

Principles  
for Responsible  
Investment

# Annual Report of the PRI Initiative 2009



UNEP **Finance Initiative**  
Innovative financing for sustainability



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

# Moving further into the mainstream

In just three years the number of signatories to the Principles for Responsible Investment has soared from 50 to 500, representing US\$18 trillion of assets and 36 countries. This is a clear recognition by mainstream capital markets of the importance of environmental, social and corporate governance (ESG) issues to investment processes.



Achim Steiner



Georg Kell

This year marks the 80th anniversary of the great Wall Street Crash of 1929, and the public spotlight is again firmly fixed on the finance sector. The recent crisis has demonstrated that decisions made by financial institutions have implications for entire economies. Thus the work of the PRI Initiative to promote better risk management, transparency and good governance has never been more important.

These efforts can help restore the trust and confidence in the markets that have been so badly damaged by the financial crisis.

Throughout the last year, PRI signatories have used their influence to help improve the ESG performance of companies in the UN Global Compact, with shareholder engagements on issues such as disclosure, climate change and water scarcity. Signatories also launched the largest ever recruitment drive for the UN Global Compact, writing to almost 9,000 listed companies urging them to participate.

The UN Environment Programme Finance Initiative (UNEP FI) has continued its work in support of responsible investment, in particular through its Property Working Group, Asset Management Working Group and PRI in Emerging Markets project. Joint activities are underway to assess the importance of environmental externalities to investors' portfolios. Also to explore how public financing mechanisms can be leveraged to promote institutional investment flows into climate change mitigation and adaptation.

We also seek to bring a financial services and investor perspective to UNEP's Global Green New Deal/Green Economy Initiative. The departure for both of these is that investing in a transition to a low carbon and resource-efficient economy has multiple benefits from combating climate change to catalyzing innovation and decent kinds of employment.

Addressing sustainability issues is too big a task for any individual institution alone. These are collective action problems that need collective solutions. Through the PRI Initiative, the investment community is taking its place alongside governments, corporations, consumers and civil society in a global effort to replace unsustainable, short-term thinking with long-term solutions.

The United Nations is committed to being a full and determined partner in meeting this challenge.

A handwritten signature in black ink, appearing to read 'Achim Steiner'.

**Achim Steiner**  
Executive Director  
United Nations  
Environment Programme

A handwritten signature in black ink, appearing to read 'Georg Kell'.

**Georg Kell**  
Executive Director  
United Nations  
Global Compact

# Responsible investment more relevant than ever



Donald MacDonald

It has been a year dominated by the largest financial crisis in a generation, and the need for a better and longer-term approach to investment management has never been more urgent. Responsible investment offers the institutional investment sector a clear path forward.

As the global financial crisis wiped billions from fund values, some thought the momentum gained by responsible investment in recent years would diminish. Some felt responsible investment was an 'add on' that would be jettisoned in tough times. One commentator suggested that the only shade of 'green' investors would now be interested in was the 'colour of dollar bills'.

These predictions have been proved wrong. Rather than these activities being undermined, this crisis has catalysed additional investor interest in responsible investment, with 160 new signatories – holding assets of over US\$5 trillion – signing up to the PRI between October 2008 and May 2009. Responsible investment is now starting to be driven by asset owners, and when times get tough, investment managers get responsive to the needs of clients.

Indeed, responsible investment is central to the recovery from this crisis. In March, 2009, the PRI Board released a statement on the financial crisis which called on investors to embrace the PRI as a robust framework to help the investment community avoid a repeat of the mistakes that led to the downturn. This statement links the practices outlined in the PRI – enhanced analysis, active ownership, transparency – with the failures that led to this crisis. Rather than being an 'add on', responsible investment lies at the core of the solution.

The full impacts of the crisis will take years to play out, and as the world's population and carbon emissions continue to rise, so does the task facing the responsible investment sector.

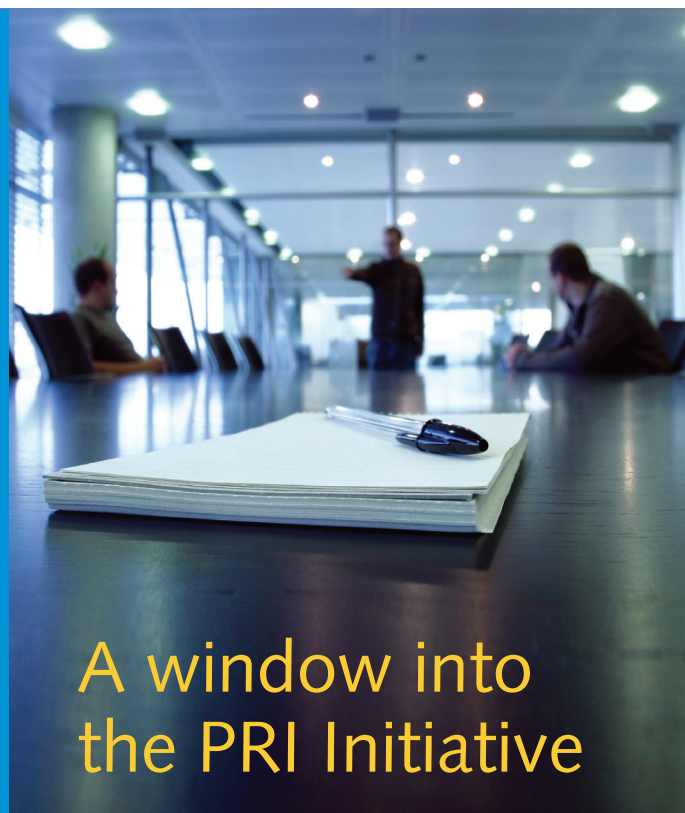
There will surely be other bubbles and crises, including the emerging climate crisis. The PRI Initiative is committed to driving the types of changes in mainstream investment practices that will, at least, encourage the type of business and investment activities that will see them coming a bit earlier and seek to address emerging problems before they get out of hand.

The PRI Initiative has seen tremendous growth, and in time, we hope that these practices will have a real impact on driving sustainable, long-term returns.

Yours faithfully

**Donald MacDonald**  
Chair of the Principles for Responsible Investment  
and Trustee, BT Pension Scheme

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# About the report

This annual report provides a summary of the progress of the PRI Initiative over the year since our last annual report (1 June 2008 to 31 May 2009). It provides a window into the activities of the Initiative, and how it is helping investors to improve corporate behaviour on issues such as corporate governance, transparency, human rights, climate change, and corruption. It also highlights how the Initiative helps its signatories develop processes for incorporating ESG issues across a variety of investment processes.

At the heart of the PRI Initiative are the various work streams that support implementation, and this year's report focuses on three of these:

1. **Collaboration among investors through the PRI Clearinghouse**
2. **The growth of responsible investment in emerging markets and developing countries**
3. **The application of the Principles beyond listed equities.**

We also include details of the PRI's many other work streams.

The sister publication to this report, the *PRI Report on Progress 2009*, details the work the signatories themselves are doing to implement the Principles, highlighting, with concrete examples, how investment processes are being harnessed to enhance financial performance and deliver ESG outcomes.

The PRI Initiative remains indebted to our UN partner agencies, UNEP Finance Initiative and the UN Global Compact, for their unwavering support for the PRI. We also thank all the signatories that participated in the activities of the Initiative throughout the year. The PRI is very much a community of investors working together with the UN partners. This report – and the *Report on Progress 2009* – seek to showcase these efforts.

## The Principles

The Principles for Responsible Investment were drafted by a group of the world's largest institutional investors and supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia.

It was a process coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact and the PRI Initiative itself was launched in April 2006 at the New York Stock Exchange by the UN Secretary-General.

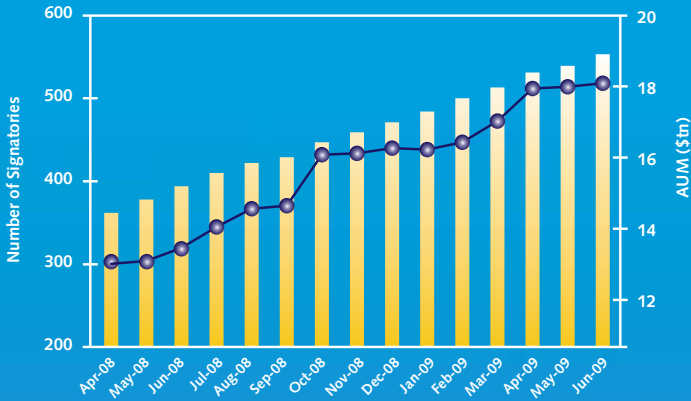
The six interconnected Principles aim to act a framework for global best practices in responsible investment. They are:

- 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.**

# The PRI year in numbers

## Growth of signatories and AUM this year

From 362 signatories and US\$14.778 trillion in April 08 to 538 signatories and US\$18,087 trillion in May 09



## Locations of PRI signatories: 36 countries



Total assets under management of signatories:  
**US\$18,000,000,000,000**

Number of signatories from emerging markets or developing countries: up **24%** to 77

### Active signatories on the Clearinghouse (by number of proposals)

CalPERS	21	AP1	3
Hermes	15	AP2	3
The Ethical Funds Company	15	Batirente	3
Nathan Cummings Foundation	11	Boston Trust Walden Asset Management	3
Amalgamated Bank	6	Creative Investment Research	3
Calvert	6	Domini	3
Insight Investment	6	Ethos	3
CalSTRS	5	IIMarinen	3
F&C	5	Phitrust Active Investors	3
Pax World	4	PGGM	3
USS	4	SHARE	3
NYCERS	3		

**85%** of signatories have policies that make reference to responsible investment or ESG issues.

**34%** of respondents said their responsible investment commitments were being translated into a plan of action to a large extent



**63%** of asset owners now include RI/ESG elements in contractual relationships with external managers.

# The Clearinghouse

The PRI Engagement Clearinghouse, established in October 2006, is a world first for the investment community.

It is a private online forum that enables PRI signatories to work together to seek changes in company behaviour, public policies or systemic conditions. The Clearinghouse enables individual signatories to transform one voice into the voice of many.



## In Numbers

Total number of Clearinghouse postings since inception: **177**

Number of Clearinghouse posts by month in year since last report

Jun-08	7	Sep-08	4	Dec-08	3	Mar-09	14
Jul-08	4	Oct-08	8	Jan-09	5	Apr-09	12
Aug-08	2	Nov-08	3	Feb-09	6	May-09	9



# Driving change through collaborating online

Through collaboration, signatories can pool their resources and influence and achieve greater impact. The Clearinghouse now has around three full time staff working to coordinating investor collaborations.

## Improving company behaviour

Most engagements facilitated through the Clearinghouse are focused on improving company performance on ESG issues – a key aim of the PRI Initiative. But there have also been numerous Clearinghouse posts which bring investors together to discuss emerging issues, engage with policy makers or seek support for shareholder resolutions.

This year, nearly two thirds of PRI signatories logged into the Clearinghouse, up from around half in 2007. 84 signatories have posted ideas for collaboration to the Clearinghouse since its inception. This year's Clearinghouse activities reached almost 9,000 companies on four continents. The largest single engagement was the 'Seoul Initiative', which saw a group of signatories worth US\$5 trillion in assets write to over 8,400 listed companies asking them to commit to the principles of the UN Global Compact.

## How does it work?

Signatories can post ideas or proposals to the Clearinghouse, inviting others to collaborate. These postings may be as simple as one investor asking others to join in a collaborative discussion of an emerging issue, or support a shareholder proposal at a specific company's AGM. It could involve

writing a joint letter to one or more companies expressing concerns about an issue. These letters are often followed up by meetings between the investors and the company. There are also public policy engagements, where investors come together to form a common view on an area of regulation or public policy, and then make those views known to the policy makers.

The postings in the Clearinghouse can be split into roughly five types:

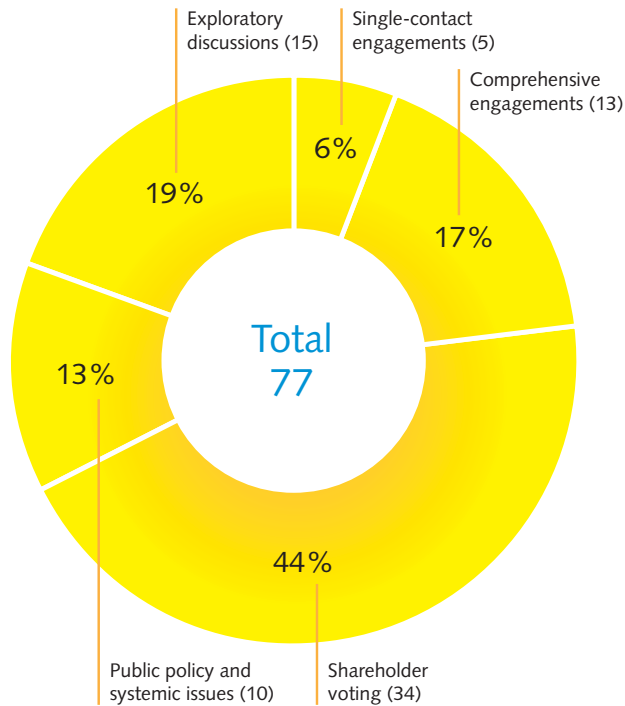
- **Single-contact engagements:** Postings representing efforts to alert companies to an issue of investor concern or promote better corporate conduct in a particular area. These are most often joint letters, often targeting large groups of companies.
- **Comprehensive engagements:** More intensive engagements, often involving investors engaging in dialogue with companies over time, seeking specific improvements in corporate behaviour.
- **Shareholder voting:** Invitations to support or co-file shareholder resolutions, or vote in a particular manner on resolutions, at company annual general meetings.
- **Public policy and systemic issues:** Engagements with regulators and other public policy-makers, and invitations to support various higher-level investor initiatives.
- **Exploratory discussions:** Postings that open up discussion on future collaboration ideas or which share research, opinions and information from individual engagement activities.

Number of companies sent at least one letter as a result of collaborative engagements organised through the Clearinghouse this year: **8,804**

Number of companies that were the focus of multiple-contact engagements launched through the Clearinghouse this year: **52**

## “ The Clearinghouse enables individual signatories to transform one voice into the voice of many.”

Breakdown of the types of postings to the Clearinghouse this year



To use the PRI Engagement Clearinghouse, signatories develop a proposal for the engagement they would like to undertake, with details for how it would be conducted, expected outcomes, background information and any associated documents. Other signatories are alerted to the proposals through email updates, and they can choose to participate, or simply peruse what peers are doing, using the forum as a learning platform.

It is important to note that the Clearinghouse is an opt-in forum, and engagements are undertaken in the names of the investors themselves. Each engagement is led by one or more investors, with the PRI Secretariat providing administrative and organisational support. The Clearinghouse is simply a forum for investors themselves to work together in an efficient and effective manner on an issue they see as material and relevant to their portfolios.

One of the tools used to discuss emerging issues and potential collaborations is the ‘webinars’. These online seminars are held once or twice a month and in the last year have discussed issues such as climate change, oil sands, transparency and anti-corruption, labour standards and controversial weapons. Between June 2008 and May 2009 webinars attracted an average of around 40 signatories. The webinars on ‘sustainable real estate’ and ‘water sustainability’ were the most popular, attracting 79 and 63 attendees respectively.

### Why we use the Clearinghouse: The Guardians of New Zealand Superannuation (The Guardians)

This year the Guardians have been involved in several collaborative engagements facilitated by the Clearinghouse to tackle issues such as forced labour in Brazil, investment in Sudan and to asking listed companies to sign up to the UN Global Compact.

These engagements were in line with our responsible investment policy and in all cases we felt we could be more effective by joining forces with other investors rather than going it alone.

The appeal of the Clearinghouse is that it catalyses collaboration. It’s a system that allows pension funds like us to put some ideas forward, knock them around with our peers, and if we come to a common position, take action.

**“The Clearinghouse is an opt-in forum, and engagements are undertaken in the names of the investors themselves.”**

## Getting engaged

Below are some of the collaborative engagements facilitated by the Clearinghouse in the past year. Details of the results of these engagements can be found in the *Report on Progress, 2009* and the following section on the PRI in emerging markets and developing countries.

- A collaboration launched in December 2008 to encourage some of the world’s largest companies to sign up to the CEO Water Mandate, a UN Global Compact water sustainability initiative.
- An ongoing engagement between a US\$2.5 trillion coalition of investors and companies with operations in, or exposure to, Sudan – a country whose human rights record is a subject of growing public and political concern.
- A collaborative engagement to ensure companies that are participants in the UN Global Compact honour their reporting requirements. In 2008, the engagement helped convince around one third of the 100 companies contacted to fulfil their reporting requirements.
- A South American collaboration launched at the Brazilian stock exchange asking all listed Brazilian companies to supply information on how they monitor and prevent slave labour throughout their supply chain.
- An engagement that encouraged major listed companies in Singapore and Hong Kong to improve their corporate governance and transparency in order to qualify for inclusion in the FTSE4Good index.
- Letters to listed companies asking them to commit to the UN Global Compact, resulting in more than 100 new signatories to the Compact, including General Electric, PepsiCo, J.C. Penney and Merck & Co.
- A collaborative engagement to promote better and more systematic ESG disclosure by emerging market companies, focusing on South Africa, Brazil, South Korea and India.
- Letters from 36 PRI signatories, managing US\$757 billion, to all S&P 100 companies asking for material information on how they protect and enhance labor rights for their US employees.
- An ongoing collaboration between ten investors from North America and Europe to engage with financial authorities regarding regulations on acting in concert.

For collaborative shareholder engagement to work, investors need the behind-the-scenes support that the Clearinghouse provides. For example, there needs to be guidelines and procedures in place to manage, monitor and measure the engagement and perhaps to translate materials. There also needs to be coordination of roles to keep costs down. The Clearinghouse provides that foundation and lets investors take it on from there.

Previous collaborations such as an engagement to minimise inappropriate labour practices in the Brazilian iron and steel industry has resulted in significant changes, including new audit systems in a number of companies.

**“The Clearinghouse is absolutely core to what the PRI Initiative does. The PRI has some big plans but it must take care to keep its foundations solid by continuing to nurture this important forum.”**

# Clearinghouse in practice

## Case study

**“Efforts of this kind begin to introduce sound practices of fiscal governance, which will, in turn, help to stabilise societies, promote prosperity and benefit the investment climate for all concerned.”**

*Karina Litvack, Head of Governance & Sustainable Investment, F&C*

**“We know that our position as leader in the steel industry brings unique responsibilities. In no places is this duty more pertinent to our operations than in the two EITI-Candidate countries of Liberia and Kazakhstan.”**

*Mr. Lakshmi Mittal, Chairman and CEO, ArcelorMittal, 20 Jan 2009*

## The ESG issue

Around 3.5 billion people live in countries rich in oil, gas and minerals. With good governance, the exploitation of these resources can foster economic development and reduce poverty. However, when governance is weak, this process can fuel corruption and conflict – as happened most notably in Liberia in recent years.

This poses a clear threat for companies in the extractive industries, which can become associated with the ill effects of weak governance and consequently suffer hostility from the local and international community. Companies also risk having their contracts repudiated, as happened in Liberia when democratic elections brought an end to the civil war. Secrecy compounds the problem, as local citizens have little idea how much wealth is being generated from the resources that lie below their ground.

In 2002, in response to this, the Extractive Industries Transparency Initiative (EITI) was announced as a coalition of governments, companies, civil society groups, investors and international organisations created to strengthen governance by improving fiscal transparency and accountability in the extractives sector.

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## The Investor view: F&C Asset Management

As a strong supporter of the PRI, F&C believes companies stand to benefit commercially from a prudent, far-sighted approach to sustainability and therefore engages with the companies in its clients' portfolios to promote improved practices where appropriate. Our interaction over the last four years with mining and steel company ArcelorMittal (formerly Arcelor) illustrates this approach.

As a founder and active supporter of the EITI, F&C asks companies to promote adoption of the Initiative. Where they have operations in EITI-supporting countries, we ask them to assist in its successful implementation, and publish audited statements of the taxes, royalties and bonuses they pay to governments, who should simultaneously publish audited statements of the revenues they receive. By shining a spotlight on these vast payment flows and allowing potential discrepancies to come to light, the EITI helps deter corruption and mismanagement in resource-rich countries.

F&C encouraged ArcelorMittal to become an active supporter of the EITI, and in particular to help facilitate the Initiative's operational success in the key countries of Liberia and Kazakhstan, where it is a major player.

In addition to raising the issue with the company in one-to-one meetings, F&C also spearheaded a PRI Clearinghouse initiative on the issue that attracted the support of 25 fellow signatories. With the support from these signatories, F&C wrote to ArcelorMittal's CEO, Lakshmi Mittal, to focus his attention on Liberia and Kazakhstan. The response to these efforts arrived in early 2009 with the company's decision to become the 40th company to endorse the Initiative.

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## The Company view: ArcelorMittal

At ArcelorMittal we consider transparency, quality of disclosure and clear communication with shareholders to be among the most important aspects of good corporate governance.

We believe our responsible business practices help create shareholder value, and in November 2008 we held our first roadshow specifically focused on responsible investment. This gave us the opportunity to present, and test, a recently-revised CR strategy to over 30 European fund managers and analysts.

From the roadshow it became apparent that a key issue of concern for a number of investors was the EITI. A particular country of focus was Liberia, which has been devastated by years of civil war and where attracting responsible foreign investment is vital for urgent reconstruction requirements and long-term development. Since May 2007 ArcelorMittal Liberia – the first major foreign investor in the country since the civil war – has been an active member of the local Liberian EITI, and a formal Group-wide commitment was on the horizon. However, an urgency to make a full commitment, or indeed promoting a wide knowledge of the initiative throughout the Group, was at the time not a key priority.

However, a number of investors, particularly F&C Management, were able to articulate why it was important for us to make the further commitment. This feedback gave strength and weight to our internal approach, using this investor dialogue internally to engage and educate senior management on the EITI's importance and value, and ultimately hastening the process of formalising our commitment.

# PRI in emerging markets and developing countries

The PRI in Emerging Markets and Developing Countries Project (PRI in EM) works with investors to encourage better management of ESG issues in these markets in order to both enhance investor returns and drive sustainable development. PRI in EM is funded by the Swedish International Development Agency and managed by UNEP Finance Initiative.

## In Numbers

Growth in PRI Emerging Market signatories since May 08:

by **24%** to 77

Total participants at PRI outreach workshops in nine countries:

**500+**

# Moving into new markets

In the last year, the project has raised awareness about responsible investment with investors across four continents and signed up many new signatories. The project also aims to help PRI signatories to encourage responsible business practices in developing countries.

The PRI in EM team has provided translations of several PRI publications including the PRI brochure, monthly newsletter for signatories and the PRI Reporting and Assessment tool alongside other implementation support.

**“This year, for the first time, the PRI in EM project established PRI country networks in Brazil, South Korea and South Africa.”**

## Going global

### a. Reaching hundreds of investors

Over the course of 2008 and early 2009, the project has focused on emerging markets where there is currently little or no responsible investment awareness or PRI presence.

This year, the PRI in EM Project presented at over 25 responsible investment outreach workshops and mainstream investment conferences in countries including Russia, Austria, Indonesia, Malaysia, Singapore, Thailand, Brazil, Ecuador, Egypt, South Africa and United Arab Emirates. Initial meetings were also held with investors and relevant stakeholders in India, Israel and Turkey ahead of planned workshops there in 2009/2010.

### b. Providing implementation support to signatories

This year, for the first time, the PRI in EM project established PRI country networks in Brazil (see next page), South Korea and South Africa. The goal of these networks is to bring PRI signatories together in these markets to support them with implementing the Principles and address material ESG issues in the local context.

In Korea and Brazil, local network coordinators were recruited to coordinate joint investor activities locally and translate PRI materials.

Number of emerging markets engaged through PRI outreach activities: **13**

PRI signatory implementation networks launched in Brazil, South Korea and South Africa.



**“The EM project has raised awareness about responsible investment with investors across four continents and signed up many new signatories.”**

## Contributing to Clearinghouse activities in emerging markets

A number of Clearinghouse activities have also been supported through the PRI in EM project. Investor collaborations in emerging markets over the last year have included a major engagement with Brazilian companies listed on Bovespa (the Brazilian stock exchange) aimed at eradicating slave labour in Brazil, an engagement on labour rights with construction companies in the Middle East, collaborations regarding forced child labour in Uzbekistan, investor dialogue with companies operating in Sudan, and asking companies to participate in the UN Global Compact.

The Emerging Markets Disclosure Project, which has been supported through the Clearinghouse since 2007, has become a major work stream across four countries. This project brings investors together to engage listed companies in emerging markets to encourage greater systematic disclosure of ESG performance. As part of this project, PRI in EM was involved in developing a survey to assess current ESG practices applied by investors when investing into emerging markets. Results of this survey will be published in mid-2009. In South Africa, there are ongoing engagements with companies that either fell off of or did not qualify for the JSE SRI Index in 2008. In Brazil, a workshop is being organised to bring investors and companies together to discuss corporate sustainability reporting. With the help

of the PRI Clearinghouse, additional investors have joined the EM disclosure project focusing on promoting greater sustainability disclosure by Indian and Russian companies.

Regular emerging market webinars have proved an important tool in encouraging informal collaboration and dialogue on responsible investment in emerging markets. As well as discussing some of the engagements listed above, this year's topics have included integration of ESG issues in emerging markets, active ownership in emerging markets, RI in conflict-afflicted countries, infrastructure investment opportunities in developing countries, and the launch of the pan-African SRI Index. Between 40 and 70 investors from around the world join these webinars each month.

### c. Finding solutions to systemic problems

In April 2009, the PRI Initiative in collaboration with UNEP Finance Initiative officially launched the Universal Owner project (see below) which aims to demonstrate a clear financial and economic rationale for collective shareholder engagement on issues related to economic externalities (i.e. an impact from an economic transaction which affects parties not involved in the transaction itself). The PRI Initiative has appointed Trucost to conduct the first stage of this project with the results due in late 2009.

## Universal owner, universal solutions?

PRI signatories collectively represent more than US\$18 trillion in assets. Given the size of many PRI signatories and the extent of their diversification, returns to these funds (and PRI signatories overall), are more closely correlated with the performance of the economy as a whole than to any particular company or sector. Therefore by investing broadly in capital markets, these funds ultimately internalise both negative and positive externalities that are generated by companies and their ESG practices. This 'universal ownership' combined with the long-term horizons of many investors provides a strong rationale for investors to work

together to improve the performance of the economy (through addressing externalities) as a whole. Indeed this is an important part of fulfilling their obligations to their members, beneficiaries, clients and customers.

The aim of the PRI/UNEP FI Universal Owner project is to explore how the most economically harmful ESG externalities involving corporations can be identified and then reduced through collaborative shareholder engagement by the owners of these corporations. Externalities to be analysed will likely include greenhouse gas emissions, degradation of ecosystem services, pollution and unsustainable resource use.



## Background

Brazil is the world's tenth-largest economy, with the country's 278 pension funds holding combined assets of about US\$185 billion. The PRI Brazil Network was launched in November 2008 in response to strong signatory demand for a local Portuguese language platform. The Network helps Brazilian signatories to put the Principles into practice and collaborate on a range of ESG issues.

PREVI, the largest pension fund in Brazil, has taken a lead in managing this network, which has now created three working groups on 'engagement', 'recruitment' and 'integration'.

## Engagement group

The main focus of this group is to use investor influence to improve the quality of corporate sustainability reporting in Brazil – in particular to engage with those companies that do not report at all or have poor disclosure of ESG performance. The group works closely with the Global Reporting Initiative (GRI) in Brazil. The group also supports engagements on issues such as eliminating slave labour in the supply chain and ESG performance in the construction and agribusiness sectors.

## Integration group

This group works to share methodologies for integrating ESG issues into investment analysis in the Brazilian context. The goal is to create a common methodology for integrating ESG issues into valuations in ways that can be applied by all Brazilian signatories. This process will include the identification and selection of those ESG indicators that are most relevant and material for investors in Brazil.

### The three steps of the PRI/UNEP FI Universal Owner Project

- Step 1:** *Identify and prioritize economic externalities related to corporate behaviour, that, if addressed, could have a positive impact on the economy.*
- Step 2:** *Model the impact of these externalities on a hypothetical, highly diversified portfolio, and demonstrate the financial benefits institutional investors could derive if these externalities were internalised over the long term.*
- Step 3:** *In collaboration with leading practitioners, develop concrete shareholder engagement strategies to act on these externalities.*

# Meeting a local need

## The PRI Brazil Network

### Case study

## Recruitment group

The aim of this group is to promote responsible investment among investors that are not yet PRI signatories. To facilitate recruitment and implementation, the PRI Secretariat is working on overcoming the language barrier by making key PRI materials available in Portuguese. For example, there is now a Portuguese 'sign-up kit', that contains key information about the PRI.

**"The Brazil Network was launched in response to strong signatory demand for a local Portuguese language platform."**

**“The PRI Initiative is supporting signatories in a dialogue on responsible investment in other asset classes, focusing initially on property and private equity.”**



## **In Numbers**

Number of signatories with predominately private equity or venture capital activities:

**29**

# Beyond equities

Many PRI signatories invest across a broad set of asset classes. Consistent with their commitment as PRI signatories, signatories are now looking at applying responsible investment policies beyond their listed equities portfolios into property, private equity, fixed income and even hedge funds.

The PRI Reporting and Assessment process this year revealed the scale of the challenge of applying responsible investment across all asset classes, with a large number of signatories stating they do not yet integrate ESG issues beyond listed equities. While there are now a small number of responsible fixed income and hedge funds products available, just under half of all signatories stated that they do not integrate ESG issues into these asset classes at all at this point.

To help tackle this challenge, the PRI Initiative is supporting signatories in a dialogue on responsible investment in other asset classes, focusing initially on property and private equity. The property work is led by the UNEP FI Property Working Group.

## Providing guidance materials for responsible property investment

The UNEP FI Property Working Group (PWG) and the PRI have continued to collaborate on responsible property investment following the release in early 2008 of a guidance document on implementing the PRI in property portfolios.

Recent PWG work has included an article distributed to all PRI signatories to articulate the key differences between responsible investment in equities and in property. This practical note focuses on factors unique to property as an asset class (such as tenancy rights) and aims to help investors understand the unique discipline of responsible property investing.

In 2009-10, the PWG will release a series of toolkits designed to offer practical guides to help further embed responsible property investing in daily institutional practice. The first toolkit, *Committing and engaging*, was released in the second quarter of 2009. Other projects in the pipeline include a report on tenant engagement strategies and best practice, as well as activities related to global climate change policy.

[www.unpri.org/property](http://www.unpri.org/property)

AUM of PE signatories: **US\$226.78 billion**

AUM of pure-play property fund signatories:

**US\$28.1 billion**

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## Integrating responsible investment principles into private equity

The PRI's private equity steering committee has brought together investors (limited partners), private equity houses (general partners) and trade associations to provide guidance to limited partners and raise awareness on ESG within the general partner community.

A major step-change came in February, when members of the Private Equity Council (PEC) adopted a set of guidelines on responsible investment. The PEC membership includes 13 of the world's largest buy-out groups. The guidelines, which cover environmental, health, safety, labour, governance and social issues, were developed by the PEC after a dialogue with the PRI's private equity steering committee. The PRI committee and PEC will meet twice annually to discuss the guidelines and their implementation.

Other national associations, including the British and Australian venture capital and private equity associations, have now established Responsible Investment working groups. As the sector has recognised the importance of ESG issues to investment and corporate performance, we have also seen a number of high profile private equity firms sign up to the PRI including Kohlberg Kravis Roberts & Co LLP, Abraaj Capital, Cinven, Actis and BC Partners.

In July 2009, the PRI Initiative also published *Responsible Investment in Private Equity: A Guide for Limited Partners* to help PRI signatories apply the Principles to their PE allocations. This toolkit helps Limited Partners to develop their own approaches at both the pre-investment (due diligence and legal documentation) and post-investment stages (monitoring and engagement). Future Reporting and Assessment processes will help the PRI Initiative assess whether this Guide has helped signatories integrate ESG into their private equity investments.

**“A major step-change came in February, when members of the Private Equity Council adopted a set of guidelines on responsible investment.”**

As one of Europe's most established private equity managers, Doughty Hanson has spent the last few years developing the tools and resources to implement our engagement across a range of ESG issues. A significant milestone in our emerging ESG strategy took place in June 2007 when we became one of the first private equity managers to sign up to the PRI.

Our decision to become a signatory was rooted in our belief that the PRI provided a practical framework to help us better understand the full opportunity set for our various responsible investment initiatives. Our interactions with PRI staff and other signatories have helped us across the full spectrum of ESG engagement and were particularly useful when we were developing the text for our ESG policy.

Another tangible benefit of being a signatory has been the annual PRI Reporting and Assessment survey. The online questionnaire may be a little daunting to complete, but it provides an opportunity for Doughty Hanson to perform a comprehensive annual ESG audit, helping us identify the steps we have already taken and, more importantly, the work we still need to carry out to fully integrate responsible investment into our investment analysis and ownership practices.

As part of our commitment to the PRI, Doughty Hanson sit on the PRI's Private Equity Steering Committee which promotes greater awareness of the role of ESG within private equity. The work the committee undertakes provides an invaluable collaborative forum for discussion between asset owners and managers to tailor PRI best practice within a private equity context. The recently published *Responsible Investing in Private Equity: A Guide for Limited Partners* is just one notable example of the type of practical work that the PRI can help produce.

## A view from the private equity industry

Doughty  
Hanson

Case study

**“Our decision to become a signatory was rooted in our belief that the PRI provided a practical framework to help us better understand the full opportunity set for our various responsible investment initiatives.”**

# Further implementation support services

In addition to the three programmes profiled – the Clearinghouse, the PRI in Emerging Markets Project and PRI in other asset classes – there are several other work streams of the PRI that offer support to signatories in their implementation of the Principles.

## PRI in Practice knowledge base

Signatories to the PRI are very diverse – regionally and in terms of investment styles – so there can be no one-size-fits-all approach to implementing the Principles. PRI in Practice provides signatories with a library of high-quality and practical advice on how to integrate ESG issues into their day-to-day business.

With so many potential avenues to explore, the site has not yet covered the whole spectrum of implementation activities across all asset classes. However, it is emerging as one of the world's leading resources on responsible investment implementation and now contains best-practice cases studies, interviews and examples from over 50 signatories. In addition to written documents, the site also features podcasts and videos of signatories speaking about their own experiences in implementing responsible investment. There is also a calendar of responsible investment events.

PRI in Practice is hosted on a password-protected site and is available only to signatories.

## PRI Reporting and Assessment tool

The PRI Reporting and Assessment process is one of the most important activities of the Initiative. It is an annual, online questionnaire that all investor signatories must complete. The responses are analysed and the results sent out individually to each signatory. The tool provides a way for signatories to measure progress against their peers and learn from each other. The process also provides signatories with easy way to report on their responsible investment practices, thereby fulfilling Principle 6.

The Reporting and Assessment process also enables the PRI Secretariat to identify and showcase best practices from within the signatory body, which can then be reflected back through implementation resources. The aggregated results of the assessment are featured in the annual Report on Progress, which is published alongside this document.

This exercise is not without its challenges. Some signatories feel it is too prescriptive, while others feel it should do more to hold signatories to account. The PRI Secretariat, working with the Assessment Working Group and incorporating feedback from many signatories, has attempted to strike a balance by developing what we believe is a useful learning and accountability tool while keeping the reporting burden manageable.

The process was enhanced in 2009 through one-hour verification calls with 100 signatories. These calls are not purely for verification of responses, but are also a chance to discuss emerging responsible investment approaches with signatories, provide general feedback about where things are heading, and identify best practices or interesting challenges that can be featured in PRI in Practice. Ideally, all signatories will have a verification call with PRI staff once every three years.

**For the full Report on Progress 2009 visit [www.unpri.org/report09](http://www.unpri.org/report09)**

## Enhanced Research Portal

Most investment decision-making in the world today relies, to some extent, on sell-side and other specialist research providers. However, the supply of high-quality research on ESG issues, appropriate for mainstream fund managers, remains patchy, particularly in markets that are not as familiar with responsible investment.

The PRI Enhanced Research Portal (ERP) is an attempt to help remedy this problem by broadening the work of the Enhanced Analytics Initiative and taking it to a wider, global audience through the ever-growing PRI signatory base.

For signatories, the ERP will make it easy to find out what ESG research is available in different markets around the world from a variety of providers. For brokers and independent research providers, it provides an opportunity to showcase their research to a greater audience, and therefore, potentially more clients.

The aim of this simple portal is therefore to significantly improve the quality and availability of ESG research. Increased use and demand for ESG research should help drive better investment decisions.

## Small Funds Initiative

Small funds often are very resource-constrained, and this is particularly the case for responsible investment activities. However, it is still possible for small and resource-constrained funds to be responsible investors, particularly where they pool their resources, and work together. The PRI Small Funds Initiative was established to support the needs of these funds, and a dedicated staff member of the PRI Secretariat has been recently allocated to this work stream.

It aims to provide implementation guidance to small fund signatories, to increase their ability to participate in shareholder engagements and to examine the potential for pooling resources to secure cost-effective services (eg voting, engagement, ESG research) that, to date, have only been available to larger funds.

## PRI on YouTube

As of 2009, videos are available of signatories discussing a range of issues around PRI implementation. Seven short videos are currently hosted on the PRI channel and have already garnered over 2,000 viewings.

Visit: [www.youtube.com/unpritube](http://www.youtube.com/unpritube)



PRI on YouTube

## PRI Academic Network

As part of broader efforts to increase knowledge about responsible investment practices, the PRI Academic Network works to strengthen cooperation between signatories and the academic community.

With a membership of 230 academics, investment practitioners and policy makers, the PRI Academic Network represents a diverse array of research interests from around the world. The network aims to provide implementation support to PRI signatories through promoting and funding research and events that generate practical and relevant responsible investment research. The PRI Initiative also contributes to the development of future generations of scholars and practitioners, co-hosting the Young Scholars Finance Academy in partnership with the Swiss-based oikos Foundation.

The first PRI Academic Network conference was held in September 2008 in partnership with the European Centre for Corporate Engagement (ECCE) in Maastricht, Netherlands. PRI signatories and top academics from around the world came together to present research papers focused on responsible investment. The next conference in September 2009 will be co-hosted by Carlton University in Ottawa, Canada. The 2009 conference will be supported by a special edition of an academic journal on responsible investment.

In May 2009, the PRI and the Danish Government's Centre for CSR (CenSa) formed a strategic partnership to develop the PRI Academic Network and further drive practical research on responsible investment. This joint venture will combine efforts and take forward the agenda of the Danish Government's 2008 Princeton Conference on responsible investment. A core component of this will be the funding of research prizes in 2010 for papers of excellence.

# Financial aspects of the Initiative

PRI voluntary contributions were US\$ 1,083,530 in 2008-2009. This reflects the growth in numbers of signatories and a small increase in the proportion who contribute.

Contributions were made by 165 signatories, or 32% of the total, compared with 25% in 2007-2008. We warmly thank those signatories for their continuing financial support of the PRI.

## PRI Voluntary contributions

Year	Amount	Signatories	Signatories contributing
2006-07	US\$ 340,000	181	50
2007-08	US\$ 710,000	331	88
2008-09	US\$ 1,083,530	505	165

The financial crisis did not appear to affect signatory contributions in the 2008-2009 financial year, as most contributions came in before October 2008. It is too early to assess the impacts of the crisis on 2009-2010 but early signs are reassuring.

Long-term budgeting within the context of voluntary contributions is challenging. For this reason, we have used conservative projections of income to plan our expenditure. We have also sought to build up a financial reserve as quickly as possible, to provide a buffer to protect the initiative from unforeseen events. Our long-term policy is to maintain a reserve which will provide sufficient funding for six months operations.

Continued growth in contributions, backed by our reserves, has given us the confidence to carefully expand operations and hire extra people including two Clearinghouse staff, a communications manager and a number of other project and support staff.

The 2008-2009 budget was based on expected income of US\$775,000. Our year end expenditure totalled US\$654,348. About 15% of the originally-planned expenditure has been carried over to 2009-2010.



Income and expenditure summary			
		Actual <sup>1</sup> 2008/09	Budgeted 2009/10
<b>Income</b>	Voluntary contributions	1,083,530	1,077,000
	Grants	40,042	196,416
	Event income	68,568	65,625
	Interest	3,934	2,925
	<b>Total income</b>	<b>1,196,074</b>	<b>1,341,966</b>
<b>Expenditure</b>	Management and overheads	328,435	643,295
	Implementation support <sup>2</sup>	151,568	717,536
	Signatory relations	15,154	188,960
	Recruitment	159,191	177,432
	<b>Total expenditure</b>	<b>654,348</b>	<b>1,727,223</b>
Contingency <sup>3</sup>	259,084		
Forecast total expenditure	1,986,308		
<b>Surplus/(deficit) for the year</b>		<b>541,726</b>	<b>(644,342)</b>
<b>Reserves</b>	Opening	541,079	1,082,805
	<b>Closing</b>	<b>1,082,805</b>	<b>438,491</b>

## Notes

1 Still subject to audit

2 Includes clearinghouse, PRI in Practice, the workstreams

3 Budgeted at 15% of expenditure

## 2009-10

The main challenges ahead include financing the expanding work programme, securing long-term financial security, and managing currency exposures. Our strong reserves policy means we are in a good position to weather any difficulties arising from the current financial crisis and can continue to expand the work programme.

We are projecting a substantial deficit of US\$644,314 for 2009-2010. This is due to our decision to invest in the 2009-2010 expansion of the work programme as part of the PRI five-year strategy. We can fund that by drawing on previously built-up reserves. We will be monitoring this

closely and maintaining a healthy level of reserves (budgeted at US\$438,491) going forward which is in line with the initiative's reserves policy. We will, of course, slow down expansion if the financial position of the initiative is not as strong as projected.

We will be focusing on delivering high-quality implementation support services to signatories. In particular, this means a stronger direct focus on implementation support, including the Clearinghouse, PRI in Practice, and other work streams, which will account for 42% of our planned expenditure. It also allows us to increase our activity in signatory relations and dedicated IT tools.

# Looking ahead

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The PRI Initiative is uniquely positioned to make a huge impact in the investment industry globally in the future, thanks to the backing it has from a large number of mainstream institutional asset owners and managers, and the legitimacy that comes with its United Nations support. But the potential of the PRI Initiative as a real driver of change within the industry globally and across all asset classes has yet to be fully realised. There are still many areas of the world, and many parts of the investment industry generally, that are yet to take up the responsible investment challenge.

In early 2009, the PRI Board and Secretariat set out to develop a vision for the PRI Initiative over the next five years to take the Initiative to a new level of professionalism, service and coverage. It is proposed that the Initiative become the global hub of responsible investment collaboration, best practice, capacity building and outreach, seeking to cover – with concrete implementation support – all regions with established capital markets, and the gamut of asset classes and responsible investment approaches. Where appropriate, this expansion would be done in collaboration with partner organisations, particularly those with local knowledge.

It will have an in-house ESG think tank supporting the Clearinghouse, and provide a network for investment professionals, economists, service providers and issue specialists to identify the most important ESG issues, and then develop concrete collaborative investor activities to address them. It will have comprehensive implementation resources to help investors integrate ESG issues into all relevant areas of their portfolios. The focus will remain on higher-level, systemic issues such as universal owner issues, which no individual company can make a strong business case to address.

The PRI will also provide a platform for investor engagement with the public policy community, with the establishment of the Public Policy Network, a group of public policy makers who recognise the potential for investors to contribute to public policy goals.

There will be a greater emphasis on Principle 6, and the transparency of signatories' responsible investment activities. The Reporting and Assessment process is also a key priority, as it is the main tool for understanding and responding to the needs of signatories, identifying best practices, and developing training materials based on signatories' needs. This process also underpins the credibility and legitimacy of the Initiative and will ensure that the PRI remains an initiative that signatories are proud to be associated with.

In summary, we expect significant growth of the PRI Initiative in coming years, and look forward to providing an increasing variety and quality of implementation support activities across a much wider set of responsible investment approaches.

# To sign up...

If your organisation would like to become a signatory then please visit [www.unpri.org/sign](http://www.unpri.org/sign) or email [info@unpri.org](mailto:info@unpri.org) for further information.

A letter signed by a CEO or equivalent is needed that contains the following:

- A statement confirming your organisation's approval of the Principles, reasons for your decision and the expectations you have from becoming a PRI signatory
- For asset owners and investment managers, a commitment to take part in the PRI's annual Reporting and Assessment process.
- A description of your organisation, approximate assets under management and the category of signatory applicable.
- Full contact details of your main PRI contact.

## Our UN partners

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique public-private partnership between UNEP and the global financial sector. UNEP works with over 170 banks, insurers and investment firms, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through its comprehensive work programme encompassing research, training, events and regional activities, 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](http://www.unepfi.org)

### UN Global Compact

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance ten universal principles in the areas of human rights, labour, environment and anti-corruption. Through the power of collective action, the Global Compact seeks to mainstream these ten principles in business activities around the world and to catalyze actions in support of broader UN goals. With more than 5,200 participating businesses from over 130 countries, it is the world's largest voluntary corporate sustainability initiative.

More at: [www.unglobalcompact.org](http://www.unglobalcompact.org)

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Designed by sherry



**UNEP Finance Initiative**  
Innovative financing for sustainability

