

M O R R O W

S O D A L I

INSTITUTIONAL INVESTOR SURVEY
2021

ABOUT THE SURVEY

For the IIS 2021, a total of 42 global institutional investors, managing approximately USD 29 trillion in Assets Under Management (“AUM”) voluntarily participated in the survey.

The data is therefore representative and can be extrapolated across the total global investable universe.

Responses were gathered from direct conversations or via an online survey. Participating investors represented a diverse spectrum of funds in terms of investment style, profile, size and geographical location, among other attributes. The data and findings will therefore be of interest to a wide range of listed companies across all sectors, boards of directors and other capital market stakeholders.

To enable year-over-year comparisons, a number of survey questions are repeated or follow similar themes. In addition, new questions are asked that reflect topical developments and themes.

OUR COMMITMENT TO THE COMPANY-INVESTOR RELATIONSHIP

We carry out this survey to find out what is really important to investors when analysing companies.

We conduct this annually at our own expense because we are committed to enhancing the relationship and understanding between companies and investors. It also informs our work helping client companies with shareholder engagement and a broad suite of corporate governance services. This also supports company-investor relations that can be made more fluid, efficient, and effective; companies know what to focus on and investors receive the information they need.

Ultimately what underpins Morrow Sodali’s activities is facilitating dialogue and understanding between companies and their institutional shareholders so they can achieve the best outcome possible. This survey forms part of that endeavour.

ABOUT THE SURVEY

ASSETS UNDER MANAGEMENT (AUM)

2021 SURVEY: USD **29** trillion of AUM

2020 SURVEY: USD **26** trillion of AUM

2019 SURVEY: USD **33** trillion of AUM



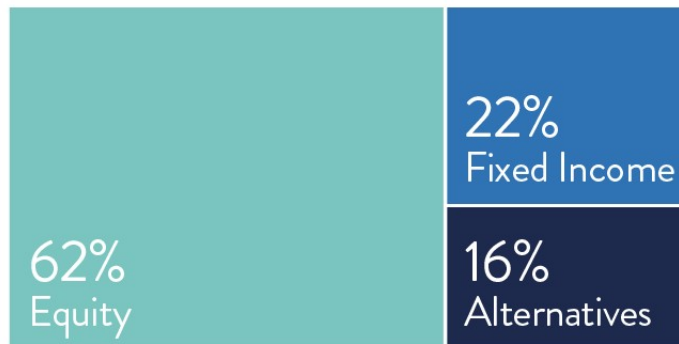
GEOGRAPHICAL DISTRIBUTION

	2019	2020	2021
UK	37%	39%	33%
US	29%	27%	17%
Europe ex UK	17%	8%	12%
ROW*	17%	26%	38%

* Rest of the world including Australia & South Korea

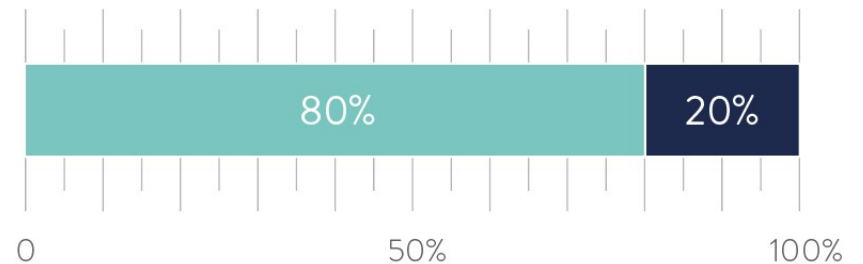
ASSET SPLIT

AVERAGE PORTFOLIO SPLIT



7% of respondents did not disclose

INVESTOR TYPE



■ **80%** Institutional investors

■ **20%** Pension funds / Asset owners

KEY FINDINGS

A. COMPANY ENGAGEMENT

- 1 Investors are giving ESG more focus when engaging and investing, and a significant majority are taking ESG into greater consideration when voting.
- 2 Key drivers for increased ESG focus are the links to financial performance, followed by legislative changes and client interest.
- 3 Investors cite the discussion of ESG in the context of a company's business plan as the key basis for effective company engagement.

4 Climate risk remains the number one engagement priority closely followed by human capital management, remuneration and board composition. COVID-19 was also a top engagement priority, as were cybersecurity and supply chain management.

B. ESG & SUSTAINABILITY

- 5 Climate change is very important to the investment decision-making process.
- 6 Every surveyed investor reviews a company's climate-related disclosures.
- 7 The top three improvements investors are seeking from climate-related disclosures are clear links to financial performance, the time horizon to impact on strategy and the disclosure of metrics, targets and achievements.
- 8 Companies are expected to disclose their "Corporate Purpose", and engagement with the board was given as the top action in the absence of disclosure.

9 TCFD was overwhelmingly the most popular ESG reporting framework, followed by SASB and then in-house proprietary frameworks focused on material topics.

- 10 Many investors support an annual "Say on Sustainability". However, there are also many who consider the option to vote against the reelection of directors as sufficient to make their voices heard on this topic.

C. REMUNERATION & VOTING

- 11 ESG factors should be considered when designing executive remuneration plans.

12 For both short and long-term incentive plans, a weighting for ESG metrics and targets between 5% and up to 25% was most supported.

- 13 To avoid misalignment between pay and performance, companies should be wary of paying executive bonuses when severely impacted by COVID-19.

- 14 Large incentive payouts lacking performance hurdles and the payment of bonuses where COVID-19 impacts were severe, were the top two indicators of pay and performance misalignment that would result in negative votes on "Say on Pay".

- 15 With COVID-19, the appropriateness of dividend payments when faced with liquidity problems, big lay-offs, taking government subsidies and dilution of share capital were ranked as concerns relatively equally.

16 A majority of survey respondents oppose the adoption of loyalty shares.

D. SHAREHOLDER ACTIVISM

- 17 Investors prefer to influence boards by engaging with directors, followed by direct engagement with management. Although ranking lower, collaboration with other investors and voting against directors are also viable influencers.

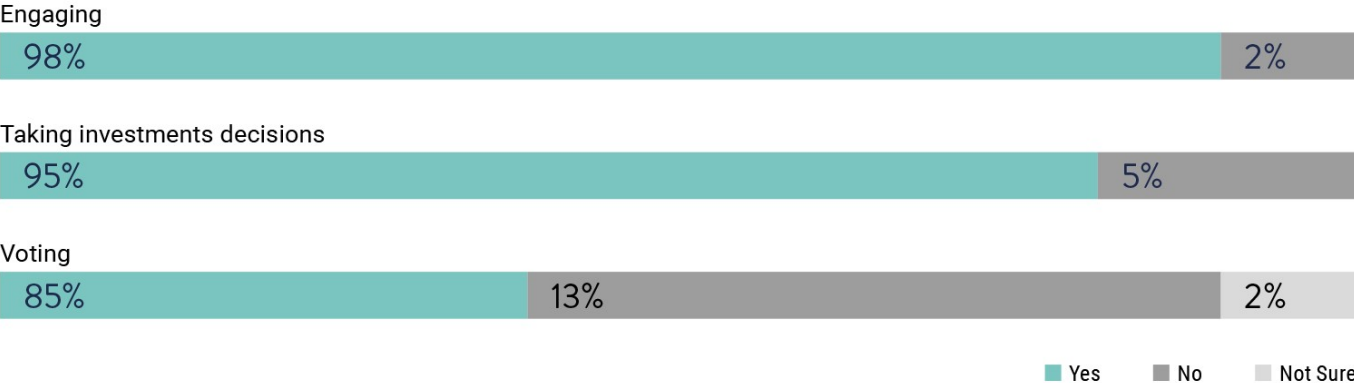
- 18 After financial performance, poor strategy, weak governance and misallocation of capital were the highest-ranking reasons for supporting an activist.

19 Lack of responsiveness to investor support for ESG resolutions and material ESG controversies could also result in support for an activist.

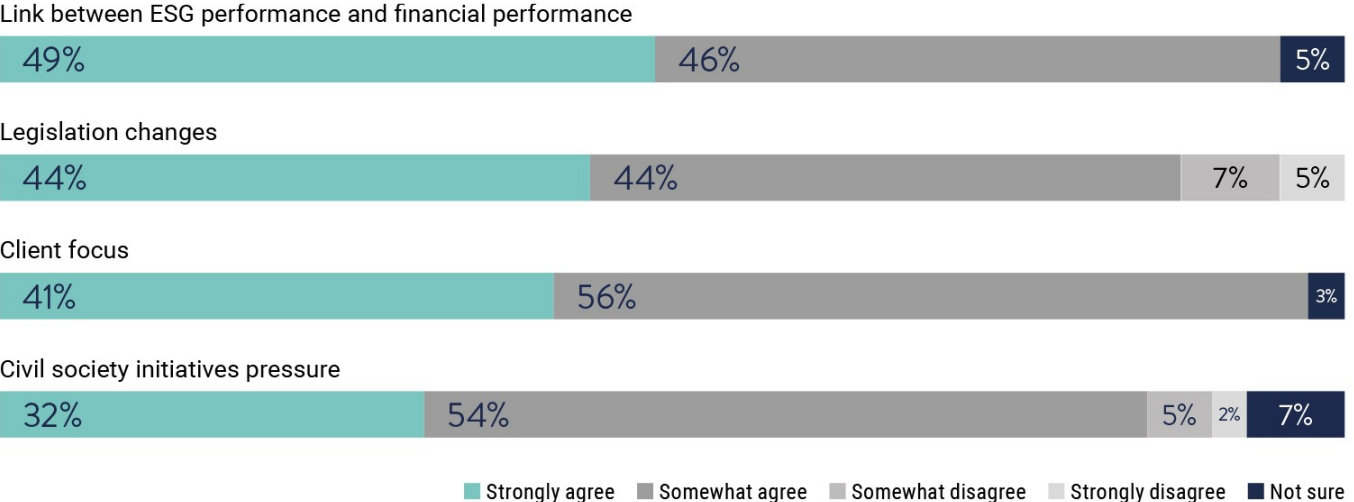
- 20 A clear majority are prepared to file or co-file an ESG-related resolution.

COMPANY ENGAGEMENT

Excluding Covid-19, relative to last year, have ESG risks and opportunities been given more focus in your firm, when engaging, taking investment decisions and voting at AGMs?

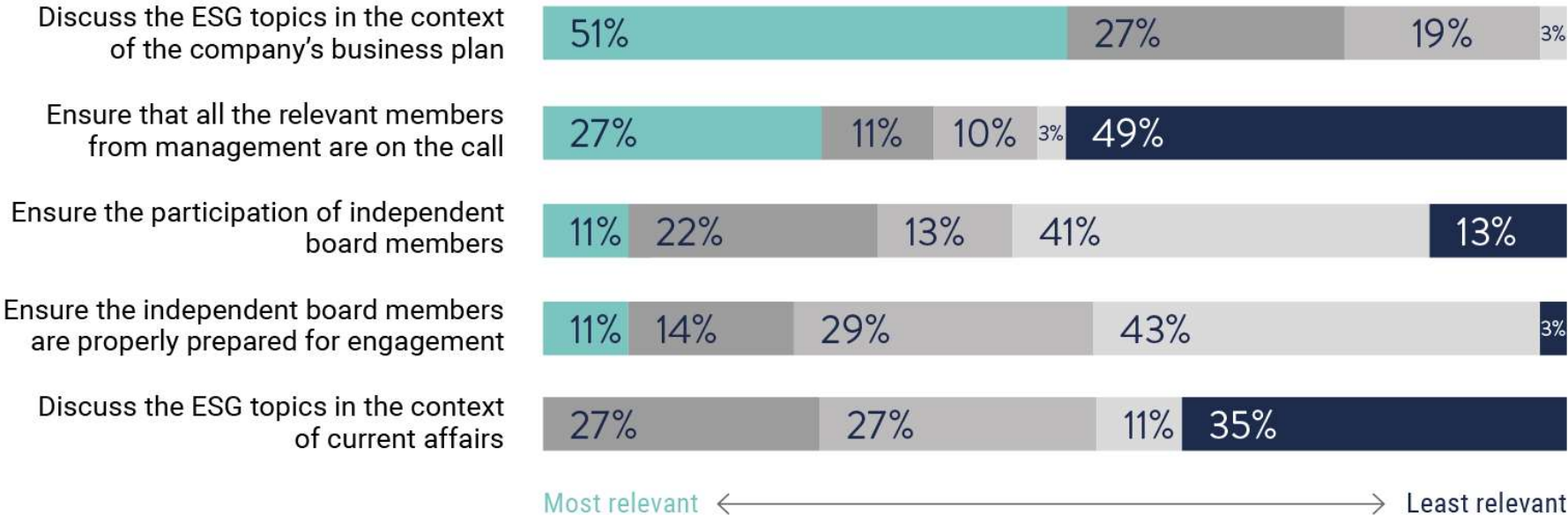


If so, what is the reason for this increased focus?



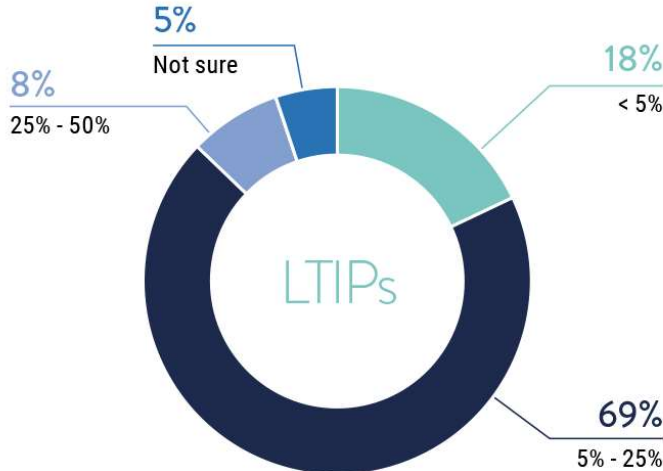
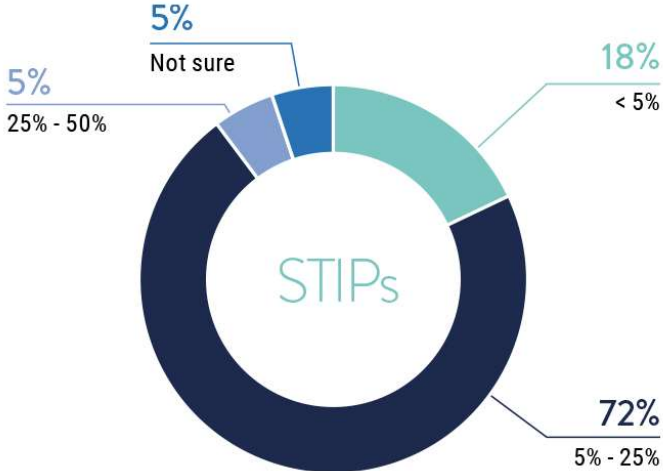
COMPANY ENGAGEMENT

Particularly in the context of increased engagement activity resulting from Covid-19, what can companies do to make engagement more effective?



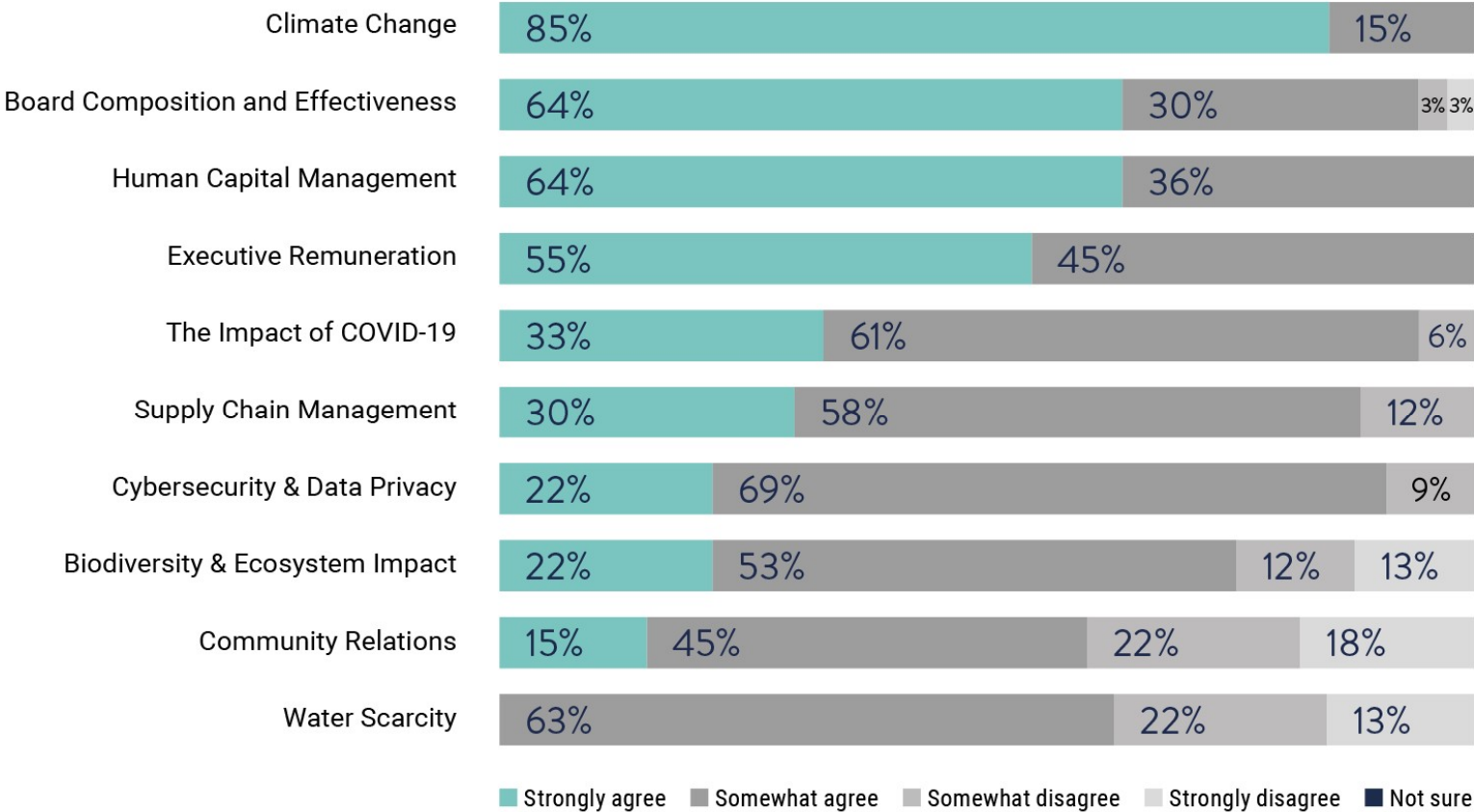
REMUNERATION & VOTING

What is your preferred weighting of ESG performance metrics and targets in the following executive remuneration plans?



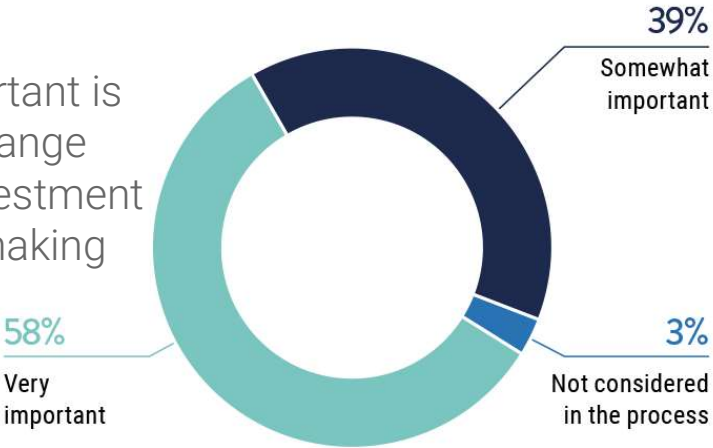
COMPANY ENGAGEMENT

To what extent do you agree with the following statement?
 "During the last year, this issue in particular has prompted me to seek engagement with companies?"



ESG & SUSTAINABILITY

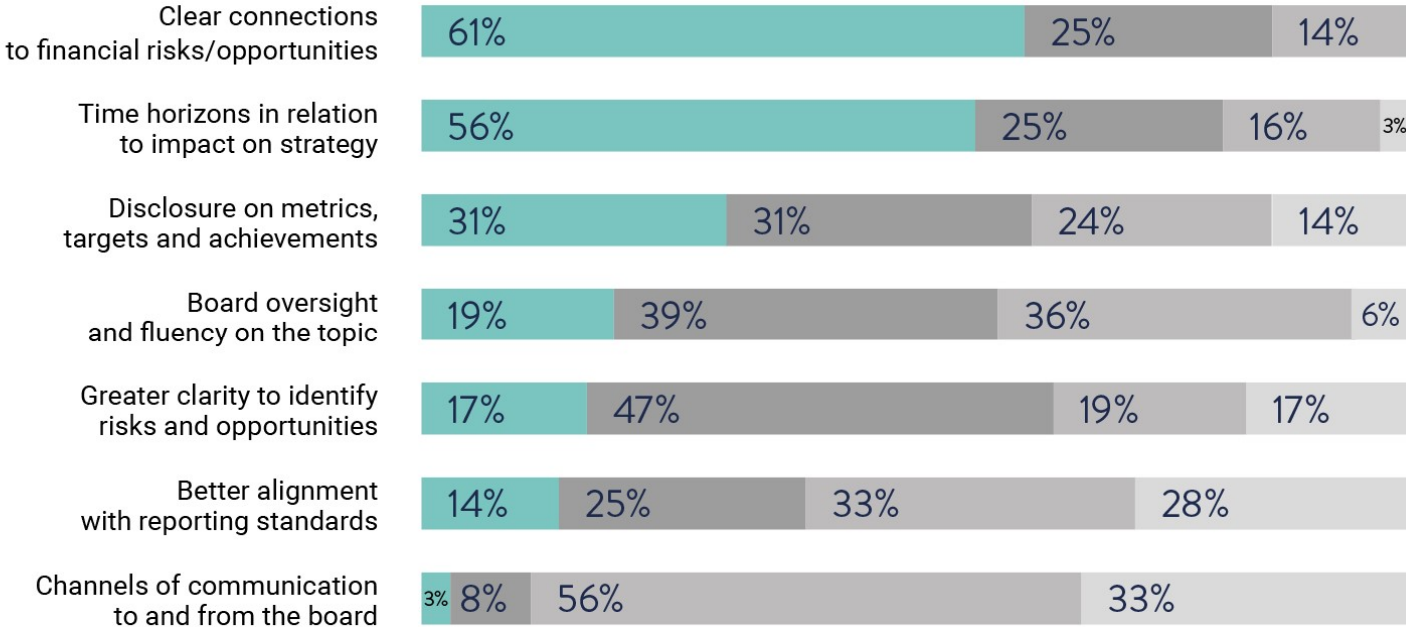
How important is climate change in your investment decision-making process?



Do you review the climate-related disclosures of your portfolio companies?



If so, what do you think could be improved in terms of the climate-related disclosures of the companies which you analyse?



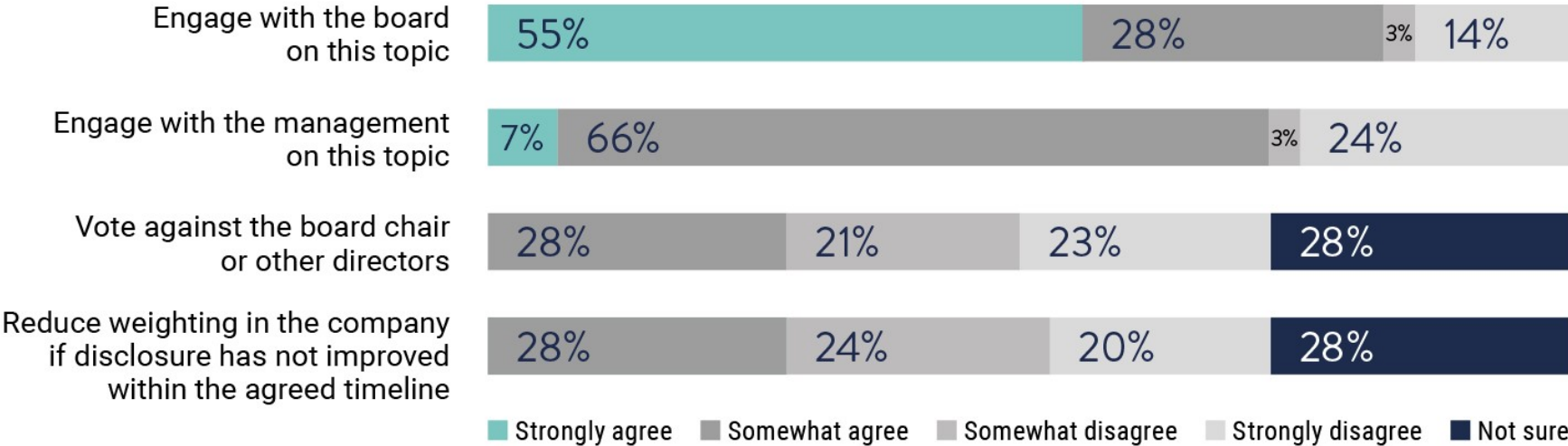
Most relevant ← ————— → Least relevant

ESG & SUSTAINABILITY

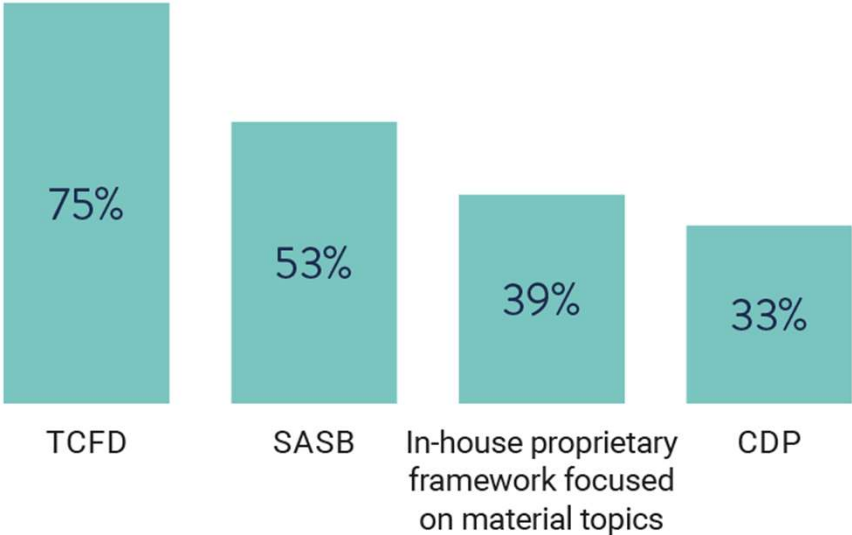
Do you consider that every company should disclose its "Corporate Purpose"?



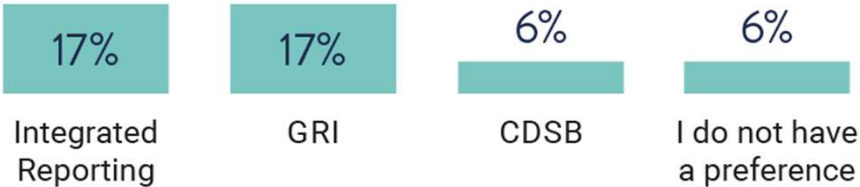
If so, what actions would you take with regard to companies that do not disclose their Corporate Purpose?



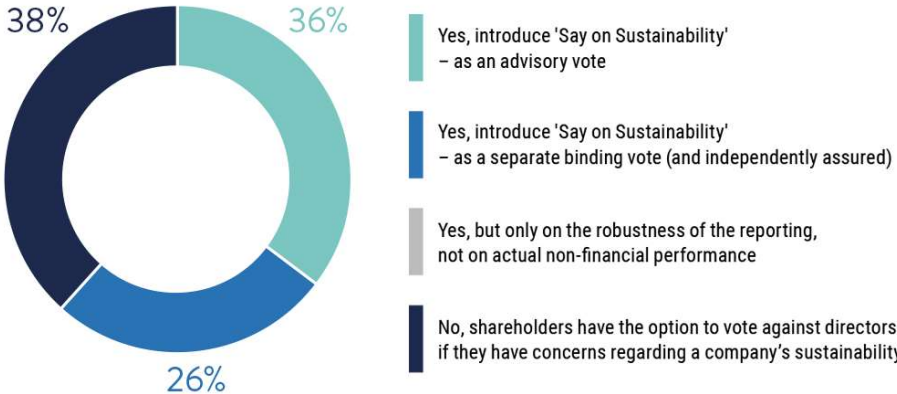
ESG & SUSTAINABILITY



What is your preferred ESG framework for companies to best disclose their material ESG topics?

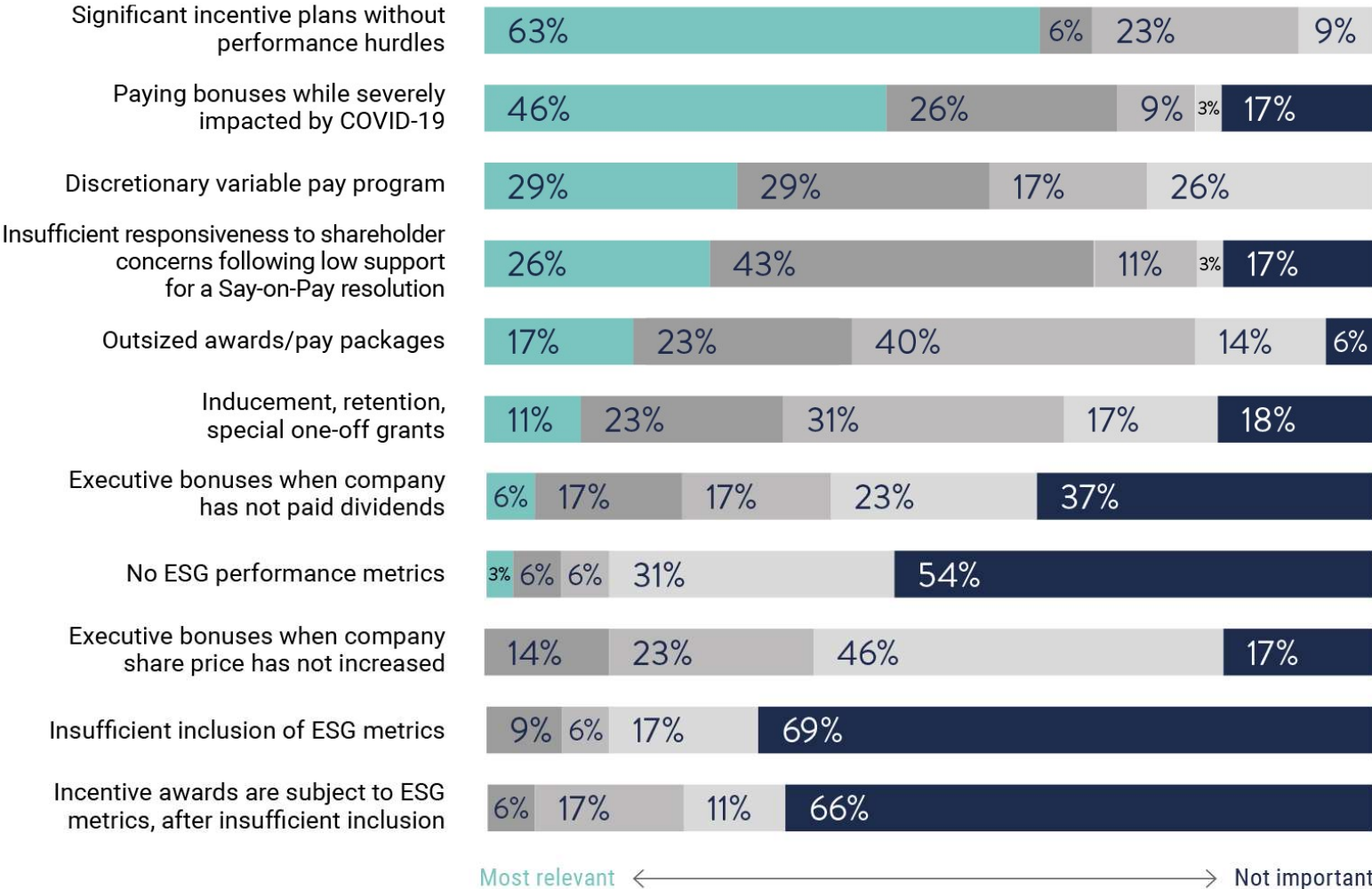


Do you support the concept of a shareholder "Say on Sustainability" or an annual vote on sustainability reports?



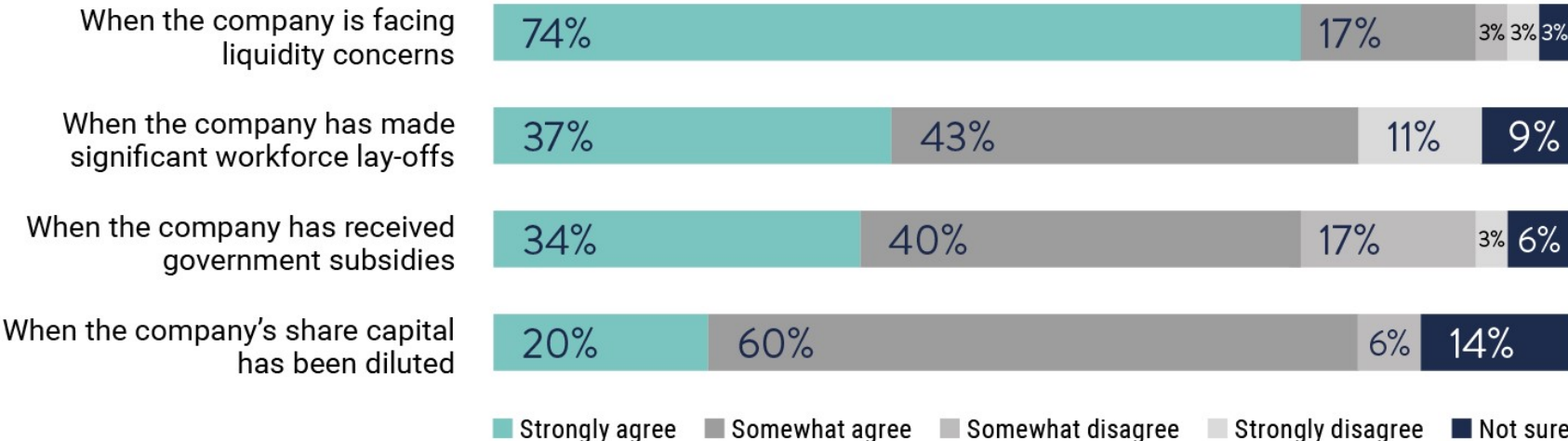
REMUNERATION & VOTING

What are the indicators for misalignment of pay and performance that would lead you to vote against executive remuneration proposals?

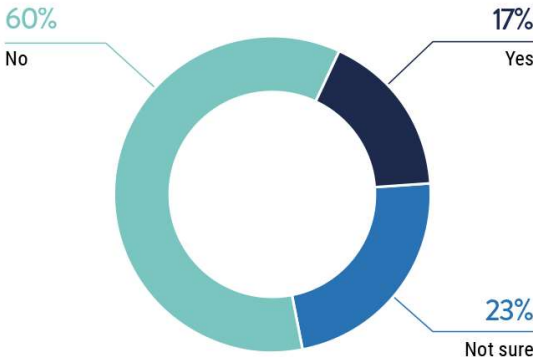


REMUNERATION & VOTING

In the context of Covid-19, under what circumstances do you believe it is inappropriate for companies to pay dividends?

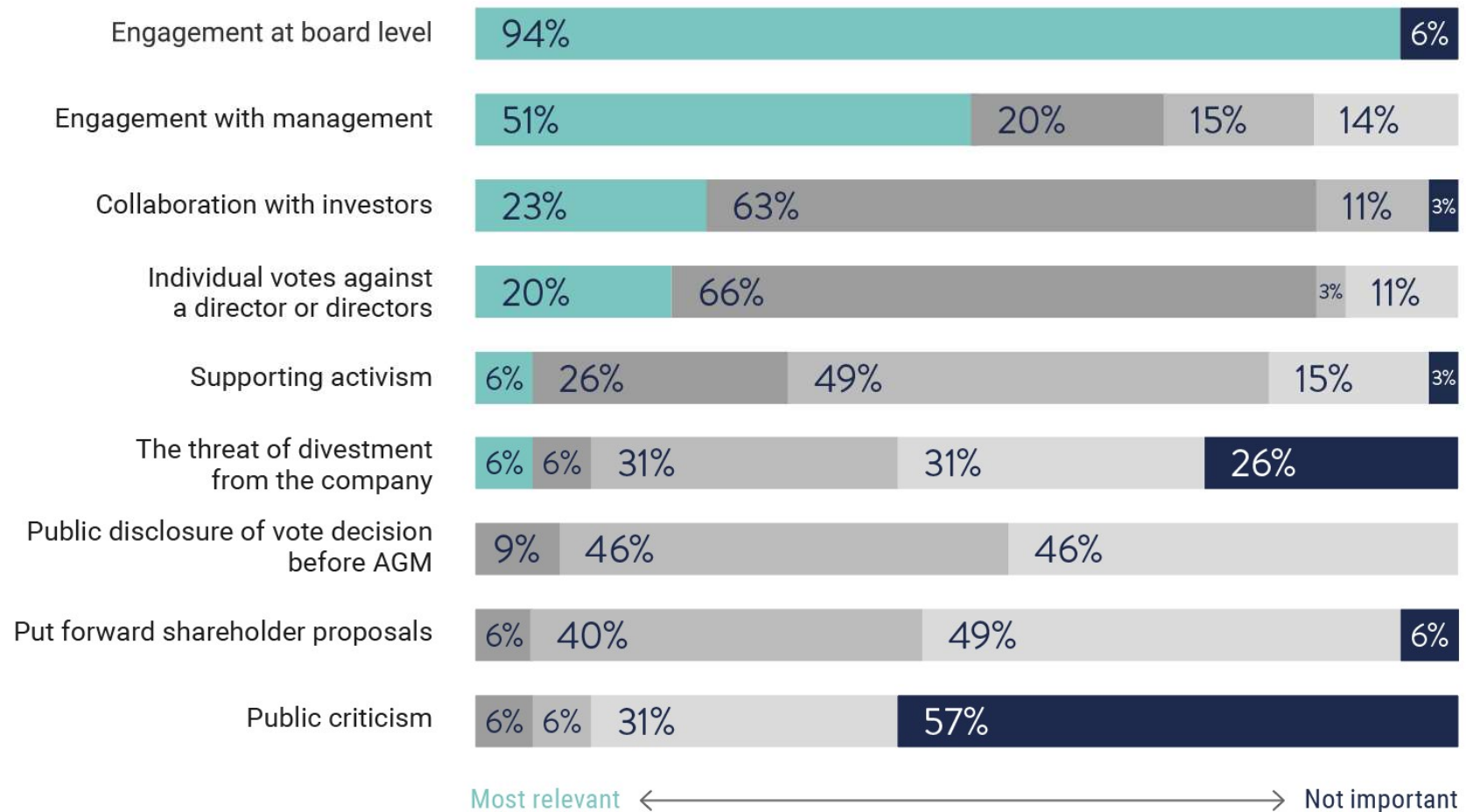


Would you support the adoption of loyalty shares / voting rights by a portfolio company?



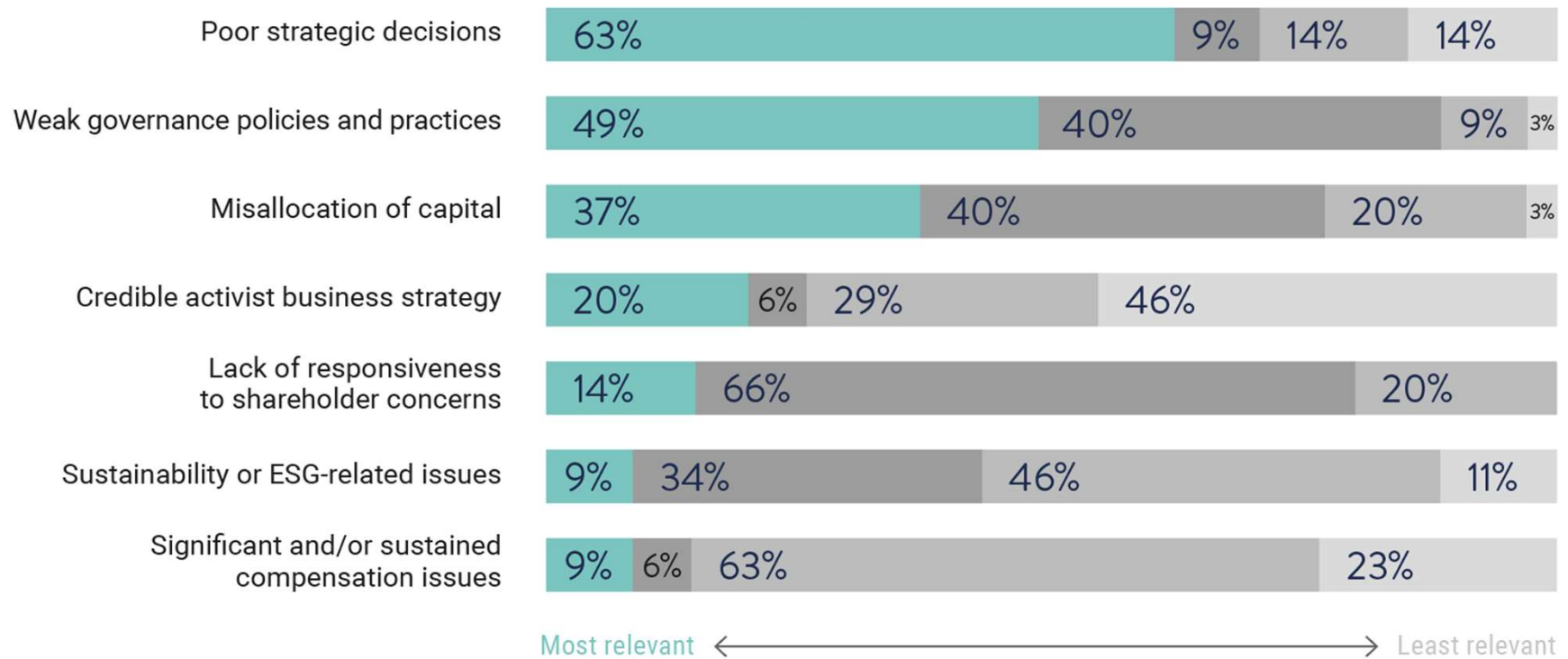
SHAREHOLDER ACTIVISM

What are your preferred measures for influencing the boards of companies in which you invest?



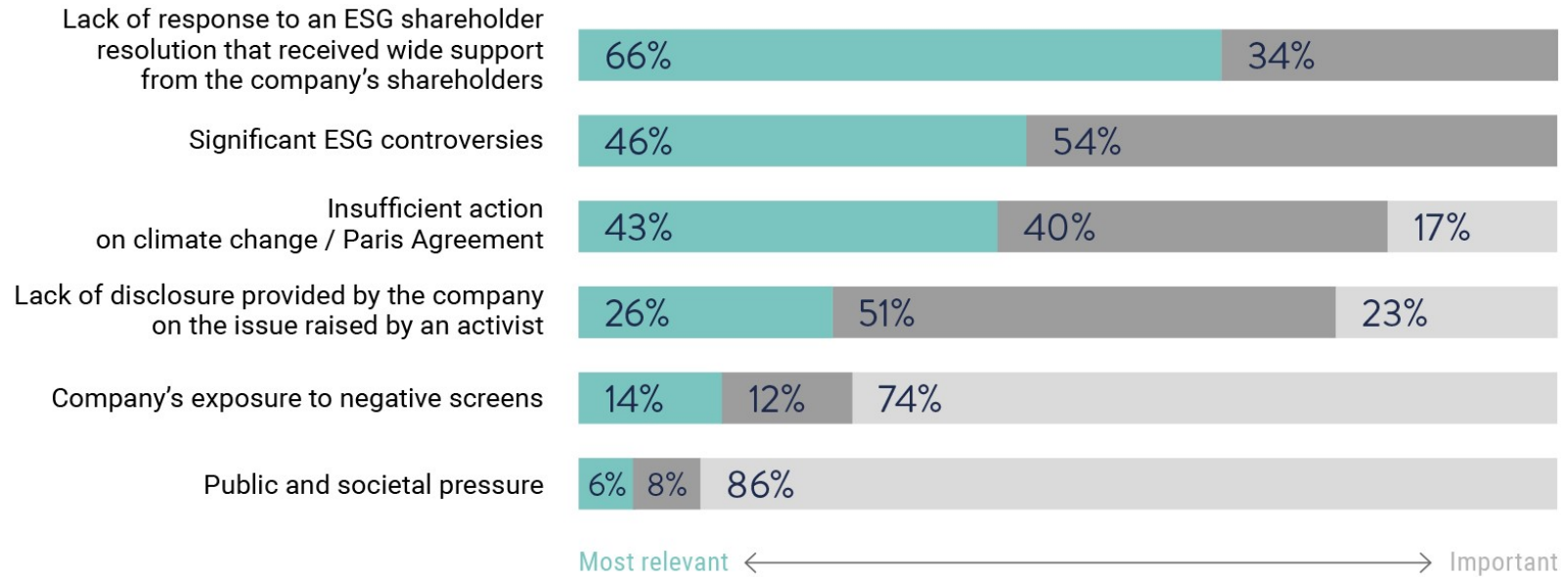
SHAREHOLDER ACTIVISM

Aside from poor financial performance, what other factors might lead you to support an activist?



SHAREHOLDER ACTIVISM

What ESG factors might lead you to support an activist?



Would you consider filing or co-filing an ESG related shareholder resolution?



LOOKING FORWARD

The momentum driving ESG, and sustainability more broadly, has now entered the mainstream on an international level. A diverse set of stakeholders representing civil society is applying concerted pressure for the common purpose of achieving positive impacts, economically and socially, for the benefit of future generations. The way companies engage, participate and contribute is now under the microscope and their beneficial owners are telling them that they will be held to account for their actions.

Our 2021 survey offers a number of practical suggestions and insights that can help companies to achieve constructive engagement that resonates with their investors and helps build trust and support.

- | | | | |
|---|---|--|--|
| <p>1. Take control of your engagement agenda. Clearly articulate how you are responding to COVID-19, how it has impacted your business strategy and what you have done to adapt.</p> | <p>2. Directors are expected to engage with asset managers and owners on ESG issues and demonstrate knowledge and fluency. They should be able to discuss the links to financial and non-financial performance, their approach to risk management and sustainable value creation.</p> | <p>3. Consider integrating ESG metrics into short and/or long-term incentive schemes to drive the right behaviours and align senior executives with your commitment to sustainable performance.</p> | <p>4. Analyse relevant ESG reporting frameworks to identify which best meets the company's needs. Also canvass the views and preferences of your stakeholders to help inform your process and produce disclosures that are useful and resonate.</p> |
| <p>5. Identify your material issues and prioritise them. Investors are mainly focused on climate change, requiring high standards of climate risk disclosure. That said, in light of the pandemic and the racial equity movement, human capital management, diversity, equity and inclusion, along with other social issues such as supply chain management have become top of mind for investors.</p> | <p>6. Clearly set out and disclose your "Corporate Purpose". The board should take responsibility for it and it should guide the company's strategy and activities. A clearly articulated "Corporate Purpose" that employees live by will demonstrate a company's potential to do good and benefit society at large.</p> | <p>7. Monitor the evolution of the adoption by companies of an annual "Say on Climate" or "Say on Sustainability" to stay informed of potential developments in this area.</p> | <p>8. Do not ignore ESG activism. Traditional investors have a healthy appetite to file or co-file ESG-related shareholder proposals where companies fail to demonstrate responsiveness to investor concerns and material ESG controversies.</p> |