Divest or engage?

It’s not that binary!

CHARITIES RESPONSIBLE INVESTMENT NETWORK

Secretariat provided by:

ShareAction»

About CRIN

- Community of practice – furthering charity missions through responsible investment
- Grant giving and operational charities working on a range of issues
- Sister network of universities
- Independent, sustained and driven by members, and hosted by ShareAction

CITY BRIDGE FOUNDATION

The Health Foundation

Trust for London
Tackling poverty and inequality

Save the Children

Nuffield Foundation

The Legal Education Foundation

Friends Provident Foundation
Fair economy. Better world.

John Ellerman Foundation

OXFAM

Barrow Cadbury Trust

WWF

JESUITS in Britain

WALCOT FOUNDATION

Cripplegate Foundation

Remarkable research for healthy ageing
THE DUNHILL MEDICAL TRUST

JRF JOSEPH ROWNTREE FOUNDATION

Esmée Fairbairn FOUNDATION

RSPB

Guy's & St Thomas' Foundation

THE JOSEPH ROWNTREE CHARITABLE TRUST

phf Paul Hamlyn Foundation

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Divestment as part of an engagement strategy

Divestment is one tool in a bigger toolbox

- Engage to influence fund managers' approaches and effect change within portfolio companies
- Engagement that is **public** and/or includes the **possibility of divestment**, can be more effective in driving change
- Partial divestment can be used as a **tactic** in an escalation strategy
- Full divestment can be used **up front** for critical issues

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The escalation steps for company engagement

- **Gradual escalation:** private meetings, public challenges, use of shareholder rights
- **Further levers**: seeking board seats, extraordinary AGM, legal processes
- **Partial divestment:** exclusion from funds, underweighting, non-participation in new offerings, “divest debt, engage equity”
- **Full divestment** with potential for reinvestment

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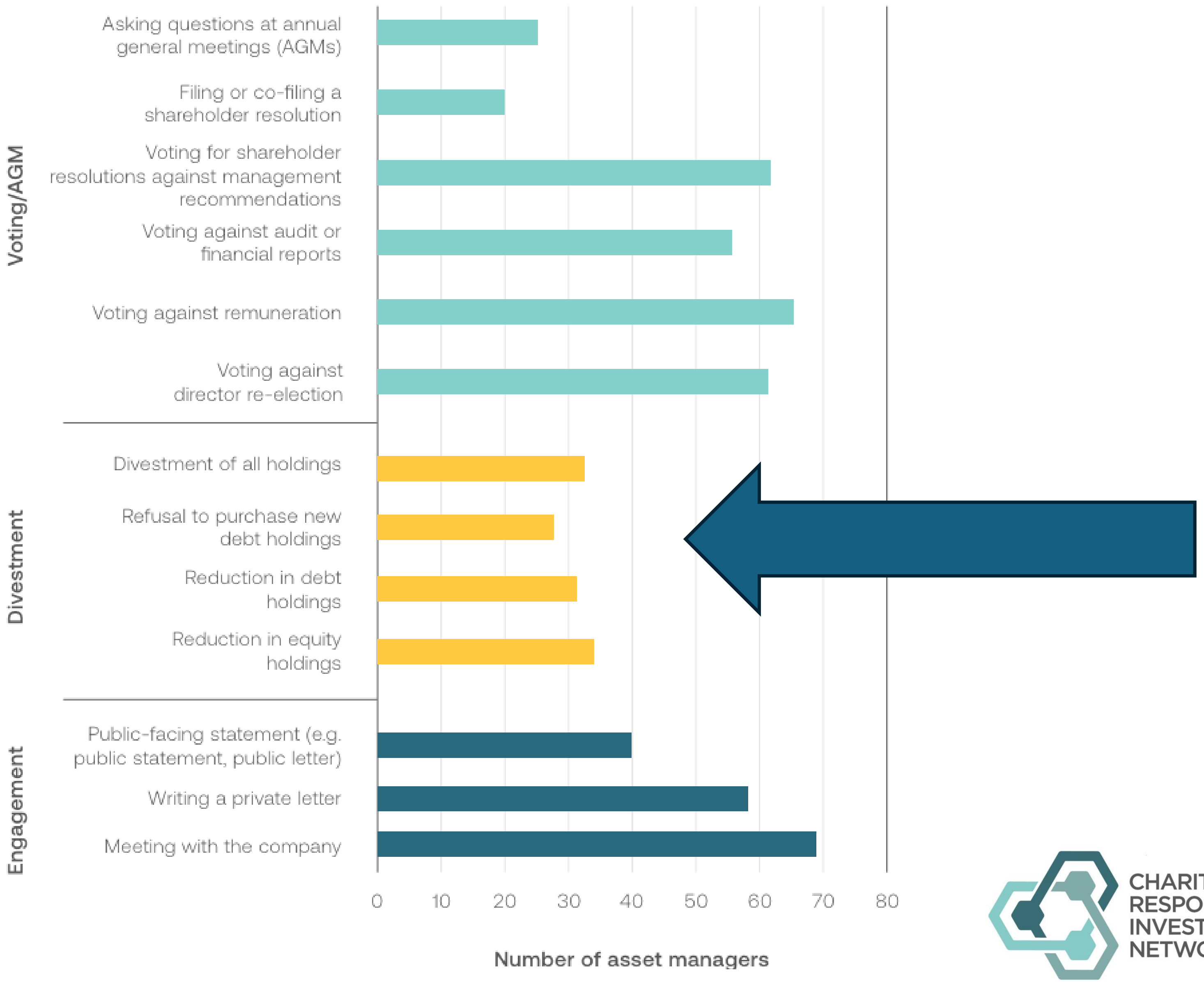
Fund managers aren't using divestment enough as part of their engagement

Figure 9: Private meetings and voting at AGMs were the most common engagement activities, with divestment and filing resolutions less frequently used



ShareAction, *Point of No Returns 2023*

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What can you do as an asset owner?

What can you do as an asset owner?

- Set your **priorities** in a clear RI policy: objectives, any restrictions and/or red lines
- Set a **clear mandate** with your fund managers: expectations, milestones, reporting
- **Ask questions** on your fund manager's engagement approaches, decision-making and escalation tactics, and transparency
- **Be directive, communicative and willing to move fund managers where they fall short!**

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Divesting may be necessary in some instances

- Divest for critical issues in line with your mission and values
- Divestment can **set norms** and drive policy change
- Divestment is **not just about shares**: it can be impactful for debt and banking
- It's most effective when investors **communicate** with the company, act as a **group,** and act **publicly**!

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Engagement together is more powerful

- Collaboration gives more weight to individual asks!
- CRIN members have engaged directly with companies and with asset managers
- Engagement and escalation has resulted in changes to company policies and divestment from companies

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Dealing with the "engagement vs. divestment" question: *Dunhill Medical Trust*

Remarkable research for healthy ageing

THE DUNHILL MEDICAL TRUST

The Development of an Engagement Strategy

Andy Gnaneswaran – Head of Investment

“We fund the remarkable science and the radical social change needed for healthier older age”

The Dunhill Medical Trust is an independent charitable foundation, established in 1950, focused on understanding the mechanisms of ageing and age-related disease and improving health and social care for older people.

The Trust has an endowment of approximately £165 million, which it uses to fund its charitable activities, distributing around £5M annually in grant-funding for scientific and academic research.

Engagement Models: Background

Definition of Investor Engagement

Engagement is the "process of using [an asset owner's] influence as an investor in a corporate entity, to leverage improvement in their environmental, social and/or governance (ESG) performance. The aim of engagement could be to promote a non-financial objective or to improve the financial performance and governance of investee companies."

There are three main questions that underpin an engagement strategy:

- **Engagement Target:** Who are we trying to influence?
- **Engagement Objective:** What are we trying to get them to do?
- **Engagement Activity:** How are we going to try and change behaviour?

Engagement Targets

Who could we try to influence?

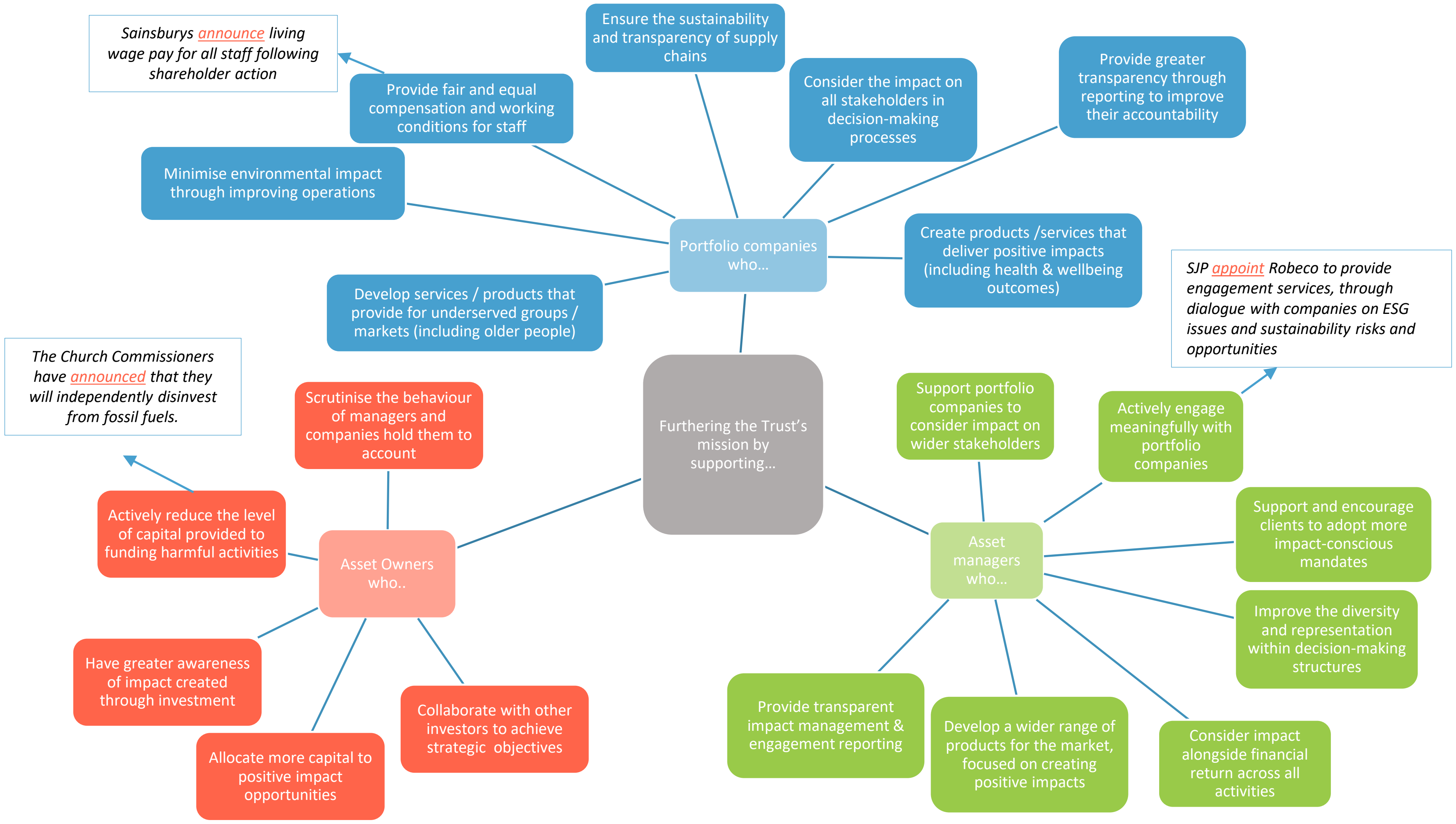
From the perspective of an asset owner, there are three main groups that investor engagement activity may look to target:

1. **Underlying Assets (Portfolio Companies):** Portfolio companies are ultimately the primary target of engagement activity, with investors looking to change how the company behaves and operates in line with specific objectives and priorities. Investors exert influence on individual companies primarily through their shareholding position, representing their ownership stake in the company.
2. **Asset Managers:** Asset managers act as intermediaries, selecting the companies in investment portfolios, conducting engagement with those firms, casting votes on directors, and generally influencing the business community. They typically have more staff, resources, and analytical insights for stewardship activities within their organisations than most asset owners.
3. **Asset Owners:** Influencing other investors can range from working with one large investor to change their investment approach or influencing a group of investors to think differently. With public market assets, working with other asset owners is vital, to generate a sufficient shareholding position to potentially affect change or influence behaviour with the target company.

Beyond the main groups there are also other stakeholders such as central government, where engagement objective may seek the introduction of relevant legislation that could impact on portfolio holdings.

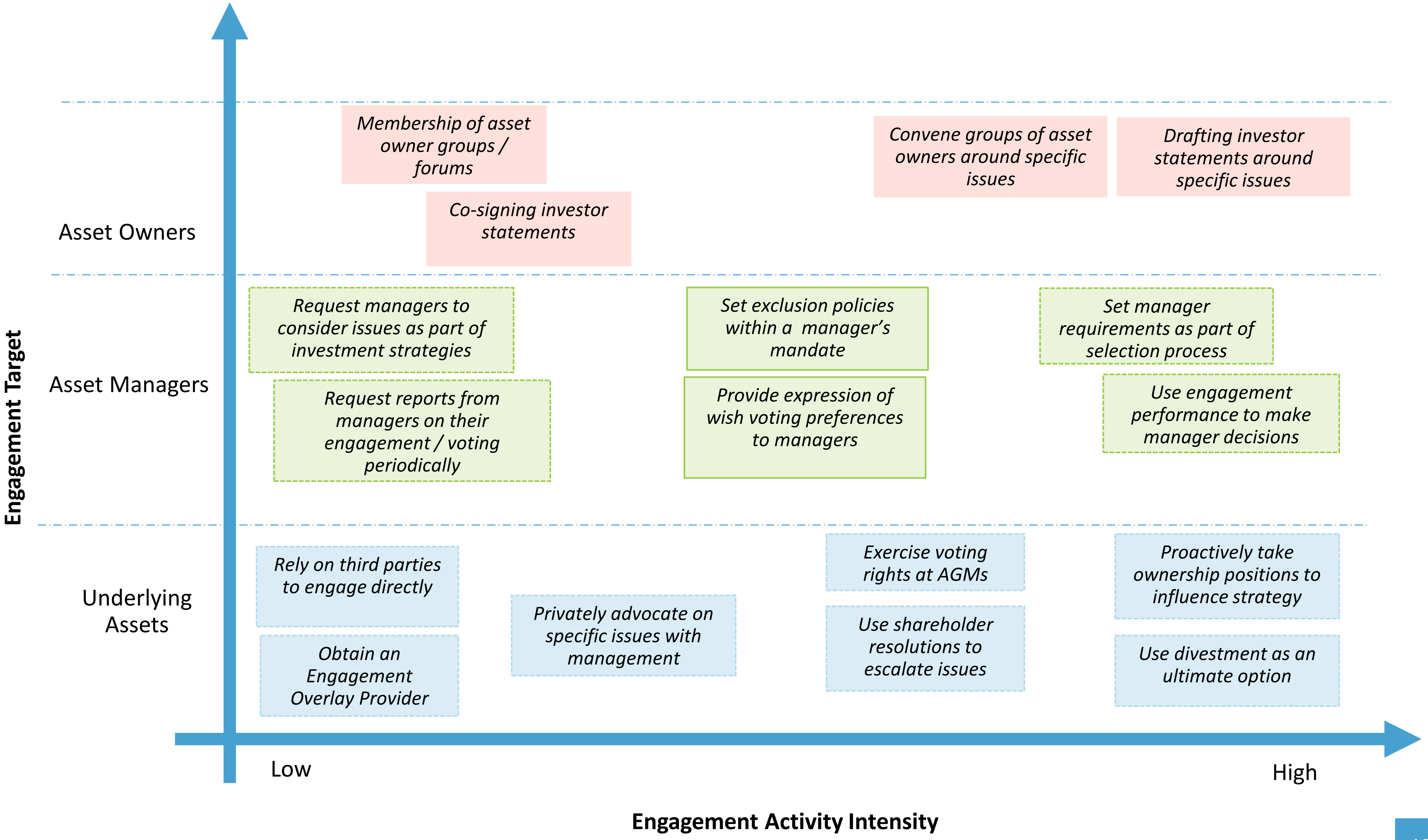
Engagement Objectives

What could we aim to achieve?



Engagement Activities

How do these different activities compare in levels of required resource and intensity?



The Trust's engagement model

Summary of approach – target, objectives and activity

Engagement Target	Engagement Objective	Engagement Activity
Portfolio Companies: Only those where we directly hold positions rather than through intermediaries (including equity and other capital structures)	To support the company to engage with and understand the social determinants of health and to put policies in place (and/or develop products and services) which support lifelong health and well-being	Meet with the Board / senior management to input on company strategy, sharing knowledge, networks and skills from the Trust to influence company behaviour
Asset Managers: Both existing and potential new manager relationships, across both public and private markets	To encourage good stewardship over portfolio companies – supporting them to take impact conscious decisions beyond prioritising financial value alone.	Create an engagement plan that: (1) identifies alignment of holdings; (2) obtain engagement objectives of portfolio companies from managers; (3) monitors the success of their engagement activity
	To encourage good practices within the investment sector, through championing diversity of staff, good working conditions and consideration of impact within all investment decisions	Develop an approach to assess managers / fund strategies against DMT principles. Use proxy measures to track performance, encourage progress and inform future investment decisions
Asset Owners: Primarily other endowed grant-funding trust and foundations	To encourage more charitable assets to be invested in an impact-conscious manner with responsible stewardship aims	Share our experience and knowledge with other asset owners, primarily through participation in existing networks and events

Engagement vs Divestment

Engagement as a shareholder should be adding value!

Companies are likely to listen to shareholders when they believe the engagement objective aligns with their own – **maximising shareholder value**.

Engagement with companies is most effective when there is a **clear understanding of how the topic will add value to the company in the long-term**, aligning incentives for all parties.

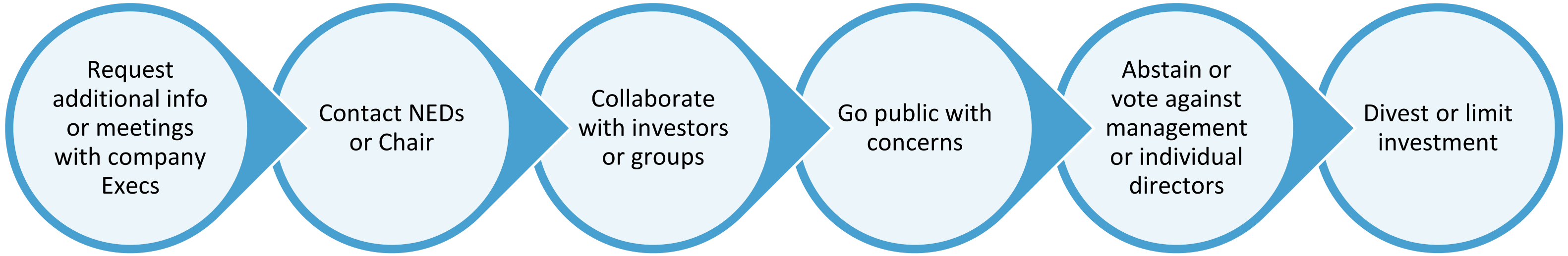
E.g. Baille Gifford engaged with UPS (the delivery company) around transitioning their fleet to electric vehicles. This was both to reduce their carbon footprint in the short-term – but equally important was the articulation of improving efficiency and increasing fuel savings.

Where engagement objective is to change the company's behaviour in a way where the added benefits are harder to identify – the engagement is less likely to be successful.

Engagement vs Divestment

When to divest?

There are many steps that can be taken to try and influence a company to change its behaviour, before divestment is required.



However, there are some instances where the change that charities are seeking to achieve, is not aligned with other shareholders, or in maximising shareholder value. **When the company's revenue model** is unlikely to change and may be **incompatible with the charity's values / mission**, that may be the point of divestment.

E.g. The revenue model of British American Tabacco is dependent on the production, sale and consumption of cigarettes – products that are inherently harmful to health. Whilst engagement may lead a transition to vapes and other nicotine products, the company would consider that transition as not maximising revenue, given its specialism in Tabacco goods. Engaging with the objective of a full cessation of tobacco goods is unlikely to add-value for the company in the short-term, and unlikely to align to the desires of other investors. For a health-focused charity, that might lead to a divestment decision…