SAGE
INVEST WITH WISDOM™

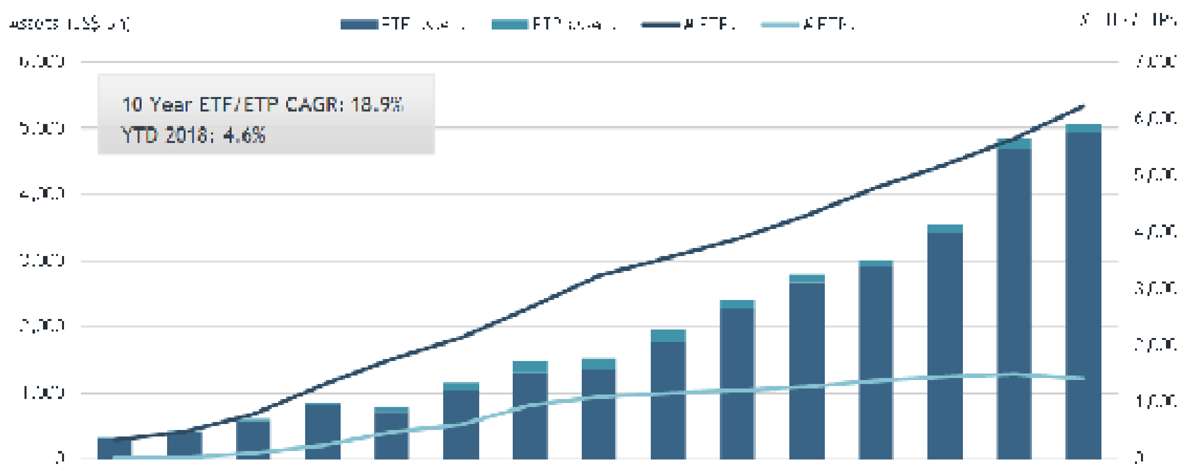
ESG Perspectives
ETF Sponsor Stewardship Survey

Stewardship Survey: Overview

When the word stewardship first appeared in English language in the Middle Ages, it functioned as a job description, denoting the office of steward, or manager of a large household. In more recent years, the long-established "management" sense of stewardship has now evolved to convey a positive meaning, e.g., "careful and responsible management." In the world of fund investing, stewardship also implies a fiduciary duty whereby those who manage other people's money should act in the interests of the beneficiaries, rather than serving their own interests.

For 21st century investors, there has been little substantive change in the law relating to fiduciary duty. The most important features of the law remain: a firm adherence to client loyalty and prudence. For Sage, this definition is limited in that it works to define professional standards of conduct but fails to illustrate the service that is expected to be provided in today's world. Indeed, the notion of financial stewardship offers a better sense of what investors seek. A financial steward accepts the assignment of responsibility to shepherd and safeguard the assets of others. In this role, a financial steward must be able to apply good judgement and objective analysis in the pursuit of moral, ethical, and prudent decision-making.

Global ETF Market



Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Nov-18
# ETFs	338	482	789	1,310	1,760	2,137	2,674	3,236	3,557	3,881	4,293	4,782	5,188	5,646	6,221
# ETFs/ETPs	368	511	893	1,552	2,238	2,741	3,623	4,336	4,721	5,093	5,569	6,163	6,641	7,146	7,636
ETF assets	310	417	580	807	716	1,041	1,313	1,355	1,770	2,281	2,670	2,895	3,420	4,687	4,931
ETF/ETP assets	319	426	603	857	774	1,158	1,478	1,526	1,951	2,402	2,788	2,998	3,552	4,840	5,061

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in house. Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.

In today's world financial stewardship is being expressed and relied upon in a variety of investment modalities but none more important than the market for Exchange Traded Funds (ETFs). As shown above, since 2004 the globally-listed ETF assets under management and number of issues available to the public has grown exponentially, to over $6.2 trillion. According to Morningstar, U.S. equity ETFs represent a significant portion of the global market, with approximately 1,534 traded issues and $2.8 trillion in total assets under management.

ESG

In our view, the firms that manage and provide exchange traded funds to the investing public are responsible for delivering and sustaining the exercise of good financial stewardship as well as strong fiduciary standards. This is because of their important influence over the direction and continuation of company polices that impact the value of investors' long-term investment outcomes. The table below from ETF.com illustrates their important influence.

	Average % of Float in ETFs	Median % of Float in ETFs	Most Held	Least Held
Mega Cap	5.46%	5.40%	6.81%	4.24%
Large Cap	6.64%	6.33%	13.61%	2.05%
Mid Cap	9.03%	8.90%	36.02%	1.05%
Small Cap	9.08%	8.36%	24.85%	0.61%
Micro Cap	4.83%	3.96%	19.68%	0.04%

Source: FactSet, Bloomberg, ETF.com

The data clearly indicates that ETFs are indeed heavyweights in the U.S. stock market with some public companies having a significant amount of their investable shares (float) held by them. In recent years, research shows that out of the U.S. market's 3,000 or more listed stocks, American ETFs have a stake of more than 10% in 993 of them. Moreover, it has been reported that ETFs have collective ownership positions of more than 20% for 18 major public companies. When considered in this context, ETF providers can and do have significant influence over corporate policies, management direction, and investor outcomes. Their financial stewardship truly matters.

Given the aggressive growth and development of the ETF industry, as well as its ever-expanding proxy voting responsibilities on behalf of those investors utilizing these funds, we felt it would be useful to survey a range of ETF providers to evaluate their methods and efforts to satisfy their respective fiduciary and stewardship requirements. Our survey was also conducted to attempt to reframe the notions of fiduciary duty and financial stewardship in a way that would be more relevant for modern investors.

Aside from assessing each respondent's general fiduciary standards of practice, we explored the question of stewardship responsibility as it relates to an ETF provider's effort to consider the impacts and implications of their investment activities on society at large and the environment. We also wanted to find out if ETF providers took account of environmental, social, and governance (ESG) issues through their company engagement practices, investment process, and proxy voting decisions. More importantly, we wanted to know to what extent they are dedicated to encouraging higher standards of ESG performance among the companies in which they are invested.

Stewardship Survey: Purpose, Questions & Scoring

Late last year, Sage conducted its 2018 ETF Sponsor Stewardship Survey. The purpose of the Survey was to gain valuable insights into each ETF provider's orientation and dedication to meeting their important stewardship duties on behalf of their clients. The responses and data that we received were intended to help inform and refine our understanding of the management policies and resources applied by each sponsor regarding their important proxy voting activities. We also wanted to ascertain the degree to which financially material or general ESG-related considerations were integrated into their respective proxy voting processes. Through our survey we were able to create an assessment framework that served as the foundation for our internal stewardship evaluations of each Sponsor and their respective ETFs featured within our approved investment universe.

The survey was designed to evaluate the relative stewardship policies and practices for each respondent across five core areas:

1. General policies regarding corporate governance and ESG issues;

2. Firm-wide proxy voting practices and history;

3. Corporate engagement polices, practices, and communication efforts;

4. Depth and breadth of research resources dedicated to stewardship and engagement;

5. Level of disclosure regarding their voting practices and company engagements.

The survey featured 26 questions that were collectively designed to develop a clear understanding of each respondent's degree of commitment to meeting the stewardship objectives represented within the five core areas. We believe that when ETF providers make significant commitments to allocate resources toward these core stewardship concerns investors benefit and their fiduciary interests are more assured. Moreover, in our role as an ETF Portfolio Strategist, it is important that we review and fully understand how each ETF provider fulfills their stewardship responsibilities on behalf of our investment clients.

Our scoring system evaluated every survey response for each of the five core categories. Each question received a score value based upon the quality of the response and data provided by the respondent. The scores were aggregated for each of the core areas per firm.

The Proxy Voting Policy was the most important category, followed by Engagement. In our view, these two areas carried the highest weighting and importance in terms of impact on the quality of a Sponsor's stewardship and investor value. The scores for General Policies, Stewardship team, and Disclosure, while important, were accorded lesser-value weightings. Lastly, we awarded a point to each Sponsor score for timeliness if we received their survey responses within 30 days as requested. Finally, the Sponsor's scores for each category were summed up for the overall Sage stewardship grade.

Environmental, Social, and Governance (ESG)-focused investing has become a priority for many investors today. For this reason, we included specific survey questions to evaluate each Sponsor's support for and application of ESG-related policies and practices. It was notable that virtually every respondent to the survey, except one, indicated that they had some form or level of firm-wide ESG-focused voting policies in place. Additionally, all these respondents indicated that they presently include ESG factor assessment, in varying degrees, within their respective proxy voting decision-making processes. We felt these survey results were very encouraging in terms of the broad recognition that ESG risk factor assessment is receiving, and it showed a true commitment to sustainability on the part of ETF sponsors, big and small, public and private.

Survey Questions

General Stewardship

1. Does (the Sponsor) have a corporate governance policy? If so, does (the Sponsor) focus on any areas such as board composition, management composition and compensation, etc.?
2. Does (the Sponsor) intentionally address environmental, social, or governmental issues with companies represented within the ETF portfolio?

Voting Practices

3. Does (the Sponsor) have independent proxy voting policies?
4. Does (the Sponsor) have a proxy voting Advisor? If so, does (the Sponsor) follow the voting recommendation of the Advisor?
5. Are voting activities performed in house, or are they delegated to a Subadvisor?'
6. Are voting guidelines the same across all strategies, asset categories and geographic regions?
7. Does (the Sponsor) assess all non-routine voting activities?
8. How many of the ETF portfolio companies does (the Sponsor) exercise direct voting rights for? How is this decision made? Are there thresholds, i.e. minimum portfolio weight?
9. What is (the Sponsor's) percentage of votes in favor of versus against portfolio company management positions?
10. Does (the Sponsor) view a negative vote as a first or last resort to effect change in the portfolio company?
11. Do ESG related factors impact (the Sponsor's) voting behavior? If so, explain how.
12. Does (the Sponsor) engage in securities lending? If so, is there a threshold at which (the Sponsor) will not lend securities?

Engagement

13. How often does (the Sponsor) engage with ETF portfolio companies?
14. Does (the Sponsor) have a formal corporate engagement strategy?
15. What forms of engagement are used by (the Sponsor)? (phone call? letter? site visit?)
16. What information does (the Sponsor) seek from engagement with portfolio companies? (Operating data? ESG Data? General information gathering? Policy voting intentions?)
17. What team at (the Sponsor) is responsible for corporate engagement activities?
18. Does (the Sponsor) join with other investors to share engagement information? If so, explain how.
19. Does (the Sponsor) participate in industry forums involved with Stewardship?
20. Post engagement, what is the time frame that (the Sponsor) will give the portfolio company to effect change?

Stewardship Professionals

21.Does (the Sponsor) have a dedicated Stewardship evaluation team? If so, how many professionals are on the team?
22. In the past 5 years, how many professionals have been added to the Stewardship team?
23. Does (the Sponsor) have a threshold for number of stewardship professionals in relation to number of holdings?
24. Are there any professionals with Stewardship certifications on the team?

Disclosure

25. Does (the Sponsor) provide disclosures of voting records?
26. Does (the Sponsor) provide disclosure of engagements with individual ETF portfolio companies?

The survey was sent to 20 U.S.-domiciled ETF sponsors. We received 14 completed survey responses, which represented a 70% response rate. Collectively, our respondents were responsible for 49.7% of all U.S.-registered ETF issues and 58.3% of U.S.-registered equity ETF issues. As of year-end 2018, they also represented 91.7% of U.S.-registered ETF assets under management, as well as a significant 93.0% of U.S. domestic equity ETF assets under management. Roughly 57% of the respondents were publicly listed investment service companies with the balance being privately held entities.

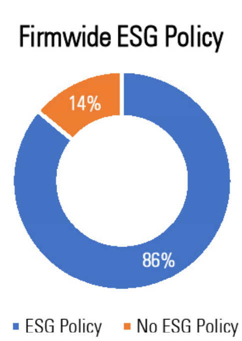
The respondent group was divided between large Sponsors, with $950 billion or more in AUM, and smaller Sponsors with less AUM. Based upon each respondent's approximate year-end reports the average AUM size was $1.8 trillion, with a range of $8.5 billion to $6.3 trillion.

The survey responses for each question were evaluated and scored on a closed peer group basis. Sage then combined the individual question scores under each "core area" category to create an overall letter grade assessment score for the five core area categories, where "A" was the highest score and "D" was the lowest score. Our grading system, which combined both objective data reviews and subjective analysis, was based upon a rubric we developed from the survey questions. Each Sponsor was graded on what was deemed the most complete or optimal response for each core area category question.

Survey Review & Evaluation

General Stewardship

Our survey results showed that most of the respondent firms (13 Yes/1 No), whether large or small, public or private, did have a firm-wide general corporate governance policy in force. It was also interesting to note that most (12 Yes/2 No) of the respondents stated they were intentionally integrating ESG-related evaluations of their respective ETF portfolio companies.



Voting Policies and Practices

The evaluation of voting policies and practices was guided by our consideration of the key tenets that promote and support optimal voting policies and investor/client outcomes. The survey questions on this subject were designed to provide the Sponsor an opportunity to identify the breadth and depth of their respective proxy voting policy features. The key focus issues that were reviewed and their relevance for investors are listed below:

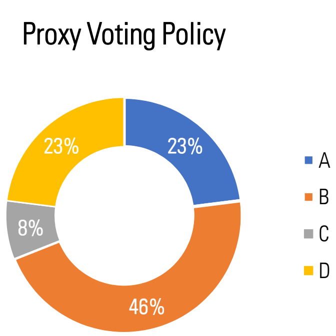
Focus Issues	Relevance
The existence of written proxy voting policies. Specific examples of proxy voting policies and practices that illustrate how decisions are made throughout the firm.	Written and clear proxy voting policies indicate a firmwide dedication to the protection of shareholder value and fiduciary responsibility to ETF investors.
Evidence of independent decision-making regarding voting decisions versus passively following recommendations of a third-party proxy voting advisor.	Independent decision-making when voting indicates the Sponsor has a voting policy and prioritizes voting on behalf of its ETF clients to help ensure optimal outcomes for the portfolio companies in which their ETF clients are invested.
A Sponsor's exercise of direct voting rights for all portfolio companies or a demonstration of its strong intentions to do so.	The exercise of all direct voting rights demonstrates a Sponsor's commitment to a consistent application of policy preferences across all holdings within an ETF.
The Sponsor assesses and participates in all non-routine voting activities.	Assessing of all non-routine voting activities indicates the level and depth of a Sponsor's commitment to voting on all proxies on behalf of ETF clients.
Either written policies or specific evidence that illustrates that the Sponsor clearly integrates ESG factors within the voting decisions process.	A Sponsor's acknowledgement of the importance of ESG issue integration within the voting decision process indicates an understanding the material impact such issues may have on the financial outcome of the companies in which they invest.
Written and disclosed securities lending policies that identify the reasons and quantify the financial benefits for such activities to the ETF investors.	Securities lending, while intended to financially beneficial, can possibly add risk to an ETF portfolio and transfer investor voting rights away to the security lending counterparty. Sponsors that do not participate in securities lending do not have counterparty risk and retain all voting rights on behalf of their ETF clients. Some fund mays use security lending to enhance fund returns but this marginal income comes at the expense of additional risk and a potential loss of voting rights on important investor issues.

The responses we received about voting policy and practices were varied. While each of the organizations indicated they had uniform firm-wide independent voting policies in force, we noticed there were significant differences in the methods each utilized to satisfy their voting responsibilities. For example, 12 of the respondents used an external proxy voting advisor service while two did not, preferring to rely upon their internal staff for this support. Eight of the firms indicated they utilized Institutional Shareholder Services Inc. (ISS), a leading provider of corporate governance and responsible investment research and advice, as their proxy voting advisor. Ten of the firms stated they used the external proxy voting advisor for research purposes only, while three used a combination of internal and external advisory research and recommendation services. Only one firm indicated that they relied exclusively on an external proxy voting advisor for their recommendations.

We also queried each Sponsor on their policy regarding the execution of direct voting rights for the companies contained within their respective ETF portfolios. Here we found some interesting differences. Only 7 of the firms stated that they voted all proxies across the board; however, 6 indicated they did not vote all proxies for various internal reasons or that their intentions were to do so in the future on a best-efforts basis. All the respondents indicated a preference for engagement with corporate management to resolve voting differences rather than cast negative or "no" votes against management's proposals. Most of the respondents focused on various methods of engagement to resolve differences. Lastly, all the Sponsors affirmed that ESG-related factors do indeed impact their voting behavior.

It was difficult to identify any meaningful and clear differences between the responses received from the private firms versus public firms. This was interesting given the greater disclosure and reporting requirements that are generally placed upon public companies by the regulatory community and the investing public. We would have expected that the publicly held Sponsors might have scored higher on the voting questions, but surprisingly that was not the case.

We were also surprised to find that there were no major differences between the responses received from large AUM firms versus those of the smaller firms. Given that the larger firms have greater exposure to multiple proxy voting opportunities, more resources, and greater influence owing to the size of their investing activities, we expected to find more comprehensive and elaborate responses from those firms. Based on our evaluation metrics, as shown below, most of the respondents achieved an overall score of "B" for their Proxy Voting Policies and Practices.



On the issue of securities lending, we found that 10 of the respondents had active securities lending policies in force. This group was mostly made up of the larger firms, and 8 of this group disclosed to investors that these activities were done to add income to their ETFs. Four of the respondents, mostly the smaller firms, indicated that they did not do securities lending either because they did not wish to take on the counterparty risk or give up their voting rights.

Engagement

In this section of the survey we wanted to gauge the frequency, depth, and methods of each Sponsor's corporate engagement activities. In our view, good stewardship comes from regular and sustained discourse with the management and related stakeholders of the companies that are held by an ETF. A strong engagement process demonstrates the Sponsor's efforts to uncover and mitigate emerging risks as well as seek long-term positive financial and ESG-related outcomes.

Collectively, the respondents indicated they organized their corporate engagement and evaluation efforts around the following topics and issues:

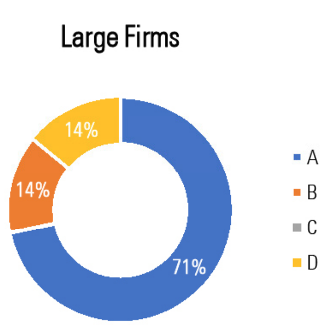
- Board Composition & Competency
- Compensation & Shareholders Rights
- General ESG Data Assessment
- Carbon Emissions Data
- Geopolitical Issues & Concerns
- Long-term Business Strategy
- M&A Proposals
- Proxy Voting Proposals
- Contested Proxy Voting Matters
- Management Succession Planning
- Corporate Structure & Governance Policies
- Workforce Diversity & Safety Data
- Regulatory & Government Relation Issues

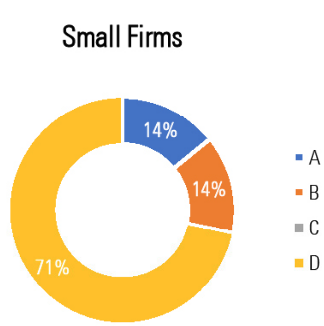
There were clear differences between each Sponsor's frequency and intensity of corporate engagement activities. Eight of the firms had a formal firm-wide engagement policy in force, while 4 did not; and 2 had ad hoc or situational forms of policy on this issue. Eight of the firms relied upon a specified or planned corporate engagement schedule. Two of the firms preferred ad hoc scheduling, and the remaining few did not directly engage with companies. We also examined each Sponsor's staffing support for the execution of their respective engagement activities. We found that 8 of the respondents had established formalized corporate engagement teams while the rest of the firms did not have any formal teams.

Interestingly, we found that 50% of the respondents affirmed that they were either willing to and did share their engagement data with other Sponsors or investors on select matters. In contrast, 3 of the larger firms did not share their engagement data and research, as it was regarded as proprietery. The majority of the firms (11) indicated that they do participate in public forums focused on stewardship and/fiduciary matters, while 3 of the firms indicated that they do not activily participate in such events.

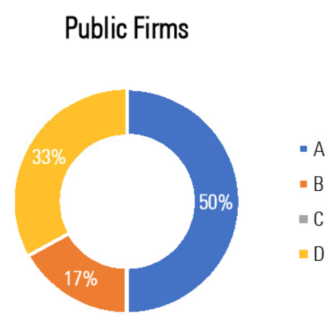
The methods that were applied to achieve corporate engagement were quite varied. Ten firms indicated they communicated via telephone calls, 9 made on-site visits, 7 wrote letters or sent questionaires to management, and only 7 of the firms did all three of these forms of engagement. Surprisingly, 4 firms indicated they did not engage with company managements in any form. We found that the differences were quite stark between those that truly emphasized a comprehensive engagement effort and those that seemed to exercise a marginal effort or relied heavily on third-party information to inform their decision-making process.

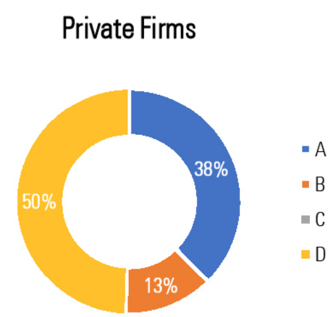
When we reviewed the engagement responses between the large and small firms, it became evident that size really does matter. Our results showed that the large Sponsors scored high marks and did much better than their smaller counterparts in terms of engagement frequency, depth of research, and dedicated staffing.



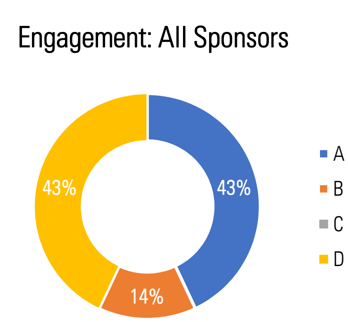


In most of the cases we attributed these strengths to the size of the firm's human and financial capital resources devoted to proxy voting, issue research, and meaningful communication with their ETF portfolio companies. This seemed logical as they themselves are often subjected to rigorous information and engagement requirements from investors, thus heightening their sensitivity for strong engagement practices. Based on our findings the engagement policies, practices, and corporate communication efforts of smaller private ETF providers need to be intensified, more deliberate, and consistent to compete and deliver a more rewarding stewardship service to their ETF investors.



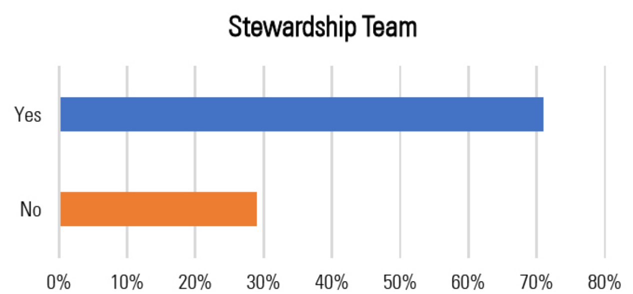


In our view, the exercise of strong engagement practices is a critical part of the stewardship process because it is an investor's only means to facilitate and affect meaningful change within ETF portfolio companies. Ultimately, it is the job of the Sponsor to protect shareholder value through a consistent and detailed engagement process. Not surprisingly, those firms that demonstrated these attributes with high-frequency corporate communications generally received better assessments. As shown on the following chart, a minority of the Sponsors (43%) received our highest assessment grade of "A." More importantly, an equal percentage of the respondents received a very low subpar grade of "D" for their overall engagement policies and practices. Our survey suggests that the majority of ETF Sponsors need to place a much higher priority and more resources on corporate engagement to better fulfill their stewardship roles.



Stewardship Professionals

In this section of the survey we wanted to determine the history, size, and scope of the professional staff dedicated to fulfilling the Sponsor's important stewardship responsibilities. As shown below, we found many of the Sponsors indicated they had a dedicated internal group or specific individuals to deal with proxy voting and related engagement needs for their portfolio companies. However, nearly 30% of the respondents indicated they did not have a team in place. We were heartened to find that 10 of the firms had expanded and intend to continue expanding their stewardship teams. Four of the respondents did not and do not intend to expand their capabilities in this area.



Collectively, 7 of the respondents cited the following professional certifications or educational programs that were represented within their respective stewardship teams:

CFA: The Chartered Financial Analyst (https://www.cfainstitute.org/programs/cfa)

CMA: Certified Management Accountant (https://www.imanet.org/cma-certification)

CFP: Certified Financial Planner (https://www.cfp.net/about-cfp-board/cfp-certification-the-standard-of-excellence)

FSA: Fundamentals of Sustainable Accounting Certification (https://fsa.sasb.org/credential/)

JD: Juris Doctor Degree

Corporate Social Responsibility Reporting Certification UC Berkley: (https://extension.berkeley.edu/static/cert/information/)

USSIF: The Forum for Sustainable and Responsible Investment (https://www.ussif.org/globalsri)

IRRC: Investor Responsibility Research Center Institute (https://www.weinberg.udel.edu/irrci/about)

Si2: Sustainable Investments Institute (https://siinstitute.org/)

GRI: Global Reporting Institute (https://www.globalreporting.org/information/sustainability-reporting/Pages/gri-standards.aspx)

UN PRI: Principles for Responsible Investment (https://www.unpri.org/pri/about-the-pri)

We found that 100% of all the large publicly held firms had established stewardship teams while only 43% of the smaller public firms had internal stewardship teams. Here again, size did seem to matter regarding the availability of professional and financial resources to support a firm's stewardship responsibilities. To offset these shortcomings, several of the respondents indicated a reliance upon independent third-party external research, and administrative or legal services to help fulfill their respective stewardship duties.

Disclosure

The last section of the survey focused on evaluating voting disclosure policies and dissemination of engagement reports. We believe the full disclosure of a Sponsor's voting records serves to protect the important fiduciary interests of ETF investors. Given the size and complexity of the average ETF portfolio there are a wide range of important corporate governance issues that investors must consider over time. Good disclosure also alerts investors to any potential misalignment of interests between themselves and the Sponsor on a variety of corporate management and ESG-related issues.

In our view, low levels of voting disclosure are not necessarily a function of the size of a Sponsor's financial resources or its professional staff, but rather a reflection of their management culture and attitudes about stewardship. All votes on behalf of clients should be fully reflected, explained, and communicated to protect their fiduciary interests. A low level of Sponsor transparency and voting disclosure only serves to diminish their stewardship service and benefit to the ETF investor.

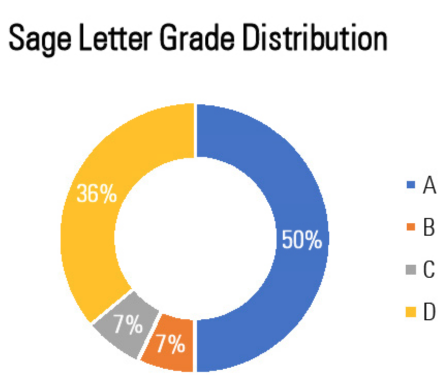
On the issue of voting record disclosures, we found that 12 of the respondents voluntarily disclosed all or most of their proxy voting records. However, we noted that two of the respondents did not have a voting disclosure policy in place and did not voluntarily disclose their voting records. Regarding the disclosure of their corporate engagement activities, 8 of the firms indicated they did not disclose this information to investors, 4 of them preferred to disclose only anonymous examples of their corporate engagement research, and only 2 firms maintained a policy of full disclosure of their engagement research.

Here again, we analyzed the differences between the public vs. private, as well as large vs. small Sponsors to evaluate the strength and breadth of their relative disclosure policies. We found that roughly half the public firms reported they maintained a high level of voluntary voting disclosure while the other half did not. When viewed from the perspective of public vs. private firms, there was a clear difference. Among the private firms, 63% indicated a subpar, low level of voting disclosure, while only 37% indicated high disclosure levels. Lastly, we found a sharp divide between large firms and small firms, as 71% of large Sponsors had a high level of disclosure.

Summary

Our review and assessment of the survey responses received was informative and provided us with useful insights to support our ongoing ETF investment selection process.

Our Sponsor evaluations and grade distribution, which combined a firm's score for each of the five core areas (i.e. general governance, voting policies, engagement, professional support and disclosure), is illustrated on the chart below. Our survey found that 50% of the Sponsors scored well on most of the stewardship issues and achieved a solid overall grade of "A." Unfortunately, 36% of the respondents did not score well and achieved weak, subpar assessments of "D."



Generally, the public firms fared better, representing 67% of the group attaining "A" grade status, while 17% ended up in both the "C" and "D" grade categories. The scores accorded the private firms created a barbell, with 50% receiving a top score of "A," and 50% receiving the lowest score of "D." Thus, publicly held firms generally scored better across the board.

The larger firms also attained higher scores overall, with 71% receiving an "A," and 14% receiving both "C" and "D" scores. Conversely, the smaller firms attained lower scores, with only 29% receiving a score of "A," while 14% received "B" scores, and a significant 57% of the group received "D" scores.

From these evaluations we can determine that the larger publicly held firms fared somewhat better, although not uniformly so, in terms of the overall Sage stewardship grading scale.

The private firms and smaller Sponsors were less likely to have specific teams in place for engagement and stewardship, so this adversely affected their overall Sage stewardship scores. Although most private and small firms had fewer dedicated resources, there were still some standouts among the peer group that seemed to organize their limited resources and professional staff toward maximizing their stewardship efforts. Their strong intentionality to emphasize stewardship throughout their respective organizations was duly recognized in our assessment process. For us, those Sponsors demonstrated leadership, above-average standards of practice and dedicated engagement capabilities.

Lastly, we found several practices, policies, and resource allocations that need to be improved across many of the Sponsors. A few key areas of concern for us were:

1. A need for greater decision-making transparency with more frequent disclosure of engagement activities, research, and reports;

2. The need to develop more comprehensive industry-wide voting disclosure standards of practice beyond current 1940 Investment Act requirements;

3. For the smaller firms, greater resource allocation to augment their internal stewardship and engagement teams.

ESG

Conclusion

Since the late 1990s demand for ETFs has grown markedly as investors have increasingly turned to them as core investment options in their portfolios. Most ETFs are commonly structured as open-end investment companies registered under the Investment Company Act of 1940. Under the law the investment companies and their ETF directors that oversee management and operations have fiduciary, stewardship, and disclosure responsibilities, like those of mutual funds, to serve and protect the interests of the fund shareholders.

Good stewardship is rooted in a clear recognition that the most important aspect of an investment company is that it is owned by its shareholders. Every individual or institution that owns a share of an ETF or mutual fund has a direct ownership stake in all the assets of the fund and a vote in how that fund is managed, much like a corporate shareholder. Not only do they own the economics of the investment portfolios, they own the decision-making process around how the fund is managed, no matter how removed they may be from the daily investment activities.[1]

Our survey provided insights into each organization's sense of and commitment to the principles of good stewardship, in other words a feel for the culture of the firm. We believe that each firm's culture was, in large measure, exhibited through their responses. They were defining elements that clearly helped to differentiate the relative strength of stewardship among the Sponsors. For us it was their culture of stewardship that pushed them beyond articulated intentionality and into definitive actions.

The survey responses indicated that most of the Sponsors had written policies on governance and ESG integration, but interestingly many of them had little to no dedication of firm resources and human capital to enact those policies, i.e. no follow-through. On the other hand, there were several Sponsors that exhibited strong cultural stewardship traits with comprehensive policies in place along with dedicated resources and human capital to make those policies actionable.

Our survey highlighted the need for investors to better understand the different management cultures and governance policies that surround their ETF investment choices. Without a deeper dive and evaluation of these concerns it is easy for investors to assume that because all ETF Sponsors have some form of written fiduciary policies, they must be applying them correctly as well as with equal force, and therefore, are good fiduciaries. Our survey results clearly suggest that these are inappropriate assumptions and that investors would be well advised to become more aware of the quality and breadth of fiduciary stewardship being provided by every ETF provider.

Lastly, we would offer the following general observations and recommendations to help improve the stewardship practices throughout the ETF Sponsor community;

1. The development of clearly written and concise firm-wide governance and disclosure policies that make all voting and company engagement activities 100% transparent to shareholders on a timely basis, including acknowledgements of any potential board or management conflicts of interest with any portfolio companies;

2. The development of greater transparency for investment company management policies and detailed reporting of the individual voting records of the board or management representatives on behalf of the ETF shareholders, as well as disclosure of the information that may have been utilized to inform their voting decisions;

3. A greater reliance upon qualified internal proxy voting research and professional staff to inform and support an independent decision process, particularly regarding financially material ESG risk assessment matters within all portfolio companies.

1 Nadig, Dave. "Who Actually Owns Your ETF?" ETF.com. August 02, 2017. https://www.etf.com/sections/blog/who-actually-owns-your-etf?nopaging=1

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Vanguard (https://investor.vangueard.com/etf/)

State Street Global Advisors (https://global.spdrs.com)

Van Eck (https://www.vaneck/vaneck-vectors/)

Invesco (https://www.invesco.com/corporate/)

GlobalX (https://www.globalxfunds.com)

Charles Schwab (https://www.schwab.com)

PIMCO (https://www.pimcoetfs.com/)

J.P. Morgan (https://www.am.jpmorgan.com)

Wisdom Tree (https://www.wisdomtree.com/etfs)

ClearBridge Investments (https://www.clearbridge.com)

OppenheimerFunds (https://www.oppenheimerfunds.com/ETF-suite)

Columbia Threadneedle Investments (http://www.columbiathreadneedleetf.com)

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