



PORTFOLIOS ON THE BALLOT 2024: DEFINING SYSTEM STEWARDSHIP

The purpose of this fact sheet is to help investors and others understand how The Shareholder Commons uses the term “system stewardship,” and, in particular, what types of initiatives will be featured in ***Portfolios on the Ballot 2024***, a publication in which TSC will highlight voting opportunities for system stewardship.

Distinction. System stewardship distinguishes investor activity that promotes the value of the system in which investments are embedded from investor activity intended to promote the value of individual investments. System stewardship is intended to raise the tide, and thus all of the boats.

Company value agnostic. Authentic system stewardship seeks company actions that improve the health of the system upon which all investments depend, regardless of the impact of that action on the value of the company in question.

Why system stewardship? For diversified investors, the health of the system overall is by far the most important factor in determining the performance of their portfolios. From the perspective of those investors, it is desirable for an individual company to sacrifice enterprise value if doing so preserves the value of diversified portfolios by preserving or enhancing the value of the systems upon which they depend.

What does a system stewardship initiative look like? These initiatives will make the connection between real world outcomes caused by company practices and systemic impact on diversified portfolios, rather than only arguing that a revised company practice will improve enterprise value.

AMR example: In 2024, investors are supporting a guardrail to protect the public healthcare system from antimicrobial resistance (AMR), which is the accelerated loss of efficacy of antibiotics and similar drugs caused by overuse. The guardrail requires companies that sell meat to ensure that their supply chain is consistent with World Health Organization guidelines on the safe use of antimicrobials. The focus of the guardrail is protecting the economy (and thus the diversified portfolios of investors) from the US\$100 trillion risk presented by AMR. The focus is not on increasing the value of the individual companies. In fact, it is acknowledged that some companies may have to surrender long-term enterprise value in order to follow the guidelines. Nonetheless, from an investor perspective, that loss is an acceptable trade-off for preservation of long-term portfolio value.

Will initiatives that promote system stewardship always require companies to sacrifice enterprise value?
No, but by emphasizing the systemic importance to diversified investors, proponents of systemic stewardship initiatives can overcome management objections that are focused solely on the individual company perspective.