THE CAMBRIDGE PRINCIPLES:
SYSTEM STEWARDSHIP FOR UNIVERSAL OWNERS

Universal owners – including pension funds, sovereign wealth funds, endowments, and other long-term institutional investors – exist to serve their beneficiaries. Because these funds are widely diversified and their returns depend primarily upon the performance of the financial market as a whole (beta), they can best serve beneficiaries and satisfy their legal duties by preserving the health of the whole economy and the environmental and social systems on which it depends.

Business practices that threaten important environmental or social systems also threaten diversified portfolios. The costs individual companies impose on society (including other companies) – externalities such as those resulting from greenhouse gas emissions, overuse of antibiotics, or poverty wages – may increase the returns of such companies, but universal owners will pay these costs elsewhere in their portfolios.

Universal owners can most effectively protect their portfolios by working with others to steward companies away from cost externalisation. Without such influence from their owners, individual companies may prioritise their own financial returns, even when doing so threatens the health of vital environmental or social systems or diversified portfolios. Universal owners will prefer *lower returns* from individual companies whose profit maximisation would otherwise impose costs on the rest of the portfolio.

Guardrails. Effective system stewardship permits fair competition – by applying the same social and environmental guardrails to all companies – while limiting cost externalisation. This optimises overall market returns while allowing individual companies to compete within those guardrails, ensuring that there is no disadvantage to universal owners or companies that operate within social and ecological boundaries.

Evidence-based action: Voting against directors, denying new financing, and policy engagement. Current academic evidence suggests that investors have the greatest impact on company behaviour by voting against the (re-)election of directors, declining to provide new capital, and encouraging regulators and legislators to keep companies within social and environmental guardrails.

These Principles were developed following a summit for pension funds, endowments, and experts on social and environmental risks held at Jesus College at the University of Cambridge, 26-28 October 2021.

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