

COORDINATED ENGAGEMENTS

(DIMSON, KARAKAŞ, AND LI)

OĞUZHAN KARAKAŞ
CAMBRIDGE JUDGE
BUSINESS SCHOOL

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SHAREHOLDER ENGAGEMENTS ON ENVIRONMENTAL AND SOCIAL (E&S) ISSUES ARE BECOMING MAINSTREAM...

DealBook / Business & Policy

BlackRock's Message: Contribute to

Andrew Ross Sorkin
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Laurence D. Fink, the chief executive of BlackRock, will sell companies receive his firm's support. *Damon Winter/The New York Times*

On Tuesday, the chief executives of the world will be receiving a letter from one of the world. And what it says is likely to cause a debate over companies everywhere and a debate over from Wall Street to Washington.

Laurence D. Fink, founder and chief executive of BlackRock, is going to inform business leaders do more than make profits — they need to receive the support of BlackRock.

Mr. Fink has the clout to make this kind of investment through 401(k) plans, pension funds and mutual funds, making it the largest investor in the world. He has an outsized influence on whether directors are voted on and off boards.

LARRY FINK'S ANNUAL LETTER TO CLIENTS A Sense of Purpose

Dear CEO,

As BlackRock approaches its 30th anniversary this year, we reflect on the most pressing issues facing investors and how we adapt to serve our clients more effectively. It is a good time to manage the assets clients have entrusted to us, meet their long-term goals such as retirement. As a fiduciary, BlackRock will drive the sustainable, long-term growth that our clients need.

In 2017, equities enjoyed an extraordinary run across a wide range of sectors – and yet popular frustration about the market simultaneously reached new heights. We are seeing a mix of high anxiety. Since the financial crisis, those who are invested are too often over-allocated to equities. The prospect of a secure retirement is slipping from the grasp of many workers with less education, whose retirement benefits believe these trends are a major source of concern across the world today.

Investment Stewardship

Protecting our clients' assets for the long term

- The BlackRock Investment Stewardship team is a centralized resource for portfolio managers. In our stewardship work we aim to:
- 1 Protect and enhance the value of clients' assets through engagement with companies
 - 2 Encourage business and management practices that support sustainable financial performance over the long-term
 - 3 Provide specialist insight on environmental, social and governance (ESG) considerations to all investment strategies, whether indexed or actively managed.

MOTIVATION

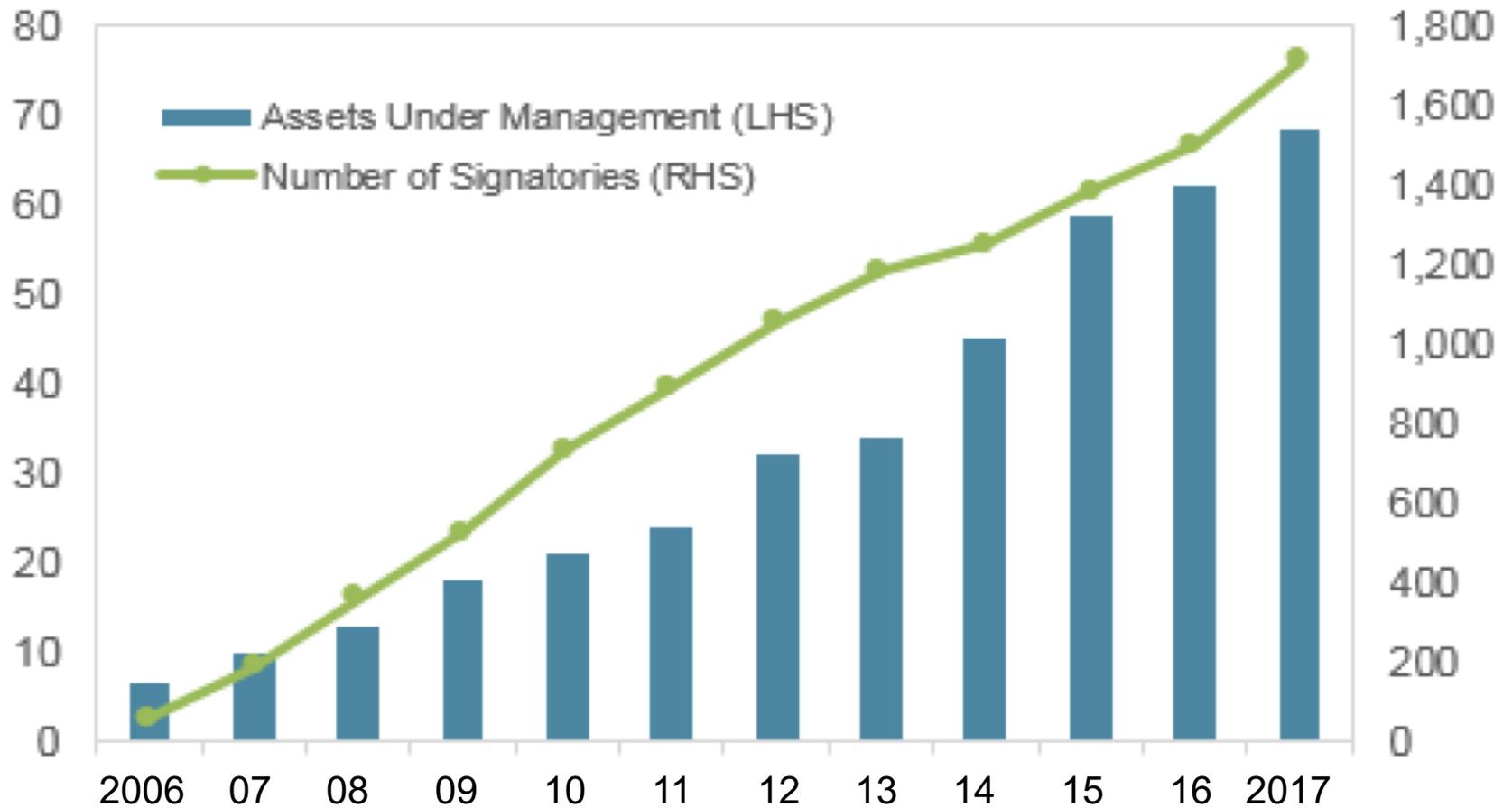
This is the first paper to study the nature and benefits of **coordinated, collaborative** and **international** efforts by a prominent international network of activist shareholders to influence investee companies on E&S issues.

PRI & SIGNATORIES

Principles for Responsible Investment (PRI)

- Founded in 2006 and supported by the United Nations.
- The leading network for investors with a commitment to responsible ownership and long-term, sustainable returns.
- By December 2018, PRI has 2,205 signatories from 67 countries, representing over \$80 trillion in assets.

PRI & SIGNATORIES



PRI & SIGNATORIES

Signatory breakdown by region



THE PRI'S SIX PRINCIPLES



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.

EXAMPLE OF ACTIVISTS

- **Investment Managers:** Deutsche Bank Asset and Wealth Management (Germany), Amundi (France), T.Rowe Price (US), Legal & General Investment Management (UK), and AXA Investment Managers (France).
- **Asset Owners:** AXA Group (France), Norwegian Government Pension Fund Global (Norway), Old Mutual (UK), California Public Employees' Retirement System or CalPERS (US), and Caisse de depot et placement du Quebec (Canada).
- **Service Providers:** PIRC Limited (UK), Sustainalytics (Netherlands), As You Sow (US), Australian Council of Superannuation Investors (Australia), and Hermes Equity Ownership Service (UK).

PRI'S COLLABORATIVE PLATFORM

Desirable attributes for research:

- Engagements are logged in a platform by a third party
 - No retrospective data revisions
- Engagements are supported by multiple asset owners, investment managers, and service providers
 - Not a single investor
- Dataset is truly global
- There is a dated record for each engagement
 - No reliance on ESG scores/ratings

COLLABORATION

- **Benefits**

- Pooling of resources
 - E.g., more voting power, “voice” for mid-size investment firms.
- Risk sharing
- Information and cost sharing

- **Costs**

- Free-riding
- Coordination is difficult and time-consuming
- Legal concerns/regulatory barriers: “concert party”

PRI, as a **third-party coordinator**, can help substantially exploit the advantages and overcome the challenges.

RESEARCH PROCEDURE

1. Quantitative data analysis

- 31 PRI-coordinated projects over 2007-2017
- 4 areas: environmental, social, governance, UNGC

2. Global engagements

- 1,671 dialogues with target companies
- Targeting 964 listed firms in 63 countries

3. International involvement

- 224 investors from 24 countries (aggregate AUM \$24 trillion, average AUM \$115 billion)
- Asset owners, investment managers, service providers

4. Extensive additional data from commercial databases

MAIN FINDINGS 1/5

1. Which firms are targeted?

- **Most engaged countries:** US, UK, France, and Japan.
- **Most engaged industries:** Manufacture, infrastructure, wholesale/retail.
- **Target firm characteristics:** Large firms, low Tobin's Q, high institutional ownership, low insider ownership, and high ESG score.

MAIN FINDINGS 2/5

2. Which institutions engage and lead?

- An average engagement has 26 investors
 - Combined AUM of \$2.8 trillion and target shareholding of \$0.5 billion.
 - 2 domestic investors, and 24 foreign investors.
 - 14 investment managers (IM), 11 asset owners (AO), and 1 service provider (SP).
- Two-tier engagement strategy: lead and supporting activists
 - 410 engagements out of 1,671 have lead investor(s).
 - On average, 1.4 lead investors with combined AUM of \$162 billion.
 - Lead investors have higher ownership, exposure & culture ratings.

MAIN FINDINGS 3/5

3. What influences institutions to engage and lead?

- Decision to **engage** and **lead** are shaped by home bias (cultural similarities) and free-riding concerns outside and within coalition.
 - **Engage:** (i) Domestic target, (ii) Fewer past or continuing projects.
 - **Lead:** (i) Domestic target, (ii) Higher exposure to and higher stake in target firm, (iii) Fewer ongoing projects.

MAIN FINDINGS 4/5

4. What determines success?

- Having a **lead** activist, especially a **local** lead.
 - Success rates are elevated with a lead.
- Having more **influential** activists.
 - Success rates are elevated when activists have larger assets under management (AUM), larger shareholdings, and higher employee/culture ratings.
- Having **foreign** investors on board
 - Global impact.

MAIN FINDINGS 5/5

5. What are the impacts of successful engagements (with lead)?

- Higher abnormal returns, ROA, sales growth.
- Lower stock return volatility.
- Increased lead activist shareholding in target.
- Decreased supporting activist shareholding in target.

CONCLUSIONS: EFFECTIVE ENGAGEMENT

- **Coordinated engagements on E&S are expanding.**
 - This is the first global study of E&S engagements.
- **Engagement practices associated with success.**
 - Lead investor from same location as target.
 - Lead should have high AUM and high exposure target.
- **Supporting investors to broaden influence.**
 - Supporters from foreign countries.
 - Preferably with high AUM and large holding in target.

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Available at ssrn.com/id=3209072