5 YEARS OF PRI

Annual Report of the PRI Initiative

2011

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

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword from UNEP and the UN Global Compact</td>
<td>1</td>
</tr>
<tr>
<td>Taking leadership on better responsible investment outcomes</td>
<td>2</td>
</tr>
<tr>
<td>PRI year in numbers</td>
<td>3</td>
</tr>
<tr>
<td>Five years of the PRI Initiative</td>
<td>4</td>
</tr>
<tr>
<td>Building on our track record in shaping responsible investment</td>
<td>6</td>
</tr>
<tr>
<td>Core resources for signatories</td>
<td>8</td>
</tr>
<tr>
<td>Introduction to the Clearinghouse</td>
<td>9</td>
</tr>
<tr>
<td>Examples of engagements by signatories in 2010/11</td>
<td>12</td>
</tr>
<tr>
<td>The PRI signatory extranet</td>
<td>14</td>
</tr>
<tr>
<td>Implementation support</td>
<td>16</td>
</tr>
<tr>
<td>Principles for Investors in Inclusive Finance</td>
<td>18</td>
</tr>
<tr>
<td>Other work streams</td>
<td>19</td>
</tr>
<tr>
<td>Academic Network</td>
<td>20</td>
</tr>
<tr>
<td>Taking investor reporting to the next level</td>
<td>21</td>
</tr>
<tr>
<td>Financing the PRI Initiative</td>
<td>22</td>
</tr>
<tr>
<td>Governing the PRI Initiative</td>
<td>23</td>
</tr>
<tr>
<td>Making progress on the Principles</td>
<td>24</td>
</tr>
<tr>
<td>The Principles</td>
<td>25</td>
</tr>
</tbody>
</table>

### About the PRI Initiative

The Principles for Responsible Investment (PRI) Initiative is a partnership between the United Nations and global investors with the goal of promoting and mainstreaming responsible investment practice. Launched in 2006 by UNEP Finance Initiative and the UN Global Compact, the PRI Initiative has become the leading network for investors to learn and collaborate to fulfil their commitments to responsible ownership and long-term, sustainable returns. Pension funds, insurance companies, sovereign and development funds, investment managers and service providers make up the PRI network. Our goal is to grow investor interest in environmental, social and corporate governance (ESG) issues, share best practice and support signatories in their fulfilment of the six PRI Principles.

### About this report

We congratulate all our colleagues at the Principles for Responsible Investment (PRI) on its fifth anniversary. In just five years around 20 per cent of the world’s capital – over US$ 30 trillion of assets – has been signed up to the Principles and this rapid growth shows no signs of abating as responsible investment continues to increase in importance in mainstream and emerging markets.

At the United Nations we take this as a clear signal from the global investment community that it is a willing and able partner ever more committed to evolving economies onto a far more secure and sustainable path. It also signals that the investor community is supportive of those governments increasingly adopting smart and transformational public policies.

This alignment of interests between the investment and international community is an important partnership. This year we have seen the partnership bear fruit with the launch of the Principles for Investors in Inclusive Finance (see page 18), the growing number of investors providing financial products that help reduce poverty and tackle climate change and the continued support of financial markets to improve corporate performance on environmental, social and corporate governance (ESG) issues across the world.

As with all good partnerships the benefits are mutual. There is increasing evidence that taking an active and responsible approach to ESG issues can lead to outperformance for investors. In the coming years, as demand for food, energy and water increases alongside the need to mitigate and adapt to climate change, that evidence is likely to get even stronger.

This increasingly strong relationship will also be a vital factor if Rio+20 next year is to catalyse and enable the kinds of flow of capital needed for the transition to a global low-carbon, resource-efficient Green Economy.

Addressing issues such as climate change and the degradation of ‘natural capital’ requires collective solutions and action that echoes global challenges and reflects different national circumstances. However, by assisting the international investment community to work together the PRI plays a vital role in forging solutions and moving towards a more sustainable future. We wish it well for the next five years and beyond.
Taking leadership on better responsible investment outcomes

Wolfgang Engshuber
Chair

Since its inception five years ago, we have seen PRI grow from a small project to become an internationally recognised network at the forefront of responsible investment practice.

We have signed up over 900 signatories from 49 countries, including many of the largest and most respected pension funds and investment managers in the world. Our growth is a clear indication of the increasing recognition within the investment community of the importance of risk management and environmental, social and corporate governance (ESG) issues in achieving better investment management outcomes. It is also a reflection of the range and quality of the support we offer our signatories world-wide to embed the Principles into their investment decisions and processes.

As you read through this review, you will see illustrations of PRI’s achievements and role during the year. It is a testimony to the commitment and passion of the whole PRI team and the signatories, and I would like to extend my heartfelt thanks to them all.

We are, however, by no means complacent about what we have achieved or about the work we have yet to do. We are clear on our purpose: to enable our signatories to drive real change in the way they make and manage their investment decisions. Our ultimate ambition to drive the mainstreaming of responsible investment across all asset classes and investor types within global capital markets remains paramount. We recognise that this is a huge task. It will require a step change in our organisational capacity, professionalism and considerable resources to take implementation to the next level on a global scale. It was with this aim in mind that we introduced mandatory fees and we are delighted that our signatories have been so supportive of this change.

Going forward, we will continue to leverage existing best practice on responsible investment among leading mainstream investors, and drive those practices throughout the investment industry globally. We will do this by developing and offering a full range of work streams and activities, resources and networks that support our signatories to implement the Principles effectively and efficiently.

PRI is above all else a collaborative network with a global perspective. The support from UN Secretary-General Ban Ki-moon, UNEP FI and the UN Global Compact, as well as our signatories, has been invaluable. I would particularly like to note the contribution of my predecessor as Chair, Donald MacDonald. His energy and dedication to the establishment of PRI as a unique global network has been an inspiration. On behalf of the PRI Advisory Council and the wider investor community, we are grateful for his leadership and we wish him well for the future.

Wolfgang Engshuber
Chair, PRI
PRI year in numbers

Signatories from 49 countries, with 76 signatories from emerging and developing economies

94% of signatories have policies that refer to RI/ESG issues.

44% of signatories published their full PRI Assessment and Reporting survey online, up from 25% in 2009.

88% of signatories voted at corporate AGMs on ESG issues.

90% of signatories collaborated with other investors on RI-related topics.

27% rise in number of visitors to the PRI website in 2011.

<table>
<thead>
<tr>
<th>Total signatories by country (as at 31 July)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Signatories</td>
</tr>
<tr>
<td>US</td>
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<td>UK</td>
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<td>France</td>
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<td>Netherlands</td>
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<tr>
<td>Brazil</td>
</tr>
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<td>South Korea</td>
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<td>Rest of world</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Type of signatory

- Asset owners 236
- Investment managers 522
- Service providers 162
Five years of the PRI Initiative

PRI has experienced tremendous growth since 2006. Assets under management now reach US$ 30 trillion and the number of signatories has grown to over 900.
Third Report on Progress: 63% of asset owners include RI criteria in mandates

First sustainable stock exchange event held

Launch of Japan country network

Wolfgang Engshuber elected as new PRI chair

300th collaborative engagement launched

PRI Advisory Council opened to non-asset owners
Building on our track record in shaping responsible investment

In this interview, James Gifford, Executive Director of the PRI Initiative, explains the importance of PRI and the impact it has on the institutional investment sector as well as the direction it will take over the next few years.

Five years on from the launch of PRI, are the Principles still important?

Absolutely. We can see more clearly than ever before that effective risk management and corporate responsibility are not only vital in terms of individual investments, they are also critical to the stability and health of the financial system as a whole. The financial crisis highlighted starkly the global interconnectedness of the investment system and the need for improved corporate governance and risk management throughout the financial sector.

Individual investors can deliver better long-term investment returns that consider emerging risks and opportunities arising from ESG factors. Failure to do so increases the kinds of negative consequences we have seen recently, undermining the value of the investments made by the financial system on behalf of millions of pension fund members and other individuals globally.

The BP disaster in the Gulf of Mexico wiped billions of dollars from the value of pension funds and other investments. Clearly it would have been beneficial for investors to have a better understanding of how BP was managing environmental and social risks before disaster struck.

The value of shares in News Corporation tumbled as news of the phone hacking scandal in the UK emerged – demonstrating the need for strong corporate governance that ensures high standards of business conduct.

While these are obvious examples of ESG issues that are clearly material, there are also many trends and risks that do not make the news but are driving investment returns into the future. The PRI is here to encourage these approaches, and this role is as relevant as ever.

How has PRI contributed to advancing the way investors deal with these challenges?

I believe we have made a substantial contribution towards moving responsible investment from the margins to the mainstream. Ninety-four per cent of IMs and AOs now have a formal responsible investment policy in place, up from 67% and 83%, respectively in 2007. There is a significant increase in the practical measures being taken to integrate ESG into internal investment processes, including in RFPs being issued by asset owners.

The investment industry has also become far more transparent about the way it deals with ESG issues. Nearly 90 per cent of PRI signatories disclose, to some extent, their approach or policy on ESG integration. In 2007, 67% of AOs and 88% of IMs disclosed RI/ESG issues in their investment process. Similarly, there have been clear increases in the amount of shareholder and policy maker engagement being reported by signatories.

We now have more than 300 signatories collaborating on shareholder dialogue with companies through the PRI Clearinghouse. Many of these were not undertaking any significant active ownership activities in the past. At a time when governments in many countries are urging investors to demonstrate that they are responsible owners and stewards of companies in the wake of the financial crisis, PRI and its signatories are playing a central role.

While we can’t take responsibility for all the progress in the industry, we are confident that that we have stimulated many more institutions to engage in responsible investment activities (and enhance existing activities) than would otherwise be the case. We recognise there is still a long way to go, but there is no doubt that the PRI has been one of the main drivers of the strong growth in responsible investment globally.

What would you say are PRI’s greatest strengths in its drive to make responsible investment mainstream?

First, our signatories. Our signatory base of over 900 organisations is a huge asset. We have signatories on every continent – and numbers continue to grow rapidly. The PRI Advisory Council has members from all over the world and a diversity of organisation types. This gives PRI a unique ability to identify global priorities and tailor responses to them according to local circumstances. It is our signatories’ commitment to incorporating ESG issues into their investment decision-making and their desire to be innovative in a rapidly changing world that direct our work.

There is huge demand for ideas and practical tools that can help manage risk and enhance returns while at the same time better aligning investors with society’s environmental and social aspirations.

James Gifford
Second, PRI is a practical organisation. Our signatories value our ability to provide them with targeted services and support as they strive to implement the Principles.

Third, we focus on issues that have implications for the whole of the financial system. Climate change, for example, will transform economies throughout the world, creating new risks and opportunities for investors. From engagement with signatories and experts, we can see a greater appetite for investors to understand the implications of climate change across their whole portfolio. The physical impacts of a changing climate, government-imposed caps on greenhouse gas emissions, changing demand for goods and services, and the urgent need for billions of dollars of investment to transform the world’s energy supplies and transport system will affect everything from how investors value individual companies to the way they need to think about the allocation of capital to different asset classes and different regions of the world.

Similarly, the Guiding Principles on Business and Human Rights developed by Professor John Ruggie of Harvard University and recently adopted by the UN Human Rights Council clearly demonstrate that human rights are now a core concern for business. For example, in the supply chains of multinational companies; in oil, gas and mining operations in areas where the rule of law is weak and local communities are vulnerable; and as the expansion of media and internet companies raises concerns about the protection of personal data and the right to privacy. This in turn is generating more interest in understanding the implications of human rights for investors.

Last, and perhaps most importantly, the PRI Initiative is a unique partnership between investors and the UN, through UNEP Finance Initiative and the UN Global Compact. It opens up the opportunity for our signatories to work with government, corporate and civil society sectors on a broad range of ESG and systemic issues. It brings together the legitimacy and convening power of the UN with the custodians of the world’s assets to work on how investors can deliver robust returns in a world that is ever more interconnected with the policy, development and global governance issues that are the primary focus of the United Nations.

Why has PRI decided to introduce fees now, after five years of voluntary contributions?

Mainstreaming responsible investment globally is a huge task and requires a degree of scale. We have reached the stage where we have to move to the next level of growth, in terms of outreach and support for implementation across asset classes, investor types and regions. We have to put in place the resources and the capacity we need to manage such growth efficiently and effectively. The decision to introduce mandatory fees has been validated by the fact that over 90 per cent of our signatories have paid their annual fee. It shows they value the network and the high level of service that we deliver and that they have confidence in the future direction of the Initiative.

You are also investing significantly in the Reporting and Assessment framework. Why is that?

Investors recognise the importance of reporting: it helps them to organise their activities and to be accountable to clients, beneficiaries and regulators. Since 2007 our Reporting and Assessment survey has provided a framework for investors to disclose their responsible investment performance. In 2011, 241 investors published their responses online. From 2013, the PRI Initiative will introduce a new industry-leading reporting framework that is designed by investors, for investors, and will help all signatories to provide a clear account of their responsible investment activities to clients, beneficiaries and wider stakeholders.

How do you see the PRI Initiative’s role over the next five years?

Our strategy and work programmes for the next five years recognise that we have a diverse signatory base, some with more experience in implementing the Principles and some just beginning their journey. We are also aware that responsible investment is in its infancy in many markets and investment sectors; and that there is much more to be done to embed a real understanding of ESG from top to bottom within investment institutions, and in the public policy arena.

Against this background, we have to perform multiple roles. We have to support signatories to integrate ESG into the whole investment chain – in-house investment by asset owners; the relationship between asset owners, investment managers and consultants; asset managers’ processes and decisions; and the interface between investors and the companies and assets they own. We plan to strengthen our Academic and Public Policy Networks, to reinforce the evidence base for responsible investment and encourage more public policy support for our signatories’ objectives. We want to expand our ability to deliver support to signatories in their own countries and their own languages. And we want to extend the reach of responsible investment by recruiting more signatories, particularly those that are influential in their own markets or sectors. We need to keep pace with the development of capital markets by strengthening our network in regions such as Asia, the Middle East and Latin America, and ensuring that we work with the full range of investors across all asset classes.

I look forward to PRI’s next five years being as successful and rewarding as our first five years.

For more interviews with PRI signatories and staff, visit our YouTube channel at: www.youtube.com/unpritube
Core resources for signatories

PRI IN PRACTICE

Our extranet-based library with over 100 interviews, briefings and articles identifies the best practice activities of signatories to share with other investors.

Topics this year have included:

- How to reduce the cost and time commitment of engagement;
- How to produce an effective responsible investment strategy;
- Principle 4: best practice implementation from a US asset owner.

WEBINARS

The PRI Initiative holds around three webinars a month, exclusively for signatories, on a range of ESG themes. Expert webinar speakers include academics and investors. In the last year there were 37 webinars on topics including:

- Proxy voting: Mending the vote confirmation process in the UK and Netherlands;
- Oil sands: Sharing lessons learned and planning future collaboration;
- Social factors: What to look for and how to quantify them;
- Private equity and corporate governance;
- Climate change and strategic asset allocation.

EVENTS

PRI holds many events on responsible investment throughout the year to discuss local investor implementation and international best practice. This year these have included events in Chicago, China, Frankfurt, Geneva, Indonesia, Madrid, Netherlands, New York, San Francisco, South Africa, South Korea, Tokyo and Vietnam.

PRI also holds an annual PRI in Person signatory-only event, attended by 400+ senior decision-makers. PRI in Person attracts investors, corporates, regulators and market intermediaries to hear from experts and discuss the latest thinking in responsible investment. Lasting two full days, PRI in Person is recognised as the industry’s leading global conference dedicated to improving ESG implementation, sharing global best practice and peer-to-peer dialogue.

Our 2012 PRI in Person event will be in Rio de Janeiro, 28-29 June.

PUBLICATIONS

PRI produces documents on responsible investment issues, both independently and with partners. Some of the reports published this year include:

- Implementation of the PRI by small and resource constrained investors;
- Responsible investment in private equity: A guide for limited partners;
- Responsible investment in passive management strategies;
- Responsible investment in commodities: The issues at stake and a potential role for institutional investors.

The PRI extranet also hosts a library of more than 200 reports and industry publications on ESG themes and implementation topics.
The PRI Clearinghouse is the leading global platform for collaborative shareholder engagement. It provides investors with the necessary resources and information to share ideas and engage with companies and policymakers on ESG issues across different sectors and regions.

How the Clearinghouse works

PRI signatories propose engagement activities via the extranet or by contacting the Clearinghouse team. Common engagement methods include voting on resolutions at company AGMs, writing letters to companies and holding in-depth discussions with companies on various ESG issues.

The PRI Secretariat supports and promotes the engagements published on the Clearinghouse and invites other signatories in the network to join the collaborations that are relevant to them. This may involve communicating with the signatory network, coordinating investor activities or tracking engagement outcomes.

Why investors use the Clearinghouse

The Clearinghouse helps investors to be active owners and to collaborate, thereby implementing Principles 2, 3 and 5. Some of the benefits of using the Clearinghouse include:

- **Pooling resources**: Most engagements require resources, including ESG research and staff time. Working with peers through the Clearinghouse can reduce time and effort and deliver an improved result.
- **Sharing information**: On complex topics and in unfamiliar markets, signatories can work together to enhance their knowledge and awareness of particular ESG issues, companies or markets.
- **Enhancing influence**: By working together investors can achieve greater impact, for example, by approaching a company on behalf of a group of shareholders with a significant combined shareholding.
- **Avoiding duplication**: Collaboration can reduce the number of requests to companies, helping both companies and investors to share information efficiently and save time and resources.
- **Links to foreign markets**: By using the Clearinghouse to work with local investors in foreign markets, signatories can develop relationships in, and knowledge of, new markets and the issues being faced by investors.

This year:

- **315** – Signatories were involved in Clearinghouse activities.
- **4.2** – Average number of proposals joined by PRI signatories.
- **782** – Companies contacted through Clearinghouse activities.
- **84** – Postings on the Clearinghouse.

New Clearinghouse evaluation framework

To measure the progress of engagements coordinated by the Clearinghouse team, the PRI Secretariat has developed an evaluation framework. The framework provides a tool to help set targets around engagement activities and company ESG performance and then measure and report progress throughout the engagement. The framework has been applied to 16 collaborative engagements since its launch in 2010.

The framework was produced in consultation with: As you Sow, Aviva Investors, California Public Employees Retirement System – CalPERS, F&C Asset Management, FTSE Group, Hermes Pensions Management, NEI Investments, New Zealand Superannuation Fund, PGGM Investments and Standard Life.
The issue

Investors need good information to make good decisions. If companies do not report on the ESG risks and opportunities within their businesses, investors cannot accurately assess their prospects.

Since 2007, to help drive corporate ESG disclosure, PRI signatories have joined forces with the UN Global Compact, the world’s largest corporate responsibility initiative, and used the Clearinghouse to write to:

- **the ‘leaders’**: those companies that have produced a high quality report; and
- **the ‘laggards’**: those companies that have joined the Global Compact but failed to fulfil their reporting requirements (known as the Communication on Progress).

The table below shows the results of the engagement from the last four years.

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### The investor perspective: British Columbia Investment Management Corporation (bcIMC) (Canada)

"BcIMC is a Canadian investment manager with a long-term view. We believe that an awareness of ESG risks and opportunities really counts when it comes to protecting and improving a company’s long-term value. We are involved in the ‘leaders and laggards’ engagement because it helps us to prevent future ESG-related problems that may challenge operational and financial success, and therefore impact us as shareholders.

In our experience, the engagement process can be extremely resource-intensive so sharing the endeavour through collaboration is helpful. After all, the pension funds we manage are not charities or environmental activists or social movements – they are funds accumulated to pay pensions to those who need them to live after their working lives are complete. As investors, it is important to work as long-term business partners with directors and managers to support companies to perform at a high level. That is why companies such as Mitsui, who produce a high-standard of ESG data deserve encouragement from the investment community at large."

### The company perspective: Mitsui & Co Ltd (Japan)

"Mitsui has been a member of the UN Global Compact since October 2004. At Mitsui we adhere to the “Yoi-Shigoto” (good quality work) concept, which expresses the sense of value that all Mitsui personnel should share as they do business. The concept of Yoi-Shigoto considers three perspectives: contribution to society, benefit and value to customers and partners, and worthwhile challenge for employees.

Mitsui is committed to disclosing information to investors with transparency and accountability in various ways including our annual report, CSR report, and statutory disclosure. Being selected as a ‘leader’ is deemed as positive feedback from investors. It encourages us to expand our “Yoi-Shigoto”, helping us have a positive societal impact and improve our sustainable earnings. Mitsui feels the responsibility of being a ‘leader’ and commits to improving its activities in the future."
The issue
Corporate governance issues such as risk management practices, executive compensation and board structure are of critical importance to many signatories. However, investors cannot always get the information they need on a company’s governance strategies.

To help address this problem, a pilot project has been launched by a coalition of global investors, including 12 PRI signatories, to develop a new opportunity for investors and companies to discuss corporate governance issues called a ‘fifth analyst call’. The Clearinghouse was used as a platform to connect with other investors about this initiative.

The ‘fifth analyst call’ is an idea for companies to host a dedicated conference call for investors, similar to standard quarterly results calls. On the conference call the company can explain to a large number of institutional investors at one time their corporate governance philosophy and strategy and investors can ask questions and raise concerns prior to voting their shares at the AGM. It is seen as a way for companies to reach beyond their largest shareholders to other investors about this initiative.

The ‘fifth analyst call’ follows the publication of the proxy statement and precedes the annual shareholders’ meeting.

The investor perspective:
F&C Asset Management (UK) & Railways Pension Trustee Company Limited (UK)*

“The ‘fifth analyst call’ is an efficient mechanism for companies to reach beyond their largest investors to discuss key issues of corporate governance and can easily be posted on the company’s website for wider market access. Such direct governance engagement is routine in other markets, such as the UK, Australia and the Netherlands, where directors devote substantial time and attention to contact with their shareholders.

Occidental Petroleum took the lead and piloted the first-ever call in April 2011, which was attended by approximately 50 investors from seven countries and three continents. The Lead Director and the Compensation Committee Chairman fielded questions on board structure and compensation and specific items on the proxy in the lead up to the May annual meeting. Investors are inviting other US companies to follow suit, which is particularly important now that US company shareholders vote on compensation. The fifth analyst call model provides a way for companies to build dialogue outside of a corporate crisis and, as US SEC Chairman Mary Shapiro said in a 2010 speech, to, ‘move beyond the minimum required communications and become truly engaged in the shared pursuit of high quality governance’.

The company perspective:
Occidental Petroleum Corporation (US)

“A commitment to corporate governance is one of Occidental Petroleum Corporation’s most important attributes and directly contributes to the enhancement of stockholder value. Occidental became one of the first companies to issue an annual environmental report, which has evolved into our current, comprehensive Social Responsibility Report.

Occidental began taking a more proactive approach to engagement in 2007, when a management team met with institutional investors in Boston, New York and Los Angeles to discuss governance and sustainability issues. These discussions revealed the investors’ desire to speak directly with members of the Board of Directors. As a result, the following year, the Chair of the Board’s Compensation Committee held two meetings with institutional investors and encouraged them to provide frank feedback. The meetings have continued with the Lead Independent Director participating as well. Input gleaned from the meetings helped shape the compensation and governance changes announced by Occidental in fall 2010. To inform investors about those changes and the Board’s commitment to them, Occidental was the first US company to participate in a ‘fifth analyst call’ in April 2011.

A letter from the Lead Independent Director and the Chairman of the Compensation Committee, published in the 2011 Proxy Statement, expresses Occidental’s current stance on investor engagement: ‘We sincerely hope that you will continue to communicate with the Board on compensation and other issues of importance and we pledge to continue our outreach efforts to make sure that our decisions reflect the input of our most important constituents – our stockholders’.

Examples of engagements by signatories in 2010/11

**Arms Trade Treaty:** 24 signatories managing over US$ 1.2 trillion issued a joint statement in July 2011 calling for a strong, legally binding and comprehensive Arms Trade Treaty. They also highlighted the need to establish common international standards on the transfer of conventional arms.

**Carbon Disclosure Project:** A coalition of 33 investors sent letters to 92 companies in energy-intensive sectors asking them to disclose their plans for reducing greenhouse gas emissions. Since the letters were sent 23 of the companies have produced plans. During 2011 investors have engaged with 20 of the companies that have still not published their plans.

**Carbon Disclosure Leadership Index:** In 2010, 14 investors targeted 204 companies that rated poorly against their peers on climate reporting. Results listed in the 2010 Carbon Disclosure Leadership Index (CDLI), showed that 72 target companies have now moved up from the lowest quartile. In total, 61 companies improved their CDLI score by more than 15 points in 2010.

**Remuneration:** Five signatories are discussing linkages between ESG performance and remuneration levels. A strategy for the engagement will be developed after initial consultations and research.

**Gender:** Ten investors are engaging with 57 companies in the US, Canada, Brazil, Sweden, UK and Italy to encourage more women at senior management and Board level. In total, 35 responses have been received and 20 meetings arranged. The engagement is ongoing.

**Corruption:** 21 investors are engaging with 21 companies about the corruption and bribery risks they face. Eleven companies replied to investor letters and half of them provided comprehensive information. Of those, three companies have publicly disclosed significantly more than in previous years and three others have provided more detailed information privately.

**Europe and North America:** A coalition of 14 investors is encouraging 11 companies from the extractive industry to improve policies and management systems on indigenous rights.

**US:** 17 investors wrote to five major US manufacturing companies encouraging them to be part of a global effort to address the humanitarian dangers of cluster munitions. Three companies have responded so far and the engagement is ongoing.

**Colombia:** Investors have begun applying guidance about operating in conflict zones and high-risk areas (published by PRI and UNGC) to their engagements with investee companies that operate in Colombia.

**Brazil:** A coalition of 25 signatories is engaging with the ten largest Brazilian companies that have not yet adopted the Global Reporting Initiative guidelines for corporate reporting.

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Items in blue boxes are area-specific engagements, those in yellow are global in nature.
Italy: Ten European and North American investors have continued discussions with the European Commission and authorities in France, Italy, Spain and the UK on “acting in concert” legislation. In April 2011, Italian regulations were changed to allow investors to cooperate and exchange information on ESG issues without being deemed to be in breach of European regulation.

Congo: 16 investors are engaging with 16 global consumer electronic companies from the US, Europe and Japan that source from Eastern Congo to check they can manage the risks associated with the ongoing conflict there. For example, they want to ensure that company supply chains do not fund militias responsible for wider violence and criminality. Investors have corresponded or met with 11 companies and seven have fully acknowledged the issue.

UK and Netherlands: Five investors are working on improving the proxy voting chain in the UK and Netherlands to ensure investors receive vote confirmations.

Germany: A coalition of investors is engaging with German companies to encourage greater shareholder involvement in selecting and nominating candidates to the supervisory boards of companies.

China: 45 signatories signed a public investor statement to improve working conditions at a group of electronics factories in China. The factories supplying global companies such as Apple and Dell, had experienced relatively high rates of suicide and attempted suicide among workers.

South Korea: Eight PRI signatories are engaging with Samsung Electronics on employees’ health and safety issues.

Indonesia-Malaysia: Ten PRI signatories formed a Sustainable Palm Oil Investor Working Group to encourage companies to produce palm oil sustainably and actively support the Roundtable on Sustainable Palm Oil (RSPO).

Sudan: 22 investors continued to engage with Asian and western companies operating in Sudan. In general, oilfield service companies have acknowledged investors’ concerns, put more policies and practices in place and shown higher levels of disclosure than oil companies, although all companies could improve their risk management.

Australia: Signatories supported shareholder resolutions that called for oil and energy companies to improve disclosure of greenhouse gas (GHG) emissions. Oil Search Ltd announced it would publish emissions reduction targets in its 2011 sustainability report and a resolution with Woodside Petroleum to publish a Carbon Price Assumption Report persuaded 8.5 per cent of shareholders to vote for (or abstain) at the general meeting in April 2011.

Stock exchanges: 28 PRI signatories supported a dialogue with 30 global stock markets to promote better ESG disclosure and strategy by companies listed in their markets. Six stock exchanges responded to the investor letter and a further 13 have promised to respond shortly. This investor engagement is part of the Sustainable Stock Exchanges initiative, co-organised by PRI, UN Global Compact and UNCTAD.

Fisheries: Twenty investors are looking at the topic of sustainable fisheries. Initially they are asking retail, consumer goods, leisure and food processing companies about their sourcing policies to understand the extent to which certification is used to trace the source of all fish.

Human rights: 29 investors joined together to recommend that UNHCR endorse Professor Ruggie’s ‘Guiding Principles for the Implementation of the UN Protect, Respect and Remedy Framework’. UNHCR endorsed the document in June 2011.
The PRI signatory extranet

The extranet provides a private workspace for signatories to share knowledge and collaborate on responsible investment activities. This year, the PRI extranet was relaunched with an emphasis on improved functionality and clearer navigation. Some of the new features are:

**Individual login**

A new personal profile gives each individual the ability to control which newsletters and alerts they receive and the option to save specific articles or areas of interest.

**New Clearinghouse pages**

It is now easier for signatories to upload proposed engagements or join current engagements. The new design also helps engagement leaders to track deadlines and manage their collaborations.

A new shareholder resolution database has also been introduced that enables signatories to build support among peers concerning shareholder resolutions on ESG issues at listed companies across the world.
New implementation support pages

From best practice on bonds to interviews on infrastructure, PRI’s guidance across different asset classes has been consolidated in one place and organised to make it easier to find the latest updates from specific work steams.

Enhanced search

Improved search facilities make it easier to access contact information, relevant documents and resources such as webinars and PRI in Practice articles.
Implementation support

> Listed equities
The Listed Equities Work Stream provides support for signatories who manage listed equities, particularly in terms of ESG integration.

Support has taken many forms over the years, including dozens of PRI webinars, PRI in Practice articles and event sessions. 2011 has seen a focus on responsible investment in passive management strategies with the publishing of a document that provides best practice examples from asset owners and investment managers on the application of the Principles within passive investment strategies.

> Fixed income
In June 2011, the PRI Initiative convened a group of signatories in a workshop dedicated to responsible investment within fixed income and launched the Fixed Income Work Stream.

Going forward the work stream will look at issues such as the impact of ESG factors on corporate and sovereign default risk and how bondholders can engage effectively. It will also look at how and why credit rating agencies can integrate ESG risks into their corporate credit ratings.

> Private equity
Private equity is an asset class highly suited to active ownership and consideration of ESG issues. Investments are long-term, with the active holding period for a portfolio company being three to seven years. General partners (GPs) tend to seek a significant degree of influence over their portfolio companies, and GPs generally have full access to management accounts.

Established in 2008, the Private Equity Work Stream brings limited partners (LPs), GPs, funds of funds and advisors together to raise awareness and support for responsible investment implementation. The number of private equity signatories has risen from just two in March 2008 to over 100 in 2011. This growth and interest was highlighted at an event on responsible investment in private equity held in New York this year (June 2011) co-hosted by PRI. At the event, PRI released the second edition of ‘Responsible investment in private equity: A guide for limited partners’. The Guide outlines how LPs, GPs and portfolio companies can promote better and more consistent integration of ESG factors into private equity investment decisions.
The Infrastructure Work Stream, launched in January 2011, explores how ESG issues impact the pricing and management of risk within infrastructure investments. It will also look at how ESG issues can contribute to adding or maintaining value over the lifetime of an investment. It aims to drive thought leadership and outreach, to raise awareness and encourage debate with industry stakeholders.

In 2011/2012, signatories can expect case studies on current practices within responsible investment in infrastructure and best practice guidance to aid signatories in their implementation.

ESG factors provide a number of risks and opportunities for property investors. For example, changing market demand and industry regulation can affect the capital costs of buildings. It can also have a positive effect on a building’s operational costs and risk premium.

This year, PRI and UNEP Finance Initiative’s Property Working Group (PWG) are updating the 2008 document ‘What the leaders are doing’ with new case studies on the activities of signatories with property investments. Work is also being undertaken with a project reviewing financing mechanisms for energy efficiency solutions in buildings.

PRI defines small signatories as investors with under US$ 2 billion. Thirty-five per cent of signatories are investors with under US$ 2 billion AUM. In 2008, a work stream was established to help small and resource-constrained investors undertake RI practices.

Our recent case study publication, ‘Implementation of the PRI by small and resource-constrained signatories’ shows how small funds have found innovative ways to implement each of the six Principles.
Principles for Investors in Inclusive Finance

The Principles for Investors in Inclusive Finance (PIIF) were launched in January 2011 following growing demand for investor guidance into inclusive finance. Inclusive finance includes, but is not limited to, microfinance and focuses on expanding access to affordable and responsible financial products and services for poor and vulnerable populations and micro and small enterprises.

PIIF is housed by the PRI Initiative as an independent work stream. Like the PRI, the PIIF provide a guide for investors in inclusive finance to help them integrate responsible investment practices in their operations and decision-making processes. The Dutch Ministry of Foreign Affairs generously provided grant funding to enable PRI to establish the PIIF and support it in its first year.

Signatories to the PIIF commit to adhering to and promoting the following principles:

1. **Range of Services.** We will actively support retail providers to innovate and expand the range of financial services available to low income people in order to help them reduce their vulnerability, build assets, manage cash-flow, and increase incomes.

2. **Client Protection.** We believe that client protection is crucial for low income clients. Therefore we will integrate client protection in our investment policies and practices.

3. **Fair Treatment.** We will treat our investees fairly with appropriate financing that meets demand, clear and balanced contracts, and fair processes for resolving disputes.

4. **Responsible Investment.** We will include ESG issues in our investment policies and reporting.

5. **Transparency.** We will actively promote transparency in all aspects.

6. **Balanced Returns.** We will strive for a balanced long-term social and financial risk-adjusted return that recognises the interests of clients, retail providers, and our investors.

7. **Standards.** We will collaborate to set harmonised investor standards that support the further development of inclusive finance.

“I believe these Principles provide practical guidance to help investors leverage resources, experience and collective voice to build institutions that are strong, sustainable and responsible. Only in this way will we get the right products at the right price to everyone who needs them today and in years to come. I would like to thank the partners who have worked so closely to advance responsible finance and to PRI which will host and support implementation of these principles.”

Her Royal Highness Princess Máxima of the Netherlands, UN Secretary-General Special Advocate for Inclusive Finance for Development.
Other work streams

PRI local investor networks

Responsible investment practices vary across regions and it is important to contextualise best practices and support to signatories locally and in their own languages. PRI local networks help coordinate local RI activities, provide implementation support and facilitate collaborative engagements with companies and policymakers in the region for both local and international investors. A team of six people supports PRI networks in Brazil, Germany, Japan, South Africa, and South Korea. New networks are also being launched in Australia and North America. Local networks provide a platform for:

- Implementing the Principles in a local context by learning from peers and sharing experiences;
- Building understanding of locally relevant ESG risks and opportunities;
- Engaging collaboratively with local companies and policymakers on ESG issues;
- Recruiting new signatories;
- Becoming involved in international engagements and activities with peers around the world;
- Generating insights that can be shared with signatories around the world.

Local networks in action: Brazil

The PRI Brazil Network was established in 2008 as the first local PRI network. Since 2008, the number of Brazilian signatories has grown to 50 at the time of writing, helped by the presence of large asset owners such as PREVI, Infraprev and Petros.

The Brazil network meets regularly in person and through conference calls to share best practice, provide training on select topics and network. Experts have discussed climate change, slave labour, ESG integration and corporate governance, and spoken about applying these issues in a local context.

The Brazil network is organised in four working groups:

- **Integration Working Group**: This group aims to assist signatories in implementing ESG factors into their investment decision making process. In 2011, the group has been working with a Brazilian research house to increase the level of ESG research available to them. The group is coordinated by PRI signatory Delsus.

- **Engagement Working Group**: This group acts as the main forum in Brazil for investors to join forces and engage with their investee companies (or potential investees) to improve corporate behaviour on ESG issues. For the past two years, the group has focused on improving the quality of corporate sustainability reporting in Brazil and promoting the GRI guidelines. In 2011, the group engaged with companies that do not report at all or have poor disclosure of ESG performance.

- **Recruitment & Awareness Working Group**: This group aims to raise awareness about responsible investment in Brazil and promote it among investors that are not yet PRI signatories. The network has also generated positive media coverage, featuring in O Globo Newspaper, Terra and Investidor Institucional. Infraprev coordinates this group.

- **Investment Policy Working Group**: This group aims to help Brazilian pension fund signatories to develop RI policies. The group is coordinated by PREVI.

As a sign of the progress made by investors in Brazil the Financial Times and IFC named local network member Itaú Asset Management as the Sustainable Bank of the Year for 2011.
The PRI Academic Network is an association of research networks, business schools, academics, students and investment professionals. It encourages research that leads to developing implementation support tools, strategic insights that help members choose RI strategies and theories that enable changes to conventional financial models.

The PRI Academic Network also supports capacity-building through its sponsorship of research conferences and workshops. This includes our PRI Young Scholars Academy in collaboration with Oikos International and the annual academic conference attended by up to 200 academics and investment professionals.

Some examples of the work produced by members of the PRI Academic Network this year include:

**Credit risk:** Rob Bauer and Daniel Hann of Maastricht University authored a study on the relationship between corporate environmental management and credit risk, which won the Moskowitz Price 2010. They find that concerns about corporate environmental responsibility are associated with a higher cost of debt financing and lower credit ratings, and proactive environmental practices are associated with a lower cost of debt.

**Fiduciary duty:** Researchers from the University of St Andrews and the Sustainable Investment Research Platform teamed up with EIRIS to study whether pension funds' fiduciary duty prohibits the integration of corporate environmental responsibility criteria in investment processes. They find that integration has no detrimental effect on standard investment strategies to which many large pension funds are committed.

**Impact investing:** The Initiative for Responsible Investment at Harvard University and Insight developed a framework for policy design and analysis in impact investing. It offers a model for locating the role of government in impact investing and practical criteria for starting the design and evaluation of policy.

**Integrated reporting:** Robert Eccles and Kyle Ambrester of Harvard University developed an internet-based model to support the growth of integrated reporting.

**Portfolio management:** Andreas Hoepner of the University of St Andrews wrote a theoretical paper on ESG factors and portfolio diversification. His theory won a 2010 PRI Academic Research Award. It shows that ESG factors may improve portfolio diversification (via the standard deviations in the covariance term of the portfolio’s variance-covariance matrix).

**Property:** Maastricht University, APG Asset Management and PGGM Investments developed the Global Real Estate Sustainability Benchmark, which measures the energy efficiency and sustainability of real estate investments.

Membership to the network is free and open to all. To join the network and find out about upcoming events visit [www.academic.unpri.org](http://www.academic.unpri.org)
Taking investor reporting to the next level

Since its inception in 2006, the PRI Reporting and Assessment survey has provided a crucial tool for investors wishing to disclose and benchmark their responsible investment activities against peers. The number of investors that report on their progress and use the survey to implement Principle 6 has increased steadily every year, reaching 545 in 2011.

To accurately measure responsible investments across asset classes and strategies, PRI will be developing a new survey to be piloted in 2012 and finalised for 2013. The goal is to define a reporting and assessment framework for responsible investment for use within and beyond the PRI signatory base. This new framework will deliver:

- a clear, coherent account of responsible investment activities to enable investors to showcase areas of strength and best practice;
- a meaningful assessment of performance across PRI signatories;
- targeted reporting by creating questions for direct (internally managed) investments versus indirect (externally managed investments). Six asset class specific supplements will be offered.

More information on the new reporting framework is available at [www.unpri.org/reporting](http://www.unpri.org/reporting)
Financing the PRI Initiative

2010/11

In the 2010/11 financial year signatories continued to support the PRI with voluntary contributions that were ahead of both the previous year and budget forecasts. The PRI Initiative has used this income to significantly increase implementation support services and resources for signatories in line with its five-year plan. This has included a notable expansion in the staffing of work streams related to new asset classes and additional resources to service the growing number of signatories in the global network.

The PRI Initiative has balanced this increased expenditure with a cautious approach that ensures a reserve of four months of core operating costs is held in reserve at all times.

This year the PRI introduced an annual fee for all signatories. The introduction of fees was important because the number of signatories financially contributing to the Initiative was, in any given year, less than 40%. To be a sustainable organisation and deliver our vision of mainstreaming responsible investment, the move to annual fees was necessary.

As of July 2011, around 90% of signatories paid the annual fee for the year to 31 March 2012.

2011/12

The successful transition to an annual fee structure will enable the PRI Initiative’s continued expansion of its services and resources for signatories.

There will be a continued focus on delivering expertise around implementation support, including enhancing the Clearinghouse, and on providing better resources for country networks to address local signatory needs. There will also be significant investment in a new PRI Reporting and Assessment framework and on new signatory recruitment.

PRI Association, the main implementation entity for the PRI Initiative, is now formally established and registered in the UK as a not-for-profit company limited by guarantee. This follows our move away from the Foundation for the Global Compact in New York, which provided administrative and legal support for the Initiative for its first four years. The PRI Initiative remains a public-private collaboration between investors and the two UN partner agencies, UNEP Finance Initiative and the UN Global Compact.

### Number of signatories paying fees

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Signatories</th>
<th>Signatories contributing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07</td>
<td>£178,962</td>
<td>181</td>
<td>50</td>
</tr>
<tr>
<td>2007/08</td>
<td>£353,986</td>
<td>331</td>
<td>88</td>
</tr>
<tr>
<td>2008/09</td>
<td>£636,420</td>
<td>505</td>
<td>165</td>
</tr>
<tr>
<td>2009/10</td>
<td>£1,147,100</td>
<td>718</td>
<td>277</td>
</tr>
<tr>
<td>2010/11</td>
<td>£1,335,740</td>
<td>870</td>
<td>339</td>
</tr>
</tbody>
</table>

### Income and expenditure summary

<table>
<thead>
<tr>
<th>£000s</th>
<th>Actual 2010/11</th>
<th>Forecast 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signatory fees</td>
<td>2,644</td>
<td></td>
</tr>
<tr>
<td>Signatory donations</td>
<td>1,336</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>43</td>
<td>(20)</td>
</tr>
<tr>
<td>Total income</td>
<td>1,476</td>
<td>2,624</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>1,575</td>
<td>2,625</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Surplus (deficit) for year</td>
<td>(94)</td>
<td>7</td>
</tr>
<tr>
<td>Cash reserves</td>
<td>1,174</td>
<td>982</td>
</tr>
<tr>
<td>Opening</td>
<td>982</td>
<td></td>
</tr>
<tr>
<td>Closing</td>
<td>942</td>
<td></td>
</tr>
</tbody>
</table>

### How signatory fees are spent

<table>
<thead>
<tr>
<th>£000s</th>
<th>Actual 2010/11</th>
<th>Forecast 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management &amp; operations</td>
<td>770</td>
<td>886</td>
</tr>
<tr>
<td>Reporting</td>
<td>159</td>
<td>363</td>
</tr>
<tr>
<td>Implementation</td>
<td>118</td>
<td>329</td>
</tr>
<tr>
<td>Clearinghouse</td>
<td>157</td>
<td>238</td>
</tr>
<tr>
<td>Networks</td>
<td>92</td>
<td>252</td>
</tr>
<tr>
<td>Development</td>
<td>183</td>
<td></td>
</tr>
<tr>
<td>Academic</td>
<td>101</td>
<td>90</td>
</tr>
<tr>
<td>Communications</td>
<td>178</td>
<td>284</td>
</tr>
</tbody>
</table>
Governing the PRI Initiative

PRI is governed by a 16-person Advisory Council made up of nine elected asset owner signatory representatives, four non-asset owners (investment managers and service partners), two UN representatives, and an appointed Chair. The former PRI board was renamed the PRI Advisory Council in September 2010.

After five years of successful leadership by asset owners, the PRI Advisory Council added four positions for investment managers and service partner signatories. The move to expand representation was seen as essential to mainstreaming responsible investment throughout the investment chain and providing value for all signatories. In a competitive election in 2011, 38 signatories were nominated.

PRI Advisory Council members

Dr. Wolfgang Engshuber (chair), Senior advisor, Munich Re America
Elected 2011

Else F. Bos
Deputy Chairman of the Executive Committee and Chief of Institutional Business, PFZW
Re-elected 2011

Howard Jacobs
Trustee, Universities Superannuation Scheme
Elected 2009

Sopawadee Lertmanaschai
CEO, Government Pension Fund of Thailand
Elected 2011

Priya Sara Mathur
Board member, CalPERS
Elected 2011

David Atkin
CEO, CBUS
Elected 2009

Gavin Power
(Special designate Paul Clements-Hunt)

Georg Kell
Executive Director, UN Global Compact
(Special designate
Achim Steiner
Executive Director, UNEP
(Special designate Paul Clements-Hunt)

Howard Jacobs
Trustee, Universities Superannuation Scheme
Elected 2009

Sopawadee Lertmanaschai
CEO, Government Pension Fund of Thailand
Elected 2011

Priya Sara Mathur
Board member, CalPERS
Elected 2011

David Atkin
CEO, CBUS
Elected 2009

Georg Kell
Executive Director, UN Global Compact
(Special designate
Achim Steiner
Executive Director, UNEP
(Special designate Paul Clements-Hunt)

Dr. Wolfgang Engshuber (chair), Senior advisor, Munich Re America
Elected 2011

Howard Jacobs
Trustee, Governments Superannuation Scheme
Elected 2009

Paul Abberley
CEO, Aviva Investors London
Elected 2011

Sopawadee Lertmanaschai
CEO, Government Pension Fund of Thailand
Elected 2011

Paul Abberley
CEO, Aviva Investors London
Elected 2011

Sopawadee Lertmanaschai
CEO, Government Pension Fund of Thailand
Elected 2011

Luciane Ribeiro
CEO, Santander Asset Management, Brasil
Elected 2011

With thanks

Recent Advisory Council departures include Antoine De Salins. The PRI Secretariat and PRI Advisory Council thank Antoine for his active guidance in developing the Initiative and work building responsible investment.
Making progress on the Principles

In our fifth year, the PRI Initiative has taken a snapshot of how the results of its early surveys compare to the 2011 responses. We present here a few highlights on the progress of RI since then.*

RI policy
- RI policy has become a norm among PRI signatories. 67% of IMs and 83% of AOs had an RI policy in 2007. Now, up to 94% of IMs and AOs have one in place. Among the signatories that joined the PRI at the start, 99% have a RI policy in place.

Integration
- Integration of ESG factors into investment criteria has seen growth from 4% to 7% of the total global market of AUM. Integration in the PRI signatory base now represents approximately US$10.7 trillion, up from approximately US$3.6 trillion two years ago. Although there has been some progress, there is significant scope for improvement.

Active ownership
- In 2007, about half of the signatories who participated in the survey set engagement objectives to some extent. In 2011, 53%, 67% and 78% of signatories using external managers, internal staff and specialised service providers respectively, set ESG objectives to some extent.

- The proportion of the signatories accessing the Clearinghouse has increased from 39% in 2007 to 63% in 2011. Among the signatories that signed in the first year, this percentage is now 74%. Overall, the number of signatories joining or leading Clearinghouse engagements has gone from around 80 in the first year to about 300 today.

Demand for corporate ESG reporting
- Among the original set of signatories, the average level of demand for corporate ESG reporting has risen from “small to moderate” in 2007 to “moderate to large” in 2011.

Investor transparency
- In 2007, 67% of AOs and 88% of IMs disclosed how RI/ESG issues were integrated into their investment process. By 2011, 93% of signatories disclosed their integration policy or approach towards integration.

- The percentage of signatories that publicly disclose their full responses to the annual Reporting and Assessment survey on the PRI website has nearly doubled from 25% in 2009 to 44% in 2011. This represents a growth in absolute numbers of PRI signatories from 35 in 2007 to 241 in 2011.

* Note that questions asked in the PRI Reporting and Assessment survey have changed since 2007 so comparisons over time in all areas is difficult. Where comparisons for the full five years are not available, an alternative period of time is used.
The Principles for Responsible Investment were launched by the UN Secretary-General at the New York Stock Exchange in April 2006. The six Principles are:

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

Why join?

- Reputational benefits from publicly demonstrating top-level commitment to integrating ESG issues;
- Gain access to a comprehensive knowledge bank of best practice and implementation support;
- Be part of a global network of peer investors;
- Contribute to more long-term, transparent and sustainable capital markets.

If your organisation would like to become a signatory please email info@unpri.org or visit www.unpri.org/sign
OUR UN PARTNERS

UN Global Compact

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance ten universal principles in the areas of human rights, labour, environment and anti-corruption. Through the power of collective action, the Global Compact seeks to mainstream these ten principles in business activities around the world and to catalyze actions in support of broader UN goals. With over 8,000 corporate participants and stakeholders from over 140 countries, it is the world’s largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between UNEP and the private financial sector that works closely with approximately 200 financial institutions to develop and promote linkages between sustainability and financial performance. Through regional activities, a comprehensive work programme, training and research, UNEP FI carries out its mission to identify, promote and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

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