Responsible investment

Sustainable returns through better engagement

In conversation:

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Sustainable returns through better engagement

The recent scandal at Volkswagen (VW) over rigging emissions tests was a prime example of company governance gone bad. Many believe the alarm bells were sounding long before things finally came to a head at the car manufacturer, but the subsequent 34% drop in its share price would have no doubt caught some investors off guard. Hindsight is, of course, a wonderful thing and spotting the warning signs early is often difficult to do. But it is clear that improving engagement with companies on an ongoing basis can mean being alert to governance misdemeanours before they meaningfully damage returns.

Being aware of governance is important, but it's not all about that when it comes to ESG – there's also the 'E' and the 'S' to consider. In terms of 'E', December sees the 21st Conference of Parties to the United Nations Framework (COP21) in Paris, with the aim of achieving a universal and legally binding agreement to address climate change applicable to all countries, in light of limiting global warming to 2°C. Elsewhere, Bank of England governor Mark Carney recently warned the challenges currently posed by climate change "pale in significance compared with what might come". Recent events might have brought the topic to many investors' attention, but are they really engaged enough for it to filter through to their portfolios? Trailblazers such as the Environment Agency Pension Fund and the Church Commissioners (represented in this roundtable) have led the way in reducing the risk posed by climate change but others are yet to follow. Elsewhere, the 'S' is being played out through the Living Wage campaign and investor interest in securities such as social impact bonds. But again, this begs the question: are asset owners really taking these issues seriously?

To date the ESG conversation has centred around equity investing. With investors increasing diversification, more of them have large investments in assets like property and things as diverse as private equity, forestry and the many multi-asset funds in the market. The ESG conversation needs to penetrate all of these areas, but the fact is it is hard enough to be an active owner in fixed income, let alone more esoteric assets classes. Therefore, much of the responsible investment work and looking into how companies address various types of ESG risk has to be done before buying the individual securities. This is not yet part of the mainstream conversation but it needs to be sooner rather than later.

Elsewhere, in the defined contribution space the continuing pressure on reducing the fee cap poses the question of how much money fund managers will spend on ESG. There's a potential compromise there: if people want a low fee cap environment then there will be limited resources to spend. A subsequent focus on more passive products means it's going to be more important for those providers to put resources behind proper engagement.

This roundtable assembles a panel of experts including asset managers, consultants and asset owners to discuss the current issues in responsible investment.

Sebastian Cheek

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Ian McVeigh

"One of the things that intrigues me when company chairmen come to see us is how often they say there is remarkably little discussion of companies' cultures. To us a company's culture has always seemed such a predictor." Ian McVeigh

A recent survey revealed there was annual growth of 25% in responsible investment (RI) funds between 2012 and 2014. But what are currently the key areas in RI?

Tanya Pein: The kind of issues seen recently at Volkswagen (VW) are not just important to pension fund trustees but to pension fund members too. At the trustee level it's about the accuracy of company valuations and looking at the ESG risk within the portfolio. Looking at it at such a deep level that either you pre-empt the issues by spotting the way the management deals with them, or you're better able to deal with it when it happens. Because, in terms of fiduciary duty, those trustees have actually got a policy, a clear approach to managing ESG risk and their thinking is oriented towards good governance in general.

Ian McVeigh: I have been having a close look and it's very interesting that VW had appalling ratings. In the domestic German market it was ranked fourth out of 100 with 100 being the top. It scored appallingly on things like board independence and board integrity and the effects of controlling shareholders, and of course massive regular fall-outs with the owning families. You spotted the risks through the governance agenda a lot earlier than you did through waiting for the announcements to come, and that's so often the case. We felt very much with Tesco that governance issues gave you the warning signs a long time before the trading started to deteriorate.

Edward Mason: This is another example, it appears, of where a company has really gone astray ethically and there appear to be cultural and risk issues at the company. So these are conversations that we have with companies, often at board level because really it's at that kind of level where you get the guardianship of culture. We often see that where there are ethical problems at companies there's a strong link to the


Tanya Pein

"[Executive pay] is another hot topic at the moment. The investment managers are obviously paid very well themselves and they're engaging with companies about issues which actually could be applied to themselves." Tanya Pein

governance of the company.

Peter Martin: About four or five years ago VW was held as a gold standard in the area of efficiency and car engines so it's amazing how things change over time. So it's a question of the efficacy which you can apply to those types of scoring mechanisms and what they do when they're not stopped. When we look at managers, it's how they operate and the culture they apply in their investment criteria and philosophy.

Anne-Marie Williams: I read something recently that said a poorly-governed company is likely to be one that's going to be doing badly. It's an over-arching indicator above everything else. If the governance isn't right then other things are probably going to be wrong. I suppose the key thing is to have that ongoing engagement with companies, so you can pick these things up.

So, warning signs around failings in company governance can be spotted early?

McVeigh: One of the things that intrigues me when company chairmen come in to see us is how often they say there's remarkably little discussion of companies' cultures. You might not expect it to be raised with the CEO, but to us a company's culture has always seemed such a lead indicator, such a predictor.

Pein: Pension scheme members have delegated the governance of their scheme and their future in retirement to the pension trustees. Governance tends to be a good way to start discussing ESG issues with trustees because they know the Law Commission supports factoring in non-financial factors as part of fiduciary duty. So, whether it's Apple or Tesco or whether it's oil companies and oil spills and problems with environmental regulation, it's quite often a good jumping-off point.

Mason: In terms of research, there's a strong academic base to point to the fact that governance really matters financially. We often find when we talk to our managers about ESG integration, they might not necessarily always be that well-versed at the start of the conversation on the language of responsible investment and ESG, but they really get governance. They've been looking at it for years. So I really agree that it's often the best entry point of discussion for RI.

Williams: It's interesting because quite often while the pension scheme trustees are looking at the very long term, the actual issues on the table are those that are hot in the media. So one week it will be Volkswagen, previously it's been the living wage campaign, which is absolutely the social part of ESG. I've had conversations with clients about whether members want to actually have their portfolio managed by investment managers who are not living wage employers themselves?

Pein: I think it comes into play with something like executive pay, which is another hot topic at the moment. The investment managers are obviously paid very well themselves and they're engaging with companies about issues which actually could be applied to themselves.

Do certain ESG issues need to be addressed closer to home by the asset management industry?

McVeigh: I think that's where asset owners become important because there's less of a conflict of interest there. It's important for asset owners to drive the processes that asset managers implement on issues like executive remuneration so that it doesn't just happen in that financial world bubble.

Martin: Yes, there are always issues in the media or social media which get huge focus but memories are short. There's always a next issue. So it's a question of having a balanced approach and not getting too caught up in the issue of the day because it's the entire portfolio and across asset classes. You need to look at portfolios holistically, not just focus on the equities.


Peter Martin

Mason: That's a great point, because one thing we've done recently is to put in place a responsible investment framework. That covers our whole portfolio, all asset classes, how we select our managers, how we monitor them, how we rate them on ESG issues.

Are we seeing greater collaboration among investors over engagement?

Pein: Yes, all areas of institutional investment with pension, foundation and individual investors coming together like the 'Aiming for A' coalition at a BP AGM recently. These are often global efforts, which are agnostic to sector and asset class. But they are not agnostic as to issue and can be very successful. I think that this trend will continue because each collaboration strengthens relationships and networks and the success of them emboldens people to carry on.

Mason: I think this is a really important trend in engaging. We're part of the core 'Aiming for A' network and what's really interesting about that initiative is the power of collaboration that it's demonstrating. So there's the core group of investors that are driving it, but then we've got a wider range of investors that are prepared to co-file resolutions with us. That's really the only way investors can make their voice known on an issue like climate change.

Williams: It's those partnerships that enable things to go on because very often the conversations around responsible investment are either, "Where do we begin?" or, "We'd like to do this but we just don't have the resource." Actually there are parts of the market that actually are rather well-resourced on RI, rather well-experienced; the Church of England being an example. Therefore, that kind of sharing can enable so much more to be done than a smaller pension fund can manage.

Martin: As you say, it's a journey. Just because someone signs [the UN PRI] on day one it doesn't mean they change overnight. This goes back to culture and philosophy. The people you employ as fund managers, it's got to be embedded in their process and that takes time to come through.

At what point does divestment come into play?

McVeigh: Obviously there's a lot going on across the world with the disengagement from the fossil fuel companies in their various forms. It's quite an extreme view. It goes back to the early days of the 1980s when the Cold War pension schemes tried to get their fund managers to sell out of the oil stocks and legally were told that was in breach of trustee duty. That's changed now. Lots of the big foundations have now moved out. I think the Norwegians have sold out of quite a lot of their coal companies in particular.

Mason: We've implemented a new climate change policy so we no longer invest in companies that derive more than 10% of their revenues from thermal coal mining or the production of oil from oil sands. I think what we've tried to do is to show that there is no silver bullet on climate change. What you need is actually quite a sophisticated approach. Divestment or investment restrictions may be part of that. We've focused on the highest carbon fossil fuel assets where we think the moral case for ceasing activities in those areas of fossil fuels is strongest and also the investment risk is highest.

McVeigh: We could claim a singular investment success, actually, in 2008/2009 when we engaged with both Shell and BP on the tar sands issue. We were very impressed by Shell's robust view of what they were doing and how they were managing it. We were actually quite stunned by how poorly we felt BP were. We felt that this suggested other risks within the business weren't being very well handled. Instead of just sitting there thinking how interesting it was, we sold out before things went wrong for them in the Gulf of Mexico. So one often feels, the way that the city currently works, if you go along to the results presentation the day after the numbers have been announced, you're one of hundreds. If you go down this particular route, talking to companies about how they're managing environmental risks, you get insights into businesses that other people don't get because they're just ploughing a much more conventional furrow.

Anne-Marie Williams

Are investors changing their thinking on climate change?

Pein: The Law Commission states trustees must consider 'all material financial risks'. With the COP21 discussions on climate change in Paris seeking global and national agreements, it would take a very brave pension or charity trustee to say that climate change was not at the heart of their decision-making, both now and going forward.

Mason: We were partners in the recent Mercer study on climate change, investment and asset allocation. One of the most interesting findings was that over a time horizon through to 2050 the transition to a low-carbon economy, a two-degrees type scenario, does not have a negative impact on portfolio returns. Given the economic damage we know that climate change will cause beyond 2050 if it's not mitigated, there will certainly be a positive impact after 2050. So that's a very important conclusion.

Williams: That study actually highlighted new investment opportunities. So there's infrastructure, there's renewable energy, water treatment, for example. There are all kinds of technologies that will cope with the trends that are triggered by climate change. So it's not just about reducing the ESG risk for trustees in their portfolio, it's also about then boosting returns.

McVeigh: There's going to be an extremely interesting development, possibly even a rethink, out of what's


Edward Mason and Ian McVeigh

"The core of investors are driving [collaboration], but a wider range of investors [are] prepared to co-file resolutions with us. That's really the only way investors can make their voice known on an issue like climate change." Edward Mason

happened at VW because if you look back to what caused the problems it was down to the fact that, under political pressure, the European motor industry went down the diesel route which was obviously dramatically low for carbon emissions to achieve the various globally-agreed targets. But it gave rise to other issues on NOX. This was cheered to the rafters, the famous "dash for diesel" as it was called and now it's become the root of the problem.

Martin: It's the law of unintended consequences. If you focus on one area, you won't necessarily pull through the risks attached to that. There was a lot of focus on wind farms, off-shore or on-shore. I think it was somewhere in Spain that there was so many wind turbines they were having a negative impact on the environment so they were banned from being built. So you may want to move to renewable energy, but if you focus too much it can have a negative impact in terms of the environment and the biodiversity of that particular area. It's a question of thinking things through.

Mason: This idea of intellectual capital on sustainability issues is very interesting. One thing that we've done in recent years is to have relationships with certain managers that focus on sustainability issues and see all their investments through a sustainability lens. That's given us great insight into sustainability issues more widely.

Williams: To me it's all part of shareholders demanding transparency of data in all these industries. I think that's affecting the whole world. When you look at the VW scandal, the more information that shareholders are given the better decisions that they can make in terms of ESG and everything else. Another issue is

corporate lobbying where you get a company making these announcements about their climate change policy while on the other hand they're members of these trade associations like Business Europe that are actually lobbying against climate change.

Is there really an appetite from end investors towards these issues though?

Pein: Yes, we have major asset owners doing collaborative work at the top level, but also issues raised directly from scheme members which will only grow larger through social media. I think pension fund trustees may even look back on today as being a honeymoon period before they had to deal with whole waves of investor engagement that are coming.

McVeigh: I had a very interesting meeting recently with the head of corporate finance [at an asset manager] who said that from their institutional customer base they're almost never asked things about governance and they get any number of questions on the E and the S part of ESG. That's a trend that has grown and grown. The governance bit obsesses the city, but it doesn't really seem to resonate with the end owners, with the trustees.

Martin: I'm not sure it doesn't resonate. I just think trustees have limited budgets of time and it's a question of what they focus on. So because you're delegating to fund managers they will include this in a lot of the reports, so there needs to be good disclosure. Just because there is not explicit question at trustees meetings, doesn't mean it's not thought about.

Mason: I think this is why it's important to have responsible investment integrated into how decisions are taken around the trustee board. When we're looking at appointing a new manager, we have an ESG section in the proposal to trustees. At every trustee meeting there will be some kind of responsible investment issue in terms of developing our policy, for example, or how engagement is going with an individual company. So it can be integrated into the time budget.

Pein: I think views will also increasingly be expressed through member-nominated trustees. There is a

"A poorly-governed company is likely to be one that's doing badly. It's an over-arching indicator above everything else. If the governance isn't right then other things are probably going to be wrong." Anne-Marie Williams

very interesting initiative by the Association of Member Nominated Trustees (AMNT) where they have developed, on a collaborative basis, guidelines for all the MNTs across the country to share responses to a template set of questions for fund managers.

Is the only way for get this to be taken seriously to have a comply-or-explain policy in place?

Williams: I don't know if it's the only way but it does have a legal basis in that trustees have to take account of material financial risks.

Pein: In terms of the non-financial factors, the Law Commission states you can take them into account provided there's no significant financial detriment to the fund. I suggest they be more explicit about it so rather than saying, "You can do," they could come out and say, "You should do." I think the law or legal guidance has to be stronger in that area.

Mason: I don't think you can regulate your way to responsible investment. We are actually quite strong fans of the existing framework of fiduciary duty. We think it gives trustees an awful lot of flexibility to invest in the way that they think is most appropriate for their fund. That's both financially and ethically.

Are people still hung up on the idea of responsible investing jeopardising their returns?

Martin: To me the fundamental thing is not maximising return; it's about the trustees generating a sufficient return to pay the beneficiaries over time in a prudent manner. If you're thinking ESG gives you good


Edward Mason

"I don't think you can regulate your way to responsible investment. We are actually strong fans of the existing framework of fiduciary duty. It gives trustees an awful lot of flexibility to invest in the appropriate way." Edward Mason

sustainable returns then it's part of being prudent. If it's embedded through how things are managed across all asset classes, it will lead to a good sustainable return which is sufficient to your needs so your members are paid.

McVeigh: We sold out of our coal companies in the mining sector ages ago. We've taken the view that while it's quite hard to see who the winners are, it's quite easy to spot who the losers are going to be. Obviously lots of these assets have collapsed in price and fossil fuels are going to be a big part of the world's energy requirement for as far as the eye can see. So we then come back to the point of this conflict between returns and social responsibility. It's a function of price and valuation as well as what society thinks of it. The valuation has certainly dramatically changed downwards in the last couple of years.

The Church Commissioners has its own ethical investment body and schemes like USS have the internal governance to do this. Does the size of an investor matter when it comes to RI?

Mason: There are many, many sources of help these days. Obviously there is the UN Principles for Responsible Investment which supports its members of all sizes. They have particular programmes for smaller asset owners. You've got investment consultants now who can offer a lot of help on responsible investment. You've got the National Association of Pension Funds [now the Pensions and Lifetime Savings Association] which organises things like its stewardship forums. So there's an awful lot to tap in to.

Martin: For the sub-£500m pension funds, it's a case of delegating to fund managers and understanding on appointment there's a question about time resources as part of the decision-making process. For every single trustee it won't be on the agenda at every single point in time, but it's just when it's appropriate. There may be things where members have asked questions, whether it be VW or payday loans.
McVeigh: The point on reporting is really important and it's something we're working on in our relationships with managers: getting better regular reporting on ESG issues. It very much focuses on financial issues, macro-economic outlook and so on, but we're looking for information on the ESG characteristics of the portfolio. How the managers are managing ESG risk, what kind of engagement and stewardship activities they're undertaking. I think this is something that asset owners can push on and asset managers can be more responsive to.
Martin: And also presenting it in a fashion which is easy to understand, engage and summarises things so you don't have to spend three hours reading it through. Just providing a list of, "We voted on the following 200 shareholding meetings over the last three months."
Williams: I think it would also be really interesting if there was some sort of standardised voting disclosure for fund managers so it was easy for them to declare where they'd voted. At the moment it's not a particularly satisfactory system. It's not always transparent and clear and I think that would be really helpful. Some sort of standardised method that you could access. A lot of the time trustees are very dependent on the investment consultants who tend to have their set of fund managers. I think that's a bit of a problem, really, the fact there tends to be a certain set of fund managers that have a monopoly.
Martin: We have a bench of managers constantly evolving. We're not wedded to a particular three, five, six or seven. It's depending on the asset classes and best in class and these factors will be part of whatever it will be that we look into.


Ian McVeigh

How is RI developing in DC?

Martin: It really depends whether it's part of the default arrangement, whether it be GPP contracts and where there is member choice. Most people will find with member choice take-up is limited.
Mason: There's also what are the responsibilities of the big passive investment managers and what can they do on issues like stewardship? They're owning the whole market and they can do an awful lot in engagement.
Martin: To me, given the continuing pressures on reducing the overall fee cap for DC products and the reduced fees given to fund managers, it's a question of how much money they will spend on this. So if there is a focus on more passive products, it's going to be more important that those providers do properly engage and put the resources behind it. If people want a low fee cap environment, then there will be limited resources to spend.

Where next for RI?

Pein: At the extreme end, one thing on the horizon is a court case against trustees for not addressing fiduciary duty to prevent harm to ecosystems. It's a new legal concept being developed called Ecocide.
Mason: I went to an interesting session at PRI in-person recently in London with Sir Ronald Cohen. He said something that really resonated with me, which was investment in the 20th century was about risk and return. In the 21st century it will be about risk, return and impact. That's a really interesting way of summarising the change we have underway. It's not just about the money. It's not just about the risk/return. Beneficiaries and wider society are increasingly concerned about the impact of investment too.

Corporate governance: into battle on behalf of our investors

By Ian McVeigh, head of corporate governance, Jupiter Asset Management

What is meant by corporate governance? It is the task of ensuring that the boards of the companies that we as fund managers invest in - the non-executive directors appointed by us on our clients' behalf - are doing a proper job of overseeing the executive management.

There are many 'stakeholders' in businesses, but none more important than the shareholders, who are the owners of those businesses and carry the risk. They, along with the employees, are the ones who have the greatest interest in the long term success of individual companies: to ensure stable jobs and growing pay for the employees and dividends for those who put their hard-earned money into the shares.

One of the biggest single lessons that we, at Jupiter, as medium to long-term investors, took from the Global Financial Crisis was the critical importance of good corporate governance.

This does not mean getting involved in the day-to-day business of running the company - that is the task of the management team. The task of the non-executive directors, appointed by us the shareholders, is to make sure that they have the best possible management in place. They must be prepared to replace the management if necessary and constantly question and act on behalf of the shareholders, to challenge them on the strategy and direction that they are taking.

Shareholders need to think and behave as the owners of the businesses. This is something that I believe should be central to investment in a business and the power to exercise this view is crucial. At Jupiter, it is the responsibility of the individual fund managers whose funds own the shares, to engage with the directors to ensure that we can be supportive of the direction a management is taking. The fund managers are the ones who decide how to vote at the AGMs. We exercise our votes and often vote 'against' if we disagree with the resolutions.

These same managers, together with the Governance team, meet the chairman and non-executive directors of the invested companies and discuss all aspects of the oversight of the management: strategy, capital investment, executive pay, succession planning, the board's confidence in the CEO and his team. If we can develop a close relationship with the board, we are much less likely to be surprised by 'events'.

In the course of any year, we will, across Jupiter's funds, have hundreds of meetings with chairmen and other board members. These meetings produce endless insights into how a company is likely to perform. The output of these meetings is formally pulled together in the regular meetings of the Stewardship and Sustainability Committee whose role is to decide on the key issues we want to raise with companies and debate whether we are getting the right responses from the boards we have met. The insights and issues raised give us the ability to exercise our views and question the management if we are concerned about the direction it is taking. It allows our shareholder voice to be heard and ensures we are doing what we believe is in the best interests of our clients, whose money we have invested in the business by helping to ensure the long term success of the company.

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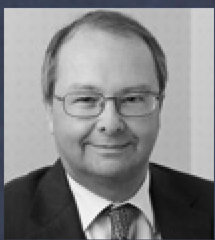

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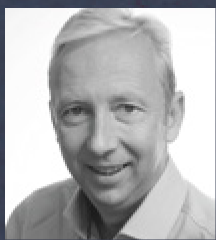

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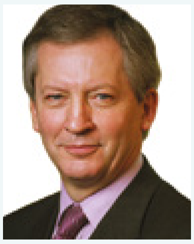
Responsible investment: A respectable history, but a whole lot more to come

By Mike Clark, director of responsible investment, Russell Investments



The United Nations Principles for Responsible Investment (UNPRI) celebrate their 10th anniversary next year. Launched in 2006 by 20 leading global investors, with one drafting session in (apparently) a nuclear bunker under the UN building in New York.

When the Principles launched Responsible Investment (RI) onto the world stage, it is unlikely that the founders could have envisaged the current $59trn commitment by 1300+ signatories, some nine years later. Nor would they have imagined that the recent PRI conference - held this year in London - would have attracted over 1000 delegates.

The Principles seek to support the creation of sustainable long-term value in the real economy. They explicitly recognise that Environmental, Social, and Corporate Governance (ESG) issues can affect the performance of investment portfolios. The idea that this value ultimately belongs to citizen savers, in their role as pension scheme beneficiaries and other long term savers, lies at the heart of the RI ideal. The savings of these individuals are aggregated by asset owners, then passed to investment managers who in turn provide investment capital to companies, and other users of capital. The value so created flows back to those citizens.

Many parts of the financial system have spawned initiatives with this longer-term focus. The accounting profession promotes Integrated Reporting, with its focus on business model value creation. The Sustainable Stock Exchanges Initiative supports greater transparency in reporting by companies, to assist efficient capital allocation by investors. The Sustainability Accounting Standards Board (SASB), works to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors. Many industry collaboration efforts and independent Not-for-Profit organisations have been formed to promote a focus on a specific long term investment issue. One of these, the Carbon Tracker Initiative, advocates the concept of a carbon budget, and its implications. They have helped to make the term stranded assets part of the language of sustainable finance. The Climate Bonds Initiative promotes the issuance of green bonds to sustain green capital formation.

There is plenty of academic interest – one example is the Smith School's Stranded Assets Programme at the University of Oxford. And it is not just research, with RI now appearing as a topic on the finance curriculum.

Investors have always considered ESG risks, though they have often not used that term. Indeed, there is a real terminology issue here. Those of a more traditional investment mind-set may too readily link ESG integration in investment decisions with the ethical stance of the early socially responsible investors. It is helpful to be clear whether an investor is simply focusing on long-term financial value, or has other, wider beliefs and values that influence their investment strategy. If the latter, this often leads to the exclusion of certain types of economic activity.

Asset owners, such as Pension Fund Trustees, are increasingly asking their investment managers to report on ESG issues and their relevance to portfolio decision making. Earlier this year, to help develop some commonality in reporting, 16 UK Pension Funds published a guide to Investment Managers on RI reporting.

Investors increasingly realise they have a role to play in engaging with policymakers. Climate risk is one of the most prevalent issues, with the Europe-based International Investor Group on Climate Change (IIGCC) a good example of such collaborative activity. There are sister organisations in other regions of the world carrying out similar work.

Significantly, some asset owners have started to include climate risk in their investment beliefs and hence investment policy. We are beginning to see the first low carbon investment mandates awarded as these investment strategies begin to be implemented. Further, one UK pension fund has asked their Scheme Actuary to consider how the scheme's lower environmental risk might prove to be of benefit in the scheme's actuarial valuation.

Regulators are stirring, too. Stewardship Codes focusing on long term ownership now exist in several countries, often prompted by "soft" regulatory action. More significantly, Bank of England Governor, Mark Carney referenced the implications of the carbon budget in a speech last year. Recently, he followed this up with a speech to insurers highlighting the impact and risks of climate change. The occasion marked the launch of the PRA Report on climate change adaptation. The Report highlights three categories of risk:

- Firstly, there are physical risks which arise from weather-related events, such as floods and storms. They comprise impacts directly resulting from these events, such as damage to property, and also those that may arise indirectly through subsequent events, such as disruption of global supply chains or resource scarcity.
- Secondly, transition risks are the financial risks which could arise for insurance (and other) firms from the transition to a low carbon economy. This risk factor is mainly about the potential repricing of carbon assets, and the speed at which such repricing might occur.
- Thirdly, liability risks are risks that could arise for insurance firms, and others, from parties who have suffered loss or damage from climate change and who seek to recover those losses from insurers or others whom they believe may have been responsible.

Investors are becoming more forceful in exercising their ownership rights in the companies in which they invest. Earlier this year an investor collaboration resulted in a Shareholder Resolution being put to both the BP and Shell AGMs. The Resolutions sought greater disclosure by the companies of the risks to their business models posed by climate change. Companies can often be cautious about Shareholder Resolutions, but in both cases the companies recommended shareholder support, resulting in 99% and 98% votes in favour. It is a short step to a good question, which can be posed to many companies: "Please explain how your business model is aligned to 2-degree climate change resilience".

Where is Russell in all this? Russell became a UNPRI signatory in 2009 and we are taking a steady path to integrate ESG factors into our decision making, evolving our business model to meet client needs. We have had a well-established global proxy process for many years, and this continues to develop. Hiring an ESG data provider in 2011 has enabled us to carry out a range of published research on capital markets and managers. 2014 saw us appoint eight associates as ESG Knowledge Specialists, all, but one were manager research analysts, so increasing the focus on ESG factors in our manager research could change the way we look at our portfolio construction.

What of clients? The first thing to note is that the nuances of ESG vary by country. The UK has a strong approach to stewardship. Australia has a growing focus on low carbon. Continental Europe shows a stronger social thesis, perhaps to be viewed as a more inclusive view of capitalism. We might see this as acknowledging Adam Smith's broad view of political economy, embracing capital, labour and land. The more market-oriented view of capitalism, often underpinned by a narrow view of fiduciary duty, places a heavy emphasis on capital, and on financial returns, whereas some cultures realise more readily that the creation of value is a means to an end, not just an end in itself.

What of the future? It is clear that all market participants are being asked to raise their game and develop their RI/ESG capabilities. Non-Governmental Organisations (NGOs) are challenging asset owners on their interpretation of fiduciary duty. Asset owners are demanding more of their investment managers. Investors are asking more of companies. So perhaps when we look back in 2026, with the UNPRI celebrating a second 10 years, responsible investment will just be called "investment".

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