PRI Principles for Responsible Investment

UNEP FINANCE INITIATIVE | United Nations Global Compact

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

2019 RI Trends report

- RESPONSIBLE INVESTMENT -

[For use in all external presentations]

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Executive summary

- The RI Trends report is published annually by the Principles for Responsible Investment (PRI) and historically has been part of the PRI annual report. It reflects data collected from the PRI's signatories, which numbered 2,372 as of March 2019. This included 2,029 investors representing US$86.3 trillion in assets.
- The PRI's 2019 RI Trends report shows a signatory base with rapid growth in Asia, Japan and the US, signaling that regions historically slower to adopt responsible investing are now embracing it at growing rate.
- The report's findings indicate new PRI signatories join at varying levels of RI implementation, with some lagging behind and some entering with a more developed approach. Analysis of signatory data shows a clear overrepresentation of investment managers among new joiners.
- The data suggests PRI asset owners are more 'advanced' than investment managers, especially in areas such as TCFD and E&S themed investments. However, the majority of the PRI's asset owners' assets are managed internally (60% of all their AUM). This is however not the norm in the investment market, and hence could be a reflection of the PRI asset owners who often might have more resources.
- This report indicates asset owners are increasingly working with policy makers to advance the PRI's Principles, with the proportion of asset owners engaging policy makers rising significantly between 2018 and 2019, despite a major increase in their overall number.
- Indeed, the investment landscape for PRI signatories is evolving. The following report shows increasing references to the SDGs and E&S themed investments, bondholder engagements, and some RI activity in traditionally non-RI asset classes.
- Lastly, this report illustrates that establishing minimum requirements has been successful in catalysing change in RI policies and practices among PRI signatories. Minimum requirements lead to more consistent and complete reporting, causing a shift in expectations around RI.

Methodology

- Where possible, 2019 data points have been compared with the findings of previous years.
- In many cases, normalised data are shown. This data contains a fixed group of reporters (and excludes any new signatories that began reporting during the time period) for clearer year on year comparison. Such graphs are indicated by saying “Practices among signatories reporting in both years”.

Content

Note: all datapoints are analysed using the full 2019 dataset . In some cases year on year comparison that is normalised for a fixed group of reporters is provided for additional context.

Overview

- AUM, reporters and regional changes
- Minimum requirements
- Data Portal usage – interest in signatories' PRI Reports
- Engagement withy policy makers

ESG incorporation

- ESG incorporation in directly and indirectly managed assets
- Asset owner focus: implementation of ESG In manager selection, appointment and monitoring

TCFD reporting, climate action and the SDGs

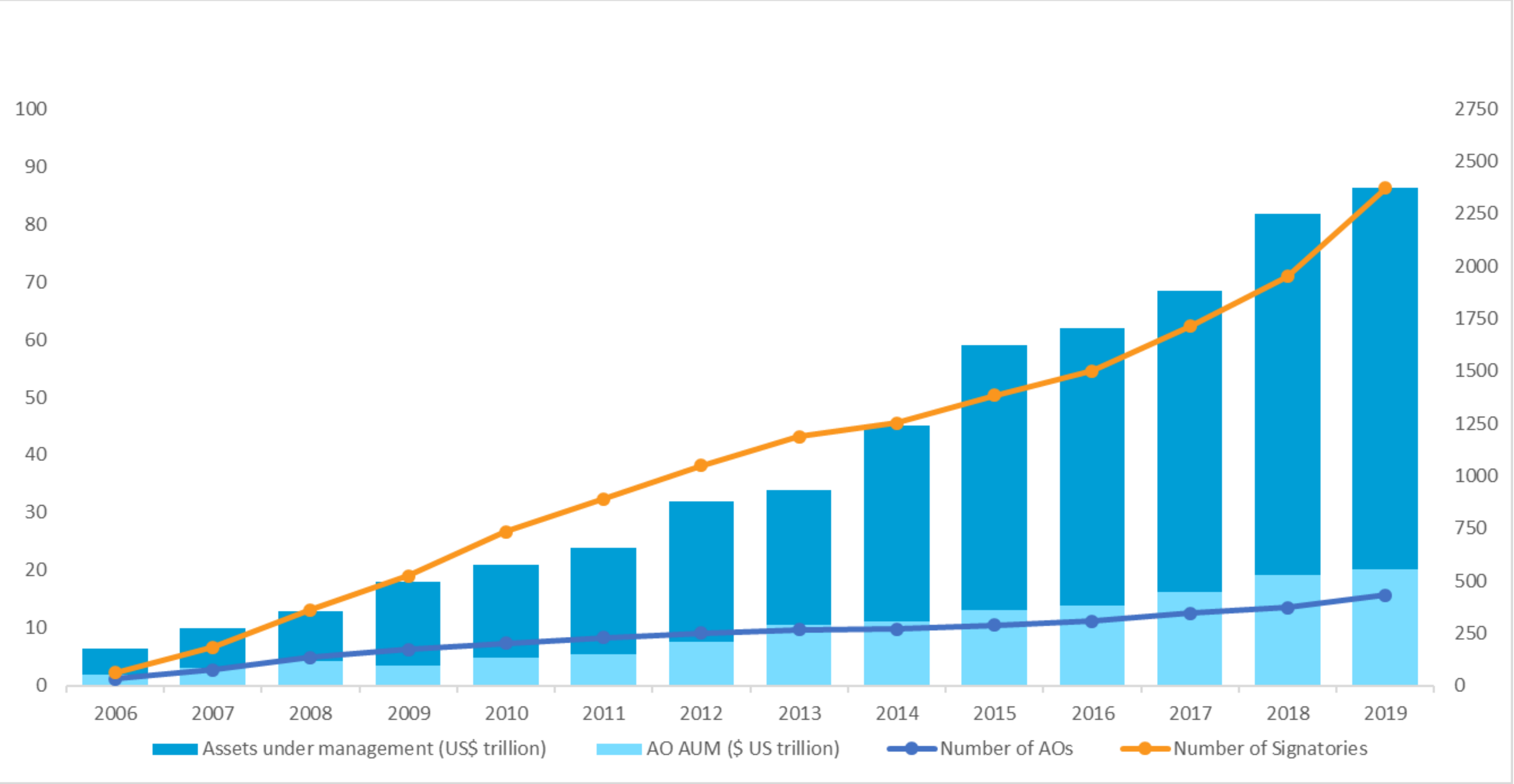
- Investor action on climate issues
- The SDGs and asset allocation in specific environmental themed areas

Stewardship in fixed income and listed equity

Overview

AUM and growth

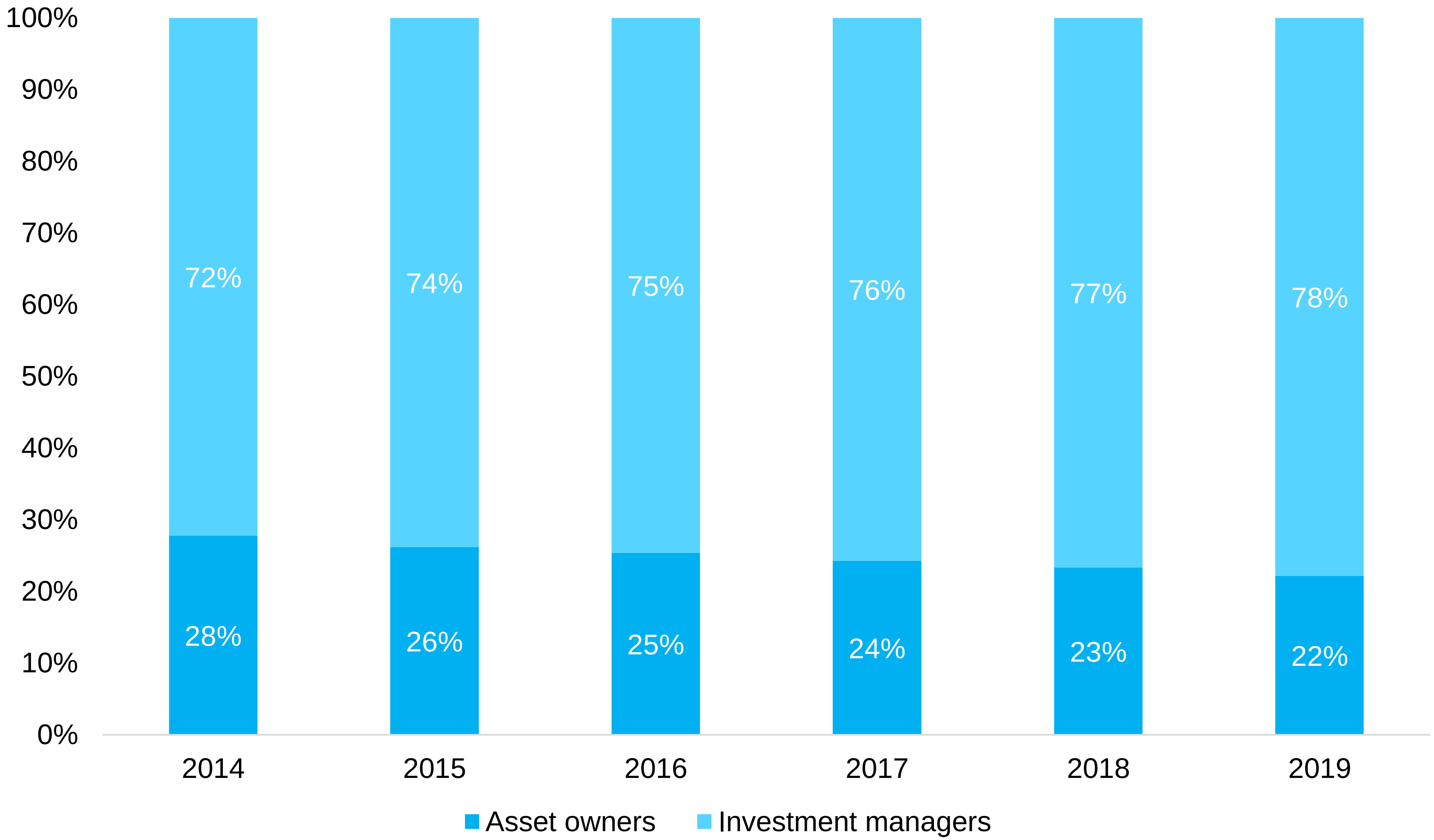
In March 2019, there were 2,372 PRI signatories, including 2,092 investors representing $US86.3 trillion, a 6% growth against 2018. New signatories accounted for $US7.2 trillion.



AUM based on active signatories as of 31/03/2018. Double counting resulting from subsidiaries and externally managed assets by PRI signatories accounts for 12.3% and has been removed from the total AUM.

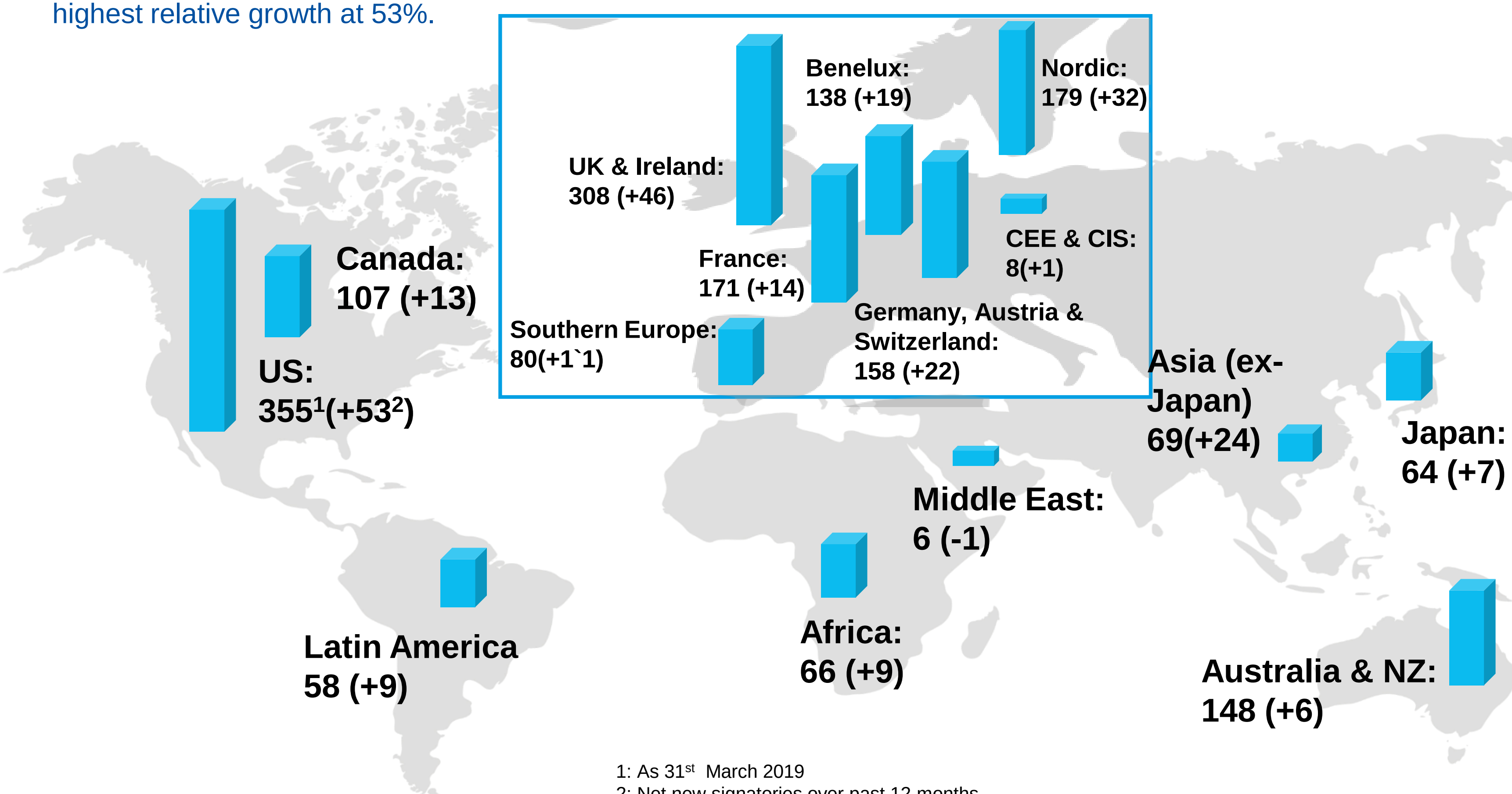
Breakdown of investors reporting since 2014

The asset owner representation among reporters has dropped gradually from 28% in 2014 to 22% in 2019.



More than 1,900 signatories reported in 2019

Reporters grew by 16% against 2018 reaching 1,915, with the largest growth among asset managers at 20%. Reporters included 222 (13%) voluntary reporters - new signatories who are in their grace period and for whom reporting is voluntary. The US had the highest absolute growth in reporters (53) while Asia (excl Japan) had the highest relative growth at 53%.

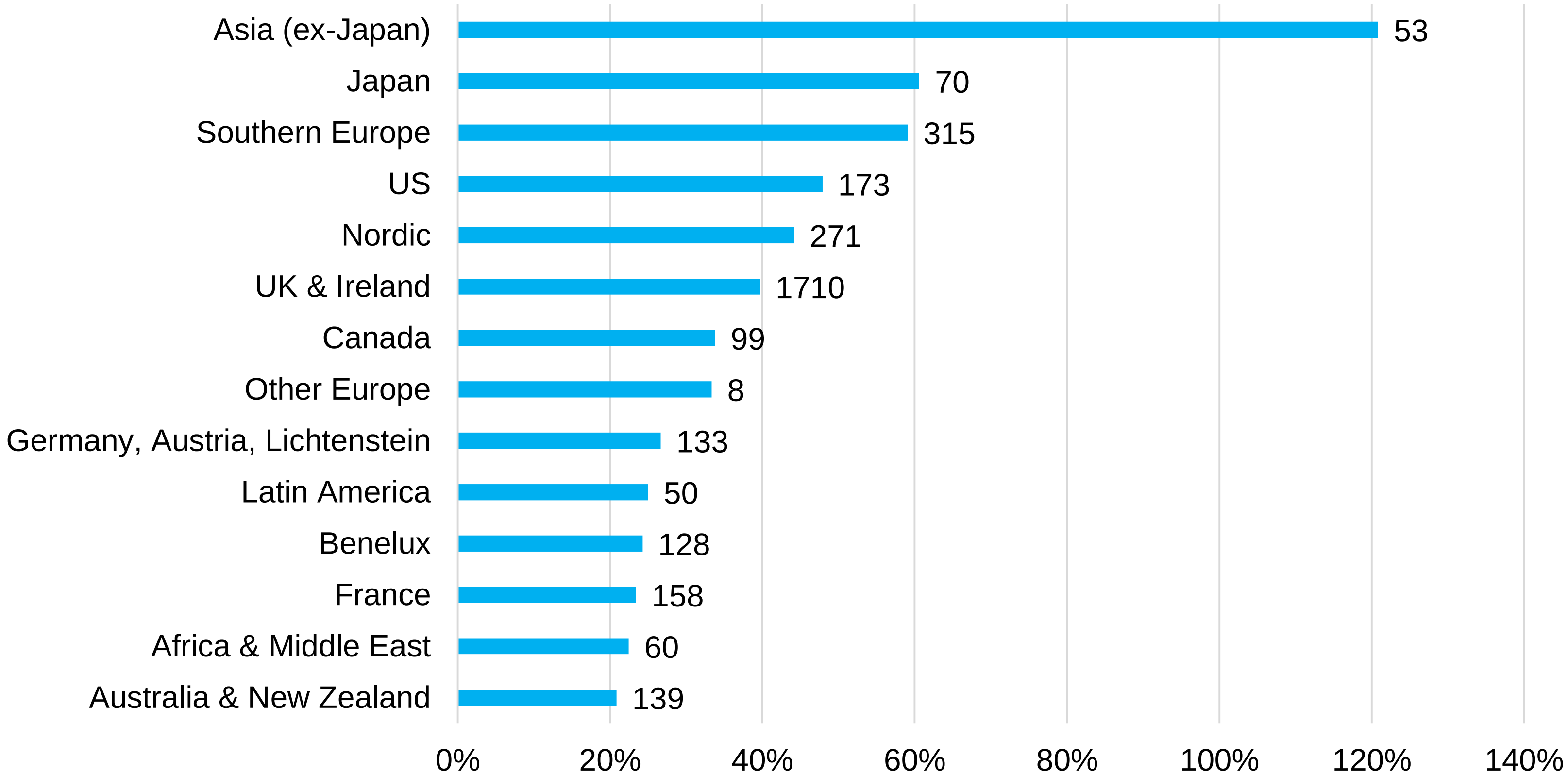


1: As 31st March 2019
2: Net new signatories over past 12 months

Pronounced market growth in Asian and US markets

Strong growth in investors (asset owners and managers) reporting to the PRI from Asia, US and Southern Europe compared to 2017, regions which historically have been slower to adopt responsible investment.

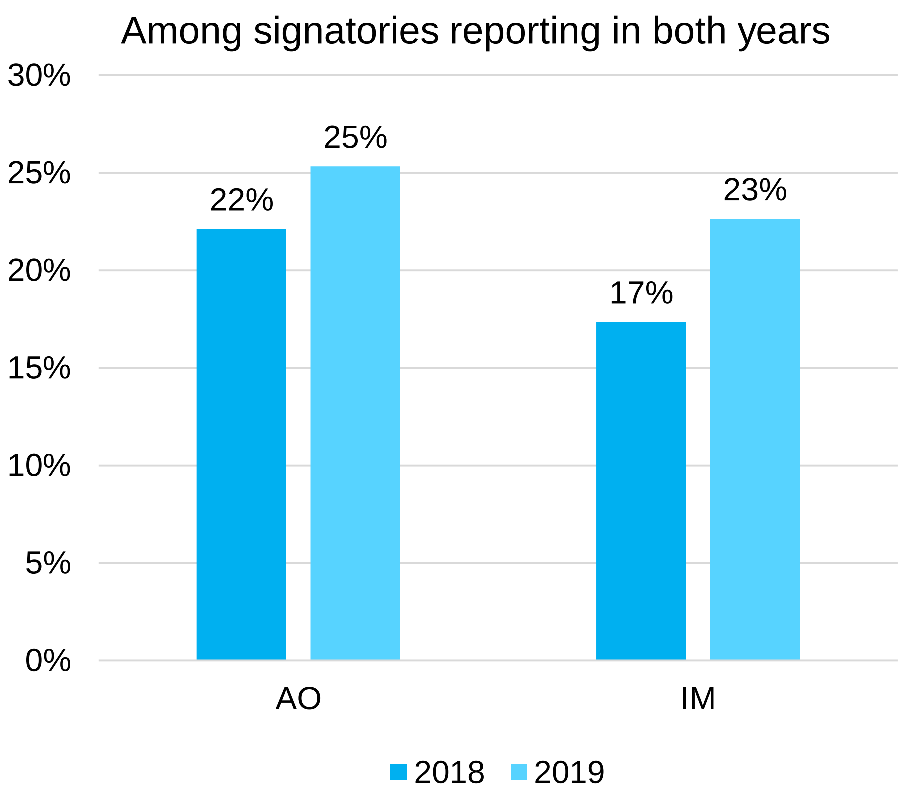
PRI investor growth between 2017-2019 and number of 2019 reporters



Disclosure of voluntary indicators

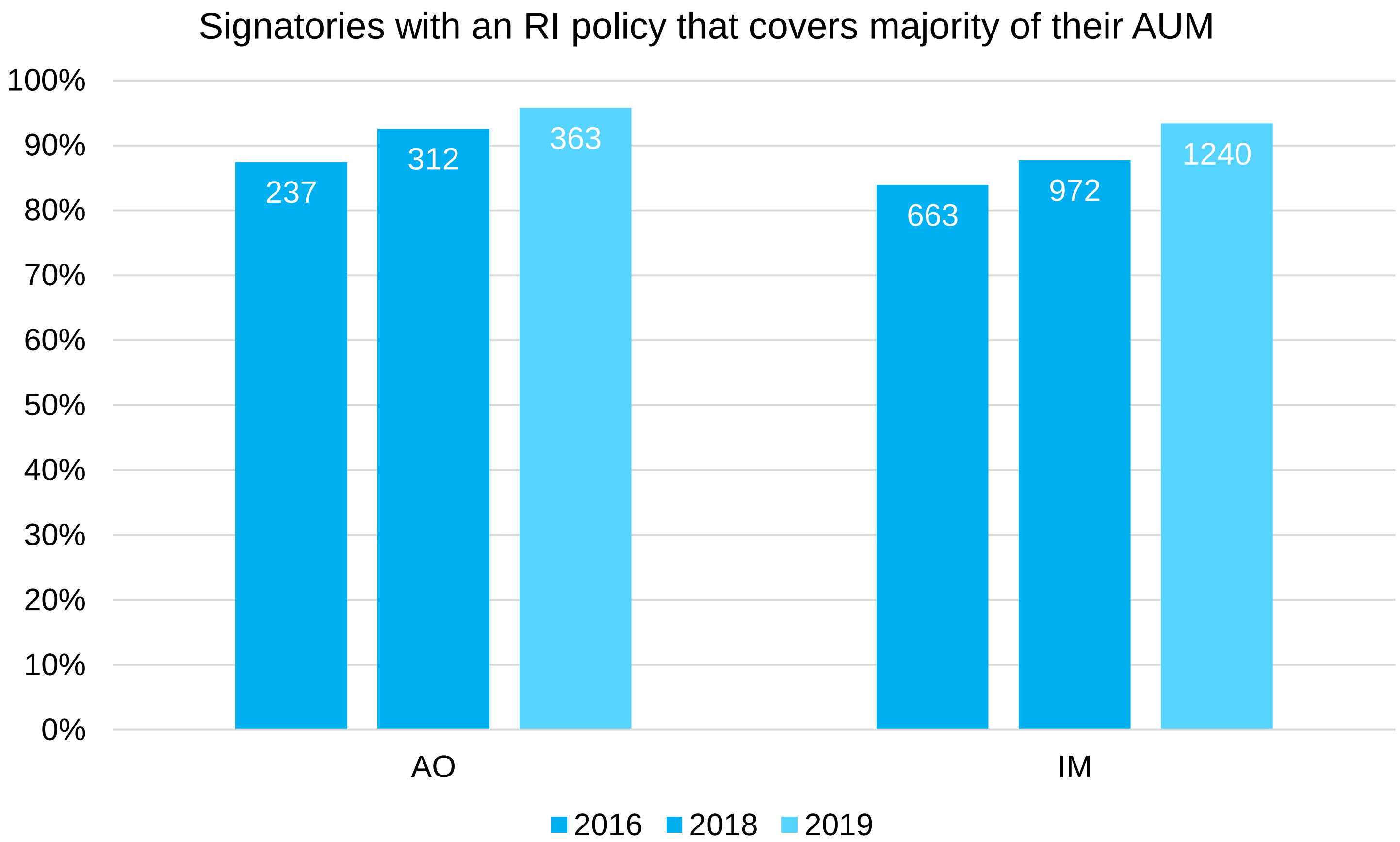
There's been a 20% increase in the proportion of indicators that managers chose to disclosure. The rate is higher among signatories reporting since 2018 (RHS graph).

Average percentage of voluntary indicators disclosed



RI policy is a standard policy among PRI signatories

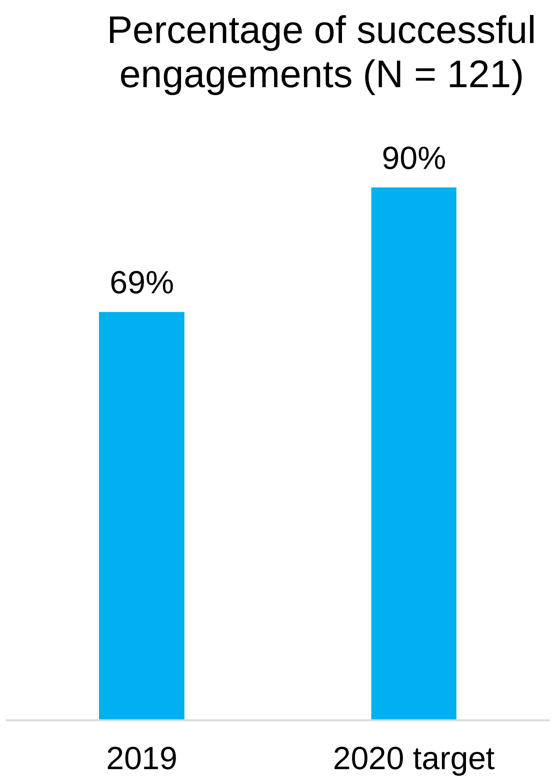
Having an RI policy, mission or strategy that covers the majority of their AUM is standard practice among signatories, something that applies to 96% of asset owners in 2019.



Number of asset owner reporters: 271(2016), 379 (2019); Number of investment manager reporters: 790 (2016), 1328 (2019)

Success rate of PRI engagement on minimum requirements

In 2018, 13% of the 1,449 reporters did not meet the minimum requirement list*. The PRI reached out to 100% of the **152 mandatory reporters** on the list, and held meetings with 121 of them. Eighty-three met the minimum requirements in 2019.



*194 initially, 14 delisted due to M&A, parent signing up, leaving 180 on the list.

As part of PRI's programme to strengthen signatories accountability, PRI introduced in 2018 minimum requirements that signatories would need to meet within two years in order to remain PRI signatories.

During the 2018-2019 year, PRI:

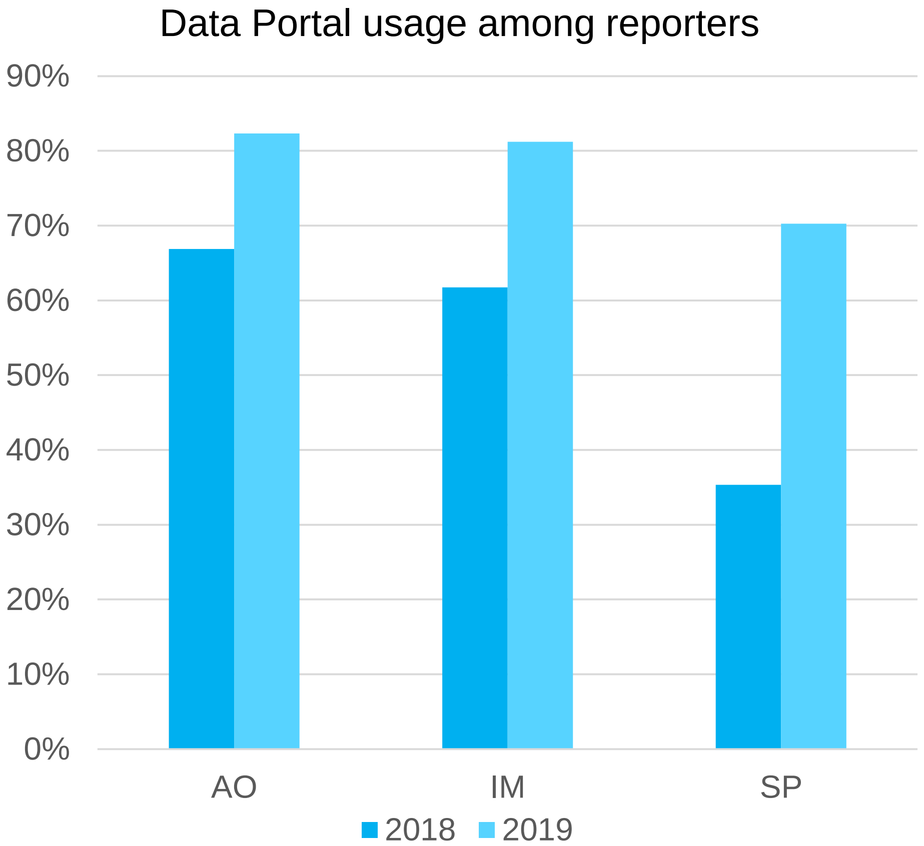
- Offered 1-2-1 meetings to all those affected
- Improved reporting definitions
- Provided support documents
- Published a policy snapshot containing links to all public RI policies of PRI signatories
- Identified peer relevant case studies /examples

The requirements:

- Investment policy that covers the firm's responsible investment approach, covering >50% of AUM
- Internal/external staff responsible for implementing RI policy
- Senior-level commitment and accountability mechanisms for RI implementation

Signatories value their PRI reports

Eighty-two percent of asset owner signatories who reported in 2019 used the PRI Data Portal by the end of March 2019. While service providers do not have assessment reports, 70% have used the Portal, suggesting a strong interest in seeing investors' reports.



Number of reporters: 1449 (2018), 1710 (2019)

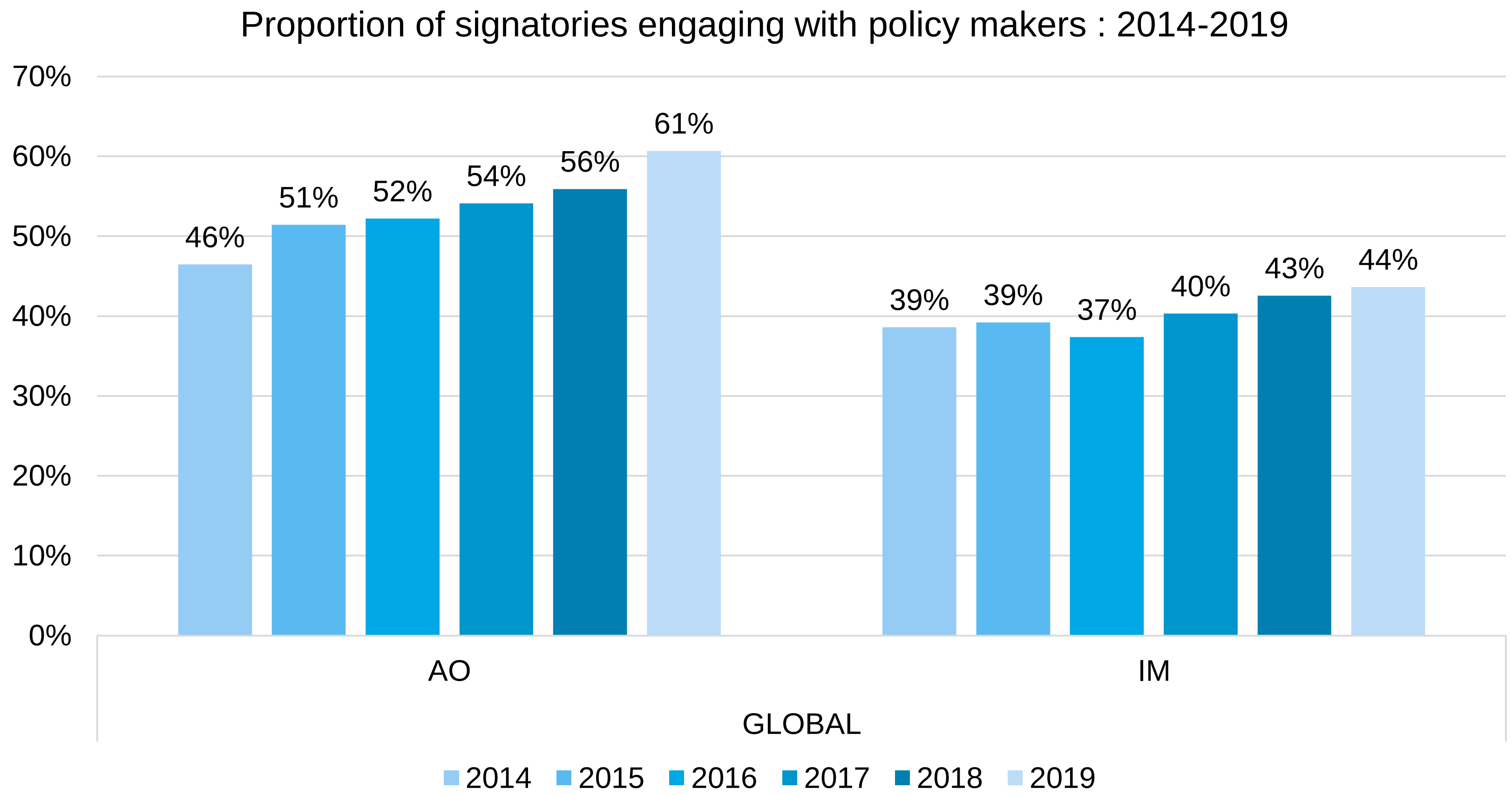
What is the data platform?

A web-based platform where signatories can :

- View other signatories' Transparency reports
- Request access to their assessment and private RI reports.
- Extract data from largest investors' database of RI practices
- Tool to find investors based on RI practices

Asset owners are engaging more with regulators and policy makers

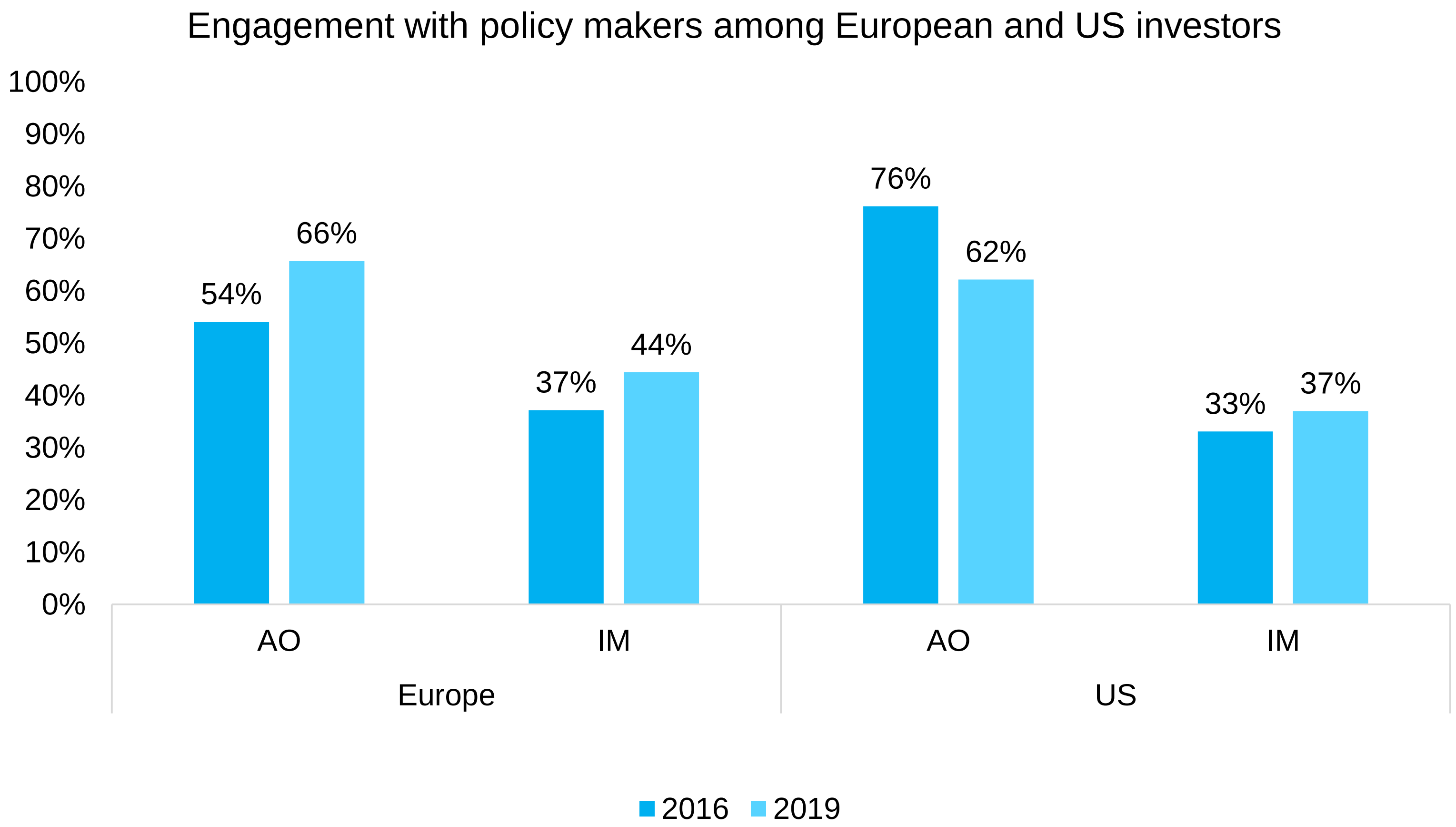
The PRI supports the view that investors can and should engage not just with the companies they invest in, but also with national and internal policy makers on ESG issues. The percentage of signatories engaging with policy makers has continued to rise, despite signatory numbers doubling since 2014.



Number of total reporters per year: 814(2014), 936 (2015), 1073 (2016), 1248 (2017), 1449 (2018), 1710 (2019)

However US investors engage with regulators less than before

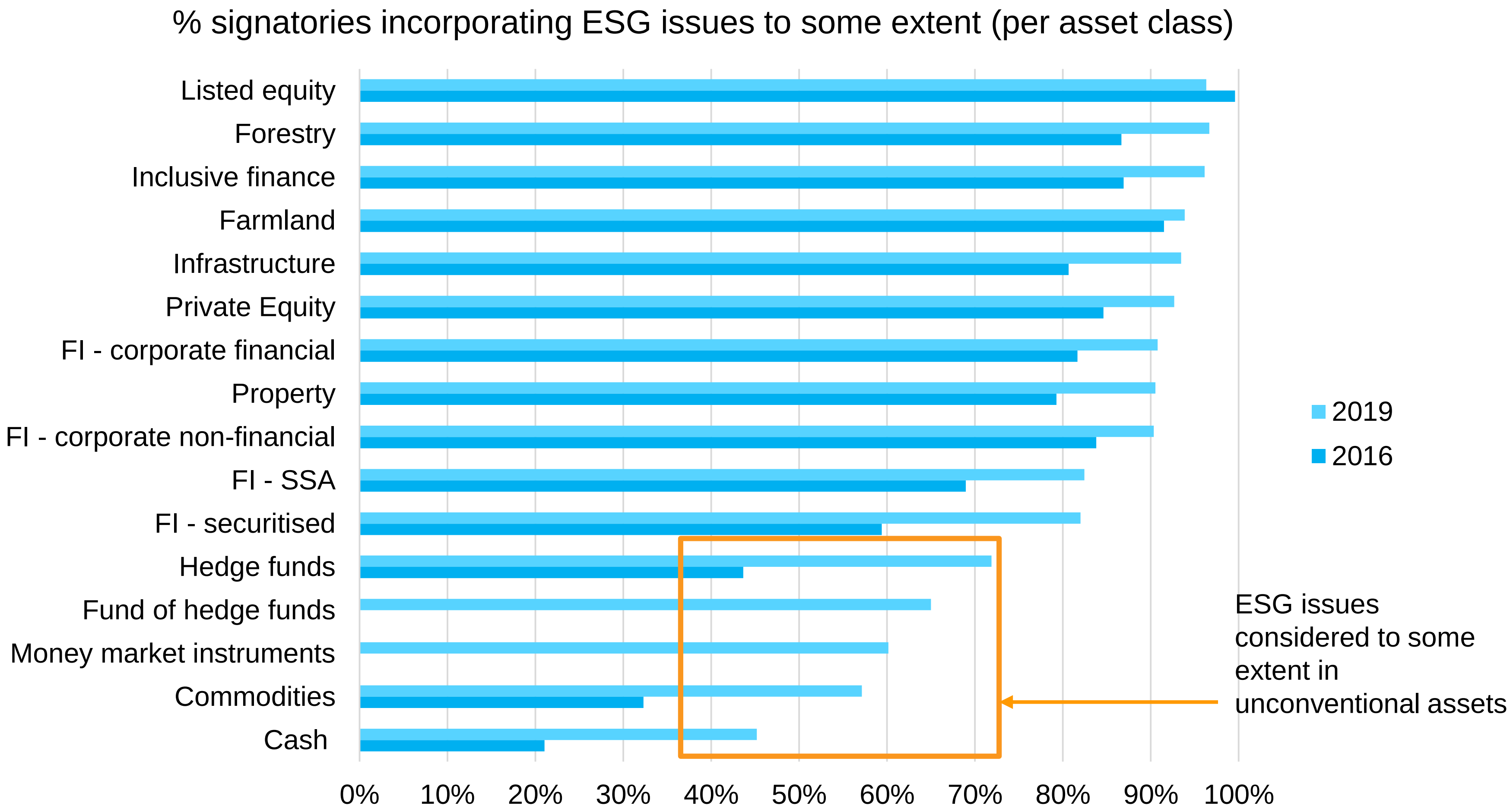
While US asset owners used to engage with regulators more than their European peers in 2016, this is not the case anymore in 2019. While both regions saw an increase in PRI signatories, in Europe there is a significant increase in policy engagement from 54% to 66% while there's a drop among US investors from 76% to 62%.



ESG incorporation

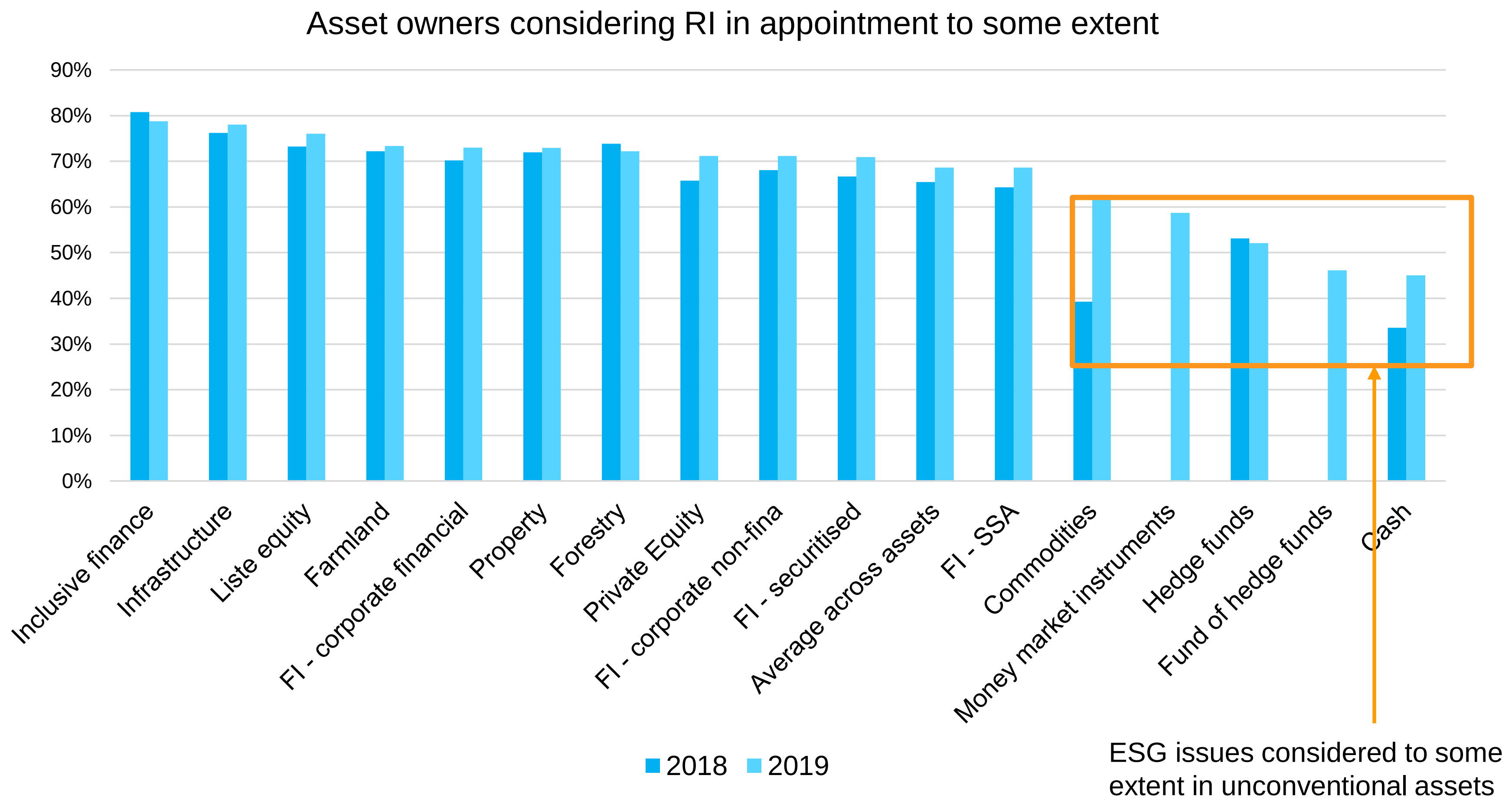
ESG incorporation across all assets

Other than listed equity, ESG incorporation is most popular among forestry, inclusive finance and farmland assets. The proportion of signatories incorporating ESG to some extent has significantly increased across all assets.



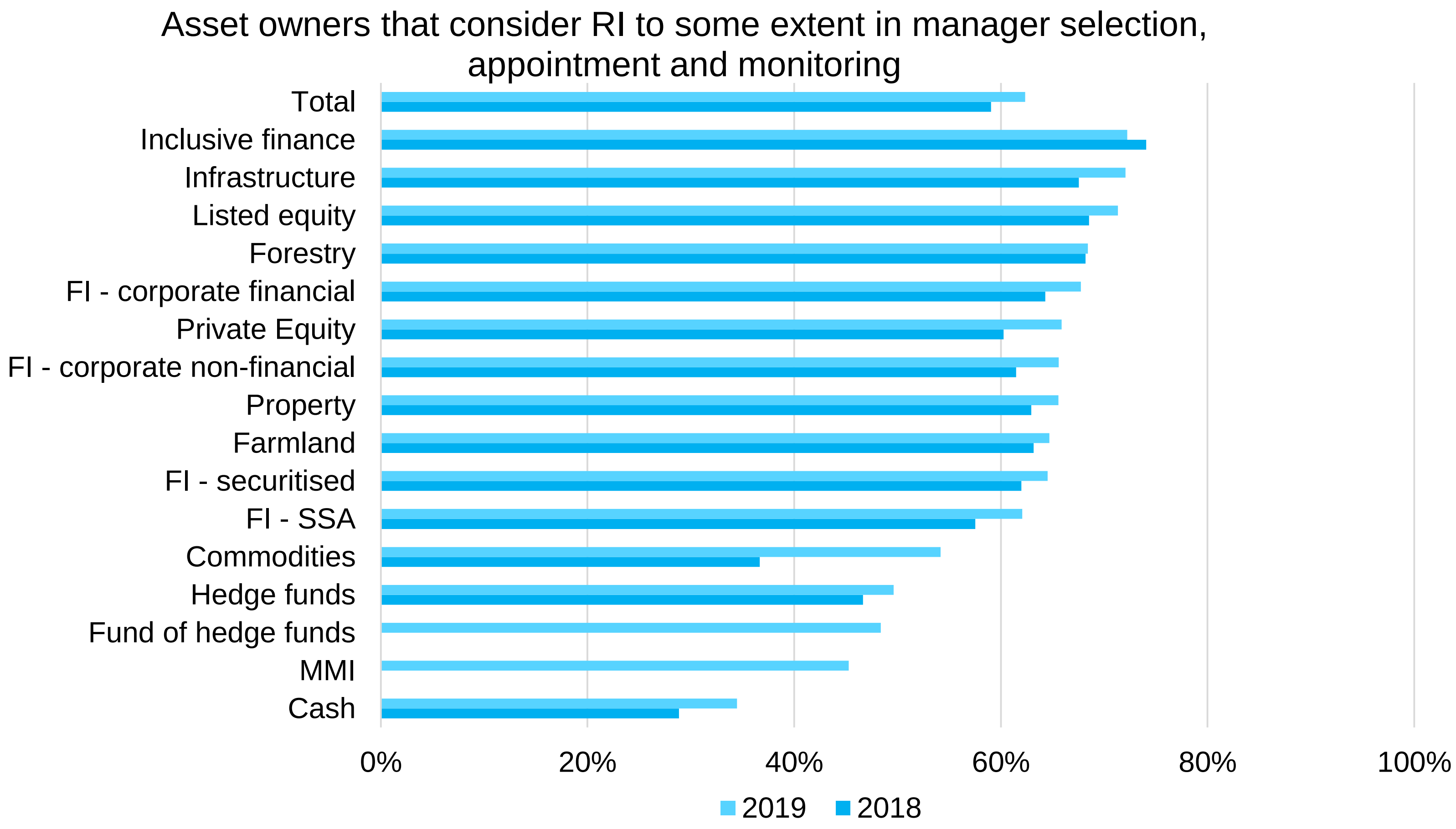
ESG requirements in manager appointment

On average 69% of asset owners consider RI in appointment across all assets. RI consideration is evolving in assets like cash, which are not typically considered subject to RI.



ESG requirements in manager selection, appointment and monitoring

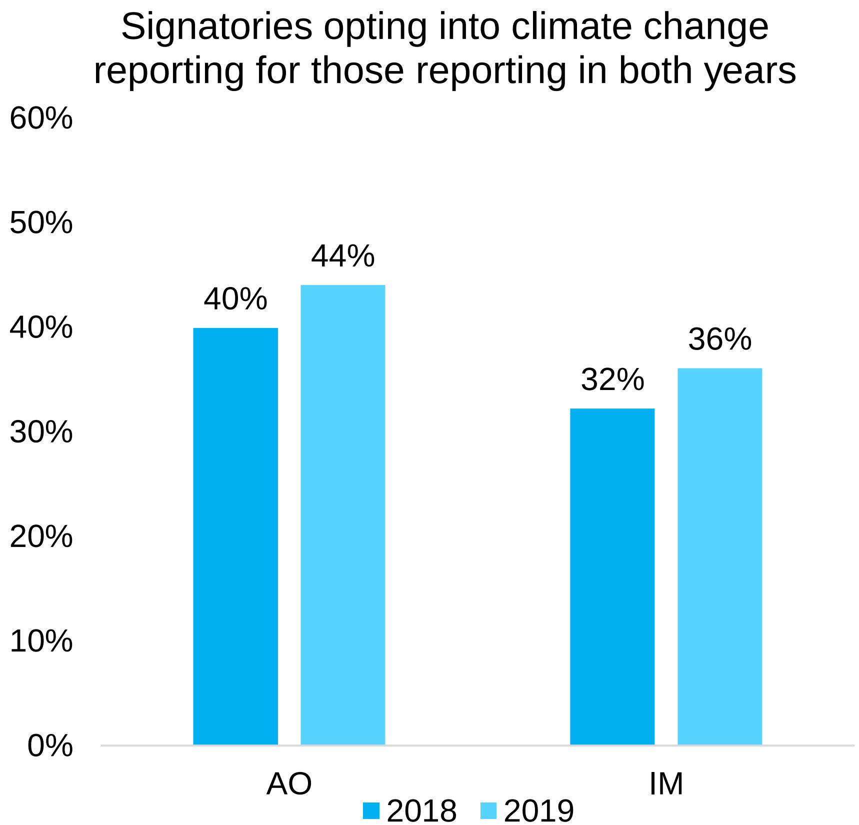
On average 62% of asset owners consider RI in all stages of manager selection, appointment ad monitoring. SSA bonds is where this fairs the least among fixed income assets. Assets not traditionally subject to RI, such as hedge funds and cash start to emerge.



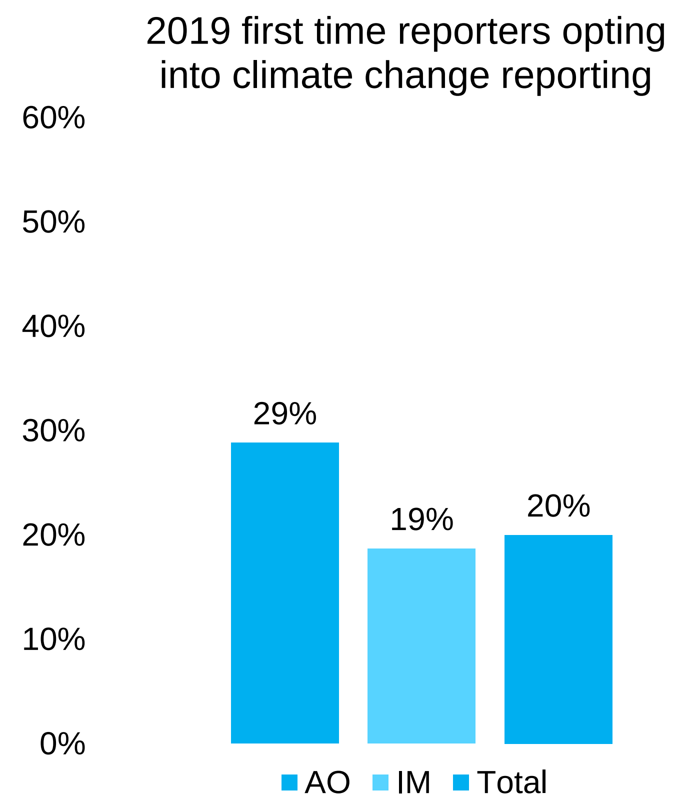
TCFD reporting, climate action and SDGs

Uptake in TCFD reporting

591 investors opted in TCFD reporting in 2019. Among investors reporting since 2018 (left graph) the number of asset owners and managers opting in increased by 10% and 12% respectively, adding to 524 in 2019. A higher growth is expected in 2020 following recent regulatory requirements on ESG disclosure. Another positive sign is the ratio of first time reporters (20%) who opted into the climate change reporting, specifically asset owners (29%).



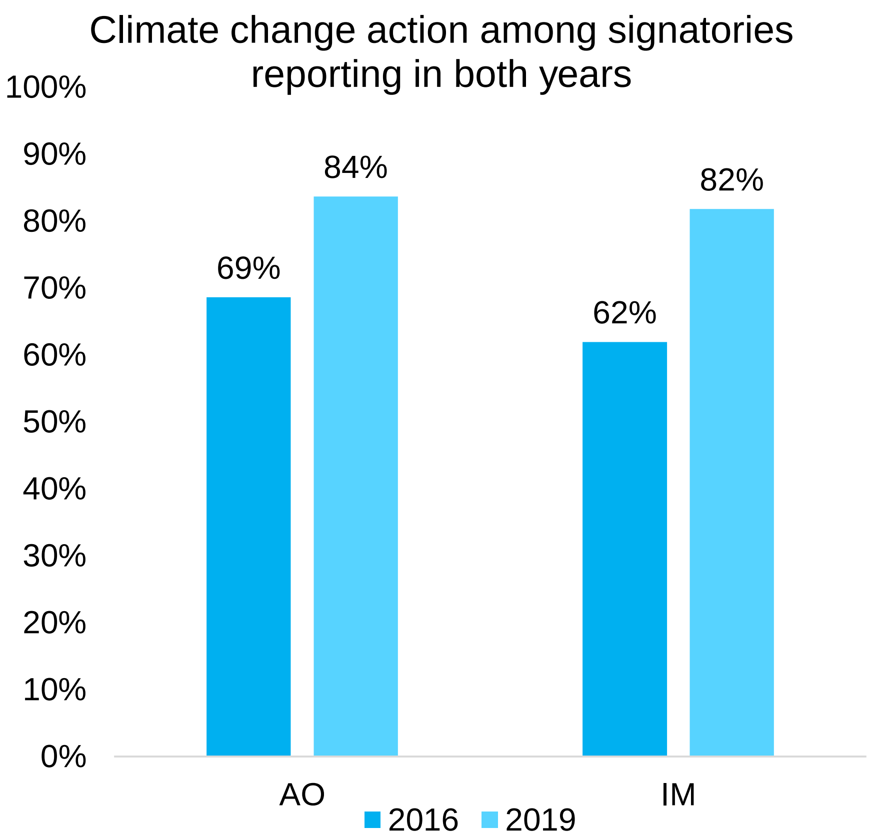
N = number of reporters: 327 (AO), 1053 (IM)



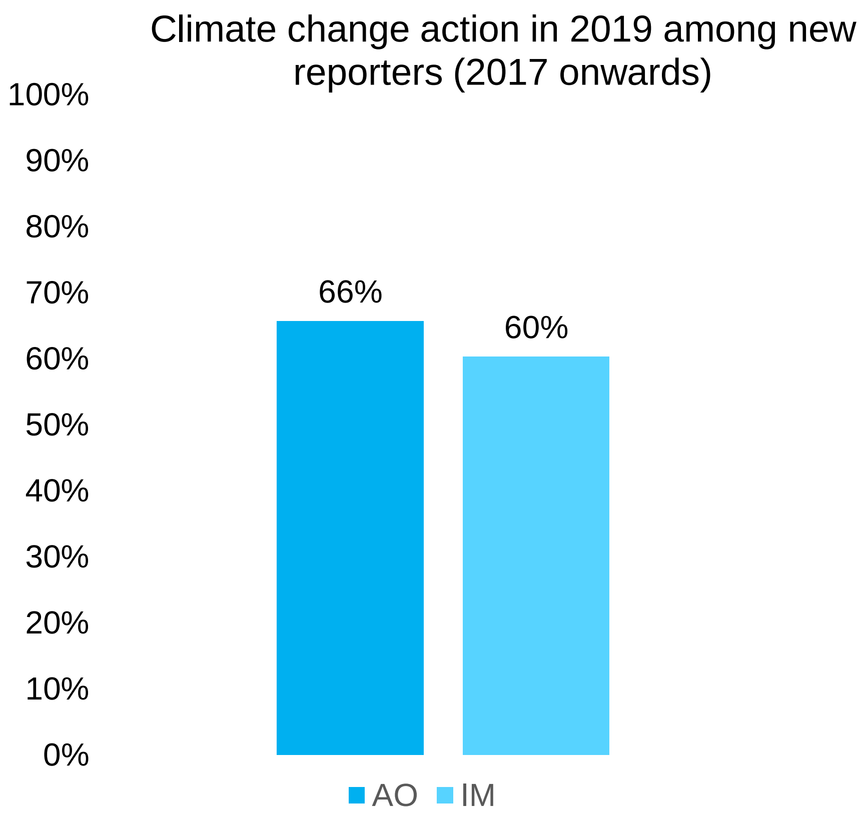
N = number of reporters: 52(AO), 278(IM)

Climate change action prevent also among new signatories

Among those reporting since 2016, there's been a 15% growth in asset owners and 20% in managers who address climate issues in their investments in 2019. The majority of signatories who started reporting in 2017 onwards are also considering climate change in their investments, albeit less so than older signatories.



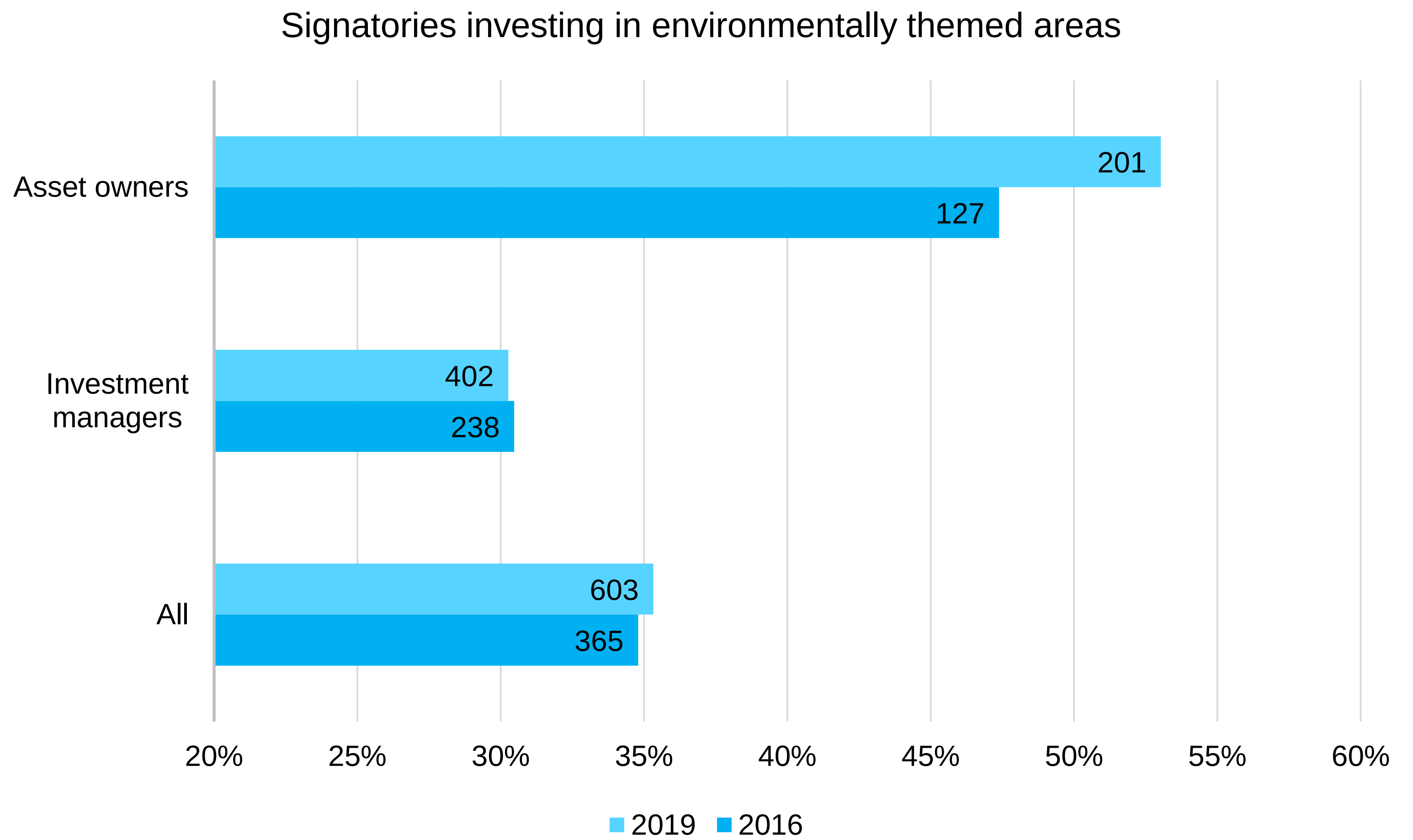
N = number of reporters who reported in both years: 239(AO), 665(IM)



N = number of reporters who started reporting to the PRI in 2017 or after AO (140), IM (663)

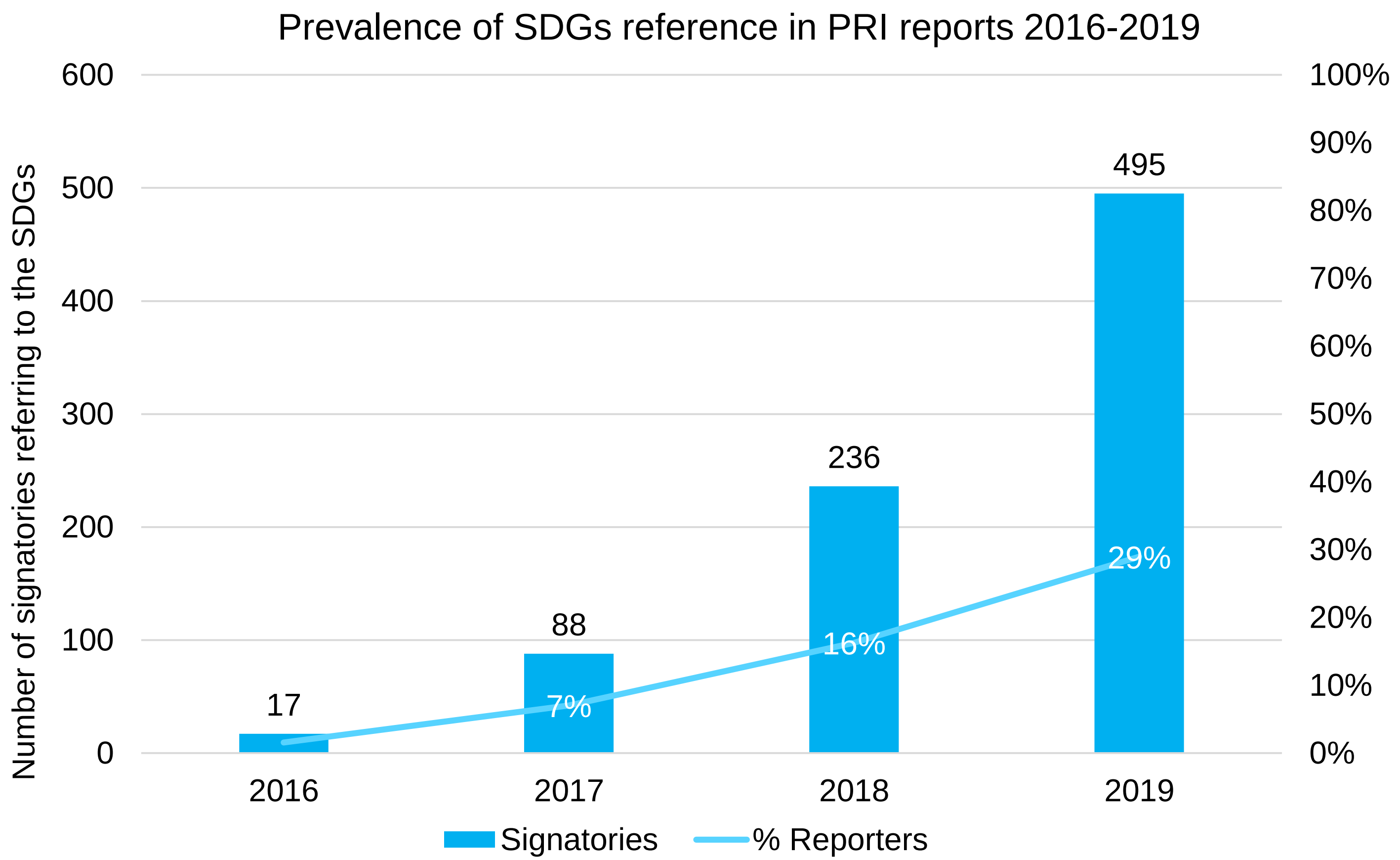
Managers lag behind in environmentally themed investments

35% of investors allocate assets to, or manage funds based on specific environmental themed areas. While there is no change among managers, an uptake is noticeable among asset owners.



Nearly a third of investors refer to the SDGs in their reports

While the PRI Reporting Framework does not ask specific questions around the SDGs, 495 signatories refer to them as part of their RI policies, company objectives and investment strategies.

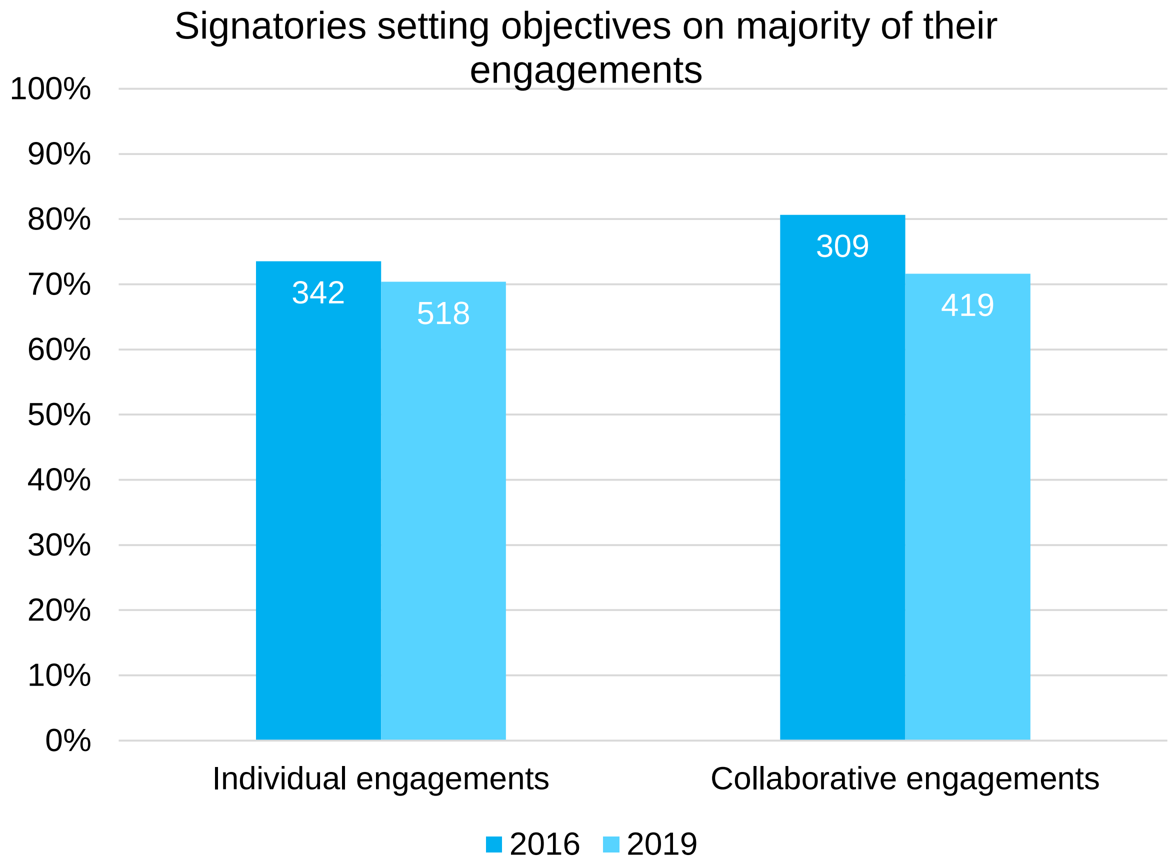


Number of reporters per year: 1073 (2016), 1248 (2017), 1449 (2018), 1710 (2019)

Stewardship

Effective engagement starts by setting objectives

71% of signatories have implemented organisational measures to effectively implement their active ownership policy by setting objectives on majority of their engagements.



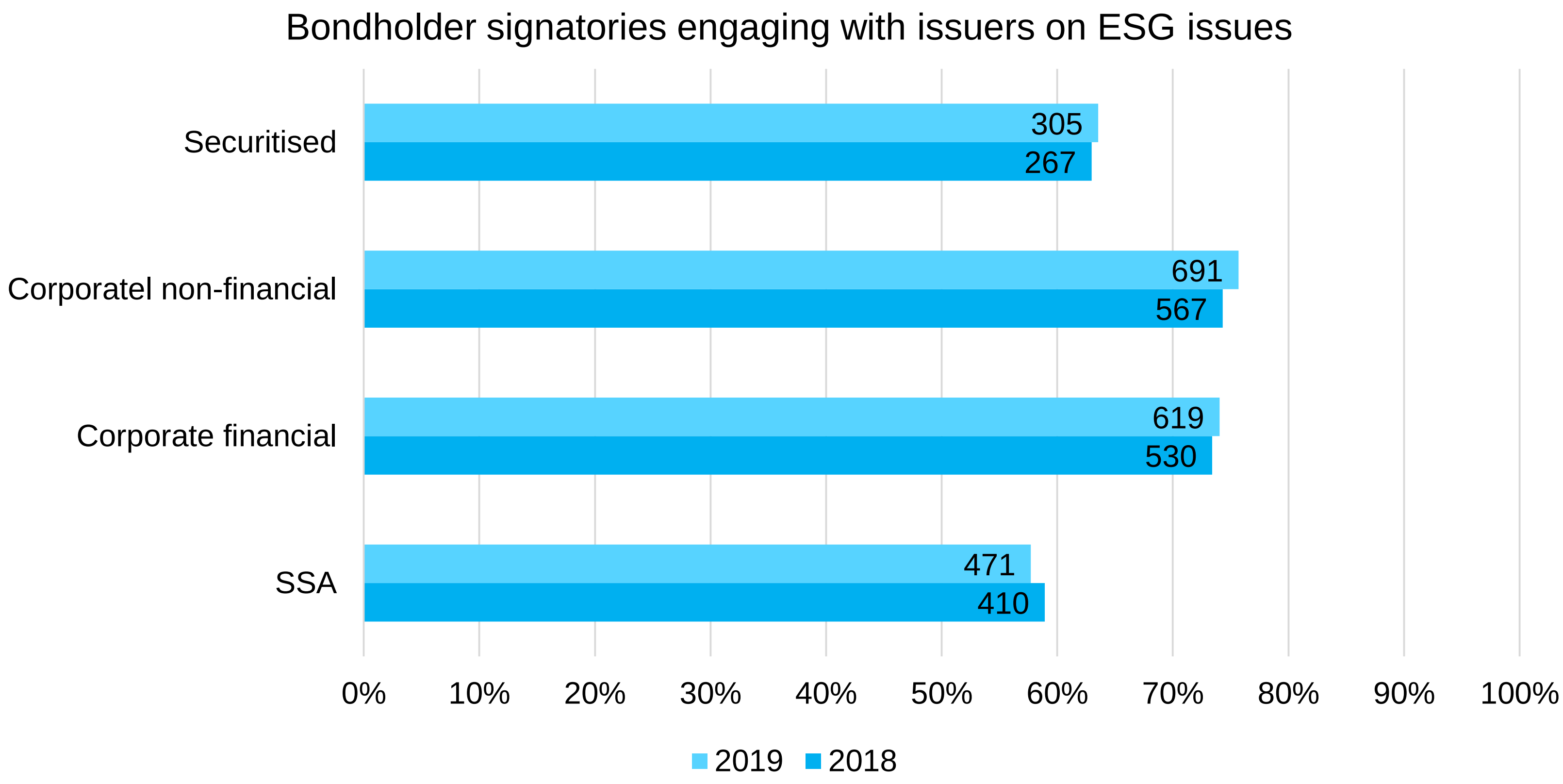
Collaborative engagements can include many different types of engagements, such us but by no means restricted to those convened through the PRI Collaborative Platform.

In its updated guidance on active ownership, PRI states that setting objectives is a requirement for engaging effectively.

N = number of signatories reporting on their engagement practices (2016 / 2019): individual (465 / 736), collaborative (383 / 585) for listed assets

Majority of bondholders engage with some of their issuers

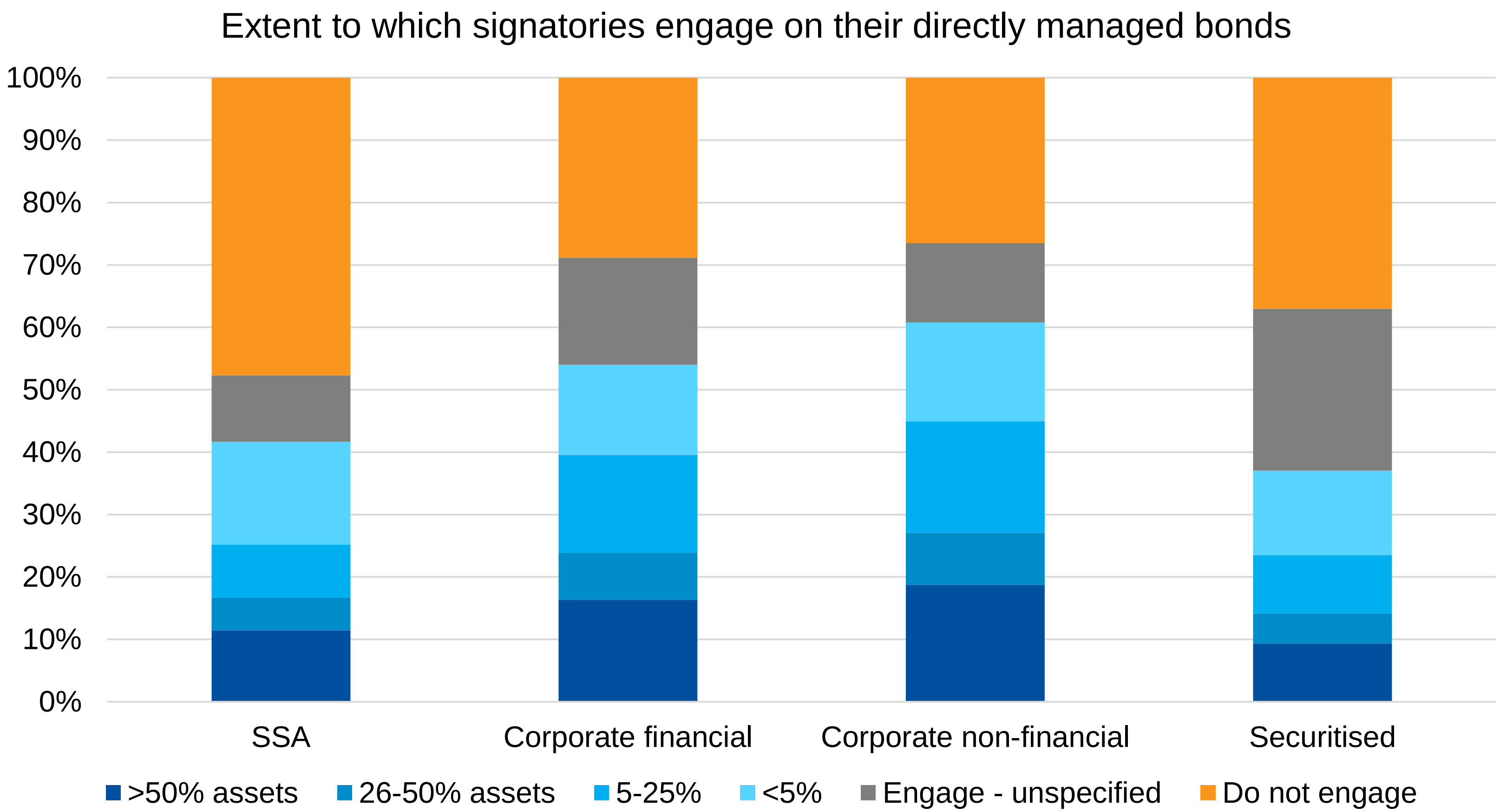
The proportion of signatories engaging with issuers remains similar to 2018 levels across all bond types with higher engagement in corporate bonds and least in SSA bonds.



N = number of signatories engaging on ESG issues with issuers either through internal staff, service providers or via external managers out of signatories holding fixed income assets internally or/and externally

Bondholders engaging with issuers - directly managed assets

While the majority of signatories report they engage with issuers, less than 20% engage on the majority of their assets, with just 11% engaging on the majority of their SSA assets.



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