DEVELOPING AND UPDATING A RESPONSIBLE INVESTMENT POLICY

A TECHNICAL GUIDE FOR ASSET OWNERS AND INVESTMENT MANAGERS

OCTOBER 2023

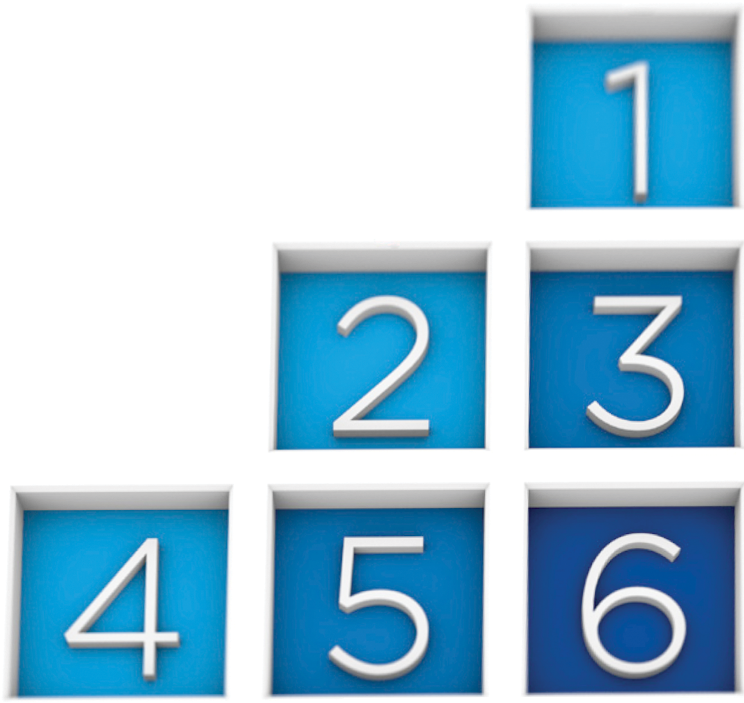
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

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.

CONTENTS

FOREWORD

Last year, I led the PRI in a Changing World signatory consultation to understand how the PRI can best serve the finance industry in a time of rapid evolution.

Not only has responsible investment moved from being niche to mainstream, but investors also face numerous challenges, including the growth of anti-ESG sentiment in some markets, hurdles in the formation and enactment of new regulatory standards, market turbulence and geopolitical issues.

At the same time, there is pressing need for market participants – especially asset owners and investment managers – to invest in a way that responds to the climate crisis, respects human rights, halts and reverses biodiversity loss and contributes to the UN Sustainable Development Goals.

The consultation results made clear that the majority of signatories believe the future of responsible investment includes managing ESG risks and identifying and acting on sustainability outcomes. Meanwhile, a significant proportion believe managing ESG risks will be the sole dimension of responsible investment for their organisation.

Regardless of which approach they take, the fundamental basis for responsible investment is premised on signatories' fiduciary responsibilities. And having a responsible investment policy that articulates this fiduciary duty and formalises their investment beliefs and strategy is key to addressing sustainability risks and ensuring long-term financial objectives.

As this updated guide on developing a responsible investment policy demonstrates, there is no one-size-fits-all approach to writing or improving such a document (or set of documents), just as there is no standardised approach to responsible investment.

Whether or not your organisation has a suite of policies that cover the relevant elements – from asset allocation to stewardship and conflicts of interest to public reporting – we believe this guidance provides actionable insights on the role a policy should play, particularly in communicating with beneficiaries and clients, and providing a framework for action throughout an organisation.

I would like to thank our signatories for participating in the workshops that helped to inform this guide, and for helping to deliver such an important tool. It is more pressing than ever that signatories have an ambitious responsible investment policy that translates into action, responding to the changing and growing challenges we face.

David Atkin
CEO, Principles for Responsible Investment

EXECUTIVE SUMMARY

A responsible investment policy guides an organisation on asset allocation, investment decisions, how stewardship is carried out and how it reports on its activities, ensuring consistency and longevity.

It allows investors to outline what they do and why they do it – for example, how they view environmental, social and governance (ESG) risks and opportunities and system-level sustainability issues or how they interpret their fiduciary duties in relation to ESG incorporation or active ownership.

Client and beneficiary demand has grown, regulation has developed and there is an increasing understanding of the financial materiality of ESG issues, and a focus on real-world outcomes. These factors have all contributed to responsible investment practices evolving rapidly in recent years, moving firmly from niche to mainstream.

As a result, investment managers' and asset owners' policies have also progressed and are being updated to reflect new practices and areas of focus. These documents have developed from simple statements to sophisticated multi-page documents and websites with a wealth of detail.

This guide aims to highlight what investors should consider before writing or updating a policy, what they could include and what reporting, monitoring and reviewing a policy might look like in practice.

It draws on previously published guidance, the Reporting Framework and associated minimum requirements of being a PRI signatory, and where relevant, highlights examples of leading practice that readers can use to inform their own documents.

Developing and updating a responsible investment policy

CONSIDERATIONS BEFORE WRITING

Before developing (or updating) a responsible investment policy, asset owners and investment managers should consider:

- the purpose and audience it will serve;
- its structure and scope;
- relevant sustainable finance regulations;
- how it will fit with – and reflect – their fiduciary duties, investment strategies and beliefs; and
- the resources and stakeholder buy-in needed to write, approve, and implement it.

Organisations should also identify if they already have policies on certain operational issues, such as stock lending or conflicts of interest, and how these will exist alongside a responsible investment policy or be incorporated into (and replaced by) the latter.

As investors increasingly recognise that long-term financial returns largely depend on the viability of environmental and social systems, they should consider system-level undiversifiable sustainability issues such as human rights and climate change.

Investors should then consider how – in line with their fiduciary duties – their investment and stewardship activities can address these systemic risks by developing mitigation strategies using their levers of influence, ensuring their investment beliefs, strategy and policy documents overall reflect the approach they take. Finally, undertaking a peer review can help align with leading practice.

WHAT TO INCLUDE

There are many components that asset owners and investment managers can choose to include in their investment policies, and these will vary in detail depending on their level of responsible investment experience, mandates, and whether the policy is an all-encompassing document or something that complements other policies and statements.

An **introduction** can provide context around how a policy was developed, its governance, purpose, scope and the beliefs, objectives, and stakeholder, client, or beneficiary needs that underpin it. It can also set out an organisation's positions on core ESG issues, such as human rights and climate change, how issues interact with each other, and how the organisation wants to contribute to creating a sustainable financial system.

A section on **investment guidelines and objectives** can be used to explain broadly how an organisation will incorporate ESG considerations within its investment processes, including any specific targets it has and what it needs to do to achieve them.

Investors may choose to outline their **ESG incorporation** approach(es), such as screening, ESG integration or thematic investing, in more detail.

Investors should also cover how they approach **stewardship** in their responsible investment policy, including how this contributes to their responsible investment objectives and beliefs, and any sustainability outcomes that they are pursuing. Some organisations choose to have a standalone document covering stewardship, or specific stewardship activities such as engagement.

REPORTING

Signatories to the PRI are expected to **report** on their activities and progress towards meeting the Principles annually, while providing transparency to clients and/or beneficiaries is considered industry best practice.

As such, asset owners and investment managers can highlight their reporting practices in their responsible investment policies. Doing so can help ensure that they are held accountable for implementing their responsible investment policies.

MONITORING AND REVIEW

All aspects of an organisation's responsible investment policy need to be **monitored** periodically to evaluate success and identify underperforming areas. Organisations should review their policies annually, and where updates are needed, they should re-review the What to consider before writing a responsible investment policy section, particularly around governance, which considers implementation.

ACKNOWLEDGEMENTS

We would like to thank the following organisations for their insights and feedback in developing this guidance:

- Aema Groupe
- Allianz
- Aon
- Brummer & Partners
- Business & Human Rights Resource Centre
- CAAT Pension Plan
- Care Super
- China Pacific Insurance
- Indefi
- Los Angeles County Employees Retirement Association
- Nippon Life Insurance
- Norwegian Government Pension Fund Global
- Old Mutual
- Pensionfund Metalektro
- Porvenir
- Sura Afore Mexico
- UAW Retiree Medical Benefits Trust
- United Church Funds
- University of Toronto Asset Management Corporation

ABOUT THIS GUIDE

This technical guide aims to help asset owners and investment managers to write, or revise, their responsible investment policy.

The content is based on desk research, webinars, analysis of signatories' responsible investment policies, and discussions with signatory advisory committees.

The technical guide builds on previously published policy guidance, such as How to craft an investment strategy and An introduction to responsible investment: policy, structure and process.

Where relevant, it highlights which 2023 PRI Reporting Framework modules readers can refer to for each section, to assist with their own policy writing, and when analysing those of peers through their Transparency Reports. The Policy, governance, and strategy module is the most relevant to developing a responsible investment policy – the appendix details what the indicators in this module cover.

Figure 1: A responsible investment policy in context for asset owners

MODULE 1
Strategy, policy and strategic asset allocaion

- Defining a strategy
- Writing a policy
- Developing an approach to strategic asset allocation

MODULE 2
Mandate requirements and RFPs

- Developing mandate ESG requirements
- Creating RFPs for manager search

MODULE 3
Manager selection

- Longlist of managers
- Shortlist of managers
- In-depth due dilligence

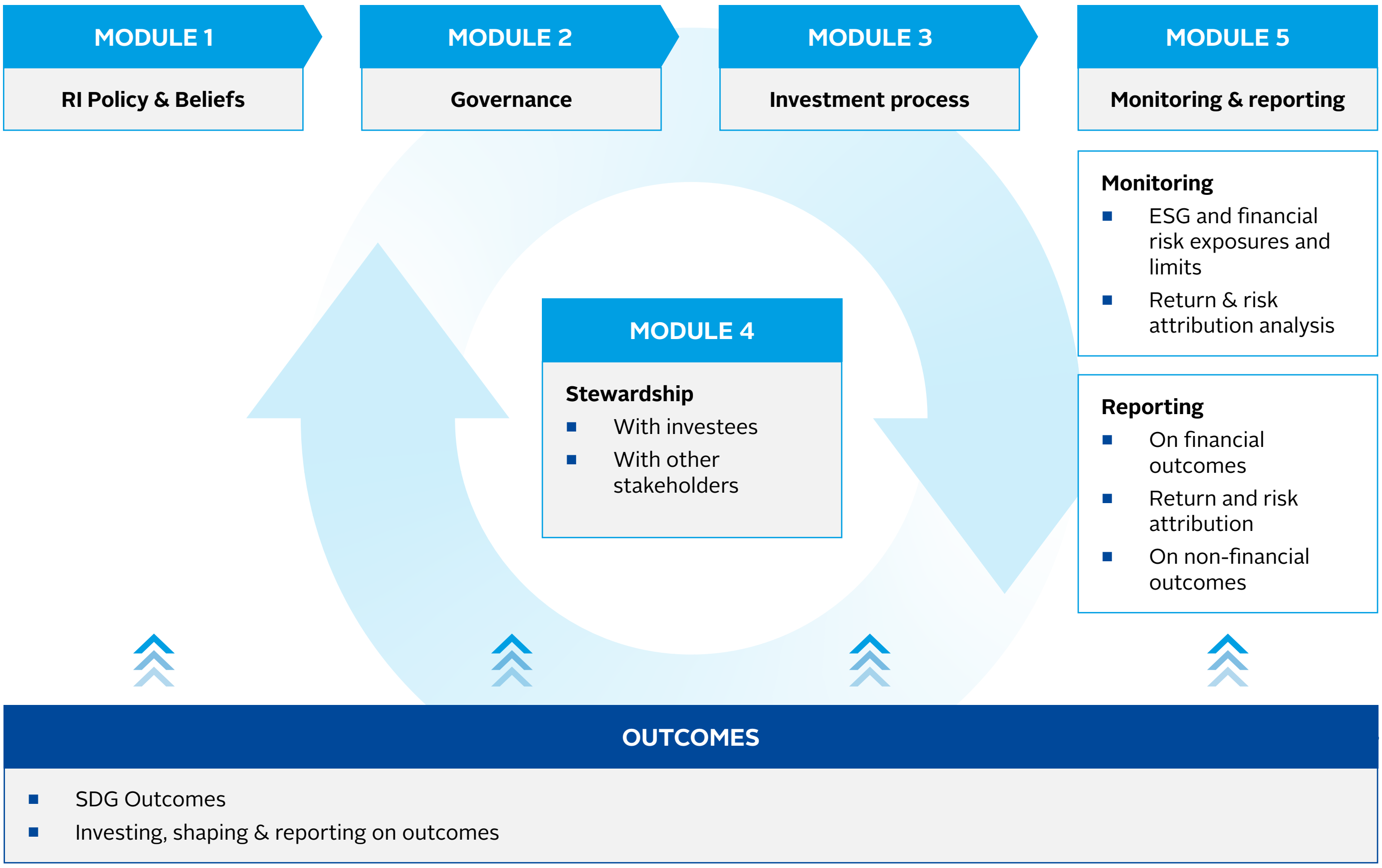
MODULE 4
Manager appointment

- Embedding ESG requirements into legal documents
- Sample model contracts

MODULE 5
Manager monitoring

- Identifying minimum reporting disclosures
- Considering asset class-specific reporting

Figure 2: A responsible investment policy in context for investment managers



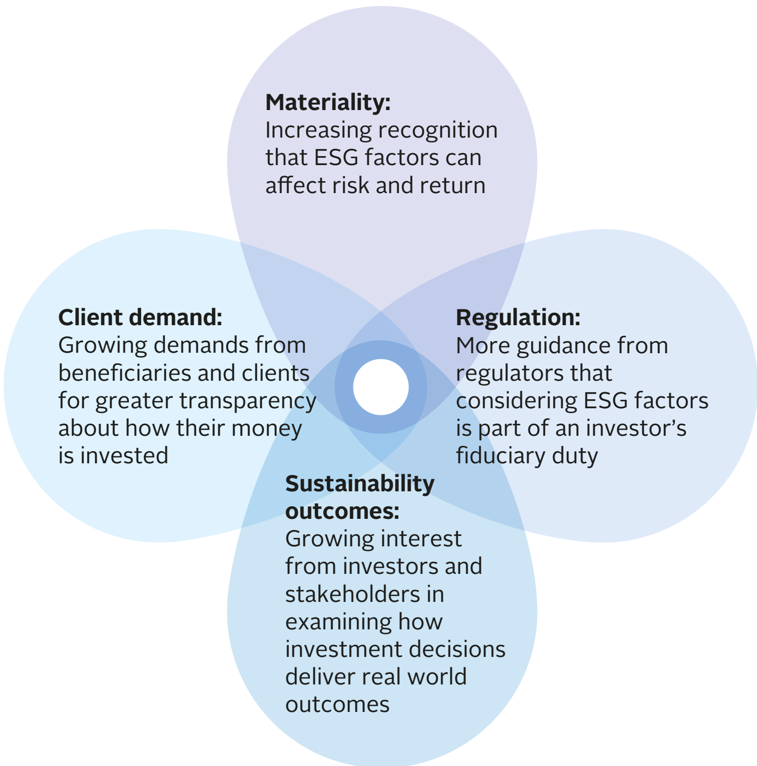
EVOLVING RESPONSIBLE INVESTMENT POLICIES AND PRACTICES

This section briefly reviews the drivers of responsible investment policies and practice, how these have evolved and what the PRI's minimum requirements are for signatories in relation to responsible investment policies.

Responsible investment policies have evolved rapidly in recent years, from simple statements setting out an investor's commitments and approach to share voting, to sophisticated multi-page documents and websites with a wealth of detail on environmental, social and governance (ESG) incorporation, disclosure, and qualitative and quantitative goal setting.

This evolution mirrors the broader development of responsible investment from niche to mainstream, as various pressures are forcing companies and sectors to internalise costs that they have previously externalised.

Figure 3: Drivers of evolving responsible investment policies and practices



Throughout this technical guide we provide relevant examples taken from responsible investment policies, some of which we illustrate in Figures 4 and 5.

Figure 4: Asset owner responsible investment policy examples

NORTH AMERICA

- California State Teachers' Retirement System
- OPTrust
- Ontario Teachers' Pension Plan
- University of Toronto Asset Management
- California Public Employees Retirement Service
- Los Angeles County Employees Retirement Association

EUROPE

- P+
- AP4
- PGB Pensioendiensten
- Greater Manchester Pension Fund
- Brunel Pension Partnership
- National Employment Savings Trust
- Church of England Pensions Board
- Swiss Re
- London CIV

ASIA

- Dai-ichi Life Insurance Company
- GPIF
- Sumitomo Life
- Korea Investment Corporation

LATIN AMERICA

- BNDESPAR
- Previ
- Grupo Sura

AFRICA

- Government Employees Pension Fund of South Africa
- Old Mutual
- Eskom Pension & Provident

OCEANA

- CBUS Superannuation Fund
- Commonwealth Superannuation Corporation
- Vision Super
- New Zealand Super Fund
- Telstra Super
- Suncorp Group

Figure 5: Investment manager responsible investment policy examples

NORTH AMERICA

- StepStone Group
- Conning
- Wellington Management Company
- Axiom Investors
- CBRE Global Investors
- PIMCO
- Boston Common Asset Management

EUROPE

- Coutts & Company
- Trinetra Investment Management
- CAM Alternatives
- Quinbrook Infrastructure Partners
- Sarasin & Partners
- Mirova
- La Financiere de l'Echiquier
- Actis
- Jupiter Asset Management

ASIA

- CSOP Asset Management
- Nomura Asset Management
- Polaris Capital Group
- Bin Yuan Capital
- Arisaig Partners (Asia)
- Asset Management One
- Sumitomo Mitsui Trust Asset Management

LATIN AMERICA

- FAMA Investimentos
- Itaú Asset Management
- Sura Investment Management
- Ainda, Energia & Infraestructura
- Moneda Asset Management
- Bradesco Asset Management
- Bancolombia

AFRICA

- Alexander Forbes Investments
- Aeon Investment Management
- Futuregrowth Asset Management
- Coronation Fund Managers
- Imara Holdings
- Absa Asset Management
- Leapfrog Investments

OCEANA

- Ethical Partners Funds Management
- Bell Asset Management
- WaveStone Capital
- Dexus
- Lendlease
- New Forests
- Adamantem Capital

PRI resources

Investors can search the Responsible investment policy database for examples of policies provided by more than 1,500 asset owners and investment managers, which can be reviewed or adapted.

MINIMUM REQUIREMENTS AND EVOLVING PRACTICES

It is a minimum requirement of being a PRI signatory to lay out the overall approach to responsible investment or ESG factors an organisation takes – either within a main investment policy or in a separate document, as highlighted in the Reporting Framework.

The approach set out within the policy must:

- apply to more than 50% of an organisation's assets under management.

Responsible investment must:

- be implemented by at least one person (internally or externally); and
- be overseen by at least one person or function at a senior level (e.g., board or trustee, executive-level staff, investment committee or department head).

As part of their membership, PRI signatories are also required to report on their responsible investment activities annually, in keeping with the Principles, following a grace period in their first year of joining.

Below we highlight some of the policy practices that asset owners and investment manager signatories disclosed during the 2021 reporting cycle. Some were already developed and may have evolved since, while others reveal room for improvement.

TRANSPARENCY

- Almost **85% of investment managers** made their overall approach to responsible investment publicly available, compared to **90% of asset owners**.
- Around **two-thirds of asset owners** make their organisation's approaches exclusions public, whereas only one in three publish asset class-specific guidelines for ESG incorporation or approaches to internal reporting and verification.
- More than **70% of investment managers** opted not to disclose how they deal with conflicts of interest in their responsible investment policies.

STEWARDSHIP

- Roughly **70% of investment managers** said they have a stewardship policy, and over half of those policies included core elements such as their main objectives and how they prioritised ESG factors and linked them to engagement issues. Almost **70% of asset owners** set out their approach to stewardship in a publicly available policy document.

SELECTION, APPOINTMENT AND MONITORING

- Nearly **one in three asset owners** do not require **investment managers** to follow their responsible investment strategy for a majority of AUM.
- When selecting managers, the most common things for **asset owners** to assess against responsible investment criteria are the manager's overall approach and its policy.
- While most **asset owners** assess how prospective and existing **managers** implement a stewardship policy, oversight of specific stewardship actions is less common.

SUSTAINABILITY OUTCOMES

- Just over **one-third of investment managers** and **asset owners** published their policy on sustainability outcomes.

PRI resources

- Inside PRI data: Investment manager practices
- Inside PRI data: asset owner action
- Policy, governance and strategy module reporting guidance
- Introductory guides to responsible investment

WHAT TO CONSIDER BEFORE WRITING OR UPDATING A POLICY

This section outlines what asset owners and investment managers should consider before writing or updating a responsible investment policy.

Relevant PRI Reporting Framework modules

- Senior leadership statement (SLS)
- Organisational overview (OO)
- Policy, governance and strategy (PGS)
- Manager selection, appointment and monitoring (SAM)
- Sustainability outcomes (SO)

Before developing a responsible investment policy, asset owners and investment managers should consider:

- the purpose and audience it will serve;
- its structure and scope;
- relevant sustainable finance regulations;
- how it will fit with – and reflect – their fiduciary duties, investment strategies and beliefs; and
- the resources and stakeholder buy-in needed to write, approve, and implement it.

INVESTMENT POLICY PURPOSE, STRUCTURE AND SCOPE

At its core, an investment policy guides an organisation on (responsible) investment decisions, asset allocation, how stewardship is carried out and how it reports on its activities. It can also:

- **serve as a starting point** to discuss an organisation's position on ESG issues with external and internal stakeholders (e.g., whether responsible investment is used for risk management, to unlock new opportunities, to consider and act on real-world outcomes, or a combination of these);
- **clarify fiduciary duties** – how an organisation interprets its fiduciary responsibilities to clients and/or beneficiaries;
- **demonstrate how system-level risks are approached** – whether such risks are relevant to the organisation's legal obligations and investment objectives and, if so, how they can be mitigated.
- **guide third-party managers or consultants** on how they should apply certain responsible investment criteria on behalf of their clients, where applicable.

> "It is important to emphasise that Brunel's purpose [for] doing this is to better manage risk and generate sustainable, long-term returns... Responsible investment is central to how Brunel fulfils its fiduciary duty."
>
> Brunel Pension Partnership Responsible investment policy statement (2020)

Investors can choose to have one all-encompassing policy document that combines their ESG incorporation and stewardship approaches with broader investment considerations, or they can outline their approach to responsible investment (or specific ESG issues) in a separate policy (or across several documents). They should consider who the audience is, and whether to tailor their documents accordingly.

Regardless of the structure, investors will need to clarify the scope of the responsible investment policy – namely whether it will apply to all assets under management or a proportion of them, and if the latter, how this will be determined, i.e., by internal/external management, geographic region, asset classes or security type. Responsible investment policies will differ, reflecting the variety of approaches taken across the industry.

They should establish which qualitative and quantitative targets, if any, the policy will contribute to, (e.g., diversity, equity and inclusion, biodiversity, human rights, climate).

In some jurisdictions, investors may face legal and regulatory disclosure requirements or fiduciary responsibilities , that guide their policies and subsequent responsible investment activities.

Investors that want to make their policies more detailed might consider what investee-level disclosures they expect, such as those developed by the ISSB and GRI.

Examples

SHOWCASING BELIEFS

- Alongside issue or practice-specific policies, in its 2023 Responsible Investment Policy, **Nordea** outlines the purpose, scope, and structure: "We believe that it is our fiduciary duty to deliver returns with responsibility."
- In its policy, **Norges Bank Investment Management** describes how the purpose of the fund is linked to sustainable economic, environment, and social development, before setting out how it works with companies, how it influences markets/industries, its approach to climate and environment along with ethical guidelines and exclusions.

PRI resources

- PRI Regulation database
- An introduction to responsible investment
- Fiduciary Duty in the 21st Century
- Understanding and aligning with beneficiaries' sustainability preferences

1 Examples include the Sustainable Finance Disclosure Regulation (SFDR), the Taskforce for Climate-related Financial Disclosure (TCFD) recommendations, Taskforce on Nature-related Financial Disclosures, stewardship codes, or the G20/OECD Principles of Corporate Governance.

INVESTMENT BELIEFS AND STRATEGY

An organisation's responsible investment policy should reflect its overall investment beliefs and strategy, as well as its legal purpose, mission, and stakeholder/beneficiary interests, as applicable.

Investment managers and asset owners should consider these, how they might evolve in the future and what the policy should contain to deliver on them, before drafting the latter.

Organisations should also identify if they already have policies on certain operational issues, such as stock lending, whistleblowing, anti-bribery, and anti-money laundering – these will either need to exist alongside a responsible investment policy or be incorporated into (and replaced by) the latter.

Conflicts of interest – such as those arising from competing business interests, which could limit how an organisation implements responsible investment – should also be considered. Highlighting where this may arise and how it will be managed is important.

Finally, investors wishing to address specific ESG issues – such as human rights, biodiversity, and climate change – or contribute to sustainability outcomes more generally through their investment and stewardship activities can also consider if, and how, their investment beliefs and strategy facilitate this, and how this will be reflected in their policy documents overall.

This is explored in more detail in What to include in a responsible investment policy.

NEW TO RESPONSIBLE INVESTMENT?

If elements such as overall investment beliefs and strategy, legal purpose and mission are not formally established and documented, organisations should consider developing these before writing a responsible investment policy.

This may involve conducting a SWOT analysis that identifies current and future investment ambitions, existing investment and ownership practices and processes, objectives, targets and performance metrics, resources and skillsets and stakeholder, client, and beneficiary preferences. This can be undertaken alongside a materiality analysis.

If internal resources or experience are limited, organisations could work with an external advisor/ investment consultant, as this may uncover considerations that may not otherwise be discussed. The PRI also has several resources that can be used by organisations new to responsible investment (see below).

PURSUING SUSTAINABILITY OUTCOMES

As explored in the PRI's A Legal Framework for Impact work, in some jurisdictions, investors have an obligation to consider (and mitigate) undiversifiable, system-level risks derived from sustainability issues such as climate change, biodiversity loss or social instability, where doing so can help achieve their legal purpose. In most cases, this is to achieve financial objectives. In others, they may be permitted to pursue sustainability goals in parallel with their financial ones.

Almost two-thirds of signatories that responded to the PRI's formal consultation, PRI in a Changing World, indicated that they believe their organisation's future responsible investment approach will include a combination of managing ESG risks and identifying and acting on sustainability outcomes. Due to increased demand from clients, wider society, and action by regulators, there is a growing recognition and expectation that investors play a key role in responding to the global sustainability challenges we face.

2 The PRI in a Changing World signatory consultation was conducted in two parts – signatory conversations in the form of workshops and the Signatory General Meeting, between September and November 2022, and an online survey, which ran from December 2022 and January 2023. The response rate refers to the 1,487 signatories that responded to the online survey. For more information, see Formal consultations.

"The GEPF's commitment is informed by the beliefs that:

- sound environmental management forms an essential part of sustainable economic growth and development – the basic ingredients for corporate sustainability;
- the mismatch between social and private financial returns is not sustainable as the two need to be aligned if the market system is to be sustainable;
- enhanced governance mitigates risks of total corporate failure, which ultimately leads to enhanced long-term returns."

Government Employees Pension Fund (GEPF) Responsible Investment Policy (2017)

"Respect for the planet is [...] guided by the recognition that humanity, and by extension financial markets, do not adequately value all of the services and resources that the natural world currently provides. This leads to a range of environmental issues that pose significant risks not only for economic stability and future financial returns, but also the survival of our global ecosystem."

Church Commissioners for England Responsible Investment Policy (2022)

EXAMPLE

Addressing sustainability issues

- In its 2022 ESG Risk Framework, **SwissRe** highlights that it applies the concept of double materiality, considering the impact it has on sustainability issues and how it, as an insurer, is affected by these issues. "Integrating sustainability risks into the risk management framework means understanding fully the materiality of sustainability issues."
- In its 2023 responsible investment policy, **Suncorp** highlights its commitment to making a positive impact on the community and society it operates in. "Our investment in [...] listed and unlisted assets seeks to achieve this positive impact through targeting specific environmental and social outcomes identified by our commitment to the UN SDGs." Potential investments include green and social impact bonds and renewable energy infrastructure.

PRI resources

- How to craft an investment strategy
- An introduction to responsible investment
- An introduction to responsible investment: policy, structure and process
- Transforming responsible investment policies into action

GOVERNANCE, RESOURCES AND STAKEHOLDER BUY-IN

A responsible investment policy can only be an effective tool for mandating how an organisation implements its strategy and beliefs if it is supported by effective governance structures.

Investors should consider who in the organisation will be accountable for approving and then implementing the policy and achieving its commitments, whether appropriate systems are in place to facilitate this and identify if any responsible investment training is needed for relevant staff.

Internally, the following roles could be responsible for the oversight, day-to-day execution and management of the policy:

- **Board of Trustees/Directors:** Responsible for providing strategic development, overseeing the policy, and reviewing whether it is working to meet the objectives.
- **Investment Committee:** Responsible for overseeing policy execution and implementation.
- **Chief Executive Officer:** Responsible for policy approval; monitoring policy execution.
- **Chief Investment Officer:** Responsible for the development and implementation of responsible investment throughout the investment chain.
- **Chief Financial Officer/Chief Risk Officer:** Responsible for executing risk management and measuring ESG risks in applicable portfolios.
- **Investment teams:** Responsible for executing policy in every investment decision.
- **ESG and stewardship specialists and committees:** Responsible for specific input on ESG issues and investment approaches that incorporate ESG factors and reviewing all stages of the investment process.
- **Compliance team:** Responsible for ensuring practices and processes meet an organisation's own standards and any relevant responsible-investment regulation.

It is important to describe the function that each team or individual plays, how they interact with each other and the process for decision making. There are other functions that will be responsible for communicating the activities and outcomes of the policy and ensuring the material is clear, fair, and not misleading.

It is leading practice for investors to set KPIs tied to implementing the policy, decide who would be accountable for meeting them and whether they would be linked to remuneration. Examples include setting KPIs linked to the Principle Adverse Impacts and or to positive contributions made by funds that consider sustainability risks under SFDR, some of which are mandatory under the regulation.

EXAMPLE

Implementing responsible investment

In its responsible investment policy, **CSOP Asset Management** has a chapter focused on how its responsible investment policy and practices are carried out. It describes the responsibilities of the investment committee, research and equity departments, how other departments cooperate in implementing the policy, how responsible investment performance is evaluated and how capacity is built to ensure the policy is fully understood internally, including through professional training, subject matter expert and portfolio manager discussions and use of third-party ESG data, ratings and research.

Asset owners that work with third-party managers or service providers to implement some or all of their responsible investment activities should consider the following to ensure effective governance arrangements are in place:

- **Mandates:** How investment mandates are developed and agreed to align with their own policies, beneficiary interests and long-term objectives. Example clauses can be found in the International Corporate Governance Network Model Mandate guidance.
- **Manager selection:** The criteria used for manager selection (e.g., alignment of interests/beliefs, fee structures, ESG expertise, governance structure).
- **ESG requirements:** Any requirements for managers to have a responsible investment policy or comply with the asset owner's, to demonstrate their competency in ESG incorporation or promote responsible investment (e.g., through PRI membership).
- **Risk and compliance:** The risk management and compliance roles and responsibilities that the external managers/service providers have in place to implement policies and objectives.
- **Monitoring:** How asset owners will oversee and engage with external managers/service providers to ensure their expectations are met.

Identifying the resources needed to apply a policy prior to writing it will ensure the organisation has time to make any necessary adjustments.

Writing and implementing a responsible investment policy effectively also requires support from a range of stakeholders. These include internal stakeholders, such as senior executives, board members and investment staff, and external ones, such as beneficiaries, clients, and service providers.

For asset owners, understanding beneficiaries' ESG and sustainability preferences is increasingly important, – as the PRI's report on the issue explores. Where appropriate and consistent with fiduciary obligations, they should look to incorporate these preferences in their responsible investment policies.

Investment managers should also consider how their policies align with their clients' interests and objectives.

Asset owners can also review external managers' policies, their PRI reporting, and use the due diligence questionnaires and the technical guides below to ensure alignment of interests and that policy objectives are being met.

EXAMPLE

Manager selection criteria

In its Life & Pensions Responsible Investment Policy, **Nordea** outlines the criteria it uses to assess the ESG capabilities and practices of potential managers. These include ESG philosophy and integration, internal ESG research, ESG and sustainability policies, targets and commitments, dedicated ESG resources and reporting capabilities, voting and engagement practices. Nordea rates managers based on these criteria and will only select those that meet a required rating within the specific asset class.

PRI resources

- PRI Academy courses
- Policy, governance, and strategy module reporting guidance
- Asset owner Due Diligence Questionnaires
- Understanding and aligning with beneficiaries'sustainability preferences
- An introduction to responsible investment: selecting, appointing, and monitoring investment managers
- Asset owner technical guides on investment manager selection, appointment and monitoring
- ESG integration in listed equity: A technical guide

External resources

- CFA Institute certificate in ESG investing
- International Corporate Governance Network – Global Investors for Sustainability and Development Alliance Model Mandate guidance

UNDERTAKE A PEER REVIEW

Understanding what peers are doing can help align with leading practice when preparing to develop a policy. Investors can consider the pros and cons of the approaches they encounter:

- How does the (proposed) policy structure compare to peers?
- How do peers involve stakeholders in the design of policies – for example, how are beneficiary and client preferences considered and incorporated?
- How are ESG risks or opportunities defined, identified, valued and considered by peers in their investment and stewardship decisions?
- What, if anything, have peers done to effect real-world outcomes in their investment and stewardship activities?

Investors can use the responses to indicators in the Policy, Strategy, and Governance module of the PRI's Reporting Framework, as outlined in the appendix, to inform areas of their own policies, and to review peers and external managers' approaches. They can also refer to the policy examples we highlight in Evolving responsible investment policies and practices (Figures 4 and 5), as well as accessing any Transparency Reports made public by signatory peers through the PRI website and Data Portal.

WHAT TO INCLUDE IN A POLICY

This section details the main components of a responsible investment policy, including examples, that asset owners and investment managers could cover in their document(s).

Relevant PRI Reporting Framework modules

Policy, governance and strategy (PGS)
Manager selection, appointment and monitoring (SAM)
Asset class modules
Sustainability outcomes (SO)

There are many components that asset owners and investment managers can choose to include in their investment policies, and these will vary in detail depending on their level of responsible investment experience and whether the policy is an all-encompassing document or something that complements other policies and statements, among other factors.

They can be concise and overarching, with supporting aspects such as process, verification and assurance, or sustainability issue strategies, detailed in separate documents that may be updated more frequently.

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 descriptions of how they track and assess issue-specific activities and outcomes.

The following are examples of the different sections of a responsible investment policy, and what can be included.

INTRODUCTION

The introductory section of a policy should state the organisation's motives for developing it, and the beliefs, objectives, and stakeholder, client, or beneficiary needs that underpin it. It should also describe the policy's scope and any investment products/strategies/businesses it does not apply to.

It could include background information on how the policy was developed (see What to consider before writing a policy) and who was involved in its preparation and design. For example, if a working group developed the policy, the introduction could highlight the group's objective and members.

The introduction should also make clear whether this policy is part of a broader investment policy or if it is a separate document, and whether the organisation has any other guidelines, statements, or strategies that relate to it – for example, on issues such as climate change, human rights, biodiversity, or diversity, equity and inclusion, or specific practices such as stewardship.

There are sections in the PGS module of the PRI Reporting Framework on these elements. It is considered good practice for signatories to have a clear approach to these issues in their responsible investment policies and guidelines, with detailed separate documents where needed, and to make links between them where relevant.

Organisations can also outline how they will comply with and monitor the policy – identifying who is responsible for its implementation and assurance, how often it will be reviewed and any guidelines on how potential breaches are addressed. These issues could also be outlined in a separate section (see Monitoring and review).

A COMMITMENT TO HUMAN RIGHTS

The UN Guiding Principles on Business & Human Rights (UNGPs) require institutional investors to exercise a three-part responsibility to respect human rights, the first of which is a policy commitment:

"Investors should establish a policy commitment to respect human rights, approved at the most senior level and embedded throughout the organisation to inform investment decisions, stewardship, and policy dialogues."

Once this is in place, the relevant due diligence, mitigation, engagement with stakeholders (e.g., investees, civil society, NGOs, indigenous peoples, local communities, suppliers, and workers), and remedy processes and procedures can be implemented:

"Investors should manage actual and potential negative human rights outcomes; such considerations should be reflected in investors' investment decision-making processes, including in portfolio construction, security selection and allocation, and / or in selecting, appointing, and monitoring external managers / funds and other service providers.

Investors should enable or provide access to remedy for people affected by their investment decisions. For outcomes that investors are directly linked to through an investee, investors should ensure that investees provide access to remedy for people affected."

Organisations should consider human rights commitments when writing a responsible investment policy so they can set out their approach and governance and exercise their responsibilities across their investment activities. There has also been momentum in governments championing human rights and embedding their expectations of investors into law and regulation.

Investor human rights policy commitments: an overview highlights that a policy commitment closely aligned with the UNGPs is one that is:

- approved at the most senior level of the business;
- informed by relevant internal and / or external expertise;
- integrated in governance frameworks, management systems, investment beliefs, [other] policies and strategy to inform investment decisions, stewardship of investees and policy dialogue; and
- publicly available and communicated to all relevant parties.

The report also features a database of human rights policies that readers can refer to.

EXAMPLE

Next Energy Capital has a standalone position statement on human rights. It describes the role of human rights in its sustainability framework, the over-arching principles used and how it implements these principles throughout its investment process and operations. "We consider leading the transition to clean energy and achieving net-zero ambitions goes hand-in-hand with sustainable development, poverty alleviation, and the reduction of inequality."

A COMMITMENT TO BIODIVERSITY

Adopted at the UN Biodiversity Conference COP15 in late 2022, the Kunming-Montreal Global Biodiversity Framework aims to halt and reverse biodiversity loss by 2030. It calls for public and private financial flows to be aligned with that mission, providing a clear mandate for institutional investors to integrate biodiversity considerations in their responsible investment policies.

A policy commitment closely aligned with the Global Biodiversity Framework could contain or address the following:

- **Definitions and standards:** key definitions aligned with industry standards/leading practice (e.g., deforestation according to Accountability Framework Initiative, nature-related risks according to the Taskforce on Nature-related Financial Disclosures);
- **Scope:** such as which biodiversity loss drivers or sectors are covered, targeted commitments on reducing/eliminating deforestation and other natural land conversion, avoiding negative impacts on protected or key biodiversity areas;
- **Assessment:** how biodiversity or nature dependencies, impacts and risks will be assessed, monitored and disclosed across the portfolio;
- **Stakeholders:** recognising Indigenous Peoples and local communities as key protectors of the land and nature, and adhering to the principles of free, prior and informed consent;
- **Capital allocation:** how investment towards reversing biodiversity loss will be increased, what type of climate finance will be used (e.g., nature-based solutions);
- **Stewardship:** how effective strategies, including collaboration, can be used to influence investees, policy makers, and other financial actors.

EXAMPLE

Impax Asset Management has a dedicated Nature, Biodiversity and Deforestation policy that outlines how it approaches managing nature-related risks in investments, what it aims to achieve when engaging with investee companies and issuers and how it approaches policy advocacy on these topics.

"LGIM has a crucial role to play in holding investee companies to account for understanding the biodiversity risks and opportunities that they are exposed or contributing to, and in providing relevant disclosure on these issues. In addition, in our role as an owner and manager of direct investments, we recognise our responsibility to protect and enhance biodiversity."

Legal & General Investment Management Biodiversity policy (2021)

A COMMITMENT TO CLIMATE

Investors are directly and indirectly exposed to policy, legal, technological, market, and reputational transition risks related to climate change, as well as to acute and chronic physical risks. Investors can also benefit from climate-related opportunities linked to resource efficiency, energy services and resilience-related products and services. These risks and opportunities may affect investors and investees' revenues, expenditures, assets and liabilities, capital, and financing. An introduction to responsible investment: climate change for asset owners is a good starting point, along with the resources at the end of this section.

To be aligned with the recommendations of the TCFD, investors should describe their approach to assessing climate-related risks and opportunities, and how these are embedded in their governance processes, strategy, risk management (including through scenario analysis), and the associated metrics and targets used. They should also consider specific climate-related issues potentially arising over time that could have a material financial impact on the organisation.

When considering climate commitments in a responsible investment policy, the following could be covered:

- Climate targets set by trustees or oversight board
- How these commitments and activities will reduce real-world emissions
- Beneficiary or client expectations
- Initiatives or frameworks aligned with climate ambitions and policy
- Influence of regulatory environment
- Impact of the just transition on investment decision making
- Disclosure of greenhouse gas emission data including frequency

EXAMPLE

Allianz references climate change throughout its ESG integration framework and environmental guidelines, as well as having a separate climate change strategy. It has position statements on certain high-emitting sectors and is part of the Net Zero Asset Owner Alliance, while its sustainability reports are aligned with the TCFD recommendations.

"The climate crisis is the greatest threat facing our planet. Taking action now is the best thing we can do for our customers, business, shareholders and future.

In March 2021 we announced our demanding climate goals to:

- become a net-zero company by 2040
- achieve a 25% reduction in [asset carbon intensity] by 2025, and 60% by 2030
- have net-zero operations and supply chain by 2030"

Aviva Investors Climate Transition Plan (2021)

PRI resources

- Policy, governance and strategy module reporting guidance
- Introduction to responsible investment: Stewardship
- Investor human rights policy commitments: an overview
- Climate risk: An investor resource guide
- An introduction to responsible investment: climate change for asset owners
- Why and how investors should act on human rights
- How to identify human rights risks: A practical guide in due diligence
- Human rights due diligence for private markets investors: a technical guide
- Incorporating climate changes in private markets
- Sustainability outcomes resources
- Climate data and net zero: Closing the gap on investors'data needs
- Other PRI climate change resources

External resources

- Investing in renewable energy to power a just transition: a practical guide for investors
- ICAPS guidance and Expectations Ladder
- TCFD metrics and targets

DEFINITIONS

This section of a policy could include definitions of some of the key terms and acronyms used in the document, such as:

- Responsible investment
- Investment objectives
- ESG factors
- Stewardship
- Sustainability outcomes

PRI resources

- Reporting Framework glossary

INVESTMENT GUIDELINES AND OBJECTIVES

This section should set out an organisation's core investment guidelines and objectives and how it will incorporate ESG considerations within them. It could outline any specific targets it has (e.g., reducing the carbon or biodiversity footprint of its portfolio(s), implementing the UNGPs, contributing to the Sustainable Development Goals) and what it needs to do to achieve them.

If an organisation is pursuing sustainability outcomes and/or systematic sustainability issues, these guidelines can describe the rationale for doing so – including any regulatory drivers and how this relates and contributes to its broader investment beliefs, strategy and objectives (See Investment beliefs and strategy).

Investment managers and asset owners could consider including:

- **Conflict of interest guidelines.** How conflicts will be identified, managed, and monitored in investment decision making and stewardship activities across funds, asset classes, and team incentive structures.
- **Third-party manager / service provider guidelines.** These could stipulate any responsible investment expectations or requirements that asset owners have of their third-party investment managers or investment consultants, or the processes they use to select, appoint or monitor these, such as including ESG clauses in investment management agreements or using responsible investment due diligence questionnaires.
- **Minimum ESG standards for investees.** These can vary in detail, ranging from high-level statements to detailed expectations that investees should adhere to, such as environmental management standard ISO14001, or human rights frameworks. They could also include how investees should approach supplier and supply chain due diligence.
- **Asset class guidelines.** These can highlight where a responsible investment approach differs according to asset class, or which asset classes the policy applies to if the overall approach is broader.

EXAMPLE

Expectations for different asset classes

StepStone Group's responsible investment policy covers all asset classes and strategies globally. The private markets manager has developed a series of guidelines to tailor its approach, with dedicated responsible investment workgroups for each asset class it invests in, directly and through external investment managers.

- **Asset allocation guidelines.** These can outline which asset allocation approach an organisation uses, how asset allocation decisions help meet investment objectives and how ESG considerations contribute to these – for example, whether specific asset allocation targets are expected to contribute towards real-world outcomes and how they might do so.
- **Risk management guidelines.** These can describe an organisation's overarching risk philosophy and tolerance, focusing on market (e.g., liquidity, legal, political, regulatory), counterparty and ESG risks. For example, how asset allocation or portfolio construction reflect risk budgets or how material ESG risks will be identified, measured, and addressed.
- **Scenario analysis.** This could describe how scenario analysis and/or modelling of specific ESG factors or trends (e.g., climate-related risks, biodiversity loss, demographic shifts) is used to calculate the risk profile of a portfolio and the impact this might have on returns.
- **Hedging and derivatives.** This could describe whether derivative instruments are used and how (e.g., for long or short positions), for which purpose (e.g., to reflect a position on an ESG issue, for market efficiency, for risk management), which instruments are permitted and the desired hedging ratios for specific asset classes, if applicable, and the link between ESG considerations and valuations.

EXAMPLE

Engaging with sub-investment managers

Brummer & Partners emphasises engagement with sub-investment managers in its Responsible Investment Policy for Brummer Multi-Strategy, including on the consideration of ESG factors and the SDGs in investment decisions. Investment restrictions include long exposure to companies involved in thermal coal and avoiding companies in violation of international norms on human rights, labour rights, the environment and anti-corruption for example, but short exposure is not restricted as companies with ESG issues may be typical shorting candidates.

- **Leverage guidelines.** These can describe the organisation's approach to using leverage, including the maximum level permitted for each asset class or strategy, and how this is measured and monitored.
- **Treasury management guidelines.** Where applicable, these can outline how ESG considerations inform collateral or cash management processes.
- **Return objectives.** These can identify how ESG factors are considered in portfolio, or asset class, return targets, any benchmarks used to measure portfolio or fund performance, and associated tracking errors.
- **Investment/trading style guidelines.** These can describe the different investment or trading approaches/strategies that a portfolio or fund may use (e.g., active or passive; fundamental or technical; value or growth; market capitalisation; quantitative or discretionary), their investment time horizon, the ratio of internal to externally managed assets if applicable, and how ESG considerations impact these elements.

PRI resources

- Asset owner technical guides on investment manager selection, appointment and monitoring
- Asset owner due diligence questionnaires
- Investment consultants and ESG: An asset owner guide
- Embedding ESG issues into strategic asset allocation frameworks: A discussion paper
- Implications for strategic asset allocation
- Asset class-specific resources
- Sustainability outcomes resources
- A Legal Framework for Impact

External resource

- International Corporate Governance Network – Global Investors for Sustainability and Development Alliance Model Mandate guidance

ESG INCORPORATION

This section should outline the ESG incorporation approach(es) that an organisation uses in its investment process, such as those shown in Figure 6.

Figure 6:

Screening involves applying filters to a universe of securities, issuers, sectors or other financial instruments to decide whether to consider them for investment.

It is based on criteria, such as an investor's preferences or specific investment metrics, set out in an investment process or that reflect a client or fund mandate.

Screening can be positive, norms-based or negative.

ESG integration involves considering ESG issues in investment analysis and decisions to better manage risks and improve returns.

Thematic investing involves looking for opportunities created by long-term ESG trends, such as the move towards renewable energy or circular economies. This could mean selecting a thematic product, such as a fund or index, or constructing a portfolio around such a trend.

Whichever ESG incorporation approach (or combination) an organisation chooses to take should be informed by its overarching responsible investment strategy and beliefs, which should be outlined earlier in its policy. How these approaches interact with stewardship should also be considered.

In discussing the approaches used, organisations could consider including information on:

- **Scope** – whether they apply to all types of asset classes and investments or a proportion of them and how this is determined, i.e., by geographic region, security, product).
- **Client or beneficiary preferences** – whether these have informed the approaches taken; and how.
- **Objectives** – how the approaches taken contribute to any broader objectives outlined in the policy, or whether they are linked to any specific objectives or outcomes, such as contributing to the UN SDGs.
- **Monitoring** – how the results, controversies, performance or sustainability outcomes of an approach are measured, tracked, and reported on and audited.

EXAMPLE

Screening

In its 2023 Sustainable and Responsible Investment Policy, **Active Super** outlines its investment restrictions. These include not making investments in companies that:

- derive any revenues from controversial weapons or tobacco-related activities;
- derive 10% or more of their revenues from armaments, gambling, old growth logging or uranium mining/nuclear activities;
- derive 33.3% or more of their revenues from high carbon-sensitive activities; or
- exhibit a high ESG risk profile and poor management of these risks.
- This approach applies to listed domestic and international equities.

The superannuation fund also notes that, where possible, it will aim to include these restrictions in investment management agreements, and to apply them to other asset classes, such as fixed income and unlisted assets.

EXAMPLE

Identifying controversies

In its 2021 Sustainable Investment Policy, **Sura Investment Management** outlines its approach to evaluating ESG controversies as part of investment decision making and active ownership, citing 16 examples of controversies that can arise due to ESG incidents or controversial sectors and economic activities.

EXAMPLE

ESG integration

Trinetra Investment Management details in its 2023 Responsible investing and ESG policy how it integrates sustainability and ESG considerations throughout its decision making, including research, security selection, engagement, escalation and voting. "ESG [is] a deciding factor in risk adjusting returns and determining position sizing."

EXAMPLE

Thematic investing

Robeco's 2022 Sustainability Policy includes three thematic chapters – on climate change, human rights and diversity and biodiversity and palm oil – that describe how the investment manager approaches these issues in its commitments, integration, governance and active ownership. These themes also feed into a range of sustainable impact strategies targeting investments that contribute to the UN SDGs.

PRI resources

- Asset class-specific resources
- A technical guide for ESG integration for equity investing
- An introduction to responsible investment
- An introduction to responsible investment: screening
- Investing with SDG outcomes: A five-part framework
- How to identify human rights risks: A practical guide in due diligence

External resource

- Global Impact Investing Network resources
- Impact Management Platform

STEWARDSHIP

This section should outline an organisation's approach to stewardship (also known as active ownership) and how this contributes to its responsible investment objectives and beliefs overall, including any sustainability outcomes that it is pursuing. Investment managers and asset owners could include:

- **Stewardship codes** or guidelines that the organisation must adhere to
- **Stewardship aims**
- **Prioritisation** of the organisation's resources and efforts
- **ESG expectations** for investees or managers engaged with
- **Asset class guidelines** for stewardship activities
- **Systematic and system level risks** targeted by stewardship activities
- **Links between** stewardship activities and investment decision making
- **Results** of stewardship activities, how they are measured and reported to clients, beneficiaries, or other stakeholders

> "Voting and engagement [are] a cornerstone of our [responsible investment] activities. We take the legal right to vote seriously and exercise it in a way consistent with our publicly disclosed objectives and policy positions. How we vote is one way of providing investee companies with an indication of our views as shareholders, as well as to the wider market."
>
> Greater Manchester Pension Fund responsible investment policy

The following elements of a stewardship approach could also be included:

- **(Proxy) voting guidelines.** These could describe how an organisation uses its voting rights, if applicable, whether it has a voting policy and/or declares its voting intentions and rationales publicly, and how it records and monitors its voting activity.
- **Bilateral engagement guidelines.** These could include how an organisation identifies a) target investees and b) the ESG risks and opportunities to prioritise in engagement; specific engagement methods used and how these reflect their influence and expertise (e.g., whether they are a shareholder, bondholder or occupy a board seat); approaches to escalation and divestment and how these will be applied.
- **Collaborative engagement guidelines.** These could describe when collaborative engagement is used and how it contributes to overall investment or stewardship objectives. They could also highlight examples of collaborative engagements the organisation is already involved in, such as Climate Action 100+, Advance or the Collaborative Sovereign Engagement on Climate Change.
- **Public policy engagement guidelines.** These could outline an organisation's approach to public policy and regulator dialogue, what public policy areas it engages on (e.g., sustainability themes or systemic risks; reporting and disclosure frameworks). They could also cover public policy engagement expectations for investees, third-party managers, or trade associations.
- **Third-party manager/service provider engagement guidelines.** These could detail how service providers or third-party investment managers are used to execute stewardship activities, if applicable. They could include any voting and engagement standards/frameworks that need to be adhered to, information on the degree and frequency of information expected, and how the relevant third parties will be monitored or engaged with.

3 Some investors might opt to have a standalone stewardship policy. The guidance outlined above could be used to inform standalone policies or be used to summarise the approach detailed in such a document.

EXAMPLE

Stewardship and advocacy policy

Boston Common Asset Management has a standalone policy covering its stewardship approach, which is focused on three "strategic pillars", alongside governance, SDG alignment and ad hoc topical considerations. The policy details how the investment manager engages with companies through sustained dialogue, its approach to proxy voting, shareholder proposals and public policy advocacy. The document also covers its approach to collaborative initiatives and how it reports on its engagement and other stewardship activities.

PRI resources

- Making voting count: principles-based voting on shareholder resolutions
- Discussing divestment: Developing an approach when pursuing sustainability outcomes in listed equities
- A guide to filing impactful shareholder resolutions
- Evaluating managers' stewardship for sustainability
- A sustainable finance policy engagement handbook
- Issue-specific stewardship resources
- Collaboration platform

POSITION STATEMENTS

If an asset owner or investment manager has a position on an ESG issue, or if it has made an organisation-wide commitment to comply with a particular sustainability initiative or framework, then it can choose to highlight it in a dedicated section. This can be instead of, or complementary to, any overarching statements on these that may be included in a policy introduction or in standalone documents.

The section could include a commitment to transition a portfolio to net-zero emissions to align with the Paris Agreement or to adhere to the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the Global Biodiversity Framework, or the UNGPs. If there are exceptions to applying the relevant position or commitment, these should also be outlined.

EXAMPLE

- The **Construction and Building Unions Superannuation Fund** references a climate change position statement in its responsible investment policy that guides its integration of climate change considerations. The statement has been approved by the trustee board and is reviewed as needed. "T[he] Trustee believes that climate change creates [...] investment risks and opportunities for the Fund's investments and reflects the need to advocate for an orderly transition to a climate resilient economy."
- The **Greater Manchester Pension Fund** outlines its core positions on several ESG themes in its responsible investment policy. These include climate change, other environmental issues such as deforestation and water, employment standards and human rights, corporate governance and tax.

PRI resources

- Investor human rights policy commitments: an overview
- An introduction to responsible investment: climate change for asset owners
- Why and how investors should act on human rights

External resources

- The Global Biodiversity Framework: implications for investors

REPORTING

This section outlines the reporting practices that a responsible investment policy can include.

Relevant Reporting Framework modules

Policy, governance and strategy (PGS)
Manager selection, appointment and monitoring (SAM)
Sustainability outcomes (SO)
Confidence-building measures (CBMS)

This section of a policy should outline an organisation's approach to reporting on its responsible investment activities to stakeholders, including clients, beneficiaries, trustees, and regulators. Doing so can help ensure that investors are held accountable for implementing their responsible investment policies.

Asset owners and investment managers could consider including:

- **Reporting approach.** At what level they will report (see Figure 7), the relationship between organisational, fund and investee reporting, what ESG information they will provide, how comprehensively stewardship activities and outcomes are shared, how frequently they will do so, the format the reporting will take, how widely it will be made available and whether it will differ for various stakeholders.
- **Performance guidelines.** Any key performance indicators that measure the impact of their responsible investment activities or to meet specific targets outlined in the policy.
- **Internal review processes.** What review, verification, and audit processes will be established by the board, (responsible) investment committee or compliance team to ensure reporting objectives will be met.
- **External review processes.** Whether their responsible investment activities are verified by a third party and if so, the level of assurance attained, the scope and limitations of the review, and whether it will use specific standards (e.g., Carbon Trust or ISO 14064-1.)
- **Regulatory requirements.** Information on any transparency/regulatory reporting requirements their organisation is subject to (e.g., the TCFD recommendations, the SFDR, stewardship codes).
- **Third-party reporting guidelines.** The expectations that asset owners have of investment managers, and that both may have of investees, external engagement and proxy voting providers or third-party data providers, including content, cadence, and timeliness. Some of these requirements may regulatory requirements, be present in contractual documentation, or influenced through engagement. The ISSB's IFRS' S1 and S2 disclosure requirements released in June 2023 are examples of company sustainability-related financial information standards.

TRANSPARENCY: A SIGNATORY REQUIREMENT AND AN EXAMPLE OF GOOD PRACTICE

Signatories to the PRI are expected to report on their activities and progress towards meeting the Principles annually, while it is considered good practice to provide transparency to clients and/or beneficiaries. Public annual sustainability reports are also becoming widespread.

EXAMPLE

Reporting and monitoring

In its 2022 Statement of Investment Principles, the Transport for London Pension Fund commits to regularly reviewing its ESG metrics, including climate change. This review then informs manager discussions. The pension fund also commits to monitoring and reporting annually on its carbon footprint, publishing an investment sustainability report and communicating with beneficiaries on ESG matters through a news service, the annual report and accounts, the annual review and ESG page of its website.

> "The Trustee seeks to take a leadership role on transparency and disclosure and will report its responsible investment activities, progress and outcomes to all stakeholders through the Fund's website and annual reports. This includes information associated with the Fund's ESG regulatory compliance obligations, proxy voting, exclusions and climate change."
>
> Construction and Building Unions Superannuation Fund Responsible Investment Policy (2023)

Figure 7: Example of reporting at different levels for investors

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

For asset owners and investment managers to make reporting commitments in their policies and to comply with regulatory requirements, they need data from their investees.

Voluntary company disclosure requirements, such as the IFRS S1 and S2 Standards, are likely to become mandatory in certain jurisdictions; Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore and the UK have indicated they are considering this. These are general sustainability-related financial information and climate-related disclosure requirements respectively.

The European Sustainability Standards Exposure Drafts, relating to issues covered in the Corporate Sustainability Directive, will be adopted by EU member states in 2023, and will help investors to meet their SFDR requirements, while the SEC has proposed a rule on mandatory climate-related disclosures.

Once finalised and implemented, these standards and laws will significantly expand the scope and granularity of investee disclosures, helping investors to make informed decisions and comply with their own reporting requirements as a result. More detail can be found in PRI (2023) Understanding the data needs of responsible investors: The PRI's investor data needs framework.

PRI resources

- Regulation database
- Understanding the data needs of responsible investors
- Climate data and net zero: Closing the gap on investors'data needs
- Asset owner guide: investment manager monitoring
- PRI Data Portal

MONITORING AND REVIEW

This section outlines the monitoring and review process that can take place for a policy.

Relevant Reporting Framework modules

Policy, governance and strategy (PGS)
Manager selection, appointment and monitoring (SAM)
Asset class modules
Sustainability outcomes (SO)
Confidence-building measures (CBMS)

All aspects of an organisation's responsible investment policy need to be monitored to evaluate success and identify underperforming areas. Where a policy needs to be updated, organisations should re-review the What to consider before writing a responsible investment policy section, particularly around governance, which considers implementation.

A clearly developed review process should answer the following questions:

Beliefs and strategy

- Does the responsible investment policy (and any related guidance) reflect the organisation's current investment beliefs and overall strategy?
- Do any internal/external factors require a change in the way the organisation approaches responsible investment, such as evolving client or beneficiary preferences?

Implementation

- How well is the policy being implemented? Are the goals and targets being achieved? Do specific investment practices need to be developed further?
- How has implementing the responsible investment policy influenced return, risk and other elements of the investment strategy?

Working with stakeholders

- Are external managers or service providers aligning with the policy, interests and objectives, or is further dialogue, monitoring and engagement needed?
- Are there any other influences or activities (e.g., recent research, participation in initiatives, or peer activity) that should lead to a policy review or revision?

Investment strategy

- Does the responsible investment policy (and any related guidance) adequately cover the organisation's mix of asset classes and products? Has the organisation expanded its investment offering/portfolio into areas that are not yet covered by the policy? How have specific strategies helped or hindered overall responsible investment objectives?

Regulatory framework

Are there any new regulatory or legal requirements that the organisation must follow which the policy does not yet cover?

EFFECTIVE ACCOUNTABILITY

As highlighted in Evolving responsible investment policies and practices, boards should be responsible for ensuring policy oversight and accountability. To do this effectively, they need the timely, relevant information to assess how well the policy is being implemented, and to make strategic and operational decisions.

It is leading practice to make responsible investment a component of board meetings, providing the relevant investment personnel (e.g., CIO, investment manager, ESG lead) an opportunity to report on the most important ESG issues, explain how these have been incorporated into the investment process and to report on progress made.

Asset owners and investment managers are encouraged to set a timeframe for the relevant body (e.g., board or directors or trustees, investment committee) to review the responsible investment policy – ideally this would take place annually.

Doing so will keep relevant internal and external stakeholders informed of relevant ESG trends and industry developments and how these could affect an organisation's investment activities, thereby allowing them to determine whether the relevant policies should be adjusted accordingly.

"Quinbrook's commitment to being a responsible investor [...] is an ongoing process where we continuously seek to improve and refine our procedures, reporting and verification/qualification of impacts. We seek primary guidance from the TCFD.

[We engage] with our clients and stakeholders on the enhancement of our ESG Policy, initiatives, products and services, and we seek their feedback on ESG issues relevant to Quinbrook and the investment mandates we hold from time to time."

Quinbrook Infrastructure Partners' Responsible Investment and Environmental, Social and Governance Policy (2023)

APPENDIX: REPORTING FRAMEWORK INDICATORS

The table below outlines how the various elements of a responsible investment policy outlined in this guide map to indicators in the Reporting Framework.

Area	Indicators
Overall organisational strategy and commitments	Senior Leadership Statement (SLS)
Responsible investment policy elements	PGS 1, PGS 2, PGS 3, PGS 4, PGS 5, PGS 6, PGS 7
Responsible investment policy coverage	PGS 8, PGS 9, PGS 10, PGS 10.1
Roles and responsibilities	PGS 11, PGS 11.1, PGS, 11.2, PGS 13, PGS 14, PGS 15
External reporting and disclosures	PGS 16, PGS 17, PGS 18, PGS 19
Capital allocation	PGS 20. PGS 21
Stewardship: overall strategy	PGS 22, PGS 23, PGS 24, PGS 24.1, PGS 25, PGS 26, PGS 27, PGS 28
Stewardship: (proxy) voting	PGS 29, PGS 30, PGS 31, PGS 32, PGS 33, PGS 33.1, PGS 34, PGS 35
Stewardship: escalation	PGS 36, PGS 37, PGS 38
Stewardship: engagement with policy makers	PGS 39, PGS 39.1, PGS 39.2
Climate change	PGS 41, PGS 41.1, PGS 42, PGS 43, PGS 44, PGS 45, PGS 46
Sustainability outcomes	PGS 47, PGS 47.1, PGS 47.2, PGS 48, PGS 48.1
Human rights	PGS 49, PGS 49.1, PGS 49.2, PGS 50

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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

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

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