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Center for the Study of Fiduciary Capitalism

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Universal ownership: exploring opportunities and challenges

Conference report
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We would also like to thank the conference presenters and participants for their contribution to the debate. A full list of participants and speakers is given at the end of this report and can also be found at www.fidcap.org.

Foreword

By Stephen Davis[1]

Explorers are a rare and treasured breed. They push boundaries at high risk. But the mettle it takes to probe the frontiers of socioeconomics demands a special form of intellectual courage. Yes, global capital markets have experienced a revolutionary shift in recent decades, moving ownership of the commanding heights of enterprise decisively into the hands of citizen investors. Collective investment vehicles such as pension plans and mutual funds rule corporate share registers where once tycoons or the state dominated. But this transition has occurred in increments, making it difficult for many to detect. Moreover, chains of intermediaries, encrusted in conflicts, obscure for many the fact that real ownership lies now at the grassroots of society. Worse, the changeover has posed a live and immediate threat to whole kingdoms of interests: from corporate executives wary of investor oversight, to governments who consider corporations their playthings, to financial institutions who bend investor savings to commercial purpose. These are powers that do not lightly give up their secrets.

That's why the pioneering work on fiduciary capitalism by Jim Hawley and Andy Williams, matched with their ability to convene brainstormers to conferences at St. Mary's, is so critical. The two were among the earliest to reveal the spread of universal ownership and to identify a new financial species: the universal owner. And they were among the first to ask questions about the consequences of dispersed shareholding, where answers have led ineluctably to a powerful conclusion: we have entered a new era of capitalism. The force of these ideas has now proven a magnet for many others.

Mercer Investment Consulting's commitment to exploring these new frontiers of ownership and investment behavior is also a sign of shifting winds. A team dedicated to responsible investment and issues of fiduciary duty and active ownership has initiated and supported a number of complementary works. Together, Jim Hawley, Andy Williams and Mercer Investment Consulting matched their expertise with their ability to convene brainstormers to conferences at St. Mary's.

This report puts readers around a conference table to join in tracking the latest insights on the state of universal ownership. There is no better place for that than Hawley and Williams' Center for the Study of Fiduciary Capitalism. If global business is in a paradigm shift, we need to know, who are these colossal funds and how do they behave? How are they reshaping the way board directors and corporate executives manage companies? What can we learn from case studies? And how do all these developments affect the globe's millions of citizen investors who need to protect and grow their savings? With this report, the exploration begins.

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Introduction

Universal ownership: a growing phenomenon

A universal owner is a large financial institution, such as a pension or mutual fund, which owns securities in a broad cross-section of the economy. Because of the diversified portfolio of stocks, bonds and other asset classes, investment returns (especially long-term ones) will be affected by the positive and negative externalities generated by the entities in which the universal owner invests. Being external means they are not controlled by the entity and therefore can be viewed in terms of potential risk (for negative externalities) or opportunity (for positive ones).

On the one hand an investor may benefit from the investment returns generated directly by a company or sector that itself is responsible for creating the negative externalities (costs borne by other firms or by society at large). On the other hand, this benefit comes at the expense of a negative impact on the investment returns to other investments that to some degree absorb the negative externality. Because universal owners own cross-sections of the economy, they inevitably find that some of their holdings are forced to bear the cost of other sectors' or firms' externalities. This creates an incentive for universal owners to minimize negative externalities and maximize positive ones across portfolio holdings. Typically, the cost of negative externalities significantly exceeds the cost of their mitigation, resulting in a "dead weight loss" to universal owners if corrective action is not taken.

On April 10 and 11, 2006, a group of institutional investors, professionals and academics gathered at Saint Mary's College to discuss the opportunities and challenges facing the universal ownership hypothesis. The conference, entitled Universal Ownership: Exploring Challenges and Opportunities, was co-convened by the Center for the Study of Fiduciary Capitalism and Mercer Investment Consulting. It brought together a high-quality global cross-section of investment practitioners to exchange experiences, views and ideas concerning universal ownership, and included a number of early adopters, current examiners and potential future universal owners.

Speakers included[2]:

- James P. Hawley and Andrew T. Williams, Center for the Study of Fiduciary Capitalism
- Bob Monks, founder, Lens Governance Advisors, and chairman, Governance for Owners, LLP
- Mike Musuraca, trustee, New York City Employees' Retirement System
- Raj Thamotheram, director, Responsible Investment, AXA IM, and formerly senior adviser, Responsible Investment, USS Ltd.
- Dennis Johnson, senior portfolio manager for Corporate Governance, CalPERS
- Colin Melvin, chief executive, Hermes Equity Ownership Services Ltd.

[2] Organizations listed in this report are for identification only. Views expressed in papers are those of the author(s).

- Pierre Trevet, managing director, Innovest Strategic Value Advisers
- Simon Thomas, CEO, TruCost Plc
- Jane Ambachtsheer, head of Responsible Investment, Mercer Investment Consulting

A full list of speakers, participants and papers presented is included at the end of this report. Full papers and speaker presentations can be found at the Center for the Study of Fiduciary Capitalism's website: www.fidcap.org.

This report is relevant to well-diversified investors interested in the concepts of universal ownership, long-term investment and investment stewardship, and will be of interest to such investors whether or not they are mission-based.

Three primary goals dictated the content and logic of this report:

1. Provide a synthesized version of conference proceedings
2. Further develop the concept of universal ownership through the provision of additional background and case studies
3. Offer guidance to investors whose interests and objectives may be aligned with universal owner concepts

History of universal ownership

Development of the universal ownership concept
"Universal ownership" is a term coined by Bob Monks and Nell Minow in *Corporate Governance* in 1995[3] to describe an institutional investor owning such a wide range of asset classes distributed among economic sectors that the organization effectively owns a slice of the broad economy. The authors recognized that the "Pension Fund Revolution" described by Peter Drucker in 1975 was well under way.[4] In the United States, by 2005 the 100 largest institutions and managers owned 52 percent of all publicly held equity.[5] Not only do institutional investors own a majority of the public equity of the world, but through that ownership, their success as investors is dependent on the performance of the economy at large. Large owners who own a representative "slice" of the economy are more dependent on general macroeconomic performance than on the performance of any one stock or portfolio.

Advocates and practitioners of universal ownership contend that these owners have interests beyond the performance of any one company or sector – as their portfolios encompass the majority of sectors, markets and asset classes. This can change the perspective of investors when assessing corporate performance and corporate policies. For example, more focused or short-term investors may see corporate investment in training or pollution abatement as a competitive disadvantage to their holdings because of the associated costs incurred. Universal owners, on the other hand, will see these investments as potentially benefiting the long-term health of the specific company (by reducing risk of subsequent litigation or adverse regulatory action or reputational damage) as well as the broader sector or economy, and therefore are more likely to support these types of investments.

A fundamental concern of the universal owner is to address governance problems with companies that arise under widespread public equity ownership.[6] This reflects the changing investment landscape driven by highly diversified equity holdings on the one hand, and increased concentration of ownership on the other. The vast portfolios held by many institutional investors today expose owners to positive and negative externalities bolstering the universal owner hypothesis and the case for action. In some instances, this exposure suggests that owners have some inherent interest in public policy given the assumption of a long-term time horizon. For example, a public policy decision to improve the health and fitness levels of society may negatively affect the portfolio in terms of taxes and performance in the short term, but the beneficial impacts on worker health and productivity over the long term could conceivably exceed these costs.

Universal ownership is exemplified by initiatives being undertaken by a growing number of institutional investors (with tens or hundreds of billions of dollars under management). Investment institutions such as CalPERS and Universities Superannuation Scheme (USS), for instance, have created their own internal programs as well as spearheaded or supported collaborative efforts with other owners to protect portfolio interests.

[3] Monks, Robert A.G. and Nell Minnow. *Corporate Governance*, Cambridge, Mass: Basil Blackwell, 1995. Page 132.
[4] Drucker, Peter. *The Pension Fund Revolution*. Transaction Publishers; Rpt edition (January 1,1995).
[5] Bogle, John C. *The Battle for the Soul of Capitalism*. Yale University Press, New Haven and London. 2005. Page 74-75. The Institutional 100 as defined by the author includes both managers and institutions. The author argues that "with 36% of equities held by the 'Institutional 100' being in mutual funds and the remaining 64% held directly by retirement plans and with the continuing shift towards defined contribution plans, there are no longer significant distinctions between managing mutual funds and managing pension funds."
[6] Williams, Andrew; James Hawley. "The Emergence of Universal Owners," *Challenge*. July 2000.

Collaborative efforts may well be the predominant manifestation of universal ownership going forward. Institutions pooling resources and ownership stakes garner several immediate benefits compared to working alone:

- An increased ownership stake means more bargaining power with companies, other owners or other audiences.
- Working as a team means that engagement as owners can be less costly as the costs of engagement are spread.
- Knowledge and experience can be passed among the collaborators for a more effective campaign.
- Political risk and risk of adverse public reaction are shared with other members of the collective.

The benefits to engagement accrue as companies and other shareholders are made aware of a threat to financial performance and work together to reduce those risks. A company may establish a policy or a management program resulting from shareholder engagement that avoids lawsuits or crises longer term. Collective shareholder engagement is becoming a more popular tool for communicating the concerns and demands of universal owners in the international community. By pooling resources and coordinating their approach, shareholders have a stronger voice and share the costs of engagement. Further, coalitions can share the responsibility of monitoring companies, sectors and emerging investment risks. These efforts have produced measurable benefits in the long-term preservation of capital and the ability to measure progress toward the internalization of externalities by portfolio companies.

Collective shareholder engagement on HIV/AIDS

Shareholder campaigns regarding HIV/AIDS are a good example of universal owner coalition activity as several investment managers and pension funds are involved in this issue at different levels. The cost and diversity of potential treatments for the disease, and its prevalence in developing regions, contribute to the complexities and challenges of its remediation. While there is no question about its devastating impact on those who contract it, along with their families and communities, the associated destruction of human capital has real impact for businesses. Access to consumer markets, workforce health and reputational risk are issues that have affected consumer product and pharmaceutical manufacturers, as well as employers in other sectors. As a result, a coalition of asset managers and institutional owners have become involved in collective engagement (generally taking the form of shareholder proxy proposals). The resolutions call for companies to report the impact of the HIV/AIDS epidemic on their business, what the company is doing to reduce that impact and, for pharmaceutical companies, actions being taken to improve affordable access to HIV/AIDS treatment.

In another example, the Interfaith Center on Corporate Responsibility (ICCR), which is a coalition of 275 organizations, primarily faith-based but also public fund investment committees, labor funds, asset managers and other service providers, filed seven resolutions related to HIV/AIDS at portfolio companies during the 2005-2006 proxy season. Three were omitted from proxy materials; three others were withdrawn as shareholders and companies came to agreement on company actions. One received 25 percent of shareholder support.

Though these results are mixed, the withdrawn resolutions at three leading companies (Abbot Laboratories, Anheuser Busch and Chevron) were successful in bringing this developing externality to the attention of other shareholders and company management. ICCR's efforts also helped bring about the Global Business Coalition. Since its founding in 2002, its membership has increased to more than 200 companies dedicated to addressing HIV/AIDS.[7]

[7] http://www.businessfightsaids.org/site/pp.asp?c=gwKXJfNVJtF&b=1008739. July 25, 2006.

Challenges to universal ownership behavior

One of the primary purposes of the Universal Ownership: Exploring Challenges and Opportunities conference was to explore the opportunities and barriers to the uptake of this hypothesis by a larger group of institutional investors. Several issues emerged.

Most potential universal owners remain disengaged, but even for those already allied with the concept, one of the primary barriers is education. Guidance is needed for institutions, managers and the increasing number of intermediaries to understand and identify their exposure to externalities and opportunities for action. This report is just the beginning of what the participants hope will be a constant stream of information and dialogue.

Participants also communicated the need for more discussion on hedge funds, mutual funds and private equity investments. Hedge funds and private equity investments, in particular, have seen significant inflows as institutional investors seek new sources of alpha, and they have often produced exceptional returns. It should be noted that the principles of universal ownership are not incompatible with the need for returns and preservation of capital. Universal owners seek to enhance long-term returns by avoiding risk and improving overall market conditions. But to accomplish their objectives, active universal owners require access to managers and insight into the components of investments in order to size up their expanded definition of risk. From a universal owner's perspective, hedge funds and private equity offer little transparency and opportunity for active engagement by the ultimate providers of capital (although the hedge fund or private equity manager may or may not undertake some level of engagement). Conference attendees agreed that together, universal owners have the power to increase the transparency and accountability of managers in these sectors.

Finally, participants agreed that there is a need to better formalize and quantify the business case (and metrics) to support the universal owner anxious to assess and attempt to address potential risk of portfolio externalities. Measuring the impact and outcomes of universal ownership is a complex and difficult endeavor, but necessary if proponents are to attract greater levels of participation. Although owners have attempted to address externalities across markets, portfolios and sectors, the overriding issues are long term with macroeconomic consequences.

Methodologies and tools continue to be developed. Some owners have made use of these tools and others have worked repeatedly to analyze the costs and benefits of engaging with companies. The larger universal ownership and responsible investment communities continue to work together to measure the full potential of universal ownership. Notable progress has been made related to the issues of climate change, corporate ethics and governance, and equal opportunity employment – both in assessing financial risks and exploring how active ownership can help to reduce these risks. (See the section on case studies concerning climate change, corporate governance and pricing of prescription drugs.)

Understanding and measuring externalities

The universal owner hypothesis is based on the belief that positive and negative externalities represent risks and opportunities for investors. Further, owing to the size and scope of the owner's portfolios, they are exposed to externalities on a large scale. Negative externalities, such as externalizing pollution costs, may benefit some companies, sectors or entire markets in the short run. For instance, health care companies may benefit temporarily, but in the long term, labor markets could suffer, insurance costs will rise, and large sections of the global economy will require more health care. Universal owners will be exposed to multiple negative externalities across their holdings, and the overall financial impact is likely to be negative rather than positive. Therefore, universal owners have a financial incentive to seek to reduce these externalities. The fact that they are external means that they are not controlled by the entity and therefore can be viewed in terms of potential risk (or negative externalities) or opportunity (for positive ones). This portfolio-wide significance is in addition to the firm- or sector-specific risk any investor faces.

It is difficult to predict and quantify the risk of externalities, especially across the vast holdings of a large institutional owner. However, some methodologies have been developed to assist owners in doing this, and two approaches were presented at the April 2006 workshop: those of TruCost and Innovest.

UK-based TruCost uses a quantitative model to assess a company's ability to adapt to an increase in the cost of carbon. TruCost has also adapted this model to conduct what they call TruEVA analysis (or analysis of "true" economic value added). As a result, it is now able to assess the economic contribution of a company, sector or portfolio taking into account the internalization of the cost of greenhouse gases and other pollutants. Using TruEVA, TruCost has shown that the overall economic contribution of many large utilities is actually negative once external costs of carbon are considered. This quantitative model can also be used to gauge the carbon intensity of a portfolio. TruCost has been commissioned to compare carbon intensities and financial returns of multiple portfolios and indices.[8]

Innovest Strategic Value Advisors, with offices in New York, Toronto and London, has also done sector and portfolio studies using research on environmental and stakeholder relations factors. Looking at environmental and management indicators, it uses a proprietary, quantitative model to rate companies. Innovest and others have used these ratings to construct portfolios and test performance of highly rated companies versus poorly rated companies. Research shows that an "eco-enhanced" portfolio can outperform its benchmark by 150 to 240 basis points or as much as 500 basis points for high-risk sectors like chemicals and oil and gas.[9]

Both of the above approaches begin to match the universal ownership hypothesis with a quantifiable value proposition. If the cost of negative externalities can be quantified, and the benefit of mitigating these risks can also be quantified, then universal ownership can provide an actionable framework for risk mitigation and value enhancement at the overall portfolio level.

[8] Thomas, Simon; Dr. Robert Repetto; Dan Dias. The Use of External Environmental Costs for Investment Analysis and to Compare the Environmental Performance of Fund Management. Presented at Universal Ownership: Exploring Challenges and Opportunities, The Center for Fiduciary Capitalism at Saint Mary's College of California, April 11, 2006.
[9] Kiernan, Dr. Matthew. Universal Owners: A Glass Half Full, or Half Empty? Presented at Universal Ownership: Exploring Challenges and Opportunities, The Center for Fiduciary Capitalism at Saint Mary's College of California, April 11, 2006.

Integration of environmental, social and governance issues

The universal owner hypothesis is bolstered by steps taken to integrate environmental, social and corporate governance (ESG) issues into investment decision making. ESG factors include some of the very externalities that lay the foundation for universal ownership. These factors are "non-financial" – at the level of the company that creates the externality – yet material – in terms of broader environmental or social impact. Because these "non-financial" factors will ultimately affect investors' overall portfolios, those taking account of them may increase value by minimizing risk and/or maximizing opportunity.

There are an increasing number of tools available to assist an investor with identifying and quantifying potential risks in the ESG policies and practices of companies (including those discussed in the previous section). ESG is an umbrella term which has evolved to incorporate many externalities and extra-financial risks facing investors. It applies not only to equity investment but also increasingly to non-equity holdings such as real estate. End asset owners, investors, investment managers, the media and the general public are paying more attention to these investment factors as increasing evidence emerges that they can affect the financial performance of individual companies and diversified portfolios.

Traditionally, many ESG factors have not been incorporated into financial analysis. This is beginning to change as institutional investors see the connection between the long-term interests of their beneficiaries and the medium- to long-term risk of issues such as climate change, HIV/AIDS, corporate governance and employee relations. While some institutional investors have embraced this way of thinking – particularly in regards to corporate governance – most have either not been introduced to the concept in a compelling way or have not been convinced of its merits. Others raise the possibility of breaching fiduciary duty if the scope of ownership responsibilities expands toward mission-driven activism or additional screening of investments as a result of integration of ESG factors.

It should be noted that universal ownership does not prescribe any action that would run afoul of laws, charters or investment polices. With a thoughtful process and appropriate communication, the integration of ESG factors in pursuit of the benefits of universal ownership is not likely to contradict fiduciary duty.

This assertion is supported by the world's third largest law firm, Freshfields Bruckhaus Deringer, in a report published by the United Nations Environment Program's Financial Initiative Asset Management Working Group. Paul Watchman, the report's author, analyzed the fiduciary framework in 11 developed market jurisdictions and concluded that "in most jurisdictions, the law gives a wide discretion, encircled by general duties rather than exacting standards," and that "… a number of the perceived limitations on investment decision making are illusory."[10] This supports the notion of fiduciary duty being predicated on due diligence and process rather than on any specific scope or action. On the whole, the report concludes that "the links between ESG factors and financial performance are increasingly being recognized. On that basis, integrating ESG considerations into an investment analysis is clearly permissible and is arguably required in all jurisdictions."[11]

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[10] United Nations Environment Program. Press Release. New York/Nairobi, 25 October 2005.

[11] Freshfields Bruckhaus Deringer. A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment. October 2005.

Even prior to the Freshfields Report, a market for tools and mechanisms facilitating the integration of ESG factors into decision making was growing. For instance, there is an increasing number of firms that focus on ESG-related research. Networks such as the Institutional Investor Group on Climate Change (IIGCC) and the Investor Network on Climate Risk (INCR) have also been established to bring together end asset owners and to improve information flow and dialogue and engage portfolio companies on particular issues. These two climate-related collaborations were formed, not to improve performance in any specific company, but to address the issue of climate in the context of numerous companies, and potentially in whole sectors, markets and portfolios. Similar networks exist around other pertinent issues, and all seek to integrate ESG into investment decisions by improving corporate performance metrics, advocating disclosure of corporate risks, and making the market more efficient through dialogue and knowledge sharing.

Large global investment managers are increasingly quantifying ESG aspects of holdings. UBS, for example, has produced a recent study entitled, "Why Quantify the Unquantifiable?" in which the authors describe a three-stage framework to identify and financially quantify a "corporate social liability." It is applying the framework to specific circumstances across multiple industries.[12]

In February 2004, Goldman Sachs launched an index focusing on the energy sector that incorporates ESG, noting "this template will be applicable across most industries because it captures the full spectrum of companies' interaction with the four key pillars: the economy; the industry; society, from employees to partners, consumers, and counterparties; and the environment, in terms of resources consumed, emitted, and produced."[13] The company sees ESG integration as a tool to identify leading corporate performers and to improve overall returns by supporting companies that can internalize costs to society and minimize risks. Goldman Sachs analysts believe a company's ability to manage social and environmental risks and opportunities is part of the relative quality of overall management performance needed to compete successfully. "In this respect, social and environmental issues already appear to be playing a role in determining the relative winners within the (energy) industry."[14]

The insurance sector is also beginning to look at ESG risks, particularly through the lens of climate change. In a recent webcast, Marsh & McLennan Companies[15] brought together its experts to outline the risks of climate change. The Association of British Insurers (ABI) has published a report on the steep increase in costs that weather-related disasters will pose to the industry. It provides significant analysis on the maximum claims that the industry might be able to sustain compared with projections of costs based on current trend data. Most recently, American International Group, Inc. (AIG) released its corporate statement on policies and programs on the climate issue.[16] The first document of its kind in the US insurance industry, AIG is committing to a multifaceted strategy for addressing climate change risks and opportunities through internal programs, investments and creation of new products and services. AIG has also signed on to the Carbon Disclosure Project as an institutional investor.

[12] Hudson, Julie. "Why Try to Quantify the Unquantifiable?" UBS Investment Research, April 11, 2005.
[13] Baue, William. Spreading SRI: Goldman Sachs Adds Its Own Twist in Social and Environmental Assessment. October 5, 2005. http://www.socialfunds.com/news/article.cgi/article1826.html.
[14] Goldman Sachs. Global Energy: Introducing the Goldman Sachs Energy Environmental and Social Index. February 24, 2004. Presented to the United Nations Environment Program Finance Initiative (UNEPFI).
[15] Marsh & McLennan Companies, Inc. is the ultimate parent company of Mercer Investment Consulting, Inc.
[16] American International Group, Inc. Press Release. May 17, 2006.

Financial services companies such as AIG, Goldman Sachs and UBS can influence many sectors through direct investments, insurance, investment products and internal programs to reduce environmental impact. While these companies may not self-identify as universal owners, they are certainly exhibiting characteristics of universal ownership.

As yet another example, the Enhanced Analytics Initiative (EAI) was established in October 2004 by a group of institutional investors (including asset managers and pension funds) who believe that a key obstacle to the integration of ESG into investment analysis is the quality and focus of current sell-side research. In response, EAI members with assets totaling more than US$1 trillion have agreed to allocate a minimum of 5 percent of their broker commissions to brokers that effectively integrate analysis of extra-financial issues and intangibles into their mainstream (sell-side) research. Such issues typically include corporate governance, human capital management, value creation or destruction during mergers and acquisitions, or corporate performance on material environmental issues such as climate change.

EAI members will decide how to allocate their funds based on an independent review process. During the most recent round, 133 reports from 33 firms were submitted and reviewed. Nine firms were approved by the EAI for disbursement of funds: Bernstein Research, Citigroup, CLSA, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley, Oddo Securities and UBS Investment Research.[17]

Another recent development reflects institutional investor focus on ESG factors. On April 27, 2006, more than 20 institutions from 16 countries and representing assets of over US$2 trillion launched the Principles for Responsible Investment (PRI) at the New York Stock Exchange. Developed through a process convened under the auspices of the United Nations, its six principles and 35 corresponding possible actions give investors a framework for fiduciaries to address responsible investment.

PRI was developed from a fiduciary perspective and serves as a guide to address externalities and extra-financial factors. Aspirational and voluntary, the PRI signatories seek to optimize long-term financial returns and at the same time to align their objectives with the extra-financial interests of their sponsors, beneficiaries and society. While they do not explicitly reference universal ownership, they are certainly consistent with this approach. It has three categories of signatory: asset owner, investment manager and professional service provider.[18] Since the April 27 launch, it has amassed more than 80 signatories representing more than US$5 trillion in assets.[19]

The examples above show enterprises identifying the most relevant risks and opportunities across the spectrum of ESG issues. In the process, financial returns are sought, new markets are expanded and existing markets are made more efficient.

[17] Enhanced Analytics Initiative. Press Release: Enhanced Analytics Initiative publishes results of June 2006 evaluations of investment research which incorporates extra-fiancial issues. June 15, 2006. See www.enhancedanalytics.com for more information.
[18] Mercer Investment Consulting is a signatory to the PRI in the category of professional service provider. Mercer Investment Consulting was the consultant retained by the United Nations to support the development of the PRI.
[19] http://www.unpri.org.

Case studies

CalPERS and corporate governance

Universal owners have long been active in the high-profile and high-stakes area of corporate governance. It can be very public, as corporate scandals, regulatory aftermath and public distrust are still fresh in the minds of many investors. But the following case demonstrates how universal ownership can have an impact on corporate governance beyond specific company issues, extending to financial results and corporate governance behavior in the broader market.

Each spring since 1987, CalPERS has utilized a quantitative and qualitative process focused on governance and financial performance to review its US equity holdings. Companies with low governance and financial scores are analyzed to determine whether discussions with the board and company management could potentially add value. If a company does not respond to CalPERS' attempts at engagement, then CalPERS may decide to place the company on the Corporate Governance Focus List.[20]

The list is widely published. Other owners use it to establish their own engagement targets, and the press often uses it as a basis for corporate governance stories. Both of these uses enhance the potential impact of the list across the US market.

Upon being placed on the list, some companies do agree to discuss issues raised by CalPERS. To date, according to CalPERS, a number of qualitative accomplishments can be attributed to this engagement dialogue, including:

- Director and managerial changes
- Formal governance policy improvements
- Transparency via company web sites and public filings
- Pay-for-performance discipline
- Formal board self-evaluation processes
- Auditor independence
- Shareowner-approved proposal implementation
- Supermajority voting right elimination

The CalPERS Focus List has also been the subject of quantitative studies. The most recent, by Brad Barber, a University of California, Davis professor[21], shows an increase in value of focus list companies after its release of US$3.1 billion in the short run and US$89.5 billion longer term.[22] The author does not claim that the list is the only cause of the greater value but notes that it is an important aspect of CalPERS' engagement

[20] http://www.calpers-governance.org/alert/selection/default.asp
[21] Barber, Brad M. Monitoring the Monitor: Evaluating CalPERS' Shareholder Activism. March 2006. www.gsm.ucdavis.edu/~bmbarber
[22] In this case the author defines short-term as the day of the CalPERS press release. Long-term results are described by the author as "intriguing but inconclusive" but this does not change his conclusion that targeted engagement by large owners can be a good "investment."

program. His conclusions strongly support selective engagement on the part of large institutional owners in a focused effort to protect or enhance shareholder value.

CalPERS had originally funded the development and maintenance of this quantitative methodology to choose their engagement targets in an attempt to maximize the potential to add value for its fund. The fact that other owners may pick up on CalPERS' targets as fodder for their own engagement activities speaks to the alignment of universal owner interests. Large owners have a common interest in promoting best practice, in this case with regards to corporate governance.

Joining forces on an international scale

Institutional investors often collaborate on broad initiatives in networks convened by others. However, it has been relatively rare for a global consortium of pension funds to come together on their own for a company-specific campaign, but this did occur in 2005 when several shareholders of News Corp filed a lawsuit against the company alleging it had reneged on an agreement it made with shareholders in 2004.

News Corp wished to reincorporate from Australia to the United States. In exchange for supporting the reincorporation in Delaware, shareholders asked that some governance policies be adopted including a News Corp commitment to require a favorable shareholder vote in order to renew a poison pill once established.[23] Soon after reincorporating in the US, Liberty Media Group acquired a sizable stake in News Corp. A poison pill was adopted by the News Corp board, and one year later the plan was extended without shareholder approval.[24]

ABP, the Dutch pension fund; Hermes and University Superannuation Scheme from Britain; Connecticut Retirement Plans and Trust Funds; and a number of large Australian funds coordinated by the Australian Council of Superannuation Investors (ACSI) filed suit based on these shareholders' belief that the company breached the agreement made previously to submit any poison pill to a shareholder vote. The plaintiffs were not necessarily opposed to the poison pill.[25] Rather they objected to the renewal of the provision without shareholder approval.

A backlash began in Australia with the ACSI briefing potential partners and fellow members of the Global Institutional Governance Network.[26] Enlisting the assistance of the law firm Grant & Eisenhofer, the shareholder group filed a suit that was settled a few days before CEO Rupert Murdoch was to be deposed.

[23] Australian Council of Superannuation Investors. 7 October 2004. Media Release. A poison pill is a mechanism to discourage a hostile takeover. The provision allows corporations to sell new shares to existing shareholders (except the acquirer) at a discounted rate. This devalues the shares held by the acquirer. Critics of poison pills see it as a possible tool to further entrench an ineffective board.
[24] Court Refuses to Dismiss Suit to Invalidate Corporation's Extension of Poison Pill. Delaware Business Litigation Report. Published by Morris, James. Hitchens and Williams LLP, December 20, 2005.
[25] O'Sullivan, Michael (President of ACSI). Australian Council of Superannuation Investors. April 7, 2006. Press Release.
[26] Davis Global Advisors. Global Proxy Watch. September 2, 2005.

News Corp consented to add a special vote at the annual meeting on renewing the poison pill for two years. In addition, shareholders won the right to vote on the poison pill renewal over the next 20 years. It was Liberty Media Corp's large purchases of stock that led the board to unilaterally extend the plan in the first place. In fact, News Corp may extend the pill for one year only if Liberty Media Corp begins to acquire an ownership stake that reaches certain limits. The court found that the plaintiffs' allegation constituted a breach of contract and promissory estoppel but the court dismissed claims of misrepresentation and breach of fiduciary duty by News Corp.[27]

Michael O'Sullivan, president of ACSI, commented on why ACSI pursued the case, saying it "is a message to News Corporation and to other companies, that long-term investors expect agreements between companies and shareholders to be honoured."[28] Signaling a higher profile for the case and a wider impact on corporate governance and shareholder rights, all the major proxy advisory firms recommended withholding votes against directors up for election and all but one firm recommended against a director fee increase on the grounds that shareholders could no longer trust the board after it reneged on its poison pill promise.

More pertinent than the settlement of the legal case itself is the fact that institutional investors came together to protect member and shareholder interests. Quoting Mr. O'Sullivan, "Perhaps the major achievement for shareholders is the demonstration that international co-operation between institutional investors gets results."[29]

Since the News Corp deal was reached, the issue of poison pills being subject to additional requirements for approval or renewal has arisen at two US companies, Hilton and Computer Associates (CA). The resolution passed at Hilton. As of this writing, the vote at CA had not occurred, but both companies are challenging the resolutions. In Delaware, shareholder resolutions are usually non-binding, but the News Corp case has effectively upset that precedent, potentially increasing shareholder rights across companies and sectors.[30]

Climate change as a portfolio risk

Climate change has joined corporate governance as a leading ESG consideration in investment decisions. Research on multiple fronts indicates that climate change, regardless of its origins, poses a potential material risk to institutional owners across asset classes. The risks from climate change (some effects of which the scientific community believes are "locked in" at this stage) have been modeled extensively by insurance companies, governments and others. In 2004, the insurance expenditures in the United States and the Caribbean for weather-related disasters were US$56 billion. In 2005, Hurricane Katrina alone cost US$75 billion. According to the ABI, "Under a high emissions scenario, capital requirements (for the insurance industry) could increase by over 90 percent for US hurricanes, around 80 percent for Japanese typhoons, and at least 5 percent for European windstorms (excluding floods and the impact of climate change on less intense storms). An additional US$78 billion could be needed to cover the gap between extreme and average losses resulting from changes in the most extreme storms in the US, Japan, and Europe."[31] This figure is partly attributable to the

[27] Court Refuses to Dismiss Suit to Invalidate Corporation's Extension of Poison Pill. Delaware Business Litigation Report. Published by Morris, James. Hitchens and Williams LLP, December 20, 2005. A breach of promissory estoppel is defined as a circumstance where, although there may not have been an enforceable contract, adherence to the agreement was the only way to prevent injustice.
[28] Australian Council of Superannuation Investors. April 7, 2006. Press Release.
[29] Ibidem
[30] Bowie, Carol (Vice President and Director, Governance Research Services, Institutional Shareholder Services). Personal interview. Institutional Shareholder Services. July 27, 2006.
[31] Association of British Insurers. "Summary Report: Financial Risks of Climate Change." June 2005. Extrapolated from "Technical Report: Financial Risks of Climate Change." Prepared by Climate Risk Management in association with Metroeconomica Energy and Environmental Consultants. See following link for more info: www.abi.org.uk/climatechange.

predicted number of storms and escalating costs and value of assets, but the key issue according to the ABI model is the increased intensity of the storms.

For many investors, climate change or efforts to reduce its impact could mean that specific holdings or sectors may suffer from scarce access to capital, loss of assets, and increased regulatory costs, if not from competition from firms that more aggressively pursue climate-friendly strategies. For universal owners, if the damage from climate change is as serious as some predict, the impact will be across markets and sectors and will have a detrimental effect on the entire economy – and therefore certainly on the performance of their portfolios.

Rather than accept this dire consequence, some companies and investors are leading the way, adapting and investing in ways to reduce climate change or its impact. "Clean Tech" venture capital networks and investment funds, for instance, have sprung up in North America, Europe and Australia. Participants offer a range of investment opportunities including renewable or alternative energies, clean technology and efficient production mechanisms. Toyota has become a market leader in hybrid automotive technology that has resulted in positive branding and reputation perceptions from many consumers and media sources. Its Prius model alone recently reached the 500,000 sales mark, and sales increased 250 percent in 2005 from the previous year.[32] In 2005, General Electric launched its "ecoimagination" initiative focused on the development of clean technologies for the energy, transport, water, materials industrials and consumer sectors. The initiative includes internal pollution control targets while emphasizing the business opportunity in clean technologies. General Electric plans to double investment in clean technologies by 2010 to US$1.5 billion. The company predicts that returns on its "ecoimagination" products will double to US$20 billion by the same year.

Some institutional owners have recognized the value of taking stock of their portfolio exposures to climate risk. Several organizations have joined collaborative efforts and begun their own corporate engagement to protect their investments over the long-term in the face of mounting evidence of climate change and its potential impact on investment performance.

In 2006, the comptroller of New York City with the oversight of five New York City pension funds filed shareholder resolutions on behalf of those funds at seven energy utilities. The resolutions requested that each company disclose cost-effective plans for reducing greenhouse gas emissions in light of increased regulatory, public and competitive pressure on carbon emissions. Together, the funds owned more than US$237 million in the seven targeted companies. Four companies responded quickly and agreed to reduce emissions and report their actions publicly. Resolutions were withdrawn from those companies. A campaign waged in the previous year resulted in similar agreements at three energy companies that agreed to reduce emissions and address regulatory reforms. New York City Comptroller William C. Thompson, Jr. describes the impetus for the campaign as a specific concern about long-term implications of new

[32] Toyota. Positioned for the Future with a Focus on Growth and Efficiency. 2005 Annual Report.

coal-fired power plants that will be burdened with extra carbon costs for 30 to 40 years given the growing support for carbon limits in the US.[33]

From a universal ownership perspective, this is a significant action. First, there was coordination affecting the holdings of all five funds. Although the risks of climate change are clearly not limited to the utility industry, it is among the most vulnerable to carbon reduction legislation since it is responsible for 40 percent of US carbon emissions. But the insurance, tourism and agricultural industries arguably are far more susceptible to the effects of changing weather patterns than utilities. Climate change is viewed by many institutional investors as an issue that would be detrimental to macroeconomic performance and many if not all investment portfolios. Therefore, actions taken by major sources of greenhouse gas emissions to reduce or delay the onset of climate change are in keeping with the universal owner hypothesis.

Through successes in emissions reductions and disclosures from utilities, the New York City funds sought to preserve the long-term value of their investments. The actions may enable some companies to gain a competitive edge in a carbon-constrained future, but the universal win is in helping stave off global warming while preserving shareholder value across the larger economy.

Many investors have taken similar actions, joining the US Investor Network on Climate Risk (INCR), the European Institutional Investors Group on Climate Change (IIGCC) or the Australian Investor Group on Climate Change (IGCC). These groups foster the exchange of information and enhancement of research on climate change and its associated financial risks and opportunities. INCR supports shareholder action at companies widely held and significantly exposed to climate change, or believed to be hastening its arrival. IIGCC focuses on sector research and dialogue with industry and company representatives.

Although the organizations are focused on a single issue, climate change, their efforts are dispersed across a broader range of sectors and companies. The groups, not only concerned with affecting corporate behavior, are also devoting significant resources to supporting investors' own understanding of climate change, sponsoring related research on fiduciary responsibility and the role of corporate governance in climate change. The universal owners represented in these and other initiatives are not focused on enhancing short-term returns for any one holding. Instead, their business case for addressing climate change is in mitigating the disastrous economic consequences predicted as a result of climate change and preparing portfolio holdings for the "global shift to a lower carbon economy" foreshadowed in the mission statements of IIGC and INCR.

[33] Thompson Calls on Power Companies to Assess and Mitigate Carbon Dioxide and other Emissions. NYC Comptroller Press Office. February 21, 2006.

Aligning time horizons

The debate on the merits of long-term investing is important both to universal ownership as well as the broader ownership supply chain. An owner cannot expect a portfolio company to internalize external costs, sacrificing short-term firm-specific gains for long-term economy-wide gains, if shareholders are primarily concerned with quarterly performance. Likewise, investment managers may be less inclined to take a long-term view if they are evaluated and rewarded against quarterly targets.

Figure 1. Capital life cycles vs. natural life cycles

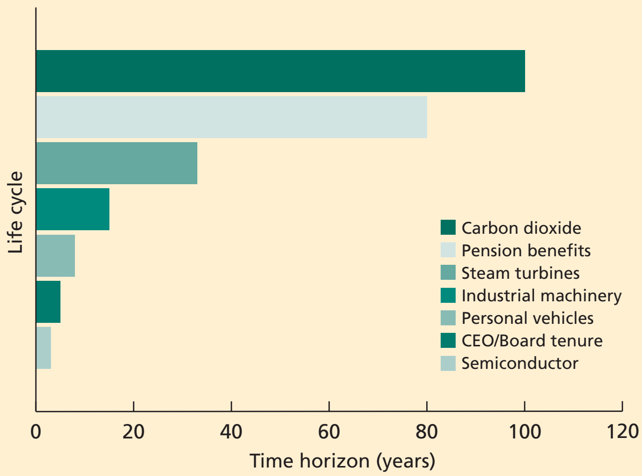

Figure 1[34] graphically represents the differing time horizon perspectives of a CEO, capital energy expenditures, a pensioner, and the greenhouse effect of carbon dioxide in the atmosphere. As you can see, the return horizons are years or decades apart.

There is some evidence that corporations are recognizing these different time horizons and acting accordingly. A survey of nearly 1,000 CEOs from more than 40 countries produced the following surprising results:

- The number of CEOs that agreed that sustainability is vital to profitability rose from 10 percent to 79 percent (driven by concerns over reputation and brand).
- Further, 71 percent of the CEOs would implement a sustainability program that sacrificed short-term profitability for long-term shareholder value.[35]

However, another survey found that 80 percent of 400 financial executives would decrease discretionary spending to meet short-term earnings targets. Further, 55 percent responded that they would delay a new project to meet an earnings target even if that meant sacrificing some value.[36]

Institutional investors and intermediaries are beginning to discuss long-term investing. For instance, the Marathon Club sprouted from a project designed to encourage thought and information on long-term investing, sponsored by the Universities Superannuation Scheme in the UK. The club's 18 members have a stated goal to "stimulate pension funds, endowments and other institutional investors and their agents to be more long-term in their thinking and actions, and place more emphasis on being responsible and active owners with a view to increasing knowledge about how their investment strategy and process can improve the long-term financial and qualitative buying power of fund beneficiaries."[37]

The CFA Institute recently published the results of its "Symposium Series on Short-termism." Among the recommendations put forth for corporate leaders, asset managers, institutional investors and analysts were:

- Promote an institutional investor focus on long-term value for themselves and when evaluating their asset managers
- Encourage institutional investors to make long-term investment statements to their beneficiaries similar to the statement the (symposium) panel is asking companies to make to their shareowners

The symposium recognized that the "obsession with short-term results by investors . . . collectively leads to the unintended consequences of destroying long-term value, decreasing market efficiency, reducing investment returns and impeding efforts to strengthen corporate governance."[38]

For institutional investors, these findings and recommendations support the notion of universal ownership and consideration of factors that may be slower to develop. Issues such as corporate governance, transparency, climate change and labor relations may be difficult to quantify, but ultimately ignoring them in the short term can be detrimental over the long term to a portfolio or to large sections of the economy.

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[34] Cogan, Douglas G. Corporate Governance and Climate Change: Making the Connection. A CERES Sustainable Governance Project Report, Prepared by the Investor Responsibility Research Center. June 2003.

[35] 6th annual global CEO survey: Leadership, Responsibility, and Growth in Uncertain Times. Price Waterhouse Coopers in conjunction with the World Economic Forum, February 2003.

[36] Graham, John R., Harvey, Campbell R. and Rajgopal, Shivaram, "The Economic Implications of Corporate Financial Reporting", January 11, 2005. Paper provided by National Bureau of Economic Research, Inc. in its series NBER Working Papers with number 10550.

[37] The Marathon Club. Long-Term, Long-Only Investing: A Consultation Paper. April 7, 2006. http://www.marathonclub.co.uk/ .

[38] CFA Centre for Financial Market Integrity and the Business Roundtable Institute for Corporate Ethics. "Breaking the Short-Term Cycle: Discussion and Recommendations on How Corporate Leaders, Asset Managers, Investors and Analysts Can Refocus on Long-Term Value." July 24, 2006.

Drug pricing and access and universal owners

The rising cost of prescription medicines is a global issue. In the United States, prescription drugs often represent the fastest growing segment of health care costs.[39] In developing countries, the cost of drugs is cited as one barrier to preventing the spread of HIV/AIDS as well as other diseases collectively responsible for millions of deaths per year. Advocacy for lower drug prices has become a cause for health care activists, policy makers and other groups that one might expect to share these concerns. But, increasingly and perhaps surprisingly, lower drug prices have been taken on as a cause of another group of stakeholders: investors.

Support for a shareholder proposal at Pfizer calling on the company to disclose its measures for containing prices of its most popular prescription drugs rose from 5 percent in 2004 to 11 percent in 2005. Also in 2005, 23 percent of Wyeth shareholders supported a proposal asking the company not to restrict re-importation of prescription drugs into the United States.[40] Though these percentages are relatively small, a resolution requires only 3 percent of the vote in the first year to be re-filed in the second year. It is also not uncommon for resolutions to be withdrawn after companies agree to comply with a resolution that has gained support in previous years. In 2006, for example, at least 46 out of 256 resolutions filed by members of the Interfaith Center on Corporate Responsibility (ICCR) were withdrawn.

In Europe, 14 investment managers and institutional investors formed the Pharmaceutical Shareowners Group (PSG) in 2004. The PSG seeks to use its influence as investors to constructively engage the industry on relevant issues from a business perspective. Engagement focuses on disclosure of existing corporate programs around employee and community access to medicine as well as the business risks associated with inaction: revocation of license to operate, increased regulation, negative impacts on the labor force and restricting growth in existing and new markets. The group issued a report in 2004, “The Public Health Crisis in Emerging Markets: An Institutional Investor Perspective on the Implications for the Pharmaceutical Industry,” which hints at the universal ownership hypothesis. In describing the report, the group asserted that “It focuses on issues that could impact the profitability of the sector as a whole …. It is, therefore, likely to be more relevant to investors that take a fundamental and more holistic, long-term view than those that have a straightforward trading approach.”[41] While the report emphasizes the actions and impacts relating to the pharmaceutical sector, the authors begin with the “development of global markets” as the biggest concern to investors resulting from the health care crisis. This concern is pertinent to all sectors and all universal owners.

In 2006, the universal ownership hypothesis has emerged more specifically to support lower drug prices in the United States. Using research on pricing, R&D expenses and economic theory, the as yet unpublished paper “Why Lower Drug Prices Benefit

[39] Robert Pear, “Growth of National Healthcare Spending Slows Along With Drug Sales,” New York Times, January 10, 2006.
[40] Seitcik, Adam; Lippman, Steve and Dan Rosan. Why Lower Drug Prices Benefit Institutional Investors. Unpublished. 2006.
[41] Pharmaceutical Shareowners Group. The Public Health Crisis in Emerging Markets: An Institutional Investor Perspective on the Implications for the Pharmaceutical Industry. September 2004.

Institutional Investors" by Seitcik et al. argues that modestly lower drug prices would result in net gains to investors and possibly to the pharmaceutical industry as well.[42] The study also makes a strong argument for including universal ownership thinking as part of fiduciary duty.

The authors begin with a simple assumption of drug prices as approximating a zero sum game, assuming that demand for prescription drugs remains constant regardless of price. Money saved by corporations, insurers, governments and consumers contributes to growth of other sectors though it "may" negatively affect the medicine producers. For universal owners and fiduciaries, this is a theoretically acceptable outcome.

Further analysis cites research regarding increases in demand for prescription products as prices fall. However, continued lobbying efforts on the part of the pharmaceutical sector against government-imposed price cuts and re-importation of lower priced drugs points to additional considerations. According to Pfizer, government efforts to lower prices through price controls on prescription drugs "are undesirable for a number of reasons, most notably their negative effects on the incentives to conduct research and development of new medicines."[43] A 2004 study by the US Department of Commerce concluded that price controls in OECD countries led to decreases of 11 percent to 16 percent in R&D spending, equivalent to the loss of three or four new drugs.[44]

However, Seitcik et al. maintain their argument citing statistics that show a negative correlation between prices and R&D spending. That is, as prices and profits rise, R&D spending has tended to drop.[45] A dramatic decrease in drug prices, the authors admit, may have an unwanted negative impact on the sector and the health care industry. Such a decrease may not sustain the ancillary benefits in other industries and may not be in the long-term interest of universal owners or beneficiaries. But their paper suggests a modest decrease in prices, one that more likely could increase access to drugs but not damage the industry severely. In 2004, pharmaceutical companies earned 16 percent of revenues for profits compared to 5 percent for all of the Fortune 500, according to the Kaiser Family Foundation.[46] This statistic supports a simulation study in which it was estimated by the authors that a 5 percent to 10 percent decrease in the cost of prescription drugs would probably not have an appreciable impact on R&D spending.[47]

The authors of "Why Lower Drug Prices Benefit Institutional Investors" acknowledge the unconventional nature of their conclusion: that actively seeking lower profits of one sector to benefit others is desirable for institutional investors and universal owners under certain circumstances, and further that this is consistent with fiduciary duty, challenges current thinking. Seitcik et al. concede that the universal owner perspective can have "surprising" or even "radical" implications.[48]

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[42] Seitcik, Adam; Lippman, Steve and Dan Rosan. Why Lower Drug Prices Benefit Institutional Investors. Unpublished. 2006. The text that follows in this section is heavily reliant on this paper. Many of the citations are sourced from Seitcik, Lippman and Rosan. The primary exception is the inclusion of materials from Pfizer.
[43] Pfizer. Pricing and Value: Pricing Controls. http://www.pfizer.com/pfizer/policy/pricecontrols.jsp. Accessed August 10, 2006.
[44] US Dept. of Commerce. Pharmaceutical Price Controls in OECD Countries: Implications for US Consumers, Pricing, Research and Development, and Innovation. December 2004. Available at: http://trade.gov/td/chemicals/drugpricingstudy.pdf. Accessed on August 10, 2006.
[45] Kaiser Family Foundation, Prescription Drug Trends Fact Sheet—November, 2005 Update, Publication 3057-04, 2005-11-18.
[46] Ibidem
[47] See the National Bureau of Economic Research (NBER) Reporter, May 2005, summarizing a simulation exercise conducted by Abbott and Vernon. Scherer finds abnormally high levels of profitability in the pharmaceutical industry dating back to the 1960s, 1970s and 1980s. See F.M. Scherer, "Pricing, Profits, and Technological Progress in the Pharmaceutical Industry." Journal of Economic Perspectives, Vol. 7, No. 3, Summer 1993.
[48] Seitcik, Adam; Lippman, Steve and Dan Rosan. Why Lower Drug Prices Benefit Institutional Investors. Unpublished. 2006.

Action items

At the start of the conference, James Hawley and Andrew Williams delivered an opening presentation suggesting how an institution can begin to recognize itself as a universal owner. Jane Ambachtsheer's closing session focused on the opportunities for action that universal owners face. The sessions in between presented specific experiences of organizations. Below is a proposed guide to addressing universal ownership within your organization. The items are suggestive, and specific steps will depend on the characteristics of your organization and its stakeholders.

We have described these steps as:

- **Recognize:** Identify yourself as a universal owner and confirm whether universal ownership principles are relevant for your organization
- **Organize:** Conduct internal and peer reviews; educate trustees and members; and examine opportunities for universal ownership activity
- **Exercise:** Make a written commitment and implement an action plan in the context of universal ownership

Step 1: Recognize

Does your organization exhibit traits of a universal owner? This is an obvious question to ask but the answer may not be so obvious. Below are some identification questions to facilitate the process.

1. **Is your organization a "long-term" investor?**
   The Universal Ownership hypothesis favors investors who have a long-term strategy and/or serve members over many years. Many environmental, social and corporate governance issues of concern to universal owners have prolonged cycles, and changes may be more relevant over multiple periods than within the traditional earnings reporting or business cycle.

2. **Does your organization own (or are you considering owning) a mix of asset classes (such as public and private equity, fixed income, real estate, etc.), and are the investments broadly diversified?**
   A universal owner has an interest in a representative slice of the economy. For this to be fully true, the investor will own multiple asset classes and have broadly diversified investment.

3. **Are your organization's investments largely passively managed? Or is your organization planning to increase its passively managed assets?**
   Passive and index-based investments usually cover a broader range of sectors than actively managed investments and so are more likely to be affected by macroeconomic performance and trends.

4. **Is universal ownership as described in this document consistent with your investment goals, beliefs and fiduciary responsibilities?**
   An affirmative answer to one or more of these questions might prompt your organization to look closer at universal ownership and proceed to the next phase of action.

Step 2: Organize

In mapping out potential actions, it is essential to have a firm grasp of your current situation as a universal owner. This includes reviewing internal policies and processes and the practices of external service providers as well as external opportunities to participate in the active ownership community. There are many groups and initiatives such as the Principles for Responsible Investment, the International Corporate Governance Network, the Council of Institutional Investors, and the Carbon Disclosure Project that offer a framework and ready support for activities representing universal owners.

Relevant items to consider include:

1. Does your investment policy or organizational charter align with the interests of the universal owner? Is additional or edited language necessary?
2. If changes are required, are there organizations or examples to draw from?
3. Can you establish a focused written commitment?

It is recommended that you review internal documents, the actions of peer organizations as well as other initiatives that incorporate universal or active ownerships ideals. This review will enable you to benchmark your current situation and to decide on the appropriate course of action. Education of trustees and investment staff can be an important component at this stage.

Step 3: Exercise

Once your universal ownership position is established, it is time to undertake formal action in the context of the universal ownership hypothesis. The actions taken will vary by organization – depending on your starting point, objectives and available resources. A number of possible actions are outlined below.

1. Educate trustees, investment staff and/or service providers about universal ownership.
2. Compare your approach to domestic/international peers.
3. Sign the Principles for Responsible Investment.
4. Review proxies for universal ownership issues.
5. Vote proxies or instruct investment advisers and fund managers to vote them on universal ownership issues.
6. Consider proposing individually or in collaboration with others appropriate proxy proposals to further universal ownership concerns.
7. Review opportunities for direct engagement.
8. Review opportunities for collaborative engagement.
9. Consider engagement in support of appropriate public policies.
10. Review ESG performance of existing investment managers.
11. Initiate a portfolio review for potential ESG risk.
12. Consider ESG analysis for other asset classes.
13. Support industry research on the universal ownership hypothesis or responsible investment more broadly.
14. Develop a reporting framework for universal ownership-related activities.

Conference presenters and participants

The presentations are available at www.fidcap.org. Affiliations are for identification purposes only. Participants listed in bold were presenters.

Conference participants	Title	Organizational affiliation (for identification purposes only)
Jane Ambachtsheer	**Global Head of Responsible Investment**	**Mercer Investment Consulting**
Kelly Candaele	Trustee	Los Angeles City Employee Retirement System
John P. Connolly	Trustee; President American Federation of Television & Radio	AFTRA Health and Retirement Funds; National Artists, AFL-CIO
Stephen Davis	President	Davis Global Advisors, Inc.
Paul Dickinson	Global Coordinator	Carbon Disclosure Project
James Gifford	Lead Project Manager	Principles for Responsible Investment: A joint initiative of UNEP FI and the UN Global Compact
Julie Fox Gorte, Ph.D.	Vice President and Chief Social Investment Strategist	Calvert Group
Rachel Harold	Program Associate	CERES
James Hawley, Ph.D.	**Co-Director**	**Center for the Study of Fiduciary Capitalism; Professor, Saint Mary's College of California**
Janice Hester-Amey	Principal Investment Officer Corporate Governance	California State Teachers' Retirement System
Dennis Johnson	**Senior Portfolio Manager**	**California Public Employee Retirement System**
Linda Kimball	Manager of Investment Responsibility	Stanford Management Co
Peter Knight	President	Generation Investment Management, US
Mike Krzus	Partner	Grant Thornton LLP
Tim Little	Executive Director	Rose Foundation
Steven Lydenberg	Chief Investment Officer	Domini Social Investments
Michael MacLeod	Assistant Professor	Assistant Professor, Clarkson University, Potsdam, New York
Colin Melvin	**Chief Executive**	**Hermes Equity Ownership Services Ltd**
Craig Metrick	US Head of Responsible Investment	Mercer Investment Consulting
Robert A. G. Monks	**Founder; Chairman**	**Lens Governance Advisors; Governance for Owners, LLP**
Melissa Moye	Senior Vice President, Director of Investment–Trust and Investment Services	Amalgamated Bank
Craig Muska	Director	IW Financial
Michael Musuraca	**Designated Trustee Representing District Council 37, AFSCME, AFL-CIO**	**New York City Employees Retirement System**
Bill Page	Principal	State Street Global Advisors
Johanne Pichette	Director, Canadian Equities	Caisse de dépôt et placement du Québec
Marie-Claude Provost	Senior Director, Policies and Compliance	Caisse de dépôt et placement du Québec
Diana Smallridge	President	International Financial Consulting
Meir Statman	Glenn Klimek Professor of Finance	Santa Clara University
Dr. Raj Thamotheram	**Director, Responsible Investment**	**AXA IM and formerly Senior Adviser, Responsible Investment, USS Ltd**
Simon Thomas	**Chief Executive**	**TruCost**
Pierre Trevet	**Managing Director**	**Innovest Strategic Value Advisors**
Dennis Triujilo	Deputy Treasurer	Office of California State Treasurer Phil Angelides
Mike Wallace	Vice President, North American Operations	TruCost
Glynn Washington	Executive Director	Council for Responsible Public Investment
Andrew Williams, Ph.D.	**Co-Director: Professor**	**Center for the Study of Fiduciary Capitalism; Saint Mary's College of California**
Marguerite Young	Western States Director Stewardship Program	Service Employees International Union Capital

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