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Camila Yamahaki and Catherine Marchewitz

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DIW Berlin
German Institute for Economic Research
Mohrenstr. 58
10117 Berlin

Tel. +49 (30) 897 89-0
Fax +49 (30) 897 89-200
https://www.diw.de

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Collaborative investor engagement with policymakers:

Changing the rules of the game?*

Camila Yamahaki[1] and Catherine Marchewitz[2]

Abstract

Applying universal ownership theory and drawing on multiple-case studies, this article analyzes what drives institutional investors to engage with government entities and what challenges they find in the process. We relied on document analysis and conducted twelve semi-structured interviews with representatives from asset owners, asset managers, investor associations, and academia. We identify a trend that investors conduct policy engagement to fulfill their fiduciary duty, improve investment risk management, and create an enabling environment for sustainable investments. As for engagement challenges, investors report the longer-term horizon, a perceived limited influence toward governments, the need for capacity building for investors and governments, as well as the difficulty in accessing government representatives. This research contributes to fill a gap in the literature on this new form of investor activism as a growing number of investors engage with sovereign entities on environmental, social, and governance (ESG) issues.

Keywords: shareholder engagement, shareholder activism, climate risk, climate change, environmental social and governance (ESG), public policy engagement, sovereign engagement, sustainable finance, universal ownership

JEL Classification: G15, G23, G32, G30, G34, G39

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[1] Business Administration School of Fundação Getulio Vargas (FGV EAESP), Center for Sustainability Studies

[2] German Institute for Economic Research, DIW Berlin

1. Introduction

Institutional investor engagement with companies on environmental, social, and governance (ESG) issues increased substantially throughout the 2010s. According to the 2023 Global Sustainable Investment Review (GSIA, 2023), total assets under management using engagement strategies amounted to US$ 8.1 trillion in 2022. Using their ownership position to influence corporate policy and practice, investors engage with companies through shareholder resolutions, voting, face-to-face meetings, and lawsuits (OECD 2013; Sjöström 2020; 2008).

Besides engaging with corporations, an increasing number of asset managers are engaging with governments and government-related institutions (see, for example, Colchester Global Investors, 2020; Robeco, 2021) as well as investor associations and collaborative initiatives targeting government officials to change public policy, such as the Investor Policy Dialogue on Deforestation (IPDD), Shareholders for Change (SfC), The Investor Agenda, the Emerging Markets Investors Alliance (EMIA), the Seventh Generation Interfaith Coalition for Responsible Investment, and the Interfaith Center on Corporate Responsibility (ICCR). These initiatives may indicate that investors find it insufficient to engage only with companies to improve investment value, but the reasons remain unclear. As such, the importance of public policy has increased for investors since 2015, when governments committed to shift trillions of dollars to be consistent to the goals of the Paris Agreement. Further, investors have accepted the influence of ESG factors on delivering financial returns, recognizing the need for well-designed and effectively implemented public policies to support national economic and sustainability objectives as well as to increase the attractiveness of countries as investment destinations (PRI, 2022a).

The growing importance of public policy for investors is not yet reflected in academic research. While the bulk of the literature on investor engagement focuses on companies as targets of activist investors, little focuses on engagement with policymakers such as parliamentarians, ministers, and sovereign issuers. Further, few academic studies analyze the public policy role of this particular interest group. Based on our literature review, exceptions include van Zanten et al. (2021), who provide guidance to sovereign debt investors in engaging with sovereign officials on sustainability challenges, and Robins (2006, p. 320), who argue that investors should extend their focus from the company level to that of the system so as "to create market frameworks that reward companies, and their investors, for high levels of social and environmental performance." In addition, several gray literature publications (e.g., PRI 2014; 2020; UN-convened Net-Zero Asset Owner Alliance 2022) analyze the reasons why - and why not - investors seek to influence public policy and the strategies investors employ to attain this purpose. For instance, PRI (2014; 2020) note that Principles for Responsible Investment (PRI) signatories were not yet engaging with policymakers at that time due to skepticism about whether public policy engagement would make a difference, a lack of understanding of how to influence public processes, and the need for long-term commitment.

Hence, the present article analyzes what drives and what curbs institutional investors to engage with sovereign entities on ESG issues by analyzing the existing literature and eleven cases of investor engagement. The case study approach is appropriate since investor policy engagement refers to an area "where there is little understanding of how and why processes or phenomena occur" and "where a phenomenon is dynamic and not yet mature or settled" (Darke et al., 1998, p. 279). We understand investor engagement in public policy as developing relations with governments and policymakers through different influence processes and intent as actions taken with the explicit aim of influencing public policies and practices (based on Goranova and Ryan 2014). Considered a form of political engagement (PRI, 2022b), investor policy engagement can be conducted directly or through third parties, working groups or collaborative initiatives and by different means, such as responding to policy consultations, providing technical input via government or regulator-backed working groups, participating in sign-on letters, or by directly communicating with policymakers (PRI, 2022a). In this paper, we use the term policy engagement rather than sovereign engagement, as some practitioners call it, since this investment strategy has been adopted not only by sovereign debt investors, but also by corporate bond and equity investors seeking to address investment risks.

The increasing number of initiatives targeting policymakers as well as the need for developed and developing countries to attract private-sector investments to achieve their sustainability and climate-related commitments

in line with the Paris Agreement underlines the practical relevance of our study, which we hope will contribute to a better understanding of the whys and hows of investor policy engagement. Further, our contributions lie in bringing together two strands of literature (Section 2) - the literature on various interest groups influencing public policy and the literature on shareholder engagement with investee companies. First, we provide an overview of previous studies on public policy and corporate engagement. We then analyze previous studies employing the universal ownership theory to understand the underlying factors driving investor engagement on public policy issues. Materials and methods we use are described in Section 3. Eleven empirical case studies on investor engagement with policymakers are showcased in Section 4. Based on the empirical evidence, we identify the factors that drive investors to engage with government officials as well as the challenges to policy engagement in Section 5. Section 6 concludes.

2. Literature review

2.1. Stakeholder groups influencing public policy

Although there appears to be a gap in the academic literature concerning investor engagement with governments, the public policy academic field has studied more intensively how other interest groups and stakeholders, such as non-profits, think tanks, corporations, and churches, influence policy. In this article, public policies are defined as "the results of efforts made by governments to alter aspects of their own or social behavior in order to carry out some end or purpose" (Howlett 2014, p. 281).

To influence public policy, think tanks in low- and middle-income countries employ both direct strategies – e.g., through participating in government advisory committees – and indirect ones – e.g., through publishing policy-relevant research (Bennett *et al.*, 2012). In North America, the most commonly adopted tactic of policy engagement is direct, taking part in coalitions for the purpose of influencing policy (Mosley, 2011).

Churches prefer to rely on covert channels of policy influence; for example, by participating in policy committees as well as by managing educational and welfare institutions (Busse, 2016). The media is found to use framing to portray, in a vivid manner, the need for policy change (Mwangi, 2018). Companies are more likely to avoid government intervention, campaigning in favor of self-regulation, lobbying against regulations (Mialon *et al.*, 2020), and framing government intervention as unnecessary (Thomas *et al.*, 2016). To illustrate, a survey by Ceres (2022) finds that, between 2018 and 2021, 26% of the S&P 100 companies have lobbied against Paris-aligned climate policies, advocating for policies that weaken GHG emissions standards. Nonetheless, the same survey reflects ambiguity in corporate behavior, as 50% of the respondents have advocated for greenhouse gas (GHG) emissions regulation, clean energy measures, and government-backed emissions trading schemes.

Previous studies also examine those factors that contribute to successful policy engagement. One factor that helps think tanks to engage effectively in policy discussions are the personal links between institute members and policymakers, fostering trust and influence (Bennett *et al.*, 2012). Business associations seem to have more success at influencing public policy when they have frequent contact with policymakers and advocacy skills (Irwin, 2015).

Furthermore, the literature finds that certain features of the "engager" are associated with the level of policy engagement. For instance, companies are more likely to engage in lobbying activities when they are larger, older, internationally exposed, in more concentrated industries, and have close relationships with state-level offices (Hill *et al.*, 2013; Weymouth, 2012). Among nonprofits, size, degree of professionalization and reliance on government funding are correlated with policy advocacy (MacIndoe and Whalen, 2013). We suggest that some of the features also apply to investors when engaging with policymakers.

2.2. Investor engagement with investee companies and policymakers

The vast academic literature on investor engagement with investee companies analyzes different issues, including its antecedents, strategies, and outcomes (Becht *et al.*, 2008; Bizjak and Marquette, 1998; Smith, 1996). Systematic literature reviews on the topic include Cundill *et al*., (2018) on different theoretical perspectives; Sjöstrom (2020) on the efficiency and impact of the different active ownership strategies; and Goranova and Ryan (2014), which adopts a multidisciplinary approach.

With regard to factors that influence investor engagement, investor size is considered a significant success factor because larger funds have a greater ability to spread the fixed cost of engaging in activism across their asset base (Choi and Fisch, 2007) and are likely to possess the financial clout necessary to gain access to, and be attended to by, directors and top managers (Rubach and Sebora, 2009). Larger investment funds are also more likely to have the resources to recruit and train in-house staff (Myners, 2001; Tilba and McNulty, 2013), while smaller funds find it more difficult to achieve best practice due to limited levels of personnel and resources (Myners, 2004). Investor collaboration is also found to influence corporate behavior since it increases shareholder salience and provides investors with material benefits including opportunities to share resources, build knowledge and skills, avoid duplication of effort, and share the workload (Gifford, 2010; Gond and Piani, 2013). Increasing awareness of pension funds about the positive impact of ESG issues on long-term value and a pension fund ethos of responsible ownership are also found to encourage investor engagement (Clark and Hebb, 2004; Tilba and McNulty, 2013), whereas the lack of investment expertise and pension fund reliance on external service providers act as barriers to engagement (Tilba and McNulty, 2013).

Looking into the literature for arguments that would support the interest of investors in promoting changes in public policy, within universal ownership theory we find a potential explanation since universal owner investors are interested in addressing systemic risks to reduce risks of their overall portfolio, which often require changes in public policy. We examine it in the next section.

2.3. Universal ownership as explanation for policy engagement

In previous studies, universal ownership theory is adopted to analyze investor engagement behavior on topics like climate change, labor rights, inequality, poverty, corporate governance (Hawley, 2002; Urwin, 2011), and corruption (Gjessing and Syse, 2007).

Many institutional investors manage highly diversified and long-term portfolios that reflect global capital markets. According to the theory of universal ownership (see Quigley 2020), the high degree of diversification of their portfolios across sectors, markets, and asset classes, as well as their long-term investment horizon, means that the investment returns of these so-called 'universal owners' are inevitably exposed – and more closely linked – to developments in the economy than to the profits of individual companies or sectors. Therefore, for a universal owner and its beneficiaries, their interests align with the public at large, with long-term profit maximization not only involving enhanced returns on a firm-by-firm basis, but also improving the health of the economy (Hawley and Williams 2000). As a result, and given that it is difficult to escape systemic risks only by divesting from a few externality-producing firms, they must take into account developments in society and the economy, thus having a natural interest in 'universal monitoring' (Hawley, 2002; Juravle and Lewis, 2008). Reducing real-world negative externalities becomes more and more important as a major part of the universal owner returns can be attributed to market performance, or beta factor, which represents the effect of overall market movements on investments (Brinson *et al.*, 1986; Hawley and Lukomnik, 2018; Ibbotson, 2010). Approximately 75% of pension fund performance is typically due to market movements, while the remainder is split between asset allocation policy and active management (Ibbotson, 2010).

One challenge when monitoring a huge portfolio of shares is the high cost. Consequently, most investors only monitor or engage as a reaction to unusually poor performance (Keay, 2014), finding it more efficient to reduce risk by selling low-performing shares, using the strategy of 'exit' (divestment) rather than 'voice' (engagement)

(Hirschman, 1970). However, several authors conclude that divestment is less effective than engagement (Broccardo *et al.*, 2020; Hirschman, 1970). They also claim that externalities produced by companies cannot be addressed through divestment; rather, policies and regulations are needed, with engagement being a tool to adjust the framework (Hansen and Pollin, 2022).

Generally, engagement is employed around corporate financial performance and ESG issues (Majoch *et al.*, 2017; Sparkes and Cowton, 2004). The fact that universal owners hold large shares in portfolios that are representations of the overall economy encourages them to address issues that are originally governmental in nature by exercising ownership rights through constructive dialogue with companies and public policymakers (PRI, 2011). For many proponents of the universal ownership theory, one alternative for universal owners to mitigate whole-system threats, like climate change and inequalities, is through strategic engagement in public policy and standard-setting regimes, effecting change in the real economy (Quigley, 2020). By engaging individually or in collaboration with other investors, investors may encourage public policymakers and regulators to not just reduce environmental impacts, but also foster the adoption of policies that establish regulatory frameworks for the internalization of externality costs (PRI, 2011).

There is evidence of an increase in the number of universal - or universal-like - owners. For instance, over 80% of institutional investment manager filers own shares in multiple firms competing in the same industry (Amel-Zadeh *et al.*, 2022). Institutional investors are also significant investors in sovereign bonds. Given the size of the sovereign bond market, one can argue that investors carry a fiduciary duty to integrate sustainability topics in their investments and to engage with sovereigns on that matter (PRI, 2020). Supranational and sovereign bonds account for approximately 70% of the global bond market (US$ 128.3 trillion), which means that sovereign debt investors could have a significant influence (ICMA, 2020).

Drawn from this discussion, the universal ownership theory suggests that institutional investors are interested in engaging with policymakers to mitigate the systematic risks of their own portfolios, an assumption that we will investigate in the case studies.

3. Materials and Methods

To identify the drivers and barriers to policy engagement by investors, we analyze 11 case studies of policy engagement. In the present research, the main purpose of adopting case studies is building theory (e.g., Eisenhardt 1989), by offering insights into policy engagement, and advancing theoretical explanations (e.g., Yin 2009), by adding to the universal ownership theory and applying it to a phenomenon that is under-studied.

We follow Yin's (2009) advice to select a multiple-case design over a single case whenever choice is presented and resources are available, given the analytic benefits such as the opportunity to replicate findings to other cases and the provision of stronger support for theory. In this study, the multiple-case design offers the opportunity to explore what drives and what curbs investors from engaging with policymakers under different conditions, in different contexts, and about different ESG topics, helping to advance theoretical explanations, confirming what is observed in the literature, and to build theory, raising new explanations for the phenomenon. Following the explanation-building process, theoretical statements were revised and refined by the evidence from the different case studies in an iterative manner until an overall explanation was reached.

The case studies on investor policy engagement analyzed were selected based on whether investors were engaging with policymakers and other government representatives on ESG issues, and on availability of public information since it was not available for specific cases. As for data collection for the case studies, we relied on document analysis and semi-structured interviews.

From secondary data, we analyzed reports on the engagement initiatives, reports from investor associations; web sites of investors and investor coalitions, investor engagement policies, reports from specialized responsible investment media, investor letters to sovereign entities and online news. Still, the granularity of information publicly available differed widely, resulting in different levels of detail in the case studies. To complement documentary analysis, we also conducted twelve semi-structured interviews with representatives from asset owners (one), asset managers (six), investor associations (three), proxy voting firms (one), and academia (one), as shown in Table 1. Conducted between April 14 and October 16, 2023, the interviews were recorded and transcribed when allowed by the interviewees. The focus was to gather information on the perspectives of the institutional investors.

Table 1 - List of interviewees

Number	Type of Interviewee	Country/region of origin
1	Asset Manager	UK
2	Asset Manager	UK
3	Asset Manager	France
4	Asset Manager	Scandinavia
5	Asset Manager	Germany
6	Asset Manager	Netherlands
7	Asset Owner	Australia
8	Investor Association	Not disclosed to maintain anonymity
9	Investor Association	
10	Investor Association	
11	Proxy voting firm	Germany
12	Academia	Switzerland

Source: Created by authors

For data analysis, we used content analysis, coding all documents analyzed and interview transcripts through an inductive and iterative coding procedure using software Atlas T.I. Codes. All arguments that appeared as motivations for, and barriers to, engaging with policymakers were transformed into codes, which were then refined along the coding process. A total of 189 quotations were coded.

4. Case studies on public policy engagement by investors

This section provides an overview on the policy engagement initiatives investigated in this study (Table 2).

Table 2 - Case studies - Policy engagement initiatives

Engagement initiative	Launch year	Coalition[3]	AUM[4]	Targeted country[5]	Objectives[5]
Investor Policy Dialogue on Deforestation (IPDD)	2020	78 investors from 20 countries (for the IPDD initiatives)	US$ 10 trillion	Brazil (Case 1)	Reduce deforestation rates, enforce Forest Code, prevent fires, public access to deforestation data, protect rights of indigenous peoples
	2021			Indonesia (Case 2)	Encourage and enhance existing policies that contribute to the sustainable management of the forest assets and that reduce financial risks arising from deforestation and land degradation
Shareholders for Change (SfC)	2018	In total 13 investors from Germany, France, Italy, Spain and Austria	€30bn	Namibia (Case 3)	Join the UN Biological Weapons Convention
Catholic investors	2021	A group of nearly 100 Catholic institutions	NA	Brazil (Case 4)	Protection of the Amazon rainforest and the rights of the indigenous population.
The Investor Agenda	2021	PRI, AIGCC, CDP	not specified	Japan (Case 5)	Call for decarbonization of the energy sector and adoption of climate disclosure regulations
	2021	IIGCC, PRI, AIGCC, CDP, Ceres, IGCC	AUS 100 trillion	Australia (Case 6)	Ask for mandatory disclosure aligned with the TCFD
	2020	CDP, Ceres and PRI	not specified	EU institutions (Case 7)	Call on increasing climate ambition

[3] Refers to the whole coalition unless indicated otherwise.
[4] The AuM indicated refers to the overall coalition if information on the specific engagement case is not available.
[5] Refers to the specific engagement case under review in this article.

Engagement initiative	Launch year	Coalition[3]	AUM[4]	Targeted country[5]	Objectives[5]
	2021	CDP, Ceres and PRI	not specified	USA (Case 8)	Call on key actions for climate transition
	2021	IIGCC, PRI, AIGCC, CDP, Ceres, IGCC, UNEP FI and over 700 signatories	US$ 52 trillion	Group of governments before COP26 (Case 9)	Call on key actions for climate transition
	2022	IIGCC, PRI, AIGCC, CDP, Ceres, IGCC, UNEP FI and over 600 signatories	US$ 42 trillion	Group of governments before COP27 (Case 10)	Call on key actions for climate transition
Collaborative Sovereign Engagement on Climate Change	2022	PRI signatories	Open for new members	Australia (Case 11)	Support climate policy action

Source: Created by authors

4.1. Investor Policy Dialogue on Deforestation

The Investor Policy Dialogue on Deforestation (IPDD) initiative was set up in July 2020 with 34 investors, representing US$3.7 trillion in assets under management, with the aim "to ensure the long-term financial sustainability of investments, by promoting sustainable land use and forest management, and respect for human rights" (IPDD 2022, p. 7). As of November 2023, the IPDD is supported by 78 institutional investors from 20 countries, representing nearly US$10 trillion. The Tropical Forest Alliance, part of the World Economic Forum, provides secretariat support.

In Brazil (Case 1), the coalition has five main asks: to achieve a significant reduction in deforestation rates, enforce the country's Forest Code, reinforce agencies tasked with implementing environmental and human rights legislation, prevent fires in or near forest areas, and enhance public access to data on deforestation, forest cover, tenure, and commodity traceability. The engagement started when 34 investors sent letters to the Brazilian Embassy of their respective home countries, in 2020, raising concerns about deforestation and fires in the Amazon, which led to a video conference being arranged with the Minister of Foreign Affairs, Minister of Agriculture, Minister of Environment, and the President of the Central Bank (Spring, 2020). So far, as of 2023, the coalition has already met with government entities, including with the Brazilian Vice President (van Zanten *et al.*, 2021), the Governor of the Central Bank (IPDD, 2022), and the Ministry of the Environment and its monitoring agencies (from the interviews).

In Indonesia (Case 2), the IPDD seeks to encourage and enhance existing policies that contribute to the sustainable management of the country's forest assets and that reduce financial risks arising from deforestation and land degradation. The group has met with Ministries, Indonesian ambassadors, the financial markets regulator, the Indonesian stock exchange, multilateral institutions, banks, non-governmental organizations (NGOs), and academics to discuss, among others, actions taken by the Indonesian government to address and reduce deforestation. Additionally, they have signed Memoranda of Understanding (MoU) with the Indonesia Business Council on Sustainable Development, the Indonesia Stock Exchange, and the Indonesian Chamber of Commerce and Industry (IPDD, 2022).

4.2. Bank für Kirche und Caritas eG Germany on behalf of Shareholders for Change

The German Catholic Church Bank – 'Bank für Kirche und Caritas' (BKC) – is a founding member of the European network Shareholders for Change (SfC), a primarily faith and values-based member organization, founded in 2018 with other European institutional investors. On behalf of SfC, BKC engaged with high-ranking Namibian state representatives and diplomats (Case 3) to persuade the country to join the UN Biological Weapons Convention. The engagement trigger was the addition of the criterion "non-ratification of the UN Biological Weapons Convention" to the exclusion criterion for BKC investments in government bonds at the time. After two years of engagement dialogue, in February 2022, the country became a party to the Convention and BKC's plan proved successful (Shareholders for Change, 2022a).

4.3. Catholic investors

Engaging with the Brazilian government, a group of nearly 100 Catholic institutions, led by The Special Commission on Integral Ecology and Mining for the Brazilian Bishops' Conference (CNBB), the international Catholic network Global Catholic Climate Movement (GCCM), and BKC, sent a letter in March 2021 to high-ranking Brazilian government representatives and officials with demands to protect the Amazon rainforest and the indigenous people living there. They met with the minority leader of the Brazilian Congress, several opposition politicians, and high-ranking Brazilian state representatives, including the Brazilian Foreign Minister, the Minister of Foreign Affairs, and the Governor of the Central Bank (BKC, 2022; Shareholders for Change,

2022b). The engagement initiative came to an end when the new federal administration took office in 2023 (Case 4).

4.4. The Investor Agenda

The founding partners of The Investor Agenda are seven major groups working with investors: Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC), Principles for Responsible Investment (PRI), and UNEP Finance Initiative (UNEP FI). They advocate collectively for public policy aligned with delivering a just transition to a net-zero economy by 2050 or sooner, coordinating investor and finance sector initiatives on climate change issues.

In Japan (Case 5), they engaged several times with government representatives, including the Minister of Economy, Trade and Industry and the Prime Minister, to call for decarbonization in the energy sector and the adoption of mandatory climate-related disclosure regulations (The Investor Agenda, 2022). In Australia (Case 6), the group engaged with the Australian Treasurer and the Reserve Bank of Australia Governor as well as with the Parliamentary House to ask for mandatory disclosure on climate change risks aligned with the Task Force on Climate-related Financial Disclosures (TCFD), and for adopting the standards issued by the International Sustainability Standards Board (ISSB) (The Investor Agenda, 2022).

Engagement also took place with the EU Commission (Case 7) on the EU's 2030 target and sustainable recovery package after the pandemic as well as on the EU "Fit for 55" package. In the US (Case 8), policymakers and the US Congress were engagement targets for effective action to address the climate crisis, including improved support for an inclusive and just transition to achieve net zero with ambitious climate investments. In 2022, a response from global investors was submitted to the consultation on the draft climate rule of the Securities and Exchange Commission (SEC). In addition, in 2021 and ahead of the Conference of the Parties (COP)26, the group issued the Global Investor Statement to Governments on the Climate Crisis, which was signed by more than 700 investors collectively managing over US$52 trillion in assets, calling governments (Case 9) around the world to take key actions for climate transition (IIGCC, 2022; The Investor Agenda, 2022). In 2022, ahead of COP27, The Investor Agenda, together with over 600 investors, relaunched the Global Investor Statement (Case 10), urging governments to rapidly implement priority policy actions that will enable them to invest the trillions needed to respond to the climate crisis.

4.5. Sovereign engagement on climate by PRI

The Collaborative Sovereign Engagement on Climate Change is one of the most recent collaborative engagement cases, having started in 2022 as a request from a few signatories also involved with the IPDD; these organizations recommended that the PRI convene a similar collaborative structure to engage on climate change (Case 11). The PRI-coordinated investor initiative is pushing governments to act on climate change, starting with Australia as a pilot (PRI, 2022c). Australia was chosen due to its liquid bond market, signatories' large financially material exposure to Australia, the country's lower climate performance scores, changes in federal administration as a window of opportunity to engage, and the 2022 enactment of the Climate Change Act, setting out Australia's greenhouse gas emissions reduction targets (Turner 2022; the interviews). The coalition recommends that the Australian system close the gap between current action and the Paris Agreement, establish a net-zero transition plan, build greater climate adaptation and resilience across the economy and community, and improve disclosure of sovereign's exposure to climate risks and opportunities in line with international standards (PRI, 2023).

5. Results

In Table 3, we identify the drivers and challenges to investor engagement with policymakers, as found in the documentary analysis and interviews. We classified them separately for analytical reasons, but one driver/challenge was often mentioned in combination with others in the case studies analyzed. We separate, in different columns, the number of quotations and the number of codes because some of the quotations mentioned more than one code.

Table 3 - Number of quotations and number of mentions of policy engagement drivers and challenges in quotations

Factors	Number of quotations	Number of mentions in quotations
Drivers		
Fiduciary duty	19	19
Enabling environment	52	
Enabling environment (unspecified)		39
Seize opportunities		28
Increase level playing field		10
Manage investment risks	95	
Investment risks (unspecified)		48
Corporate transparency		14
Market risks		15
Operational risks		2
Physical risks		7
Regulatory risks		13
Reputational risks		7
Sovereign credit risks		17
Systemic risks		25
Ethics	4	4
Challenges		
Government access		8
Resource intensity		8

Factors	Number of quotations	Number of mentions in quotations
Longer timeframe		7
Cultural differences		6
Investor clout		5
Investor policy understanding		5
National sovereignty		5

Source: Created by authors

5.1. Drivers

5.1.1. Complying with fiduciary duty

Nineteen quotations are found supporting that investors engage in public policy to comply with their fiduciary duty. According to the IPDD coalition, financial institutions have a fiduciary duty to act in the best long-term interests of their beneficiaries, with tackling deforestation being increasingly recognized as part of good fiduciary duty. In the 2021 Global Statement to Government on the Climate Crisis, The Investor Agenda argues that "investors are urgently seeking to decrease their exposure to climate risk as a core fiduciary duty." The Australian Council of Superannuation Investors explain that their fiduciary duty includes engaging with policymakers because "the rules that govern investment markets and the conduct of individual companies do not always operate in the best interests of long-term fiduciary asset owners and their beneficiaries" and, therefore, "asset owners have an opportunity and responsibility to engage with policymakers to better align the operation of their financial system with the interest of beneficiaries" (PRI 2022a, p. 21). In addition, the interviewees noted that fiduciary duty is an important driver for policy engagement, with Interviewee 7 arguing that managing and mitigating ESG risks is "consistent with [their] duty to act in the best financial interest of members." Interviewee 3 noted that part of the reason why they decided to engage with policymakers relates to political trends in some countries that are investment destinations and the negative consequences that certain political decisions could have on the nation's rule of law at large, affecting investments in that country and, ultimately, their clients and beneficiaries. Therefore, investors engage with policymakers to protect the financial interests of their beneficiaries.

5.1.2. Managing investment risks

There are 95 quotations supporting the fact that investors engage in public policy to manage various types of investment risks from their own portfolios.

First, encouraging the creation of public policies that require improved corporate disclosure and transparency for the management of investment risks is mentioned 14 times. For example, in Australia, The Investor Agenda engaged with Australian authorities to call for alignment of corporate disclosure requirements with the TCFD. The investor group argued that voluntary disclosure is "insufficient in delivering transparency, consistency and comparability of disclosures that are required for informed and efficient asset allocation," and that investors are spending unnecessary resources trying to reach best practice, resulting in reporting burden (The Investor Agenda, 2022). In the 2021 Global Investor Statement to Governments on the Climate Crisis, The Investor Agenda claims that investors "need access to adequate information on how companies are assessing and managing the risks and opportunities presented by climate change," and request the targeted governments to implement

mandatory climate risk disclosure requirements aligned with the TCFD recommendations. Hence, investors require improved corporate disclosure on ESG policies and practices to manage portfolio risk.

Second, 22 quotations are found supporting that investors engage in public policy to manage investee companies' market (15 mentions), operational (two mentions), physical (seven mentions), regulatory (13 mentions), and reputational risks (seven mentions). For instance, the IPDD shows concern that investee companies' exposure to deforestation in their operations and supply chain increases market and regulatory risks since it can make it more difficult for them to access international markets, "as a result of [the] inability of local companies to meet consumer country and regional regulations and standards relating to finance, ESG factors, deforestation and human rights" (IPDD 2022, p. 18). As an example of consumer country regulation, the European Union issued the EU Deforestation Regulation to ensure that a set of key commodities sold within the EU market, including palm oil, cattle, and soy, does not contribute to deforestation or forest degradation (European Commission, 2022). Interviewee 2 stressed that, through regulations like these, the risk of losing access to export markets due to exposure to deforestation suddenly became real and short-term, with the potential to have a material impact on export companies very quickly. This interviewee also asserted that monitoring supply chains could be the means to maintaining market access, claiming that, "if you're not monitoring and tracing [agricultural commodities], the assumption will be that it's contaminated [i.e., produced through deforestation] and you'll lose market access."

Third, acting on ESG systemic risks is mentioned 25 times as a reason for policy engagement. For instance, Seventh Generation Interfaith Coalition for Responsible Investment deems many issues, such as climate change and human trafficking, as systemic in nature, thus unable to be adequately addressed without changes to public policy (Seventh Generation Interfaith, 2023). Similarly, BKC and the group of Catholic investors (Case 4) are also concerned about deforestation-related risks, arguing, in a letter sent to the Brazilian government, that "investors are refraining from further investment in securities of such Brazilian companies" as they see "deforestation and the associated impacts on biodiversity and climate change as systemic risks to their reputation and portfolios." Interviewee 2 argued that, while they do engage with investee companies on ESG issues like climate change, there is a limit to what companies can do around systemic issues since they do not control the regulatory environment within which they operate. Interviewee 7 asserted that, as universal asset owners, they are exposed to system-level ESG risk that impact the economy at large and that managing them depend on appropriate policy and regulatory settings Likewise, Interviewee 1 highlighted that governments are the ones with the most powerful levers to promote system changes and that even small responses from policymakers "can affect a whole market, a whole jurisdiction". This interviewee also noted that governments from very large markets may also be influential across their regions, influencing the transition pathway of neighboring countries.

Finally, managing ESG systematic risks from their own sovereign bond investments is mentioned 17 times as a reason for policy engagement. For instance, Colchester Global Investors (2020), p. 2) engages "with sovereigns helping to inform, promote and potentially drive best practices delivering better social and economic outcomes" since they "believe that countries with stronger governance, healthier and more educated workforces, and higher environmental standards tend to produce better economic outcomes," leading to "more stable debt and currency paths, and ultimately better risk-adjusted returns." In the case of deforestation, IPDD investors are concerned about the conditions for investing in, or providing financial services to, countries rich in such natural resources, as the violation of the rights of indigenous peoples might potentially increase reputational, operational, and regulatory risks resulting in a higher risk valuation of the sovereign bonds of these countries, impacting their creditworthiness. Interviewees 2 and 10 explained that deforestation can impact the future economic prospects and access to export markets of a country, particularly of large commodity producing nations. Moreover, they argued that deforestation can compromise countries' long-term ability to access capital markets at a reasonable price since the higher the country's environmental and social risks, the higher the cost of capital for sovereigns to access finance in the capital market, with investors requiring a higher premium to compensate them for those risks. Therefore, as noted by Interviewee 1, engaging with sovereigns helps investors

to understand the risks and opportunities of that market and, as a result, the likelihood of them repaying their national debt.

5.1.3. Creating an enabling environment for sustainable investments

Engagement with policymakers is also justified by the need to create an enabling environment for sustainable investments (52 quotations), allowing investors to seize investment opportunities (28 mentions) while creating a level playing field that rewards companies and investors for higher levels of social and environmental performance (ten mentions).

An enabling environment for sustainable investments is sought, for instance, by the IPDD (2022, p. 16), who state that it engaged with Brazilian authorities due to concerns that "weakening environmental and human rights policies as well as lack of effective enforcement" would create "widespread uncertainty about the conditions for investing in or providing financial services" in countries like Brazil. In an open letter to the EU Council, investor chief executive officers (CEOs) also highlight that "accelerating 2030 climate ambition will reduce the risk of carbon lock-in and increase certainty for investors, supporting them to deliver private investment in the low-carbon economy" (The Investor Agenda, 2022).

As for specific reasons for seeking to create an enabling environment, first, investors engage in public policy to seize investment opportunities associated with the transition to a net-zero emissions economy. In the Global Statement to Government on the Climate Crisis, The Investor Agenda notes that "full implementation of the Paris Agreement will create significant investment opportunities in clean technologies, green infrastructure and other assets, products and services needed in this new economy." Therefore, to accelerate and scale up private capital flows for a climate resilient, net-zero transition, investors require effective climate policies. In Japan, The Investor Agenda coalition requested that the Japanese Ministry of Economy, Trade, and Industry support the country's achievement of a carbon neutral goal for 2050 and adopt measures like an action plan to decarbonize electricity production and carbon pricing, so as "to increase investor confidence in mobilizing private capital towards the net-zero emissions energy transition in Japan," giving them long-term planning security (The Investor Agenda, 2022). In the engagement with EU governments, The Investor Agenda argues that "the ability of investors to provide the funding needed for the net zero transition is dependent on government's credible commitments and policies" and "all relevant [EU] parties need to show strong policy action and political will to negotiate the political framework and translate ambitious targets into action for net zero and the green transition" (The Investor Agenda, 2022). The Investor Agenda concludes by noting that countries that "set ambitious targets in line with achieving net-zero emissions and implement consistent national climate policies in the short-to-medium term, will become increasingly attractive investment destinations." On the other hand, "countries that fail to do so will find themselves at a competitive disadvantage" (The Investor Agenda, 2022).

Another specific reason for seeking an enabling environment is to create a level playing field for higher levels of social and environmental performance for investee companies (ten quotations). As stated by the CEO of Storebrand Asset Management, "regulations and policy enforcement can change how companies are operating in a country" (IPDD 2022, p. 25). Similarly, Interviewee 2 argued that they seek to encourage governments to enforce policy more robustly to "shift the cost benefit analysis for the private sector," rewarding companies with good ESG practices, whilst Interviewee 1 noted that companies will change as fast as the regulatory environment in which they are operating allows or incentivizes them. Hence, investors want governments to create an investment environment in which public policies elevate the minimum requirements to give their investee companies a competitive edge against players that do not feature the same level of ESG performance.

5.1.4. Ethical reasons

We also find four quotations mentioning ethical reasons to engage with governments, solely brought forward by faith-based investors. In the context of engaging with the Brazilian government on deforestation, the Catholic group of investors wrote in their letter to the Brazilian government, that "this devastating environmental damage is in stark contrast to the Catholic guiding theme of preserving creation and the call of his holiness Pope Francis to protect the climate and the environment in the encyclical Laudato Si'" (BKC, 2021). In their general statement on why they do policy advocacy, SGI writes on their website that "SGI members believe that the perspective of faith-based investors needs greater visibility in public policy debates and can be critical in advancing social justice and environmental sustainability" (Seventh Generation Interfaith, 2023).

5.2. Challenges

In addition to identifying investor motivations, the interviewees discussed challenges in conducting sovereign engagement from the investor perspective.

The first challenge relates to the long-term horizon required for policy engagement (mentioned by four interviewees). Interviewee 2 explained that, whereas in companies the CEO often has control over the corporate strategy and thus can more quickly implement changes, political factors such as changes in administration after elections and the variety of stakeholders at play make it difficult to estimate "a reasonable timeframe to expect [policy] change" and see progress. Similarly, Interviewee 4 noted that it is difficult to measure the impact of policy engagement initiatives due to the longer process compared to corporate engagement. Despite the long term, Interviewee 9 claimed that sovereign bond investors, with a tenure of up to 30 years, should have an interest in engaging across the life of the asset, given their long-term exposure to those markets.

Another identified challenge is the limited investor influence toward governments (four interviewees). Interviewee 5 argued that, whereas investors are very influential stakeholders in companies, either as co-owners in the case of stock ownership or lenders in the case of bond ownership, the government's top priority are their constituents, having, as Interviewee 3 pointed out, other concerns such as improving the nation's wealth and economic growth. Likewise, Interviewee 4 argued that corporates are more attentive to investor demands than governments due to the stronger voice that investors have in companies.

A third challenge relates to the need for capacity building on both the investor and the government sides (five interviewees). On the government side, Interviewee 10 argued that some governments lack understanding on why investors are concerned about ESG issues as well as why these risks represent systemic risks, whilst Interviewee 5 observed that not even the Ministries of Finance, under which the sovereign bond issuing agencies lie, understand why ESG issues are considered financial risks. Amongst investment professionals, Interviewee 4 claimed that there is limited understanding of government policy processes, with Interviewee 7 arguing that investors need to be educated about how policymaking works in the target countries. Interviewee 9 purported that engaging with policymakers requires a different set of skills than engaging with companies as governments have different motivations, responsibilities, and stakeholders.

Interviewees also mentioned the difficulty in accessing the government (four interviewees). Interviewee 9 claimed that investor access is correlated with the size of the economy, as "the larger the economy the less likely you as an individual investor will have access to relevant policymakers or regulators who will determine the outcomes of the systemic risk that you're seeking to address or understand better." Similarly, Interviewee 1 argued that they would have difficulty in engaging with major sovereign issuers individually given that they are only a small component of the issuer's financing mix. Access was also mentioned with regard to finding the appropriate point of contact. As explained by Interviewee 6, whereas in corporate engagements, the investor relations department, the sustainability area, or the Board of Directors can connect investors to the rest of the organization, it is more difficult to identify the appropriate contact person in sovereign entities. Further,

Interviewee 12 recalled that, after elections, investors tend to lose all their contacts to the key decision-makers and must reestablish these connections.

Another challenge is the resource intensiveness required for the engagement (five interviewees). According to Interviewee 5, large efforts are required in engagement initiatives and as highlighted by Interviewee 11, many investors do not possess enough manpower, skills or knowledge to conduct themselves. Interviewee 9 stressed that engaging with sovereigns is also time and resource consuming due to the lack of coordination on the sovereign side. The interviewee argued that different government departments and regulators often do not communicate very well, causing investors to have similar conversations with different entities or, when topics are cross-cutting, investors end up "having half a conversation with one set of actors and half a conversation with other sets of actors," making for a very resource intensive engagement.

Another identified challenge is the effect of cultural differences (two interviewees) on the effectiveness of engagement strategies. As an example, Interviewees 10 and 12 noted that in certain contexts, culture favors relationship building before the start of negotiations, meaning that "naming and shaming" engagement strategies like the sending of public letters may be counterproductive to the initiative and to starting a dialogue, requiring instead the building of relationships on the ground for the engagement to work. This contrasts with other countries, where directly contacting key decisionmakers and asking for dialogue might be more acceptable.

Finally, another challenge in policy engagement is the possibility that investors be blamed for interfering with national sovereignty, especially foreign investors engaging in public policy in another country (three interviewees). Interviewees 3 and 9 argued that this possibility depends to some extent on the topic, the sensitivity of the parties involved, and government interest in attracting international investments, which makes them more willing to hear the views of foreign investors. Interviewee 9 foresees that concerns about national sovereignty will more likely come to the surface in cases in which target countries are too dependent on international capital, as it affects the power dynamics between the parties involved in the engagement.

6. Discussion and conclusion

According to the case studies analyzed, investors are encouraged to engage with policymakers to not just comply with their fiduciary duty and manage investment risks, but also create a level playing field and an enabling environment for sustainable investments. Faith-based investors are also concerned with ethical values.

Drawing on the universal ownership theory, our initial hypothesis is that investors started engaging with policymakers to manage the systemic risks of their portfolios, given the increasing impact of ESG issues to the long-term health of whole economies and, therefore, to beta performance. Although this is an important driver for policy engagement, the research findings indicate that this is only part of the explanation.

From a corporate investment perspective, one reason why investors are engaging with policymakers is to create enabling conditions for investments in companies with good ESG performance. If externalities are not required by the rule of law to be internalized, then ESG laggards have a competitive advantage in comparison to proactive companies that have incurred costs, whether, for example, by reducing their GHG emissions or combating human rights violations. By acting as such without the right conditions and incentives, these ESG-leading companies tend to compromise their financial returns and those of their investors. On the other hand, the enactment and enforcement of public policies that require companies to internalize externalities contribute to leveling the playing field for all businesses and to creating more rewarding conditions for leading companies and their investors. Additionally, it favors the appearance of new investment opportunities that would otherwise not be financially viable.

Investors are also found to engage with policymakers to manage ESG risks that they deem financially material. Having regulations that require investee companies to report on their ESG policies and practices in a comprehensive, periodic, and comparable manner will help investors to monitor and manage the ESG risks of

their own portfolios. Moreover, having enforced regulations requiring companies to properly mitigate material ESG risks (e.g., climate risks) improves the management of investee companies, avoids the need for investors to engage with individual companies on the same ESG issues, and protects investor portfolio value.

From a sovereign investment perspective, sovereign bond investors are also encouraged to engage with policymakers to reduce reputational, operational, and regulatory risks that arise from failing to address ESG issues that have the capacity to affect the valuation of the sovereign bonds of these countries.

This research also identifies some of the challenges investors find in engaging with sovereigns, which include the longer-term horizon of policy engagement, the limited investor influence toward governments, the need for capacity building for investors and governments, the difficulty in accessing government representatives, and possible accusations of interfering with national sovereignty. These findings corroborate some of the gray literature explored at the beginning of this article, indicating that this new type of investor activism promotes the meeting of two worlds that do not typically meet. Thus, a successful dialogue between these two groups requires capacity building on both sides so that the government side understands what motivates investors to seek changes in the regulatory framework and the investment side understands the complexities and intricacies involved in the policymaking process.

From a theoretical perspective, this research indicates that universal ownership theory does not seem to fully explain why investors engage with policymakers. It appears that other theories, like institutional theory and institutional work (Lawrence and Suddaby, 2006), might be complementary theoretical frameworks to explain policy engagement. For instance, in the cases analyzed, the investor initiatives were found to be employing institutional work with the goal of creating or maintaining institutions: the IPDD adopted policing work by requesting to have the Forest Code and human rights regulations enforced in Brazil; while the SfC adopted advocacy work by encouraging the Namibian government to join the UN Biological Weapons Convention. The Multiple Streams Framework (Kingdon, 2014) could also be another useful framework to analyze how investors are seizing policy windows to put forward specific social and environmental agendas for public discussion.

This study makes several academic and practical contributions. This research contributes to the academic literature related to investor engagement, analyzing a new form of investor activism. It also contributes to the public policy literature by identifying a new interest group influencing public policy that has not been the focus of academic research so far. As for practical contributions, this study encourages institutional investors, particularly universal owners, to reflect on the implications of systemic risks to their investment portfolios and how policy engagement can help manage them. It also highlights lessons learned thus far in policy engagement, such as the importance of working in collaboration with other investors, to approach the engagement from a fiduciary standpoint, stressing the materiality of the topics raised, to be educated about the local context and how policymaking works in the target countries; and, when possible, to seize windows of opportunity, such as changes in federal administration, to increase investor leverage and the prospects of a successful engagement. Additionally, the paper offers insights to governments on the demands of the investment community, providing inputs on how sovereign entities can improve their business environment and capital markets, reduce risk perception, and attract private investments to achieve their national climate and Sustainable Development Goals (SDG) commitments.

As for limitations of this study, we note the limited number of interviewees. We experienced difficulty in finding investors who were willing to be interviewed, which we interpret as a reflection of policy engagement not yet being a largely adopted strategy. In this sense, we encourage further research on the topic, including on the policymaker perspective as recipients of this engagement.

Research shows that investors started engaging to change the rules of the game. Evidence will show if they can play a constructive and effective role in policy debates on sustainability issues.

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