



## The evolving role of the Chair

‘Effective Chairs are good facilitators. They are listeners, bring emotional intelligence and self-awareness. As a result, the traditional “command and control” approach needs to evolve to a more facilitative leadership – one that embodies emotional intelligence.’

*John Harte*

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## Investors and the 2023 AGM season

‘Even as investors ramp up their climate risk investment strategies and voting policies this year, 87% of the asset managers in our survey suggested that the “rigour of metrics” are a key concern when assessing the quality of ESG benchmarks incorporated into executive pay.’

*Daniele Vitale, Kiran Vasantham and Kevin O’Neill*

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# Feature

## Investors and the 2023 AGM season

**Daniele Vitale, Kiran Vasantham and Kevin O’Neill** provide insights from Georgeson Global on what the 2023 AGM season is likely to bring from an investor’s perspective.

ESG issues remain a top priority for many corporate boardrooms, and the demand for tying them to company strategy is growing. Many asset managers also continue to invest significantly in their ESG capabilities to close the gap in sustainable investing intelligence, knowledge and objectives.

For our recent 2023 Institutional *Investor Survey Insights Report*, we conducted a series of in-depth interviews with 62 ESG analysts at 30 institutional investment firms, representing \$47trn in assets under management globally, and identified their expectations on the topic of ESG in 2023.

The majority (93%) of asset managers said that their companies were in the process of developing more detailed climate transition policy guidelines. Despite the additional pressure that the guidelines may bring, investors are still surprisingly not united in applying stricter measures or requiring ESG metrics on climate resolutions, such as Say on Climate.

Only a quarter surveyed said that they considered Say on Climate resolutions to be important. The remainder were divided equally: either that the voluntary resolutions were not important or that they had no strong opinion.

Despite the reticence amongst surveyed investors, we expect that the number of Say on Climate resolutions in Europe will grow from companies that have already committed to an annual vote and from investor pressure. For example, Legal and General and Amundi have asked investee companies to put forth their own voluntary Say on Climate resolutions.

Companies that fail to put forth Say on Climate resolutions will likely see shareholder proposals from activist investors such as Follow This.

### Rigour of metrics and remuneration

Even as investors ramp up their climate risk investment strategies and voting policies this year, 87% of the asset managers in our survey suggested that the ‘rigour of metrics’ are a key concern when assessing the quality of ESG benchmarks incorporated into executive pay.

As a result, half (31) of asset managers surveyed said they would not act against companies that do not incorporate ESG metrics into their current remuneration targets. At the same time, 20% (12) would take the issue on a case-by-case basis. Only 30% (19) said that their organisations would act against companies that do not incorporate ESG metrics into executive incentive plans.

ESG issues continue to make their way into corporate boardrooms, and the demand for tying them to company strategy is growing. As standards and regulations evolve, investors will come down harder in the absence of appropriate ESG metrics.

### Social

Results from our survey showed that human capital management will likely be a focal point during the 2023 voting season, given the fact that 70% (43) of respondents focused on human capital management-related themes as a topic for off-season engagement.

Investors recognise that the metrics relating to human capital management are not universal or entirely standardised. In our discussions, investors wanted to see investment decisions aligned with the Modern Slavery Act, for example, through



#### ESG METRICS AND EXECUTIVE PAY

Investors want to see more ambitious and rigorous ESG metrics. **87% of respondents suggested the ‘rigour of metric’ is a key concern when assessing the quality of ESG metrics.**



#### CLIMATE ESCALATION

Investors stepping up focus on climate ambitious and disclosure. **Overwhelmingly - 93% of respondents confirmed they will continue to develop more detailed climate transition policy guidelines.**



#### GOVERNANCE ESCALATION

Shareholders rights will come under closer scrutiny. **60% of respondents informed us that a 20% vote against management proposals will be a reference point for expecting companies to address dissent.**



#### SOCIAL ESCALATION

Human Capital Management will get closer attention during the 2023 voting season. **70% of respondents will be focussing off-season engagement on human capital management related themes.**

# Feature

engagement and active ownership activities. However, many argue that the Act still has a long way to go as effective guidance.

The topic of equity and inclusion also saw significant off-season engagement among 63% of asset managers surveyed. For many investors, gender and ethnic diversity at the board level is another key area of focus, while ESG competence at the board level is an important step for diversity.

Income equality-pension and workforce salary alignment are also key focus areas, and investors are in the process of informing investee companies how their engagements translate into policy and voting decisions.

## Defining dissent

Sixty per cent of respondents informed us that a 20% vote against management proposals would be a marker 'for expecting companies to address dissent'. Many investors said that they will likely vote against the same proposal the following year.

In cases where a proposal that is not supported by management fails – but does have 20% or more shareholder support – investors will expect to see companies issue a formal response to shareholders addressing their concerns.

## Engagement

Interest in how institutional investors consider ESG risks and opportunities continues to grow as key stakeholders demand

more transparency on how corporates impact society and more action to ensure those impacts create sustainable long-term shareholder value.

Each country has its own flavour of ESG and different pressure points. In 2023 remuneration and climate change remain two key areas of focus for Europe and the UK. In contrast, climate change and social-focused topics such as diversity and human capital management may be more closely scrutinised this season. Anti-ESG proposals in the US are also a main regional point of difference.

Once again, the 2023 proxy season has so far been characterised by increased scrutiny towards ESG matters. In recent years there has been an expansion of proposals from proponents opposing ESG initiatives who believe that these proposals are overly prescriptive and who question whether certain proposals would promote long-term shareholder value.

With several months remaining in the 2023 proxy season, it remains to be seen whether shareholder opposition to proposals seen as overly prescriptive remains 'the new normal'. Once the 2023 season is complete, we expect shareholder proponents and advocacy groups to scrutinise individual investors' voting decisions.

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Board culture can be a source of advantage where it is open, enabling and provides the right environment for constructive disagreement in a psychologically safe environment where people can disagree but never be disagreeable.

### A culture of inclusion

Diverse boards bring different perspectives, generate better decisions and outcomes than those that aren't. Chairs need to look at the board through the prism of the five drivers of diversity™ – demographics, skills, experience, thinking styles and circles of influence – and contemplate how well the current line up matches up.

However, diversity without inclusion is an illusion and the role of today's Chair is to create an environment on the board where every participant feels welcome, wanted, respected, valued and listened to. This moves beyond the veneer of tokenism to enable the culture on the board to be one of inclusion, to gain the benefit of the different viewpoints brought to decision-making by a diverse board.

In essence, today's Chairs are more like a hospitable dinner party host who ensures that everyone feels welcome, wanted, listened to and respected.

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