

THE PRI LEADERS' GROUP 2019

ASSET OWNERS: SELECTING, APPOINTING
AND MONITORING EXTERNAL MANAGERS

IN LISTED EQUITY AND PRIVATE EQUITY



THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

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

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** **We will each report on our activities and progress towards implementing the Principles.**



PRI's MISSION

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

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

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ABOUT THE PRI LEADERS' GROUP

As part of our 10-year [Blueprint for responsible investment](#), the PRI committed to showcasing leadership and increasing accountability, with a view to raising standards of responsible investment amongst all our signatories.

The Leaders' Group showcases signatories at the cutting edge of responsible investment, and highlights trends in what these leading signatories are doing. We have used signatories' reporting responses and assessment data to identify those that are doing excellent work in responsible investment, both across their organisation, and with a particular focus on a given theme each year. (Read more about our methodology in the appendix.)

OTHER PRI INITIATIVES TO SHOWCASE LEADERSHIP AND INCREASE ACCOUNTABILITY

In 2019, we also launched our first ever [PRI Awards](#). Where the [Leaders' Group](#) evaluates broad organisational practice based on PRI assessment, the PRI Awards recognise individual projects, identified by a panel of independent judges.

The counterpoint to our two initiatives on showcasing leadership is our work on increasing signatory accountability. Our [minimum requirements](#) introduced in 2018 use reporting and assessment data to identify signatories that we believe are not making sufficient progress in implementing the six [Principles for Responsible Investment](#). Signatories that do not meet the minimum requirements are informed privately, provided with additional PRI support to help them improve, and – as a last resort following unsuccessful engagement – informed that they can no longer remain PRI signatories.

THE LEADERS' GROUP 2019

The PRI Leaders' Group 2019 showcases PRI signatories that demonstrate both a breadth of responsible investment excellence, and that excel specifically in this year's theme: selection, appointment and monitoring of external managers. Our evaluation focused specifically on listed equity and private equity, as these are the asset classes where we have the most developed work on identifying good industry practice, and are most able to support signatories.

There is no ranking *within* the group. Signatories are listed alphabetically below, and an [interactive version](#) can be used to filter and search. To look at any given signatories' practices in detail, follow the link to their public Transparency Report.¹

The PRI congratulates the following 47 asset owner signatories for being included in the PRI Leaders' Group 2019, in particular for their responsible investment work in the field of selecting, appointing and monitoring external managers in listed and/or private equity:

SIGNATORY	SAM LEADER IN LISTED/PRIVATE EQUITY	INVESTOR TYPE	AUM (US\$ BN)	COUNTRY
Allianz SE	Listed Equity; Private Equity	Insurance company	> 50	Germany
AP1	Listed Equity; Private Equity	Reserve – sovereign- or government-controlled fund	30 - 50	Sweden
AP2	Listed Equity; Private Equity	Reserve – sovereign- or government-controlled fund	30 - 50	Sweden
AP6	Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	1 - 4.99	Sweden
ASR Nederland N.V.	Listed Equity; Private Equity	Insurance company	> 50	Netherlands
AXA Group	Private Equity	Insurance company	> 50	France
Bâtirente	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	0.1 - 0.99	Canada
BT Pension Scheme	Listed Equity; Private Equity	Corporate pension or superannuation or retirement or provident fund or plan	> 50	United Kingdom
California Public Employees' Retirement System CalPERS	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	> 50	United States
CBUS Superannuation Fund	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	30 - 50	Australia

¹ Public Transparency Reports contain signatories' public responses to all relevant indicators in the 2019 [Reporting Framework](#)

SIGNATORY	SAM LEADER IN LISTED/PRIVATE EQUITY	INVESTOR TYPE	AUM (US\$ BN)	COUNTRY
CDC - Caisse des dépôts et consignations	Private Equity	Reserve – sovereign- or government-controlled fund	> 50	France
CDC Group plc	Private Equity	Development finance institution	5 - 9.99	United Kingdom
Church Commissioners for England	Listed Equity; Private Equity	Endowment	10 - 29.99	United Kingdom
Church of Sweden	Listed Equity	Other	0.1 - 0.99	Sweden
Church Pension Fund	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	1 - 4.99	Finland
Environment Agency Pension Fund	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	1 - 4.99	United Kingdom
ERAFP - Etablissement de Retraite Additionnelle de la Fonction Publique Pension Scheme	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	30 - 50	France
Eskom Pension and Provident Fund	Listed Equity	Corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	South Africa
First State Superannuation Scheme	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	> 50	Australia
Fonds de réserve pour les retraites - FRR	Listed Equity; Private Equity	Reserve – sovereign- or government-controlled fund	30 - 50	France
HESTA Super Fund	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	30 - 50	Australia
Ircantec	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	France
Joseph Rowntree Charitable Trust	Listed Equity	Foundation	0.1 - 0.99	United Kingdom
Local Government Superannuation Scheme	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	5 - 9.99	Australia

SIGNATORY	SAM LEADER IN LISTED/PRIVATE EQUITY	INVESTOR TYPE	AUM (US\$ BN)	COUNTRY
MACIF	Listed Equity; Private Equity	Insurance company	> 50	France
MAIF	Listed Equity; Private Equity	Insurance company	10 - 29.99	France
Mercy	Listed Equity; Private Equity	Other	1 - 4.99	United States
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)	Private Equity	Development finance institution	10 - 29.99	Netherlands
New Zealand Superannuation Fund	Listed Equity; Private Equity	Reserve – sovereign- or government-controlled fund	10 - 29.99	New Zealand
Pensioenfonds PNO Media	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	5 - 9.99	Netherlands
Stichting Pensioenfonds ABP	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	> 50	Netherlands
Stichting Pensioenfonds voor de Woningcorporaties	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	Netherlands
Storebrand ASA	Private Equity	Insurance company	> 50	Norway
Strathclyde Pension Fund	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	United Kingdom
Swedfund International AB	Private Equity	Development finance institution	0.1 - 0.99	Sweden
Swiss Re Ltd	Listed Equity; Private Equity	Insurance company	> 50	Switzerland
The University of Edinburgh	Listed Equity	Endowment	0.1 - 0.99	United Kingdom
TPT Retirement Solutions	Listed Equity	Corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	United Kingdom

SIGNATORY	SAM LEADER IN LISTED/PRIVATE EQUITY	INVESTOR TYPE	AUM (US\$ BN)	COUNTRY
Trust Waikato	Listed Equity; Private Equity	Foundation	0.1 - 0.99	New Zealand
Universities Superannuation Scheme - USS	Listed Equity; Private Equity	Corporate pension or superannuation or retirement or provident fund or plan	> 50	United Kingdom
Varma Mutual Pension Insurance Company	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	> 50	Finland
VBV Vorsorgekasse AG	Listed Equity	Corporate pension or superannuation or retirement or provident fund or plan	1 - 4.99	Austria
VERKA VK Kirchliche Vorsorge VVaG	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	1 - 4.99	Germany
VicSuper	Listed Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	Australia
Vision Super	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	5 - 9.99	Australia
Wespath Investment Management (General Board of Pension and Health Benefits of the United Methodist Church)	Listed Equity; Private Equity	Non-corporate pension or superannuation or retirement or provident fund or plan	10 - 29.99	United States
Zurich Insurance Group	Listed Equity; Private Equity	Insurance company	> 50	Switzerland
				TOTAL: 47

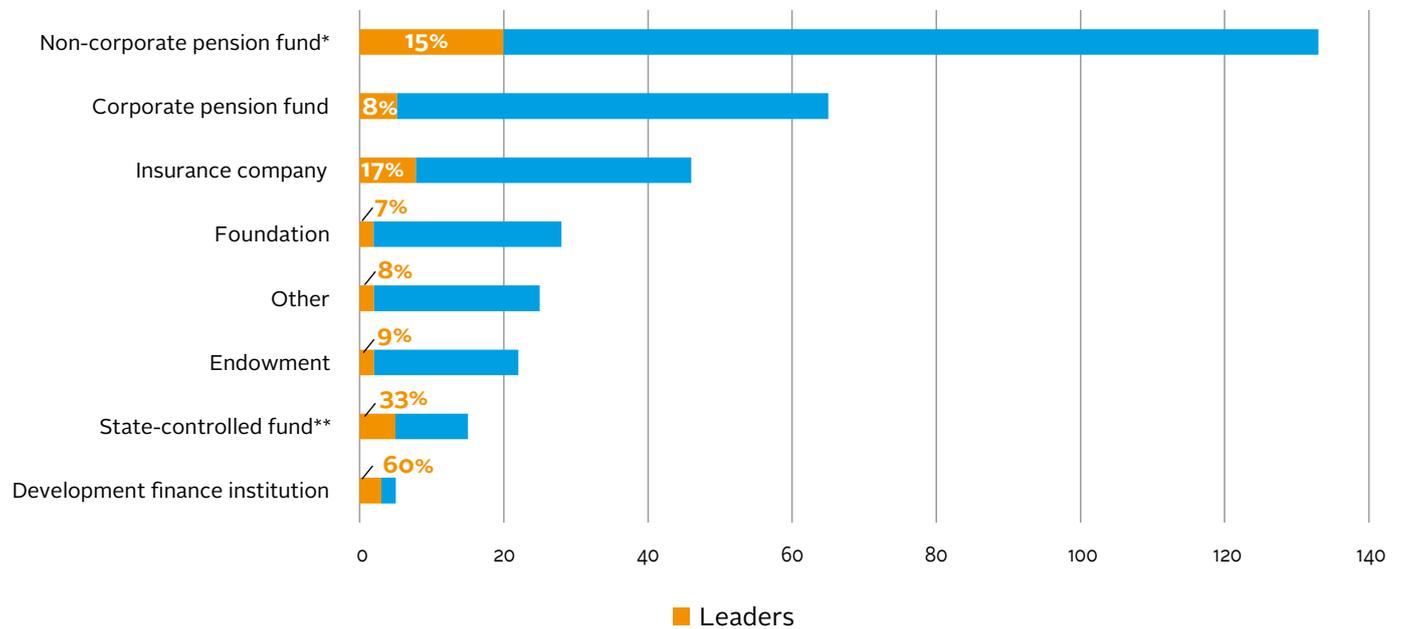
HOW DOES THE LEADERS' GROUP COMPARE TO THE OVERALL SIGNATORY BASE?

INVESTOR TYPE

The Leaders' Group includes various types of asset owner, in proportions broadly reflective of the composition of the PRI's overall asset owner signatory base. Development finance institutions (DFIs) are the most starkly well-represented group: 60% of all DFI signatories for whom

this year's theme is applicable make it into the Leaders' Group. State-controlled funds also do well, and insurance companies fare better than average. Non-corporate pension funds do nearly twice as well as corporate pension funds.²

Proportion of signatories using external managers in listed equity or private equity that are leaders, by investor type



*or superannuation/retirement/provident fund or plan

**reserve fund, sovereign fund or government-controlled fund

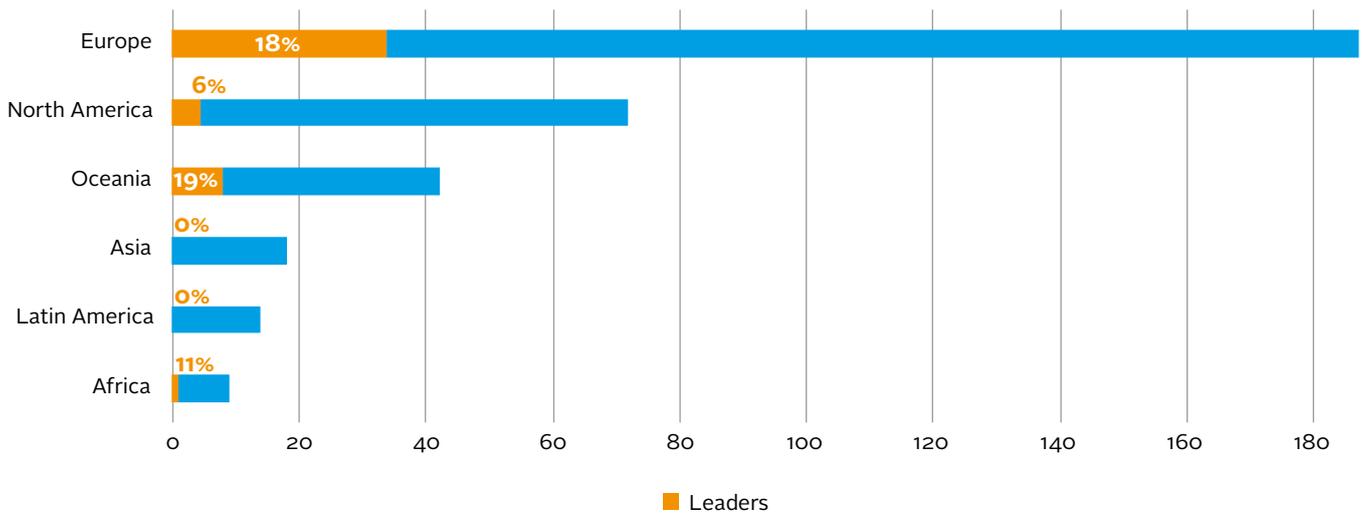
² For definitions on the types of signatories, see page 8 of the [Organisational Overview module](#) in the 2019 Reporting Framework

REGION

Signatories from Europe and Oceania are particularly well represented in the Leaders' Group, with nearly 20% of relevant signatories from these regions making the group. North American signatories perform less well, with just 6%

of relevant signatories meeting the criteria, and neither Asia nor Latin America count any representative, putting them behind Africa, which – despite low overall signatory numbers – sees one signatory make the cut.

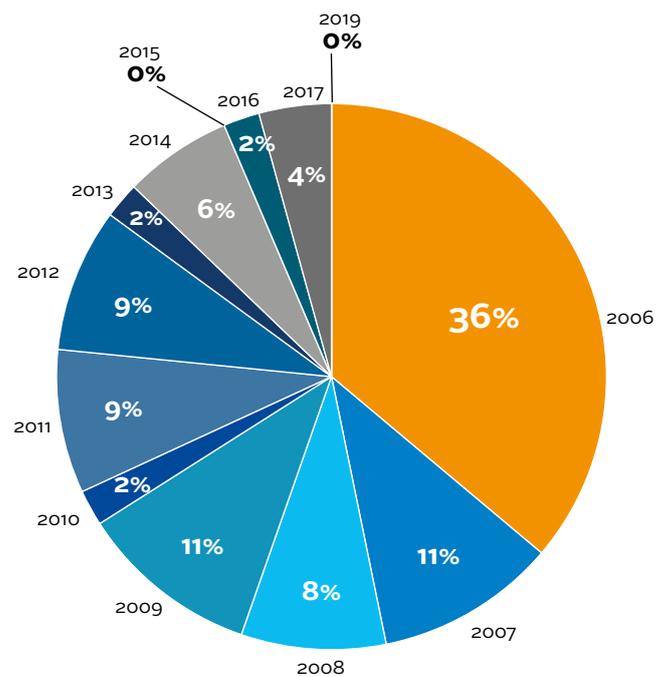
Proportion of signatories using external managers in listed equity or private equity that are leaders, by region



SIGN-UP YEAR

There is a clear trend for leaders to be more likely to be long-standing signatories than new joiners, although this is primarily driven by an over-representation of signatories from the PRI's inaugural year: more than a third of the Leaders' Group is made up of asset owners that signed up to the Principles in 2006.

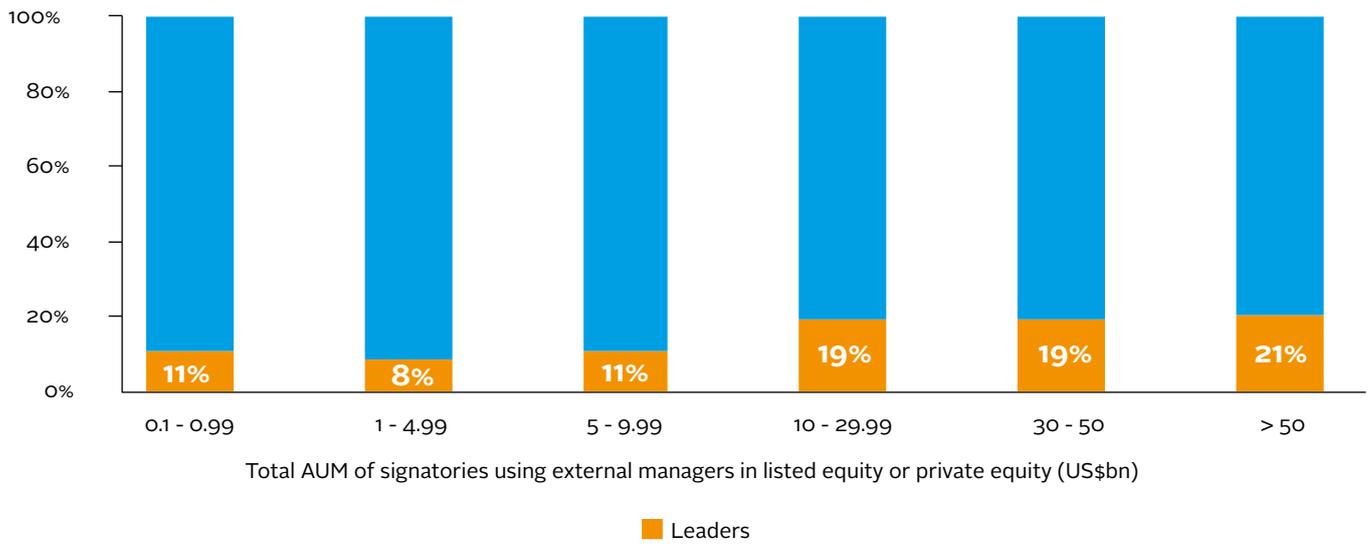
Leaders' Group by sign - up year



SIZE

There is a slight trend in larger signatories being better represented in the Leaders' Group than smaller ones. Of the signatories relevant this year, those managing more than US\$10bn do about twice as well as those managing less than US\$10bn.

Proportion of signatories that are leaders, by AUM



EXAMPLES OF LEADING SELECTION, APPOINTMENT AND MONITORING PRACTICES

SELECTION

LEADERS HAVE: A THOROUGH AND SYSTEMATIC PROCESS

Signatories in the Leaders' Group embed assessment of potential managers' approach to ESG issues throughout their evaluation process.

From the outset, the asset owner will communicate their own investment strategy, and what part in it ESG considerations play. They will lay out any ESG requirements for managers in selection documentation such as RFPs, RfIs or DDQs. As well as evaluating information from these documents, they will review public information and relevant research from service providers, and conduct their own on-site visits.

A careful assessment of managers' ESG credentials will take in their investment strategy, capacity, governance, investment processes and how ESG factors are incorporated into investment valuation and decisions. Qualitative information will be considered covering areas such as managers' responsible investment beliefs, culture, policies and team composition.

In listed equity, quantitative information such as ESG scoring and weighting systems (either proprietary, external or a mix) will often be used to run peer comparison and shortlist potential managers. Some set targets for the extent to which an investment positively or negatively impacts the real economy,³ or the environment and society more broadly. Most leaders will – in addition to engaging and voting via internal staff or service providers – require their investment managers to engage and vote on their behalf, and so review engagement and voting policies, their process and outcomes, as well as seeking to understand whether those outcomes feed back into the investment decision-making process.

In private equity, leading signatories not only assess broad firm-level considerations such as the ESG expertise of the manager's investment teams, the quality of their investment policy and its reference to ESG, but often go deeper to evaluate fund-level structures and holdings. They will review and agree the frequency and detail of ESG reporting and have upfront discussions with managers about how ESG materiality is evaluated, setting expectations for the monitoring phase.

PRI resources

Enhancing manager selection with ESG insight



Considering ESG integration in manager selection in listed equities



LP responsible investment DDQ: and how to use it.



³ The extent to which an investment positively or negatively impacts the real economy, including environment, social and governance impacts, additionally to financial return.

APPOINTMENT

LEADERS HAVE: CLEAR, SPECIFIC, CONTRACTUAL DEFINITIONS

The surest way to formalise ESG expectations with a chosen manager is through investment management agreements (IMAs), limited partnership agreements (LPAs) or side letters, although exact approaches vary, including between regions.

Leading signatories seek a robust ESG framework in the appointment phase, covering the investment manager's governance, reporting and investment decision-making processes.

Should ESG requirements not be met, action is taken to understand the reasons for non-compliance, and in most cases project plans are drawn up to engage with the manager and rectify the issue. More than half of those in the Leaders' Group place the investment manager on a watch list if requirements start being missed, and will terminate the contract if the manager is failing in all areas.

In listed equity, leading signatories are more likely to clearly lay out overall ESG objectives and/or specific exclusions/restrictions in contracts, and most include active ownership considerations such as requiring managers to provide detailed descriptions of engagement cases, progress and outcomes. This can extend to specifying voting and engagement participation thresholds (e.g. requiring managers to vote on 100% of resolutions) and requiring regular reporting on voting records and engagement activities.

In private equity, leading limited partners are typically getting clear commitment from general partners in three areas: setting ESG objectives, reporting on ESG objectives and adherence to ESG guidelines, regulations, principles and standards.

PRI resources

Considering ESG integration in manager appointment in listed equities 

Incorporating responsible investment requirements into private equity fund terms 

MONITORING

LEADERS HAVE: RIGOROUS FOLLOW-UP PROCEDURES

To reduce reputational and management risk, leading signatories have detailed policies for frequently monitoring managers' performance through on-site interviews, calls and DDQ reviews. Leaders often develop their own minimum criteria for ESG incorporation and active ownership, and use this to evaluate manager performance.

They particularly distinguish themselves by reviewing and evaluating evidence of how ESG materiality has been evaluated by the manager, and how ESG incorporation has affected the investment decisions and ultimate financial performance of the fund/portfolio. Many also monitor changes to who has general oversight of ESG considerations, and who is responsible for implementation.

PRI resources

Monitoring managers' ESG integration in listed equity 

ESG monitoring, reporting and dialogue in private equity 

APPENDIX

BACKGROUND

[Extensive consultation](#) with signatories in recent years has shown strong support for the PRI to use [the reporting and assessment framework](#) to further differentiate signatories at different stages of implementing the Principles. This includes showcasing leadership to share good practice and to encourage other signatories to improve their performance.

METHODOLOGY

Signatories were screened based on this year's leadership topic.

- In 2019, signatories must be an asset owner that has received an A or A+ in the selection, appointment and monitoring module, in either listed equity or private equity.

A combined score using responses from across the Reporting Framework was then used to identify, from that pool, a group of leading signatories equivalent to 10% of all asset owners.

The combined score covers three areas of responsible investment practice:



FAQS

WHO WAS NOT ELIGIBLE FOR THE 2019 LEADERS' GROUP?

- Signatories that are classified as investment managers or service providers
- Signatories that do not use external managers
- Signatories that do not have listed equity or private equity in their assets managed by external managers
- Signatories that opted out of being included in the Leaders' Group (2019 Reporting Framework indicator CM 10.3)

WHAT IS THE LEADERS' GROUP NOT?

- ...a ranking of signatories – the Leaders' Group identifies a group of leading signatories, it does not rank the signatories within it (nor those outside).
- ...an exhaustive list of all leading practices in selecting, appointing and monitoring managers in listed equity or private equity – it identifies a group of leading signatories, and the associated commentary highlights trends and common practices amongst that group. Other leading practices might exist that this approach does not capture.
- ...PRI validation of signatories' reported data – while the PRI encourages signatories to pursue [assurance mechanisms](#), the Leaders' Group is based on the same self-reported data that underpins all PRI reporting and assessment.

The Principles for Responsible Investment (PRI)

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

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

More information: www.unpri.org



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

United Nations Environment Programme Finance Initiative (UNEP FI)

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

More information: www.unepfi.org



United Nations Global Compact

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

More information: www.unglobalcompact.org

