

Principles  
for Responsible  
Investment

# Annual Report of the PRI Initiative 2010



**UNEP Finance Initiative**  
Innovative financing for sustainability



**United Nations** Global Compact

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

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## About this report

This Annual Report captures the activities of the PRI Initiative, created to promote the adoption and implementation of the 'Principles for Responsible Investment' by investors globally. The content covers the year from our last report, published in July 2009, although the accounts of the Initiative refer to the financial year April 2009-March 2010.

This report should be read with its sister document the Report on Progress 2010, which captures the progress of signatories in implementing the six Principles.

For more information on responsible investment

visit the PRI's YouTube channel at [www.youtube.com/unpritube](http://www.youtube.com/unpritube)

# Foreword from UNEP and UN Global Compact

It is remarkable that in just four years, around US\$ 22 trillion of assets have been signed up to the Principles for Responsible Investment (PRI). This is more than 10% of total global capital markets and it sends a powerful message from mainstream institutional investors to the rest of the market: The business of responsibility must become the responsibility of business.

That message can no longer be ignored. As the global population increases from six to nine billion people, with finite and declining natural resources, sustainable development becomes less of a choice and more of an imperative.

To meet this challenge we will need all partners – UN, governments, companies, investors and civil society – to work together and overcome the barriers preventing the private sector from taking the social and environmental impacts of their operations and investments into consideration.

The PRI Initiative and its signatories demonstrate that effort. For example, PRI signatories have this year worked with the UN Global Compact to improve corporate performance on issues such as water management, sustainability reporting and corruption prevention. They also worked with colleagues at the UN Environment Programme Finance Initiative (UNEP FI) and other partners to call for measures to create a low carbon economy at the Copenhagen negotiations in December 2009. Many more examples of investors working together to address environmental, social and governance (ESG) issues can be found throughout this report.

The PRI shows that a significant proportion of the global market is now ready to invest in activities and companies that positively contribute to global growth, good governance and achieving international targets such as the Millennium Development Goals.

The United Nations is committed to supporting these market participants and making the next decade an age of responsible business.



*Achim Steiner*



*Georg Kell*

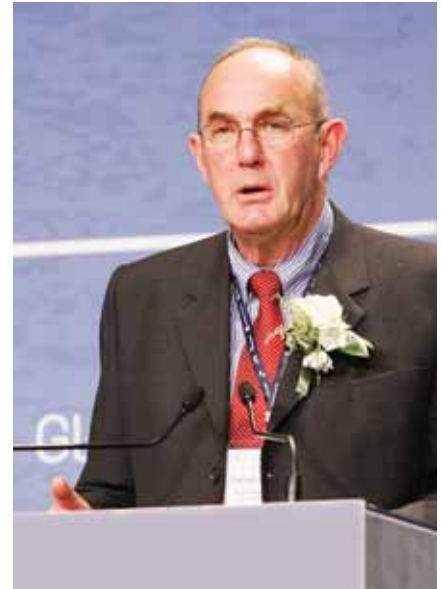
**Achim Steiner**  
United Nations Under-Secretary-General  
and Executive Director,  
United Nations Environment Programme

**Georg Kell**  
Executive Director  
United Nations  
Global Compact

## Chairman's end-of-term report >>

It is over four years since I had the great privilege of joining the PRI Board and becoming the Chair of the Initiative. This year I hand that baton on to a new chair.

In the four years of my tenure, it has been heartening to see how many global investors have responded positively to the emergence of the PRI. From around 50 original signatories, the PRI Initiative has grown to around 800 and stretches to every continent. In addition to the growth in signatories, we are also starting to see concrete progress in how mainstream investors are integrating ESG issues into their day-to-day investment practices and collaborating to drive real change.



For example, the number of signatories that have participated in collaborative engagements with companies through the PRI's Engagement Clearinghouse (see p.8) has increased from 77 in 2007 to 230 today.

Many who have worked with me will know my passion for the sea, where, even when caught in a storm, it is important not to lose sight of your ultimate direction. Investors who have ridden the waves of the financial markets in the last few years will have taken this lesson to heart.

Despite these turbulent years in the global markets, it has been important that the focus of the PRI Initiative remains the same: To support signatories in implementing the Principles across their entire portfolios.

Led by our signatories and UN partners, the PRI Initiative is providing a range of support activities such as the *Engagement Clearinghouse*, *monthly webinars on emerging issues*, *country networks*, *the annual Reporting and Assessment survey*, and work streams on *property*, *private equity*, *small funds* and the *Millennium Development Goals*. These activities all help investors to put the Principles into practice in their local markets and embed responsibility into daily investment business.



## The Initiative moves up a gear

After four years, the PRI has now come of age as an organisation and, going forward, the Initiative's five-year strategic plan, which the Board announced last year, encompasses the next stages of development. We are clear on what our vision is: To enable our signatories to drive real change in the way investment decisions are made and managed.

Many challenges remain. These include finding ways to integrate ESG issues into alternative asset classes such as hedge funds and fixed income, establishing processes that move the market towards long-term performance targets, improving the flow and quality of ESG research, and working smarter with policy-makers, particularly in the developing world, to ensure capital markets reward sustainable investment.

These are ambitious goals, but with support we hope investors will take up these challenges, and the result should be better-managed companies with long-term and sustainable operations, leading ultimately to better investment returns.

I am honoured to have experienced, and have thoroughly enjoyed, my time as Chairman of the PRI Initiative. I would like to offer special thanks to our partners at UNEP FI and the UN Global Compact, to our Executive Director James Gifford and to all past and present members of the Board and PRI Secretariat, all of whom have been inspiring and a pleasure to work with.

Yours faithfully

A handwritten signature in black ink, which appears to read "Donald MacDonald". The signature is fluid and cursive, written over a light blue background.

**Donald MacDonald**

Chair of the Principles for Responsible Investment and Trustee  
BT Pension Scheme

# PRI year in numbers

**40%** of signatories published their annual PRI assessment survey in full

**28** webinars and a total of **980** attendees this year

**46%** of signatories have 'extensive' internal processes to implement responsible investment (in listed equities in developed markets)

**66%** of asset owners put specific ESG considerations into their contracts with investment managers, up from 63% last year

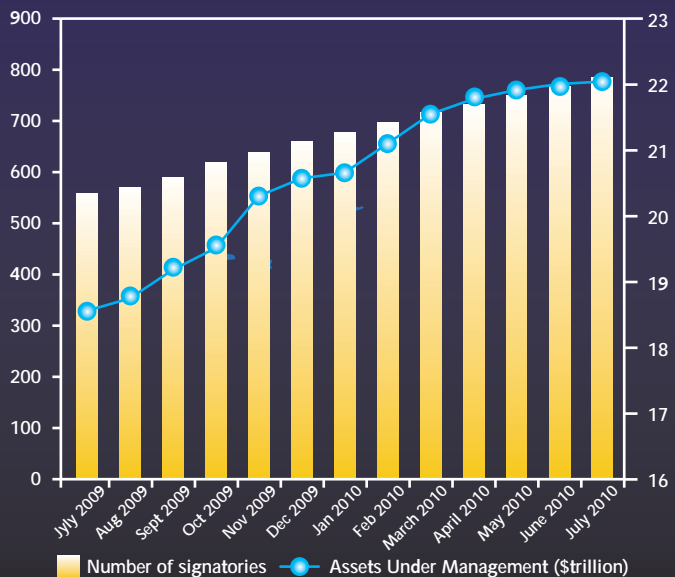
“ As a CIO it is important to manage risk in a holistic way and not just rely on traditional financial methods. Responsible investment in the form of ESG analysis and engagement is therefore an important part of the toolkit when it comes to risk management as it provides the necessary comfort to all stakeholders, in particular the owners of the assets that sustainable returns will be generated in the long-term. Being part of the PRI's global network helps us to work with peers and asset owners to develop best practices and new methods in this area. ”

Dr Dan Matjila, Chief Investment Officer, Public Investment Corporation South Africa



Locations of PRI signatories: **45** countries

**Growth of signatories and AUM this year**  
 From 557 signatories and US\$ 18.5 trillion in July 2009 to 784 signatories and almost US\$ 22 trillion in July 2010





## Most active signatories on the Clearinghouse this year (by number of initiatives joined and/or led)

Boston Common Asset Management	30	Batirente	13
F&C	20	CalSTRS	13
Co-operative Asset Management	19	Hermes	13
Robeco	17	Henderson Global Investors	12
APG	16	Paxworld	12
Calvert	16	Trillium Asset Management	12
Northwest & Ethical Investments	16	USS	11
PGGM	16	General Board of Pension and Health Benefits	10
bcIMC	15	LAPFF	10
Walden Asset Management	14	Mn Services	10
Aviva Investors	13		

# The Initiative in 2010 and beyond

The PRI has now become a global standard of best practice within the investment industry. More and more pension funds are asking their investment managers to invest responsibly, and participation in the PRI is becoming the way that most are choosing to demonstrate this.

However, responsible investment is still very much in its infancy in many organisations, regions, asset classes and investment approaches. In 2009, the PRI Board developed a new five-year strategy based on expanding the PRI's implementation support activities, services to signatories and global outreach. The key elements are outlined below.

“Principles are important, but they are only valuable if they drive real change in the market. The PRI has now moved from its initial phase of exploration and awareness-raising towards a more service-oriented organisation that will not only promote the principles, but provide concrete support to signatories to help them implement responsible investment in an efficient and effective way. Signing and implementing the PRI is now the primary way in which investors demonstrate to clients, beneficiaries and stakeholders that they are taking ESG issues seriously and doing so within a mainstream, fiduciary context.”

James Gifford, Executive Director

## Supporting signatories in their implementation of the Principles

As outlined in other parts of this report, the PRI Initiative is currently providing a range of implementation support activities, including:

- Access to in-depth information and tools on implementing the Principles
- Facilitation of collaborative investor activity through forums like the PRI Clearinghouse and regional working groups.
- Webinars, events and discussions across a broader range of emerging issues.
- Updates to keep signatories abreast of the latest trends, ideas and best practices in responsible investment.
- Reporting and assessment process.
- Opportunities to link with other relevant groups such as academics, policy makers and NGOs.

More information about the PRI's implementation support programme is contained throughout this report.

## Setting up in the UK

The PRI is a collaboration between investors and two UN initiatives: UNEP Finance Initiative and the UN Global Compact. Since its launch in 2006, it has been administered under the Foundation for the Global Compact in New York. With a growing Secretariat in London, two new UK entities have been established: PRI Association and PRI Foundation. PRI Association now conducts most of the operational activities of the Initiative. PRI Foundation is a registered charity in the UK, and will be used for fundraising and the public-benefit elements of the PRI work programme. The PRI Board, elected from within the asset owner signatory body plus two UN representatives, has been renamed the PRI Advisory Council. This group then appoints the members and boards of PRI Association and PRI Foundation.

## A strong partnership with the United Nations

The Executive Directors of UNEP and the UN Global Compact sit on the PRI Advisory Council in an ex officio capacity. The PRI Initiative will continue to be a strong partnership between investors and the UN, with many joint activities. We are also delighted that in December 2009, the PRI Initiative was acknowledged by the UN General Assembly in its resolution “Towards Global Partnerships”. We are also thankful for the continuing support of Secretary-General Ban Ki Moon.

## Introduction of subscription fees

When the PRI was launched in 2006, it was decided that initially, the fees should be voluntary to be as inclusive as possible. For the first five years, voluntary fees have been sufficient to allow the Initiative to establish itself and set up the core implementation support programme. Around one third of signatories contribute financially to the running of the Initiative. In 2009, the PRI Board decided that if the Initiative is to truly fulfil its potential in mainstreaming responsible investment globally, this would require additional resources, and we should therefore move to a mandatory fee model. It was also felt that the PRI had grown to the point where we were delivering a strong value proposition to signatories and it was reasonable to ask for a contribution from all signatories.

The fee will be scaled depending on fund size, with a range of bands starting at £330 for small organisations to £6,600 for large funds. The introduction of this fee structure will ensure the Initiative has a strong financial footing into the future, enabling the delivery of considerably more implementation support activities, signatory services, and regional activities.

## Greater transparency from 2012

We have seen rapid growth in the number of signatories willing to publish their full responses to the PRI annual survey, with 190 signatories publishing in 2010, up from just 70 in 2009 and 35 in 2008.

It is core to Principle 6 of the PRI that investors report on how they put the Principles into practice. From 2012, increased transparency requirements will be introduced as part of the annual PRI survey process. A consultation will take place in 2011 to determine what form this should take. Signatories will not be asked to disclose data that are commercially sensitive in nature.

*“At PGGM we report both quantitative and qualitative data such as our responsible investment policies, voting and engagement activities, exclusions and integration of ESG factors in our investment activities. Transparency about our investment activities and our implementation of the six Principles of the PRI is important to PGGM. Although it takes time and resources, it generates positive feedback and helps people understand what can and cannot be done by an investor.”*

Else Bos, Chief Institutional Business, PGGM

## Moving towards 2014

All these changes aim to provide the Initiative the robust foundation needed to expand its services to signatories and its influence as a global agency driving responsible investment within the market. In the coming months and years, signatories can expect the PRI's activities to grow in three directions.

### ■ Within portfolios

The PRI Initiative will be applying considerable additional resources to supporting implementation across asset classes such as fixed income, private equity, property, infrastructure and ESG-themed investments. The Initiative will also be exploring responsible approaches to passive investments, quant funds and hedge funds.

### ■ Within the industry

The PRI Initiative will also enhance our collaborative activities, bringing together investors globally to collaborate on company and policy-maker dialogue through the PRI Clearinghouse, Academic Network and Public Policy Network.

### ■ Across regions

Responsible investment needs to be adopted by the mainstream in all countries with established capital markets. The PRI will expand its country networks to deliver in-depth support in local language and within the local context.

In summary, the PRI Initiative is in a strong position going forward, and we believe these changes will deliver better services to signatories, more in-depth coverage of issues and the faster adoption of responsible investment across global markets.

# Driving real change together: The Clearinghouse >>

The Clearinghouse is a private online forum where signatories can work together to improve company behaviour, encourage better public policies or work to address systemic issues. In the last year it has facilitated 85 investor engagements on a range of ESG issues.

*“Using the Clearinghouse and joining forces with other shareholders often gives us extra clout that makes a company we are engaging with really sit up and take notice.”*

Christopher Ailman, CIO, California State Teachers' Retirement System

## Why investors use it?

ESG issues are often too big and too complex for any one investor or any one company to deal with alone. Encouraging companies to separate the chair and CEO role, reduce carbon emissions, protect human rights in a supply chain or establish governance systems to deter corruption often requires shareholders to work together and pool knowledge, resources and influence. The Clearinghouse is a place where a trustee or manager can put ideas forward, find a common position and take action together.

By working with other like-minded investors, signatories can create a stronger and more representative shareholder voice, which companies tend to respond to. Shareholder engagement with companies can also be time-consuming and expensive, especially for smaller funds that do not have dedicated resources, and by combining efforts with peer signatories, active ownership can be more affordable and more effective.

Collaboration is not always simple and the PRI Clearinghouse team supports signatories by offering an administrative “back end”. The team helps develop engagement strategies and work plans to ensure shareholder engagements are simple to participate in and as effective as possible.

To find out more about some recent collaborations go to [www.unpri.org/collaborations](http://www.unpri.org/collaborations)

**223** signatories used the Clearinghouse this year.

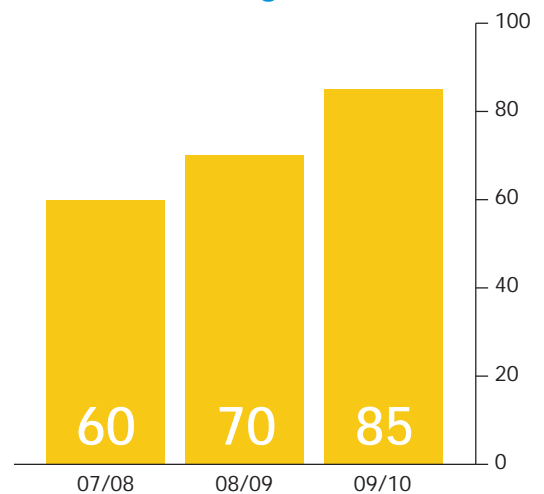
Number of companies contacted at least once on ESG issues as a result of a Clearinghouse-facilitated engagement this year:

**2,235**

Number of companies involved in more in-depth investor dialogue as a result of a Clearinghouse-facilitated engagement this year:

**330**

## Number of postings on the Clearinghouse



## Case study: Investors focus on different type of liquidity

### The ESG issue: >> Water scarcity

In many parts of the world, population growth, urbanisation, and climate change place significant pressure on water supplies for communities and business. Nearly two-thirds of humanity is expected to live in water-stressed regions by 2025.

To help address this water challenge, the UN Global Compact initiated the CEO Water Mandate, a project to help companies improve water management and, through the PRI Clearinghouse, investors have been asked to use their influence as shareholders to persuade companies like Nike to endorse the CEO Water Mandate.



### The investor view: >> Robeco Asset Management

Robeco has been a PRI signatory since December 2006 and actively encourages good corporate responsibility and governance in the companies in which they invest. Robeco sees water scarcity as an issue of emerging importance and therefore encourages companies to report on their water policies, practices and usage to be aware of their risk exposure from potential water shortages, new regulations, reputational issues and to find new opportunities that might drive company performance and generate value for the shareholder.

In recent years, Robeco has been involved in active dialogue on water sustainability issues with companies across the food and beverage and textile sector and worked with fellow investors through the CDP-Water Disclosure Project and CEO Water Mandate.

In December 2008, Robeco joined a US\$ 1.5 trillion coalition of PRI signatories to ask 100 of the world's biggest companies to join the CEO Water Mandate. One of these companies was Nike. The investor coalition sent letters to the companies' CEOs and held webinars with other signatories to describe the initiative and underscore the benefits for companies that endorse it. As a result of these efforts, 15 companies, or roughly 25% of all Mandate endorsers, had joined the initiative by April 2010, including Nike which is considered a sector leader with respect to sustainability issues.

### Company view: Nike

In the apparel and footwear industry, water quality and availability are key concerns in the production of natural fibres and in conventional textile processing, especially dyeing and finishing. At Nike there is a determination that water-intensive production should take place where water is abundant enough to support it, that suppliers should implement water-efficient processing to the greatest extent possible, and that wastewater should be treated and returned to the environment as clean as or cleaner than it was found.

Since 2001, Nike's Sustainable Water Program has introduced pollution prevention and water efficiency to the supply chain, particularly water-intensive textile mills. Working with other apparel brands and retailers, Nike established a program that encourages suppliers' adherence to high water quality standards beyond compliance with local or national environmental regulations. It is also pursuing industry-leading water efficiency through research and innovation in advanced materials, processes and water treatment.

Nike is pleased that investors such as Robeco have raised this topic, as efforts by one company alone cannot go far enough to address the breadth and depth of water-related business risks facing an industry that relies on clean fresh water to consistently produce quality products.

Participation in the CEO Water Mandate complements and enhances Nike's existing efforts. It gives the firm opportunities to:

- Demonstrate its commitment to sustainable water management;
- Improve its capacity to measure and disclose water use and impacts; and
- Collaborate with other organisations, industry leaders, and policymakers to address global water challenges.

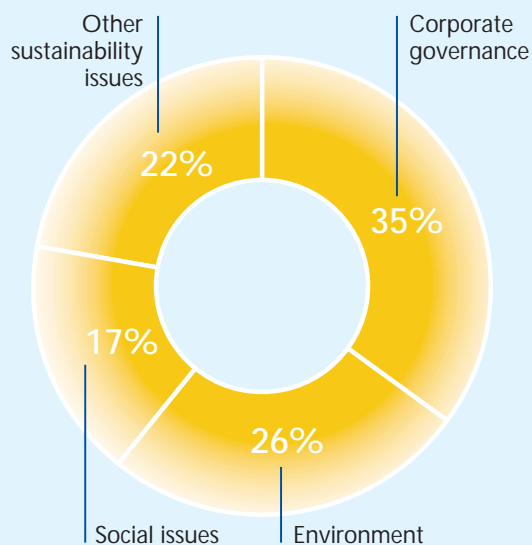
Nike recognises that taking environmental issues into account is critical for future financial success and for the long-term sustainability of its business.

# What engagements have been launched this year?

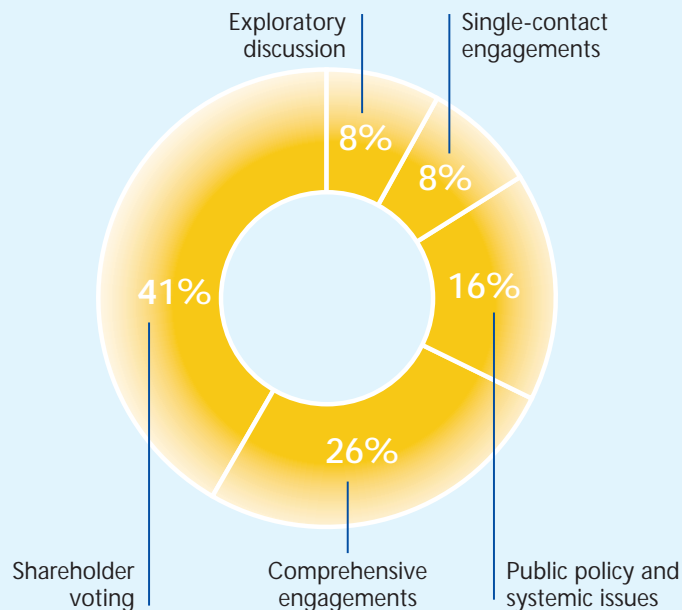
The charts below show the range of issues that investors tackle via the Clearinghouse and the methods employed to get the message across.

Examples of engagements this year with companies from around the world can be seen on the map to the right:

## Issues tackled on the Clearinghouse this year



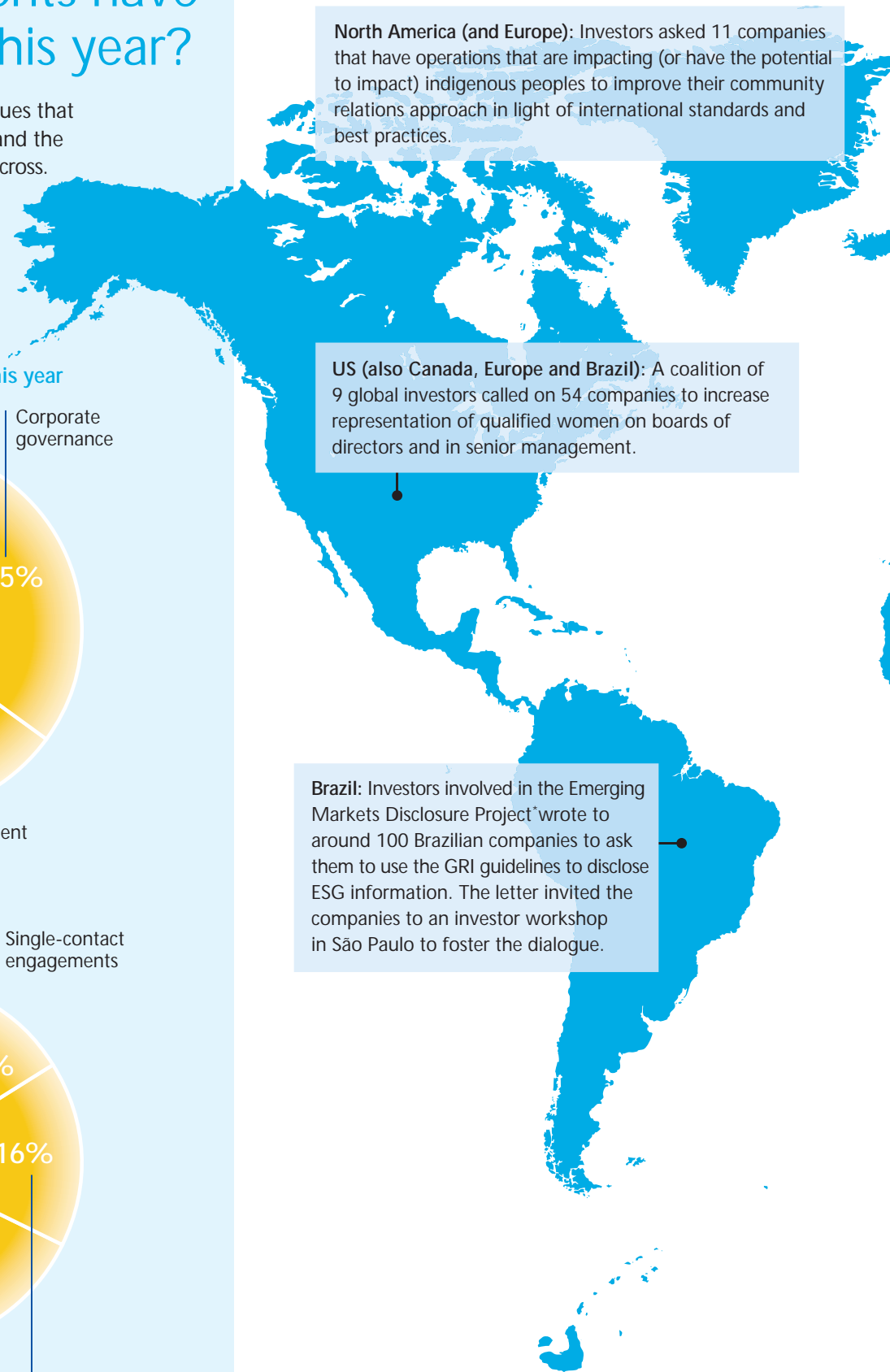
## Types of posting by investors



**North America (and Europe):** Investors asked 11 companies that have operations that are impacting (or have the potential to impact) indigenous peoples to improve their community relations approach in light of international standards and best practices.

**US (also Canada, Europe and Brazil):** A coalition of 9 global investors called on 54 companies to increase representation of qualified women on boards of directors and in senior management.

**Brazil:** Investors involved in the Emerging Markets Disclosure Project<sup>™</sup> wrote to around 100 Brazilian companies to ask them to use the GRI guidelines to disclose ESG information. The letter invited the companies to an investor workshop in São Paulo to foster the dialogue.



**Europe:** Leading investors engaged with the European Commission and national governments to ensure that 'acting in concert' regulations do not prevent legitimate investor collaboration on corporate governance and sustainability issues.

**Switzerland:** International and national investors collaborated to persuade ten of Switzerland's largest companies to allow shareholders a say on executive remuneration.

**Uzbekistan:** A coalition of 20 signatories engaged with many global companies to help end the use of forced child labour in Uzbekistan's cotton sector; the world's third biggest cotton supplier. Over 70 of the world's largest apparel brands and retailers have joined the effort including C&A, Gap and Levi's.

**South Korea:** Investors involved in the Emerging Markets Disclosure Project\* started a dialogue with 10 companies to improve their sustainability reporting after conducting a baseline exercise on their ESG disclosure performance.

**Sudan:** 22 institutional investors visited Sudan and met with major companies, civil society representatives and officials from the Sudanese Government to encourage business activity that supports revenue transparency, peace and protection of human rights.

**Burma:** Since October 2009 signatories have engaged with Total to discuss the human rights impact of the company's pipeline operations in Burma.

**Congo:** A group of investors initiated dialogues with 14 North American, European and Japanese consumer electronic companies to ensure that those companies are taking appropriate actions to manage the social and business risks caused by the sourcing of tin, tantalum and other minerals from the Democratic Republic of Congo. These minerals are used in products like mobile phones and laptops and in some cases are linked to armed groups responsible for human rights violations.

**Singapore:** After a dialogue with investors on the importance of corporate sustainability and ESG disclosure, two Singapore-based companies took action that subsequently led to their inclusion in the FTSE4Good Index.

**South Africa:** Local and international investors participating in the Emerging Markets Disclosure Project\* wrote to the Chairmen of six of the top 40 publicly-traded South African companies excluded from the SRI Index of the Johannesburg Stock Exchange (JSE). The JSE SRI Index measures ESG and related sustainability concerns such as a company's response to climate change. Company follow up includes conference calls and in-person meetings.

**Australia:** A collaborative engagement helped persuade a subsidiary of Australian mining firm Wesfarmers to invest in equipment to enable the sourcing of phosphate rock from places other than a controversial current source in an illegally occupied part of the Western Sahara.

\*an international coalition to encourage increased corporate sustainability reporting in emerging markets

## Case study: Changing corporate culture on sustainability reporting

Information drives markets. If the information investors receive is shallow and short term then these characteristics will define investors' decisions. If companies do not assess and report on the wider ESG risks and opportunities of their business, how can the market assess the sustainability of that entity? While it is standard practice for businesses to issue thorough financial reports, it has also become important for businesses to report ESG information.

To help drive improvements in corporate reporting, a coalition of signatories has, for the last three years, engaged with companies in the UN Global Compact on this issue. In February, a US\$ 2.1 trillion coalition this year wrote to 86 companies that had joined the UN initiative but failed to fulfill their sustainability reporting requirements.

Last year the engagement resulted in a record number of positive responses with 48% (50 out of 105) of companies, including firms such as BHP Billiton, Severn Trent, Gap and LVMH, subsequently submitting their reports. This is an increase from 33% the previous year.

The investor coalition also commended 44 companies, including Bayer, Nikon and Inditex, for producing high-quality sustainability reports deemed useful for investors.

This year signatories have also worked closely with the Carbon Disclosure Project (CDP), a voluntary initiative on carbon emissions data. Local investors in Korea, Brazil and South Africa have driven the Emerging Markets Disclosure Project, which asks local companies to produce annual and systematic ESG disclosures.

With the UN Global Compact and UNCTAD, the PRI Initiative is also engaging with global stock exchanges and national regulators to explore how these authorities can encourage ESG disclosure by listed companies. This has led to two Sustainable Stock Exchanges events in the US and China.

“Stock exchanges and other financial bodies have a key role to play. I welcome efforts to incorporate ESG issues into new stock exchange indices, listing rules and regulatory frameworks. Many investors have taken important steps to advance this agenda.”

UN Secretary General Ban Ki-moon in an address to our first Sustainable Stock Exchanges event, November 2009



Watch the full address on the PRI YouTube channel  
[www.youtube.com/unpritube](http://www.youtube.com/unpritube)

# The Universal Owner Project >>

Externalities are costs that are external to the firm – that is costs imposed by the firm and picked up by someone else. Negative externalities commonly include pollution, destruction of ecosystem services and overuse of natural resources.

For example, if a factory pollutes a river, contaminating the water for downstream users, this would represent an externality that is imposing real costs on others. Negative externalities lead to sub-optimal economic outcomes overall. Given that large, diversified institutional investors own a fairly representative sample of the global economy, it is in their interests to reduce negative externalities.

## Addressing the largest externalities?

The need to address externalities from an investor perspective led the PRI and UNEP FI to launch the Universal Owner Project, an attempt to identify which externalities resulting from corporate behaviour are most harmful to the economy, and which, if mitigated, would create the greatest economic benefit for large, diversified investors. Once identified, investors can then engage with companies and policy makers to reduce these externalities.

The first part of this project was completed this year. The research, conducted mainly by Trucost, found that:

- The human use of environmental goods and services in 2008 caused an estimated US\$ 6.6 trillion in environmental costs. This value equated to 11% of the global economy. An estimated 35 per cent of this was caused by the largest 3,000 listed companies.
- Without action, externalities would increase to US\$ 28.5 trillion or 18% of global GDP by 2050.
- The largest share of costs comes from greenhouse gas emissions, (estimated to have cost the global economy over US\$ 4.5 trillion in 2008), with water abstraction and air pollution among the other large contributors.
- Signatories that invest in a well diversified equity portfolio or index such as MSCI ACWI could own around 5.6% of the value of the fund in external costs caused by companies in this equity portfolio. So in case of a large diversified equity portfolio of US\$ 10 billion the external costs would amount to US \$ 560 million.
- The external costs represent nearly 7% of the combined revenues of the 3,000 companies. The materiality of externalities would vary at a company and sector level.

The scale and significance of these externalities to the economy warrants action by all investors to protect their long-term returns. In particular it is Universal Owners (large institutional investors with an interest in raising economic performance as a whole), that have an overriding duty to take action.

To view the Universal Owners Project report

visit [www.unpri.org/uop](http://www.unpri.org/uop)

# Supporting signatories in implementing the Principles

The PRI Secretariat has over 20 full-time staff and supports its signatories in a range of implementation areas. This year has seen the launch of a new password-protected extranet, more webinars, a database of ESG research, greater local support through country networks and further best practice interviews, articles and videos on many different aspects of implementation.

Next year, we will build on the new extranet and develop an active online community that makes it easier for signatories to collaborate, participate and initiate their own responsible investment activities with peers.

Two of the most popular services provided to signatories are [webinars](#) and [PRI in Practice](#) articles, featuring best practices from across the signatory body.

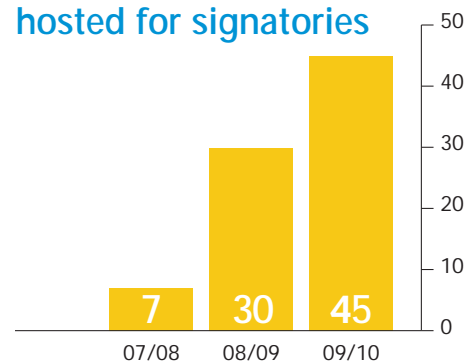
## Webinars

The PRI typically holds two webinars a month. These are conference calls with an online presentation. They are like a conference presentation that you can attend without leaving your desk. Webinars are exclusively for signatories but often feature expert speakers such as those listed below. The topics are a mix of emerging ESG and investment issues that are usually global in nature. Ideas for new collaborative investor engagements often emerge from webinar discussions. The PRI webinar series in the last year has featured, the following topics and speakers among many others:

### Topics

- **Big banks and political lobbying:** A discussion on corporate influence on economic policy, with a specific focus on banks and the US.
- **Business and human rights:** A presentation of the “Protect, Respect and Remedy” policy framework promoted by Professor John Ruggie, Special Representative of the UN Secretary-General (SRSG) on business and human rights. Perspectives from a company and a PRI investor on the application of the framework were discussed.
- **Proxy voting in a resource constrained organisation:** Guidance for smaller funds on how to be an active owner on limited resources.
- **The green lease:** Analysis on how property investments can be made more responsible by engaging with tenants retrofitting existing multi-tenant commercial buildings.
- **COP15:** An examination of the outcomes and implications of the UN climate change negotiations in Copenhagen in December 2009.
- **Responsible investment in private equity:** Leading investors explained the new PRI guidance for private equity investments and how to build a more responsible culture within the PE sector.

## Number of webinars hosted for signatories



## Speakers



**Bob Monks**  
Shareholder activist



**Pavan Sukhdev**  
Head of Green Economy Initiative, UNEP



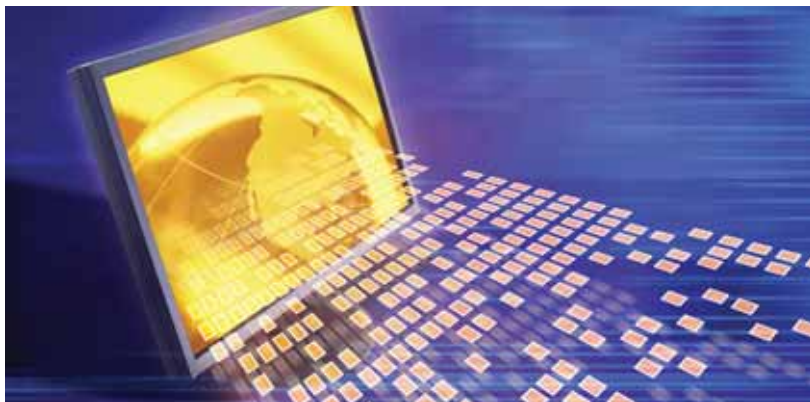
**Christine Bader**  
Advisor to the UN Special Representative for Business & Human Rights



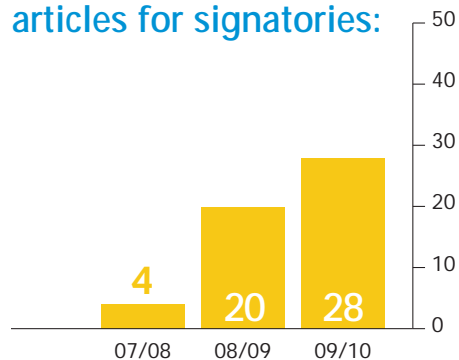
**Dana Krechowicz**  
Associate World Resources Institute



**Pascal Saint-Amans**  
Head of International Co-operation and Tax Competition Division, OECD



### Number of PRI in Practice articles for signatories:



## PRI in Practice

PRI in Practice is an online implementation library for signatories with close to 100 articles, interviews and briefings exploring the nuts and bolts of implementing the Principles. PRI in Practice aims to identify the most difficult areas of implementation and then interview those investors who have sought to address these issues. Some of the topics and interviewees covered on the website include:

### Topics

- How to create a model to reflect a company’s sustainability performance in its financial valuation?
- How to measure environmental and social impacts?
- How to integrate ESG issues into fixed income investments?
- Strategies for successful shareholder engagements.
- How to access ESG research and implement Principle 1 with limited resources?
- How to add responsible investment/ESG questions to Requests for Proposals or in the selection and/or monitoring of managers?

## Interviewees



**David Blood**  
co-founder,  
Generation Investment  
Management (UK)



**Eugenia Buosi**  
SRI Specialist,  
Santander (Brazil)



**Stephen Kibsey**  
Vice-President, Risk  
Management – Equity  
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## Other implementation support services >>

There are several other work streams and support services the PRI Initiative has overseen this year to help signatories implement the Principles.

These include:

### >> Reporting and assessment survey

For the first year, the annual survey was managed in-house by the PRI team. Considerable work was put into enhancing the user-friendliness of the survey. Over 90% of respondents felt the survey captured their responsible investment activities to a large or moderate extent. A record number of respondents completed the survey and for the second year running around a third of responses were verified. The results of this survey are featured in the Report on Progress.

### >> Enhanced Research Portal (ERP)

The ERP is a custom platform providing signatories with a database of the latest ESG research. It gives signatories an opportunity to find the research most relevant to their portfolios, while providing research providers (the sell-side and ESG research providers) with a platform to promote their latest research to a broad audience of investors managing over US\$ 20 trillion of assets. By establishing the ERP, the PRI hopes to increase the quantity and quality of ESG research on the market being used in investment decision-making.

### Private equity work stream

This work stream brings together Limited Partners (investors), General Partners (private equity firms) and advisors to raise awareness and support implementation of the Principles in this asset class. Led by PRI signatories, the work stream has published a guidance document on how the Principles apply to private equity and an accompanying booklet of case studies. A major event attended by more than 250 practitioners in London in June 2010 showcased the core role responsible investment is set to play in the future of the private equity industry. There are now over 65 signatories that have an exclusive or significant focus on private equity, managing over US\$ 350 billion of assets.

### Country networks

Local networks are now active in Australia, Japan, South Africa, South Korea and Brazil. Networks are also emerging in USA and Canada. The country networks provide implementation support for signatories locally, for example translating responsible investment resources into local languages where needed and addressing challenges facing specific regions.

(See case study on p.18)

## Small Funds Initiative (SFI)

The SFI aims to help resource-constrained funds to implement the Principles. This year the work stream has developed a set of best practice case studies showing how the costs of engagement, ESG research, completing the PRI Assessment and other aspects of implementation can be met despite limited resources. This set included a special series looking at how faith-based funds can approach implementation. All are available for signatories via the PRI in Practice library within the PRI signatory extranet.

## Property work stream

The PRI Secretariat works with the UNEP FI Property Working Group to help property investors achieve the best possible environmental, social and financial results. Following the 2008 guidance document, the last year has seen a series of three toolkits published to help institutional investors initiate responsible property investment. Several webinars have been held featuring leading signatories and academics.

## Small Funds Initiative case study: Bâtirente

Canadian asset owner Bâtirente is a relatively small signatory with around US\$ 800 million AUM. With a full time staff member dedicated to shareholder engagement (of a total of seven employees), the fund is able to be involved in over 25 shareholder engagements each year.

Bâtirente demonstrates that smaller funds can be active owners by focusing on the most relevant companies for engagement and by leveraging collaboration with other investors. For example this year Bâtirente, in collaboration with RRSE, also a PRI signatory, engaged with Talisman Energy to improve the company's approach to indigenous peoples' relations. Following a recommendation by the investors, the Canadian oil and gas company commissioned a report exploring how the concept of Free, Prior and Informed Consent (FPIC) could become part of its community relations corporate strategy. The company acknowledged such a strategy could have a positive impact on its reputation and thus facilitate access to resources and contribute to its long term financial performance.

As part of the SFI network Bâtirente helps highlight these opportunities to other funds of similar sizes. They argue that by working through investor networks such as the Clearinghouse they not only save resources but significantly increase influence.

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## Case study: South Africa Network

The PRI South Africa Network was launched in May 2009 with the support of our first signatory in the country, the Government Employees Pension Fund of South Africa (GEPF). The network serves as a platform for PRI signatories in the country to discuss ideas, share experiences and collaborate on a range of ESG issues that are material for investment decision-making in South Africa. Topics for discussion are selected by signatories with the PRI Secretariat providing support. There are 29 signatories to the PRI in South Africa.

Within the Network, the Engagement Working Group has been established which, as part of the wider Emerging Markets Disclosure Project (EMDP), has engaged with 12 large companies on the Johannesburg Stock Exchange, asking them to improve their ESG disclosure. This year the Group also successfully presented the case for collaborative shareholder engagement on ESG issues to the South African Securities Regulation Panel to ensure there are no regulatory obstacles to investor collaboration on ESG dialogue with companies. It had been thought that South Africa's 'acting in concert' regulations may prevent legitimate shareholder engagement on ESG issues. The network also spearheaded an engagement with the King III Committee to encourage shareholder responsibilities in King III which led to the formation of a committee, to produce a Code for Responsible Investing by Institutional Shareholders in South Africa (CRISA). The committee is working with all stakeholders and the code will form an integral part of governance in South Africa.

In 2011 the engagement group will focus on the issue of climate change and will ask the South African Government to provide clear policy on climate change prior to South Africa hosting COP17 in late 2011.

The South Africa network also runs an Integration Working Group that focuses on how to apply the Principles to the South African context and an Awareness and Recruitment Group that aims to educate the local investment community about the materiality of ESG issues and attracting new signatories to the PRI.

## Passive management

The PRI has this year provided guidance aimed specifically at passively-managed funds – such as index tracking funds – to clarify what it means to implement the PRI within the passive context. A key point for passive funds is that the PRI is an aspirational framework, to be implemented as appropriate. Principle 1, for example, is of limited relevance for index-tracking funds, which would implement the PRI largely through implementing the other Principles, and in particular, active ownership (Principle 2). We are delighted that signatories with a large passive element to their portfolios have recently become signatories.

This year's Assessment survey found that signatories typically hold passive funds (based on their median value) worth US\$ 2.1 billion.

## Academic Network

Now in its third year, the PRI Academic Network has become a major forum connecting investors with academics around responsible investment. One of the main roles of the network is to encourage academic research on responsible investment topics. For the first time this year the network offered the PRI Academic Research Awards for papers of academic excellence. These Awards were possible thanks to generous support from the Danish Government, which has funded the network for the last year. The network also produces a monthly newsletter to showcase the latest research. Another annual event of the Network is the PRI/oikos Young Scholars Finance Academy, which brings PhD students working on responsible investment together with leading academics.

## Public Policy Network

Responsible investment, with its greater awareness and consideration of ESG factors, can help achieve public policy goals, which are often pushing in a similar direction. The public sector can also support responsible investment in a range of areas. This work stream was officially launched this year with support from the Danish Government, though the first event exploring the interface between responsible investment and public policy was held in late 2008. The PRI Public Policy Network provides a forum for government representatives and other policy-makers to work together on developing regulation that supports responsible investment, and exploring ways in which responsible investment can help achieve public policy goals. The initial focus of the network has been on ESG disclosure, focused around the Sustainable Stock Exchanges agenda.

## Supporting service providers

Professional Service Partner (PSP) signatories play an integral role in helping PRI investor signatories to implement the Principles. They do this through research (ratings, data and screening tools), engagement and voting services, asset consulting, manager selection and other specialised advisory services.

To find out more about PSP signatories, including the services they have available, visit [www.unpri.org/signatories](http://www.unpri.org/signatories)

Many of the more than 150 PSP signatories are small, specialist providers. Around a third of PSPs have five or fewer employees and only 7% are large organisations with over 250 staff. Around 40% are based in Europe, 25% in North America, 13% in Oceania and 10% in Asia.

PSPs contribute to a number of PRI activities – especially webinars, Clearinghouse engagements, working groups and the Enhanced Research Portal. But they have told us they want to do more. So, over the next year, the PRI Secretariat will be developing a range of additional tools, events and opportunities to bring PSPs and investor signatories closer together. These are likely to include a database so investors can quickly identify services, products and service providers that can help them implement the Principles. We will also be improving the Enhanced Research Portal, the searchable repository of the latest ESG research.

## Millennium Development Goals (MDGs) work stream

This work stream explores how signatories can invest in companies and projects that produce not just financial returns but also demonstrable sustainable development outcomes that contribute to the UN Millennium Development Goals. The latest signatory survey found that 170 signatories invest in specialist ESG themes and funds including areas such as clean tech, sustainable forestry, global health and microfinance.

Going forward, the Initiative hopes to provide signatories with concrete implementation support in this area and promote capital allocation in a responsible way to alternative ESG asset classes that can help contribute to achieving the MDGs and deliver strong, commercially-attractive investment returns.

### MDGs work stream case study: Microfinance fund provides both social and financial returns

Signatories Blue Orchard and Dexia jointly manage the Dexia Micro-Credit Fund (DMCF), which invests in debt instruments issued by microfinance institutions in Africa, Asia, Eastern and Central Europe, and Latin America. DMCF investors are typically large institutions.

The fund invests in organisations such as Angkor Microfinance Kampuchea in Cambodia, an institution that offers entrepreneurs in Cambodia small loans of between US\$ 100–200. DMCF has lent to over 700,000 ‘micro-entrepreneurs’ since inception, typically those from a low-income background. In this way, it has created many jobs and opportunities in areas where poverty might otherwise be much greater. More than 50% of the clients helped by these funds are female.

Cumulative returns for institutional investors over the last 10 years have been around 60 per cent. Between 2006 and 2008, the years when more unsustainable investments were being severely affected by the global financial crisis, annualized returns of DMCF were just over 6 percent for the US dollar share class.

## Funding change: Financial aspects of the Initiative

### PRI Voluntary contributions

Year	Amount	Signatories	Signatories contributing
2006-07	US\$ 340,000	181	50
2007-08	US\$ 710,000	331	88
2008-09	US\$ 1,083,530	505	165
2009-10	US\$ 1,825,621	718	277

		Actual <sup>1</sup> 2009/10 (\$000s)	Forecast 2010/11 (\$000s)	Forecast 2011/12 (\$000s)
<b>Income</b>	Voluntary contributions	1,826	1,930	
	Membership fees			4,002
	Grants	202	26	
	Event income	11	(46)	
	Interest	5	7	12
	Total income	2,044	1,917	4,014
<b>Expenditure</b>	Management and overheads	561	1,197	1,187
	Implementation support <sup>2</sup>	442	763	1,092
	Strategic initiatives	178	552	963
	Communications	155	286	366
	Depreciation		3	17
	Corporation tax			85
	Total expenditure	1,336	2,801	3,710
	<b>Surplus/(deficit) for the year</b>	708	(884)	304
<b>Reserves</b>	Opening	1,083	1,791	907
	Closing	1,791	907	1,211
<b>Reserves as months of core expenditure</b>		16.1	3.9	3.9

#### Notes

1 Subject to audit

2 Includes Clearinghouse, PRI in Practice, the work streams

Despite the financial crisis, signatories continued their support for the PRI with contributions well ahead of the previous year – and ahead of budget forecasts. The PRI Initiative has always budgeted cautiously as our income to date has been from voluntary contributions which are inherently uncertain. As the Initiative has grown there has been an emphasis on building up financial reserves in order to safeguard its financial sustainability into the future. In 2009/10, 38% of signatories contributed an average of US\$ 6,591 (compared with an average of US\$ 6,567 for 33% of signatories in 2008/09).

As a result, we have funds in hand which the Board has now decided to use in part to invest in a considerable enhancement of services and resources for signatories. This is in line with our five-year plan to increase the delivery of PRI services and implementation support resources.

### 2010-11

The PRI Initiative has established new legal entities in the UK to manage the Initiative – a not-for-profit company and a registered charity. Between 2006 and 2010, the PRI Initiative was administered as a project of the Foundation for the Global Compact in New York and we are grateful for the Foundation's support in allowing PRI to establish itself in this way with minimal administrative burdens. However, as the Initiative has grown, it has become clear that we need our own entity to deal with the activities and increasing complexity of the Initiative.

Being based in the UK, the Initiative's finances will now be denominated in GBP. We've budgeted a similar level of income for 2010-11 to that achieved last year, but we're investing significantly in the future of PRI with increased staff to enable additional implementation support activities and infrastructure. Our costs will be significantly higher and we will incur a deficit of about £500,000, to be covered by using a proportion of the reserves built up in previous years. However, we will maintain a reserve of four months of core operating costs, which is the minimum level the Board considers prudent.

# The Principles >>

The Principles for Responsible Investment were launched by the UN Secretary-General at the New York Stock Exchange in April 2006. The six Principles are:

- 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

## How to sign up

If your organisation would like to become a signatory then please visit [www.unpri.org/sign](http://www.unpri.org/sign) or email [info@unpri.org](mailto:info@unpri.org) for further information. You can also call the PRI Secretariat on + 44 (0)20 7749 5107.

To formally sign the Principles you will need to send a letter, signed by the CEO or equivalent and which contains the following:

- A statement confirming your organisation's approval of the Principles. It would also be helpful to include reasons for your decision and any expectations you may have from becoming a PRI signatory;
- For asset owners and investment managers, a commitment to take part in the PRI's annual Reporting and Assessment, including any transparency requirements;
- A description of your organisation, approximate assets under management and the category of signatory applicable;
- From 2011, a commitment to pay the subscription fee; and
- Full contact details of your main PRI contact as well as any other people who you would like to receive PRI communications.

## OUR UN PARTNERS

### UN Global Compact

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance ten universal principles in the areas of human rights, labour, environment and anti-corruption. Through the power of collective action, the Global Compact seeks to mainstream these ten principles in business activities around the world and to catalyze actions in support of broader UN goals. With over 7,700 corporate participants and stakeholders from over 130 countries, it is the world's largest voluntary corporate sustainability initiative.

**More information:** [www.unglobalcompact.org](http://www.unglobalcompact.org)

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between UNEP and the private financial sector that works closely with approximately 180 financial institutions to develop and promote linkages between sustainability and financial performance. Through regional activities, a comprehensive work programme, training and research, UNEP FI carries out its mission to identify, promote and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

**More information:** [www.unepfi.org](http://www.unepfi.org)



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