



THE IMPACT OF EQUITY ENGAGEMENT

IE2 Phase II

A MULTI-STAKEHOLDER INITIATIVE

The Impact of Equity Engagement (IE2) is a new multi-stakeholder initiative designed to evaluate the impact of investor engagement with publicly traded corporations.

Background

Investors concerned about the social and environmental impact of their investments are grappling with the place of publicly traded corporations in their portfolios.

New waves of “impact investors” are increasingly demanding measurable ways to create positive impact across their investments, while growing numbers of asset managers and institutional investors have committed to becoming more engaged investors on environmental, social and governance issues through initiatives such as the UN-backed Principles for Responsible Investment (PRI).

At the same time, engaged shareholders have had long-standing experience using “the power of the proxy” and their voices as investors to hold companies accountable for the impacts they have on employees, stakeholders, communities, and ecosystems. Yet even as more investors raise ESG issues with companies, and more companies change their policies and practices in response to these engagements, public understanding of the impact of shareholder engagement remains largely anecdotal.

Given the large social and environmental footprints of publicly traded corporations and the persistently high allocation to public equities in most investor portfolios, corporate engagement presents a major opportunity for impact investors. Yet impact investing, as currently practiced, concentrates primarily on small-scale direct investments in private equity and debt.

Responding to these developments, the IE2 initiative is establishing a more robust, rigorous framework for understanding and documenting the impact of shareholder engagement.

In a first phase, the initiative has developed a system for engaged investors to track their engagements with companies on pressing environmental and social issues. Rooted in cutting-edge research from the field, the framework was developed in close consultation with engaged investors and stakeholders.

IE2 is now beginning to transform its framework into practical tools for investors. IE2 aims to help impact investors understand the opportunities for achieving positive impact within listed equity investments. It gives PRI signatories and other active shareowners a full menu of options for being engaged investors. And IE2 can demonstrate how investor-company engagements can be in the long-term best interests of companies, shareholders, and the stakeholders affected by corporate activities.

IE2's PHASE II OBJECTIVES

The second phase of IE2 aims to:

- Administer a pilot impact assessment and reporting framework with a group of engaged investors and stakeholders.
- Develop and beta-test a user-friendly, web-based version of the reporting framework so that engaged investors can track their activities more rigorously.
- Analyze preliminary data on the features of high-impact shareholder engagement and develop new ways for investors to measure the impact of their engagement activities, while respecting the deeply qualitative nature of many social and environmental gains.
- Extend a consultation process with wider groups of investors and stakeholders, including an in-person convening to share initial learnings from the initiative.
- Communicate our findings to broader audiences.

The initiative is being coordinated by



www.croataninstitute.org/ie2

Genesis of the Initiative

As recent research on “total portfolio activation” brought attention to impact investment opportunities across asset classes, investors began demanding a deeper understanding of the social and environmental impact of investing in publicly traded corporations.¹ Initial research has identified active ownership as among the highest impact activities for public equity investors.

Over the past 30 years, coalitions of investors have used the tools of shareholder engagement to positively impact labor standards in the apparel industry supply chain, workplace diversity and non-discrimination, the disclosure and regulation of toxic chemicals and conflict mineral sourcing, enhanced management of water risk, and the reduction of greenhouse gas emissions driving climate change.

Investors have used a wide spectrum of activities to engage with public companies, from limited actions such as casting proxy votes on shareholder proposals to more assertive engagements such as coordinated, multi-stakeholder corporate campaigns.

At an initial convening of investors and

stakeholders held in Boston in December 2013, a group of engaged investors agreed to create the Impact of Equity Engagement as a multi-stakeholder initiative for developing a more rigorous framework for documenting and evaluating the impact of these shareholder engagement activities.

Phase I

Phase I of the IE2 initiative involved research and scoping, development of a draft reporting framework, and coordination of a stakeholder consultation process. The initiative’s research team inventoried the tools of shareholder engagement and developed a comprehensive taxonomy of four key areas of investor engagement: the proxy process, dialogue, public policy, and assertive action. Based on literature and case studies from the field, the initiative has begun to isolate key factors that account for impact in equity engagement. We found, for example, that sustained engagement over time and coordination with broader networks of stakeholders are two key elements. A paper synthesizing the initiative’s initial findings and presenting a draft reporting framework was released in November 2014 and can be found at croataninstitute.org/ie2.

Phase II

In the second phase now underway, the initiative is developing new, more standardized ways to track and report engagement activities, outcomes and impacts, as well as analytical tools for evaluating investor engagements, identifying areas for improvement, and learning from others in the field.

Phase II involves implementing the draft reporting framework for use by a pilot group of engaged investors, coordinating a consultation process to obtain stakeholder feedback, and creating a revised online reporting tool. The initiative will communicate its findings at conferences and publicize the launch of the reporting tool, targeted for public release at a convening in 2016.

The IE2 initiative is currently reaching out to investors and stakeholders in order to identify partners, sponsors, and supporters for this new phase. The initiative is seeking to raise \$175,000 to fund its second phase and to transform the framework into a user-friendly, online application for investors to track, document, and assess their impact.

¹ Humphreys, Solomon, and Electris, “[Total Portfolio Activation: A Framework for Creating Social and Environmental Impact across Asset Classes](#)” (2012).

Steering Committee

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IE2 Pilot Framework Testers

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