Investor Group on Climate Change

UTS Institute for Sustainable Futures

Systems Stewardship: Managing Interconnected Climate Risks for Lasting Value

A Guide to Understanding and Strengthening Investor Practice

Published December 2025

About the Investor Group on Climate Change

We are the leading network for Australian and New Zealand investors to understand and respond to the risks and opportunities of climate change.

Our members include our countries' largest superannuation and retail funds, specialist investors and advisory groups.

Their beneficiaries include more than 14.8 million Australians, and millions more in New Zealand.

IGCC members have more than $35 trillion in global AUM, and almost $5 trillion in local AUM.

Acknowledgments

This report was written and researched by the Institute for Sustainable Futures (ISF) at the University of Technology Sydney (UTS).

IGCC commissioned the project and provided strategic direction and project oversight through the Corporate Engagement and Investor Practice teams. We thank the investors, experts and stakeholders who contributed their time and insights through interviews and consultations, which informed the findings and recommendations.

IGCC would also like to acknowledge the members who provided feedback during the development of this report. IGCC takes sole and final responsibility for the content of this report.

About this report

This report was commissioned by the Investor Group on Climate Change (IGCC) and authored by the Institute for Sustainable Futures (ISF) at the University of Technology Sydney (UTS). It examines how Australian investors understand and apply systems stewardship as part of managing interconnected, system-level climate risks.

The analysis draws on ISF's literature review, interviews with institutional investors, and review of emerging international practice. The findings provide a practical foundation for investors seeking to strengthen stewardship across company, sector and system levels.

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01: Executive Summary

Today's economic, environmental and social challenges are deeply interconnected. Climate change and biodiversity loss are examples of complex, system-level risks with economy-wide impacts. Addressing these risks requires systems thinking.

All sectors have a role in responding to the climate crisis. For investors seeking risk-adjusted returns, the dual responsibility is clear:

- Allocating capital for long-term economic, societal and environmental good
- Safeguarding financial stability and protecting the economy by addressing system-level risk

Systems stewardship is not just compatible with fiduciary duty — it is essential to fulfilling it and delivering stable, long-term market returns.[1]

This study, commissioned by the Investor Group on Climate Change (IGCC) and conducted by the Institute for Sustainable Futures (ISF) at the University of Technology Sydney, examines how Australian investors are applying systems stewardship in practice. IGCC identifies systems stewardship as one of six priorities for achieving real-world emissions reductions and aligning capital markets with a net zero future.[2]

1 Freshfields Bruckhouse Deringer. *A legal framework for impact*. 2021.
2 Investor Group on Climate Change. (IGCC). *State of net zero investment*. 2025.

What is Systems Stewardship?

System stewardship is an evolution of traditional stewardship. It expands the focus beyond individual companies to the interconnected systems that underpin investment outcomes. Grounded in systems thinking, it highlights interrelationships, feedback loops and leverage points that shape long-term value creation.

It helps investors to respond to systemic risks that conventional strategies may be ill-equipped to address. These risks affect entire economies or sectors, including climate change, biodiversity loss, interest-rate shifts, and geopolitical instability.

Such risks are particularly material for **universal owners** such as superannuation and sovereign wealth funds, given their **long-term market exposure and diversified portfolios**. This study focuses on investor practices that address systemic risks through systems stewardship.

By focusing on long-term, economy-wide outcomes, systems stewardship helps protect the stability of financial market returns and the societal and environmental systems on which those returns depend.

Research Approach

The study used a mixed-methods approach (detailed in Appendix A):

- Literature review of global frameworks and practices
- Survey of IGCC asset owner and asset manager members (20 responses, around one-third of relevant membership)[3]
- Eight follow-up interviews for deeper insights

The findings provide a snapshot of current practice among investors actively engaged in systems stewardship.

Key Findings

Systems stewardship is growing, but implementation varies and faces barriers.

Eighty-five per cent of surveyed investors incorporate systems thinking into stewardship. They identified key system-level risks — climate change, human rights, biodiversity loss, resource depletion and social inequality — as material threats to long-term performance requiring coordinated, systemic action. Investors recognise that safeguarding beta-level returns helps protect the financial system and market.

Collaboration remains the dominant lever.

Ninety per cent of investors engage in alliances such as Climate Action (CA) 100+. Policy advocacy is common across national and state governments, regulators and standard-setters, with a focus on climate policy, sustainability disclosures and sectoral transition pathways. However, there is a limit to depth and frequency.

Sector and value chain engagement is emerging.

While less common, initiatives such as the Investor Mining and Tailings Safety Initiative (IMTSI) and the Steel Purchaser Framework show the potential for collective action to shift industry systems.

Asset owner and asset manager alignment is strengthening.

Asset owners are increasingly engaging managers on systems stewardship, though formal accountability remains limited.

Company engagement is evolving.

Systems stewardship expands the lens to include lobbying practices, industry standards and collaborative tools to measure impact.

3 IGCC has 107 members, including 60 asset owners and asset managers.

Challenges to Progress

Key barriers include:

- 78% resource constraints
- 67% regulatory uncertainty
- 61% short-term performance pressures
- 50% difficulty measuring and monitoring system-level risk
- 38% lack of incentives
- 28% inconsistent terminology

Respondents also cited misalignment within organisations, among investors and across the broader financial system. Views on regulatory barriers were mixed: some see barriers as overstated and needing clearer guidance on competition law and fiduciary duty.

Systems stewardship is advancing but needs deeper integration, clearer metrics and stronger internal and external alignment to scale impact.

Strengthening systems stewardship: six key recommendations

Investors can integrate core elements of systems stewardship into their strategies through public policy advocacy, stakeholder collaboration, cross-sector and company engagement, transparency improvements, and systemic risk monitoring.

The report identifies six priorities to accelerate progress.

1. **Enhance collaborative engagement to amplify impact.**
   Focus on clear goals, strong governance and adequate resourcing. Prioritise focused, evidence-based initiatives and explore value-chain initiatives as an emerging, effective form of collaboration.
2. **Clarify regulatory guidance to provide certainty.**
   Regulators should review and modernise guidance on collective action, fiduciary duty, competition law, and long-term investment performance evaluation.
3. **Align language, incentives and metrics to assess and reward outcomes.**
   Develop shared terminology and tools for systems stewardship. Link remuneration and incentives to long-term outcomes and use qualitative case studies and activity-based benchmarks where metrics are limited.
4. **Foster a culture of systems stewardship to embed practice.**
   Embed systems stewardship across all levels of organisation, from trustees to analysts. Address culture and resource challenges — treat them as core strategic priorities, not side activities.
5. **Build sector-wide capacity to drive change.**
   Strengthen capacity in systems literacy, system-level risks and systems stewardship. Identify leverage points and systemic interventions to target change.
6. **Signal expectations through mandates to support goal alignment.**
   Asset owners should engage with asset managers on stewardship goals and embed systems stewardship in investment mandates to strengthen alignment and accountability.

Strengthening systems stewardship will help investors safeguard long-term returns, accelerate the net zero transition and build a more resilient, sustainable economy.

02: About the Research and Report

The Investor Group on Climate Change (IGCC) commissioned this research to better understand the systems stewardship landscape and the practices of its member investors.

IGCC is an investor member organisation with 103 members across Australia and New Zealand, representing over A$4 trillion in assets under management (AUM) locally. It is the leading network for Australian and New Zealand investors to understand and respond to the risks and opportunities of climate change. IGCC's vision is to achieve a climate-resilient economy on track by 2030 and net zero emissions by 2050.

Focusing on systems stewardship to drive real-world emissions reductions is one of IGCC's six focus areas for realising transition opportunities in capital markets.[4]

This research included a literature review, a short online survey of IGCC asset manager and asset owner members and semi-structured interviews with self-nominated survey respondents (see Appendix A for the detailed method).

The report first sets the context of systems thinking, system-level risk and systems stewardship. It then presents the research findings and provides insights and recommendations to enhance systems stewardship practice.

4 IGCC (2025).

03: Understanding Systems Stewardship

The global community faces serious, interconnected environmental, social and economic challenges. Over the next 10 years, climate and nature will rank as the most significant environmental risks globally.[5] Climate change continues to accelerate with global emissions rising year on year, alongside increased and more extreme weather events and natural disasters. One million species are at risk of extinction due to human activity.[6]

We need new ways of thinking to address these complex problems — systems thinking provides useful tools for addressing complexity.

5 World Economic Forum. *Global Risks Report 2025*. 2025.
6 Díaz, S. et al. Pervasive human-driven decline of life on Earth points to the need for transformative change. *Science*, *366*(6471), eaax3100. 2019.

3.1 What is Systems Thinking?

A framework for seeing interrelationships rather than things, seeing patterns rather than static for snapshots.[7]

Systems thinking:
- Considers the overall system as well as its individual parts
- Tries to understand and address the interconnections within a system
- Aims to understand the root causes and potential impacts of issues.

Systems thinking considers different future scenarios, maps feedback loops, recognises relationships between ideas, and brings together diverse perspectives and sectors. This makes it well-suited to nonlinear, uncertain and complex situations.[8,9]

Leverage points are points in a system where small shifts can drive big change. Donella Meadows, a pioneer in systems thinking, identifies 12 leverage points, ranked by impact.

Higher-impact: Change the system's goals or shift its underlying paradigm. For example, shifting goals from short-term profit to long-term value creation.

Lower-impact: Adjust flows of information or materials. For example, climate-related financial disclosures.

All leverage points matter, and real change needs effort across multiple points.[10]

Investors face complex, system-level risks, especially from climate change, that threaten financial stability. Tackling these risks requires systems thinking — seeing interconnections, not just isolated issues.

The activities of global financial and peak bodies reflect this recognition, providing tools and guidance. For example, the Chartered Financial Analyst (CFA) Institute published a guide on systems thinking and sustainable investing.[11] The Principles of Responsible Investment (PRI) published an investor guide to address system-level risks and opportunities.[12] They have also called for a dialogue between investors and central banks to adopt "*system-level thinking with a macro-socio-economic perspective, focusing on the interconnectedness of the financial system, the environment, and the social system*".[13,14] This will help to manage long-term risks and opportunities and will contribute to a more resilient and sustainable financial system.

3.2 What is System-Level Risk?

Idiosyncratic, or company-level risks, are specific to individual entities, such as supply chain issues or market shifts that impact financial performance. System-level risks are those that impact at an economy-wide level.

System-level risks cannot be mitigated through divestment from individual companies or through portfolio diversification.[15,16,17]

They include:
- **Systematic or market risk:** risks transmitted through financial markets and economies, such as interest rate changes, geopolitical issues and changes in currency rates.

7 Senge, P. M. *The fifth discipline: The art and practice of the learning organization*. Broadway Business. 2006.
8 Bolton, P. et al. *The green swan: Central banking and financial stability in the age of climate change*. The Bank of International Settlements. 2020.
9 Cabrera, D. and Cabrera, L. *Systems thinking made simple: New hope for solving wicked problems*. [2nd edition]. Plectica. 2018.
10 Meadows, D. *Lever points places to intervene in a system*. The Sustainability Institution. 1999.
11 Hayman, G. *What is systems thinking? A primer with applications for sustainable investing*. CFA Institute. 2024.
12 PRI. *Addressing system-level risks and opportunities*. 2025.
13 PRI. *Why system-level thinking is required of responsible investors in an inflationary environment*. 2024.
14 PRI. *What is system-level investing?* 2024.
15 Pensions for Purpose. *Systemic stewardship: Challenges & strategies for change*. 2025.
16 Sierra Club. *The long term will be decided now why climate risk demands system-level action from investors*. 2025.
17 The Investment Integration Project (TIIP). *(Re)calibrating feedback loops guidance for asset owners and institutional investors assessing the influence of system-level investing*. 2023.

- **Systemic risk:** risks that result in cascading consequences that can trigger destabilisation and collapse of a system.[18,19] For example, climate change, biodiversity loss or the failure of a business or group of businesses.[20]

System-level risks can affect entire systems on which society depends, such as the health care system or the energy system.[21]

System-level risk is particularly important to universal asset owners, passive investors and long-term investors because they have long market exposure and diversified portfolios.[22,23,24]

Conventional risk analysis and governance tend to compartmentalise risks.[25] This approach does not work well for interconnected system-level risk.

Climate change impacts individual companies through specific physical and transition risks. However, it is considered a system-level risk because it also has economy-wide impacts.[26] To mitigate climate risk, real-world emissions must be reduced. This goes beyond decarbonisation of portfolios and requires investors to think about economy-wide decarbonisation.

Systems thinking and system-level risk are not just theoretical concepts — they are beginning to impact financial policy, guidance and codes.

Climate risk is systemic

The Taskforce on Climate-Related Financial Disclosures was created to address climate change as a threat to financial stability. Its disclosure guidelines now shape global climate reporting — voluntary and mandatory, including in Australia.

Green swans are real

The Bank of International Settlements warns that climate-driven shocks — physical and transition risks — could trigger the next financial crisis.[27]

Systems thinking informs climate scenarios

The Network for Greening the Financial System (NGFS) uses systems thinking to model short- and long-term climate impacts on the economy.[28,29]

Governments are paying attention

The Australian Government's Sustainable Finance Roadmap flags climate as a systemic risk (Priority 6).[30] A 2023 court ruling reinforced this, stating:

> *"Climate change is a systemic risk... Uncertainty around the magnitude and timing of the physical impacts of climate change and the global transition to net zero emissions translates to uncertainty about the fiscal impacts of climate change."*[31]

Stewardship is evolving

System-level risk is now embedded in stewardship codes. There is more on this later in the report.

18 Kaufman, G. G. & Scott, K. E. What is systemic risk, and do bank regulators retard or contribute to it? *The Independent Review*, *7*(3), 371–391. 2003.
19 PRI. *Why system-level thinking is required of responsible investors in an inflationary environment*. 2024.
20 Financial Reporting Council. *UK Stewardship Code 2020*. 2020.
21 The Organisation for Economic Co-operation and Development (OECD). *Emerging risks in the 21st century. An agenda for action*. 2003.
22 UK Sustainable Investment and Finance Association (UKSIF), Scottish Widows & Canbury. Systemic risks: A framework for portfolio resilience. 2025.
23 TIIP (2023).
24 Hawley, J. & Williams, A. The Emergence of Fiduciary Capitalism. *Corporate Governance*, *5*(4) 1997.
25 Schweizer, P-J. & Juhola, S. Navigating systemic risks: governance of and for systemic risks. *Global Sustainability*, *7*, e38, 1–12. 2024.
26 Sierra Club (2025).
27 Bolton, P. et al. (2020).
28 Network for Greening the Financial System (NGFS). *The NGFS Long-term Climate Scenarios explore a range of plausible outcomes*. 2024.
29 NGFS. *NGFS Short-term Climate Scenarios for central banks and supervisors*. 2025.
30 The Treasury. *Sustainable finance roadmap*. Australian Government. 2024.
31 The Treasury. *Statement on O'Donnell v Commonwealth*. Australian Government. 2023.

3.3 What is Systems Stewardship and System-Level Investment?

Investors can apply systems thinking to address system-level risk in several ways. The PRI distinguishes between:

- **System-level investment practice** deploys capital to address system-level risk.
- **Systems stewardship** focuses on interconnections between issues and includes activities to achieve system-level impact, such as engagement and voting practices.[32]

While this report focuses primarily on **system stewardship to address systemic risk**, it is worthwhile considering system-level investing.

System-Level Investing

System-level investors push themselves to achieve goals that focus on the paradigms that underlie systems.[33]

The PRI describes system-level investment as blending traditional investment and portfolio analysis with analysis of system-level risks and opportunities.[34]

Capital allocation is a powerful climate lever.

Investors can:

- Restrict funding for carbon-intensive activities. For example, Australian Ethical restricts funding to coal mining and other forms of fossil fuels.[35]
- Raise the estimated cost of capital for carbon-intensive companies. For example, incorporating methane emissions risk and rising carbon and offset costs into models.[36]
- Reallocate funds to low-carbon and transitional solutions — clean energy, transport, electrification and efficiency — across public and private markets. For example, investment in renewable energy projects worth A$9 billion occurred in 2024.[37]

These signals drive decarbonisation at the company and sector levels.

Another approach is to "*deny debt, engage equity*". This means:

- limiting debt for fossil fuel expansion
- tying financing to strong climate commitments
- using equity stewardship to push climate transitions.[38]

Advanced approaches go deeper and deploy diverse strategies at key leverage points, design financial products to tackle systemic issues or maximise the social and environmental impact of asset classes.[39]

32 PRI (2024).
33 TIIP. *Systemic stewardship: Investing to address income inequality*. 2021. (p. 21).
34 PRI. *Why system-level thinking is required of responsible investors in an inflationary environment*. 2024.
35 Australian Ethical. *Super*. 2025
36 Institute for Energy Economics and Financial Analysis. *Australian investors urged to tackle fossil fuel companies' methane time bomb*. 2025.
37 Clean Energy Council. *Quarterly investment report Q4 2024*. 2025.
38 Sierra Club (2025).
39 TIIP (2021).

Systems Stewardship

Systems stewardship is also called *systematic, systemic* or *macro stewardship*.

Capital reallocation alone is not enough. Decarbonising portfolios neither necessarily achieves real-world decarbonisation nor solves climate change systemic risk. Traditional stewardship, like company engagement and proxy voting, falls short when:

- technology is not yet commercial/viable
- policy is not supportive
- market failures persist.[40,41]

System-level investment and systems stewardship are interlinked.[42,43,44] System-level investing can direct which activities get funded, while equity engagement can be used to shape how funding is used.[45]

Investors need a broader lens. Systems stewardship goes beyond portfolio approaches. It focuses on long-term environmental, social and governance (ESG) outcomes at the economy-wide scale. It is about protecting the social and environmental systems that underpin investment returns.[46,47,48,49]

From this perspective, addressing system-level risk is not contrary to fiduciary duty, but essential to it.[50] Safeguarding financial markets (beta) means safeguarding society and the environment. Systems stewardship recognises that systemic interventions are required to address systemic challenges.[51,52]

Systems stewardship can include activities such as:

- engaging companies on system-level issues
- joining collaborative stewardship initiatives
- influencing sectors and value chains
- advocating for policy reform
- asset owners engaging with asset managers on systems stewardship.[53,54,55,56]

Why it matters. IGCC identifies systems stewardship as key to cutting real-world emissions.[57] Universal owners (for example, institutional investors, passive funds, superannuation funds, sovereign wealth funds) are well-positioned to lead due to having broad portfolios and long-term horizons.[58,59]

To decide whether to address an issue through systems stewardship, investors may consider these criteria:

- Is there authoritative agreement?
- Does it affect investment performance?
- Can investors influence it?
- Does it carry system-level risk beyond traditional tools?[60]

Codes, guidance and tools are emerging to support investors and encourage systems stewardship.

40 George, D. et al. Macro stewardship: A transformative approach in sustainable finance for achieving sustainability. *Sustainability*, *17*(8), 3287. 2025.
41 See n40.
42 Aviva Investors (2022). *The macro stewardship edition*.
43 Maanch. *Systemic stewardship: Universal ownership and strategic potential for sustainable futures*. 2024.
44 NZAOA (2022).
45 Sierra Club (2025).
46 Aviva Investors. *The levers of change: A systems approach*. 2022a.
47 Finance for Environmental and Social Systemic Change Centre. *The Cambridge universal ownership principles*. University of Cambridge. 2021.
48 Financial Reporting Council. *UK Stewardship Code 2020*. 2020.
49 See n40.
50 Sierra Club (2025).
51 IGCC (2025).
52 Maanch. *Systemic stewardship: Universal ownership and strategic potential for sustainable futures*. 2024.
53 Aviva Investors. *The macro stewardship edition*. 2022b.
54 George et al. (2025).
55 International Corporate Governance Network (ICGN). *ICGN systemic stewardship & public policy advocacy toolkit September 2023*. 2023.
56 Maanch (2024).
57 IGCC (2025).
58 Maanch (2024).
59 TIIP (2021).
60 TIIP (2021).

Stewardship Codes are Evolving to Incorporate a Systems Approach

Stewardship codes now increasingly recognise **system-level risk** and the need for **systems stewardship** to protect long-term returns. For example:

- **UK Stewardship Code (2026):** requires signatories to identify/respond to systemic risks and submit detailed disclosures.[61]
- **Aotearoa New Zealand Code (2022):** calls for integrating systemic ESG risks into stewardship policies and engagement strategies.[62]
- **Australian Council of Superannuation Investors (ACSI) Australian Asset Owner Code:** principle 5 urges advocacy for policies that address systemic, industry-wide issues.[63]
- **Financial Services Council Standard 23 (Australia):** requires governance disclosures on ESG integration and stewardship practices.[64]

Governance Guidance for Systems Stewardship is Growing

Investors are encouraged to build internal processes to manage systems stewardship effectively.

Tools available to support this include:

- **UKSIF's systemic risk assessment tool:** helps asset owners evaluate their approach.[65]
- **Systemic Stewardship & Public Policy Advocacy Toolkit:** helps plan systems stewardship strategy, policy engagement, implementation, and reporting.[66]
- **The Shareholder Commons guidelines:** guidance on expectations for annual reporting on systems stewardship by asset managers.[67]

61 Financial Reporting Council. *UK Stewardship Code 2026*. 2025.
62 Stewardship Code Aotearoa New Zealand. 2022.
63 ACSI. *Australian Asset Owner Stewardship Code March 2024*. 2024.
64 PRI. *Strengthening effective stewardship in Australia*. 2023.
65 UKSIF, Scottish Widows & Canbury. *Systemic risks: A framework for portfolio resilience*. 2025.
66 ICGN (2023).
67 The Shareholder Commons. *Model provisions incorporating system stewardship principles into asset management mandates*. 2021.

04: Systems Stewardship Practice in Australia

This section of the report outlines the research findings on how investors are integrating systems thinking and system-level risk into stewardship, touching briefly on system-level investment practice. It then looks at the research findings on specific systems stewardship activities.

4.1 Integrating System-Level Considerations into Practice

How are Investors Integrating System-Level Risk?

Eighty-five per cent of survey respondents said they apply systems thinking in stewardship. Investors recognise that climate change, social inequality, and economic instability pose systemic risks to long-term returns — especially for diversified portfolios. The goal of systems stewardship is to nudge stakeholders toward sustainability improvements, rather than rely solely on exclusions or divestment strategies.

How investors manage system-level risk (see Figure 1):

- 75% include it in their investor belief statements
- 65% consider how different system-level risks interact
- About half have systems to prioritise or monitor these risks
- None align compensation with long-term sustainability/system-level risk management
- Three are exploring system-level risk
- One has not considered it at all

Investors understand the risks and have started introducing processes to monitor them, but incentive structures lag. Systems stewardship needs stronger internal alignment to drive real-world impact.

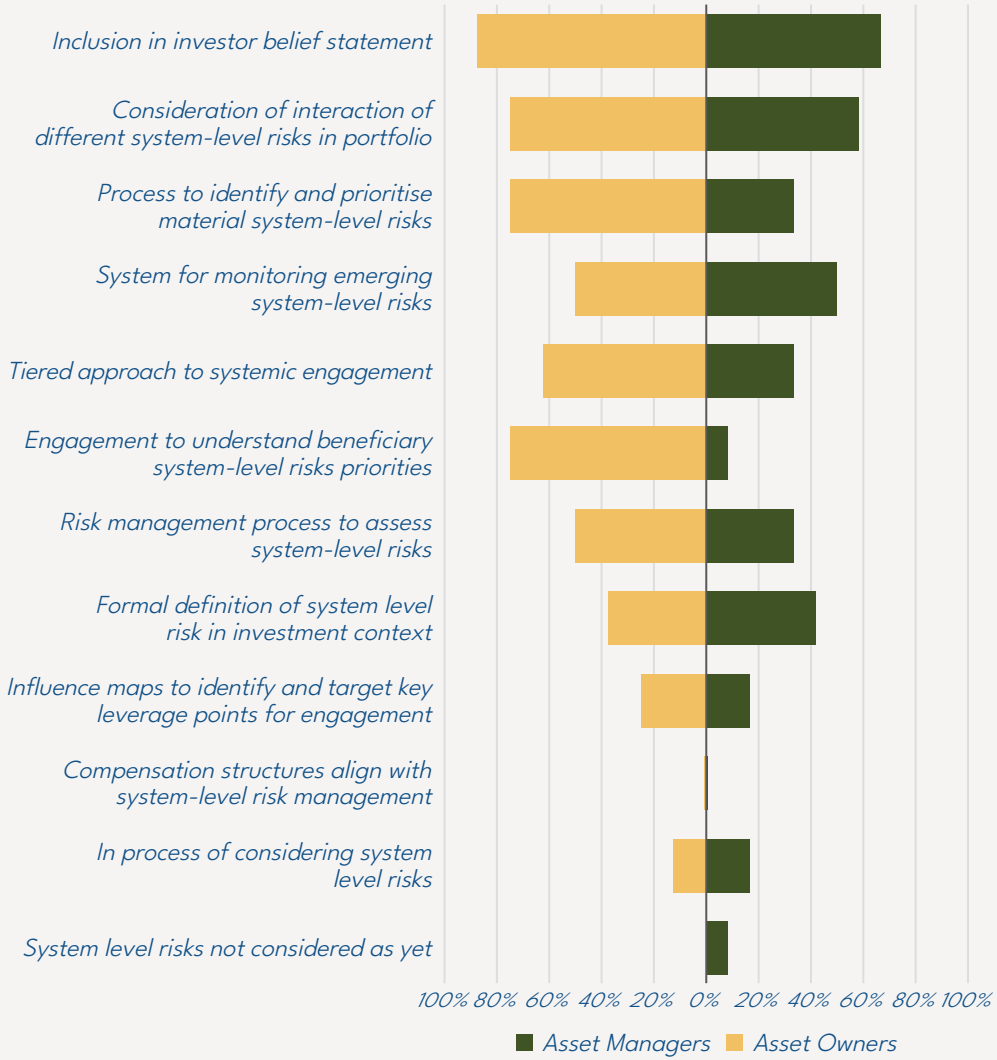
Interviewees said they identify macro themes and contextualise system-level risks by:

- using frameworks (e.g. the TIIP)
- linking risks to the Sustainable Development Goals
- using a double materiality lens.

To **prioritise system-level risks**, they use criteria such as:

- materiality to the organisation
- value to the organisation versus resourcing required ("bang for buck")
- size of the risk and ease with which to make a case (climate is noted as an easy-to-apply system-level risk lens)
- topics with obvious links throughout a value chain across multiple asset classes in their investing portfolio ("where we might have multiple relationships or levers throughout that value chain that can all play a role in decarbonising the sector").

Figure 1: Organisational activities to identify and manage system-level risks



What System-Level Risks are Investors Prioritising?

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

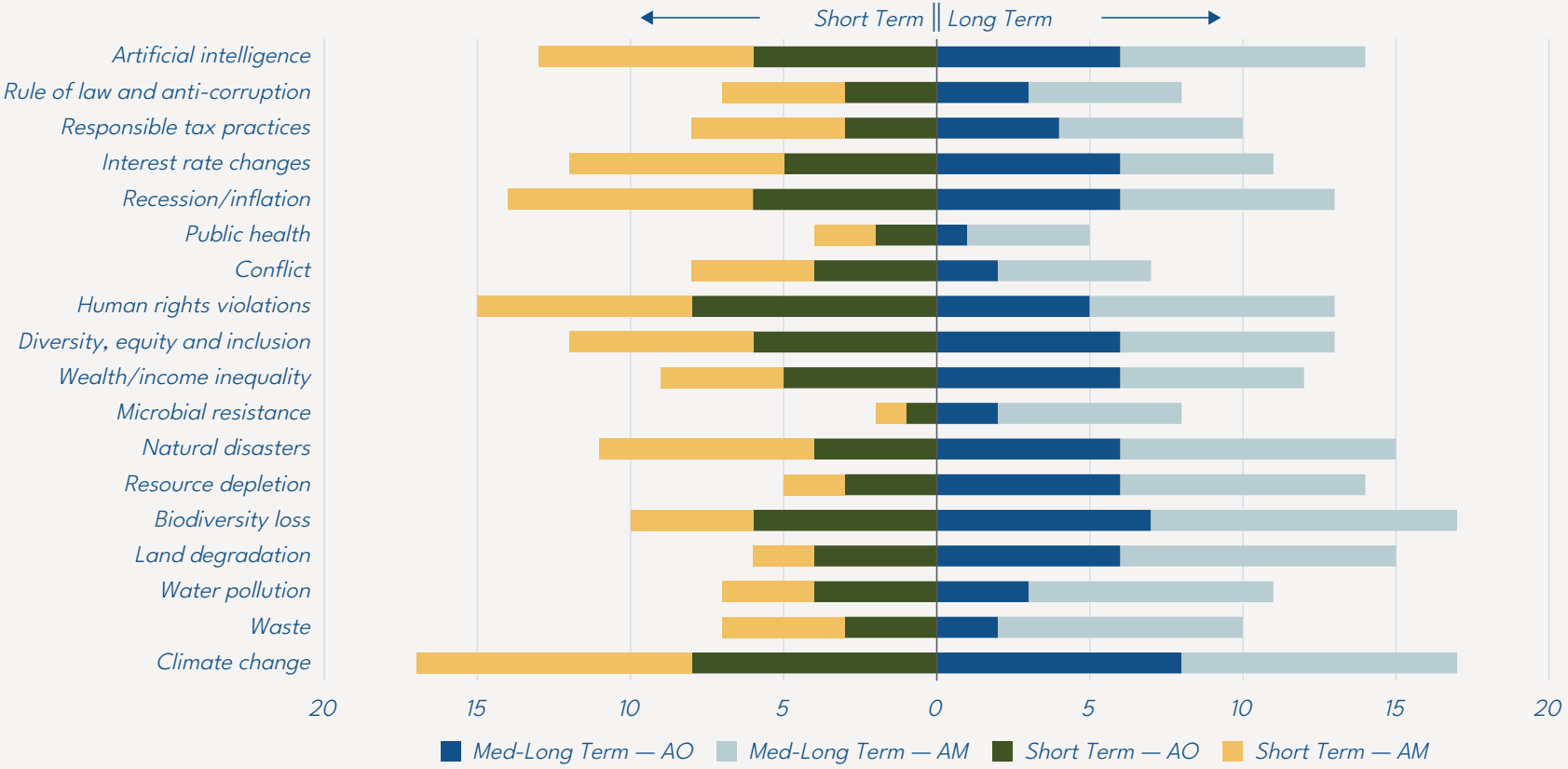
Most respondents identified **climate change and human rights** as top concerns in the short, medium and long term. Other important issues in the short term included artificial intelligence, recession/inflation and interest rate changes, and diversity, equity and inclusion (see Figure 2).

For the medium to long term, environmental issues like biodiversity loss and land degradation, resource depletion and natural disasters are more important.

This is followed by diversity, recession and artificial intelligence. Asset managers additionally identified waste, water pollution and human rights as important issues in the medium to long term.

Interviewees most often cited climate change as a key systems stewardship issue. They also mentioned diversity, housing, animal research, deforestation, nature, modern slavery, governance matters, cultural heritage, human rights and antimicrobial resistance.

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



How are Organisations Integrating System-Level Investing and Systems Stewardship?

How investors rate their practices (see Figure 3):

System-level investing: respondents rated their approach on a 1–5 scale.
- **20% rated 1–2** (traditional models (investee/portfolio-level only))
- **65% rated 3–4** (hybrid approaches)
- **15% rated 5** (systemic risk analysis)

Systems stewardship: respondents rated their approach on a 1–5 scale.
- **55% rated 4–5** (seeking market-wide change)
- **15%** (primarily asset managers) **rated 1–2** (focused only on company-level change)

This compares favourably with a 2024 global survey of investment managers, where only 19% of managers aimed for market-wide change.[68] The survey focused on current practice; however, future research could track changes in attitudes over time.

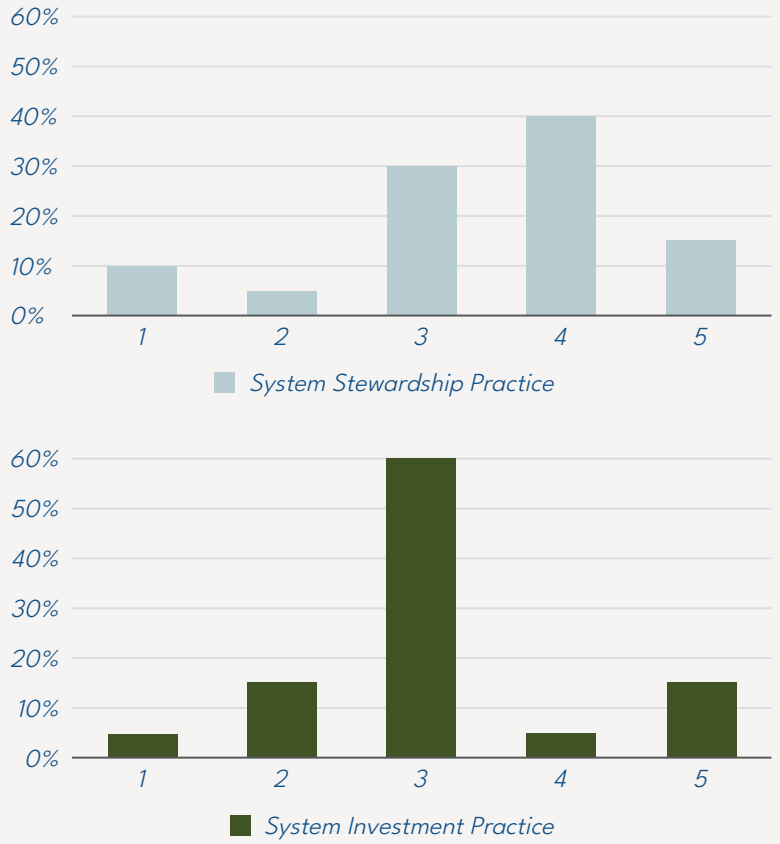
Some interviewee organisations have practised systems stewardship for years. However, most began around 2021–2022. Most interviewees said systems stewardship is a medium to high priority across their organisation. Two noted that it is a higher priority for their team than the rest of the organisation, where mandatory requirements take precedence or systems stewardship is just one part of a larger client offering.

> *"There's certainly interest in [systems stewardship], but the mandatory requirements on the sector mean it's pushed down the list. [Disclosures] will also help build capacity for understanding why system-level risk is important and stewardship is important".*

> *"That systems lens on stewardship is a high priority, a coequal priority to the investment process".*

> *"[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".*

Figure 3: Organisational system investment and system stewardship practice rating



68 Lane et al. *Systematic stewardship responsible investment manager survey*. 2024.

What System-Level Investment Techniques are Investors Using?

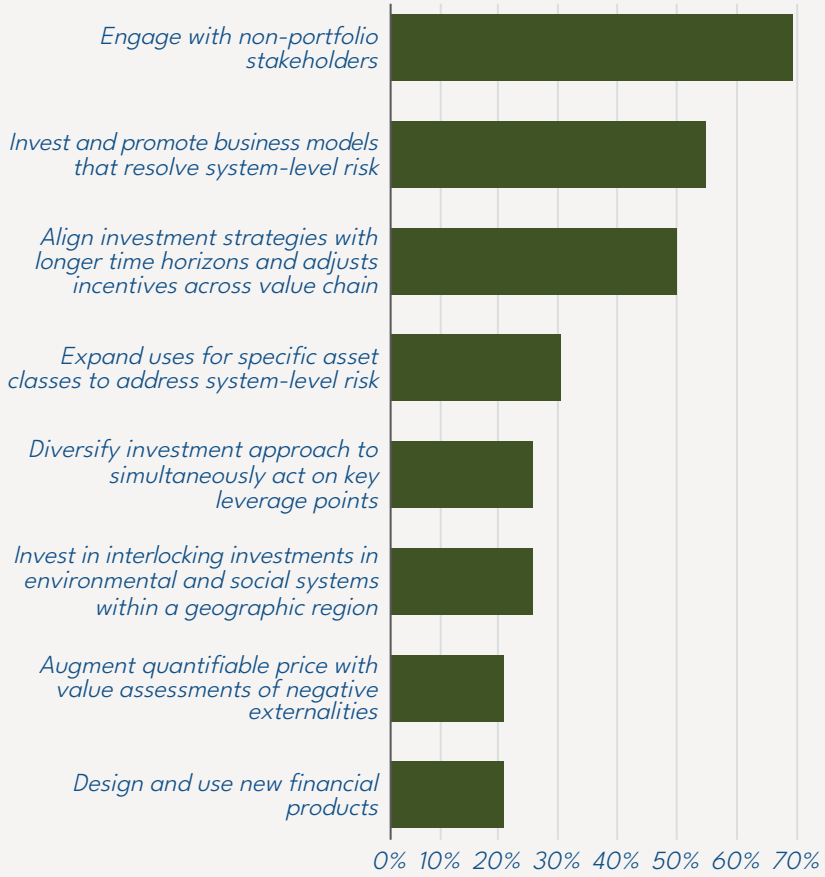
The key system-level investment techniques adopted by survey respondents (see Figure 4).

- 70% engage with non-portfolio stakeholders to achieve change in portfolio companies
- 55% invest in business models that resolve system-level risk
- 50% align investment strategies with long-term horizons/sustainable growth

Only 25% use investment strategies that target system-level leverage points or interlocking investments in specific regions. These strategies are more common with asset owners (38%). Asset managers tend to focus more on the design and use of new financial products (30%).

These approaches — proposed by TIIP — intentionally address systemic issues by designing financial products that maximise social and environmental impact across asset classes.[69]

Figure 4: System-level investment techniques



69 TIIP (2021).

Key Drivers for Systems Stewardship

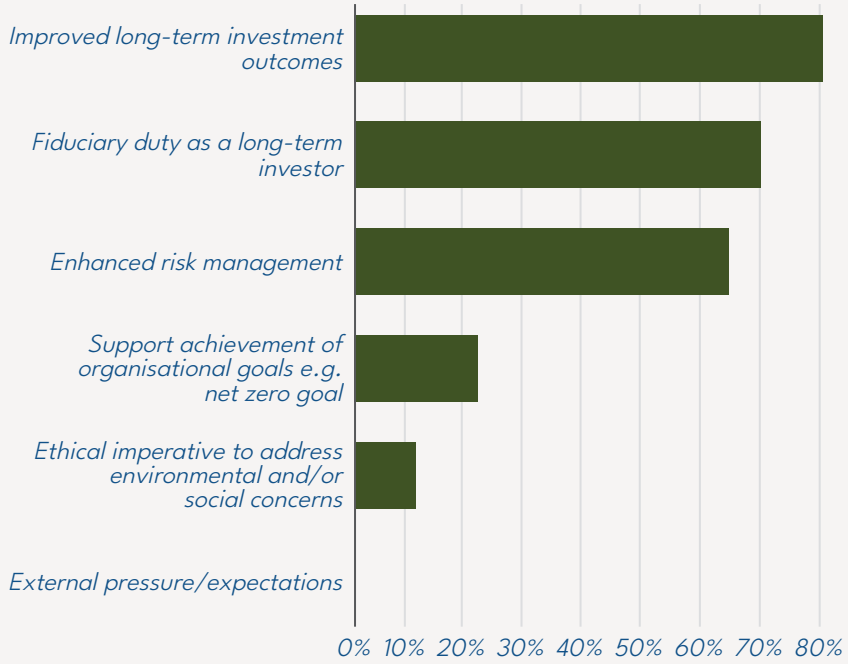
The survey asked respondents about their organisation's drivers for engaging in systems stewardship (see Figure 5).

Top drivers:
- 85% improve long-term investment outcomes (this was universal for asset owners)
- 70% fiduciary duty
- 70% enhance risk management

Other motivations:
- Support organisational goals
- Uphold ethical imperatives

Some interviewees said ethical imperatives are a primary driver — especially when embedded in organisational mandates.

Figure 5: Primary motivation for engaging in systems stewardship



Key Approaches to Systems Stewardship

Survey respondents emphasised that company engagement is not enough. Meaningful sustainability outcomes require both company-level action and systemic interventions. When company action stalls, they shift to advocacy — influencing policy, collaborating with peers and shaping market standards and regulations.

Collaboration is key. Investors increasingly work with governments, nongovernmental organisations, academics and industry peers to amplify their influence. Engagement is multilayered, combining direct asset-level interactions with broader issues and supply chain-focused efforts. Collaboration and policy engagement are explored in more detail below.

Structured stewardship is emerging. Some organisations now:

- prioritise activities by financial materiality, likelihood and strength of successful outcomes, and strategic fit
- use scenario analysis and proprietary ESG research to assess systemic impacts.

Interviewees shared approaches their organisations take to practise systems stewardship:

Do no harm: "Thinking of the biggest ethical issues and the harm caused, and where we have a unique opportunity to positively influence".

Company engagement or divestment: This may be through collaborative engagement like CA100+. Divestment is considered a fallback when engagement fails. Views differ on its effectiveness for real-world impact, but it remains a tool in the stewardship toolkit.

Collaboration and systems thinking: "*Collaboration within a system is key*", including "*end-to-end consideration of a process or a system and what can be delivered by thinking about the whole*". It is important to work with "*allies both within the financial system and outside of [it]*".

Protecting beta: "*We have a stake and desire to enhance and maximise benefits to the overall economic system and society at large*". Through protecting beta-level returns, investors can protect the financial system and financial stability. This contrasts with an approach that seeks to maximise alpha-level returns from outperforming individual holdings or benchmarks.

Most interview participant organisations started with a **materiality exercise** to identify major systemic risks. The long list of issues is sourced from themes most relevant for the organisation or their clients (related to asset classes), from client requests, industry body participation, and analysis of the portfolio for certain risks (e.g. climate and biodiversity).

> *"Thinking of your whole portfolio as a universal owner and what your most material risks are and then where do we focus our time?"*

To decide on **the levers for action**, some investors set the same strategic objectives for the year around each topic. For example, working group contribution, research paper, client support and building initiatives. Others note the need to "*put the issue at the centre — and the company [engagement] just becomes one of a range of levers, the way you think about or prioritise your engagement activity probably completely changes in most instances.*"

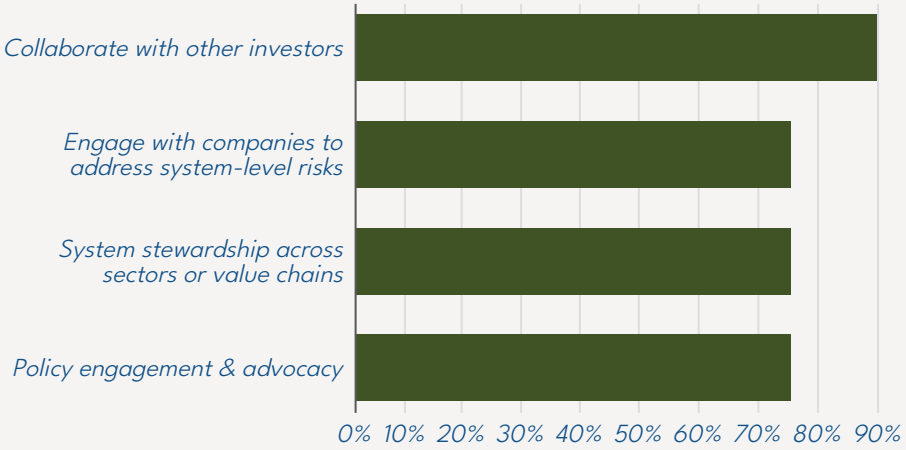
4.2 Key Systems Stewardship Activities

Several groups have mapped out key elements of systems stewardship. Broadly, these converge around the following activities:

1. **Public policy engagement and advocacy.**[70,71,72,73,74] For example, policy engagement on key national climate policy, such as the Nationally Determined Contributions.
2. **Collaborative engagement** initiatives with other investors and stakeholders (e.g. the Steel Methane Investor Initiative).[75,76,77,78,79]
3. Initiatives that aim to address system-level issues across **sectors or value chains**, such as sector standard setting or sectoral transition plans (e.g. the Investor Mining and Tailings Initiative).[80,81]
4. **Engagement by asset owners with asset managers** to embed systemic stewardship (e.g., including systems stewardship in investment mandates).[82,83]
5. Addressing systemic risk through **company engagement**, using proxy voting, shareholder resolutions and management dialogue to push for measures that address systemic risk, like corporate climate transition (e.g. CA100+).[84,85,86]

Of these, the most common systems stewardship practice among our survey respondents is collaborative engagement (see Figure 6), that is, collaborating with other investors through alliances and initiatives (90%). The most popular collaborative initiatives among respondents are CA100+ and Investors Against Slavery and Trafficking. Three-quarters of respondents engage with companies and value chain stakeholders to address system-level risks and undertake policy engagement and advocacy. IGCC's State of Net Zero 2025 report stated that over half of investors (52%) engaged across a company's value chain. The overwhelming majority (89%) engaged in some form of policy engagement in 2024.[87]

Figure 6: Organisation's systems stewardship practice



70 Net-Zero Asset Owner Alliance (NZAOA). *The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk*. 2022.
71 The Shareholder Commons (2021).
72 Sierra Club (2025).
73 Finance for Environmental and Social Systemic Change Centre (2021).
74 TIIP (2021).
75 NZAOA (2022).
76 Sierra Club (2025).
77 TIIP (2021).
78 Finance for Environmental and Social Systemic Change Centre (2021).
79 Financial Reporting Council. *UK Stewardship Code 2020* (2020).
80 NZAOA (2022).
81 TIIP (2021).
82 NZAOA (2022).
83 Sierra Club (2025).
84 NZAOA (2022).
85 Sierra Club (2025).
86 Finance for Environmental and Social Systemic Change Centre (2021).
87 IGCC (2025).

4.3 Policy Engagement

In the literature, there is broad agreement that engaging in public policy is key to achieving sustainability goals.[88,89,90,91,92,93] The NZAOA says it is essential to "change the rules of the game".[94] Supportive regulation helps:

- internalise externalities
- remove technology and policy barriers to decarbonisation.[95,96]

The NZAOA outlines three broad approaches to climate policy advocacy:

- call for mandatory climate-related financial disclosures
- engage companies on lobbying and industry memberships
- support sector-specific climate policies.[97]

This can be done through:

- direct/indirect engagement with policymakers
- public discourse contributions
- investor/stakeholder collaboration[98]
- embedding advocacy in asset management mandates.[99]

Investors are not just market participants. They are policy influencers. Effective stewardship includes shaping the rules that govern sustainability.

Policy Engagement in Practice

Policy engagement is common but can be limited in scope. Our survey found that 75% of respondents undertake policy engagement activities. In IGCC's 2025 State of Net Zero survey, 89% of respondents did some form of climate finance-related policy advocacy, including collaborative engagement.[100] Most survey participants engage with governments, the public service, regulators and standard setters at national (93%) and state (73%) levels. However, 87% say this engagement is rare or occasional (only a few interactions per year or per month). This is likely due to resource constraints, but it suggests the risk that policy engagement activities may be shallow or easily dropped without stronger integration into regular practice.

While survey respondents listed regulation and policy uncertainty as key barriers, they did not list access to policymakers as one of these.

The policies that surveyed investors engage with most frequently include:

- 100% climate-related real economy policy and sustainability disclosure requirements
- 93% other sustainability-related real economy policies
- 87% sustainability-related financial sector regulation.

Climate policy engagement focuses on mitigation policies (see Figure 7):

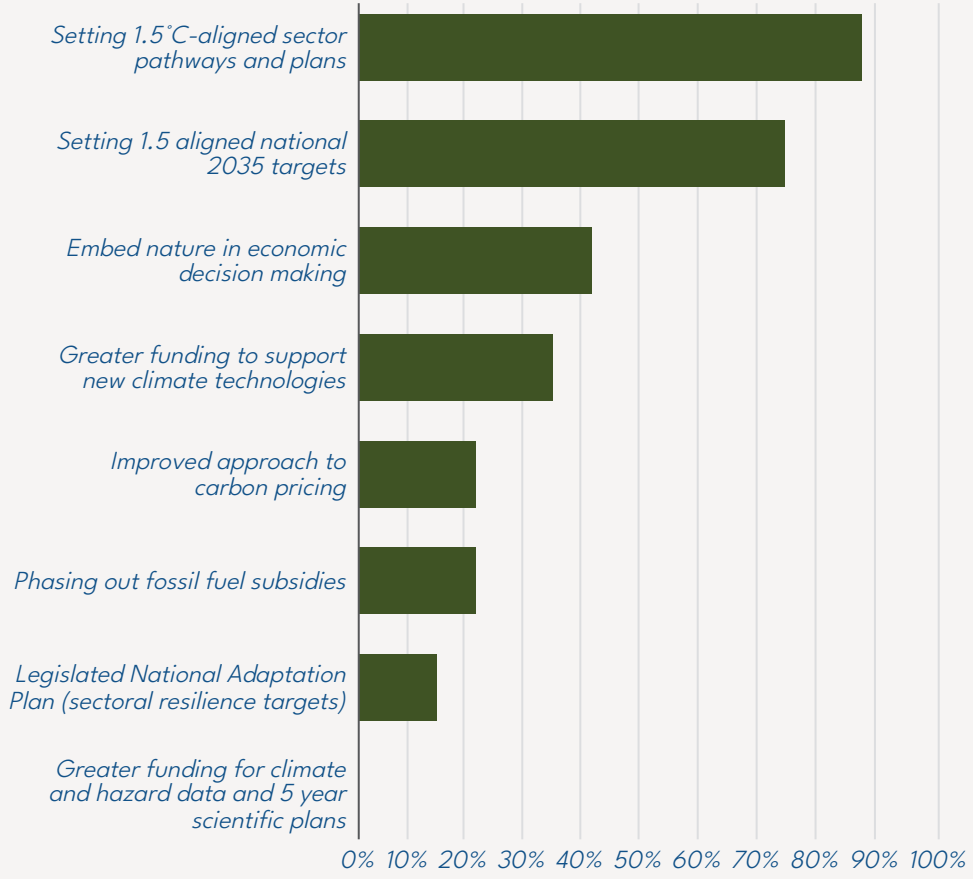
- 87% engage on setting 1.5˚C (to 2˚C) aligned sector pathways and plans (up from 61% in 2024)[101]
- 73% engage on setting 1.5˚C (to 2˚C) aligned national 2035 targets (up from 57% in 2024)[102]
- 40% engage in embedding nature in economic decisions
- 33% engage in funding new climate technologies (down from 61% in 2024)[103]

88 George, D. et al. (2025).
89 IGCC (2025).
90 ICGN (2023).
91 The Shareholder Commons (2021).
92 Maanch (2024).
93 NZAOA (2022).
94 NZAOA (2022).
95 George, D. et al. (2025).
96 NZAOA (2022).
97 NZAOA (2022).
98 IGCC (2025).
99 The Shareholder Commons (2021).
100 IGCC (2025).
101 IGCC (2025).
102 IGCC (2025).
103 IGCC (2025).

- low engagement on carbon pricing and fossil fuel subsidies, and limited to no engagement on adaptation plans and climate data.[104]

Surveyed investors have high engagement levels on targets and pathways. However, engagement on more concrete climate measures is more limited. This could be strengthened to enhance long-term impact and credibility.

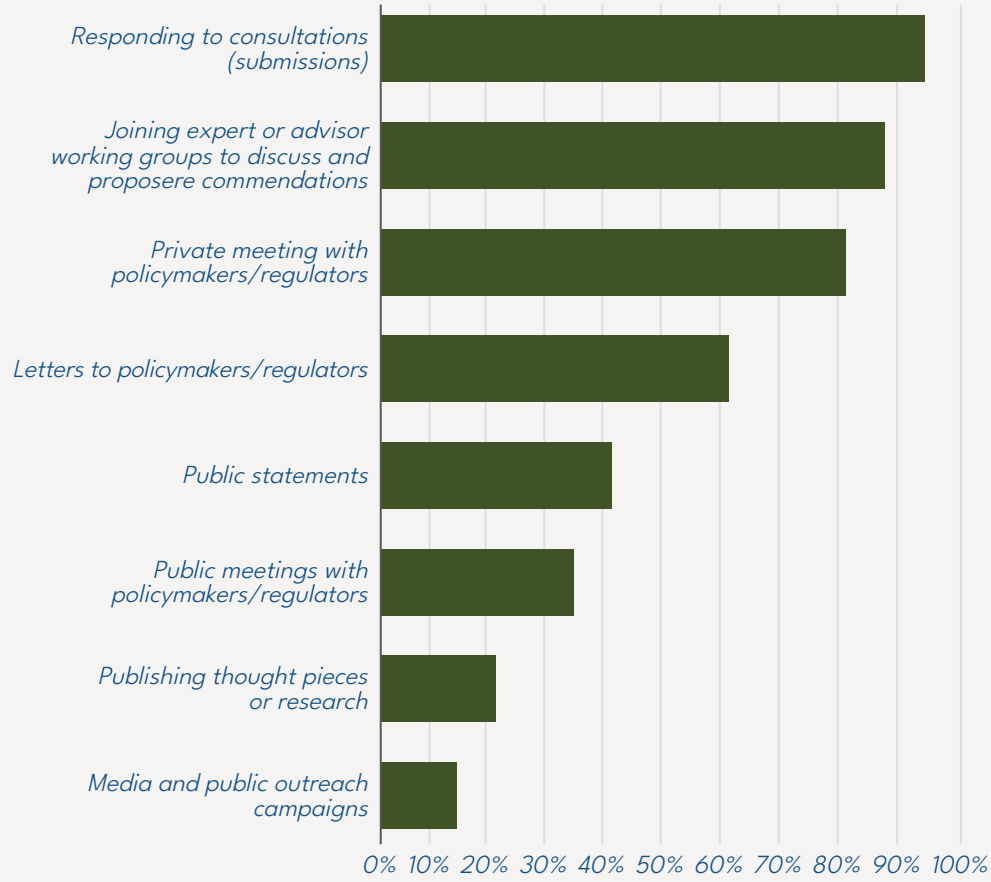
Figure 7: Climate policy engagement in the last 12 months



Policy engagement activity focuses on direct, less public, policy engagement (see Figure 8):

- 93% through responding to consultations (up from 41% in 2024)[105]
- 87% through advisor group participation
- 80% through private meetings with policy makers and regulators (up from 43% in 2024)[106]
- 60% through letters to policy makers
- limited engagement through media or research.

Figure 8: Modes of policy engagement



104 Noting the IGCC working group has conducted substantial policy engagement on adaptation and climate resilience.
105 IGCC (2025).
106 IGCC (2025).

4.4 Collaborative Engagement

Collaborative engagement can be used for various types of stewardship activity, including:

- company engagement
- policy advocacy
- sectoral and value chain engagement.

Collaborative initiatives enable investors and stakeholders to incorporate diverse perspectives and more effectively create collective action.[107] Financial institutions may also partner with academia and industry to fund and support research and innovation for decarbonisation.[108]

Several collaborative initiatives have been established to address climate change both globally and in Australia, including:

- CA100+: more than 600 global investors encouraging 169 focus companies to set net zero by 2050 targets and align actions with limiting warming to 1.5˚C.[109]
- Net zero alliances: Paris Aligned Asset Owners' initiative, Net Zero Asset Managers' initiative, NZAOA and the Forum for Insurance Transition to Net Zero (formerly Net Zero Insurance Alliance), which unite subsectors of the financial system on climate change.
- The Coalition for the International Platform on Climate Finance: Investors, civil society and peak bodies work to implement Paris Agreement Article 2.1c on finance flows for climate mitigation and adaptation.[110]

Collaborative Engagement in Practice

- Almost 90% of survey respondents undertake collaborative engagement
- About half the respondents regularly engage as active participants in collaborations
- Over a third engage regularly and lead significant collaboration (see Figure 9)

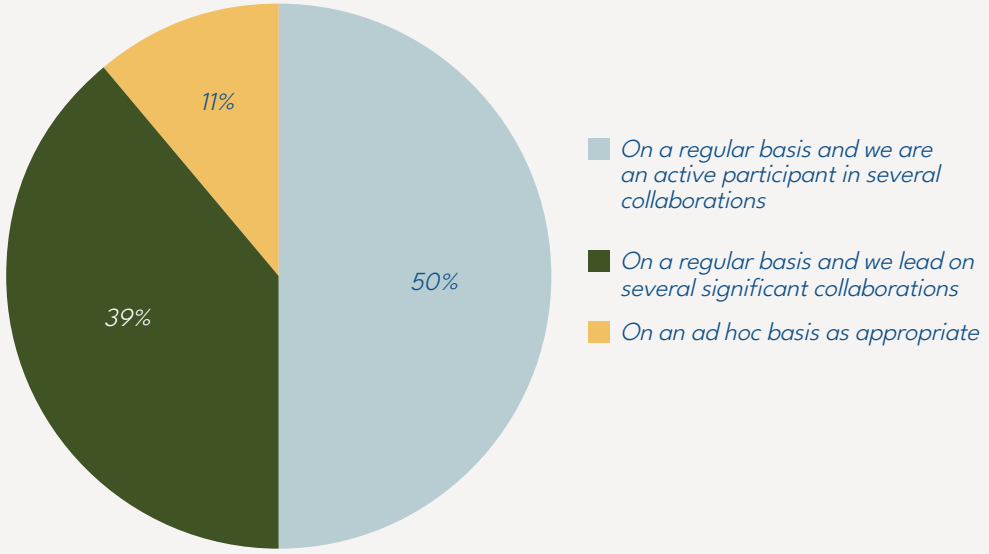
Interviewees discussed benefits, challenges and improvements for collaborative engagements. Overall, collaborative engagements are seen as a valuable component of systems stewardship, but could be improved to ensure clear messaging and stronger governance of the initiatives.

What's Working Well for Collaborative Engagements

Collaboration is highlighted as necessary to achieve change on system-level risks, given "*our collective efforts have led us to where we are today*". One interviewee notes their organisation will stay invested where there are opportunities to work through collaborative initiatives.

> *"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".*

Figure 9: Frequency of collaborative engagement



107 George et al. (2025).
108 George et al. (2025).
109 CA100+. Investor signatories. 2025.
110 Aviva Investors (2022b).

Interviewees identified two key benefits of collaborative engagements:

1. **Amplified influence.** Collaborative engagements expand reach and influence, particularly when both asset managers and asset owners are involved. A collective voice lends weight, provides a consistent investor voice, and gives credibility to the messages. Collaborative initiatives can access audiences that individual organisations could not — for example, international spaces and high-level policymakers.
2. **Efficient use of resources.** Collaborative engagements save time and allow for information exchange. For example, stakeholders can meet with an investor group or an organisation working on their behalf, rather than holding many meetings with individual investors. It also enables resource-limited organisations to participate and creates space for investors to share insights and learn (within competition law).

> *"The membership organisations who coordinate [collaborative engagements] are experts with policy expertise and ensure what we're saying is credible and persuasive. They have established channels of communication to the people who need to be influenced. As part of that collective, we send a stronger signal to the recipients of the message".*

> *"Investor statements go a long way to giving policymakers the confidence to initiate improvements that they fear might not be popular within the electorate".*

Interviewees Identified Positive Experiences with the Following Collaborative Engagements

- CCA100+: strong organisation and a regular cadence to meetings. Investors agree on objectives together for a set period (with regular check-ins), and companies are clear on what the initiative is about and the reason for engagement.
- PRI Sovereign Engagement: strong organisation, clarity of participants' roles, a good secretarial function and preparation.
- Australian investors support the development of the New Zealand Stewardship Code.
- FAIRR's Sustainable Proteins Engagement: well-resourced.

Case Study on Collaborative Engagement: Fidelity Steel Methane Investor Initiative

In collaboration with several global asset owners, Fidelity International is leading a systems-level engagement to address methane emissions across the metallurgical coal value chain through coordinated action. Established in 2025, the Steel Methane Investor Initiative brings together several global institutional investors to drive progress on how to evaluate steel investments in a carbon-constrained world.

Why it matters: Fugitive methane emissions from metallurgical coal mining account for approximately 27% of the steel industry's near-term climate impact.[111] With a higher global warming potential than CO_2 and a shorter atmospheric lifetime, methane emission reductions deliver immediate climate benefits. This creates a compelling opportunity for investors with climate objectives.

Many factors intersect to create a unique investment risk — steel's economic centrality, metallurgical coal's methane intensity, regulatory changes with the EU's strict methane monitoring requirement, and the Australian Government's Safeguard Mechanism, including methane emissions and potentially high compliance costs for exposed facilities. From a financial perspective, methane emissions carry growing implications for carbon pricing, stakeholder expectations and access to capital. From a systems perspective, they matter to Australia's energy transition and global competitiveness.

Action: The initiative simultaneously works across three critical spheres of influence to create a supportive backdrop for abatement action:

- Metallurgical coal producers: to understand current practices and encourage stronger action and disclosure.
- State and federal regulators: to support producer-level changes by creating supportive policy frameworks.
- Ecosystem players: to drive innovation by providing technical expertise and funding opportunities to expand implementation capacity.

The Initiative is also engaging with the United Nations Environment Programme (UNEP)'s International Methane Emissions Observatory (IMEO) Steel Methane Programme, which aims to build transparency and accountability around methane emissions in steel and upstream supply chains.

Impact: This system-level pilot approach seeks to create powerful synergies that amplify individual engagement efforts and create a comprehensive strategy to address immediate operational improvements and long-term systemic transformation.

Good practice summary: The interconnected nature of steel value chains demands coordinated action across many stakeholders. This pilot approach explores the value of coordinated actions, including multiple levers of change across the value chain.

Positive Features of Successful Collaborative Engagements to Take Forward:

Participants noted elements of successful collaborative initiatives that could help strengthen other initiatives:
Ground the initiative in evidence, for example, science-based targets.

A secretariat function to govern the collaborative engagement initiative.

Ensure clarity of roles and rules of participation.

Establish a toolkit and training for the lead in the collaborative engagement (noted as an essential role requiring significant time and resources, but training is limited).

111 Campbell, C. *Why the steel industry needs to tackle coal mine methane*. 2023.

4.5 Sector/Value Chain Engagement

Engagement across an entire sector or value chain can be used effectively to address system-level issues by targeting key leverage points across a system, while efficiently pooling resources. Key characteristics of sector/value chain engagement include:

- involvement beyond investors, to suppliers, regulators, customers and others across the value chain
- enabling a macro perspective, and working with stakeholders to identify systemic economic, technological, regulatory, political and social hurdles to real-economy decarbonisation
- ability to identify enabling policy and uncover potential technology sharing opportunities[112]
- having a range of objectives, such as policy change, development of sectoral standards or sectoral transition plans.[113]

Sector/value chain engagement examples:

- 2020 Investor Mining and Tailings Safety Initiative
- 2023 Steel Purchaser Framework, developed by the Institutional Investors Group on Climate Change: helps investors engage with steel purchasers and encourage low-emissions steel procurement.[114]
- 2021 Mission Possible Partnership Coalition: aims to accelerate the decarbonisation of industry and transport.[115]

Sector/Value Chain Engagement in Practice

For survey respondents, engaging value chain stakeholders was done through (see Figure 10):

- 67%, sectoral-focused collaborative initiatives, higher among asset owners (83%)

Surveyed asset owners engaged with the value chain through:

- 83%, sectoral-focused collaborative initiatives
- 67%, advocacy on sectoral pathways directing capital allocation
- 50%, community and beneficiary engagement

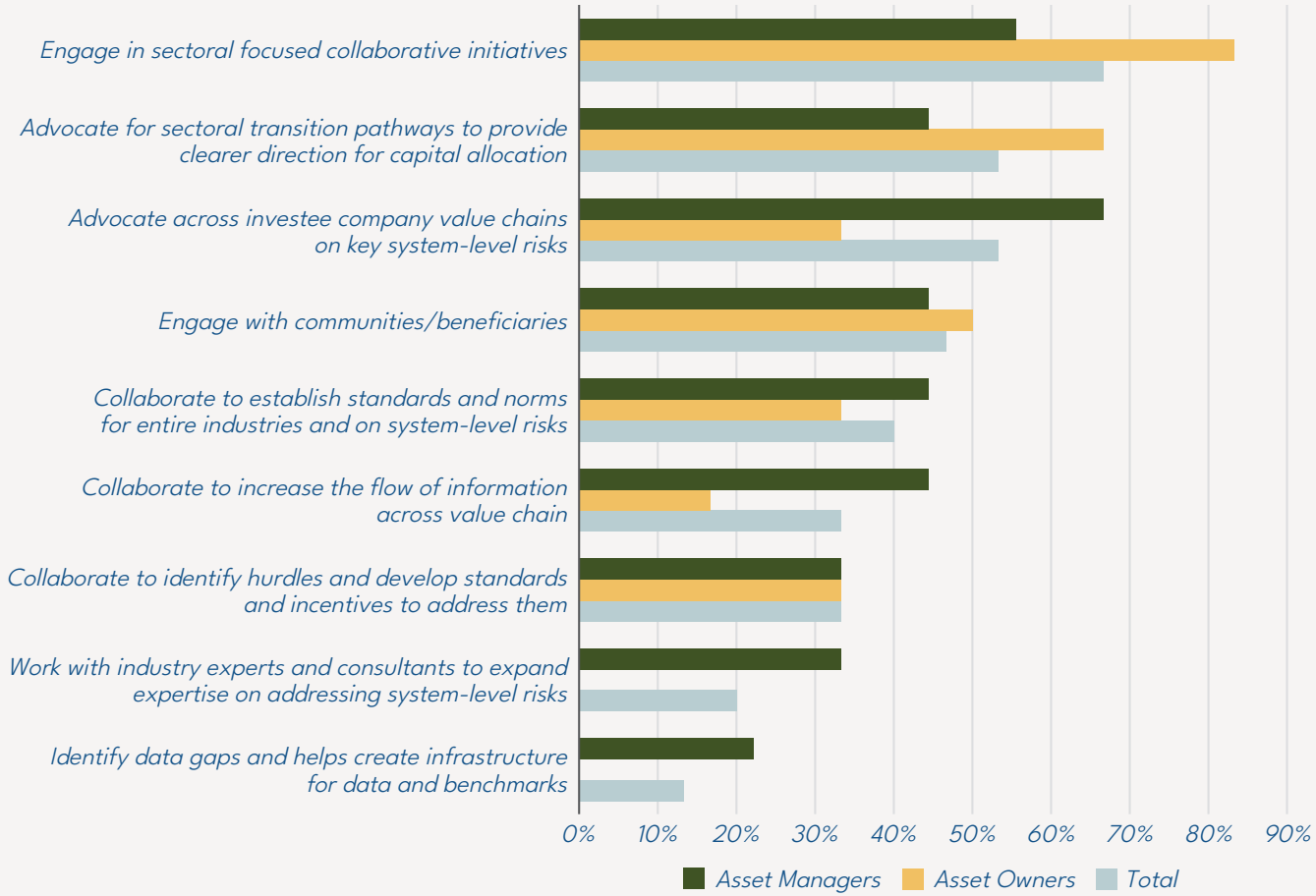
Surveyed asset managers primarily engaged with the value chain through:

- 67%, advocacy across investee company value chains on key system-level risks
- 56%, sectoral-focused collaborative initiatives
- 44%, collaborations on industry-wide standards and enhancing information flows
- 44%, community and beneficiary engagement

Engagement in value chain stewardship measures is currently lower overall than collaborative or policy engagement.

112 NZAOA (2022).
113 UKSIF, Scottish Widows and Canbury. *Systemic risks: A framework for portfolio resilience*. 2025.
114 IGCC (2025).
115 Mission Possible Partnership.

Figure 10: System stewardship activities across value chains



Case Study on Sector/Value Chain Engagement: Investor Mining and Tailings Safety Initiative[116,117]

In January 2019, a dam holding mine waste (tailings) failed and released nine million cubic metres of tailings, killing 272 people in Brumadinho, Brazil. After the event, the Church of England Pensions Board and Sweden's Council on Ethics set up and led an investor coalition to engage systematically for a safer mining sector.

Participants: IMTSI, a coalition of US$25 trillion AUM, in partnership with the GRID Arendal, UNEP, the PRI and International Council on Mining and Metals (ICMM).

Three phases of IMTSI:

- Phase 1: Multistakeholder roundtables identified gaps in industry disclosure, prompting a formal request to mining companies to provide facility-level data and answer 20 key questions.
- Phase 2: A global tailings portal and industry standard were developed with UNEP and stakeholders, initiating a formal review process for mining practices.
- Phase 3: Over 300 mining companies were urged to adopt the new standard, supported by an international advisory panel and plans for an independent global tailings management institute.

Impact: In 2023, the world's largest and riskiest mining facilities shared the first company disclosures against the new standard. About 60% of the facilities were reported as "conforming" with the global standard. In 2024, over half of the mining sector (by market capitalisation) had committed to implementing the standards.

Good practice summary: The power of investors working collectively with other stakeholders to initiate global, industry-wide disclosure of how a significant environmental and safety issue is managed to protect communities and ecosystems.

Winner of the PRI 2020 Stewardship Initiative. Read more **here**

4.6 Asset Owner/Asset Manager Engagement

Asset owners and asset managers have a dual responsibility in incorporating systems stewardship into investment practices, whether that be guidance and support from asset owners or asset managers highlighting the importance of the approach with asset owners.

Good practice for asset owners includes:

- actively engaging asset managers on systems stewardship to ensure long-term interest alignment[118,119]
- extending engagement to other financial intermediaries, such as proxy advisors and consultants
- actively overseeing service provider activities and setting clear mandates to ensure their stewardship activities promote real-economy impact.

Guidance for asset owners recommends they adopt two broad approaches regarding their asset managers:[120]

Raise ambition and accountability.

- Activities: Assessing asset managers' systems stewardship activities and how system-level approaches are integrated across their stewardship and investment activities.
- Resources: Pensions for Purpose provides measures for asset owners to assess asset managers' stewardship performance: structured oversight and dialogue, annual reviews, template reporting, oversight questionnaires and a watchlist for diverging performance.[121] The Shareholder Commons has guidelines for asset managers on systems stewardship and annual reporting.[122]

116 Church of England Pensions Board. *2023 Stewardship Report*. 2023.
117 Church of England Pensions Board. *The Investor Mining and Tailings Safety Initiative*. 2024.
118 NZAOA (2022).
119 Sierra Club (2025).
120 NZAOA (2022).
121 Pensions for Purpose. *Systemic stewardship: Challenges and strategies for change*. 2025.
122 The Shareholder Commons (2021).

Encourage systemic thinking.

Activities: Engaging with asset managers' engagement with companies, their involvement in sectoral/value chain initiatives and their policy engagement.[123]

Resources: NZAOA resources to assess asset managers' alignment with climate-related proxy voting expectations[124] and support asset owners exercising their fiduciary duty by advocating for climate policy actions through their asset managers.[125]

Asset Owner/Manager Engagement in Practice

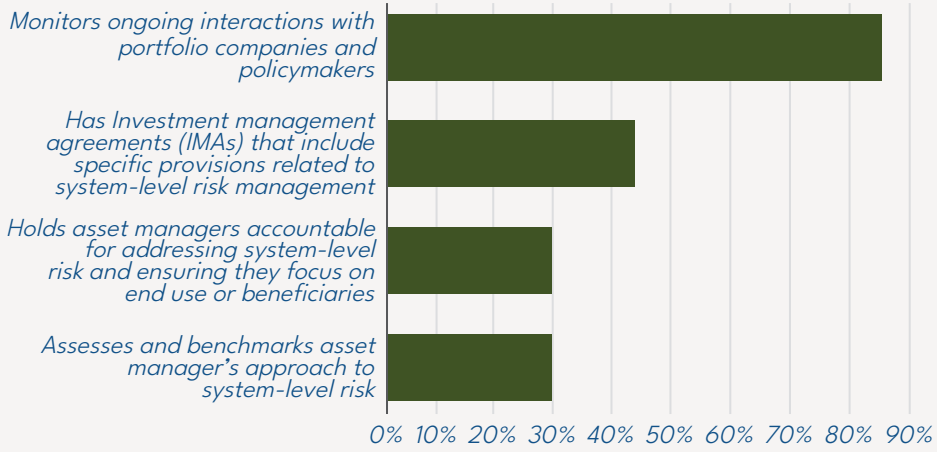
Almost 90% of the asset owners surveyed partially delegate their systems stewardship to their asset managers. Only one respondent fully manages their systems stewardship internally.

The most common ways of asset owners managing this delegation to asset managers (see Figure 11) include:

- 86%, monitoring their ongoing interactions with portfolio companies and policymakers
- >30%, assess and benchmark asset manager approaches or hold them accountable formally.

Interview participants commented on their systems stewardship experiences with asset managers or asset owners, depending on whether they themselves are owners or managers.

Figure 11: Addressing system-level risks with asset managers by asset owner survey respondents



Asset Owner Perspective

- While engaged asset owners are engaging asset managers, there is pushback when additional clauses are added into mandates, *"managers will still push back because they're terrified of not following it for whatever reason".*

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

  "Overall, the investment management industry has some very deep traditional beliefs".

- Commitment to systems stewardship should go beyond "compliance". When asset owners put systems stewardship and ESG considerations into investment mandates it becomes about ticking a box. *"We want them to do it because they think it adds value not because they have to through a legal clause"*.
- Taking action on misaligned investors, one interviewee noted they were encouraging existing managers to embed ESG issues into their strategies and where necessary gradually moved managers on who were *"less philosophically aligned to us"*, although it takes time.
- Asset owners understand there may be differing capabilities and resources across asset owners and try to work with asset managers where it is most valuable to both parties:

  "We know some managers have very big teams and have resources and some managers don't. Active managers in particular are built to focus on alpha, so beta is not in their skill set. What we look for from them is how can you come in, support us, and share information and ideas. At a minimum if you're engaging in advocacy we want to ensure [it] is not contradictory to what we're advocating for".

123 NZAOA (2022).
124 NZAOA. *Elevating climate diligence on proxy voting approaches: A foundation for asset owner engagement of asset managers*. 2021.
125 NZAOA. *Aligning climate policy engagement with net-zero commitments: A foundation for asset owner engagement of asset managers*. 2023.

Asset Manager Perspective

- Client demand and explicit signalling on systems stewardship are drivers for them to engage in systems stewardship. *"It does take a lot of resources and unless asset managers like us are able to see the commercial benefits of this effort, it's hard to justify all the time"*.
- Proactively highlighting the value of systems stewardship to clients by focusing on the overall change achieved rather than attributing impact outcomes directly to any one investor.

  > *"One investor is getting companies to recognise how much and how important the role of investors has been in achieving change. We're much more focused on seeing how the outcomes change, not necessarily attributed to us".*

- One asset manager noted that asset owners are more interested in general stewardship rather than systems stewardship and that the focus on outcomes may be limiting:

  > *"Asset owners are interested in our stewardship activities, but I don't think they're as interested in systems level. They always want to talk about what did you do with that person? Give us an example. Maybe because they're so focused on outcomes and know that one asset manager probably can't have an outcome on a system, but maybe you can with an individual investee".*

  > *"If you are an asset manager trying to prove to your clients that you're achieving outcomes, there is more of that pressure on the attribution piece if that's what you're offering".*

Greater clarity from asset owners on the extent of systems stewardship activities would be welcomed. Asset managers *"need explicit commercial signals"* to pursue systems stewardship, such as:

- Investment mandates or investment management agreements, including systems stewardship. *"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".*
- Metrics and measures of success for systems stewardship, *"explicitly asking for a specific metrics, outcomes, KPIs of success or at least inputs into more systemic stewardship. It should be very explicit and measurable — at the moment it's very input focused. Some signals that we would choose a manager over another because their systemic stewardship is so strong".*
- Accountability measures. *"There are asset owners that are really holding us to account and I get really excited. When somebody asks us very detailed questions, it helps us make a case of why this matters to our clients".*

Guidance: Net Zero Asset Owner Alliance Principles for Asset Managers' Climate Engagement[126]

The NZAOA outlines a set of principles that asset managers should engage with on climate to "deepen confidence, transparency and authenticity" between asset owners and asset managers. Aiming to enable efficient allocation of resources and focus on common stewardship expectations, the principles include:

- **Governance and integration.** Governance and oversight structures to ensure integration of engagement activities across their operations to support climate engagement strategies.
- **Setting and publishing a climate engagement strategy.** Publication of a climate engagement strategy (e.g. related investment beliefs, goals, expectations for issuers, escalation plan when issuers do not act).
- **Climate engagement practices.** Practices that align with published strategies are coordinated across teams and supported by systems and engagement that track and share insights.
- **Transparency and accountability on climate engagement.** Disclosure of how climate engagement strategies are implemented to ensure transparency, enable learning and show accountability to asset owners and the public.

See more detail **here**.

126 NZAOA (2023).

4.7 Company Engagement

While systems stewardship strives to go beyond pure company engagement and address its limitations, the two approaches are complementary.[127,128,129] Systems principles can be applied to company engagement in the following ways:

- System-level investing includes two levers — capital allocation for real-economy impact, and harnessing ownership of shares and bonds to enforce corporate accountability.[130]
- Voting and shareholder resolutions can strategically push companies to align their activities with long-term economic stability and hold them accountable for their system-level impacts.[131]
- Ensuring corporate policy lobbying and industry association memberships align with broader societal interests. Investors can monitor, assess, and take escalatory action for ongoing misalignment.[132]

IGCC's State of Net Zero 2025 report notes that a significant proportion of investors engage companies on:

- decarbonisation strategies and targets
- physical climate risk and adaptation.[133]

This is crucial. Investors must keep engaging companies to align with 1.5˚C alongside other activities to support the transition to 1.5˚C-aligned economies.[134]

Company Engagement in Practice

Survey respondents most commonly engage with investee companies on system-level risks (see Figure 12), including:

- 72% focus on company lobbying activities and 56% on collaboration with competitors to raise industry-wide standards and regulations
- 50% address material impacts of system-level risks on supply chains
- 50% consider the impact of policy measures, particularly by asset owners (75%).

Surveyed asset managers also focus on:

- 57% developing expertise to engage in real economy policy measures
- 57% taking escalatory steps if investee companies make insufficient progress.

Some investors use collaborative engagement as their primary activity for company engagement on system-level risk. For example:

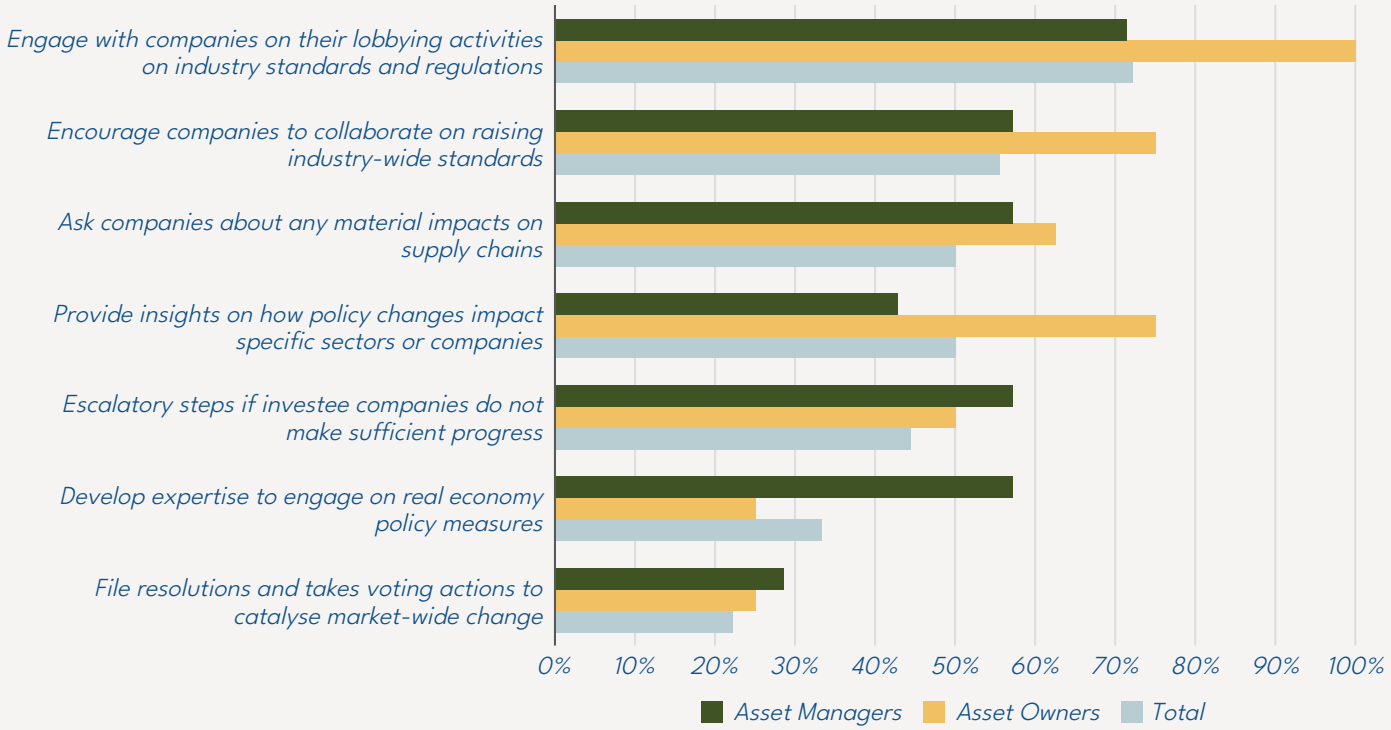
- One interviewee mentioned ACSI as their primary system stewardship activity. ACSI engages with companies on sustainability issues in the interests of its long-term investor members. It also undertakes research and policy advocacy.

IGCC supports members taking a systems stewardship approach in their corporate engagement. This is integrated at a strategic organisational level through three closely linked workstreams:

- The Investor Practice workstream supports capacity building, especially through implementation guidance,[135] masterclasses, and peer learning resources.
- The policy and advocacy workstream provides expert research. It supports member engagement with relevant decision-makers across parliament and government departments.
- The corporate engagement workstream develops stewardship thought-leadership and facilitates collaborative engagement, mostly through the global CA100+ network.

127 Aviva Investors (2022b).
128 Maanch (2024).
129 NZAOA (2022).
130 Sierra Club (2025).
131 Sierra Club (2025).
132 NZAOA (2022).
133 IGCC (2025).
134 NZAOA (2022).
135 NZIF *net zero investment framework: Implementation guidance for objectives and targets*. 2025.

Figure 12: Systems stewardship activities with investee companies



4.8 Challenges in Implementing Systems Stewardship Approaches

From the literature, investors engaging in systems stewardship activities can face a range of challenges:

Limited resourcing and capabilities for systems stewardship activities in terms of funding, people, and skills.[136]

Short-term focus, ongoing tension between short-term investment performance and long-term sustainability goals, aligned with long-term investment performance.[137] This includes pushback from stakeholders expecting immediate returns.

Increased complexity for considering and integrating systems-risk, especially for multi-client, multi-portfolio business models.[138,139]

Lack of common metrics, particularly in reporting and measuring impact over the long term.[140]

Concern over de facto regulation — large, unelected financial institutions could be seen as acting as de facto regulators on social and environmental issues, with the accompanying risk of large investors influencing policies in their favour rather than for societal benefit.[141]

The rest of this section focuses on key challenges that survey and interviewee respondents experience:

- limited resourcing
- misalignment between various stakeholders across the financial system on systems stewardship
- regulatory barriers, including competition law and Your Future Your Super (YFYS)'s best financial interest duty (BFID)
- lacking measurement of systems stewardship.

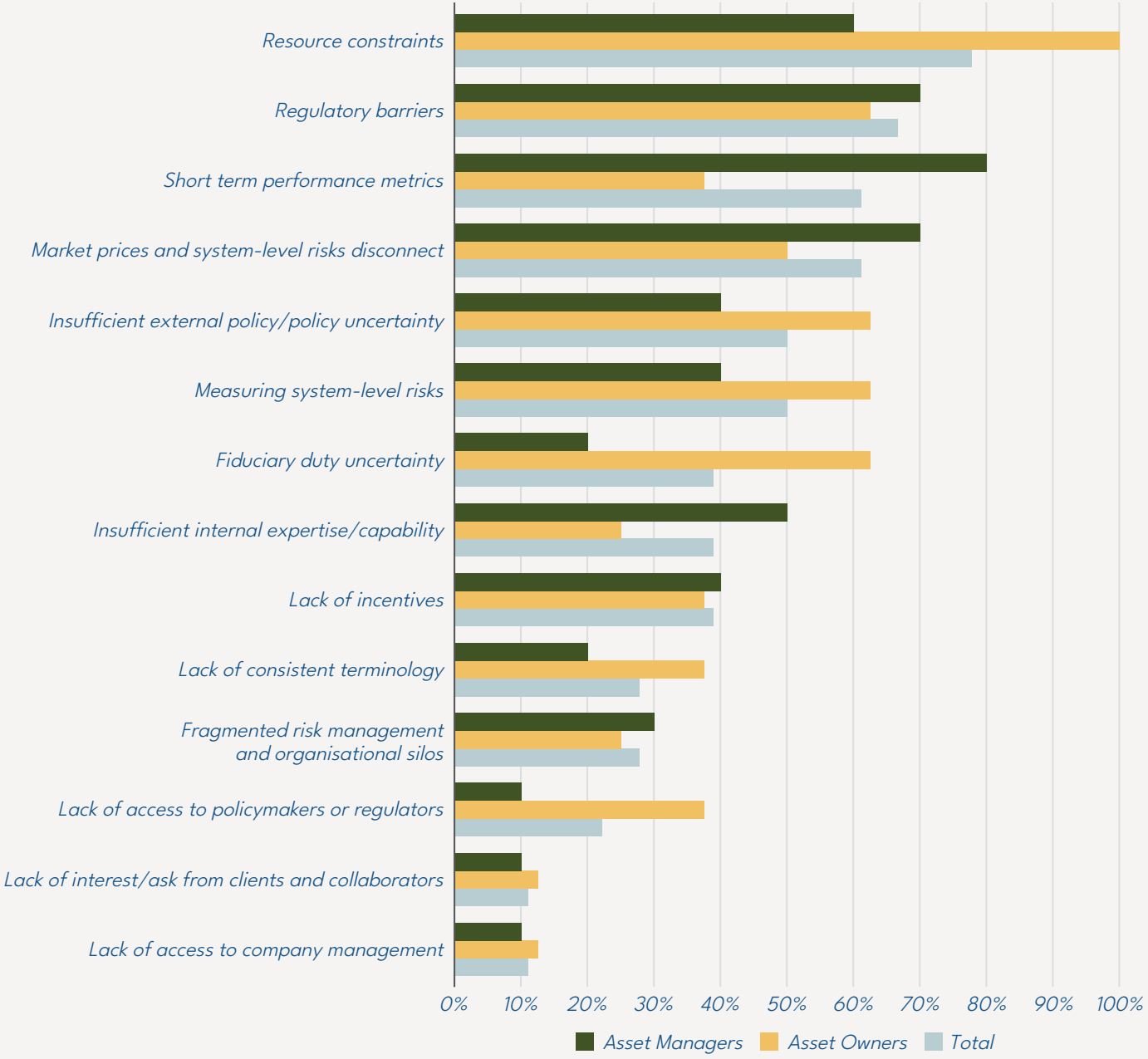
Challenges in Practice

Survey respondents highlighted a range of barriers to systems stewardship (see Figure 13). The top four challenges include:

- 78%, resourcing (time and people)
- 67%, regulatory barriers
- 61%, focus on short-term metrics
- 61%, disconnect between market prices and system-level risks.

136 PRI (2023).
137 George, D. et al. (2025).
138 George, D. et al. (2025).
139 Maanch (2024).
140 George, D. et al. (2025).
141 George, D. et al. (2025).

Figure 13: Challenges to systems stewardship



Limited Resources for Systems Stewardship

Survey respondents listed **resourcing (time and people) as the top barrier** (78% of respondents).

- For asset owners, it was universal, likely due to system-level risks impacting their diversified portfolios.
- For asset managers (60%), it can be exacerbated by the small size of organisations, or by limited resources to support a deeper understanding of all the material issues at a portfolio level. Linked to this is insufficient internal expertise (39%), particularly for asset managers (50%).

Interviewees echoed this, emphasising the lack of sufficient resourcing across the financial sector for systems stewardship:

> *"If there was true recognition of the extent of the problem and the role financial institutions can play to address the problem, the resources would be a whole level different to today".*

> *"Stewardship is completely under-resourced across the industry".*

Collaborative engagements can be a significant time commitment. There needs to be a balance in quality versus quantity, and efforts to ensure that resources are not spread too thinly. While collaboration is an efficient way to consolidate resources and enable a consistent, collective message, interviewees noted:

- limited capacity to attend collaborative engagement activities
- difficulty achieving timely sign-off from senior management on initiative commitments
- under-resourced initiatives can lead to fragmented ownership and responsibility, and a significant administrative burden of coordination and skillsets required to convene initiatives
- mixed views on the fairness of "free riders" benefiting from the same rewards and advantages of engagement as those who put in much greater effort.

> *"Most stewardship folk rarely come to the job with a broad understanding of small p politics. Few have experience running political, activist or NGO campaigns. They are uncomfortable with the idea you have to go out and find your allies... people you [may] only agree with 50% of the time, so you commit to the 50% where you can overlap".*

> *"A lot of people say there's a free rider issue with collaboration. Personally, I don't tend to agree. Even if not everyone in the group is an active contributor, simply having the funds under management on the table is really beneficial".*

Greater competency and skills are needed to support systems stewardship, especially as "it's going to keep getting better, [systems stewardship] is just at the very early stages".

> *"The competency issue is at the bottom of the pyramid because a lot of the other problems would resolve themselves if there was this deeper tool set at hand".*

Areas for further development include:

- general skills for all employees to be able to engage on ESG issues and responsible investment
- ability to move beyond business-as-usual ways of working, for example, longer-term perspectives, working with new tools, and stakeholders outside the financial sector
- upskilling in understanding systems thinking to see the bigger picture and identify key leverage points — systems literacy is not widespread in the industry.

Misalignment on Systems Stewardship

The surveys and interviews cite misalignment of systems stewardship as a significant barrier:

- within organisations
- between investors, especially in collaborative engagements
- with the broader financial system's priorities and performance metrics.

Short-term financial returns can be misaligned with long-term systems stewardship. The survey highlighted this, where respondents cited short-term performance metrics as a barrier (61%), particularly for asset managers (80%), and a disconnect with market pricing (70%).

Interviewees observed internal misalignment within organisations and a need for:

- stronger alignment between investment teams and the systems stewardship lead/team, or greater integration of systems stewardship approaches across the organisation

- more autonomy for the systems stewardship lead in the organisation to get sign off on systems stewardship commitments that align with their investment belief statement and company positions.

  "A whole bunch of people put so much time and energy into writing and developing that standard [a joint statement on an ESG issue], but none of the organisations could sign it".

  "You can be part of collaborative engagements while engaging in behaviours that you as individual [or] as an organisation are undermining. For example, even if your headline statement is we're supportive of an orderly transition, you can be taking steps to undermine the achievement of that".

Misalignment between investors is highlighted in collaborative initiatives. This can be a significant challenge in aligning different approaches, positions, cultures and strategies to achieve *"consistent messaging with appropriate ambition"*.

"Marshalling that big broad coalition with very different aims, very different reporting, very different investment styles and very different levers they choose to use — and finding a common set of robust and ambitious objectives that people are willing to buy into — that's your first challenge".

"The clarity of the ask may not always be uniform. How that is dealt with speaks to the extent you acknowledge there are slightly different views on certain aspects, but there are core concerns".

"When it's open to all participants its generally inclusive. [But] engagement groups get quite large and a little bit unwieldy — it's difficult to even know who a part of the group is and who isn't. It can be very difficult for a lead investor to corral that and encourage participation".

Difficulties in reaching consensus and slow progress may impact perceptions of effectiveness, and can lead to *"collaborative engagement fatigue"*. Some felt that investor misalignment limited their impact and pace.

"The challenge with a voluntary membership-based group is you're only as fast as your slowest member. It's finding a balance between some in the group who are really ambitious and [others] who are a bit more cautious".

Regulatory Barriers and Uncertainty can Present a Challenge

Most survey respondents mentioned **regulatory barriers** (67%) as a key barrier to systems stewardship. There was a call for public policy and regulatory settings to address drivers of system-level risk and encourage private capital flow in this direction. Linked to this is:

- 50%, external policy uncertainty, also noted as a recurring theme in IGCC net zero surveys[142]
- 39%, uncertainty around fiduciary duty, particularly for asset owners (63%).

The regulation cited most frequently as a concern is:

- competition law
- YFYS legislation and its components — BFID and the performance test.

Competition Laws

In Australia, investors must adhere to the relevant provisions of the Corporations Act 2001(Cth) and related regulatory guidance, particularly the Australian Securities and Investments Commission (ASIC)'s Regulatory Guide RG 128 on Collective Action by Investors.[143] Interviewed investors have mixed views about the challenge that competition law poses.

Some investors argue that competition laws are not a barrier; rather, the issue is more cultural:

- One interviewee was concerned that "regulatory challenges are overstated".

  "I think that the barriers to system stewardship are less regulatory and more cultural. I cannot point to a regulation that is hindering our ability to conduct system stewardship".

142 IGCC (2025).
143 ASIC. *RG 128 on collective action by investors*. 2015.

- The ACCC authorisation for ASFI provides clarity on sustainable finance collaboration (see Box 1).
- Interviewees felt financial institutions can do far more to address system-level risks before risking falling foul of competition law.
- Ensuring transparency by highlighting that forums such as IGCC and RIAA share general information that is not commercial in confidence for the benefit of all.
- Perceived as a greater barrier in other jurisdictions such as the US, with challenges around anti-trust, insider trading and acting in concert.

> *"My concern is that these regulatory barries are overstated. It's more relevant when you're talking about the underlying companies and them addressing challenges in [their] industry. In terms of financial organisations working together to try and address system level challenges, there's a lot more we can do before coming close to crossing a line on competition".*

> *"There's still a view that it's not our job to change the world, that it's our job just to price the assets appropriately and let things be. We still have a lot of work to do to explain why it's our job to do this — to explain its economy wide, the beta of the market, a healthy economy is going to determine our returns and we have to have an active interest".*

Further clarity from regulatory authorities would be useful

- Perceptions on the reach of competition law can prevent investors from taking action, and providing further guidance can bring confidence.
- For the superannuation industry, the perception of collaboration also has a political dimension.
- Clarity on proxy voting could prevent Australia from heading down the US path, where it is seen as threatening to a company.
- Acting in concert is still open to interpretation and needs to be clarified, given that the Regulatory Guide 128's last update was in 2015.

> *"I know that everybody's very scared of [competition law]. What they think it does is preventing them from talking at all".*

> *"We probably do need regulatory assurance that is far clearer on what is accepted on matters you can collaborate on... not price sensitive information, topics that are only meant to create long-term value for a company".*

Box 1: Australian Competition and Consumer Commission (ACCC) Authorisation for Australian Sustainable Finance Institute (ASFI)

In December 2024, the ACCC released a guide on sustainability collaborations and Australian competition law to inform businesses and other entities.[144]

ACCC notes "competition law does not need to be a barrier for those considering sustainability collaborations that deliver a net public benefit." Many collaborations may not breach competition laws — the ACCC's authorisation process is flexible. It can provide timely legal protection for collaborations.[145]

Recent ACCC actions:

December 2024, the ACCC released a guide on sustainability collaborations and Australian competition law to inform businesses and other entities.[146]

July 2025, ACCC authorised the ASFI and other industry participants to collaborate on sustainable finance initiatives.[147]

Your Future Your Super

The regulation, which includes an annual performance benchmark for superfunds, is seen as forcing a *"one-dimensional lens onto assets"* and super fund outcomes.[148]

Best Financial Interest Duty

In general, participants do not see BFID, a component of YFYS, as a major barrier to systems stewardship. Interviewees highlighted that systems stewardship activities, such as prioritising members' best interests and engaging with broader stakeholders, align with fiduciary duty:

> *"Protecting members' best financial interests should be used as the reason to engage in system level stewardship rather than as a barrier".*

144 ACCC. Cooperation among businesses. 2024.
145 ACCC. CC authorises collaboration on sustainable finance initiatives. 2025.
146 ACCC (2024).
147 ACCC (2025).
148 This was not explored in detail in interviews but is often mentioned as a barrier to sustainable investment because the standard market indices used for benchmarking performance do not account for ESG or climate transition factors.

> *"A systems lens does mean there are times the ask of an individual company may not be in that company's best interest, and if successful, would have potential impact on financial performance. In those instances, you are better off engaging with the suppliers or customers of that product and seeking their transition".*

The BFID timeframe and quarterly performance report was raised as more of a cultural barrier where short-termism *"is an endemic problem"* in the financial system — for investors, government and companies. Short term quarterly returns do not capture system-level risks or allow for action on them.

> *"A lot of people in our industry interpret best financial interest duty in a very bottom-up and very narrow way; they don't think long term or of the economic consequence. Guidance which explains it should take a broad view would be really beneficial".*

Lack of Measurement for Systems Stewardship

Half the survey respondents cited challenges in measuring and monitoring system-level risk. This hinders the translation of the approach to financial implications or investment outcomes.

We asked interviewees about the importance of being able to measure the financial impact of system-level risk. This was discussed, along with measuring the impact of systems stewardship activities.

Measuring System-Level Risk

Climate change and governance failures were identified as areas with established models, assumptions, and guidance that are easier to measure. Some sources that interviewees rely on include when evaluating system-level risk:

- macro measurements, e.g. whether something will impact GDP
- grassroots organisations' research and actions
- controversy flags from research providers (as an input into decision-making)
- proxies for topics that are difficult to measure, e.g. using the government's Measuring What Matters Framework for biodiversity

Lack of Quantification Methods has not Deterred Investors from Addressing System-Level Risk

- Measuring system-level risk requires information and a mindset or approach that is not currently mainstream. Still, those interviewed are unconvinced that it is a significant barrier.
- Regarding linking the measurement of system-level risks to their investor belief statement, "*you either believe these factors will impact your portfolio or you don't*".
- Lack of quantification has not stopped investors interviewed from engaging in systems stewardship.
- Concerns around losing nuance — measuring financial returns for system-level risks at a fund or product level is very difficult.
- Future research could examine how to measure individual investor actions towards systems stewardship and whether this level of precision is possible or useful.

> *"As much as people say what gets measured gets managed, sometimes when you measure you lose the nuance and the complexity".*

Quantifying Systems Stewardship Impact

Most interviewees agreed that quantifying systems stewardship impact is important but not currently measured. Challenges include:

- determining what should be measured
- ensuring balance between detail and the systems view
- understanding how system-level risks are interconnected
- demonstrating value and impact on portfolio decisions
- validity of quantitative measurements of impact.

Most interviewees agreed that quantitative measurement is impractical. Alternative metrics may include ways to benchmark and report on stewardship activity, a measurement of the degree of engagement and qualitative case studies.

> *"One area that's been helpful for us is thinking about all these disparate topics and recognising the level to which they're interconnected ... Once you start thinking about the system, you can't see any of these issues discreetly. It's really valuable and quite good practice to join the dots".*

The Church of England Pensions Board has a well-developed systems stewardship approach, with annual reports measuring and reporting their activities (detailed in the case study below). This includes:

- outlining their stewardship approach, which comprises six components, including "tackling systemic challenges"
- ensuring complementarity with several other policy documents, e.g. their ethical investment policy
- setting "future priorities" each year and outlining progress against these the following year. For example, "develop a responsible investor response to conflict and extraction, including supporting the creation of a Global Centre for Peacebuilding and Business with an initial focus in five countries"
- reviewing in detail the participation in various initiatives (e.g. IMTSI), and activities such as involvement in the UN Secretary General's panel on critical minerals
- impact reporting at a systems level, rather than at an organisation level, e.g. the Pensions Board reports one year on that insurer signatories represent 97% of the market.[149]

Systems Stewardship Incentives and the Role of Remuneration and Key Performance Indicators (KPIs)

Well under half (38%) of the survey respondents cited lack of incentives as a challenge. Interviewees reflected on the role of remuneration and incentives in supporting systems stewardship.

- Interviewees generally agreed that remuneration and KPIs tied to systems stewardship would be a *"significant driver — a clear way to get outcomes"*, particularly in the finance sector.
- KPIs for systems stewardship *"are completely lacking in this space"*; however, designing and measuring systems stewardship impact is a challenge.

  "Investors who are investing for their members' long-term best financial interests need to change incentive structures to reflect that long-term nature. [We need] incentive structures that incentivise protection of those long-term beta level returns as opposed to generating short-term alpha returns".

- Suggestions for KPIs included: an input KPI (e.g. how many letters did you send?); setting real-world objectives (e.g. interim success measures for real-world objectives); leading a collaborative engagement and integrating a long-term rather than a short-term incentive.
- There is a concern that systems stewardship KPIs could *"accidentally create perverse incentives".*

  "We don't want to have our stewardship objectives defined only by what we can measure because I imagine that then leads to very unambitious stewardship projects. Equally things that are easy to measure aren't necessarily indicative of achieving that transformational change".

  "At a systems level it would be interesting to see how [KPIs] could work to empower and incentivise a whole group of people to do that and remain coordinated".

149 Church of England Pensions Board. *2024 Stewardship Report*. 2024.

Case study: Overview of The Church of England Pension Board and its Systems Stewardship Practices[150]

The **Church of England Pension Board** manages £3.4 billion in AUM, serving nearly 44,000 people across 700 church organisations.[151]

Ethical investment approach

The Fund has published its ethical investment policies, a Stewardship Implementation Framework, and an annual Stewardship Report. Its ethical investment policy:

- **outlines a commitment to responsible, long-term investing.** "*The Pensions Board invests for the long term to deliver our pension promises. We will be a leader in ethical and responsible investment, acting in members' interests, and reflecting the Church of England's ethos and mission.*"[152]
- **has six key elements of implementation, including "tackling systemic challenges."**[153]

The Board's 2023 Stewardship Report reaffirms systemic stewardship:

> *We recognise certain issues pose systemic challenges to our investments and the world our members will retire into. We prioritise engagement on cross-cutting topics, such as with climate change and with extractive industries, where we devise long-term interventions that are focused on outcomes in the real economy.*[154]

Examples of systemic stewardship initiatives:

- **Investor Mining and Tailings Safety Initiative:** detailed prior, collaboration on mining waste
- **Sustainability Principles Charter for the Bulk Annuity Process:** Collaborated with various stakeholders to develop a Charter embedding sustainability into the bulk annuity process. Twenty founding signatories endorsed it, representing over 90% of the bulk annuity market.[155]

Transition Pathway Initiative (TPI): Co-founded by the Board, TPI assesses corporate alignment with the Paris Agreement. Over 150 investors with US$80 trillion+ in AUM and advisory support it.[156]

Best practice summary: Values-driven, long-term stewardship can address system-level risks and drive change. The Pensions Board reports transparently on systems stewardship outcomes.

150 Church of England Pensions Board. *2023 Stewardship Report*. 2023.
151 Church of England Pensions Board. *Church of England Pensions Board*. 2025.
152 Church of England Pensions Board. *Ethical Investment Policy Statement*. 2024. p.1.
153 Church of England Pensions Board (2024).
154 Church of England Pensions Board (2023).
155 Church of England Pensions Board (2023).
156 Transition Pathway Initiative (TPI). *History and investor network*. 2025.

05: Recommendations

Based on the research, investors and regulators can strengthen systems stewardship practice through six key actions:

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.

5.1 Enhance Collaborative Engagement to Amplify Impact

For collaborative initiatives to work well, they need dedicated resources or a committed voluntary lead; strong leadership, governance and processes; and clear objectives and focus. Leadership capability is particularly important. Examples of effective collaboration include:

- CA100+
- PRI Sovereign Engagement

We may be seeing a shift from broad, sector-agnostic collaborations towards sectoral and value chain initiatives because:

- Broad initiatives can struggle with consensus and uneven participation
- Focused efforts can tackle specific problems with the right stakeholders using multiple system levers.

An example is the IMTSI.

Investors alone cannot solve systemic risks, like climate change, biodiversity loss and inequality. They should consider partnering with civil society, academia, Indigenous communities, public sector stakeholders and businesses to codesign solutions. These collaborations can help investors better understand system dynamics, identify leverage points, and build legitimacy for their stewardship efforts.

Effective collaboration is strategic, focused and inclusive — designed to shift systems, not just portfolios.

Recommendations for Investors in Collaborative Initiatives

- Dedicate time and resources, even if you are not leading the initiative. Aim for quality over quantity.
- Align internally. Ensure your whole organisation understands the initiative's goals and engagement channels.
- Consider further engaging in value chain/sectoral initiatives that bring together diverse stakeholders around specific problems and systemic solutions.

Recommendations for the Investor Community

- Build collaboration capacity, for example, training on how to coordinate diverse stakeholders, navigate differing views and reach consensus.
- Develop a collaboration toolkit with guidance on clear focus and objectives (including means to measure system level objectives), evidence-based foundations, adequate resourcing, defined roles and responsibilities,[157] transparent structure, and accountability mechanisms.

157 There is no clear consensus among the research participants on the appropriate roles and responsibilities for investors in collaborative engagements.

5.2 Clarify Regulatory Guidance to Provide Certainty

Regulation is a significant barrier, especially competition law, which was the most frequently cited concern. Some see it as a real constraint, others as a perceived one. Either way, it may be limiting effective collaborative systems stewardship.

YFYS and one of its key components, the BFID, were flagged as a barrier for superannuation. Quarterly performance reporting and the short-term focus conflict with long-term stewardship goals. Yet, addressing systemic risks aligns with fiduciary duty and member interests.

PRI has made a series of recommendations for public policy improvements to strengthen Australian stewardship.[158] These range from clarifying rules on acting in concert (competition law) through to providing Federal government guidance on tracking and measuring stewardship outcomes. A detailed analysis of regulation was beyond the scope of this research. However, we recommend the following:

Recommendations for regulators

- Review Regulatory Guide 128 Collective Action by Investors — ensure that it reflects modern investment practice and provides clear assurance that it does not restrict collaborative stewardship initiatives.
- Clarify that BFID should also take a broader, longer-term view of investment outcomes.

Recommendations for the investor community

- Advocate for regulatory enhancements to enable systems stewardship — especially around collaboration, fiduciary duty, and long-term investment evaluation.

5.3 Align Language, Incentives and Metrics to Assess and Reward Outcomes

Shared language is missing. Inconsistent terminology is a recurring barrier. The investor community should codevelop a shared systems stewardship vocabulary to reduce confusion, improve reporting, and align expectations between asset owners and managers.

Incentives are not aligned. Despite recognition of their power, no participants have linked systems stewardship to organisational reward systems, or asset manager incentives. This is partly due to difficulty in defining meaningful KPIs.

Measurement remains a challenge. There is support for benchmarking stewardship activity, but uncertainty on how to do it. KPIs may be limiting. It may be more feasible to track engagement levels and use case studies to show impact.

Without better measurement and incentives, short-term pressures continue to undermine systems stewardship. To scale systems stewardship, investors need shared language, aligned incentives, and practical ways to measure impact.

Recommendations for the investor community

Undertake a joint initiative to:

- Define shared language — a common vocabulary and typology of systems stewardship activities and outcomes.
- Measure what matters — pilot new approaches to assess the value of systems stewardship and share learnings openly to build sector-wide understanding.
- Align incentives — design mechanisms to reward and incentivise systems stewardship.

158 PRI. *Strengthening effective stewardship in Australia*. 2023.

5.4 Foster a Culture of Systems Stewardship to Embed Practice

Internal alignment is critical, and a culture shift is needed, from trustees and boards to analysts and engagement teams. Systems stewardship must be understood and valued across all levels. Systems stewardship often sits in siloed teams and is not embedded across the organisation. This can lead to difficulty securing sign-off for collaborative engagement positions or mixed messaging from different representatives.

Even well-resourced teams face internal hurdles, especially when the financial value of systems stewardship is not clearly understood.

Recommendations for investors

- Raise awareness. Promote understanding of systems stewardship and embed it across the organisation. Provide internal training on systems thinking and stewardship to build shared understanding and commitment.
- Embed systems stewardship into core functions so that it is part of regular business, not a side activity.
- Emphasise the importance of long-term beta level returns for financial stability alongside short-term alpha returns.

5.5 Build Sector-Wide Capacity to Drive Change

The research shows that skill gaps are limiting the effectiveness of systems stewardship. The competency of individuals and the financial sector as a whole is foundational to enabling system-level change.

Recommendations for investors/investor community

Strengthen capability in five key areas:

- ESG and system-level risk awareness — extend understanding beyond responsible investment teams.
- Systems thinking literacy — equip teams to understand how complex systems interact and how change happens.
- Targeting effective levers — train teams to identify long-term, cross-sector strategies that go beyond traditional tools.
- Understanding beta level risk — clarify how system-level risks affect market-wide returns and why financial institutions must protect long-term financial stability.
- Build skills in collaborative engagement, policy advocacy and company-level stewardship.

5.6 Signal Expectations Through Mandates to Support Goal Alignment

Uncertainty exists around how much asset managers are expected to engage in systems stewardship. Clear client demand and explicit signalling are key enablers.

Recommendations for investors

- Review alignment — asset owners should assess asset managers' alignment with their investment belief statement. Engage for improvement and consider escalation if misalignment persists.
- Embed stewardship in mandates — include systems stewardship expectations in investment mandates to guide manager priorities.
- Communicate commercial value — asset managers should proactively explain the financial benefits of systems stewardship to asset owners.

06: Conclusion

Systems stewardship is gaining traction. Our research shows that IGCC members and global investors increasingly see it as key to managing systemic risks and driving long-term, risk-adjusted returns.

Investors are acting. Many are engaging through:

- collaborative initiatives
- policy advocacy
- sector-wide efforts.

They are motivated by goals to improve performance, meet fiduciary duties and strengthen risk management.

However, systems stewardship is in its early stages of maturity. Implementation is uneven. Barriers include:

- limited resources
- regulatory uncertainty
- internal misalignment
- lack of shared language, incentives and KPIs.

Despite these challenges, systems stewardship is not only possible but necessary to protect portfolio value in a changing world. By enhancing collaboration, clarifying regulations, aligning language and goals and building capacity, investors can leverage their influence for systemic change.

This report offers practical steps to embed systems stewardship and position the financial sector as a force for resilient, equitable and sustainable futures.

07: Further Reading

UNEPFI on mapping interlinkages of different impact areas,[159] practitioners like Aviva Investors on systems thinking to transform finance,[160] Morningstar Sustainalytics on using systems thinking to avoid ESG investing blind spots[161] and civil society groups on the role of systems thinking in asset management.[162] PRI Investor Guide on Addressing System-Level Risks and Opportunities[163]

159 United Nations Environment Programme Finance Initiative. *Interlinkages mapping*. 2024.
160 Aviva Investors (2022a).
161 Kaasinen, T. *Using systems thinking to avoid ESG investing blind spots*. Morningstar Sustainalytics. 2021.
162 Järnberg, L. et al. *A pilot study on systems thinking in asset management*. The Stockholm Environment Institute. 2023.
163 PRI. *Addressing system-level risks and opportunities*. 2025.

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09: Appendix A: Methodology

Literature Review

We conducted a literature review to explore systems stewardship and its application. The review covered industry, government and academic publications. It focused on:

- Definitions and frameworks
- Role of systems stewardship
- Systems stewardship activities
- Challenges
- Case studies and examples

Insights from the literature review informed how we developed the survey and interview instruments.

Survey

We conducted a short survey. It was open to IGCC asset managers and owners from June-July 2025. Purpose:

- Identify who is doing systems stewardship
- Understand how it is applied
- Identify practical challenges

Method:

- Online format
- Mostly multiple choice
- Collected both qualitative and quantitative data

Topics covered:

- Organisational context
- Engagement in systems stewardship
- Perceptions of system-level risk
- Systems stewardship
- Barriers to implementation
- Participants could self-nominate for a follow-up interview

Respondents

Number of survey responses	20, representing a third of IGCC asset manager and asset owner members
Respondent type	Asset managers 60%, asset owners 40%
Asset classes	Three-quarters of respondents listed equities as their primary asset class for their AUM. The rest is split across private debt and others.
Size	85% large (over A$10 billion AUM) Two medium (<A$10 billion AUM) One small (<A$1 billion AUM)
Climate change commitment	75% of respondents have a net zero goal, 60% have a climate action plan and 15% have neither

Interviews

We conducted eight one-hour, online, semi-structured interviews.

Participants:

- Self-nominated survey respondents
- Mix of asset owners (50%) and managers (50%)
- Varied AUM

Purpose — deeper exploration of survey and literature review themes.

Method:

- Interviews were recorded and transcribed
- Thematic analysis was applied.

All research activities were approved by the UTS-ISF research ethics program, overseen by the UTS Human Research Ethics Committee.

Limitations

Survey and interview participants are IGCC members. IGCC is an issues-based, voluntary group. Members are highly engaged on climate change, which is a core focus of systems stewardship. Participants are therefore not representative of the broader investor market. Within IGCC those who responded are more likely to be active in systems stewardship. The research reflects insights from a highly engaged sample, not the full spectrum of Australian asset owners and managers. It provides a valuable snapshot of practice among these investors.

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Suggested Citation

Atherton, A., Nagrath K., Cheung H. & Noble, G. (2025). *Systems Stewardship Landscape Study, prepared for Investor Group on Climate Change*. UTS Institute for Sustainable Futures.

About the Authors

ISF is an independent research institute within the University of Technology Sydney. We conduct transdisciplinary, project-based research in line with our vision of creating positive change towards sustainable futures.

Acknowledgements

The authors would like to thank Donna Lopata and Richard Proudlove of IGCC for their insights and guidance on the research and report. We thank the IGCC members who contributed to the research through advice, participation in the survey and interviews. For privacy reasons, we cannot name them individually, but we are very grateful for their contributions. Thanks to Sian Hamilton and Josie Toakley for their support in finalising the report.

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