

Institutional Investor Engagement and Stewardship

OECD has issued a report on *Institutional Investor Engagement and Stewardship*¹ developed by the Capital Markets and Financial Institutions Division of the OECD Directorate for Financial and Enterprise Affairs. The report examines how institutional investors engage with listed companies and how effective stewardship can strengthen the long-term efficiency and resilience of capital markets. It presents trends in institutional ownership and the asset management industry; reviews current engagement practices and mechanisms; and analyses stewardship-related regulatory frameworks, including fiduciary duties. It highlights the need for enhanced international co-operation to identify and promote both voluntary and regulatory approaches that support effective stewardship. Let us understand the trends in detail:

RISING CONCENTRATION OF INSTITUTIONAL INVESTOR'S OWNERSHIP IN LISTED COMPANIES

The current institutional investor landscape shows large institutions holding significant portions of capital in listed companies across markets. Asset managers alone hold more than 50% of the listed equity in the United States, the United Kingdom and Ireland and at least 20% of the listed equity in Brazil, India and South Africa. The largest 20 asset managers hold USD 56 trillion (38%) of assets globally. In some smaller markets, such as Estonia, Lithuania, Luxembourg, Latvia and the Slovak Republic, the largest institutional investor in each company owns more than 70% of the institutional investor equity holdings on average. In more developed markets such as the United Kingdom and the United States, institutional ownership presents high concentration levels considering the largest 20 institutional investors in each company.

PREVALENCE OF NON-DOMESTIC INVESTMENT AND OWNERSHIP PATTERNS

Non-domestic ownership is prominent in most markets. In almost 80% of OECD, G20 and Financial Stability Board (FSB) economies, the share held by domestic institutional investors is smaller than that held by their non-domestic counterparts. Notable exceptions include Argentina, the People's Republic of China, South Africa and the United States, where domestic institutional investors own larger equity shares than non-domestic ones. Most non-domestic institutional investor ownership is attributed to UK and US-domiciled investors. However, other non-domestic institutional investors also hold important positions across some markets. For instance, asset managers domiciled in France are significant investors in Belgium, Ireland, the Netherlands, and Spain.

¹ https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/institutional-investor-engagement-and-stewardship_16fa4a8d/a4902cee-en.pdf

THE SHIFT FROM NON-INDEX FUNDS TO INDEX-LINKED FUNDS

To enhance performance while reducing costs, and supported by technological advances, there has been a shift among institutional investors towards the inclusion of index investment strategies within their portfolios. Globally, non-index managed investment funds total USD 38.3 trillion of assets under management, while index-linked funds account for USD 26.7 trillion. Active investors are directly involved in selecting which individual financial assets or categories of assets have an expected return that differs from the market expectations, aiming to generate profits by trading these assets. Index investors typically adopt an investment approach that involves high diversification and a low fee structure. Often, they aim to mirror broader market trends instead of outperforming them.

INVESTOR ENGAGEMENT AND PROXY VOTING

Investors focussing on the valuation of individual assets already have a "sunk cost" of analysing the business of the investee companies, and, therefore, voting and engaging with them may in some cases represent relatively low marginal costs. Conversely, for other active investors and all index investors, voting and engaging also includes the cost of researching the investee company to form a position when voting and engaging. This difference partially explains why there is a spectrum of well-informed stewardship on one side and no stewardship at all on the other, with a mid-point where some investors exercise their shareholder rights in line with proxy advisors' recommendations.

PUBLIC AND PRIVATE APPROACHES TO INVESTOR STEWARDSHIP REGULATION

Stewardship regulatory frameworks vary across jurisdictions and typically comprise a mix of public and private requirements and recommendations. A soft law approach through stewardship codes has become especially important, with codes being set by public authorities (e.g. Japan and the United Kingdom) or by private sector organisations such as industry associations (e.g. Australia, Brazil, South Africa and the United States).

CONFLICTS OF INTEREST IN STEWARDSHIP

Conflicts of interest are an important issue to consider when examining the stewardship regulatory framework because they can undermine the trust and accountability required when institutional investors manage investments on behalf of others. Conflicts of interest can occur at multiple levels,

for example, where a bank provides corporate finance advisory services such as capital raising but also owns an asset management subsidiary that buys and sells securities.

FIDUCIARY DUTY AND STEWARDSHIP

Any solid stewardship regulatory framework relies on a well-defined and effectively enforced fiduciary duty of institutional investors. This is because, given the complexities of capital markets, asset management mandates are inescapably incomplete, leaving a considerable level of discretion to asset managers. Fiduciary duty refers to an institutional investor's legal obligation to act in their clients' best interests, and these duties are especially important in the context of investor stewardship related to environmental and social matters. Fiduciary duties limit the possibility of institutional investors managing their clients' capital with the objective of achieving sustainability-related goals at the cost of risk-adjusted financial returns unless there is a clear mandate from their clients to do so.

There are, however, two significant questions that have remained unresolved in existing stewardship regulatory frameworks. First, how to mediate conflicts between the expectations and information needs of institutional investors and companies based in different jurisdictions. For instance, while institutional investors seek sustainability-related material information, they should ensure disclosure does not place unreasonable costs on companies. Second, what disclosure rules should apply to the largest institutional investors to ensure they fulfil their fiduciary duties, respond to their clients' sustainability concerns, and do not create economic inefficiencies.

Considering these open questions, further co-operation in identifying good policies and practices for the development of voluntary and regulatory frameworks that foster effective stewardship could be beneficial.



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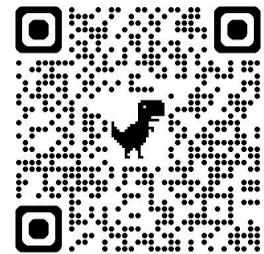
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