How Institutional Investors Can Reshape (ES)G Around the World

European Commission - joint TEG-CoPFiR Conference
Academic Conference on “Promoting Sustainable Finance”
Jan 2019

PEDRO MATOS
I. MY RESEARCH: HOW (U.S.) INSTITUTIONAL INVESTORS HAVE RESHAPED GOVERNANCE (G)

II. RECENT RESEARCH ON INSTITUTIONAL INVESTORS AND ENVIRONMENTAL (E) & SOCIAL (S) STANDARDS

III. POTENTIAL ROLE OF EUROPE TO RAISE E & S AROUND THE GLOBE

How Institutional Investors Can Reshape (ES)G Around the World
WHY GLOBAL RESEARCH?
INSTITUTIONAL INVESTORS = THE FORCE BEHIND GLOBALIZATION

**Mapping global capital markets 2011**

By 2011, the web of cross-border investment assets had grown significantly in breadth and depth

Width of lines shows total value of cross-border investments between regions as percent of global GDP

Institutional Investor Holdings = $28 Trillion in Public Equities [2011]

Source: OECD Institutional Investors Database, SWF Institute, IMF, Preqin, BlackRock, McKinsey Global Institute
GLOBAL RESEARCH ON “G”? 

[* MY WORK WITH CO-AUTHORS*] 

Globalization of a firm’s shareholder base can be a positive force on Governance (G)!

Rise of Foreign Institutional Ownership (Foreign IO) on average leads to:

- **Performance:** Increased shareholder pressure to perform (JFE, 2008)
- **M&As:** Increased likelihood of cross-border takeovers (RFS, 2010)
- **Governance:** Adoption of more shareholder-centric (US-style) practices (JFE, 2011)
- **CEO Pay:** Convergence to international/US executive compensation practices (RFS, 2013)
- **LT Investing:** Can sustain long-term investing (JFE, 2017)
GLOBAL RESEARCH ON “E” & “S”? 

[* OTHER PEOPLE’S RESEARCH*]
Can changes in firms’ shareholder base have impact on Environmental (E) & Social (S) performance!

-> Dyck, Lins, Roth & Wagner “Do Institutional Investors Drive Corporate Social Responsibility? International Evidence” (JFE, FORTH.)
-> Krüger, Sautner & Starks “The Importance of Climate Risk for Institutional Investors” (RFS, COND. ACCEPT)
-> Dimson, Karakaş & Li “Coordinated Engagements” (2018, PRI AWARD)
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WHY LOOK AT INSTITUTIONAL INVESTORS?
DIFFERENCES IN OWNERSHIP STRUCTURE

Average Share Ownership (100 largest listed companies, end-of-2017)

Source: Table 4 - OECD Equity Markets Review ASIA 2018 (based on data from FactSet Ownership)
SPECIAL ROLE OF FOREIGN INSTITUTIONAL INVESTORS (OUTSIDE THE U.S.)?

Average Share Ownership (100 largest listed companies, end-of-2017)

Source: Table 4 - OECD Equity Markets Review ASIA 2018 (based on data from FactSet Ownership)
THE INCREASING GOVERNANCE ROLE OF INSTITUTIONAL INVESTORS

Source: Deutsche Bank Research “Shareholder Activism: Battle for the Boardroom” [2014]
SPECIAL ROLE OF FOREIGN INSTITUTIONAL INVESTORS?

• Perception:
  - Foreign Direct Investment (FDI): take control of the company in which investment is made … long term and less fluctuating?
  - Foreign Portfolio Investment (FPI): minority investment in shares, etc. … speculative, “hot money” and unpredictable?

• Focus of my published research work:
  - International evidence that FPI reduces firms’ cost of capital and it can play a value-increasing governance/monitoring role
THE INCREASING GOVERNANCE ROLE OF INSTITUTIONAL INVESTORS: THE THEORY

• In widely-held firms, investors may be disengaged. Given the size of their holdings as a group, institutional owners can impact corporate governance:
  - through “voice” (voting their shares, using quiet diplomacy in persuading management, via confrontational proxy fights)
  - and/or by threatening to “exit” (selling and depressing stock prices)

• Special role played by foreign institutions (Foreign IO) since domestic institutions (Domestic IO) are more prone to be loyal to management due to “business ties” and other conflicts of interest
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### THE INCREASING GOVERNANCE ROLE OF INSTITUTIONAL INVESTORS: ACADEMIC EVIDENCE

<table>
<thead>
<tr>
<th>PERFORMANCE</th>
<th>GOVERNANCE</th>
<th>LONG-TERM</th>
</tr>
</thead>
<tbody>
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<td><strong>P1:</strong> “THE COLORS OF INVESTORS’ MONEY …“</td>
<td><strong>P3:</strong> “DOES GOVERNANCE TRAVEL AROUND THE WORLD? …“</td>
<td><strong>P5:</strong> “ARE FOREIGN INVESTORS LOCUSTS? …“</td>
</tr>
<tr>
<td><strong>M&amp;As</strong></td>
<td><strong>CEO PAY</strong></td>
<td><strong>E &amp; S?</strong></td>
</tr>
<tr>
<td><strong>P2:</strong> “SHAREHOLDERS AT THE GATE? …“</td>
<td><strong>P4:</strong> “ARE US CEOs PAID MORE? …“</td>
<td><strong>IMPLICATIONS FOR EUROPE</strong></td>
</tr>
</tbody>
</table>
P1: THE COLORS OF INVESTORS’ MONEY: THE ROLE OF INSTITUTIONAL INVESTORS AROUND THE WORLD

DATA:
Institutional holdings:
FactSet/LionShares [>5,000 institutions, >35,000 stocks, 27 countries 2005: $18 trln, 39% of world market cap]
… by country of institution (rows) and stock (columns)

RESULT #1:
Different investor preferences by US-BASED vs NON-US Foreign vs DOMESTIC investors

BY COUNTRY:

- US$2 trillion from US-BASED Foreign institutions
- US$1.7 trillion from NON-US Foreign institutions
- US$1.5 trillion from DOMESTIC institutions

RESULT #2:
Firms with higher Foreign IO have
- Higher valuation (Tobin Q)
- Higher ROA
[Note: IV results using MSCI]

INTERPRETATION:
Better performance suggest investor MONITORING (rather than just OVERVALUATION)

TAKEAWAY:
Performance increases due to increased shareholder pressure
**P2: SHAREHOLDERS AT THE GATE? INSTITUTIONAL INVESTORS AND CROSS-BORDER MERGERS AND ACQUISITIONS**

**DATA:**
M&As: SDC (2000-05)
Institutional holdings: FactSet

... cross-border flows

1999:

2009:

**RESULTS #1 & #2:**
1) **Country-level:** Institutional investors increase % of cross-border M&A deals
2) **Country-pair level:** Pairwise cross-border flows increase % of cross-border M&A deals

**RESULT #3:**
3) **Deal-level:**
Foreign IO
=> Prob(Deal is cross-border) ↑
=> Prob(Deal success) ↑
=> Combined deal return ↑

**INTERPRETATION:**
Foreign IO = shareholders at the “gates” that act as Trojan horses facilitating changes of control!

**TAKEAWAY:**
Increased likelihood of cross-border takeovers
DATA:
Institutional holdings: FactSet
Governance Index (GOV₄₁): Institutional Shareholder Services (ISS) (2004-08) … % of attributes that a firm satisfies: Board (24); Audit (3); Anti-takeover provisions (6); Compensation & ownership (8)

Results:
Foreign IO drives governance improvements
Changes in IO over time drive changes in governance
[Endogeneity: IV using MSCI]

Real Outcomes (Not Cosmetics!):
Governance indexes criticized (“check-the-box”, etc.) but evidence that IO affects outcomes – ex: higher CEO turnover-performance sensitivity

Interpretation:
International institutional investors lead to convergence in corporate governance worldwide

Takeaway:
Adopt more shareholder-centric (US-style) practices

1,983 non-U.S. firms in **22 developed countries**
. Highest: **Canada (73%)**, **U.S. (62%)**, **U.K. (59%)**
. Lowest: **Greece, Portugal (36%)**, **Belgium (38%)**
. Index improved over time (yearly change +2.1%)
DATA:

Institutional holdings: FactSet
US: S&P’s ExecuComp
Non-US: BoardEx + filings
[2006, 14 countries with mandated disclosure]

RESULT #1:

Predicted level & structure of CEO pay ($1 billion sales, average industry)

US Pay Premium ≈ 79%

RESULT #2:

Pay Gap smaller if:
- Foreign IO (MSCI, ADR)
- Foreign sales
- Foreign acquisitions
- Board members with foreign (US) experience

INTERPRETATION:
“Law of One Price”?

TAKEAWAY:
International convergence in executive pay practices
MY OP-ED:

ONE TYPE OF COVERAGE:

OR OPPOSITE?
"We support those companies, who act in interest of their future and in the interest of their employees against irresponsible locust swarms, who measure success in quarterly intervals, suck off substance and let companies die once they have eaten them away."
Franz Müntefering, German SPD Chairman (2005)

"The effects of the short-termist phenomenon are troubling (...) corporate leaders have responded with actions that can deliver immediate returns to shareholders, such as buybacks or dividend increases, while underinvesting in innovation, skilled workforces or essential CAPEX necessary to sustain long-term growth."
Laurence Fink, CEO, BlackRock (2015)

**P5: ARE FOREIGN INVESTORS LOCUSTS? THE LONG-TERM EFFECTS OF FOREIGN INSTITUTIONAL OWNERSHIP**

**DATA:**
- Physical Capital (CAPEX)
- Intangible Capital (R&D)
- Innovation Output (Patents)

**RESULTS:**
MSCI addition => +3% Foreign IO … positively associated with:
- +0.3% long-term investment (CAPEX + R&D)
- +12% employment
- +11% innovation output (Patent counts)
[MSCI index suggest causal effect]

Foreign IO positively linked to productivity + shareholder value

**INTERPRETATION:**
Foreign institutional investors are not “locusts”. Evidence in support of monitoring role of Foreign IO.

**TAKEAWAY:**
Can sustain long-term investing
TO RECAP …

• Globalization of a firm’s shareholder base can be a positive force!
  Rise of Foreign Institutional Ownership (Foreign IO) on average leads to:
  - Performance: Increased shareholder pressure to perform
  - M&As: Increased likelihood of cross-border takeovers
  - Governance: Adoption of more shareholder-centric (US-style) practices
  - CEO Pay: Convergence to international (US) executive compensation practices
  - LT Investing: Can sustain long-term investing

• Back to “theory” …
  - Voice (Long-term Foreign IO)
  - Exit (Short-term Foreign IO)
WEBLINKS TO PUBLICATIONS


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- Krüger, Sautner & Starks “The Importance of Climate Risk for Institutional Investors” (RFS, COND. ACCEPT)
- Dimson, Karakaş & Li “Coordinated Engagements” (2018, PRI AWARD)
THE WORLD IS MORE MULTI-POLAR! … WILL EUROPE MATTER FOR E & S (INSTEAD OF U.S. FOR G)?
MEASURING THE MULTI-POLAR WORLD: INSTITUTIONAL EQUITY OWNERSHIP (FACTSET)
MEASURING THE MULTI-POLAR WORLD: INSTITUTIONAL EQUITY OWNERSHIP (FACTSET)
CAN INSTITUTIONAL INVESTORS PLAY A ROLE ON E & S (LIKE IN G): WHAT’S ACADEMIC EVIDENCE SO FAR?

P1

DYCK, LINS, ROTH & WAGNER (2018):
“DO INSTITUTIONAL INVESTORS DRIVE CORPORATE SOCIAL RESPONSIBILITY? INTERNATIONAL EVIDENCE” (JFE, FORTH.)

P2

KRÜGER, SAUTNER & STARKS:
“THE IMPORTANCE OF CLIMATE RISK FOR INSTITUTIONAL INVESTORS” (RFS, ACCEPT)

P3

DIMSON, KARAKAŞ & LI:
“COORDINATED ENGAGEMENTS” (WORKING PAPER, PRI AWARD)
3,277 non-US publicly-listed firms, 41 countries, 2004-2013

E&S scores: Thompson Reuters equally-weighted vs. ASSET 4 scores (also Sustainalytics, Bloomberg)

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3,277 non-US publicly-listed firms, 41 countries, 2004-2013

E&S scores: Thompson Reuters equally-weighted vs. ASSET 4 scores (also Sustainalytics, Bloomberg)

-> European companies: highest standards on E &S (unlike G)
3,277 non-US publicly-listed firms, 41 countries, 2004-2013

E&S scores: Thompson Reuters equally-weighted vs. ASSET 4 scores (also Sustainalytics, Bloomberg)

Institutional ownership (FactSet Ownership/Lionshares)

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E&S scores: Thompson Reuters equally-weighted vs. ASSET 4 scores (also Sustainalytics, Bloomberg)

Institutional ownership (FactSet Ownership/Lionshares)

Panel A: Constant Panel of 805 Firms, 2004-2013

-> putting it all together … issue: could there be a spurious relation between these upward trends?
Positive link between lagged (foreign) institutional ownership and E&S scores of firms around the world.

**Does it clear the academic bar: causality?**

- Granger tests
- IV using MSCI index membership
- quasi-natural experiments:
  - extractive industries post-2010 BP oil spill
  - post-financial crisis

-> nice as in Ferreira, Matos 08, Aggarwal et alt 2011, …, Bena, Ferreira, Matos & Pires 2017 !

-> see also Lins, Servaes & Tufano 2015!
• P1: Dyck, Lins, Roth & Wagner “Do Institutional Investors Drive Corporate Social Responsibility? International Evidence” (JFE, forth.)

Evidence on Channel?

Origin of foreign investors matters!

- high E&S norm (Environmental Performance Index, Employment Laws Index, countries
- independent investors but only if from high E&S norm countries
- UN-PRI signatory institutions

Voice vs. Exit?

- SHARE.ca, few shareholder proposals

What about US Investors?

- no impact on E performance

-> basically, Europeans!

-> see Iliev, Miller & Roth (2015)

-> fiduciary duty?
CAN (FOREIGN) INSTITUTIONAL INVESTORS PLAY A ROLE ON E & S: ACADEMIC EVIDENCE SO FAR?

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Survey of a 439 institutional investors (global, 1/3 executive-level, 48 with >$100bln AUM)

Elicit these investors’ views and actions related to climate risks

<table>
<thead>
<tr>
<th>Position (N=428)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund/Portfolio manager</td>
<td>21%</td>
</tr>
<tr>
<td>Executive/Managing director</td>
<td>18%</td>
</tr>
<tr>
<td>Investment analyst/strategist</td>
<td>16%</td>
</tr>
<tr>
<td>CIO</td>
<td>11%</td>
</tr>
<tr>
<td>CEO</td>
<td>10%</td>
</tr>
<tr>
<td>CFO/COO/Chairman/Other executive</td>
<td>10%</td>
</tr>
<tr>
<td>ESG/RI specialist</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional investor type (N=439)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset manager</td>
<td>23%</td>
</tr>
<tr>
<td>Bank</td>
<td>22%</td>
</tr>
<tr>
<td>Pension fund</td>
<td>17%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>15%</td>
</tr>
<tr>
<td>Mutual fund</td>
<td>8%</td>
</tr>
<tr>
<td>Other institution</td>
<td>15%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets under management (N=430)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1bn</td>
<td>19%</td>
</tr>
<tr>
<td>Between $1bn and $20bn</td>
<td>32%</td>
</tr>
<tr>
<td>Between $20bn and $50bn</td>
<td>23%</td>
</tr>
<tr>
<td>Between $50bn and $100bn</td>
<td>16%</td>
</tr>
<tr>
<td>More than $100bn</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investor horizon (N=432)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short (less than 6 months)</td>
<td>5%</td>
</tr>
<tr>
<td>Medium (6 months to 2 years)</td>
<td>38%</td>
</tr>
<tr>
<td>Long (2 years to 5 years)</td>
<td>38%</td>
</tr>
<tr>
<td>Very long (more than 5 years)</td>
<td>18%</td>
</tr>
</tbody>
</table>

- **36% Continental Europe + 17% UK**
- **32% US**
- **25% Rest of World**
Q1: Role of climate risks in investment decisions?

40% expect a rise that exceeds the Paris target! … interesting: both European and North American!
Q1 (cont.): Role of climate risks in investment decisions?

- P2: Krüger, Sautner & Starks: “The Importance of Climate Risk for Institutional Investors” (RFS, conditionally accepted.)
Q2: Climate-risk management?

- Industry has taken first steps towards managing climate risks but: two most basic approaches taken by <40%
- Divestment least frequently used approach
Q3: Shareholder engagement related to climate risks?

- Some engagement

- Holding discussions with management regarding the financial implications of climate risks (43%)
- Proposing specific actions to management on climate-risk issues (32%)
- Voting against management on proposals over climate-risk issues at the annual meeting (30.0%)
- Submitting shareholder proposals on climate-risk issues (29.8%)
- Questioning management on a conference call about climate-risk issues (29.6%)
- Publicly criticizing management on climate-risk issues (20%)
- Voting against re-election of any board directors due to climate-risk issues (19%)
- Legal action against management on climate-risk issues (18%)
- None (16%)
- Other (1%)
## Q4: Implications of climate risks for asset pricing?

### Oil and traditional automotive most overvalued

<table>
<thead>
<tr>
<th>Industry</th>
<th>Mean score</th>
<th>STD</th>
<th>Relative industry misvaluation</th>
<th>Percentage with score of +2 (much too high)</th>
<th>Percentage with score of -2 (much too low)</th>
<th>Mean Score (Confident respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>0.52</td>
<td>1.03</td>
<td>37%</td>
<td>17%</td>
<td>3%</td>
<td>0.59</td>
</tr>
<tr>
<td>Automotive (traditional)</td>
<td>0.48</td>
<td>0.94</td>
<td>25%</td>
<td>14%</td>
<td>2%</td>
<td>0.53</td>
</tr>
<tr>
<td>Electric utilities</td>
<td>0.47</td>
<td>0.91</td>
<td>25%</td>
<td>13%</td>
<td>3%</td>
<td>0.48</td>
</tr>
<tr>
<td>Information Technology</td>
<td>0.47</td>
<td>0.98</td>
<td>23%</td>
<td>16%</td>
<td>3%</td>
<td>0.50</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.46</td>
<td>0.91</td>
<td>21%</td>
<td>14%</td>
<td>1%</td>
<td>0.39</td>
</tr>
<tr>
<td>Natural gas</td>
<td>0.44</td>
<td>0.91</td>
<td>17%</td>
<td>11%</td>
<td>2%</td>
<td>0.51</td>
</tr>
<tr>
<td>Coastal real estate</td>
<td>0.43</td>
<td>0.96</td>
<td>13%</td>
<td>14%</td>
<td>3%</td>
<td>0.43</td>
</tr>
<tr>
<td>Gas utilities</td>
<td>0.40</td>
<td>0.94</td>
<td>6%</td>
<td>11%</td>
<td>4%</td>
<td>0.38</td>
</tr>
<tr>
<td>Transportation</td>
<td>0.40</td>
<td>0.92</td>
<td>4%</td>
<td>12%</td>
<td>3%</td>
<td>0.37</td>
</tr>
<tr>
<td><strong>Mean (Across All Industries)</strong></td>
<td>0.38</td>
<td></td>
<td>12%</td>
<td>3%</td>
<td>0.41</td>
<td></td>
</tr>
</tbody>
</table>

Mean valuation score > 0  
--> Valuations are somewhat too high, but overvaluation seems modest
Q5: Investment opportunities?

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(WORKING PAPER, PRI AWARD)
**CONSISTENT GROWTH**
- Number of signatories has increased by 57% from April 2014 to April 2018

**SIGNATORY TYPES**
- Asset Owners: 19%
- Investment Managers: 68%
- Service Providers: 13%
Principles for Responsible Investment

2 UN PARTNERS:
UNEP Finance Initiative
UN Global Compact

2000+
SIGNATORIES:
Asset owners
Investment managers
Service providers

80+
US$ trn
Assets under management

Signatory breakdown by region

North America 415
Europe 929
Latin America 61
Africa 63
Asia 101
Middle East 8
Oceania 136
The six Principles for Responsible Investment:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.
• 31 PRI-coordinated projects (2007-2017)
  • Benefits: pooling of resources, risk sharing
  • Costs: “concert party”

• Global E & S engagements:
  • 964 listed firms (63 countries)
  • 224 investors (24 countries)

• Main Findings:
  • Which Firms? Large, low Tobin Q, high IO
  • Which investors? Average = 26 investors
    • Engage? Domestic target
    • Lead? Higher stake
  • Success?
    • Local lead & foreign supporting, influential (large AUM, holdings)
  • Impact?
    • Higher returns, lower vol, …

• P3: Dimson, Karakaş & Li: “Coordinated Engagements” (Working paper, PRI Award)

• FIR-PRI Finance & Sustainability Award 2016
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https://www.unpri.org/signatories/reporting-for-signatories
Signed the Principles: 7 October 2008
- Signatory category: Investment Manager
- HQ: United States

View latest Transparency Report

https://www.unpri.org/signatories/reporting-for-signatories
https://www.unpri.org/signatories/reporting-for-signatories

# PRI Principles for Responsible Investment DATA PORTAL

<table>
<thead>
<tr>
<th></th>
<th>DIRECT Listed equity (incorporation)</th>
<th>DIRECT Private equity</th>
<th>DIRECT Inclusive finance</th>
<th>DIRECT Hedge funds</th>
</tr>
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<tbody>
<tr>
<td>DIRECT Listed equity (active ownership)</td>
<td>DIRECT Property</td>
<td>INDIRECT Manager selection, appointment and monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIRECT Fixed income</td>
<td>DIRECT Infrastructure</td>
<td>INDIRECT Inclusive finance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Closing module
More European signatories reporting

European relatively more “asset owners” (pension funds, insurance, etc.)

while North American: more “investment managers” … pattern even more true if consider $ AUM.
1. Organisational overview

PRI REPORTING FRAMEWORK 2018
(VO - 05.1) Organisational Overview - Breakdown AUM by Asset Class

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Europe</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed equity</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>23%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Total (needs to add up to 100%)

-> again, research focus on listed equities ("streetlight effect")!
2. Strategy and governance

PRI REPORTING FRAMEWORK 2018
(SG 01.2_A) Strategy & Governance - Policy Type

Europe: more screening-based!
N.A.: more engagement-based!

Policy components/types

- Policy setting out your overall approach
- Formalised guidelines on environmental factors
- Formalised guidelines on social factors
- Formalised guidelines on corporate governance factors
- Asset class-specific RI guidelines
- Sector-specific RI guidelines
- Screening/exclusions policy
- Engagement policy
- (Proxy) voting policy
- Other, please specify (3)

Coverage by AUM

- Applicable policies cover all AUM
- Applicable policies cover a majority of AUM
- Applicable policies cover a minority of AUM

* work in progress with Tom Steffen and Philipp Krüger *
European/North American differences are true for: i) both for asset owners and investment managers; ii) across signatory years and iii) across $AUM bins.

- European also deploy more number of strategies

Respondents: ~ 80% of AUM
TO BE CONTINUED...
I. MY RESEARCH: HOW (U.S.) INSTITUTIONAL INVESTORS HAVE RESHAPED GOVERNANCE (G)

II. RECENT RESEARCH ON INSTITUTIONAL INVESTORS AND ENVIRONMENTAL (E) & SOCIAL (S) STANDARDS

III. POTENTIAL ROLE OF EUROPE TO RAISE E & S AROUND THE GLOBE
DIFFERENCES?

-> PROS:
  . lots on market forces / functional convergence ("money speaks!")

-> CONS:
  . The primacy of Anglo-Saxon shareholder-centric governance questioned after the global financial crisis

-> CHALLENGES:
  . Strong shareholder-centric governance could lead to short-termism / suboptimal outcomes

PROS:
-> E: more urgent & more meaningful!

CONS:
-> investing in G may be sufficient for E & S
-> political /marketing rather investment case
-> more subject to PR manipulation/"greenwashing"
-> may direct less capital to locations that need it most (necessarily poor on ESG – corrupt and polluted)

-> CHALLENGES:
  . How to measure E&S?
  . Data inconsistencies?
OTHER PLAYERS?

Average Share Ownership (100 largest listed companies, end-of-2017)

Source: Table 4 - OECD Equity Markets Review ASIA 2018 (based on data from FactSet Ownership)
"Leviathan Inc. and Corporate Environmental Engagement” By Hsu, Liang and Matos (2018)

Figure 1. Total CO2 Emissions Over Time, per Region/Country

This figure presents the 1990-2015 time series of country-specific CO2 emission totals of fossil fuel use and industrial processes. Source: Emission Database for Global Atmospheric Research (EDGAR) 4.3.2, European Commission, Joint Research Centre (JRC)/PBL Netherlands Environmental Assessment Agency.
"Leviathan Inc. and Corporate Environmental Engagement"
By Hsu, Liang and Matos (2018)
OTHER PLAYERS?

“Leviathan Inc. and Corporate Environmental Engagement”
By Hsu, Liang and Matos (2018)
“Leviathan Inc. and Corporate Environmental Engagement”
By Hsu, Liang and Matos (2018)

- **This study:**
  - International data on state control and ownership (BvD ORBIS - manual corrections!) & Environmental Engagement ASSET4 (also MSCI, Sustainalytics)
  - Sample period: 2004-2014
  - 45 countries

- **Main Findings:**
  - SOEs tend to have higher engagement in environmental issues (particularly after shocks: Copenhagen, Fukushima, temperatures and government changes to left)
    - We do not find such a pattern for other blockholding types
    - The role of SOEs on environmental engagement is more pronounced in
      - Countries lacking long-term capital & energy stability
      - Firms in polluting sectors & with local operations
  - Policy implications: there is a role of “Leviathan Inc.” in dealing with externalities in the economy!
CONCLUSIONS

• Policy-making should be evidence-based! Support academic research on the European market!

“It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.”

The Adventures of Sherlock Holmes
“A Scandal in Bohemia”

• I learned a lot from joint TEG-CoPFiR Conference Academic Conference on “Promoting Sustainable Finance”!
Thank you!