Principles for Responsible Investment

WRITING A RESPONSIBLE INVESTMENT POLICY

GUIDANCE FOR ASSET OWNERS

THE SIX PRINCIPLES

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.

This publication is intended to promote the application of Principles 1, 2, and 3 of the Principles as they relate to fixed income investing. The PRI Initiative was launched by the United Nations in 2006 after former UN Secretary-General Kofi Annan brought together a group of the world's largest institutional investors, academics and other advisors to draft a set of sustainable investment principles.

ABOUT THIS TOOL

This tool provides guidance to asset owners who would like to develop a responsible investment policy and how such policy links to the overall institutional policy structures. By responsible investment we mean the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.[1]

Responsible investment policies can take many forms and there is no single right way of developing one. Currently, policies can take the form of high-level statements on an organisation's webpage, a code, communication on your a separate responsible investment policy document, a range of policy documents covering different areas, or in some cases are incorporated into an organisation's Investment Policy Statement. Additionally, policy content may depend on which country the signatory resides in.

This tool offers a suggested policy structure based on an analysis of current responsible investment policies amongst PRI signatories. When developing a policy, an end goal would be to cover all invested asset classes and regions, based on a thorough knowledge of key ESG issues. However, this is a long-term project, and if you are writing your first policy – it does not need to be all encompassing – it can be aspirational. Over time, as you develop your responsible investment processes, you can review and update your policy over time to expand its scope. This tool is designed to help you keep that long-term goal in sight.

This tool will help you prepare, draft and review a responsible investment policy. It provides some guidance on how to get started. Next, it outlines a suggested policy structure including guidance on what you can include in the various sections. Finally, the tool provides some suggested questions to assist you with reviewing a policy on a regular basis.

It is important to highlight that this is just one way of presenting a policy on responsible investment. The proposed structure can be amended to reflect your organizational goals, beliefs and structures, and you can pick and choose which parts best suit your situation. Certain issues are more important to include than others depending on your liabilities, investment strategy, asset allocation and the overall structure of your portfolio.

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1 Source: Mercer's definition of responsible investment.

GETTING STARTED

Developing a responsible investment policy need not be a cumbersome task. Before starting the drafting process, you may want to consider the following steps:

UNDERTAKE A PEER REVIEW

Investigate how other your peers have formulated their policies. Policies can take many different shapes, as exemplified by policies in the appendix and links throughout this document for example policies from other PRI signatories (some samples from Australia, UK, United States, Spain, Italy, South-Africa, Germany, Brazil, Singapore, France, Finland, Switzerland, Netherlands, Canada)

REVIEW YOUR STATEMENT OF INVESTMENT BELIEFS AND CORE INVESTMENT PRINCIPLES

Identify the core high-level beliefs that are central to your organisation. It is likely that your RI policy will be informed by these beliefs and strategic investment approach. Reflect how your organisation's culture and values appropriately in the policy review and in the resulting policy itself. Be aware that without well-defined core principles Trustee or other fiduciary authority oversight and accountability mechanisms are very hard to robustly implement.

CREATE A PLAN TO DEVELOP THE POLICY

Possibilities to inform the process of policy writing could include internal review process, engagement of an external service providers, stakeholder consultation etc. It is important that methodology applied to 'policy writing' is inclusive to ensure representation of all salient and material perspectives. You could use your existing channels of communication with members and other stakeholders and incorporate their input on the contents of your policy. At the planning stage it is important to ensure that ownership for the policy and outcomes reside at the high possible level in the organization. As well as, cultural fit – organisational governance 'buy-in' is a crucial element in effective policy.

Planning can be aided by following wider industry guidance on ESG integration – for example CERES Blueprint for Sustainable Investing or EIRIS on responsible pooled investments.

FAMILIARISE YOURSELF WITH ESG AND ASSET OWNER SPECIFIC LEGISLATION AND WIDER GUIDANCE

For example, the UK Pensions Act 2004 requires pension funds to have a Statement of Investment Principles and the UK Law Commission report on fiduciary duty states that where ethical or ESG issues are financially material the trustees should take them into account. In South Africa, relevant legislation includes Black Economic Empowerment Charters and Regulation 28 (effective from 1 July 2011) of the Pension Funds Act that will require trustees of pension funds to consider material ESG into their investment analysis and decision-making. In the US, Canada and Australia the growing acceptance for responsible investment practices originate from a number of reports highlighting increased investment values and decreased risks and today several large US pension funds subscribe to various methods of ESG investing. For example in California "CalPERS believes that environmental, social, and governance issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, and asset classes over time."

In some countries, like in the UK and Japan used here, corporate governance codes and stewardship codes may also give valuable insight for an RI policy.

FAMILIARISE YOURSELF WITH THE LANGUAGE AND TERMINOLOGY WITHIN RESPONSIBLE INVESTMENT AND STEWARDSHIP

Local sustainable investment forums (SIFs) may be a good place to start for local information, vocabulary etc. or a quick browse of PRI resources on ESG definitions. You should make good use of peer process guidance, international organisations or visit education providers like the CFA.

FAMILIARISE YOURSELF WITH REGIONAL AND INTERNATIONAL ESG-RELATED STANDARDS

For example please click here to see a list of relevant standards from CDC's perspective or here to see how the Chinese ESG community views the market.

FAMILIARISE YOURSELF WITH THE RECENT ESG AND RESPONSIBLE INVESTMENT DEBATE, AS WELL AS SOME KEY ACADEMIC LITERATURE

For example: Global risks, OECD, UN Framework Convention on Climate Change, Guiding Principles on Business and Human Rights, World Economic Forum, University of Cambridge, Eurosif, ICGN, Global Investor Coalition on climate change and many more.

SET UP A DIVERSE WORKING GROUP AND TIME SCHEDULE

A working group could include both internal staff and external experts from relevant fields. Schedule the finalisation of drafts around board meetings.[2]

2 This will depend on which board, committee or person has the ultimate responsibility for your RI policy.

WRITING UP YOUR POLICY

INTRODUCTION

The introductory section of a policy sets the stage and could include:

- Your organisation's motives for developing a policy. Beliefs, objectives and beneficiary needs that underpin the policy.
- Background on how the policy was developed. For example, if a working group developed the policy, what was its objective and who were its members? Did you consult stakeholders? Does the policy have broad stakeholder acceptance?
- Reference to existing policies and compatibility with them. Is the responsible investment policy an intrinsic part of the main investment policy or is it a distinct policy?
- Policy scope. For whom/what parts of the organisation is the policy binding? What asset classes, regions, markets and securities does it apply to?
- What are the risks associated with the policy?
- Policy compliance.
- Who approved the policy and how often it will be reviewed? Are there any implications of policy breaches?
- Responsibilities in relation to the policy, e.g. Chief Investment Officer, Investment Team, Board, etc

DEFINITIONS

This section of a policy could include definitions of some of the key terms and acronyms used in the policy and reference to other codes and principles that your policy is built on. For example,

- Your definition of responsible investment. If you do not have one, you can use Mercer's definition:
- 'The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.' Please note that local SIFs may have vocabulary in the local language.
- Your definition of a responsible investment. What kind of investment objectives are you looking for?
- Your definition of ESG of ESG factors in relation to your investments.
- You can refer to the United Nations-backed Principles for Responsible Investment (PRI).

RESPONSIBLE INVESTMENT GUIDELINES

This section sets out your core responsible investment guidelines and will look very different from organisation to organisation. Before writing up this section you may want to:

- Identify the responsible investment strategies/practices that fit with your organisation's investment process and philosophy. Consider how your policy will apply to both internally and externally managed assets.
- Consider jurisdictional specificities and legal aspects that may affect the guidelines.

This section could specifically include guidelines on:

- ESG standards for investee companies. Minimum environmental, social and governance (ESG) standards which your organisation expects investee companies to adhere. The depth of content in this section may vary widely. At one end of the scale, you may choose to have only a high level statement on ESG. On the other hand, and possibly a goal for the future, this section could include specific details around how companies manage ESG issues and minimum standards, for example Environmental Management Standard ISO14001, which you expect them to adhere to. You can find a list of ESG issues here.
- Asset classes. Guidelines and procedures for responsible investment practices across different asset classes; for example, listed equities, bonds, private equity, real estate, hedge funds, commodities etc. If you do not have specific guidelines for the asset classes you invest in, you could include which asset classes the policy is more generally intended to apply. If you are at the beginning of your journey, you can indicate the sequence of priorities according to which you intend to progressively apply your policy. You can find PRI asset class guidance here.
- External managers. Guidelines for working with external managers. This could, for example, include a short statement that external investment managers should have a RI policy in place or adopt the asset owner's own policy. It could further include guidelines on manager selection and monitoring, for example inclusion of ESG issues in RFPs and requirements on reporting on RI issues. You can find examples of this in this guide.

RESPONSIBLE INVESTMENT INSIGHT INCORPORATION PROCEDURES/ APPROACHES

In this part of the policy, you can outline which responsible investment approaches your organisation will implement. Potential approaches include positive and negative screening, ESG integration, themed investing, and active ownership. You can find a list with definitions of these approaches here. You could elaborate on those responsible investment approaches you apply, including specific guidelines. For example:

- **Positive and negative screening**
  Guidelines on what you prefer investing in and why (for example specific sustainability themes) and on what you will refrain from investing in and the reasoning behind that.
- **ESG integration**
  Guidelines on integrating ESG issues into investment analysis and processes across the assets classes.
- **Themed investing**
  Guidelines on themed investing and impact investment.

ENGAGEMENT AND ACTIVE OWNERSHIP PROCEDURES/ APPROACHES

Many signatories incorporate voting and engagement guidelines in the main RI policy document. However, others have a separate active ownership policy. If you choose to house your active ownership policy within the main RI policy, you could include some general guidelines on what ownership activities you will employ or prioritise. Examples include guidelines around:

- Voting, including AGM participation and proxy voting.
- Company engagements, including how your organisation will decide on which engagements to conduct, which companies to target, how you will measure success, and your approach to divestment.
- Which ownership activities your organisation may take, such as voting, engagement, raising shareholder resolutions, request a seat on the board, etc.

If you have a separate active ownership policy covering voting and engagement, you could for example state a global active ownership policy here, and include your more detailed policy on specific issues and shareholder proposals in your active ownership policy. You can find examples of separate active ownership policies here.

- In this section you could also allocate responsibilities. For example, will ESG integration be done in- house or by external managers? Will your active ownership activities be organised by internal staff or be outsourced? Who will supervise these activities? The board/investment committee/RI committee?
- In what form and how often do you expect your external managers to report on proxy voting conducted on your behalf.

REPORTING

It is best practice to report on your responsible investment activities, either to beneficiaries or publicly. In your policy, you could outline your approach to reporting. This section could include:

- How, when and to whom you will report.
- Level of publicity, i.e. available publicly or only to clients?
- Connection to PRI reporting.
- Internal review processes. This could for example include what is expected in terms of reporting from portfolio managers, external engagement and proxy voting provides, and what review processes should be put in place by the board/investment committee/ responsible investment committee to ensure objectives are being met.
- Guidance on key performance indicators to measure the outcomes of your RI activities.

For examples of how PRI signatories report on responsible investment activities, please click here for PRI signatory transparency reports.

REVIEWING THE POLICY

ESG policies are organic documents and need to be regularly reviewed. This could include asking questions such as:

- How well is the policy working? Is it achieving the goals you set out for it?
- Are policies consistent with investment beliefs?
- Has anything changed that requires you to change you ESG policy? For example, have you expanded into new asset classes that are not yet covered by your policy? Are there new approaches to responsible investing that could be added?

APPENDIX: EXAMPLE ASSET OWNER POLICIES

AFRICA

ORGANISATION	COUNTRY	TYPE	POLICY
Government Employees Pension Fund	South Africa	Non-corporate pension fund	Responsible Investment Policy Statement

ASIA & OCEANIA

ORGANISATION	COUNTRY	TYPE	POLICY
CBUS	Australia	Non-corporate pension fund	ESG policy
LGSS Pty Limited	Australia	Non-corporate pension fund	Sustainable and responsible investment policy
New Zealand Superannuation Fund	New Zealand	Non-corporate pension fund	Statement of Responsible Investment Policies, Standards and Procedures
StatewideSuper	Australia	Non-corporate pension fund	Environmental, social & governance (ESG) investment policy
Victorian Funds Management Corporation	Australia	Non-corporate pension fund	ESG Policy

EUROPE

ORGANISATION	COUNTRY	TYPE	POLICY
ABP	The Netherlands	Non-corporate pension fund	Various documents are available here
ATP – The Danish Labour Market Supplementary Pension	Denmark	Non-corporate pension fund	Policy of Social Responsibility in Investments
CDC Group plc	UK	Development finance institution	Investment code
Norwegian Ministry of Finance on behalf of the Norwegian Government Pension Fund Global	Norway	Government owned	Additional documents are available here
PNO Media	The Netherlands	Corporate pension fund	Socially Responsible Investment Code
The Central Church Fund of Finland	Finland	Non-corporate pension fund	Guidelines for responsible investing
The Church of England National Investing Bodies	UK	Non-corporate pension fund	Ethical Investment Policies
Pension Protection Fund	UK	Non-corporate pension fund	Statement of Investment Principles

NORTH AMERICA

ORGANISATION	COUNTRY	TYPE	POLICY
Caisse de dépôt et placement du Québec	Canada	Non-corporate pension fund	Policy on responsible investment
CalPERS	USA	Non-corporate pension fund	A range of policies can be found here
CalSTRS	USA	Non-corporate pension fund	A range of policies can be found here
Canada Pension Plan Investment Board	Canada	Non-corporate pension fund	Policy on Responsible Investing
Comité syndical national de retraite Bâtirente	Canada	Non-corporate pension fund	Guidelines on extrafinancial risks management