Principles for Responsible Investment

Evolution of Responsible Investment

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UNEP FINANCE INITIATIVE | United Nations Global Compact

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

Responsible Investment Drivers

Ethical considerations of beneficiaries and public in general

- Ethical Investing take its roots in as early as 18th century in US
- Methodist Church established negative screening in investment process, as a result of opposed investments in companies manufacturing alcohol or tobacco products, or promoting gambling
- Until late 1960s, most SRI focused on screening to avoid investment in “sin industries”, from early 1970s political activism also influenced development of SRI
- In 1970s students opposing Vietnam War called for university endowments to divest from military contractors. In 1971 the Pax World fund was set up, it excluded companies supporting Vietnam War.
- In 1980s, SRI movement focused on screening investments in South Africa with the goal of pressuring the South African government to end apartheid. By 1993, when the De Klerk administration took steps to end apartheid, $625 billion were being screened to exclude investment in South Africa.

Responsible Investment Drivers

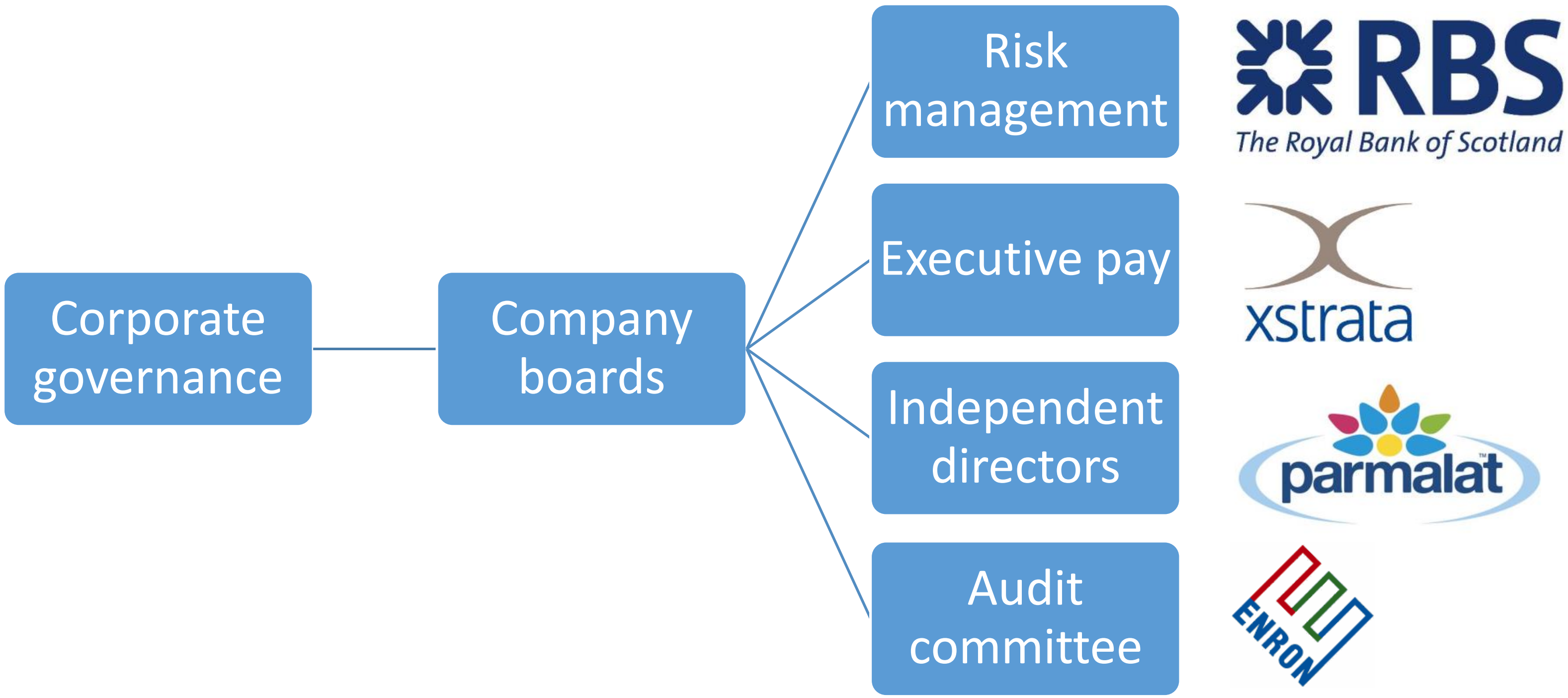
Beneficiaries' social and environmental considerations

- In 1970s, social activism spread to labour-management issues at corporations and environment became a consideration for investors.
- In 1970 two socially-based resolutions were on AGM proxy ballot of General Motors, largest employer in US at that time
- In 1980s several mutual funds emerged, for example Calvert Social Investment Fund. Applied both positive and negative screens, basic Methodsts' ethical considerations – weapons, tobacco, alcohol and gambling – and more modern issues such as nuclear energy, environmental pollution and treatment of workers.
- By 1990s there was a sufficient increase in SRI mutual funds and growth in popularity as an investing approach, to warrant an index to measure performance. In 1990 Domini Social Index was set up.

Responsible Investment Drivers

Rising importance of corporate governance considerations

- 2002 Sarbanes-Oxley Act, America's response to Enron and WorldCom. One of its measures – rotation of auditors – did not help to prevent future corporate scandals

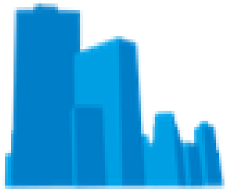


Principles for Responsible Investment (PRI)

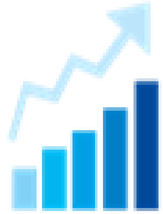
Investor-led, supported by the United Nations

2
UN PARTNERS:
UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT

1700+
SIGNATORIES:
ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS



60+
US$ trn
ASSETS UNDER MANAGEMENT



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

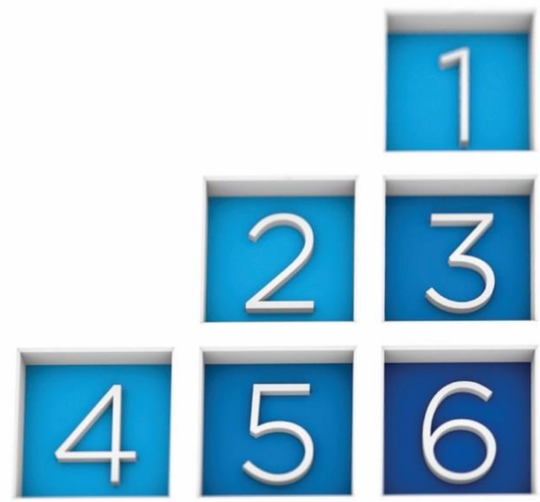
2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

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.**

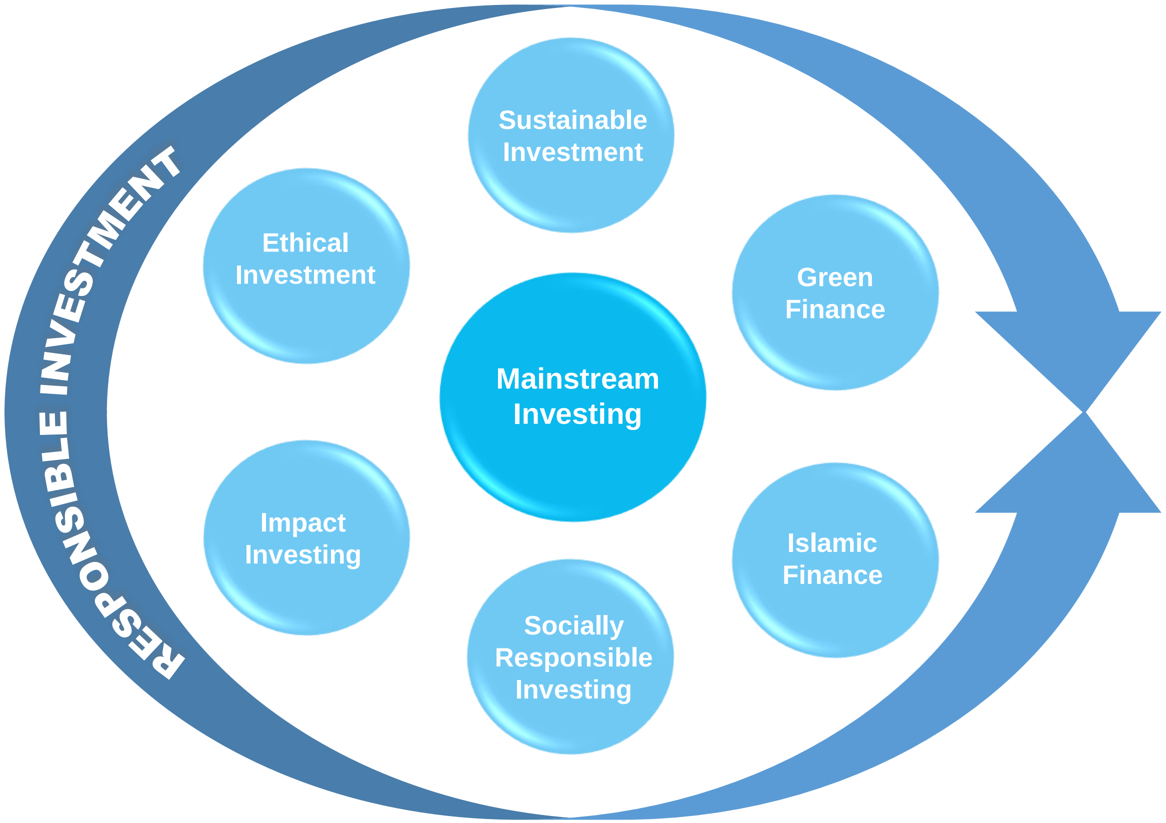
5 **We will work together to enhance our effectiveness in implementing the Principles.**

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



Responsible Investment Today

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.

Approaches to Responsible Investment

PRE-INVESTMENT

POST-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 INCORPORATION (OTHER)

Examples:

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

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)

ASSET OWNERS DRIVE RESPONSIBLE INVESTMENT THROUGH INVESTMENT CHAIN

Industry demand

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.

4. INVESTMENT BROKERS

Investment brokers and independent research providers 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 and independent research providers 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.

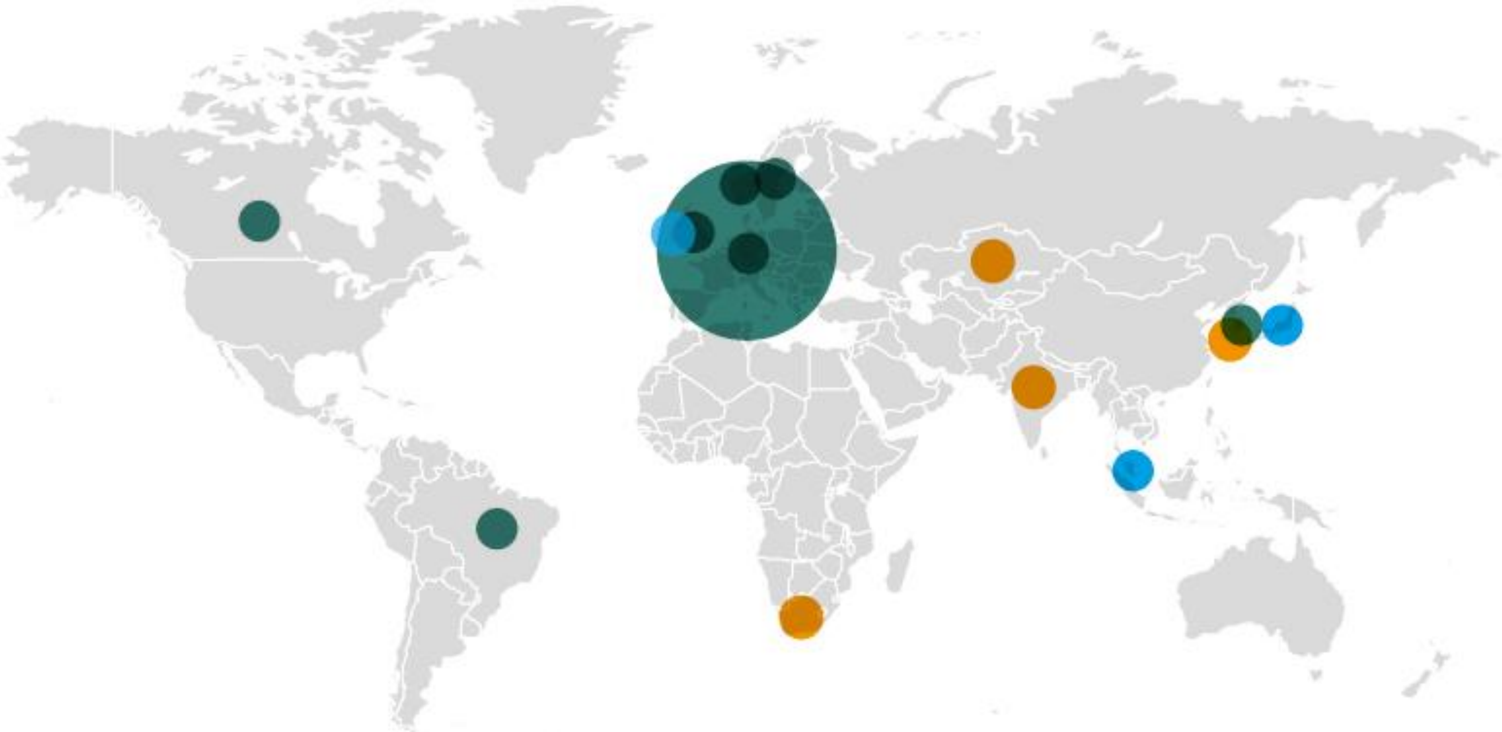
COMPANIES

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.

REAL ECONOMY

Responsible Investment Policy is Widespread



PENSION FUND REGULATIONS

STEWARDSHIP CODES

CORPORATE DISCLOSURE GUIDELINES

Access PRI's policy database at unpri.org/policymap

Global Regulatory Examples

Pension Fund Regulation

- **Europe (2016):** The revised Occupational Retirement Provision Directive (IORP II) will require European occupational pension funds to disclose how they consider ESG issues in their investment approach.
- **Canada (2015):** Ontario Pension Benefits Act, Reg. 909 requires pension funds in Ontario to disclose in their investment policies "'information about whether ESG factors are incorporated into the plan's investment policies."

Stewardship Codes (rapid growth in Asia since 2014)

- **Singapore:** Singapore's Stewardship Principles (SSP) references ESG issues as appropriate topics for engagement.
- **Japan:** The Principles for Responsible Institutional Investors considers stewardship and ESG integration and is overseen by the Financial Services Agency (FSA).

Corporate Disclosure

- **France (2016):** The energy transition law sets out a broad action plan for transitioning to a low-carbon economy – including carbon disclosure requirements for companies and institutional investors.
- **Korea (2012):** Companies listed on the Korean Stock Exchange (KSE) must disclose their greenhouse gas emissions and energy usage in their annual reports.
- **South Africa (2010):** Johannesburg Stock Exchange (JSE) listing rules mandates the adoption of the Institute of Directors' King Code which requires integrated reporting.

Sustainable Stock Exchange Initiative

Close the Gap in Disclosure campaign is the driver for new developments at stock exchanges

- Set up in 2008 as collaborative initiative between exchanges to promote sustainability across financial community.
- Over 60 stock exchanges joined but so far only three require mandatory ESG disclosure – Toronto Stock Exchange (TSX), Kazakhstan Stock Exchange (KASE) and Pakistan Stock Exchange (PSX).
- In 2015, SSE Initiative published *Model Guidance on reporting ESG information to investors* - a template to assist exchanges in issuance of their own guidelines.

SUSTAINABLE STOCK EXCHANGES (SSE) INITIATIVE

The SSE is a global multi-stakeholder initiative exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG issues. The SSE is organised by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Program Finance Initiative (UNEP FI), and the PRI.

A United Nations initiative organized by:

UNITED NATIONS UNCTAD | UN GLOBAL COMPACT | UNEP FINANCE INITIATIVE | Principles for Responsible Investment

http://www.sseinitiative.org/wp-content/uploads/2015/10/SSE-Model-Guidance-on-Reporting-ESG.pdf

Industry Guidance on Climate Related Financial Disclosure

The FSB Task Force's new global framework for climate reporting will bring uniform company disclosures, enabling investors to make better-informed decisions

- FSB Task Force: 30+ industry members
- Draft recommendations published in 2016, final report due by July 2017
  - Focus: disclosure of assessment and management of climate-related risks and opportunities
  - Recommendations: cover governance, strategy, risk management, metrics and targets
  - Supplemental guidance: sectors and scenario analysis

FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) was set up by the FSB to develop voluntary, consistent climate-related financial risk disclosures. This will enhance market understanding of possible linkages between climate-related risks/opportunities and financial impacts in order to aid the economic decision making of capital markets participants. The work considers the role of lenders, insurers, investors and other stakeholders. The Phase I report delivered in March 2016 reviewed the existing landscape of climate-related disclosures to identify commonalities, gaps, and areas for improvement. Phase II will develop recommendations for voluntary disclosures of climate-related risks and opportunities located in the mainstream financial filings of non-financial and financial companies that are listed and/or issuers of public securities.

Increasing transparency makes markets more efficient, and economies more stable and resilient." - Michael R. Bloomberg, Chair, FSB Task Force, 14th December 2016

Further Trends to Expect

Opportunities and risks

- Transition to low carbon economy – investors want to allocate capital to low carbon solutions and clean technologies
- Policy action to lower the cost of deployment of clean energy – carbon price, tax credits, cash grants, etc
- Credit rating agencies' focus on environmental issues - Moody's, S&P have started to incorporate the risk of climate change into their rating methodologies
- Mainstreaming green finance, including in emerging markets – China's leadership and initiative for developing Green Finance under the G20 framework
- More green bonds issuance – present demand outstripping supply
- The UN Sustainable Development Goals – more investable products to come to cater for investor demand (funds, indices)
- Sustainable Financial System – more engagement with policy makers and other players across the investment chain, to create enabling environment for linking sustainability and finance

Responsible Investment Blueprint

The PRI’s 10-year vision for responsible investment to be published in May 2017

PRI 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.

THANK YOU

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