



REALIGNING STEWARDSHIP: DELIVERING SUSTAINABLE VALUE THROUGH STEWARDSHIP

Full report of the IA's Stewardship Working
Group

February 2026





ABOUT THE IA

The Investment Association champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £10 trillion of assets and the investment management industry supports 123,300 jobs across the UK. Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers. Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages 35% of all assets managed in Europe.



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INTRODUCTION

In the years since the Global Financial Crisis, stewardship has grown in importance as a cornerstone of long-term value creation. The Walker and Kay Reviews laid bare the dangers of short-termism and misaligned incentives, prompting landmark reforms to strengthen the corporate governance regime in the UK, as well as frameworks for greater investor responsibility, transparency and accountability. All with the aim to ensure that companies and their shareholders were focusing on the issues which could impact value creation and to increase accountability between companies and their shareholders.

Over the past decade, there has been increased scrutiny over stewardship responsibilities due to a small number of corporate failures. This has led to the evolution of stewardship responsibilities through the Stewardship Code, and explicit regulatory requirements on pension funds, which have driven a qualitative approach to stewardship through focusing on how outcomes of engagement are demonstrated.

In recent years, however, the stewardship framework in the UK has been challenged regarding its impact on economic growth and international competitiveness. This has led stakeholders to question the value of stewardship and whether there was always sufficient focus on financially material issues. With the recent launch of the FRC's 2026 Stewardship Code, the UK's stewardship framework has been under renewed scrutiny—questioned for its complexity, how it delivers for both end-savers and companies, the reporting burden for participants across the investment chain, and perceived impact on the attractiveness of the UK as a listing venue.

Given the evolution of these debates, the investment industry has reached a natural inflection point. The IA has discussed with its members the impact this has on the practice of stewardship. In response, at the start of 2025 the Investment Association established a Stewardship Working Group, with membership from its Investment and Stewardship Committees, comprised of Chief Investment Officers and Heads of Stewardship. This included representatives from Legal and General Asset Management, Artemis Investment Management, Aegon Asset Management, BlackRock, CCLA, Fidelity International, M&G Investments, Royal London Asset Management and Schroders.

The aim of the group was to set out how the investment management industry saw stewardship in 2025; how the industry conducted stewardship given its unique position responding to client expectations and engaging with investee companies to deliver on client objectives.

It sets out several challenges that the industry currently faces in delivering on these stewardship expectations and the group have developed recommendations for the industry and other stakeholders in the investment chain on how these challenges can be addressed.

Through this report, members wanted to demonstrate the important role of stewardship and its contribution to the investment process, leading to long-term value creation. The industry recognises that stewardship will be conducted differently depending upon an investment manager's business model, investment strategy or client's objectives.

There is no single way to deliver stewardship, investment managers will choose the approach which works best for their investment strategy and client expectations.

Stewardship should be conducted on the relevant issues which are material to the investee company or client expectations. Investment managers will choose the approach to stewardship which they believe will lead to the best outcome.

This report seeks to provide recommendations that chart a pragmatic path forward. A key aim of this report is to clarify important distinctions in stewardship practice. Stewardship can be driven by the specific circumstances of individual companies or system-wide dynamics and market health, both of which are financially material considerations but over different time horizons. Stewardship may also be reflective of a client's preferences which are critical to the fulfilment of a client's mandate. Understanding these differences and the tensions that may arise in the pursuit of these objectives is essential for setting realistic expectations as to what stewardship can achieve and for fostering constructive dialogue across the investment chain.

This Report is set out into three sections:

Section 1 – What is stewardship and why does it matter? – setting out the foundational aspects of stewardship, including what it is, how it is conducted and how this varies based on different investment strategies, and the different stakeholders involved in stewardship across the investment ecosystem.

Section 2 – What has stewardship achieved? – setting out the tangible impact of stewardship and the success it has achieved through a series of case studies as well as academic research which explores where stewardship has worked well.

Section 3 – What are the challenges facing stewardship and how can we solve them? – we outline the principal challenges facing stewardship and set a series of targeted recommendations towards addressing these for stakeholders across the investment chain.

EXECUTIVE SUMMARY

Stewardship Matters: The value, challenges, and recommendations for the future

The investment management industry plays a significant role in the UK economy, helping individuals achieve their financial goals and investing in equity and debt of companies as well as real assets and other infrastructure projects. Stewardship sits at the heart of a well-functioning investment ecosystem, underpinning both the generation of sustainable investment returns and the long-term stability of markets. In recent years, however, the stewardship framework in the UK has faced scrutiny regarding its impact on economic growth and international competitiveness. This has led stakeholders to question the value of stewardship and whether there was always sufficient focus on financially material issues relevant to investment decision making.

Given the evolution of these debates, the investment industry has reached a natural inflection point. The IA has discussed with its members the impact this has on the practice of stewardship. In response, the Investment Association established a Stewardship Working Group, with membership from its Investment and Stewardship Committees, comprising of Chief Investment Officers and Heads of Stewardship.

The aim of the group was to set out how the investment management industry saw stewardship in 2025 and how the industry conducted stewardship given its unique position responding to client expectations and engaging with investee companies to deliver on client objectives. It sets out several challenges that the industry currently faces in delivering on these stewardship expectations and the group have developed recommendations for the industry and other stakeholders in the investment chain on how these challenges can be addressed.

We recognise that the investment management industry alone, cannot identify all the challenges or develop the solutions. The industry recognises that these challenges need to be examined through the lens of our clients and the assets we invest in, including companies. We hope that this report, the challenges we have identified and our suggested recommendations for change start a conversation across the whole investment chain, that allows us to develop solutions that work for companies, investment managers and asset owners.

Through this report, members wanted to demonstrate the important role of stewardship and its contribution to the investment process, leading to long-term value creation.

The industry recognises that stewardship will be conducted differently depending upon an investment manager's business model, investment strategy or a client's objectives. While investment managers will pursue a client's investment objectives

and execute on these in accordance with the mandate and preferences they have set out, there can sometimes be a tension between conducting stewardship which is financially material to investee companies or meeting client expectations which may pursue non-financial objectives that can materialise over longer time horizons. Ultimately, the approach to stewardship will focus on ensuring the best outcome for the client.

Prioritisation is not a one-off decision, but the beginning of a dialogue through which asset owners and investment managers can address competing objectives in a practical and transparent way.

The industry's experience shows that effective stewardship is not about eliminating risk or achieving perfect alignment but about making informed choices that balance short- and long-term goals, financial and non-financial considerations, and the interests of diverse stakeholders with the ultimate aim of delivering the best outcome for clients.

As investment strategies continue to evolve, so too must stewardship. There is no single blueprint for success; stewardship should be tailored to the context and objectives of each strategy, adapting to the realities of different asset classes, mandates, and market environments. Through this report, we aim to provide a clear, pragmatic account of stewardship's role, achievements, and challenges, and to offer recommendations that support its continued development as a vital force for sustainable value creation.

What is stewardship and why does it matter?

Stewardship is fundamental to the integrity and effectiveness of the investment industry. IA members support the FRC definition of stewardship, **'Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.'** Investment managers focus on their stewardship activities as it helps to create sustainable long-term value for clients, which include both retail savers and institutional investors such as pension funds.

Stewardship involves various stakeholders across the investment chain, including asset owners, investment managers, companies, third-party service providers, and regulators. Each stakeholder has distinct roles, responsibilities, and incentives that influence how they approach and execute stewardship. Effective stewardship requires collaboration and alignment among these stakeholders to promote sustainable value creation.

Investment managers conduct stewardship through a range of activities, including research, investment choices, monitoring, setting expectations, engagement and dialogue, voting, collaboration, and escalation. These activities are tailored to the specific context of each asset class, such as listed equities, fixed income, real estate, and private markets. The core principles of stewardship remain the same across all asset classes: promoting long-term value creation, managing material risks, and aligning capital allocation with client objectives.

Stewardship also faces inherent limitations, both in terms of the type of investment and the degree of influence as investors are not responsible for the management of the companies they invest in.

The board of directors is ultimately responsible for governance and strategy, while investors can only encourage companies to adopt practices that generate sustainable value. Despite these limitations, stewardship plays a crucial role in minimising risks and promoting long-term value creation for clients.

Stewardship can play an important role in enabling companies to achieve sustainable growth by addressing key areas such as governance, operational efficiency, and strategic planning at the micro-level. Investors look at how these areas are shaped by issues that are specific to the company, and by broader systemic or “macro” trends like inflation or climate change. This helps to drive the focus on long-term value creation for clients’ portfolios and delivering the best outcome for end-savers. The FRC has been clear that stewardship is an important part of fulfilling an investors fiduciary duty under the 2026 Code.

Challenges Facing Stewardship

There are several structural tensions that act as a barrier to practicing good stewardship. Investment managers occupy a unique – and increasingly pressured – position as intermediaries between evolving client expectations and corporate commercial realities. There are many clients or commentators that state that the investment industry is not delivering on stewardship, as they perceive insufficient progress is being made on a range of sustainability issues. Whereas companies argue that some of their shareholders are asking for information or pursuing sustainability issues which are not material to their business models and strategy.

We recognise that not every challenge or recommendation described here will be equally relevant to every firm or its stewardship approach. Active and index managers may face distinct stewardship opportunities and constraints, but investment style alone does not determine stewardship approach. The tools and priorities of stewardship will necessarily vary according to the client expectations and the needs of the investment strategy they support.

Through an investment manager lens, we analyse the impact of misalignment in expectations between participants across the investment chain and how current frameworks incentivise performative compliance over value-driven stewardship. We have identified six issues which highlight the current challenges that the industry is facing when delivering stewardship:

- **The need for realism over what stewardship can achieve** – There are potential time horizon trade-offs between achieving real world outcomes on sustainability themes such as climate change and delivering financial returns to clients. These trade-offs need to be actively considered. Additionally, there are concerns that targeted sustainability goals may not always be realistic, and that government and other stakeholders may have developed unrealistic expectations of stewardship's capacity to deliver systemic change.
- **Promoting the full range of mechanisms for stewardship** – The existing stewardship mechanisms have been developed over many years and have focused on delivering quantifiable governance outcomes, such as improving the independence or diversity of a board of directors, but these stewardship mechanisms face limitations in addressing issues beyond governance, as sustainability themes are often more subjective.
- **Stewardship in different investment strategies** – The diversity of investment strategies in the industry leads to a corresponding diversity in stewardship practices and approach to stewardship resource allocation. There is a need for better understanding of how stewardship approaches differ by investment style and across institutions. This will allow companies to understand how stewardship may be conducted by their shareholders and for clients how the stewardship approach supports the investment strategy.
- **Improving integration of stewardship into the investment process** – There has been considerable progress on integrating stewardship into the investment process but the industry can continue to demonstrate to companies, clients and other stakeholders how their stewardship approach is integrated into the investment process focussing on long-term value creation. This includes addressing the misalignment between portfolio managers and stewardship specialists where different teams are responsible for investment decisions and conducting stewardship activities. Ensuring that the whole organisation speaks with a single and consistent voice.
- **The burden of stewardship reporting** – differing client and regulatory expectations on stewardship are driving a significant reporting burden on investment managers, often with little regard to whether the disclosures are material to understanding what stewardship has been conducted and the outcomes delivered for clients. The quantity of reporting requests and the lack of standardisation in reporting frameworks creates a significant burden for investment managers. There is a need to reframe stewardship regulation and industry reporting to focus on what stewardship outcomes have been delivered.
- **The cost of stewardship** – There are different costs associated with the process of stewardship for both investors and companies, who have finite resources. Investment managers must efficiently prioritise resources in order to execute meaningful engagement activities which focuses on issues that deliver long-term value for clients. Investment managers can make a better business case for conducting stewardship where clients have articulated their investment priorities and policies. There also needs to be a better articulation of the cost and value of stewardship reporting to understand whether it is delivering decision-useful information to clients.

RECOMMENDATIONS

In response to each of the challenges we offer stakeholder - targeted recommendations to realign practices across the investment chain and empower stakeholders including policymakers, asset owners, and investment managers to act as coalition partners in stewardship's next phase - one where clarity of purpose prevails over box-ticking and where stewardship is positioned as a critical tool for informing the investment process and driving long-term value.

For asset owners and investment managers: Recommendation 1

Stewardship should be embedded into the relationship and mandate between investment managers and asset owners to provide greater realism on what can be achieved through stewardship to deliver on client objectives and expectations.

For investment managers: Recommendation 2

Investment managers should be clear with clients on the likely impacts of pursuing specific investment objectives which might limit the investible universe, leading to potential time horizon trade-offs or the potential impact on investment returns. These need to be fully understood by clients.

For investment managers & asset owners: Recommendation 3

As the market for stewardship develops, clients should articulate the type of stewardship which meets their investment objectives and priorities. This may entail stewardship solely focusing on issues which are financially material to the individual company or could also extend to systemic stewardship focusing on specific themes and portfolio level risks and opportunities.

For asset owners, investment consultants and civil society NGOs: Recommendation 4

The assessment and oversight of stewardship quality should be based on outcomes linked to value creation rather than activity metrics (such as votes against or number of engagements).

For investment managers: Recommendation 5

In their stewardship reporting, investment managers should provide best practice case studies of the circumstances in which voting is used and how this works alongside the use of other stewardship mechanisms to ensure clients and other stakeholders understand the role that voting plays.

For investment managers and asset owners: Recommendation 6

Investment managers should share fund level information with clients on how their stewardship approach supports the investment strategy at the pre-appointment phase.

For investment managers and regulators: Recommendation 7

Following the first round of reporting against the new Stewardship Code, the IA will share best practice examples of integrating stewardship into the investment process. The industry should seek to speak with a single and consistent voice rather than have a portfolio management or stewardship view on issues, to provide clear and consistent views to companies.

For regulators: Recommendation 8

Stewardship regulation and industry reporting should be reframed to focus on driving stewardship outcomes.

For investment consultants: Recommendation 9

Investment Consultants should provide greater transparency on how they are supporting good stewardship outcomes including supporting clients to fulfil their objectives against the Stewardship Code.

For investment managers: Recommendation 10

The investment industry should better articulate the cost and value of stewardship reporting to understand whether it is delivering decision-useful information to clients.

WHAT IS STEWARDSHIP AND WHY DOES IT MATTER?

Effective stewardship is fundamental to the integrity and success of the investment ecosystem. Before we explore the achievements, challenges, and necessary reforms that form the core of this report, it is essential to establish a shared understanding of stewardship itself: its definition, its context within the broader investment industry, the roles of those involved, how it is practiced, and its inherent limitations.

We begin by articulating the role and purpose of the investment industry, framing stewardship as a critical function within this vital economic activity. We will then explore the concept of stewardship, the diverse stakeholders across the investment chain and their distinct roles, responsibilities, and incentives. We will outline how investment managers translate stewardship principles into practice across different investment strategies, employing a range of tools from asset allocation and engagement to voting and escalation.

ROLE AND PURPOSE OF THE INVESTMENT INDUSTRY

The investment management industry plays a significant role in the UK economy, helping millions of individuals to achieve their life goals or invest for the future, including through workplace pensions. 75% of UK households use an investment manager's services. The industry invests billions of pounds in companies both listed on stock exchanges and private. It also finances the development of major infrastructure such as transport networks, hospitals, schools and housing projects.

The investment industry's aim is to generate sustainable value and fulfil the investment objectives of its clients. These clients include individual retail savers and institutions such as pension funds, insurers, charities, and governments. Investment objectives are typically financial, such as ensuring adequate funds for retirement, and may incorporate financial impacts of sustainability risks such as the climate transition, but may also encompass non-financial considerations, such as other sustainability risks or values-based exclusions.

Asset owners will choose how they want their capital invested including the types of assets (from equities, bonds, real estate and other private assets) and the investment style. Usually, they will choose a range of assets, investment styles including active investment strategies, that will choose individual companies to invest in, or index investment strategies, which replicate particular indices.

WHAT IS STEWARDSHIP?

To help create long-term value for clients, investment managers engage with the companies or other assets they invest in.

They do this through dialogue, voting, and other forms of relationship building, information exchange and influence – to help guide their strategies, improve their governance, and manage their risks, all with the aim of fostering behaviour that will lead to sustainable returns. Collectively, this work of allocating, overseeing and managing capital falls under the umbrella of 'stewardship'.

The IA and its members are supportive of the Financial Reporting Council's 2026 Stewardship Code definition of stewardship:

'Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.'

The FRC have intentionally kept this definition of stewardship broad to cater to the range of different signatories to the Code and recognising that there is no "one size fits all" approach to stewardship.

Stewardship is not a new concept. It has been part of the investment process for decades and viewed as critical, through the positive contributions it delivers for both the investment and client proposition.

Stewardship can play an important role in enabling companies to achieve sustainable growth by addressing key areas such as governance, operational efficiency, and strategic planning at the micro-level. Investors look at how these areas are shaped by issues that are specific to the company, and by broader systemic or "macro" trends like inflation or climate change. This helps to drive the focus on long-term value creation for clients' portfolios and delivering the best outcome for end-savers. The FRC has been clear that stewardship is an important part of fulfilling an investors fiduciary duty under the 2026 Stewardship Code.

WHO ARE THE KEY STAKEHOLDERS IN STEWARDSHIP AND WHAT ARE THEIR ROLES AND RESPONSIBILITIES?

Stewardship involves different stakeholders across the investment chain, each with their own roles, responsibilities, incentives and expectations that influence how they approach and execute stewardship. To foster effective stewardship practices and outcomes, these stakeholders need to work together in a constructive and collaborative manner, aligned with the common goal of sustainable value creation for the end-saver. There also needs to be a clear understanding of the differing roles and requirements on each of these stakeholders across the investment chain:

- **Asset owners** are the ultimate providers of capital, who invest on behalf of their clients or beneficiaries, such as pension fund members, insurance policy holders, or retail investors. Asset owners have a fiduciary duty to act in the best interests of their clients or beneficiaries, and to ensure that their investments are managed in a way that meets their

objectives and preferences. Asset owners are not a homogenous group. They will be investing on behalf of different types of clients with often different objectives and time horizons. This can result in different approaches to stewardship, to meet their specific investment objectives and priorities.

Asset owners define the investment strategies that will meet their investment objectives and then choose an investment manager to invest on their behalf through mandates or the selection of funds consistent with these objectives. Expectations for stewardship will often form part of these mandates. Asset owner objectives, expectations, investment strategies and policies, including their approach to stewardship and management of ESG issues will vary depending on their size, type, sector, geography (including local investment rules), and time horizons. Describing their policies in detail can help asset owners to identify prospective managers, to award mandates and to hold managers to account.

Asset owners have different levels of involvement, influence, and resources to conduct and oversee stewardship, and different preferences and priorities for the issues they want to see addressed through stewardship. Asset owners also have a responsibility to monitor and oversee the performance and conduct of their investment managers and to hold them accountable for their investment performance, stewardship activities and outcomes. Asset owners may also engage directly with underlying investee companies on strategic or systemic issues that affect their portfolios, including the direct exercise of their voting rights in some instances.

- **Investment managers** are the agents of asset owners, who manage the capital entrusted to them according to the mandates and agreements they have with their clients. Investment managers have a fiduciary duty to act in the best interests of their clients, and to implement their investment strategy and policies in accordance with their clients' investment objectives and preferences. Asset owners give to investment managers a mandate to invest on their behalf, so that in turn, investment managers are obliged to allocate capital and oversee their investments in companies and other assets in a manner which is consistent with the time horizon and investment objectives of the end beneficiaries. Commonly, investment managers are entrusted with exercising stewardship on behalf of their clients.
- **Companies** are the users of capital, who raise funds from investors to finance their business activities and growth. They can do through a mix of issuing debt or equity. Issuers of debt provide robust rights to be repaid, but do not cede ownership or rights of control. Issuers of equity sell a 'share' of ownership in the company to investors. Without the automatic right to be repaid, investors in shares bear more risk than debt holders, but receive the right to future returns in perpetuity. Company directors have a duty to act in the best interests of their shareholders (owners), and to seek to deliver long-term value. Through requirements like the annual report, they must disclose relevant and reliable information on their financial performance, strategy, governance, risk management, including material risks and opportunities.
- **Third-party service providers** are the intermediaries and facilitators that support investment and stewardship processes. These service providers can include investment consultants, data providers, proxy advisors, research providers, remuneration consultants and auditors amongst others. They provide a range

of services, such as providing investment advice, offering critical data and analysis for investment decision-making and stewardship, conducting independent audits and assurance, and facilitating engagement and collaboration among investors.

- **Investment consultants** advise asset owners on awarding mandates to investment managers and also help them to oversee the investment manager on their performance and activities conducted on behalf of the asset owner. Consultants provide support, information and recommendations to their asset owner clients on a range of issues including: the selection and appointment of investment managers, articulation of a client's stewardship priorities, and the oversight and engagement with investment managers on their investment and stewardship performance. Consultants will also engage with investment managers to elicit information to help asset owners meet their regulatory requirements on how they have discharged their stewardship obligations.
- **Proxy advisors** play an important role in the stewardship ecosystem by helping to provide information, research and highlighting key issues for investment managers and owners to consider ahead of voting the shares held on behalf of their beneficiaries. However, it is crucial to emphasise that the responsibility for voting decisions lies with the manager or pension fund themselves. Proxy advisory services are just one of a number of data and research sources that investors may use to inform their voting decisions, and ultimately investors must decide and justify how they have voted, ensuring that their decisions align with their investment objectives and values. Investors can use proxy advisers to provide voting research based on their own customised voting policies, ensuring alignment with their own tailored voting frameworks. Investors can contribute to proxy advisory policy development processes, which are an important part of shaping the service that they receive. Proxy advisors therefore act as a mechanism which supports the voting process rather than a key driver of voting decisions.
- **Regulators and policymakers** are the authorities that set the rules and standards for the financial system and the investment chain. They have a role to protect the interests of investors and beneficiaries, to promote market integrity and efficiency, to address market failures and systemic risks, and to support the transition to a more sustainable economy and society. They are responsible for developing and enforcing clear and consistent regulations and guidelines for stewardship to ensure that investors and companies act in a responsible and accountable manner and to remedy market distortions, including any unintended consequences of rules. Many investment managers will operate across multiple jurisdictions, which at times may have competing or conflicting requirements. This may prevent an investment manager from being able to exercise all stewardship levers such as collaboration with other investors.

Across the investment chain, different regulators provide different requirements on the different stakeholders. These include the Financial Conduct Authority (FCA), Financial Reporting Council (FRC), Department of Work and Pensions (DWP) and The Pensions Regulator (TPR).

The FRC is responsible for the UK's Stewardship Code which applies on a 'apply and explain' basis. Under FCA's Conduct of Business Rules, FCA regulated firms managing investments have to set out the nature of a firm's commitment to the FRC's Stewardship Code, or where it does not intend to commit to the Code, its alternative investment strategy. Since 2020, DWP regulations have required Defined Benefit and Defined Contribution Schemes to:

- state as part of their Statement of Investment Principles (SIPs) their policy on stewardship including the exercise of rights attaching to their scheme's investments, and on undertaking engagement activities in respect of those investments; and
- report annually through an Implementation Statement (IS) on the extent to which they have adhered to their voting policies and how they have voted.

In 2022, the DWP issued guidance¹ on these regulations to provide greater clarity to trustees, with the aim of improving the quality of policies, developing best practice for reporting and consistency across schemes' practices. This guidance states that a good strategy for trustees is to summarise the scheme's stewardship priorities or themes in the SIP. Many pension schemes are also signatories to the Stewardship Code, enabling them to demonstrate their commitment to stewardship as well as being able to access information that sets out how assets are being managed on their behalf.

The FRC published a new Stewardship Code in 2025, including, for the first time, a statement on the purpose of the Code "to establish the core principles of effective stewardship and to set a high standard of transparency for asset owners and investment managers, and for the service providers that support them". The new Code revised the definition of stewardship. The revised Code will apply for applications from 1 January 2026. IA members consider the FRC's new definition of stewardship will support more transparent conversations between participants in the investment chain about their investment beliefs and objectives, and how their stewardship supports these.

THE ROLE OF ASSET ALLOCATION AND INVESTMENT OBJECTIVES

Asset allocation through different investment strategies: The FRC's definition of stewardship includes how capital is allocated and managed. Differing investment styles lead to different approaches to capital allocation. Investment managers design funds in which the approach to diversification, markets, asset classes, instruments and oversight of investments all come together into the investment strategy. The purpose of the investment strategy is to optimise returns for a given level of risk and other investment objectives. As part of the investment objective there may be specific approaches or outcomes which are being sought such as targeting income returns or specific sustainability objectives (such as social or environmental impact). Investment managers will follow a stewardship approach that is tailored to the particular risks and opportunities of the chosen investment strategy or specific objectives of the fund.

Index strategies replicate the composition and weighting of a particular index. They are widely diversified. Diversification allows investment into a wide range of companies that have different risk and return profiles, which can reduce the overall risk of the portfolio as not all assets will perform in the same way under different market conditions.

Active strategies deploy an active decision-making approach and will concentrate their investments into a smaller number of companies or assets with the aim to outperform the market by selecting securities that the manager believes will outperform and lead to higher returns. There are a range of active strategies.

Some aim to outperform broad market indices while maintaining diversified exposure across sectors, geographies or asset classes. Other active funds will have specific investment objectives which will focus on a narrower mandate, such as concentrating exposure on specific market trends, industries or regions. These funds can be tailored to meet specific goals such as investment into certain sectors, targeting income or pursuing specific investment objectives such as exclusions, or sustainability goals through investment into ESG or transition funds.

WHAT ISSUES DO INVESTMENT MANAGERS CONDUCT STEWARDSHIP ON?

There are two broad groups of issues that investment managers may consider when conducting their stewardship:

Company-specific risks – are those that affect a particular company rather than the broader market or industry. These will be driven by factors such as the business models, governance structures or a company's specific exposure to certain thematic risks. These risks can stem from internal decisions, operations or external factors impacting the company. Stewardship in this context means understanding the specific opportunities and challenges faced by investee companies and using specialised knowledge of specific investments to drive long-term value. Examples of company-specific risks are strategic, financial, capital allocation, governance including board oversight or independence, reputational, innovation and competitiveness, as well as sustainability risks relevant to the business model.

Systemic risks - Systemic risks are those which pose broad risks to a well-functioning market, including risks like climate change, pandemics and inflation. Stewardship in this context means understanding the macro-economic environment through engagement with policy makers and regulators, alongside broad thematic engagement with investee companies in order to mitigate portfolio-wide risks and promote a stable market.

HOW DO INVESTMENT MANAGERS CONDUCT STEWARDSHIP?

Stewardship will be conducted differently based upon an investment manager's business model, investment strategy and clients' objectives and expectations. Stewardship should be based on the most relevant issues which are material to the investee company or client objectives, and managers will choose the approach which will deliver the best outcome. Stewardship is often conducted by both portfolio managers and stewardship teams (some firms combine these functions under one team).

Stewardship approaches for listed equities

There are a number of common activities or approaches that investment managers use when conducting stewardship in listed equities:

Research: A thorough research process underpins the selection of strategies and companies that align with clients' investment objectives. This due diligence is conducted prior to

¹ Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK

investment and is an ongoing exercise to inform the investment and engagement strategy right down to the level of material risks and opportunities in individual companies.

Investment choices: Active managers select and retain assets that contribute to achieving their clients investment goals and exclude or divest from those that do not align with these objectives or stewardship principles. Divesting from an investment due to concerns can be seen as the last resort, when all other approaches and engagement have resulted in no change. However, it can also be used as a first port of call – refusing to invest in companies where concerns about the business model or governance approach arise as part of investor research. Index investors are unable to divest from individual companies as their portfolios replicate a particular index. This means index investors are incentivised to invest in stewardship functions as a means of promoting long-term sustainable value by these companies.

Monitoring: Investors monitor their portfolio companies to assess risks and opportunities that could impact the long-term value of their investments. This can include understanding how companies, individually and collectively, are responding to macroeconomic changes, to interest rates or international trade developments. Investors will use their perspectives on how these changes are being approached by different investee companies to improve their understanding of these issues.

Setting expectations: Investors articulate their views on good corporate practices through their stewardship, responsible investment, and voting policies and communicate regularly in direct engagements with company management and board members to ensure alignment with investment goals. This encompasses company-specific expectations and setting broad expectations across the market, for example board diversity.

Engagement and dialogue: Investors initiate dialogue with management and board members to raise issues they think pose a material risk or opportunity to the company, aiming to understand how companies are responding to their views. Companies will often seek to consult their largest shareholders, on issues such as strategy and performance, changes to their executive remuneration structures or overall views on the company's performance. Investment managers will prioritise engagement based on the risk profile of the company, the size or relative proportion of the holding, sector-based prioritisation or engagement on thematic issues. These will be informed by their clients' preferences and investment objectives. Depending on the investment strategy, dialogue can be sought for information or as part of routine monitoring of assets so that investment managers have better information about a particular risk, performance of the company or the way that an individual company is responding to a particular issue or how the company's strategy is evolving.

Voting: For listed equities, investors vote their shares and provide views on key issues with the aim of seeking progress on specific issues or to signal their support for company management. For some investment strategies voting decisions may reflect adherence to local governance norms that investment managers believe promote long-term value creation. Investors can express concern with a company's approach by choosing to vote against a resolution at a general meeting. This may indicate that a company's practices or performance have not met shareholder expectations based on their stewardship priorities.

Collaboration: Enables investors to pool resources and reduce duplication, share insights, and amplify their voice on specific issues. Collaborative engagement will be appropriate for certain investors depending on their mandates and investment strategy. It can be particularly effective when addressing systemic or sector-

wide issues—such as climate risk, audit quality, or human capital management—where collective influence can drive broader market change. Collaborative efforts may take the form of joint letters, shared engagement frameworks, or participation in investor coalitions and initiatives. These efforts are not necessarily a response to a company approach but rather a strategic choice to promote consistent standards and expectations across the market.

Escalation: Investors may intensify their stewardship activities when initial efforts fail to yield satisfactory responses or progress. It is typically used to signal concern or to prompt action on material issues that pose risks to long-term value. Escalation may include increasing the frequency or seniority of engagement for example with the Chair or Senior Independent Director, voting against management or specific resolutions, filing shareholder proposals, making public statements such as speaking at the AGM, or ultimately divesting. The choice of escalation tool depends on the nature of the issue, the investor's exposure, and the responsiveness of the company. Escalation is a critical component of stewardship accountability, ensuring that engagement is not passive or indefinite when concerns remain unresolved. Participating through initiatives such as the Investor Forum can be a mechanism for escalation and collaboration.

Macro-level stewardship: Macro-stewardship, or stewardship to address systemic risks is based on risks that affect a whole sector, market or economy rather than a small number of companies. These risks include complex sustainability issues such as climate change, biodiversity loss, socio-economic inequality and anti-microbial resistance. They cannot be fully avoided by diversifying a portfolio or divesting from companies. While investors can engage with investee companies directly to address these risks to protect the overall portfolio value, stewardship on these issues is likely to be more impactful through activities such as collaboration with other investors or engaging with policymakers, regulators and through industry bodies to enhance policy advocacy. Addressing these risks therefore could have the dual benefit of improving the risk-adjusted returns of portfolios as well as supporting broader economic stability.

Stewardship in different asset classes

In recent years there has been an increased expectation from clients and regulators that stewardship is conducted in all asset classes including fixed income, real estate and private assets. The approach to stewardship in different asset classes continues to evolve and we have set out the most common approaches below:

Fixed income: Fixed income instruments include corporate debt, sovereign and municipal debt and securitised products. Corporate bonds do not usually have rights to vote at the issuers' AGMs or on any routine proposals. Bondholders' voting rights are limited to voting on key changes to the terms of the bond, in the event of a restructuring, or early redemptions of their instruments. This will be set out in the terms of the bond documentation or trust deeds. In these cases, the IA has held Special Committees which bring together the largest holders to consider changes of terms or redemptions. Due to this, bondholders often seek influence through engagement with issuers, particularly at the point of issuance or refinancing with a view to ensuring that the company can generate cashflow to meet dividend payments and repay invested capital when the bond matures. At the pre-investment phase, investors will typically conduct rigorous research and analysis prior to an agreement to ensure that the bond prospectus and covenants provide

sufficient protection to bondholders. Following investment, the opportunities to engage with the issuer may be relatively limited. In corporate debt, investors can engage on governance, risk management, and sustainability disclosures, often using their leverage during debt issuance to set expectations. In sovereign debt, stewardship may involve dialogue with sovereign issuers on fiscal and monetary transparency, or on targeted outcomes. Green bonds offer a specific opportunity for stewardship by ensuring that proceeds are used in line with stated environmental objectives and that impact reporting is robust.

Real estate and infrastructure: In these asset classes, stewardship is often exercised through active asset management. Many equity investors in real estate will own and operate the asset. Private equity investors may take ownership stakes within the real estate or infrastructure projects, often resulting in board positions, giving them influence over the management of the asset. Energy use and environmental impact is often a key focus for stewardship engagement in these asset classes, particularly given the role of infrastructure in mitigating and adapting to climate change and other sustainability considerations, and as jurisdictions seek to meet their net-zero commitments. Investors can influence sustainability outcomes by improving energy efficiency, tenant engagement, and community impact. For infrastructure, due diligence will be an important focus of stewardship at the start of the project because once developed a project can be difficult to adapt. Stewardship may be undertaken to ensure resilience to climate risks, promote inclusive access, and engagement with regulators and operators to align long-term investment with public interest outcomes.

Private markets: Private equity and venture capital investors typically have significant governance rights, including board representation. This allows for strategic engagement with portfolio companies on business strategy, governance, and ESG integration. Stewardship in private equity markets is often more direct and intensive, given the closer relationships between investors and investees. Similar to public debt, in private credit stewardship is pursued predominantly through contractual terms, information rights and consent processes rather than voting.

Across all asset classes, the core principles of stewardship remain the same: promoting long-term value creation, managing material risks, and aligning capital allocation with client objectives. However, the tools, timing, and intensity of stewardship activities must be adapted to the specific context of each asset class. Recognising these differences is essential to setting realistic expectations and ensuring that stewardship is both effective and proportionate.

INVESTMENT MANAGERS AS GLOBAL INVESTORS

Investment managers operate across a wide range of jurisdictions, each with its own regulatory frameworks, governance norms, and market practices. This global footprint means that stewardship is not static or uniform—it is shaped by the legal, cultural, and economic context of each market. As such, effective stewardship requires adaptability, local insight, and a nuanced understanding of how influence can be exercised in different environments.

In some jurisdictions (such as the US), regulatory developments have sought to limit the scope of investor influence—such as by restricting collaborative engagement or narrowing the grounds for filing shareholder resolutions, which are perceived as fundamental to fulfilling stewardship obligations. These constraints can reduce the effectiveness of stewardship, particularly on cross-cutting sustainability issues. Investment managers in the UK are

considering the implications of these changes including whether they will impact on their ability to effectively influence and engage with companies in certain markets. Investment managers must therefore calibrate their stewardship strategies to reflect these differences while maintaining a consistent commitment to long-term value creation. This includes understanding when and how to engage with the most effective tools, how to navigate legal and cultural constraints, and how to align stewardship with both global standards and local realities, recognising that these factors may place a limit on investor influence. Ultimately, the global nature of investment management demands a stewardship approach that is both principled and pragmatic—anchored in fiduciary duty, responsive to client objectives, and flexible enough to operate effectively across diverse and evolving markets.

WHAT ARE THE LIMITATIONS OF STEWARDSHIP?

Investing does not come without risk. In fact, a key feature of investment is making judgements about the relative level of risk and return, in the near and long-term, that is needed to achieve different investment goals. In the UK there continues to be debate about how we get more risk into the system to help generate greater returns. Stewardship can help to minimise or make risk acceptable for a given level of anticipated growth. Investment managers conduct due diligence prior to investment so that risks are fully understood and engage with the company to ensure these are effectively managed.

Investors are not responsible for the management of the companies they invest in. The board are responsible for governance and setting the strategy while the executive directors run the company. All directors of the company are ultimately responsible for fulfilling their directors' duties to shareholders, by whom they are appointed, and taking account of their impact on other stakeholders such as employees, communities, the environment and suppliers. Non-executive directors provide independent oversight of management and monitor whether the company is being run in the interests of all shareholders and other stakeholders. In the UK, this is done through a unitary board structure. Shareholders do have an annual vote to re-elect the directors, so can demonstrate their support or lack of it for the directors and decisions which have been made by them during the year.

This chain of responsibilities, in which investors are but one constituent, means that even the best stewardship practices will not lead to a perfect market with no corporate failures. It is important that stewardship is not seen as a silver bullet in preventing these; investing involves risk and without it, returns are unlikely to be delivered. What investment managers can do is promote business practices they believe generate sustainable value on behalf of clients. Investment managers may seek to encourage companies to change their behaviours where they believe there is a risk to long-term value, but ultimately it is the responsibility of company management to listen and respond to their concerns, where they consider it appropriate.

Stewardship can help a company to improve its prospects if the underlying business is viable and if the company is receptive to constructive engagement with investors. Where sustained stewardship efforts are not effective, it may be the right course for some investment approaches to reduce exposure to the risks posed by the company in order to protect clients and end investors by exiting the investment, in part or in full provided it is consistent with the terms of their clients' investment mandate.

WHAT HAS STEWARDSHIP ACHIEVED?

In this section we examine the tangible impact of stewardship. It is important to acknowledge from the outset that these are specific examples of what can be achieved over a sustained period where all stakeholders work together to affect change. Additionally, there are inherent empirical challenges in definitively isolating stewardship's direct causal impact on every financial metric or attributing market-wide shifts solely to investor influence. The interplay of market forces, regulatory changes, company-specific factors, and societal trends means that precise attribution can be complex.

However, despite these complexities in direct attribution and universal measurement, stewardship, as practiced by the investment management industry operating within this purpose-built ecosystem, has yielded demonstrable improvements in corporate performance, governance, and risk management over the past decade. We outline notable studies and explore case studies in which our members have broadly participated, such as board diversity and improving climate-related disclosures.

FINANCIAL PERFORMANCE AND RISK OUTCOMES OF STEWARDSHIP

Multiple studies provide evidence that engagement correlates with stronger long-term financial performance and reduced risk for companies and can have positive implications across the market.

Higher returns from engagement: A prominent study of over 2,000 engagement campaigns 1999–2009 found that successful governance engagements generated a cumulative abnormal return of around 7.1% in the subsequent year whereas unsuccessful engagements saw no significant uplift.² Another analysis of an activist fund's private engagements in the UK similarly reported positive excess returns for target companies, underscoring the value uplift that targeted stewardship can deliver³.

Improved risk management and lower volatility: Another study found investor's ESG engagements to be associated with subsequent reductions in the company's downside risk. One meta study found that firms with high governance scores have a lower probability of operational failure, were less financially leveraged and had more liquidity, which meant that they had a better ability to pay off both short- and long-term debt.⁴ A meta-study aggregating results from over 2,000 empirical studies concluded that governance indicators had (alongside broader ESG indicators) a largely positive association with financial performance.

STRENGTHENED GOVERNANCE AND MARKET PRACTICES

Beyond headline financial metrics, stewardship has driven significant improvements in corporate governance standards and investor–company dialogue, which in turn support long-term value creation:

Governance reforms and accountability: The period since the Global Financial Crisis has seen investors use stewardship to promote governance reforms that protect shareholder value. Notably, UK investment managers' collective efforts after the 2009 Walker Review led to widespread adoption of boardroom best practices. For instance, when companies suffer significant shareholder dissent (over 20% vote against) on an issue, they are now expected to publicly respond and take corrective action, a norm established via the now discontinued IA Public Register. Falling numbers of companies and resolutions on the register since 2019 reflect closer alignment between companies and their investors (falls of 35% and 23% respectively to 2023). These falls coincide with rising numbers of companies publishing details of their engagement with shareholders following these votes, in accordance with the UK Corporate Governance Code, suggesting this engagement likely contributed to the observed increase in alignment.

Escalation mechanisms used effectively: Investors have developed more sophisticated escalation tools to drive change when routine dialogue falls short. In the UK, shareholder resolutions – once rare – have become a slightly more common tool, particularly on environmental and social issues⁴. Drawing on evidence from markets like the US where this tool is more established, investors are using shareholder resolutions selectively to drive action. When these resolutions focus on high-level objectives (asking a company to set carbon reduction targets) and leave implementation details to the board, early UK experience suggests they can be successful at prompting action. Companies have increasingly come to the table to engage with their shareholders on governance or remuneration policy changes before it becomes a voting issue.

Mainstreaming of stewardship in the investment process: Today there is a widespread recognition that stewardship should be an integral part of the investment process. This cultural shift in the investment industry has been significantly encouraged by initiatives such as the UK Stewardship Code, alongside growing asset owner demand.

This evolution has fostered aspirations for a virtuous cycle: the drive for greater transparency about stewardship, through more detailed reporting and disclosure, is intended to lead to more informed and empowered asset owners, who in turn can articulate their expectations for high stewardship standards more clearly. The Stewardship Code's stated emphasis on achieving and reporting on outcomes represents an important step in the maturation of stewardship practice. The ambition was to hold investors accountable for delivering meaningful results, moving beyond a simple focus on activities. While the practical implementation of these reporting ambitions presents ongoing challenges related to volume, consistency, and the true reflection of value as explored in Section 3, the underlying principle of outcome-focused stewardship is a key achievement in the development of the UK's stewardship framework.

² Active Ownership – Dimson, Karakas and Li

³ Returns to Shareholder Activism: Evidence from A Clinical Study of the Hermes UK Focus Fund

⁴ Berridge and Gerson, From Commitment to Implementation: An Analysis of Corporate Climate Actions from the 2021 Proxy Season (July 24, 2024)

Collaborative engagement and collective action: Stewardship has also fostered unprecedented collaboration among institutional investors in the UK. Recognising that many systemic or pervasive issues (such as climate change or poor audit quality) cannot be solved by one shareholder alone, investors have collaborated to speak with a more powerful voice. Investor campaigns on accounting and audit quality in recent years led several companies to accelerate auditor rotations and improve their financial reporting transparency.

CASE STUDY ADDRESSING COMPANY-SPECIFIC RISK: BOARD DIVERSITY TRANSFORMATION IN THE UK

A decade ago, UK boardrooms were overwhelmingly male; today, UK companies rank among the world leaders in gender diversity at the top.

Elevating diversity as an investor priority: The Investment Association's member firms endorsed government-led initiatives like the Davies Review (2011), the Hampton-Alexander Review (2016) and subsequently the FTSE Women Leaders (2021), which set targets for women's representation (40% by 2025 on boards and senior leadership teams). To reinforce these goals, the IA made diversity a centrepiece of its outreach, via a letter to company chairs with no or only one woman on the board in 2018 and as part of our members' Shareholder Priorities starting in 2020, signalling that investors would hold companies accountable if their expectations were not met. In practice, this meant many large investment managers updated their voting policies to oppose the re-election of board chairs at companies with no or token female representation. Some investors in fixed income also told the boards of their issuers that diversity was a material issue to them. The IA's own voting research service, IVIS, began colour topping companies with poor diversity records with explicit warning ratings (so-called "red tops"). Importantly, the focus has been on outcomes – investors did not dictate exactly how companies should improve diversity, but they made it clear that failure to show progress was unacceptable.⁵

The result of this stewardship effort has been a sharp rise in female board representation across UK companies:

More women in the boardroom: As of February 2025, women hold over 43% of board seats in the FTSE 350. This exceeds the voluntary target of 40% by 2025 – achieved ahead of schedule. By comparison, in 2011 women comprised under 15% of FTSE 350 directors. Every single FTSE 350 company now has at least one female director, and nearly all have multiple. In 2011, about one-third of FTSE 350 boards had no women at all; today zero FTSE 350 boards are all-male. This can be attributed in part to shareholders making diversity an engagement and voting issue.

Growth in women in leadership: Investor-driven diversity goals have extended beyond the board to senior management. In 2015, the IA and other investors supported Hampton Alexander reviews call to reach 33% women in executive leadership roles (executive committee and their direct reports) by 2020. Companies have made steady gains here as well. By 2024, women comprised about 36% of senior leadership teams in the FTSE 350, up from 24.5% in 2017. Notably, investors have pressed not just for token representation but for women in key leadership positions. The latest review reported that 15.6% of FTSE 350 executive directors are female – still low, but improving as the pipeline of female talent in C-suites grows.

Targeted engagement and voting: The escalation in diversity did not happen automatically; it followed deliberate engagement by our member firms. In 2018 and 2019, the IA wrote on behalf of investors to dozens of FTSE 350 companies that were lagging on gender diversity (either only one or no women on the board at the time), urging them to set out improvement plans. These private and public communications, combined with the threat of voting sanctions, had a notable effect. For instance, in 2019, 69 companies were identified with no or only one woman on the board. Many of these firms responded by recruiting additional female directors within a year. By the 2024 AGM season, only a handful of FTSE 350 companies still had under 25% female boards, and those that did were red topped for investor action. In short, our members used the tools of stewardship – engagement letters, outlining their position via the Shareholder Priorities, and voting – to catalyse a cultural shift in UK boardrooms.

Impact on corporate performance: While the primary motivation was good governance, there is evidence that increased diversity is yielding performance benefits. More diverse boards are associated with richer debate and better decision-making. Anecdotally, many UK chairs now acknowledge that their companies are stronger for the mix of perspectives around the board. Investors continue to monitor companies' broader workforce diversity (including pay equity and ethnic diversity) to ensure the progress at the top filters through the whole organisation. The UK's rapid board diversity gains stand as a testament to effective stewardship: investors identified a material issue, set clear expectations, and helped deliver measurable change that enhances long-term value.

CASE STUDY ADDRESSING SYSTEMIC RISK: CLIMATE RISK DISCLOSURE AND MITIGATION

Another area where investor stewardship has had a definitive impact is in climate change risk management and disclosure. Over the past five years, our member firms have encouraged companies to not only recognise climate as a financial risk but to take action and be transparent about it. The result is that climate considerations are now firmly embedded in UK corporate reporting and strategy, a crucial development for long-term sustainability.

Investors put climate on the agenda: Recognising that climate change could pose systemic risks to portfolios, institutional investors started prioritising climate risk as a stewardship focus around 2017–2018. The IA's Shareholder Priorities starting in 2020 explicitly called on companies to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework – covering governance, strategy, risk management, and metrics/targets related to climate, well before climate disclosure became mandated in the UK in 2022. Sustained engagement signalled that capital would favour climate-forward companies. Many investment managers also began voting against directors at companies that were ignoring climate concerns. Starting in 2021 several large UK investors voted against oil & gas company boards that refused to set emissions targets, demonstrating a willingness to use voting as an escalation mechanism. This precipitated the incorporation of TCFD requirements in the UK listing rules in 2022, supported by IA and member advocacy, dramatically improving transparency. The IA's introduction of a TCFD question as part of the IVIS report in 2020 and then an "amber top" alert for companies not reporting against all TCFD pillars (starting in 2021) also served as a flagging mechanism.

⁵ Stewardship Code Response | IVIS

Climate action and risk mitigation: Greater disclosure was a means to an end – the ultimate goal for investors is that companies actually reduce climate-related risks and seize opportunities in the low-carbon transition.

Board oversight and strategy: Nearly all FTSE 350 boards now explicitly discuss climate change in their strategic planning, whereas in the early 2010s it was rarely mentioned. By 2024, 98% of FTSE 100 firms disclosed that they conduct climate scenario analysis and integrate the findings into their strategy development. This indicates that climate risk is being considered in decisions such as capital investments and R&D direction. Under investor scrutiny, companies from banks to industrials have established board-level climate committees or designated directors responsible for climate oversight. It's now standard for CEOs to report to shareholders on how the business model aligns with a low-carbon future. This change in strategic mindset – treating climate change as a core business issue – can be traced back to investors insisting on clear answers about long-term risks.

Climate in financial accounts: Investors (through groups like the Institutional Investors Group on Climate Change) asked auditors and companies to reflect material climate risks in balance sheets – by writing down stranded assets or tightening assumptions for future commodity prices under carbon constraints. This ask was reinforced in the IA's Shareholder Priorities. By 2024, 93% of FTSE 100 companies explicitly stated in their annual reports that climate-related matters were considered in preparing their accounts, up from just 15% in 2021. In other words, management and auditors are now factoring in things like prospective carbon prices, physical climate impacts on asset valuations, and climate policy changes when valuing the business. This accounting shift reduces the likelihood of sudden shocks. It exemplifies how shareholder engagement has integrated climate risk into the long-term financial performance of the company.

Collectively, these developments show how investor stewardship sought to address a systemic risk. Rather than waiting for government mandates alone, investors used their influence to drive widespread adoption of best practices like TCFD reporting. The result is a UK market where companies are more transparent about climate risks and better prepared to navigate the transition to a sustainable economy. This not only helps society meet climate goals but also protects long-term shareholders from the portfolio-wide risk of unpriced climate exposure.

OTHER HISTORICAL EXAMPLES

We have presented a few recent examples, which have been easier to demonstrate due to the method, that IVIS and IA have highlighted issues and collected data. But there are a number of historical examples where stewardship has helped to deliver good outcomes for clients and protect long-term value.

Executive remuneration – For a number of years, the UK Government has expected shareholders to help ensure that there was a strong link between pay and performance and payment for failure has been restricted within UK listed companies. Through investor stewardship, shareholders have helped to:

- Reduce executive director notice periods in service contracts to 12 months having previously been for 24 months or more.
- Aligned the pension contributions of executive directors to the same level of as the majority of the workforce, having previously typically been over 25% of salary.

- Removed payment for failure, through the elimination of re-testing of performance conditions in long-term incentives and strong controls on exit payments.
- Created long-term alignment between executive director and shareholders through shareholding guidelines and malus and clawback provisions.

Share capital management – Shareholders have always been keen to ensure that new shares are issued in a way that protects the rights of existing shareholders and that they are not overly diluted.

- Shareholders have supported the Pre-Emption Group guidelines which outline limits for issuing new shares without pre-emption. Investors ensured that cashboxes which had been used as a mechanism to circumvent pre-emption limits were not used and that all new issuance by UK listed companies were included within the pre-emption limits. Ensuring that existing shareholders were not overly diluted.
- Shareholders have supported appropriate flexibility in share capital management authorities as the needs of companies have evolved. Following the financial crisis, the IA updated its share capital management guidelines to allow companies to conduct a fully pre-emptive rights issue of a size up to two-thirds of the issued share capital. This was to ensure that companies could routinely conduct a rights issue of this size without calling a shareholder meeting, coming out of the financial crisis and through COVID this allowed some companies to raise capital on a fully pre-emptive basis quickly.
- Similarly, during the pandemic, the Pre-Emption Group guidelines were relaxed to allow companies to raise capital up to 20% of the issued share capital without pre-emption rights to ensure that companies had sufficient capital to weather the crisis.

WHAT ARE THE CHALLENGES FACING STEWARDSHIP AND HOW CAN WE SOLVE THEM?

This section sets out the structural tensions that act as a barrier to practicing stewardship. Investment managers occupy a unique – and increasingly pressured – position as intermediaries between evolving client expectations and corporate commercial realities. There are many clients or commentators that state that the investment industry is not delivering on stewardship, as they perceive insufficient progress is being made on a range of sustainability issues. Whereas companies argue that some of their shareholders are asking for information or pursuing sustainability issues which are not material to their business models and strategy.

Through an investment manager lens, we analyse the impact of misalignment in expectations between participants across the investment chain and how current frameworks incentivise performative compliance over value-driven stewardship. We have identified six issues which highlight the current challenges that industry is facing when delivering stewardship:

1. The need for realism over what stewardship can achieve
2. Promoting the full range of mechanisms for stewardship
3. Stewardship in different investment strategies
4. Improving integration of stewardship into the investment process
5. The burden of stewardship reporting and
6. The cost of stewardship

We recognise that not every challenge or recommendation described here will be equally relevant to every firm or its stewardship approach. Active and index managers may face distinct stewardship opportunities and constraints, but investment style alone does not determine stewardship approach. The tools and priorities of stewardship will necessarily vary according to the client expectations and the needs of the investment strategy they support.

In response to each of the problem statements we offer stakeholder- targeted recommendations as a starting point to realign practices across the investment chain and empower stakeholders including policymakers, asset owners, and investment managers to act as coalition partners in stewardship's next phase - one where clarity of purpose prevails over box-ticking

and where stewardship is positioned as a critical tool for informing the investment process and driving long-term value.

We recognise that the investment management industry alone, cannot identify all the challenges or develop the solutions. The industry recognise that these challenges need to be examined through the lens of our clients and the assets we invest in, including companies. We hope the challenges we have identified and our suggested recommendations for change are the start of a conversation across the whole investment chain, that allows us to develop solutions that work for companies, investment managers and asset owners.

THE NEED FOR REALISM OVER WHAT STEWARDSHIP CAN ACHIEVE

There is much debate from asset owners, companies, investment managers, and other stakeholders on which issues should be addressed through stewardship and what can be realistically achieved through stewardship, this can be summarised in three main issues:

1. There can be potential trade-offs due to a time horizon misalignment between achieving stewardship or sustainability objectives and delivering financial returns to clients.
2. Targeted sustainability goals are not always realistic. Investment managers should be clear about what their stewardship activities can achieve.
3. Government and other stakeholders have developed unrealistic expectations of stewardship's capacity to deliver systemic change.

1. There can be potential tradeoffs due to a misalignment of time horizons between achieving stewardship or sustainability objectives and delivering financial returns to clients

Both individual asset owners and DWP guidance encourages the market to adopt thematic stewardship priorities such as net-zero alignment or addressing biodiversity loss. In practice this means that asset owners may choose objectives that seek to deliver on both long-term sustainability themes and financial returns. At times, these two objectives may not be aligned. There may be a trade-off due to the misalignment of time horizons.

This time horizons trade off arises because some issues are financially material to an individual company now and can therefore, be incorporated into financial models. There are other issues such as long-term thematic or sustainability issues, which may not be financially material to an individual company currently, but may become so at some point in the future, given the likely impact of evolving consumer expectations or future regulation on these issues. The impact of climate change is not financially material for all companies now, but as government regulation on individual sectors or products comes into force, it may increasingly become financially material.

Both asset owners and some stakeholders such as investment consultants and NGOs are assessing the quality of stewardship on real world outcomes on thematic or sustainability issues such as climate change even if they are not necessarily financially material now.

At the most extreme, this may lead to the exclusion of certain companies or sectors such as oil and gas from a fund or investment strategy, that will limit the investable universe. This could have an impact on the returns which a fund can deliver. In recent years, those funds that have excluded the oil and gas sector, have seen a short-term performance impact on the fund, due to the exclusion of oil and gas companies in a period of outperformance by the sector compared to the wider market. At other times the sector has underperformed. Diversification is a particularly effective strategy over longer time horizons precisely because of this dynamic and exclusions limit the scope for diversification.

Many asset owners fully understand these time horizon trade-offs and consciously consider and decide that progress on the real-world sustainability outcomes are important to the fund irrespective of the short-term impact. There are some asset owners and investment consultants that do not fully consider the impact of the mismatch of timings on delivering real world sustainability outcomes and financial performance. While both objectives will be financially material, they will materialise over different time horizons which means that sustainability issues may not have an immediate positive impact on the financial return or performance of an asset.

This tension is often most acute where the market does not fully price negative externalities; in the absence of mechanisms like comprehensive carbon pricing, aligning immediate corporate financial performance with long-term decarbonisation pathways requires navigating complex trade-offs that stewardship alone cannot resolve. Without clear policy signals some companies may be reluctant to address longer-term issues, particularly if there is an immediate impact on financial performance in the short-term.

These time horizon trade-offs can lead to over-inflated expectations from some clients with regards to what investment managers can achieve through stewardship. These clients think that they can have their proverbial “cake” in terms of investment returns today, and “eat” it by using stewardship to address long-term concerns. The challenge is that companies are more reluctant to address long-term issues if they cost them in the short-term; hence, longer term perspective requires accepting some short-term trade-offs.

Asset owners are not a homogenous group and these “time horizon trade-offs” can lead to different impacts and outcomes for a broad range of clients, who will have different investment objectives seeking achievement over varying time horizons. There is broad expectation that at a minimum stewardship should focus on the risks and opportunities which are financially material to the individual company.

Without clearer alignment a client’s investment objectives, time horizons and the approach to stewardship, managers can face conflicting demands that undermine the effectiveness of their stewardship.

Investment managers must be realistic about what can and cannot be achieved through stewardship in response to client expectations and the trade-offs that can occur, particularly where a client’s objectives do not align with the expectations of other clients whose assets are being managed in the same fund.

2. Targeted sustainability goals are not always realistic. Investment managers should be clear about what their stewardship activities can achieve

Some in the investment industry have had unrealistic expectations of what can be achieved through stewardship, particularly on the management of complex sustainability issues. Some of the issues which clients are seeking investment managers to address include responding to biodiversity loss, deforestation or anti-microbial resistance (AMR) which are complex and multifaceted, with change on these issues often playing out across longer time horizons.

While some clients will expect investment managers to exercise stewardship in accordance with their values, ultimately these are not issues where investment managers are the most effective agents of change. The ability to solve these issues frequently lies with policymakers and in the absence of policy change, unrealistic expectations are placed upon investment managers to seek to address and mitigate these types of risks at the micro level through engagement with individual companies.

The guidance to the Stewardship Code cites macro-economic and geopolitical risks as those which signatories may want to identify and mitigate against, in order to improve outcomes for clients. However, the ability to realistically bring about change on these issues in a wider sense would require policy change. There needs to be a clearer understanding of what can be achieved through individual company stewardship and the role that industry can play in seeking policy change to address systemic issues. It should also be noted that single investment managers can rarely achieve change on their own. Examples of progress on particular themes such as diversity, which investors identified as a financially material issue have required action by both a range of stakeholders and many investment managers, leading to widespread adoption of consistent policies.

3. Governments and other stakeholders have developed unrealistic expectations of stewardship’s capacity to deliver systemic change

Policymakers have similarly inflated expectations of the extent to which shareholders or investment managers can use their influence to change the behaviours of all companies on all risks, irrespective of the complexity of the issue, or dispersion of individual holdings. Some stakeholders including politicians, regulators and NGOs have set expectations for shareholders to bring about change in corporate behaviour through exercising their shareholder rights, in lieu of more direct interventions in the form of rules, laws or regulations, such as polluter pays policies. This is particularly the case with some governance issues such as executive remuneration or the implementation of reporting requirements which do not have enforcement provisions such as Gender Pay Gap or supplier payment reporting. The industry needs to be clear with government that it has legally defined roles and responsibilities, as do asset owners and companies, and that this makes it difficult for these actors to pursue expectations that government and policymakers have, given their role to meet their fiduciary or director duties.

RECOMMENDATIONS TO DELIVER MORE REALISM ON WHAT STEWARDSHIP CAN ACHIEVE

For asset owners and investment managers: Recommendation 1:

Stewardship should be embedded into the relationship and mandate between investment managers and asset owners to provide greater realism on what can be achieved through stewardship to deliver on client objectives and expectations.

To inject greater realism into what stewardship can actually achieve in practice, asset owners should clarify expectations and clearly set out their priorities on stewardship at the pre-appointment stage, during the manager selection process, and as part of the ongoing oversight and monitoring process. Investment managers should set out the approach they intend to take to deliver against this and highlight any trade-offs that asset owners should be aware of.

As part of a joint report with Pensions UK (formally PLSA)⁶, the IA developed recommendations on embedding stewardship at different points within the relationship between asset owners and investment managers across a range of different asset classes. These recommendations were jointly agreed by asset owners, investment managers, lawyers and consultants. There has been limited take up given the infrequent nature of contractual or mandate discussions, but we believe that these recommendations still hold true.

Clarifying expectations during the pre-appointment process

Investment managers must set out their approach to stewardship in a clear and transparent way to their clients and should have a discussion on what they can realistically achieve through stewardship on complex, long-term issues, which some clients may have sought to prioritise as part of their own investment objectives and policies. Investment managers should clearly articulate the potential “time horizon trade-offs” with delivering on clients’ investment preferences. Performance measures and the feedback to the manager appointment process can then reflect the relative importance of these factors. Different investment managers will have varying time horizons in which they aim to achieve their targeted returns. Choosing and judging managers on short-term performance while setting stewardship objectives on longer-term issues without a framework for reconciling tensions that may emerge between these aims can put the stewardship and investment strategies at cross purposes, complicating accountability as a result.

The relationship between asset owners and managers would work more effectively where clients provide detailed information on their expectations and investment objectives as part of their stewardship policies. This needs to happen at the outset of the discussions on the manager appointment process as it sets the

foundation for a relationship which prioritises sustainable value creation while allowing both parties sufficient time to understand whether there is alignment in their approaches to stewardship. Clients should be clear in their mandate or other documentation such as the Statement of Investment Principles on the type of issues they want to prioritise or where they are seeking to exclude certain sectors or types of companies, this could be values driven or based on financial considerations such as potential underperformance. Clarity on this at the outset of the relationship on a client’s expectations will help to maintain a focus on the mandate over any “topical” issues that may arise.

Investment managers should then engage with their prospective clients to understand whether the product or mandate they are offering will contribute to the fulfilment of their client’s investment objectives on behalf of their beneficiaries. For example, for some index funds it may not be possible to accommodate all client preferences unless the composition of the index the fund is tracking changes itself.

Asset owners and their investment consultants need to do this through clearly communicating their stewardship expectations and policies through their Statement of Investment Principles (SIPs). These policies can be high level and principles based in line with global standards, or more granular and specific. The UK Stewardship Code, specifically the Principles relating to purpose and governance, investment approach, engagement and exercising rights and responsibilities may be a useful starting point for the development of policies.

Considerations for asset owners as part of the manager selection process

Asset owners will consider a range of factors when making manager selection decisions, but ultimately what is driving the decision is whether the product or mandate will contribute to the fulfilment of their investment objectives on behalf of their beneficiaries. In order to embed a focus on sustainable value creation, the following are important principles for clients to consider to integrate stewardship into the manager selection process:

- Assessing and monitoring culture and values alignment between the two firms and how this will promote effective stewardship and drive value.
- Placing a greater value on stewardship alignment and integration in the selection criteria and ultimate selection decision.
- Assessing the incorporation of stewardship in the whole investment process across different asset classes and strategies.
- Assessing managers capacity to meet evolving expectations and best practice as part of a commitment to a long-term relationship.
- Focusing on the manager’s approach to achieving stewardship outcomes, including where company or public policy engagement is likely to be most effective, and how this contributes to sustainable value; and
- Assessing the manager’s overall stewardship offering and approach, this may also include information on a fund’s specific stewardship approach, if relevant, to deliver a fund’s investment strategy.

⁶ [Investment-relationships-for-sustainable-value-creation-July-2022.pdf](#)

Considerations for a contractual relationship between asset owners and managers which prioritises value creation

Asset owners and investment managers should also consider a contractual relationship which incentivises and holds both parties to account for focusing on value creation. Where asset owners consider embedding a broader range of sustainability objectives into their investment mandate, they could consider using the ICGN's model mandate initiative, which was produced in collaboration with Global Investors for Sustainable Development alliance.

It sets out more clearly how asset owners can articulate their expectations on long-term investment approaches in their contractual relationship with managers. Alternatively, investment managers and owners may seek to establish a 'governing charter' which takes inspiration from 'Brunel's Asset Management Accord'. This document sets out principles and values that define the relationship between owner and manager to engender long-termism, greater alignment of interests and increased transparency and dialogue. Parties to the charter could consider incorporating the following into the agreement:

- Expectations on the long-term nature of the relationship to focus on sustainable value.
- Clarifying the approach taken to performance review and assessment of an investment manager.
- Ongoing engagement and communication outside of formal performance assessments.
- Responsibilities for identifying and managing systemic risks.
- Formalising expectations on culture and governance; and
- Alignment with stewardship policies over the long-term.

Ongoing monitoring and oversight of investment managers

Asset owners and investment managers should agree an oversight framework focused on long-term sustainable value, which aligns the performance review cycle, investment and stewardship objectives, and Key Performance Indicators (KPIs). This should include both quantitative and qualitative reporting items which enable a holistic view of the role of how stewardship supports the investment objectives, throughout the investment process and across different asset classes, and how stewardship activities have contributed to stewardship outcomes. Ongoing dialogue should enable both parties to communicate evolving expectations on stewardship.

Managers should proactively consult their clients on their stewardship policies and expectations, at onboarding and on an ongoing basis. More frequent consultation with clients on their evolving preferences will help facilitate better alignment between clients and managers on their stewardship expectations and will support managers to respond to emerging expectations on best practice.

Actions and review:

- The development of new relationships and contracts between investment managers and asset owners are relatively infrequent, but the IA will continue to promote the importance of strengthening the relationship with asset owners, investment managers, investment consultants and lawyers.

- The IA will monitor the take up of this recommendation through targeted engagement with investment managers, asset owners and investment consultants in 2026. Including the review of further support which could be offered.
- There is an opportunity, given the new Stewardship Code, for reporting against it to focus on how stewardship is embedded into the relationships. To understand how investment managers and asset owners have embedded stewardship within their relationship, the IA will engage with DWP and the FRC after reporting under the new Stewardship Code in 2026 to assess if there have been improvements to the quality of disclosure within Code reports and Statement of Investment Principles.

For investment managers: Recommendation 2:

Investment managers should be clear with clients on the likely impacts of pursuing specific investment objectives which might limit the investible universe, leading to potential time horizon trade-offs or the potential impact on investment returns. These need to be fully understood by clients.

Based on a chosen investment strategy, investment managers need to be clear with clients on the potential "time horizon trade-offs" that can occur and how these can impact both the investment returns and the targeted real-world impact. Exclusionary approaches in particular limit the investible universe which can negatively impact the targeted financial return. Where funds are investing through collective investment vehicles, they cannot give preference to a subset of clients over others, therefore clients seeking to prioritise exclusionary approaches with a long-term investment time horizon will often best be served by funds that are designed to bring such investors together, through a thematic fund, such as climate transition. Investment consultants can also play a role in helping clients to understand and articulate these priorities and how to approach potential trade-offs.

Actions and review:

- The IA will engage with investment managers and asset owners throughout H2 2026 to understand whether a clearer outline of investment and stewardship objectives is taking place and identify areas for improvement within the Statement of Investment Principles.

For investment managers, asset owners & regulators: Recommendation 3:

As the market for stewardship develops, clients should articulate the type of stewardship which meets their investment objectives and priorities. This may entail stewardship solely focusing on issues which are financially material to the individual company or could also extend to systemic stewardship focusing on specific themes and portfolio level risks and opportunities.

When clients set out their investment objectives, this can allow for a better distinction between stewardship on near-term financially material issues, longer-term systemic stewardship, as well as any non-financial considerations such as other preferences. Prioritising stewardship that focuses on company-specific stewardship in order to deliver financial returns as a baseline would help to build common ground and consensus across industry and would also reconcile potential misalignment with investee companies where shareholders are pursuing issues that are not material to a company's specific business strategy.

This baseline can be built upon by recognising that some clients will include in their hierarchy of priorities macro stewardship to address longer-term systemic risks. Investment managers can then engage with policy makers or regulators, through advocating for the right policy environment to fully align companies' incentives with managing these risks. However, investment managers can only make so much progress in identifying, monitoring and mitigating against systemic risks. A clear policy framework is required in order to allow stewardship practitioners to focus on the most meaningful stewardship activities.

Once an investment manager has greater clarity on the prioritisation of investment objectives from clients, they should articulate to investee companies why they are pursuing objectives, explaining to the company the materiality of that objective to the fund.

This should help to dispel confusion around why investors are seeking views or engagement on themes that may be immaterial to that company now but are in alignment with the investment objectives of a fund or client, creating an opportunity for sustained and clearer dialogue across the investment chain which should help to improve relationships with both investee companies and clients.

Action and review:

- The IA will engage with industry and the UK government to ensure that the right policy environment exists to tackle systemic risks.

- The IA will work with industry and the FRC to understand the take up of new Principle 2 on addressing systemic risk within the 2026 Stewardship Code, including any barriers and areas for improvement.

PROMOTING THE FULL RANGE OF MECHANISMS OF STEWARDSHIP

As we have set out in section one of the report, there are many differing ways that investment managers will seek to deliver on their stewardship objectives. There is no single approach to stewardship, and it is important to recognise that stewardship will be conducted differently based upon an investment manager's business model, investment strategy and clients' objectives and expectations. Stewardship should be conducted on the issues which are material to the investee company or client expectations and investment managers will choose the approach to stewardship which they believe will have the best outcome for the individual company or issue.

The existing stewardship mechanisms face limitations in addressing issues beyond governance

There are a range of mechanisms available to help deliver stewardship outcomes (setting expectations, analysing individual company performance, engagement, voting, escalation, public statements, and collaborative engagement). These mechanisms have remained relatively consistent over many years and were predominantly developed based on governance issues such as board independence, executive remuneration, share capital management and capital allocation. These governance issues can be approached through a clear, consistent and measurable framework which leads to binary outcomes and consistent measures of success such as majority of independent board members, or split in CEO/Chair roles. But the issues which are being considered by investment managers are now much wider and incorporate a range of sustainability issues. For these issues the outcomes are not binary in nature and it is harder to judge specific progress or outcomes which makes it hard to use some of these historic mechanisms. This includes real world outcomes relating to sustainability issues including company responses to reducing the impact of climate that might not be uniformly addressed across portfolios or consistently over time.

Voting as a barometer of "good stewardship" and the role of third parties

For some stakeholders there is an undue focus on voting as it is perceived to be the most visible aspect of stewardship, with some stakeholders considering that a vote against management's recommendation is the only way to demonstrate good stewardship. There is also a perception that voting against management recommendations is good, regardless of the merits of the resolution in question, or

whether engagement has led to a change in company approach addressing investor concerns. This leads to the mistaken conflation that a lack of support for a shareholder resolution—often on sustainability-related issues—represents an investors stance on sustainability concerns more generally.

Whilst these resolutions can be an important escalatory measure where engagement with company management and voting on standard resolutions have not resulted in the desired change in corporate behaviour, there will be instances where investors support the board's recommendation to vote against. This does not constitute a lack of interest in these issues from investment managers. These resolutions will need to be assessed on a case-by-case basis and taken on their own merits and considered against what the company is already doing in relation to the request. In some instances, investors may choose to vote against resolutions because they are too prescriptive and try to bind management into taking a specific action, are ambitious or may not be seeking to promote long-term value creation⁷. Where these resolutions are submitted by interest groups it is likely that long-term value creation or the impact of the proposal on the financial performance of the company is not the primary objective in filing the resolution.

The over emphasis on voting is compounded by certain stakeholders producing league tables which rank investment managers based on their support for shareholder resolutions on sustainability-related issues, or whether they have voted against management recommendations. Rankings therefore compound the problem and promote the belief that voting alone is the most effective tool in bringing about change in corporate behaviour, when in fact it is only one component of an investment managers 'toolkit'.

As part of the formal monitoring of managers, investment consultants may ask managers for regular reports to ensure alignment with the fund's stewardship objectives, or undertake a formal assessment of a managers' stewardship activities. Too often this focuses on an evaluation of the manager's voting record to promote alignment with a client's expectations which leads to voting records being used as a "proxy" for good stewardship. As part of this process, clients may rate and review a manager's stewardship performance, through assessing their voting behaviour. As voting is the most visible aspect of stewardship, it is often used as the key mechanism to determine quality. DWP guidance also contributes to this perception by requiring trustees to consider the link between a scheme's thematic stewardship priorities and voting behaviour, and to tie "Most Significant Votes" to these priorities. Investment managers and trustees may have different views on what constitutes a "Most Significant Vote" for an investment within the scheme's portfolio. In practice, the lack of standardised definition and thematic approach to setting stewardship priorities can lead to a disproportionate focus on the quantity of voting and its disclosure by investment managers over quality and outcomes from stewardship activities. The consequence of using such binary metrics drives performative voting, without providing a clear sense of the impact or outcomes that stewardship activities have achieved or how this can drive long-term value.

Regulatory and technological changes have also promoted initiatives such as pass through voting which offer clients the option to select from a number of pre-defined voting policies or develop their own policy, choosing a voting approach which better reflects their stewardship objectives. Whilst client

directed voting has always been possible for clients in segregated mandates, some investment managers can now offer this as a solution to other institutional clients who want to take an approach to voting that aligns better with their stated beliefs and objectives, by a choice of voting policies. At this stage it is too early to understand the long-term impacts of this approach when it comes to the delivery of stewardship. While voting choice is an articulation of the different range of views that clients may have within a fund, there is a risk that it can lead to fragmentation by diluting a single "house" view on certain issues. However, in these instances some investment managers may offer deviations from client directed voting if a portfolio manager believes that this is in the interests of end-investors in their funds.

It is important to note that voting is predominantly a stewardship tool in equities funds, therefore the focus on voting as a key barometer of stewardship does not reflect the role that stewardship will play in other asset classes such as fixed income.

Inconsistency in the approach to engagement

There is no consistency on approach and definition of engagement, which is increasingly being used interchangeably across a number of issues. This can range from writing to management, engaging for information through to structured engagement programmes on specific issues over time. These approaches are rarely distinguished between in many reports/conversations particularly when looking at aggregate data on engagement activities.

Seeking real world outcomes

In response to calls to achieve better stewardship impact, some frameworks have also adopted real-world outcome targets — such as carbon reduction commitments or social impact goals. While this can be suited to specific mandates where clients have prioritised these objectives, at an organisational level it presents significant risks by relying on targets linked to real world outcomes that do not account for the complex challenges and strategic decisions that companies will have to make in a difficult political environment. Investors also have limited control or influence over real world outcomes, which will be heavily dependent on external factors such as regulatory change, and it is often difficult for investment managers to prove that their engagement efforts have directly contributed to achieving real-world change. This is likely to create tensions in the relationship between investors and investee companies, particularly where the prevailing commercial conditions impinge on achieving specific objectives or targets.

⁷ IA Guidance on Requisitioned Resolutions.pdf

RECOMMENDATIONS TO PROMOTE ALL MECHANISMS OF STEWARDSHIP

For asset owners, investment consultants and civil society NGOs: **Recommendation 4:**

The assessment and oversight of stewardship quality should be based on outcomes linked to value creation rather than activity metrics (such as votes against or number of engagements)

To better align stewardship with its core purpose, delivering long-term value for clients, success should be measured by its impact on investment outcomes for clients rather than voting records or real-world impact targets alone. Investment outcomes in this context can be broader than achieving better financial performance, and as set out above some clients may seek sustainability objectives that encompass real world outcomes or seek policy change. In this way, investment managers can tailor their engagement strategies for clients based on their preferences including prioritising short-term financial objectives or those seeking longer-term systemic change and to measure success in ways that reflect those objectives, rather than treating activity metrics as ends in themselves. Investors can also align their stewardship activities with issues that are financially material to a company and seek to enhance company performance over the long-term. In some instances, it is worth noting that activity-based metrics can be useful for providing insight to clients (such as judging real world effectiveness), but that these should complement outcomes-based metrics.

To preserve the credibility of stewardship as a value enhancing activity, investors should be able to demonstrate the value of their stewardship to clients through a measurable framework which enables clients to hold them accountable. Oversight frameworks between investment managers and asset owners which assess whether the portfolio is on track to meet investment objectives should maintain a focus on long-term value consistent with the investment time horizon of scheme beneficiaries and their stewardship objectives. Asset owners should focus on reporting metrics and KPIs that support a focus on long-term performance. Under the SDR regime where stewardship plays a significant role in the sustainability product's investment policy and strategy, firms may consider disclosing KPIs related to the outcomes achieved or that measure progress towards the product's sustainability objective. In practice, this should capture engagement outcomes over a sustained period and how this has generated long-term value or how voting activity has contributed to positive outcomes.

To support greater standardisation in vote disclosure metrics,

asset owners may also want to use the Pension UK Vote Reporting Template⁸ which is intended to provide more consistent and comparable information on voting to enable greater alignment between investment managers and asset owners stewardship objectives. Investment managers should seek to provide vote rationales that provide this link and how the voting approach is linked to the investment objectives and value creation for clients.

Actions and review:

- The IA will promote to asset owners, regulators and other stakeholders a reporting approach which focuses on outcomes linked to value creation and client objectives. We will work with these stakeholders to see if a common framework can be developed.
- The IA will work with industry to assess how asset owners are using reporting metrics and KPIs that support a focus on long-term value, through assessing the take up of industry-led frameworks such as Pension UK's Vote Reporting Template.

For investment managers: **Recommendation 5:**

In their stewardship reporting, investment managers should provide best practice case studies of the circumstances in which voting is used and how this works alongside the use of other stewardship mechanisms to ensure clients and other stakeholders understand the role that voting plays

There is currently a focus on performative voting over understanding how the outcomes of a voting decision have been interpreted by a company, the actions the board intend to take in light of the voting outcome, and how this might impact long-term value creation. This can lead to virtue signalling where voting decisions are used by some stakeholders as a way to assess a manager's alignment with social expectations rather than driving investment-relevant outcomes. The industry needs to reframe the narrative around voting so that it is used by investors to signal material concerns around how a company is being managed. Voting should also be analysed in conjunction with other stewardship activities such as engagement, rather than as an end in itself. Engagement can often lead to changes in company behaviour, which allows managers to support the resulting resolution, these case studies of engagement leading to positive outcomes and supportive voting should also be promoted.

To better educate stakeholders and create dialogue on the

⁸ https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/A-new-industry-shareholder-Vote-Reporting-Template?_ga=2.83382358.1537992604.1762536420-674413324.1756913167

effectiveness of other stewardship tools beyond voting, the IA will work with industry to produce best practice case studies on the different stewardship mechanisms available to investors, including how voting is used as an escalation mechanism supporting other stewardship mechanisms. This will seek to recognise that stewardship resources are not unlimited and that investment managers will seek to utilise those tools that maximise their potential to deliver against clients' investment objectives and priorities.

Actions and review:

- The IA to produce best practice case studies in H2 2026

STEWARDSHIP IN DIFFERENT INVESTMENT STRATEGIES

Different investment strategies will seek to deliver on different objectives and may have differing approaches to stewardship. There has been some debate from companies and other stakeholders on the role that different investment approaches play in the quality of stewardship outcomes. Therefore, we seek to address these issues from an investment manager perspective.

Active strategies seek to outperform the market, whereas index strategies measure an investment's volatility or risk relative to the market. As such, the oversight, management and approaches to stewardship will likely differ based on the investment strategy that is chosen. Investee companies can be unclear as how and why differing approaches to stewardship are being taken with them.

The concentration and size of a portfolio may impact on an investment managers ability to conduct and resource stewardship. As active funds are focused on a smaller number of holdings, the portfolio's performance is reliant on the way a smaller number of securities perform. As this can lead to higher concentration, the success of such a strategy depends on a fund manager's experience, expertise and knowledge in selecting specific stocks. This will involve dedicating resource to in depth research and analysis of individual companies and their specific circumstances, which will also include engaging with company management to identify financially material risks and opportunities that may impact its prospects. Stewardship teams may typically be smaller and will often be able to leverage expertise from the investment teams to target companies for engagement. Portfolio managers will integrate material sustainability-related issues alongside traditional financial analysis and valuations to make informed investment decisions.

Index investors offer diversified portfolios which offer a way to gain broad market exposure across various asset classes, through tracking the constituents and therefore, the performance of a specific market index. Index investing is also a lower-cost investment style because it does not require specialist knowledge of stock selection. Index investors usually have larger stewardship teams. Despite this, given the number of index constituents, it means that some index funds do not engage with every single portfolio company on a full range of issues; these index houses will have research and analysis processes in place to consistently vote in line with their policies and highlight individual companies where engagement is needed. Like other investment managers, they may use proxy research to identify issues and manage their voting approach alongside a variety of other resources such as third-party data, corporate disclosures and internal proprietary research.

Different index funds may choose to take varying approaches to stewardship depending upon a fund's mandate. Some index investors may focus on broad policies, expectations and policy engagement on thematic issues which impact entire portfolios rather than individual assets, limiting the influence of some index funds to governance themes given the success in applying a clearly measurable, quantifiable and transparent frameworks driven by regulation and the Corporate Governance Code. For these index funds stewardship on more complex issues such as sustainability factors may be more difficult given the volume of sustainability-related issues which investors are expected to analyse as well as a lack of consistency in data or frameworks that span the whole portfolio against which to measure or report on meaningful outcomes. Given the complexity of some of these objectives and subjective outcomes on progress, trying to analyse them for each individual index constituent would be costly to resource as well as time consuming.

Other index funds will make risk-based decisions which includes a consideration of all financially material risks, including sustainability risks, when analysing a company's risks and practices. This means that there could be less focus on sustainability issues depending on a fund's mandate. Engagement with portfolio companies will be proportionate to the level of risk identified, with some index investors arguing that is not their role to question a boards judgment on how they manage sustainability-related issues or decisions not to pursue particular sustainability outcomes.

Despite being invested in more stocks, index funds may also be exposed to similar levels of company-specific risks as active managers given the prevalence of large-caps. This leads to risk which cannot be diversified out of given the relative weight of a stock within an index must be replicated in the fund. In this instance, index funds may choose to prioritise companies for engagement in the same way that active managers do through materiality of risk, percentage of assets under management, the size of holdings at the portfolio and/or firm level, or specific themes. For some index investors, due to the concentration of holdings in the largest companies, it may not be necessary to engage with every single portfolio company to efficiently engage a substantial portion of the portfolio's overall value.

Some index investors may also have active funds, ensuring that they take a "house approach" to analysis or engagement with individual companies. Both active and index managers may choose to engage on market wide or systemic issues through advocating for policy change at the macro-level. For some index strategies, being committed to broad sections of the equity market enables them to leverage their large equity holdings to advocate for policy change over broader systemic issues.

The industry should continue to help companies they invest in to understand the stewardship approach which they take as investors.

RECOMMENDATIONS ON STEWARDSHIP IN DIFFERENT INVESTMENT STRATEGIES

For investment managers and asset owners: **Recommendation 6:**

Investment managers should share fund level information with clients on how their stewardship approach supports the investment strategy at the pre-appointment phase

The information that investment managers provide about their stewardship approach and how this contributes to value creation for clients is an important consideration when making decisions on investment manager selection. This will involve an overview of the client's investment objectives so that investment managers can ensure that the products and services that they offer are tailored towards meeting this prioritisation and delivering for clients.

In order for clients to make better informed decisions on whether a fund meets their specific investment objectives, investment managers should provide more detailed information on their stewardship approach within fund level documentation, at the pre-appointment phase of the relationship between investment managers and asset owners. The SDR regime for retail clients already requires investment managers to set out the approach to stewardship at both the firm and fund level. Firm level stewardship will encompass broader policies and practices that apply across the entire firm in order to support and achieve investment objectives.

Actions and review:

- The IA will work with industry to encourage the approach to stewardship at the firm and fund level to be properly articulated as part of the Investment Management Agreement in order to provide the most decision- useful information to clients.
- The IA will engage with industry to understand how it is evidencing if stewardship has impacted on outcomes for the investment strategy of the fund.
- The industry will continue to work on educational material for clients and companies so that they understand the differing approaches to stewardship particularly by different investment strategies.

IMPROVING INTEGRATION OF STEWARDSHIP INTO THE INVESTMENT PROCESS

The introduction of the 2020 Stewardship Code led many organisations to improve the governance of their stewardship approach, restructure operations, increased resources

dedicated to stewardship and demonstrably improved the quality of their engagement activities. These positive developments have led to more effective stewardship practices and better alignment between stewardship activities and overarching investment objectives, ultimately contributing to long-term value creation for savers and pensioners. However, integration could still be improved further in areas of the market; at times portfolio managers, stewardship professionals, senior executives within investment managers, companies, and clients continue to highlight the differing views between investment and stewardship teams.

Investment managers remain uniquely positioned in the investment chain, balancing between making progress on evolving client priorities—which may include long-term sustainability themes or "real-world" outcomes—and the issues which are financially material to investee companies. This positioning can create inherent tensions. Without clearer public policy that aligns companies' commercial incentives with sustainable practices, there is a tension between client sustainability goals and immediate company financial materiality, making the integration of stewardship more difficult.

The need for integration may be less of a concern for those investment houses that undertake engagement and execute voting decisions within the same team. However, for others there is a perceived misalignment between portfolio managers, who are often focused on near-term financial materiality and company performance, and specialist stewardship or sustainability practitioners, who may be addressing longer-term or thematic risks. This can lead to differing, sometimes contradictory, stances in company interactions. Investee companies, as a result, may receive mixed messages or face engagement priorities that seem disconnected from their core business strategy or current material risks, hindering constructive dialogue and progress. This undermines the credibility and effectiveness of stewardship efforts.

RECOMMENDATIONS ON IMPROVING INTEGRATION OF STEWARDSHIP INTO THE INVESTMENT PROCESS

For investment managers:

Recommendation 7:

Following the first round of reporting against the new Stewardship Code, the IA will share best practice examples of integrating stewardship into the investment process. The industry should seek to speak with a single and consistent voice rather than have a portfolio management or stewardship view on issues, to provide clear and consistent views to companies.

To provide greater clarity on the issues with the integration of stewardship into the investment process, we recommend that the industry, supported by the IA, uses the opportunity of reporting against the FRC's new Stewardship Code to define and promote good practice to encourage portfolio managers and stewardship specialists to speak with one consistent voice, and for this to be reflected as part of engagement with investee companies.

Following the first round of reporting against the new Code, the IA will highlight best practice examples of stewardship integration from member reporting against the Stewardship Code.

Actions and review

- The IA will highlight best practice examples of stewardship integration from member disclosures against the Stewardship Code.

THE BURDEN OF STEWARDSHIP REPORTING

Investment managers in the UK must meet various reporting requirements to comply with regulatory and quasi-regulatory obligations, client expectations, and investment consultant standards. IA research has found that the most commonly used stewardship reporting frameworks including the FRC Stewardship Code, Pensions UK (formally PLSA) Voting template, ICSWG engagement template and PRI guidance, overlap in terms of their primary areas of interest. At a high level, the areas the reporting templates focus on are relevant to assessing how money is managed in beneficiary's interests.

These include the governance of stewardship and stewardship policies. However, when the IA tabulated and categorised individual disclosure requirements across the main reporting templates, we found selective overlap with the Stewardship Code's policy disclosures, supplemented by a large volume of

quantitative and thematic breakdowns of aggregated data on voting (Pensions UK template) and engagement (ICSWG template). These activity-focused data points lack the context necessary to meaningfully interpret the impact of stewardship on client outcomes.

The quantity of reporting requests, often for different reporting periods and through varying formats is impacting IA members. Investment managers have commented on the burden involved in having to provide data which often relates to disparate timeframes, typically outside of the calendar year reporting. This will require already limited resources to manually sift through and provide the data, which can be particularly burdensome for smaller investment managers. Clients do not directly experience the costs in resources and opportunity cost of low value-add reporting rather than practicing stewardship, but these costs must ultimately be borne by end-savers and the market.

When introducing the reporting duties that drive the common reporting frameworks, particularly Pensions UK (formally PLSA) and ICSWG templates they reference, regulators generally considered that the stewardship and associated reporting of investment managers and asset owners would continue to converge around common approaches to enhance value creation for savers by way of the investment strategies chosen. In practice the market has fragmented, however, with many schemes choosing investment priorities based on sustainability themes that do not map well onto stewardship as it is practiced, with individual clients and consultants seeking additional reporting on these themes or asking for more or different information to the templates. [DWP guidance](#) accompanying asset owners' requirements (statement of investment principles, and implementation statement) uses thematic language and examples, which is what has led many asset owners to adopt this approach. The resulting fragmentation has to be met with more bespoke reporting requests from investment consultants, greatly expanding the reporting burden and diluting the provision of the information that was most material to protection of value and beneficiaries' interests.

RECOMMENDATIONS ON REDUCING THE BURDEN OF STEWARDSHIP REPORTING

For regulators: Recommendation 8:

Stewardship regulation and industry reporting should be reframed to focus on driving stewardship outcomes

In recent years, UK regulatory guidance has increasingly emphasised quantitative and thematic approaches to measuring the success of investor stewardship. For instance, DWP guidance prescribes reporting on the most significant votes and tallying numbers of engagements on particular themes⁹. These metrics provide a superficial measure of activity and often lack the context behind the vote necessary to assess its true effectiveness in driving long-term value for beneficiaries. Paragraph 73 of the guidance states that trustees can draw information from other sources such as their Stewardship Code reports to inform the Implementation Statement. However, this paragraph will no longer be consistent with the proposed changes to the structure of the Principles within the new Stewardship Code.

In consultation with industry, we recommend that the Cross-regulatory Working Group on stewardship considers the following issues in order to streamline and reduce the reporting burden:

- Following the recent publication of the 2026 Stewardship Code, the DWP should reconsult on its guidance to encourage a move towards a more qualitative assessment of stewardship activities. Trustees should be encouraged to report on how their stewardship, and that conducted on their behalf by managers, supports their investment strategy to deliver long-term value for beneficiaries, focused on how stewardship has generated value or mitigated risk.
- Given the statutory nature of some aspects of the DWP guidance, the DWP should consider how changes to the 2026 Stewardship Code impact on the Guidance, as well as ensure that market-led reporting templates that were developed to meet quantitative reporting requirements, including the newly published Pensions UK Vote Reporting Template are appropriately tailored to delivering decision-useful disclosures which focus on outcomes and long-term value creation.
- It has now been seven years, since the UK introduced requirements from the Shareholder Rights Directive II. There should be a post implementation review to address aspects of the legislation that have not supported the provision of proportionate, decision-useful information to clients and other stakeholders. There are challenges with reporting “Most Significant Votes” including the lack of a universal definition which has led to inconsistencies in reporting, and clients making additional requests for vote rationales that add disproportionately to the reporting burden.

Actions and review

- The industry to engage with the Cross-regulatory Working Group on changes to DWP guidance.
- The industry to engage with the Department for Business and Trade and FCA to seek a post-implementation review on requirements introduced by Shareholder Rights Directive II to ensure that those requirements are meeting client and industry needs.
- The industry to work with ICSWG to ensure that their Engagement Reporting Guide provides additional transparency around engagement activities without creating additional burden for investment managers.

For investment consultants: Recommendation 9:

Investment consultants should provide greater transparency on how they are supporting good stewardship outcomes including supporting clients to fulfill their objectives against the Stewardship Code

Investment consultants play an influential role in shaping asset owners' expectations of stewardship. However, their focus has often drifted towards procedural assessments — emphasising metrics such as the number of engagements, letters sent or votes cast — rather than evaluating the quality and outcomes of stewardship activities. This risks reinforcing a box-ticking culture that rewards process over impact.

To better support long-term value creation, investment consultants should focus on collecting data on activities including engagement and voting when they are connected to client outcomes and through existing industry templates. Where investment consultants are seeking additional data from investment managers, they should set out why this is needed and show how the data is used in relation to clients' investment priorities or assessment framework, including how this data constitutes decision-useful information to clients. We welcome the new Stewardship Code which includes new Principles for Service Providers and specifically investment consultants, we encourage all investment consultants to report against the new Code. The new Principle 3 under the Stewardship Code will require investment consultants to set out how they communicate with clients to understand their objectives and deliver services to support their stewardship. As part of their reporting, consultants should provide additional transparency on how additional data requests from investment managers inform recommendations to clients.

To the greatest extent possible, consultants should utilise a

⁹ Part 3, paragraphs 67-73 Reporting on Stewardship and Other through the Statement of Investment Principles and Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK

manager's Stewardship Code report and other publicly available resources rather than outsourcing this work to practitioners. Crucially, these sources contain the context necessary to understand how client outcomes were achieved, not merely aggregating multiple company-specific engagements or votes into a meaningless tally. Any additional requests that are deemed necessary should be limited to calendar year reporting, and investment managers should be provided with the rationale and sufficient time to collect this additional data.

Actions and review

- The investment industry will monitor investment consultants reporting against the 2026 Stewardship Code and work with asset owners and the FRC to ensure that it supports the embedding of long-term sustainable value creation across the investment chain.

THE COST OF STEWARDSHIP

Investment managers have limited resources to undertake stewardship activities which means that they must prioritise resources in order to execute meaningful engagement activities which focuses on issues that deliver long-term value for clients. Investment managers can make a better business case for conducting stewardship where clients have articulated their investment priorities and policies. Investment managers in turn need to engage with their clients to understand whether they can deliver against their objectives.

There are different costs associated with the process of stewardship for both companies and investors. There are costs associated with undertaking stewardship activities which, depending upon the investment strategy and the stewardship approach, will require different skillsets, perspectives and resources across a firm including appropriate experience and expertise to credibly engage with senior corporate representatives.

There are differences in the skills required to undertake different types of stewardship activity, addressing macro-level risks is likely to require engagement with policy makers, government and regulators on broader themes in order to affect change across the market. Meanwhile a different skill set will be required to conduct research and undertake engagement on company-specific issues. There are also the costs of meeting different reporting requirements such as the UK Stewardship Code as well as additional requests for data through other industry-led frameworks.

Some stakeholders have noted that while the costs associated with stewardship are clear, the benefits may be less immediately visible and there is merit in clearly articulating stewardship's tangible and intangible benefits such as improved corporate governance or better risk management. This will help to better embed stewardship at the heart of the investment process. In an environment where investment managers are asked to deliver more than is feasible for clients, there can be a loss of clarity regarding the value and impact of the stewardship they are being encouraged to pursue. Where these activities lead to value creation, the costs of stewardship are more easily borne.

The oversight of stewardship by stakeholders including clients and regulators has led to stewardship being perceived as a "box-ticking" function which is procedural and can encourage a formulaic approach by focusing too much on activities such as the number of engagements or votes cast as opposed to taking a more holistic view to understand whether stewardship is

delivering the right long-term investment outcomes for clients. This focus in reporting on demonstrating the quantity of stewardship over quality engagements has led to increased costs in conducting stewardship without a clear link to improved outcomes for clients.

RECOMMENDATIONS ON THE COST OF STEWARDSHIP

For investment managers: **Recommendation 10:**

The investment industry should better articulate the cost and value of stewardship reporting to understand whether it is delivering decision-useful information to clients.

There needs to be a debate between industry, clients and investment consultants on the cost and value of stewardship reporting and how it is used by clients. Investment managers operate within finite resource constraints and have to prioritise to ensure that stewardship activities remain impactful while meeting client objectives. Investment managers should produce a survey which quantifies the time, cost and resource involved in stewardship reporting. Following the results of the survey, recommendations should be made to regulators on removing duplicative data points and those disclosures which do not deliver decision-useful information to clients. Reporting should be focused on stewardship outcomes over a quantitative approach to stewardship.

As set out in recommendation 1, better articulation of a clients' investment objectives and an assessment of whether investment managers stewardship goals align with this can help improve resource allocation and ensure that stewardship is focusing on activities that deliver the greatest impact.

Some asset owners may ask investment managers to include the cost of conducting systemic stewardship directly into their Investment Management Agreements and clients should continue to monitor and engage with investment managers to understand how they are delivering against these expectations.

Investment managers should seek to utilise emerging technological advancements and data platforms which can present opportunities to improve the measurement of stewardship through analysing large volumes of engagement and voting data. This analysis can help to identify trends, inconsistencies and areas where stewardship efforts could be strengthened through efficient allocation of resources.

Actions and review

- The IA will commission a survey to members on the cost of stewardship reporting in H2 2026. Following the results, the IA will work with industry to advocate for changes to streamline regulation and remove duplication.

CONCLUSION

Although the Working Group's formal work concludes here, we now take this forward collaboratively. The IA will continue to work closely with its members, policymakers, and other stakeholders to support the adoption of these recommendations, promote best practice, and monitor progress. By embedding stewardship more firmly in investment decision-making, simplifying reporting where possible, and fostering transparent dialogue across the investment chain, we can ensure that stewardship remains an essential contributor to sustainable value creation for savers, companies, and the wider UK economy.

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WITH THANKS TO

Members of the Stewardship Working Group

Aegon Asset Management
Miranda Beacham

BlackRock
Vineet Chhibber

Fidelity International
Jenn-Hui Tan

M&G Investments
Fabiana Fedeli

Schroders
Kimberley Lewis

Artemis Investment Management (formerly)
Paras Anand

CCLA
James Corah

Legal and General Asset Management
Sonja Laud

Royal London Asset Management
Ashley Hamilton-Claxton

THE
INVESTMENT
ASSOCIATION

REALIGNING STEWARDSHIP: DELIVERING SUSTAINABLE VALUE THROUGH STEWARDSHIP

Full report of the IA's Stewardship Working
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Contact Us

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The Investment Association

10 Norton Folgate, London, E1 6DB
www.theia.org

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