

# STEWARDSHIP CHECKLIST FOR LONG-TERM SUCCESS

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

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.

### 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 Communication

- 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](#)?

- 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?

## Questions for Senior Management

(After the Stewardship, ESG, or Responsible Investment 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?