



## Maximising Engagement Impact

### Introduction

Universal Owner is a mission-driven start-up intent on using objective research to help the financial sector decarbonise the world economy through effective stewardship. Our approach mirrors that of other data-driven climate think tanks such as Carbon Tracker, 2 Degrees Investing Initiative and InfluenceMap, the Director of Universal having co-founded the latter organisation. We are currently working with philanthropic organisations and institutional investors. We employ five people and anticipate a significant expansion in 2021.

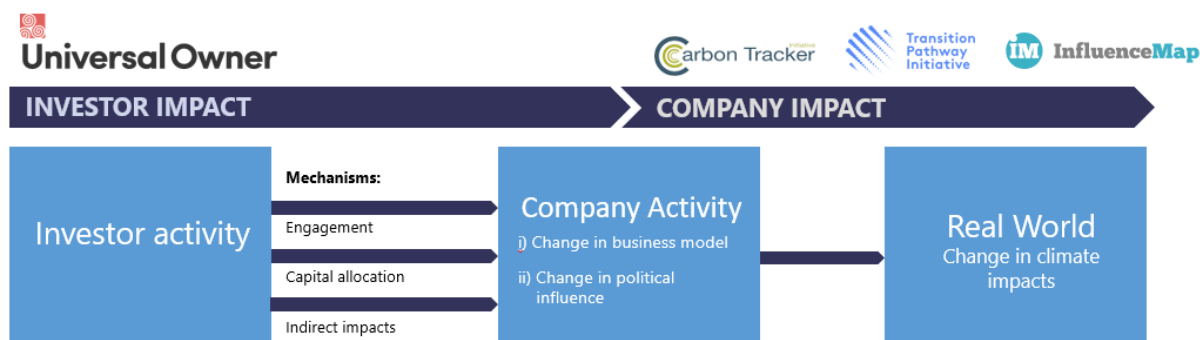
### The problem

Over recent years investor engagement on climate change has accelerated. The Climate Action 100+ coalition now represents institutions with more than \$52 trillion assets under management. Stewardship codes have proliferated around the world. BlackRock, BNP Paribas, LGIM and other leading asset managers have adopted increasingly assertive engagement policies. The rise of passive investing means that, for many funds, divestment is not an option, while a growing academic consensus has formed around the idea that investors can achieve the most impact through engagement.

Despite these converging trends, investors are failing to demand the kind of ambitious, real-world changes from companies necessary to avert catastrophic climate change. One fundamental reason for this paucity of ambition is that there are no recognised standards of engagement impact to inform best practice. This, in turn, is because we have no answer to the most basic question: which kinds of engagement work best? This is arguably the single greatest obstacle to effective investor action on climate change.

### Our approach

We have formulated a novel [methodology](#) to score the impact of investor engagement, allowing us to identify what does and does not work. An investor's impact is best understood as the *change* they affect in a company's activities. We distinguish between two forms of change: real-world impact, and company impact. Real-world impact is the material action a company takes to green its business model and political lobbying. Company impact is





one-step removed. It does not itself represent a change to a company's emissions, investment, or lobbying, but it may commit a company to make these real-world changes in the future. Targets, disclosures, scenario analyses, and governance policies all fall under this ambit. We believe the best index of an engagement's success is how far it ultimately moves a company's real-world activities towards Paris-alignment.

## **Our Solution**

We propose to develop this process in three interlocking steps. First, we will iterate our methodology with industry-leaders to establish a commonly accepted definition of engagement impact with market buy-in. Second, we will develop an open-source platform of investor engagements from which to draw reliable conclusions about best practice. Third, we will leverage this knowledge base to inform investors' engagements and ensure that they drive decarbonisation across their portfolios. Our strategy is multifaceted. We intend to work directly with asset managers and asset owners, while concurrently advocating for these standards within pension fund advisers such as Mercer and Willis Towers Watson, who often inform asset owner ESG decision-making. The company-level impact analysis we will develop is also of interest to asset managers and mainstream financial data providers looking to improve their ESG offering. In what follows, we lay out each of these three steps in more detail.

### **1) Creating a steering group and shared impact standard**

We have, as discussed, developed a provisional methodology to score the impact of engagements. But we believe this methodology will best achieve legitimacy in the eyes of the market if it is iteratively co-designed with leading investors. We are thereby establishing a steering group of around 5–7 leading investors and investor coalitions with whom we have existing relationships with. The result of this collaboration would be a joint methodology defining engagement impact and how to measure it, as well as recommendations for what instructions asset owners should write into their mandates to commit their asset managers to high-impact engagement.

This steering group would also bring another signal benefit. Several of these investors have already indicated that they might be willing to give us access to their private database of engagements. We would be able to use this data to road-test our methodology and build-out our knowledge base while benefiting from their expert feedback. Our aim here would be to mirror similar collaborations in the past, such as how 2Dii worked with Swiss Pension Funds to trial their PACTA methodology [in 2017](#). In the years after this precedent, over 200 financial institutions used the method. The output of this work would be a public report.

### **2) Establishing best practice for engagement**

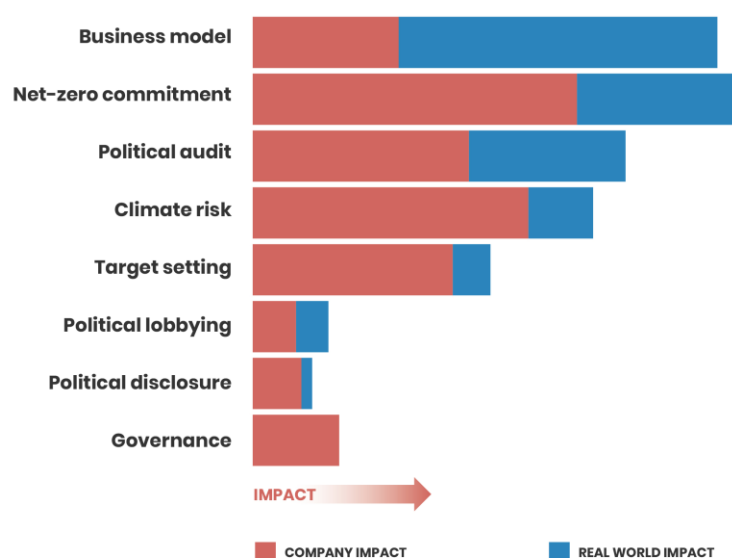
Once we have established a market-wide standard for defining and measuring impact, we can use this methodology to determine which kinds of engagement yield the most impact objectively. For example, we can evaluate how impactful common engagement asks are,



such as the demand for company disclosures, and how effective engagement tactics like removing company directors and taking legal action are.

In 2020 we conducted a pilot study looking at how investors have engaged with fifteen leading utility companies worldwide. We discovered a wide variance in the impact of different asks. For example, requests for disclosure rarely led to fundamental changes, whereas ambitious demands for companies to amend their real-world business models and lobbying tended to produce significant and tangible results. This suggests that investors can markedly increase their impact by simply altering their demands.

## Absolute impact by ask issue



Yet our conclusions remain tentative. A more comprehensive study in collaboration with key market actors would be key to refining and disseminating our conclusions.

### 3) Driving structural decarbonisation

Our ultimate aim is to leverage our results to transform how institutional investors and civil society engage with companies, in order to ensure that they are driving immediate, real-world change. We propose that this can be achieved through three integrated products. We believe that, in the first instance, it is asset owners who can drive best practice. We can show asset owners the engagement impact of different asset managers, helping to inform their mandate decisions. But we maintain this would be most effective if complemented by two products aimed at asset managers. First, we could help drive competition among managers by publishing evaluations of their engagement impact, against our evidence-based standard of best practice. Second, we could supplement this with guidance on how investors can most effectively engage with companies, with company profiles laying out what investors should be pressing for with each individual company. Together, this would enable asset owners to push their managers to improve their engagement impact and give



asset managers the incentive and the tools to do so. We elucidate each step in more detail below.

## **Asset Owners**

We can give asset owners high-level evaluations of different asset managers' engagement impact to help inform their mandate decisions. On evaluating asset managers, even with limited data on their private engagements, we can determine what their characteristic asks are, and compare them to what we found, empirically, to be the most impactful asks and tactics.

We believe it would be valuable to host a website displaying the top 300 asset owners in the world. Against each owner, we would show the largest asset managers they are allocating their funds to, each managers' engagement impact, and how they compare to other managers. This would allow asset owners to see how far their asset managers lag behind best practice, and how they can take action to improve their stewardship. We could also, where possible, determine asset owners' equity/bonds in individual companies and provide succinct information on these companies (see below). This ownership data can be derived from asset owners' own disclosures, and fund holdings data. Throughout the process, we will work with prominent investment advisory firms such as Mercer and Willis Towers Watson to ensure our research's utility and effective implementation.

## **Asset managers**

We can benchmark asset managers against best practice. This would be essential to provide asset owners with guidance on their mandate decisions in the first place. But we believe that by publishing profiles enumerating what asset managers engage on and comparing it to best practice, we could help drive competitive improvements among managers. Ideally, proving engagement impact would become an established part of asset managers' offering, in much the same way that ESG – broadly construed – is now. It would also complement, and be integrated with, existing rating systems such as CDP, InfluenceMap, ShareAction.

## **Company insights**

Finally, we can complement our general advice on which kinds of engagement tend to produce the most impact, with company profiles that provide in-depth guidance on how best to engage with each individual company. This kind of company-specific advice is crucial to the implementation of our standard of best impact. These profiles would involve four critical data-points. First, a qualitative summary of investors' past engagements and what the results have been. Second, a compilation of third-party data – from Carbon Tracker, 2 Degrees Investing Initiative, InfluenceMap and elsewhere – representing how Paris-aligned the company is. Third, a breakdown of the related climate risks to which that company is exposed. This would help counteract the obstructive argument that acting on climate change runs counter to profitability. Fourth, time-sensitive recommendations on what investors should demand from companies to create real-world impact.