Principles for Responsible Investment

THE INVESTOR CASE FOR RESPONSIBLE POLITICAL ENGAGEMENT

United Nations Global Compact

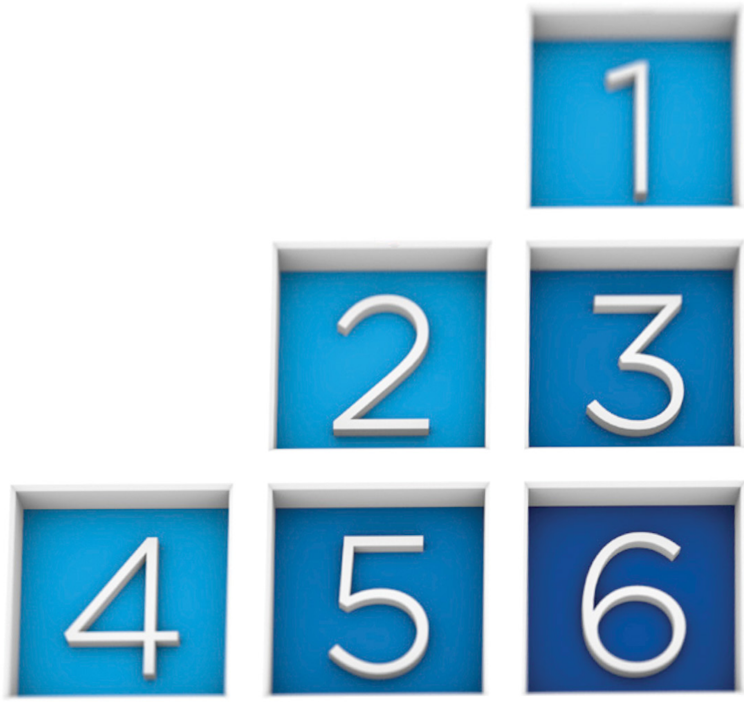
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

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.

CONTENTS

KEY TAKEAWAYS

- Companies have a legitimate business interest in undertaking political engagement to shape the laws and policies that affect them. However, it may present unforeseen risks for companies and investors. For instance:
  - The lack of visibility and clarity of purpose in the way corporate political engagement is conducted can increase the risks of improper use.
  - Shortcomings in regulations in many countries means companies face inconsistent rules. Activities that are legal may still be considered unethical and provoke a scandal when brought to light.
  - Companies may undertake political engagement that runs counter to sustainability objectives – either their own, their investors', or those of society – by prioritising short-term gains over long-term interests.
- In the face of a climate emergency and other global challenges, there is a strong onus on investors to manage risks and ensure that investee companies' political engagement does not delay or dilute urgent sustainability progress.
- Therefore, it is in investors' long-term interest to exercise strong oversight of corporate political engagement and to ensure that it contributes to informed public policy-making.
- As a starting point, investors should focus on investee companies' objectives, processes, and outcomes of political engagement to determine the extent to which they align with investors' long-term interests and shared societal needs.

ABOUT THE REPORT

This paper sets out the PRI's views on the investor case for responsible corporate political engagement. We explain why investors working towards sustainability objectives must ensure that their portfolio companies are conducting political engagement in a responsible manner. We include high-level principles on what this activity entails, based on existing views in academic and practitioner literature. We also discuss the key findings from the PRI-supported research, undertaken by the OECD, that maps out political engagement regulations across selected jurisdictions.

In line with our 2021-2024 strategy, we will prioritise work on responsible political engagement, given its significance in shaping real-world outcomes and contributing to a more sustainable global financial system. We aim to empower investors to transform political engagement into a lever for sustainability progress.

BACKGROUND TO THE PRI'S WORK

We have been working on climate lobbying since 2015 – notably coordinating a collaborative engagement and publishing an investor statement on companies' direct and indirect climate lobbying practices. More recently, we have been supporting CA100+ members to engage companies on this topic, and, through partnerships with InfluenceMap and the Transition Pathway Initiative, promoting research that helps investors understand how their investees are performing on this issue.

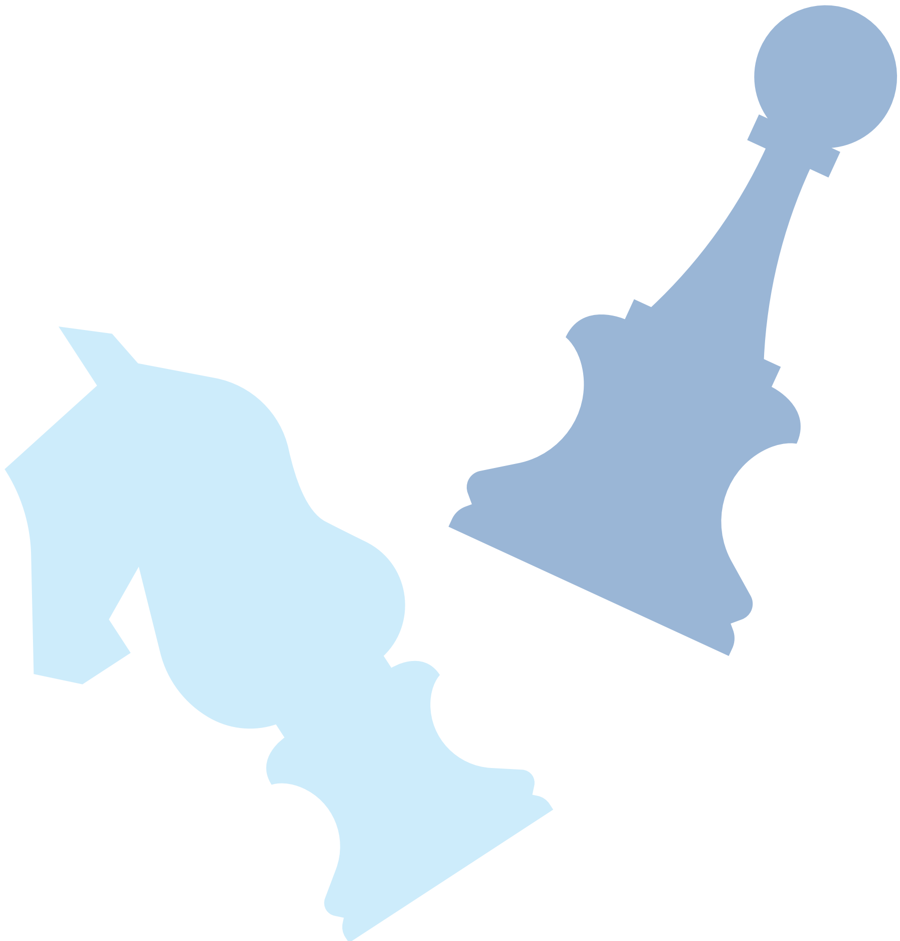
In addition, we are supporting a project on responsible corporate climate lobbying, led by the Church of England Pensions Board, AP7 and BNP Paribas. The project seeks to develop up-to-date standards on corporate lobbying and political influence, engage with companies and build a benchmark to evaluate portfolio companies on Paris-aligned climate lobbying practices.

We intend to broaden the guidance and engagement we have coordinated on climate lobbying over the years to other ESG issues.

WHAT IS POLITICAL ENGAGEMENT?

Companies and other interest groups[1] contribute to and participate in the political process to shape laws, regulations and policies that affect their business objectives, broader operating environment and societal goals. This process, also referred to as political engagement, takes many forms: it includes but is not limited to lobbying, making political contributions, responding to policy consultations, using revolving doors (the movement of senior people between the private and public sectors), shaping public opinion through mass media and social media campaigns, and funding grassroot organisations and think tanks. Political engagement can be carried out directly or through a third party such as a trade association or industry body.

The term ‘political engagement’ is sometimes used interchangeably with ‘lobbying’ or ‘political spending’. This is often because of the way these terms are defined in regulation or due to jurisdiction-specific context. Throughout this paper, political engagement will be used as an umbrella term that encompasses various channels of influence.



1 Including investors, NGOs, trade unions, industry bodies and individuals

SHOULD COMPANIES UNDERTAKE POLITICAL ENGAGEMENT?

Companies around the world undertake political engagement in many forms. This depends on, for example, the jurisdictions and regulations where they operate, internal codes and policies and the extent of political involvement by their peers.

However, there are concerns that the outsized economic and political power of large companies results in other voices in society being underrepresented in public policy debates.[2] Corporate political engagement is also viewed as controversial because of the potential that influence may be deployed in questionable ways, e.g. promoting data that is biased or intentionally misrepresented; securing economic advantage that is anti-competitive or illegal;[3] and deploying company resources to benefit individuals in management.[4]

Nevertheless, companies, like other political actors, have a legitimate business interest in shaping laws and policies that affect them. They cannot be expected to abstain from discussing issues that affect their operations or business prospects. In fact, it could be valuable for investors and broader society when companies actively and constructively engage in public policy debates, facilitating robust policy choices, greater consistency and coherence in the regulatory framework across jurisdictions and stronger legal protection for customers and actors in the value chain.

2 OECD (2021), Lobbying in the 21st Century: Transparency, Integrity and Access

3 OECD (2021), Lobbying in the 21st Century: Transparency, Integrity and Access

4 ICGN (2017), Political Lobbying and Donations, pg. 4

WHAT IS 'RESPONSIBLE' ENGAGEMENT?

It is widely acknowledged that corporate political engagement can improve the quality of the democratic process. It can bring policy makers' attention to much-needed insights and data on policy matters as well as facilitate informed decision-making.[5] However, these benefits can only be realised when companies carry out political engagement in a responsible manner.

It is not always straightforward to evaluate whether a certain activity is responsible. For example, corporate political contributions are standard practice in some countries where the law permits private political funding. That said, organisations such as Transparency International and the International Corporate Governance Network (ICGN) have urged companies to tread carefully,[6] particularly when making direct donations to political candidates, given the potential for abuse of corporate funds and conflicts of interest.[7] Therefore, companies' motivations, processes and outcomes relating to political engagement must be carefully examined.

There are several principles and frameworks that can guide companies, civil society and governments on responsible political engagement. These include:

- The OECD's principles for *Transparency and Integrity in Lobbying* for governments.
- Transparency International's *Wise Counsel or Dark Arts? Principles and Guidance for Responsible Corporate Political Engagement* report guides companies on how to manage activities such as political donations and stakeholder engagement.
- The ICGN's *Political Lobbying and Donations* report presents principles and guidance for investors' engagement on the topic.
- The United Nations Global Compact's *Towards Responsible Lobbying* report provides a six-step diagram to help companies identify if their lobbying practices are being conducted responsibly.
- The recently launched *Responsible Lobbying Framework*, developed by a multi-stakeholder working group, identifies globally applicable principles and standards of responsible lobbying.

The PRI believes that corporate political engagement can be responsible when the investee company's activities:[8]

- adhere to the letter and spirit of existing regulations and international best practice;
- are conducted in line with business principles that ensure integrity and sustainability goals that have been set out in international agreements or national policy targets;
- preserve the long-term interests of the company, including the broad interests of diversified shareholders and those of stakeholders;
- inspire trust and are grounded in robust governance and transparency; and
- lead to well-informed, inclusive and effective public policy decisions that contribute to a stable economic system, minimise firm and system-level risks as well promote positive real-world sustainability outcomes.

5 OECD (2021), Lobbying in the 21st Century: Transparency, Integrity and Access
6 Transparency International (2018), Political Engagement: Anti-Bribery Guidance
7 ICGN (2017), Political Lobbying and Donations, pg. 11
8 These are high-level principles developed based on existing views in academic and practitioner literature

WHY SHOULD INVESTORS PROMOTE RESPONSIBLE POLITICAL ENGAGEMENT?

Unchecked political involvement can raise governance risks at a company level and increase risks of policy capture.[9]

Key concerns for investors and broader stakeholders include the lack of visibility and clarity around corporate political engagement - for example, who the decision makers are and how corporate positions align with the companies' strategy, including on sustainability. Although companies have begun to disclose some of this information, it is largely piecemeal and reactive. This is particularly problematic in the context of a growing number of scandals that demonstrate improper use of corporate influence and the consequent reputational damage, loss of shareholder value and strained relationships with stakeholders.[10]

In extreme cases, political activities that lack governance safeguards have translated into corruption risks. A recent example is Ohio utility company FirstEnergy, which paid USD$230 million in bribery charges for using a dark money non-profit group to create a slush fund primarily to corrupt public officials and steer a nuclear subsidy bill through the state legislature.[11]

The use of indirect forms of lobbying and spending could also result in concerns. For example, when corporates lobby via trade associations, the role that companies play in this process can be obscured.

> In 2020 and 2021, BP and Total announced their withdrawal from US-based trade associations. This action followed shareholders' criticism for being a member of organisations with lobbying positions that run counter to company promises to cut emissions.

Given that trade associations generally have insufficient disclosure practices and fail to report who their members are or their expenditures, there is a risk that inconsistent lobbying leads to divergence from international standards such as the Paris Agreement. In fact, InfluenceMap's research finds that some powerful trade groups have obstructed international, federal and US state-level climate policy.[12] Such instances present a strong case for companies to review their memberships regularly and remedy any misalignments on positions related to climate goals or other sustainability topics.

At a macro level, unchecked political involvement can raise the risks of policy capture and create distrust in democracy. Without an inclusive and transparent approach to public decision-making, stakeholders lacking equal resources to powerful corporates and trade associations may be unable to contribute to political decisions, leading to inefficient public programmes, poor regulation and/or biased decisions.[13] There have been many examples of this: the banking industry's lobbying power during the global financial crisis which contributed to the build-up of risk and gaps in regulations;[14] the intense lobbying from the car industry contributing to lax regulations that resulted in the Volkswagen emissions scandal;[15] and the airline industry's lobbying and influence tactics to reduce regulatory oversight on airplane safety that led to Boeing's two fatal incidents.[16]

During the pandemic, some interest groups with access to well-connected lobbyists have enjoyed greater exposure to policy makers.[17] In some cases, access has been used by certain industries to lobby for lower environmental standards, water down climate action, delay sustainability strategies for food production, etc.[18] Experts have also noted an increase in the use of influence channels such as social media to bias public opinion, for example, undermining efforts to align COVID-19-related financial interventions with progress on climate change.[19]

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9 Policy capture occurs when public decisions over policies are consistently or repeatedly directed away from the public interest towards a specific interest. OECD (2017), Preventing Policy Capture

10 Preventable Surprises (2021), How can investors help prevent corporate policy capture?

11 AP News (2021), FirstEnergy to pay $230M in agreement in Ohio bribery case

12 InfluenceMap (2017), Trade Associations and their Climate Policy Footprint

13 OECD (2021), Lobbying in the 21st Century: Transparency, Integrity and Access

14 Igan D. and Lambert T. (2019), Bank Lobbying: Regulatory Capture and Beyond

15 Financial Times (2015), Volkswagen emissions scandal exposes EU regulatory failures

16 The New York Times (2019), Before Deadly Crashes, Boeing Pushed for Law That Undercut Oversight

17 Transparency International (2021), Lobbying in lockdown: EU politicians must be transparent about who they meet – even amid the crisis; OECD (2021), Lobbying in the 21st Century: Transparency, Integrity and Access

18 Corporate Europe Observatory (2020), Coronawash alert! How corporate lobbyists are cynically exploiting the pandemic

19 InfluenceMap (2020), The COVID-19 Crisis and Climate Lobbying

Weak regulatory frameworks shaping corporate political engagement can exacerbate regulatory and reputational risks for companies.

Political engagement activities have become more sophisticated and involve greater use of informal channels; however, evidence suggests that regulation is lagging.

Although attempts to regulate political engagement have been increasing globally, only a minority of countries have frameworks to manage these risks. The PRI has worked with the OECD to map out hard and soft laws on corporate political engagement in 17 jurisdictions,[20] examining commonalities and differences and how effectively existing regulations minimise risks of regulatory capture.

Our research finds that regulations framing political engagement are often incomprehensive. For instance:

- Seven jurisdictions (Brazil, China, Hong Kong, India, Japan, Korea and South Africa) do not require any form of transparency on lobbying activities.
- Only eight countries (Australia, Canada, France, Germany, Italy, Netherlands, the UK, and the US) and the European Union have voluntary or mandatory public registries where lobbyists disclose information on their activities.
- Only three countries (France, Italy and the US) have adopted standards for hiring private sector employees into the public sector.
- The definition of 'lobbyists' in a number of jurisdictions does not cover unpaid lobbying activities nor the activities of certain organisations such as charities, foundations, think tanks and religious organisations. They are therefore excluded from transparency requirements.

There are several areas of unregulated influence that remain vulnerable to exploitation by powerful special interests such as third-party campaigning, political advertisements and industry associations. Regulations are also deficient when it comes to emerging forms of political engagement such as social media: only two jurisdictions (Canada and the EU) consider social media as a lobbying activity covered by transparency requirements.

The patchy legal framework exacerbates the risk that companies may engage in unethical practices, particularly where they may be technically deemed legal. Companies may also face increased uncertainty and heightened risks when laws change and corporate practices draw scrutiny from regulators and broader stakeholders.

Political engagement without proper safeguards could impede global sustainability objectives and contribute to system-level risks.

As the world grapples with a climate emergency, rising inequality, widespread biodiversity loss and human rights abuse, the call for action to investors is loud and clear. These systemic issues could undermine the economic, environmental and social systems on which financial value depends. Investors must, therefore, address these sustainability challenges in line with their fiduciary duty.[21]

However, investor efforts may be undercut by companies adopting a myopic view in their political activities and prioritising immediate returns over longer-term priorities, including strategic sustainability considerations. For example, companies' attempts to water down the ambition or scale of climate policies that could impact their business models,[22] while ignoring the long-term impact of the absence of climate action, are well documented.[23] Such tactics not only delay the low-carbon transition for a company or sector but could also impact its viability and risk-return profile in the long term.[24] By disrupting efforts to achieve net zero emissions by 2050, companies risk imposing long-term costs on investors and beneficiaries.

20 European Union, France, Netherlands, Germany, Spain, Italy, US, Canada, UK, Australia, Japan, Brazil, China, India, Hong Kong, South Korea and South Africa

21 PRI (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making

22 AP7 (2020), Theme Report: Climate Lobbying

23 Centre for Economic Performance (2021), Policy Brief: Still time to reclaim the European Union Emissions Trading System for the European tax payer; Brulle, R. J. (2018), The climate lobby: a sectoral analysis of lobbying spending on climate change in the USA, 2000 to 2016

24 PRI (2018), Converging on climate lobbying: Aligning corporate practice with investor expectations

Obstructive corporate political activities have not been limited to climate action. There are several examples of companies and trade associations that have lobbied against measures to promote nutritional health,[25] enhance social protection,[26] and implement progressive tax laws.[27] Some companies may believe it is in their interest to pursue short-term business objectives or profits in their political engagement activities. However, such actions externalise costs across the rest of the market or economy, disadvantage nascent sectors or exploit common environmental, social or institutional assets, ultimately hindering broader economic returns and stability. Such corporate practices increase risks and undermine long-term investment returns for universal owners, while exacerbating harms to people and the environment.

Therefore, there is a strong onus on investors to ensure that companies are actively facilitating progress on important sustainability issues. Investors must carefully consider how their investees are shaping the regulatory landscape just as they consider how these companies generate impacts on society and the environment through their operations, products and services. Otherwise, there is a risk that companies may weaken environmental and social regulations – even while they proclaim to support universal goals.

The Walt Disney Company has been linked through its membership of trade associations (National Restaurant Association and California Chamber) to lobbying efforts against raising the minimum wage, implementing paid sick leave and the current US administration plans to mitigate climate change.

25 Time (2016), Experts Say Lobbying Skewed the U.S. Dietary Guidelines

26 Wicks-Lim, J. (2021), What the debate over raising the federal minimum wage to $15 tells us about US politics and society

27 The Guardian (2019), Plastics lobby group pushed Treasury to ease back on tax reform

WHAT ARE THE KEY STEPS FOR INVESTORS?

The level of investor activity on corporate political engagement has been limited, except on issues such as climate lobbying[28] or political spending in the US.[29] The reticence could be due to a fear of being embroiled in political debates.[30] It could also be due to beliefs that investors are unlikely to achieve the intended impact or do not have the necessary data, expertise or capacity to engage on such complex matters. However, investors share responsibility for their investees' political engagement approach, particularly where it is linked to important societal and environmental issues.

It is key that investors understand the intended objectives, processes and outcomes of investees' political engagement to determine the extent to which they align with their long-term interests and shared societal needs. This will allow investors to monitor companies' performance against expectations, but also assess their interdependence within the portfolio on a range of policy matters and the broader system-level implications.

Below are some of the initial steps that investors can take to build a stance and tailor their asks to investee companies:

Develop a position

- Start building an internal position on responsible political engagement by investees.
- Identify how stewardship activities across ESG issues can consider corporate political engagement based on international standards where possible.[31]
- Identify interdependencies in the portfolio, including how policy asks of some sectors or companies could undermine the economic performance of other holdings.

Research and assess

- Use existing tools and resources to assess portfolio companies' political engagement activities against key ESG objectives.
- Build benchmarks, including via collaboration, where these tools are unavailable.

TOOLS AND RESOURCES FOR INVESTORS

- Open Secrets provides data on lobbying and political contributions
- InfluenceMap offers tools to assess corporate climate lobbying
- Center for Political Accountability provides data on companies' political disclosure
- Access to Nutrition Initiative has tools and initiatives that track and drive the contribution made by the food and beverage sector to address the world's global nutrition challenges
- Responsible Climate Change Lobbying Group is developing a framework for assessing responsible corporate climate change lobbying

Engage

- Support efforts to improve public disclosure to address data gaps, including engagement with policy makers to strengthen mandatory disclosures.
- Undertake stewardship activities to clarify expectations, advocate for strong commitments and monitor progress.

In the coming year, the PRI will develop further stewardship guidance for investors on responsible political engagement and aim to provide specific guidance on corporate political engagement as it relates to climate change and human rights.

28 Climate Action 100+ (2021), Climate Action 100+ Investors to Raise Corporate Climate Ambition for 2021 Proxy Season
29 CQ ESG Briefing (2021), Investors seek to reassess political spending at largest firms
30 Strine, L. (2018), Fiduciary Blind Spot: The Failure of Institutional Investors to Prevent the Illegitimate Use of Working Americans' Savings for Corporate Political Spending
31 Such as the Paris Agreement and the United Nations Guiding Principles on Business and Human Rights

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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

PRI Principles for Responsible Investment

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

UN environment programme | finance initiative

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

United Nations Global Compact