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IGCC Systems Stewardship: Managing Interconnected Climate Risks for Lasting Value

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Overview

1. Context

2. Research findings and case studies

3. Recommendations



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Context



Context

- Current wicked problems are deeply interconnected
- New approach moving beyond traditional investment stewardship is needed



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What is systems stewardship?

- Also known as systematic, systemic or macro stewardship
- From a company focus to a systems view
- Grounded in systems thinking



Research approach

- Literature review
- Survey
- Interviews



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Research findings & case studies

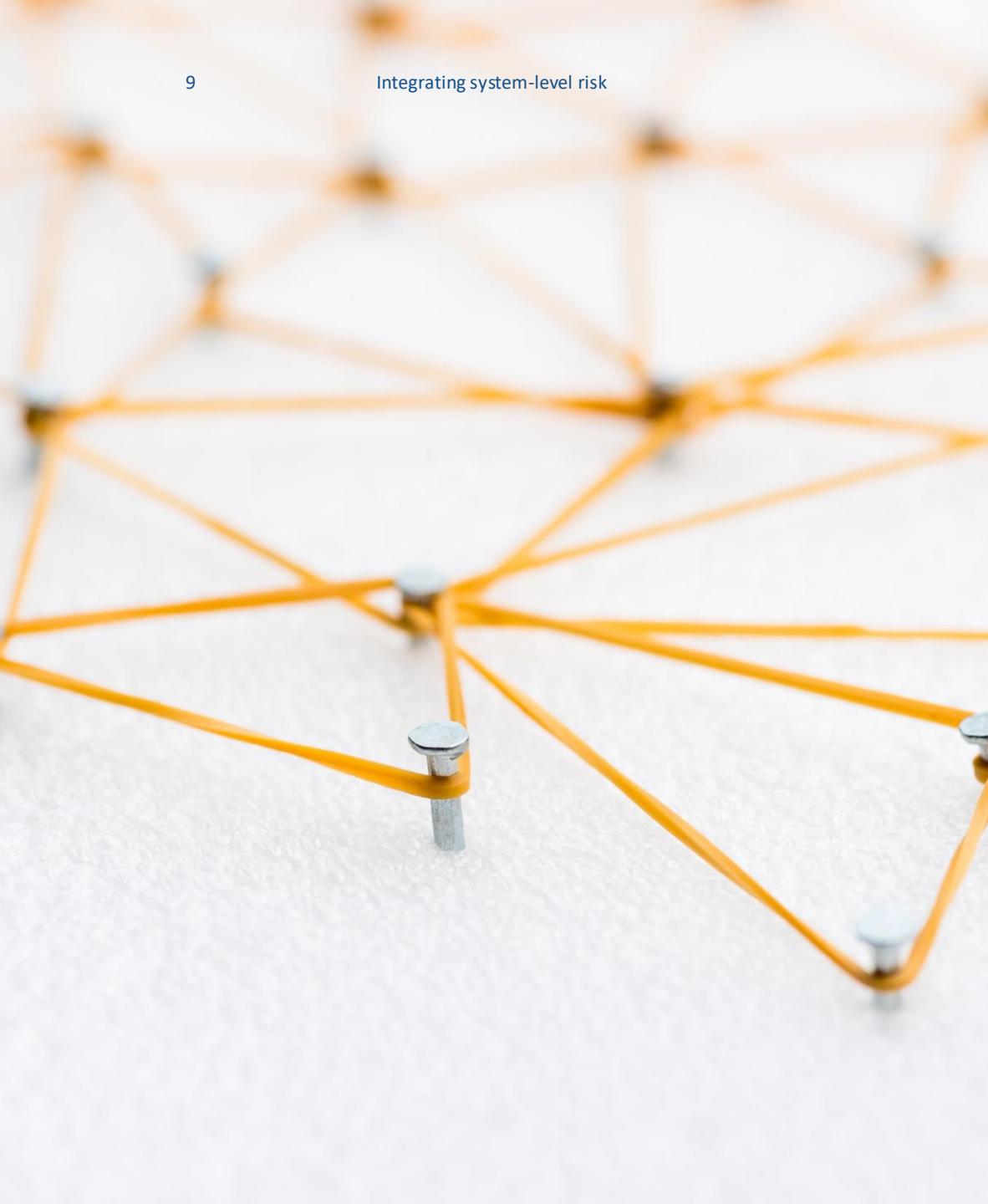


Research findings

Summary

Systems stewardship is not just compatible with fiduciary duty — it is essential to fulfilling it and delivering stable, long-term market returns.

- Systems stewardship is growing, but implementation varies
- Collaboration remains the dominant lever.
- Sector and value chain engagement is emerging.
- Asset owner and asset manager alignment is strengthening.
- Company engagement is evolving.
- Top challenges include resource constraints, regulatory uncertainty, short-term performance pressures.

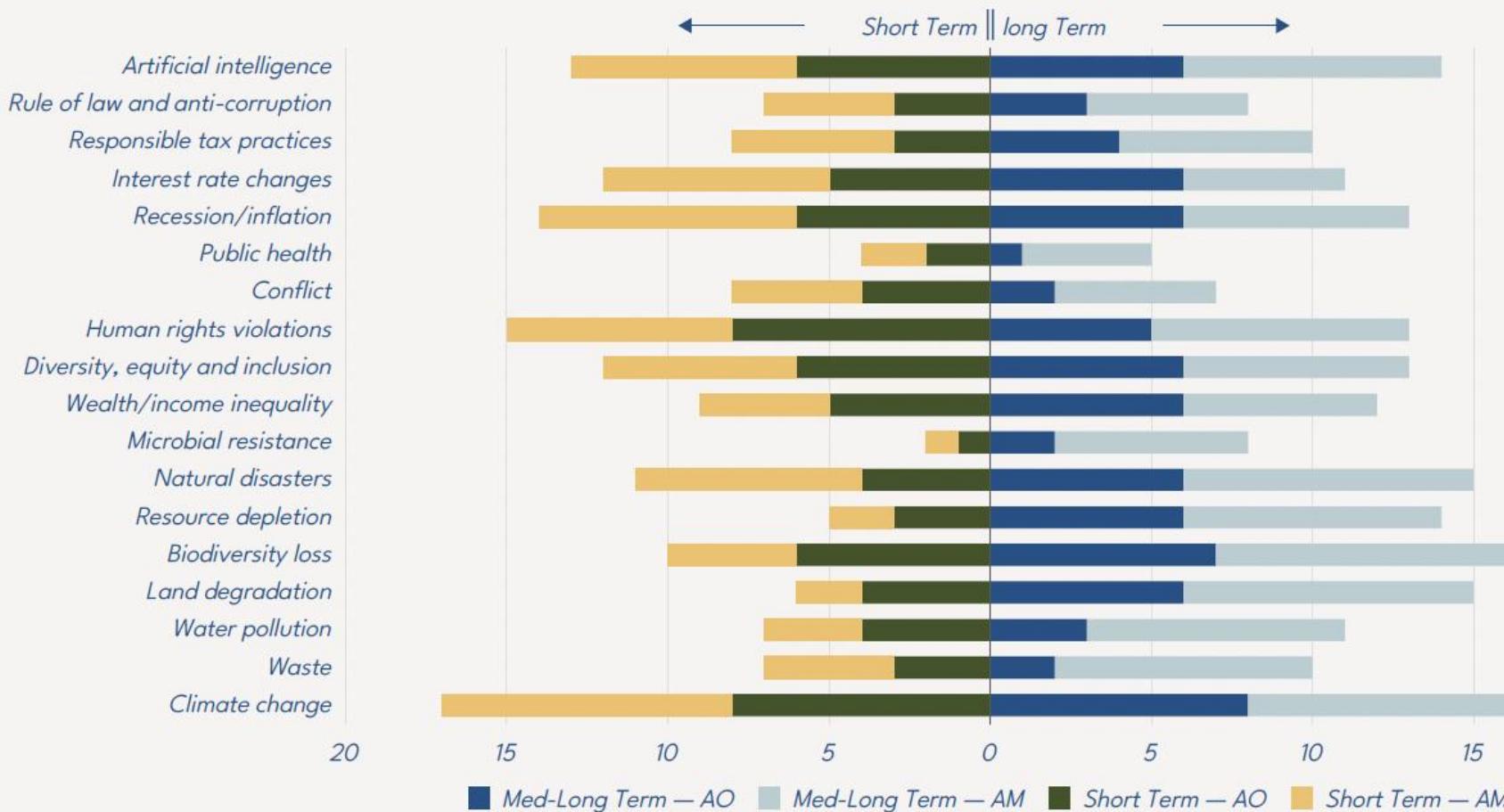


Integrating system-level risk

- 85% of survey respondents said they apply systems thinking in stewardship
- Most have embedded system-risk in investor belief statements
- Many consider how different risks interact

Key system-level risks

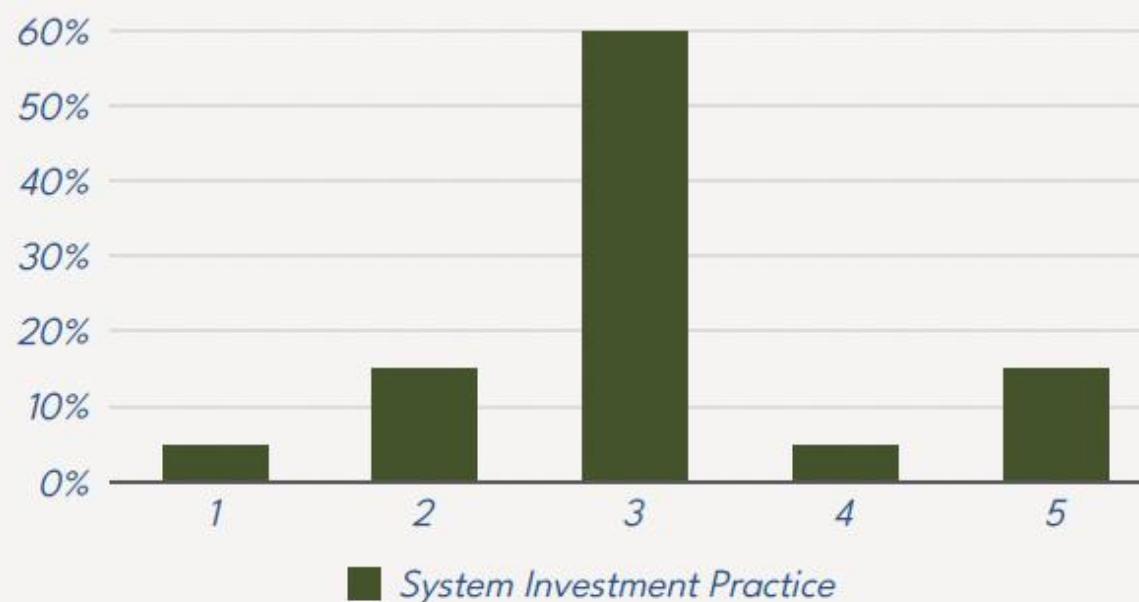
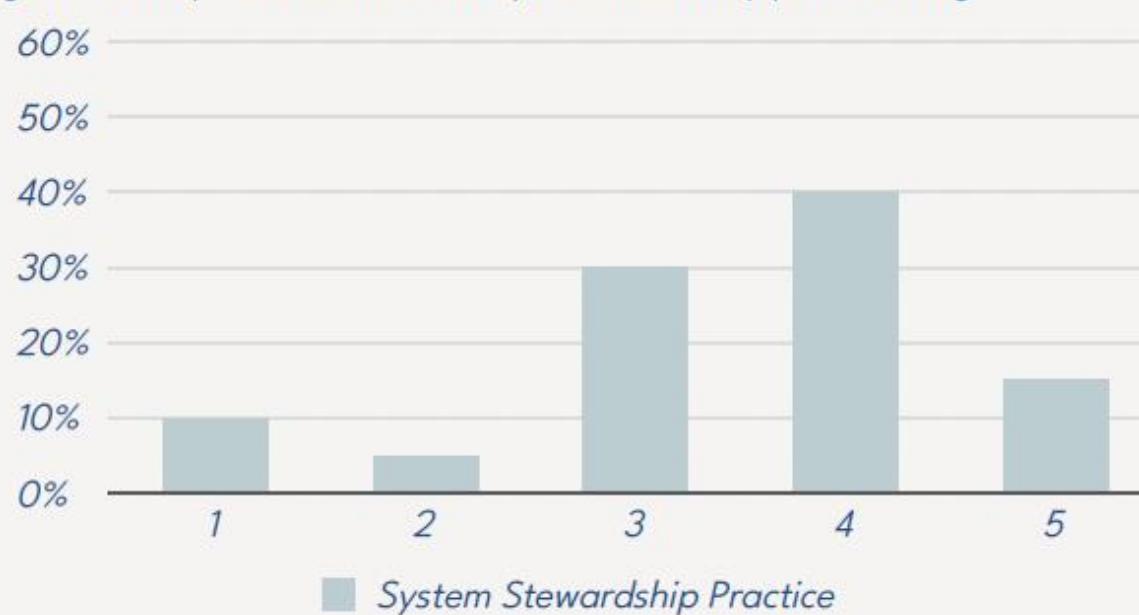
Figure 2: Importance of potential system-level issues to investment outcomes



Nearly all survey respondents consider **system-level risks as moderately to very important to investment outcomes.**

Climate change and human rights are top concerns in the short, medium and long term.

Figure 3: Organisational system investment and system stewardship practice rating



Systems stewardship is more advanced than system investment practice

“[Systems stewardship] in terms of priorities for the sustainable investment team, is high. For the business, it's middle given we do a big range of things for our clients.”

Key systems stewardship activities



- **Public policy engagement and advocacy (75%)**
- **Collaborative engagement (90%)**
- **Sector or value chain initiatives (75%)**
- Engagement between **asset owners and asset managers**
- Assessing systemic risk through **company engagement (75%)**

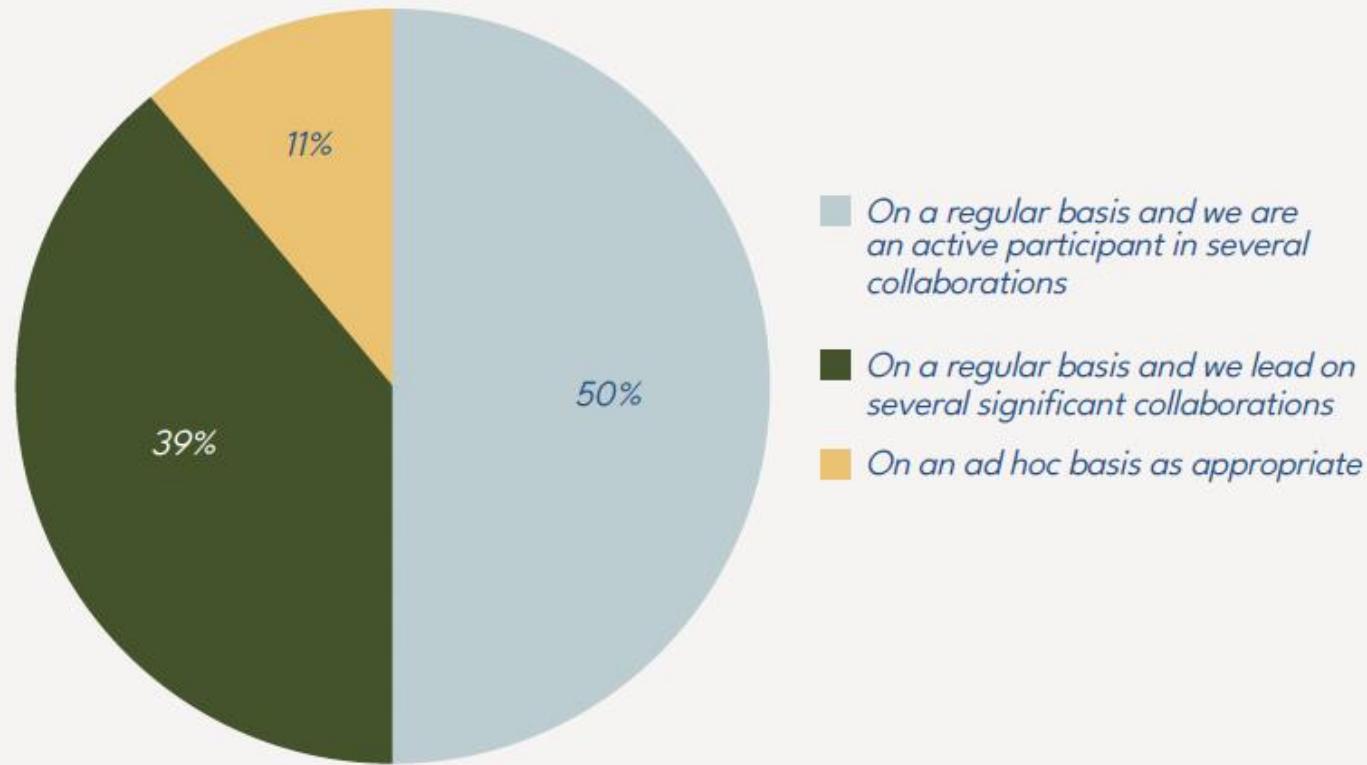


Policy engagement is common but infrequent

- Mostly direct and less public policy engagement
- 93% respond to consultations
- 87% participate in advisory groups
- 80% hold private meetings with policymakers

Collaborative engagement is a dominant lever

Figure 9: Frequency of collaborative engagement



“If you’re trying to achieve change to address the issues challenging the stability of the financial system, there’s no organisation that can solve that on their own ... we see collaboration as absolutely essential”.



Sector and value chain engagement is emerging

- 67% engage in sector-focused collaborative initiatives
- Engagement in value chain stewardship is growing



Investor Mining and Tailings Safety Initiative

Case study

- 2019 Brumadinho, Brazil mine waste disaster
- IMTSI co-founded by the Church of England Pensions Board and Sweden's Council on Ethics
- Coalition US\$25 trillion AUM
- Roundtables, industry standard
- Now half the mining sector is/will implement the standard

Asset owners and asset manager alignment is developing

AMs and AOs have a dual responsibility in incorporating systems stewardship.



Asset owners

“We are increasingly thinking about how we engage our external managers to progress our [stewardship] objectives”.



Asset managers

“If [systems stewardship] can at least be explicit in mandates that it is an expected activity, that is a very helpful lever. That clarity from owners to managers is really useful”.



Company engagement is evolving

- 72% focus on company lobbying
- Over half collaborate with competitors to raise industry standards
- Half address system-level risks in supply chains and consider the impact of policy measures



Church of England Pensions Board

Case study

- £3.4 billion in AUM serving 44,000 people
- Commitment to ethical, long-term investing guided by ethical policies
- Tackling systemic challenges is explicit in its ethical investment policy
- Co-founded and lead: Investor Mining and Tailings Safety Initiative, Transition Pathway Initiative



Challenges

1. Limited resources and skills

“Stewardship is completely under-resourced across the industry.”



Challenges

2. Misalignment within and between organisations

“Marshalling that big broad coalition with very different aims, very different reporting, very different investment styles and very different levers they choose to use—that’s your first challenge.”



Challenges

3. Short-termism

Short-termism *“is an endemic problem”* in the financial system — for investors, government and companies.



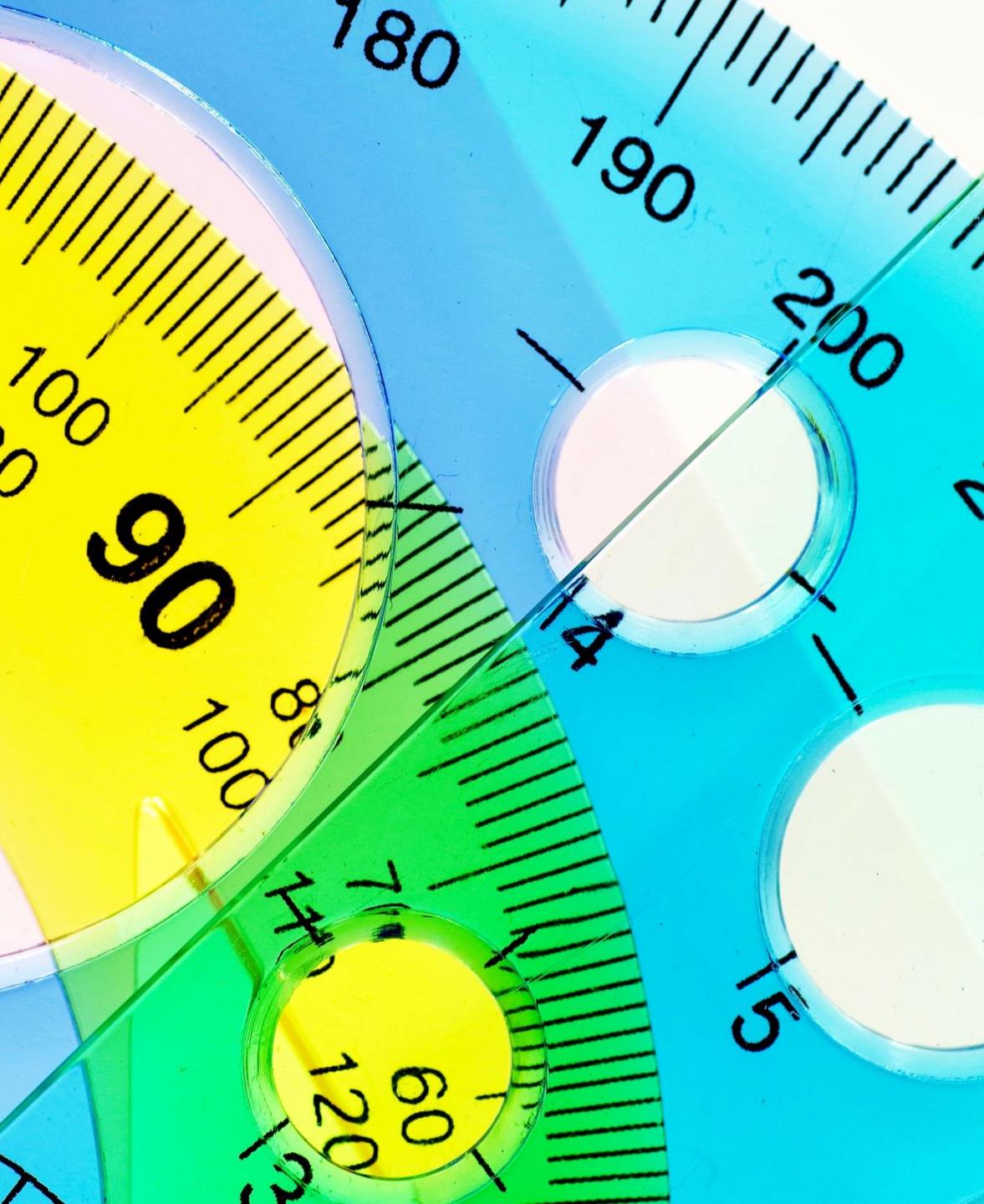
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Challenges

4. Regulatory barriers (competition law, fiduciary duty)

“My concern is that these regulatory barriers are overstated”.

“We probably do need regulatory assurance that is far clearer on what is accepted on matters you can collaborate on...”



Challenges

5. Lack of common metrics and incentives

- No universal quantification of system-level risks
- Robust, standardised metrics missing
- New approaches needed



Challenges

6. Inconsistent terminology

- Challenging to align expectations, report and communicate
- Shared language to reduce confusion and improve alignment



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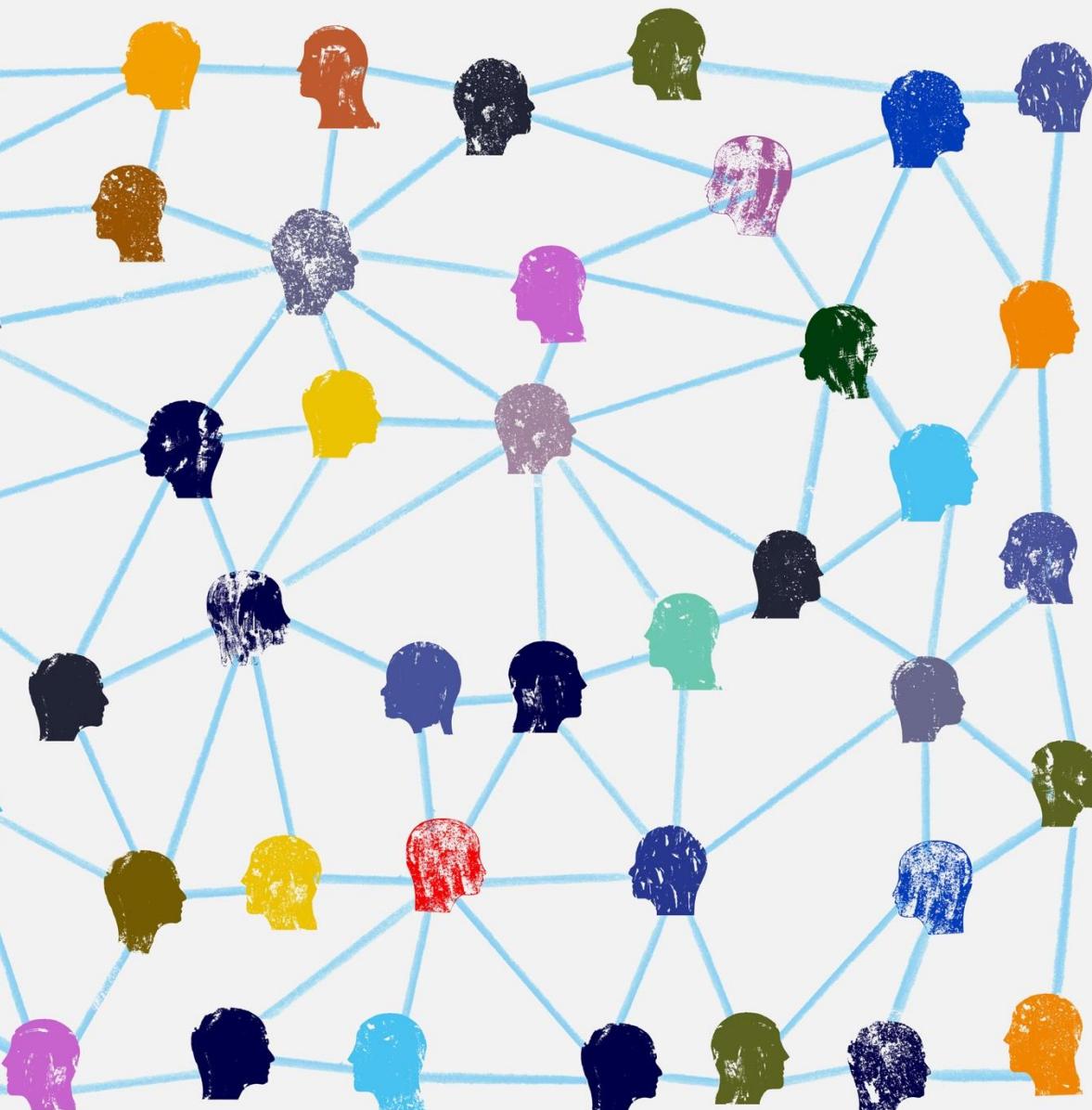
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Recommendations

Recommendations Summary



1. Enhance collaborative engagement to amplify impact.
2. Clarify regulatory guidance to provide certainty.
3. Align language, incentives and metrics to assess and reward outcomes.
4. Foster a culture of systems stewardship to embed practice.
5. Build sector-wide capacity to drive change.
6. Signal expectations through mandates to support goal alignment.



1. Enhance collaborative engagement to amplify impact

For investors in collaborative initiatives:

- Dedicate time and resources
- Align internally
- Consider value chain/sectoral initiatives

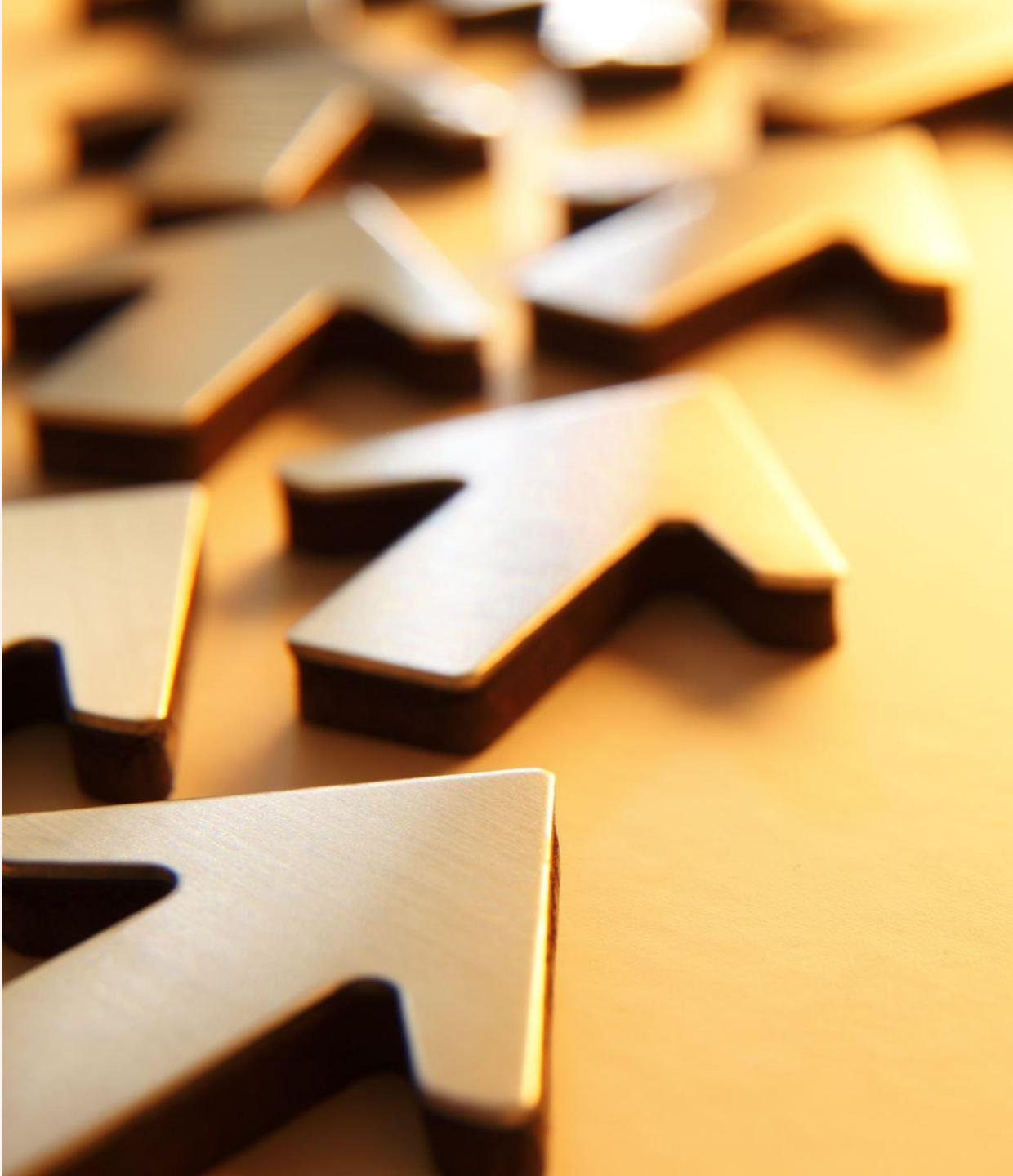
For the investor community:

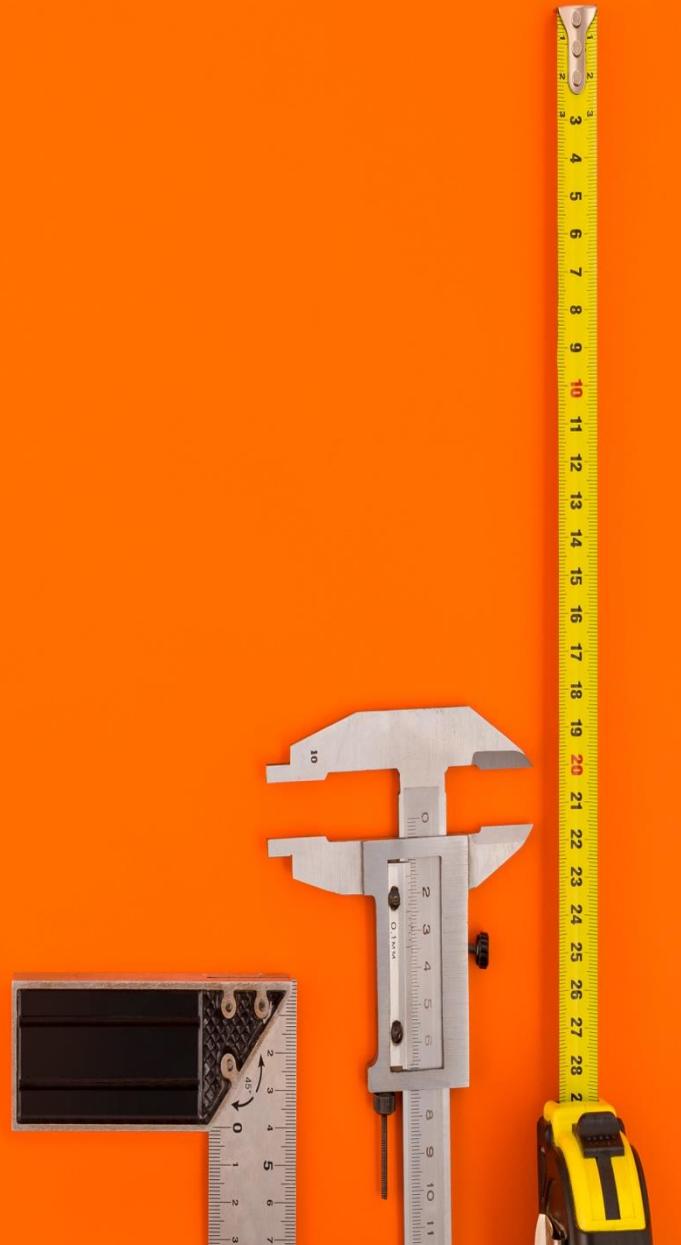
- Build collaboration capacity
- Develop a collaboration toolkit

2. Clarify regulatory guidance to provide clarity

For regulators:

- Review RG 128 Collective Action by Investors
- Clarify BFID should take a broader, longer-term view





3. Align language, incentives and metrics to assess and reward outcomes

For the investor community:

Undertake a joint initiative to:

- Define shared language
- Measure what matters

4. Foster a culture of systems stewardship to embed practice

For investors:

- Raise awareness in your organisation
- Embed systems stewardship into core functions
- Emphasise the importance of long-term beta level returns





5. Build sector-wide capacity to drive change.

For investors/ the investor community:

Strengthen capability in 5 key areas:

- ESG and system-level risk awareness
- Systems thinking literacy
- Targeting effective levers
- Understanding beta level risk
- Building skills in collaborative engagement and policy advocacy

6. Signal expectations through mandates to support goal alignment

For investors:

- Review alignment
- Embed stewardship in mandates
- Communicate commercial value





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