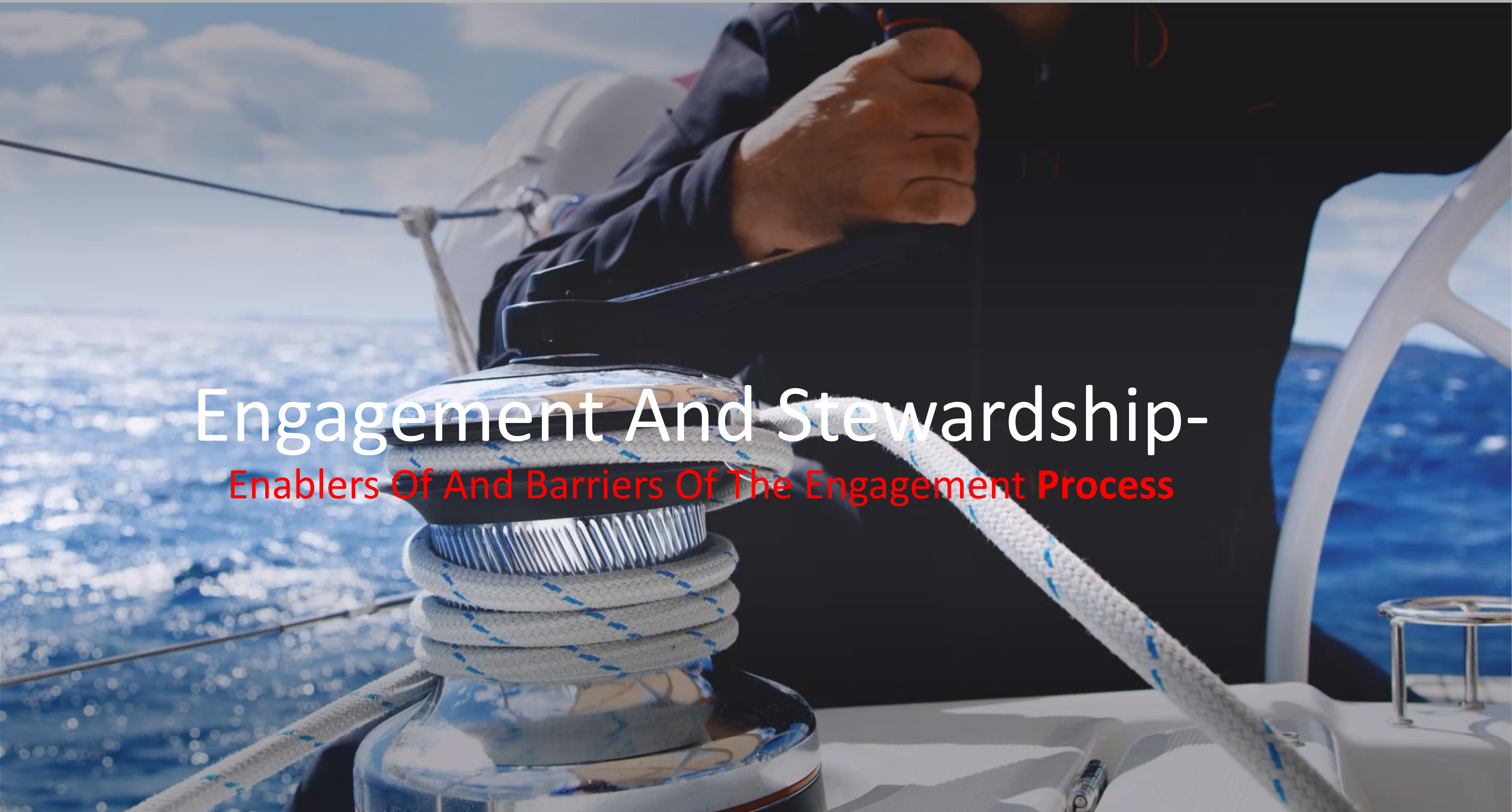

Engagement And Stewardship-

Enablers Of And Barriers Of The Engagement **Process**

Points to Remember

- Stewardship is active, responsible ownership of the companies or other assets on behalf of the long-term owner
- It is the investor's fiduciary duty to its clients and beneficiaries

- Engagement is an active dialogue with the companies for a particular purpose, typically, if it covers one or more ESG matters, which is being considered here
- Voting at shareholders meeting is a element of Stuart ship. It gains external attention to but unlimited element with Limited influence.

- Few investors attend companies agent but could benefit from the insights and the influence that come from the doing so.
- So how to engage and what benefit engagement can bring out?
- It can bring positive influence on the corporate behaviour and can impact long-term value for the company

Points to Remember

- Many markets have stewardship in the place and their number is growing, so is the regulatory backing too
- Generally, engagements are successful if they are carried out positively and concisely, one has to recognize that changes are brought for the companies benefit, not the investor self-interest
- To make engagement successful and effective can be done through range of mechanisms, including making concerns, known public, proposing shareholders resolution, and working collectively

There are constraints too

- Inadequate resources
- Finding response to these resources again, a challenge

  - How can that be handled again? An issue?
  - Engagements can be bottom-up on specific issues faced by individual company or can operate top down by applying perspective on a particular issue
  - It is believed that most effective engagement starts with clarity about the engagement objective and how delivery against that objective will be measure over a time
  - There is a code 2020UK Steward ship code and Indian companies act 2013 in India, but it is also hard that engagement success often take years to deliver in full

What is to done

Apply strategy

There are various forms of engagement(12) out of which five are the types of individual engagement and others seven are collaborative engagement

There are six success factors for effective engagement, three for characteristic of engagement approach and three for characteristic of investors collaboration. (Which are being covered by one of my colleague)

What we are going to discuss today is strategy and tactics that has to be followed a goal setting and resources

One has to remember always that engagement has to be with the purposeful dialogue for which one has to have objective in the mind and that objective/goal has to be defined.

There can be challenges in the engagement

- question of resources or does the investment firm have the same?
- If they have expertise or sufficient leverage to act upon
- Keeping these resource constraints in the back of mind, engagement strategies have to be designed to deliver meaningful results in a cost-effective manner.

Define priority

- Politically speaking, the defining strategy includes prioritization
  - Identify which company in a portfolio is most in need of engagement.
  - Which engagement issue should be prioritised in the dialogue without wasting time of the investors?
  - Several software are provided which can assist in capturing the engagement process can be internally developed also to name of you Impactive, RESEARCHPOOL, VERITY ESG

  - In , 2022 PRI and few institutes launched a joint project, develop a standard for the level of resourcing to be expected for this stewardship.

Strategy continues

- Before this, slide whatever I have spoken, was the story behind the picture, I’m going to present
- So there has to be a strategy and tactics to define an approach for the engagement when we talk of investors perspective
  - Any fund manager : can easily find out the priority areas for the company and the issue. Likewise, risk as well.
  - For passive investors, same value, risk dynamic should be the driver
  - And this approach becomes the focus on the largest companies and top down the most material issues
  - Many fund managers are building their stewardship resources by adding to their specialist, Stewardship also

Strategy continues

  - Passive fund managers were investing in the broad range of companies are left with no option but to do so.
  - many active investment houses are now working to ensure that their active portfolio managers can deliver to ship alongside with the regular monitoring of investee companies.

- **How they do it**: hiring professional professionals in the field of the company.
- **Engagement is useful**, but which engagement, collective or individual. Both have their pros and cons.
- PRI report" How Invest How ESG Engagement Creates Value For Investor And Companies"
  - focus on individual engagement and find them valuable,
  - but we know that they are time consuming not possible for any company,
  - there has to be a balance between the individual and the collective form of engagement. This report is identifying common enablers and the barriers of successful engagement for which I have been told to discuss here

Contrasting perception of the enablers of and barriers of the engagement **process-Relational factors**

Corporate prospective		Investor prospective	
Enablers	**Barriers**	**Enablers**	**Barriers**
1. Existence of an actual two way dialogue.	1. Language 2. Communication issue	1. Good level of a commitment on both sides to meet objective.	Language Cultural difference
2. Being honest and transparent in the dialogue and having an open and objective discussion.	No continuity in the discussion	2. Reciprocal understanding of the engagement process and issues by both sides.	
		3. Go to communication and listening capacity on both sides	

Contrasting perception of the enablers of and barriers of the engagement **process-Corporate factors**

Corporate prospective		Investor prospective	
Enablers	**Barriers**	**Enablers**	**Barriers**
1. Responsiveness and willingness to act upon investors request	1. Companies bureaucracy is not letting you do the changes External reporting on new practices	1.Corporate reactivity to the requests	Refused by top executives to be engaged on ESG issues
Selecting appropriate internal experts		2.Level access in targeted companies	Function/sustainability manager struggle to advance, ESG related issues
3. Knowing your investors, access to prior discussions to Taylor conversations.	2.Lack of resources. In sufficient knowledge to meet the investors need/ demands	3.Access to appropriate corporate experts	Two smaller shareholding to attract sufficient attention
4. Systematic tracking of interactions with the investors	3. Lack of actual ESG policies, practices and result that can be reported externally	4.Long-standing relationships with the corporate actors	Corporate inability to meet ongoing objectives and targets
		5.Corporate proactivity to inform investors when engagement objectives/target have been met	

Contrasting perception of the enablers of and barriers of the engagement **process-investor factors**

Corporate prospective		Investor prospective	
Enablers	**Barriers**	**Enablers**	**Barriers**
1. Listening capacities of investors.	1.Lack of investor preparation, overly generic questions	1. Beneficiary request for the consideration of ESG issues.	1. Lack of in from clients/top management for ESG related investment.
2. Communicating in different languages.	2.Lack of knowledge about the company(ESG policy, track record)	2. Top management support for ESG related investment activities.	2. Small under resourced ESG team.
3. Providing questions in advance.		3. Well, resource and experience, DSG teams.	3. Lack of clear engagement, policies, objectives, and monitoring systems.
4. Prior knowledge of a corporate EST practice and performance.	3. Lack of sufficient investor tracking process to determine whether engagement request have been met.	4. Clear engagement, objectives and targets.	4. Under developed relationship with corporate actors
5. Genuine interest in management of ESG issues at the company.	4. Changing engagement, objectives and targets.	5. In-house tracking tools to monitor and evaluate engagement progress.	5. Difficulty in demonstrating materiality of the engagement.
6. Patients and understanding regarding corporate ability to address ESG challenges.		6. Of resources through collective engagement.	6. What is it owners in sufficient mechanism to guarantee acid managers conduct successful engagements?

Other barriers

- Conflict of interest: a barrier to engagement:
  - Investment managers have business relationship with the same companies
  - Company selected for voting is related to the parent company
  - Employees might be linked personally and professionally to the company who securities are submitted to vote

  - Solution: disclose actual, and perceive conflicts.   ?????

Other barriers

- Emergence of competition:

  - Historically, people worked once in under resource area a and professional are now working together, both informally and formal collaborations recognize each other’s strength, theme for the company and specific issues in such a scenario, Stewardship is very important, and there is increased focused for consultants and fund managers on the collaborative approach
  - Exceptions, climate action 100+ a collaborative engagement-most investors now her there are institutions who are seeking to differentiate themselves by adopting different approaches. Individual CA 100+ are different and distinct.
  - Competition, though is always helpful and bring best of the value, but once should not forget the collective activity that investor sector is exploring synergies in the engagement and looking for a collective impact

Most Effective way

- The most effective engagement starts with
  - clarity about the engagement
  - Delivery against that object
  - Measurement over the time

  - What is the best route? Collective engagement is the key route to maximise the effectiveness of the Limited resources.
    - Investors must be aware of the regulatory constraints, such as the rules acting against the concert
    - Engagement can be carried out across the full range of our investment assets.
    - Has to apply a good sense and judgement to different circumstances and the levers that investors control

Thanks