# Table of Contents

About UK-China Green Finance Centre | 4
---|---
Foreword | 5
Introduction | 6
1. Executive Summary | 7
2. Key Recommendations and Transition Map | 8
   A. Investor considerations | 8
   B. Corporate considerations | 9
   C. Institutional considerations | 9
   D. Collaboration as key feature of success | 9
3. Why Stewardship? | 11
   A. The concept of stewardship | 11
   B. Relevance of stewardship for ESG / sustainable investing | 11
   C. The stewardship toolkit | 13
   D. Engagement and voting across asset classes | 14
      i. Stewardship case study 1: Listed equity | 14
      ii. Stewardship case study 2: Real estate | 17
      iii. Stewardship case study 3: Fixed income | 19
4. The Value of Active Engagement | 21
   A. Evidence from academic research | 21
   B. Evidence from the market and best practice | 22
      i. Active engagement on the rise | 22
      ii. The importance of the investment chain | 23
      iii. Engagement topics | 24
      iv. Engagement success & disclosure | 25
5. The Chinese Context | 25
   A. Chinese investment market structure | 27
   B. Shareholder rights and governance in China | 28
   C. Net-zero commitment | 30
   D. Markets enable ESG practice in China | 31
   E. Six challenges for ESG practice in China | 33
      i. Short-term growth vs. long-term value | 33
      ii. Misperception of ESG investment | 34
      iii. Newness of active engagement practice | 34
      iv. SOEs vs POEs | 35
      v. Limited access leads to potential transparency concerns | 35
      vi. Finding the appropriate top-down and bottom-up mix | 35
6. The Potential of Stewardship for China | 36
   A. Value at the system level | 36
   B. Value at the market level | 38
      i. Robust markets for ESG | 38
      ii. Attract foreign investors | 38
   C. Value at the organisational level | 38
      i. Create Chinese ESG investment leaders | 38
      ii. Create Chinese corporate ESG leaders | 39
      iii. Place Chinese voices in global dialogue on net zero pathways | 39
About UK-China Green Finance Centre

The UK-China Green Finance Centre is the evolution of a long-standing partnership between the City of London Corporation’s Green Finance Initiative (GFI), which ran from 2016 to 2019, and the Green Finance Committee (GFC) of the China Society for Finance and Banking.

The GFI-GFC partnership — which became known as the UK-China Green Finance Taskforce — has rapidly accelerated awareness of green finance opportunities in China and identified critical regulatory and market barriers to mainstreaming green investment flows.

The Taskforce is currently co-chaired by Alderman William Russell, 692 Lord Mayor of the City of London, and Dr MA Jun, Chairman of the Green Finance Committee (GFC) of the China Society for Finance and Banking.

The Centre’s overarching mission is to enhance the UK and China green finance cooperation, to accelerate the global transition to an environmentally sustainable future. The Centre is co-chaired by Alderman William Russell, 692 Lord Mayor of the City of London, and Dr MA Jun, Chairman of the Green Finance Committee (GFC) of the China Society for Finance and Banking.

Foreword

The Forum engages with leading global asset managers and asset owners based in the UK and in China to explore active engagement frameworks and scalable solutions available to investors in the public and private markets. The goal is to enhance their knowledge and expertise in sustainable assets investing, in order to contribute to the carbon neutrality and net zero goals in their respective markets.

This report aims to help asset owners and asset managers in the UK and in China to develop active engagement frameworks that are suitable for their respective markets. Working with a team of leading industry experts and renowned academics, led by Professor Robert Eccles from Oxford Said Business School, the report has outlined the core values of stewardship and engagement and the opportunities for the investment management industry to create long-term sustainable value, while maintaining growth.

The challenge of investing in sustainable assets is pertinent for both British and Chinese asset owners and managers. Covid-19 is accelerating the demand from investors for sustainable investments. Investment managers need to meet this demand with action and robust sustainability-focused strategies.

These unprecedented times represent a unique opportunity for the investment management sector to advance best practice in sustainable investment. As the global markets set out our respective climate goals, it is vital that we work together and strive to achieve our ambitions.

With support from the UK Government’s Partnering for Accelerated Climate Transitions (PACT) programme, this partnership has now been formalised under the banner of the UK-China Green Finance Centre.

The Centre’s overarching mission is to enhance the UK and China green finance cooperation, to accelerate the global transition to an environmentally sustainable future. The Centre is co-chaired by Alderman William Russell, 692 Lord Mayor of the City of London, and Dr MA Jun, Chairman of the Green Finance Committee (GFC) of the China Society for Finance and Banking.
Recognising the importance of sustainable investing, the UK and China have been collaborating closely to encourage the growth of green and sustainable finance across the financial services industry under the UK-China Green Finance Taskforce, established in 2017. The Taskforce, now co-chaired by Alderman William Russell, 692 Lord Mayor of the City of London and Dr Ma Jun, Chairman of the Green Finance Committee (GFC) of the China Society for Finance and Banking, initiated the UK-China ESG Leaders Forum (ELF) in early 2021. The Forum is a practitioner-led initiative to further embed ESG integration into the UK and Chinese investment community and to promote the best practice that can support the UK and Chinese asset owners and managers on their transition journey to sustainable asset allocation. The ELF workstream 1 focussed its research and exchanges on the value creation of active engagement. This report is the result of the research done within this workstream, led by Professor Robert Eccles, explaining the core elements of an active engagement framework and how asset owners and managers can work together to influence corporate decisions in the Chinese capital markets.

Globally, there is a growing body of literature that demonstrates a strong link between a company’s environmental, social, and governance (ESG) performance and its financial performance. The recent publication of the UK Stewardship Code 2020 by the Financial Reporting Council (FRC) provides further evidence that ESG factors have moved into the mainstream for investors. The introduction to the new Code makes it clear that: ‘Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship’. Large asset managers in Europe and the U.S., including asset owners who manage their own assets, are increasingly focused on active engagement and stewardship activities for this reason. They see this as a way of improving a company’s ESG performance and ultimately to improve company and asset level’s financial performance.

In China, sustainable investing has been developing very rapidly but the recognition of the link between ESG performance and financial performance and the role of active engagement is much less well developed. Hence the purpose of workstream 1 of the City of London ESG Leaders Forum was to provide some practical insights and preliminary recommendations for how active engagement can create value in the Chinese financial market. The project draws on more than 20 interviews and conversation with experts from China and the West to examine the best engagement practices in Europe and the U.S., and to learn about the state of play of ESG and stewardship in the Chinese capital market. Through thorough analysis of the Chinese context, the project extrapolates those lessons from global stewardship practice that can be valuable in the Chinese capital market and discusses where practices need to be adapted and developed to fit the local context.

The report begins by outlining recommendations for how stewardship can best create value for Chinese companies and asset managers and discusses the value of a transition roadmap. Section 1 provides an executive summary of main findings. In Section 2, the report outlines key recommendations and a transition map. In Section 3, the report lays out the concept of stewardship, its current practice and available tools, while Section 4 focuses specifically on evidence about the value of active engagement. Section 5 and 6 focus on the Chinese context and the relevance and potential value that stewardship and active engagement hold for the Chinese capital market.

The value of active engagement is one of the key questions in the development around global stewardship and practice and also one of the most difficult to answer. The report presents evidence from both academic research and market best practice to provide insights into the dimensions of active engagement practice and how these lead to value creation at the investor, corporate and market-levels. We highlight that different engagement topics and outcomes will need different engagement strategies to lead to a desired outcome. In particular, investors can combine four different engagement strategies in order to cater to different relationships, ESG priorities and targets. While stewardship practice is growing exponentially, this report highlights that the Chinese context is a special one for which global best practice needs to be adapted to fit local structures. By outlining the Chinese investment market structure, how shareholder rights and governance are viewed, the report sets the context for stewardship in China. In particular, we outline how the government’s net zero commitment, the increasingly international capital markets and international collaborations enhance the interest and focus on ESG in China. We also outline six particularities in the Chinese context which pose a challenge for ESG integration and which future stewardship practice must address:

A. Balancing short-term growth vs. long-term value priorities amongst Chinese investors;
B. The misperception of ESG investment as a concessionary instead of long-term risk-adjusted value creating;
C. The newness of the active engagement practice;
D. The differences between state-owned enterprises (SOEs) and private-owned enterprises (POEs);
E. Limited access to management and boards, which leads to potential transparency concerns; and
F. Finding an appropriate top-down, regulatory and bottom-up, practice-driven approach that allows for the development of a Chinese-appropriate standard of sustainable corporate and investor practice.

The potential for stewardship in China outlined in this report is finally outlined at three levels: the institutional level, the market level, and the organisational level. At the institutional level, the governance and stewardship codes could create a fixed understanding and benchmark for what “good practice” looks like in China. In turn, this should enable more robust markets for ESG value-investing and attract foreign investors. Both would allow China to act as a leading player in global ESG investment space at an organisational level. It would also push and enhance the capability of Chinese companies and enable an accelerated transition towards net zero.
Key Recommendations and Transition Map

A Transition Roadmap

We suggest that both global players and emerging market leaders like China would benefit from building what we call a “transition roadmap” to drive a positive outcome and help ensure an orderly transition for their respective economies. To consider the idiosyncratic circumstances of different industries, such a transition map should outline and transparently communicate challenges, progress, and solutions in at least sectorial buckets:

A. Energy transition – i.e., fossil fuel, coal, and similar,
B. Transition sectors – i.e., building, chemicals, and others, and
C. Sustainable sectors – i.e., wind, solar, and similar.

A. Investor considerations

- Investors should articulate their ESG intentions through a stewardship and voting policy, and articulate measured outcome targets. This means the inclusion of more and insert a space better ESG and impact measurement, as well as clear objective setting regarding the implementation of ESG related investment and stewardship activities.
- Investors need to invest in education, training and capacity building around ESG and stewardship particularly to enable:
  - long-term value-creation at the portfolio- and investment-level;
  - the effective implementation of different strategies and tools for engagement; and
  - the effective use of technology for (sustainable) investing;
- Investors should consider collaborating with other investors to support or (where appropriate) to push companies in their transition to net zero. Organisations such as Climate Action 100+ can be useful vehicles for more successful engagement with companies.
- Investors should make better and more targeted use of their voting rights as a vehicle for their ESG priorities. These priorities should be outlined in a voting policy.
- Better reporting from investors on ESG investing, engagement activities and voting activities would enable higher quality information about ESG risks in engagement. Asset owners can require this disclosure through the mandates they give, and asset managers can create greater transparency for their clients around how they manage long-term risks. Reporting frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD), help to articulate this risk.

B. Corporate considerations

Companies need to improve their ESG reporting, as well as their internal target setting and progress measurement regarding environmental and social objectives.

- In particular, state-owned enterprises (SOEs) should seek collaboration with the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and other domestic collaborations in order to build capacity in this area.
- In particular, privately-owned enterprises (POEs) should seek collaboration both domestically and internationally with investors and other bodies to build capacity and credibility in this area.
- Both SOEs and POEs need to invest in training and capacity building in the area of ESG reporting and management, particularly focussed on climate change, in order to participate and represent China in the global debate on net zero.
- In particular, companies need to build ESG capacity at the management and board level, to enable meaningful engagements with investors about the strategic importance of long-term risks.
C. Institutional considerations

- The role of regulators and particularly the Chinese government is imperative to enable a sustainable transition and make the race to net zero possible. The creation of national and sector-specific “transition roadmaps”, which include a specific “transition taxonomy” and “transition finance guidance” for investors, is key to the implementation of these plans.

- The role of local rating agencies as well as stock markets is important to push best practice in reporting and transparency and set ambitious benchmarks.

- Local actors need to collaborate with international actors. Key global programmes for local with global collaboration are the “UN Race to Net Zero” and “Climate Action 100+”. The latter is particularly important for the capacity building of stewardship and engagement practice.

D. Collaboration as key feature of success

To enable the recommendations for practical implementation of a transition roadmap globally and in China, collaboration is key. In particular, there are three types of collaboration which need to be pursued by investors, companies, and institutional actors:

- Local with Local: local actors need to collaborate with other local market and non-market participants. For example, the use of proxy voting from local investors and transparency around these votes can enable important decisions between investors, companies, and other stakeholders.

- Local with International: local actors need to be open to foster conversations with international actors that may bring valuable expertise and ideas around the implementation of sustainable transformation to the table. Likewise, the voice of local actors is imperative in translating and explaining local market specificities, customs, and best practices to international actors.

- Local with Global: global and international initiatives are key to create future collaboration between local and international actors. Key global programmes for local actors to consider are the “UN Race to Net Zero” and “Climate Action 100+”. The latter is particularly important for the capacity building of stewardship and engagement practice.

Why Stewardship?

In the 21st Century, the investment industry has grown to play an incredibly important role in sustainable development. On the one hand, asset owners are needed to help generate a safe financial future for workers, pensioners, and savers all around the world. On the other hand, informed capital allocation from both asset owners and asset managers is needed to help finance the critical infrastructure that a net zero transition requires, to realise the United Nations Sustainable Development Goals (SDGs) and to rebuild after the Covid-19 pandemic.

To achieve this, investors are increasingly engaging their portfolio companies in conversations about their ESG expectations. They do this for various reasons, but mostly to encourage them to improve their ESG performance and practices, and their disclosure of them. Various sources report that the use of engagement and voting has risen by double-digits in the last 10 years and, according to Eurosis, has become the second most important responsible investing strategy after stock exclusion in Europe. And with recent amendments to the EU Shareholder Rights Directive and the UK Stewardship Code, Western regulators, but also those in other parts of the world, now actively encourage asset owners and managers alike to exercise their shareholder rights. Yet what exactly is meant by stewardship?

The following section discusses the concept of stewardship more closely, drawing out its relevance for the discussion of ESG and sustainable investing, reviewing some of its tools, and the current state of practice.

A. The concept of stewardship

As of August 2021, there were 23 national, regional, and international Stewardship Codes or Principles of Responsible Investment Practice which all bring slightly different nuances to the definition of Investor Stewardship. In principle, however, stewardship is globally understood to be:

3. National: Australia, Brazil, Canada, Denmark, Germany, India, Italy, Japan, Kenya, South Korea, Malaysia, Netherlands, Norway, Singapore, South Africa, Switzerland, Taiwan, Thailand, United Kingdom, USA, Hong Kong; Regional: European Union, OECD; Global: ICSI.
5. UK Asset Management Taskforce, Nov 2020, “Investing with Purpose: placing stewardship at the heart of sustainable growth”.

Stewardship is a tool that makes use of the structure of the capital market to allow asset owners and asset managers to use the money they invest to encourage, develop, and support behaviour that will lead to sustainable returns. This may be done, for example, by using engagements to encourage investees to meet high standards of disclosure, corporate governance, and ethical practice, or by holding boards and management accountable through proxy voting and shareholder resolutions. Investors do so as part of their fiduciary duty towards their beneficiaries, particularly if those are long-term savers, such as members of a pension fund.

B. Relevance of stewardship for ESG / sustainable investing

Stewardship is seen as a key tool for sustainable investors to attain impact on the ESG practices, and related sustainability risks, at the companies within their portfolios and therefore maximise long-term value and resilience of the security. This is particularly the case as other sustainable investment practices, particularly exclusion, have proven to show little effect in impacting corporate practice regarding environmental and social concerns.

Different market participants and their relationships are important for stewardship: asset owners, asset managers, companies, governments, NGOs, index providers, investment consultants and proxy advisors all play an important role in managing or advocating for responsible capital allocation. In particular, the relationship between asset owners and asset managers is a fundamental building block for driving stewardship and a long-term investment horizon. According to the UK Asset
C. The Stewardship Toolkit

Stewardship is a broad concept that encompasses everything from the internal governance and creation of policies for long-term value creation to a variety of tools of active ownership. Setting up a robust internal governance of stewardship with clear responsibilities and developing and implementing a stewardship / responsible investing policy and a voting policy are fundamental to the execution of successful stewardship for both asset owners and asset managers. They create clarity around objectives and priorities within an organisation and can be used as baseline for investment and engagement decisions, voting decisions, and even the specification of investment mandates. Once the priorities and objectives of stewardship are clear, it allows monitoring and assessment of investee companies in a more targeted way. Stewardship then can be implemented through a variety of tools, including the following:

- Direct engagement with current or potential investees /issuers across asset classes.
- Getting involved in investor collaborations for greater engagement.
- Exercising voting rights at shareholder meetings.
- Filing shareholder resolutions or proposals.
- Taking board seats or taking roles in board committees.
- Using strategic litigation.

In addition, stewardship activities may include the use of investor influence beyond the investment process, through transparency, stakeholder collaboration, advocacy, and strategic endorsements. The United Nations Principles of Responsible Investing (UNPRI) highlight the following as an important part of stewardship activities:

- Engagement with policy makers.
- Engagement with standard setters.
- Contributions to public goods (such as research).
- Public discourse (such as media) that supports stewardship goals, and
- Negotiation & monitoring of service providers in the investment chain (e.g., asset owners engaging with investment managers.)

Figure 2 gives an overview of different stewardship tools that investors can make use of. Different stewardship policies will lead to a different selection and application of these tools. Thus, not all investors will make use of all tools. Commonly, the most impactful and widely adopted tools amongst these presented are Engagement and Voting. Both can and should be applied across all asset classes. The following section discusses this in more detail.

---

2. ICGN Global Stewardship Code, 2020

---

Figure 2. The Investment Stewardship Toolkit

<table>
<thead>
<tr>
<th>Engagement pathways</th>
<th>Outreach tools</th>
<th>Communication tools</th>
<th>Investment tools</th>
<th>Escalation tools</th>
<th>Advocacy tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual, reactive engagement</td>
<td>Quarterly calls</td>
<td>Q&amp;A</td>
<td>Proxy Voting</td>
<td>Name and shame</td>
<td>Engagement with policy makers</td>
</tr>
<tr>
<td>Individual, proactive engagement</td>
<td>Standing calls</td>
<td>Clarification seeking</td>
<td>Group Voting</td>
<td>Engagement with other stakeholders</td>
<td></td>
</tr>
<tr>
<td>Collaborative engagement</td>
<td>Meeting call</td>
<td>Open discussion</td>
<td>Increase shares</td>
<td>Exclusion</td>
<td></td>
</tr>
<tr>
<td>Legislative advocacy</td>
<td>Letters</td>
<td>Expectation sharing</td>
<td>Invest</td>
<td>Shareholder resolutions</td>
<td></td>
</tr>
<tr>
<td>Sustained engagement</td>
<td>Questionnaires</td>
<td>Best-practice sharing</td>
<td>Public endorsements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meeting/call</td>
<td>Roadshows</td>
<td>Target setting</td>
<td>Strategic litigation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The toolkit includes the most common activities and does not represent an exhaustive list of stewardship activities. Activities not listed but also used under the umbrella of stewardship include, for example, direct seats on investor boards. 

---

Figure 1. Stewardship through the Investment Chain

The theory of change for stewardship is therefore linked to the active and explicit promotion of sustainability concerns by various actors on various levels. It goes beyond and complements the mere investment allocation process with a variety of tools and mechanisms of active ownership, making use of both the public influence and the broadening shareholder rights of institutional investors. The following section discusses these tools in more detail.

---

Management Taskforce, “this relationship sets the tone for the way investment managers make investment decisions, act as stewards and ultimately how they create sustainable value”.

The accountability chain between asset owners, asset managers, advisors, and companies is a key driver of effective stewardship, as different responsibilities enable long-term thinking at different levels of the chain (see Figure 1, right).

At the same time, these different levels of accountability are also the core challenge for stewardship, as information asymmetry between companies and institutional investors remain (see Figure 1, right).

Stewardship is a means to overcome these asymmetries and to evaluate the risk that is associated with the proper or improper management of a company by its management, and the oversight through executive and independent board directors. It is however not a silver bullet and should therefore not be understood as a tool that is able to eliminate all investment risk associated with an investee or issuer company. Stewardship, rather, is a tool to help fulfil the investors’ role in promoting well-functioning markets and addressing systemic risks.

---

The International Corporate Governance Network (ICGN), which sets out the “Global Stewardship Principles”, highlights how stewardship supports the creation of sustainable value at three levels:

- At an individual company level, investor stewardship helps to promote high standards of corporate governance which contributes to sustainable value creation, thereby increasing the long-term risk adjusted rate of return (...).
- At an investor level, stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. This includes the consideration of wider ethical, environmental, and social factors and the consideration of relevant systemic risks as core components of fiduciary duty.
- In a broader context, stewardship enhances overall financial market stability and economic growth, and (...) directly links to sustainable benefits for the economy, environment, and society.”

---

ICGN Global Stewardship Code, 2020
D. Engagement and Voting across Asset Classes

The UK Stewardship Code 201212 states that ‘stewardship is more than just voting’, and rightly so. Stewardship includes engaging with companies on matters such as strategy, performance, risk, capital structure, corporate governance, including culture and remuneration’ and, in the context of broader sustainability issues, encompasses material environmental and social issues as well. The revised UK Stewardship Code 202013 reflects the evolution of stewardship since 2012 and emphasises that stewardship covers ‘responsibility allocation, management and oversight of capital’ for a range of assets. Specifically, the Code highlights that different asset classes and their investments have different terms, investment periods, rights, and responsibilities and hence asset owners and asset managers will need to consider how to exercise stewardship effectively in different circumstances.

The following sections highlight three examples of stewardship in the public equity, real estate, and fixed income sectors, to provide some colour to current practice in different asset classes.

### i. Stewardship case study: Listed equity

Exercising voting rights at shareholder meetings, and engagement on matters of active engagement such as strategy, performance, risk, capital structure, corporate governance, including culture and remuneration, and hence asset owners and asset managers will need to consider how to exercise stewardship effectively in different circumstances.

Norwegian Government Pension Fund Global, a sovereign wealth fund often referred to as the Norwegian Oil Fund. It is the largest asset owner in the world with assets under management of $1.1 trillion (as of 30 June 2021). 72.4% of assets are invested in listed equities; 25% in fixed income and the remaining in unlisted assets.

#### Figure 3. Qualities of Different Asset Classes

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Listed equity</th>
<th>Private equity</th>
<th>Fixed income</th>
<th>Infrastructure</th>
<th>Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment period</td>
<td>Could be high, medium, or low</td>
<td>Medium to long</td>
<td>Depends on effective duration and maturity</td>
<td>Medium to long</td>
<td>Medium to long</td>
</tr>
<tr>
<td>Voting rights</td>
<td>Yes, at shareholder meetings</td>
<td>Depends on whether limited or general partners (LP or GP)</td>
<td>Yes, at boardholder meetings</td>
<td>Depends on whether limited or general partners (LP or GP)</td>
<td>Depends on whether limited or general partners (LP or GP)</td>
</tr>
<tr>
<td>Responsibilities</td>
<td>Voting Engagement</td>
<td>Strengthens management capabilities, legal structure, finance</td>
<td>Attends regular bond meetings and engagement</td>
<td>Profitability and sustainability of assets</td>
<td>Profitability and sustainability of assets</td>
</tr>
</tbody>
</table>

Integrating active ownership in its investment process

NBIM exercises stewardship through two mechanisms (1) active ownership – exercising ownership rights through the securities it holds; and (2) observation and exclusion of companies from its investment portfolio when companies allegedly engaged in unethical or unsustainable practices. It uses software programmes to monitor newswires and other sources for reports or information related to or involving companies in the portfolio to flag the worst offenders of its Ethics Guidelines. The exclusion list is also used by external fund managers as it is published online.

The Ministry of Finance has determined a specific allocation to environmental mandate and the Executive Board set investment strategy for such investments. Its Council of Ethics makes recommendations on the observation and exclusion of companies in the Fund’s portfolio, covering both equity and fixed income investments. Screening could be product or conduct based.

Exclusion criteria are drawn from third party research, such as controversies research reports and controversies list and its own due diligence. Product-based screening excludes companies producing tobacco, weapons that violate fundamental humanitarian principles, or selling weapons to states that are subject to investment restrictions on government bonds, as per the management mandate for the Oil Fund. Conduct based screening covers serious or systematic human rights violations, severe environmental damage, unacceptable levels of GHG emissions and gross corruption.

The Council of Ethics may conduct independent due diligence on relevant allegations through on-site interviews or other forms of investigative activities. These investigations are usually conducted by specialists directly employed by the Council to ensure independence. They may conduct ad hoc interviews with workers outside of factories where they may have been mistreated, as well as approaching the investee companies’ management directly for formal interviews and site inspections.

Voting record disclosure: shall we expect real time disclosure in 5 years?

In December 2020, NBIM led voting disclosure global best practices by announcing that it would publish voting instructions five days before each shareholder meeting.14 In the past, investors had been cautious about announcing voting intentions ahead of shareholder meetings due to concerns over their influence in the market. This step by NBIM is significant in light of the scale of its assets, allegedly owning the equivalent of 1.5% of every listed company in the world, on average. This means that it would publish 120,000 voting decisions a year, searchable online.15 It provides time series of its voting records dating back to 2013 for some companies. For the Exxon Mobil AGM in May 2021, NBIM provided voting policy references and voting rationale for all votes made against the board’s recommendation. This practice is applied across all company votes in all markets, item by item.

Other investors are also catching up with best practices on disclosure, leveraging the voting platforms of proxy advisers, such as ISS and Glass Lewis. The Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (“TIAA”), with over $1 trillion assets under management, has provided itemised voting records since 2014. Its statement on responsible investing, 7th edition (the first edition was released in 2014), covers a range of ESG issues with specific proxy guidelines on ESG related shareholder resolutions.16 Legal & General Investment Management (LGIM) and Allianz Global Investors with $1.8 trillion and Euro 633 billion ($752 billion) assets under management respectively have provided itemised voting statistics since 2017,17 with market and sector-based statistics as well as votes cast by proposal type. NN Investment Partners, with Euro 298 billion ($354 billion) assets under management, has disclosed voting records since 2018.

Disclosing votes ahead of shareholder meetings may prove to be challenging for some investors, but the real time disclosure of voting records whenever a shareholder meeting is held may become a normalised practice within five years.

### Thematic engagement to deepen

On 18 August 2021, for the first time, the CEO of NBIM, Nicolai Tangen, and Deputy CEO Trond Grande live streamed from a press conference at Arenalislua where they released the 1H 2021 results.18 They shared the publication of a new paper: Biodiversity and Ecosystems: Expectations of companies. It is the eighth topic of the Fund’s active ownership focus; others include: children’s rights, climate change, water management, human rights, tax and transparency, anti-corruption and ocean sustainability.

The value creation of active engagement
For each of the focused themes, the Fund has published expectations documents—a space and addendum—for companies to integrate children’s rights into responsible sourcing frameworks. In May 2021, it expanded the topic to cover access to nutrition and health for children. NBIM continues to update its expectations documents which act as transparent guidance for both voting and engagement.

## Case study

### Hon Hai Precision Industry Co., Ltd.

#### Can engagement add value?

Demonstrating that engagement, as a standalone activity, can add value to financial performance is challenging. However, it is possible to demonstrate that engagement which prompts a change in corporate behaviour can be correlated with investor confidence that is reflected in an increased share price. Via engagement through the Climate Action 100+(CA100+) programme Hon Hai Precision Industry, a manufacturing supplier of Apple products, effectively addressed criticisms from shareholders on a range of strategic and ESG issues which coincided with subsequent share price improvement. In June 2018, the lead investor representative of CA100+ for Hon Hai Precision attended the AGM in Taipei. The live recording of the full AGM is available on YouTube. The lead investor representative engaged directly with the founder and chairman Mr Terry Guo, in English and Mandarin Chinese over a period of 40 minutes. They engaged on a range of different topics especially on environment and governance:

**On Climate Change:** investors ask the board and senior management to: (i) implement a governance framework which articulates the board’s accountability and oversight of climate change risks and opportunities; and (ii) take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement.

**On Governance:** investors ask the board to (i) communicate succession planning of board chair and CEO, which was a combined position occupied by the founder; and (ii) consider replacing directors with poor attendance records at board meetings. One of the independent directors had attended 36% of board meetings since joining the board in 2016.

The company subsequently responded to a range of asks, including changing board members with poor board meeting attendance records. According to the company website (as of 4 September 2021), board members subsequently attended 100% of committee meetings. Audit committee members attended all 13 meetings; space and compensation committee members attended all 4 meetings. The founder stepped down from his chair and CEO role, although he remains on the board. The company appointed its first non-founder chair the following year, at the 2019 AGM. In November 2020, the company made a commitment to achieve net zero emissions by 2050. In the announcement, the company specifically committed to strengthen climate change governance and take action towards reducing greenhouse gas emissions across the value chain, consistent with the Paris Agreement. These commitments are exactly aligned with the first public ask by the investor representative at the 2018 AGM. The share price improved after this announcement and the company has since established regular collaborative engagements with the CA100+ investor group.

#### ii. Stewardship case study 2: Real estate

ESG and stewardship are key topics in the real estate sector. More energy efficient “greener” properties are expected to incur lower operating expenses, support efforts to achieve top of the range rents, have fewer vacancy and void periods, be at lower risk of mortgage default and better meet the increasing needs of occupants to provide sustainable living and working space that improve tenant engagement, health, and employee productivity. In short, sustainable real estate is expected to be good for people and the planet, while also being good for business.

To assess this, the most common set of standards used by real estate investors are GRESB (formerly Global Real Estate Sustainability Benchmark) and the Property Working Group (PWG) framework of UNEP FI’s Responsible Property Investment initiative. Each asset manager will choose a set of issues as engagement priorities which, although they may differ by company, generally cover the following:

- Energy and Carbon reduction improvements/targets
- Wider environmental/stewardship progress in areas such as waste, water, and biodiversity
- Capital structure and allocation
- Board and company structure

The freehold or leasehold nature of each property, as well as its lease period, have the largest impact on determining the budget for retrofitting that property to meet increasing ESG standards, such as energy efficiency and alignment to the Paris Agreement. More forward thinking real estate investors will consider biodiversity due diligence and extinction governance assessment through a holistic nature-based lens, when assessing the risk and return profile prior to making a real estate investment decision.

**Through the lens of a real estate investor:**

**New World Development** is the world’s first real estate developer to issue a sustainability-linked bond tied to clear performance metrics with penalty for failing to meet targets. The 10-year $200 million bond (coupon rate: 3.75%) has a sustainable performance target that is aligned to the company’s latest renewable energy roadmap, which commits to achieving 100% renewable energy for Greater Bay Area rental properties by 2026. The SLB was oversubscribed by six times, with over 80%...
demand from global asset managers and insurance companies across Asia and Europe. This deal was priced at Target +275 basis points, implying negative 5 basis points new issue premium. It achieved the lowest yield yet for a public $ denominated bond offering by NWD.

To achieve its target, NWD has committed to using a mix of on-site renewable energy installations, long term power purchase agreements (PPAs) with energy providers, such as CLP, that conducts ‘track and trace’ of renewable energy sources, and renewables provider of the last resort, renewable energy certificates (RECs) from the local electricity market. In March 2021, NWD committed to setting Science-based Targets (SBTs) to support Hong Kong’s plan for net zero carbon by 2050 and Mainland China’s target of carbon neutrality by 2060. NWD maintained its five-star (highest) rating in the Global Real Estate Sustainability Benchmark (GRESB) in 2019 and 2020 and was rated first globally for climate resilience disclosure in 2020.

During the COVID-19 crisis, Mitsubishi Corp. UBS Realty Inc, an asset manager established as a joint venture between Mitsubishi Corporation and UBS A.G., began engaging with tenants’ health conditions as well as business conditions through daily calls.

iii. Stewardship case study: Fixed income

Many investors have different issuer engagement selection processes for investment grade and high-yield corporate debt issuers than for listed equities. State Street Global Advisers (SSGA), for example, has a proprietary ESG screening tool used to identify issuers for engagement in its investment grade corporate bond universe. Ad-hoc engagement is usually only undertaken with high-yield corporate bond issuers.

Aside from general ESG topics related to the long-term sustainable value creation of a company, fixed income investors often need to deal with subsidiary specific issues. They also vote and engage with management at bondholders’ meetings on issues such as:

- Approving amendments to debt covenants and/or terms of issuance.
- Approving debt restructuring plans.
- Authorizing repurchase of issued debt security.
- Approving the placement of uninsured debt securities under the control of directors; and
- Approving spin-off/absorption proposals.

The difference between fixed income engagement, equity engagement and stewardship

The Federated Hermes SDG Engagement High Yield Credit Fund was inceptioned in September 2019. Its strategy is to seek current income and capital appreciation alongside positive societal impact. As of 31 July 2021, assets under management stand at $45 million with over 200 securities holdings. In 2020, there were 353 engagement actions at 114 companies. The approach of this fund will be further explained below.

A. Screening approach: The fund team will only choose companies that satisfy thresholds for governance (such as limited exposure to controversies) and credit strength. This provides the first layer of screening from the broader investment universe, as defined by the benchmark, ICE BAML GHY Index.

For Hermes, by choosing under-engaged companies, some of which were laggards compared to their peers, attributable return opportunities arising from further engagement include: (1) low-hanging fruit – improved disclosure and sustainability narrative through the lens of SDG for existing business activities; and (2) performance improvement from enhanced impact that drives new business opportunities and improved operations.
Furthermore, the fund team has created a co-linear model that links firm potential and value with impact and management quality. The approach to engaging with companies with different credit ratings is the same.

B. Engagement timeframe: In the stewardship space, it is often recognised that a successful engagement usually takes 3 to 5 years. In some ways, this explains why PRI collaborative engagement working groups tend to have a 3-year programme cycle, for example, the 2017-2019 Engaging on methane with the oil and gas and utilities sectors⁷ and the 2018-2020 Collaborative engagement on responsible sourcing of cobalt.⁸ CA100+ is a 5-year programme launched in December 2017, which will complete by 2022.⁹

According to the 30 June 2021 fund factsheet of the Federated Hermes SDG Engagement High Yield Credit Fund,⁰ the weighted average effective duration and effective maturity of securities in the fund is 4.9 years and 7.9 years. Compared to this is the engagement timeframe as set out by the investment manager (Figure 4), they are aligned.

The following reviews evidence from academic and market research to outline the current knowledge around active engagement. We then move on to discuss best practice based on some of the findings from our interviews and existing guidance from leading practitioners.

A. Evidence from academic research

In parallel with the increasing importance of engagement and stewardship for the field of sustainable investing, academic interest in the topic has also surged. Traditionally, academic studies in sustainable investing have focussed in particular on the question of whether there is financial value to be gained through the integration of ESG factors in investment decisions. These works have shown that particularly firms that perform highly on financially material ESG factors outperform the market,¹⁰ and that ESG outperformance usually materialises over the long-term.¹¹ Additionally, there is wide consensus that sustainable investing reduces potential investment downside, identifying and reducing particularly long-term risks that are associated with investee companies.¹²

While these works have been incredibly important to support and accelerate the adoption of sustainable investing practices, they say little about whether these investments have been successful in creating better and lasting environmental and social practices at investee companies.¹³ This is where stewardship, and in particular engagement, comes in. While sustainable investing perceives ESG as an input (to achieve higher risk-adjusted returns), proponents of active shareholder engagement view ESG as an outcome. Investors therefore ask: what do we want companies to do, to achieve better environmental and social performance, and better corporate governance? Engagement is also used for information gathering and to make sense of inconsistent ESG scores.¹⁴ These objectives broaden the focus of research studies and the questions that need to be asked around success of shareholder engagements.

Focussing on the question of the impact that investors can achieve through shareholder engagement, several studies have shown that, indeed, targeted conversations between companies and investors on ESG can lead to positive outcomes in terms of social and environmental performance at the investee company. For example, Hoepner et al. show how ESG engagement can reduce firms’ downside risks, especially when focussed on climate change, whereas Barko et al and Dyck, et al. present evidence that shows how shareholder engagement increases companies’ subsequent ESG ratings. Focussed on collaborative engagements, Difonzo et al. can show how shareholder dialogues are successful in achieving stated engagement goals, particularly if the lead investors are domestic to the investee and if the investor coalition is influential.

The Value of Active Engagement

Active engagement between investors and investee companies is one of the most important and frequently used stewardship activities. Due to its rising importance, engagement activities have been well-documented in both academic and practitioner literature. Since it is an evolving practice, however, there are still gaps in the understanding of the levers of successful engagement and the strategies that investors employ to achieve specific outcomes. The main problem in the assessment of engagement success is the challenge of attribution, that is, the question around what exactly triggers corporate change and whether/how an engagement activity has contributed to it.

The Value Creation of Active Engagement

Active engagement between investors and investee companies is one of the most important and frequently used stewardship activities. Due to its rising importance, engagement activities have been well-documented in both academic and practitioner literature. Since it is an evolving practice, however, there are still gaps in the understanding of the levers of successful engagement and the strategies that investors employ to achieve specific outcomes. The main problem in the assessment of engagement success is the challenge of attribution, that is, the question around what exactly triggers corporate change and whether/how an engagement activity has contributed to it.

Case study

Sinclair Broadcast Group Inc.

Weak covenants strike back.

Sinclair Broadcast Group Inc., a US-listed regional sports business, has an established history of engaging with bondholders. In 2020, the company asked bondholders to take a 40% haircut on a $1.8 billion unsecured bond it sold in 2019 to fund the $9.6 billion acquisition of Diamond Sport from Walt Disney. More than half of the bondholders joined forces to block the debt swap as a bargaining chip, but the company decided to use cash to redeem preferred equity, which the bond covenants allowed for.

In June 2021, high yield debt fell to distressed levels as the company struggled to sign and maintain deals with carriers and dealt with the pandemic’s disruptions to live sports. According to Bloomberg, bonds of its Diamond Sports Group unit due 2027 fell to less than 30% of their face value. Unsecured debt holders may be half their face value. Unsecured debt holders may be

---

⁷Dimson, et al. 2015
⁸Amel-Zadeh and Serafeim, 2018
⁹Khan, et al. 2015
¹⁰Scardell, et al. 2020
¹¹Amel-Zadeh and Serafeim, 2018
¹²Koelbel, et al. 2020
¹³Scalet, et al. 2019
¹⁴Rowe, et al. 2021; Dyck et al. 2019
¹⁵Dimson, et al. 2021

---

**Figure 4. Measuring Progress in Fixed-Income Engagements**

Measuring progress over (typically) a multi-year process

---

**Source:** Federated Hermes SDG Engagement High Yield Credit Fund H1 2020 Report

---

**Tower Bridge, London**
Furthermore, academic evidence shows how, after successful engagements on ESG targets, companies experience improved accounting performance and governance and increased institutional ownership. Overall, engagement is demonstrated to be one of the most effective tools that investors can use to encourage firms to act in a socially responsible manner. This effectiveness is particularly important in contrast to the use of exit – a discussion that is often referenced as “exit vs. voice.” Exit or exclusion, that is the divestment from specific firms or sectors with lower ESG performance or higher ESG risk exposure, has been shown to have little, and even counterproductive effects for the environmental and social performance at the target company. While exclusion is still frequently used for ESG integration amongst European investors, it is not a substitute for a well thought-through stewardship strategy and informed engagement and voting activities.

For engagement to be successful, studies have shown that it is dependent on clarity in objectives, a focus on specific themes and an openness from the investee company to engage. Furthermore, the success of an engagement on ESG outcomes depends on the cost of the reform that is associated with an engagement request, where costly or harder to implement requests are likely to be less successful than low-hanging fruit. Finally, the level of reactivity and willingness of investee companies also depend on the importance and holding size of the investor, and the overall ESG experience and expertise of the investee company.

B. Evidence from the market and best practice

i. Active engagement on the rise

Recent evidence from practitioner surveys and institutional investor associations also underlines the increasing use and importance of stewardship activities, particularly engagement and voting, in the global capital market. The UK Asset Management Taskforce, for example, reports a 119% growth in responsible investment funds under management between January 2019 and September 2020. The US Sustainable Investing Foundation (US SIF) 2020 study finds USD16.6 trillion in ESG assets, which represent a 43% increase in such assets since 2018. Taken together with the Eurosif study’s report that Engagement and Voting is the second-most practiced SRI strategy in Europe, and the Schroders 2020 Institutional Investor Study, which finds that active company engagement and stewardship is the third-most practiced strategy globally, (with 59% of global institutional investors using this approach, up a stunning 21% from 2019), offering compelling evidence for the amount of capital and influence now flowing into stewardship activities. Interestingly, at the same time, surveys also suggest that the use of negative screening as an approach in sustainable investing is decreasing. Schroders found that the exclusion of areas such as alcohol, tobacco or weapons manufacturing has tumbled in use, from being the second most popular strategy in 2019, used by 53% of respondents, to only the fifth most popular, adopted by 36% of respondents in 2020.

ii. The importance of the investment chain

Market evidence further supports the insight that the reporting and accountability chain between asset owners, asset managers, advisors and companies is a key driver for the effectiveness of stewardship, and particularly active engagement activities. In particular, the relationship between asset owners and asset managers is often underlined as a key piece of the stewardship puzzle. Asset owners play a key role in enabling stewardship and engagement activities by selecting asset managers on the basis of their ability to deliver sustainable long-term returns. The UK Stewardship Code reinforces the importance of this relationship:

Asset owners “set the tone for stewardship and may influence behavioural changes that lead to better stewardship by asset managers and companies”. Asset managers, then, “with day-to-day responsibility for managing investments, are well positioned to influence companies’ long-term performance.”

18 Dimson, et al. 2015; Banko, et al. 2021
21 Atte-Kortesmaki et al. 2020
22 Eeckhoudt, 2019
23 Banko, et al. 2021
24 Eccles, Mois, and Stroehle, 2019; Koellreuter et al. 2020
According to the Investor Association (IA) 2018 survey on Stewardship in Practice, it is therefore best practice for asset owners to make their expectations regarding stewardship clear to asset managers. In their survey they find that, in the UK, approximately two thirds of asset managers responded that 75% or more of their institutional clients had formal expectations towards stewardship particularly engagement and voting in relation to their holdings. This suggests that asset owners increasingly put emphasis on stewardship when selecting their external managers, and also for their internally managed assets.

Supporting this, the 2020 ISS Asset Owner Stewardship Study finds that amongst 150, mostly North American, surveyed asset owners, the big majority (78%) of respondents engage directly and/or instruct their managers to engage with companies. Of these, 14% specified that they engage directly with officers and managers to engage with companies. Of these, 14% of respondents indicated that they measure progress made through their stewardship activities, about half of those indicated that they were not content with the methods of measurement that they deploy, feeling that they lack the proper tools and data to measure engagement success effectively. While there is general agreement that engagement usually leads to better investment decisions and positively changes the nature of the dialogue between investors and companies, measuring the attribution of specific engagement activities to these benefits is difficult.

Service providers, such as Hermes EOS, which engage on behalf of many institutional clients, often use a milestone system which defines not only whether a firm complies with a request or not, but how far into the process of this compliance a firm already is. The Hermes milestones, for example, include: 1. Raising a concern with a target (investee or issuer), 2. Target acknowledges concern, 3. Target takes action to address concern, and 4. Engagement is successfully completed. While such milestones are useful, they only capture the “tangible” outcomes of engagement and are not able to capture the “intangible” outcomes. So, while successful engagement is often classified as transparent reporting and evidence on tangible outcomes, it also has a softer element, which relates to relationships and the usefulness of gathered information. In the Schroder survey, investors therefore also classify engagements as important in relation to achieving well-informed escalation steps, such as the consistent voting against companies to drive change, to inform exclusion, and to be able to make public statements about companies (“name and shame”) where necessary. Also in our own research, both companies and investors acknowledged how deeply important the intangible value of engagement is, particularly highlighting the importance of relationship and trust building. Best practice in measuring engagement success should therefore include both hard measures in relation to engagement outcomes, while also focussing on space and practice for soft outcomes, such as sustained relationships and positive case studies.

Being able to measure engagement also enables investors to achieve better transparency around their stewardship activities – an ask that is particularly highlighted, for example, by the UK Stewardship code. While reporting practice on engagement and voting is increasing, there is still a long way to go. The ISS 2018 survey, for example, found that only 31% of surveyed institutions presently communicate their voting and engagement activities, whereas about half of the respondents stated that they did not communicate those activities. Reasons for this lack of transparency are often related to missing capacity and platform limitations, as well as concerns around stakeholder scrutiny and liability.

**v. Engagement strategies**

When engaging with investee or issuer companies, investors can choose between a variety of different engagement strategies. Most fundamentally, investors can choose between private engagement, public engagement, and collaborative engagement tactics.
According to a report from the High Meadows Institute, private engagement is the most often used by institutional investors. It can rely on a variety of different outreach and communication tools (as displayed in figure 4) but keeps communication and the process of agreeing on outcomes and targets with companies behind closed doors. Public forms of engagement include filing a shareholder proposal, naming and shaming a company publicly, or the use of activist strategies, which are informed by their stewardship mandates may warrant a different mix of engagement formats at a given institution. A report by Eccles, Mooij, and Stroehle outlines four engagement strategies which are widely used by asset managers and asset owners in the Western markets. They are either focussed on top-down, systemic issues - Conservatism and Opportunism - or bottom-up, materiality issues - Constructivism and Activism. Figure 5 gives an overview of these strategies. Usually, investors will choose to apply a combination of these strategies, which are informed by their stewardship and responsible investment priorities.

The Chinese Context

China is the second largest economy in the world while also being one of the world’s largest greenhouse gas (GHG) emitters. Taken together, these underline the importance of Chinese participation in the SDG agenda and for a successful path to net zero. The Chinese context is however a unique one, which requires the development of custom sustainable finance and stewardship tools that will allow a wider integration of ESG in its capital markets.

The following section discusses the particularities of the Chinese context, how they create local ESG practice and how they relate to the global sustainability agenda.

A. Chinese investment market structure

Market structure

China’s equity market currently consists of two stock exchanges: the Shanghai Stock Exchange and the Shenzhen Stock Exchange. As of 3 September 2021, the combined market capitalization of China’s Shanghai and Shenzhen bourses is RMB86.99 trillion. More than 4,000 companies are now listed on these two exchanges.

On 2nd September 2021, Chinese President Xi Jinping announced that China would set up a stock exchange in Beijing and build it into a major base for innovative small- and medium-sized enterprises (SMEs). It is thus expected that the number of domestically listed companies will continue to expand for the foreseeable future.

Domestic players are still largely dominated by retail investors with institutional investors lagging and foreign participation accounting on a small scale. According to the annual report of the Shanghai Stock Exchange, 85% of daily trading volume on the exchange comes from individual investors, while only 15% is from institutional investors. Despite the high trading volume, the account sizes of individual investors are mostly below RMB500,000 - far smaller than those of institutional investors.

China’s bond market also plays a vital role in financial sector reforms. In July 2020, the People’s Bank of China officially announced that China’s bond market balance was RMB108 trillion, ranking second in the world. As of July 2021, China’s bond market balance has risen to RMB124.6 trillion. 63% of the depository balance consists of government bonds and financial bonds, while corporate credit bonds account for about 24%.

According to a report from the High Meadows Institute, private engagement is the route most often used by institutional investors. It can rely on a variety of different outreach and communication tools (as displayed in figure 4) but keeps communication and the process of agreeing on outcomes and targets with companies behind closed doors. Public forms of engagement include filing a shareholder proposal, naming and shaming a company publicly, or the use of activist strategies, which are informed by their stewardship mandates may warrant a different mix of engagement formats at a given institution. A report by Eccles, Mooij, and Stroehle outlines four engagement strategies which are widely used by asset managers and asset owners in the Western markets. They are either focussed on top-down, systemic issues - Conservatism and Opportunism - or bottom-up, materiality issues - Constructivism and Activism. Figure 5 gives an overview of these strategies. Usually, investors will choose to apply a combination of these strategies, which are informed by their stewardship and responsible investment priorities.

62Climate Action 100+, Aug 2021, https://www.climateaction100.org/
65https://www.c2es.org/content/international-emissions/
66https://worldpopulationreview.com/countries/countries-by-gdp
Market Players

According to the statistics of the Asset Management Association of China (AMAC), by the end of Q2 2021, 151 fund houses were managing a total of 8,320 mutual funds authorised by the China Securities Regulatory Commission (CSRC), with total assets under management (AUM) reaching RMB23.03 trillion.

- Privately offered funds also take large equity positions in at the end of Q2 2021, there were 24,476 existing private fund managers, of which 61% were private equity or venture capital fund managers, and the rest were private fund managers investing in the public market. In total, there were 108,848 private funds, with AUM of RMB 17.89 trillion.
- Insurance companies have also accumulated assets at a fast pace. According to survey released in June 2021 by the Insurance Asset Management Association of China (IAMAC), by the end of 2020 there were 205 insurance group (holding) companies and insurance companies, which collectively held assets of more than RMB20 trillion. With respect to the asset allocation of insurance asset managers, fixed income assets account for the largest proportion, Bonds, financial products and bank deposits rank among the top three assets, totalling more than RMB15 trillion, accounting for nearly 70% of assets. Listed equities account for 9%, while unlisted equities accounts for 8%.

Key Regulatory Bodies

- The People’s Bank of China (PBoC), which is under the leadership of the State Council, is the macro-control department that formulates and implements monetary policies, maintains financial stability, and provides financial services.
- The China Securities Regulatory Commission (CSRC) is the main regulator that supervises the securities and futures industry.
- The China Banking and Insurance Regulatory Commission (CBIRC) is responsible for the supervision of the banking and insurance industry.

B. Shareholder rights and governance in China

The rights of inquiry and proposals are inherent rights of shareholders of Chinese companies. In recent years, Chinese laws have been continuously improving the protection of investors’ rights and interests. The Securities Law of the People’s Republic of China regulates securities issuance and trading and protects the legitimate rights and interests of investors. On 28th December 2019, the 15th Meeting of the Standing Committee of the 13th National People’s Congress adopted amendments to the Securities Law, which became effective on 1st March 2020. The amendments put a great focus on investor protection and specify new mechanisms for securities-related fraud litigation including class action.

The Companies Law of the People’s Republic of China is formulated to standardise the organisation and behaviour of companies, and to protect the legitimate rights and interests of companies, shareholders, and creditors. The current version was amended and adopted on 26th October 2018. Article 97 of the Companies Law clearly defines the right of inquiry of shareholders and lays a legal foundation for investors to conduct stewardship practice in China.

In September 2018, CSRC issued an amended version of the China Code of Corporate Governance. The amendments set out a new special chapter on “Institutional Investors and Other Relevant Institutions” and encourage institutional investors to participate in corporate governance by exercising shareholder rights including voting and inquiring.

Furthermore, China is gradually strengthening the ESG information disclosure requirements for listed companies. The recently amended China Code of Corporate Governance requires listed companies to disclose information concerning the environment and corporate performance of social responsibilities, such as poverty alleviation, however, it does not provide detailed guidelines as to the format and materiality of the information disclosed.

The Listing Rules of Shares on the Science and Innovation Board issued by the Shanghai Stock Exchange in March 2019 states that listed companies should disclose certain information concerning social responsibilities in their annual reports and publish sustainable development reports as appropriate. In May 2021, the CSRC amended the standards for the formats of annual reports and semi-annual reports of listed companies, added a new chapter on “environmental and social responsibility”, encouraged companies to voluntarily disclose their efforts on carbon emission reduction, poverty alleviation and rural revitalization. However, there has been no requirements
China’s net zero goals, as laid down in its recently published Five Year Plan, are achievable but hinge on assertive sectoral and local climate leadership,” argues Hu Min, Co-Founder, Innovative Green Development Program and Executive President at Beijing Institute of Finance and Sustainability. It states that “...by 2035, energy and resource utilization efficiency in key industries and for key products is expected to reach an internationally-advanced level.” Hu adds that “with China’s industrial sector accounting for over 65% of the total carbon emissions in 2019, more aggressive decarbonization of this sector would help capture a large portion of China’s mitigation potential."

Additionally, action in the transport sector (such as the New-Energy Vehicles Development Roadmap) and commitments of non-fossil fuel shares of primary energy will be imperative to enable the 2060 goal. As a leading renewable energy technology producer and exporter, there are also various economic opportunities that China could reap while enabling the global race to net zero.

Still, many of the involved ambitions will need to be better defined, as the success or failure of emerging market transition will define the world’s ability to achieve net zero. Narrowing the gap between inspirational commitment and including ‘reality checks’ based on sensible actions and goals are required to achieve this transition. To achieve this, we suggest that global players and EM leaders, like China, should build a ‘transition roadmap’ to drive positive outcomes and to help ensure an orderly transition for their respective economies.

To consider the idiosyncratic circumstances of different industries, such a transition map should outline a clear roadmap and transparently communicate related challenges, progress, and solutions in at least three sectoral buckets:

A. Energy transition – i.e., fossil fuel, coal, and similar,
B. Transition sectors – i.e., building, chemicals, and others, and
C. Sustainable sectors – i.e., wind, solar, and similar.

Active engagement and voting needs to play an important role across all three buckets, driven by an approach that refers to local and global benchmarks of positive outcomes and driven by a constructive intention to create value for society, corporates, and investors.

Given one of the biggest challenges humanity, markets and the planet faces is climate change, we recommend prioritising those key sectors that are most exposed to environmental risks, while being mindful of social risks, the interaction of environmental and social externalities, and the important function of governance to enable both environmental and social capacity.

An analysis of S&P global ratings gives a view of the top 13 sectors globally by exposure to environmental and social risks. This analysis shows the importance of energy transition in particular (as defined in bucket A above) and outlines which other sectors (which we call ‘transition sectors” in bucket B above) are key to achieving the transition to net zero, namely:

- Chemicals
- Technology hardware and semiconductor
- Auto/transportation
- Agribusiness and commodity foods
- Building materials
- Consumer products
- Retail

Both SOEs and POEs will have to play their transition roles proactively to help drive the success of China’s net zero commitment. For example, the transition of SOE energy giants is especially critical as the top five power companies alone account for half of China’s power capacity and are therefore indispensable to reach these goals. According to Hu Min, while some of the large SOEs have committed to emission targets by 2025, others have only kicked off research to develop carbon neutrality plans. The “Action Plan Towards Carbon Neutrality” from State Grid, released on 1st March 2021 is a first of its kind from Chinese SOEs.

D. Markets enable ESG practice in China

As ESG investment philosophy becomes more and more important to the Chinese asset management industry, the number of local signatories to the Principles of Responsible Investment (PRI) is also growing rapidly. As of 31st July 2021, 67 domestic institutions have signed the PRI, including three asset owners (see Figure 6). This is an important signal from Chinese institutions to the global market that they are willing and able to participate in the conversation around ESG investment practice.

Figure 6. Number of Chinese PRI Signatories (as at end of July 2021)

Source: Principles of Responsible Investing, 2021
As global capital market integration continues, one of the drivers for practicing ESG investment in the Chinese market is the increasing proportion of foreign investors in the A-share market (see Figure 7). A-shares were officially included in MSCI Emerging Markets Index, FTSE Global Equity Index Series and S&P Dow Jones Indices in 2018 and 2019. In September 2019, however, China removed the QFII and RQFII quota limits to enable full access to equity markets by foreign institutional investors. At the same time, there are broadened channels to enter the Chinese market, including the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, and others. All of these are making it easier for foreign investors to enter the Chinese market. As of June 2021, the total market value of foreign investors shareholdings in China accounted for about 4.36% of the total market value of A-shares.

There are also many Chinese companies that choose to list in the Hong Kong or US markets, to raise funds globally. As of 31st August 2021, there were 272 H-share and 171 red chip stocks listed in Hong Kong. They had a total market capitalization of HKD11.64 trillion, accounting for 24.95% of the total market capitalization of the Hong Kong Stock Exchange. Many of the top Chinese companies from key ‘transition sectors’ (excluding financial institutions) have listings in both A-shares and H-shares, which means that both foreign and domestic investors will pay more attention to those companies when analysing their ESG related risks and return generation.

This category of Chinese companies represents an ideal target audience, for which active engagement can and should make a positive contribution towards improved investment returns and positive social and environmental impact. Already green and sustainable players should continue active engagement and help peers to grow their capacity and know how in the area. Through our interviews, it became clear that active engagement in ‘transition sectors’ is much harder than in those sectors where environmental and social benefits are clear. However, investors are also aware that these engagements are likely to be more meaningful, impactful, and rewarding over long run.

E. Six challenges for ESG practice in China

From our interviews with Chinese asset owners, asset managers, and other key stakeholders, we extrapolated six characteristics that define the current ESG practice in China, and that explain some of the challenges and idiosyncratic characteristics of sustainable investing in that market. These relate to:

1. Short-term growth vs. long-term value

According to our interviews, there is room for improvement in understanding long-term investing in China. Since the Chinese market is driven by traditional shareholder value maximization processes, short-term returns are often prioritised over long-term considerations. This suggests that there is a need for potential in capacity building and knowledge creation around system-level challenges and the long-term benefits of incorporating ESG risks and their use in stewardship and investment decision-making. The creation of better academic and market-based research on the Chinese capital market is imperative to support this development.

On the positive side, our interviews have also highlighted that the Chinese government’s public commitment towards net zero is perceived as creating a positive incentive for both companies and investors to adopt longer term thinking. If public guidance were to be given that focuses capital on the long-term, the impact on Chinese organisations would likely be large. Greater investor collaboration, both domestically and internationally, as well as robust leadership on the part of asset owners is imperative in this space. The inclusion of longer-term targets in investment mandates from asset owners to asset managers may help address the tension currently created by short-term objectives.
ii. Misperception of ESG investment

To understand the investment practices of Chinese practitioners, a survey of the CFA Institute asked how often Chinese portfolio managers and financial analysts are including material ESG issues in equity and credit analysis. Only 10% of the survey respondents indicated that they often or always include ESG issues in their analysis. It also appears that the use of ESG information to adjust valuation models is rare among portfolio managers and analysts, with only 9% of respondents indicating that they do so often or always. The survey also found that only 13% of equity and 17% of fixed income investors understand ESG integration as part of their fiduciary duty. Less than a quarter of all interviewees tells us. “Chinese companies are still not only a public service, but good for our investment strategy and ultimately our returns.” Education, training, and capacity building will be key to moving the perception of ESG away from a concessionary strategy to a strategy of long-term value.

These numbers highlight that there is a common misperception of ESG and sustainable investing amongst Chinese investors. ESG is therefore generally not seen as value accretive (financially or otherwise), but rather as a risk management and compliance exercise. One interviewee shared that, “traditionally, asset managers focus solely on internal control systems, and this is still the focus up to now” – external impacts are therefore an entirely new field to consider for the industry. However, this notion is changing, and we have been told by various large asset managers that they “truly believe that this ESG is not only a public service, but good for our investment strategy and ultimately our returns.”

Education, training, and capacity building will be key to moving the perception of ESG away from a concessionary strategy to a strategy of long-term value.

iii. Newness of active engagement practice

Engagement in China is new, passive and often isolated within a single department since there is no tradition for this practice and no natural home for it within organisations. Because China’s asset management industry is still relatively young, when looking at the ESG space there are resources missing on both the company and investor side.

This is a true inhibitor of effective engagement, as “companies in China prefer to talk to people they already know. They also prefer to talk in Chinese.” Building collaboration and capacity to address these shortcomings can therefore be an important enabler of stewardship practice. In addition, the use of existing global frameworks and their translation into the local context can also be promising. “Western companies are more standardised according to global standards,” one of our interviewees tells us. “Chinese companies are still learning those global rules and therefore if you talk to them about standards that are obvious for Western companies, these are often new to Chinese companies.” Education around the existing standards and their relevance for the Chinese market is therefore important.

iv. SOEs vs POEs

Due to the particular structure of the capital market, strategies around stewardship and engagement need to be more refined for the different types and idiosyncratic characteristics of Chinese companies. The most important difference for transition pathways and the impact that investors can have being the one between privately-owned and state-owned enterprises. In our interviews, we were repeatedly told that “Chinese SOEs have their own principles and their own way to interact with investors”, which may not always follow the same logic as that of public companies. To engage in meaningful conversations here, the collaboration between investors could be a useful tool to approach SOEs to bundle the voices of institutional investors. Although success from groups such as CA100+ has been limited.

POEs, particularly those owned by foreign groups, definitely have more interest in attracting more international capital”, to lower the cost of capital and boost market equity. These are likely the “low-hanging fruit” that ESG interested investors could start engaging with in order to learn more about existing transition plans in the industry. According to our interviews, cost of capital and market equity are less commonly used incentives in the engagement with SOEs, as “there are [often] decisions that are made at a different level than management.”

v. Limited access leads to potential transparency concerns

Due to limited capacity at the management and board level, as well as patchy reporting on ESG, it is often difficult for investors to estimate and evaluate the sustainability performance of a firm and to estimate the effectiveness of their engagement and stewardship activities. One interviewee said “One of our biggest challenges are limited data and so we have to engage with companies in order to understand what is going on at the corporate level. This is why engagement and stewardship has been part of our strategy from the get-go.”

In order to commence meaningful engagement, access to management and board levels is key, yet often difficult to obtain. Local asset managers can leverage and benefit from existing relationships to start their conversations around ESG. A large asset manager, for example, told us that “our benefit was that we were a local Chinese institution and that we already had existing relationships. And we leveraged that relationship by starting a very small conversation about MSCI ratings and how this reflects the international market. This attracted the interest of the Head of ESG in the group, then who agreed to talk to people involved with climate action, and in 2019 we finally had a personal meeting and were able to build a formal relationship with the company around carbon emissions.” In general, our interviewees pointed out that the length and strength of standing relationships, the size of holdings, and the ability to hold the engagement in Chinese language are three key factors essential to building effective engagement with Chinese companies.

vi. Finding the appropriate top-down and bottom-up mix

The Chinese market will likely benefit from a mix of top-down and bottom-up initiatives where both policy makers and organisations engage in activities to further ESG capacities and achieve the transition to net zero. Some interviewees suggest that bottom-up activities need to be guided by institutions such as the CSRC, but that existing guidance is mostly focussed on companies (not investors) and largely voluntary. Particularly the social consensus about “what good corporate governance looks like” will likely need to be guided from the institutional sphere. Interviewees were in agreement that bottom-up activities, such as investor collaboration, needed to be guided by the top-down requirements of the Chinese regulator through, for example, a Chinese Corporate Governance Code and a domestic Stewardship Code.

The Potential of Stewardship for China

So far, this report has outlined the concept of stewardship and active engagement, and how they are creating value in the global capital markets. We have further shown that the Chinese context is unique and that sustainable investing in China, while incredibly important to achieve the race to net zero, will have to rely on a local and tailored understanding of stewardship. Extrapolated from our interviews and conversations with global and local investors, key stakeholders and experts, the following section discusses three areas in which stewardship could create value for the Chinese capital markets: the system level, the market level, and the organisational level. We outline these areas as food for thought from our conversations and to further discussion of how the capital markets and their participants can be a force for good in support of the Chinese path to net zero.

A. Value at the system level

The system level is key for any capital market to set benchmarks, incentives and to define the rules of the game. In China, this is particularly true as regulatory frameworks are seen as a major source of incentivisation and guidance – much more so than in other markets. Regarding the stimulation of a Chinese stewardship practice, in support of the Chinese net zero ambition, there are two major pieces of legislation which could help share the conversation around good and sustainable corporate practice from an Asian perspective: A Chinese Corporate Governance Code and a Chinese Stewardship Code. The following will shortly expand on the value of each of these.

According to the International Finance Corporation (IFC), Corporate Governance Codes can “encourage private sector commitment to good corporate governance and aspirations towards higher standards. They can provide guidance for financial and non-financial disclosure, stakeholder relations and foster better engagement with minority shareholders. They can also help clarify the roles of managers and directors”.

Currently, there are 140 national Corporate Governance Codes in place, with several regional (e.g., EU, OECD) and international (e.g., ICGN) recommendations on best practice as complements. While in most cases these codes are applied through “comply-or-explain” principles, where companies can apply the code flexibly and explain their decision if they don’t, alternative models are increasingly common. In South Africa and some other countries, for example, the Corporate Governance Code is implemented through an “apply-and-explain” approach – meaning companies must apply the code, and in addition explain and report on how they do so.

In China, the Code of Corporate Governance of Listed Companies, issued by the Securities Regulatory Committee of the PRC (CSRC) in 2018, is the main corporate governance guidance applicable to listed companies. The new Code has emphasised green development and innovation, as well as a basic framework for ESG information disclosure. It has also strengthened the restrictions on controlling shareholders to protect small investors and encourages institutional investors to participate in corporate governance in compliance with laws and regulations.

While the new code encourages the management and reporting of corporate sustainability, even clearer guidelines and regulation on concrete non-financial disclosure frameworks, shareholder engagement activities and the roles of board directors could be key enablers of sustainable corporate practice in China. As we have seen previously, clarity around the accountability in the investment chain, access to key decision-makers and clear reporting objectives are all key enablers of successful active engagement.

Stewardship codes, on the other hand, are a relatively recent phenomenon, which have been created to provide guidance to institutional investors on how best to fulfil their fiduciary duties, act as stewards of their capital and create long-term, sustainable value for their beneficiaries. The first Stewardship Code was created in 2010 in the United Kingdom and since then regulators and industry bodies across the world have followed the trend.

According to the CFA Institute, “Stewardship Codes take the form of several best practice principles accompanied by descriptions of how to comply with each principle. Some principles, like the following, are present in nearly all stewardship codes:

- Having a policy to manage conflicts of interests
- Disclosing voting policies and voting actions taken
- Establishing and disclosing a stewardship policy
- Monitoring and engaging with investee companies
- Reporting to clients and beneficiaries on stewardship responsibilities.

The effectiveness of stewardship is however subject to tremendous differences in cultural norms, and the creation of national codes is therefore of utmost importance. In China, for example, a code would have to put higher importance on collectivism, social norms, rules of hierarchy and the existing regulatory guidance than it would in other markets. A Chinese Stewardship Code would likely also have to refer to the difference between SOEs and privately listed companies, as well as the differences between local and global organisations.

In our interviews the most repeated argument for a Chinese Stewardship Code from the investor side was the notion that it would give investors the agency and the public blessing to engage with companies on topics of ESG concern. It would also define what best practice in China is supposed to look like and enable clear pathways to capacity building and education in order to achieve the highest level of excellence in Chinese stewardship practice.

The key value of this code lies therefore in catalysing best practice at the market and organisational level, enabling more sustainable and long-term value creation through:

- "IC, Aug 2021, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/topics+codes+and+scorecards".
- ICGN, 2019, www.icgn.org/china/chinese-
- "CFA Institute, 2020, STEWARDSHIP 2.0: Awareness, Effectiveness, and Progression of Stewardship Codes in Asia Pacific, https://www.cfainstitute.org/-/media/documents/article/position-paper/stewardship.ashx".
Already in 2016 Larry Fink, the CEO of the world's largest investment management firm BlackRock, specified in one of his annual letters to shareholders that the investor is now "asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed these plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review." In all his annual letters since, he has doubled down on this argument, specifying in 2021: "issues that are pivotal to creating durable value (are) issues such as capital management, long-term strategy, purpose, and climate change, (...) creating enduring, sustainable value for all of our stakeholders."1

In addition to this, large pension funds across the globe are increasingly pushing their asset managers to include long-term considerations. An open letter from March 2020 by the then-leaders of three of the world's largest pension funds - the California State Teachers' Retirement System (CalSTRS), the Japanese Government Pension Investment Fund (GPIF), and the largest UK pension fund, the Universities Superannuation Scheme (USS) - states: "if we were to focus purely on the short-term returns, we would be ignoring potentially catastrophic systemic risks to our portfolio", underlining how "asset managers that only focus on short-term, explicitly financial measures, and ignore longer-term sustainability-related risks and opportunities are not attractive partners for us".2

Taken together, these are powerful signals how large, global investors not only increasingly care about ESG, but how it has become an essential element of capital allocation for them. If China were to position itself as a leader in the sustainable investing space, it stands to reason that it would become more attractive for foreign investors with a strong interest in ESG and sustainable investing.

C. Value at the organisational level

At the organisational level, stewardship can create a number of positive opportunities for both companies and investors, internally as well as externally.

B. Value at the market level

With clear guidance provided by a Chinese Corporate Governance and Stewardship Code, defined best practice will enable the creation of robust sustainable investment markets in China, and in turn potentially attract more foreign investors.

i. Robust markets for ESG

One of the biggest challenges of sustainable investing and stewardship remains the robustness and comparability of measurement needed to make a clear assessment of ESG performance, both at a corporate and at a portfolio level. The creation of public benchmarks (for example through emissions reduction targets) and increased reporting and transparency around environmental and social performance and long-term value creation (for example through a Corporate Governance and Stewardship code) would be likely to help create a more robust practice of sustainable investing in China.

In addition, ESG is a generational topic. In many markets the interest in long-term, sustainable investing and impact investing is driven by younger generations and the same will likely also be true for China. Robust markets however also rely on the creation of expertise in sustainable development, non-financial measurement and accounting, and sustainable finance. With a strong public signal towards the creation of a sustainable investing market, the development of educational programmes to address these necessities would be strongly supported.

ii. Attract foreign investors

The leaders of the world's largest institutional investors now call for active engagement and stewardship. Already in 2016 Larry Fink, the CEO of the world's largest investor BlackRock, specified in one of his annual letters that the investor is now "asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review." In all his annual letters since, he has doubled down on this argument, specifying in 2021: "issues that are pivotal to creating durable value (are) issues such as capital management, long-term strategy, purpose, and climate change, (...) creating enduring, sustainable value for all of our stakeholders."1

In addition to this, large pension funds across the globe are increasingly pushing their asset managers to include long-term considerations. An open letter from March 2020 by the then-leaders of three of the world's largest pension funds - the California State Teachers' Retirement System (CalSTRS), the Japanese Government Pension Investment Fund (GPIF), and the largest UK pension fund, the Universities Superannuation Scheme (USS) - states: "if we were to focus purely on the short-term returns, we would be ignoring potentially catastrophic systemic risks to our portfolio", underlining how "asset managers that only focus on short-term, explicitly financial measures, and ignore longer-term sustainability-related risks and opportunities are not attractive partners for us".2

Taken together, these are powerful signals how large, global investors not only increasingly care about ESG, but how it has become an essential element of capital allocation for them. If China were to position itself as a leader in the sustainable investing space, it stands to reason that it would become more attractive for foreign investors with a strong interest in ESG and sustainable investing.

C. Value at the organisational level

At the organisational level, stewardship can create a number of positive opportunities for both companies and investors, internally as well as externally.

i. Create Chinese ESG investment leaders

Our previous research on engagement has shown that, if done well, engagement and stewardship activities can create tremendous value for investors. While empirical studies find that engagement can increase the ESG rating and financial value of a firm,3 our interviews have also shown that engagements can create valuable relationships between companies and investors which can have a long-term impact on trust and communication.

Investors positively evaluate these relationships because they facilitate best-practice sharing between the entities, open communication about creative solutions and learnings and increase the depth of conversations at a strategic level, beyond the focus on a discrete and finite number of targets.

To reap the benefits of stewardship, institutional investors need to have a good understanding of their sustainable finance objectives, who is responsible for them at the governance and leadership level, how it links to their investment policy, and how it relates to their other advocacy and collaboration activities. For this, investors should have a clearly articulated sustainable investing and stewardship policy. In particular, clear proxy voting guidelines are important to facilitate voting activities in the Chinese capital markets. Whereas voting is less commonly used in China than it is in other markets, a voting policy can help to underline why a given investor may vote against an investee. This can avoid voting being seen as less adversarial and more compliance driven and, eventually, perhaps even as a source of both financial and non-financial returns. Other important prerequisites at the investor level are the management of resources, the prioritization of consistent investment with the sustainable investment policy and the building of internal capacity, knowledge and expertise on how to leverage relationships effectively.

A robust level of market activity for stewardship is often seen as the result of a rising tide in the asset management industry: no one investor can make a difference through engagement and voting, but rather, stewardship has to become an integral part of the investment market in China.

B. Value at the market level

With clear guidance provided by a Chinese Corporate Governance and Stewardship Code, defined best practice will enable the creation of robust sustainable investment markets in China, and in turn potentially attract more foreign investors.

i. Robust markets for ESG

One of the biggest challenges of sustainable investing and stewardship remains the robustness and comparability of measurement needed to make a clear assessment of ESG performance, both at a corporate and at a portfolio level. The creation of public benchmarks (for example through emissions reduction targets) and increased reporting and transparency around environmental and social performance and long-term value creation (for example through a Corporate Governance and Stewardship code) would be likely to help create a more robust practice of sustainable investing in China.

In addition, ESG is a generational topic. In many markets the interest in long-term, sustainable investing and impact investing is driven by younger generations and the same will likely also be true for China. Robust markets however also rely on the creation of expertise in sustainable development, non-financial measurement and accounting, and sustainable finance. With a strong public signal towards the creation of a sustainable investing market, the development of educational programmes to address these necessities would be strongly supported.

ii. Attract foreign investors

The leaders of the world's largest institutional investors now call for active engagement and stewardship. Already in 2016 Larry Fink, the CEO of the world's largest

4Black, et al. 2021, others.
Acknowledgement:

We are grateful to the following organisations for their contributions to this work (in alphabetical order):

Aberdeen Standard Investment
APG
Aviva Investors
Blackrock
Bosera
China Construction Bank Wealth Management
China AMC
E Fund
Environment Agency Pension Fund
GAM
Generation Investment
Harvest Fund Management
Federated Hermes
HSBC Asset Management
Hwabao WP Fund Management
Insight Investment (BNY Mellon)
Legal and General Investment Management
Ontario Teacher’s Pension Fund (OTTP)
Ping An Insurance
Universities Superannuation Scheme (USS)
Yin Hua Fund

We are grateful to the following individuals for their involvement and contribution to this work (in alphabetical order):

Dr. Christine Chow, Head of Stewardship, HSBC Asset Management
Dr. Dequan Wang, Founder & CEO, Governance Solutions Group
Helen Huang, CEO, Hwabao WP Fund Management (Co-chair of ESG Leaders Forum, China)
Dr. Judith C. Stroehle, Senior Research Fellow, Lead Oxford Rethinking Performance Initiative, Said Business School, University of Oxford
Professor Robert Eccles, Visiting Professor of Management Practice, Said Business School, University of Oxford (Project Lead)
Rongrong Huo, Executive Director, Ninety One (Co-chair of ESG Leaders Forum, UK)

In memory of Sir Roger Gifford (Co-chair of UK-China Green Finance Taskforce 2017-2021), we thank Sir Roger for his generous guidance and support for this initiative throughout the years.

Disclaimer:

This report is intended as a basis for discussion only. Whilst every effort has been made to ensure the accuracy and completeness of the material in this report, the City of London Corporation gives no warranty in that regard and accepts no liability for any loss or damage incurred through the use of, or reliance upon, this report or the information contained herein.

© City of London Corporation PO Box 270, Guildhall London EX2P 2EJ.

Report designed by: Landellion
About The City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

• Contribute to a flourishing society
• Support a thriving economy
• Shape outstanding environments.

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

www.cityoflondon.gov.uk