Lessons learned from an accidental universal owner advocate.

Good evening. It is a great honour to be with you at this summit on systemic risk and universal ownership. But let me start with a bit of a personal reflection.

When you are diagnosed with a life threatening and incurable illness, most people – at least in my experience – don't rush around completing their 'bucket list'. Sorry Hollywood! And nor do we obsess – if we are lucky to be privileged enough – about maximising our income in the time remaining. What most of us do is to focus on living as healthily as possible and for as long as possible. And we concentrate on the people and things – like speaking to this group – that are most important to us, letting all the other stuff fall away.

I don't think it's being overly simplistic to suggest that there may be parallels with the world that asset owners face today.

As you have heard over the last two days, there are multiple, overlapping crises. Whether it's the climate emergency or the biodiversity crisis or anti-microbial resistance or the mismanagement of the pandemic or dystopian levels of inequality or political extremism and populism or even major geopolitical conflicts …there doesn't appear to be the political or business leadership to do what's fit for purpose.

This reminds me of a story I heard as a medical student. A doctor is walking along a river and sees a person being swept along. They're drowning. The brave doctor jumps in and saves the person. After a few minutes, the doctor sees a few people in the same situation. Again she jumps in, saves half but, sadly, the other half drown. And then looking upstream again, the doctor sees even more people in the river.

There is no ways she can help all, even most, of them. So the doctor decides to go upstream. What she finds is a broken bridge. People are being pushed into the river by crowd pressure from

behind. The story ends as well as it can – the doctor manages to alert the people at the back to stop pushing and also gets the authorities to repair the bridge.

This simple public health metaphor – about the real-world importance of prevention – stayed in my mind when I went into international development work and later, corporate responsibility. So when I accidentally entered the investment industry, I looked for ways to adapt this preventative and system wide approach. It seemed obvious that playing "whack a mole" with the "symptoms" would not have durable positive impact in the real world.

A breakthrough happened with I heard about a former senior investment insider who many of you may know – Robert Monks. Bob had been appointed by Ronald Reagan to oversee the US pension system. And then, based on his experience as a corporate governance pioneer, he and Nell Minow, another lawyer, wrote an article advocating a universal ownership mindset. Fast forward, I was very fortunate to get Bob's active support as a mentor. And to cut a 6-year story short, I had the privilege of leading initiatives, whilst at USS, which took a system-wide and preventative approach.

We did a sector-based initiative – the Pharma Shareowners Group (to encourage pharma companies to adopt affordable pricing of anti-retrovirals in response to the AIDS crisis), and a follow-on project, Pharma Futures (to encourage the sector to innovate stakeholder friendly business models which would better serve customers).

There was a portfolio or economy wide project - the Enhanced Analytics Initiative: to get sell side research to integrate material ESG analysis into every company and sector research note, what might be called a middle-out take on "integration".

And there was our big thematic initiative: the IIGCC, the Institutional Investor Group on Climate Change.

Here are the 10 lessons I learned from the successes and failures of these universal ownership initiatives.

First, all the projects depended on collaboration between, and leadership from, asset owners. This is absolutely critical to draw in reluctant investment managers, and without their support, real world change is much harder, if not impossible. Fund managers also often have in-depth expertise and access to dedicated research from sell-side and credit rating agencies. This is often very useful given the information asymmetries that exist when engaging with corporate execs.

Second, collaborative initiatives don't work without active and often intensive coordination. At USS, I had a CIO (Peter Moon) and a chair (Sir Graham Davies, who sadly passed away last year) who supported this approach. And with this integrated line of authority, I was able to ensure we resourced these initiatives. That meant that one member of the responsible investment team (David Russell) spent about half his time on IIGCC.

Third, there are some key parts of the economy which don't have the stewardship attention they deserve. I'm really pleased to hear you'll be addressing banks. Credit has a major influence on decarbonisation and most fund managers are very hesitant to engage with banks because of conflicts of interest and political risks. The same goes for the media sector. Dis-information today is a major driver of the mismanagement of many systemic threats. But with some sectors, it's harder to explain why they are under-engaged. The business case for decarbonisation and clean air by real estate is a strong one. Thankfully a small group of mostly medium sized Dutch asset owners are beginning to move the needle – it's called the GREEN Global Real Estate Engagement Network. And there are other ways to identify under-engagement areas – by country focus and by particular asset classes, e.g. leveraged buyouts.

Fourth, there needs to be much, much greater emphasis on "stewardship". Given the reality of limited resources, both senior management time but also financial, the balance of emphasis

between “integration” (into valuation and stock picking decisions) and “stewardship” is wrong. When UN PRI was started, the intention was that integration and stewardship (then called engagement) were equally important and we need, at least, to get back to that. And we also need to be creative about stewardship. Given the limits on the size of ESG teams, every portfolio manager at an asset owner should be expected to play a role in, and be evaluated on, the real world change he/she has helped to bring about.

Fifth, it’s often lonely at the start! It amuses me that several people who declined to support IIGCC are now very active advocates of investor climate action! That's the nature of being early movers – you need a thick skin whilst also listening to intelligent, and even not so intelligent, feedback. There are always ways to improve communication.

Sixth, initiatives about major externalities and system threats will need to be global or at least globally coordinated in order to deal with thematic or sectoral challenges. For example, we were pleased to help VicSuper and other funds to start IGCC in Australia. Trying to address these global issues and global sectors nationally and without coordination isn’t in my opinion going to work well given how mobile capital is.

Seventh, asset owners are often. excessively influenced by their investment supply chain – legal advisers, investment consultants and fund managers. These players have their own agendas which can often get in the way of doing what’s really needed. Perhaps my toughest battle at AXA IM was to get it to support the Enhanced Analytics Initiative. I’m pleased to say with the active backing of my boss, Jean-Pierre Hellebuyck, we managed. But from the scars still on my back, I understand why most fund managers refused to change the way they allocated sell side research commissions!

Eight, the most important thing that asset owners can do is engage with policymakers on regulation and legislation about systemic risk issues. But making this happen is often really hard

work. I'm sure this group is the exception, but asset owners often have many "reasons" and if I was being less charitable, I might say excuses for not doing this as assertively as they might. "We don't know how to do this", "we don't like publicity", etc etc. And yet the formal trade bodies supported by these asset owners do a lot of lobbying. And on some very high-profile debates, for example, the financial transaction tax, the same asset owners were very public! One answer is to engage before the issue gets politicised, that is well before regulation is drafted. Another is to appoint staff with the right kind of professional experience, as ICGN has done with Séverine Neervoort, their new Global Policy Director.

Ninth, intellectual awareness isn't going to be enough. Yes, it can help buttress confidence, but it can also be a dead-end, or worse. How effective has DEI – diversity equality & inclusion – training been? The very best strategy, in my opinion, is "learning by doing". This inevitably means making mistakes, even failing – especially if you are doing something that's really needed and really difficult.

Tenth, the other side of that coin – about intellectual awareness not being enough – is that we need to engage investment professionals emotionally. Values and worldviews really matter. As all change management specialists will affirm, change happens best when the "Rider" (the intellectual agenda) and the "Elephant" (the emotional agenda) are well aligned.

This isn't easy because they (we?) like to think of investment as being only evidence based. Part of the answer is to acknowledge the importance of new investment narratives that center universal ownership - we all know that narratives are very important in investment theses.

And that means talking about universal ownership much more. Katherine Hayhoe, the leading climate scientist, makes a very convincing case that the most important thing we can do today about climate change is to talk about it to our contacts who trust us most. System change researchers tell us that social revolutions happen in two phases. The first is when everybody

realizes the current situation isn't working any longer. The second is when everybody realizes that everybody else has realized it too! That's when the social tipping point happen.

In preparation for this talk, I spoke with several fund management staff who are sympathetic to universal ownership or system level investing. What they all told me was that a) these phrases are not widely used and b) when they are, it's generally academics or consultants, not clients. Asset owners have an opportunity to make your commitments clear in mandates but also how you use your personal and organizational social media accounts and speeches by senior execs!

So do I still support the universal ownership idea?

Absolutely. If we are going to navigate what some are calling the polycrisis, it will be because finance plays a full part. And that will happen because the most diversified, the most long-horizon and the least conflicted investors – I mean, of course, asset owners – step up to the challenge.

But as John Maynard Keynes, who was born in Cambridge, said: **"**When the Facts Change, I Change My Mind. What Do You Do, Sir?

For example, can index investors be universal owners? Jack Bogle argued this case for many years. But in his final article, he acknowledged that the mega index funds also posed a risk if they didn't act as owners. My experience over the last two decades is that these the big passive investors are, to generalize, very resistant to acknowledging their full share of responsibility. There are one or two exceptions (for example, LGIM) but that just proves the rule. Benjamin Braun, a political economist from Cologne, has done a very good paper explaining why index investors are closer to "asset manager capitalism" than universal ownership.

This is a big discussion. My own take now is that the challenge is not insurmountable. There's a lot that assertive, pro universal ownership asset owners can do. Some of this is technical (eg

sustainability indices) but a big part is about informed client demand. In the absence of regulation – which is unlikely given corporate political influence – these index investors will inevitably calibrate to home market biases. For the biggest fund managers (and the biggest investment consultants and the biggest credit rating agencies etc etc) this is the USA. There's even now see a well-funded anti-ESG crusade there which is already having international ramifications. That's why there needs to be equally assertive asset owner pressure in the other direction.

What do I hope for the future?

I was attracted to work in finance because of the huge impact it has – for bad or good. I don't have children, but I was worried about my nephews and nieces. But now, I'm actually worried about what's going to happen in my lifetime. Not only from physical risks, but also how these crises are changing basic social and cultural norms even in Europe.

So I'm really delighted to have this opportunity to speak with you & hopefully encourage you to think about what you can do that's suitably ambitious given what's happening in the real world.

As the Deputy Governor of the Norwegian Central Bank said speaking about climate change: "The global economy as it stands today is not sustainable. But it needs to be, and so emissions must come down. This is an issue for everyone – and not least the fund. With our broadly diversified, global portfolio and long-term horizon, in many ways we stand or fall with the global economy."

We can't allow the latter. So let's get on with it!

(Dr) Raj Thamotheram

Email: rthamotheram@gmail.com
https://www.universal-ownership.com/
https://www.linkedin.com/in/rajthamotheram/