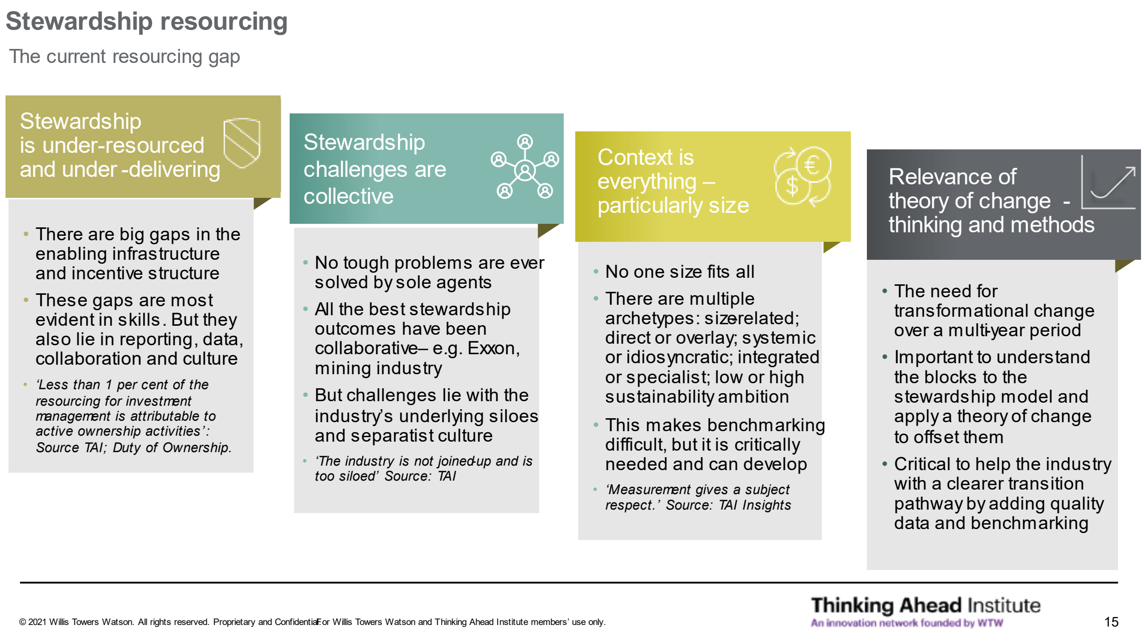
Empowering active ownership: resourcing for stewardship functions
PRI in Person & Online keynote, 2022
Roger Urwin – Co-founder of the Thinking Ahead Institute; Global Head of Investment Content, WTW

I'm going to start with a big picture vision of the investment industry struggling to come to terms with its role and strategy in our challenging world. This vision is complex but incredibly important to accurately build so that we can then take steps to emerge from this struggle in positive shape.

And nowhere is this struggle more apparent than in stewardship.

In this brief keynote,
- I start with the resourcing gap
- I suggest that more of our efforts should be around collective action, particularly as we fill out the 3D investing model with real-world impact alongside risk and return
- I explain how very different these challenges are organisation-by-organisation – lots of individuals, context is king
- And last, I leave you with some sense of how the problem can be successfully addressed as a change process with a theory of change method driving our actions in which new incentives are needed.



<u>The stewardship resourcing gap</u>

There is a paradox stalking the industry. We invest massively in allocation resources – portfolio managers picking stocks and asset classes – where much of the effort is the negative sum in alpha.

And we are underinvested in ownership where the value is a positive sum. In our industry survey work, the agreement that we should be doing more with stewardship is striking.

And it's one notch worse than that. Beyond the under-resourcing – the 'who'; we have the 'what' – what the resourcing does. The big issues are about whether all the effort is in the right places, have we the right strategies and are we getting the execution right.

These gaps are most evident in skills. But they also lie in reporting, data, collaboration and culture. These are all the soft infrastructure intangibles that need to be in place first to get everything done.

And even higher up the must haves here are for the incentives to get things done. Peter Drucker's timeless advice – what gets measured gets managed – falls flat. We don't have the measures of costs and benefits we need to unpack the resourcing model for stewardship.

The best I can offer you is the Thinking Ahead Institute's resourcing guestimate of costs. Based on a whole heap of assumptions it looks like:

> *'Less than 1 per cent of the resourcing for front line investment management is attributable to active ownership activities': Source TAI; Duty of Ownership.*

That is strikingly imbalanced. The investment industry employs an army of talented people in portfolio management but has only put in place stewardship teams at the edges of its resourcing.

It's complicated to build the industry resourcing mapping, but we do need to start with a more accurate picture of what the landscape looks like to understand the gap.

<u>Stewardship challenges require more collective action</u>

Second, we need to strengthen the collective action of the stewardship machine. No tough problems are ever solved by sole agents. All the best stewardship outcomes have been collaborative.

One of the most inspiring stories on stewardship came from The Investor Mining and Tailings Safety Initiative (IMTSI) that started in 2019 after the disaster at Brumadinho, Brazil, where a tailings storage facility failed, killing 270 people. The initiative was a big coalition under the powerful leadership of Adam Matthews of the Church of England Pensions Board – a really strong universal owner organization.

It is a sign of growing traction in universal ownership (aka systemic stewardship, systems investing, shareholder commons) and in its opportunity with industry and public policy engagement where the 3D investing/ universal ownership drivers really can be significant.

The thinking goes like this:

- The returns we need can only come from a system that works.
- I should do what I can to make the system work by mitigating systemic risks.
- That involves addressing the various clusters of industry externalities through industry engagement…
- …and working in public policy engagement on the regulation machinery to move the needle.
- All in a collective action response to get economy of scale and network benefits.

This collective action will require overcoming the challenges of the industry's separatist culture. We are too siloed. Our connections are all too often light and not prepared for the hard work involved with working together – working together when we're in it together**.**

And there is a growing place for coalition organisations – PRI, Climate Action, and so on – that are critical to a successful outcome here.

Context is everything

Third, we look at the no one size fits all issue

There are multiple archetypes of organisations here: big-small; direct or overlay; systemic or idiosyncratic; integrated or specialist; low or high sustainability ambition.

This makes things very messy, but that simply should make us search for more sophisticated frameworks that respect the complexity. Complicate to understand but simplify to act.

This makes benchmarking difficult, but it is critically needed and can develop

'Measurement gives a subject respect.' Source: TAI Insights. We measure what we do because we can, but we can measure more than what we do. Progress comes when benchmarks start to drive better habits

A theory of change is needed to address challenges

Finally, there is the need for transformational change over a multi-year period.

Here it is important to understand the blocks to the stewardship model and apply a theory of change to offset them – visualizing a better future in which investing and ownership secure the system we need. Again, the returns we need can only come from a system that works and so let's work on that system.

It is critical here to help the industry with a clearer transition pathway by adding quality data and benchmarking and see how incentives can be sharpened working more peer pressure into the field. Applying ratcheting to a program of stepping up in our resourcing. It's a long-term journey, but short-term gains matter.

In meeting this challenge, you will have to confront a couple of paradoxes:

- things are complex and messy but inevitably so. I think we beat ourselves up too much on this inconvenient truth
- and the key decisions need to be made in the long-term but reflecting also the short-term pressures.

In a world trying to transition in two dimensions – renewable energy and circular economy, we have one more dimension that is a fundamental precondition – investment industry role rebalancing – stewardship properly mixed alongside capital allocation

And we are reaching a pivotal moment in determining the investment industry's role in influencing future economies, societies and the environment around us. We should do so reflecting the blocks from legacies – of current skills and current mindsets not properly adapted for the future and the line don't tell people what the right thing to do is, give them the tools that help them do the right thing.

One practical measure. The industry needs a calculation methodology and the benchmarks to estimate appropriate levels of resources that investors should be prepared to dedicate to stewardship activities at entity and industry and public policy levels, such that they can have real-world impact.

And we will be closing this session discussing major work ahead on that task.