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UNIVERSAL OWNERSHIP

A guide for charity
and university
asset owners

About this brief

This brief was written for the Charities Responsible Investment Network (CRIN) and Responsible Investment Network – Universities (RINU). It provides an introduction to universal ownership for charity and university asset owners.

For further information about this brief, or for more information about the networks, please contact the CRIN and RINU secretariat on rin@shareaction.org.

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Author

Katie Stewart
Research Manager, CRIN and RINU
katie.stewart@shareaction.org

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Contents

Executive Summary	4
Introduction.....	6
Taking a universal ownership to investment decisions....	8
Universal ownership in practice	12
Systemic risks: climate, AMR, inequality & beyond	18
Challenges for universal ownership	22
Practical steps for charity & university asset owners.....	26

Executive Summary

Conventional approaches to investment and stewardship are failing to tackle critical environmental and social risks fast enough. As well as the huge social and human costs, systemic threats such as climate breakdown, biodiversity loss and pandemics may result in wider financial instability – presenting a risk to investment portfolios that cannot be mitigated by simply picking the ‘right’ stocks and shares.

Conventional investment approaches have typically focused on addressing investment risk through constructing a diverse investment portfolio. ‘Universal ownership’ approaches to investment instead argue that the bigger risk to investment portfolios may come from wider economic turbulence as a result of failing to tackle these environmental and social challenges.

Universal owners therefore aim to actively use their assets to reduce this systemic risk, and in doing so, preserve longer-term portfolio health. A universal owner is aiming not to ‘green’ their portfolio by blanket divestment, but to actively use their assets to reduce the environmental or social risk in the most effective way possible.

While different investors that think of themselves as ‘universal owners’ may emphasise different tools, we identify some broad characteristics that are common among universal owners and in the literature:



Even if a full ‘universal ownership’ approach to investing is not adopted, the techniques and challenges to conventional stewardship approaches may be valuable for charities and universities who are interested in using their assets effectively for their social good mission. This could involve steps such as:

Embedding expectations about preserving planetary systems into **asset manager tendering and mandates**, and **moving money away** from asset managers whose investment strategies are contributing to systemic risk.

Integrating **‘guardrails’ into stewardship and engagement activities**, with automatic escalation processes when breached.

Considering **banking relationships** as a key lever of influence, given the role of banks in providing primary financing for the expansion of harmful activities.

Engaging with **policymakers** and **collaboratively with other asset owners** to advocate for minimum standards to be embedded in law and regulation.



Universal Ownership

1. Introduction

There is growing recognition among investors that conventional approaches to investment and stewardship are failing to tackle critical systemic issues fast enough.

This isn't just a moral risk (albeit indeed a severe one); it's a financial risk. As well as the deep social and human costs, systemic issues such as climate change, biodiversity loss and pandemics are likely to result in widespread financial instability. The COVID-19 pandemic resulted in significant market turbulence in the short term, without taking into account longer-term costs of education and health disruption.ⁱ A recent study estimated the financial loss as a result of climate change range from \$3 trillion to \$38 trillion a year by 2050.ⁱⁱ

As a result, a number of emerging approaches to investment are seeking to instead assess holistically the impact of investment strategies on the wider social, political, planetary and healthcare systems which underpin financial stability. Rather than focusing on the impact and risk of individual assets, these approaches consider asset allocation and stewardship efforts by investors against this bigger picture – and how to use their power as investors to protect these systems.

This brief aims to provide charity and university asset owners with an introduction to universal ownership approaches to investing.

- **Chapter 2** provides an overview of universal ownership approaches to investing.
- **Chapter 3** outlines some of the key ways in which investors have integrated universal ownership approaches into practical capital allocation, engagement and evaluation strategies.
- **Chapter 4** provides case studies of three systemic risks that have been the focus of investor attention: climate change, anti-microbial resistance (AMR) and inequality.
- **Chapter 5** considers some of the key limitations and challenges to universal ownership investing.
- **Chapter 6** provides a set of practical steps that charity and university asset owners can take to start integrating systems perspectives into their investment approaches.

We hope this brief will be of use to both asset owners who are interested in integrating universal ownership approaches more effectively into their investment decisions, as well as asset owners who are thinking more widely about how they can use their power as investors more effectively to take action to preserve planetary and social systems in line with their charitable mission.



Universal Ownership

2. Taking a universal ownership lens to investment decisions

What are universal owners?

‘Classic’ approaches to investing typically assess the risk and impact of investments on an asset-by-asset level. The most prominent of these, Modern Portfolio Theory (MPT), is characterised by an approach which aims to balance risk and returns through diversifying a portfolio, with the investor using their influence (‘engaging’) with individual companies on their practices to raise the value and reduce the risk to the individual assets.

However, there is growing recognition among investors that these approaches to investment and stewardship are failing to tackle critical systemic issues such as climate change and social inequality fast enough. While asset-level engagement may result in individual ‘wins’ at individual companies, the sector as a whole is not moving fast enough to sufficiently address the environmental and social externalities of mainstream corporate practices.

By contrast, universal ownership approaches to investing aim to foreground the health of the economic system, rather than that of individual assets. The concept was first articulated by Monks and Minow in 1995ⁱⁱⁱ, and has since grown in prominence among larger investors such as pension funds who have a long-term stake in the stability of financial markets.

Whereas ‘classic’ approaches to investing like MPT focus on assessing asset-level risk and return prospects, universal ownership approaches argue that for long-term investors, or those who are sufficiently diversified that they own a significant share of the market, it is likely that their overall returns will be influenced more by the success of the overall market than by the value of individual stocks. In contrast to conventional measures of investment success which focus is on chasing alpha – the extent to which chosen investments outperform a given market benchmark – for universal owners, the emphasis is on protecting beta: the value of the wider market.

For universal owners, therefore, risk is not just considered at an asset level, but also in terms of the risks to wider financial and economic stability. While MPT always assumes a risk-free investment opportunity is available^{iv}, universal owners recognise that investors are unlikely to be able to ‘stock pick’ their way out of large-scale economic turbulence^v – and the emphasis should therefore be on reducing these wider economic risks. Investors should be ‘fighting climate change not just managing climate risk’.^{vi}

In practice, this may mean acting to reduce the negative externalities generated by portfolio companies which contribute to systemic risk, even if this would reduce the value of the company – as doing so would protect the value of the portfolio at large over the longer term.

How is this different from sustainable/ethical investing?

Existing approaches to ‘sustainable’ or ‘ethical’ investing often focus on exclusions of particular assets deemed to be harmful or unsustainable, and an analysis of harm based on the actions of individual companies.

Instead, the focus for universal owners is using influence to reduce the negative impact of whole sectors or industries, rather than individual assets in the portfolio. In doing so, they focus on understanding what is effective in practice in terms of using their assets to reduce harm to critical environmental and social systems, and so reduce the risk of consequent economic impact.

It is important to note that acting to preserve environmental and social systems has long been a focus of some mission-driven investors who have sought to use their assets as another lever to achieve their charitable objectives. The difference with universal ownership theory is that these topics are not just considered with a moral lens, but as issues that should be a concern for all investors on a purely financial risk basis.

What are the consequences of this for investment decision-making?

This typically entails designing an asset allocation and engagement strategy that examines the portfolio holistically, not just on an asset-by-asset basis.

Critically, for universal owners, this entails using assets specifically to address these global problems that contribute to long-term systemic risk, and not to just automatically remove them from a portfolio. To this end, there is an emphasis on identifying the **most effective action an investor can take** – whether this relates to capital allocation, stewardship or wider policy engagement – to address the issue.

For some investors, such as universities and others with significant social platforms, this may mean publicly divesting from some sectors to reinforce social stigma. For those with less of a social profile, but significant investments, this may mean focusing on using their influence as investors to halt companies' harmful practices. Universal owners focus on 'what works' in reducing the systemic risk, given the context at hand.

As detailed in **Chapter 3**, current efforts have focused on developing a set of **minimum standards** designed to prevent corporate activities that result in systemic risk, with consequences for companies who breach these standards. As the protection of these systems may also need to be done at a sectoral or governmental level, universal owners have also emphasised **collaborative investor action** and **policy advocacy** to apply these standards to all companies, including those outside their portfolio.

What if I'm not a large asset owner?

While this approach has mostly been adopted by larger pension funds and sovereign wealth funds, Quigley (2019) has argued that any person or individual with a long-term stake in the stability of financial systems can be a universal owner, including young people and universities.^{vii}

Some charities – particularly those with a set timeline for spending down an endowment – may not consider themselves to have a long-term stake in this regard. However, many of the tenets of universal ownership – including the focus on using assets strategically as effective levers for change, and specific tactics, and challenges to conventional engagement approaches – could be relevant for other asset owners who wish to use their assets strategically to fulfil their environmental and social missions.

Furthermore, it is important to remember that a number of financial risks – most obviously pandemics, but also potential impacts from passing climate ‘tipping points’ and inequality as detailed in **chapter 4** – may create severe economic impacts within very short timeframes, and therefore be within the financial window of most investors operating today.



Universal Ownership

3. Universal ownership in practice

While different ‘universal owners’ may emphasise different tools, we can identify some broad characteristics that apply across the sector and may form the basis of an investment strategy for individual charities and universities to adapt to their particular investment context.

Above all, this entails a focus on outcomes: a universal owner is aiming not just to remove harmful industries from their portfolio by blanket divestment, but to actively use their assets to reduce the environmental or social risk across the economy. Below, we highlight some methods of doing so across capital allocation, stewardship, policy engagement levers, as well as the implications for portfolio evaluation.

Capital allocation

Universal owners may choose to think carefully about the way in which their capital allocation is contributing to the systemic threat by providing the funds for the continuation of harmful activities.

In particular, a distinction is usually drawn between asset classes, to make clear the difference between **primary financing** (such as corporate debt, new equity issuances, private equity and venture capital), which provides new capital for companies to continue or refinance harmful activities; and **secondary financing**, such as listed equity (stocks and shares), in which the investment asset is traded between two investors on the secondary market and the company in question is not involved (and therefore does not experience any significant change to their finances).^{viii}

Capital allocation strategies for **primary financing** often focus on the denial of this capital to investments that are likely to contribute to systemic threats. Even if a particular investment is potentially highly profitable, a universal owner may choose not to invest if the activity contributes to wider environmental and social damage, and therefore exacerbates systemic economic risk that may later impact the whole portfolio.

With regard to **secondary financing**, universal ownership typically emphasises focusing on using influence with companies over divestment of listed equity holdings in the first instance, as the threat in question relates to the wider economy, and individual investors cannot therefore ‘stock pick’ their way out of the wider economic turbulence.^{ix} (Stewardship strategies are covered in more detail in the following section.)

However, while divestment itself may not significantly affect stock price^x, investors with **significant public platform or high social standing – such as a university or large charity** – can have a wider influence on helping to stigmatise certain industries or companies by making their divestment public; thereby helping to create momentum among larger investors, and opening the space for wider attention from policymakers and regulators.^{xi} Similarly, where engaging with companies on their practices has not resulted in any impact, divestment enables the asset owner or asset manager to reallocate that capital to other companies where they may have more opportunity to wield influence.

Finally, some universal owners may choose to actively contribute to reducing the systemic threat by purposefully **allocating some of their capital to positive environmental or social activities** and not just away from the most harmful ones. As with the above, investors may draw a distinction between primary and secondary financing, emphasising investments that actively contribute new capital to fund the expansion of activities that stabilise environmental and social systems, rather than simply buying the shares of ‘positive’ companies in the secondary market.

Portfolio stewardship

Systems-level stewardship focuses on thinking about the preservation of critical social and environmental systems which underpin the wider health of an investment portfolio and economic system.

A universal owner who is interested in preserving these systems may consider it prudent stewardship to use their influence at investee companies to pressure them to cease harmful activities, even if this means a reduction in the value of the individual asset, if doing so would help to preserve the health of the wider system (and thus the financial wellbeing of the investor themselves). This includes, for example, using influence with fossil fuel companies to pressure them to cease fossil fuel exploration, even if this would result in a reduction in the investment value of the company itself.

Existing universal owner frameworks^{xii} have typically put emphasis therefore on moving past engaging at an asset-by-asset level, and focusing instead on putting in place **minimum ‘guardrails’** that every company in a sector should meet to reduce the systemic threat; as detailed in **section 4**, this may include for example ceasing fossil fuel expansion and anti-climate lobbying, and adhering to best practice standards on the use of antimicrobials.

Companies that breach ‘guardrails’ could be subject to immediate sanction, such as votes against management at AGMs, denial of refinancing or even shareholder litigation if the company in question is participating in practices that may make it vulnerable to future lawsuits, causing a loss in value.

The intention of ‘guardrails’ is to create a clear and consistent sector norm for companies to meet, and to enable investors to set out clear expectations for companies without the need to spend resource judging each company’s action on a case-by-case basis. By setting a consistent norm, this may also reduce the risk of asset owners being accused of ‘acting in concert’ to influence companies (thus risking difficulties relating to competition law); and create the enabling conditions for policymakers to consider regulation – which may be backed by the companies themselves to ensure their competitors are held to the same standards.

This could also involve thinking about which areas of stewardship will have the most strategic ‘added value’; for example this could include:

- instead of focusing on specific aspects of workers’ rights, focusing instead on enabling trade unions, to better support workers to undertake these campaigns themselves;

- urging pharmaceutical companies to put in place wider patent-sharing structures to increase health security in the face of future pandemics, rather than the sharing of specific vaccines; and
- focusing on halting harmful lobbying practices by companies, as this may have significant ‘waterfall’ effects throughout the sector and political landscape.

While many charities and universities do not engage with underlying companies themselves, they could set out these expectations of their fund managers, and, as detailed in [section 6](#), take measures to embed this in their investment strategies via future tendering processes, manager evaluations and formal mandates.

Case Study: Jesus College, University of Cambridge

Jesus College is a constituent college of the University of Cambridge, with a £238 million endowment.

Jesus College recognises itself as a Universal Owner, and has reshaped its investment policy to reflect the self-identified need to protect its long-term investments by reducing the systemic threat posed by climate and biodiversity collapse.

The College's responsible investment policy includes:

- Where possible, investing only in fixed-income, private equity and alternative asset funds that exclude fossil fuels;
- Engaging with their asset managers to ensure they are proactively engaging with investee companies to drive science-based emission reductions;

Setting an expectation for investment managers to:

- Vote in favour of climate resolutions on a comply-or-explain basis;
- Vote against the re-election of directors at companies pursuing harmful strategies or with excessive remuneration packages that are not linked to environmental metrics; and
- Vote against the reappointment of auditors who sign off accounts with unrealistic assumptions relating to environmental risks and stranded assets.

The College has also divested both direct and indirect investments in fossil fuels, to capitalise on its social influence as a respected education institution; set a goal for its investments to be net zero by 2038; and allocated a portion of the endowment to funds that focus on positive environmental improvement.

"The College acknowledges that, as well as taking account of the investment risk associated in investing in assets that may be affected by the long-term impact of climate change, the risks associated with climate change are systemic and cannot be mitigated in full through diversifying away from them. Therefore, in considering how to manage its endowment, these risks must also be mitigated through effecting change in the economy and society..."

- Jesus College Responsible Investment Policy

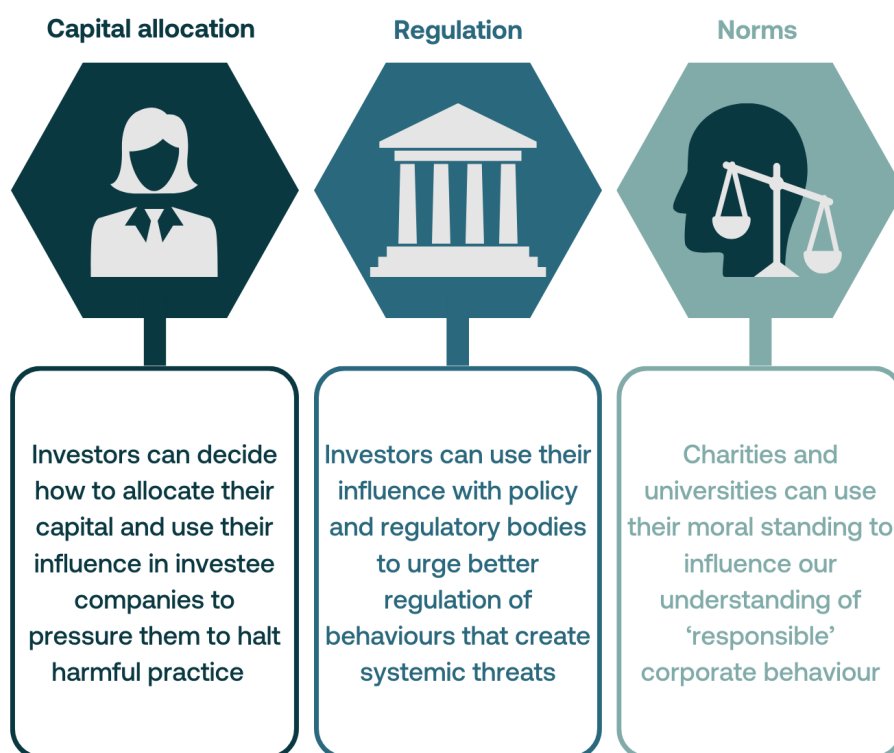
Jesus College has also been concerned about the impact of its banking relationships, given the role of banks in directing the majority of new financing for fossil fuel expansion; however found that there were no products available on the market that could meet their cash flow needs. They were consequently involved in designing and launching a Request for Proposals, subsequently joined by over 70 other Higher Education institutions, inviting the sector to design and offer cash and money-market products that do not contribute to the further financing of fossil fuel extraction, and are therefore in the long-term economic interests of the College.¹

Policy engagement

Even with ‘guardrails’ in place, it may be that voluntary company action is not fast enough to address the issue in question. Universal owners may therefore seek to protect the wider economic system – and thus the health of their portfolio – by engaging directly with policy and regulatory bodies to seek to embed guardrails in regulation and legislation; and to encourage direct government action to reduce the systemic threat (for example, by taking stronger climate action, or embedding higher standards of investment institutions).

To do this, investors may take part in wider sectoral or collaborative initiatives, or engage policy and regulatory bodies directly. Even as relatively small investors, the public platform and social standing of charities and universities may enable them to wield significant ‘soft power’ as investors at the intersection of morality and finance, and able – by virtue of their organisational expertise – to join the dots for policymakers between the environmental and social risks and wider economic stability.

Example levers of power open to charity and university investors



Evaluation

When it comes to evaluation of the portfolio success, a universal owner may choose to integrate metrics that go beyond general returns, and instead reflect measures of environmental or social systems health.

This may include for example integrating metrics such as:

- The number/proportion of portfolio companies adhering or not adhering to key guardrails;
- Actions taken to escalate with those companies who have breached the guard rails, such as votes against director re-election at AGMs;
- Wider actions taken by the investor to engage with policy and regulatory bodies to encourage stronger policy action to reduce the risk.

Investors who primarily invest via a fund manager or with significant input from consultants can ask for this data and/or seek to embed this in mandates to ensure their managers and consultants are tracking this.



Universal Ownership

4. Systemic risks: climate, AMR, inequality and beyond

In this section, we provide an overview of the three topics that have received significant attention for their potential to cause economic instability for universal owners, and emerging topics which may be fruitful areas for further collaboration.



The link between climate breakdown and the potential financial impact is now well established in literature. Changing weather patterns are likely to have severe impacts on food production and habitability of certain regions, thereby disrupting supply chains and causing mass migration – with consequent severe political, social and financial upheaval.

Furthermore, emerging research has alleged that the portfolio impacts being projected by existing models severely underestimate the scale of damages, and do not take into account ‘tipping points’ and cascading risks.^{xiii} Government policy responses to crises and lawsuits for damages could also render some heavily polluting industries as ‘stranded assets’, resulting in an immediate decline in value and further economic disruption as effects occur ripple through supply chains.

It is unsurprising therefore that the topic has thus been at the forefront of work in the Universal Owner sphere.^{xiv} Existing work has been done on minimum ‘guardrails’ that investors should be using^{xv} – chief amongst these halting further exploration of fossil fuels – with some commentators indicating that inaction on the part of investors and the continuation of investments in fossil fuels may itself be a breach of fiduciary duty.

^{xvi}



Anti-microbial resistance (AMR) refers to emerging strains of bacteria and viruses that develop resistance to common antibiotics and anti-microbial medicines used to fight them and return patients to health. The growth of AMR is of key concern to health authorities, who estimate it was responsible for or contributed to over 6 million deaths worldwide in 2019.^{xvii}

Work done by NGO the Shareholder Commons has drawn a link between the risk of increased AMR and systemic risk, thereby concluding that AMR should be a key concern for universal owners.^{xviii}

A 2017 World Bank report estimated that the world could lose 3.8% of annual GDP by 2050, comparable to the loss experienced during the 2008-2009 financial crisis, but as a permanent loss rather than one-off economic shock that is subsequently recovered.^{xix}

Actions to mitigate this could therefore include both focusing on the supply of antimicrobials, such as using influence at pharmaceutical companies to prevent the unrestricted sale of antimicrobials to any organisation who may misuse them; increasing investments in newer drugs; and demanding, by using influence at downstream users of antimicrobials (such as large animal agriculture firms and their supply chain customers) to halt the unnecessary use of the medicines.^{xx} Investor coalitions such as Investor Action on AMR² and FAIRR³ have identified AMR as a systemic risk to portfolios and are aiming to mobilise investors to act, including advocating for wider policy and regulatory change.⁴



Analysts have proposed myriad ways in which deepening wealth inequality may result in increased financial risk.^{xxi} On a purely financial level, deepening inequality and the resulting increased reliance on credit and/or drop in consumer spending may result in economic vulnerabilities which directly contribute to financial crises (such as during the 2008-2009 crisis^{xxii}), or make correcting economic recessions more difficult. As capital continues to accrue returns at a greater rate than labour,^{xxiii} there is a risk that this becomes a self-reinforcing cycle, with asset price inflation in key sectors (such as housing) further increasing indebtedness.^{xxiv}

At an indirect level, inequality may make it more difficult to address other environmental and social issues (such as those detailed in this section) which result in their own financial risks. Meanwhile, popular discontent at rising inequality and the economic consequences for families may result in the rise of extreme political movements and social unrest.

There are multiple drivers of inequality, and therefore multiple levers which a universal owner could use to address this. For example, NGOs the Shareholder Commons and ShareAction have analysed the links between low wages and systemic financial risk, assessing that poverty wages have an impact throughout the wider economy that may harm investors' portfolios.^{xxv}

Other potential drivers of inequality which universal owners could focus on include: regressive tax practices by corporations; corporate practices which prioritise short-term value extraction, such as share buybacks and unsustainable debt levels; the financialisation of critical services, such as water, shelter and public transport^{xxvi}; the undermining of trade unionisation and worker's rights; and corporate practices with a direct negative impact on public health.

Emerging topic areas

While climate change, AMR and inequality are the most prominent of the 'system-level' issues being tackled by investors – in part due to the established links between the topic and projected economic impact – the framework could be applied in practice

to many areas in which an argument can be made as to the materiality of the topic. Furthermore, as many of these risks are inherently interlinked – for example, climate breakdown may increase the spread of disease, while in turn pandemics may distract policymakers’ attention from addressing climate breakdown. There is a possibility that risks may ‘cascade’ through a system, with severe shocks in one area exacerbating, or making it more difficult to mitigate, risks in other areas.

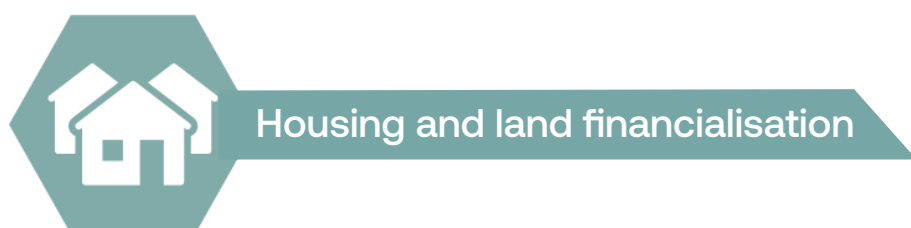
Below, we present how this could be applied to selected emerging topic areas (although many others could be included).



The COVID-19 pandemic resulted in significant economic and social turbulence as well as the direct impact on public health; costs that are likely to outstrip pandemic prevention measures.^{xxvii} A universal owner may therefore have a direct interest in using their investor power to end unsustainable corporate practices (such as inadequate animal husbandry practices and deforestation) which may contribute to the emergence of future diseases. They could also support efforts to mandate pharmaceutical firms to increase vaccine equity and the sharing of key patents and other medical technologies with other countries to strengthen pandemic responses.



The increasing use of AI may result in widespread social instability due to job losses and the spread of disinformation, and financial risk due to the concentration of corporate power and impact on employment levels. Meanwhile, the use of autonomous decision-making in critical infrastructure may create further unforeseeable risks. Universal owners may therefore have a direct interest in overseeing the use of AI systems to ensure they are transparent, ethical, safe and subject to appropriate regulation.



Investors with significant real estate assets may wish to consider the ways in which the financialisation of land and housing have resulted in high housing costs in some countries – with consequent effects on public health due to deteriorating stock; potential political instability and social unrest; and potential financial instability via indebtedness levels and the impact on consumer spending.



Universal Ownership

5. Challenges for universal ownership

In this section, we cover some of the key critiques of taking a universal ownership approach to investment.

What if the relationships between some topic areas and financial risk are not clear-cut?

One challenge relates to the ability to attribute investor action and the cause at hand to financial risk.

For some topics, this will be easier than others; for example, as detailed in **section 4** it is relatively straightforward to draw links between climate breakdown and financial risk. Meanwhile, developments in attribution science^{xxviii} are enabling responsibility for climate damages to be articulated at an asset level, enabling very specific and direct stewardship.

However for other topics, this link may not be so clear-cut – and so it may be more difficult to articulate clear links between the issue at hand and consequent financial risk. This may require more analysis and research to clearly articulate these links and thus convince some investors to act, particularly in light of fiduciary duty concerns above.

However, an absence of evidence linking environmental or social damage to financial risk is itself not evidence that these links are absent; and even if links have not been proven, this does not necessarily mean that the investor should take no action. Taking a risk-based approach to investing means making a judgement in good faith and based on a balance of probabilities, rather than assuming that ‘no action’ should be the default until a high evidence bar is met. Indeed, as we discuss in the section below, organisations with legal duties to manage investments on behalf of others may nonetheless find themselves challenged for not acting to prevent harm caused by their investments.

Does universal ownership take into account asset manager structures and incentives?

While universal ownership’s broadened understanding of risk may be sound, the theory doesn’t take into account the practical implications of asset manager business models.

At present, the majority of charity and university asset owners – like pension funds – invest via asset managers, meaning the implementation of a universal approach to investing may depend on the willingness of those asset managers to use their influence in manner aligned with universal ownership principles.

However, for many asset managers, it is likely that short-term incentives for investment teams are unlikely to be aligned with universal ownership approaches to investment. For many asset managers and company directors, investment performance is tracked over relatively short timeframes (such as quarterly or monthly), driving a focus on improving short-term corporate earnings and/or share prices at the expense of long-term risk management. Similarly, systemic risks may be beyond the horizon which an individual fund manager or company director expects to stay at a particular firm,

reducing the incentive for them to make investment decisions based on long-term performance.

A similar point has been raised by Braun and Buller^{xxix} (2021); they argue that the incentives for these asset managers may not map neatly onto the universal ownership analysis of risk.

The largest asset managers may own a significant slice of a market, meaning their profitability is likely to be more influenced by monetary policy trends than stock market trends, thereby providing more incentives to focus (at least in the short term) on lobbying government on economic policy rather than stewardship efforts.

The consequences of this argument are not spelled out, but implies that policy and regulatory change is arguably more important than voluntary investor action, as coalitions of universal owners are unlikely to achieve meaningful change without the participation of major asset managers, who have power over significant investments in the biggest listed equity companies. As detailed above, emphasising policy engagement over engagement with companies may nonetheless be consistent with a universal ownership framework.

It also implies a role for asset owners in taking steps to ensure that assets invested by intermediary firms are being invested in line with their values, to increase the asset manager's incentives to act in order to retain these clients. This may include for example putting in place specific mandates to ensure that their assets are being invested and voted on in line with a universal ownership framework⁵; and being willing to switch to an alternative manager if the existing one is not sufficiently acting to reduce systemic risks.

Isn't universal ownership trying to solve what are fundamentally policy problems?

Both challenges above raise nuanced points, and point to the limits of relying on viewing environmental and social challenges purely with a risk lens, in which investor action can be justified only with reference to financial risk.

This may raise concerns about overstretching to articulate links between causes and risk, even where relationships are tenuous; as Gosling (2024) notes, 'it would be remarkable if we were so fortunate that the optimal action on climate from a financial markets perspective were also the optimal action from a social welfare perspective'.^{xxx}

Similarly, while systems-level stewardship may support strong investor action on areas where a clear link to financial risk in the Global North can be made, it is less clear that investors will accept the argument for other topics – say, for example global labour rights and plastic pollution – for which a lack of action has to date been highly profitable for large investors, and the direct link to systemic financial risk is less clear.

For such topics, universal ownership techniques and approaches may be a useful, but far from sufficient tool – meaning broader-based movements for political and social

change are still necessary. To some extent this is recognised in the theory. Universal ownership is not just about driving change at an asset level; by applying ‘guardrails’ approaches, universal owners aim to create an enabling environment for authorities to take policy action, by building support for regulation among companies themselves.

However, while voluntary investor action may complement these wider movements, it does raise a risk that such efforts, if done ineffectively, may distract policymakers from more taking necessary steps by making it seem that the investment sector is self-organising.^{xxx} As detailed in section 3, therefore, the success of investor efforts would need to be measured on the extent to which they have resulted in real-world change in the given area, and against the risk that voluntary investor coalitions undermine wider efforts to push for regulatory or political change.

Are universal ownership approaches consistent with fiduciary duty considerations?

Some commentators have raised concerns about whether taking a universal ownership approach to certain goals may not be compliant with the legal duties of organisations who manage investments on behalf of others (‘fiduciary’ organisations), such as pension funds.

For charitable organisations in England and Wales, a 2022 High Court ruling confirmed that charitable organisations are allowed to balance the climate impacts of their investments with returns in making investment decisions, in line with their charitable missions.^{xxxii} The Charity Commission updated its guidance for charity investments (CC14) in August 2023 accordingly.^{xxxiii}

For pension funds and other fiduciaries, however, the legal position is more nuanced. A 2021 report by Freshfields Bruckhaus Deringer LLP reviewed the law in eleven key jurisdictions and concluded that where a fiduciary assesses that (or ought to assess that) sustainability factors pose a material risk to its ability to reach its financial objectives, it will generally have a legal obligation to consider what it can do to mitigate that risk.^{xxxiv} Indeed, as NGO ClientEarth has argued, organisations with legal duties to manage investments may find themselves legally at risk for not acting to prevent harm caused by their investments.^{xxxv}

However, in practice much of this remains legally untested – particularly for risks other than climate breakdown – and there remains disagreement over the extent to which this enables trustees to make specific investment decisions that potentially forego short-term gains in order to mitigate portfolio-wide systemic risks. In light of differences in interpretation of fiduciary duty and continued uncertainty for pension trustees in relation to their legal duties, responsible investment charity ShareAction is campaigning for the law relating to fiduciary duty to be clarified to confirm the legality of a wider interpretation of beneficiaries’ ‘best interests’ to include critical environmental, social and quality of life factors.^{xxxvi}



Universal Ownership

6. Practical steps for charity and university asset owners



Many smaller investors invest primarily through asset managers, so do not necessarily have power to allocate capital at a granular level. However, there are practical steps that even smaller asset owners can take to embed systems-level thinking into investment strategies. We outline some of these below.



Integrate systems-level thinking into your investment policy

Asset owners can review their own investment policies to integrate measures which recognise and preserve the value of key environmental and social systems. This may involve thinking carefully about capital allocation and engagement strategies, and how to evaluate the performance of a portfolio in terms of the overall impact on wider systems, not just individual ESG metrics or financial returns.

Critically, this may involve thinking honestly about the level of return that the investor is planning to target, given that historical patterns of return have been based on investment strategies in which profits have often been derived from companies creating negative environmental and social externalities.^{xxxvii}



Integrate criteria relating to environmental and social systems in your tendering processes and mandates for consultants and asset managers

Asset owners can actively integrate systems-level considerations into their relationships with their service providers. This could involve, for example, including questions in request for proposals (RfPs) and tendering processes about the way in which prospective asset managers and consultants integrate systems considerations into their strategies; and building expectations on engagement, voting and respect for key guardrails into asset manager contracts and mandates.



Monitor asset manager company engagement and adherence to key 'guardrails'

Asset owners can monitor the performance of their asset manager on an ongoing basis to assess the impact of their investment decisions on critical environmental and social systems. This may involve, for example, monitoring whether the asset manager is using their influence with companies to drive change, and imposing consequences where the company is not responsive; asking to see the asset managers' votes to understand whether they are voting against key 'guardrail' measures and

using their votes against directors to meaningfully challenge companies who are not meeting minimum criteria. (as outlined in chapter 3).

Asset owners should ensure they are asking about activity across the asset manager, and not just at a fund level – to ensure that any action taken in favour of preserving environmental and social systems is not being ‘cancelled out’ by the votes cast by the other funds!



Use client power to escalate action with asset managers where necessary

Engagement is only effective with potential consequences; asset owners should therefore be ready and willing to switch to different investment managers if their current providers continue to engage in investment practices which increase systemic risks and are not in clients’ long-term economic interests.

Switching asset managers and consultants where service providers are failing – and doing so publicly – may send a valuable signal to the market about the risk to business if they fail to meaningfully integrate systemic environmental and social risks into their strategy.



Direct capital towards solutions

Preserving systems isn’t just about halting the harmful activities – it may also mean investing in solutions to repair or improve environmental and social systems and to reduce the risk already ‘baked in’ from previous corporate practices.

This could mean, for example, allocating some investments with the aim of increasing the amount of capital going towards activities and businesses which aim to deliver environmental or social good and thus reduce wider systemic risk. In doing so, it is important to ensure the capital is additional, and not just displacing state investment.



Think past investments – consider banking relationships

While conversations on responsible investment typically focus on how and where assets are invested, banks continue to have significant impacts on systemic risks through their financing activities; for example, a 2024 report found that since the Paris

agreement, the world's 60 biggest banks committed USD \$6.9 trillion to the fossil fuel industry.^{xxxviii}

University and charity asset owners can also think about the way in which their banking relationships may be lending capital and legitimacy to institutions that are actively financing activities that threaten social and planetary systems; and seek alternative banking relationships that are in line with their values.



Engage in policy and sectoral initiatives to advocate for minimum standards

As outlined in chapter 3, systems-level approaches mean thinking past individual company engagement, and focusing instead on ensuring minimum standards across sectors. This may involve engaging more with policy than with companies, to advocate for the reduction of systemic risk via government action to regulate a sector, enforce minimum standards or take their own action to reduce a risk (for example, by strengthening climate policy).

Doing this in collaboration with other investors may help to leverage the moral weight of the charity and university sector and strengthen campaigns.



Whatever you do – do it loudly!

Despite being relatively small investors, charities and universities carry significant moral weight and are often able to secure media coverage via their public profile. Charity and university asset owners can therefore use this profile to challenge companies and financial institutions directly and have impact beyond their own holdings by helping to shape market norms, even if the relative financial impact of a decision to divest or switch provider is relatively small.

This may include making public statements about investment preferences and decisions; co-filing shareholder resolutions which are likely to garner media attention; and making public any decisions to divest from service providers or investments.

To discuss what further resources that CRIN and RINU may be able to provide to support asset owners on integrating universal ownership and systems-level thinking into their investment approaches, please contact rin@shareaction.org.

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