

PRI/ UNEP FI Universal Owner Project

Addressing externalities through collaborative shareholder engagement

Request for Proposals

Background on the organisations

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme (UNEP) and the financial sector. UNEP FI works with over 170 financial institutions who are signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between the environment, sustainability and financial performance.

The Principles for Responsible Investment (PRI) is a partnership between UNEP FI, the UN Global Compact and institutional investors. The Principles for Responsible Investment were developed in a UN-backed process with institutional asset owners during 2005 and launched in April 2006 by UN Secretary-General Kofi Annan. They are a voluntary, aspirational set of best practices for the incorporation ESG issues into investment decisions and management. Currently the PRI has over 470 signatories with assets under management of over US \$18 trillion.

The PRI in Emerging Markets and Developing Countries is a project funded by the Swedish International Development Cooperation Agency, implemented by UNEP, and managed by UNEP FI. The goal of the project is to promote responsible investment in emerging markets and developing countries through the PRI global framework.

For more information on the UNEP FI and the PRI, please visit www.unepfi.org and www.unpri.org

Rationale for the Project

Institutional investors own an increasingly large proportion of global assets. For example, U.S. institutional investors' ownership of 1,000 largest U.S. companies was

76% at the end of 2007, which was an all time high.¹ Pension funds, which, by their nature, have a longer-term investment horizon, continue to account for a large proportion of institutional investor assets.

Institutional investors, including pension funds, insurance companies and many investment management company are often highly diversified across asset classes, sectors and geographies, and many funds use indexing as an important part of their investment strategies. PRI signatories collectively represent more than US\$18 trillion in assets. Given such large diversification, returns to these funds (and PRI signatories overall), are more closely correlated with the performance of the economy as a whole than to any particular company or sector. Therefore by investing broadly in capital markets these funds ultimately internalize both negative and positive externalities that are generated by companies and their ESG practices. This 'universal ownership' combined with the long-term horizons of many investors provides a strong rationale for investors to work together to improve the performance of the economy (through addressing externalities), as a whole an important part of fulfilling their obligations to their members, beneficiaries, clients and customers.²

Project Description

The aim of the project is to explore how the most economically harmful environmental, social and governance externalities involving corporations can be identified and then reduced through collaborative shareholder engagement by the owners of these corporations. Some of the issue areas the project could consider include:

- Greenhouse gas emissions
- Biodiversity and ecosystem services
- Resource use and efficiency
- Water use
- Food security
- Corruption
- Education
- Health/social issues (HIV Aids, malnutrition)

This list is by no means final or exhaustive and should only be considered as an indication.

¹ Pensions & Investments online, "The 2008 Institutional Investment Report: Trends in Institutional Investor Assets and Equity Ownership of U.S. Corporations"

² Universal Owners: challenges and opportunities James Hawley and Andrew Williams, 2007

Step 1: Literature review: “Materiality of Externalities”

- Conduct a literature review to identify and prioritize major economic externalities related to corporate activity, that, if addressed, could have a positive impact on the economy (regionally or globally), the capital markets and ultimately on the investor returns. (This could involve reducing negative externalities or encouraging positive externalities, or more generally addressing ‘tragedy of the commons’ situations).
- Quantify, as best as can be done:
 - A. the expected benefits to the global (or relevant regional) economy of addressing these externalities
 - B. the estimated costs of these externalities to the capital markets (global or regional)
 - C. the impact of these externalities on a hypothetical, highly-diversified portfolio, and the benefits institutional investors could derive if these externalities were internalized over the long-term.
- Conduct initial discussions with leading shareholder engagement practitioners within the investment community on which of these externalities could be addressed most effectively through targeted, collaborative shareholder engagement, and to what extent investors have leverage in the relevant areas.

Step 2: Dialogue between economists and engagement experts

- Based on the findings from Step 1, facilitate a one day meeting to bring together selected economists and shareholder engagement experts to discuss the results of the literature review. The meeting will workshop issues which appear to be good candidates for collective shareholder engagement. It will be convened and organised by the PRI Secretariat.
- The goal of this workshop will be to begin to build a consensus on the most important externalities that investors should address, and what type of collective investor action would best address them. Addressing externalities can also include dialogue with public policy makers to improve regulatory frameworks.

Step 3: Publication

- Based on the work conducted in Steps 1 and 2, produce a concise report by September 2009 with recommendations for collective investor action on a range of externalities, backed by a strong economic rationale for taking such action.
- This report would prioritize and, ideally, quantify the externalities, providing a powerful business case for investors collectively to address these issues through collaborative shareholder engagement, targeting both companies and regulators.

Proposal

The proposal – no more than four pages – should include:

- your views on this project and how you or your organization is well-suited to undertaking it
- an overview of your proposed implementation of the three steps & proposed methodology with the focus on Step 1
- preliminary project timeline

Please include descriptions of related or relevant projects in which you have been involved, and contact details for two client referees.

If you are selected for this project, your proposal would then be workshopped and developed further with the PRI and UNEP FI Secretariats.

Decision making criteria

In evaluating submissions, we will be looking for a genuine understanding of what we are seeking to achieve, a concise vision for implementing the project and the clear intellectual capacity to conduct this potentially complex undertaking.

In addition, decision-making criteria include:

- Strong grasp of existing literature on economic externalities
- Experience in delivering related projects (publications on externalities, experience in economic modelling and, ideally, access to existing relevant models)
- An understanding of institutional investors and shareholder engagement, and the mechanisms through which investors seek to improve corporate behaviour

Budget

The consultant budget for implementing this project is US\$20,000. This includes travel costs to one meeting in London or New York and would include any telephone or other communication costs. Other costs, including layout and printing of the report, and the face-to-face meeting will covered separately.

This is a strategically important agenda for the PRI Initiative and it will likely involve further research phases following this initial report. This project is very much a first step.

Submission details

Submit proposals by 17 of March 2009 to Narina.Mnatsakanian@unpri.org