Putting resources where stewardship ambitions are

Structured measurement to empower asset owner-asset manager conversations

Thinking Ahead Institute thought leadership, commissioned by PRI
Thinking Ahead Institute
Putting resources where stewardship ambitions are
Stewardship resourcing in focus: structured measurement to empower conversations

Contents
Forewords ................................................................................................................ 03
Acknowledgement ............................................................................................... 05
Executive summary .............................................................................................. 07
Introduction: stewardship is under-resourced ................................................ 08
1. More measurement – a structured approach ................................................. 10
2. Stewardship resources need to double at industry level ............................ 16
3. The Stewardship Resources Assessment Framework ............................... 23
Conclusions and calls to action ........................................................................ 31
Foreword from the Thinking Ahead Institute

Embracing systems thinking and a structured measurement approach

Stewardship has always played a crucial role in the investment industry. There are countless instances of these activities raising returns and reducing risks. And now, as we approach the next quarter century, we see a new era of the investment industry in which thinking shifts to acknowledging stewardship not merely as a necessary function but as a system-level and value-adding feature.

The focus on stewardship through a holistic lens that reflects the inter-connected features of the investment ecosystem is increasingly seen as pivotal in safeguarding and augmenting the long-term value of assets. As this understanding gains momentum, concerns regarding whether the investment industry has adequate stewardship resourcing are on the rise.

The stewardship resourcing gap isn’t solely about the quantity of resources allocated to stewardship activities, it is also evident in skills, along with challenges in reporting, data, collaboration, and culture. These are all the soft infrastructure intangibles that need to be in place first to get everything done.

Additionally, one further essential lies in the incentives to resource properly to get things done. Peter Drucker’s timeless advice – ‘what gets measured gets managed’ – falls flat. We currently lack the measures of costs needed to unpack the resourcing model for stewardship and the proper incentives don’t line up as a result. Importantly, while better resourcing does not assure better outcomes, its absence invariably undermines it.

In this report, Putting resources where stewardship ambitions are, alongside presenting our key findings, we also present a new tool for our industry to measure organisations’ stewardship resources, which was developed based on our learning from the Global Stewardship Resourcing Survey. We also call for actions from individual organisations and the industry as a whole, emphasising that stewardship resourcing is a multifaceted issue that demands input from various stakeholders across the industry.

Beyond the under-resourcing – the ‘who’; we have the ‘what’ – what the resourcing does. The big issues are about whether all the effort is in the right places, have we the right strategies, are we getting the execution right. In encouraging change, it is important to understand the frictions in the system and apply a theory of change to offset them, helping the industry with a clearer transition pathway by adding quality data, better incentives and smarter practice.

Roger Urwin
Co-founder of the Thinking Ahead Institute and Global Head of Investment Content, WTW

Marisa Hall
Head of the Thinking Ahead Institute
Foreword from the Principles for Responsible Investment

Taking a measured approach to long-term value creation

The investment industry increasingly recognises the unique role that stewardship can play in protecting and enhancing long-term value for clients and beneficiaries. Whether investors place their focus on incorporating ESG factors, addressing the drivers of sustainability-related financial risks and/or on pursuing positive impact, they can use stewardship to deliver on their duties, objectives and commitments. It is therefore no coincidence that active ownership is one of the six founding Principles for Responsible Investment.

Stewardship must be accompanied by ambitious regulation and policymaking, but it remains one of the most valuable tools that investors have at their disposal to address not only investee level risks, but also looming systemic risks. As this realisation emerges, so does a widely shared concern that stewardship activities are under-resourced, leaving the industry insufficiently equipped to deal with urgent threats such as climate change, biodiversity loss or rising inequality.

At a time when investors need to dedicate more resources to investee stewardship, collaboration and policy engagement, this report offers a best effort approach to assessing current industry stewardship resourcing practices. Further, it proposes that stewardship resources need to double across the industry.

Of course, more resources do not guarantee better results, but adequate resourcing is a prerequisite for a successful stewardship strategy. In other words, quality stewardship requires a certain quantity of resources, commensurate with ambition. This report points to a need for more measurement of stewardship resources and proposes a framework to help investors assess and benchmark themselves.

Investor approaches to stewardship are as diverse as the clients and beneficiaries whose interests they ultimately serve as fiduciaries. This report does not propose a one-size-fits-all model, nor does it dictate specific stewardship resourcing levels or allocations for individual organisations. Rather, it encourages informed discussions by empowering every investor to scrutinise their own resource levels - and those of their managers - against their stated stewardship objectives.

In this report, the Thinking Ahead Institute offers new data points to the industry, and with them, an invaluable roadmap for improved stewardship resourcing measurement and practices. I look forward to seeing how investors and other industry stakeholders put it into action.

David Atkin
CEO, Principles for Responsible Investment
About this report

This report aims to promote industry discussions on stewardship resourcing issues and how to address them.

This report was commissioned as part of the PRI's Active Ownership 2.0 programme, which sets out a framework for the more ambitious stewardship needed to deliver against beneficiaries' interests and improve the sustainability and resilience of the financial system.

The Thinking Ahead Institute and the PRI hope this report will catalyse positive behavioural change in our industry and support an increase in stewardship resources commensurate with rising systemic risks and aligning with fiduciary duty to clients and beneficiaries.

Acknowledgements

Authors: Roger Urwin, Jessica Gao and Anastassia Johnson
While the views and opinions expressed in this report are those of the report authors, we would like to thank the following people for their comments and contributions to this project:

PRI contributors:
- Clara Melot
- Josephine Notaros

The Thinking Ahead Institute and the PRI would like to thank all the internal and external contributors who contributed time, input and data towards the publication of this report.

About the Stewardship Resourcing Technical Working Group
The Stewardship Resourcing Technical Working Group was created to understand existing stewardship resourcing practices and inform project activities. The working group was jointly facilitated by the PRI and TAI, with the PRI as its Chair and TAI as Lead consultant and Co-chair.

- Aldo Bonati, Etica SGR
- Amanda Jessop, BBC Pension Trust Limited
- Ariel Babcock, Fidelity Investments
- Beth Piskorowski, Wellington Management Company
- Franziska Jahn-Madell, MFS Investment Management
- Hanna Roberts, Sustainalytics
- Hans-Christoph Hirt, UBS Asset Management
- James Corah, CCLA
- Jessica Clavette, Equistone Partners Europe
- Kim Farrant, HESTA
- Leanne Clements, People’s Partnership
- Leila Joseph, Coronation Fund Managers
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- Zanele Mtshali, MSCI

This report does not necessarily reflect the opinions of the individual members of the Technical Working Group. Please note that working group members act in a personal capacity. The names of the institutions that they ordinarily represent are given for information purposes only.

The Technical Working Group’s terms of reference are available on the PRI’s website. Please note that working group members act in a personal capacity. The names of the institutions that they ordinarily represent are given for information purposes only.
Disclaimer

The contents of this report are based on insights from the PRI/TAI Stewardship Resourcing Technical Working Group members, data and learnings from the Global Stewardship Resourcing Survey, input from the PRI and research conducted by the Thinking Ahead Institute.

There are many challenges with stewardship resources data and measurement, such as limited availability, inconsistency, and absence of standardised reporting frameworks. While efforts have been made to ensure the accuracy and reliability of the information presented, we encountered a particular challenge due to the limited availability of ‘hard’ data in the field of stewardship resources. We have worked with ‘soft’ data, in preference to no data, and have qualified that data as ballpark estimates.

While stewardship resourcing must be approached both from a quantity and a quality perspective, measuring the effectiveness or impact of stewardship efforts on investment outcomes involves multifaceted variables and is challenging to quantify objectively. The stewardship resourcing project focuses on the level of resources and does not extend to measuring the effectiveness or impact of stewardship activities.

How we define stewardship resources
For this project, we use PRI’s definition of stewardship: the use of influence by investors to protect and enhance overall long-term value, including the value of common economic, social and environmental assets, on which returns and client and beneficiary interests depend.

While often highly valuable to ESG incorporation, not all interactions between investors and their investees are classified as engagement or stewardship. Interactions that are not seeking change or an improvement in public disclosure are not engagement.

The recommended list of activities we propose should and should not be included when evaluating stewardship resources at the organisational level is provided in the Stewardship Resources Assessment Framework document.

Clara Melot: Why we need to talk about resourcing stewardship
Executive summary

Inadequate resources pose a critical challenge to advancing stewardship within the investment industry. The key objectives of the stewardship resourcing report are to provide an insight into the current level of stewardship resources within our industry, and to promote a structured measurement approach that could support better, more deliberate stewardship resourcing practices.

More measurement: Trialling a structured approach with the Global Stewardship Resourcing Survey

This report advocates using a structured approach to measure stewardship resources. This measurement model was tested in the Stewardship Resourcing Technical Working Group and via the Global Stewardship Resourcing Survey which collected answers from 69 organisations managing $16 trillion in AUM in total. This report includes our key findings and learnings from this survey.

More resources: Stewardship resources need to be twice-as-large as the current industry level

The Global Stewardship Resourcing Survey showed that respondents allocate approximately 7% of their total investment resources to stewardship. TAI estimates that the industry average is likely to be around or lower than 5%. This is a TAI estimation based on available data and our industry experience. The current level of stewardship resources in the investment industry is inadequate and not fit-for-purpose. TAI suggests that the industry needs to double stewardship resources over time to meet the increased demands and needs. Realistically, this transition would be multi-year.

The Stewardship Resources Assessment Framework

Building upon these learnings, we developed a Stewardship Resources Assessment Framework as a new industry tool. It is designed to serve the industry by:

- empowering asset owners to understand resourcing practices and have productive conversations with asset managers
- demonstrating to asset managers that resource levels are being monitored
- providing a reference point for requests to grow stewardship resources and
- operating as a tool for organisations to self-assess their resource levels.

Our industry can only address the issue of insufficient resources if resources are measured, and a measurement approach focusing on full time equivalents (FTEs) would allow for industry wide useability and comparability. This report aims to provide guidance to asset owners and asset managers so that they can develop a stewardship resourcing measurement process and evolve their stewardship strategy. Additionally, it seeks to facilitate deeper engagement between asset owners and asset managers regarding stewardship goals, activities, and outcomes.

We call for the industry to embrace a structured measurement approach when examining organisations’ stewardship resource levels. We firmly believe that adequate stewardship resources form the bedrock for effective asset and risk management, in line with investors’ fiduciary duty.
Inadequate resources pose a critical challenge to advancing stewardship within the investment industry. This challenge hinders efforts to deliver on improving the risk profile and value of assets over time, including reducing the likelihood of future systemic financial risks from occurring. We will not be able to achieve the current levels of sustainability ambition without the necessary resources in this area. The resourcing gap will grow if the upward trajectory of sustainability ambition is maintained.

The stewardship paradox: a looming challenge for the investment industry

Most investors are exposed to the financial risks (and opportunities) associated with undiversifiable, system-level sustainability issues such as climate change, biodiversity loss or social inequality. While stewardship alone cannot be expected to address looming systemic risks, with policy and regulatory change being essential in this regard, investor stewardship is one of the most important activities that investors can carry out. It helps to address the drivers of these systemic risks, mitigate them, and secure better long-term value as a result.

In the face of systemic risk, the investment industry is grappling with legacy and incentive issues. This struggle is particularly evident in stewardship, where a notable paradox confronts the industry: considerable resources are allocated to activities such as asset allocation, where there are relative winners and losers. However, smaller wins at investee or benchmark level (“alpha”) may fade in comparison to impacts at portfolio or system level (“beta”). The result is a net drag on savers’ long term returns at the total industry level: asset allocation is a ‘negative sum game’.

In contrast, we view stewardship as a ‘positive sum game’ where the aggregate results of industry participants’ activities do not cancel each other out. They can create net benefits to overall market returns by improving the risk characteristics of particular investments or, more widely, by mitigating systemic risks (for example, those associated with climate change).

The issue of inadequate resourcing is compounded by an inconsistency in business model, whereby investors focus on generating alpha instead of preserving beta. Resources are predominantly allocated to issuer-level stewardship, however there is an urgent need for system-level stewardship to address the performance of the entire market.

There is a growing interest in stewardship especially in the EU, driven by regulation. There is a stronger appetite for stewardship in recent years, which has resourcing implications.

Hannah Roberts, Sustainalytics
The lack of disclosure requirements

One of the reasons for the inadequacy of stewardship resources is the absence of guidance for measuring or reporting them. This in turn makes it challenging to monitor progress, identify best practices, and hold organisations to account for their stewardship commitments.

We examined a number of stewardship codes and related regulatory requirements across different regions, revealing minimal or no references to the allocation of and reporting on stewardship resources. The ICGN Global Stewardship Principles states that “Investors should have appropriate capacity and experience to effectively oversee and manage their stewardship obligations” and the Swiss Stewardship Code requires “Investors should make sure that the internal workforce has appropriate experience, expertise and qualifications as well as receiving appropriate training to implement and execute stewardship activities and the obligations arising therefrom”.

Article 2 of the UK stewardship code mentions stewardship resources, inviting signatories to explain how “they have appropriately resourced stewardship activities”. However, neither of these regulatory requirements prescribe specific disclosure formats. Consequently, publicly available stewardship reports seldom provide useful and comparable insights into the resources allocated to stewardship activities.

Inadequacy of stewardship resources

There is a strong consensus among audiences surveyed supporting the belief that the current level of stewardship resources is inadequate in our industry. In addition to interviews with industry stakeholders, we polled investor audiences at various WTW and TAI events, and results showed that over 64% of attendees agreed with this opinion (chart 1).

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1 We reviewed several stewardship codes and related regulatory requirements, including:
- ICGN Global Stewardship Principles
- EFAMA Stewardship Code
- The UK stewardship code (2020 update)
- Australian Asset Owner Stewardship Code
- US Stewardship Framework for Institutional Investors
- Swiss Stewardship Code

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Chart 1: The resourcing gap – opinions from industry practitioners

“The quantum of resources (full-time specialists, part-time portfolio managers, etc) applied to stewardship in the investment industry is adequate/fit-for-purpose”

Source: WTW 2023 London & NY MiX events, TAI 2023 breakfast briefing events in Australia, n=240
1. More measurement – a structured approach
Starting from the principle that ‘what gets measured gets managed’ and considering the challenges in quantifying stewardship resource data accurately, part of the early work of the Stewardship Resourcing Technical Working Group (from here onwards, “Working Group”) was to establish a model for measuring stewardship resources.

**A foundational model on measuring stewardship resources (chart 2)**

This model served as the foundation for the questions in the Global Stewardship Resourcing Survey aimed to gain a better understanding of current stewardship practices, resource allocation, and key stewardship costs.

The model was developed with a focus on collecting data across six areas. Both cost-based and Full-Time Equivalent (FTE)-based questions were tested in the Global Stewardship Resourcing Survey to gather as much data as possible.

The Stewardship Resources Assessment Framework, which places greater emphasis on FTE figures, builds on this initial model and survey learnings (please see section 3).

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**Chart 2: The model for measuring stewardship resources**

<table>
<thead>
<tr>
<th>a</th>
<th>Costs of stewardship specialists (or FTE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>b</td>
<td>Costs of other investment professionals conducting stewardship activities (or FTE) +</td>
</tr>
<tr>
<td>c</td>
<td>AO only: costs of delegation of stewardship activities to AMs +</td>
</tr>
<tr>
<td>d</td>
<td>Costs of specialist 3rd party providers of stewardship services +</td>
</tr>
<tr>
<td>e</td>
<td>Costs of reporting and client services for communicating stewardship activities (or FTE) =</td>
</tr>
<tr>
<td>f</td>
<td>Estimated stewardship-related resources as a percentage of investment management spend</td>
</tr>
</tbody>
</table>

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“_________________________

Our resources are limited, so it is important that we use resources in the most efficient way and where we get the most impact. It would always be good to have more resources, but the shape of resources is equally important.

_________________________

Neville Chester, Coronation Fund Managers

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Section 1.
More measurement – a structured approach
The Global Stewardship Resourcing Survey

The survey consisted of 10 questions (20+ data points) aimed to assess stewardship resources. Some of the questions in this survey were difficult to answer with precision, but the aim was to gather ballpark estimates. The data collected provided valuable insights into the current stewardship resourcing landscape within the investment industry.

The survey was conducted between July and September 2023. For detailed findings from the survey, please refer to the PRI/TAI Global Stewardship Resourcing Survey Data Report (2023)

<table>
<thead>
<tr>
<th>Participation statistics</th>
<th>Operating region</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset size</strong></td>
<td><strong>Operating region</strong></td>
</tr>
<tr>
<td>$0-0.9</td>
<td>Asia and Oceania</td>
</tr>
<tr>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>$1-9bn</td>
<td>Europe including the UK</td>
</tr>
<tr>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>$10-49bn</td>
<td>North America</td>
</tr>
<tr>
<td>32%</td>
<td>23%</td>
</tr>
<tr>
<td>$50-249bn</td>
<td>Africa</td>
</tr>
<tr>
<td>20%</td>
<td>52%</td>
</tr>
<tr>
<td>$250bn+</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total AUM</th>
<th>Average AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>16trn</td>
<td>236bn</td>
</tr>
</tbody>
</table>

Asset managers: 49
Asset owners: 20
Key findings from the Global Stewardship Resourcing Survey

<table>
<thead>
<tr>
<th></th>
<th>Asset managers</th>
<th>Asset owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Average stewardship ambition for our sample (0-6 scale, 3 is the median point)</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>2) Stewardship resources over total investment resources</td>
<td>7%(^a)</td>
<td>7%(^b)</td>
</tr>
<tr>
<td>3) Percentages of total stewardship resources used for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>Voting</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Stewardship reporting</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>ESG data/metrics</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Others(^c)</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>4) Percentages of total stewardship resources allocated to collaborative activities(^d)</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>5) Proportion of organisations where seniority of the stewardship team is in line with, or senior to, the general investment team</td>
<td>80%</td>
<td></td>
</tr>
</tbody>
</table>

Understanding the key findings:

1. The ambition scale was created to provide insight into how the organisations’ self-assessed stewardship ambition might relate to its level of resources (full details are on page 28). We chose 3 as the median point on our scale. This represents organisations that have a portfolio holding stewardship focus. Here, a material part of the value proposition is stewardship of individual issuers within portfolios with the aim to produce improvements in the sustainability profile of assets held over time. Ambition levels higher than 3 indicate increasing emphasis on wider system stewardship. The data showed that the average self-assessed stewardship ambition level was 4.5 for asset managers and 3.9 for asset owners among survey participants.

2. The average level of stewardship resources as a percentage of total investment resources was 7% for both asset owner and asset manager participants in the survey. However, note that the % figure for asset owners only covers internal stewardship resources (which relative to their size compared to that of asset managers, represents a bigger portion of total resources). It was not possible to isolate, itemise and therefore quantify what portion of resources allocated to manager activities were specifically dedicated to stewardship. Given that participants in the survey were largely a self-selecting group of diversified investors, we suspect that the results for stewardship ambition level and resources are higher than the typical industry level for both asset managers and asset owners. TAI estimates that the industry average is likely to be around or lower than 5% (for further details, refer to page 21).

3. Engagement occupies the biggest portion of the stewardship activities. However, a sizable portion of resources is allocated to ESG metrics and stewardship reporting activities combined, potentially highlighting an opportunity for greater industry efficiencies in these areas.

4. Resources allocated to collaborative activities represent only a moderate proportion of the total stewardship resources, with the majority being used for individual efforts. This highlights an area in which our industry might improve.

5. Among survey participants, 64% stated that their stewardship team holds a similar level of seniority compared to the general investment team, while 16% indicated a more senior team. Seniority in stewardship is not an obvious issue at most participating organisations.

\(^a\) Stewardship cost as a percentage of total frontline and mid-office investment costs, represented by the median figure.

\(^b\) Stewardship cost (internal only) as a percentage of total internal frontline and mid-office investment costs (excluding external asset manager fees), represented by the median figure.

\(^c\) The “other” category, submitted by participants, included training, related research, client communications and regulatory related issues.

\(^d\) Average resources allocated to collaborative activities as a percentage of total stewardship activities.
Practical learnings from the survey experience

Through the survey, we learned which types of questions yielded more informative responses and which questions were often left unanswered.

<table>
<thead>
<tr>
<th>What worked well in the survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Clear definitions helped communicate the intended meaning and improved accuracy of responses.</td>
</tr>
<tr>
<td>2. The survey allowed respondents to provide either cost-based or FTE-based data. The FTE-based measurement was more consistent across organisations, while some data (e.g., external spend) can only be cost-based.</td>
</tr>
<tr>
<td>3. The question on the seniority level of stewardship-related staff, while arguably unsophisticated, had a high response rate. It allowed approximate seniority adjustment to the level of resources according to the organisation's overall seniority level which can provide useful insight about an organisation's stewardship strategy.</td>
</tr>
<tr>
<td>4. A simple question on the respondents' ambition level offered valuable additional context to comprehend the influence of an organisation's stewardship/sustainability beliefs on its desired level of stewardship resources.</td>
</tr>
<tr>
<td>5. Organisations that participated in the survey found it informative and useful despite challenges due to the lack of data and guidance on measurement approaches.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Difficulties and data limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Participants were a self-selected group who, in general, hold higher than industry-average stewardship or sustainability ambitions and commitments. The survey data therefore likely reflects higher-than-average stewardship resources.</td>
</tr>
<tr>
<td>2. Cost-based data had a wider range of dispersion and was less reliable than FTE-based data. It would likely be harder to discuss with the provider.</td>
</tr>
<tr>
<td>3. Estimating the outsourced portion of stewardship resources for asset owners was challenging.</td>
</tr>
<tr>
<td>4. Quantifying some elements of stewardship resources was difficult, requiring estimations based on opinions, perceptions, and experiences. Organisations naturally have diverse priorities, strategies and objectives, leading to varying resource allocations for stewardship. We explore this aspect later.</td>
</tr>
<tr>
<td>5. The inherent subjectivity of stewardship resource data cannot be ignored. Open dialogue and transparency is essential in acknowledging the limitations of the data and addressing potential biases.</td>
</tr>
</tbody>
</table>
Anticipated advances in stewardship resourcing data

Our experience with the Global Stewardship Resourcing Survey process underscored the challenges associated with the availability and reliability of stewardship resourcing data. When surveyed, a majority of Working Group members believed that over the next two years, it would become more feasible to generate stewardship resourcing data (chart 3), and that expectations regarding the provision of this data would grow (chart 4).

Additionally, interviews conducted with some Working Group members revealed expectations regarding:

- Future applications for AI methodologies to improve data management
- More detailed breakdown of all investment costs in response to the need to be more transparent and
- Increased appetite for more detailed but concisely expressed data on costs to support better decision-making.

Chart 3: Working Group’s opinion regarding the feasibility of different metrics

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Feasibility of different metrics now</th>
<th>Feasibility of different metrics within 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stewardship-focused FTEs as a percentage of the front line investment team FTEs</td>
<td>55%</td>
<td>89%</td>
</tr>
<tr>
<td>Stewardship-focused cost as a percentage of the front-line investment cost</td>
<td>45%</td>
<td>58%</td>
</tr>
<tr>
<td>Stewardship-focused cost as a percentage of AUM</td>
<td>41%</td>
<td>79%</td>
</tr>
<tr>
<td>Stewardship-focused cost as a percentage of revenue</td>
<td>26%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: PRI/TAI Stewardship Resourcing Technical Working Group, n=21

Chart 4: Working Group’s expectation on stewardship data

Asset Owners: “My organisation will request stewardship resourcing data from managers within the next two years”
Asset Managers: “My organisation will provide stewardship resourcing data to clients within the next two years”

Source: PRI/TAI Stewardship Resourcing Technical Working Group polling, n=20
2. Stewardship resources need to double at industry level
Section 2. 
Stewardship resources need to double at industry level

Establishing a definitive figure for the desired level of stewardship resources across the industry is challenging due to the significant variation in organisational circumstances (see section 3). However, we propose that stewardship resources need to be twice-as-large as the current industry level\(^1\), supported by four key reasons, as listed on the right.

The key reasons why we propose a target and why we set it at twice-as-large as the current industry level.

1. **A strong consensus**
   - A clear view that resources need to increase emerged from industry opinion measurements

2. **Increased demands**
   - More resources are required to meet the increased demands on stewardship resources

3. **A stretching but achievable target**
   - An achievable target aided by an integrated model to leverage existing expertise

4. **A rallying call**
   - Setting a ballpark target serves to drive proactive action

\(^1\) TAI estimates the current industry average is likely to be around or lower than 5%, based on available data and our industry experience. For further details, refer to page 13 and page 21.
2.1 – A strong consensus that resources need to increase

At the PRI in Person 2022 event, attendees were surveyed about their expectations for changes in stewardship staff over the next 1-2 years. The majority of respondents thought that stewardship resources would increase (chart 5).

We also conducted a survey among the Working Group members to gather their opinions on the desired level of stewardship resources at the start of this project (chart 6). While each participant had their own perspective regarding the current industry average, a common thread emerged from the responses: there was a widespread expectation for a minimum doubling of the current level of resources, with some advocating for an even greater allocation. Notably, these insights were gathered early on and reflect the perspectives of a group already engaged in stewardship and otherwise mindful about the resourcing issue.

Chart 5: How much do you expect stewardship staff resources to change in the next 1 – 2 years?

<table>
<thead>
<tr>
<th>Decrease</th>
<th>Stay the same</th>
<th>Increase somewhat</th>
<th>Increase significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>13%</td>
<td>51%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: PRI In Person 2022 – polling results from the session entitled “Empowering active ownership”, n=39

Chart 6: What is the desired level of resources to be allocated to stewardship?

<table>
<thead>
<tr>
<th>Decrease</th>
<th>Remain the same</th>
<th>Twice the current level</th>
<th>Three times the current level</th>
<th>Five times the current level</th>
<th>Ten times the current level</th>
<th>More than ten times the current level</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>6%</td>
<td>0%</td>
<td>28%</td>
<td>17%</td>
<td>28%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: PRI/TAI Stewardship Resourcing Technical Working Group polling, n=18
2.2 – Increased demands: More resources are required to meet the increased demands on stewardship

- Increased regulatory expectations and potential additional scrutiny of activities
- Stewardship activities going deeper and expanding beyond listed equities
- Resources to support stronger and better collaboration

The investment industry faces multifaceted challenges arising from the emergence of systemic risks like climate change, biodiversity loss, or antimicrobial resistance.

Addressing evolving risks requires a more impactful stewardship approach spanning issuer-specific engagement, industry-wide initiatives and policy engagement.

- The global trend in ESG and stewardship regulation is that expectations are rising, albeit with regional differences. There has been an increase in reporting expectations.
- Escalating stakeholder interest, media coverage, and NGO influence add further pressure on stewardship resources and on resourcing as an issue.

System-wide risks are the sort of risks that cannot be mitigated simply by diversifying the investments in a portfolio. They threaten the functioning of the economic, financial and wider systems on which investment performance relies. If risks of this sort materialised, they would therefore damage the performance of a portfolio as a whole and all portfolios exposed to those systems.

PRI/Freshfields report: Legal Framework for Impact

1 TAI’s work on system risks
Systemic risk | deepening our understanding
Systemic risk | adapting our practices
2.3 – A Stretching but achievable target, aided by an integrated model to leverage existing expertise

**An achievable target**
The Working Group members recognised that having a target encourages continuous improvement and engaged in discussions regarding what would be a suitable target. The ‘doubling’ industry target was suggested after careful consideration of what would be a stretching but achievable goal. Our surveys, point to expectations for increased resourcing (Chart 6 page 18).

It is also important to emphasise that achieving this transition within the industry will take several years. This target is intended as a broad signal to drive positive change, rather than a precise benchmarking target.

The pace of change and the level of stewardship resources for individual organisations will depend on their specific ambitions and circumstances, as detailed in section 3 (the impact of contextual factors).

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Greater use of integrated stewardship approaches as a way to increase stewardship resources

At the introduction of the report (page 8, the stewardship paradox), we discussed how organisations in our industry would benefit from re-assessing resource allocation between asset allocation and stewardship. We proposed that stewardship activities can generate net benefits at the total industry level.

While some organisations might increase their dedicated stewardship headcounts, other organisations might efficiently increase stewardship resources through greater use of an integrated stewardship approach (or a combination of the two approaches). This process would entail reallocating some of the existing resources currently allocated to asset allocation.

This integrated approach involves better incorporating stewardship practices across various aspects of an organisation’s investment process. For example, portfolio managers responsible for allocation decisions might take a larger role in the stewardship activities. Provided these staff have adequate capacity, training and a clear mandate to carry out stewardship activities, this has the benefit of better integrating allocation and stewardship thinking.

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1 In addition, an analysis by the UK FRC in 2022, entitled “The influence of the UK Stewardship Code 2020 on practice and reporting” highlighted expectations among Stewardship Code signatories for increased resourcing.

2 Features of integrated stewardship approaches include portfolio managers engaging in stewardship activities alongside dedicated stewardship specialists, with support for stewardship resources such as relevant training.

3 Redington’s 2023 sustainable investment survey revealed that the rate of increase in the number of dedicated stewardship team headcounts has significantly slowed down. However, it’s important to note that having a dedicated stewardship team is not the sole solution to addressing stewardship resource challenges.
Currently available data on stewardship resource is highly approximate. Recognising the potential bias in the surveyed sample, our best guesstimate is that the industry average is around or a little lower than 5%.

Roger Urwin, TAI

2.4 – A rallying call: a stretching target to promote positive changes in the investment industry

The Global Stewardship Resourcing Survey showed that respondents in this sample of funds allocate approximately 7% of their total investment resources to stewardship. We estimate that the industry average is likely to be around or lower than 5%. However, we recognise that there is a wide range, with some organisations likely to be at much lower or higher points than this estimated average. This is a TAI estimation based on available data and judgement based on our industry experience, the industry average will become clearer as resourcing data improves.

Using a stretch target as a rallying call

TAI proposes that the industry needs to double stewardship resources. This will be necessary to meet increased demands and needs. Relative to the opinions reflected in chart 6, proposing a doubling looks unambitious. At an industry level, however, we see a doubling as stretching. And we offer it hoping it can serve as a rallying call for positive change.

Two comments are important here. First, a doubling will not be an appropriate target for all organisations. Different contexts will make some organisations’ targets lower and others higher. Organisations whose resourcing levels are already twice our estimated industry average (or more) may still want to review their resourcing levels against ambitions.

Second, organisations should not indiscriminately assume that doubling is the right target for them. Rather, success will come from engaged conversations between asset owners and asset managers regarding stewardship ambitions and expectations with regards to the allocation and use of resources. The resources to support that activity should flow from ambition.
A special focus:

**Universal owners and system stewardship**

Universal owners are institutional asset owners which, in effect, own a slice of the whole financial market (and therefore economy) through their widely diversified holdings. This concept was first raised three decades ago and became more widely recognised in recent years as the investment industry reflected on systemic risks and sustainability impacts on portfolio return. Universal owners are naturally long-term investors who prioritise long term return/risk management. As they are invested in the whole system, their portfolio return has a primary tie to the return of the financial market as a whole and to systemic risks which, in effect, are internalised in the portfolio. As a consequence, and where consistent with their fiduciary duties, asset owners should consider whether systemic risks, with their impact on the health of the whole system, will inhibit their ability to protect long-term value for their beneficiaries. This is often referred to as ‘building better beta’.

The PRI/Freshfields report: Legal Framework for Impact report found that investors are likely to have a legal obligation to consider pursuing sustainability impact goals (through investment decisions, stewardship or engagement with policy makers) where doing so can contribute to achieving their investment objectives. Further, the report argues that fiduciaries should be encouraged to take collective action to mitigate systemic sustainability risks.

System stewardship is less focused on the risks and returns of individual holdings in isolation, but more on addressing systemic issues, such as climate change, financial stability and social stability risk. It aims at protecting and preserving the critical systems that are impacting broader portfolio returns. Engagement activities with a system-level lens protect and enhance the value of investors’ assets over time by identifying and responding to market-wide risks to create long term value. The Cambridge principles of system stewardship for universal owners suggests that effective system stewardship optimises overall market returns while allowing individual companies to compete within the same social and environmental guardrails, limiting externalities and associated costs.
3. The Stewardship Resources Assessment Framework
The Stewardship Resources Assessment Framework — a new tool for the industry

Building on the findings from the Global Stewardship Resourcing Survey and the Working Group (see page 12, 13), the Stewardship Resources Assessment Framework (SRAF) aims to gather estimates for an organisation’s stewardship resources, supporting a broader understanding of these resources and their role in various stewardship activities. It is designed to serve the industry by:

- empowering asset owners to understand this area and have productive conversations with asset managers
- demonstrating to asset managers that resource levels are being monitored
- providing a reference point for requests to grow stewardship resources
- operating as a tool for organisations to self-assess their resource levels.

This section describes the setup and benefits of the framework. Please click here to access the Stewardship Resources Assessment Framework document.

Strong engagement between asset owners and managers has an inherent multiplier effect. It acts as a key force in fostering positive changes in stewardship resourcing as well as supporting more effective stewardship through better alignment of interests.

The framework can also serve as a tool for organisations to self-assess their stewardship resource levels. Organisations that have embraced the measurement principles advanced in this project have noted the benefits of the process.

An approach based on Full Time Equivalents (FTEs)

The framework’s data collection questions primarily focus on estimating an organisation’s stewardship resources by assessing the number of FTEs involved in stewardship activities. This provides a means to assess stewardship costs. To address the limitations of a pure FTE approach we propose using an adjusted FTE metric which we call the ‘stewardship resource metric’, as explained on the following page.

This metric is based on the amount of staff time spent on stewardship activities, even if they are not full-time stewardship staff. We anticipate that all organisations will be able to use this metric, albeit with varying degrees of precision, regardless of their stewardship model. For example, an individual spending 10% of their time on stewardship-related reporting would be counted as 0.1 of one full-time equivalent.

Stewardship resource levels estimated using this framework need to be interpreted against individual contexts. We will explore this “no one size fits all” principle in more detail on page 27.
Chart 7: The Stewardship Resources Assessment Framework supports asset owners to engage in productive conversations with their asset managers regarding the level of stewardship resources.

**Step 1**
- **Asset owners** request asset managers to complete the framework questionnaire.

**Step 2**
- **Asset managers** provide the estimate of their stewardship resource level.

**Step 3**
- **Asset owners and asset managers** engage in productive conversations, supported with findings and guidance from the framework.
**Calculation methodology to arrive at a stewardship resources metric**

- The calculation approach produces what can be thought of as an adjusted stewardship FTE metric. We call this the Stewardship Resources Metric (SRM), which includes two elements: 1) FTE-based stewardship estimation adjusted for seniority, and 2) specialist third party stewardship costs.

- The SRM is structured as a percentage metric, representing the stewardship resource level as a percentage of the total investment management FTEs. This format enables comparisons across organisations of varying sizes.
- We recommend viewing the headline SRM alongside its component parts. This facilitates verification of input data and better discussion of resource allocations.

---

**Stewardship Resources Metric (SRM)**

- **Adjusted internal stewardship related FTEs as a percentage of total investment management FTEs**
  - Number of FTE stewardship specialists
  - Number of FTE other investment professionals conducting stewardship activities
  - Number of FTE staff responsible for reporting and client services for communicating stewardship activities

- **Specialist third party stewardship costs as a percentage of investment management costs**, adjusted to be integrated with FTEs percentage. This adjustment is made by dividing the former by the assumed* investment management staff cost as a percentage of investment management spend.

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*The project assumes that investment management staff costs roughly represent 90% of the investment management spend, hence a factor of 0.9 is utilised. Depending on the circumstances of organisations, an alternative factor might be applied.

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**Asking for three sub-categories of stewardship FTE is important to:**

- provide an understanding of what is driving an overall FTE number
- allow questioning around the assumptions made by an asset owner/asset manager
**The impact of key contextual factors**

Our industry consists of a wide range of organisations with diverse business models, strategies, priorities, and geographic footprints. This diversity makes it challenging to determine the appropriate level of resources needed for a given group or organisation. The ‘no one size fits all’ principle empowers organisations to focus on rigorously explaining their resource structure within their unique organisational contexts. The table below is an illustration of how five key contextual factors may impact an organisation's level of stewardship resources.

<table>
<thead>
<tr>
<th>Contextual Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>We would naturally expect larger organisations with higher AUMs and more staff to have a greater absolute level of stewardship FTE. While using the percentage metric aids comparison, there is still a size effect to consider. Due to this size effect, it may be appropriate for a larger group to have a somewhat smaller stewardship FTE as a percentage of total FTE, while still having a larger absolute amount of stewardship resources compared (or proportionate) to their smaller counterparts.</td>
</tr>
<tr>
<td>Ambition level</td>
<td>An organisation's stewardship and sustainability ambition level influences the level of stewardship resources it should be prepared to allocate. The level of stewardship resources would increase as the organisation transitions from meeting minimal regulatory requirements (which might vary regionally) to taking a wider system stewardship focus in their approach to fulfilling their investor duties.</td>
</tr>
<tr>
<td>Type: AO or AM</td>
<td>Contextual differences between asset owners and asset managers may suggest a different target level of resources. Many asset owners will tend to outsource day-to-day stewardship activities to asset managers.</td>
</tr>
<tr>
<td>Asset mix</td>
<td>Certain asset classes or investment strategies lend themselves more easily to stewardship activity, while others might require more intensive strategies or different expertise.</td>
</tr>
<tr>
<td>Insourcing/outsourcing</td>
<td>Outsourcing certain stewardship functions generates economies of scale and facilitates ad hoc access to thematic specialists.</td>
</tr>
</tbody>
</table>
Context determines resources: the case of ambition levels

To assist a clearer understanding of the impact of contextual factors, we will use asset managers A, B, C, and D to illustrate how various factors may influence an organisation’s stewardship resources level.

There are multiple factors that could be considered when evaluating an organisation’s stewardship ambition level, including but not limited to how advanced its current stewardship approach and practices are.

The PRI’s Evaluating Managers Stewardship for Sustainability — Evaluation tool contains an extensive list of criteria, mapped against PRI reporting indicators which can help an organisation benchmark itself or its managers. However, as a simplification, the Stewardship Resources Assessment Framework questionnaire asks a single question to place an organisation on an ambition spectrum (chart 8).

An organisation’s total stewardship resources level should align with its stewardship and sustainability ambition. For instance, as the organisation seeks to try and address systemic risks such as climate change or biodiversity loss, then the engagement required becomes more complex. Higher ambition levels also suggest there should be a change in how stewardship resourcing is allocated. For example, the percentage of resources dedicated to engagement at the policy/system level. Questions 4-6 of the Stewardship Resources Assessment Framework questionnaire investigate this area.

Chart 8: Spectrum of stewardship and sustainability ambition
The organisation’s stewardship and sustainability ambition is a key factor, influencing the level of resources an organisation allocates to stewardship. Stewardship emphasis increases as you move from left to right.

<table>
<thead>
<tr>
<th>Asset Manager</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Medium</td>
</tr>
<tr>
<td>B</td>
<td>Medium</td>
</tr>
<tr>
<td>C</td>
<td>Large</td>
</tr>
<tr>
<td>D</td>
<td>Medium</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Minimum baseline**: Activities to satisfy regulatory requirements and maintain social license to operate.
- **Portfolio holding stewardship focus**: Activities to produce improvements in the sustainability profile of individual assets held over time.
- **Portfolio holding and wider system stewardship focus**: #3, plus activities to produce improvements in the sustainability profile of the system as a whole, to maximise long-term value.
The interaction between contextual factors and their impact on the desired level of stewardship resources

It is necessary to consider multiple contextual factors at the same time. This complexity underscores the importance of conversation alongside considering the SRM figure.

The chart below is a simplified illustration of how two different contextual factors might combine to impact what an appropriate level of resources might be for organisations with different sizes or ambition levels.

Chart 9: Illustration of how contextual factors, such as organisation size, may influence the level of stewardship resources

Asset managers A, B and D differ in their levels of stewardship ambition (see previous slide) but are similar in size. D's greater ambition results in a higher proportion of stewardship resources.

Organisation C is larger than organisation B. It's desired level of stewardship resources as a proportion of total resources may be slightly lower given the organisation's size (but the absolute amount of stewardship resources would be higher for C than B).
Using the Stewardship Resources Assessment Framework for an informed client/manager discussion on stewardship

Asset owners/clients can play a large role in driving positive industry change. By actively engaging with their asset managers regarding stewardship resourcing, in addition to examining their own in-house resources, they can encourage an increase in industry-wide stewardship resourcing. We hope the Stewardship Resources Assessment Framework provides a starting point for an informed dialogue facilitated by more data.

Assessing stewardship ambition

- How would you describe your stewardship ambition level?
- Do you consider that this level of resources is adequate and compatible with your ambitions and the expectations we have outlined as a client?
- How do you ensure that stewardship activities are sufficiently resourced to meet our sustainability outcomes targets?

Assessing the size of resourcing

- Your organisation states having x FTEs dedicated to stewardship activities. When we compare this to your total investment management team the resulting ratio is y%. Please could you comment as to how this might compare with industry peers and leaders?
- How do your resourcing levels match up to the size and make-up of your portfolio? What are the implications for your stewardship efforts (both in terms of breadth and depth)?
- If a substantial amount of your stewardship resources comes from portfolio managers spending time on stewardship, can you explain your methodology to estimate the time they have spent in this area?

Assessing the shape of resourcing

- You have noted that your stewardship professionals are on average more/less senior than other investment professionals in your organisation. Please could you comment on the seniority make up of your team and its impact on your approach to stewardship?
- Please could you comment on the proportion of your total stewardship resources allocated to collaborative stewardship activities? How does that level of collaboration contribute to your stewardship ambitions?
- To what extent do you feel that the percentage of stewardship resources allocated to system/policy engagement is aligned with/adequate considering your stated level of stewardship ambition?

Looking ahead

- Please could you describe how stated stewardship resourcing levels come to bear for (are mobilised within?) the specific product(s) we are invested in?
- Does your organisation intend to allocate more resources to stewardship activities over the next few years and if so, will it continue using the Stewardship Resources Assessment Framework questions so we can track progress?
- How do you ensure that stewardship resources are used efficiently and in a way which maximises real world outcomes?
Conclusions and calls to action
Conclusions — the key takeaways

The approach taken in this research has been to combine data analysis (the Global Stewardship Resourcing Survey), expert opinion (convening the Working Group discussions) and a literature review, with the authors' analysis and reasoned argument. Given the scarcity of concrete data in the stewardship resources field, we've relied on what could be termed as 'soft' data over no data at all. We've treated this data as ballpark estimates and proposed strategies for improving data quality over time, using the Stewardship Resources Assessment Framework developed by this project. In summary, the key takeaways are:

1. More measurement – a structured approach
   What gets measured, gets managed. The project has advocated for a structured measurement approach, which is currently lacking in the industry. The measurement model developed by the project was tested via the Global Stewardship Resourcing Survey and among Working Group participants. Organisations that have followed the measurement principles advanced in the project have reported benefits from the process.

2. Stewardship resources need to double
   TAI suggests that the industry needs to double stewardship resources over time, to meet the increased stewardship demands and needs. This is an industry-level target. The level of stewardship resources for individual organisations will depend on their specific circumstances. This ballpark target can serve as an intervention to produce a significant positive impact on stewardship resourcing. However, it is important to acknowledge that the industry's transition to this level will realistically take a number of years.

3. Stewardship Resources Assessment Framework
   We present a new industry tool that can empower all investment organisations to assess their stewardship resources. This is valuable in relating the resource commitment to the level of ambition. In addition, this tool is particularly powerful in allowing asset owners clients to have more productive conversations with their asset managers about their stewardship resourcing practices.
Conclusions — future vision

The purpose of this project was to delve into stewardship resourcing practices within our industry and advocate for a structured measurement approach to bring about positive change to stewardship resourcing practices. Through our findings, we advocate for a deliberate approach to stewardship resourcing for deeper engagement between asset owners and managers.

We believe that better resourced stewardship is desirable and necessary to effectively manage systemic risks and maximise overall long-term value for clients and beneficiaries. But it can only happen if the right incentives are in place.

In our view, the following three factors could act as positive catalysts towards doubling stewardship resources across the industry.

- **Improved data**: we envisage a future state in which the data and analysis of stewardship resourcing is significantly improved. The Working Group provided strong support for this view (see chart 10).
- **More productive asset owner/asset manager engagement**: with the support of the Stewardship Resources Assessment Framework, asset owners could, and should, exert more influence over asset managers.
- **The maturing of stewardship**: Stewardship is becoming more joined-up through industry working groups and increased focus on activities seeking to address systemic risk. Stewardship is increasingly becoming a central value proposition for asset manager solutions. This momentum should enhance stewardship effectiveness and increase focus on its measurement, reinforcing the greater benefits of increased resources in stewardship.

Chart 10: Polling results from the working group members – “My organisation will generate more internal data on our own stewardship resourcing within the next two years.”
Strong stewardship is needed now more than ever to fulfil fiduciary duties and deliver on client and beneficiary interests over the long term. These ambitions can only be met with adequate resourcing at industry level. We call on investors to pave the way for data-driven approaches to stewardship resourcing which foster accountability, transparency, and ultimately, impactful change.

Nathan Fabian, Chief Sustainable Systems Officer
— Principles for Responsible Investment

The industry has improved in focusing on stewardship activities and outcomes. However, the other side of this coin – stewardship resourcing – has had too little attention despite it being the foundation.

Stephen Miles, Head of Sustainable Investment
— WTW
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We seek collaboration with like-minded organisations to achieve our vision, so for more information about us please contact:

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