

PRI BOARD MEETING REPORT

The PRI Board had a meeting on 7 December 2018, in London, UK.

ATTENDANCE

The meeting was attended by the following PRI Board members and PRI Executive staff.

Board members present: Sandra Carlisle (HSBC Asset Management) Lise Kingo (UNGC) Priya Mathur (CalPERS) Hiro Mizuno (GPIF) Renosi Mokate (GEPF) Martin Skancke (Chair) Tycho Sneyers (LGT Capital Partners) Eric Usher (UNEP FI) Xander den Uyl (ABP) Peter Webster (Vigeo Eiris)	PRI Executive in attendance: Fiona Reynolds Christopher Sperling
Apologies: Angela Emslie (Hesta Superfund) Eva Halvarsson (AP2)	

DECLARATION OF INTERESTS

No new interests were declared.

MINUTES

The Board approved the minutes from the 10 & 11 September 2018 meeting.

MATTERS ARISING

The Board noted the matters arising. The 2019/20 budget will be for Board approval at the March 2019 meeting. The Executive will present several budget scenarios, to facilitate Board discussion, and recommend one for Board approval.

SIGNATORY AND STAKEHOLDER INTERACTION

The Board discussed a complaint from an individual about the actions of a PRI signatory. The Board agreed to respond to the complaint, but not escalate the matter, within the terms of a Serious Violations to the Principles Policy¹.

¹ https://www.unpri.org/Uploads/z/a/a/PRI-consultation_Serious-violations-policy.pdf

CHAIR REPORT

The Chair reported to the Board on key activities since the September 2018 Board meeting and activities planned from December 2018 to March 2019. Key activities since the September meeting included:

- Participation in the Inevitable Policy Response and Taskforce on Climate-related Financial Disclosure (TCFD) panels at PRI in Person.
- Participation at the UNEP FI global roundtable and Paris climate finance day 2018, including, the launch of the Principles for Responsible Banking, the launch of the France Fiduciary Duty Roadmap, the Climate Finance day, and meetings with stakeholders.
- Working with the Executive on Sustainable Development Goals engagement and strategy.

MANAGEMENT REPORT

Fiona Reynolds, CEO, presented the management report.

Included in management report are routine reports and exceptional items. The routine reports are updates on human resources, partnerships, management accounts, signatory relationship management and key business initiatives. Exceptional items included updates on: the US market and shareholder rights issues; the EU Sustainable Taxonomy project; the UK green finance taskforce and green finance institute; work aligned with the Sustainable Development Goals; the launch of the Inequality tool-kit²; and further collaboration with UNEP FI on joint leadership programmes for investors.

Mark Blair, Chief Financial Officer, joined the meeting to present an update on the PRI's corporate structure. The Executive is in the process of establishing a French company, due to the increase of the PRI's activities in France. The Executive is also in the process of establishing a Chinese corporate structure, a representative office of the PRI's Hong Kong for-profit company.

The Executive also provided an update on the ongoing organisational effectiveness review, including an enhanced governance framework and a refined project management framework.

The Board approved the Moore Foundation grant to continue and broaden the PRI facilitated collaborative engagement on deforestation.

GRANTS POLICY

Mark Blair, Chief Financial Officer, joined the meeting.

Grants are becoming a larger part of the PRI's funding mix. Grants allow the PRI to deliver more projects and often at greater depth. As stated in the grants policy they must be aligned with the PRI strategy. The Board sets the priorities and then the Executive seeks grants, not vice versa. The

² <https://www.unpri.org/academic-research/why-and-how-investors-can-respond-to-income-inequality-/3777.article>

partnerships team is performing well. The Executive will continue to report regularly on grants to the Finance, Audit and Risk committee and the Board.

The Board approved the revised grants policy³, including the Board approval threshold of £500k and above.

REPORTING FRAMEWORK REVIEW CONSULTATION

Graeme Griffiths, Chief Operating Officer, and Gail Boucher, Head of Reporting and Assessment, joined the meeting.

A reporting framework review was committed to in the 2018-21 PRI strategy and the signatory consultation will commence in early 2019. The theory of change for the reporting framework is that it:

- enables signatories to learn and progress;
- helps to drive responsible investment change throughout the investment chain;
- holds signatories to account against the Principles;
- provides a public good, data for research to advance the practices of the investment community.

The Board discussed the theory of change and elements to be considered as part of the review:

- Reporting is a tool to encourage learning, behavioural change and an accountability tool. The objectives of the framework can be framed in terms of driving action against the six Principles and the organisational priorities as set out in the Blueprint. Reporting is important for driving responsible investment throughout the investment chain *and* within each organisation. How questions are framed drive signatory action.
- Some signatories are looking for the PRI to develop an SDG relevant framework. Also, these signatories want one framework, rather than multiple. The reporting framework could evolve to capture both responsible investment processes as well as impacts. The consultation will inform the evolution of the reporting framework.
- The Board agreed that the reporting framework should aim to balance simplicity with accountability. Any reforms should also aim to recognise leaders as well as ensuring that new signatories are not discouraged.
- The review will consider the reporting, assessment and the outputs.
- The PRI should aim to consult different roles, from the ESG analyst to the c-suite to the board.

The Board agreed that the review and the consultation process are extremely important. Reporting is the one compulsory interaction with the PRI and an important engagement exercise with signatories. The aim is to communicate with signatories about the consultation results and subsequent proposals at the September 2019 Signatory General Meeting.

The Board approved the consultation process.

³ https://www.unpri.org/Uploads/u/u/e/201812prigrantspolicy_308758_378990.pdf

SIGNATORY CATEGORISATION

Lorenzo Saa, Chief Signatory Relations Officer, joined the meeting.

For Board discussion and approval was how the PRI treats groups, upon application to be a signatory. The Signatory and Stakeholder committee recommended that the PRI maintains the policy of mandating that groups, rather than individual entities within groups, sign up to the Principles. Strategically this group level commitment has been important to encourage the 'mainstreaming' of responsible investment, rather than allowing more niche ESG branded products or entities to sign up to the exclusion of the wider firms. The committee also recommended some clarifications to the group criteria.

The Board discussed various elements of signatory categorisation:

- Equity with historical decisions is difficult to achieve. It is reasonable to expect that criteria changes over time. If a signatory joined earlier years, then there will be slightly different criteria (or the application of that criteria).
- Categorisation, particularly the exceptions have become too complex. The Board and Executive must be able to explain the rules simply. The decisions are consuming too much of the Executive and Board's time and focus. Also, the application process can leave a bad initial impression with potential signatories.
- The rule to sign up signatories at the group level is simple, but the exceptions have made it complex. There must be legitimate reasons for making exceptions. True independence is one legitimate reason.
- Group level sign-up versus allowing sub-entities to sign. One argument is that the PRI has reached a scale and a scope that means that the group rule is less crucial today to the success of the PRI or responsible investment. The Board decided to maintain the group rule to ensure fairness across the signatory categories.

The Board will continue to discuss signatory categorisation at the March 2019 meeting.

MEASURES

Christopher Sperling, Director of Planning and Operations, presented the measures.

Since the March 2018 Board meeting the measures have been refined. The measures have been calibrated to the sphere of investor actions or outcomes, where possible. The plan is to report to the Board on progress against the Blueprint priorities, including a narrative and supporting measures, at the Board's annual June meeting. Feedback from progress against the measures can be incorporated into the Executive's business planning process that typically starts in Q3 of the financial year.

The Board provided feedback on the measures, including the importance of: a common language across the organisation; of monitoring real-world impact; and being able to effectively communicate the PRI's progress against the measures to signatories and stakeholders.

COMMITTEE REPORTS

The Board received updates from the chairs or members of the respective committees.

Finance, Audit and Risk committee (Peter Webster)

The committee reported to the Board on its discussions:

- Financial implications of the organisational effectiveness review;
- Grants management and the grants policy;
- Compliance oversight;
- PRI subsidiaries financials review; and
- Operational risks.

Human resources and remuneration committee (Renosi Mokate)

The committee reported to the Board on its discussions:

- Possible human resources impact of 'Brexit';
- Organisational effectiveness review; and
- CEO and Chair annual assessment processes.

Policy committee (Xander den Uyl)

The committee reported to the Board on its discussions:

- The 'Drive Meaningful data' discussion paper for the Board; and
- Future role of the committee.

Signatory and stakeholder engagement committee (Priya Mathur)

The committee reported to the Board on its discussions:

- Governance of local networks; and
- Signatory categorisation.

COMMITTEE TERMS

At the September 2018 meeting the Board asked the Executive to review and or draft terms of reference for five Board committees:

- Finance, Audit and Risk committee
- Governance committee
- Human resources and remuneration committee
- Policy committee
- Signatory status committee

The draft terms had been reviewed by the respective committees in advance of the Board meeting.

The new Governance committee's terms were reviewed by the chairs of the Ethics committee and the Skills, Diversity and Elections committee.

The Board agreed to the revised terms. The new committees will start operating on 1 January 2019.

ELECTIONS REVIEW

In the 2018 elections three asset owner representatives were elected:

- Angela Emslie, Independent chair of the Board, HESTA Super Fund (Australia)
- Xander den Uyl, Trustee, ABP (the Netherlands)
- Laetitia Tankwe, Advisor to the President of the Board of Trustees, Ircantec (France)

As well as one investment manager representative:

- Wendy Cromwell, Vice chair, Director, Sustainable investment, Senior managing director and portfolio manager, Wellington Management (US)

The new director terms will commence on 1 January 2019.

The Board agreed that the election process and outcomes had generally been positive: improved participation; representative from the Francophone community; good gender diversity on the Board; and competitive elections aid the Board's legitimacy. However, there is less regional geographical diversity, with the loss of a representative from South America (PREVI). The Board was mindful of the importance of geographic diversity.

Peter Webster, member of the Skills, Diversity and Elections committee presented the committee's discussions on the reform of the voting rules, including the arguments for and against plurality and preferential voting. The chair raised the issue of continuity at the Board and directors' term lengths. The Board also discussed the role of the Executive in the elections process. The role of the Executive is to facilitate the process, not to advocate a particular candidate.

The appetite was low at this point in time for reform of the election rules. The Board agreed that its time and focus are best spent on strategic matters relevant to signatories. A review of the Articles is scheduled for 2021 and the Executive maintains a running list of proposed reforms.

PRI IN PERSON REVIEW

Claire Dickinson, Director of Events, and Graeme Griffiths, Chief Operating Officer, joined the meeting. The Executive presented the feedback on PRI in Person 2018, San Francisco, and preliminary plans for 2019.

The Board discussed: the 2018 event highlights, including sessions that seemed to provide the most value to signatories; the perception that there was much more 'selling' at the 2018 conference; more dynamic discussion formats and the roles of moderators; and the increased challenge of making a large and diverse conference work for all.

At present the plan is to alternate an annual event in Europe with an annual event outside of Europe. The annual event will be in Paris in 2019.

DRIVE MEANINGFUL DATA

Nathan Fabian, Chief Responsible Investment Officer, and Kris Douma, Director of Strategic Projects, joined the meeting to give a presentation on the European Commission's Technical Expert Group on Sustainable Finance and the drive meaningful data proposals, respectively.

At the September 2018 Board meeting, the Board agreed that 'data' is an issue for responsible investment and the PRI has a role to play. Both the asset owner consultation and the recent *ESG Integration in the Americas: Markets, Practices, and Data*⁴ report show that 'data' are a key priority for asset owners. The Executive presented analysis of the issues, distinguishing between three broad market segments: 1. client to asset owner data; 2. asset owner to investment manager data; and 3. investment manager to companies' data; as well as the role of intermediaries such as research providers that contribute to each of the three segments. Following this analysis, the Executive presented five possible programmes for action, for Board discussion.

The Board provided feedback on the programmes. For its March 2019 meeting the Board requested to understand: the priority initiatives; the Executive's capacity to deliver; and the role of signatories in the programmes; and the role of the Board during the process.

NETWORKS GOVERNANCE

Lorenzo Saa, Chief Signatory Relations Officer, joined the meeting to present the proposals on Networks Governance.

As the PRI matures, the Board has identified the need to formalise the PRI's approach to the governance of signatory coalitions. The Board agreed the following principles:

- **Global centralised PRI governance with local staff on the ground.** A single PRI Board, with a global strategy, implemented by local staff.
- **Branding and decision-making go together.** PRI branded activities are driven by the PRI Executive and aligned with the PRI strategy.
- **Fair and balanced signatory servicing aligned to the PRI strategy.** PRI resources should be shared in a balanced way across signatories and across the PRI Blueprint priorities, via a centralised budgeting function, enabling a similar and fair level of service across all markets.
- **Legal and fiscal compliance.** Local PRI activities must comply with local laws and tax obligations.
- **Enabling signatory drive.** The PRI can support coalitions of signatories with its tools (newsletters, collaborative platforms, etc.) as well as providing its endorsement.

The Board agreed that the overall imperative was to encourage signatories to act, both within the PRI's governance model, but also independently where necessary. The Executive plans to provide more resources for the particularly active Quebec Network: funding for specific projects, more staff time and support for the annual event.

⁴ <https://www.cfainstitute.org/-/media/documents/survey/esg-integration-in-the-americas.ashx>

The Board asked the Executive to reflect on how best to test the temperature of the networks on annual basis.

ANY OTHER BUSINESS

The Chair thanked Sandra Carlisle for her contribution to the PRI Board during her three-year term as director.

FUTURE MEETINGS

The Board will meet next in person on 7 & 8 March 2019. Planned discussion points include:

- 2019 PRI Board elections
- CEO performance review
- Chair contract
- Human resources report
- 2019/20 budget
- Driving meaningful data strategy
- Signatory categorisation
- Climate action
- Supporting investors incorporating ESG issues
- Foster a community of active owners

Signatories wishing to provide input on the agenda items or raise additional issues for Board consideration should email christopher.sperling@unpri.org by 8 February 2019.