

2022 GLOBAL INSTITUTIONAL INVESTOR SURVEY



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EXECUTIVE SUMMARY

Georgeson’s Institutional Investor Survey provides a temperature check of corporate ESG investor expectations. In-depth interviews were held with international investors representing \$30.5 trillion AuM. All respondents are part of ESG & Stewardship teams across a broad range of investment philosophies and asset classes.

Four major themes covered by the investor survey:



Key takeaways:

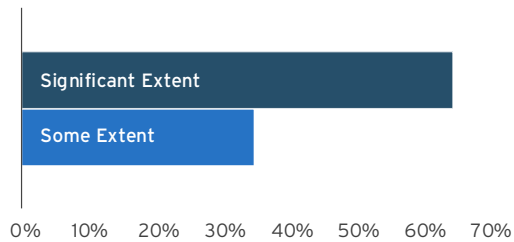
Institutional Investor External Influencer's	Climate Escalation Strategies	Social (S) Escalation Strategies	Linking ESG Metrics to Executive Remuneration
<p>65% of respondents emphasised how investor initiatives and frameworks are having a 'significant impact' on their voting and investment decisions.</p> <p>35% suggest external influencers are having 'some impact' on their voting and investment decisions</p> <p>75% of respondents that are Net Zero Asset Management signatories confirmed it will be a priority to accelerate their net zero asset alignment over the next 12 months - they will assess their carbon footprint every quarter and this would drive their engagement escalation in 2022.</p>	<p>Most respondents said they won't penalise directors if companies don't put a 'Say on Climate' vote forward, and if companies do put one forward, 70% will most likely support it.</p> <p>40% of respondents indicated they would likely support 'say on climate' shareholder proposals if they provide a compelling case</p>	<p>45% of respondents are 'very likely' to introduce Social policy guidelines and they will be applicable in 2022. This could result in directors receiving increased against votes for poor disclosure or lack of progress around gender, ethnic diversity, or poor human rights policies.</p>	<p>90% endorse the concept of ESG metrics in executive pay, they agree it's on a journey. ESG goals usually fit long-term incentives, want to promote shorter-term targets, and track the progress over the long-term. They must be material, measurable and transparent. Investors believe it's an important mechanism to change mindsets.</p> <p>85% of respondents suggest that 10-20% remains the right weighting for allocation of ESG metrics in executive pay.</p>

Institutional Investor External Influencer's

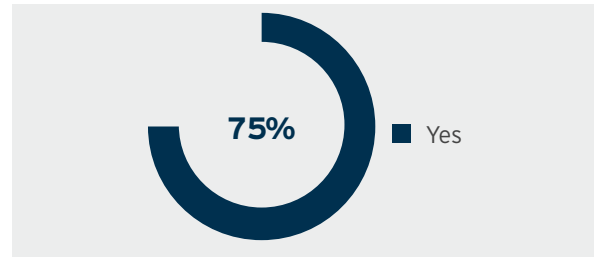
Investor initiatives and frameworks are impacting the way investors act.

Companies who align their disclosures to best-practice frameworks across various ESG themes are likely to be at lower risk to stringent voting and investment decisions.

To what extent are investor initiatives and frameworks influencing your voting/investment decisions?



Net zero asset management signatories

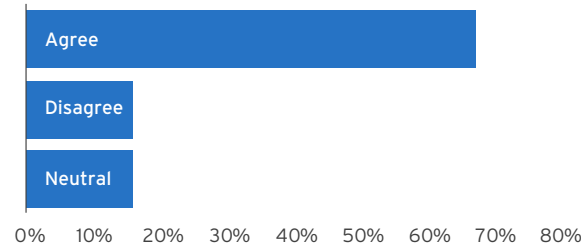


Climate Escalation

The crackdown on emissions

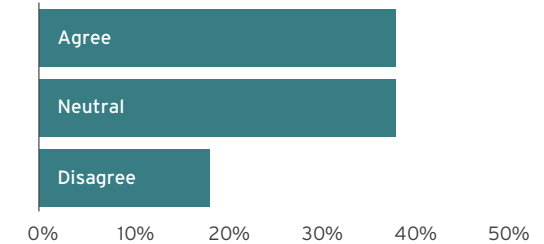
Overall, investors welcome emission reduction targets that are verified by the Science Based Target initiative (SBTi) and are targeting companies in carbon intensive sectors who fall behind their peers.

Are you likely to support management 'say on climate' proposals?



40% of respondents indicated they would likely support 'say on climate' shareholder proposals if they provide a compelling case.

What are your views on a "say on climate" resolution?



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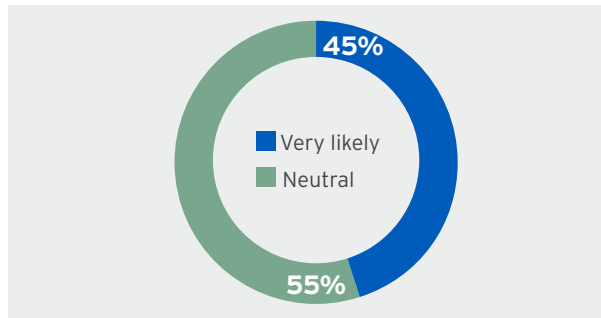


Social Escalation Strategies

A shift in expectations towards social issues.

Investors are beginning to change the way they judge companies on their social performance, with an increased focus on human rights and ethnic diversity for certain markets.

Will you introduce more robust social voting policy guidelines in 2022?



INVESTOR QUOTE

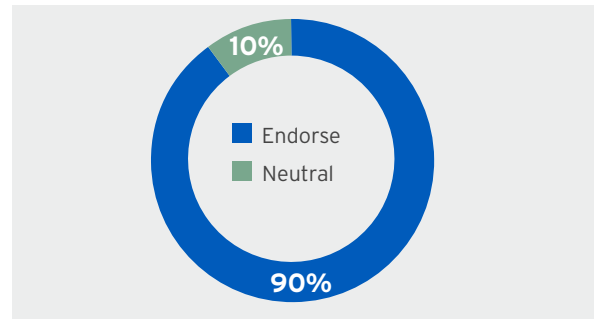
“We no longer want token gesture diversity appointments, we want to see real change, we want to see new processes, evaluations, education programs, long term targets that put diversity at the centre of their long-term recruitment policy and not just at board level but senior managers and executives too.”

Linking ESG Metrics to Executive Remuneration

Still a way to go for ESG-related compensation.

The current limitations associated with ESG metrics and third-party rankings seem to be acknowledged by the respondents of this survey who recognise the potential benefits for its alignment with Executive Pay moving forward.

What are your views of ESG metrics in executive compensation as a concept?

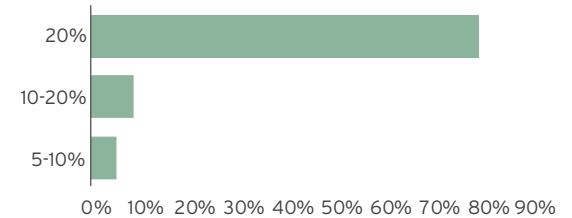


INVESTOR QUOTE

“It’s here to stay. We expect companies to take ESG into account along with financial performance. We want to assess management on both fronts, not just TSR. We trust the board and compensation teams together with management to determine the ESG metrics as they know the business strategy better.”

85% of respondents suggest that 10-20% remains the right weighting for allocation of ESG metrics in executive pay.

What is the preferred weighting for allocation of ESG metrics in executive pay?



INVESTOR QUOTE

“We are typically seeing ESG metrics in the short-term incentive plans, it seems that’s where most of them are landing right now. Personal targets that are above 20% will be closely scrutinised. Anything that resembles what really could be part of their day-to-day job would also raise alarms.”

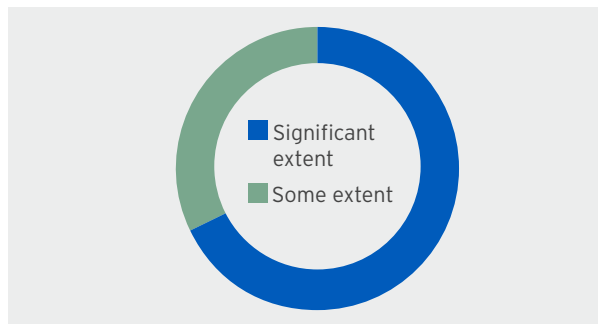
KEY FINDINGS

Institutional Investor External Influencer's

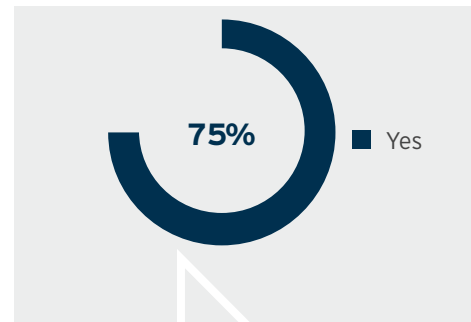
Investor collaboration and influential initiatives are likely to significantly increase the support of ESG strategies and shareholder proposals in the 2022 AGM proxy season.

Key ESG Investor Initiatives are impacting voting and investment decisions.

To what extent are investor initiatives and frameworks influencing your voting/investment decisions?



Net zero AM

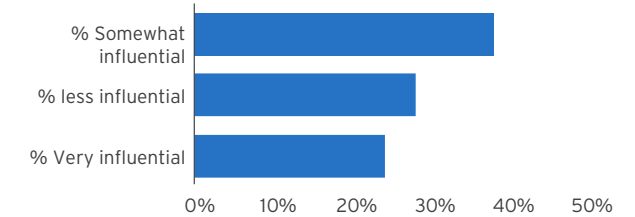


INVESTOR QUOTE

"Until 2030 we need to hit annual rates of 8% to hit decarbonisation targets. Even when shutting down the entire economy we only achieved 6% of reduced GHG emissions."

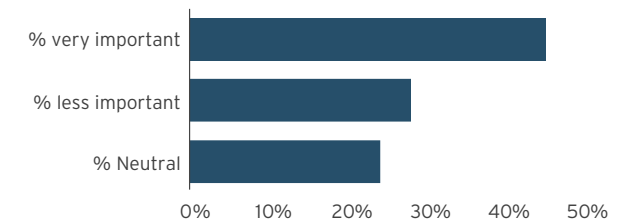
Key ESG Investor Initiatives are impacting voting and investment decisions.

How impactful could ESG controversies be on your voting decisions?



65% of respondents reiterate that key rating agencies ESG controversies could be 'very' or 'somewhat' influential as a trigger that could potentially lead to votes against key management resolutions.

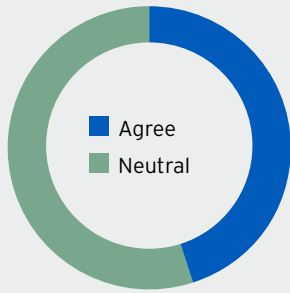
How important will it be for companies to align with the TNFD disclosures?



45% of respondents say it will be 'very important' for companies to get up to speed regarding the Task Force for Natural Financial disclosures (TNFD), maybe not attain the standards but at least start to implement.

KEY FINDINGS

Will ESG factors increasingly impact divestment or underweight becoming a more common strategy?



45% of respondents suggested divestment, exclusion or 'underweight' will increasingly become a more common mechanism as ESG frameworks/regulations evolve.

GEORGESON VIEWS

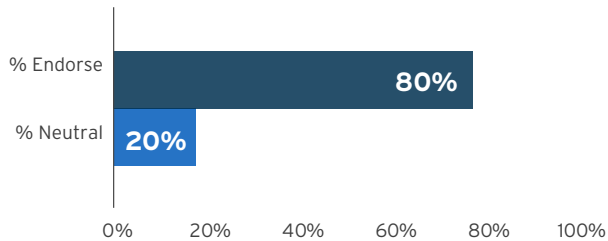
According to interviewees themes such as Climate, Biodiversity, Human Rights - in particular supply chains, will continue to drive divestment, exclusions and underweight in specific sectors/stocks as sustainable investing gathers pace driven by the SFDR and the CSRD regulations.

Asset Owners ESG expectations and regulatory interventions such as TCFD are influencing institutional investors to implement more robust ESG policies and sustainable investing strategies, hence we are seeing more investors become net zero signatories.

Climate Escalation Strategies

In addition to Climate Action 100+, 80% of respondents confirmed they endorse the Science Based Targets initiative (SBTi) as a key framework for pushing the climate agenda, and where appropriate if companies apply absolute targets and those are validated by the SBTi this is a win-win for investors.

Do you expect companies to align with the science based targets initiative?

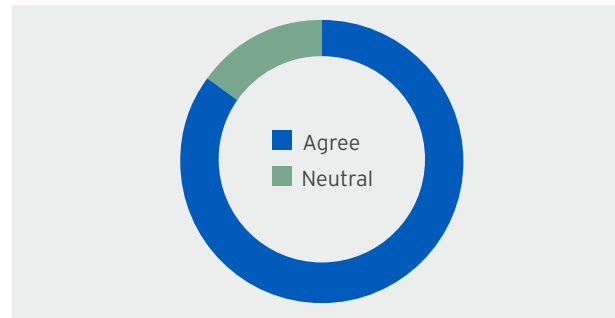


INVESTOR QUOTE

“We will vote against certain directors if a company is a laggard, in particular those companies that fall under the CA 100+ target list. The Chairman is our preferred target.”

85% of respondents say in general they will not apply a strong voting policy regarding Scope 3 emissions disclosure or targets. However, in carbon intensive sectors, like O+G, they would expect to see at minimum, alignment with TCFD framework.

Reducing scope 3 GHG emissions



GEORGESON VIEW

Laggards in the carbon intensive sectors can expect votes against directors if they fall even slightly behind the curve around climate disclosure and strategy. In other sectors, investors will also focus attention on laggards, perhaps targeting leaders to push the climate agenda and transition towards a low carbon economy.

85% of respondents say in general they will not apply a strong voting policy regarding Scope 3 emissions disclosure or targets



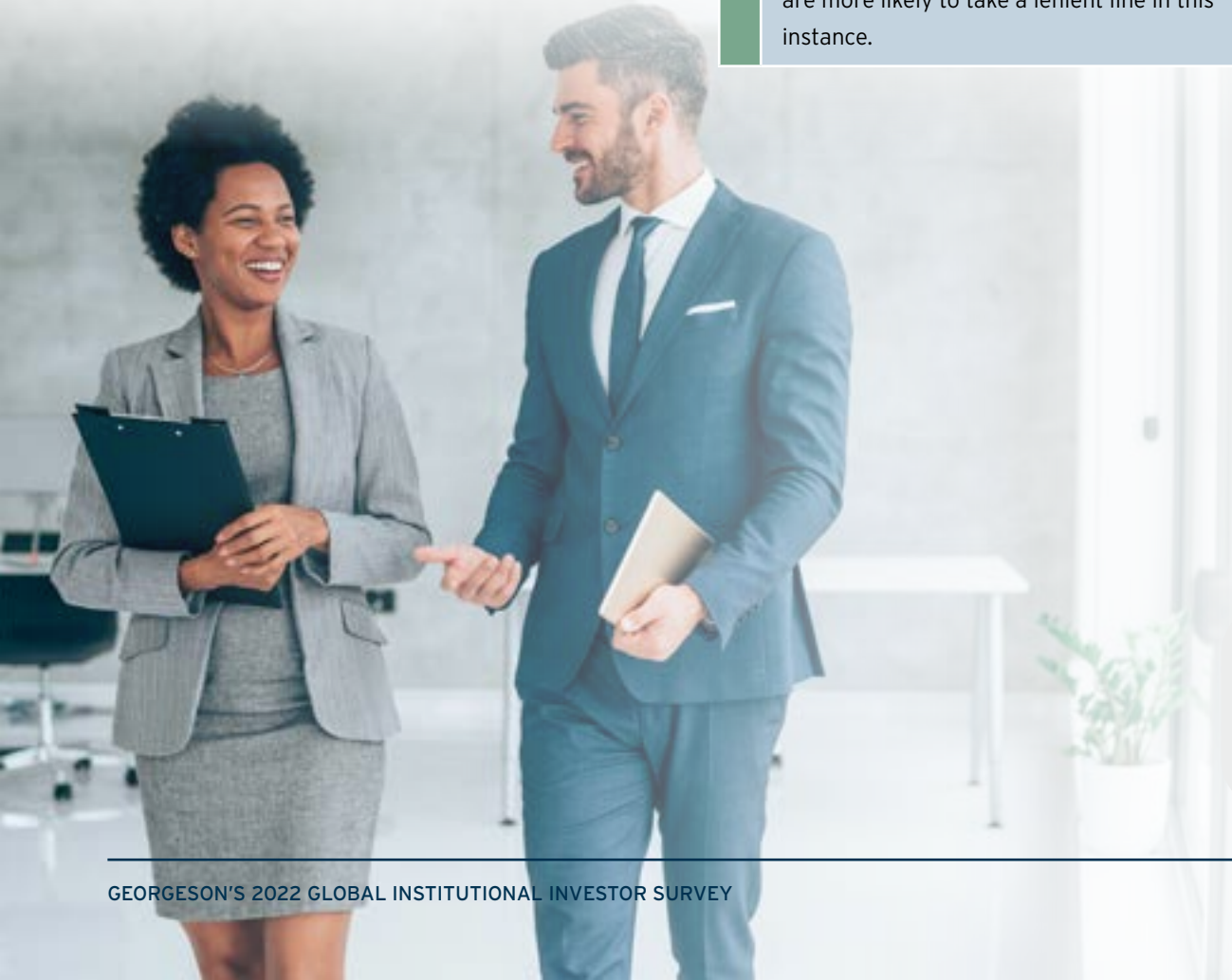
Climate Escalation-Investor Observations

1 Investors are increasingly incorporating a combination of frameworks to measure companies' climate strategy and progress. Investors inform us that climate action100+, SBTi and the Transition Pathway Initiative (TPI) data will help identify which companies are leaders, in the pack or laggards.

2 Investors are acutely aware that if they want to go through with voting against management or supporting a shareholder proposal, they will want to make sure the data is accurate. If there is a missing data piece like a reduction target, or carbon emissions for instance, but the information is not yet public, investors are more likely to take a lenient line in this instance.

3 As mentioned earlier, we expect Investors to target carbon intensive sectors and we observed a consensus will seek more disclosure around:

- > Climate policy engagement and if material to disclose positive examples of lobbying/ associations-funding
- > Capital expenditure, requiring more detailed background, in particular their approach to investing in technologies
- > Verifying targets in line with Science Based Targets initiative
- > For O+G specifically they will expect disclosure and strategy to include information around implementation of the methane goal, the methane partnership, and alerting others to join the oil and gas methane partnerships



INVESTOR QUOTE

"If there is a missing data piece like a reduction target, or carbon emissions for instance, but the information is not yet public, investors are more likely to take a lenient line in this instance."

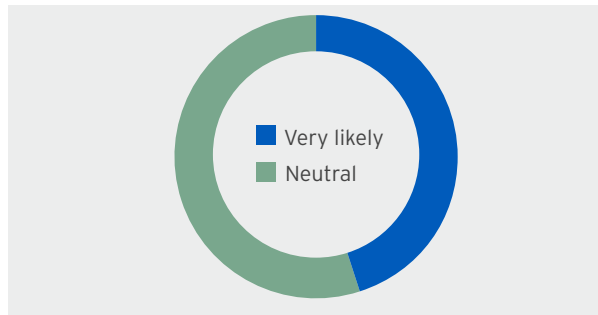
Social escalation strategies

Taking into consideration the Parker review on ethnic board representation, and subsequent proxy advisor policy amendments, many investors will introduce red line policies from February 2022 that they believe reflect the change of speed they are seeing in specific markets such as in the UK.

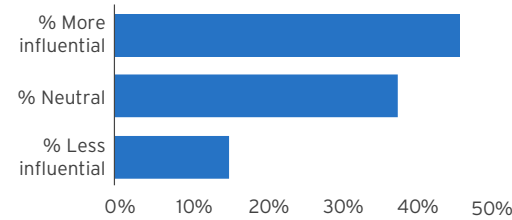
All interviewees agreed they will escalate their engagement activities in markets with no clear market guidelines on ethnic diversity and assess how this plays out before re-visiting their guidelines.

As mentioned in the executive summary, 45% of respondents are 'very likely' to introduce Social policy guidelines and they will be applicable in 2022.

Will you introduce more explicit special voting policy guidelines in 2022?



How influential could the 'workers disclosure initiative' be in 2022?



45% of respondents are increasingly investing time and resources engaging with companies in association with the 'workers disclosure initiative' (WDI) and those companies that lack progress in key areas could result in receiving a vote against directors

GEORGESON VIEW

1

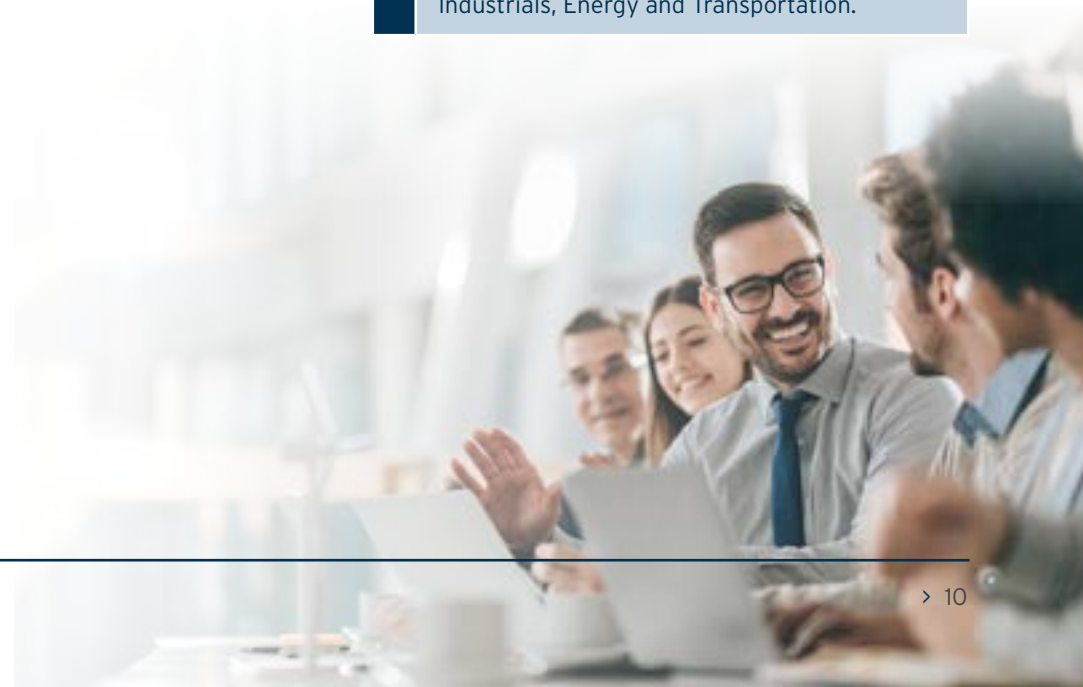
Human rights will focus investor attention in 2022 and we anticipate an increase in votes against the board Chair if a company displays poor practices or lack of progress related to worker rights. Several investors mentioned they will measure against the Corporate Human Rights Benchmark (CHRB).

2

Social voting guidelines is moving from niche to mainstream and we expect more investors to develop stand-alone social policies, an extension of the more commonly known 'proxy voting/corporate governance policies.

3

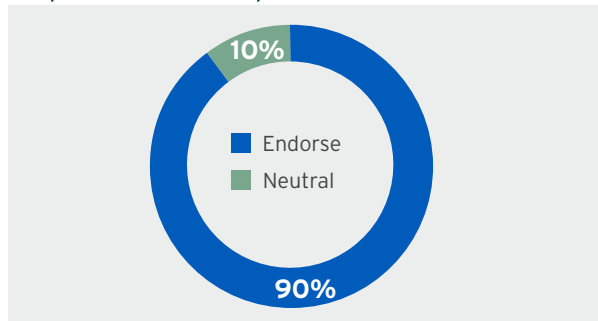
We observed some consensus the sectors that might receive closer attention will be Industrials, Energy and Transportation.



Linking ESG metrics to executive remuneration

The message to companies is to have ESG metrics that can be objectively measurable and when companies provide materiality assessments, they should clarify what the key ESG topics are i.e., HCM, diversity, GHG. And why these should be reflected in executive pay.

What are your views of ESG metrics in executive compensation as a concept?



85% of respondents say in general they will not apply a strong voting policy regarding Scope 3 emissions disclosure or targets



INVESTOR QUOTE

“Using the right metrics is critical and ESG must be integrated into the business model. Need to pick metrics that are broad enough, that are measurable. Subjective targets need to be watertight. Transparency about choice is important.”

INVESTOR QUOTE

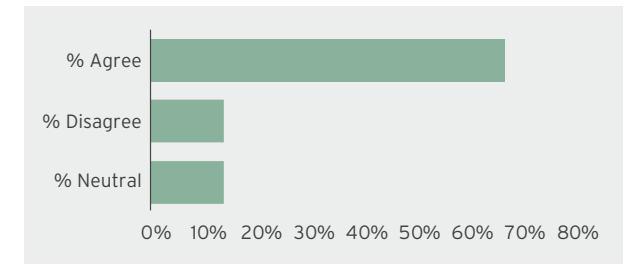
“It’s important to describe the metrics and link to long term strategy. EPS and TSR are straightforward, you either hit it or don’t. For ESG we want to know how the REMCOM is trying to get the comp to the executives.”

INVESTOR QUOTE

“The CEO will only be there 6-7 years, they won’t be responsible in 2050, they need to make a dent now. ESG metrics right now are too fungible. It’s ok having 2050 targets but we need traction now.”

70% would like to see a climate related metric in executive pay

Would you like to see a climate related metric in executive pay?

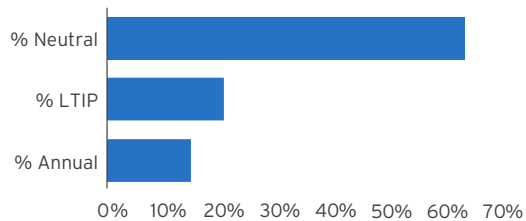


KEY FINDINGS

Executive pay – annual bonus vs LTIP

Several investors opine that 'social' metrics are predominately in STI's and 'environmental' metrics in LTIP's.

What are your views on ESG metrics landing in annual bonuses versus LTIP's?



INVESTOR QUOTES

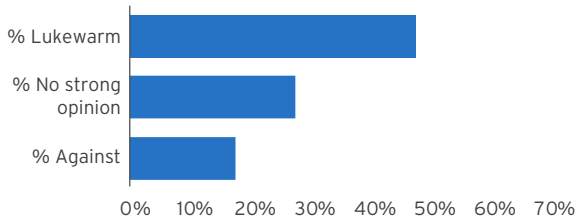
"One issue of seeing a target in both plans is the concept of 'double dipping' we typically don't like to see targets for the same metric. A lot of companies have illustrated the annual targets in their LTIP's so that we can monitor progress as opposed to also being included in annual bonus targets."

"It must be sensible; ESG metrics should be part of an LTIP. It can only be reasonably measured after 3 years. The company remains in the best position to determine what it should be. It's a moving target, not sure if there is much consensus in terms of what the right metrics should be, but we are confident this will develop over time."

KEY FINDINGS

ESG metrics and executive pay – 3rd party ratings

What are your views on third party rankings as a metric?



50% have 'lukewarm' views about seeing third party rankings as a metric in executive pay. A further 20% are against the mechanism.

GEORGESON VIEWS

Investors acknowledge E&S does not lend itself so easily to a simplified bonus score card but want to know what the bits of E&S in their sustainability strategy of the business are, what are the targets, what are they trying to achieve. From that what can potentially be turned into a compensation target, which is often a complex prospect, it's clear a lot of companies are not ready for that.

Our understanding is investors agree engagement is still key in this area, and to date most have not been actively voting against any companies with poor ESG metrics or metrics they struggled to understand. We believe it's an area investor will look at more closely in 2022 and many will perform an in-depth analysis to determine which metrics are most appropriate. ESG Metrics is still on a long journey but it is an important mechanism to drive sustainability.

HOW DOES GEORGESON HELP COMPANIES WITH SHAREHOLDER ENGAGEMENT?



Gain a deeper knowledge of the policies and practices that influence your investors' voting decisions



Benefit from partnering with a team that communicates with institutional investors every day to track voting and ESG trends



Receive bespoke investor profiles to guide shareholder engagements



Have tailored education on how investors and external influencers view ESG



Prepare for **ESG engagement roadshows**



Get help facilitating **ESG roadshows and sustainability days**

WHY IT IS IMPORTANT TO ENGAGE WITH YOUR SHAREHOLDERS

It would be a mistake to simply go through the motions to check the box of shareholder engagement. Issuers are well-advised to be thoroughly prepared when engaging investors by creating and presenting the right content, understanding investors' "hot button" issues, identifying the specific areas the issuer would like to better understand investors' view points and knowing who to contact at the firm as well as how to reach them. Importantly, issuers must have a clear understanding of their goals for the engagement – and the investor's goals as well.

How we help

- > We analyse your investor base and help you set objectives to develop an engagement strategy
- > We develop impactful cross-channel communications designed to effectively engage your investors
- > We prepare your team for meetings with investors and proxy advisors
- > We compile and synthesise notes so you can focus on the conversation
- > We work with you to determine next steps resulting from your meetings

Communicate your message

To develop an articulate message that will resonate with your investors, we conduct a thorough review of your unique situation, issues and goals at the outset to determine your engagement strategy. It is important to have a clear set of goals at the outset of your engagement process, both so your team is prepared and to get the most out of your meeting.

We manage on average 500 annual and special meetings each year in addition to a variety of complex and contested solicitations, so we've seen it all. We'll help you develop and relay information about your proposals and/or corporate governance practices in an effective manner that leads to a productive dialogue with your investors.

We manage on average 500
annual and special meetings
each year in addition to a
variety of complex and
contested solicitations

Prepare for your meeting

Based on your goals, we help you prepare an agenda for your meetings, and encourage you to ask investors in advance if they have any topics they would like to address. We also leverage our deep knowledge of institutional investors' engagement priorities and voting guidelines to determine who is likely to engage on specific topics – from executive compensation to director elections to environmental, social and governance issues – and provide you with detailed profiles of each investor you will be meeting with.

We make sure your engagement team is thoroughly prepared for your meetings by offering talking points, "hard" questions on topics likely of interest to your investors and preparation sessions to make sure members are comfortable speaking on the topics at hand. If this is not your first meeting with the investors, we also prepare you to discuss progress made on matters discussed in prior meetings.

ABOUT THE SURVEY

Representing **\$30.5 trillion of AUM** including US and UK/EU participants with an average industry experience of 12 years through in-depth phone interviews.



90% are signatories of the Climate Action 100+ Initiative (CA100+).

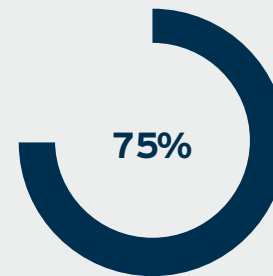
Climate action 100+ signatories



■ Yes

75% are signatories of Net Zero Asset Management initiative (236 signatories with US\$ 57.5 Trillion AUM).

Net zero asset management signatories



■ Yes

55% are signatories of the UK Financial Reporting Council's Stewardship Code.

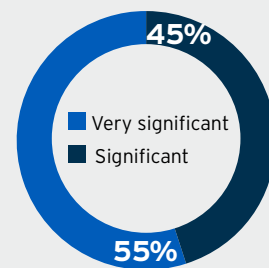
Stewardship code



■ Yes

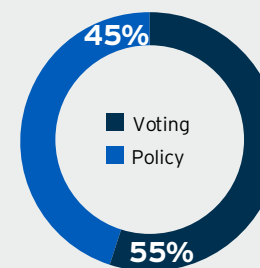
All participants are in respective **ESG/Investment Stewardship Teams** covering a broad sample of investment philosophies across equity/bond and active/passive investment strategies.

Stewardship team ESG voting influence



Stewardship teams have grown their influence vis-à-vis portfolio managers when taking institutional voting decisions.

Stewardship team ESG influence mechanism



Stewardship teams are enacting influence by setting institutional ESG policies (45%) to guide house voting actions as compared with individual voting decisions (55%).

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ABOUT GEORGESON

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic consulting services, including solicitation strategy, investor identification, corporate governance analysis, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide. For more information, visit www.georgeson.com.