December 2009

Norwegian Ministry of Finance

Active management and active ownership

Final report

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Contents Page

Appendices

1

Introduction

The Government Pension Fund - Global (the 'Fund') is subject to ethical guidelines laid down by the Ministry of Finance. These guidelines prescribe the active exercise of ownership rights to promote the financial interests and ethical commitments of the Fund. Norges Bank is responsible for exercising ownership rights as part of their management of the Fund. Norges Bank has outlined its principles in its document 'Principles for exercise of ownership and safeguarding financial wealth'. The objective of the exercise of active ownership is to safeguard and build financial wealth for future generations by promoting corporate governance and by striving towards high ethical, social and environmental norms in investee companies. The active ownership activities tend to evolve around the key tools of voting and engagement. The ethical guidelines also identify the exclusion of companies as a tool to promote the financial interests and ethical commitments of the Fund. The exclusion mechanism is handled by the Ministry of Finance, following advice from a separate body, the Council on Ethics.

As part of a wider review of active management, the Ministry has contracted Mercer to undertake an assessment of the relationship between active management and active ownership for listed equities with a particular focus on whether and how investment style (active versus passive management) may impact the effectiveness of an active ownership strategy.

Aims and scope of the study

As note above, the aim of this study is to undertake an assessment of the relationship between active management and active ownership. The assessment will address the degree to which active management as part of the Fund's investment strategy can have a positive influence on the possibilities for exercising ownership rights successfully, identifying how and why this comes about, if applicable. The study will also incorporate an assessment of the type or style of active management that may best complement the exercise of ownership rights.

As such, this study will explore two main questions:

- Does investment style (active versus passive management) impact the effectiveness of an active ownership strategy? And if so, how does it impact the effectiveness of an active ownership strategy?

- What type or style of active management may best complement the exercise of ownership rights?

For the purposes of this study, active ownership is taken to mean voting and engagement across public equity assets. In terms of investment style, the focus will be on active and passive management. Passive management is primarily taken to mean mechanically replicating an appropriate index (such as the MSCI World Index).

Through-out this report, distinctions are made between the practices of funds and fund managers. As a point of clarification, funds are the ultimate owners of the assets. Some funds manage some or all of their investment management internally, undertaken by in-house teams. Other funds will delegate some or all of this investment management to commercial fund managers, although the funds retain ultimate ownership of the assets.

Methodology

The core research of this study is twofold:

- a review of academic and industry research around active ownership which is referenced in Appendix A: and
- a series of confidential in-depth discussions with 18 of the world's leading engagers and passive managers. These included representatives from very large funds, fund management organisations, and engagement overlay service providers. The organisations are identified below:

Table One

Name of organisation		
Funds	Engagement overlay providers	Fund managers*
AP Ethical Council	F&C Responsible Engagement Overlay (*reo*®)	Blackrock
APG Investments	Hermes Equity Ownership Services (EOS)	Domini Social Investments
Seventh AP Fund	Regnan	Robeco
ATP		Vanguard Group
California Public Employees' Retirement System (Calpers)		
Fonds de Réserve pour les Retraites (FRR)		
PGGM		
Universities Superannuation Scheme (USS)		

*Mercer has also undertaken recent discussions on the active ownership principles and practices of L&G, SSGA and UBS, the results of which are also embedded into this work.

This was further enhanced by drawing on the existing in-house intellectual gained from Mercer's own manager and fund research.

2

What is active ownership

Active ownership can be defined as the use of shareholder rights and position to influence the behaviour of a company. It is often associated with the promotion of good practice by investee companies and within the wider investment market. The definition of active ownership can also be broadened to include using shareholder influence at a policy, market, sector or theme level thereby bringing about change across groups of companies and/or the environment in which they operate. For listed equities, active ownership encompasses both voting and engagement activities which are utilised by investors to influence the behaviour of a company. Whilst voting is a tool that can only be utilised for public equities, engagement can be utilised for other asset classes to varying degrees such as fixed income, property, private equity, infrastructure and hedge funds. Active ownership is not a legal requirement per se, although it is often deeply embedded into industry codes of behaviour for investors. In some jurisdictions, voting is considered an aspect of fiduciary duty.

Voting and engagement can take a number of forms, and these are identified below:

- Voting and shareholder resolutions: This can include voting on a company or shareholder resolution or proposing a shareholder resolution to be tabled at a shareholder meeting. Shareholder resolutions usually relate to certain pre-determined company activities that require shareholder approval such as acceptance of a new board appointment, although they may relate to ad hoc matters such as requiring greater environmental disclosure from a company.

- Company engagement activity: Engagement, or dialogue, is undertaken directly with a company on a specific issue with a specific end objective such as the creation of separate roles for chairman and chief executive on the company board. Engagement may or may not relate to a resolution.

  - Engagement can be in the form of a one-on-one discussion with companies in a non-public manner such as ‘behind the scenes engagement’. This is the most typical approach adopted across Europe. In other regions, such as North America, a more public form of engagement is often used. For example, CalPERS periodically release a focus list of companies with specific actions and concerns raised for companies to address and respond to.

  - Engagement can also be implemented collaboratively with other investors who have similar concerns as a way to pool ownership rights to place more pressure on companies to respond to any concern raised. For example, a collaborative group of investors have recently engaged with Walmart, the US supermarket, on reported cases of management non-compliance with International Labour Organisation conventions and standards on workers' rights as well as its record on legal and regulatory controls. This type of collaborative engagement can be done by informal groups of investors on a case by case basis, such as the Walmart example highlighted above, or increasingly, through more formal collaborative engagement initiatives such as the Carbon Disclosure Project, a major collaborative investor engagement aimed at achieving greater disclosure of carbon emissions from the world's largest companies.

- Policy or market level engagement: As identified earlier, engagement may also take place with an organisation that can directly influence company behaviour such as a government or regulatory body. For example, through requiring greater disclosure of corporate risks as part of listing requirements. This dialogue tends to be focused on raising industry standards.

Typical active ownership issues might include:

- Corporate actions: These are strategic company issues such as mergers and acquisitions, capital and debt raising activities, and tend to be related to ownership matters.

- Corporate governance:

  - Immediate corporate governance matters. These relate to the corporate governance of a company such as the approval of a remuneration report or appointment of a new board member.

  - Non-immediate corporate governance matters. These might include a range of issues aimed at improving overall corporate governance such as separate roles for chief executive and chairman, or the need for independent non-executive board members. These matters are often principles-based, applicable to the very large majority of companies and tend to be longer term in nature.

- Wider shareholder value issues, such as environmental and social issues: These might include a range of wider governance issues such as environmental and social issues. For example, it might include greater disclosure of environmental emissions, or adherence to an international convention on labour standards or human rights.

Some issues lend themselves to certain types of active ownership practice. The following table summarises which issues tend to be carried out through which tool of active ownership.

Table two

	Voting activity	Company engagement activity	Policy or market level engagement
Corporate actions	✓	✓	
Corporate governance			
- Immediate issue	✓	✓	
- Non-immediate issues		✓	✓
Environmental and social issues*		✓	✓

*It is still uncommon for non-immediate corporate governance issues and wider shareholder value issues to be addressed through voting, although this is slowly starting to change.

3

Benefits of active ownership to investors

Active ownership can bring financial and reputational benefits to investors. There is a small but growing body of evidence that is exploring the financial benefits of the issues underpinning active ownership.

- Impact of corporate actions on financial value. Much work has been done on the value that corporate actions can deliver to shareholders. For example, a proposed merger or acquisition can create (or destroy) a company's shareholder value, depending on how this is perceived by the market. These actions tend to be valued swiftly by the market making it relatively simple to understand and isolate the financial benefit to investors[1].

- Impact of immediate corporate governance issues or events. Much work has been undertaken in this area, often showing that an immediate corporate governance matter, such as the arrival or departure of a new board member[2], or market level regulatory reforms[3] can be reflected in a company's value. Immediate corporate governance issues tend to be valued swiftly by the market making it relatively simple to understand and isolate the financial benefit to investors.

- Impact of wider corporate governance standards on financial value. A considerable body of work has also been undertaken to explore the link between corporate governance standards and value[4]. There is general consensus that high corporate

---

[1] Bruner, R. F. (2002). Does M&A pay? A survey of evidence for the decision-maker. *Journal of Applied Finance, 12*(1).

[2] Yemack, D. (2006). Board members and company value. *Financial Market and Portfolio Management, 20(1).*

[3] Black, B. S. & Khanna, V. S. (2007). Can corporate governance reforms increase firm market values? Event study evidence from India. *Journal of Empirical Legal Studies, 4*(4).

[4] Gompers, P., Ishii , J. L., & Metrick, A. (2003). Corporate governance and equity prices. *The Quarterly Journal of Economics, 118*(1); Core, J., Guay, W. & Rusticus, T. (2006). Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *Journal of Finance, 56*(2); Selvaggi, M. & Upton, J. (2008). *Governance and performance in corporate Britain (Association of British Insurers research paper 7)*. Retrieved from http://www.abi.org.uk/Publications/; Bruno, V. & Claessens, S. (2006). Corporate governance and regulation: can there be too much of a good thing? *ECGI - Finance Working Paper* No. 142/2007; Ammann, M., Oesch, D. & Schmid, M.M. (2009). *Corporate governance and firm value: international evidence.* Retrieved from http://www.phitrust.com/

governance standards can protect or enhance value, although this value is often hard to isolate and measure and more likely captured over a longer time horizon.

- Impact of wider governance issues on financial value. An increasing body of research is being undertaken to assess whether wider governance issues such as environmental and social issues can have an impact on shareholder value. There is less consensus on this. Research to date suggests that companies with high standards of environmental and social management (or corporate responsibility) tend to out-perform those companies with poor corporate responsibility standards, although causality remains unconfirmed[5]. In these circumstances, the value tends to be hard to measure and more often captured over a longer time horizon, making the marginal value hard to isolate. It is also worth noting that as societal and regulatory expectations around a firm's social and environmental performance change (seeming to become more stringent in many regions), this may make these issues more relevant to financial value. Major social and environmental disasters however tend to behave more like immediate corporate governance issues and are swiftly reflected in a company's price.[6] For example, the explosion at Bhopal or the Exxon Valdez disaster, although these events are relatively uncommon.

Wider benefits of undertaking active ownership

In addition to enhancing long-term shareholder value, active ownership tools may bring wider benefits for investors in terms of improving the integrity of the financial market and the overall capital allocation process. These benefits tend to also be consistent with protecting or enhancing long term shareholder value, although are difficult to isolate and measure. Very little academic work has been undertaken to date on the wider benefits of undertaking active ownership. To understand these potential additional benefits, Mercer drew upon the discussions with the expert group of engagers to learn from their practical experience. These additional benefits are identified below.

- Protect or maintain the wider investment system. In theory, active ownership can work to protect some of the fundamentals of the wider investment system. Very large owners of assets, may consider themselves as 'Universal Owners'. "Universal ownership" is a term used to describe an institutional investor owning such a wide range of asset classes distributed among economic sectors and regions that the organisation effectively owns a slice of the broad economy. Through this broad ownership their success as investors is dependent on the performance of the global economy at large. Large owners who own a representative "slice" of the economy are therefore more dependent on general macroeconomic performance than on the

[5] Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3); Callan, S. J. & Thomas, J. M. (2009). Corporate financial performance and corporate social performance: an update and reinvestigation. *Corporate Social Responsibility and Environmental Management, 16*(2).

[6] Klassen, R. D. & McLaughlin, C. P. (1996). The impact of environmental management on firm performance. *Management Science, 42*(8).

Karpoff, J. M., Lott, J. R. & Wehrly, E. W. (2005). The Reputational Penalties for Environmental Violations: Empirical Evidence. *The Journal of Law and Economics, 48*(2).

performance of any one stock or portfolio[7]. Universal ownership is a concept that supports active ownership– both in regards to engagement with individual companies, as well as in terms of engagement regarding market oversight, norms and regulatory reform. As noted by one interviewee, *“Engagement is a beneficial exercise as it contributes to a robust financial system ”* and another*, “voting is about being a good corporate citizen and contributing to a healthy investment system.”* In addition to this, unlike active management which is considered a ‘zero sum game’ (that is to say, while some actively managed funds will outperform the benchmark, corresponding underperformance will be experienced by other actively managed funds), active ownership is not a ‘zero sum game’, and instead works to protect or raise the value of the overall invested assets.

- <u>Protect reputation and institutional identity</u>. A number of organisations raised the importance of undertaking active ownership as a way of protecting their organisation’s reputation and ‘institutional identity’. For example, a state-sponsored fund whose sponsoring government has made a commitment to an international convention such as the United Nations Declaration of Human Rights, may feel it important to translate these principles into its investment approach. As one interviewee noted, “*Engagement is important to us from a reputational perspective as well as a financial perspective. For example, the case for pursuing a human rights violation with a company may be hard to quantify financially, but it is important to us from a reputational perspective.”* This was a sentiment echoed by a number of funds.

- <u>Support the theory of the firm and the fundamental rights and obligations of shareholders.</u> Today’s system of publicly owned companies is structured in such a way that shareholders are the owners of the company with the management of the company delegated to an executive board of directors. This separation of ownership and control is a fundamental characteristic of public markets requiring shareholders to be active stewards of the capital and responsible for holding company boards to account. Shareholder rights outline the relationship between companies (the board) and their owners (shareholders). Without active use of these rights, the public market is not likely to function as effectively as it was designed to do. There has been a growing concern within the investment sector that shareholders are in danger of becoming ‘absentee landlords’ thereby creating a threat to market efficiency. ‘Absentee landlord’ is a term that has recently been used to describe an investor that fails to use their shareholder rights to support or challenge management, thereby creating the risk of ownerless corporations.

- <u>Demonstrate investor responsibility, show leadership, and avoid claims of ‘free-riding’</u>. Active ownership is perceived to be entirely consistent with investment responsibility. As noted by one observer, “Large investors have a responsibility, a *duty, to vote, not least because it contributes to a healthy financial system”.* The work of Anson et al. (2004)[8] raised the issue of “free-rider” shareholders. Free-riders are

---

[7] Source: Saint Mary’s College of California and Mercer Conference Report (2006), Universal ownership: exploring opportunities and challenges.

[8] Anson, M., White, T., & Ho, H. (2004). Good corporate governance works: More evidence from CalPERS. *Journal of Asset Management, 5*(3).

shareholders that may benefit from the corporate engagement activities of other investors without the expenditure of their own resources. Free-riding is a widely recognised issue amongst investors and is considered to be inconsistent with a commitment to investor responsibility. As observed by one interviewee, "*engagement is very resource intensive. Too many free-riders leave you with a universe of institutional investors that don't do anything – this is a problem for financial markets."*

- Good portfolio management. Voting and engagement can be tools for portfolio managers to use to assess the quality of the company management and the overall 'health' of a company. Typical observations from interviewees included the following: *"Voting and engagement are about managing economic and managerial risk factors. There is no reason not to exercise this right"; "Voting can be viewed as an annual health check and should be seen as a basic part of portfolio management"; "Better governance means better run companies"; "Engagement helps you understand the business better."*

Whilst it is difficult to put a tangible financial value on the benefits of these actions for investors, discussions with the interviewees suggests that in the absence of such activities from institutional investors the cost of the failings of the market system at large could be significant. To quote philosopher Edmund Burke, "All that is necessary for the triumph of evil is for good men to do nothing". Indeed, some of the interviewees referred to the credit crisis and past major corporate governance failures such as Enron and WorldCom as an indication of the knock-on impact of market dysfunction for investment risk and return.

Efficacy of active ownership

Most empirical analysis focuses on the substantive issues that may be the subject of shareholder votes and engagement rather than the effectiveness of voting and engagement tools per se. Nevertheless, there is some research exploring the efficacy of the tools of active ownership as discussed below.

- Shareholder resolutions and voting. Some recent studies have examined the effectiveness of shareholder proposals. For example, Eritimu et al. (2009)[9] found boards have become more likely to adopt shareholder proposals in recent years. Interestingly, the authors also found that directors of boards that adopt shareholder proposals are less likely to lose their board seats. Rojas et al. (2009)[10] also reviewed shareholder proposals and found pressure from some types of filers, notably pension funds and mutual funds, can be more effective than pressure from other types of filers. They also found that the type of issue addressed by the resolution affected the

[9] Eritimu, Y., Ferri, F., & Stubben, S. (2009). Board of Directors' Responsiveness to Shareholders: Evidence from Shareholder Proposals. *Journal of Corporate Finance, Forthcoming*. Retrieved 2009-09-23 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1106375

[10] Rojas, M., M'zali, B., Turcotte, M.-F., & Merrigan, P. (2009). Bringing about changes to corporate social policy through shareholder activism: Filers, issues, targets, and success. *Business & Society Review, 114*(2).

adoption rate. However, Parthiban et al. (2007)[11] found that shareholder proposal activism reduces corporate social performance even when corporate managers agree to proposals filed by shareholders with power and legitimacy.

- Shareholder engagement. There is limited empirical research regarding the relationship between engagement and shareholder value. The engagement activities of two investors, Hermes Fund Managers and CalPERS, have been evaluated. Regarding Hermes, Becht et al. (2009)[12] analyzed private corporate engagement data provided by Hermes related to its UK Focus Fund. This fund is designed to identify and positively reform under-performing and under-valued companies. The authors found that the fund substantially outperforms its benchmarks and they estimate that the abnormal returns are largely associated with engagements rather than stock picking.

  Becht et al. (2009) also analyzed how successful Hermes was at realizing the changes they sought and found that they were successful in many instances. Carleton et al. (1998)[13] performed a similar analysis of data provided by TIAA-CREF and found they were able to reach agreements with 45 targeted companies more than 87 percent of the time between 1992 and 1996.

  The CalPERS Focus List process is designed to identify and positively reform undervalued companies in CalPERS' portfolio that have produced the lowest long-term returns relative to their peers and in CalPERS' view lack good governance practices. According to Anson et al. (2003)[14] CalPERS' Focus List created significant value for the shareholders of targeted corporations over the period 1992-2001 and inclusion on CalPERS' Focus List significantly enhanced shareholder value in every case. In a later study, Anson et al. (2004)[15] found the financial impact of the Focus List to be economically and statistically significant. Barber (2006)[16] also estimated that CalPERS' Focus List activities added value to the fund.

  Gifford (2009) found in three case studies that shareholders can effectively improve corporate ESG behaviour. The focus of this study was on identifying the factors that contribute to effective engagement and the relative importance of these factors. The study found the business case of the engagement issue and the values of the target

---

[11] Parthiban, D., Bloom, M., & Hillman, A. (2007). Investor activism, managerial responsiveness, and corporate social performance. *Strategic Management Journal, 28*(1).

[12] Becht, M., Franks, J., Mayer, C., & Rossi, S. (2009). Returns to shareholder activism: evidence from a clinical study of the Hermes UK Focus Fund. *The Review of Financial Studies, 22*(8).

[13] Carleton, W., Nelson, J., & Weisbach, M. (1998). The influence of institutions on corporate governance through private negotiations: Evidence from TIAA-CREF. *Journal of Finance, 53*(4).

[14] Anson, M., White, T., & Ho, H. (2003). The shareholder wealth effects of CalPERS' Focus List. *Journal of Applied Corporate Finance, 15*(3).

[15] Anson, M., White, T., & Ho, H. (2004). Good corporate governance works: More evidence from CalPERS. *Journal of Asset Management, 5*(3).

[16] Barber, B. (2006). Monitoring the Monitor: Evaluating CalPERS' Activism. *The Journal of Investing, 16*(4).

company to be the most important factors contributing to the effectiveness of engagement.[17]

However, Nelson (2005)[18] found no evidence of enhanced shareholder value attributable to CalPERS activism. A study by Song and Szewczyk (2003)[19], studied the Council of Institutional Investors focus list and found very little evidence of the efficacy of shareholder activism.

It is noteworthy to observe that the majority of the studies attempt to measure the impact of public engagement activities, rather than private, or 'behind the scenes', engagement. The latter is even more difficult to measure as clear and observable data is not in the public domain for academics to analyse. Nevertheless, private engagement is the tool of choice for the majority of European based investors in part based on the belief that a constructive dialogue and 'partnership' approach to engagement might be more effective in achieving change in the investee company. The subtle nature of private engagement and the delicate issues that investors may raise in such discussions means this is extremely difficult to quantify in terms of impact on long-term shareholder value.

In summary, there is a growing body of academic and anecdotal evidence indicating that active ownership can protect shareholder value through risk mitigation or enhance shareholder value, although this value is hard to isolate and measure and becomes even more challenging when making a distinction between public and private techniques. There has been little work to date that has examined the impact of investment style on the effectiveness of active ownership strategies.

---

[17] Gifford, J. (2009). *Effective shareholder engagement: an analysis of the factors that contribute to shareholder salience*. Unpublished PhD thesis, University of Sydney, School of Business, Sydney, NSW, Australia.

[18] Nelson, J. (2005). Does good corporate governance really work? More evidence from CalPERS. *Journal of Asset Management, 6*(4).

[19] Song, W. L. & Szewczyk, S. H. (2003). Does coordinated institutional investor activism reverse the fortunes of underperforming firms? *Journal of Financial and Quantitative Analysis, 38*(2).

4

Factors that influence the effectiveness of active ownership

Engagement is a complex and dynamic process. Effective engagement may depend on many factors. The effectiveness of active ownership is difficult to measure given the qualitative nature of most active ownership activity and the difficulty of providing causality of change which may emerge as a result of engagement activity.

This section is informed by discussions with some of the world's most successful and widely recognised engagement organisations and professionals, and some of the world's largest passive managers. It is important to note that it is based on anecdotal evidence only and not rooted in academic research. One part of this discussion focussed on the question of whether investment style impacted the effectiveness of active ownership. An additional part of this discussion explored other factors that might contribute to the success of active ownership.

Observations from the expert group on whether and how investment style might impact the effectiveness of an active ownership strategy

The question of whether investment style is a factor that can influence the effectiveness of active ownership was explored with the interviewees. It was commonly observed that investment style was not a factor that influenced the effectiveness of active ownership, although investment style could impact the nature of engagement undertaken.

The following identifies typical characteristics associated with active ownership by passive investors:

- The issues tend to be at a policy, market, theme or sector level. This might include engaging with policy makers on a point of regulation such as defining listing requirements, or promoting disclosure of environmental data. As one interviewee observed, "*passive managers can do themed engagement quite efficiently, but company engagement is more difficult, for them."*

- Time horizons for the engagement tended to be spread across the longer term.

- The range of issues addressed is wide, covering corporate actions, environmental, social and corporate governance issues, with the emphasis on corporate actions and corporate governance issues.

- Engagement may relate to the promotion of principles-based behaviours that promote good or best practice standards across all companies. For example, the adoption of corporate codes of conduct to promote high standards of corporate responsibility.

- Issues tended to be on risk mitigation aimed at the protection of underlying market value.

NB: Commercial passive managers tended to focus on corporate actions and immediate corporate governance factors and generally speaking undertook less voting and engagement activity than did passive managers functioning within funds.

The following list identifies typical characteristics associated with active ownership by active investors.

- The issues tend to be at a company or sector level. Very large investors, especially funds, tended to also engage at a policy level.

- Voting and engagement tended to be dominated by corporate governance issues or corporate actions. Environmental and social issues may also be covered, to some extent by fund managers, and to a greater extent, by funds managing assets directly.

- Time horizons tend to be reasonably short to medium term, although funds tended to also undertake active ownership with a long term horizon.

- Active managers that are active owners have the potential to be more holistic in terms of the integration of their engagement activities within their overall financial analysis and assessment of long-term shareholder value. For example, through integrating engagement issues within the discussions the active portfolio managers have with company management. Whilst this level of integration is not representative of widespread current market practices, there is evidence within active managers that this is taking place, providing a potential benefit of active management with active ownership. As engagement skills and knowledge on environmental, social and corporate governance issues become more prevalent amongst portfolio managers, this benefit is likely to increase. Integration came up a number of times amongst the interviewees, with typical comments such as, "*The effectiveness of active ownership primarily depends on how well these activities are integrated into portfolio management",* and *"Integration and ownership by the portfolio managers are the [most] important factors for effective company engagement".*

Factors impacting the effectiveness of active ownership strategies

The following list identifies a wide range of factors that might impact the success of an active ownership strategy. This list is indicative only, rather than a comprehensive list. It has broadly been divided into five different areas.

The engaging organisation

- size of holding

- size of investor

- reputation of investor (reputation as an active owner)
- domicile of investor
- type of organisation (e.g. asset owner, fund manager, third party such as a specialist engagement service, niche investor such as a religious group)
- access to key individuals within target organisation
- investment horizon of investor
- resources devoted to active ownership, and deployment of those resources

The engagement team

- experience and credibility of engagers
- positions of engagers within organisation (e.g. portfolio managers, dedicated engagement professionals, other)
- number of people with engagement responsibilities

The engagee organisation

- size and domicile of company
- public profile of company
- relationship with shareholders
- governance structure
- diversity of shareholder base
- level of infrastructure in place to protect and advocate shareholder rights where company is listed/incorporated (e.g. listing requirements)

The engagement issue

- nature of engagement issue: environmental, social or corporate governance
- immediacy of the issue
- potential financial impact
- ‘newness’ of the issue as a focus of shareholder concern

Engagement strategy

- timing of issue and approach
- persistency of engagement
- engagement approach taken (e.g. one-to-one, public versus private, collaborative, policy-related)
- ability to divest, or ability to threaten to divest
- imperative of confidentiality
- threat of using the media or other public devices to bring about an engagement result

The following factors were the most frequently identified by the interviewees as influencing the effectiveness of active ownership:

- Resources. There appears to be a strong relationship between the level of resources deployed to voting and engagement and the quality of the voting and engagement. High quality and effective voting and engagement requires good quality research, skilled engagers and time to implement the active ownership strategy. The greater the resources available for research into the issue, the more compelling the case for change is likely to be. And the greater the time the investor is able to dedicate to voting and engagement, the greater the chance of engagement success. The time dedicated may need to be either intense or persistent, depending on the nature of the engagement. This factor was raised by almost all the interviewees as a major factor influencing the success of an active ownership strategy.

- Size of holding. The size of the holding is often quoted as being a major factor for bringing about effective change, with the larger the weight of resource supporting a particular issue or stance, the greater the influence on the company, and the greater the likelihood for influencing the company. This can either be achieved through sheer size of an individual investor's holding, or through collaboration with other investors with a similar stance to create a combined weight of assets supporting change. Some views were offered regarding what might constitute an influential holding. Little consensus existed on this, however a holding of three percent and over was broadly considered to carry weight.

  As put forth by one interviewee: "*The size of holding is key. The bigger the holding, the greater the ability to exert influence*". The same interviewee also notes, "C*ollaboration creates size and influence.*"

- Reputation of investor. The chance of success is likely to be greatly enhanced if an investor has a reputation for good quality, well-researched active ownership based on a compelling business case and a stamina for carrying out the voting and engagement activity. A reputation for forceful active ownership can also contribute to successful active ownership. As one interviewee noted, "*The reputation of the engaging investor is crucial. The investor must be known to be serious about engagement, they have got to 'mean it' and not just use it as a tick box exercise*".

- Simple and clear engagement objective**.** Anecdotal evidence suggests that if an investor would like a company (or other engagement target organisation) to change, the engagement objective needs to be simple and clearly articulated.

In summary, investment style does not appear to be a dominant factor influencing the effectiveness of active ownership, although it may impact the nature of the engagement activity.

5

Active ownership strategies adopted by investors

Investor responses to active ownership vary greatly. This section identifies the main approaches adopted by investors, with reference to the impact investment style might have on the model adopted.

- Active ownership at the heart of the product strategy.
  Some investment managers have developed distinct product strategies that are based on using shareholder influence to unlock value within companies. These funds, often referred to as focus funds or activist funds, tend to identify a highly concentrated portfolio of under-performing companies, invest heavily in those companies so that the size of holding is significant, and then use their influence as shareholders to bring about changes in the company that will result in a better performing company, or a more highly valued company. As the value of the company rises, the investor sells its stake in the company, thereby realising value for its clients (or beneficiaries, in the case of an asset owner).

  Active ownership tends to be highly proactive, time and resource intensive. For example, a typical action from such an investor might include taking a seat on the board to propose and drive through strategic changes. The majority of engagement issues tend to be related to corporate actions and corporate governance matters. There are a number of highly performing funds in this area suggesting that this form of active ownership can be a legitimate strategy for creating shareholder value. These funds tend to have highly experienced and deeply skilled professionals, with very distinct skill sets. This is not a common product strategy adopted by investment managers, and notably few of these funds exist, usually only one or two in each geographic market.

  In terms of investment style, a focus fund strategy is a very actively managed strategy undertaken by a small, dedicated and focussed team. Companies are identified by their potential for increased value through a focussed active ownership strategy and do not aim to replicate a market. There tend to be few synergies for focus funds that are managed alongside either more typical actively or passively managed funds as traditional portfolio construction skills and research are not main drivers for this type of fund. As such, this strategy might successfully be adopted alongside either active or passively managed investments.

- External engagement overlay services based on active ownership.
  Some organisations (most notably investment managers and other investment service providers, or occasionally non-profit, non investor groups) offer voting and

engagement services that are overlaid across existing investment portfolios. These investment professionals undertake extensive and proactive active ownership with companies and markets to protect or enhance shareholder value. Coverage tends to be across a very large number of companies. Actions tend to evolve around active dialogue as opposed to the direct action of the focus fund approach. These providers draw on considerable dedicated resource, such as skilled engagement professionals (this tends to range from around ten to twenty five people) and specific research, to support their engagement activities. This resource might include in-house research if available, as well as external research focussing on certain corporate governance or wider governance issues, as appropriate. Active ownership issues tend to range from corporate governance issues to wider environmental and social governance issues.

In terms of investment style, on the one hand, some synergies may exist for those teams that are based within an investment house whose style is predominantly active management. For example, through good liaison with the portfolio management side of the business, they may have access to additional research, input from active portfolio managers with deep company-specific knowledge, and access to company management. On the other hand, the size often afforded to passive managers can create additional access to, and influence over, companies. Indeed while one of the largest engagement overlay providers has evolved out of an active management house, another large engagement overlay provider has evolved out of a predominantly passive manager with a pedigree in managing focus fund strategies. As these engagement overlay providers typically operate as commercial functions, they dedicate considerable resource to undertaking their approach, leaving little reliance, if any, on synergies or advantages that might be created through investment style.

- <u>Voting and engagement by a separate in-house corporate governance function.</u> A considerable number of investors have a separate in-house corporate governance function that leads their voting and engagement activity. This team co-ordinates the voting activities, which might be undertaken in-house, or more typically contracted out to an external provider, as well as undertaking the engagement activities. This function is usually small in number, often with one or two investment professionals, but in rare cases this can go up to as many as nine or ten investment professionals and administrative staff. This function can draw on research and knowledge from its active management operation, although in practice in a large number of cases, the main input is specialist research purchased from one or more external research providers. The focus of issues is on corporate actions, immediate corporate governance issues, and wider corporate governance factors, although occasionally wider environmental and social governance issues may be addressed. Voting is the main activity, although the investor may get involved in some engagement. Given the resource-intensive nature of active ownership, there is a bias towards undertaking active ownership in the domestic region where it is felt the investor has greatest influence. Looking forward, with the evolution of the United Nations Principles for Responsible Investment[20] which urges consideration of active ownership across all investments, and the rise in cross-border collaboration, engagement activities across other regions may well increase.

---

[20] For further information on the United Nations Principles for Responsible Investment, see http:// www.unpri.org

This model is frequently adopted by investors with either active or passive management (or both). As noted in the point above on 'external engagement overlay services', some synergies may exist for corporate governance functions that sit within organisations with actively managed funds, while some advantages may be created by the size that is often afforded to managers of passively managed funds.

- Voting and engagement by the fund's portfolio managers.
For some investors, the individual portfolio managers undertake all, or most, of the active ownership responsibilities as part of their day-to-day responsibilities. Voting and engagement are usually limited to corporate actions and immediate corporate governance issues due to their more immediate and direct link to financial value. Engagement on environmental, social and corporate governance issues is relatively uncommon, unless this relates to a pressing issue with clear and immediate financial relevance. As aforementioned, whilst current market practice places little emphasis on engagement in an integrated way within portfolio managers' functions, there is potential for this to evolve and improve in the future such that active managers become better versed and more pro-active with companies on environmental, social and corporate governance-related issues and concerns and that these are raised in the course of their regular meetings with management. An issue that is commonly raised by companies is that mainstream portfolio managers do not ask about environmental, social and corporate governance-related issues and that these questions come from specialist teams, who may not have the same level of influence over the company. As such, a joining-up of the message between the two teams into an integrated approach might enhance active ownership outcomes more widely. This could place active managers who are able to demonstrate such integrative thinking at an advantage to others.

  This model is frequently adopted by investors, typically those with active management strategies as passive managers tend not to have the same level of resources available to their portfolio managers. Similar issues apply as for the point above on 'external engagement overlay services'.

- Contracted out voting services.
In a very large number of cases, voting is contracted out by the investor to an external voting provider with little, if any, engagement activity. In these cases, the third party provider will cast votes according to their default policy, or the custom policy of the client. Any engagement undertaken tends to be general dialogue, often around information gathering. This is an option that is frequently adopted by investors with either active or passive management (or both). This model seems to exert the least influence on companies, with no advantages are gained by either active or passive investment style.

- Participation in formal or informal collaborations.
As discussed, both the availability of and support for collaborative engagement opportunities and initiatives has increased. These present low cost, low resource mechanisms for exercising ownership practices – providing equal opportunity to passive and active investors. These types of formal and informal collaborations are often embedded within the models outlined above, although are adequately widespread to warrant a separate comment.

Currently the large majority of externally managed funds tend to delegate the active ownership responsibilities to their fund managers. Both commercial active and passive managers tend to separate the active ownership activities from the core portfolio management process. In the case of commercial passive fund managers, there is a strong tendency to contract out the voting activities, with some passive managers choosing to supplement this with an in-house governance team. Commercial active managers also tend to adopt a combination of an in-house corporate governance team and utilising contracted-out services, however we are seeing a few active managers integrating their active ownership activities to some extent into their portfolio management process. This tends to be found within active managers on voting or engagement topics that relate to issues that will impact the short term value of the asset. Likewise, active managers that take a demonstrably long term approach to portfolio management appear to be more likely to incorporate more active ownership activities into their portfolio management practices.

In contrast to this, a small but growing number of funds, typically those with a strong commitment to active ownership, use a combination of all the above models outlined above to execute active ownership activities. That is to say, some may include focus fund strategies within their portfolios; they may utilise a specialist engagement service (typically to engage outside their domestic regions where they may have less influence or where engaging on their own is more difficult); they usually have an in-house governance team to co-ordinate and lead some of the active ownership activity; if they have in-house active management activities, they are working to integrate active ownership into the portfolio management process; as well as contracting out some elements of the voting process. Participating in formal and informal collaborations is becoming an increasingly important part of their overall strategy as well.

In summary, many different models are being adopted by investors for undertaking their active ownership activities. Investment style may influence the type and model of strategy that might be adopted by an investor, but for large funds – typically a range of ownership tools will be utilised, rather than one strict approach across all assets.

6

Does investment style impact the effectiveness of active ownership?

Each investment style has potential advantages which can favourably position it for effective active ownership. The section below identifies the main advantages attributed by each investment style, as well as identifying potential obstacles. These observations are drawn from a number of sources including the discussions with the expert practitioners, various academic and industry research and Mercer's own observations from funds and fund managers.

Advantages from active management

- Access to research and knowledgeable portfolio managers: Active managers tend to use considerable research and analysis to develop the knowledge of their portfolio managers to enable them to make well-informed investment decisions. Active managers can use this research and the knowledge of the portfolio managers to support their active ownership practices.

- Regular meetings with companies: Portfolio managers have regular meetings with companies to further deepen their knowledge of companies and markets. Within an active ownership context, active managers can take advantage of this regular access to companies to communicate their concerns on an on-going basis, as well as use these relationships with companies to gain access to appropriate personnel when an issue of concern arises.

- Ability to use the investment position as a lever for change: Active managers can use their investment position to signal their belief in a company's ability to deliver shareholder value. For example, going 'over-weight' relative to a benchmark signals to the company their belief in its ability to deliver shareholder value during a particular time period whereas going 'under-weight' or divesting altogether can signal concern in the company's ability to deliver shareholder value. If this concern relates to a corporate action, corporate governance or wider governance issue this can be communicated to the company, thereby potentially creating a lever of change.

- Using active ownership as a proactive strategy for creating shareholder value and generating out-performance: As discussed earlier, active investors can opt to base their main investment strategy on generating value through a dedicated active ownership strategy. Active ownership could also be an explicit additional part of their overall strategy to which the active manager would dedicate considerable resource.

- Greater ability to identify issues of concern: Given their hands-on knowledge of companies, active managers are arguably well-placed to identify issues of concern which in turn can be discussed with the company.

There is significant potential for active managers to integrate active ownership tools with a view to enhancing shareholder value. As observed by one interviewee, "*The advantage of active management is that you know the companies in which you invest really well. Engagement for passive funds is therefore limited to more 'principles-based' engagement.*"

As noted in the previous section, whilst best practice active management typically still relies on third party or in-house corporate governance or engagement experts, if active fund managers were able to integrate environmental, social and corporate governance issues into their engagement activities and translate the outcomes of such discussions into the active positions held in the portfolio, this could potentially exert powerful influence over corporate behaviour. It may also help to move closer towards aligning the goals of active ownership with enhancing long-term shareholder value. For example, the issues would be considered from a holistic assessment of the attractiveness of a company from a risk/return perspective.

Advantages from passive management

- Primary tool for passive investors for protecting or enhancing shareholder value: Unlike active managers, passive managers are not able to underweight or divest from a company. Active ownership is one of the main tools available to passive managers to exert control over companies to protect or enhance shareholder value. This arguably creates a strong incentive for passive managers to undertake active ownership. This was particularly the case for large funds and fund managers that carried influence over companies due to their size of holdings.

- Passive investors as universal owners focussed on promoting a robust and healthy investment system: As identified in Section 3, a passive investor operates as a universal investor and as such it is in their interests that the markets that they are replicating are functioning successfully. This type of investor is concerned with risk mitigation at a market level. For example, it may seek to raise the corporate governance standards across a whole market. As with the above point, the primary strategy available to this investor in this situation is active ownership. This might involve using its shareholder rights by asserting control over investee companies through active voting and engagement. It might also involve using its stakeholder rights to engage in policy discussions at a regulatory level. For example, it may seek to promote greater disclosure of business risks within the legal accounting process. The aim in each case would be to reduce market risk and to maintain and promote a robust and healthy investment system. As with the above point, this arguably creates a strong incentive for passive managers to undertake active ownership.

- Passive management can bring scale: Passive funds from a core part of many investors' strategies. The passive management business is reasonably concentrated resulting in organisations having relatively large holdings. This level of scale can give an investor a powerful lever for influencing a company. A company is more likely to listen and respond to a case put forward by an investor or collaboration of investors with an ownership stake of more than ten per cent than it is to an investor with an ownership stake of less than one per cent. NB: large managers of actively managed funds may also have scale, creating a lever for change.

Whilst the potential benefits of active ownership are apparent for passive investors, at Mercer we observe that, with the exception of one or two firms, some of the largest commercial passive investors in the world undertake considerably less voting and engagement than their counterparts within many large funds.

Common obstacles for both active and passive management

- Cost versus perceived benefits: A common obstacle for both active and passive investors is the cost of undertaking active ownership. Voting and engagement is a highly resource intensive activity, with effective active ownership requiring high quality inputs such as research, time and experienced and skilled professionals. The perceived benefits of undertaking active ownership need to outweigh the costs of doing so. As identified in Section 2, it is hard to isolate and measure the financial benefits of active ownership and this can create a difficult equation for any investor to calculate, as well as a challenge for investors seeking to justify investing in these activities.

  In practice, funds are more likely to adopt voting and engagement across their passively managed assets. This is likely due to the wider benefits of undertaking active ownership as identified in Section 3 (protect or maintain wider investment system, protect reputation or organisational identity and undertake investor responsibility) as well as the longer term time horizons they operate to which tend to be more consistent with successful engagement strategies.

- Free-riding: As identified earlier, free-riders are shareholders that may benefit from the corporate and policy engagement activities of other investors without the expenditure of their own resources. Free-riding is a major issue for investors and can act as a disincentive for investors to undertake active ownership, be they active or passive funds.

- Business models of commercial active and passive managers as a barrier to undertaking high quality and extensive active ownership. It is still unconventional for funds to demand high standards of voting and engagement from their investment managers as part of the integrated service offering. As these activities usually require additional resources, these services are likely to incur an additional fee or cost that may be passed on in terms of higher fees to end investors. Looking forward, as more funds request that active ownership be incorporated into the day-to-day investment management process, the business model of investment managers may be better able to adapt and absorb the additional expense.

  – Active managers tend to be evaluated on relative out-performance of a benchmark (within a specific risk framework) within a defined time horizon. Active managers aim to seek this out-performance through a variety of strategies. These strategies may or may not include active ownership. In practice, other than managers of focus style funds, as described earlier, very few active managers employ an active ownership strategy to create out-performance unless the financial case for doing so is both immediate and compelling.

  – Passive managers tend to be evaluated on their ability to replicate an index at low cost. As active ownership requires additional resource, this would create an additional cost to the manager which would be passed on to the end-investor. As with active managers, active ownership tends to be undertaken by passive managers for reasons of fiduciary duty, as delegated by the end investor.

In summary there are a number of potential advantages for engagement that are associated with both active and passive investment styles. These are mainly associated with potential for synergies with other parts of the business, or with underlying incentives for undertaking active ownership. Current practice does not appear to give active managers a working advantage; however, going forward, it is possible that a well joined-up strategy and approach towards active ownership which takes into account active management could become an effective mechanism for influencing corporate behaviour. In addition to this, there also exist a number of potential obstacles to active ownership that are common to both active and passive investors, and in particular to commercial investment managers.

7

Conclusion

Active ownership is a complex and dynamic aspect of our global investment system. It is currently gaining considerable attention from investors around the world, each considering how best to integrate active ownership into their investment strategy. Active ownership covers a wide range of topics, from corporate actions to corporate governance and wider governance issues such as environmental and social issues. It can be executed in a variety of ways, from using the shareholder vote, to varying degrees of dialogue with companies directly, as well as with policy makers and other organisations that might impact company and market behaviour.

Benefits and efficacy of active ownership

Active ownership can bring numerous positive benefits to investors. Considerable academic literature surrounding this topic, together with the greater degree of investor collaboration and disclosure around active ownership activities, means that these benefits are being increasingly identified and understood. As our collective understanding of active ownership evolves, so does its application.

Typical benefits of active ownership include:

- Financial benefits, through protecting or enhancing shareholder value
- Protecting or maintaining the health of the wider investment system
- Protecting investor reputation and institutional identity
- Supporting current ownership models (based on the theory of the firm) and the fundamental rights and obligations of shareholders
- Demonstrating investor responsibility, showing leadership and avoiding free-riding
- Supporting good portfolio management

One area that is less understood and not as well documented is the efficacy of active ownership, and the factors that contribute to successful active ownership. Studies to date suggest that the benefits are hard to isolate and quantify. This can make it hard to apply a rigorous framework for assessing the effectiveness of the active ownership strategies.

Investment style and active ownership

This study explores the relationship between active management and active ownership, with a particular focus on whether active management can have a positive influence on the possibilities for exercising ownership rights successfully. It aims to address two main questions:

- Does investment style (active versus passive management) impact the effectiveness of an active ownership strategy? And if so, how does it impact the effectiveness of an active ownership strategy?

- What type or style of active management may best complement the exercise of ownership rights?

Mercer has explored the potential advantages of each investment style as a platform for undertaking effective active ownership. These are mainly associated with potential for synergies with other parts of the business, or with underlying incentives for undertaking active ownership.

Advantages arising from active management include:

- Access to research and knowledgeable portfolio managers

- Regular access to companies

- Greater ability to identify issues of concern

- Ability to use the investment position as a lever for change

- Using active ownership as a proactive alpha-generating strategy

There appears to be significant potential for active managers to integrate active ownership tools into their portfolio management process with a view to enhancing shareholder value. While different models for executing active ownership exist for investors, if active fund managers are able to integrate environmental, social and corporate governance issues into their engagement activities and translate the outcomes of such discussions into the active positions held in the portfolio, this might prove to be an additional lever for change. It would also help to move closer towards aligning the goals of active ownership with enhancing long-term shareholder value such that the issues are not considered a ‘separate’ optional extra but are part of a holistic assessment of the attractiveness of a company from a risk/return perspective. Our assessment of the models that active managers favour for organising their active ownership strategies however, suggest that this holistic or integrated approach is still in its infancy in terms of application, thereby not leveraging these opportunities for synergy.

Following this work, one observation that we have is that there are certain approaches to active management that may enhance or complement the exercise of ownership rights more than others. For example, those approaches that are based on fundamental company research. Active investment approaches that do not employ fundamental company research might be characterized as similar to passive investment approaches when it comes to exercising ownership rights. For instance, investment strategies that place heavy emphasis on quantitative or technical factors to select stocks would not enjoy the synergies that strategies emphasizing fundamental factors would. Strategies that place more emphasis on economic themes or market psychology might also find fewer synergies to support active ownership on a company level, although policy level engagement would be more relevant in these cases.

Advantages arising from passive management include:

- The potential for protecting or enhancing shareholder value, thereby creating a strong incentive for undertaking active ownership
- The potential to focus on reducing market risk and promoting a robust and healthy investment system
- The potential for scale that is often enjoyed by passive investors, which in turn can be a powerful lever for change

In addition, passive management may make it easier to incentivise the manager to target issues that are more closely aligned with the long term investment horizon of the owner, and that may not have an immediate financial impact.

In summary, there is significant incentive for passive investors to undertake effective ownership. These factors, together with the considerable assets invested by passive investors, can prove to be powerful levers for change. We observe that a large number of funds with in-house passive management activities and commitment to active ownership are well placed to undertake effective active ownership. Our observations, however, suggest that with exception of a few investors, some of the largest passive investors are not fully utilising the advantages afforded to them from a passive style of management to achieve effective active ownership across a large portion of their assets.

Potential obstacles to active ownership across both active and passive management strategies

In exploring the potential benefits of each investment style, we also identified a number of obstacles that may dilute or negate some of these advantages. These may relate to either active or passive management.

- The cost versus the perceived benefits of active ownership can act as a barrier to deploying resources to this area to support successful active ownership.
- Free-riding is a major issue for investors and can act as a disincentive for investors to undertake active ownership, be they active or passive funds.
- The business models of commercial active and passive managers can act as a potential barrier to undertaking high quality and extensive active ownership as these activities usually require additional resources and cost. As more funds request active ownership be embedded into the day-to-day investment management process, this situation is likely to change.

Closing comments

The main conclusions we draw from having undertaken this study is that – regardless of investment style, shape and form – numerous and growing opportunities exist for funds and investment managers to engage in active ownership practices.

The findings of the study conclude that investment style might impact the effectiveness of an active ownership strategy, but that at present investment style is not a dominant factor. However, investment style does have an influence on the nature of the active ownership strategy employed. The tools they apply under the strategies, and the issues upon which they focus, may vary as a result of investment style.

This is a dynamic area with increasing pressure on investors to play a more active role in capital markets. Such an environment is likely to continue to influence investor behaviour and practice for both funds and fund managers alike. If pressures from fund members and beneficiaries, regulators and industry norms continue to be put on funds to take on the role of active owners, we believe that - eventually - it will become hard for investors to justify the absence of a thoughtful and well-defined active ownership strategy, backed up by the resources to ensure its effective implementation, and with the transparency to communicate its results. With greater research being undertaken into active ownership tools and strategies, together with increasing investor collaboration and disclosure, we expect this area to evolve considerably over the coming years.

Risk Warnings

This document is based on Mercer's research and discussions with a number of market participants including investors and investment managers but all the views and conclusions contained in this report are Mercer's alone and should not be attributed to any other party

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer’s written permission.

The findings, ratings and/or opinions expressed in this document are the intellectual property of Mercer Ltd and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results.

This document does not contain investment advice in relation to your own particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability, (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy contained within this third party information.

Appendix A

Academic and industry literature

References

Ammann, M., Oesch, D. & Schmid, M.M. (2009). *Corporate governance and firm value: international evidence.* Retrieved from http://www.phitrust.com/data/file/Documents_site_Internet/Corporate_Governance_and_Firm_Value_International_Evidence_Ammann_Oesch_and_Schmid_3_25_09.pdf

Anson, M., White, T., & Ho, H. (2003). The shareholder wealth effects of CalPERS' Focus List. *Journal of Applied Corporate Finance, 15*(3).

Anson, M., White, T., & Ho, H. (2004). Good corporate governance works: More evidence from CalPERS. *Journal of Asset Management, 5*(3).

Barber, B. (2006). Monitoring the Monitor: Evaluating CalPERS' Activism. *The Journal of Investing, 16*(4).

Becht, M., Franks, J., Mayer, C., & Rossi, S. (2009). Returns to shareholder activism: evidence from a clinical study of the Hermes UK Focus Fund. *The Review of Financial Studies, 22*(8).

Black, B. S. & Khanna, V. S. (2007). Can corporate governance reforms increase firm market values? Event study evidence from India. *Journal of Empirical Legal Studies, 4*(4).

Bruner, R. F. (2002). Does M&A pay? A survey of evidence for the decision-maker. *Journal of Applied Finance, 12*(1).

Bruno, V. & Claessens, S. (2006). Corporate governance and regulation: can there be too much of a good thing? *ECGI - Finance Working Paper* No. 142/2007. Retrieved from http://ssrn.com/abstract=956329

Callan, S. J. & Thomas, J. M. (2009). Corporate financial performance and corporate social performance: an update and reinvestigation. *Corporate Social Responsibility and Environmental Management, 16*(2).

Carleton, W., Nelson, J., & Weisbach, M. (1998). The influence of institutions on corporate governance through private negotiations: Evidence from TIAA-CREF. *Journal of Finance, 53*(4).

Core, J., Guay, W. & Rusticus, T. (2006). Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *Journal of Finance, 56*(2).

Eritimu, Y., Ferri, F., & Stubben, S. (2009). Board of Directors' Responsiveness to Shareholders: Evidence from Shareholder Proposals. *Journal of Corporate Finance, Forthcoming*. Retrieved 2009-09-23 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1106375

Gifford, J. (2009). *Effective shareholder engagement: an analysis of the factors that contribute to shareholder salience*. Unpublished PhD thesis, University of Sydney, School of Business, Sydney, NSW, Australia.

Gompers, P., Ishii , J. L., & Metrick, A. (2003). Corporate governance and equity prices. *The Quarterly Journal of Economics, 118*(1).

Karpoff, J. M., Lott, J. R. & Wehrly, E. W. (2005). The Reputational Penalties for Environmental Violations: Empirical Evidence. *The Journal of Law and Economics, 48*(2).

Klassen, R. D. & McLaughlin, C. P. (1996). The impact of environmental management on firm performance. *Management Science, 42*(8).

Nelson, J. (2005). Does good corporate governance really work? More evidence from CalPERS. *Journal of Asset Management, 6*(4).

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3).

Parthiban, D., Bloom, M., & Hillman, A. (2007). Investor activism, managerial responsiveness, and corporate social performance. *Strategic Management Journal, 28*(1).

Rojas, M., M'zali, B., Turcotte, M.-F., & Merrigan, P. (2009). Bringing about changes to corporate social policy through shareholder activism: Filers, issues, targets, and success. *Business & Society Review, 114*(2).

Selvaggi, M. & Upton, J. (2008). *Governance and performance in corporate Britain (Association of British Insurers research paper 7)*. Retrieved from http://www.abi.org.uk/Publications/Governance_and_Performance_in_Britain1.aspx

Song, W. L. & Szewczyk, S. H. (2003). Does coordinated institutional investor activism reverse the fortunes of underperforming firms? *Journal of Financial and Quantitative Analysis, 38*(2).

Yermack, D. (2006). Board members and company value. *Financial Markets and Portfolio Management, 20*(1).

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Tower Place
London EC3R 5BU
020 7626 6000 Fax: 020 7929 7445

Consulting. Outsourcing. Investments.

INVESTOR IN PEOPLE