Another Link in the Chain: Uncovering the Role of Proxy Advisors

This is the first of a two-part report on proxy advisors. This first part introduces the topic of proxy advisors and their role in the investment system. It also gives recommendations for asset owners when engaging on this critical governance topic.
Authors

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Acknowledgements

We would like to acknowledge the contribution of all those who shared their expertise with us in the preparation of this report. Our particular thanks go to Kevin Chuah for his invaluable expertise, and members of the Charities Responsible Investment Network.

About ShareAction

This briefing has been written and compiled by ShareAction for the Charities Responsible Investment Network (CRIN). ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

About the Charities Responsible Investment Network

The Charities Responsible Investment Network supports charity and foundation investors to further their mission through responsible investment. It supports members by fostering a community of practitioners, providing in-depth research into environmental, social and governance (ESG) topics, delivering training tailored to Network members’ interests and needs, and facilitating a range of optional engagement activities with selected companies and other entities across the investment chain.
EXECUTIVE SUMMARY

This briefing is the first of a two-part report exploring the role and influence of proxy advisors in the investment system from an asset owner’s perspective. This first part provides an overview of who the major proxy advisors are and what influence they have on asset managers’ voting decisions.

Proxy advisors provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. Their influence has grown as pressure on investors to cast votes as part of their stewardship activities has increased. Recently, proxy advisors have come under the spotlight over concerns that they have too much influence, that the two major proxy advisors are a duopoly, and that the sector lacks transparency. Concerns have also been raised over potential conflicts of interest, as one major proxy advisor firm provides consulting services to companies that they also provide voting recommendations to investors for. These concerns have prompted greater regulatory scrutiny of proxy advisors (see timeline below for details).

The briefing concludes with three recommendations for asset owners when engaging with their asset managers on their use of proxy advisors:

**Engagement with proxy advisors.** Ask asset managers to participate in the external consultation undertaken by proxy advisors, particularly to encourage greater progress on environmental and social issues.

**Transparency:** Ask asset managers to provide comprehensive information about their voting policies and practices, especially as it relates to environmental and social issues.

**Consultation:** Ask asset managers how they consult with asset owner clients to understand their voting priorities and concerns, and how they use this input alongside advice from proxy advisors.

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**June 10, 2019**

New regulations come into force in the UK which require proxy advisors to disclose information on codes of conduct and any potential or actual conflicts of interest.²

**November 15, 2018**

The US Securities and Exchange Commission holds a roundtable on key aspects of the US proxy system, including the role and regulation of proxy advisory firms. This forms part of a review process which is expected to lead to updated guidance or regulations.¹

**July 22, 2019**

Proxy advisory firms in Europe commit to an updated series of ‘comply or explain’ best practice principles and to supervision from an oversight committee.³
INTRODUCTION

What is proxy voting?

Companies are required to hold annual meetings with shareholders called Annual General Meetings (AGMs) where shareholders are invited to ask questions to the board and vote on company issues.

Proxy voting is the process of casting a vote on behalf of a shareholder, without the shareholder physically participating in an AGM. Due to diversification of shareholdings, it is common for institutional investors to vote by proxy for the vast majority of AGMs.

Voting is an important part of institutional investors’ fiduciary duty to act in the best interests of their clients: it provides an opportunity to direct investee companies to act in the interests of long term value and sustainability, as well as to have their voice – and the voices of their clients – heard. After all, these companies are supposedly being run with the interests of these end investors in mind, so proxy voting provides a direct avenue for those preferences to be understood.

What is a proxy advisor?

Proxy advisors are for-profit firms who provide proxy voting services to shareholders. Their services include researching companies, providing voting recommendations and software, and executing votes for shareholders.

Proxy advisors have a range of clients including asset managers, pension funds, and other major investors. For this report, we will limit the scope of this analysis to the relationship between proxy advisors and asset managers. This focus stems from CRIN’s continued work relating to asset managers, including their proxy voting decisions. The forthcoming second part of this report will analyse asset managers’ voting decisions against proxy advisors’ recommendations.

Asset managers invest in large numbers of companies, often numbering into the hundreds or thousands, which means that they face enormous monitoring challenges when voting on a range of issues including climate change, board diversity and executive remuneration. They therefore often employ proxy advisors to help fulfil their obligation to vote in their clients’ best interests. While proxy advisors can act as a useful resource for asset managers, concerns have been raised that managers may be following their advice unquestioningly. Asset managers who ‘sleepwalk’ their votes in this way effectively outsource their fiduciary duty to proxy advisor firms.

The investment system is complex, with many different actors involved. Like credit rating agencies, proxy advisors act as service providers for investors and companies. Figure 1 shows some important relationships within the investment system. While proxy advisors can act as a useful resource for asset managers, concerns have been raised that managers may be following their advice unquestioningly.

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Figure 1

Companies

Brokers

Asset managers

Asset owners (e.g. charities and foundations)

Financial advisors; wealth managers

Pension funds

Investment consultants and fund raters

“The Market” (e.g. stock exchanges)

Service providers (e.g. proxy voting advisors, credit rating agencies)

Companies
Who are the major proxy advisors?

Two proxy advisory firms hold an estimated 97% of the US market share: Institutional Shareholder Services (‘ISS’) and Glass, Lewis & Co. (‘Glass Lewis’). Of the two, ISS is the older and holds a larger share of the market (61%). As seen in Figure 4 in the Appendix, ISS is used by 85% of the 26 asset managers we researched, compared to Glass Lewis’ 31% (4 use both ISS and Glass Lewis).

Both firms offer a range of services, including company research and class-action settlements, but are most well-known for their voting recommendations. Notably, ISS also offers a consulting service that has come under fire for its potential to create conflicts of interest, which we discuss below.
ISS and responsible investment

A recent run of acquisitions by ISS suggests the firm is making an effort to capitalise on the heightened profile of ESG issues within the investment sector. In 2017, ISS acquired the investment arm of environmental advisory firm South Pole Group and the ESG research and consulting firm IW Financial. Most recently, in 2018, ISS acquired oekom research AG, a leading ESG rating and research agency.

ISS ESG, the responsible investment arm of ISS, now offers a range of services including RI Policy and climate strategy development, pooled engagement, ESG ratings and impact assessments, and portfolio climate scenario analysis.

Two smaller proxy advisors

In the UK, there are two more proxy advisors who are worth mentioning. These are:

IVIS

The Institutional Voting Information Service (IVIS) was founded in 1993 by the Association of British Insurers (ABI). Since 2014, IVIS has been part of The Investment Association (IA).

IVIS does not issue direct voting recommendations. Instead, it uses a colour coding system which some investors will use as guidance on how to vote.

IVIS was used by 20% of asset managers we researched, but never as the sole proxy advisor.

PIRC

Pensions & Investment Research Consultants (PIRC) was established in 1986 by a group of public sector pension funds. It provides proxy voting recommendations and engagement services to institutional investors on governance and other ESG issues.

PIRC takes a tougher stance on many issues such as executive remuneration and auditor independence than ISS and Glass Lewis, and accordingly makes negative vote recommendations more frequently than its mainstream competitors. In the past, PIRC has also assisted the Local Authority Pension Fund Forum to file shareholder resolutions at Marks & Spencer, Shell and British Gas.

PIRC’s influence is, however, restricted as their client base typically doesn’t include larger financial institutions. According to one proxy voting consultant it is unusual for PIRC to be used by more than 1% of issued share capital.
How do proxy advisors decide their voting recommendations?

Proxy advisors’ voting recommendations are based on detailed voting policies that they develop and update annually. The approach that proxy advisors use to develop voting policies varies, but some common features can be identified. Based on our analysis of the processes used by ISS and Glass Lewis, some of the key steps include:

1. **Internal expertise:** As specialists, proxy advisors have gained expertise in a wide range of issues on which shareholders are eligible to vote. Glass Lewis, for example, combines the qualitative judgments of their internal analysts with quantitative assessments based on proprietary models they have developed.17

2. **External consultation:** Glass Lewis and ISS seek external feedback on their policies, both from their investor clients and through engagements with corporates. It is through these external feedback processes that asset managers, and their clients, can input into the policies that proxy advisors implement. While Glass Lewis are vague about how this process operates,18 ISS provide more detail. ISS seek external feedback in three main ways:

   a. Annual surveys in the late summer asking for feedback on potential policy updates. In their 2018 annual survey, responses were received from 109 institutional investors, the vast majority of which were asset managers.19

   b. Roundtables with smaller groups of investors and companies to discuss the survey findings and seek additional feedback.20

   c. A two-week comment period on the draft policy.

In their most recent US policy update in 2018, ISS adopted a new policy to generally recommend voting against the chair of the nominating committee at companies with no female directors. After a year’s grace period, the policy will be effective as of February 2020.21 ISS highlighted that the policy was changed in response to 69% of investor respondents to their annual survey indicating they would consider it problematic if there were no female directors on a company board, showing strong preference for gender diverse boards.22 Proxy advisors therefore seemingly respond to those investor clients that participate in their surveys and other external consultation mechanisms.

This feedback loop indicates a high degree of interdependence between the advisors and those that they advise, which has the potential to create “echo chambers” where the views of proxy advisors’ clients are effectively fed back to them for use as further advice. However, this process could be a promising lever for asset managers to encourage their proxy advisors to adopt a more engaged approach to responsible investment. If the asset manager clients of proxy advisors demand policy changes, proxy advisors respond by improving voting policy.

3. **Policy changes:** Based on the combination of internal analysis and external feedback, the final policy updates are released in late autumn. These policies are reflected in the individual voting recommendations provided to clients effective for shareholder meetings held from 1st February the following year.

The diagram on the next page is adapted from the processes as described by ISS and Glass Lewis.
Investors can choose the advisor’s ‘house’, or ‘benchmark’, voting recommendations as an off-the-shelf package, or may request a custom policy which is developed collaboratively. Glass Lewis claim that 80% of their institutional clients use custom voting policies, which are tailored to their own criteria, but still provided by the proxy advisor. The degree of customisation of these varies, and some may be very similar to Glass Lewis’ house policy. The investor then decides how to apply these recommendations.

Investors who develop custom policies may have an influence on their proxy advisor’s broader policy development through requesting that their advisor collect data on environmental, social and governance issues (such as companies’ gender diversity at below board level). Once a proxy advisor has collected information on a data point, they can issue voting recommendations based on that data not only to the client who requested the data but their wider client base as well. By requesting new data points, clients with custom policies can move issues they care about up their proxy advisor’s agenda and influence internal discussions around policy updates. Because asset managers act on behalf of their clients, the data points they request proxy advisors collect – and therefore the policy discussions they influence – should reflect the views of their clients.

ISS provides 10 ‘Speciality Policies’ for investors wanting a more tailored approach to voting recommendations. These specialty policies overlap with each other and ISS’ benchmark policies to a certain extent. Figure 3 shows the number of factors considered when making recommendations on environmental and social proposals between ISS’ UK benchmark policy and their speciality Sustainability and SRI policies. As can be seen, no factors overlap between all three policies. Voting recommendations provided to asset managers on the basis of these policies will therefore likely differ depending on which policy they are subscribed to.

A detailed breakdown of the overlaps of factors can be found in Figure 5 in Appendix 2.
Reports and studies have pointed to the potential conflicts of interest that proxy advisors may have. The main conflict relates to the business models of some proxy advisors, such as ISS, who provide corporate governance consulting services to corporates, in addition giving recommendations to shareholders on appropriate voting guidelines.

The concern here is that ISS may provide more favourable voting recommendations for corporates that hire them for consulting services, although ISS has claimed that it has put appropriate processes in place to manage these conflicts. Another related concern is that corporates can purchase research from ISS, which they can use to ensure that their practices are in line with ISS’ requirements. For example, one study highlighted how companies have designed compensation plans which are just within the maximum allowable thresholds to receive ISS support. This conflict has been highlighted in the US by the Government Accountability Office specifically in relation to ISS. Additionally, recent EU legislation has been enacted, requiring proxy advisors to disclose information relating to their codes of conduct, research processes and conflicts of interest. This demonstrates that regulation is catching up with concerning practices like these.

Ultimately, investors need to be aware that the business models of some proxy advisors could lead to the development of voting policies that put corporates’ interests ahead of those of investors.
What issues are proxy advisors concerned about?

This section outlines ISS and Glass Lewis’ policies on selected ESG topics and some notable votes from the 2018 and 2019 seasons.

For this section, unless stated otherwise, we used the following policies:

- ISS: International Sustainability voting guidelines. We used these guidelines because ISS’ UK benchmark voting guidelines did not provide granular enough information to form a comparison.

- Glass Lewis: Shareholder proposals guidelines.

‘For’ indicates that the proxy advisor will generally recommend shareholders vote in support of those proposals and ‘against’ indicates a recommendation to vote in opposition. ‘Case-by-case’ indicates that the proxy advisor will issue voting recommendations for these proposals on an individual basis. All policies are caveated by specific considerations which must be taken into account when reviewing each proposal.

Climate Change

Climate change carries physical, transition, liability and reputational risks for investors’ portfolios, as well as the broader economy and society.

Overview of policies

<table>
<thead>
<tr>
<th>ISS</th>
<th>GLASS LEWIS</th>
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<tbody>
<tr>
<td>Proposals requesting disclosure of a company’s climate change strategies.</td>
<td>For</td>
</tr>
<tr>
<td>Proposals requesting goals for GHG emission reductions.</td>
<td>For</td>
</tr>
<tr>
<td>Proposals calling for reduction of GHG emissions.</td>
<td>For</td>
</tr>
</tbody>
</table>

Case studies

In 2018, shareholders filed a binding resolution at Royal Dutch Shell asking the company to set and publish targets that are aligned with the goals of the Paris Agreement. ISS and Glass Lewis recommended shareholders vote against the resolution. The resolution received only 5.54% support.

In 2019, Amazon employees filed an advisory resolution asking Amazon to publish a report on plans to reduce company-wide dependence on fossil fuels. Both ISS and Glass Lewis supported the resolution. This received a supporting vote of 30.9%, a not insignificant total, given that Bezos himself owns 16% of the company and voted against the resolution.
**Board Gender Diversity**

Diverse boards provide a range of perspectives and insights, which are beneficial to company governance. In accordance with best practice in the UK, companies in the FTSE 350 should strive for a minimum of 30% female board representation by 2020. Other categories of diversity are increasingly recognised as significant contributors to company success, including the presence of subject experts – for example on sustainability – at board level.

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<thead>
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<th>Overview of policies</th>
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<td><strong>ISS</strong></td>
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Proposals seeking to re-elect nominating committee chairs at companies with no women directors on the board.

<table>
<thead>
<tr>
<th>Against</th>
<th>For</th>
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<tr>
<td></td>
<td>(unless the board fails to make progress towards best practice and has not disclosed any explanation or plan to address the issue)</td>
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</table>

**Gender Pay Gap**

Inequitable pay structures can hinder companies’ ability to attract and retain women and can cause workplace dissatisfaction, leading to lost productivity and high turnover, and potentially legal action against the company. This is a rising issue for regulators, consumers and companies themselves.

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<thead>
<tr>
<th>Overview of policies</th>
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<tbody>
<tr>
<td><strong>ISS</strong></td>
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</table>

Proposals seeking greater disclosure of a company’s gender pay gap and for reports on a company’s efforts to reduce any gender pay gap.

<table>
<thead>
<tr>
<th>Not included</th>
<th>For</th>
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</table>

* Found in Glass Lewis’ United Kingdom voting guidelines.41
Corporate Lobbying

Corporate engagement can help governments create practical and effective policy solutions. However, corporate involvement with lobbying activities which aim to hinder progressive policy solutions - for example climate action - can lead to negative consequences for society and the environment, as well as legal and reputational risks for investors.

Overview of policies

<table>
<thead>
<tr>
<th>PROPOSALS</th>
<th>ISS</th>
<th>GLASS LEWIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposals requesting information on a company’s lobbying.</td>
<td>Case-by-case</td>
<td>Case-by-case</td>
</tr>
<tr>
<td>Proposals requesting information on a company’s political contributions.</td>
<td>For</td>
<td>Case-by-case</td>
</tr>
<tr>
<td>Proposals requesting a company prohibits political contributions.</td>
<td>Against</td>
<td>Against</td>
</tr>
<tr>
<td>Proposals requesting a company constructs a policy to ensure that their values are aligned with their political spending.</td>
<td>Not included</td>
<td>Case-by-case</td>
</tr>
</tbody>
</table>

Case study

In 2018, both ISS and Glass Lewis recommended shareholders vote against a resolution targeting negative climate lobbying at Rio Tinto. The resolution received 18% support.

Proxy advisor recommendations can sway anywhere in the range of 13% to 30% of shareholder votes.

What influence do proxy advisors have?

Quantifying the influence of proxy advisors

The principal challenge of quantifying the influence of proxy advisors’ voting recommendations on vote outcomes is the difficulty of separating voting correlation from causation. For instance, a study of the voting practices of US mutual funds indicated that over 25% of those funds vote in complete alignment with the recommendations of ISS for corporate governance issues, with well over 90% of those funds agreeing with ISS over 75% of the time.45 However, many regular votes on topics such as director re-elections or approving the auditor’s report are unlikely to be controversial, so it is unsurprising when investors vote the same way as their proxy advisors on these issues.

Academic research which has set out to separate voting correlation from causation indicates that proxy advisor recommendations can sway anywhere in the range of 13% to 30% of shareholder votes for various corporate governance issues.46, 47 While proxy advisors can act as a useful source of voting-related information for asset managers, this evidence raises concerns that their recommendations are followed without question.48 By ‘sleepwalking’ their votes in this way, some asset managers are effectively outsourcing an important fiduciary duty that they are required to fulfil on behalf of their end investors.49

Research indicates that there are a number of variables which may influence how closely asset managers vote with proxy advisors’ recommendations:

- **The size of asset manager**: Recent research shows that smaller asset managers are more likely to vote with proxy advisors.50 This may be due to capacity issues at smaller asset managers who have correspondingly small corporate governance teams.

- **The domicile of the holding**: Evidence indicates that European asset managers vote with the recommendations of proxy advisors approximately twice as often for overseas than for domestic holdings.51

- **The issue being voted on**: Asset managers may rely more heavily on proxy advisors’ voting recommendations for proposals on complex or highly technical issues such as executive remuneration.

Influence on responsible investment shareholder proposals

Most of the practitioner and academic research on proxy advisors to date has focused on their impact on ‘traditional’ corporate governance topics, for example appointments to the board of directors, and whether executive pay levels are appropriate.52 It is therefore unclear from the existing research what influence proxy advisors have on responsible investment proposals.

Such proposals, which include votes on environmental and social issues, are likely to attract a greater divergence of views than business-as-usual votes. For these votes it is therefore especially important that asset managers can demonstrate that they have the appropriate resources and capabilities to make informed, active voting decisions, and are not ‘sleepwalking’ their votes.

Furthermore, because asset managers are voting on behalf of their end investors, it is also important that the views of those end investors are reflected in voting decisions. Asset managers should consult with their clients to ensure that voting is in alignment with clients’ expectations, especially regarding environmental, social and governance issues.
Recommendations for asset owners

In this briefing, we have provided an overview of the role of proxy advisors, how they determine their policies, and the influence they have within the investment system.

While proxy advisors are an important part of the investment system, it is critical to recognise their intended role as advisors to asset managers, rather than as the ultimate decision makers. Asset managers who ‘sleepwalk’ their votes are shirking their fiduciary duty to act in the best interests of their clients. It is our view that asset managers should, at a minimum, be reviewing and making active decisions about whether to follow the recommendations their proxy advisors supply.

We have three main recommendations for asset owners when engaging with their asset managers on proxy voting advisors:

1. Engagement with proxy advisors: Ask asset managers to participate in the external consultation undertaken by proxy advisors, particularly to encourage greater progress on environmental and social issues, and report on this participation to clients.

In 2018, ISS only received 109 survey responses from representatives of institutional investors, suggesting that asset managers could do a better job of expressing their views as part of this process.

If they receive input from asset managers reflecting the environmental and social concerns of their clients, proxy advisors are more likely to amend their recommendations to reflect broader societal concerns.

2. Transparency: Ask asset managers to provide comprehensive information about their voting policies and practices, especially as it relates to environmental and social issues.

By providing these details, asset owners can then determine whether the quality of asset managers’ responsible investment capabilities is adequate. If these capabilities and practices are unacceptable, asset owners should encourage their asset managers to improve on these dimensions and make their expectations for improvement clear.

Asset owners should seek information including:

a. The resources and processes that asset managers use to make their proxy voting decisions;

b. Details on which proxy advisors they use and how their recommendations affect the voting decisions made by the asset manager;

c. The degree to which their voting is aligned with recommendations from their proxy advisors, broken down by thematic vote type (e.g. remuneration, director elections, shareholder proposals);

d. Rationales for voting decisions on all:

   i. controversial resolutions (defined as per the Investment Association as resolutions with 20% or greater votes against management);
   ii. abstentions, and;
   iii. special exemptions (where the asset manager has voted differently to the way their voting policy would suggest).

   e. A commitment by managers to support all independent ESG resolutions, providing a published rationale to explain if any are not supported (a ‘comply or explain’ approach to voting).

3. Consultation: Ask asset managers how they consult with clients to understand their voting priorities and concerns, and how they use this advice alongside advice from proxy advisors.

Asset owners should do their utmost to communicate their expectations to asset managers when it comes to proxy voting, and asset managers should be receptive to those requests. This is particularly important for environmental and social issues, as there is much variation in asset managers’ willingness to engage with these issues.

Proxy voting advisors are a critical link in the chain of effective stewardship. Asset owners aiming to invest responsibly need to assess the strength and nature of the links connecting their managers to these advisors.
Appendix 1: Who uses which proxy advisor?

Figure 4 shows 26 asset managers and which proxy advisors they use. These asset managers have been chosen either because they are commonly used charity asset managers, or because they are in the largest top 10 UK managers by assets under management. Our research shows that 85% use ISS and 31% use Glass Lewis (4 asset managers use both ISS and Glass Lewis). The table also shows how the asset managers state that they use their advisors.

**Figure 4**

<table>
<thead>
<tr>
<th>Asset manager</th>
<th>ISS</th>
<th>Glass Lewis</th>
<th>IVIS</th>
<th>How they use proxy advisors*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen Standard Investments</td>
<td>Y</td>
<td>N/A</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Aviva Investors</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>1</td>
</tr>
<tr>
<td>Bailie Gifford</td>
<td>Y</td>
<td>Y</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Barings</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td>1</td>
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<tr>
<td>BMO</td>
<td>Y</td>
<td>N/A</td>
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<tr>
<td>CCLA</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Columbia Threadneedle Investments</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>1</td>
</tr>
<tr>
<td>Fidelity International</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td>1</td>
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<tr>
<td>Generation Investment Management</td>
<td>Y</td>
<td>N/A</td>
<td></td>
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<tr>
<td>HSBC Global Asset Management</td>
<td>Y</td>
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<tr>
<td>Impax Asset Management</td>
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<td>Investec Asset Management</td>
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<td>Janus Henderson Investors</td>
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<td>Jupiter</td>
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<td>Legal &amp; General Investment Management</td>
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<td>LionTrust</td>
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<td>M&amp;G Investments</td>
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<tr>
<td>MFS Investment Management</td>
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<tr>
<td>Newton Investments Management</td>
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<tr>
<td>Rathbone Brothers</td>
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<tr>
<td>Royal London Asset Management</td>
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<tr>
<td>Ruffer</td>
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<td>Sarasin &amp; Partners</td>
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<td>Schroders</td>
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<td>Smith &amp; Williamson</td>
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<tr>
<td>Stewart Investors</td>
<td>Y</td>
<td>N/A</td>
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</table>

This data is taken from the asset managers’ PRI Transparency Reports.

1 = The asset manager hires proxy advisor(s) that make voting recommendations or provide research that they use to inform their voting decisions, based on their own voting policy.

2 = The asset manager hires proxy advisor(s) that make voting recommendations or provide research that they use to inform their voting decisions.
Appendix 2: ISS’ policy approach to environmental and social proposals

Figure 5 shows a detailed breakdown of the overlapping factors considered when making voting recommendations on environmental and social proposals between ISS’ UK benchmark policy and their speciality Sustainability and SRI policies.

### Figure 5

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<tbody>
<tr>
<td>If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.</td>
<td>The percentage of sales, assets and earnings affected</td>
<td>The degree to which the company’s stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing</td>
<td>Whether there are significant controversies, fines, penalties, or litigation associated with the company’s environmental or social practices</td>
<td>If the proposal requests increased disclosure or greater transparency, whether or not sufficient information is publicly available to shareholders</td>
</tr>
<tr>
<td>Whether the proposal’s request is overly prescriptive</td>
<td></td>
<td>Whether the subject of the proposal is best left to the discretion of the board</td>
<td>Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal</td>
<td>Whether there are significant controversies, fines, penalties, or litigation associated with the company’s environmental or social practices</td>
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<td>The company’s approach compared with any industry standard practices for addressing the issue(s) raised by the proposal</td>
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<td>Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal</td>
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<td>Whether the issues presented in the proposal are best dealt with through legislation, government regulation, or company-specific action</td>
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<td>Whether the proposal’s request is unduly burdensome</td>
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<td>Whether the proposal itself is well framed and reasonable</td>
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<td>Whether adoption of the proposal would have either a positive or negative impact on the company’s short-term or long-term share value</td>
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<td>Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal</td>
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<td>Whether the company’s analysis and voting recommendation to shareholders is persuasive</td>
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<td>Whether there are significant controversies, fines, penalties, or litigation associated with the company’s environmental or social practices</td>
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<td>Whether implementation of the proposal would achieve the objectives sought in the proposal</td>
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</table>
REFERENCES


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28. Li (n 11).
29. Larcker (n 18).
32. (n 25).
33. (n 24).
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48. Iliev (n 6).
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52. For example, Li (n 11) and Copland (n 6).
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