Responsible investing for the long term

Martin Skancke, IFSWF Meeting Doha, November 2014
martin.skancke@unpri.org
www.unpri.org
Two aspects of responsible investing

- Being responsible members of the international financial community and society in general
- Having a responsibility towards beneficiaries / ultimate owners
SWFs can increase returns and stabilize markets...

- Hold more than the average investor of one particular risk factor ➔ "excess returns" most years, but some years with significant underperformance ➔ like selling insurance against this event happening.
- Another formulation of the investment problem: Which risks do we want to buy insurance against, and which insurance policies do we want to sell?
- SWFs as long term investors are natural sellers of insurance.
...but this strategy requires strong governance

- Must be able to live through periods of severe losses without loosing faith in strategy
- Requires trust from the owner and an understanding of the strategy
- Good governance is key to succeeding
Good stewardship

- Need to acknowledge that there are inherent principal-agent problems in the relationship between owners and managers of companies
- Good long term owners need to address this through appropriate ownership strategies
- A balancing act: Hold management accountable without micromanaging companies
How can the PRI support long term investors?

- Engagement platform
- Reporting and assessment
- Implementation guidelines
- Research and policy
- Academic network
- Regional networks
PRACTICAL REASONS FOR INVESTOR COLLABORATION

- Sharing information
- Resources
- Avoid duplication
- Enhanced legitimacy
- Increased influence

- Research, human resources, time
- Fatigue, effort in engagements
- More shares, power – informal and formal
- Especially on complex topics
- In foreign markets, and also in addressing market systemic issues
CORPORATE GOVERNANCE: CASE STUDY

Collaborative engagement with listed companies on anti-corruption (2010 – 2013)

By a coalition of 21 signatories Representing approx. $ 1.7 tr. AUM

75% of companies targeted significantly improved transparency

Engagement with 21 companies exposed to corruption-related risks, to encourage improved transparency and disclosure of anti-corruption strategies, policies and management.

Next phase of the engagement focuses on 35 companies in high risk sectors, assessed based on bespoke research from Transparency International
Policy and Research

Investment Governance
- Long-Term Mandates

Public Policy
- Case for investor engagement in long-term mandates
- Consultation responses

Academic Network
- RI Quarterly
Long-Term Mandates

New Zealand Super Fund:

“Long-term behaviour helps counter some of the market failures that exist, making markets more efficient.”

Mandate discussion paper:

• Defining long-term
• Investment governance
• Long-term mandate considerations
• Barriers to long-term investment
Summing up

- SWFs have an edge in long term investing which can increase returns and contribute to more stable markets
  - Exploiting this edge requires sound internal governance

- SWFs also have important responsibilities as stewards
  - Focus on good corporate governance standards

- The PRI provides a platform for addressing these issues and we would welcome cooperation with the IFSWF and its members