one or more specific guardrails, along with a statement of intent to vote against directors if the guardrail is not adopted.

Time-bound milestones

It is important that asset managers set clear milestones that map out how the company should meet expectations and when milestones need to be reached; this facilitates alignment between companies and their investors not just on the journey itself but also on the expected pace.

The timing of milestones can be either absolute (for example by 2025) or relative (for example two years from being communicated to the company). These milestones enable adequate monitoring (and prompt escalation, if required) of the near and medium-term progress towards the expectation goal. For material issues that require urgent attention and immediate progress (such as climate), initial milestones should be set for the short-term (one to two years) to discourage inertia.

Asset managers may wish to begin escalating at more severe steps in the escalation before any milestone is breached, if evidence suggests that the milestone is highly unlikely to be met and/or the company has been unresponsive to engagement.

Examples are provided below of illustrative sectoral milestones relating to climate change, health and good work. These do not reference engagement related to lobbying, or governance practices, both of which should be considered alongside each topic of engagement. We note that useful guidance on setting milestones have been published by organisations such as the IIGCC including an "Illustrative High-Level Example of a Net Zero Alignment Criteria Staircase" in their Net Zero Bondholder Stewardship Guidance.[59]

These milestones may be used alongside "guardrails", as recommended by The Shareholder Commons.

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[57] Quigley, E (2020), "Universal ownership in practice: a practical investment framework for asset owners." Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3638217

[58] The Shareholder Commons (2022). *Climate Change & the Engagement Gap: Why Investors Must Do More To Move The Needle And How They Can.* Available at: https://theshareholdercommons.com/wp-content/uploads/2022/09/Climate-Change-Case-Study-FINAL.pdf

[59] IIGCC (2023). *Net Zero Bondholder Stewardship Guidance.* Available at: https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/Past%20resource%20uploads/IIGCC-Net-Zero-Stewardship-Guidance.pdf

Figure 3: Illustrative milestones for climate in the chemicals sector

Milestone category	Year 1 milestone	Year 2 milestone	Year 3 milestone
Emission targets	The company sets absolute reduction targets aligned to 1.5°C low/no overshoot pathways for 2025 and 2030.		
Transition targets and plan	Publicly commit to phase in electrified chemical production processes, energy consumption from renewable energy sources, and non-fossil feedstocks that are emissions neutral over their entire lifecycle, in line with a 1.5C pathway; with the aim of achieving a full transition by 2050 at the latest.	Publish a transition plan with operational/finance strategy aimed at achieving the Year 1 commitments. This should include measurable KPIs for electrification, renewable energy consumption, and non-fossil feedstock consumption over the short, medium and long-term.	
Disclosure	The company discloses comprehensively against the recommendations of the TCFD, the Carbon Disclosure Project, and the additional requirements contained in ShareAction's 1.5C benchmark.	The company additionally discloses against emissions reduction targets.	The company additionally discloses progress made against the targets in its transition plan.
Capital allocation			100% of the company's capital spending is aligned with 1.5°C low/no overshoot pathways

Figure 4: Illustrative milestones for nutrition in the food sector

Milestone category	Year 1 milestone	Year 2 milestone	Year 3 milestones
Nutrition strategy	Companies refer to the risk of being over-reliant on the sale of less healthy products, and there is mention of nutrition in annual/ sustainability reports.	Companies detail their health and nutrition strategies in annual/ sustainability reports.	
Disclosure		Companies annually disclose on the proportion of their sales associated with healthier products (using a government-endorsed nutrient profiling model, for example UK FSA HFSS, Health Star Rating).	
Targets: setting and implementation		Companies set ambitious targets to grow the proportion of their sales associated with healthier products and implement a review mechanism to ensure the targets remain ambitious and determine next steps once the target expires.	Companies implement strategies to achieve their healthier sales target across their business model (e.g. innovation, reformulation, mergers and acquisitions, marketing spend, pricing, labelling, in-store promotions, product placement).

Figure 5: Illustrative milestones for living wage

Milestone category	Year 1 milestone	Year 2 milestone	Year 3 milestone
Living wage	All directly employed workers are paid at least the National Living Wage (£10.42 per hour)	All directly employed workers are paid at least the real Living Wage (£10.90 per hour)	
Regional	Company implements a regional pay weighting policy that takes into account living costs	All directly employed workers are paid at least the real Living Wage (£11.95 per hour in London, and £10.90 per hour in the rest of the UK).	
Third-party		Company provides oversight of third-party pay terms	Regular third-party contracted workers are paid at least the real Living Wage.
Accreditation			Company becomes an accredited living wage employer

Recommendation #3: Establish the anticipated pace at which asset managers will apply escalation if investee companies miss milestones — and then implement this

The pace at which the escalation tools are deployed is a crucial component of the effectiveness of escalation. Without a timely progression through the steps, the impetus for companies to change is diminished. There must be consequences for inaction. The environmental and social issues society faces – particularly in regard to climate change and halting biodiversity loss – intensify and more become difficult to address the longer we wait. This urgency must therefore be reflected in the engagement process both through publicly setting appropriately time-bound milestones and progressing through the escalation tools at a pre-determined pace when expectations are not met.

The pre-committed pace at which an asset manager will progress through escalation does not need to be uniform, but can vary at the asset manager's discretion according to the sector and the urgency of the challenges it faces. The asset manager should disclose the pace at which they intend to intensify escalation by progressing through the categories. For example, they may plan to move through the steps semi-annually once the company has missed the milestone. For critical and urgent asks, a faster pace may be needed and progression set to be quarterly. As noted above, escalation may start at a more advanced step due to agreed guardrails or existing policies; in that case, the asset manager should still disclose their intended pace through the remaining steps.

However, the anticipated pace of progression may not always be implementable. Plans to file a shareholder resolution, for example, may have to wait until the next AGM season, or be brought forward to an upcoming voting window due to the urgency of the issue. It is therefore important the asset manager also reports on the actual speed progression took place in the prior period (see Recommendation #5) for further details.

The illustrations below demonstrate how the toolkit, milestones and escalation pace link together in the application of the escalation framework.

Use cases

Case A: 5 year bond in agricultural company

Milestone: Conducts and discloses assessment of their biodiversity risks, opportunities, impacts and dependencies (1 year from request)

Escalation pace: 9 monthly

Figure 6: *Example use case*

	2023				2024				2025				2026				2027	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Asset manager	State expectations at time of financing				S1 - more frequent/senior dialogue			S2 – collaborative public letter			S3 - Suggest equity colleagues deploy voting escalation			S4 – reduce exposure, starting with labelled funds			S5 – Decline to participate in refinancing	
Company				No policy			No policy			No policy			No policy			No policy		

Case B: Equity holding in shipping company

Milestone bucket : Commit to Net Zero by 2050, publish a detailed transition plan, publish scope 1, 2 & 3 emissions (all to be completed 2 years from request), demonstrate progress towards implementing plan (to be completed 3 years from request)

Escalation pace : 3 monthly (Steps 1-3), 6 monthly (Steps 4-5)

Figure 7: *Example use case*

	2023				2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Asset manager	Communicates expectation				Annual check in				Annual check in	S1 - taking issue up with the board, more frequent meetings	S2 - Public statements made, collaboration	S3 - SH resolution submitted, voting against directors		S4 - Reduce holding	Escalation halted	Recommunicates expectation on implementing transition plan
Company	Responds with intention				Committed to NZ, Reporting S1+2				No further progress	No further progress	No further progress	No further progress		Transition plan published		Responds with intention

Recommendation #4: Measure and report comprehensively on the use of the escalation framework

Asset managers frequently cite the effectiveness of their engagement activities, but tangible and consistent reporting of escalation remains limited. ShareAction's most recent asset manager survey found that less than half of those assessed reported the outcomes of their engagement in any form. [60]

Clear and transparent reporting on the use of escalation would allow clients and stakeholders to assess effectiveness of asset managers' stewardship activities, informing their choices about which asset manager to entrust their capital to. It would help clients understand who is best able to represent their interests, as well as establishing a common approach to escalation, encouraging a more persistent and ambitious use of the toolkit to steer companies in addressing systemic environmental and social risks and impacts. It will facilitate a deeper analysis of which escalation tools and methods are most effective, although this will always to some extent be case and context specific.

Stakeholders, including clients, are increasingly asking for better disclosure from asset managers on engagement activities. In response to this demand, investment consultants can provide services for asset owners promoting transparent stewardship, including platforms that aggregate reporting of engagement and voting activity and assesses the quality of engagement.[61]

Asset managers should include adequate detail on the implementation of the escalation toolkit in their stewardship reports. Effective and organised escalation depends on the support of underpinning systems, and asset managers should ensure that they use data management tools to track, coordinate and measure escalation where suitable. Reporting should ideally be a) as consistent as possible year on year to allow for comparison and b) in a machine-readable format to assist with data gathering.

A sample of typical reporting based on the framework follows:

[60] ShareAction (2023). *Point of No Returns 2023. Part II: Stewardship and Governance.* Available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/PONR-PT2_2023-final.pdf

[61] Redington (2023). "Redington launches stewardship service to help asset owners hold manager to account". Available at: https://redington.co.uk/redington-launches-stewardship-service-to-help-asset-owners-hold-managers-to-account/

Figure 8: Sample reporting expectations

Theme	Details	Additional details
Definition of escalation and its purpose		
Expectations and related milestones by sector	Including details of more specific expectations for named companies, if appropriate	
Escalation pace by sector	Including details on # of instances the implemented pace was slower than indicated, with the reasons why	
Use of escalation in the reported period	# companies at each escalation step	By sector/region/theme
	Average time spent at each escalation step	
	# times each escalation tool was used	By sector/region/theme/collaborative or non-collaborative
Outcomes	# of companies that were taken off the escalation toolkit due to success	By sector/region/theme
	# of companies that reached the final step of the escalation toolkit	By sector/region/theme
		If possible, named
	# of companies that moved up one step or more in the escalation toolkit	By sector/region
Case studies	Clear articulation of the specific role the asset manager played in influencing the company	
	Detail on the changes made by the company	
	Examples of failure as well as success	
	Examples across different geographies and asset classes	
Resourcing	Reporting on the # of individuals (on a full-time equivalent basis) in activities related to engagement (depending on model)	

Theme	Details	Additional details
	Explanation on how the asset manager has calibrated the level of resource to appropriately steward its clients' capital	

Reporting in alignment with the FRC Stewardship Code 2020 should be considered a baseline with the escalation reporting enhanced as outlined above. Companies should be named where possible.

TRANSPARENCY Examples in Practice: escalation reporting

None of the largest asset managers report in line with all the expectations listed above, although several provide examples of good practice on individual aspects of reporting.

Engagements at each stage of escalation

Sumitomo Mitsui Asset Management provides six stages where it monitors a mix of progress and outcomes on engagement, as well as particular escalation actions that may be taken in each stage such as escalating meetings to management at the target company, and exercising voting rights. While the asset manager does not indicate the number of companies at each stage, it does disclose the breakdown of companies across the six stages for engagements on environmental, social and governance themes.

Reporting on methods of engagements

Although it does not provide the number of times each tool was used in an escalation framework, Columbia Threadneedle does provide some statistics on engagement methods, including the percentage breakdown of tools used, the leadership level engaged and whether the engagement was 1:1 or collaborative in nature.

Reporting on engagement outcomes

APG is one of the seven asset managers who disclose both the success and failure rates of its engagements in its 2022 Stewardship report, categorising engagements as: successful (meaning that "progress has been achieved in the predefined engagement objectives and asks"); not successful, with subsequent divestment; and engagement closed prematurely (i.e. due to unrelated divestment during the course of the engagement).

Recommendation #5: Ensure teams with escalation responsibilities are resourced appropriately and the framework is fully integrated into the investment and monitoring process

Resourcing and management

Effective engagement is complex but also essential in addressing some of the biggest risks to clients that arise from systemic environmental and social crises. Stewardship teams must therefore be sufficiently resourced to tackle these challenges effectively. The PRI is working with the Thinking Ahead Institute to survey global stewardship resourcing, with results out later this year.[62]

Asset managers must ensure their stewardship team has sufficient human resource capacity to support engagement and escalation across material environmental and social issues and is proportionate to the capital being managed. In a decentralised approach with individual investment teams, the asset manager should ensure that a sufficient portion of investment teams' time is allocated to stewardship activities. Responsibility for the development and oversight of the use of the escalation framework should rest at a senior level. To delegate overall responsibility below that level risks undermining consistent and effective engagement. Leadership responsibility for engagement oversight should ensure that adequate resources are channelled into stewardship to support escalation activities. Senior leadership must have an adequate level of expertise on environmental and social issues to be able to appropriately inform the asset manager's approach to effective engagement and escalation.

Additionally, stewardship teams should contain appropriate levels of expertise. Research has shown one of the best indicators of engagement success is the depth of knowledge and credibility the asset manager brings to engagement.[63] To steward their clients' capital effectively, asset managers need to invest significant resources to develop expertise and build knowledge in the environmental and social risks facing the financial system, and the impact that the financial system has on society and the environment. Asset managers should also ensure that stewardship teams are skilled in negotiation and the practical application of escalation tools. They should also ensure that any internal expertise is informed by credible external sources.

Finally, adequate training is necessary to ensure that staff in both stewardship and investment teams understand the issues at hand to enhance their likelihood of achieving successful engagement outcomes.

Integration across the firm

Where organisations do have a centralised team for stewardship, they should meaningfully and regularly interact with investment teams, so that their activities and insights are fed back into the investment monitoring and decision-making process. By ensuring that stewardship and investment functions are in close communication, asset managers can benefit from each group's specialised knowledge, reduce information asymmetry and present a consistent voice across the organisation. Conversely, asset managers who don't integrate their investment and stewardship strategies risk undermining the success of both through duplication, inefficiencies and conflicting priorities.

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[62] Thinking Ahead Institute (2023). The Global Stewardship Resourcing Survey. Available at: https://www.thinkingaheadinstitute.org/news/article/the-global-stewardship-resourcing-survey/

[63] James, E, Gifford, M (2010). "Effective Shareholder Engagement: The Factors that Contribute to Shareholder Salience," *Journal of Business Ethics.* Available at: https://www.jstor.org/stable/40929268.

INTEGRATION Example in Practice: Clear Link between engagement and investment at Robeco.

Robeco's escalation strategy for enhanced engagements – aimed at companies that "*severely and structurally breach minimum behavioural norms in areas such as human rights, labor, the environment, biodiversity and corruption*" – includes a clear timeline with actions and expectations. At the commencement of an enhanced engagement, the portfolio weight of the target company is lowered for the duration of the process. Robeco then undertakes a 36-month escalation strategy – if certain milestones are not met at the 12-, 18- and 24-month mark, then the company is referred to the controversial behaviour committee for exclusion.

Conclusion

Asset managers must steward capital effectively in order to protect their clients' interests (financial and non-financial) and contribute to averting the environmental and social crises that threaten those interests. This can be achieved through a more structured, purposeful use of escalation tools to bring the weight of consequence to engagement and catalyse a more urgent response from companies to environmental and social crises.

Effective engagement begins with clear and time-bound expectation-setting to frame dialogue and allow stakeholders to understand the conditions upon which escalation tools will be applied. An escalation toolkit, categorised by strength both increases visibility for companies, clients and other stakeholders, and makes clear the consequences of unsuccessful engagement. Transparent qualitative and quantitative reporting on the progress of engagements and the application of escalation tools would allow clients to assess how their interests are being represented, as well as encourage asset managers to ensure that their stewardship is being conducted consistently and ambitiously.

Additional guidance

How does this framework fit in with existing engagements and policies?

Asset managers should not use adoption of this framework to lower stewardship ambition, and should map existing engagement policies, expectations, guardrails & escalations onto the framework so that the existing approach is reinforced or strengthened. For example, if the asset manager has a voting policy against directors at companies that have not published a transition plan, they should continue to follow that policy. Similarly, existing escalations should be mapped to the toolkit, rather than being reset.

Asset managers may also wish to skip steps for a number of reasons: the urgency of the situation (as with, for example, climate change); a track record of unresponsiveness from the target company; to support other collaborative actions; or, in order to indicate dissatisfaction, practice active ownership and exercise their investor rights through actions such as voting.

Multiple escalation steps can be deployed simultaneously.

Tools included in earlier steps may continue to be used as the process progresses. For example, an asset manager currently pursuing litigation against the company (Step Five) should continue to vote against standing items/in favour of shareholder resolutions where appropriate (Step Three).

How does this framework apply to corporate fixed income?

Bondholders can and should be impactful stewards. Investors should give proportionate emphasis to their fixed income and equity holdings, utilising different tools where appropriate to engage. Integrating bondholder interests and voice into stewardship efforts can result in strengthened engagement. Asset managers should also ensure that any decisions to participate in new financings are consistent with the company's progress on meeting expectations. Not participating in a financing can be an effective escalation tool.

The maximum point of influence for a bondholder is primary issuance, where an asset manager can condition participation in the financing on expectations being met. However, the window to influence companies and set expectations in primary syndication can vary quite significantly, from a "drive-by" (i.e. same day) issuance by well-known investment-grade borrowers, to a full roadshow (over a number of days) for high-yield bonds or private placements. The groundwork for influencing most investment-grade borrowers therefore needs to be laid well before the financing window, through regular ongoing engagement.

Bondholders also have opportunities to engage and influence those private companies who access debt markets, including sovereign-owned entities and private equity portfolio companies. These companies can be material contributors to environmental and social risks and impacts, but are outside the scope of listed equity focused stewardship. By engaging with these companies, bondholders can therefore materially expand the effectiveness of overall stewarding of environmental and social factors.

Investors sometimes pursue a partial divestment or non-participation approach, in which they do not finance longer-dated bonds. The rationale is that these bonds have greater exposure to systemic risks such as climate change. However, the effective risk horizon of a bond to systemic factors extends well beyond the maturity date of the bond. This is because the ability to refinance that bond at maturity will be influenced by the risk profile of the borrower over the subsequent bond tenor. A six-year bond is therefore sensitive to risks that manifest in year seven and beyond. As such, bond investors should

consider all tenors as potentially exposed to and influencers of relevant environmental and social factors.

Given bond stewardship is an evolving practice, and studies have shown that collaborative engagement is effective in achieving engagement goals, asset managers should consider joining collaborative fixed income initiatives where applicable. [64]

How does this framework apply to passively-managed assets?

Capital allocation levers are less dynamic for passive funds, and so Step Four and Step Five in the toolkit will not be applied in the same form. However, passive funds can still take the full range of actions in Steps One through Three, including using voting rights. Additionally, the capital allocation lever still exists for passive asset managers, who can engage with index providers and provide "clean" indices for clients. Passive asset managers should inform clients on the risks and impacts of problematic environmental or social exposures in the original funds and explain the benefits of moving their capital into these "clean" funds, while also seeking to remove or abate barriers (such as higher fees or weaker liquidity terms). Indeed, recent research on maximising investor impact on fossil fuels shows that the influence of bond indices as a driver of significant fossil fuel funding is often overlooked. Addressing that oversight represents a material opportunity to influence fossil fuel companies onto more aligned pathways.[65] Asset managers should ensure that they apply this escalation toolkit to their passively-managed assets.

How does the toolkit apply in different regions, with variation in local norms and laws?

Variations in local norms and regulation may mean that not all the tools in the toolkit are applicable in each case. Asset managers can adapt this toolkit to the region in which they are based and the location of the company. Resources such as ClientEarth's *Know Your Rights*[66] are valuable guides to the varying legislative contexts facing asset managers.

However, even where one tool may be unavailable or inappropriate, there will still usually be other tools in that escalation category that can be used; therefore it should still be possible to move through each step in the escalation toolkit, or to skip to the following step where appropriate. Where the use of tools is adapted to account for regional differences, asset managers should disclose this and the reasons behind it. Notwithstanding regional variations, the escalation toolkit and pathway are broadly applicable.

How should asset managers accommodate specific circumstances where the timeline and toolkit may need to vary?

Asset managers may encounter situations where idiosyncratic considerations require variation to the pathway and toolkit set out in the escalation framework. For example, the timing of AGMs will influence the pace at which an asset managers can progress to the escalation step of filing resolutions or asking AGM questions. Conversely, the asset manager may choose to bypass some of the earlier escalation steps (such as private letters), due to either a) the urgency of the issue (such as those related to fossil fuels) and/or b) a recognition that the target company has not shown a willingness to engage

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[64] Dimson, E, Karakaş, O, Li, X (2015). "Active Ownership", *The Review of Financial Studies.* Available at: https://academic.oup.com/rfs/article/28/12/3225/1573572?login=true

[65] Quigley, E (2023)."Evidence-based climate impact: A financial product framework". Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214629623003122

[66] Mackenzie, C, Rees, W and Rodionova, T (2013). Do Responsible Investment Indices Improve Corporate Social Responsibility? FTSE4Good's Impact on Environmental Management." *Corporate Governance: An International Review*, available at: https://doi.org/10.1111/corg.12039

when targeted by other asset managers. In these cases, asset managers should disclose where progress through the steps has been delayed or expedited, with high-level indication of the reason.

Will time-bound expectations result in lower ambition in expectations for companies?

There is a risk that, in pre-determining the pace at which expectations need to be met, asset managers may lower the ambition of those expectations so engagement objectives are achieved and the "engagement success" captured in their reporting. However, this can be mitigated through the publication of the expectations and related milestones so that stakeholders can assess their ambition. Asset managers should not expect to achieve 100% of engagement outcomes, as this indicates an insufficient level of ambition in the expectations.