PRI Principles for Responsible Investment

FINANCE UNEP INITIATIVE | United Nations Global Compact

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

# POLICY, STRUCTURE AND PROCESS

## OVERVIEW

- This starter guide provides a quick summary of how an investor can develop and implement a responsible investment policy and related processes.
- Designed for both asset owners and investment managers, this guide covers how to embed responsible investment into an organisation's structure and processes – starting with the investment policy.
- Selected further reading is provided throughout. For more information on anything in this guide, or responsible investment more broadly, please get in touch.

AN INTRODUCTION TO

RESPONSIBLE INVESTMENT

EXPLORE THE SERIES

The PRI defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

The guides on listed equity, fixed income and private equity describe how to include ESG factors in decisions about what to invest in, and the role investors play as owners and creditors.

**This guide will first take you through the following steps to embed responsible investment into organisational structure and processes:**

| POLICY | TARGETS | TRAINING | ESG TEAMS AND COMMITTEES | INVESTMENT CONSULTANTS | MONITORING AND REPORTING | REVIEW |
|---|---|---|---|---|---|---|
| The purpose of a policy and its key components | Turning policy commitments into concrete goals | Identifying skills gaps and staying abreast of latest developments | Standalone ESG and investment teams versus integrated teams | How to align external help with the policy | Monitoring progress towards targets and reporting that information to stakeholders | Evaluating successes and failures |

## POLICY

Responsible investment can be integrated into investment policies in many ways, including high-level public statements, codes of business practice, a standalone responsible investment policy or by embedding responsible investment considerations into an organisation's main investment policy.

| INTEGRATED INVESTMENT POLICY | STANDALONE RESPONSIBLE INVESTMENT POLICY |
|---|---|
| Investors can develop their core investment policy to cover all long-term factors, thus aligning responsible investment decisions with mainstream policy considerations. | Not all investors are ready to incorporate their responsible investment objectives into their core investment policy. Developing a separate responsible investment policy can be a good place to start. |

A policy has many purposes, including:

- serving as a starting point to discuss the organisation's position on ESG issues with external and internal stakeholders;
- clarifying how an investor interprets its fiduciary responsibilities to beneficiaries and clients;
- guiding external asset managers on how they should handle ESG issues;
- demonstrating the organisation's responsible investment approach to regulators, clients and other stakeholders.

### WRITING A POLICY

There is no one-size-fits-all approach to writing a policy; it must reflect the organisation's unique attributes, goals and purpose, and avoid generic or boilerplate language. However, most policies include the following components:

- **Purpose:** Why the policy has been developed and how the organisation defines responsible investment
- **Scope:** Whether the policy applies to all assets under management, or certain geographic regions or asset classes
- **Legal and regulatory factors:** The legal and regulatory requirements or fiduciary responsibilities guiding the organisation
- **Responsibilities:** The individual(s) accountable for achieving the policy's commitments
- **Implementation:** How the organisation plans to fulfil the commitments and monitor progress
- **Engagement:** How the organisation will encourage investees to improve ESG risk management and develop more sustainable business practices
- **Reporting:** How the organisation intends to report on progress
- **Review:** How and when the policy will be reviewed

**Developing a responsible investment policy – and having senior-level commitment and internal or external staff to implement it – are among the minimum requirements for being a PRI signatory.**

Implementing the commitments set out in a policy requires an investor to have appropriate systems in place throughout the organisation.

**PRI resources:**

**Asset owner strategy guide: how to craft an investment strategy**

Integrated policies:

**Investment policy: process and practice – a guide for asset owners**

Standalone policies:

**Writing a responsible investment policy – guidance for asset owners**

**Aligning values: why corporate pension plans should mirror their sponsor's values**

**PRI database of policies, available through the Data Portal**

## TARGETS

Policy commitments should be backed up by specific quantitative or qualitative targets, with deadlines where relevant. They can be grouped into organisational changes or portfolio impacts. Typical areas to cover include:

- staff training;
- company engagement results;
- reducing the portfolio's carbon footprint.

## TRAINING

Training on responsible investment can raise awareness of a policy internally and ensure that staff have the information and tools required to meet the stated policy commitments. The PRI Academy, an online platform, offers the Getting Started in RI, Foundations in RI, Advanced RI Analysis and RI for Trustees courses, both for individuals and across organisations.

**PRI resources:**

PRI Academy

## ESG TEAMS AND COMMITTEES

The way a company chooses to include ESG staff in its organisation will depend on a range of factors including the organisation's resources, business model, client base, existing responsible investment expertise and team structure. Two common approaches are to have a standalone ESG team or to integrate ESG knowledge into an investment team – or a mix of both.

**Integrated responsible investment teams versus standalone ESG teams**

| INTEGRATED RESPONSIBLE INVESTMENT TEAMS | STANDALONE ESG TEAM |
|---|---|
| Portfolio managers and investment analysts analyse ESG issues and integrate their findings into overall investment analysis and decisions, as well as handling engagement activities. This approach often relies more heavily on external data, research and analysis. | A standalone ESG team conducts the ESG analysis and engagement activities, which the investment teams integrate into overall investment decisions. This approaches tends to involve more bespoke research and analysis.<br><br>Standalone ESG and investment teams should work closely together, meet regularly and communicate proactively. |

For investment managers, ESG committees overseeing the integration of ESG into investment and business decisions might involve internal or external experts, with a mix of investment, research, leadership and risk management expertise, as well as client managers. This ensures all organisational perspectives are considered when implementing the policy.

## INVESTMENT CONSULTANTS

Asset owners should ensure that the service they receive from their investment consultants, whether covering specific assignments or the full-service suite, are aligned with their own responsible investment objectives, strategies and policies.

This involves assessing issues such as:

- Alignment: Are the investment consultant's ESG-related principles aligned with those of the asset owner?
- Senior-level commitment: Are the investment consultant's senior management team and the business as a whole committed to ESG investment services and responsible investment?
- Capabilities: Does the investment consultant have the systems, resources and experience it needs to support the implementation of the asset owner's ESG-related principles?

**PRI resources:**

Investment consultants and ESG: an asset owner guide

## MONITORING AND REPORTING

Monitoring progress and reporting to stakeholders can be done through a variety of organisational, fund and investment-level mechanisms. Reporting may need to be tailored to specific audiences, such as clients, trustees, employees, regulators, civil society and the media.

**Examples of tools for reporting responsible investment activity:**

| ORGANISATIONAL LEVEL | | |
|---|---|---|
| **PRI Reporting Framework** - PRI signatories are required to report on their responsible investment activities annually | **Global Reporting Initiative** (GRI) Standards including G4 Sector Disclosure for financial services - a global standard for sustainability reporting | **Task Force on Climate-related Financial Disclosures** (TCFD) - a framework for translating non-financial information about climate change into financial metrics |

| FUND LEVEL | |
|---|---|
| **GRESB** to assess and benchmark the ESG performance of real assets | The **EU taxonomy** to provide investors with a definition of whether an economic activity is sustainable |

| INVESTMENT LEVEL | | |
|---|---|---|
| **Sustainability Accounting Standards Board** (SASB) industry standards - defining material ESG issues by sector | **GRI Standards** and G4 Sector Disclosures | **IRIS's** catalogue of ESG and impact metrics |

## REVIEW

A policy must be reviewed regularly to measure success and determine whether it continues to reflect the organisation's investment beliefs. For example, there may be new approaches to responsible investing that could be incorporated, or the organisation may have expanded into a new asset class that the policy does not yet cover. If targets have not been met, it is important to evaluate what went wrong and why, and introduce measures to ensure future success. PRI signatories can evaluate their responsible investment progress through PRI Reporting, including benchmarking their performance against their peers.

For organisations that are looking to increase their responsible investment commitments, the PRI Leaders' Group offers examples of investors at the cutting edge of responsible investment, to encourage others to improve their performance and share their own examples of good practice. Where the Leaders' Group recognises organisational excellence on a particular theme, the PRI Awards showcase examples of individually excellent projects.

**PRI resources**:

PRI Leaders' Group

PRI Awards

## FURTHER READING

For a list of resources on responsible investment policy, structure and process from other organisations, visit the PRI website.

# CREDITS

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