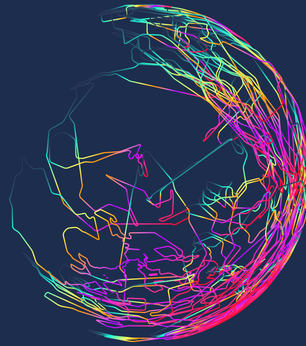
Principles for Responsible Investment

generation foundation

UN environment programme finance initiative

A LEGAL FRAMEWORK FOR IMPACT



AUSTRALIA

INTEGRATING SUSTAINABILITY GOALS ACROSS THE INVESTMENT INDUSTRY

Disclaimer

The information contained on this document is meant for the purposes of information only and is not intended to be investment, legal, tax or other advice, nor is it intended to be relied upon in making an investment or other decision. All content is provided with the understanding that the authors and publishers are not providing advice on legal, economic, investment or other professional issues and services. PRI Association (UNEP FI, and the Generation Foundation as project partners) are not responsible for the content of websites and information resources that may be referenced. The access provided to these sites or the provision of such information resources does not constitute an endorsement by PRI Association, UNEP FI, and the Generation Foundation of the information contained therein. PRI Association, UNEP FI, and the Generation Foundation are not responsible for any errors or omissions, for any decision made or action taken based on information on this document or for any loss or damage arising from or caused by such decision or action. All information is provided "as-is" with no guarantee of completeness, accuracy or timeliness, or of the results obtained from the use of this information, and without warranty of any kind, expressed or implied.

Content authored by PRI Association, UNEP FI, and the Generation Foundation

For content authored by PRI Association (UNEP FI, and the Generation Foundation as project partners), except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed are those of PRI Association (UNEP FI, and the Generation Foundation as project partners) alone, and do not necessarily represent the views of any contributors or any signatories to the Principles for Responsible Investment (individually or as a whole). It should not be inferred that any other organisation referenced endorses or agrees with any conclusions set out. The inclusion of company examples does not in any way constitute an endorsement of these organisations by PRI Association or the signatories to the Principles for Responsible Investment, UNEP FI, or the Generation Foundation. While we have endeavoured to ensure that information has been obtained from reliable and up-to-date sources, the changing nature of statistics, laws, rules and regulations may result in delays, omissions or inaccuracies in information.

Content authored by third parties

The accuracy of any content provided by an external contributor remains the responsibility of such external contributor. The views expressed in any content provided by external contributors are those of the external contributor(s) alone, and are neither endorsed by, nor necessarily correspond with, the views of PRI Association or any signatories to the Principles for Responsible Investment, UNEP FI, or the Generation Foundation other than the external contributor(s) named as authors.

Map disclaimer

The designations employed and the presentation of the material on this map do not imply the expression of any opinion whatsoever on the part of the PRI concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.
Every effort is made to ensure this map is free of errors but there is no warrant the map or its features are either spatially or temporally accurate or fit for a particular use. This map is provided without any warranty of any kind whatsoever, either express or implied.

CONTENTS

EXECUTIVE SUMMARY 5

KEY TERMS 6

THE CASE FOR SHAPING SUSTAINABILITY OUTCOMES 8

HOW INVESTORS CAN SHAPE SUSTAINABILITY OUTCOMES 10

POLICY REFORM CAN SUPPORT INVESTORS IN SHAPING SUSTAINABILITY OUTCOMES 12

POLICY RECOMMENDATIONS 15

POLICY AREAS FOR FURTHER EXPLORATION 20

ACKNOWLEDGEMENTS

We would like to thank the following individuals for their contribution to this paper:

- Jesica Andrews, United Nations Environment Programme Finance Initiative (UNEP FI)
- Margot Black, Investa Property Group
- Alison Chan, Metrics Credit Partners
- Grace Eddy, Generation Foundation
- Romy Faulkner, Australian Council of Superannuation Investors (ACSI)
- Kristy Graham, Australian Sustainable Finance Institute
- Rowan Griffin, HMC Capital
- Kate Griffiths, ACSI
- Fahmi Hosain, Future Super
- Laxmi Kumar, UNEP FI
- Desiree Lucchese, U Ethical
- Robyn Parkin, Ethical Partners Funds Management
- Alison Paton, Generation Foundation
- David Rouch

EXECUTIVE SUMMARY

Investors' ability to generate financial returns depends on the stability and viability of environmental and social systems, on which the economy relies. Accordingly, many institutional investors now accept that acting in their clients' and beneficiaries' best financial interests requires them to consider the positive and negative impacts of their activities and to proactively shape the sustainability outcomes of those activities.

With this objective in mind, leading investors are increasingly setting sustainability impact goals across their portfolios. Often these are intended to contribute to the achievement of global objectives, such as the Paris Agreement goals, the UN Sustainable Development Goals and other international commitments on human rights. Investors are pursuing these goals through a combination of asset allocation, increasingly forceful stewardship, and direct engagement on key public policy issues.

The question of to what extent the law permits or requires institutional investors to take such actions is tackled in a July 2021 report, A Legal Framework for Impact (LFI), authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, the United Nations Environment Programme Finance Initiative and the Generation Foundation.

The authors found that in the 11 jurisdictions analysed, including Australia, investors are broadly permitted to consider shaping sustainability outcomes where doing so would support their financial return objectives. However, they also found that the policy and regulatory landscape, including in Australia, does not always provide investors with adequate clarity, guidance and tools to support them in shaping sustainability outcomes.

Building on the LFI report, this paper explores the existing policy barriers and gaps in Australia that may limit institutional investors' ability to pursue sustainability objectives, in the best financial interests of their beneficiaries and clients. It then provides recommendations for policy and regulatory reforms that could help address these gaps and highlights two policy areas for further consideration.[1]

POLICY RECOMMENDATIONS

1. Update standards and guidance to clarify investors' duties to address sustainability-related system-level risks.
2. Adopt a comprehensive corporate sustainability reporting framework.
3. Strengthen regulatory support for effective stewardship.
4. Implement an Australian sustainable finance taxonomy.
5. Address the effects of product heatmaps and financial performance tests on investors' actions on sustainability outcomes.

POLICY AREAS FOR FURTHER CONSIDERATION

6. Explore ways to enable investors to take beneficiaries' sustainability preferences into account.
7. Address the treatment of sustainability outcomes in investment management agreements.

1 Our seven recommendations build on the Australian Sustainable Finance Roadmap by the Australian Sustainable Finance Institute. Further work would need to be undertaken by policy makers and regulators to determine how the proposed options should be implemented.

KEY TERMS

The following key terms are used throughout this report:

- **Asset owners**: superannuation trustees, general and life insurers, listed investment companies or LICs, and registered managed investment schemes
- **Peak industry bodies**: Australia's leading financial sector industry bodies and organisations, including the Financial Services Council, the Association of Superannuation Funds of Australia, the Australian Institute of Superannuation Trustees and the Insurance Council of Australia
- **Product heatmaps**: the Australian Prudential Regulation Authority's MySuper Heatmap and Choice Heatmap, which provide assessments of the performance of MySuper and Choice superannuation products respectively
- **Sustainability outcomes**: the real-world sustainability outcomes of human activity, which includes actions by investors. Positive sustainability outcomes are those aligned with global sustainability goals, such as the goals of the Paris Agreement and the UN Sustainable Development Goals (SDGs), as well as with the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and International Labour Organization conventions.
- **Shaping sustainability outcomes**: an investment approach that involves taking deliberate steps to increase positive sustainability outcomes or reduce negative sustainability outcomes or both, in assessable ways. This report focuses on the practice of shaping sustainability outcomes that can be called "instrumental", where achieving the desired sustainability outcome is instrumental in realising financial goals. The report does not focus on what can be termed the "ultimate ends" approach, where achieving the desired sustainability outcome is a goal in its own right, pursued alongside financial objectives. See Box 1 below for more details.
- **Stewardship**: the use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social and environmental assets, which affect financial returns and the realisation of clients' and beneficiaries' non-financial interests. Effective stewardship includes Active Ownership 2.0, a form of stewardship that prioritises actions to shape sustainability outcomes in order to address system-level risks, instead of a narrow focus on the inputs and processes used in stewardship.
- **System-level risks**: a catch-all term for systematic risk and systemic risk, both of which have implications for investment performance.
  - **Systematic risk**: risk, transmitted through financial markets and economies, that affects aggregate outcomes, such as broad market returns. The term is interchangeable with "market risk" or "market-wide risk". Because systematic risk occurs at a scale greater than a single company, sector or geography, it cannot be hedged or mitigated through diversification. One example of a sustainability-related systematic risk is the risk of reduced global economic growth due to sustained physical impacts of climate disruption; another is the opportunity cost associated with failing to meet the SDGs.
  - **Systemic risk**: the risk that an event at a particular point in time or a chronic economic condition destabilises the financial system or leads to its collapse. An example of a systemic risk materialising would be a number of "too-big-to-fail" financial institutions defaulting on obligations to their creditors or investors. An example of a sustainability-related systemic risk would be a sudden repricing of assets across the fossil fuel sector, resulting in cascading defaults that destabilise financial markets – this is sometimes referred to as a potential "climate Minsky moment".

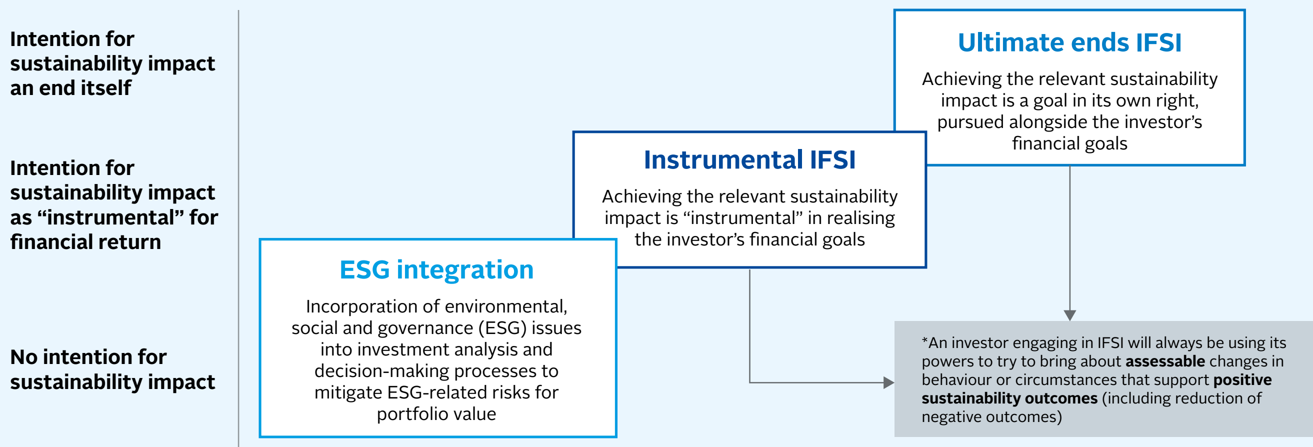
Box 1: "Instrumental" vs "ultimate ends" investment approaches

A Legal Framework for Impact (LFI), a report authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, the United Nations Environment Programme Finance Initiative and the Generation Foundation, introduces the concept of "investing for sustainability impact" (IFSI). IFSI is not a legally defined expression and is not used as a term of legal art. Instead, it serves as a "conceptual net" to catch, broadly, any activities that involve an investor intentionally attempting (through investment decisions, stewardship or policy engagement) to bring about assessable behaviour changes among investee companies or policy makers aligned with achieving desired overarching sustainability outcomes.

The LFI report presents two types of IFSI based on the objectives pursued by the investor:

- "instrumental IFSI", where achieving the relevant sustainability goal is "instrumental" in realising the investor's financial return objectives;
- "ultimate ends IFSI", where achieving the relevant sustainability goal – and the associated overarching sustainability outcome it supports – is a distinct goal, pursued alongside the investor's financial return objectives but not wholly as a means of achieving them.

Figure 1: Investing for sustainability impact (IFSI). Source: Adapted from the LFI report



The concept of IFSI covers impact investing but is not limited to that practice. IFSI is relevant to understanding all investing that includes the deliberate pursuit of desired sustainability impacts irrespective of the type of investor or investment.

In this report, "shaping sustainability outcomes" is equivalent to IFSI – specifically, instrumental IFSI.

THE CASE FOR SHAPING SUSTAINABILITY OUTCOMES

The world is experiencing multiple social and environmental crises. At the same time, the risks of further disruption are increasing while economies and financial systems remain misaligned with planetary boundaries and social safeguards.

Failure to address these risks will not only have an immediate impact on society but could also have significant, unpredictable and non-linear consequences for economic performance and investors' financial returns.

For large institutional investors, whose highly diversified portfolios effectively represent a slice of the overall market, investment returns depend not only on decisions as to what to invest in, but on the health and stability of the wider economy.[2]

Indeed, that is the logic of modern portfolio theory: it reduces portfolio exposure to individual companies by encouraging diversification. However, diversification results in investment returns being largely driven by the performance of whole sectors and markets (measured by "beta"). The returns of long-term investors, such as superannuation funds, are particularly dependent on economic growth over the long term, which is inextricably linked to sustainability outcomes.

THE RISE OF SUSTAINABILITY-RELATED SYSTEM-LEVEL RISKS

The World Economic Forum has identified inaction on climate change, human environmental damage, biodiversity loss, erosion of social cohesion and livelihood crises as some of the most severe global risks.[3] The International Corporate Governance Network similarly notes that **environmental risks** (such as climate change, water scarcity and pollution), **social risks** (including human rights violations and income inequality) and **governance risks** (such as corruption) pose significant systemic threats to the stability of the global financial system.[4]

It has been estimated that unmitigated climate change will cause a $3.4 trillion loss in Australia's GDP by 2070.[5] Biodiversity loss and environmental degradation also pose severe threats to economic stability.[6] Over half of global GDP – or $44 trillion of economic value – is moderately or highly dependent on nature and its services.[7]

Alongside environmental crises, various social issues are gaining prominence. The COVID-19 pandemic, for example, has exacerbated existing economic inequalities, increased economic insecurity, disrupted supply chains and caused global educational crises. Over time, all of these issues will affect regional and global stability, economic performance and, therefore, investor returns.

MITIGATING SYSTEM-LEVEL RISKS INVOLVES SHAPING SUSTAINABILITY OUTCOMES

To maintain and improve long-term financial performance in the best interests of clients and beneficiaries, institutional investors have a responsibility to consider whether any of the sustainability risks mentioned above have a bearing on their ability to meet their legal obligations and, if so, how they can mitigate those risks.[8] This may require them to consider how their individual and collective actions can shape sustainability outcomes, contributing to what can be called "better beta" – or reduced system-level risks – which could improve financial outcomes over the long term.[9]

Alongside other actors, institutional investors can play an important role in mitigating these risks and so protecting long-term returns. Recognising this role, many investors are now seeking to influence sustainability outcomes through their investment decisions, stewardship and engagement with policy makers. In doing so, many are setting clear sustainability impact goals, such as aligning with the Paris Agreement or the SDGs.

2 PRI (2017), The SDG investment case

3 World Economic Forum (2022), The Global Risks Report 2022

4 International Corporate Governance Network (June 2019), Investor Framework for Addressing Systemic Risks

5 Deloitte (2020), A new choice: Australia's climate for growth

6 De Nederlandsche Bank (2020), Indebted to nature: Exploring biodiversity risks for the Dutch financial sector

7 World Economic Forum (2020), Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy

8 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.154-p.192)

9 Hawley, J., Lukomnik, J. (2019), Modernising modern portfolio theory

CLIENT AND BENEFICIARY EXPECTATIONS

In addition to addressing system-level risks to meet purely financial objectives, many investors are now coming under direct pressure from clients and beneficiaries to shape sustainability outcomes more broadly.

According to a recent study, over 80% of Australians expect their investments to have a positive impact on the world.[10] At the same time, both ordinary Australians and regulators are increasingly scrutinising what constitutes a sustainable investment option.[11] Across the globe, beneficiaries are advocating for pension funds to take a variety of actions including divesting from fossil fuels and deploying capital in line with net-zero emissions by 2050.[12] Their concerns and preferences are not limited to climate change. Many pension fund beneficiaries and retail investors want funds to advance decent labour conditions, the protection of human rights and equity, diversity and inclusion on gender and race.[13] So institutional investors are facing growing expectations to take account of the real-world sustainability outcomes of their activities.

GLOBAL POLICY DEVELOPMENTS

Globally, some policy makers increasingly see a role for private investments in supporting public policy goals. The European Union, for example, has recognised the need for financial sector policy to direct private capital flows to activities that contribute to the EU's climate and energy goals, as well as to its broader objectives under the European Green Deal.

G7 development ministers have similarly stated: "Recalling that global private savings amount to trillions of US dollars per year, we stress the need to catalyse private sector support for the Sustainable Development Goals and to increase transparency on financial flows."[14] As governments across the world introduce sustainability-related policies to help achieve the SDGs and similar global goals, investors exposed to global markets will increasingly need to take these goals into account when making investment decisions.

10 Responsible Investment Association Australasia (2022), From Values to Riches 2022: Charting consumer demand for responsible investing in Australia

11 Australian Competition & Consumer Commission (2022), Compliance & enforcement policy and priorities; Australian Securities & Investments Commission (2022), How to avoid greenwashing when offering or promoting sustainability-related products

12 Bauer, R., Smeets P. (2021), Eliciting Pension Beneficiaries' Sustainability Preferences: Why and How?; Warren, B. (May 2020), RECAI 55: Institutional investors are asking tough questions about corporate ESG performance and expect answers to be embedded in corporate strategy

13 2° Investing Initiative (March 2020), A Large Majority of Retail Clients Want to Invest Sustainably: Survey of French and German retail investors' sustainability objectives

14 G7 (2019), Financing for sustainable development: improving measurement, mobilising resources and realising the vision of the 2030 Agenda and the SDGs

HOW INVESTORS CAN SHAPE SUSTAINABILITY OUTCOMES

Investors can use a variety of tools to influence sustainability outcomes. As set out in the Legal Framework for Impact (LFI) report, the three key levers – best used in combination rather than in isolation – are **investment decisions, stewardship activities and engagement with policy makers**.

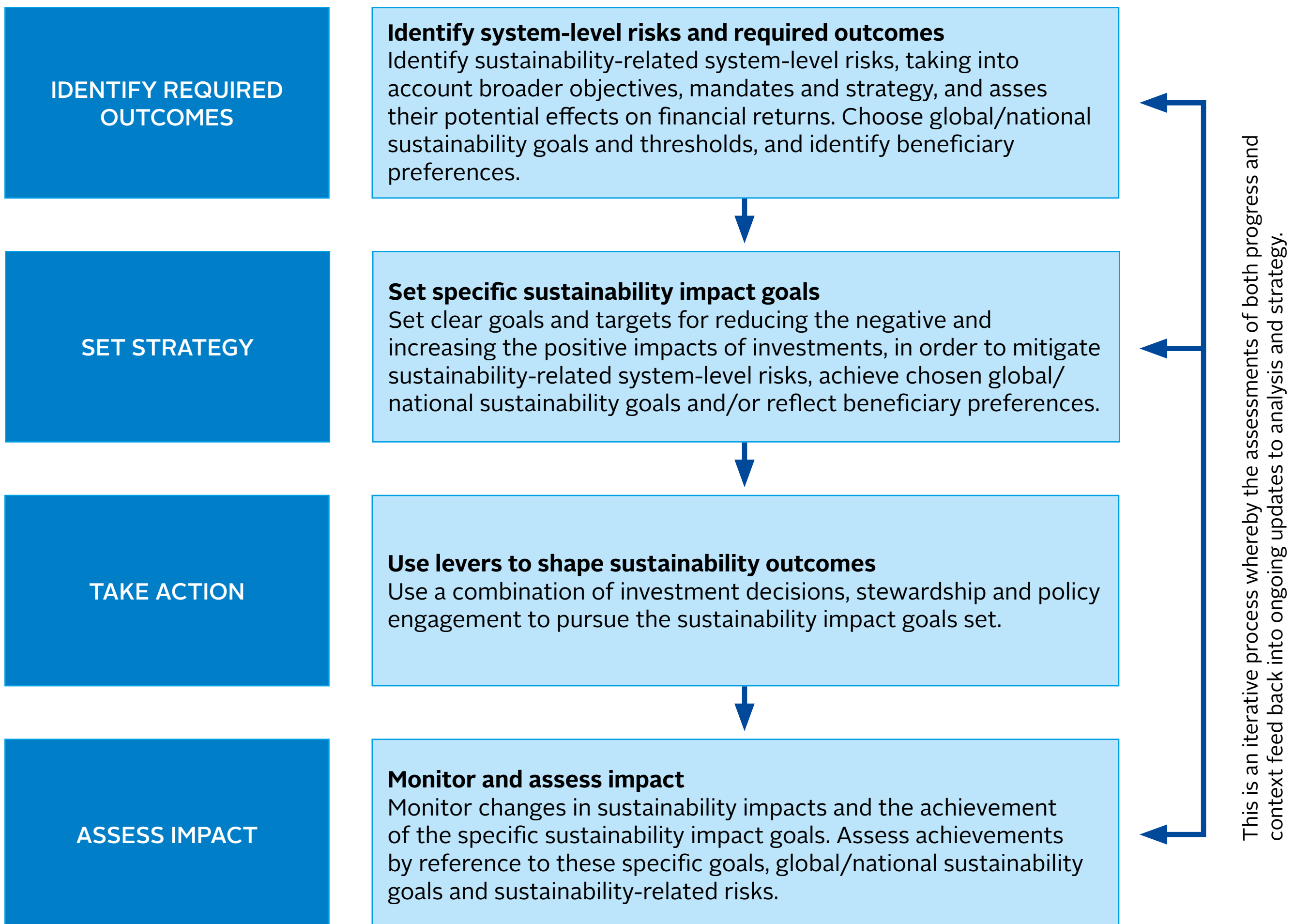
By using these levers, investors can bring about assessable changes in the behaviour of investee companies and other assets, as well as in the systems in which companies and investors operate (e.g., through reforms to government policies and regulatory standards).

The practice of such investor actions continues to develop. But in general investors need to:

1. decide what global or national sustainability outcomes to focus on, e.g., reducing emissions;
2. set clear objectives for the change in the sustainability impacts of investee companies (i.e., their corporate behaviour and related social and environmental impacts), with the change involving an increase in positive outcomes and/or a reduction in negative outcomes;
3. assess progress towards these objectives against well-defined timelines.

A key feature of this investment approach is *intentionality*. Instead of treating sustainability outcomes as an unintentional by-product of their activities, **institutional investors can set objectives to intentionally shape sustainability outcomes**. Figure 2 sets this out in more detail.

Figure 2: How investors can shape sustainability outcomes



COMMUNICATING TO STAKEHOLDERS

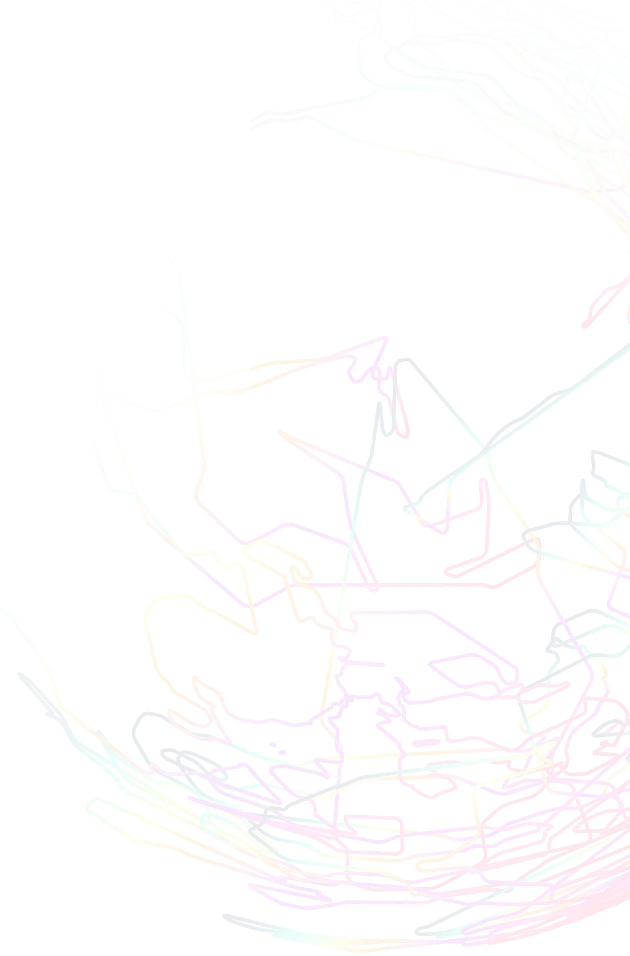
It is important that investors communicate clearly about why and how they intentionally use their powers to shape sustainability outcomes, at portfolio and product levels. Specifically, investors should disclose their sustainability impact goals to their clients and beneficiaries, explain how these goals are reflected in their funds or their entire portfolio and what levers they are using to achieve these goals. This should include disclosing over what timeframes the investors aim to achieve their financial and sustainability objectives. Lastly, investors should also report on their progress towards these goals based on ongoing assessments.

BEYOND ESG INTEGRATION AND IMPACT INVESTING

As described in the LFI report, intentionally shaping sustainability outcomes involves a perspective and a set of practices that extend beyond what is typically described as ESG integration, as well as traditional impact investing. ESG integration primarily involves the explicit and systematic inclusion of environmental, social and governance risks in investment analysis and decision-making to tackle idiosyncratic risks to financial returns. It is not generally aimed at mitigating system-level risks or intentionally shaping sustainability outcomes.[15]

Impact investing, for its part, tends to mean directing funds towards activities that have a specific sustainability goal and which would not exist without that targeted capital. In contrast, shaping sustainability outcomes involves investing in larger, more mature and diversified businesses and pursuing relevant sustainability outcomes in order to improve returns, with an emphasis not just on capital allocation but on stewardship and policy engagement as well.[16]

Traditionally, impact investing has been conducted through specialist impact investing funds or strategies, whereas shaping sustainability outcomes is increasingly seen as a core investment approach that can be applied to broader portfolios. Still, impact investing is an example of one action institutional investors might take in a broader investment approach to achieve sustainability impact goals.



15 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.54-p.55)

16 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.30-p.31)

POLICY REFORM CAN SUPPORT INVESTORS IN SHAPING SUSTAINABILITY OUTCOMES

The Legal Framework for Impact (LFI) report finds that pursuing desired sustainability outcomes can be consistent with Australian investors' legal duties if the attainment of these outcomes is instrumental in achieving their financial objectives. Therefore, if considering sustainability impact goals can improve financial outcomes for beneficiaries or mitigate system-level risks to portfolios or to a specific investment, investors are likely to have an obligation to consider pursuing such goals in order to serve beneficiaries' best financial interests.

Yet many investors are unaware or unsure that this is the case. This requirement is not explicit and there is a lack of guidance from policy makers on the steps investors are permitted or required to take to shape sustainability outcomes in fulfilling their legal duty to pursue financial returns. In the absence of explicit direction and guidance, asset owners and investment managers may be hesitant to include sustainability considerations in their investment decisions, stewardship and policy engagement.

A small number of leading Australian asset owners and investment managers are taking decisive action to shape sustainability outcomes on the basis that doing so is in their beneficiaries' best interests.[17] However, the majority of investors are not yet able to robustly address sustainability-related system-level risks. The result is that, in the long term, most beneficiaries' financial interests may not be adequately served. Lagging investors are also exposed to litigation risk since individual beneficiaries and broader communities increasingly expect investors to contribute to society and reduce their negative sustainability impacts.[18]

Policy makers and regulators can help investors mitigate system-level risks, leading to better long-term returns for beneficiaries and a greater stability in Australia's financial system.

This can be done through:

1. clarifying, and providing guidance on, investors' duties to address sustainability outcomes where that is necessary to fulfil their existing duty to protect beneficiaries' best financial interests;[19]
2. creating a regulatory environment and tools that prescribe minimum requirements and help investors tackle sustainability outcomes in line with evolving best practice globally;
3. developing policies and regulations that address sustainability-related system-level risks directly.

AUSTRALIA'S LEGAL AND REGULATORY FRAMEWORK: CURRENT LIMITATIONS

UNCERTAINTY OVER SCOPE OF INVESTOR DUTIES

Under the current legal and regulatory framework, some institutional investors in Australia have more freedom than others to mitigate system-level risks by shaping sustainability outcomes. The legal interpretation in the LFI report is that general insurers, for example, are the asset owners whose duties provide the broadest discretion to pursue positive sustainability outcomes and/or reduce negative outcomes where that is commercially beneficial.[20]

However, as the law is not explicit on the scope of this discretion and current investment governance and risk management standards do not address system-level risks, in practice few Australian insurers shape sustainability outcomes through their investment arms. Similarly, although existing standards for superannuation funds require trustees to have systems for identifying, managing, mitigating and monitoring material risks, they direct trustees to focus narrowly on idiosyncratic risks, do not require them to consider system-level risks and fail to identify such risks as material.

17 Non-exhaustive examples include: Aware Super (2021), Making a difference: Annual Report 2021; Aware Super (November 2019), Climate change portfolio transition plan; Ethical Partners Fund Management (2021), ESG Approach; Ethical Partners Fund Management (April 2021), Responsible Investment Policy; Cbus (2022), United Nations' Sustainable Development Goals and responsible investing; Active Super (May 2022), Active Super names its top 3 Sustainable Development Goals; HESTA (2022), Impact and the UN Sustainable Development Goals; UEthical (2021), Stewardship Report.

18 Litigation risk has increased exponentially following cases such as *McVeigh v Rest*, Federal Court of Australia, NSD 1333/2018, in which 23-year-old Mark McVeigh took legal action against Retail Employees Superannuation Trust (REST) for failing to act in his best interests by not properly considering climate change risks. The case was settled, with REST committing to align its portfolio with net-zero emissions by 2050 as well as to advocate for investee companies to comply with the Paris Agreement. See more at: https://equitygenerationlawyers.com/cases/mcveigh-v-rest/.

19 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.154-p.156)

20 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.154-p.156, p.171-p.173, p.177)

Investment managers are generally allowed to shape sustainability outcomes where that would benefit financial returns. Yet in practice, they are unlikely to take such steps unless their investment management agreement explicitly directs them to do so.

LIMITED DISCLOSURE REQUIREMENTS

Institutional investors' ability to identify and act on sustainability risks and opportunities (including system-level risks) relies, in part, on high-quality disclosures by companies about their sustainability impacts. While the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC) increasingly encourage companies to disclose climate-related risks, Australia's regulatory framework does not *require* companies to disclose their climate or other sustainability impacts. This results in a significant information gap for institutional investors, who must instead request that information from companies. In turn, this can increase costs for investors and limit their ability to comply with their existing duties.

Secondly, whereas asset owners need their investment managers to monitor, and explain how they are shaping, their sustainability outcomes, such disclosures are not currently mandated in investment management agreements and are, as a result, voluntary and limited.

LACK OF REGULATORY SUPPORT FOR STEWARDSHIP

Stewardship is one of the most effective ways for investors to shape sustainability outcomes and thereby mitigate system-level risks. However, Australia's regulatory framework does not explicitly require investors to exercise stewardship to shape sustainability outcomes. Nor has APRA, the primary regulator for Australia's asset owners, acknowledged the importance of stewardship in its investment governance standards or guidance.

ASIC is the only regulator that has recognised the value of effective investor engagement, saying it can enhance a company's long-term performance and noting that collective engagement can sometimes be more effective and efficient than action by individual investors.[21] Yet this limited support for investor engagement is insufficient to encourage broader stewardship activities on sustainability outcomes.

While superannuation funds, for example, are not precluded from engaging in stewardship to address sustainability outcomes,[22] a narrow interpretation of their existing duties may provide inadequate incentives for them to do so.

Another factor that limits stewardship activities is the prevalence of standard investment management agreement terms that delegate the responsibility for, and discretion over, stewardship to the investment manager without adequate direction on how they should undertake and resource these activities. The regulatory focus on investment fees and costs (as opposed to net performance) is also likely leading to a greater emphasis on passive low-cost investments, which can limit asset owners' and investment managers' ability to engage in stewardship.

FOCUS ON THE SHORT TERM

Some existing regulations, in effect, discourage actions to shape sustainability outcomes by asset owners. APRA's annual MySuper and Choice heatmaps compare superannuation products' outcomes for members against the outcomes of peers and benchmark portfolios over the past three, five and seven years (they will eventually cover the past eight and 10 years too). The heatmaps assess the following outcomes: investment returns, fees and costs, and the sustainability (or longevity) of outcomes.[23] The heatmaps do not consider the underlying investment processes, such as active management, tilting or other approaches that may be applied to shape sustainability outcomes and whose results may not be apparent over the short term analysed by APRA.

The annual performance test introduced under the Your Future, Your Super (YFYS) reforms assesses performance over a longer term of eight years but still only against backward-looking benchmark indices and ignores forward-looking, long-term investment strategies that seek to address system-level risks.

As a result, the heatmaps and the YFYS performance tests encourage asset owners to move towards passive investment strategies that are focused on the short term, to minimise the risk of failing either test. Consequently, asset owners may be disincentivised from addressing sustainability outcomes and mitigating system-level risks as the financial benefits of doing so are likely to be realised only in the long term.[24]

21 ASIC (June 2015), Regulatory guide 128: Collective action by investors

22 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.175-p.176)

23 The sustainability of outcomes is measured by growth rate, net cash flow ratio and net rollover ratio.

24 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.129-p.130)

REGULATORS' MANDATES WARRANT ACTIONS THAT ADDRESS SYSTEM-LEVEL RISKS

Australia's main financial regulators and Treasury, coordinated by the Council of Financial Regulators (CFR), are responsible for sustaining a stable financial system that can respond to economic challenges. Not only is each body arguably empowered to develop regulations and policies that address sustainability-related system-level risks but, in some respects, it is an imperative that they do so to fulfil their mandates to achieve financial stability and economic prosperity.

Regulators are already cognisant of some of these risks and are beginning to take steps to address them. In their combined pledge to the Network for Greening the Financial System, APRA and the Reserve Bank of Australia (RBA) explicitly recognised that addressing climate change is "closely related" to their mandates due to the effects of climate change on the economy and the financial system.[25]

Yet for Australia's financial system to remain stable in the face of rising sustainability challenges and economic volatility, the CFR member agencies will need to reform standards and issue guidance in a coordinated way to help institutional investors respond to sustainability-related system-level risks that go beyond climate change.

Failure to put appropriate mechanisms in place now risks exposing Australia's financial system to instability and severe economic disruption in the future. On the flipside, introducing policies that help investors address sustainability-related system-level risks can have positive compounding effects for multiple stakeholders and reinforce long-term value creation for investors and beneficiaries.[26]

APRA

APRA's legislated purpose is to promote financial stability in Australia.

ASIC

Under its legislative objectives, ASIC is required to maintain, facilitate and improve the performance of the financial system and entities in it.

CFR

The CFR's charter notes it has the ultimate objectives of promoting the stability of the Australian financial system and supporting effective and efficient regulation by Australia's financial regulatory agencies.

25 APRA, RBA (4 November 2021), NGFS Pledge – Combined statement from APRA and the RBA

26 International Corporate Governance Network (June 2019), Investor Framework for Addressing Systemic Risks

POLICY RECOMMENDATIONS

Australian policy makers and regulators can play an important role in helping institutional investors shape sustainability outcomes in the best interests of their clients and beneficiaries. Notably, unlike many other developed countries, Australia has not yet adopted an overarching sustainable finance strategy. A comprehensive sustainable finance strategy that entails coordination between policy makers and regulators could provide significant support to the financial industry. Even in the absence of such a strategy, the following five areas should be a priority for immediate policy reform:

1. **updating standards and guidance to clarify investors' duties to address sustainability-related system-level risks;**
2. **adopting a comprehensive corporate sustainability reporting framework;**
3. **strengthening regulatory support for stewardship;**
4. **implementing an Australian sustainable finance taxonomy;**
5. **addressing the effects of product heatmaps and financial performance assessments on the consideration of sustainability outcomes.**

Further details on each of these recommendations are set out below.

UPDATE STANDARDS AND GUIDANCE TO CLARIFY INVESTORS' DUTIES TO ADDRESS SUSTAINABILITY-RELATED SYSTEM-LEVEL RISKS

Australia's Federal Government, regulators and peak industry bodies should clarify that investors' duties require them to address sustainability-related system-level risks, and provide guidance on how they can do so by shaping sustainability outcomes. Specifically, the following actions should be taken:

REGULATOR ACTION

APRA should update its standards and guidance to require superannuation funds and insurers to consider system-level risks in their investment governance, risk management and strategic planning.

- SPS 530 – the investment governance standards for superannuation funds – should be updated to ensure that system-level risks are taken into account in the development of investment strategies and steps are taken to mitigate those risks. The accompanying guidance, SPG 530, should spell out how pursuing desired sustainability outcomes through investment practices, stewardship and/or policy engagement can help mitigate sustainability-related system-level risks.
- The risk management standards and guidance for superannuation funds (SPS 220 and SPG 220) and for insurers (CPS 220 and CPG 220) should be amended to acknowledge that sustainability-related system-level risks can affect the interests of beneficiaries and policyholders over the long term and, in some cases, over shorter timescales and should therefore be seen as material risks that must be addressed in risk management frameworks. The standards and guidance should ensure superannuation funds and insurers identify and address these risks.
- SPS 515, APRA's standard on strategic planning and member outcomes, should require superannuation funds to address system-level risks in their strategic objectives. Meanwhile, APRA's strategic and business planning guidance for superannuation funds, SPG 515, should clarify the extent to which the pursuit of desired sustainability outcomes can constitute a valid outcome for members and serve their best financial interests, particularly where it addresses system-level risks. Further, SPS 515 should require superannuation funds to consider whether system-level risks have been addressed appropriately as part of their annual assessment of outcomes for members.

APRA should also set addressing sustainability-related system-level risks as a policy priority in line with its objective to modernise the prudential architecture under its Corporate Plan 2021-25.

GOVERNMENT ACTION

The Treasurer should consider amending the *Superannuation Industry* (Supervision) Act 1993 (Cth), s. 52(6), so that superannuation trustees' covenants oblige them to consider and address system-level risks when formulating an investment strategy.

PEAK INDUSTRY BODY ACTION

The Financial Services Council (FSC), the Association of Superannuation Funds of Australia (ASFA) and the Australian Institute of Superannuation Trustees (AIST) should provide the investment managers and superannuation funds among their members with guidance and examples of best practice on mitigating sustainability-related system-level risks. Relevant PRI resources on these topics for investors include the five-part framework for investing with SDG outcomes and Active Ownership 2.0.

ADOPT COMPREHENSIVE CORPORATE SUSTAINABILITY REPORTING FRAMEWORK

Institutional investors aiming to shape sustainability outcomes by pursuing assessable changes in investee companies need comprehensive, consistent, reliable and comparable corporate disclosures on sustainability-related matters. The disclosures should cover investee companies' sustainability performance (i.e., their impacts on the environment and society), as well as the potential effect of sustainability outcomes on the companies' valuation and value creation over time.[27]

A lack of comprehensive sustainability reporting is not only a potential impediment to Australian investors' ability to mitigate system-level risks and thereby act in their beneficiaries' best interests over the long term. It could also limit the flow of foreign investments into Australia. International investors pursuing desired sustainability outcomes through the allocation of capital may be prevented or deterred from investing in Australian companies if those companies do not disclose sustainability information against minimum baseline standards.

REGULATOR ACTION

The CFR member agencies should work together with the Australian Accounting Standards Board (AASB) and the Australian Securities Exchange to develop a comprehensive framework for the disclosure of sustainability-related risks and sustainability performance by all entities that are already obliged to produce financial reports compliant with the accounting standards developed by the International Financial Reporting Standards (IFRS) Foundation. The minimum baseline for this framework should be the final IFRS S1 and S2 standards from the International Sustainability Standards Board (ISSB), expected to be issued by the end of 2022.[28]

- Companies' disclosures of their sustainability performance will enable asset owners and investment managers to identify the system-level risks that each investee company is contributing to, while also helping them set goals and take action to mitigate those risks. A high-quality sustainability reporting framework is a vital piece of infrastructure to support asset owners in fulfilling their duty to act in beneficiaries' best financial interests over the long term.
- The CFR member agencies and the AASB should take account of the sustainability disclosure standards being developed around the world to ensure consistency and comparability of company data globally. These standards include proposals for general sustainability and climate disclosure requirements from the ISSB (S1 and S2), the Corporate Sustainability Reporting Directive in the EU, the Sustainability Disclosure Requirements in the UK and the climate disclosure proposal from the US Securities and Exchange Commission. The CFR member agencies and the AASB should monitor those standards for any requirements on companies to disclose their sustainability performance.
- Australian standards for reporting sustainability information should be based on the ISSB's final IFRS S1 and S2 standards. However, disclosure focused on enterprise value will not serve the needs of all investors as it will not provide a broad understanding of a company's sustainability performance. Accordingly, if disclosure under the final IFRS S1 and S2 standards is focused on enterprise value, the CFR member agencies and the AASB should adopt a "building blocks" approach, using those standards as a minimum baseline and bringing in additional standards, directives and guidance on disclosing corporate sustainability performance.
- Input should be sought from industry bodies, investors, academics and companies to ensure that the enhanced framework is practical, usable and enables the users of the disclosed information (i.e., investors) to shape sustainability outcomes and mitigate system-level risks.

GOVERNMENT ACTION

The Federal Government should introduce legislation requiring disclosure of sustainability-related risks and sustainability performance, initially applying to publicly listed and large private companies, and empower the AASB to develop and implement sustainability reporting standards by 2024.

- The Federal Government should introduce amendments to the *Corporations Act 2001* (Cth) that would explicitly require all Australian publicly listed and large private companies to disclose, from 2024 onwards, sustainability-related information in their annual reports, prepared in accordance with the sustainability reporting standards developed by the AASB (or a subsidiary body). The requirement should be mandatory rather than on a comply-or-explain basis. Over time, this requirement should extend to all other entities that have existing obligations to produce financial reports compliant with the IFRS accounting standards.[29]

27 PRI (2020), Driving meaningful data: Financial materiality, sustainability performance and sustainability outcomes

28 IFRS Foundation (2022), General Sustainability-related Disclosures and Climate-related Disclosures

29 *Corporations Act 2001* (Cth) ss. 292, 296

- The Federal Government should introduce amendments to the *ASIC Act 2001* (Cth) that would explicitly authorise the AASB (or a subsidiary body) to develop sustainability reporting standards for the purposes of corporate entity reporting and for the recommended requirements under the *Corporations Act 2001* (Cth).
- The Federal Government should ensure the AASB is appropriately governed and resourced to enable it to implement sustainability reporting standards.

STRENGTHEN REGULATORY SUPPORT FOR EFFECTIVE STEWARDSHIP

In this paper, effective stewardship as defined is a core component of responsible investment and one of the most powerful ways for investors to shape sustainability outcomes and act in beneficiaries' best financial interests.[30] Addressing sustainability-related system-level risks should be a common goal for institutional investors and requires widespread action by the industry.[31] Effective action relies on stewardship by all institutional investors rather than a leading few who, despite best intentions, cannot adequately mitigate these risks by themselves. Among other measures, this may require enhanced *collective* action by investors.

Not only is collective stewardship an effective means to deliver positive change; it spreads the costs of pursuing collective goals across the industry and enables all institutional investors to reap the benefits.[32]

Various forms of stewardship are already encouraged in other jurisdictions and, in some instances, are a requirement for investors. For example, the investment guidance for defined benefit pension schemes from the UK Pensions Regulator recommends that trustees consider exercising stewardship to mitigate systemic risks caused by the macroeconomic effects of sustainability issues.[33] In the US, asset owners' duties arguably require them to consider engaging in stewardship focused on achieving relevant sustainability outcomes in order to secure their financial objectives. That requirement likely extends to considering whether collaborating with other investors is the best way to advance these objectives.[34]

REGULATOR ACTION

APRA should clarify its expectations for the role of stewardship in investment governance and risk management standards and encourage investors to take sustainability outcomes into account where they present system-level risks to financial performance.

GOVERNMENT ACTION

The *Superannuation Industry (Supervision) Regulations 1993* (Cth) should be amended to require each RSE licensee[35] to publish a stewardship policy on its public website (alongside other 29QB disclosures) and keep the policy up to date.

PEAK INDUSTRY BODY ACTION

The FSC, ASFA, AIST and the Insurance Council of Australia should consider ways to enable more effective stewardship among their members and facilitate engagement between members and policy makers on policies aimed at shaping sustainability outcomes.

The PRI will also continue engaging with signatories and carry out further analysis of the barriers to and opportunities for more effective stewardship in Australia that aligns with best practice in other markets.

IMPLEMENT AUSTRALIAN SUSTAINABLE FINANCE TAXONOMY

Sustainable finance taxonomies can be defined as classification systems to help investors and other stakeholders understand whether an economic activity is environmentally or socially sustainable.[36] They enable investors to assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement, the SDGs and national sustainability goals. As such, taxonomies of sustainable economic activities can help investors align their funds and portfolios with the attainment of desired sustainability outcomes.

30 Kolbel, J. et al (2020), Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact

31 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making

32 PRI (2019), Active ownership 2.0: The evolution stewardship urgently needs

33 The Pensions Regulator (2019), DB investment governance

34 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.533)

35 An RSE licensee is a constitutional corporation, body corporate or a group of individual trustees that holds a licence granted by APRA for a regulated superannuation entity.

36 PRI, World Bank (2020), A toolkit for sustainable investment policy and regulation (p.22-p.25)

Designing and implementing a taxonomy should occur in stages. These include defining the taxonomy's objectives and developing criteria for environmental or social performance that determine whether a given activity is aligned with the taxonomy's objectives.

Across the globe, policy makers are considering establishing and, in some countries, beginning to implement sustainable finance taxonomies. For example, the first requirements of the EU taxonomy – which is aimed at scaling up investment in sustainable activities – started applying on 1 January 2022. Eventually, all in-scope undertakings will have to disclose what share of their total activities is aligned with the taxonomy.[37] Meanwhile, government-appointed technical groups in Canada and the UK are advising their respective governments on the development of sustainable finance taxonomies that support environmental objectives. Among other goals, this work is intended to support the redeployment of capital to taxonomy-aligned activities globally.

Without widespread adoption of a robust Australian taxonomy of sustainable activities that is broadly interoperable with overseas equivalents, there is a risk that Australian companies' access to European capital will be negatively impacted. That is because, unlike their EU peers, they will not have access to a locally specific methodology for disclosing what share of their activities is considered sustainable. Without such disclosures, Australian investment managers with high exposure to Australian companies may also face challenges when marketing and selling financial products to international clients and may incur additional costs.

ASFI is leading the development of a sustainable finance taxonomy for Australia with input from the financial industry and other stakeholders. This project is strongly supported by the PRI. The PRI encourages all CFR member agencies to be directly involved in the project and to promote the adoption of the taxonomy by investors, investee companies and the Federal Government once it is developed.

GOVERNMENT ACTION

Treasury should support the development, and lead the implementation, of an Australian sustainable finance taxonomy developed by ASFI.

- An Australian sustainable finance taxonomy should be science-based and have a clearly defined objective – the starting point should be to support the goals of the Paris Agreement. The taxonomy should also be backed up by other national policies linked to the attainment of net-zero emissions.
- Any Australian sustainable finance taxonomy should be consistent and, ideally, interoperable with taxonomies elsewhere. Among other common features, interoperable taxonomies have broadly similar objectives, use the same or easily comparable industry classification systems to define economic activities and have broadly similar technical screening criteria.

ADDRESS EFFECTS OF PRODUCT HEATMAPS AND FINANCIAL PERFORMANCE TESTS ON SUSTAINABILITY OUTCOMES

The short-term focus of APRA's product heatmaps and the YFYS performance tests may inadvertently conflict with superannuation funds' long-term obligations. The focus on the short term may also conflict with the objectives of APRA's CPG 229 prudential practice guide – specifically, its recommendation for superannuation funds to assess existing and future financial risks arising from climate change.

Treasury and APRA need to examine how the product heatmaps and the YFYS performance tests affect institutional investors' strategic decisions and behaviour on sustainability outcomes and address these effects. Understanding these effects will enable Treasury and APRA to adjust the regulatory requirements that may be discouraging institutional investors from mitigating sustainability-related system-level risks.

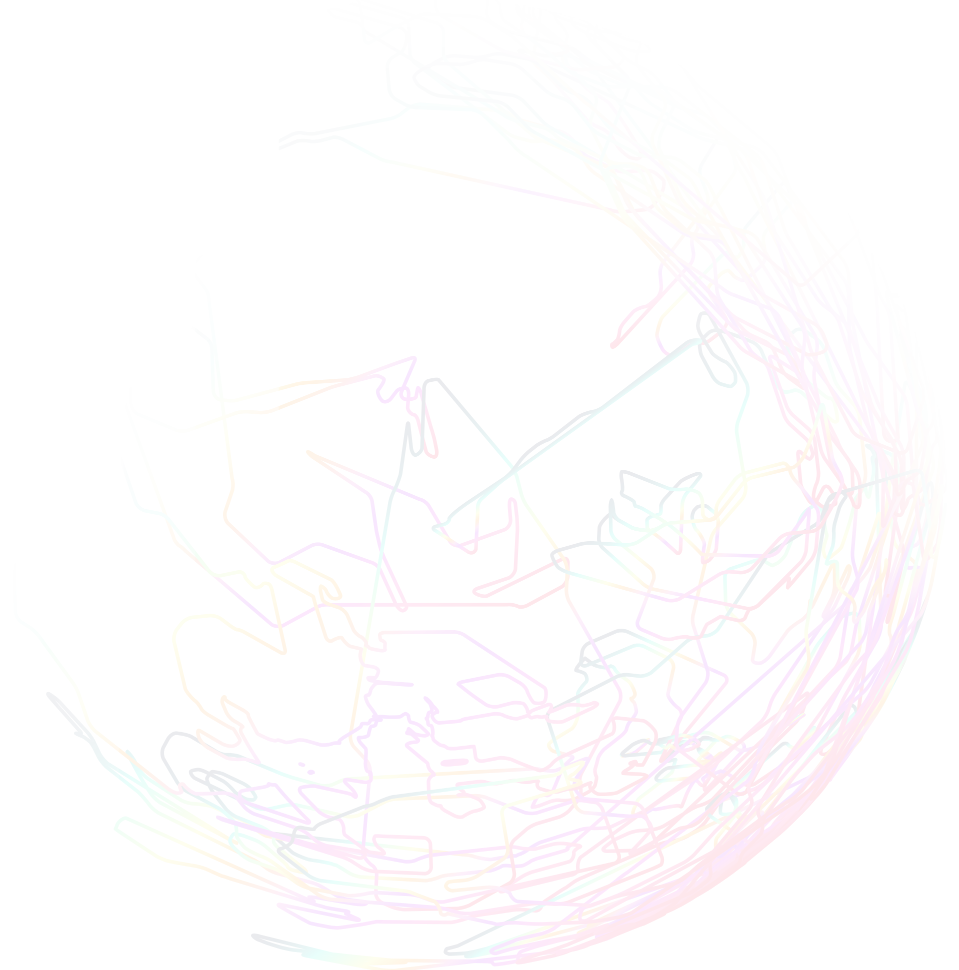
GOVERNMENT AND REGULATOR ACTION

Treasury and APRA should ensure that the product heatmaps and the YFYS performance tests fully enable RSE licensees to address sustainability-related system-level risks while being consistent with other guidance provided by APRA.

- Treasury and APRA should evaluate how the heatmaps and the YFYS performance tests are affecting or could affect RSE licensees' decisions to set sustainability goals, monitor their investments' impact on sustainability-related system-level risks and undertake stewardship or policy engagement in order to mitigate those risks. Treasury and APRA should also establish how the assessments of RSE licensees' fees and costs in the heatmaps and in the YFYS performance tests influence their decisions to take into account system-level risks that may not manifest in the short term.

37 PRI (2022), Investor briefing: EU sustainable finance taxonomy

- As part of this evaluation, Treasury and APRA should consult RSE licensees on the effects the heatmaps and the YFYS performance tests have on their approach to sustainability outcomes over the long term. A range of RSE licensees should be consulted, including those that already measure the sustainability impact of their investments, licensees that are actively engaging with investees to reduce those companies' greenhouse gas emissions, those that are considering how to tackle sustainability outcomes and those that haven't yet considered the system-level risks posed by sustainability issues.
- Further, Treasury and APRA should consult RSE licensees on a range of potential reform options that would remove or minimise any restrictions imposed by the heatmaps and the YFYS performance tests on RSE licensees' ability to mitigate system-level risks and pursue desired sustainability outcomes.



POLICY AREAS FOR FURTHER EXPLORATION

Alongside the key recommendations above, the following potential policy actions should also be considered.

UNDERSTAND AND TAKE INTO ACCOUNT BENEFICIARIES' SUSTAINABILITY PREFERENCES

The level of assets currently committed to sustainable investment approaches is lower than what might be expected based on the expressed preferences of individuals in several studies.[38] In a poll of Australians, 83% expected their superannuation or other investments to be invested "responsibly and ethically" and 74% would consider moving to another provider if they found out their current fund was investing in companies engaged in activities inconsistent with their values.[39]

There may be a number of reasons behind the gap between beneficiaries' views on sustainability and investment practice. Perhaps investors do not seek or receive adequate information about their beneficiaries' preferences, are not prompted to consider these preferences in investment governance and investment selection, or they fear that accommodating beneficiaries' sustainability preferences might reduce returns and are therefore uncertain they can legally do so.

GOVERNMENT AND REGULATOR ACTION

Led by Treasury, the CFR member agencies should collaborate with industry bodies and institutional investors to address any impediments to incorporating beneficiaries' sustainability preferences into investment decisions. They should also explore the role of technology, financial innovation and financial literacy in enabling institutional investors to take beneficiaries' sustainability preferences into account. Such measures should include:

- outlining processes that investors could follow to establish beneficiaries' preferences – for example, surveys, focus groups and interviews;
- clarifying the scope of the information to be obtained;
- developing guidance to help institutional investors take into account the sustainability preferences expressed;
- clarifying institutional investors' right to take beneficiaries' sustainability preferences into account in light of their existing "best interests" duties;
- requiring RSE licensees to assess whether beneficiaries' sustainability preferences are being promoted, alongside their existing obligation to conduct annual assessments of outcomes.

ADDRESS TREATMENT OF SUSTAINABILITY OUTCOMES IN INVESTMENT MANAGEMENT AGREEMENTS

Investment managers' primary duties to their clients stem mainly from their mandates rather than legislation or regulation. Investment management agreements may therefore need to be updated to empower investment managers to shape sustainability outcomes and to require them to consider sustainability-related system-level risks when making investment decisions. Such changes to investment management agreements could enable asset owners to meet their existing obligation to address sustainability outcomes where adverse sustainability consequences might negatively affect financial returns.

PEAK INDUSTRY BODY ACTION

The FSC should develop a template investment management agreement that would enable investment managers to address sustainability outcomes.

- The FSC should analyse the terms and conditions of standard investment management agreements to determine whether there are any clauses that require or encourage investment managers to shape sustainability outcomes or, on the contrary, prevent them from doing so.
- The FSC should subsequently develop a template agreement with a standard set of terms that permit investment managers to pursue desired sustainability outcomes and require them to do so where that is necessary to mitigate system-level risks. Any template agreement should acknowledge the importance of, and encourage investment managers to use, stewardship and policy engagement to pursue desired sustainability outcomes. The agreement should also require investment managers to disclose how they are financially resourcing these activities.
- The FSC should determine what disclosures investment managers should make on their sustainability risks and impacts to enable asset owners to comply with their duty to mitigate system-level risks. These could be product- and/or entity-level disclosures. ASIC and other CFR member agencies developing a corporate sustainability disclosure framework should use these disclosures as an input in that work.

---

38 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.56-p.62)

39 Responsible Investment Association Australasia (2022), From Values to Riches 2022: Charting consumer demand for responsible investing in Australia

CREDITS

AUTHORS:

- Mayleah House, PRI
- Daniel Wiseman, PRI

CONTRIBUTORS:

- Susanne Draeger, PRI
- Nikolaj Halkjaer Pedersen, PRI
- Emmet McNamee, PRI
- Robert Nash, PRI
- Margarita Pirovska, PRI
- Elsa Savourey, PRI

EDITOR:

Olesya Dmitracova, PRI

DESIGN:

Alessandro Boaretto, PRI

ABOUT THE PROJECT

A Legal Framework for Impact is a flagship project of the Principles for Responsible Investment, the United Nations Environment Programme Finance Initiative and the Generation Foundation. The project is part of the Investment Leadership Programme, a joint initiative between the Principles for Responsible Investment and the United Nations Environment Programme Finance Initiative, created to accelerate collaboration among leading investors and boost action on achieving key global sustainability objectives. The project aims to identify and overcome the barriers to a financial system that is consistent with achieving the Sustainable Development Goals and limiting global warming to 1.5°C. Freshfields Bruckhaus Deringer were commissioned to produce a report on the extent to which legal frameworks in 11 jurisdictions enable investors to consider the sustainability impacts of their activities. The report provided the first comprehensive analysis of how far the law requires or permits investors to tackle sustainability challenges in discharging their duties – a practice called "investing for sustainability impact" or IFSI. The project is a multi-year work programme and is now focused on five key markets: Australia, Canada, Japan, the European Union and the UK.

ABOUT THE PROJECT PARTNERS

The Principles for Responsible Investment (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 Generation Foundation is a UK registered charity and was established alongside Generation Investment Management LLP, the sustainable investment firm founded in 2004. Its vision is an equitable society in which global temperature rises do not exceed 1.5°C. In pursuit of this, the Foundation operates a proactive grant-making and research programme that focuses on four priority areas: investor climate action; carbon pricing; gender inclusion and empowerment; and action on economic inequality. For further information, please visit www.genfound.org

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members – banks, insurers and investors – and over 100 supporting institutions – to help create a financial sector that serves people and the planet while delivering positive impacts. UNEP FI aims to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance. https://www.unepfi.org/about/