# Stewardship: Exerting influence

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What are the motives behind sustainable investment? As a rule, there are three, namely, mitigating financial risk, expressing subjective values in an investment and the positive impact on society and environment. While the first two are easy to ensure, achieving a positive impact via financial assets is no easy task. One option is so-called investment stewardship.

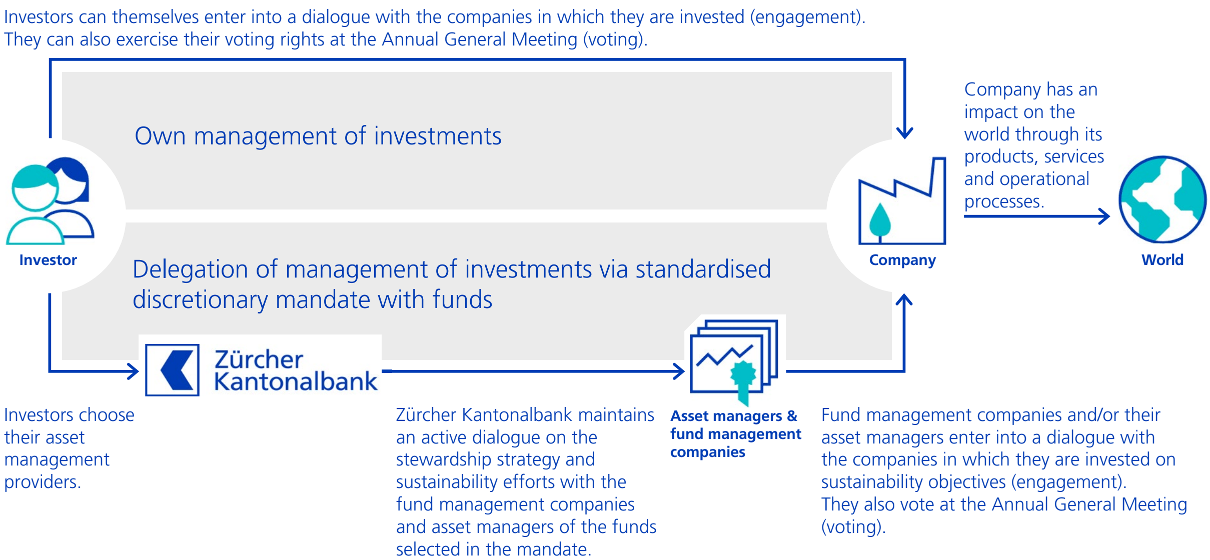
**What is investment stewardship?**

All definitions of investment stewardship have in common that investors engage with the companies in which they are investing to create longterm value for customers and other stakeholders. This value can include economic, environmental and social aspects. Investment stewardship comes in two forms: first, via active dialogue or engagement with companies and, second, through the exercise of shareholder voting rights at the general meeting or by making own proposals.

**Investment stewardship – individual and via a discretionary mandate**

If one manages one's equities oneself, the effect on the world takes place in two steps[1]. As an investor,

**Investment stewardship – exercise it yourself or via a discretionary mandate**




one influences companies through engagement or the exercise of voting rights. Ideally, the company then adjusts its processes or strategy, increasing the longterm enterprise value *(upper arrow in the chart)*. But what does it look like if one delegates this via a discretionary mandate? A standardised discretionary mandate that uses funds encompasses the management of assets as well as, usually, proxy voting. The potential effect of investment stewardship takes place in several steps *(lower half of the chart)*. Zürcher Kantonalbank selects the appropriate asset manager for your portfolio. The asset manager's funds must satisfy various criteria regarding, for example, the expected returns or assumed risk. Furthermore, Zürcher Kantonalbank increasingly assesses the stewardship activities of the asset or fund managers[2]. They contact the companies in which they are investing in line with their engagement strategy and vote at the general meetings in accordance with their voting strategy.

## Joining forces

Admittedly, the steps involved in investment stewardship described above are difficult to grasp when dealing with a discretionary mandate that invests in funds, but this also offers some advantages. For example, the asset managers are well-acquainted with the companies being invested in and can thus make an informed assessment of which measures may increase the longterm enterprise value. On the other hand, big institutional investors are attracting more attention and are listened to when they enter into a dialogue with companies. Furthermore, institutional investors are increasingly banding together and speaking with one voice. Via major initiatives such as Climate Action 100+, investors have joined forces, and with a volume of CHF 68 trillion, they demand more environmental protection from certain companies. To evaluate the investment stewardship activities of asset managers, Zürcher Kantonalbank's manager selection team has created a comprehensive scorecard, which we will discuss in an article appearing in the next edition of this publication. Regardless of whether one manages equities oneself or delegates asset management, one thing is the same: only the enterprises in which one is investing have an actual impact in the world. What investors can – and should – do is consistently exert their influence on these companies.

[1]See Florian Heeb and Julian Kölbel, "The investor's guide to impact", Center for Sustainable Finance and Private Wealth, Zürich University.
[2]For reasons of simplicity, in future we will refer only to asset managers.

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