Principles for Responsible Investment

HOW ASSET OWNERS CAN DRIVE RESPONSIBLE INVESTMENT

BELIEFS, STRATEGIES AND MANDATES

UNEP FINANCE INITIATIVE

United Nations Global Compact

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

THE SIX PRINCIPLES

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

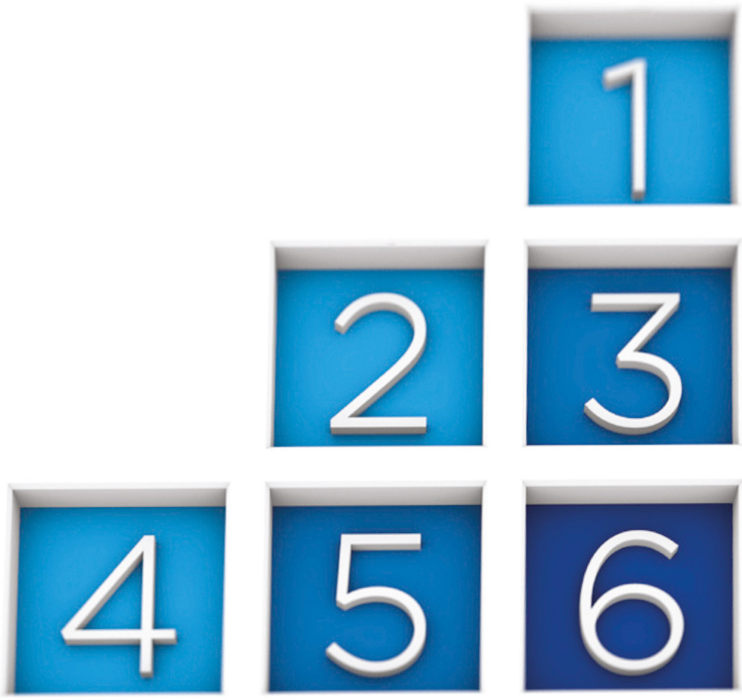
2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

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

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

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

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



ACKNOWLEDGEMENTS

Table 1: Interviewees

Nico Aspinall (Head of DC Investment Practice, Willis Towers Watson)
Maureen Hazen (General Counsel, State Board of Administration of Florida)
Fiona Mackenzie (Head of Investments, NZ Super Fund)
Mark Mansley (CIO, Environment Agency Pension Fund)
Anne Maree O'Connor (Head of Responsible Investment, NZ Super Fund)
Derek Parker (Legal Counsel, NZ Super Fund)
Katharine Preston (Senior Manager, Responsible Investing, OPTrust)
Rishab Sethi (Senior Advisor, NZ Super Fund)
Hein Stam (Senior Investment Strategist, MN)
Karlijn van Lierop (Head of Responsible Investment, MN)
Jacob Williams (Corporate Governance Manager, State Board of Administration of Florida)
Mark Womersley (Partner, Osborne Clarke LLP; legal counsel to Environment Agency Pension Fund)

CONTENTS

FOREWORD	5
EXECUTIVE SUMMARY	7
INTRODUCTION: ASSET OWNER INFLUENCE	9
ADDRESSING THE BARRIERS TO ASSET OWNER ACTION	11
IMPLEMENTING RESPONSIBLE INVESTMENT: SEVEN STEPS FOR ASSET OWNERS	18
INVESTMENT BELIEFS: EXAMPLES FROM PRACTICE	20
INVESTMENT MANDATES: SAMPLE CLAUSES	23
NEXT STEPS	24

WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that generating long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

RESEARCH APPROACH

Over the past three years, the PRI has produced a series of major reports on investor short-termism, on the case for investors to engage in public policy, on building investor capacity for public policy engagement and most recently, on fiduciary duty[1]. As part of this research PRI has interviewed over 160 asset owners, investment managers, investment consultants, legal advisers, companies, public policy makers and civil society organisations.

For this report, we have supplemented our previous research with a series of interviews with asset owners, fund managers and legal counsel, as well as a deeper analysis of the reporting data provided by PRI signatories, published annually in the PRI's Report on Progress[2]. We have focused on organisations that have implemented robust responsible investment strategies within their own organisations and have then sought to influence their external investment managers to encourage them to take a proactive approach to the management of ESG issues. Our aim was to better understand the practicalities of how asset owners can take a proactive approach to responsible investment, and how this might, in turn, affect the wider financial system.

The interviews covered the following general subjects:

- How investment beliefs were developed, including who was involved in the process and the factors considered in the development of the beliefs.
- How investment beliefs were implemented in day-to-day investment practice and in mandates.
- How investment practices were monitored and reviewed.
- The main challenges encountered in the process of developing and implementing your investment beliefs.
- How the organisation's approach to responsible investment (beliefs, governance and mandates) influenced its investment managers and service providers, and the wider investment market.

Where feasible, we interviewed a number of different individuals (either internal staff or external advisers) for each asset owner, as this provided us with different insights into the actions taken, the outcomes achieved and the lessons learned.

1 See, for example: PRI (2013), Building the Capacity of Investment Actors to Use Environmental, Social and Governance Information (PRI, London); PRI (2014), Long-term Mandates: A Discussion Paper (PRI, London); UN Global Compact LEAD (2014), Coping, Shifting, Changing: Strategies for Managing the Impacts of Investor Short-termism on Corporate Sustainability (Global Compact LEAD, New York and Principles for Responsible Investment, London); PRI (2014), Policy Frameworks for Long-Term Responsible Investment: The Case for Investor Engagement in Public Policy (PRI and The UNEP Inquiry into the Design of a Sustainable Financial System, London); PRI (2015), Fiduciary Duty in the 21st Century (UN Global Compact, UNEPFI, Principles for Responsible Investment and UNEP Inquiry into the Design of a Sustainable Financial System, London). These can all be downloaded from the PRI website at http://www.unpri.org/publications/

2 www.unpri.org/wp-content/uploads/PRI_Report-on-Progress_2015.pdf

FOREWORD: DEMONSTRATING OUR COMMITMENT

Too many asset owners are failing to effectively implement their commitments to responsible investing. This is seen in the lack of attention paid to environmental, social and governance issues in investment beliefs, governance and mandates.

The central message from this report is that if we, as asset owners, want investment markets to take responsible investing seriously, then we must start by demonstrating our commitment to responsible investment. Signing up to the PRI or adopting a responsible investment policy, while important, is not enough. Responsible investment must be central to our investment beliefs, our investment processes, and to the manner in which we select, appoint, monitor and reward our investment managers and consultants.

This is not just about our relationship with our investment managers and our consultants. There is also a multiplier effect across the investment market. If we fully and effectively implement our responsible investment commitments, we can accelerate the development of responsible investing throughout the investment chain.

This report makes three important contributions to the practice, and I hope, the implementation of responsible investing. First, it explains why individual asset owners should take action, and how their actions can reinforce and amplify the actions of others. Second, it describes how asset owners can give real substance and effect to their responsible investment commitments, mapping the process from the development of investment beliefs, through to the establishment of effective governance processes, and ultimately to the integration of responsible investing into investment mandates. Third, it presents examples from asset owners, offering reflections on their processes, the lessons they have learned and the value that they have achieved through responsible investing.

Byran Thompson
Senior Vice President, Public Equities, *bcIMC*
Chair, *PRI Policy Advisory Committee*

FOREWORD: SUPPORTING ASSET OWNERS

As part of the process of establishing its policy work stream in 2013, the PRI conducted an extensive signatory consultation on the barriers to a more sustainable financial system. The consultation respondents identified investor short-termism (and the related issues of mandate design and alignment of interests) as the most important barrier to a sustainable financial system.

In August 2014, we published a discussion paper on long-term mandates[3], inviting comments on and asking signatories to submit case-studies. We subsequently hosted panel discussions at PRI In Person in Montreal (2014) and London (2015) on investment mandates and beliefs, as well as a number of webinars[4] to discuss the findings of our research.

A recurring theme from signatories is that investment mandates are not a starting point, but an end-point. Investors looking to implement a responsible investment strategy must start by developing their beliefs on responsible investment and the relevance of environmental, social and governance issues to their investment governance, and then look to build these into investment mandates.

We also found the terminology "long-term" to be problematic. Our industry is unable to agree definitions of long-term – it depends on the actor, asset class and investment style. Responsible investment includes long-term value creation, but it is not limited to the long-term. This report therefore refers to responsible investment mandates rather than long-term mandates.

Here we present our most recent findings on investment beliefs, governance and mandates, and the relationship between these and the wider investment market.
We identify key barriers to implementing responsible investment mandates. We find that implementation at scale and depth will reinforce responsible investment, creating a multiplier effect across the investment market. Strong implementation by asset owners, reinforced through the

Fiona Reynolds, Managing Director, *PRI*

investment chain, will demonstrate to policy makers the role that responsible investment can play in driving sustainable corporate and investor behaviour. This in turn will encourage policy makers to adopt measures that support responsible investment.

We find that more is needed from the PRI in three areas, and have begun work on each of them:

- Clarifying asset owners' fiduciary duties, in particular that investors should explicitly account for ESG issues in their investment analysis, decision-making and in their engagement with companies and issuers;
- Developing strategy process guidance dedicated to asset owners;
- Clarifying the responsibilities of other actors in the investment value chain.

3 PRI (2014), Long-term Mandates: A Discussion Paper (PRI, London). http://www.unpri.org/viewer/?file=wp-content/uploads/Long-term-mandates1.pdf
4 http://2xjmlj8428u1a2k5o34l1m71.wpengine.netdna-cdn.com/wp-content/uploads/Long-Term-Mandates-Final.pdf

EXECUTIVE SUMMARY

Even though many asset owners have made commitments to responsible investment, the majority have yet to ensure that these are effectively implemented. There are inconsistencies in investment practices in different asset classes, high-level statements on sustainability or environmental, social and governance issues are often missing from investment beliefs, and responsible investment commitments are not embedded in investment mandates.

This creates a multiplier effect throughout the investment market. Weak implementation of responsible investment by individual asset owners sends signals to the investment market as a whole that responsible investment is not a priority for asset owners. In turn, this limits the willingness of investment consultants and investment managers to focus on responsible investment and ESG issues in their products and in their advice.

By implementing their commitments to responsible investment with sufficient scale and depth, asset owners can accelerate the development of responsible investment through the investment chain.

Scale:

- The number of asset owners implementing responsible investment, including strategically important asset owners, such as the Government Pension Investment Fund of Japan.
- The total AUM of responsible investment assets.

Depth:

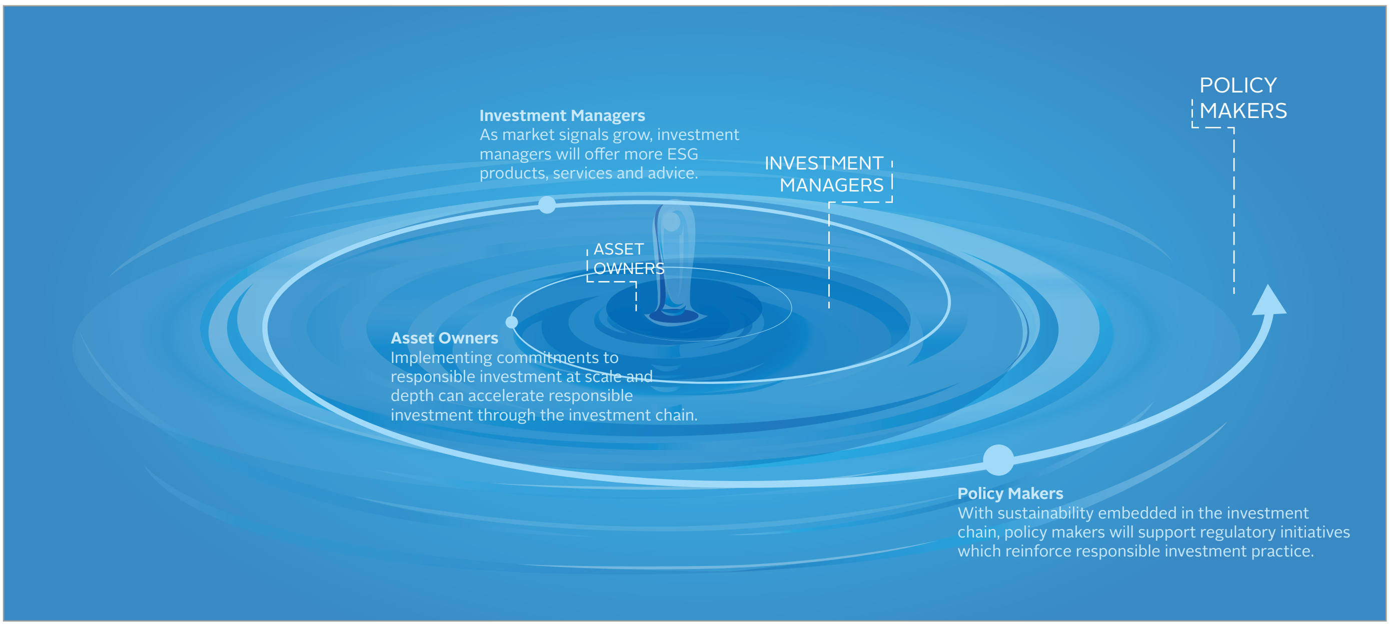
- The quality of implementation, across asset class.

There are a range of internal and external reasons why asset owners do not effectively implement their responsible investment commitments or take full account of ESG issues in their investment beliefs, governance and mandates. Common internal challenges include board and trustee scepticism about the investment value of responsible investment, skills gaps in relation to ESG analysis and decision-making, concerns about the costs of developing the necessary processes, systems and skills, and a narrow interpretation of investment objectives. The external challenges include the limited range of responsible investment-oriented investment products, and the general lack of interest on the part of investment consultants and legal advisers in responsible investment.

The weaknesses in asset owner implementation and the consequent effects on investment manager behaviour also affect the relationship between investors and policy makers. Our research indicates that many policy makers are sceptical about investors' motivations: they see piecemeal implementation of responsible investment as indicative of a deeper lack of commitment to responsible investment and sustainability.

This leads them to focus on the direct financial contribution that investors can make to addressing global systemic problems such as climate change and environmental and resource sustainability, rather than focusing on the wider contribution that investors could make through areas such as stewardship and public policy.

Figure 1: Asset Owners Can Drive Responsible Investment Through the Investment Chain



For some asset owners, including those that contributed to this report, responsible investment is already deeply ingrained in investment processes. ESG issues are hard-coded in investment strategy at par with asset-class characteristics and macro-economic drivers such as interest rates and inflation.

Commitments made and the actions taken by these asset owners need to be replicated at scale across the wider investment industry. Specifically, asset owners should:

- Publish investment beliefs, with commitments to take account of ESG issues in investment decision-making and in engagement with companies and issuers.
- Implement investment beliefs throughout the organisation, including Board/Trustees, CEO/CIO, portfolio managers, research analysts and legal counsel.
- Engage public policy makers on issues relevant to sustainable development finance.
- Integrate sustainability factors in the selection process for asset consultants and other advisers.
- Integrate sustainability factors in the selection process for investment managers, including:
    - reviewing the investment manager's investment beliefs;
    - assessing the ESG skills of all investment staff;
    - setting out ESG reporting expectations;
    - issuing investment mandates with ESG integration and reporting requirements, including on stewardship activities and turnover, with fees and pay structures that support ESG performance;
    - assigning specific weight to ESG factors in investment manager and investment consultant appointment.
- Integrate sustainability factors in the monitoring process for investment managers and investment consultants, including:
    - reviewing the investment manager's voting processes;
    - including ESG issues as a standard agenda item at performance review meetings;
    - assessing how the investment manager incentivises brokers to provide ESG research;
    - assessing how the investment manager engages policy makers on ESG issues.

INTRODUCTION: ASSET OWNER INFLUENCE

As providers of capital, asset owners sit squarely at the top of the investment chain.

PRI data shows that sustainability considerations are often missing from asset owners' investment processes, in particular from the selection, appointment and monitoring of investment consultants and investment managers.

Less than half of PRI asset owner signatories include specific guidelines on environmental and social issues (see Figure 2) and, in many cases, investment mandates lack detail on asset owners' specific ESG expectations of their managers (Figure 3).

Figure 2: The Content of Asset Owners' Policies and Guidance Documents (Source: PRI Reporting and Assessment Framework, 2015)

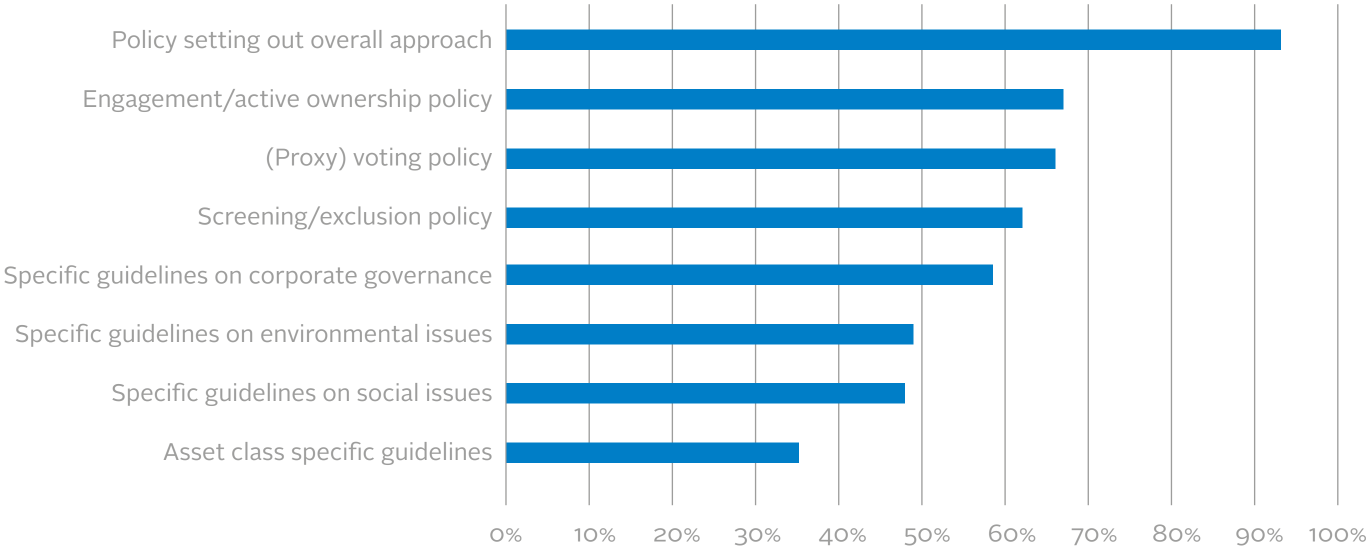
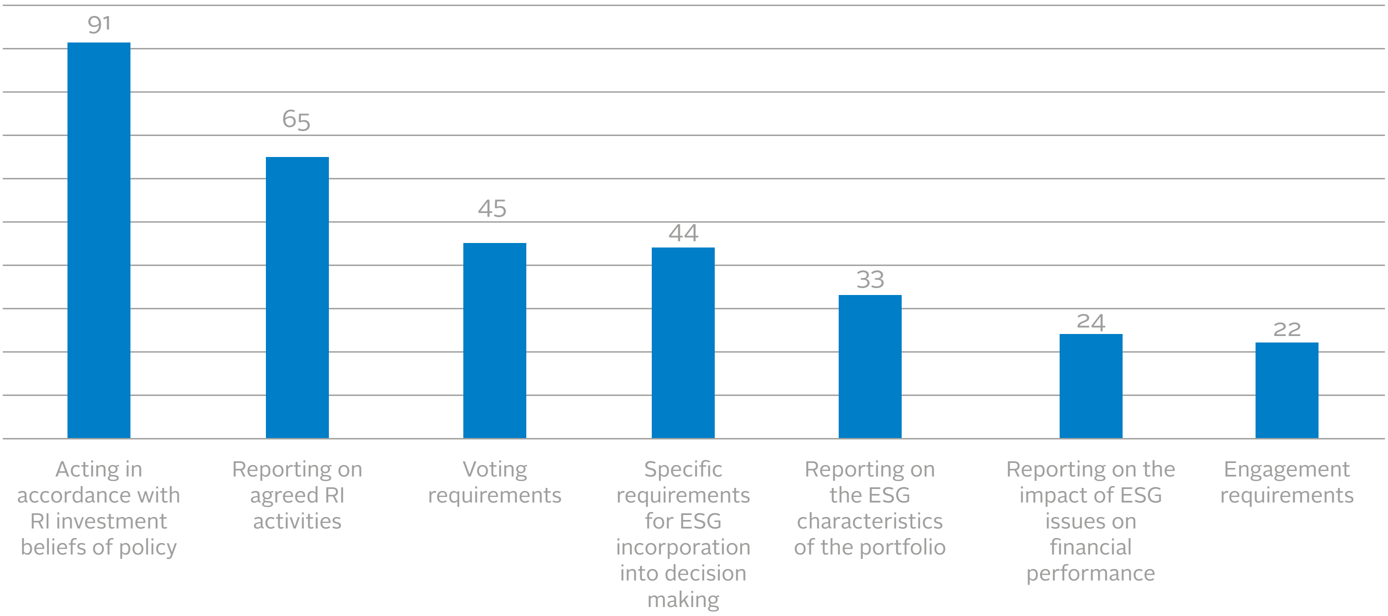


Figure 3: Responsible Investment Clauses in Asset Owner Contracts with their Investment Managers (Source: PRI Reporting and Assessment Framework, 2015)



"Investment management is an intermediated market. Generally this means that asset owners – other than when they specify bespoke solutions – need to choose the most suitable products from those that are available from investment managers. This is a key reason for the apparent disconnect between investment beliefs and the mandates that are issued.

There are, at present, relatively few plain vanilla products that include ESG. In practice, the funds being offered tend to either be full-blooded ESG/sustainability products or to not include ESG at all. There is some competition between passive managers but this is a very low-fee and low-margin business where engagement gets offered as a differentiator. It is unlikely that clients would pay more to have engagement included in the service that they receive."

Nico Aspinall, Head of UK DC Investment Consulting, Willis Towers Watson

There are three distinct sets of signals that asset owners send to the financial system.

- **Direct investment signals** through the weight given to responsible investment and ESG issues in appointment and reappointment decisions for investment managers and investment consultants, and through the formal conditions included in investment mandates.
- **Indirect investment signals** to the wider investment markets through investment beliefs, principles, policies and statements that tend to be seen by the wider investment market as indications of the issues that are of concern to the asset owner.
- **Policy signals**, where investors encourage policy makers to adopt measures that support responsible investment. These tend to be seen as leading indicators of potential change but, until regulation is both very likely and very close, of less importance than the signals sent through investment mandates.

Many sell-side research providers see that questions from asset owners about ESG-related issues have resulted in investment managers paying much greater attention to these issues in their investment processes and, in turn, challenging the sell-side to provide more and better quality research on these issues. Sell-side analysts explained that questions from investment managers have encouraged them to build their capacity and, in turn, to proactively raise ESG and sustainability issues with their other clients.

ADDRESSING THE BARRIERS TO ASSET OWNER ACTION

There are five distinct barriers to asset owners taking a more proactive approach to responsible investment. These are:

- The perception that ESG issues do not add value to investment decision-making.
- The perception that significant additional resources are required to implement responsible investment.
- The perception that investor duties, and in particular, fiduciary duty, prevents investors from taking a proactive approach to responsible investment.
- The advice given by investment consultants, which is often seen as not supporting proactive approaches to responsible investment.
- The products provided by investment managers, which often do not meet the responsible investment needs of asset owners.

Where this report details actions that asset owners can take, reports such as PRI's Fiduciary duty in the 21st century[5] identify actions that policy makers, investment consultants and investment managers can take.

THE PERCEPTION THAT ESG ISSUES DO NOT ADD VALUE TO INVESTMENT DECISION-MAKING

Barrier:
Many asset owners are yet to be convinced that focussing on ESG issues can add value to investment decision-making. These perceptions persist despite wide dissemination of research that demonstrates that ESG integration can help limit down-side investment risks and can significantly enhance investment performance[6]. Asset owners are also concerned that even if they have the resources to analyse ESG issues, the costs are likely to outweigh the investment benefits that accrue.

Solution:
The interviews conducted for this research suggest that investment professionals place much greater weight on experiences from their own careers than they do on third-party evidence and research. Asset owners beginning responsible investment activities and looking to ensure that ESG issues are integrated into their investment practices and processes therefore need to build their own internal evidence base: as ESG issues are analysed and taken into account, asset owners can gather evidence on whether and how this integration contributes to investment performance. This evidence can then be critically reviewed so that the impact is understood by the organisation as a whole.

Investment practitioners look to learn from, and often seek to follow, the practices and experiences of their peers. Interviewees commented that simply showing other asset owners how they integrate ESG issues into their investment processes and demonstrating the investment benefits that result is an important role for asset owners to play.

CASE STUDY

Our investment team's confidence in ESG beliefs has grown over the past decade, driven by:

- The growing body of robust academic evidence on the financial value – reduced cost of capital, reduced risk – of ESG issues (the meta-studies by Deutsche Bank Advisers and Arabesque and the climate change scenarios reports by Mercer were particularly important in this regard);
- The many examples we have found in our portfolios of company management running businesses responsibly and delivering better returns;
- The ongoing analysis of our investment practices and performance to understand how investment beliefs (such as those relating to ESG) are actually being used to inform/review practice, as well as what these beliefs contribute to performance and over what timeframes – for example, at board meetings, our Chief Executive always asks if the Fund is acting consistently with its beliefs and whether anything needs to change; at the operational level, our investment team reviews have regular strategy workshops where they review and discuss/debate specific investment beliefs and analyse how these have affected our investment decisions and performance.

5 PRI (2015), Fiduciary Duty in the 21st Century (UN Global Compact, UNEPFI, PRI and UNEP Inquiry into the Design of a Sustainable Financial System, London). http://2xjmlj8428u1a2k5o34l1m71.wpengine.netdna-cdn.com/wp-content/uploads/Fiduciary-duty-21st-century.pdf

6 See, for example, Arabesque Asset Management (2015) From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (Arabesque Asset Management London; the Smith School of Enterprise and the Environment, University of Oxford, Oxford; http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11) and Deutsche Asset and Wealth Management (2016), ESG & Corporate Financial Performance: Mapping the Global Landscape (Deutsche Asset and Wealth Management, London; https://institutional.deutscheam.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf).

There are, however, ongoing practical challenges.

- Although the academic evidence that ESG adds value to companies is strong, in listed equity markets the degree to which ESG performance is already priced in is not clear.
- It took us time to integrate and align our ESG beliefs with other beliefs such as those relating to diversification and whether investment skill leads to outperformance.
- We are still researching how best to integrate ESG issues into hedge funds and funds that use derivative-type instruments.

Fiona McKenzie, Head of Investments, NZ Super Fund
Anne-Maree O'Connor, Head of Responsible Investment, NZ Super Fund

CASE STUDY

We recognise that, in some areas and some asset classes, the investment market's approach to responsible investment is immature and that we may not be able to find the exact product that we are looking for. In these areas, we look to find managers that we can work with, even if they don't have all the skills/capabilities at the beginning.

Our experience is that, over two to three years, the demands that we make (e.g. on reporting, on product development) drive real change within investment managers. We find that they do strengthen their reporting, they do build their capacity and capabilities, they do place more emphasis on ESG issues. Encouraging these changes, however, takes time. It requires us to commit resources to monitoring our investment managers, and to engaging with, and providing regular critical feedback to, these investment managers.

Mark Mansley, CIO, Environment Agency Pension Fund

THE PERCEPTION THAT SIGNIFICANT ADDITIONAL RESOURCES ARE REQUIRED TO IMPLEMENT RESPONSIBLE INVESTMENT

Barrier:
Resource constraints create very real challenges for asset owners when implementing responsible investment. This is particularly the case for asset owners that see responsible investment as independent to the organisation's core purpose, and is reinforced if responsible investment is treated as separate to investment practices and processes: for example, being seen as part of corporate affairs or compliance.

Solution:
Asset owners can address this barrier by ensuring that their approach to responsible investment is consistent and complementary to their wider investment and organisational objectives. Specifically they should:

- Have an explicit statement on ESG issues in their investment beliefs and ensure that these beliefs are shared in an open and transparent way with beneficiaries and with investment professionals and other key decision-makers within the organisation;
- Focus on those issues that are important to the organisation (i.e. legal obligations and organisational goals) and identify the relationship of these issues to ESG;
- Ensure that they use or build on their existing investment processes to deliver and implement their investment beliefs – ESG issues should be seen as just another set of issues to be considered in investment research and decision-making;
- Understand responsible investment-related costs in the context of the investment and other benefits that are likely to accrue, making the identification and management of ESG-related issues an integral part of investment risk management processes (for example, well-thought out beliefs help the asset owner to better understand the investment risks taken by the fund and by its agents, which can feed into decisions on selecting and retaining managers).

> "Our internal investment teams support the work of the corporate governance team and they acknowledge that corporate governance engagement and voting are integral to good investment practice. This engagement and voting is particularly important in passive funds, where we effectively hold investments to maturity."
>
> *Jacob Williams, Corporate Governance Manager, State Board of Administration of Florida*

THE PERCEPTION THAT INVESTOR DUTIES, AND IN PARTICULAR, FIDUCIARY DUTY, PREVENTS INVESTORS FROM TAKING A PROACTIVE APPROACH TO RESPONSIBLE INVESTMENT

Barrier:
Fiduciary duty in the 21st century[7], finds that many asset owners cite their fiduciary duties as the reason why they are yet to integrate ESG issues into their investment processes. The interviewees for that report and for this identified a number of different reasons why fiduciary duty continues to be seen as such as obstacle, including:

- Outdated perceptions about fiduciary duty and responsible investment;
- A lack of clarity within prevailing definitions of fiduciary duty about what ESG integration means in practice and, in particular, whether active ownership and public policy engagement form part of investors' fiduciary duties;
- Limited knowledge of the evidence base for responsible investment, including the strength of the relationship between ESG issues and investment performance;
- Lack of transparency on responsible investment practices, processes, performance and outcomes, limiting investors' accountability to their beneficiaries, their clients and wider society;
- Weaknesses in the implementation, oversight and enforcement of legislation and industry codes on responsible investment.

Solution:
To address these, asset owners have three roles they can play:

1. Analyse and take account of ESG issues in their investment processes while also ensuring that they have robust processes to:
   - Record the analysis that they have conducted and the actions that they have taken based on this analysis;
   - Assess how these decisions have influenced investment performance;
   - Review processes to analyse how ESG issues have affected investment performance –these should include critical review of analytical methods, assumptions and decision-making processes.
2. Press regulators to clarify that asset owners' fiduciary duties require them to pay attention to ESG issues in their investment processes, and to actively engage with companies and issuers on ESG issues.
3. Challenge their investment consultants and legal advisers to ensure that the advice being provided on fiduciary duty takes account of ESG issues.

> "The argument that ESG issues are important to financial and investment risk, and not just about ethical investment, is increasingly recognised in the investment industry. In contrast, however, much of the legal profession is well behind the curve, thinking that ESG issues cannot be relevant to their investment clients and that to take such issues into account may even run counter to their fiduciary duties. There is clearly a need to move legal thinking away from the perceived dichotomy between being ethical and achieving the best returns, and shifting focus instead onto the importance of ESG considerations as a key financial factor for investment decision-making. Looking at it that way, the fiduciary duty looks rather different, and the argument that ESG issues should be taken into account becomes much more compelling."
>
> *Mark Womersley (Partner, Osborne Clarke LLP; legal counsel to Environment Agency Pension Fund*

7 Published by PRI, UNEP FI, UNEP Inquiry and UN Global Compact

THE ADVICE GIVEN BY INVESTMENT CONSULTANTS, WHICH IS OFTEN SEEN AS NOT SUPPORTING PROACTIVE APPROACHES TO RESPONSIBLE INVESTMENT

Barrier:
Investment consultants often base their advice on a very narrow interpretation of investment objectives. While the major consulting firms now have responsible investment specialists or small teams focused on responsible investment, these are usually established as separate advisory centres rather than being integrated into all investment advisory services, which results in ESG being an additional service and cost.

Solution:
Investment consultants say that asset owners rarely raise responsible investment issues with them, which makes them less willing to raise responsible investment with their clients, and limited their willingness to integrate responsible investment into their mainstream service offerings.

When appointing investment consultants and legal advisers, asset owners should ask them to explain how ESG factors and responsible investment are integrated into the advice that they provide. Asset owners should also ensure that ESG issues and responsible investment are standing items in consultant meetings.

"In the South African investment system, investment consultants are the key actors. Many asset owners rely on their consultants to bring relevant issues to their attention. However, most consultants are not actively supportive of ESG or responsible investment and so, in the absence of explicit demand from their clients, tend not to proactively raise the issue.

Asset owners need to proactively engage with investment consultants and they should require them to explicitly look at ESG and responsible investment when evaluating and recommending investment managers."

Isaac Ramputa, Chairperson, Batseta

"Actuaries, because they have a Royal Charter, do have a public interest role. This is generally interpreted by actuarial consultants as requiring them to be aware of the public interest and to make their clients aware of this public interest. It does not, however, mean that actuaries are required to enforce these interests, other than when such action is legally required.

It is also important to recognise that it is not necessarily a bad thing that there is a divergence of views among actuaries on ESG issues as this helps avoid herd behaviour. ESG is clearly a risk factor and the advice given by actuaries focuses on helping clients to identify risks and develop risk management strategies.

Investment consultants generally focus on the core expertise of the investment manager (i.e. what are their core competencies, how do they add value) and generally believe that investment managers should build their business around this core expertise. We could well see ESG becoming a hygiene factor in all manager appointment processes. However, it is unlikely that all investment managers would be expected to have ESG capabilities as an integral part of how they deliver investment performance.

Put another way, investment consultants see ESG as one set of skills/competencies that an investment manager might bring to the table"

Nico Aspinall, Head of UK DC Investment Consulting, Willis Towers Watson

THE PRODUCTS PROVIDED BY INVESTMENT MANAGERS, WHICH DO NOT MEET THE RESPONSIBLE INVESTMENT NEEDS OF ASSET OWNERS

Barrier:
Investment managers do not offer a full range of sustainability products, and often do not have the range of sustainability and responsible investment-related capacities and skills that they need. This is compounded by many asset owners feeling that they do not have the scale, the capacity or the expertise to influence the products being offered by investment managers. This leads them to conclude that they are product takers and that there is limited value in them looking to proactively engage with investment managers to encourage them to offer a wider range of sustainability-related products.

The investment manager representatives interviewed expressed frustration that their efforts on responsible investment did not seem to be a factor in asset owners' selection and monitoring decisions. The absence of clear signals from asset owners that they would be interested in responsible investment products, or that they expect their asset manages to have robust responsible investment capabilities, mean that investment managers have limited incentive to develop such products.

Solution:
Asset owners need to be clear that they expect their investment managers to analyse and take account of ESG issues in their investment processes, in their active ownership activities, and in their public policy engagement. Asset owners need to explain how these are incorporated into manager selection, appointment and reappointment processes, and how they are incorporated into investment mandates.

They should require investment managers to report regularly on how they have taken account of ESG issues in their practices and processes, the investment decisions that have been made as a result of ESG integration, and how this has affected investment performance.

Asset owners should provide feedback to their investment managers on how they are performing against asset owners' beliefs and policies and they should encourage investment managers to continuously improve their practices and processes.

High-performing investment managers (in terms of product development, quality of ESG integration and quality of company and issuer engagement) should be rewarded, whether through strengthened relationships with existing clients or through winning new mandates.

> "The CalPERS side letter requires investment managers to incorporate environmental, social, and governance factors into investment processes and report on those factors on a regular basis, in addition to responding to any CalPERS questions related to the same."
>
> *James Andrus, Investment Manager, CalPERS*

> "There has been an evolution over time with respect to our managers' attitudes and capabilities on responsible investment. Today almost all managers can demonstrate how ESG integration fits with their investment philosophy, strategy, and practices."
>
> *Katharine Preston, Senior Manager, Responsible Investing, OPTrust*

> "Investment managers will be led by what their clients ask of them, by wider market demand, by regulatory drivers. There may also be an evolution in legal thinking, in particular in relation to fiduciary duty, which puts further impetus behind this agenda. Concerns about the long-term impact of climate change and recognition of its materiality to investment outcomes may well be the catalyst."
>
> *Mark Womersley, Partner, Osborne Clarke LLP; legal counsel to Environment Agency Pension Fund*

It is possible to trace the root of many of these barriers back to weak implementation of responsible investment at the start of the investment chain – by asset owners. To break this cycle, asset owners need to properly integrate responsible investment into their investment beliefs, governance and mandates.

DRIVING RESPONSIBLE INVESTMENT THROUGH THE INVESTMENT CHAIN

MANY FACTORS, WORKING TOGETHER, REINFORCE EACH OTHER TO INTRODUCE OR EXACERBATE EXTERNALITIES IN THE FINANCIAL SYSTEM AS A WHOLE. THESE FACTORS DO NOT OCCUR IN ISOLATION, AND CAN OFTEN BE TRACED BACK TO IMPLEMENTATION WEAKNESSES WITHIN ASSET OWNERS.

CURRENT PRACTICE

1. High-level statements on sustainability are often missing from investment beliefs and are not embedded in investment mandates.

2. Weak implementation go beyond an asset owner's individual investment outcomes, weakening incentives for market participants to fully integrate sustainability considerations through the investment chain.

3. Challenges include a narow interpretation of investment objectives, a lack of expertise on ESG issues, and limited, or even no, beneficiary pressure.

BEST PRACTICE

FINANCIAL SYSTEM

BENEFICIAARIES

1. ASSET OWNERS

Advanced sustainability commitments are widely implemented throughout the asset owners, including board, trustees, CIO, portfolio managers, research analysts and legal counsel, and across asset classes and investment strategies. Sustainability factors are integrated in the selection process for investment consultants, investment managers and embedded in investment mandates.

2. INVESTMENT CONSULTANTS

As asset owners signal their commitment to sustainability considerations, investment consultalts will be incentivised to better assess investment managers on ESG performance, and make recommendations accordingly.

Investment consultants will offer a wide range of ESG investment products and services to markets, in line with trustees needs, including explanations of how these products align with fiduciary duties.

3. INVESTMENT MANAGERS

As market signals grow, investment managers will offer advanced ESG investment products, in order to maintain their market share. This will include meaningful shareholder engagement, consistent with the investment beliefs of their clients, with advanced reporting to asset owners on implementation and the outcomes that have resulted.

REAL ECONOMY

4. Investment brokers execerbate weaknesses in ESG integration, with over-reliance on short-term performance assessments, misaligned incentives, inadequate information flows and inadequate transparency.

5. The result is sustainability challenges in the financial system as a whole.

6. And therefore, policy makers do not fully consider the ways in which they can support responsible investment behaviour.

4. INVESTMENT BROKERS

Investment brokers will integrate research on ESG performance in company buy, hold and sell recommendations, requiring companies to provide robust, credible and detailed accounts of their management of ESG issues, and of the financial significance of these issues. Investment brokers will engage ratings agencies, data providers and policy makers on issues relevant to responsible investment.

5. STOCK EXCHANGES

Sitting at the heart of the investment chain, stock exchanges will strengthen listing requirements for companies and offer advanced sustainability indices on a range of ESG metrics.

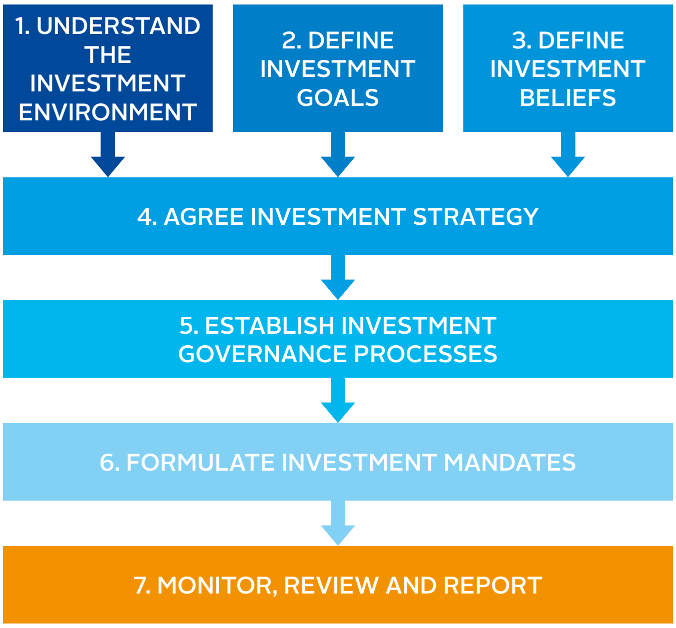
COMPANIES

6. POLICY MAKERS

With sustainability embedded through the investment chain, policy makers will be more inclined to support regulatory initiatives which reinforce responsible investment practice, engaging pension funds on issues beyond capital allocation, such as climate change, including policy formulation and policy implementations.

IMPLEMENTING RESPONSIBLE INVESTMENT: SEVEN STEPS FOR ASSET OWNERS

Asset owners should follow these steps to ensure that they have the systems, policies, processes and accountabilities they need to ensure that their investment beliefs and commitments are reflected in their strategies, in their governance processes and in the contractual relationships they have with their investment managers.



1. UNDERSTAND THE INVESTMENT ENVIRONMENT

Understand the legal and other obligations that apply to the fund. These will include:

- Formal legal requirements relating to investment;
- Quasi-legal requirements, such as industry codes and standards;
- Their own charters or other formal organisational obligations;
- Beneficiary or stakeholder expectations;
- Public commitments made by the organisation, for example, public policies or statements of investment principles.

2. DEFINE INVESTMENT GOALS

Investment goals are generally defined using financial measures, such as liquidity requirements and risk-adjusted return target. Investment goals should be informed by the organisation's approach to risk management and time horizons, including the risks that are likely to be relevant over these timeframes, the implications of wider economic or market issues, and approach to ESG integration.

Asset owners also need to decide which risks will be managed and which risks will not, or cannot, be managed, and identify the market environments in which these losses may occur.

3. DEFINE INVESTMENT BELIEFS

Building on the investment goals, develop and codify a formal statement of investment beliefs, which focuses on the issues that are the most important drivers of the investment decisions. These beliefs serve as a lens for an institution on how to add value to, and how to navigate, the financial markets. These beliefs are lenses that differ from institution to institution and lead respective trustees, CEOs, CIOs and ultimately all investment staff to different investment approaches.

4. AGREE INVESTMENT STRATEGY

Agree a clear and comprehensive investment strategy that sets in motion investment environment, goals and beliefs, as well as informs other organisational activities, such as asset class strategies, risk management decisions and reporting considerations.

5. ESTABLISH INVESTMENT GOVERNANCE PROCESSES

Once the strategy process has understood the investment environment, defined investment goals and investment beliefs, ensure that the necessary resources, expertise and processes are in place to implement the strategy. In the majority of cases, asset owners will already have most or all of what they need for implementation. The implementation of their investment strategies should require limited change to their existing systems and processes.

Asset owners should ensure that sustainability/ESG factors are explicitly incorporated into the selection processes for investment managers, investment consultants and other advisers. They should assign specific weight to ESG factors in investment manager and investment consultant appointment decisions, and should explicitly assess the investment beliefs and the ESG skills as an integral part of all investment manager and investment consultant appointment decisions.

6. FORMULATE INVESTMENT MANDATES

Ensure that investment mandates align investment managers' approach with the asset owners' investment beliefs and strategies. Attention should be paid to aligning timeframes through fees and pay structures, ensuring that ESG issues are fully integrated into investment decision-making, and ensuring that the investment manager engages with companies and issuers, and votes shareholdings.

Investment mandates should require investment managers to:

- Implement the asset owners' investment beliefs and relevant investment policies;
- Integrate ESG issues into their investment research, analysis and decision-making processes;
- Invest in a manner consistent with the asset owner's time horizons, understanding the key risks that must be managed to achieve the asset owner's portfolio goals;
- Implement effective stewardship processes, including engagement with companies and issuers on ESG issues and, for listed equities, voting all shareholdings – this engagement should align with the asset owner's responsible investment and related policies;
- Engage constructively and proactively with policy makers on responsible investment and ESG-related issues – this engagement should align with the asset owner's responsible investment and related policies;
- Report on the actions taken and outcomes achieved – the reporting should enable the asset owner to assess the manner in which the investment manager has implemented the asset owners' investment beliefs and policies, and to understand how this has affected investment performance and ESG outcomes and impacts.

7. MONITOR, REVIEW AND REPORT

Monitor the implementation of the investment goals, beliefs, strategy and policies, and periodically review them. This includes regular review of how investment managers are addressing the investment beliefs in practice. These reviews should include scrutiny of investments managers' approach to stewardship (and voting where relevant), to ESG-related research and decision-making and to public policy engagement.

Asset owners should also monitor the wider investment market to ensure that their practices align with best practice across the investment industry.

"Responsible investment is one of the investment beliefs of MN. Investing responsibly and achieving excellent returns are not mutually exclusive. We believe in investing in well-governed companies in a way that minimises negative impacts on society and the environment and, where possible, makes a positive contribution."

Karlijn van Lierop, Head of Responsible Investment, MN

"Our goal as a pension fund is and must be to take the very best care of the assets we manage in order to preserve and multiply the capital to provide the best possible pensions for our members. When we consider our wish for a sustainable financial system, we have to keep this in mind, because there has to be an alignment between our quest for a sustainable financial system and our primary objective as trustee of our members' pensions."

Louise Jorring Gev, Head of Equities, Unipension

"Publicly stating our investment beliefs guards against falling for anything by standing for nothing. Given the many misaligned incentives that persist in the investment industry, beneficiaries and policy makers should require those investing on beneficiaries' behalf to state the basis on which they do so. If those publicly stated investment beliefs do not chime with beneficiaries' own views, beneficiaries should be enabled to find other providers with concordant beliefs. Greater clarity and transparency of investment beliefs should increase the professionalism and trustworthiness of the investment industry, with resultant benefits for all of our society."

Justin Atkinson, Investment Director, Private Equity, Alliance Trust PLC

"OPTrust's responsible investment team is part of the manager selection process for all equity and fixed income mandates. ESG questions are asked in RFPs and the responsible investment team is part of the manager interview, evaluation and selection process."

Katharine Preston, Senior Manager, Responsible Investing, OPTrust

INVESTMENT BELIEFS: EXAMPLES FROM PRACTICE[8]

Investment beliefs set the direction for investment policy, investment practice and organisational culture. They help define how the asset owner will create investment value, in the context of future uncertainty, risk and opportunity. They also help asset owners to make practical decisions about their investment style, their selection and monitoring of investment managers, their asset allocation, their investment decisions, their performance objectives, and their approach to active ownership.

Internal stakeholders, in particular the board, senior management and portfolio management team are key to translating investment beliefs into investment practice. It is therefore critical that these stakeholders are closely involved in the process of developing, formalising and agreeing the final set of approved beliefs.

It takes time for internal stakeholders to develop confidence that the investment beliefs will enable them to deliver better investment performance, and for investment practice to align with these beliefs.

BRITISH COLOMBIA INVESTMENT MANAGEMENT CORPORATION

Statement of Investment Principles
The Board believes that companies that take environmental, social and governance (ESG) matters into account have less risk and generate long-term value for investors compared to companies with less robust practices. By applying these principles, the Board recognizes that effective research, analysis and evaluation of ESG issues are fundamental to assessing the value and performance of an investment over the long-term.

MORE

Guiding Principles and Beliefs

- Knowledge and reason, while keeping in mind the importance of returns, inform our decisions.
- We do not place unnecessary burdens on our companies; we recognize that introducing good practices and meaningful, large-scale change takes time.
- Engaging is a more effective means of enhancing governance practices than is divesting.
- As a significant investor we have a responsibility to advance responsible investment within our industry.

MORE

CALPERS

- Pension Belief 1: A retirement system must meet the needs of members and employers to be successful.
- Pension Belief 2: Plan design should ensure that lifetime retirement benefits reflect each employee's years of service, age and earnings and are adequate for full-career employees.
- Pension Belief 3: Inadequate financial preparation for retirement is a growing national concern; therefore, all employees should have effective means to pursue retirement security.
- Pension Belief 4: A retirement plan should include a defined benefit component, have professionally managed funds with a long-term horizon, and incorporate pooled investments and pooled risks.
- Pension Belief 5: Funding policies should be applied in a fair, consistent manner, accommodate investment return fluctuations and support rate stability.
- Pension Belief 6: Pension benefits are deferred compensation and the responsibility for appropriate funding should be shared between employers and employees.
- Pension Belief 7: Retirement system decisions must give precedence to the fiduciary duty owed to members but should also consider the interests of other stakeholders.
- Pension Belief 8: Trustees, administrators and all other fiduciaries are accountable for their actions, and must transparently perform their duties to the highest ethical standards.
- Pension Belief 9: Sound understanding and deployment of enterprise-wide risk management is essential to the ongoing success of a retirement system.
- Pension Belief 10: A retirement system should offer innovative and flexible financial education that meets the needs of members and employers.
- Pension Belief 11: As a leader, CalPERS should advocate for retirement security for America's workers and for the value of defined benefit plans.

MORE

8 As of February 2016.

ENVIRONMENT AGENCY PENSION FUND

Our Statement of Investment Principles (SIP) (annex 3) fully embeds our commitment to Responsible Investment (RI) and the balance of responsibilities in delivering a sustainable and sufficient return on all our investments. A summary of the key Responsible Investment principles:

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- RI is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice.
- Apply evidenced based decision making in the implementation of RI.
- Achieve improvements in ESG through effective partnerships that have robust oversight.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.
- Be transparent and accountable in all we do and in those in which we invest.

MORE

MN

- Balance sheet thinking: Investment strategy should be integrated into the overall funding and risk management strategy of the pension fund or insurance company (“the client”). The client’s funding objective, sponsor covenant and liability profile should form the basis for establishing the right risk and return objectives for the investment portfolio.
- Investment horizon: The long-term nature of the liabilities is a key consideration and typically implies a long-term investment horizon. That said, circumstances may occur that mean that short-term metrics also become relevant. It is therefore important to balance the opposing forces of short-term requirements and opportunities with long-term objectives.
- Investment discipline: At all levels, the investment process should be disciplined and based on unambiguous assumptions in line with the client’s ultimate goals. It should be supported by an effective risk management framework which that allows decision-making to be rigorously monitored and the investment process fine-tuned.
- Responsible investment: Investing responsibly and achieving excellent returns are not mutually exclusive. In fact, investments will generate solid returns in the long run only if communities evolve in a balanced way. We believe in investing in well governed companies in a way that minimises negative impacts on society and the environment and, where possible, makes a positive contribution.
- Knowledge: Value is created by building an organisation with in-depth knowledge and experience of global markets, and draws on the expertise of a wide network of external partners.
- Innovation: Investors can achieve attractive risk adjusted returns by being early adopters in emerging technologies and markets.

MORE

NEW ZEALAND SUPER FUND

Investment Decisions, Beliefs and Facts

Governance and investment objectives

- Clear governance and decision-making structures that promote decisiveness, efficiency and accountability work to add value to the Fund.
- It is important to be clear about investment objectives for the Fund, risk tolerance, and the timeframe over which results are measured.

Asset allocation

- The key investment decision. Investors with a long-term horizon can outperform more short-term focused investors over the long-run.
- Risk and return are strongly related. There are varied investment risks that carry premiums / compensations. Illiquidity risk is one such premium. Investment diversification improves the risk to return (Sharpe) ratio of the Fund.

Asset class strategy and portfolio structure

- Asset class expected returns are partly predictable and returns can revert toward a mean over time.
- Markets are competitive and dynamic, with active returns very difficult to find and constantly changing source. Market volatility clusters over short horizons but mean-reverts over longer horizons. Unbundled investment risks increase fund efficiency: the separation of market (beta) and investment-specific investment manager skills (alpha).

Manager and investment selection

- True skill in generating active returns vs a manager's benchmark (pure alpha) is very rare. This makes it hard to identify and capture consistently. Some markets or strategies have characteristics that are conducive to a manager's ability to generate active return. These characteristics tend to evolve slowly over time, but the shorter-term opportunity set that may be available in any market/strategy can vary through the cycle. We believe most active return is driven by a combination of the manager's research signals, the conduciveness of their market to generating active returns, beta factors and luck. Responsible investors have concern for environmental, social and governance factors because they are material to long-term returns.
- More efficient markets make generating active return more difficult. Research signals and methods used by managers tend to commoditise over time through market forces. Synthetic exposure to a market or factor can provide a guaranteed active return to the Fund, and this is an additional hurdle that an active manager must surpass.

Execution

- Managing fees and costs and ensuring efficient implementation can prevent unnecessary cost.

MORE

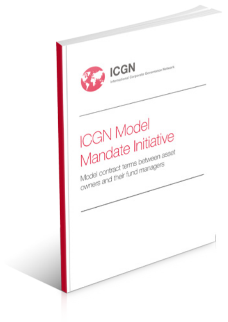
RAILPEN

Our Investment beliefs

- We value effective governance, leadership and strong culture as essential for a world-class investor.
- We work to clear investment goals and accountabilities to meet our liabilities.
- We act as a long-term investor.
- Price matters so we will be patient but ready to act.
- We believe diversification usually reduces risk more than return.
- In managing risk we recognise it is multi-faceted and not fully quantifiable.
- We manage environmental, social and governance issues as they can have an impact on the long-term performance of investments.
- We seek to achieve alignment of interests between ourselves, our beneficiaries and those acting on our behalf.
- We believe that costs matter and can be managed.
- We believe the best investment solution for most Sections is through a small number of distinct multi-asset funds which enables flexible investment decision-making.

MORE

INVESTMENT MANDATES: SAMPLE CLAUSES



DOWNLOAD International Corporate Governance Network's (ICGN) Model Mandate Initiative for more investment mandate sample clauses.

ADOPT INVESTMENT BELIEFS AND POLICIES

In carrying out its duties under this agreement, the Investment Manager will manage the client's portfolio in line with the client's investment beliefs and responsible investment policies, copies of which are attached as Appendix 1 to this agreement.

The manager will also ensure the portfolio is managed in line with the Principles for Responsible Investment, to which the client is a signatory.

INTEGRATE ESG ISSUES INTO INVESTMENT DECISION-MAKING

Consistent with its fiduciary duties and with the client's investment beliefs and responsible investment policy (copies of which are attached as Appendix 1 to this agreement), the Investment Manager will establish a structured process for integrating environmental, social and governance issues into its investment processes and decision-making. The Investment Manager will ensure that its staff apply due care and diligence to following this process

The Investment Manager will report annually on the implementation of this process and on how the analysis of environmental, social and governance issues has influenced investment decisions and portfolio performance,

ALIGN INVESTMENT TIME-HORIZONS

The Investment Manager will have a process for monitoring current or potential investments in relation to relevant long-term factors such as ESG concerns. The Investment Manager will ensure that its staff apply due care and diligence to applying this monitoring process, including considering the extent to which such long-term factors generate investment risks or opportunities. The Investment Manager will report annually on the implementation of this process.

The Investment Manager will report annually on portfolio turnover, including the costs incurred from portfolio turnover. The Investment Manager will, as part of this reporting, provide an explanation of any divergence from turnover expectations.

STEWARDSHIP

The Investment Manager will be an active owner, implementing a programme of engagement and, where relevant, voting, aligned with the Client's responsible investment beliefs and policies (copies of which are attached as Appendix 1 to this agreement). The Investment Manager will agree engagement priorities with the client on an annual basis. Where appropriate, the Manager will provide the Client with the opportunity to join company meetings.

The Investment Manager will participate in, and promote, stewardship codes in countries relevant to the investment portfolio.

The Investment Manager will report annually on the financial outcomes and the environmental, social and governance outcomes that have resulted from these activities, The Investment Manager will also report on how stewardship activities have influenced its investment decisions.

PUBLIC POLICY ENGAGEMENT

The Investment Manager will allocate resources to public policy engagement on responsible investment-related issues, in line with the Client's investment beliefs and responsible investment policies, copies of which are attached as Appendix 1 to this agreement.

The Investment Manager will agree engagement priorities with the Client on an annual basis, and will report annually on progress against these priorities.

REPORTING

In addition to the specific reporting requirements above, the Investment Manager will report annually on:

- The staff and other resources it has for the implementation of its responsible investment commitments and for the analysis of ESG issues;
- How its compensation structures align with the objectives of the mandate;
- The internal and external ESG research it uses in its investment research and decision-making, including information on its chosen research providers and on research expenditures;
- How its responsible investment and ESG-related activities (investment research and decision-making, active ownership, policy engagement) have affected the underlying value and strategy of the portfolio.

The Manager will allow access by the Client to its staff and systems to monitor ESG integration in investment decision-making.

NEXT STEPS

Asset owners should do significantly more to deliver a sustainable financial system, even in the absence of regulation. Weaknesses in implementation mean that investment managers, investment consultants and other service providers do not receive strong, clear and consistent messages from their asset owner clients about the importance they should assign to responsible investment.

This creates the perception that responsible investment is not an integral part of asset owners' investment practices and processes, that asset owners will prioritise other issues when appointing and monitoring the performance of investment managers and service providers, and that there is limited commercial upside to focusing on responsible investment.

It is not just the case that the signals that asset owners are sending are insufficiently strong. The weak and fragmented signals from asset owners create negative feedback loops that undermine progress towards a sustainable financial system.

By effectively implementing their commitments to responsible investment, asset owners will reinforce responsible investment practice through the investment chain. Asset owners must be assertive in articulating their commitment to sustainability considerations in their investment beliefs, in integrating these into mandates and proactively engaging with their investment managers. They should ensure that their investment beliefs and policies are publicly available. ESG and responsible investment should be standing items in consultant meetings.

A similar dynamic can be seen in relation to public policy. Because policy makers are often sceptical about asset owners' commitment to responsible investment, and about the role that responsible investment can play in driving corporate and investor behaviour, they are less inclined to adopt policy measures that facilitate and encourage investors to take action on responsible investment. Asset owners are a key voice in the public policy process, given their central role in the investment industry, and should therefore be willing to play a leading role in policy debates around responsible investment.

Further work is needed in three areas:

- Many asset owners will need help implementing the recommendations made in this report. The PRI's Investment Practices team will develop practical guidance for asset owners on the development and implementation of responsible investment strategy, policies and resulting practices.
- The PRI, UNEP FI and The Generation Foundation launched a three-year programme to implement the recommendations of Fiduciary duty in the 21st century, including developing and publishing an international statement on fiduciary duty with investors, governments and intergovernmental organisations that includes the requirement to integrate ESG issues into investment processes and practices.[9]
- The role that both asset owners and other actors in the investment chain can play in amplifying and reinforcing the signals sent by asset owners will be addressed through the PRI's Sustainable Financial System programme.

> "Asset owner behaviour is key to driving change in the investment community. Investment managers are very responsive to market demand so the onus on the owners to be clear about expectations and to be willing to work with managers to bring about the alignment we are seeking."
>
> *Katharine Preston, Senior Manager, Responsible Investing, OPTrust*

> "Investment beliefs sit at the heart of the investment process. Investment beliefs help define how the asset owner will create investment value, in the context of future uncertainty, risk and opportunity. In turn, this helps asset owners to make practical decisions about their investment style, their selection and monitoring of investment managers, their asset allocation, their investment decisions, their performance objectives, and their approach to active ownership.
>
> Furthermore, because beliefs should be written in plain English, they force you to be clear about what exactly you believe."
>
> *Mark Mansley, CIO, Environment Agency Pension Fund*

9 http://www.unpri.org/wp-content/uploads/Fiduciary_duty_2016-scoping-paper.pdf

ACKNOWLEDGEMENTS

With thanks to Fiona Reynolds, Tomi Nummela, Don Gerritsen, Alyssa Heath and Anna Bordon.

For further details, email policy@unpri.org

CREDITS

AUTHORS
Will Martindale, Rory Sullivan, Nathan Fabian

EDITOR
Mark Kolmar, PRI

DESIGN
Thomas Salter & Alessandro Boaretto, PRI

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, 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.

More information: www.unepfi.org

UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org