PRI

Principles for Responsible Investment

An investor initiative in partnership with
UNEP Finance Initiative and the UN Global Compact

UNEP Finance Initiative
Innovative financing for sustainability

THE GLOBAL COMPACT

PREVI is committed to its members and beneficiaries on a long term basis. Therefore, making sustainable investments that support the environment we live in, is more than an obligation, it is an act of wisdom.

Sergio Rosa
President, PREVI

We are proud to endorse the Principles, which recognize that social and environmental issues can be material to the financial outlook of a company and therefore to the value of our shares in that company.

Denise Nappier
Treasurer of the State of Connecticut

We have great buy-in from the investment community, and we now have in place the support structures to assist in implementation. Year two is about action.

Donald MacDonald
Chair of the PRI and a Trustee of the British Telecommunications Pension Scheme

Message from the UN Secretary-General

Until recently, the role of financial markets in sustainable development was little understood and widely discounted. The Principles for Responsible Investment have helped to change this impression.

Launched in April 2006, the Principles are in essence a set of global best-practices for responsible investment. Rising numbers of institutional investors – from all regions of the world, representing more than eight trillion dollars in the first year alone – are embracing them, marking a major advance in mainstream financial markets. The Principles have quickly become the global benchmark for responsible investing.



By incorporating environmental, social and governance criteria into their investment decision-making and ownership practices, the signatories to the Principles are directly influencing companies to improve performance in these areas. This, in turn, is contributing to our efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.

The Principles complement the UN Global Compact, which asks companies to embed in their strategies and operations a set of universal principles in the areas of human rights, labour standards, the environment and anti-corruption. The Principles are also a natural extension of the work of the UN Environment Programme Finance Initiative, which has helped sensitize capital markets to the importance of environmental and social issues.

The combined support of the UN Global Compact, the UNEP Finance Initiative and committed leaders from the investment community has helped to make the Principles a unique initiative that holds great promise for financial markets and for achieving a wide range of United Nations objectives. I applaud the leadership of the institutions that have committed themselves to this undertaking, and urge other investors around the world to join this historic effort.

Ban Ki-moon

UN Secretary-General

There is a growing view among institutional investors that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. The Principles for Responsible Investment provide a framework to assist investors in considering these issues.

The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision making and ownership practices.

Signing represents a very real commitment to the Principles, demonstrating support from the top-level leadership of the whole investment business. And applying the Principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large.

Background

In early 2005 the then UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. They were supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia. The process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact.

The Principles were launched in April 2006 at the New York Stock Exchange by the UN Secretary-General.

Benefits of signing

There are many benefits to signing the PRI. These include:

- a common framework for integrating ESG issues
- access to examples of good practice from a global network of peers (including many of the world's largest institutional investors)
- opportunities to collaborate and network with other signatories, reducing research and implementation costs
- reputational benefits from publicly demonstrating top-level commitment to integrating ESG issues
- participation in the annual PRI signatory event
- access to a standard reporting and assessment tool

Implementation support

A professional secretariat has been set up to help signatories implement the Principles. There are four key support activities.

Providing guidance

PRI in Practice Implementation Blog

An online knowledge base with implementation resources such as interviews with key industry practitioners, book reviews and issues briefs.

Building networks

PRI in Person Annual Event

This event brings together signatories once a year to brainstorm implementation strategies, network and find partners for collaboration.

Enhancing collaboration

PRI Engagement Clearinghouse

A web-based intranet providing signatories with a mechanism to share information and proposals on shareholder and other engagement activities they are conducting, or would like to conduct with other signatories.

Evaluating progress

Reporting and Assessment Tool

An annual survey of signatory implementation activities, analysing and identifying best practice, areas for improvement and barriers to implementation. As well as providing signatories with an overview of what leaders in the field are doing, this tool helps signatories assess and report on their own progress.

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4 We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5 We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6 We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'[1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

1. The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Frequently asked questions

What is the overall goal of the Principles for Responsible Investment (PRI) Initiative?

The PRI aim to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.

How will implementing the Principles influence investment returns?

Implementing the Principles will lead to a more complete understanding of a range of material issues, and this should ultimately result in increased returns and lower risk. There is increasing evidence that ESG issues can be material to performance of portfolios, particularly over the long term.

PRI signatories are also part of a network, with opportunities to pool resources and influence, lowering the costs and increasing the effectiveness of research and active ownership practices. The Initiative also supports investors in working together to address systemic problems that, if remedied, may then lead to more stable, accountable and profitable market conditions overall.

What are the implications for fiduciary duty?

The Principles are based on the premise that ESG issues can affect investment performance and that the appropriate consideration of these issues is part of delivering superior risk-adjusted returns and is therefore firmly within the bounds of investors' fiduciary duties. The Principles clearly state they are to be applied only in ways that are consistent with those duties.

How do the Principles relate to Socially Responsible Investment (SRI)?

The Principles are designed to be compatible with the investment styles of large, and often diversified, institutional investors that operate within a traditional fiduciary framework. The Principles apply across the whole investment business and are not designed to be relevant only to SRI products. However, the Principles do point to a number of approaches – such as active ownership and the integration of ESG issues into investment analysis – that SRI and many corporate governance fund managers also practise.

Do the Principles call for exclusion or screening out of particular companies or sectors?

No. The Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria (although this may be an appropriate approach for some investors). The Principles are generally designed for large investors that are highly diversified and have large stakes in companies, often making divestment or avoidance impractical.

What does this mean for the investment supply chain?

For institutional investors to make these Principles work, they will need to encourage a change in the way that their agents incorporate ESG issues into their processes. Principles 1 and 4 have some suggestions on how this may be done. It is also likely that the supply chain – fund managers, analysts and consultants – will respond to the Principles by offering products and services to help in implementation.

How will the PRI help investors in their day-to-day work?

The PRI provides investors with a high-level framework for integrating ESG issues into investment decisions. And as signatories develop policies and procedures for integration, the PRI secretariat will be on hand to help investors implement them. Signatories will also have access to collaborative opportunities, guidance on addressing ESG issues and networks that would be otherwise unavailable. The PRI will also stimulate better research on the impacts of these issues on investments, which will lead to a broader range of products and services for investors.

Who can sign?

There are three main categories of signatory. (Commitment is expected from the top-level leadership of the organisation across the whole investment business.)

Asset owner: Organizations that represent end-asset owners who hold long-term retirement savings, insurance and other assets. Examples include pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organizations. This is the principal category of signatory.

Investment manager: Investment management companies that serve an institutional and/or retail market and manage assets as a third-party provider.

Professional service partner: Organizations that offer products or services to asset owners and/or investment managers. Although such professional service partners are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address ESG issues. For this group, becoming a signatory is an acknowledgement of the relevance of ESG issues to investment management. It also represents a commitment to providing and promoting services that support the implementation of the Principles by clients, and to improving such services over time.

Signatories self-select the category they fall into, but the PRI Board reserves the right to determine which category is appropriate. While the categories are not designed to be overly prescriptive, the general rule is that an investor would be considered an asset owner rather than an investment manager if it manages more of its own funds than of third-party clients.

Can we sign up on behalf of our SRI fund or ESG practice only?

No. The objective is for the Principles to be integrated within the mainstream investment and ownership practices across the investment functions of an entire organization. They are not just applicable within specific asset classes or product lines (this applies for all categories of signatory). The Principles have been designed as a commitment from the top-level leadership of the whole investment business. It is recognized that this may take some time, but on balance, the drafting signatories believe that a whole-of-organization commitment is important to the mainstreaming process.

If we fit into multiple categories, can these business units sign up independently?

We ask that the highest level of the company, including on behalf of its subsidiaries, sign up on behalf of the entire organization. The signatory category would depend on which of these businesses is the largest. However, in cases where different businesses are run independently, it is possible to sign up across different categories of businesses as an asset owner, investment manager or professional service partner.

Does signing involve a financial commitment?

There is no compulsory fee associated with signing the Principles. However, there is a suggested, voluntary fee of $10,000 to help the work of the secretariat in supporting signatories and promoting the Principles.

From 2011 it is proposed that an annual mandatory fee be introduced for all signatories. The fee will be scaled depending on fund size, and for large funds, will not exceed the current suggested annual voluntary contribution of US$10,000.

What resources will be required to implement the Principles?

Investors will choose to implement the Principles in different ways, and those choices will affect resource requirements. At a minimum, institutions should allocate sufficient staff time to properly understand the types of activities that are suggested in the Principles, investigate how other investors have used them and begin the implementation process.

What happens if we sign but find it difficult to comply?

There are no legal or regulatory sanctions associated with the Principles. They are designed to be voluntary and aspirational. There may be reputational risks associated with signing up and then failing to take any action at all, but the commitments are, for most signatories, a work in progress and a direction to head in rather than a prescriptive checklist with which to comply. The initial focus is on innovation, collaboration and learning by doing. The annual PRI Reporting and Assessment survey will help you evaluate your progress. The minimum requirement to remain a signatory is participation in that survey and through that tool, demonstrating continual improvement.

Who governs the Principles for Responsible Investment project?

The PRI is governed by a 13-person board made up of 11 elected asset owner signatory representatives and two UN representatives from the UN Environment Programme and the UN Global Compact. Further details can be found in the PRI Constitution, available from the secretariat.

What difference will the Principles make in the world?

While these Principles are designed to enhance the delivery of long-term returns to beneficiaries, their implementation will also focus greater attention on ESG issues throughout the investment and corporate sectors. New research and better metrics will be developed to support investors as they become increasingly active owners. Encouraged to adopt a more systematic approach to managing ESG issues, corporate management will take more interest in these extra-financial drivers of risk and reward, which will come to define corporate profitability in the medium and longer term. The PRI will also stimulate increased active ownership on ESG issues by investors. In this way, the Principles for Responsible Investment will contribute to improved corporate performance on environmental, social and governance issues.

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UNEP Finance Initiative (UNEP FI)

UNEP FI is a unique public-private partnership between UNEP and the global financial sector. UNEP works with over 170 banks, insurers and investment firms, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through its comprehensive work programme encompassing research, training, events and regional activities, UNEP FI carries out its mission to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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United Nations Global Compact

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance ten universal principles in the areas of human rights, labour, environment and anti-corruption. Through the power of collective action, the Global Compact seeks to mainstream these ten principles in business activities around the world and to catalyze actions in support of broader UN goals. With more than 5000 participating businesses from over 130 countries, it is the world's largest voluntary corporate citizenship initiative.

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