

## PRI BOARD MEETING REPORT

The PRI Board had a meeting on 4 & 5 September 2016, in advance of PRI in Person, Singapore.

### ATTENDANCE

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

<p><b>Board members present:</b></p> <p>Sandra Carlisle (Newton)*            Angele Emslie (HESTA)            Priya Mathur (CalPERS)            Colin Melvin (Hermes EOS)            Niels Erik Petersen (Unipension FAIF A/S)            Gavin Power (UNGC)            Martin Skancke (Chair)            Eric Usher (UNEP FI)            Xander den Uyl (ABP)            Peter Webster (Vigeo EIRIS)</p> <p><b>Apologies:</b></p> <p>Geeta Aiyer (Boston Common Asset Management)            Mark Chaloner (West Midlands Pension Fund)            Marcel Barros (PREVI)            Renosi Mokate (GEPF)</p> <p>*Sandra Carlisle attended the 5 September meeting only.</p>	<p><b>PRI Executive in attendance:</b></p> <p>Mark Blair            Kris Douma            Nathan Fabian            Fiona Reynolds            Lorenzo Saa            Christopher Sperling</p>
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### CHAIR'S WELCOME

The Chair welcomed everyone to the meeting. The focus of the meeting is to provide input and feedback to the Executive on the recommendations from the consultations and Responsible Investment Blueprint, plus agree on the key messages for the Signatory General Meeting.

### CORRESPONDENCE

The Committee for Workers Capital (CWC) had written to the Board in response to the PRI's *Sustainable Financial System, Principles, Impact* consultation to raise the importance of social issues and strengthen the robustness of the PRI's work on these issues. The Board welcomed the response, recognising that although recent attention had naturally been on climate / COP21 issues, the PRI is committed to work on social issues. For example, investor relevant work on the Sustainable Development Goals, income inequality and other social focused investor engagements.

The Board agreed to four actions following the discussions:

1. use the CWC correspondence as input for the PRI's forthcoming Responsible Investment Blueprint, scheduled for launch in April 2017;
2. contact CWC to discuss a potential collaborative project with Australian Council Trade Unions and the International Trade Union Confederation on a 'Social' themed issue;
3. explore a possible joint meeting between the CWC Board and PRI Board at the *PRI in Person* in September 2017 in Berlin; and
4. ensure that there is an appropriate balance of Social issues for discussion at *PRI in Person* 2017.

## MANAGEMENT REPORT

Fiona Reynolds, Managing Director, presented the management report. The report included updates on: organisational measures, recent and forthcoming publications, all work streams, human resources, new and delisted signatories, signatory fees, partnerships and fundraising and a financial report at 31 July 2016.

The Board was encouraged by the recent and forthcoming publications (Fiduciary Duty in the 21<sup>st</sup> Century<sup>1</sup>, Engaging on Anti-Bribery and Corruption Guide<sup>2</sup>, the Guide to ESG Integration for Equity Investing<sup>3</sup>, Investors' Obligations and Duties in Asia<sup>4</sup>, Greening Institutional Investment<sup>5</sup> and the Montreal Carbon Pledge Progress Report<sup>6</sup>).

The main discussion points were:

- PRI's work on corporate pension funds. The Global Networks and Outreach (GNO) team will report back on the corporate pension fund work programme for current and potential signatories at the December 2016 Board meeting.
- The Credit Ratings Agency project aims, progress, dissemination of the outcomes and communication.
- MiFID II and the potential implications for RI / ESG integration and the PRI. The Board has asked for an external presentation at the March 2017 meeting.
- Asset owner recruitment. The Board is keeping close track of the recruitment progress and the GNO team will report back at the December 2016 Board meeting.

## RECOMMENDATIONS FROM THE CONSULTATIONS

The focus of the Board meeting was the recommendations from the consultations and the communications to signatories. The Board agreed with the main recommendations:

- Strengthen signatory accountability: delist signatories that do not implement the Principles *and* makes no progress over time; and signatories that egregiously violate the spirit of the Principles.
- Strong support for work to address systemic issues, but not to introduce a 7<sup>th</sup> Principle.
- Showcase leadership but not tier signatories.

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<sup>1</sup> [Fiduciary Duty in the 21<sup>st</sup> Century](#)

<sup>2</sup> [Engaging on anti-bribery and corruption](#)

<sup>3</sup> [A Guide to ESG Integration for Equity Investing](#)

<sup>4</sup> [Investor Obligations and Duties in Six Asian Markets](#)

<sup>5</sup> [Greening Institutional Investment](#)

<sup>6</sup> [Montreal Carbon Pledge – accelerating investor climate disclosure](#)

- New provisional member category, to be introduced in 2017.
- Prioritisation of Sustainable Development Goals relevant to investors and aligned with the PRI's work programme.
- Revise the reporting framework to capture impact and outcomes for all signatories, and introduce service provider reporting.
- The prioritised Environmental, Social and Governance issues (listed on slide 14 of the SGM presentation)<sup>7</sup>.
- Measures of PRI success: targeted asset owner growth; signatory growth in new and emerging markets; depth and breadth of implementation by signatories across asset classes.

Board discussion focused on the details of the recommendations, especially the mechanics and process for delisting signatories that do not adhere to a set of minimum standards and signatories that egregiously violate the spirit of the Principles. While the Board accepted the findings of the consultation to not introduce a 7<sup>th</sup> Principle, it was keen to encourage signatory action on systemic issues through a dedicated work stream. There was broad agreement on not tiering signatories but rather recognising leadership and showcasing best practices / innovation across a variety of asset classes and different types and sizes of signatories. The recommendation is not for a static leaders board that rewards signatories with the most resources.

The Board agreed to the recommendations to be included in the Signatory General Meeting presentation.<sup>8</sup>

## RESPONSIBLE INVESTMENT BLUEPRINT

The Board discussed possible RI / ESG issues for the Blueprint as well as the objectives, structure and tone. The majority of the December 2016 Board meeting will be allocated to discussion of the draft RI Blueprint.

## CLIMATE CHANGE WORK UPDATE

Sagarika Chatterjee, Associate Director of Policy, joined the meeting for the agenda item to provide an update on the FSB taskforce on climate-related financial disclosures. The Board discussed the PRI's role in driving signatory demand for climate-related financial disclosures, the next logical step from the Montreal pledge and the potential for convergence of climate-related disclosure frameworks.

The Board will discuss the outcomes of the FSB taskforce at the December 2016 meeting.

## G20

The G20, currently chaired by China, established the Green Finance Study Group in 2016 to: *"identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilize private capital for green investment."*

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<sup>7</sup> Signatory General Meeting [presentation](#).

<sup>8</sup> For more detail on the recommendations see the Signatory General Meeting [minutes](#) and [presentation](#).

The PRI became a knowledge partner to the G20 and in June 2016 representatives of the Peoples' Bank of China, which co-chairs the Green Finance Study Group (with the Bank of England), invited a funding proposal from PRI to enable any ensuing G20 endorsement.

The Board discussed PRI opportunities, following the G20 endorsement. The PRI plans to explore discrete short-term projects as well as the longer term prospects of establishing a PRI signatory network in China. The Board stressed that any grant proposals must be aligned with the current strategy and create signatory value.

The Board approved the proposed approach towards possible G20 project related funding and agreed to a statement welcoming the G20 report. A grants policy document will be for Board discussion and approval at the December 2016 meeting.

## **SERVICE PROVIDER REPORTING**

Mandy Kirby, Associate Director of Reporting and Assessment joined the meeting for the agenda item to present the proposed outline of the service provider reporting. The PRI committed to introducing service provider reporting in the 2015-2018 Strategy. The main drivers are transparency and accountability for service providers' commitment to the Principles.

Board members questioned the frequency of the reporting requirements for service providers, how the Executive can encourage input from asset owners and investment managers during the design of the framework to ensure that the outputs are utilised, and the motivation of the reporting – setting minimum standards and / or transparency that enables a market driven assessment. The Board agreed to the proposed framework and the Executive will report back in September 2017 on progress and the possibility of service provider assessment.

The Board also raised the important role of investment consultants, especially in the US market, as a facilitator or barrier to responsible investment. The Executive will present an investment consultants' strategy paper for discussion at the March 2017 meeting.

## **COMMITTEE REPORTS**

The chairs of the committees briefed the Board on the work of the committees since the June meeting.

- Ethics committee – Niels Erik Petersen
- Finance, Audit and Risk – Colin Melvin
- HR and Remuneration – Xander den Uyl (in the absence of Renosi Mokate)
- Signatory and Stakeholder Engagement – Priya Mathur
- Skills, Diversity and Elections – Angela Emslie

During the Finance, Audit and Risk committee update the Board considered the procedures for data disaster recovery, the cybersecurity audit and the potential implications of 'Brexit', including PRI's HQ, human resources and short-term currency fluctuations.

## **PROPOSED CHANGES TO THE ARTICLES, RULES, POLICIES AND TERMS**

Following a review of the PRI Articles, Rules, Policies and Terms of Reference the Board is recommending three changes to the Articles, for signatory approval. Proposed changes to:

1. Mid-term election rules;
2. Attendance requirement for Directors; and
3. Termination of office of the Chair role.

All signatories will be asked to approve the revisions to the Articles at the same time as the 2016 PRI Board election vote.

The Board discussed adding provisions that would allow discretion to decide director term lengths. For example, if the Board wanted to stagger elections. The Skills, Diversity and Elections committee will make a recommendation to the Board at the December 2016 meeting.

## PRI BOARD ELECTIONS

Peter Webster, candidate in the 2016 elections, left the room for the agenda item.

Two candidates for the two open asset owner seats:

- Eva Halvarsson, Chief Executive Officer, Second Swedish National Pension Fund (AP2) – [candidate information](#)
- Hiromichi Mizuno, Executive Managing Director and Chief Investment Officer, Government Pension Investment Fund (Japan) – [candidate information](#)

Two candidates for the one open service provider seat:

- James Pearson, CEO and Founder, Pacific Risk Advisors Ltd (PRA) – [candidate information](#)
- Peter Webster, Director of International Affairs, VigeoEIRIS – [candidate information](#)

Mark Chaloner, West Midlands Pension Fund, is stepping down from the PRI Board in December 2016 two years into his three-year term. As a result, the PRI Board agreed, to add a further open asset owner position to the election process, in addition to the one open position originally announced. Where there are two candidates for the two open positions, those candidates are not automatically deemed to be appointed as Directors. The appointment of the candidates as a Director, requires the approval of a simple majority of asset owners voting for each candidate via an electronic poll.

The Board formally approved the proposed 2016 election process, including the: four recommended candidates; and the open positions, one service provider position and two asset owner positions. Voting will commence on 26 September.<sup>9</sup>

## BOARD SELF-ASSESSMENT

The Articles prescribe that the Board undertake annual reviews. The Board had agreed that the 2015 self-assessment was too detailed, leading to fragmented results that was not conducive to Board discussion and did not focus the Board's efforts.

The revised self-assessment focuses on the agreed Board goals and the Board Directors' terms of reference. The Board agreed to the proposed self-assessment, to be conducted in September.

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<sup>9</sup> For more information, see the PRI website [elections page](#).

The results will be discussed at the December 2016 Board meeting and communicated to signatories in 2017 as part of the Signatory General Meeting report.

## CHAIR SUCCESSION PLANNING

The Chair role is a critical governance and PRI ambassadorial role. Chair succession planning is good practice and could be required for a number of circumstances, including short-term contingency and transition plans. The Board reviewed a draft chair succession planning policy that covered three broad scenarios:

1. managing the work of the Board if the Chair is unable to chair a meeting at short notice, or resigns mid-term;
2. re-appointment of an existing Chair;
3. recruitment of a new Chair.

The Board agreed to the proposed policy. The Board asked the Executive to draft a Succession planning policy document that includes succession plans for the Chair and Managing Director.

## SIGNATORY CATEGORISATION GUIDELINES

The Board provisionally approved the guidelines at the June meeting. Before publishing the guidelines, the Board asked the signatory and stakeholder engagement committee to review two cases:

1. **How to address captive asset owner – investment manager relationships.** The Committee recommended to not make a special case for this group of signatories due to the limited number of cases, the difficulty of prescribing strict definitions and the cost/benefit analysis of implementation.
2. **How to treat third party management companies.** The Committee reviewed the signatory status of third party management companies which offer risk management and fund governance services to investors to address regulatory compliance in certain markets (for example for UCITS in Luxembourg). The Committee recommended that they are classified as service providers.

The Board agreed to the revised signatory categorisation guidelines.

## MID-YEAR FINANCIAL REVIEW AND 2017/18 BUDGET GUIDELINES

The Executive presented three possible budget scenarios, with each scenario testing risk variables, including signatory recruitment, exchange rate fluctuations and shifts in asset under management.

The Board approved the recommended budget guidelines for 2017/18:

1. Fees increase on April 1 2017 by 3%.
2. Maintain emerging markets discounts at the current rate.
3. Allow, but do not budget, a £100,000 expenditure contingency at the Managing Director's discretion.
4. Budget for a small surplus.
5. Formal Board review of progress of the 2017/18 business plan and budget in July / August 2017.

## PRI ASSOCIATION AND PRI ENTERPRISES

Mark Blair, Director of Finance and Operations, presented the agenda item. PRI Enterprises, acquired the PRI Academy, is a for-profit company and a wholly owned subsidiary of PRI Association. Since acquisition, funding takes place by the PRI Association providing funds through the inter-company account to PRI Enterprises. This will not be able to flow back to PRI Association, be repaid, until PRI Enterprises is profitable. Since acquiring the Academy, the PRI has invested in new staff, more efficient back-office operations, branding and editorial revisions. The aim is for the Academy to be profitable in year three of the business plan.

The Board focused on two discussion areas:

1. the separation of the PRI Academy (within PRI Enterprises) from PRI Association;
2. the long-term plans for the PRI Academy, including accreditation, partner distribution, shared content and selling to audiences outside of the investment market.

The Board approved the proposal for the PRI Association to contract with PRI Enterprises to provide a limited number of online courses to signatories and potential signatories. The Board requested a follow-up discussion on the PRI Academy at the July 2017 Board meeting.

## FUTURE MEETINGS

The next Board meeting will take place on 1 & 2 December 2016 in London. In addition to regular agenda items, planned discussion points include:

- Corporate pension plan work programme
- Asset owner recruitment
- 2016 Report on Progress presentation
- Responsible Investment Blueprint draft
- Sustainable Financial System work programme
- Outcomes from the Taskforce on Climate-Related Financial Disclosures
- PRI Grant policy
- PRI in Person (review of Singapore 2016 and priorities for Berlin 2017)
- PRI Board election results and review
- Board self-assessment results

Signatories wishing to provide input on these agenda items or raise additional issues for consideration should email [governance@unpri.org](mailto:governance@unpri.org) by 1 November 2016.

