The Stewardship Resources Assessment Framework

A tool to assess stewardship resource level, improving understanding of resourcing practices and empowering productive conversations on stewardship activities.
Introduction
The Stewardship Resources Assessment Framework – a new tool for the industry

Stewardship Resources Assessment Framework was developed by the Thinking Ahead Institute as part of the Stewardship Resourcing project using the findings and learnings from the Global Stewardship Resourcing Survey and the Global Stewardship Resourcing Technical Working Group.

The framework is a practical tool aiming to support the industry in achieving a more structured measurement approach in stewardship as detailed in the “Putting resources where stewardship ambitions are | Stewardship resources in focus: structured measurement to empower asset owner-asset manager conversation” report.

This document sets out a survey for organisations to provide information about their stewardship activities and associated costs. This information allows to estimate organisation’s stewardship resource levels and provides a reference point for requests to grow stewardship resources.

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;
▪ operating as a tool for organisations to self-assess their resource levels.

This document can be used as a tool to support asset managers in self-assessment of their stewardship resources and encourage productive conversations with asset owners about stewardship activities.

Step 1: Asset owners request asset managers to complete the framework questionnaire
Step 2: Asset manager provides 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

The main questionnaire includes four questions, understanding organisations’ ambition levels, their in-house stewardship-focused aggregated full-time equivalents (FTE) numbers, their external resources and their stewardship-focused FTE’s seniority levels. Additionally, there is a further set of optional questions (at the end of this document) to assess and explore the rationales for the allocation of resources across different stewardship activities.
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)**

\[
\text{Adjusted internal stewardship related FTEs as a percentage of total investment management FTEs} \\
\text{Number of FTE stewardship specialists} + \\
\text{Number of FTE other investment professionals conducting stewardship activities} + \\
\text{Number of FTE staff responsible for reporting and client services for communicating stewardship activities} \\
\]  

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

*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.

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

Adjust the total internal stewardship-related FTEs by seniority:
- 1.25x | More senior
- 1.0x | About the same level of seniority
- 0.75x | Less senior

Depending on the circumstances of organisations, alternative factors might be applied.
An organisation’s ambition and commitment to stewardship have implications on its allocation of stewardship resources. How would you assess your organisation’s alignment with stewardship and sustainability ambition and commitment?

Please select a number from 0 to 6 based on your organisation’s current level of ambition and commitment to stewardship (where 0 represents minimal emphasis and 6 represents the highest level of emphasis on stewardship).

**Stewardship and sustainability ambition and commitment spectrum**

0 1 2 3 4 5 6

- **Minimum baseline**
  - Undertaking minimum baseline activities in order to satisfy regulatory requirements.

- **Portfolio holding stewardship focus**
  - A material part of the value proposition is stewardship of individuals issuers within portfolios with the aim to produce improvements in the sustainability profile of assets held over time.

- **Portfolio holding and wider system stewardship focus**
  - A material part of the value proposition is both:
    - stewardship of individual issuers as in (3) opposite.
    - Macro stewardship actions to address system-wide issues (e.g., climate, diversity, human rights) with the aim to produce improvements in the sustainability profile of the system as a whole to maximise overall long-term value for clients/beneficiaries.

**Why this question is asked:**
- Beyond this simple question asked here, PRI’s guidance on Evaluating Managers Stewardship for sustainability contains a wider list of criteria and reporting indicators that could be taken into account.
- This is but one crucial point of context, we encourage that additional context factors be considered.

**Definition**

**Systematic (sustainability) issues**

Issues that pose systematic risks to the common economic, environmental and social assets on which returns and beneficiary interests, depend. Systematic risk (interchangeable with “market risk” or “market-wide risk”) refers to risks transmitted through financial markets and economies that affect aggregate outcomes, such as broad market returns. Because systematic risk occurs at a scale greater than a single company, sector or geography, it cannot be hedged or mitigated through diversification. However, systematic sustainability issues can, and should, be influenced through responsible investment activities.
Question 2 – Full Time Equivalent (FTE) based stewardship costs

Understanding stewardship-related resources through FTE numbers

<table>
<thead>
<tr>
<th>Base</th>
<th>FTE number of investment management staff</th>
<th>No. of FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>FTE number of staff with stewardship as their main job responsibility</td>
<td>___ FTEs</td>
</tr>
<tr>
<td>b.</td>
<td>FTE number of other in-house investment professionals conducting stewardship-related activities</td>
<td>___ FTEs</td>
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<tr>
<td></td>
<td>(This FTE figure should only represent the portion of an individual’s time that is spent on stewardship-related activities. For example, a portfolio manager/general analyst/ESG specialist spending 5% of her/his time on stewardship-related activities should only be counted as 0.05 of one full-time equivalent staff. The remaining 95% of their time should not be taken into account)</td>
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<tr>
<td>c.</td>
<td>FTE number of staff responsible for reporting, and client services for communicating, stewardship activities</td>
<td>___ FTEs</td>
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<tr>
<td></td>
<td>(This FTE figure should only represent the portion of an individual’s time that is spent on stewardship-related activities. For example, an individual spending 10% of their time on stewardship-related reporting should only be counted as 0.1 of one full-time equivalent. The remaining 90% of their time should not be taken into account)</td>
<td></td>
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</tbody>
</table>

Why this question is asked:

- An organisation’s stewardship resources comprise multiple elements, including staff engaged in stewardship-related functions, data and systems, and stewardship training. Insights from the global stewardship resourcing survey guided us to adopt the full-time equivalent employees-based (FTE-based) approach to assess an organisation's stewardship resources level.
- They are stewardship costs beyond staff costs, particularly for an organisation that places emphasis on a third-party team of engagement experts. Q3 on the next page addresses this element of stewardship resources.

Definitions

Investment management staff
The group of professionals who are involved in the investment process, including necessary operational functions. For example: investment research capabilities, trading infrastructure, portfolio management tools, due diligence capabilities, monitoring capabilities, risk management, compliance, data and analytics systems and reporting and client services.

Specialist stewardship staff
Stewardship specialists are staff members within investment firms who are dedicated to carrying out stewardship activities such as engaging with companies on environmental, social, and governance issues, voting, and monitoring portfolio holdings for ESG risks and opportunities. (See a recommended list of activities that should/should not be included when evaluating stewardship resources at the organisational level page 6).
Guidance to assist participants in answering Question 2.

When estimating the ballpark figures for stewardship-related resources, the following factors could be considered:

1. Job titles and staff objectives: take into account the roles and responsibilities of staff involved in stewardship activities. Consider if specific objectives and targets are set for staff members related to stewardship activities.

2. Output-based considerations: estimation of the resources needed to produce these outputs, such as research reports, engagement activities, or voting exercises.

The following activities should be included when considering in the stewardship related Full Time Equivalent evaluations (role and responsibilities):

- Collaborative engagement and other collaborative activities
- Industry/market-level engagement
- Issuer engagement
- Policy engagement
- Resources spend on ESG metrics/research (including commercial organisations, think tanks and NGOs) to inform stewardship activities
- Reporting on stewardship activities (whether mandatory or voluntary)
- Selection, appointment and monitoring of any asset managers undertaking stewardship on your behalf
- Training of internal teams on stewardship
- Training of teams involved in stewardship on ESG
- Voting related.

The following should be excluded:

- Interactions with companies for data collection and/or for research purposes related to buy/ sell/ hold decisions
- Standard questionnaires sent to companies for the purposes of information gathering and investment decision-making
- Attendance at company presentations, AGMs or other company meetings without interactions or discussion, or where interactions are not seeking change or improved disclosure
- Bulk disclosure requests for ESG information, typically conducted via a third party and
- Legal and compliance costs incurred in order to operate stewardship functions with appropriate internal controls.
Question 3 – additional non-FTE-based stewardship costs

Costs of specialist 3rd party stewardship providers/services/resources/groups as a percentage of investment management spend: ___

**Why this question is asked:**
Costs of specialist 3rd party stewardship providers/services/resources/groups are one of the substantial parts of the stewardship resources and cannot be captured via the FTE-based approach. Adding this adds comparability and is useful when it comes to interpretation - to understand the breakdown of where resources are spent.

**Definitions**

**Investment management spend:**
The assets or resources (including investment management FTEs cost) that are directly used in the investment process, such as investment research capabilities, trading infrastructure, portfolio management tools, due diligence capabilities, monitoring capabilities, the cost of risk management software, compliance monitoring tools, data and analytics systems, reporting and client services.

**Cost-based considerations include:**
- The cost of using a third-party provider for engagement activities
- The cost of using a third-party provider for voting activities
- The cost of using a third-party provider for stewardship related data
- Relevant memberships and subscription costs
- ESG-related litigation (costs incurred in relation to legal action by investors targeting entities for their management of ESG issues and impacts)
Question 4 – Assessing seniority

How does the average level of seniority of your organisation’s staff with stewardship-related responsibilities compare to the average seniority level of your organisation’s general investment team?

a. More senior
b. About the same
c. Less senior

**Why this question is asked:**
Despite its simplicity, this question provides some insight into the composition of an organisation’s staff-related stewardship resources. The response can also be picked up in conversations with the asset managers.

**Definition**
- **Seniority level** will reflect industry experience, position in organisational hierarchy, decision-making authority.
### Additional questions for a deeper understanding of the allocation of stewardship resources

**Question 5.** What is the approximate split of overall stewardship resources to the following categories?  
*For asset owners, this excludes stewardship activities carried out by external asset managers on behalf of the asset owners.*

<table>
<thead>
<tr>
<th>Category</th>
<th>0%</th>
<th>0 - 5%</th>
<th>5 - 10%</th>
<th>10 - 20%</th>
<th>20 - 30%</th>
<th>40 - 50%</th>
<th>50 - 60%</th>
<th>Over 60%</th>
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<tbody>
<tr>
<td>a. Engagement (further breakdown below)</td>
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<td>b. Voting</td>
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<td>c. Stewardship reporting</td>
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<td>d. ESG data/metrics</td>
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<td>e. Other</td>
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**Question 6.** What proportion of your total stewardship resources is allocated to collaborative stewardship activities?  
Choose from: 0%, 0-5%, 5-10%, 10-20%, 20-30%, 30-40%, 40-50%, 50-60%, Over 60%

**Question 7.** How are engagement activities broken down?

<table>
<thead>
<tr>
<th>Engagement breakdown</th>
<th>0%</th>
<th>0 - 5%</th>
<th>5 - 10%</th>
<th>10 - 20%</th>
<th>20 - 30%</th>
<th>40 - 50%</th>
<th>50 - 60%</th>
<th>Over 60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Engagement at issuer level</td>
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<tr>
<td>b. Engagement at industry/ market level</td>
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<td></td>
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<tr>
<td>c. Engagement at policy/ system level</td>
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</tr>
</tbody>
</table>
Definitions

Collaboration (stewardship)
Collaboration in the context of stewardship refers to investors or their service providers working together, and/or with other stakeholders, to pool resources and enhance their effectiveness in pursuing their stewardship objectives.

Collaboration can include informal means, such as sharing insights on how to approach an issue with peers, as well as formal mechanisms such as collaborative engagements or initiatives, or the use of an external service provider (e.g. engagement overlay service) that pools resources from multiple investors.

Industry/market-level engagements:
1. Promote responsible and sustainable business practices within the investment industry and across different sectors of the real economy.

2. Address systemic risks and potentially promote industry-wide reforms and long-term value creation for all stakeholders. This can take different forms, including:
   - collaborating with industry associations
   - conducting research and analysis to identify industry-wide risks and opportunities and proposing solutions to address these issues
   - engaging with industry stakeholders to share best practices, coordinate on industry-wide initiatives, and drive collective action
   - supporting investor-led initiatives, such as investor letters or shareholder resolutions, to encourage companies to adopt responsible and sustainable business practices.

Policy engagements and stewardship:
Engaging with policymakers and other stakeholders to influence the development and implementation of laws, regulations, and policies that affect companies and markets. The goal of policy engagement is to create a more enabling environment for responsible and sustainable investment practices. Policy engagement can happen in different forms, including:
   - direct advocacy by engaging with policymakers directly through meetings, letters or public statements to express views on specific policy proposals or issues
   - collaboration with other stakeholders to advance a shared policy agenda
   - conducting research and analysis to inform policy development and advocacy
   - provide information and education to policymakers and other stakeholders about the potential benefits/drawbacks of specific policy proposals (using domain knowledge).

Overall policy level engagement can be carried out directly or through a third party such as a trade association or industry body.

System-level engagements and stewardship:
System-level engagements and stewardship refer to strategic efforts undertaken by investors to influence and address broader systemic issues within the financial market and beyond. It includes all policy level engagement activities as described above and activities advocating for industry wide reforms at individual companies.
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.

The questions to discuss will vary depending on the context of the asset manager and the specific responses to the Stewardship Resources Assessment Framework questionnaire.

### 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?
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Led by Marisa Hall, Tim Hodgson and Roger Urwin, the Thinking Ahead Institute connects our members from around the investment world to harness the power of collective thought leadership and develop innovative solutions for the investment industry.

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