

PRI Australian Stewardship Forum: Workshop on Stewardship Resourcing

Investors are exposed to financial risks and opportunities associated with system-level sustainability issues such as climate change. Stewardship is one of the most important mechanisms investors have to shape positive [sustainability outcomes](#) as a way to directly address the drivers of these system-level, financially material risks and create long-term value.

At the PRI's first Stewardship Forum in Australia on 9 May 2023, signatories came together to share their experiences, practices, challenges and opportunities in practicing stewardship for sustainability outcomes.

Our keynote speaker, Rick Alexander, CEO and founder of The Shareholder Commons, opened with remarks on the necessity to reconsider approaches to performance and the resetting of strategies, as well as comments around social and environmental stewardship:

"We treat alpha - a company's individual financial performance - as an unequivocal measure of success. But while that rule of thumb has utility, it is at best a rough approximation of reality, because investors' ability to fulfill their goals is determined by absolute overall returns of their portfolios, not the relative or individual performance of those portfolios' components.

"You might ask whether this conflict resolves itself in practice, since returns at individual companies should lead to increased returns at the portfolios made up of those companies. Don't the different perspectives merge? The answer is 'no,' or at least 'not always,' because the methods used to maximise returns at one company can threaten the systems that support others."

The workshop discussion covered investor practices on **resources dedicated to stewardship** and **manager selection, appointment and monitoring practices**. A summary follows of insights from participants on these topics, what PRI believes best practice looks like, and how PRI can support signatories in their progression.

1. Stewardship resourcing

The PRI encourages investors to improve their focus on stewardship activities that address system-level sustainability issues and to resource them adequately while delivering long-term value to beneficiaries. Investors need to scrutinise their own stewardship resources and ask themselves whether their resourcing practices match their ambitions. Informed conversations between asset owners and investment managers are necessary to ensure that resourcing expectations are discussed, increased and aligned where necessary.

Key insights shared by forum participants:

- Investors are increasingly looking to develop an ambitious stewardship approach to address system-level sustainability risks.
- However, the breadth of stewardship topics and regulator expectations around sustainable finance have expanded, while the resources allocated to stewardship do not grow at pace with asset allocation or ESG integration.
- Investors are not adequately incentivised to consider system-level issues. KPIs and time horizons (including for manager evaluations) are focused on alpha, short term horizons and individual companies.
- The difficulty in correlating stewardship activities with financial returns - and in quantifying the impact of stewardship activities - presents a barrier to adequate resourcing. This means that stewardship is mostly considered as a cost and that its full potential is mostly unrealised.
- Recruiting, training and building stewardship capability was seen as a challenge across the board.
- Public policy advocacy and collaboration are crucial for mitigating system-level risks. There is a need for senior staff whose roles have a focus on system-level issues, but skills are scarce, and the candidate pool is limited.

Next steps: To help signatories to engage, the PRI has [appointed the Thinking Ahead Institute](#) to explore stewardship practices, resourcing requirements and other key costs through a quantitative lens. As part of this project, a thought leadership report will be published around the final quarter of 2023, highlighting best practices in stewardship resourcing. It will also explore how such resourcing might need to evolve in light of investors' sustainability commitments, client demands and regulatory expectations.

For more information about PRI activities in this area, please contact clara.melot@unpri.org

2. Manager selection, appointment and monitoring (SAM)

Many investors, particularly asset owners, rely on external investment managers for their stewardship activities. It is therefore important for investors to understand the extent to which their managers are using stewardship as a means to address system-level risks, and to increase alignment between their priorities and managers' actions where necessary.

However, asset owners and managers often face challenges in aligning their priorities and activities on stewardship for sustainability outcomes, which limits its potential for long-term value creation across the market.

Key insights shared by forum participants:

- Stewardship comes up regularly during manager selection, appointment and monitoring and asset owners can use this process to encourage their managers to adopt improved stewardship practices. This is expected to gain increasing importance.
- However, asset owners find that their managers' stewardship reporting can often be qualitative and/or anecdotal, limiting asset owners' ability to understand and compare how managers conduct stewardship and what they have achieved – to get “real insights instead of marketing”.
- On the other hand, managers report that their institutional clients have a diversity of stewardship priorities and expectations. They would welcome more alignment in asset owners' requests. It would also be helpful to align stewardship expectations and activities across sustainability issues such as human rights, climate change, and biodiversity.

Next steps: To support effective and ambitious stewardship for sustainability outcomes, the PRI is developing a set of common expectations on stewardship for sustainability outcomes to be published around the final quarter of 2023. This resource can be used during manager selection and monitoring. It will help asset owners (1) communicate consistent stewardship expectations to their managers on any sustainability issue, and (2) evaluate and compare managers based on their use of stewardship for sustainability outcomes.

Thank you to all the signatories who participated in the workshop. In addition, thank you to EY Australia for hosting the workshop in their offices. Their generous hospitality was greatly appreciated.

For more information about PRI activities in this area, please contact stewardship@unpri.org.