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EMPIRICAL RESEARCH ON ESG FACTORS AND ENGAGED OWNERSHIP

A Bibliography

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Summary

This concise collection of research identifies empirical studies connecting improved firm performance and risk mitigation with three general categories: shareholder-friendly corporate governance, sustainability performance material to investors and engaged ownership. These studies generally align with CII's policy perspective and advocacy work. Member organizations may wish to consider these and other studies to support their unique investment and stewardship strategies.

I. Shareholder-friendly corporate governance

1. **Companies generally with owner-friendly governance practices outperformed companies with less owner-friendly governance.**

    Gompers, P. A., Ishii, J. L. and Metrick, A. 2003. Corporate Governance and Equity Prices. *Quarterly Journal of Economics*, Vol. 118, No. 1, p. 107-155. https://ssrn.com/abstract=278920.

2. **Firms with owner-friendly governance were shown to be relatively more profitable, more valuable and pay out more cash to their shareholders.**

    Brown, L. D., Caylor, M. L. 2004. Corporate Governance and Firm Performance. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=586423.

3. **Companies that engage in fraudulent financial reporting were found to have weak corporate governance practices relative to other companies.**

    Beasley, M., Carcello, J.V., Hermanson, D.R., Lapides, P.D. 2000. Fraudulent Financial Reporting: Consideration of Industry Traits and Corporate Governance Mechanisms. *Accounting Horizons: A Quarterly Journal of the American Accounting Association.* Vol. 14, p. 441-452. https://aaapubs.org/doi/10.2308/acch.2000.14.4.441.

4. **Aggressive financial reporting was more likely to be found at companies with weak corporate governance structures.**

    Dechow, P.M., Sloan, R.G., Sweeney, A.P. 1996. Causes and Consequences of Earnings Manipulation: An Analysis of Firms Subject to Enforcement Actions by the SEC. *Contemporary Accounting Research* Vol.13, p. 1-21. https://ssrn.com/abstract=2607.

5. **Stakeholder governance, defined as a model that encourages and relies on corporate leaders to serve the interests of stakeholders and not only shareholders, was shown to increase the insulation of corporate leaders from shareholders, reduce accountability and hurt economic performance.**

   Bebchuk, L. A., Tallarita, R. 2020. The Illusory Promise of Stakeholder Governance. https://ssrn.com/abstract=3544978.

6. **More outside directors and higher institutional ownership was found to be associated with lower bond yields and higher corporate bond ratings.**

   Bhojraj, S., Sengupta, P. 2003. Effect of Corporate Governance on Bond Ratings and Yields: The Role of Institutional Investors and Outside Directors. *The Journal of Business* Vol. 76, No. 3, p. 455-475 https://www.jstor.org/stable/10.1086/344114?seq=1#metadata_info_tab_contents.

7. **Target companies with majority-independent boards were found to obtain higher initial premiums and higher revised premiums than those without majority-independent boards.**

   Cotter, J.F., Shivdasani A., Zenner, M. 1997. Do Independent Directors Enhance Target Shareholder Wealth During Tender Offers? *Journal of Financial Economics* Vol. 43, p. 195-218. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=10106.

8. **High audit committee quality was shown to have incremental value in driving better financial reporting, internal controls and firm value.**

   Almaquoshi, W., Powell, W. 2020. Audit Committee Indices, Firm Value, and Accounting Outcomes. *Journal of Business Finance & Accounting*, Vol. 48, Iss. 1-2, p. 185-229. https://onlinelibrary.wiley.com/doi/abs/10.1111/jbfa.12478.

9. **The adoption of majority voting was associated with positive abnormal returns and an increase in boards implementing majority-supported resolutions.**

   Ertimur, Y., Ferri, F. Oesch, D. 2011, updated 2015. Does the Director Election System Matter? Evidence from Majority Voting.
   https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1880974.
   More recent non-public version (*Review of Accounting Studies*, Vol. 20, p. 1-41) at:
   https://link.springer.com/article/10.1007/s11142-014-9284-9.

10. Competition between management and dissidents over shareholder votes was shown to create management incentives for better performance, more timely disclosure and more engagement with institutional investors.

Nili, Y., Kastiel, K., Competing for Votes. 2020. *Harvard Business Law Review* Vol. 10, Iss. 2, p. 287. Univ. of Wisconsin Legal Studies Research Paper No. 1605, https://ssrn.com/abstract=3681541.

11. The impact that corporate governance has on firm value was found to depend on the context of broad market conditions as well as firm-specific factors.

Fox, M.B., Gilson, R.J., Palia, D. 2019. The Core Corporate Governance Puzzle: Contextualizing the Link to Performance. Boston University Law Review, Vol. 99, Columbia Law and Economics Working Paper No. 605, Stanford Law and Economics Olin Working Paper No. 539. https://ssrn.com/abstract=3447941.

12. According to a literature review of empirical research, shareholder voting on corporate control was shown to tend towards maximizing company value.

Thomas, R., Tricker, P.C. 2017. Shareholder Voting in Proxy Contests for Corporate Control, Uncontested Director Elections and Management Proposals, Oklahoma Law Review, Vol. 70. https://scholarship.law.vanderbilt.edu/faculty-publications/959.

13. In an international study, the adoption of improvements in corporate governance beyond legal requirements or prevailing market practices was positively associated with firm value.

Laeven, L. A., Chhaochharia, V. 2008. Corporate Governance, Norms and Practices. https://ssrn.com/abstract=1103608.
More recent non-public version (*Journal of Financial Intermediation*, Vol. 18, Issue 3, p. 405-431) at: https://www.sciencedirect.com/science/article/abs/pii/S1042957308000612.

14. Board reforms involving increased board and audit committee independence were found to increase firm value, with comply-or-explain reforms resulting in a greater increase than rule-based reforms, according to a study of 41 countries.

Fauver, L., Hung, M., Li, X.. Taboada, A.G. 2016. Board Reforms and Firm Value: Worldwide Evidence. *Journal of Financial Economics*, Forthcoming. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607785&rec=1&srcabs=2990292&alg=1&pos=1.
More recent non-public version (*Journal of Financial Economics*, Vol. 125, Issue 1, p. 120-142) at: https://www.sciencedirect.com/science/article/abs/pii/S0304405X1730079X

15. Special purpose acquition company (SPAC) mergers, which often have less disclosure and more conflicts of interest than IPOs, were shown to result to in steep decreases in cash per share post-merger with SPAC shareholders who held shares at the time of the merger bearing the costs.

Klausner, M.D., Ohlrogge, M., Ruan, E. 2021. A Sober Look at SPACs. *Yale Journal on Regulation*, Vol. 39, Issue 1., Stanford Law and Economics Olin Working Paper No. 559, NYU Law and Economics Research Paper No. 20-48, European Corporate Governance Institute – Finance Working Paper No. 746, https://ssrn.com/abstract=3720919.

16. A strong positive association was found between the authors' board governance index and firm operating performance, including total shareholder return, according to a study in the UK.

Shaukat, A., Trojanowski, G. 2017. Board Governance and Corporate Performance, *Journal of Business Finance & Accounting*, Vol. 45, 1-2. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3074861.

17. Owner-friendly governance practices have a positive and significant impact on returns, among a study sample of European industrial companies.

Bellavite Pellegrini, C., Romelli, D. 2011. Do Productivity and Governance Matter? Their Impact in Stock Returns in European Industrial Companies. http://ssrn.com/abstract=1735949.

Entrenchment devices (including dual-class stock)

18. Companies with significant anti-takeover provisions (classified board structures, supermajority vote requirements, poison pills, golden parachutes, etc.) had lower firm value than those that did not.

Bebchuk, L., Cohen, A., Ferrell, A. 2004, updated 2009. What Matters in Corporate Governance? *Review of Financial Studies* Vol. 22, No. 2: 783-827. https://ssrn.com/abstract=593423.

19. The claim that the trend toward annual director elections is value-destructive was shown to be spurious.

Catan, E., Klausner. 2017. M. Board Declassification and Firm Value: Have Shareholders and Boards Really Destroyed Billions in Value? NYU Law and Economics Research Paper No. 17-39. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2994559.

20. To the extent that insiders' voting rights exceed their equity stake (i.e. "cash flow rights") due to dual-class structures, firms were shown to underperform.

Gompers, P., Ishii, Joy, Metrick, A. 2008. Extreme Governance: An Analysis of Dual-Class Firms in the United States. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=562511.
More recent non-public version (The Review of Financial Studies Vol. 23, No. 3, p. 1051-1088) at: https://www.jstor.org/stable/40604777

21. Any valuation premiums that multi-class firms had over single-class firms at IPO were found to dissipate over time and turn into discounts six to nine years after the IPO.

Cremers, K. J. M., B. Lauterbach, A. Pajuste. 2018, updated 2020. The Life-Cycle of Dual-Class Firm Valuation. European Corporate Governance Institute (ECGI) - Finance Working Paper No. 550/2018, https://ssrn.com/abstract=3062895.

22. Financially constrained companies with multi-class stock may be more innovative in the early years, but these benefits were shown to disappear within 10 years after the IPO.

Baran, L., A. Forst, M. Via. 2019, updated 2020. Dual Class Share Structure and Innovation. https://ssrn.com/abstract=3183517.

23. The benefits of multi-class structures were shown to be expected to decline, and the costs to rise, over time.

Bebchuk, L. A., Kastiel, K. 2017. The Untenable Case for Perpetual Dual-Class Stock. *Virginia Law Review*, Vol. 103, p. 585-631, Harvard Law School John M. Olin Center Discussion Paper No. 905, Harvard Law School Program on Corporate Governance Discussion Paper 2017-6, https://ssrn.com/abstract=2954630.

24. In a study of voting rights over 45 years, multi-class structures were shown to become increasingly value destroying by 11 years after IPO.

Kim, H., Michaely, R. 2019. Sticking Around Too Long? Dynamics of the Benefits of Dual-Class Structures. European Corporate Governance Institute (ECGI) - Finance Working Paper No. 590/2019, Swiss Finance Institute Research Paper No. 19-09, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3145209.

25. After managers were insulated by the adoption of an antitakeover law, they were found to reduce risk taking and pursue actions that destroy value.

Gormley, T. A. and Matsa, D. A. 2016. Playing It Safe? Managerial Preferences, Risk, and Agency Conflicts. *Journal of Financial Economics (JFE).* https://ssrn.com/abstract=2465632.
More recent non-public version (Journal of Financial Economics, Vol. 122, Issue 3, p. 431) at: https://www.sciencedirect.com/science/article/abs/pii/S0304405X1630143X.

26. When public pension fund ownership is high, a portfolio that buys firms with high takeover vulnerability and shorts firms with the lowest vulnerability generates abnormal positive returns.

Cremers, M., Nair, V. 2006. Governance Mechanisms and Equity Prices. *Journal of Finance*, Vol. 60, No. 6. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=938528.

Executive Compensation

27. Executive compensation was found to be not only higher, but also less sensitive to performance, at companies where corporate governance was weaker.

Bebchuk, L.A., Fried, J. 2004. Pay without Performance. Cambridge, MA: Harvard University Press. https://ssrn.com/abstract=537783.

28. Say on pay was shown to lead to increases in companies' market value and improvements in long-term profitability.

Cuñat, V., Giné, M. and Guadalupe, M. 2015. Say Pays! Shareholder Voice and Firm Performance. Review of Finance, 20 (5). pp. 1799-1834. http://eprints.lse.ac.uk/63331/.

29. Companies with more owner-friendly corporate governance were associated with less "pay for luck" and less CEO capture of the pay setting process.

Bertrand, M., Mullainathan S. 2001. Are CEOs Rewarded for Luck? The Ones Without Principles Are. *Quarterly Journal of Economics* Vol. 116 p. 901-932. https://inequality.stanford.edu/sites/default/files/media/_media/pdf/Reference%20Media/Bertrand%20and%20Mullainathan_2001_Elites.pdf.

30. Clawback provisions enabling the recoupment of erroneously awarded CEO compensation resulted in increased accounting quality and lower audit risk.

Chan, L., Chen, K. C. W., Chen, T. and Yu, Y. 2011. The Effects of Firm-Initiated Clawback Provisions on Earnings Quality and Auditor Behavior. *Journal of Accounting and Economics*. http://ssrn.com/abstract=1965921.
More recent non-public version (*Journal of Accounting and Economics*, Vol. 54, Issue 2-3, p. 180-196) at:
https://www.sciencedirect.com/science/article/abs/pii/S0165410112000407.

31. Interlocking directorships were found to be associated with certain fraudulent activity in variable compensation, specifically option backdating.

Bizjak, J.M., Whitby, R., Lemmon, M. 2009. Option Backdating and Board Interlocks. *Review of Financial Studies*, Vol. 22, p. 4821-48247. https://ssrn.com/abstract=1519264.

32. Executive pay was shown to be higher at companies that have significant anti-takeover provisions.

Hartzell, J.C., Starks, L. T. 2003. Institutional Investors and Executive Compensation. https://ssrn.com/abstract=236592.
More recent non-public version (*Journal of Finance*, Vol. 58, p. 2351-2374) at:
https://www.jstor.org/stable/3648196.

33. Long-term pay orientation was associated with an increase in firm value and firm investment in long-term strategies.

Flammer, C., Bansal, P. 2016. Does a Long-Term Orientation Create Value? Evidence from a Regression Discontinuity. https://ssrn.com/abstract=2511507.
More recent non-public version (*Strategic Management Journal*, Vol. 38, Issue 9) at: https://onlinelibrary.wiley.com/doi/abs/10.1002/smj.2629.

34. A ten-year study of S&P 500 companies looking at total shareholder return over three-year periods found companies with performance share plans underperformed, relative to peers granting straight restricted stock or options.

Hodak, Marc. 2019. Are Performance Shares Shareholder Friendly? Journal of Applied Corporate Fiance, Volume 31, Number 3. 126-130. https://ssrn.com/abstract=3604438

35. A ten-year study of 423 large U.S. companies found about three-fifths had poor alignment between cumulative long-term shareholder return and realized executive pay.

Marshall, Ric. 2017. Out of Whack: U.S. CEO Pay and Long-term Investment Returns. *MSCI ESG Research LLC*.
https://www.msci.com/documents/1296102/7330587/Research_Insight_Out_of_Whack.pdf/46baa603-a503-42c1-91c0-d0ef19b754b2.

II. Sustainability performance material to investors

Human Capital Management

1. **Over a period of more than 30 years, firms with human capital management strategies that result in higher levels of employee satisfaction were shown to have higher long-term shareholder returns than their peers.**

   Edmans, A. 2012. The Link Between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility. *Academy of Management Perspectives*, Vol. 26 No. 4: 1-19. https://ssrn.com/abstract=2054066.

2. **Board diversity, defined broadly to incorporate six demographic and experiential considerations (gender, age, ethnicity, educational background, financial expertise and breadth of board experience) was found to lead to higher asset valuation multiples. Using this same definition, diverse boards were also shown to reduce stock return volatility, invest in more research and development and have more efficient innovation processes.**

   Bernile, G., Bhagwat, V., Yonker, S. 2018. Board Diversity, Firm Risk, and Corporate Policies. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2733394.
   More recent non-public version (*Journal of Financial Economics*, Vol. 127, Issue 3, Pages 588-612) at:
   https://www.sciencedirect.com/science/article/abs/pii/S0304405X17303215.

3. **The presence of women on a company's board was found to have a positive effect on company performance.**

   Conyon, M., He, L. 2017. Firm Performance and Boardroom Gender Diversity: A Quantile Regression Approach. https://ssrn.com/abstract=2748558.
   More recent non-public version (Journal of Business Research Vol. 79. p. 198-211) at:
   https://www.sciencedirect.com/science/article/abs/pii/S014829631730053X.

4. **A more diverse leadership team, in terms of gender and racial diversity, was found to have a significant positive effect on financial performance, as measured by EBIT, with companies in the top quartile of racial/ethnic diversity being 33 percent more likely to have financial returns above their national industry median.**

Hunt, V., Prince, S., Dixon-Fyle, S., Yee, L. 2018. Delivering through Diversity. McKinsey & Company, https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx.

Sustainability factors, including climate change risk

5. **Firms with favorable ratings on sustainability issues that are material to their industry were shown to significantly outperform firms with poor ratings on these issues.**[1]

   Mozaffar K., Serafeim, G., Yoon, A. 2016. "Corporate Sustainability: First Evidence on Materiality," The Accounting Review, Vol. 91, No. 6, 2016., 1697-1724. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912.

6. **Companies that voluntarily adopted environmental and social policies many years ago significantly outperformed firms that adopted almost no such policies, both in terms of stock market and accounting performance.**

   Eccles, R. G., Ioannou, I., Serafeim, G. 2014. "The Impact of Corporate Sustainability on Organizational Processes and Performance." Management Science 60, no. 11. 2835–2857. https://ssrn.com/abstract=1964011.

7. **Better ESG performance on material issues was linked to a lower incidence of material credit events and lower credit risk.**

   Henisz, W.J., McGlinch, J. 2019. ESG, Material Credit Events, and Credit Risk. Journal of Applied Corporate Finance, Vol. 31, Issue 2, pp. 105-117 https://ssrn.com/abstract=3604421.

8. **Commercial banks that had higher scores on financially material ESG factors outperformed banks that had low scores on the same issues, marked by higher average risk-adjusted returns.**

   Global Alliance for Banking on Values, European Investment Bank, Deloitte, KKS Advisors. 2020. Do Sustainable Banks Outperform? Driving Value Creation through ESG. https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/Banking/lu-do-sustainable-banks-outperform-driving-value-creation-through-ESG-practices-report-digital.pdf.

[1] A study asserts this study used idiosyncratic assumptions that caused an accidental over-representation of certain sectors in the study's portfolio. While the original estimates could be recreated, little evidence of an association was found with more commonly-used assumptions, the working paper found. *See* Berchicci, L.., King, A. 2021. Materiality and Corporate Sustainability: A Model Uncertainty https://ssrn.com/abstract=3848664.
More recent non-public version (Journal of Financial Reporting, forthcoming) at: https://meridian.allenpress.com/jfr/article-abstract/doi/10.2308/JFR-2021-022/482583/Corporate-Sustainability-A-Model-Uncertainty.

9. **ESG scores incorporating materiality were shown to be better predictors of investment return than traditional ESG scores.**

   Steinbarth, E. 2018. Materiality Matters: Targeting the ESG Issues that Can Impact Performance. Russell Investments. https://russellinvestments.com/us/insights/articles/materiality-matters.

10. **Classifying stocks in the Russell 1000 into industries using sustainability factors was shown to have advantages over using traditional industry classifications.**

    Hildebrand, P., Deese, B., Mateos y Lago, I. Sustainable Investing: A 'Why Not' Moment: Environmental, Social and Governance Investing Insights. 2018. BlackRock. https://www.blackrock.com/us/individual/insights/blackrock-investment-institute/sustainable-investing-is-the-answer.

11. **ESG information was shown to affect company valuation and performance through the company's systematic risk profile (lower costs of capital and higher valuations) and its idiosyncratic risk profile (higher profitability and lower exposures to tail risk).**

    Giese, G., Lee, L.E., Melas, D., Nagy, Z., Nishikawa, L. 2019. "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance." *The Journal of Portfolio Management*. Vol. 45, p. 69-83. https://www.msci.com/documents/10199/03d6faef-2394-44e9-a119-4ca130909226.

12. **Corporate bonds for companies with higher ESG ratings had improved risk characteristics and showed better risk-adjusted returns than bonds for companies with lower ESG ratings.**

    Mendiratta, R., Varsani, H.D., Giese, G. 2020. Foundations of ESG Investing in Corporate Bonds: How ESG Affected Corporate Credit Risk and Performance. The *Journal of Impact & ESG*, Vol 2, No. 2. https://www.msci.com/documents/10199/19248715/Foundations-of-ESG-Investing-in-Corporate-Bonds-How-ESG-Affects-Corporate-Credit-Risk-and-Performance+(002).pdf.

13. **According to a literature review, firms with higher ESG ratings tended to have lower costs of capital and higher credit ratings than firms with lower ESG ratings.**

    Henriksson, R., Livnat, J., Pfeifer, P., Stumpp, M., Zeng, G. 2018. ESG Literature Review. QMA (Quantitative Management Associates LLC) and Stern School of Business Administration, New York University. https://cdn.pficdn.com/cms/pgimquantsolutions/sites/default/files/static_files/pdf/QMA_ESG_Literature_Review_June2018.pdf.

14. **In a literature review of more than 2,000 studies, a majority of studies found a positive relationship between ESG and corporate financial performance, and about 90% of the studies found a non-negative relationship.**

    Friede, G., Busch, T., Bassen, A. 2015. ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies. *Journal of Sustainable Finance & Investment*, Vol. 5, Issue 4, p. 210-233, https://doi.org/10.1080/20430795.2015.1118917.

15. **A literature review of over 1,000 peer reviewed studies on ESG factors found robust evidence that corporate investment in sustainability leads to better financial performance, but that on average ESG investing returns were indistinguishable from conventional investing returns. The paper concluded that ESG engagement seemed to perform better as a strategy than divestment, that ESG integration tends to provide downside risk protection and that decarbonization strategies can potentially capture a climate risk premium.**

    Atz, U., Liu, Z. Z., Bruno, C., Van Holt, T. 2021. Does Sustainability Generate Better Financial Performance? Review, Meta-analysis, and Propositions. https://ssrn.com/abstract=3708495.

16. **A literature review of 39 studies found 80% of the studies documented a positive relationship between ESG factors and stock prices.**

    Clark, G., Feiner, A., Viehs, M. 2014. "From the Stockholder to the Stakeholder: How Sustainability can Drive Financial Outperformance," University of Oxford and Arabesque Partners. https://www.smithschool.ox.ac.uk/publications/reports/SSEE_Arabesque_Paper_16Sept14.pdf.

17. **Certain ESG investment constraints, notably including diversity and governance criteria, were shown to enhance portfolio returns, while others did not enhance returns but added no costs to investors.**

    Geczy, C. C., Guerard, J., Samonov, M. 2018. Efficient SRI/ESG Portfolios. https://ssrn.com/abstract=3011644.
    More recent non-public version (The Journal of Investing ESG Special Issue 2020, Vol. 31, Issue 1) at: https://joi.pmresearch.com/content/early/2020/01/13/joi.2020.1.115.abstract.

18. Research from 2004 to 2018 showed that sustainable funds had lower downside risk than traditional funds and there were no financial trade-offs in the returns of sustainable funds compared to traditional funds.

Morgan Stanley Institute for Sustainable Investing. 2019. Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds. https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf.

19. In a study of over 450 global companies over a ten-year period, companies exposed to more climate change risk were associated with higher corporate default risk.

Gianfrate, G. 2020. Climate Change and Credit Risk. *Journal of Cleaner Production*. EDHEC-Risk Institute Working Paper, 2020. https://ssrn.com/abstract=3568711.

20. ESG performance was shown to be positively associated with return on assets. Of E, S and G, governance performance had the strongest impact on financial performance, based on evidence from Germany.

Velte, P. 2017. Does ESG Performance Have an Impact on Financial Performance? Evidence from Germany. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2916741. More recent non-public version (Journal of Global Responsibility, Vol. 8, Iss. 2) at: https://www.emerald.com/insight/content/doi/10.1108/JGR-11-2016-0029/full/html.

III. Engaged shareownership

1. **Passive mutual funds were shown to influence firms' governance choices, resulting in more independent directors, removal of takeover defenses and more equal voting rights. Passive ownership was associated with improvements in firms' longer-term performance.**

   Appel I., Gormley, T., Keim, D. 2016. Passive Investors, Not Passive Owners. *Journal of Financial Economics*. https://ssrn.com/abstract=2475150.
   More recent non-public version (*Journal of Financial Economics*, Vol. 121, Iss. 1, p. 111-141) at: https://www.sciencedirect.com/science/article/abs/pii/S0304405X16300319.

2. **Investor-company engagement was found to be most effective in lowering downside risk when addressing governance or strategy topics and when changes in firms' environmental policies were coupled with governance improvements.**

   Hoepner, A., Oikonomou, I., Sautner, Z., Starks, L., Zhou, X. 2018, updated 2022. ESG Shareholder Engagement and Downside Risk.
   https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2874252.

3. **Institutional investors should not be painted with a broad brush. When firms had "dedicated" institutional investor ownership (characterized by lower portfolio turnover and higher portfolio concentration), there was found to be less tail risk, less volatility in realized returns, better accrual quality and higher payout ratios than those firms with more "transient" institutional ownership.**

   Borochin, P., Yang, J. 2016. The Effects of Institutional Investor Objectives on Firm Valuation and Governance. *Finance and Economics Discussion Series 2016-088. Washington: Board of Governors of the Federal Reserve System*.
   https://www.federalreserve.gov/econresdata/feds/2016/files/2016088pap.pdf.

4. **Shareholder adoption of governance-related shareholder proposals was found to trigger positive short-term returns as well as long-term performance improvements.**

   Cuñat, V., Gine, M. and Guadalupe, M. 2010 (updated 2012). The Vote is Cast: The Effect of Corporate Governance on Shareholder Value. http://ssrn.com/abstract=1555961.
   More recent non-public version (*The Journal of Finance*, Volume 67, Issue 5) at: https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-6261.2012.01776.x.

5. **Successful engagements on ESG concerns, marked by achievement of a milestone, were followed by positive abnormal returns, as well as improvements in operating performance, profitability, efficiency, shareholding and governance.**

   Dimson, E., Karakaş, O., Li, X. 2015. Active Ownership. *The Review of Financial Studies*. Volume 28, Issue 12, Pages 3225–3268. https://doi.org/10.1093/rfs/hhv044.

6. **Better engagement and transparency around corporate social responsibility activity were found to be important factors in reducing capital restraints.**

   Cheng, B., Ioannou, I., Serafeim, G. 2011. Corporate Social Responsibility and Access to Finance. Strategic Management Journal, 35 (1): 1-23. https://ssrn.com/abstract=1847085.

7. **Targets of ESG activism were shown to have higher market share, stock returns and liquidity than non-engaged peer companies. Targets that sufficiently adjusted policies in response to the engagement generated higher returns than those that did not.**

   Barko, T., Cremers, K. J. M., Renneboog, L. 2018. Shareholder Engagement on Environmental, Social, and Governance Performance. CentER Discussion Paper Series No. 2017-040, European Corporate Governance Institute (ECGI) - Finance Working Paper No. 509/2017 , TILEC Discussion Paper No. DP 2017-021. https://ssrn.com/abstract=2977219.

8. **ESG engagement was shown to be more effective than divestment given that divestment was not found to have a big impact on firm decisions.**
   Berk, Jonathan B. and van Binsbergen, Jules H., The Impact of Impact Investing (August 21, 2021). Stanford University Graduate School of Business Research Paper, George Mason Law & Economics Research Paper No. 21-26, https://ssrn.com/abstract=3909166.

9. **Targets of green hedge fund activists that reduced chemical emissions were shown to experience higher stock returns after the activism.**

   Chu, Y., Zhao, D. 2019. Green Hedge Fund Activists. https://ssrn.com/abstract=3499373.

10. **Once company- and firm-specific factors important to investors were taken into consideration, the impact of vote recommendations by the world's largest proxy advisor was reduced greatly.**

    Choi, S. J., Fisch, J. E., Kahan, M. 2010. The Power of Proxy Advisors: Myth or Reality? *Emory Law Journal*, Vol. 59, p. 869. University of Penn, Institute for Law & Economics Research Paper No. 10-24. https://ssrn.com/abstract=1694535.

11. Larger mutual fund families were found to exercise their voting rights in ways completely independent from proxy advisor recommendations.

Brav, A., Jiang, W., Li, T.. Pinnington, J. 2018, updated 2021. Picking Friends Before Picking (Proxy) Fights: How Mutual Fund Voting Shapes Proxy Contests. Columbia Business School Research Paper No. 18-16, European Corporate Governance Institute (ECGI) - Finance Working Paper No. 601/2019. https://ssrn.com/abstract=3101473.

12. According to a literature review, the conventional wisdom about active managers' ability to create value for investors has been too negative.

Cremers, K. J. M., Fulkerson, J. A., Riley, T.B. 2019. Challenging the Conventional Wisdom on Active Management: A Review of the Past 20 Years of Academic Literature on Actively Managed Mutual Funds. *Financial Analysts Journal*, Vol. 75, No. 4 (Fourth Quarter 2019), https://ssrn.com/abstract=3247356.

13. Engagement on governance issues between underperforming portfolio companies and CalPERS resulted in significant cumulative excess returns over a five-year period from the time of initial engagement.

Junkin, A., Toth, T. 2009 (updated 2013). "The 'CalPERS Effect' on Targeted Company Price Shares." Wilshire Associates Inc. https://www.calpers.ca.gov/docs/board-agendas/201310/invest/item09e-01.pdf.

14. Activism by CalPERS targeting increases in shareholder rights was estimated to have generated about $3.1 billion between 1992 and 2005.

Barber, Brad M. 2006. Monitoring the Monitor: Evaluating Calpers' Activism. https://ssrn.com/abstract=890321.