Global responsible investment trends: Insights from PRI reporting data

March 2024
Key findings

Overall summary

- Investors globally continuing to progress their RI practices.
- Numerous data points show asset owners demonstrating more ambition and action on RI than investment managers.
- Asset owners’ assessments of external investment managers’ RI practices have become more comprehensive, but some areas lag.
- Action on sustainability outcomes is on the rise. Questions around how to measure and manage these outcomes are gaining more attention.
- Sophistication of investors approaches to climate vary significantly.
- Biodiversity is rising up the agenda.
- Human rights are increasingly in focus, but implementation of the UN Guiding Principles on Business and Human Rights (UNGPs) remains limited.
- North American signatories continue to progress their practices but generally make fewer public disclosures on RI than those based in Europe, Oceania and Asia.
- Levels of ESG integration high across wide spectrum of asset classes.
- Resource constraints a significant barrier to RI.
Key finding: investors globally are continuing to progress their RI practices

Source: indicators PGS 3, 41, 47 (2023), ISP2, 30, 43 (2021)

- From 2021 to 2023, signatories' RI policies became more comprehensive.
- Over that period, the proportion not identifying climate-related risks and opportunities fell from 20% to 16%.
- The percentage identifying sustainability outcomes connected to their investment activities rose from 66% to 79%.
- While there has been pushback in certain markets against some RI practices, such as collaborative engagement, this has not stopped overall advancement.
Key finding: numerous data points show asset owners demonstrating more ambition and action on RI than investment managers

Source: indicators PGS 16, 24, 43, 47.1 (2023)

- Investment managers significantly less likely to be using scenario analysis to assess the resilience of their investment strategies under specified climate scenarios (34% vs 59%).
- A higher proportion of asset owners are using the Paris Agreement to identify sustainability outcomes.
- Collaborative engagement is prioritised by a higher proportion of asset owners than managers.
- A greater percentage of asset owners provide regular reporting on human rights, climate change, stewardship activity and other RI aspects.

Percentage of signatories assessing the resilience of investment strategy in different climate scenarios

- Asset owners: 59%
- Investment managers: 34%


When considering these data points, it is important to bear in mind the differences in organisational structure and objectives that exist between and within different categories of investment organisations.
Key finding: asset owners’ assessments of external managers have become more comprehensive, but some areas lag

Source: indicators SAM 7, 8, 13, 14, 16 (2023), SAM 17 (2021)

- The vast majority of asset owners are reviewing how their current and potential external managers incorporate material ESG factors within the investment process.
- Higher numbers of allocators are including RI requirements in contracts.
- It remains the case that asset owners are doing less thorough assessments of managers of passive strategies.
- The monitoring of managers’ specific stewardship activities, such as their proxy voting records, remains limited.
- Compared to 2021, a higher percentage of asset owners are engaging with managers and following an escalation process when concerns surface regarding managers’ RI practices.
Key finding: action on sustainability outcomes is on the rise

Source: indicators SLS1 (2023) PGS 47, 47.1 (2023), ISP 43 (2021)

- There has been an increase since 2021 in the proportion of PRI signatories identifying and acting on sustainability outcomes.
- United Nations goals and frameworks are the focal point for investor action on sustainability outcomes.
- A significant number of signatories now manage and / or allocate to impact investing strategies.

**Identification of sustainability outcomes**

<table>
<thead>
<tr>
<th>2021</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>66%</td>
<td>79%</td>
</tr>
</tbody>
</table>

- We have identified one or more specific sustainability outcomes connected to our investment activities
- We have not yet identified the sustainability outcomes connected to any of our investment activities

Key finding: climate change remains the priority ESG issue for investors

Investors globally are recognising the urgency of addressing climate change, but the sophistication of approaches varies.

- At one end of the spectrum, hundreds of PRI signatories have committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 or sooner and are doing in-depth work to achieve these objectives.
- At the other, there is a subset of signatories that are not taking the steps of identifying climate-related risks and opportunities connected to their investments.

Source: indicators SLS (2023), PGS 41, 41.1, 43 (2023), ISP30 (2021)
Key finding: biodiversity is rising up the agenda for investors

Source: indicators SLS 1 (2023), SLS 1 (2021)

- The proportion of signatories outlining near-term steps to protect nature and biodiversity in their PRI senior leadership statements has increased around fourfold since 2021 (see pages 17-18).
- The adoption of the Kunming-Montreal Global Biodiversity Framework and the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations are catalysing investor action in this area.

Percentage of signatories mentioning 'biodiversity' in their senior leadership statements

<table>
<thead>
<tr>
<th>Year</th>
<th>SLS1 S1: reasons for engaging in, and commitments to, RI</th>
<th>SLS1 S2: progress on RI during the reporting year</th>
<th>SLS1 S3: steps to advance RI over next 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>2023</td>
<td>6%</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: SLS 1 (sections 1-3). Denominators: 2,859 (2023), 2,326 (2021)
Key finding: human rights are increasingly in focus, but implementation of the UNGPs remains limited

Source: indicators PGS 3, 47.1, 50 (2023)

- The proportion of signatories that include guidelines on social issues in their RI policies has increased from 54% in 2021 to 63% in 2023.
- Only a small minority has fully implemented the UNGPs.

**Percentage of signatories taking action on the UNGPs**

- Have publicly available guidelines on human rights: 41%
- Identify human rights outcomes: 36%
- Enable access to remedy: 11%

*Denominator: 2,859*
Key finding: levels of ESG integration high across a wide spectrum of asset classes

Source: indicators LE 1, HF 2, FI 1, INF 1, PE 1, RE 1 (2023)

- The vast majority of PRI signatories are integrating ESG factors into their investment analysis and decision-making. This is true for investors in both publicly and privately traded assets.

- Even in some asset classes where levels of ESG integration have tended to lag, such as sovereign debt, a significant majority of investors are now taking steps to integrate ESG factors.
Key finding: North American signatories continue to advance but generally make fewer public disclosures on RI than those based in Europe, Oceania and Asia

Source: indicators PGS 1, 3, 16, 47 (2023) ISP 2, 43 (2021)

- North American signatories have progressed on a number of metrics over recent reporting cycles. For example, the percentage identifying sustainability outcomes increased from 58% in 2021 to 71% in 2023.

- Fewer North American investors are reporting on their RI activity for the majority of their AUM relative to peers from other regions.

- The proportion of North American signatories that have RI policies is in line with that of other regions. However, 16% have not made their RI policies publicly available, which is notably higher than for regions such as Oceania and Europe.
Key finding: resource constraints a significant barrier to RI

- Resource-intensive RI practices are much more prevalent among investors in larger AUM brackets.

- The proportion of investors conducting scenario analysis is five times higher in the US$250bn+ AUM bracket than it is for investors with US$0-0.99bn in AUM.

- Larger investors are also notably more likely to be engaging directly with policy makers.

Percentage of signatories using methods specified below to engage with policymakers on RI

- We responded to policy consultations
- We participated in 'sign-on' letters
- We provided technical input via government- or regulator-backed working groups
- We engaged policy makers on our own initiative

PRI signatory base overview
Signatory numbers

There are now more than 5,000 signatories to the PRI and the number continues to grow. Source: PRI Signatory Directory (2023)
Signatories segmented by region and AUM size

Source: PRI Signatory Directory (2023)
Senior leadership commitments and priorities
Senior leadership commitments and priorities

Source: indicator SLS (2023)

• PRI signatories are required to provide senior leadership statements as part of their reporting. These statements set out RI beliefs and priorities. The content of the statements needs to be endorsed by a senior executive to demonstrate high-level commitment to RI within the organisation.

• We have analysed the responses of the signatories who reported publicly in 2023 to identify common themes in their statements. The analysis suggests:

  • Climate change remains the priority ESG issue for investors, with specific references to net zero commitments increasing.
  • RI priorities vary by region, with diversity, equity and inclusion featuring higher on the agenda for investors based in North America.
  • United Nations goals and frameworks are a focal point for the responsible investors.
## Terms used most by investors in their senior leadership statements

Two-word phrases or two hyphenated compound word phrases. Source: indicator SLS (2023), SLS (2021)

<table>
<thead>
<tr>
<th>Term</th>
<th>% of investors referencing term</th>
<th>Term</th>
<th>% of investors referencing term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term</td>
<td>20%</td>
<td>Climate change</td>
<td>23%</td>
</tr>
<tr>
<td>Risk opportunity</td>
<td>17%</td>
<td>Risk opportunity</td>
<td>21%</td>
</tr>
<tr>
<td>Climate change</td>
<td>16%</td>
<td>Long term</td>
<td>19%</td>
</tr>
<tr>
<td>Due diligence</td>
<td>14%</td>
<td>Positive impact</td>
<td>16%</td>
</tr>
<tr>
<td>Positive impact</td>
<td>12%</td>
<td>Due diligence</td>
<td>15%</td>
</tr>
<tr>
<td>Value creation</td>
<td>12%</td>
<td>Value creation</td>
<td>14%</td>
</tr>
<tr>
<td>Risk management</td>
<td>11%</td>
<td>Long-term value</td>
<td>12%</td>
</tr>
<tr>
<td>Long-term value</td>
<td>10%</td>
<td>Risk management</td>
<td>12%</td>
</tr>
<tr>
<td>Real estate</td>
<td>8%</td>
<td>Net zero</td>
<td>12%</td>
</tr>
</tbody>
</table>
Terms used most by investors in their senior leadership statements

Multi-word phrases that appear most frequently in the ‘motivations’ section of senior leadership statements. Source: indicator SLS (2023)
Policies, governance and strategy
RI policies

Source: indicators PGS 3 (2023), ISP 2 (2021)

- **Having an RI policy is a minimum requirement** for PRI signatories. It is therefore to be expected that the vast majority (>99%) of signatories have such policies in place.

- **A significant majority** (>90%) of investor signatories are choosing to make their RI policies publicly available, which is encouraging, as transparency fosters accountability. The increase in RI policy elements being made publicly available is partly due to action by investors in the smaller AUM brackets. In 2021, 27% of investors with less than US$1bn in AUM made no elements of their RI policies publicly available. By 2023, the figure had fallen to 15%.

- RI policies are evolving to cover more areas. In 2023, a higher percentage of signatories’ RI policies contained guidelines on specific ESG factors, conflicts of interest, sustainability outcomes and investment exclusions than in the prior reporting period.
RI policies

Source: indicators PGS3 (2023), ISP2 (2021)

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>2023</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall approach to RI</td>
<td>88%</td>
<td>85%</td>
</tr>
<tr>
<td>Guidelines on environmental factors</td>
<td>56%</td>
<td>65%</td>
</tr>
<tr>
<td>Guidelines on governance factors</td>
<td>56%</td>
<td>63%</td>
</tr>
<tr>
<td>Guidelines on social factors</td>
<td>54%</td>
<td>63%</td>
</tr>
<tr>
<td>Guidelines on exclusions</td>
<td>56%</td>
<td>60%</td>
</tr>
<tr>
<td>Guidelines on sustainability outcomes</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td>Guidelines tailored to specific asset class(es)</td>
<td>37%</td>
<td>40%</td>
</tr>
<tr>
<td>Guidelines on managing conflicts of interest related to RI</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>No elements are publicly available</td>
<td>13%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Denominators: 2,859 (2023), 2,326 (2021)
RI disclosures

Source: indicator PGS 16 (2023)

- A significant majority of investor signatories are making RI disclosures for the majority of their AUM.
  - However, a notable minority (16%) are not reporting on climate commitments, human rights commitments, stewardship commitments or on any changes in RI governance and policies in relation to the majority of their AUM.
  - Asset owners’ regular reporting on RI for the majority of their AUM is generally more comprehensive than investment managers’. For example, 73% of asset owners report on their climate-related commitments for the majority of AUM compared to 58% of investment managers.
RI disclosures
Source: indicator PGS 16 (2023)

Percentage of signatories that include the RI elements specified below in regular reporting to clients and/or beneficiaries

- Any changes in policies related to RI: 74%
- Any changes in governance or oversight related to RI: 67%
- Climate-related commitments: 61%
- Stewardship-related commitments: 60%
- Commitments to other systematic sustainability issues: 46%
- Human rights-related commitments: 41%
- Do not include any of these elements in regular reporting: 16%
Stewardship: policies and collaboration

Source: indicators PGS 5, 24 (2023), ISP 12 (2021)

- **Stewardship** is a key means by which investors can achieve their RI objectives. As with broader RI policies, there is a trend for stewardship policies to evolve to cover more areas.

- **Collaborative stewardship** involves investors, and in some cases also their service providers, working together to enhance their effectiveness in pursuing their stewardship objectives. This type of collaboration is prioritised by a higher proportion of asset owners (53%) than investment managers (25%).

![Percentage of signatories that include the elements specified below in their stewardship policies](image_url)

Denominators: 2,859 (2023), 2,326 (2021)
Stewardship: policy engagement

Source: indicators PGS 39. 39.1 (2023)

- Investors can also engage with policy makers to achieve their stewardship objectives. A little under half of PRI signatories actively participate in engagements with policy makers in relation to RI.

- The most common method for engaging with policy makers is responding to policy consultations, with 41% taking this action. Twenty-eight percent participated in ‘sign-on’ (joint) letters and the same percentage provided technical input via government or regulator-backed working groups.

- Investors in the higher AUM brackets are more likely to engage with policy makers, and they are also notably more likely to be undertaking the most resource-intensive types of activity, such as direct engagement.
Stewardship: policy engagement

Source: indicator PGS 39.1 (2023)

Percentage of signatories using the methods specified below to engage with policymakers on RI

- We responded to policy consultations
- We participated in 'sign-on' letters
- We provided technical input via government- or regulator-backed working groups
- We engaged policy makers on our own initiative

Sustainability outcomes

Source: indicators PGS 47 (2023), ISP 43 (2021)

- Investment and stewardship decisions result in sustainability outcomes. A **significant majority** of signatories are **identifying** the **sustainability outcomes** connected to their investment activities (79%), up from 66% in 2021.

- The percentage of North American signatories identifying sustainability outcomes increased from 58% in 2021 to 71% in 2023.

*Denominator: 2,859*
Sustainability outcomes
Source: indicators PGS 47.1, 48, 48.1 (2023)

- The **SDGs** are the *most widely used framework* for *identifying sustainability outcomes*, followed by the Paris Agreement.
  - There is a **notable gap** in the percentage of **asset owners** and **investment managers** using the **Paris Agreement** to identify outcomes, with 51% of asset owners taking this action compared to 31% of managers.

- **Around 69%** of signatories reported **taking specific action on sustainability outcomes**.

- The **most common reason for acting on sustainability outcomes** is the belief that doing so is relevant to **financial risk and return**, followed by a wish to prepare for, and respond to, regulatory developments.
  - A noteworthy minority (24%) believe acting on sustainability outcomes in parallel to financial goals has merit in its own right.
Sustainability outcomes

Source: indicator PGS 47.1 (2023)

Percentage of signatories using the frameworks specified below to identify sustainability outcomes

<table>
<thead>
<tr>
<th>Framework</th>
<th>Asset owners</th>
<th>Investment managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD frameworks: Guidelines for Multinational Enterprises and Guidance on Responsible Business Conduct for Institutional Investors</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>The EU Taxonomy</td>
<td>28%</td>
<td>27%</td>
</tr>
<tr>
<td>UNGPs</td>
<td>36%</td>
<td>29%</td>
</tr>
<tr>
<td>The Paris Agreement</td>
<td>51%</td>
<td>31%</td>
</tr>
<tr>
<td>SDGs and targets</td>
<td>56%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Denominator: 2,859
Building portfolios
Selecting external investment managers

Source: indicator SAM 5 (2023)

- The overall trend for the 2021-2023 period is for asset owners and investment managers that allocate capital externally to be doing more thorough RI assessments of their external managers, however some areas continue to lag.

- Investors in higher AUM brackets that allocate capital externally generally assess a wider range of RI aspects when selecting new managers or allocating new mandates than those with lower AUM.

- Certain categories of asset owners generally assess a greater number of RI aspects when selecting managers. Development finance institutions, foundations and sovereign reserves tend to assess the most areas while corporate pension funds and endowments consider the least.
Selecting external investment managers

Source: indicator SAM 5 (2023)

Percentage of signatories that allocate capital externally that review and evaluate the RI aspects specified below when selecting new managers or allocating new mandates

- Incorporation of material ESG factors in the investment process
- RI policy(ies)
- Commitment to and experience in RI
- ESG disclosure in regular client reporting
- Governance structure and senior-level oversight and accountability
- Adequate resourcing and incentives
- Staff competencies and experience in RI
- Incorporation of risks connected to systematic sustainability issues in...
- Incorporation of material ESG factors and ESG risks connected to...
- Inclusion of ESG factors in contractual agreements
- Not reviewing and evaluating any of the above RI aspects

Investor AUM band
- US$0 - 0.99bn
- US$1 - 9.99bn
- US$10 - 49.99bn
- US$50 - 249.99bn
- US$250+ bn

Selecting external investment managers: stewardship focus
Source: indicator SAM 6 (2023)

- When assessing a manager’s stewardship practices, the most common practices for allocators to look at are:
  - the alignment of the external manager’s policies and guidelines with the mandate (88% doing so for at least some of their mandates).
  - how stewardship objectives were implemented (77%).
  - participation in collaborative engagements (71%).
  - details of engagements connected to systematic sustainability issues (66%).

- Evaluating the managers’ escalation process and tools (58%), and engagement with policy makers (38%) were least undertaken.
Selecting external investment managers: proxy voting focus

Source: indicator SAM 7 (2023)

- **Assessments** of managers’ approaches to (proxy) voting generally remain quite high-level.
  - A major**ity** (76%) of allocators are reviewing the **alignment of managers’ proxy voting policies and guidelines** with the mandate when making selection decisions, but only a **minority** are evaluating specific actions taken.
  - 40% are reviewing votes records, while 30% are reviewing votes connected to systematic sustainability issues and 18% are reviewing votes cast involving companies where the manager or an affiliate has potential conflicts of interest.
### Appointing external investment managers

**Source:** indicator SAM 8 (2023)

<table>
<thead>
<tr>
<th>Percentage of signatories that allocate capital externally that are incorporating RI aspects into contractual agreements with external managers for segregated mandates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exclusion list(s) or criteria</strong></td>
</tr>
<tr>
<td>Commitment to incorporating material ESG factors into investment activities</td>
</tr>
<tr>
<td>Commitment to following our RI strategy in the management of our assets</td>
</tr>
<tr>
<td>RI communications and reporting</td>
</tr>
<tr>
<td>Commitment to incorporating material ESG factors into stewardship activities</td>
</tr>
<tr>
<td>Commitment to incorporating risks connected to systematic sustainability issues</td>
</tr>
<tr>
<td>Acknowledgement that their appointment is conditional on the fulfilment of RI commitments</td>
</tr>
<tr>
<td>Commitment to respect human rights</td>
</tr>
<tr>
<td>Incentives and controls to ensure alignment of interests</td>
</tr>
<tr>
<td>Commitment to incorporating risks connected to systematic sustainability issues</td>
</tr>
<tr>
<td>Commitments on climate-related disclosure</td>
</tr>
<tr>
<td>We do not include RI aspects in clauses within our contractual agreements</td>
</tr>
</tbody>
</table>

*Denominator: 547*
Monitoring external investment managers

Source: indicator SAM 9, SAM 14 (2023)

- **A sizeable majority** of asset owners are monitoring their managers’ ongoing performance on a range of RI criteria.
  - **Over two thirds** of asset owners are monitoring their managers’ incorporation of material ESG factors in the investment process, their incorporation of risks connected with systematic sustainability issues, the alignment of RI policies with the mandate, and their resourcing and incentives. This is true across all major asset classes.

- **Asset owners typically monitor** managers of passive strategies less comprehensively than their active counterparts.

- The **percentage** of asset owners monitoring specific stewardship practices has **generally increased** across asset classes from 2021 to 2023.
Monitoring external investment managers

Source: indicators SAM 13 (2023), SAM 17 (2021)

Percentage of asset owners monitoring external managers' stewardship practices - listed equity (active)

- Prioritisation of material ESG factors: 66% (2023), 74% (2021)
- Participation in collaborative stewardship initiatives: 63% (2023), 72% (2021)
- Degree of implementation of policy(ies)/guidelines on stewardship: 68% (2023), 70% (2021)
- Investment team's level of involvement in stewardship activities: 68% (2023), 69% (2021)
- Whether stewardship results were fed into the investment process: 63% (2023), 69% (2021)
- Prioritisation of risks connected to systematic sustainability issues: 49% (2023), 60% (2021)
- Use of a variety of stewardship tools and activities: 57% (2023), 59% (2021)
- Whether they had an active role in collaborative stewardship initiatives: 49% (2023), 58% (2021)
- Deployment of their escalation process: 49% (2023), 49% (2021)
- Did not monitor: 5% (2023), 6% (2021)

Denominators: 262 (2023), 244 (2021)
Monitoring external investment managers

Source: indicator SAM 16 (2023)

- The **actions included** in **formal escalation processes** to address concerns raised during monitoring of **external managers’ RI practices** have **increased across asset classes** from 2021 to 2023.

- **Engaging** with **investment professionals, committees and other representatives** is now included by **the vast majority of asset owners**.

- **Reducing capital allocation, placing the manager on a watchlist, and terminating the contract** have also become more prevalent.
ESG integration

Source: indicators LE 1,3; HF 2, 4; FI 1 (2023)

- A large majority of the PRI’s fixed income, hedge fund and listed equity investor signatories incorporate material ESG factors into their investment processes. Levels of ESG integration are similarly high among equity and debt investors.

- A majority of listed equity investors across strategies are considering material environmental and social risks related to companies' supply chains in their financial analysis and equity valuation or security rating processes. Environmental and social supply chain risks are also considered by most long / short equity hedge fund investors.
ESG integration
Source: indicators LE 2, FI 2 (2023)

- The proportion of fixed income and listed equity investors using scenario analysis to monitor the implications of ESG trends is relatively low. The majority of investors across all these asset classes reported that their formalised monitoring processes do not include scenario analysis.

- It is more common for analysis of material ESG factors to influence the selection and weighting of individual assets or sectors than it is to impact decisions on country or region weightings. This is true for fixed income and listed equity investors.
ESG integration in fixed income

Source: indicator FI 8 (2023). Respondents answered question in relation to at least a minority of AUM.

How do material ESG factors contribute to your security selection, portfolio construction and/or benchmark selection processes for fixed income investments?

Denominators: 648 (corporate), 484 (sovereign, sub-sovereign, agency), 227 (securitised)
ESG integration in listed equity

Source: indicator LE 6 (2023). Respondents answered question in relation to at least a minority of AUM.

How do material ESG factors contribute to your security selection, portfolio construction and/or benchmark selection processes for listed equity investments?

86% 94% 94%
They contribute to the selection of individual assets and/or sector weightings

76% 85% 81%
They contribute to the portfolio weighting of individual assets

54% 56% 53%
They contribute to the country or region weighting of assets

15% 14% 15%
They contribute in other ways

8% 2% 2%
They are not incorporated into our security selection, portfolio construction or benchmark selection processes

Denominators: 177 (passive equity), 236 (active quantitative), 954 (active fundamental)
Green, social and other types of sustainability bonds

Source: indicators FI 15, 17 (2023)

▪ The majority of investors in these instruments are ensuring they are subject to external verification (third-party assurance, second-party opinions, or other external review) in the majority of cases.

▪ A minority of investors reported having identified the use-of-proceeds from green, social and other sustainability bonds being allocated in a way that was misaligned with deal terms. In cases where misalignment was identified, the most common action investors have taken was to engage with the issuer, followed by selling the security.
ESG due diligence in private markets

Source: indicators PE 4, INF 4, RE 4, FI 5 (2023)

- **Private markets** investor signatories are **giving extensive consideration to ESG factors during due diligence**. A **significant majority** of infrastructure investors (95%), private equity investors (90%), and real estate investors (85%) are **identifying ESG risks** for all or the majority of potential investments. Around 93%, 87% and 84% respectively are **considering ESG factors during meetings of the investment committee** or equivalent.

- Similarly, the **vast majority** of signatories **investing in private debt** are **considering ESG factors** as part of the **due diligence** process. 72% are **checking whether the target investee has a sustainability policy** or equivalent for all or the majority of potential investments. 64% are **assessing quantitative information on material ESG factors**, such as energy consumption, carbon footprint and gender diversity for all or the majority of potential investments.
ESG risk and opportunity management in private markets

Source: indicators PE 9, INF 11, RE 14 (2023)

- The proportion of private markets signatories considering ESG factors during due diligence is slightly higher than those managing ESG risks and opportunities during the ownership phase.

- One of the most common approaches to managing ESG risks and opportunities post-investment is through developing specific ESG action plans that incorporate pre-investment research.
  - Around 81% of investors in infrastructure, 72% in private equity and 68% in real estate taking this step for all or the majority of investments.
ESG risk and opportunity management in private markets

Source: indicators INF 9, PE 6, RE 11(2023)

Tracking ESG KPIs post-investment is a common practice amongst private markets investors. A higher proportion of infrastructure investors take this action compared to real estate or private equity managers.

**Percentage tracking KPIs on material ESG factors**

- Infrastructure: 89%
- Real estate: 75%
- Private equity: 76%

Denominators: 211 (infrastructure), 303 (real estate), 692 (private equity)
RI contractual clauses in private markets

Source: indicators INF 2, PE 2, RE 2 (2023)

Formalising RI requirements in contracts serves as a key accountability mechanism. The prevalence of the practice varies markedly across asset classes.

Percentage of private market signatories that include RI commitments in LPAs, side letters, or other constitutive fund documents

Denominators: 211 (infrastructure), 303 (real estate), 692 (private equity)
Focusing on ESG issues
Climate change

Image source: University of Reading

The PRI’s reporting data shows a growing number of signatories are recognising the urgency of addressing climate change and are stepping up efforts accordingly. At the same time, the data also highlights how much progress remains to be made.
Climate change risk and opportunity identification

Source: indicators PGS 41 (2023), ISP 30 (2021)

- A significant majority (84%) of investor signatories are identifying climate-related risks and opportunities affecting their investments; though this leaves 16% that are not.

- Around a quarter of signatories based in emerging market or low-income developing countries are not taking this step, and neither are 15% of North American signatories.

- The overall percentage not identifying climate-related risks and opportunities remains has fallen since 2021 when it stood at 20%.

- Around 30% of signatories have identified climate-related risks and opportunities affecting their investments beyond their standard planning horizons.
  - Asset owners were more likely than managers to take a longer-term approach and look beyond standard planning horizons, with 36% and 29% respectively taking this action.
Climate scenario analysis

Identifying and assessing the potential implications of a range of plausible future climate scenarios is a central recommendation of the TCFD.

A minority of signatories (39%) are using scenario analysis to assess the resilience of their investment strategies in different scenarios, including one in which average temperature rise is held to below two degrees Celsius.

Around 10% of signatories are using the IEA’s net zero scenario, while circa 31% are using other scenarios.

The uptake of scenario analysis is more widespread among asset owners than asset managers, with 59% and 34% taking this step respectively.

There is a strong correlation between investor size and the prevalence of scenario analysis. The majority of investors that have US$50bn or more in AUM take this step.
Climate scenario analysis

Source: indicator PGS 43 (2023)

Percentage of signatories that have *not* assessed the resilience of their investment strategies in different climate scenarios

- US$0 - 0.99bn: 81%
- US$1 - 9.99bn: 63%
- US$10 - 49.99bn: 42%
- US$50 - 249.99bn: 32%
- US$250+bn: 23%

When it comes to climate metrics, the figures and variables that are most widely used or disclosed include total carbon emissions, weighted average carbon intensity and exposure to transition risk.

Denominator: 2,859
Human rights

Source: United Nations Guiding Principles on Business and Human Rights

All institutional investors have a responsibility to respect human rights, as set out in the UNGPs, which require investors to:

- Adopt a policy to respect internationally recognised human rights
- Adopt due diligence processes
- Enable access to remedy in case of adverse impacts
Human rights

Source: indicator PGS 50 (2023)

- The portion that has publicly available policy guidelines on human rights stands at 41%. The percentage that have broader guidelines on social issues has risen from 54% in 2021 to 63% in 2023.

- A little over a third of signatories are using the UNGPs, or OECD frameworks that align with the UNGPs, to identify sustainable outcomes.

- Circa 11% of signatories are enabling access to remedy. Of those, around 8% of signatories are indirectly providing access to remedy by using their influence, while around 3% are directly providing access to remedy themselves.

Percentage enabling access to remedy for people affected by negative human rights outcomes linked to investment activities

- Enabling access to remedy indirectly through use of influence: 8%
- Enabling access to remedy directly: 3%

Denominator: 2,859
Human rights

Source: indicators PGS 3, 47.1, 49,50 (2023)

Overall, the data suggests only a small minority of PRI signatories take action on all three pillars of the UNGPs. However, the increase in the percentage of signatories with publicly available guidelines on social issues indicates positive momentum.

Percentage of signatories taking action on the UNGPs

- Have publicly available guidelines on human rights: 41%
- Identify human rights outcomes: 36%
- Enable access to remedy: 11%

Denominator: 2,859
NEXT STEPS FOR THE PRI

To help investors achieve their RI objectives, and to promote investor action in support of United Nations’ goals, we will continue to:

- Provide guidance and tools
- Connect signatories through networks and events
- Promote academic research
- Support signatories with public policy engagements
- Deliver training
- Drive accountability through reporting
Methodology

- The analysis compares data that was publicly disclosed by signatories during the 2021 and 2023 reporting cycles.
- There have been some changes in indicator wording from 2021 to 2023. Only data points from 2023 and 2021 considered equivalent have been analysed.
- The 2023 PRI Reporting Framework was made up of ‘core’ mandatory indicators and optional ‘plus’ indicators. Not all signatories answered all core indicators as some were contingent on answers given in prior sections. For the purposes of this analysis, the denominator used to calculate percentages is the total number of signatories for whom the indicator is relevant. For example, the human rights-specific indicators were optional, but all investors have a responsibility to respect human rights, so the denominator used to calculate percentages is all those who reported publicly (2,859) rather than the number that chose to report on these indicators (circa 1,800).
- Members of Aon’s Centre for Innovation and Analytics in Singapore applied natural language processing (NLP) techniques to the free text responses across the senior leadership statement module. This involved cleaning up the responses (standardising cases; removing special characters, punctuation and hyperlinks; filtering out commonly used words that do not add value and lemmatisation) and visualising the results in bar charts and word clouds.
- Asset owners did not report on asset class modules in 2023, meaning that analysis of asset class modules covers only data from investment managers.
- Data points included in the report are based on 50 or more responses. The discounting of data points based on too small a number of respondents is why the regional analysis in the report is focused on Europe, Oceania, North America and Asia, where signatory numbers are highest.
- In presenting data for this report, sometimes wording of Reporting Framework indicators has been edited for ease of comprehension.