

May 8, 2019

The New Paradigm and the EU Shareholder Rights Directive II

As was noted in *The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth*, the then draft of the EU Shareholder Rights Directive II (SRDII) was one of the many corporate governance laws, regulations, guidelines and principles that were considered in creating *The New Paradigm*. SRDII was adopted in 2017, and this year Luxembourg is considering legislation to implement SRDII.

One provision of the legislation is very similar to a key aspect of stewardship in the 2019 version of *The New Paradigm*. See [It's Time To Adopt The New Paradigm](#). It provides that institutional investors publicly disclose how their equity investment strategy is consistent with long-term objectives. In addition, it provides for annual disclosure by asset managers of how their investment strategy relates to the long-term performance of the assets being managed by the managers for their underlying investors.

Similarly, *The New Paradigm* provides that asset managers are accountable to their investors—the beneficial owners of the funds they invest—and they should use their power as shareholders to foster sustainable long-term value creation. As noted in our recent memo, *Coordinating Governance and Stewardship Between Institutional Investors and Asset Managers*, Vanguard is doing this by selecting outside managers for Vanguard funds whose investment strategies align with Vanguard's for those funds.

Asset managers having investment strategies that are consistent with the strategies of the investors for whom they are acting, particularly as to ESG and long-term sustainable investment, is one of the most important elements of a sensible framework for governance, engagement and stewardship and is a core component of *The New Paradigm*. In this regard, State Street Global Advisors has just announced a scoring system for measuring ESG data, intended to give asset managers a tool to measure the value of ESG investment by investee companies.

Martin Lipton  
Steven A. Rosenblum  
Karessa L. Cain  
Sabastian V. Niles

*If your address changes or if you do not wish to continue receiving these memos,  
please send an e-mail to [Publications@wlrk.com](mailto:Publications@wlrk.com) or call 212-403-1443.*