



TOOLKIT

# Harnessing Stewardship Codes

FOR LONG-TERM  
VALUE CREATION

FCLTGlobal is dedicated to rebalancing investment and business decision-making towards the long-term objectives of funding economic growth and creating future savings.

FCLTGlobal is a not-for-profit dedicated to developing practical tools and approaches that encourage long-term behaviors in business and investment decision-making. It takes an active and market-based approach to achieve its goals. By conducting research and convening business leaders, FCLTGlobal develops tools and generates awareness of ways in which a longer-term focus

can increase innovation, and create value. FCLTGlobal was founded in 2016 by BlackRock, Canada Pension Plan Investment Board, The Dow Chemical Company, McKinsey & Company, and Tata Sons out of the Focusing Capital on the Long Term initiative. Its membership encompasses asset owners, asset managers and corporations from around the world.

MEMBERS



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This document benefited from the insight and advice of FCLTGlobal’s Members and other experts. We are grateful for all the input we have received, but the final document is our own and the views expressed do not necessarily represent the views of FCLTGlobal’s Members or others. The information in this article is true and accurate to the best of FCLTGlobal’s knowledge. All recommendations are made without guarantee on the part of FCLTGlobal. Reliance upon information in this material is at the sole discretion of the reader; FCLTGlobal disclaims any liability in connection with the use of this article.

# Harnessing Stewardship Codes for Long-Term Value Creation

Recent years have seen the emergence — and proliferation — of a new kind of governance document for investors: stewardship codes. These codes can help investors optimize long-term value creation for beneficiaries by highlighting effective ways of communicating with investee companies and laying out clear guidelines for rigorous monitoring.

Twenty-four stewardship codes have been introduced around the world, mostly since 2016. The bulk of these codes are country-specific, although the International Corporate Governance Network (ICGN), the Organization for Economic Cooperation and Development (OECD), and the European Union (EU) have developed multinational stewardship principles or codes.

Stewardship codes are chiefly designed for institutional investors. While they occasionally take the form of binding regulation, more often they involve voluntary standards. Nearly half of stewardship codes are assembled by national and supranational organizations, while the rest are issued by investors or private industry participants.

Properly organized, stewardship codes can be a vital tool for promoting long-term thinking across the value chain, guiding investors and investees toward behaviors that help them see past short-term market vicissitudes and focus on longer-term measures of success. Investors can also create their own stewardship principles to emphasize the issues that are important to their organization and its brand.

Building on the extensive work carried out by [ICGN](#), the [Council of Institutional Investors \(CII\)](#), and others, our focus is to ensure that stewardship codes around the world are targeted to advance long-term thinking in financial markets. To advance this goal of improving long-term value creation, FCLTGlobal has assembled a suite of materials for investors, investees, and regulators:

## Model Stewardship Code for Long-Term Behavior

A sample code highlighting the principles and approaches that promote long-term thinking and value creation.

## Stewardship Checklist for Long-Term Success

A list of questions to help investors ensure they're implementing policies and procedures consistent with the best long-term codes.

## Conversation Guide for Stewardship Teams

A step-by-step manual enabling stewardship teams to communicate effectively with portfolio managers on strategies for implementing stewardship codes that promote long-term value creation.

## Interactive Portal for Global Stewardship Codes

An interactive tool that allows users to understand and compare existing stewardship codes from around the world. The goal is to make it easier for stewardship professionals to see how codes around the world address key stewardship principles. Visit [www.fcltglobal.org/stewardship-codes](http://www.fcltglobal.org/stewardship-codes)

# Model Stewardship Code for Long-Term Behavior

A sample code highlighting the principles and approaches that promote long-term thinking and value creation

A good stewardship code helps clarify the responsibilities of institutional investors, laying out core principles to foster a shared understanding among stakeholders including regulators, investors, and investees.

To ensure that stewardship codes put primary emphasis on long-term value creation, FCLTGlobal has worked with its members to identify seven principles of long-term ownership that could be incorporated into new or revised stewardship codes. These codes represent the highest common denominator of high-quality codes around the world, using principles that are equally applicable for asset owners and asset managers. Given FCLTGlobal's mission of focusing capital on the long term, our interest is in the subset of stewardship that is concerned with fostering an ownership mindset to promote long-term value. Valuable work has been done by the International Corporate Governance Network (ICGN) and others on the broader universe of issues that can be addressed via stewardship codes.

## Principle 1

### THEME

#### **Long-term alignment**

*Implement incentives, such as fee and compensation structures, to prioritize clients' long-term best interests.<sup>1</sup>*

### GUIDANCE

Carefully-targeted incentives can help investors stay focused on the long-term needs of their clients. FCLTGlobal has done extensive work on mechanisms that can be used to align incentives through investment mandates between asset owners and asset managers. As part of the mandate terms, investors can require that external managers or subadvisors report stewardship activities and metrics in a manner that facilitates monitoring progress toward stewardship objectives.

More generally, investors can consider the following mechanisms to promote and reward long-term value creation:

- **Offering fee discounts that increase with longevity may strengthen owners' commitment and give managers more flexibility to make long-term investments.**
- **Organizing performance reports to emphasize long-term returns while prioritizing comments on annual or longer performance periods could focus organizational attention on longer-term issues.**
- **Scheduling regular evaluations may enable more open communication about long-term value than relying on watch-listing during periods of underperformance.**
- **A three- to five-year contract term may set longer-term expectations than an at-will contract and still give the owner discretion to terminate, if necessary.**

## Principle 2

### THEME

#### **ESG integration**

*Incorporate all considerations with a material impact on long-term value creation into investment decision processes, including environmental, social, and governance (ESG) factors.<sup>2</sup>*

### GUIDANCE

Prudent, long-term investing requires investors to account for all factors that have a material impact on value creation over time, which may include effects of climate change, cybersecurity, robustness of the supply chain, corporate governance and business ethics standards, corporate culture, and other intangible issues. Material factors are those that would affect the judgment of an informed investor who intends to be invested over a long-term horizon.

## Principle 3

### THEME

#### **Understand investee stakeholder perspectives**

*Seek to understand the potential risks and opportunities related to relevant investee stakeholders.<sup>3</sup>*

### GUIDANCE

Companies execute their strategies to achieve long-term value in a multi-stakeholder context. Investors can broaden their long-term vision by considering the concerns of relevant stakeholders and the potential long-term business implications of those concerns. Relevant stakeholders may include employees, customers, suppliers, and communities.

# Principle 4

## THEME

### **Monitoring investees**

*Develop and implement a monitoring policy and process to promote long-term value creation.<sup>4</sup>*

## GUIDANCE

By monitoring investees' long-term potential, rather than overly focusing on quarterly or other short-term events, institutional investors enhance medium- to long-term value, improve capital efficiency, and support sustainable company growth. This monitoring process can include strategies around talent, innovation, capital allocation, and risk management, as well as oversight by boards and governance structures.

Beyond looking at public disclosures, or primary and third-party research, institutional investors can monitor investees by:

- engaging with investees, including with their boards
- sharing research and information with other investors, subject to applicable laws and regulations
- attending or monitoring formal shareholder meetings
- indicating a willingness to become insiders — and a mechanism by which this could be done, if applicable

FCLTGlobal has done extensive work on what information investment decision makers want to learn from corporate investees. Factors to monitor may include:

- capital allocation priorities and capital structure
- investee long-term strategic plans, including long-term objectives and core drivers of growth
- investee governance, including board composition, subcommittee structure, independent director oversight, internal controls, quality of reporting, overall soundness of explanations for corporate governance issues, and any departures from corporate governance best practices
- strategic alignment of executive compensation structure with goals
- executive compensation duration relative to measurement period for goals
- environmental or social issues
- interest in cultivating long-term shareholders, including through discontinuing short-term guidance

# Principle 5

## THEME

### **Regular, effective, and targeted investee communication**

*Communicate regularly and effectively with investees on issues with a material impact on long-term value creation.<sup>5</sup>*

## GUIDANCE

Effective long-term stewards engage with investee management teams, boards, or controlling shareholders on issues that materially impact long-term value creation. Effective engagement includes providing companies with both negative and positive feedback when appropriate.

To maximize the impact of these engagements, investors can design a process to ensure appropriate communication with investees, spelling out the frequency of dialogue with investees, the issues and types of information that merit sharing, and mechanisms for providing candid and direct feedback to investees — while applying controls to prevent the sharing of insider information.

More broadly, long-term communication with investees requires a long-term commitment. This process involves developing an in-depth knowledge of investees and their business environments, setting clear objectives and milestones for engagement, and understanding that engagement is a multi-year process.

# Principle 6

## THEME

### **Escalation**

Establish clear processes on escalating engagement activities when there are concerns about risks to long-term value.<sup>6</sup>

## GUIDANCE

When concerns arise about risks to long-term value, investors can follow a deliberate process of escalation and intensive engagement with investees. Examples of such risks include: investee deviation from long-term corporate governance practices; changes to the investee's strategy or remuneration that could limit long-term success; or significant risks to the environment.

In these cases, investors can take the following steps:

- **Provide feedback to the investee:**
  - Write or meet with the board or management confidentially
  - Write or meet with the board or management publicly
  - Collaborate with other investors to provide feedback to the investee, subject to applicable laws
  - Make public statements that include information about any previous attempts at engagement
- **Use their votes to seek change:**
  - Withhold votes from directors
  - Vote against directors
  - Vote against management say-on-pay resolutions
  - Vote for or against other proposals
  - Propose changes to board membership
- **Actively participate in shareholder meetings:**
  - Raise issues at shareholder meetings
  - Support or submit shareholder proposals
  - Submit shareholder resolutions at general meetings
  - Requisition a general meeting
- **Seek improvements through remediation**
- **Sell investee shares, if consistent with the investment strategy**

# Principle 7

## THEME

### **Collective engagement**

*Act collectively with other long-term investors, as appropriate in relevant jurisdictions, to enhance or preserve long-term value.<sup>7</sup>*

## GUIDANCE

The preferences of long-term investors can be difficult to glean amid the more frenzied activities of short-term investors. To elevate their views and enhance long-term value by leveraging their collective voice, long-term investors can adopt policies for collective engagement with other owners and disclose their rationale for collective engagement. This may be particularly important at times of significant economic or corporate stress.

When considering such coordination, it is vital to ensure compliance with applicable laws and regulations, including rules on acting in concert.

# Stewardship Checklist for Long-Term Success

A list of questions to help investors ensure they're implementing policies and procedures consistent with the best long-term codes

Effective stewardship codes help promote a mindset of shared ownership between investors and investees and are an important mechanism for investors to maximize long-term value creation. At the core of stewardship is deliberate monitoring and regular engagement between investors and investees.

In response to client and beneficiary demand, asset owners and asset managers alike are dedicating resources to stewardship. To facilitate this work, FCLTGlobal has reviewed stewardship codes from around the world, gathered input from our expert members, and compiled a user-friendly checklist of key questions. This document is meant to help teams covering stewardship, proxy voting, responsible investing, and environmental, social, and governance (ESG). The goal is to establish and improve policies and principles to ensure that they avoid short-term pitfalls and generally follow the stewardship principles most conducive to long-term success.

## Questions for Stewardship, ESG, and Responsible Investing Teams

### MONITORING

- **Are we confident that the key metrics and developments we monitor most closely for our investees are important for long-term value creation? Are the following included?**
  - Capital allocation priorities and capital structure
  - Investee long-term strategic plans, including long-term objectives and core drivers of growth
  - Investee governance, including board composition, subcommittee structure, independent director oversight, internal controls, quality of reporting, overall soundness of explanations for corporate governance issues, and any departures from corporate governance best practices
  - Strategic alignment of executive compensation structure with goals
  - Executive compensation duration relative to measurement period for goals
  - Environmental or social issues that could be important to value over time
  - Interest in cultivating long-term shareholders, including through discontinuing short-term guidance
- **Have we carefully decided which metrics and developments NOT to monitor so that we target our efforts on factors affecting long-term value?**

- Do we think it would improve our returns to try either of the below approaches to monitoring?
  - Sharing research and information with other investors after ensuring compliance with applicable laws and regulations, including rules on acting in concert
  - Attending or monitoring formal shareholder meetings

#### INVESTEE COMMUNICATIONS

- Do we have a clear philosophy on when and how we provide feedback to current and prior investees to encourage long-term value creation?
- Is there a threshold level of concern or development that triggers us to provide feedback?
- Have we thought carefully about the mechanisms we use to provide feedback to investees?
- If and when we provide feedback, are we prioritizing the most important long-term strategic issues?
- Are we evaluating the effectiveness of the feedback that we provide to investees and tracking the outcomes?

#### ESCALATION

- Is there a process to determine when escalation would be valuable for our long-term portfolio returns? Does it address the following questions?
  - How do we weigh the pros and cons of escalation?
  - In which types of situations would we escalate, and through which mechanisms?
  - Would it be helpful to have a predefined or centralized escalation process?
  - Might an escalation in this case affect our standing in other cases?

#### COLLECTIVE ENGAGEMENT

- Is there a process to determine when collective engagement with other investors would be appropriate from a legal perspective and valuable to improving our long-term portfolio returns? Does it address the following questions?
  - How do we weigh the pros and cons of collective engagement?
  - In which types of situations would we collectively engage, and through which mechanisms?
  - Would it help to have a predefined/centralized collective engagement process like The Investor Forum in the UK?

# Questions for Senior Management

After the Stewardship, ESG, or Responsible Investing Team Has Completed Foundational Work

## LONG-TERM ALIGNMENT

- What is our philosophy for monitoring and investee engagement, and how does it relate to relevant stewardship codes?
- Are stewardship principles important to our brand?
- What are our strategic advantages and disadvantages with respect to stewardship?
- Do the fund sponsor or beneficiaries have top-down preferences with respect to stewardship that we need to accommodate?
- Have we identified our desired outcomes and key metrics of success based on these considerations? Over clear time frames?
- Are we set up to secure and sustain organization-wide buy-in for stewardship activities? Do our plans address the following questions?
  - Are senior managers committed to leading on stewardship issues?
  - How should we govern and staff our stewardship activities?
  - What incentives should we provide our staff to reward them for successful stewardship?
  - How do we measure success to reward staff for stewardship? Over what time frames?
  - How can we manage and mitigate conflicts of interest with respect to stewardship, such as when we own both equity and fixed income securities of an issuer?

## ESG INTEGRATION AND UNDERSTANDING STAKEHOLDER PERSPECTIVES

- Do we have any environmental, social, or governance priorities that we would like to elevate to firmwide priorities?
- Are there particular stakeholders beyond our beneficiaries that are a priority for our firm to understand?

# Conversation Guide for Stewardship Teams

A step-by-step manual enabling stewardship teams to communicate effectively with portfolio managers on strategies for implementing stewardship codes that promote long-term value creation

Stewardship codes can help investors articulate their guiding principles and enhance long-term value creation for beneficiaries. Increasingly, asset owners and asset managers alike are dedicating real resources to implementing stewardship codes — including the central tasks of monitoring key metrics and regularly engaging with investees. These responsibilities can rest with centralized stewardship teams or become a shared responsibility across departments.

Drawing on the expertise of our members, FCLTGlobal has compiled this conversation guide to help stewardship, proxy voting, responsible investing, and environmental, social, and governance (ESG) teams collaborate with their counterparts in portfolio management and investment research to apply stewardship codes in a way that advances long-term thinking.

## Investee Communication

- In what circumstances is it most valuable to provide investees with feedback?
- How do you provide feedback to companies on their long-term strategies? On which types of issues?
- What other tools do we have beyond providing companies with frequent or systematic feedback to best drive greater long-term value creation?
- Under what circumstances would you write to the board or otherwise escalate if a company did not listen to your feedback?
- Would it be helpful to have a predefined or centralized escalation process?

## ESG Considerations and Stakeholder Perspectives

- Which ESG factors have a material impact on your investment decisions and processes (e.g., robustness of the supply chain, corporate culture, other intangibles)?
- Would your investment decisions benefit from a greater understanding of the potential risks and opportunities related to relevant investee stakeholders?

## Long-term Alignment

- How do we track the effectiveness of our strategic decision-making on stewardship?
- Do we present data effectively to frame our decision-making?
- How should we coordinate investee communication and meetings?

## Acknowledging the Stumbling Blocks

- What are our chief concerns about investment stewardship codes — and how can we best address them?

# Acknowledgments

These materials benefited from the insights and advice of a network of thought leaders drawn from FCLTGlobal's Members. The final documents are our own, and the views expressed here do not necessarily represent the views of FCLTGlobal's members. We would like to thank and acknowledge the contributions of everyone who participated in the conversations and working groups that informed our research.

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# Notes and Sources

<sup>1</sup> ICGN stewardship principles and Canada, Taiwan, and Thailand stewardship codes address incentives. This principle aggregates the collective guidance from all of the codes.

<sup>2</sup> ICGN stewardship principles and Canada, South Africa, Malaysia, Italy, Brazil, Hong Kong, India, OECD, Thailand, Kenya, Australia, and Netherlands stewardship codes address ESG integration. This principle aggregates the collective guidance from all of the codes.

<sup>3</sup> OECD, Thailand, Kenya, and Netherlands stewardship codes address stakeholder perspectives. This principle aggregates the collective guidance from all of the codes.

<sup>4</sup> 21 stewardship codes (all but Switzerland) address monitoring investees. This principle aggregates the collective guidance from all of the codes.

<sup>5</sup> 20 stewardship codes (all but Switzerland and the UK) address regular and effective investee communication. This principle aggregates the collective guidance from all of the codes.

<sup>6</sup> 19 stewardship codes (all but Brazil, Japan, and Switzerland) address escalation. This principle aggregates the collective guidance from all of the codes.

<sup>7</sup> ICGN stewardship principles and UK, Canada, EU, Italy, Brazil, Singapore, Hong Kong, Denmark, ISG, India, Netherlands, South Africa, Japan, Taiwan, OECD, Thailand, Kenya, and Australia stewardship codes address collective engagement. This principle aggregates the collective guidance from all of the codes.

**For additional reading, see *The New Paradigm* from the World Economic Forum and Martin Lipton, Lawyer, Wachtell Lipton Rosen & Katz. Also, *What is Stewardship?* by Alex Edmans, London Business School**

**FOCUSING CAPITAL  
ON THE LONG TERM**

