

ESG trends across the investment community - SURFA webinar

February 7, 2018



Contents

- What is responsible investment?

- Responsible investment trends

- PRI overview & services

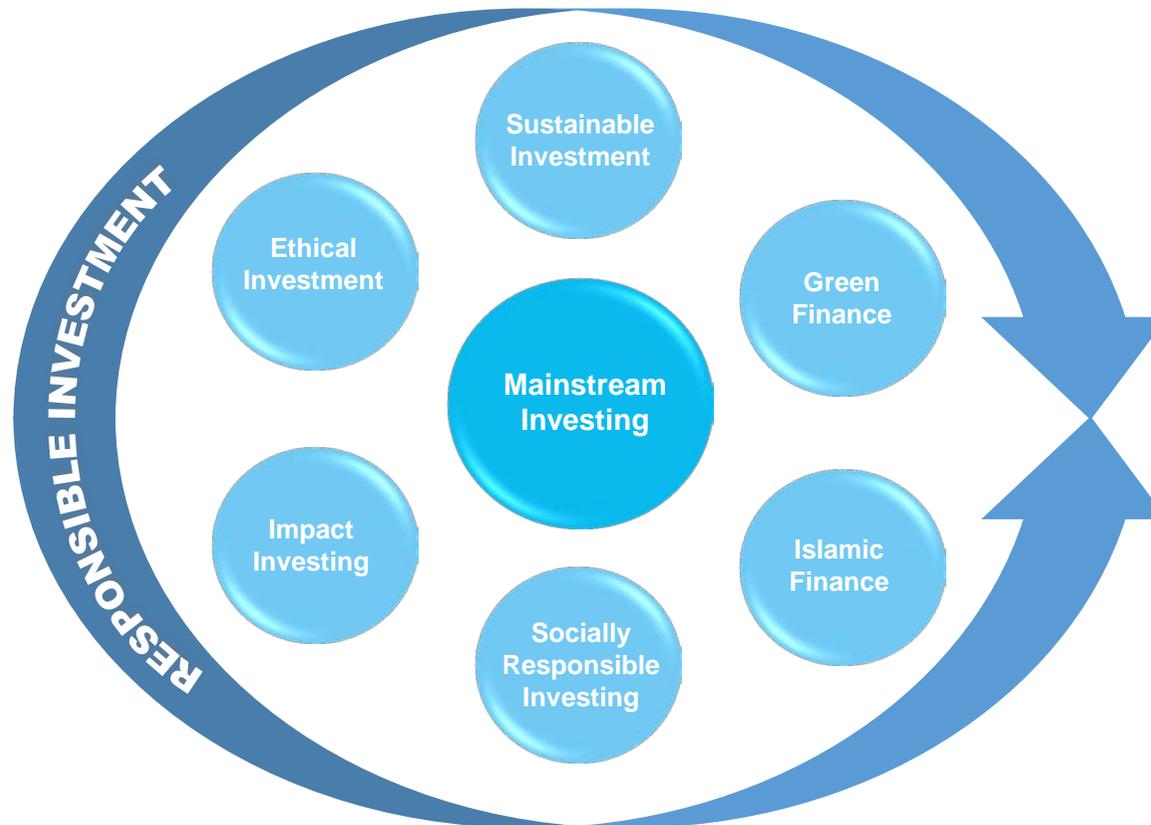
- Appendix:

- PRI teams

- How to become a PRI signatory

What is responsible investment?

Incorporates 'value' and 'values-based' investing

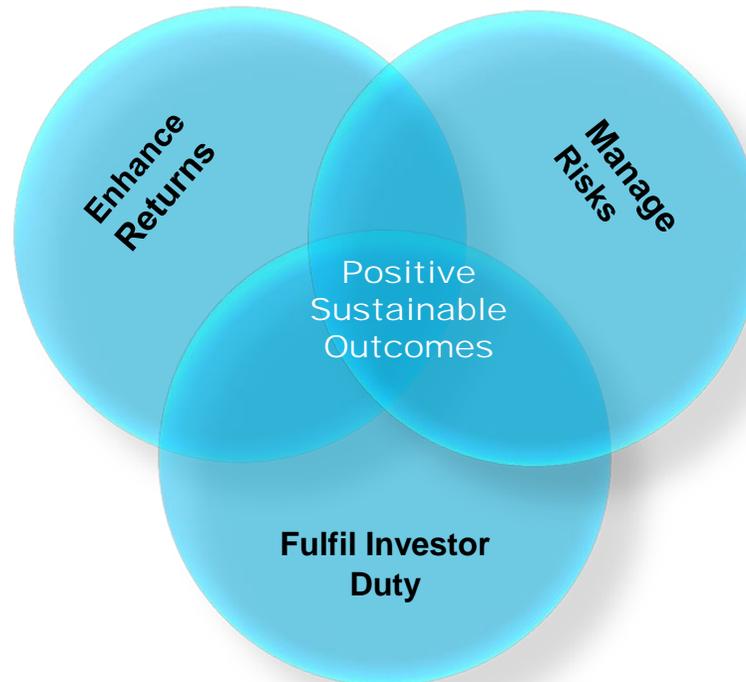


Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Why practice responsible investment?

Manage risks, fulfil investor duty and enhance potential returns

- **Assess ESG impact on long term returns**
- **Identify opportunities for value creation**
- **Look for potential market mispricing of value and risk**



- **Use ESG analysis as a potential information advantage**
- **Evaluate (and manage) material ESG issues and related scenarios**
- **Go beyond simply excluding unethical investments**

- **Satisfy growing beneficiary/client demand**
- **Meet government policy guidance and regulation**
- **Improve investor practice and market effectiveness**

Approaches to responsible investment



ESG INTEGRATION

The process of integrating ESG issues and information into investment analysis:

ENVIRONMENTAL – e.g. chemical pollution, water management, greenhouse gas emissions, renewable energy etc.

SOCIAL – e.g. labour standards, freedom of association, controversial business practices, talent management etc.

GOVERNANCE – e.g. corporate governance issues, bribery, corruption, lobbying activity etc.



ESG SCREENING

Examples:

- Exclusionary (negative) screening
- Best in class (positive) screening
- Norms based screening



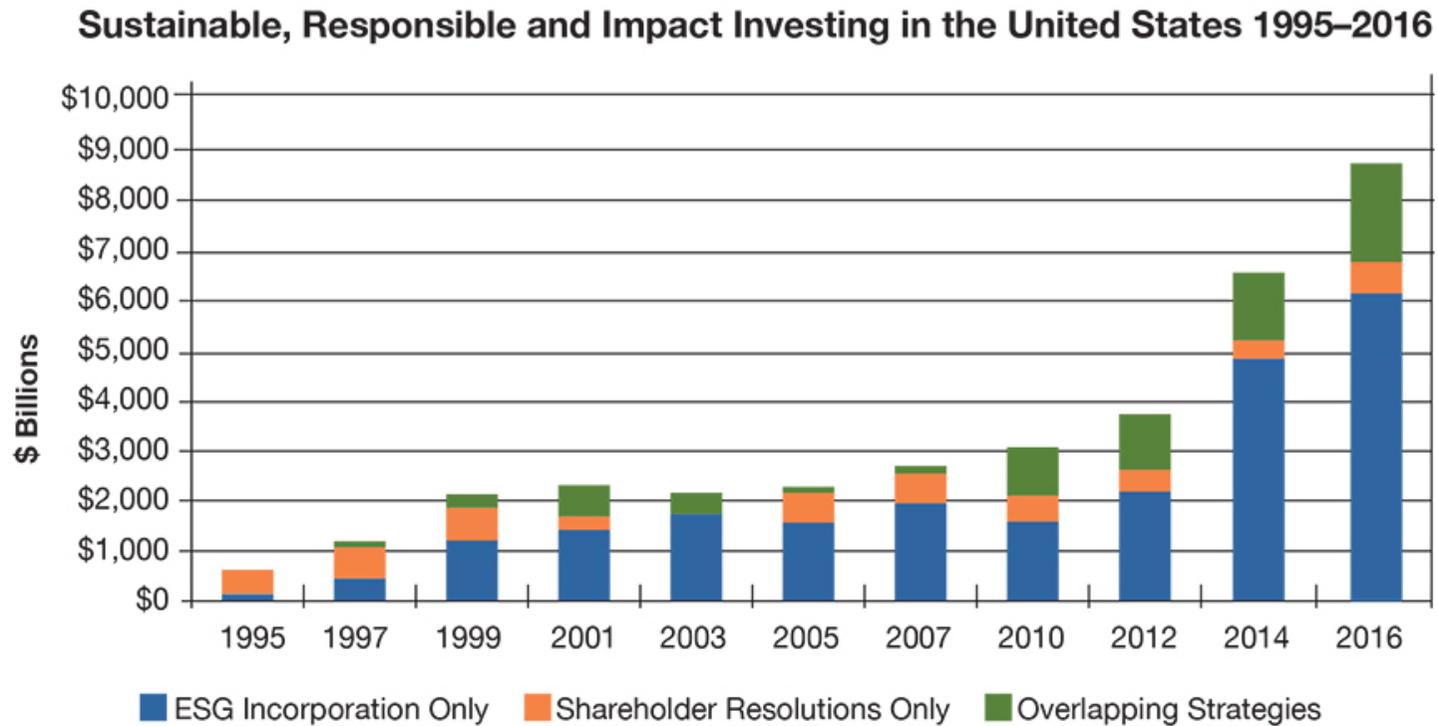
ESG ENGAGEMENT

Interactions between the investor and current or potential investees:

- Voting (AGM, EGM or special meeting)
- Shareholder engagement:
 - Shareholder resolutions
 - Calling an EGM
 - Complaint to regulator
- Other engagements on ESG issues (proactive and reactive)

US SIF's biannual report

US Sustainable, Responsible and Impact Investing Trends 2016



SOURCE: US SIF Foundation.

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ESG issues can be material

Environmental, social and governance (ESG) issues include a diverse range of medium- to long-term challenges that are becoming increasingly material for investors.



“Nike's Labor Woes Leave Soiled Footprint on Image”
THE WALL STREET JOURNAL. September, 1997



“Tokyo Electric executives to be charged over Fukushima nuclear disaster”
REUTERS July, 2015



“BP set to pay largest environmental fine in US history for Gulf oil spill”
theguardian July, 2015

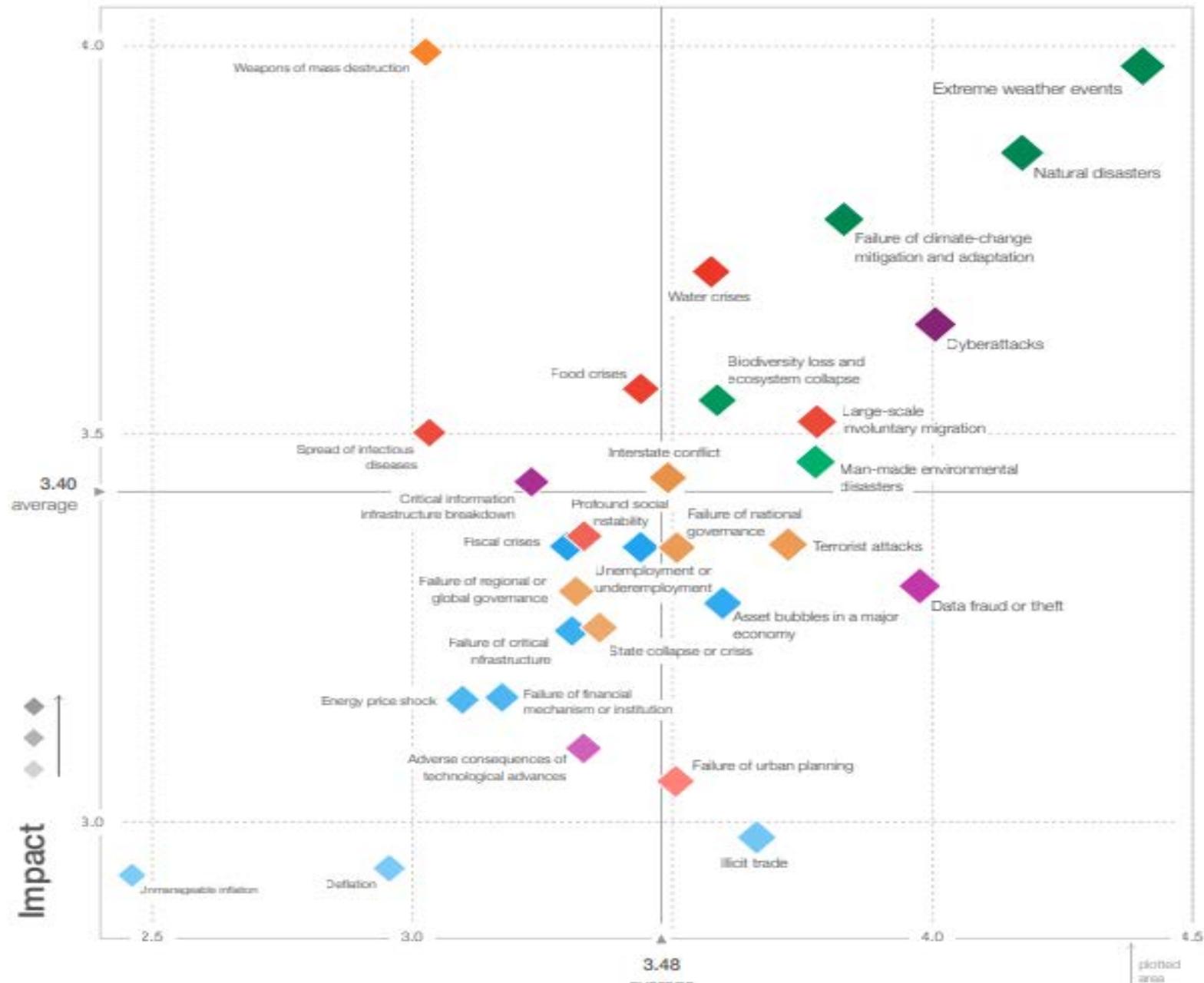


“VW slumps to first net loss in 15 years and warns of scandal toll”
FINANCIAL TIMES October, 2015



“Apple faces record-breaking €13bn penalty over Irish taxes”
FINANCIAL TIMES August, 2016

Figure I: The Global Risks Landscape 2018



Academic research

ESG incorporation does not come at a cost

November 2009

“There are statistically significant positive abnormal returns associated with going long good corporate governance firms and shorting those with poor governance.”

Cremers & Ferrell
Yale School of Management

November 2011

“Firms with high levels of job satisfaction, as measured by inclusion in the ‘Best Companies to Work For in America’, generate high long-run stock returns”

Edmans
The Wharton School

January 2012

“High-sustainability companies dramatically outperformed the low-sustainability ones in terms of both stock market and accounting measures.”

Eccles, Ioannou & Serafeim
Harvard Business School

March 2015

“Responsibility and profitability are not incompatible but wholly complementary... 80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance”

Clark, Feiner & Viehs
Oxford University

August 2015

“After successful engagements companies experience improved accounting performance and governance and increased institutional ownership”

Dimson, Karakas & Li,
*Fox School of Business/
University of Cambridge*

January 2016

“Firm-size-adjusted carbon emissions have a positive and significant effect on loan spreads... suggesting that spread premia are driven by environmental risks rather than investor preferences”

Kleimeier & Viehs, *Oxford University/ Maastricht University*

December 2015

“Results show that only 10% of the studies display a negative ESG-Corporate Financial Performance relationship with an overwhelming share of positive results”

Friede, Lewis, Bassen & Busch
University of Hamburg/ Deutsche Asset Mgmt.

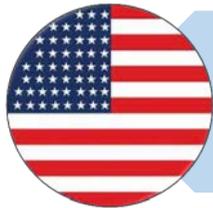
Meta-Study [2,250 Studies]

Meta-Study [1970-2015]

Fulfil investor duty

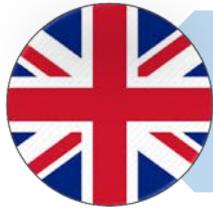
The changing regulatory environment

Many countries have introduced regulations and codes requiring institutional investors to take account of ESG issues in their investment decision-making demonstrating that, far from being a barrier, it is the duty of investors to integrate material ESG issues.



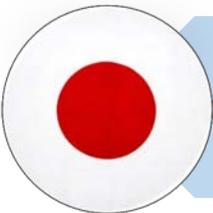
Department of Labor, 'Interpretive Bulletin/ESG Bulletin' (October 2015)

The Department of Labor clarified that ESG factors can be part of the “primary analysis” of prudent investment decision making by ERISA fiduciaries.



Law Commission, 'Fiduciary Duty of Investment Intermediaries' (June 2014)

“There is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material”.



Financial Services Authority (FSA), Stewardship Code (2014) & Governance Code (2015)

Institutional investors should “enhance the medium-to long-term return on investments ... by improving and fostering investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue”.



European Council, Institutions for Occupational Retirement Provisions (IORP) Directive (June 2016)

“Member States should ensure that IORPs disclose the relevance and materiality of ESG factors, and how they are taken into account in their risk management system”.

Championing Climate Action

Highlights from PRI's Climate Work

Investor action and practical tools

- 2 degrees of separation report and regional workshops
- [Climate Action 100+](#) coalition
- PRI collaboration platform alerts for climate resolutions e.g. ExxonMobil

Climate disclosure and FSB Task Force (TCFD)

- PRI Chair served on Task Force, with strong signatory input
- Final recommendations were published June 2017
- PRI-Baker McKenzie country climate disclosure reviews
- PRI will drive TCFD implementation

Forward looking priorities –supporting signatories through the transition

- Paris Agreement implementation
- FSB Task Force implementation
- Green finance



A PROSPEROUS WORLD FOR ALL

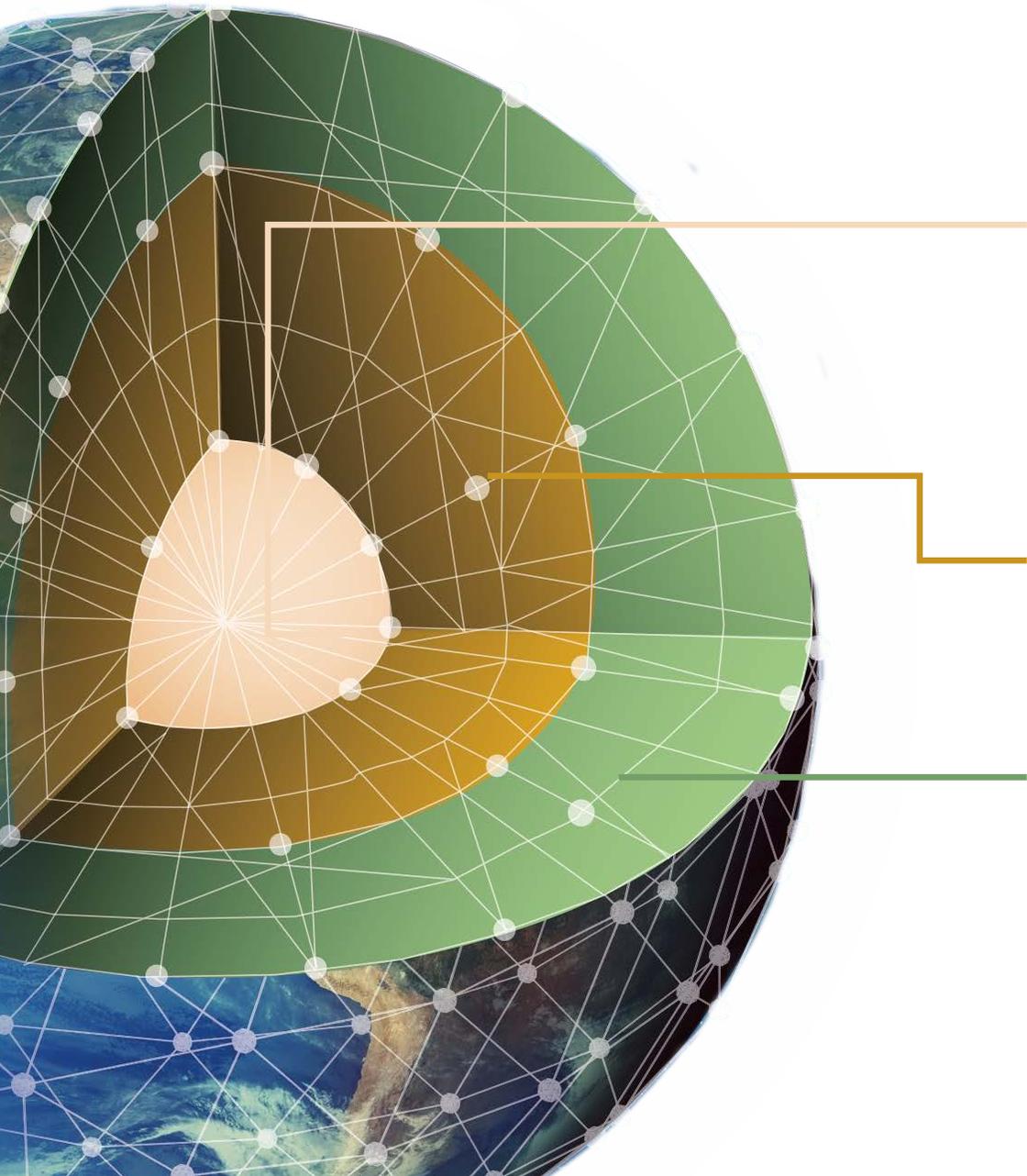
Enable real world impact aligned with the SDGs

PRI five point work plan:

1. **Investment case – why should investors care about the SDGs (published September 2017)**
2. **Landscape map – what is the investment world already doing on the SDGs (published December 2017)**
3. Reporting on the SDGs – SDG self-assessment tool (Q2 2018)
4. SDGs and asset allocation – how to integrate SDGs in asset allocation (Q3 2018)
5. SDGs and active ownership – how to engage with companies on the SDGs (Q3 2018)



The Blueprint vision



Responsible investors

- Empower asset owners
- Support investors incorporating ESG issues
- Create an industry of active owners
- Showcase leadership and increase accountability
- Convene and educate responsible investors

Sustainable markets

- Challenge barriers to a sustainable financial system
- Drive meaningful data throughout markets

A Prosperous world for all

- Champion climate action
- Enable real-world impact aligned with the SDGs

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The PRI

Investor-led, supported by the United Nations

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 have more than 1,700 signatories from over 50 countries representing over US\$60 trillion of assets.

2

UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



1 700+

SIGNATORIES:

ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS



60+

US\$ trn

**ASSETS UNDER
MANAGEMENT**



One mission – Six principles

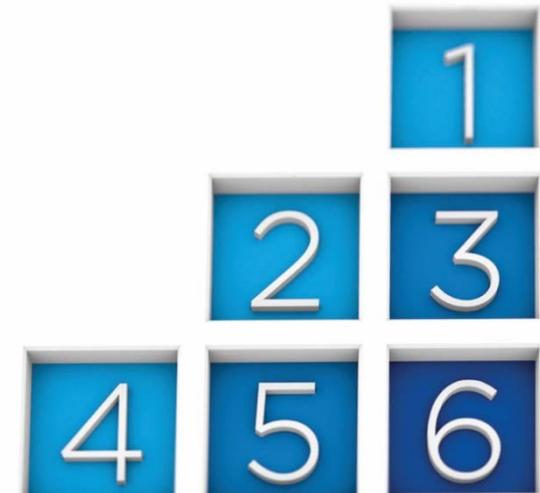
The Mission

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."

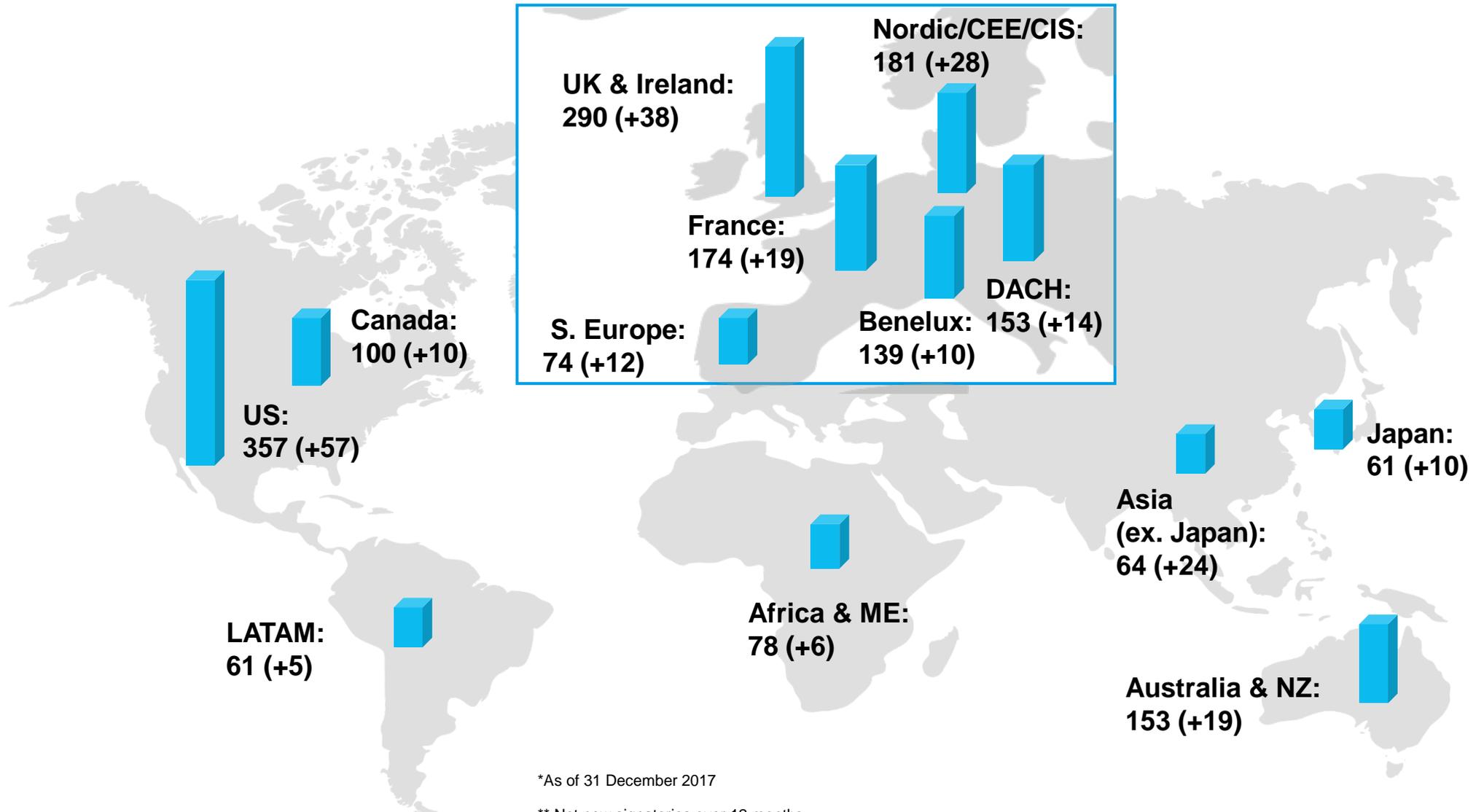
- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- 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.



Almost 1,900 investors worldwide

Have adopted the Principles for Responsible Investment

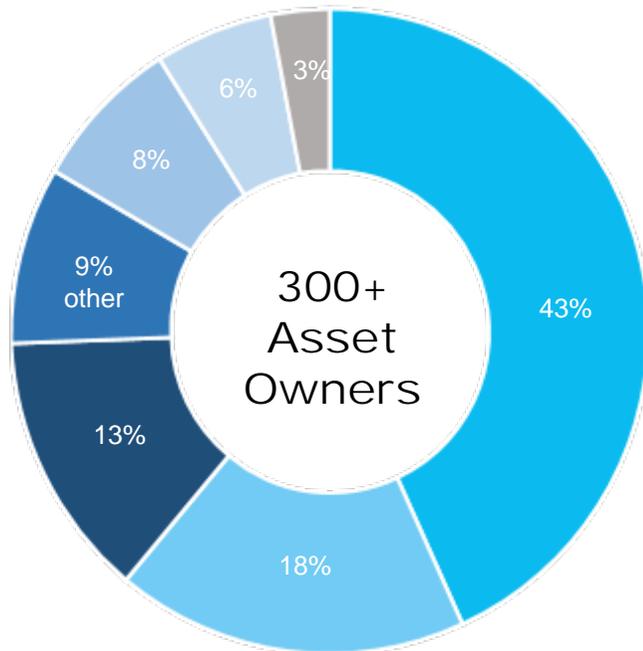


*As of 31 December 2017

** Net new signatories over 12 months

Asset owners & investment managers

Signatories – across asset class and investment strategy



- 145 public institutions
- 60 corporates/privates
- 45 insurance companies
- 26 foundations
- 20 endowments
- 10 dev. finance institutions



- 299 private equity
- 281 listed equity
- 259 multi-asset
- 86 fixed income
- 51 property
- 32 hedge fund
- 30 infrastructure
- 24 commodities
- 23 impact investing
- 9 other

PRI IN PERSON 2018

12-14 September

San Francisco Marriott Marquis

- **The Global Climate Action Summit will also be taking in San Francisco on these dates**
- **The conference is once again expected to sell out in 2018, so to avoid disappointment we recommend securing your place now.**
- **To apply for your place visit www.unpri.org/SanFran2018**

FOR MORE INFORMATION CONTACT

EVENTS@UNPRI.ORG

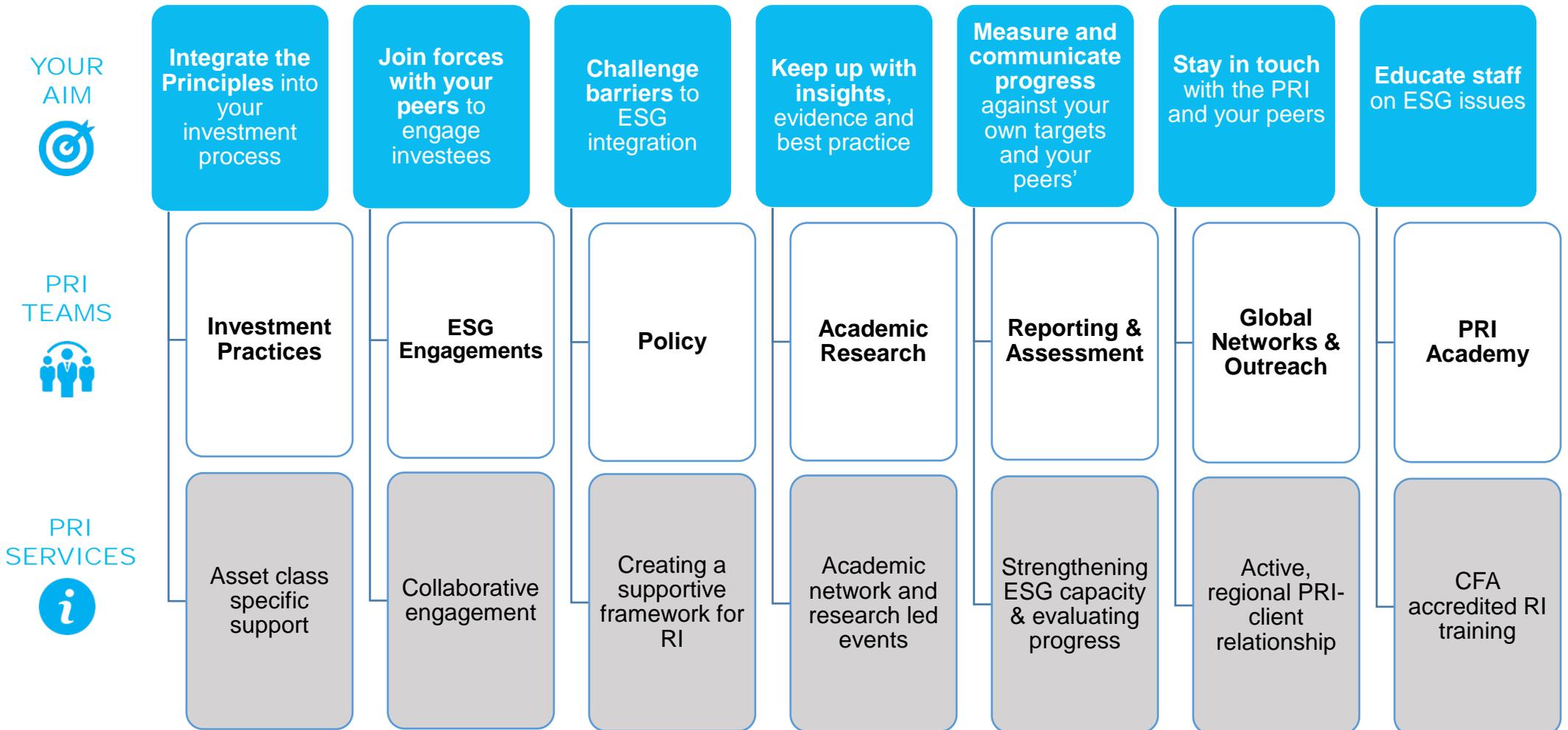


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PRI services

What the PRI does for you



Investment Practices

Integrate the principles into your investment process

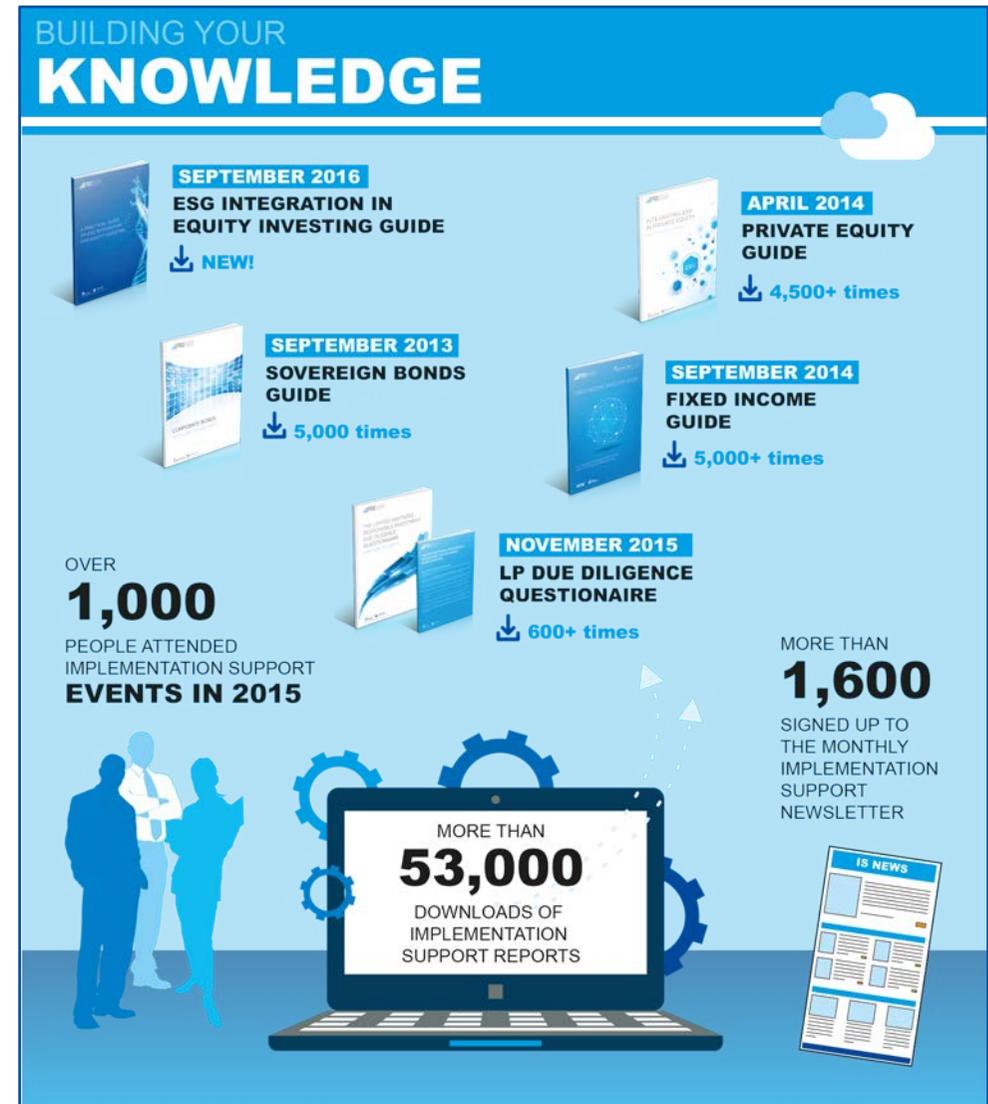
The Investment Practices team provides signatories practical tools to help them implement the Principles across all asset classes.

Work areas

- Listed equity
- Fixed income
 - Sovereign and corporate
 - Credit ratings
 - Infrastructure
- Asset owner insight
 - Investment strategy
 - Investment policy
 - Selecting, appointing and monitoring managers
 - Passive investments
- Alternative and themed
 - Private equity
 - Hedge funds
 - Property
 - Environmental and social themed

Tools

- Guidance documents
- Case studies
- Discussion papers
- Webinars
- Events
- One-to-one discussion
- Working groups and committees
- Peer learning
- Newsletters
- Outreach Projects



RESPONSIBLE INVESTORS

ESG in credit risk and ratings

The initiative aims to enhance the transparent and systematic integration of ESG factors in credit risk analysis by facilitating a dialogue between credit ratings agencies (CRA) and investors - cultivating a common language among credit practitioners, finding solutions to enhance ESG consideration in credit analysis and bridging existing investor-CRA disconnects.

Key outputs to date:

- **The ESG in credit ratings statement (still open for signatories to sign)**
 - ✓ Supported by 129 institutional investors (over US\$23trn in AUM)
 - ✓ Supported by 14 credit rating agencies
- **A report on the state of play – first in a three-part series:**
 - ✓ “Shifting perceptions: ESG, credit risk and ratings”
- **A webinar on ESG in credit risk and ratings (watch at below address)**
- **Upcoming roundtables for credit practitioners (details below)**



For more information go to www.unpri.org/credit-ratings. To get involved in the initiative contact carmen.nuzzo@unpri.org

Policy

Challenge regulatory barriers and promote supportive policy

“The long-term financial consequences of many critical policy issues are just too significant to ignore: engagement is a tool for risk management.”

Jane Ambachtsheer, Partner, Mercer Investments

Policy sets the rules of the game. It critically affects investors’ ability to generate sustainable returns and create value.

The PRI’s policy service:

- works to improve the sustainability of the financial system and address systemic market risks through policy change, research and investor education;
- works alongside other organisations, including the **OECD**, **European Commission** and **UNEP FI** to maximise its impact for signatories;
- integrates the Sustainable Development Goals into the PRI’s work with signatories.

SUPPORTING A SUSTAINABLE FINANCIAL SYSTEM

FIDUCIARY DUTY IN THE 21ST CENTURY

Understanding why investors are not systematically integrating ESG as part of their fiduciary duty.

The three-year Fiduciary duty project includes:

- publishing Fiduciary Duty in the 21st Century;
- creating policy change roadmaps for each country covered by the report;
- publishing Investor obligations and duties in six Asian markets;
- developing an international statement on fiduciary duty and ESG engagement.

PUBLIC POLICY CONSULTATIONS

SEC seeks public comment on business and financial disclosure requirements in Reg S-K – July 2016
South Africa King Code – May 2016
French Energy Transition Law – April 2016
UK Department for Work and Pensions consultation – December 2015

CASE FOR INVESTOR ENGAGEMENT IN PUBLIC POLICY

SUSTAINABLE STOCK EXCHANGES (SSE) INITIATIVE

ESG Engagements

Join forces with your peers to engage investee companies

- The **PRI Collaboration Platform**: Create your own engagement or initiative and use webinar-hosting software and a confidential online workspace to work with peers.
- **PRI-coordinated engagements** bring together groups of signatories across asset classes to engage with investee companies from different sectors and regions in order to reduce risk and better manage ESG issues, such as:

Environmental	Social	Governance
Water risks Climate lobbying Carbon disclosure	Labour standards Human rights	Anti-corruption Director nominations Cyber security Corporate Tax

- **Research reports and engagement guidance:**
 - *From poor working conditions to forced labour: What's hidden in your portfolio?*
 - *Engagement guidance on corporate tax responsibility*
 - *Water risks in agricultural supply chains*

THE POWER OF **ACTING COLLECTIVELY**

More than **550 signatories** have used the Collaboration Platform to collaborate on over **800 engagements**, targeting **in excess of 1,800 companies**.

In a sample of **379 companies**, with a combined market capitalisation of US\$19 trillion, PRI signatories held on **average 46.2% of all shares** managed by institutional investors.

EXAMPLES

HUMAN RIGHTS

The PRI-coordinated engagement on human rights attracted

51 signatories
with **US\$7.3 trn in AUM**

CORRUPTION

The PRI-coordinated engagement on anti-corruption led to

75% of engaged companies
significantly improving transparency.

PRI Academy

Educate staff on ESG issues

CFA-accredited online training for your staff on how ESG issues impact company performance, shareholder value and investment decisions.

Courses feature content from international experts, real and hypothetical case studies and financial modelling. The PRI Academy has enrolled in excess of 1,500 candidates from over 225 investment organisations in more than 40 countries.



“The PRI Academy is a particularly well put together course, and it is helping us better understand how we can integrate ESG issues into our investment frameworks.”

Sovereign, New Zealand

“The PRI Academy is the gold standard and unique in the marketplace.”

Colonial First State Global Asset Management, Australia



RI Fundamentals	Three-hour introduction to the basic tenets of responsible investment
RI Essentials	Comprehensive examination of responsible investment from theory to practice
Enhanced Financial Analysis	In-depth look at using sustainability data in fundamental investment analysis

Every course is delivered entirely online – work wherever and whenever suits you.

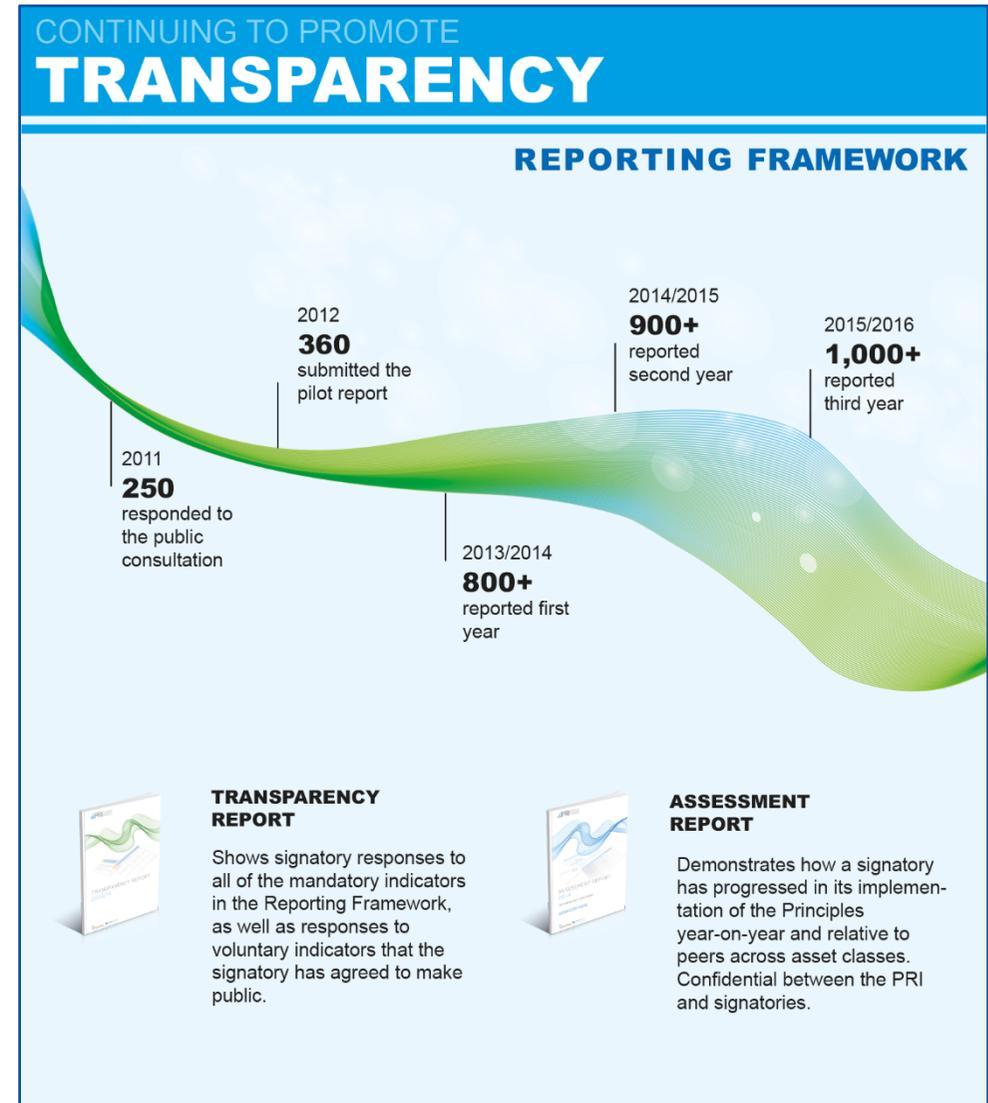
Reporting & Assessment

Measure progress against your targets and your peers

The Reporting Framework was launched in October 2013 to **ensure accountability** of the PRI and the work of its signatories, to **encourage transparency** from signatories on responsible investment and to **foster continued learning and development** through annual assessment.

Key details:

- **The largest global reporting project** on responsible investment
- Developed **with signatories, for signatories**: 1,000+ signatories reported in 2016
- **Robust and practical** disclosure requirements
- **Intuitive, efficient and customised** online tool to simplify data submission
- More than **80,000 downloads of PRI Transparency Reports** per year
- Assessment results are yours to use as you wish: **share to demonstrate performance** against peers, **or keep in-house** as an internal learning and development tool



Reporting & Assessment

Measure progress against your targets your peers

Benefits for signatories

- **Evaluates progress** against industry-standard framework (some signatories are beginning to audit their responses) and to benchmark performance against peers'
- **Strengthens internal procedures** and builds ESG capacity
- **Delivers ongoing PRI feedback** and tools for improvement
- **Presents the big picture** – the dataset and Reports on Progress are a huge resource for best practice
- **Summarises your RI activities** – valuable for engaging with internal staff, clients, shareholders and regulators

“The reporting has been an informative exercise that has indicated just how much we can improve our engagement and activities. The questions will form the basis on which we seek to enhance our activity.”

London Borough of Haringey Pensions Committee, UK

“The PRI reporting framework has been a useful tool in understanding how our responsible investment practices are being perceived by the market.”

Itaú Asset Management, Brazil

“We regard the reporting as a significant ESG implementation process for identifying future improvement and reviewing our activities for the next year.”

Nissay Asset Management Corporation, Japan

“I had budgeted several weeks to complete it and found it took far less time. I really like the way the modules flow and felt as if I always had this big picture visibility of where I'd been, where I was, and where I needed to go.”

California State Teachers' Retirement System, US



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How to become a PRI signatory

In four steps

1

Confirm your organisation's approval of the Principles by submitting the declaration on your company's letterhead, signed by your CEO (or equivalent)

Declaration forms can be downloaded at <https://www.unpri.org/about/becoming-a-signatory>

2

Provide your company details, contact information and reasons for signing in the application form

Application forms can be downloaded at <https://www.unpri.org/about/becoming-a-signatory>

3

Provide an organisation chart, showing the structure of your organisation including all its legal entities

Send all of the above information to info@unpri.org

4

Once provisionally approved we will send you an invoice, upon payment of which your application will be fully approved*

**The PRI aims to process applications within two weeks. The invoice will cover the period until the start of the next fee year (1 April). Upon payment, the PRI will contact you to welcome you and introduce you to all of the resources at your disposal.*

How much does it cost to be a signatory?

2017/18 fees

ASSET OWNERS			INVESTMENT MANAGERS			SERVICE PROVIDERS		
AUM (US\$ bln)	2016/17 fee (£)	2017/18 fee (£)	AUM (US\$ bln)	2016/17 fee (£)	2017/18 fee (£)	Employees	2016/17 fee (£)	2017/18 fee (£)
>50	7,950	8,190	>50	12,880	13,270	>200	7,950	8,190
30 - 50	7,950	8,190	30 - 50	11,330	11,670	51 - 200	6,030	6,210
10 - 29.99	7,950	8,190	10 - 29.99	10,300	10,610	26 - 50	2,780	2,860
5 - 9.99	6,030	6,210	5 - 9.99	7,210	7,430	11 - 25	800	820
1 - 4.99	2,780	2,860	1 - 4.99	4,120	4,240	<10	440	450
0.1 - 0.99	800	820	0.1 - 0.99	1,550	1,600			
0 - 0.09	440	450	0 - 0.09	1,030	1,060			

The annual signatory fee is payable in April and is scaled according to each signatory's category, type and assets under management.

Who can sign the six principles?

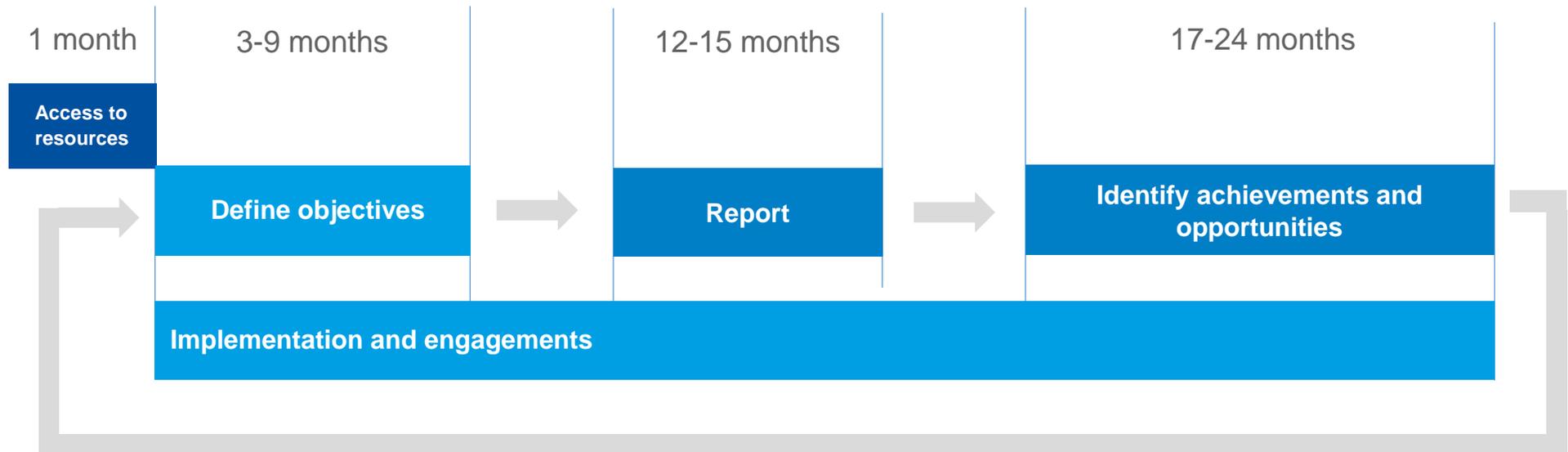
ASSET OWNERS: Organisations that represent the holders of long-term retirement savings, insurance and other assets. Examples include pension funds, sovereign wealth funds, foundations, endowments, insurance and reinsurance companies and other financial institutions that manage deposits.

INVESTMENT MANAGERS: Organisations that manage assets as a third-party, serving an institutional and/or retail market. Investment managers that are still raising funds, rather than actively managing assets, can sign pre-emptively as provisional signatories.

SERVICE PROVIDERS: Organisations that offer products or services to asset owners and/or investment managers. Although such companies 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 a commitment to providing, developing and promoting services that support clients' implementation of the Principles.

The signatory roadmap

Signing the Principles



The timeframe for reporting will depend on when an organisation signs the Principles. New signatories will always have one full reporting cycle during which it is voluntary to report. The PRI encourages signatories to report in their first year and use this process as a learning experience.

YOUR DEDICATED PRI TEAM

SUPPORTED BY 80+ PROFESSIONALS



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MEET THE EXECUTIVE TEAM



Fiona Reynolds
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Kris Douma
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Nathan Fabian
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Mandy Kirby
Director, Reporting, Assessment
and Accountability



Lorenzo Saa
Director, Global Networks and
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Graeme Griffiths
Director, Global Networks and
Outreach