RESOURCING STEWARDSHIP

REQUEST FOR PROPOSALS

BACKGROUND

The PRI defines stewardship as the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients’ and beneficiaries’ interests depend. Stewardship practices as well as how they can be enhanced and the way investors report on them are core to the PRI principles.

One limitation to investors effectively deploying that influence to deliver long-term value is the limited resources that the investment industry currently dedicates to stewardship. While stewardship teams at many investment firms have grown in recent years, that growth has taken place alongside other trends such as a growth in investment mandates incorporating ESG issues and passive investing. These trends have led to increased demand for investor stewardship which few firms are adequately delivering on. Research has shown that the largest investment managers’ stewardship teams oversee an enormous number of companies, over 90% of which they had no engagement with over a three-year period, and an additional 5% of which only experienced a single engagement.

Additionally, as the financial sector awakens to the notion that more ambitious stewardship is needed to deliver against beneficiaries’ interests and improve the sustainability and resilience of the financial system, resourcing of "outcomes-focused stewardship" is also crucial. However, a great number of investors cite capacity and resources constraints as a barrier to engage in stewardship activities.

Resources dedicated to both direct stewardship of investees and broader market-oriented stewardship may take diverse shape and forms and may be treated as assets or costs, making them inherently difficult to delineate from resources dedicated to other activities. They may include dedicated staff (to provide internal research and training, engage companies and other relevant stakeholders including NGOs, policy makers and initiatives, and report on stewardship activities and their outcomes), but also consultancy fees and training costs, external data provision costs or third-party certification/verification, membership fees for industry bodies and funding of sustainability initiatives, etc.

While many industry actors agree that resourcing for stewardship is an issue, there is no consensus as to what an appropriate level of resourcing to effectively exercise oversight of investee assets and improve assets’ sustainability performance to align with beneficiary and client interests could be, or how it might be calculated.

OBJECTIVES

The PRI is seeking consultants to write a report introducing a top-level calculation methodology and estimate for an appropriate level of resources that investors (asset owners and asset managers) should be prepared to dedicate to both direct and market stewardship\(^3,4\)-likely as a proportion of their assets under management - in the context of an instrumental “investing for sustainability impact (IFSI)” approach.\(^5\)

To help foster conversations on stewardship resourcing and support an increase in resources dedicated to stewardship which is commensurate with the risks posed by systemic issues such as climate change, biodiversity loss or rising inequality, consultants would develop and disclose a methodology for arriving at such an estimate. The report should provide a transparent methodology explaining how the approach accounts for different elements such as organisation size and structure, asset mixes, risk exposure, levels of diversification and investment strategies may affect stewardship resourcing needs and strategies.

Consultants may consider various approaches to assess the adequacy of stewardship resourcing, but should explicitly cover the following:

- Providing a financial rationale for increased stewardship resources by illustrating how their relative cost may compare to potential losses that typical investor portfolios may sustain in the event that key systemic ESG risks materialise. In their approach, the consultants may wish to draw on methodologies and findings of stress-testing exercises exploring the financial implications of systemic risks such as climate change,\(^6\) biodiversity loss,\(^7,8\) or flooding.\(^9\)

---

3 https://www.unpri.org/download?ac=9721
4 https://www.tiproject.com/assessing_system_level_investments/
5 “Instrumental IFSI is where achieving the relevant sustainability impact goal is ‘instrumental’ in realising the investor’s financial return goals.” See more at https://www.unpri.org/policy/a-legal-framework-for-impact
6 The Heat is on: a framework for measuring financial stress under disruptive energy transition scenarios (dnb.nl)
7 A “Silent Spring” for the Financial System? Exploring Biodiversity-Related Financial Risks in France
8 Indebted to nature (dnb.nl)
9 Flood risk and financial stability: Evidence from a stress test for the Netherlands (dnb.nl)
Conducting an analysis of best practice with regards to quantitative and qualitative analyses of resourcing related to outcomes-focused stewardship, looking at how investors currently identify and measure stewardship spend to extrapolate ideal resourcing levels and thereby provide a contextualised understanding of the current gap in stewardship resourcing.

RESOURCES AND METHODOLOGICAL NOTES

Consultants are asked to consider the current resourcing practices of leading investors and integrate practitioner input in their approach. To that effect:

- The PRI will facilitate opportunities for the consultants to access/consult relevant PRI Advisory committees and other signatories.
- The PRI signatory reporting data might provide an adequate research terrain for the analysis of current best practice.

ENVISAGED DELIVERABLES

Considering the relative scarcity of literature relevant to this research, the PRI proposes to structure this project and its delivery into two consecutive phases, each associated with a key deliverable:

**Phase 1: Internal feasibility assessment report**

The PRI is requesting that the consultants initially provide a report on the project’s feasibility which will inform the contents and scope of the public facing report to be delivered under phase 2. The internal feasibility assessment report will include:

- An overall evaluation of the project’s feasibility, focussing on extent practice with regards to stewardship resourcing disclosures, data availability/access and the potential for one calculation methodology to encompass a broad diversity of investors;
- A research plan based on the feasibility findings including a proposed methodology to approach such an estimate, mapping potential obstacles to delivery and how the consultants propose to address them where possible;
- Considerations as to which types of stewardship activities/resources/costings would be included in the scope of research and which would likely not be (and why);
- Considerations for how the research can be adapted for varying cost allocations between asset owners and investment managers depending on their mandates and strategies;
- Initial suggestions for the integration of practitioner/signatory input into next steps.

**Phase 2: Public facing report (potentially co-branded thought leadership piece)**

To inform this report, and based on the feasibility assessment findings, consultants will be requested to deliver a research document which will include:

- An overview of existing methodologies, research or initiatives seeking to quantify stewardship resourcing;
- A proposed methodology to estimate what constitutes appropriate levels of resourcing that investors should dedicate to stewardship, detailing the rationale behind the chosen scope of the calculation methodology. This methodology should be designed and caveated against feasibility,
applicability, and uptake considerations (including availability of data, ease of calculation and resource allocation assumptions):

- Feasibility assessment findings permitting, a quantitative estimate for appropriate levels of resourcing, applying the proposed methodology to one (or several) hypothetical investor(s); To facilitate a proportional and modular approach which can be adapted to different types of investors (differing in size, mandates, asset allocation strategies, etc), the methodology and the resulting estimate would preferably be itemised into individual building blocks corresponding to different investor characteristics and types of stewardship activities/costings.
- Comments on implications for resourcing of stewardship by asset owners, asset managers and service providers, including recommendations regarding how research findings can be used and can inform outreach and change at the industry level;
- A list of literature, reports, and investor documentation reviewed in the elaboration of the report;
- If any interviews or surveys are conducted as part of the research methodology, transcripts and responses collected should be included as an annex.

PROPOSALS

The PRI is inviting proposals from individuals or organisations who have expertise in stewardship best practice and organisational strategy. Proposals should include the following:

- Summary of relevant competencies and experience, including description of the capacity to perform this piece of work. This should include a brief biography of individuals that would be involved, along with an indication of their competencies, capacity, and locations;
- Description of the proposed methodological approach as well as any data and resources to be drawn upon;
- A proposed budget breakdown for each activity and stage of the project, acknowledging the possibility for the project to be terminated and payment prorated after completion of the feasibility report stage. An indicative budget is available upon request;
- Proposed timeline, including a feasibility assessment phase, and outline of deliverables (the PRI will expect the feasibility phase to be completed by the end of 2022).

HOW TO SUBMIT

To submit your proposal, please email a PDF to clara.melot@unpri.org by COB on the 16th of September 2022. Evaluation of proposals will commence on a rolling basis upon receipt. If you have any queries or request clarifications on the project and scope of work outlined above, please contact clara.melot@unpri.org.