

**Do you know what ESG topics  
are most important to investors  
in 2023?**



# Investor Engagement: 2023 Engagement Themes and Key Takeaways

## What topics are investors prioritizing in 2023?

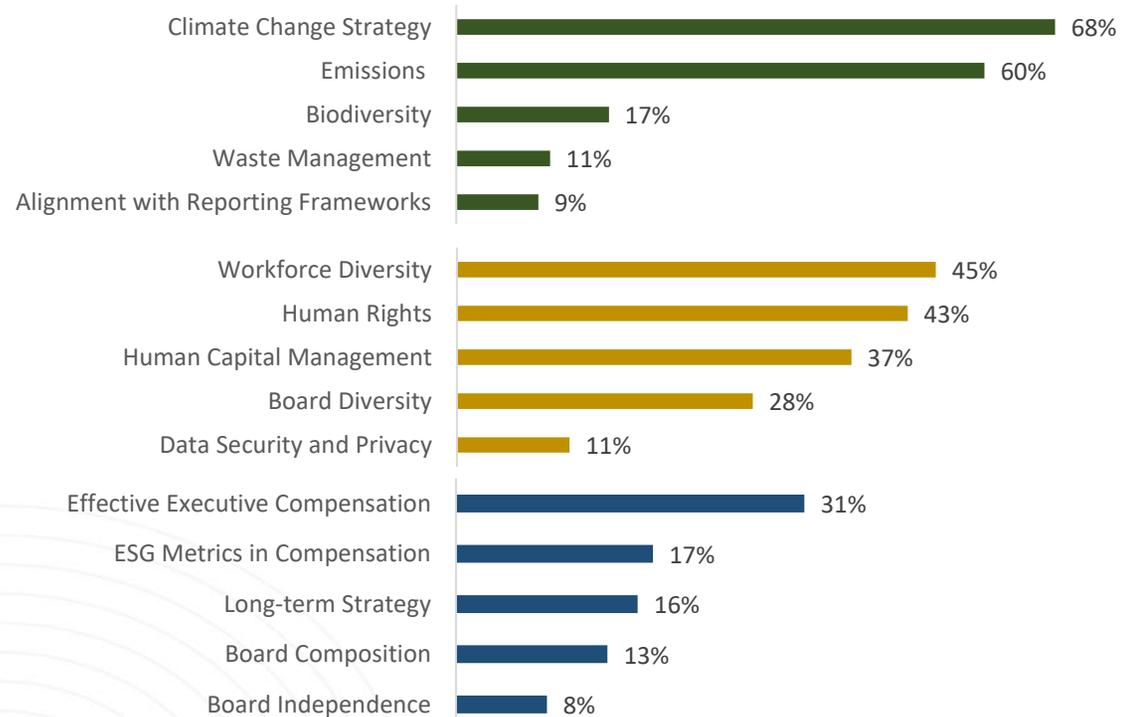
Institutional investors are key players in shaping corporate strategies, governance policies, sustainability practices, and related disclosures of portfolio companies. So, what are the key engagement topics that institutional investors are discussing with issuers?

To answer this question, we analyzed data from our **Investor Engagement Dashboard**<sup>®</sup>, where we track data for more than 70 investors with over \$60 trillion in AUM. Our investor profiles summarize the key themes and personnel related to corporate engagement and voting, as well as ESG trends and concerns. We analyzed the engagement priorities featured on page 1 of every profile to determine the most recurring topics disclosed throughout stewardship reports, voting policies, and other investor publications. Our analysis revealed that environmental and social themes, specifically Climate Change Strategy, GHG Emissions, and Workforce Diversity, were the top engagement priorities in 2023.

## Top Overall Engagement Priorities for 2023

- 1) Climate Change Strategy
- 2) GHG Emissions
- 3) Workforce Diversity
- 4) Human Rights (including Supply Chain)
- 5) Human Capital Management

## Analysis of ESG Priorities, as Listed on ZMH's Curated Investor Profiles



*\*Data sourced from ZMH's Investor Engagement Dashboard<sup>®</sup>, which houses engagement priorities in profiles on 75 investors globally, totaling over \$60T in AUM*

# 2023 Engagement Themes and Takeaways (contd.)

## What are the top priorities of leading investors?

Funds such as Blackrock, Vanguard, State Street and T. Rowe Price are among the largest by AUM in the world and are often among the top investors in a majority of Russell 3000 companies. Due to their prominent position as shareholders, it is important to ask: what are the specific engagement priorities of these funds? Our investor profiles provide not only the leading engagement priorities for each investor, but also guidance and recommendations on how best to address these topics. Some of the common engagement themes among these investors include climate disclosure and emissions reduction, diversity and human capital management, and board composition and quality.

### BlackRock

- **Board Quality and Effectiveness** – Show how board and workforce diversity aligns with market best practice
  - Disclose EEO-1 workforce diversity data and actions to advance DEI
- **Climate and Natural Capital** – Align business with climate risk goal of net zero GHG emissions by 2050
- **Strategy, Purpose, and Financial Resilience** – Implement credible long-term strategy that will generate long-term value, integrate relevant sustainability risks and opportunities
- **Incentives Aligned with Value Creation** – Align incentives with long-term value creation and sustained financial performance, underpinned by material and rigorous metrics
- **Company Impacts on People** – Weigh decision-making in relation to experiences of employees and stakeholders

### Vanguard®

- **Board Composition** – Articulate company’s approach, and illustrate diversity of skills and personal characteristics, and capacity (no overboarding)
- **Strategy and Risk Management** – Detail how risk management approach aligns with strategy and how current and future risks are assessed
  - **Contextualize macro-economic events** – inflation, Russia/Ukraine conflict; detail supply chain/operational impacts and adjustments, shifting consumer habits, and issues with attracting and retaining talent
- **Diversity** – Describe strategy to integrate workforce diversity into broader talent
- **Climate Risk** – Explain how the board oversees climate risks, its relevant climate risk/ business adaptation experience, and its approach to risk management
- **Compensation** – Discuss how pay aligns with long-term performance
- **Shareholder Rights** – Implement governance practices to directors accountable (i.e. Declassification of board, simple-majority vote requirements)



- **Effective Board Oversight** – Emphasize disclosure and oversight and tying these factors to long-term value; explain how board is adequately addressing important governance factors, especially shareholder rights, board independence, and board oversight of director time commitments
- **Climate Risk Management** – Explain how company manages climate risk and addresses climate as an opportunity; detail how company incorporates climate into relevant strategy setting and financial planning processes
- **Human Capital Management** – Detail oversight of recruitment and retention efforts, innovations in the context of a tight labor market and challenging economic conditions, progress toward DEI goals, and KPIs tracked by the Board to gauge effectiveness of strategies
- **Diversity, Equity and Inclusion** – Discuss how the company monitors and manages DEI risk



- **Climate** – Create a credible decarbonization plan, with a minimum of reporting Scope 1 and 2 emissions
  - Include net zero 2050 carbon emissions target (or national/ regional equivalent), and path to achieving the target
  - Describe robust governance procedures around direct and indirect policy advocacy, including board oversight
- **Political Involvement** – Align corporate political involvement and ESG commitments, disclose policies for political participation and its memberships in significant trade associations
- **Lobbying** – Describe priorities in the competing objectives of climate risk and corporate lobbying
  - Describe efforts to escalate any conflict within the trade organization and, if they deem it unresolvable, whether they might leave organization



# 2023 Engagement Themes and Takeaways (contd.)

## What does this mean for Fall engagement?

As companies are conducting 2023 off-cycle engagement, institutional investors have made it clear that climate change, greenhouse gas (GHG) emissions, workforce diversity and management, and human rights are among the top concerns. To ensure an optimal engagement experience with investors, companies should consider the issues that matter most to their shareholders. Here is some high-level guidance for addressing some of the leading issues raised by institutional investors in 2023:

### ***Climate Change and GHG Emissions***

- Be able to articulate company's strategy around managing climate risk in the context of the overall business strategy, with an emphasis on Board oversight
- Report on scope 1 and 2 emissions and be able to discuss progress relative to global commitments and targets (i.e., net zero by 2050, etc.)
- Discuss/disclose how the company is preparing for transition to low-carbon economy, including investing in renewable energy, energy-efficient technologies, sustainable supply chain practices, and other climate-related opportunities

### ***Workforce Diversity and Management***

- Be able to summarize diversity and inclusion training, mentorship programs, and policies that promote equal opportunities for all employees
- Be prepared to discuss diversity throughout the enterprise (at the board, management, and workforce levels) and the rationale and goals behind investment in DEI and human capital programs

### ***Human Rights***

- Discuss how the company is conducting human rights due-diligence across value chain, with an emphasis on alignment to globally-recognized human rights frameworks, such as the UN Global Compact
- Describe policies and procedures that oversee ethical supply chain management, including if a supplier code of conduct has been adopted
- Be ready to articulate strategy for engaging with suppliers on compliance with ethics code and human rights, including describing company's process (distributing an annual survey to suppliers or conducting site visits to verify practices taking place)

*\*Be sure to emphasize the board's role in oversight of any of these issues and how any related goals may be incorporated in executive compensation*



## What ZMH Can Do for You

At ZMH, we understand that acknowledging and meeting investor engagement priorities is fundamental to forging a lasting and mutually advantageous partnership between your organization and its shareholders. Our consulting services help companies develop their investor engagement strategy and ESG programs, including Climate Strategy and DEI disclosures. With our suite of ESG solutions, you can trust that your team will be well-equipped to excel in off and on-cycle engagements with your key investors.

### Develop a strategic roadmap for a thoughtful, long-term ESG program

#### Investor Engagement

Utilize our proprietary Investor Engagement Dashboard to gain strategic insights on investor-specific voting history, stewardship mandates, engagement priorities and much more.

#### Materiality Assessment

Establish a starting point by conducting a formal and comprehensive ESG Materiality Assessment that captures what matters most to your stakeholders.

#### Reporting & Disclosure

Stay up to date on evolving reporting requirements and best practices and create purposeful and effective disclosures that resonate directly with ESG rating organizations and captures investor priorities.

#### Carbon Emissions (GHG) Footprint

Conduct a GHG inventory and calculate your scope 1, 2 & 3 emissions. Identify current gaps and develop internal processes for data collection and tracking.

Whether it is helping advise an already established ESG program or starting from ground zero, our team is here to help!

[ESG Roadshows](#)

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[Data-Driven ESG Strategy](#)