Principles for Responsible Investment

PROGRESSION PATHWAYS

ADVANCING RESPONSIBLE INVESTMENT PRACTICES AMONG PRI SIGNATORIES

OCTOBER 2023

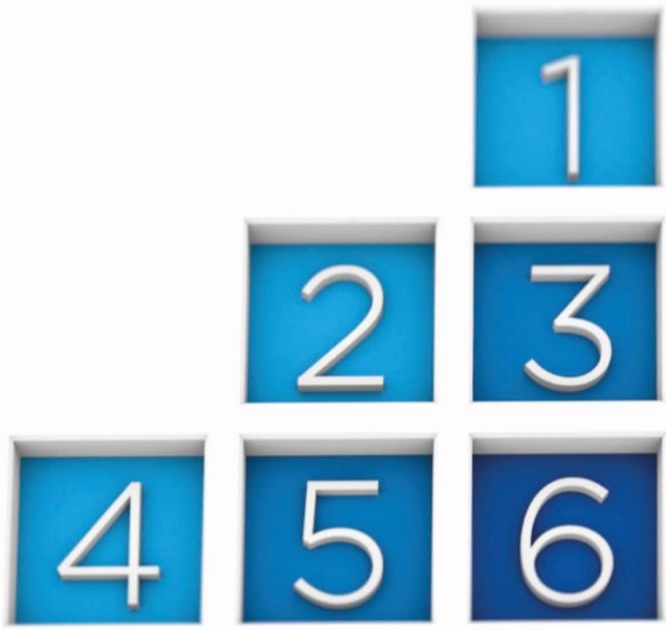
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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.



PRI'S MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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EXECUTIVE SUMMARY

This document responds to a key finding of the PRI in a Changing World consultation: the need to better target support and incentivise signatory progression on responsible investment. It includes initial proposals on the Progression Pathways for responsible investors and begins the co-design process with PRI signatories.

A progression pathway is a step-by-step journey for signatories on responsible investment practice.

During the PRI in a Changing World consultation between September 2022 and January 2023, 95% of respondents agreed that they expected to progress in their responsible investment activities, while 83% wished to demonstrate their progress in terms more relevant to them than is currently possible. As the PRI's signatory base has grown, so have the challenges in differentiating and supporting the activities of signatories at different levels of advancement.

A framework for progressing responsible investment can respond to these needs, by making it clearer to clients and beneficiaries, and stakeholders, what PRI signatories' intentions and actions as responsible investors mean in practice for their investments and for a sustainable world. The Progression Pathways can better tailor guidance, tools, reporting and accountability expectations, and create more relevant communities of practice.

This document contains two initial concepts for the Progression Pathways. Both would be optional for signatories to join. The concepts reflect feedback already received in the PRI Changing World consultation.

One concept is based on investor purpose – whether investors' primary approach to responsible investment involves (i) focusing on incorporating environmental, social and governance risks and opportunities, (ii) addressing the drivers of financially material sustainability risks or (iii) actively pursuing sustainability outcomes beyond financial materiality.

The other is based on investors' approach to specific issues, such as climate change, human rights and biodiversity, and how these are reflected in investment practices.

The publication of this paper constitutes the launch of a co-design process with signatories. Over the remainder of 2023, and in 2024, signatories are invited to engage with the PRI on their preferences for the Progression Pathways.

The co-design process will continue iteratively to ensure the Progression Pathways are practical and useful, consistent with the needs of PRI signatories.

TAKING STOCK OF RESPONSIBLE INVESTMENT TODAY

Since its founding in 2006, the Principles for Responsible Investment (PRI) has been an essential part of the responsible investment community – supporting and encouraging the significant uptake of responsible investment policies and practices across global markets. Over 5,000 PRI signatories, representing US$120 trillion in assets under management (AUM) globally, have committed to the six Principles. The consideration of environmental, social and governance (ESG) factors is now part of mainstream investment decision-making.

Despite this progress, the responsible investment community remains some distance from achieving the PRI's mission of a sustainable financial system.[1] Validating claims on sustainable investments remains challenging (leading to greenwashing concerns), there is a disconnect between responsible investment industry and beneficiary preferences, while mixed stewardship signals on a sustainable economic transition have hampered action at the necessary scale.[2] In terms of the relationship of responsible investment to the real economy, six safe planetary boundaries have been breached over the last eight years.[3] The lack of progress on sustainable development creates economic transition and resilience risks for all investors, their clients and beneficiaries.

The growth of the PRI's signatory base has enabled a wide range of investor types at various stages of their responsible investment journey to become part of a community of mutual learning. As the size and sophistication of this community has grown, so have the challenges in differentiating and supporting the activities of signatories at different levels of advancement. A one-size-fits-all approach to assessment, support and accountability has often failed to incentivise signatories to build on their initial commitment and actions by continuing to progress their practices.

Underlying this challenge have been differing views about what it means to be a PRI signatory and responsible investor. For example, to what extent it means solely considering environmental, social and governance factors to improve risk-adjusted returns – a baseline for all responsible investors - or also taking positive action on the real-world sustainability outcomes that are related to their activities. This confusion has given rise to simultaneous accusations of greenwashing and investor overreach.

Expectations that investors should consider and act on real-world outcomes as part of their duties are broadly increasing, with rising demands from clients, beneficiaries, regulators and other stakeholders. In our recent PRI in a Changing World consultation, 41% of respondents said that, for their organisation, responsible investment involves taking action on sustainability outcomes in the real world. This number is expected to grow – 63% of respondents (72% of asset owners and 59% of investment managers) said acting on sustainability outcomes should be a part of their investment approach in the future.

[1] The PRI's Mission statement calls for the pursuit of a sustainable financial system.
[2] PRI (2019), Stewardship is failing us, yet remains our best hope
[3] Stockholm Institute, Planetary Boundaries

These increasing expectations are underpinned by a wide consensus on the need to progress responsible investment consistent with duties to clients and beneficiaries. A resounding 95% of respondents agreed that as PRI signatories they expect to progress their responsible activities over time. It is therefore incumbent on the PRI to support and incentivise progression in a way that responds to signatories' objectives and context as responsible investors.

Here, there is room for improvement. The PRI has minimum requirements for all signatories, but these focus only on establishing a baseline commitment to responsible investment. For signatories developing their practices, intermediate milestones for progression, and incentives to reach them, are often absent. Even for advanced responsible investors, while there are many opportunities to demonstrate leadership, such as the PRI Awards or participation in collaborative initiatives, these tend to be focused on isolated practices rather than capturing performance holistically.

To better respond to the advancing stage of responsible investment today, a more nuanced and targeted progression framework for signatories is needed.

PRI in a Changing World Consultation

95% of respondents agreed that, as a PRI signatory, they expect to progress their responsible investment activities over time.

INTRODUCTION TO PROGRESSION PATHWAYS

To provide more relevant support to signatories and to better clarify the different roles of responsible investors in a sustainable financial system, the PRI is proposing to introduce progression pathways.

PRI in a Changing World Consultation Over four in five signatories believe they should be able to demonstrate their progress in terms more relevant to them.

The growing number and sophistication of responsible investors has led to more divergence in responsible investment approaches, client and beneficiary expectations and regulatory environments, resulting in an investment context for signatories that is more diverse than ever before.

The PRI's mission of a sustainable financial system can best be achieved by different investors playing different, mutually reinforcing roles in the investment chain and the financial system. Some investors can set sustainability outcomes as part of their investment purpose. Others serve the sustainability preferences of their clients and respond to policy, regulation and trends that are driving economic transition. Substantial improvements in responsible investment performance across the board are still required, but the nature of those improvements will look different depending on the investor's particular role and circumstances.

Creating progression pathways can recognise the diversity of the PRI's signatory base in a more targeted and nuanced way, consistent with signatories' prudence expectations and their duties to clients. They can better enable the PRI's mission by providing a model for considering the aggregate benefits of all responsible investment activity, while still recognising the roles of different investors.

PROGRESSION PATHWAYS CAN SUPPORT SIGNATORIES AND DRIVE THE PRI'S MISSION

CLEAR POSITIONING WITHIN RESPONSIBLE INVESTMENT COMMUNITY

Distinguishing responsible investment pathways will provide more relevant benchmarking of investors' activities. Single pathway progression models tend to result in investors being compared against objectives they do not share, rendering such models of limited use for investors or their clients to evaluate performance.

Multiple progression pathways, on the other hand, mean that investors can learn, be supported, and demonstrate progress in a more relevant way, consistent with their own approach.

Responsible investors can also be held accountable against more relevant expectations.

We propose reviewing the singular model of progression that the PRI (and others) have used to advance and assess responsible investment practice by distinguishing multiple progression pathways.

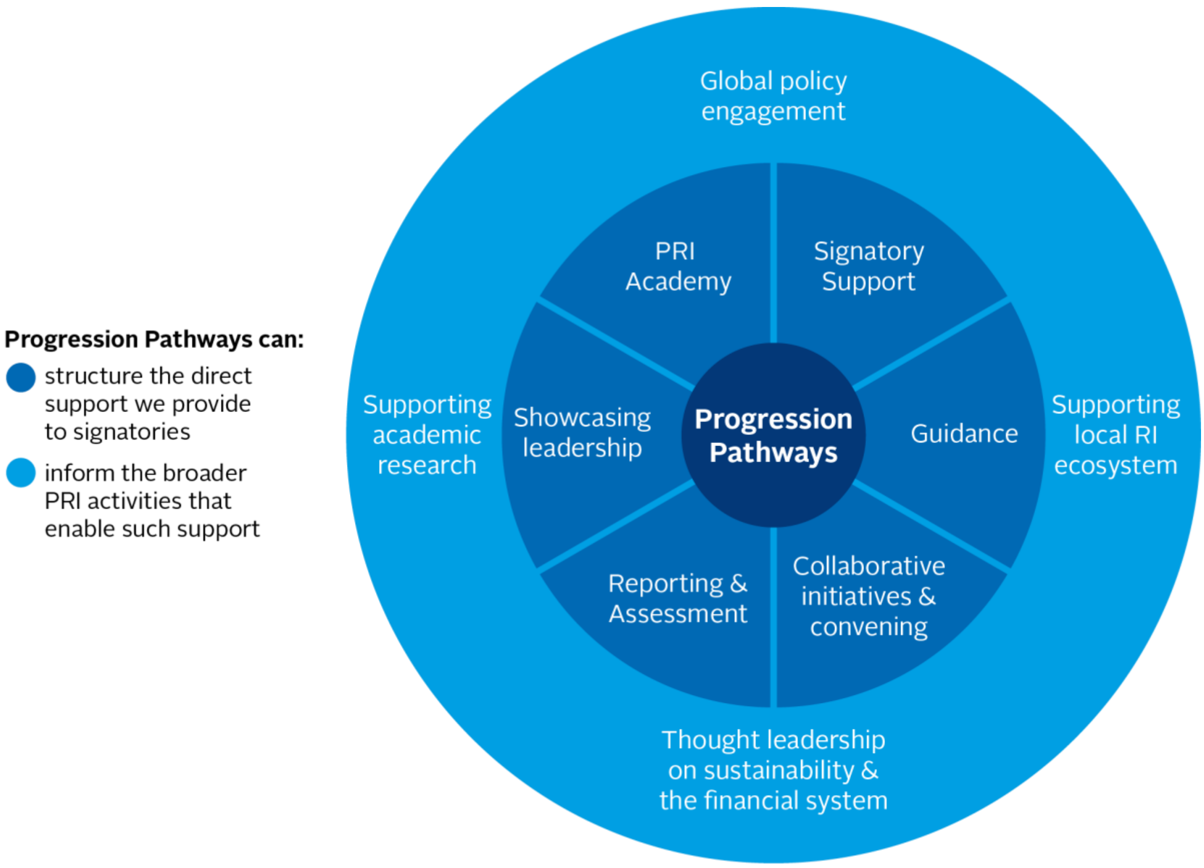
These pathways would enable signatories to differentiate their activities based on their purpose as responsible investors and/or their performance on the sustainability issues they consider most relevant to their portfolios and mandates.

MORE TARGETED SUPPORT FOR PRI SIGNATORIES

The Progression Pathways will allow the PRI to gain a better understanding of the priorities and characteristics of the signatories that choose to adopt them. This will enable more targeted support for those signatories, to inform and advance their responsible investment practices.

It will also help in identifying key barriers to progression and addressing them through other PRI activities, such as thought leadership, global policy engagement, and supporting local responsible investment ecosystems and academic research.

Figure 1: The Progression Pathways can better enable support for signatories



Progression pathways could allow the PRI to:

- better tailor education, guidance and tools – aligning them to signatories' context and responsible investment objectives,
- convene more relevant collaborative initiatives and communities of practice, with investors better able to identify peers that share their goals or focus areas,
- help signatories better communicate their purpose and activities to clients, beneficiaries and stakeholders, and
- provide a Reporting and Assessment (R&A) Framework that is more targeted to investors' objectives and state of advancement – without duplicating existing requirements under regulation or investor initiatives.

An opportunity for more targeted Reporting and Assessment

In the future, we expect that accountability for PRI signatories should involve significantly reduced mandatory reporting, relative to the current Reporting and Assessment Framework. Future mandatory PRI reporting may be complemented by a recognition of reporting obligations against regulatory standards or voluntary initiatives relevant to signatories (see "Navigating a crowded responsible investment landscape"). This will be established working with signatories.

As the primary purpose of the Progression Pathways is learning and development, reporting and assessment on progression could be optional and at the discretion of signatories. The PRI would work to ensure that a targeted and useful reporting mechanism is available for the Progression Pathways to support signatories' learning and provide transparency and validation on any claims of progress or advancement. It would also enable benchmarking activities across the responsible investment community and additionally provide insights and analysis not currently available.

NAVIGATING A CROWDED RESPONSIBLE INVESTMENT LANDSCAPE

Regulation is fundamental for a transparent and sustainable financial system. However, in parallel with regulatory developments, the number of voluntary responsible investment standards, initiatives and frameworks has increased exponentially. This has resulted in some investors having to dedicate increasing time and resources to reporting against them.

This can result in a fragmented picture of an investor's overall responsible investment approach. The average responsible investor today is a member of several voluntary initiatives, on top of having mandatory requirements.[4] Understanding and comparing their overall approach might require inspecting a stewardship code report, their net-zero initiative and TCFD reporting, disclosures for multiple SFDR funds and PRI reporting, among others.

This fragmentation can weaken investors' ability to assess or benchmark themselves (or external managers) against peers. It reduces the ability of clients, beneficiaries and other stakeholders to understand the intent of their investment managers and asset owners and how they are performing

[4] Capital Monitor (2022), ESG initiatives: Asset owners must sharpen their teeth; Responsible Investor (2023), Asset owners back consolidation among ESG initiatives

overall. It also disperses effort and can make it more challenging for investors to keep on top of the most important developments in the responsible investment community, potentially slowing the achievement of a sustainable financial system as a result.

An important goal of the Progression Pathways would be to enable investors and their stakeholders to better understand how their existing commitments fit together and paint a holistic picture of overall progress in their responsible investment practices.

To this end, the PRI is developing an equivalency approach that focuses on capturing and mapping the main regulatory and voluntary standards that signatories are already trying to meet and reflecting these within the Progression Pathways (as well as the Reporting Framework for all signatories). The objective is that the Progression Pathways become a tool to help signatories navigate existing requirements and take actions to make progress against them in an efficient way.

PROPOSED PROGRESSION PATHWAYS

The PRI has prepared two provisional concepts for progression pathways to explore with signatories over the course of the co-design process: the first is based on different investor purposes, and the second on different sustainability issues.

The strengths and limitations of both models are presented here. We are seeking signatory input on which of these concepts will best support investor progression in responsible investment performance, or if there are alternative concepts that are preferred. A final model may combine elements from both concepts.

The models have different levels of practice. Some investors may already meet the expectations of intermediate or advanced levels. In this case, they would be able to move directly to those levels without having to go through earlier ones. Investors may also change pathways (in Concept #1) or opt into additional pathways (in Concept #2) over time.

PRI in a Changing World Consultation

Signatories reported a preference for describing their progress as responsible investors in terms of investment activities (77%) and investment objective (75%). This was followed by approach to sustainability issues (67%).

The proposed concepts below will focus on investment activities, and the extent to which they are aligned with investors' purpose (in Concept #1) or contribute to advancing investors' priority sustainability issues (in Concept #2).

CONCEPT #1 – INVESTOR PURPOSE

One of the challenges the responsible investment industry has faced in recent years is that terms like ESG incorporation and responsible investment mean different things to different people. They tend to be applied to a broad spectrum of organisations and strategies, from those seeking to improve risk-adjusted returns, to those focused on maximising their contribution to positive real-world outcomes.

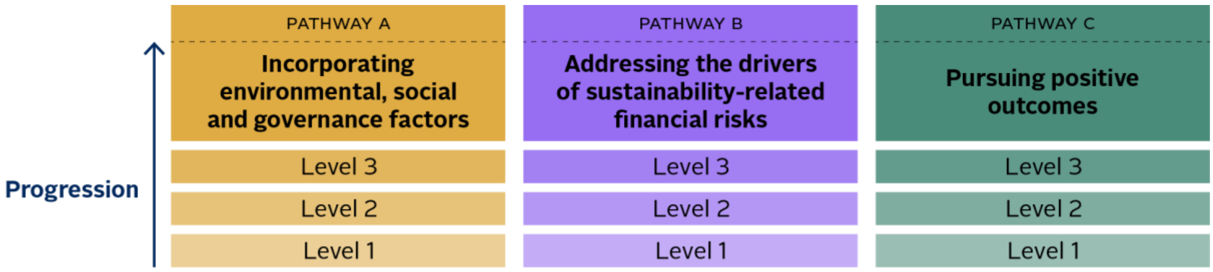
This has led to concerns about greenwashing, where claims around incorporating environmental, social and governance considerations into products or organisational activities were understood as seeking positive sustainability outcomes, despite the fact that this was not always pursued by such products or activities.

More recently, the same concern has arisen from another side, where investors' strategies incorporating environmental, social and governance factors have been construed as (and criticised for) pursuing particular impacts or goals, even though in many cases they are used purely as a risk management strategy.

This ambiguity has hampered investors, regardless of the approach they take. For those seeking to influence sustainability outcomes relevant to their investments, and/or proactively mitigate systemic risks, it has been difficult to differentiate themselves from peers. It has also been difficult for asset owners to understand which investment managers are aligned with their goals. For those purely seeking to improve risk-adjusted returns, it has led to misaligned expectations and misguided accusations of overstepping their remit.

As such, establishing progression pathways based on investor purpose can help clarify to all stakeholders what an organisation's actual objectives are. It will also allow them to be better assessed against those objectives and against similar peers.

Figure 2: Concept #1 – Investor purpose-based progression model



The concept for a pathway based on investor purpose envisages three types of purpose, informed by the PRI's Legal Framework for Impact project[5]:

- **Incorporating environmental, social and governance factors (Pathway A):** The investor focuses on maximising risk-adjusted returns. This includes incorporating material environmental, social and governance factors into its investment decisions and stewardship activities. At more advanced levels, this involves incorporating system-level sustainability risks, such as climate change, and identifying positive and negative sustainability outcomes. The investor should consider addressing such outcomes as relevant[6]. However, the investor has not committed to taking deliberate action to improve sustainability outcomes related to their investments.

- **Addressing the drivers of sustainability-related financial risks (Pathway B):** The investor focuses on maximising risk-adjusted returns, as per Pathway A. Additionally, to manage its exposure to financially material sustainability-related risks, the investor is addressing the drivers of such risks by pursuing positive sustainability outcomes – e.g., encouraging reduced greenhouse gas emissions in line with the Paris Agreement to mitigate the risks from climate change. This is particularly relevant for undiversifiable system-level risks, such as those derived from climate change, biodiversity loss, or social instability.

[5] More information on this project can be found in Appendix: The legal framework for impact - summary.
[6] See Appendix for a summary of the findings of the Legal Framework for Impact project.

As a result, the investor has committed to taking deliberate action on sustainability outcomes. It has set sustainability outcomes goals and uses stewardship, capital allocation and other activities to meet them. Progress is measured against the investor's approach to ESG incorporation and its contribution to the sustainability goals relevant to its investments.

- **Pursuing positive outcomes (Pathway C):** The investor focuses on pursuing positive sustainability outcomes, for example by investing in assets that provide solutions to social or environmental problems. Some investors will seek impact and financial returns as part of their purpose. Some will prioritise impact over financial returns.

Investors in any pathway would determine which sustainability issues to focus their efforts on. For example, for Pathways A and B, this would be based on their financial materiality. However, certain pathways or levels would also include specific expectations on climate change, nature, and human rights, reflecting widespread consensus that these are issues of general importance for investors and their clients and beneficiaries.

There may be overlapping elements between the three pathways, with even a single strategy potentially containing aspects of each purpose. The most appropriate pathway for an investor will be that which is most consistent with their purpose, or most relevant to how they wish to progress over the long term.

For asset owners, we envisage investor purpose happening at the organisation rather than fund level. For investment managers, investor purpose will vary to some extent depending on contractual obligations. Investment managers could potentially opt to sit in multiple pathways, where a minimum threshold of their AuM across multiple strategies is managed in line with that purpose.

Figure 3: Concept #1 – Investor purpose: Main benefits and limitations

Benefits
1. Reduces ambiguity by enabling communication to stakeholders about the role the investor aims to play in the market and the intended result of its responsible investment activities. 2. Enables investors to be compared with peers that share similar objectives and are subject to similar duties and expectations. 3. Combines flexibility, enabling investors to focus on their most relevant sustainability issues, with common expectations on key issues such as climate change, biodiversity and human rights.
Limitations
1. The three types of investor purpose may not be immediately familiar for signatories and their stakeholders. 2. Simplicity may come at the cost of nuance or granularity, summarising an investor's approach across issues and practices in a single level. This may limit the comparability of investors within the same level that may, for example, have different interpretations of which sustainability outcomes are material and should be addressed.

PRI in a Changing World Consultation
63% of signatories (72% of asset owners and 59% of investment managers), noted that taking action on sustainability outcomes in the real world should be a part of their responsible investment approach in the future (compared to 41% today).

Pathways would also be mapped against internationally recognised frameworks to make best use of investors' current responsible investment reporting requirements, for example the TCFD and the UN Guiding Principles. This would help promote a holistic approach.

A more detailed explanation of how Concept #1 would operate is provided below.

Figure 4: Concept #1 – Investor purpose-based progression model in detail

	PATHWAY A	PATHWAY B	PATHWAY C
	Incorporating environmental, social and governance factors	**Addressing the drivers of sustainability-related financial risks**	**Pursuing positive outcomes**
Progression	Level 3 Level 2 Level 1	Level 3 Level 2 Level 1	Level 3 Level 2 Level 1
Investor purpose	Achieve competitive risk-adjusted financial returns.	Achieve competitive risk-adjusted financial returns.	▪ Pursue positive sustainability outcomes ▪ Achieve risk-adjusted financial returns (competitive or below market).
Instrument	▪ Incorporate financially material ESG factors. ▪ Identify positive and negative sustainability outcomes.	▪ Incorporate financially material ESG factors. ▪ Pursue positive sustainability outcomes as a means to address the drivers of financially material sustainability issues.	
Sustainability outcomes goals	No sustainability outcomes goals expected.	Instrumental sustainability outcomes goals.	Sustainability outcomes goals which are not wholly instrumental.
Level expectations	▪ Each level will include clear expectations on how **investor activities** (capital allocation, stewardship, etc) should reflect the investor purpose relevant to the pathway – **with sophistication increasing from Level 1 to Level 3.** ▪ **Issue-specific expectations** (e.g., on climate, biodiversity, human rights) will be included for specific pathways/levels.		

EXAMPLE USE CASES

A sovereign wealth fund regards itself as a universal asset owner that is subject to systemic risks and that can exacerbate or mitigate those risks via its investments. It opts into the Pathway B to collaborate with peers on mitigating the most material systemic risks that it faces. The sovereign wealth fund also uses external managers' placement on this pathway as a key criterion when shortlisting them for new mandates.

A multi-asset investment manager offers pooled funds and segregated mandates. When discussing its investment offering with clients, the manager uses the framing of the different pathways to ensure its offering is aligned with its clients' preferences and long-term interests.

Most of its clients are seeking competitive returns. The manager believes that Pathway B is most aligned with their long-term interests, and thus manages their AUM in line with this pathway. Some of its mandates are defined more narrowly however, and for these the manager seeks to align its activities with the highest tier of Pathway A.

The manager also has large foundations and endowments among its institutional clients. These clients prioritise contributing to positive outcomes aligned with their mission, even where this may result in somewhat lower financial returns – and so their assets are managed in accordance with Pathway C.

CONCEPT #2 – ISSUE SPECIFIC

This second concept focuses on progression through the lens of responsible investment practices applied to specific sustainability issues. Investors could determine the sustainability issues they want to make the most progress on within their practices and join pathways for these at varying levels, depending on their current practices.

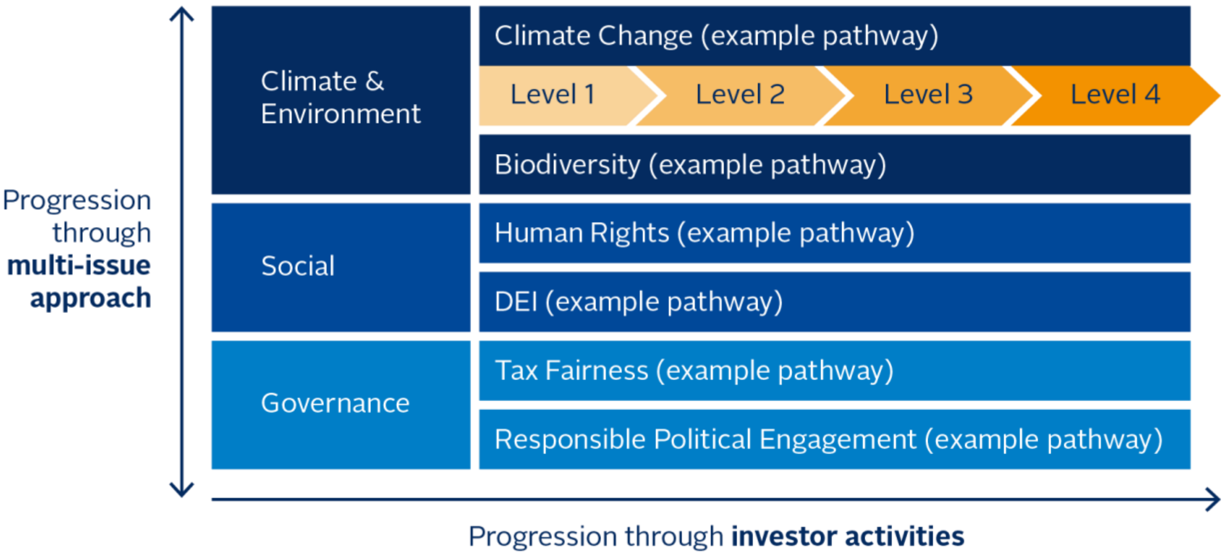
This concept responds to another challenge within responsible investment: that broad statements on sustainability issues, stewardship, etc can obscure sizeable differences in whether and how investors incorporate or influence individual sustainability issues through their investment activities.

For many investors, climate change is a priority issue that will attract a substantial portion of resources, attention and external scrutiny. This can result in practices around less publicised sustainability issues being much less advanced and seeing slower progression over time.

Furthermore, due to the systemic nature of certain sustainability issues, clients and stakeholders may wish to see a minimum level of performance on those issues across their mandates that goes beyond an investment manager's overall sustainability approach. Concept #2 could help investment managers and asset owners establish this.

Therefore, the future of responsible investment, particularly among investors with more advanced practices, will likely build on policy and process statements that describe an overall approach to investment decision-making or stewardship, with more granular tracking and assessment of issue-specific activities and outcomes.

Figure 5: Concept #2 – Issue specific: Illustration of progression within this model



Progression would be demonstrated according to different investment approaches.

Investors seeking positive real-world impact would likely look to advance horizontally on priority issues by increasing the sophistication and/or scope of their responsible investment activities. Investors purely seeking to improve risk-adjusted returns may instead seek less horizontal progression but instead demonstrate sophistication by showing positive steps across a larger number of issues.

Below we outline the possible level criteria that investors on this pathway would follow.

Figure 6: Concept #2 – Issue specific: proposed definition of levels within this model

Proposed level criteria
Progression would be measured based on the objectives and sophistication of investment activities such as capital allocation, stewardship, and progress against metrics and targets.

Level 1	Level 2	Level 3	Level 4
Investors identify and incorporate financially material environmental, social and governance factors.	Level 1, plus: Investors adopt a system-level, long-term investment approach.	Level 2, plus: Investors set targets to pursue positive sustainability outcomes as a way to address the drivers of financially material risks and opportunities, and take action to meet them.	Level 3, plus: Investors address interdependence between sustainability issues.

It would be important to ensure that sitting on multiple issue-specific pathways wouldn't create multiple reporting expectations for an investor and would instead facilitate easy communication with stakeholders. Pathways would also be mapped against internationally recognised multi-issue frameworks to make best use of investors' current reporting requirements. This would help promote a holistic approach to interconnected issues.

Some issue-specific pathways have already been created by investor groups, such as the ICAPs expectations ladder on climate change and the Committee for Workers' Capital's expectations on fundamental labour rights. This model supports investors and other groups with issue-specific expertise to develop tools to support signatory progression and can help align expectations.

Figure 7: Concept #2 – Issue specific: Main benefits and limitations

Benefits
1. Communicates more detail and nuance, recognising that investors will progress at different speeds and towards different endpoints depending on the sustainability issue. 2. Supports greater collaboration, enabling investors to identify peers that are at similar stages of progression on the same issue, and to join dedicated communities of practice. 3. May allow for stronger tracking of the responsible investment community's overall performance against issue-specific indicators, such as financial flows towards different SDGs.
Limitations
1. May be difficult to track and communicate the number of pathways that signatories could follow. 2. May promote the idea that issues are separate and downplay the inherent interconnectedness between them and their necessary responses. 3. Requires prioritisation of a limited number of issues for which to develop specific pathways, reducing the opportunities to demonstrate progression on lesser-known issues.

EXAMPLE USE CASES

A pension fund identifies labour-related issues as a top issue to focus on, following engagement with its beneficiaries. It opts into a pathway focused on decent work to understand its current performance on the issue relative to peers and how it can advance its practices via supportive guidance and collaboration spaces. The pension fund benefits from guidance on how to monitor managers against more advanced practices on decent work, as well as suggested modifications to investment management agreements as needed. It can then regularly update beneficiaries on how its practices in this area are progressing.

A private equity firm wants to better integrate climate-related risks across its portfolio. The firm opts into the climate-related pathway and seeks to progress to level 1 for its holdings over the next two years. To demonstrate leadership in one of its impact-oriented funds, the firm seeks to meet the criteria set out in level 3 for that fund.

RELATIONSHIP BETWEEN THE CONCEPTS

In addition to the benefits of the distinct models, based on responsible investment purpose or specific sustainability issues, there may be benefits from combining elements from the two concepts. For example, responsible investors in any purpose-based pathway may seek to clearly progress and describe their progress in individual sustainability issues. Conversely, responsible investors pursuing progress on sustainability issues may seek to better clarify their purpose or intentions.

NEXT STEPS

To integrate signatory feedback, the PRI has proposed a co-design process through which signatories will be able to share their ideas, concerns, and design preferences via a variety of communication channels.

The co-design process will give signatories multiple opportunities to provide feedback:

Figure 8: Format of signatory input during the design process

To ensure transparency during the co-design phase, the PRI will publish a high-level summary of feedback received during signatory conversations, summarise results from the consultation survey responses and publish a formal response explaining how the survey results have been integrated into the Progression Pathways design.

> **PRI in a Changing World Consultation**
> Two thirds of respondents (close to 1,000 signatories) indicated their organisation wanted to participate in the design process.

PART 1: SIGNATORY CONVERSATIONS

The PRI has started having conversations and exchanging information with signatories via several different means and this will continue during 2023:

- PRI in Person (3 – 5 October)
- In-person and online workshops (see information below)

PRI in Person 2023 provided a session dedicated to the development of the Progression Pathways as well as other opportunities for engagement.

The PRI is holding a series of in-person workshops in multiple markets, as well as several wider online workshops, providing an opportunity to discuss the co-design themes with signatories.

PART 2: CO-DESIGN SURVEY

The conversations in Part 1 will build towards an online co-design survey of all signatories, where we will seek to capture additional signatory feedback. Dates for the survey will be set after Part 1.

PART 3: TESTING

The PRI believes that the Progression Pathways need to be iterative, and we will continue to work closely with signatories to ensure that the pathways' design is adaptive and dynamic.

Therefore, the PRI will also provide signatories the opportunity to provide feedback on the first iteration of the pathways around mid-2024.

Additional details on this stage will be provided after the integration of the signatory survey results into the pathway design. Signatories will be advised how they can participate in testing during this time as well.

HOW TO PARTICIPATE

There are several ways to be involved in the co-design process. The PRI encourages signatories to:

- **Contact the PRI** via your Responsible Investment Ecosystem representative to be involved in the conversations taking place during Part 1 of the consultation. While we will not be able to communicate directly with all interested signatories, we will ensure the conversations cover a wide range of signatory markets, types, and sizes.

- **Respond to the survey** planned for 2024 and participate in other engagement opportunities.

APPENDIX: THE LEGAL FRAMEWORK FOR IMPACT - SUMMARY

A Legal Framework for Impact is a ground-breaking legal study authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI and the Generation Foundation. The report introduced the concept of investing for sustainability impact and uncovered that the law in 11 jurisdictions around the world **permits**, and in some cases, **requires** investors to tackle some of the world's most urgent sustainability challenges, by setting and pursuing sustainability impact goals.

WHAT IS INVESTING FOR SUSTAINABILITY IMPACT?

While ESG incorporation focuses on how investors manage the effect of environmental, social and governance risks and opportunities on their portfolios, investing for sustainability impact (IFSI) goes beyond this to deliberately target sustainability outcomes in the real world.

The concept is used in A Legal Framework for Impact to describe any activities that involve an investor intentionally attempting (through investment decisions or stewardship, including engagement with policy makers) to bring about assessable behavioural changes – among investee companies, policy makers or other third parties – that are aligned with positive sustainability outcomes.

A Legal Framework for Impact distinguishes between two types of investing for sustainability impact, based on the investor's objectives:

- instrumental IFSI – where achieving the relevant sustainability impact goal is part of realising the investor's financial return objectives;
- ultimate ends IFSI – where achieving the relevant sustainability impact goal is a distinct goal, pursued alongside the investor's financial return objectives.

WHY INVESTING FOR SUSTAINABILITY IMPACT MATTERS

Financial returns depend on the stability of social and environmental systems, especially in the long term. This is driving investors to increasingly focus on what they can do to improve sustainability outcomes and contribute to global and national sustainability goals.

Investments are not sufficiently aligned with global sustainability goals, including those set out in international treaties such as the Paris Agreement and the Sustainable Development Goals (SDGs) for targets to be met. Consequently, investment portfolios remain exposed to sustainability risks, including system-level risks. To address this, investors should take steps to pursue sustainability impact goals, mitigate these financially material risks and seize opportunities.

WHAT ARE THE KEY FINDINGS OF A LEGAL FRAMEWORK FOR IMPACT?

The Legal Framework for Impact report finds that, while there are differences across jurisdictions and investor groups, where investing for sustainability impact approaches can be effective in achieving an investor's financial goals, the investor will likely be required to consider using them and act accordingly.

While financial return is generally regarded as the primary purpose and goal of investors, they are likely to have a legal obligation to consider pursuing sustainability impact goals where doing so can contribute to achieving their investment objectives.

In some circumstances, investors can pursue sustainability goals for reasons other than achieving financial return goals – i.e., in parallel to them. Investors are legally required to pursue sustainability impacts if they have committed to doing so in the objectives of their financial products.

Pursuing sustainability impact goals does not mean deprioritising an investor's financial purpose and objectives. On the contrary, in some cases investors need to address sustainability impacts to protect or enhance financial returns.

Stewardship, asset allocation and policy engagement are vital tools for investors seeking to improve sustainability impacts, and collaboration between investors is likely to make pursuing sustainability impact goals through stewardship activities more efficient and more likely to succeed.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

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

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN environment programme | finance initiative

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

United Nations Global Compact