FIDUCIARY DUTY IN THE 21ST CENTURY

FOCUS ON ASIA

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generation foundation

UNEP FINANCE INITIATIVE

PRI Principles for Responsible Investment

FIDUCIARY DUTY IN THE 21ST CENTURY

In September 2015, PRI, UNEP FI, UNEP Inquiry and UN Global Compact launched *Fiduciary Duty in the 21st Century*. The report covered eight countries – Australia, Brazil, Canada, Germany, Japan, South Africa, the UK and the US – and made recommendations to institutional investors, financial intermediaries and policymakers on how they could fully integrate ESG issues into investment practices and processes. The report concluded that, far from being a barrier, there are positive duties on investors to integrate environmental, social and governance (ESG) issues.

Failing to consider long-term investment value drivers, which include ESG issues, is a failure of fiduciary duty.

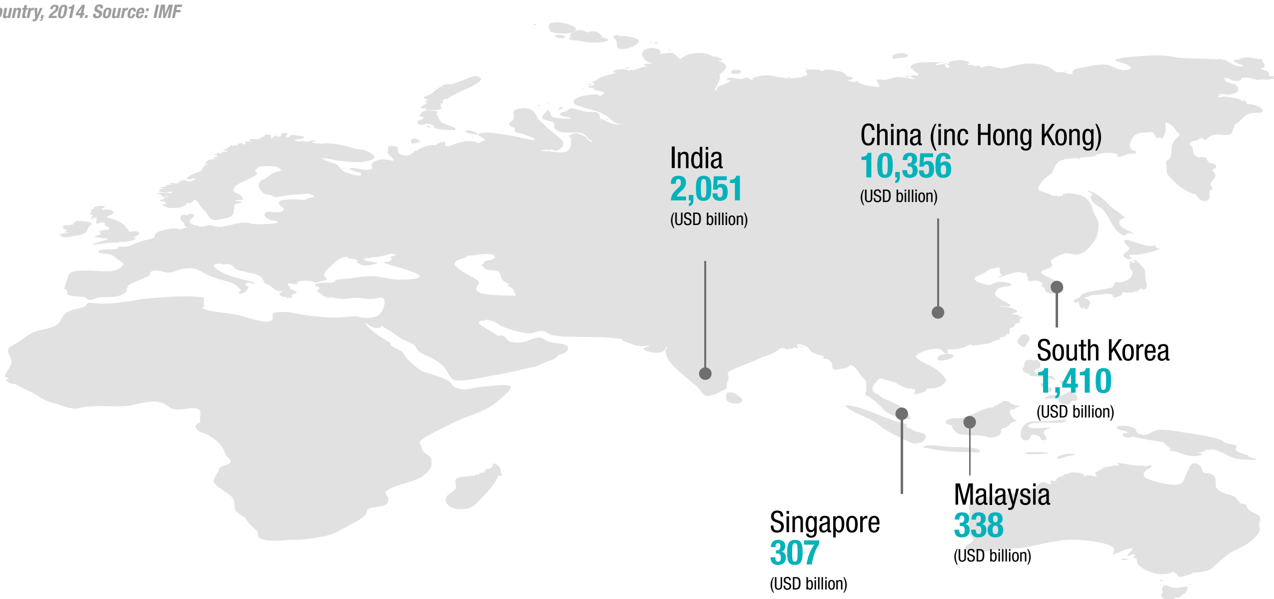
In each of the eight countries, relatively modest changes in law and policy relating to fiduciary duty could catalyse significant and rapid change in the importance assigned by investors to ESG issues in their investment processes.

FIDUCIARY DUTY AND ESG INTEGRATION IN ASIA

Building on the *Fiduciary Duty in the 21st Century* report and methodology, the PRI, UNEP FI and The Generation Foundation will partner and extend the analysis to cover five major Asian investment markets:

- China, including Hong Kong
- Singapore
- India
- South Korea
- Malaysia

GDP per country, 2014. Source: IMF



China, Singapore, India, Korea and Malaysia represent 36% of the world's population and have a combined GDP of $14.5 trillion. There is also significant growth in pension fund investments in each of these countries.

Despite steady progress, responsible investment remains nascent in Asia. There are positive developments in areas such as sustainability-themed funds, renewable energy investment and green bonds. However, understanding of ESG risks – and the integration of this analysis into core investment decision-making – is still at an early stage.

One of the most significant barriers to growth is the lack of ESG capability and expertise within the investment industry itself, in particular narrowly drawn definitions of the responsibilities owed by institutional investors to their beneficiaries and clients. A further barrier is the limited regulatory attention focused on responsible investment or ESG issues, which in turn means that there is limited incentive for investors to pay attention to these issues in their investment practices and processes. In the preliminary research we have conducted for this project, industry experts have identified the need for a more supportive policy environment, for improved transparency and disclosure, for market standardisation and for reduced transaction costs.

ABOUT THIS PROJECT

The aim of this project is to better understand the barriers to responsible investment and ESG integration in each of these five countries, and to make recommendations on how these might be overcome. Particular attention will be focused on the fiduciary and other duties institutional investors owe to their beneficiaries and clients.

Senior investment professionals, lawyers, regulators and policy-makers will be interviewed in each of the five countries to identify steps to facilitate, scale up and strengthen the process of integrating ESG into investment practice.

- Over 30 high level interviews across the five countries
- Comprehensive review of the legal frameworks – including regulatory and self-regulatory initiatives – for fiduciary duty (and equivalent concepts) in each of the five countries
- Local and regional roundtables
- A global consultation process
- Launch event in Singapore

The project will provide recommendations to institutional investors, sovereign or provincial investors, financial intermediaries and policymakers on how they might fully integrate ESG issues into investment and regulatory processes. While the implementation of the recommendations falls outside the scope of this project, the project will identify key initiatives that might implement the recommendations and will explore the role that PRI and UNEP FI can play in taking forward the report's recommendations.

In addition to the fiduciary duties of pension funds (private and public), the project will explore wider investor duties of sovereign wealth funds (or provincial funds) and mutual funds in relation to ESG integration.

The report will be launched at PRI in Person in Singapore in September 2016.

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ABOUT THE 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 issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They have more than 1,400 signatories from over 50 countries representing US$59 trillion of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

For more information, see www.unpri.org

ABOUT UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the global financial sector founded in 1992. UNEP FI works closely with over 200 financial institutions who have signed the UNEP FI Statements as well as a range of partner organizations 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 realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

For more information, see www.unepfi.org

ABOUT THE GENERATION FOUNDATION

The Generation Foundation ('The Foundation') is the advocacy initiative of Generation Investment Management ('Generation'), a boutique investment manager founded in 2004.

The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Our strategy in pursuit of this vision is to mobilise asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism, and to persuade them to allocate capital accordingly.

For more information, see www.genfound.org