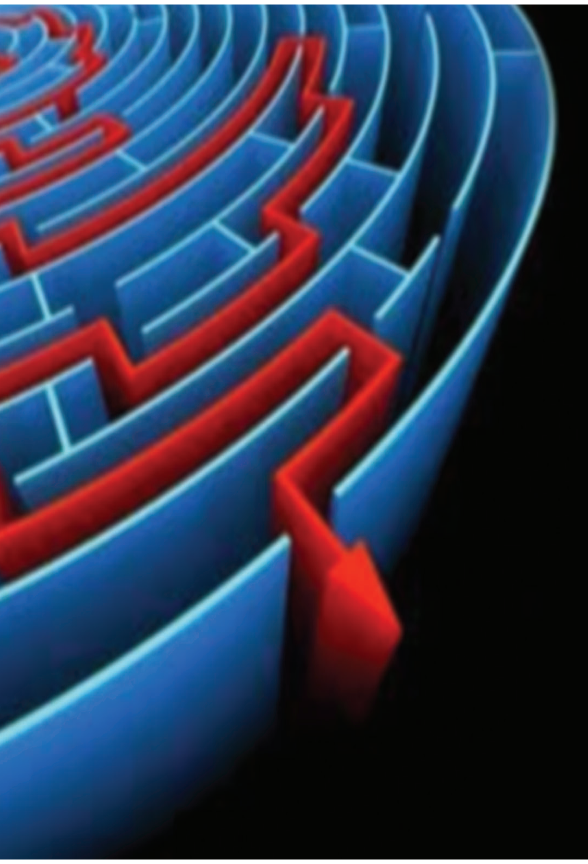
PRI
Principles
for Responsible
Investment

An investor initiative in partnership with
UNEP FI and the UN Global Compact



Implementation of the PRI by small and resource constrained investors

Case studies

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THE GLOBAL COMPACT

UNEP Finance Initiative
Innovative financing for sustainability

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The Principles for Responsible Investment were launched by the UN Secretary-General at the New York Stock Exchange in April 2006. The six Principles 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.

Contributions

The PRI Secretariat is grateful to the following people for their contributions to this compendium:

Michael Bentley (Northward Capital), Laura Campos (The Nathan Cummings Foundation), Daniela Carosio (Etica SGR), David Couldridge (Element Investment Managers), Gunnela Hahn (Church of Sweden), Jean Laville (Ethos Foundation), Magdalena Lönnroth (The Central Church Fund of Finland), Tim Macready (Christian Super), François Meloche (Bâtirente), Anne-Maree O'Connor (New Zealand Superannuation Fund), Arti Prasad-Naidu (New Zealand Superannuation Fund), Suzanne Ridding (StatewideSuper),Daniel Simard (Bâtirente), Jay Youngdahl (Middletown Works).

Project lead: Kjersti Aalbu, Implementation Support Manager, PRI Secretariat.

Edited by: Kjersti Aalbu, Anastasia Guha and Katie Swanston.

Introduction
James Gifford, Executive Director, PRI

The following report presents ten case studies that demonstrate how small and resource-constrained asset owner and investment manager signatories are implementing the Principles for Responsible Investment.

“These case studies will show you how small funds have implemented each of the six Principles.”

Small funds, as defined by the PRI, are those with US$ 2 billion or less in assets under management (AUM). They represent 35 per cent of the PRI signatory base and so play a crucial role in mainstreaming responsible investment practices. A work stream has been established to support implementation of the PRI among small fund signatories on the basis that many are resource-constrained and do not have the same internal capacity as larger signatories to undertake responsible investment practices.

This report shows that a lack of size and resources is not an insurmountable obstacle to implementing the Principles. These case studies will show you how PRI's small funds have found ways to implement each of the six Principles. We are grateful to all the signatories who contributed to this report. We hope it provides an insight into what innovative small and resource-constrained signatories are currently doing to implement the Principles and that it will inspire other small fund signatories to expand their responsible investment activities.

James Gifford
Executive Director, PRI

Implementation of the Principles by small and resource-constrained signatories

An overview

Understanding the main characteristics of small and resource-constrained signatories and how they are implementing the Principles is key to creating implementation support tools that are relevant to this group of signatories.

PRI's small fund signatories are a diverse group that includes pension funds, foundations and endowments, mainstream investment managers and themed fund managers. The PRI Secretariat conducts an annual analysis of the implementation of the Principles by this group based on responses to the Reporting and Assessment survey. Through this analysis we have found some key characteristics of small fund signatories:

- They are largely mainstream investment managers and pension funds
- Small investment managers use internal staff for active ownership activities
- Small asset owners tend to outsource asset management and active ownership activities
- ESG integration is more advanced in listed equities than other asset classes
- Only 22 per cent of small signatories have a dedicated RI/ESG specialist within the organisation, compared to 78 per cent of larger signatories
- They have significantly lower levels of disclosure (Principle 6) compared to larger signatories.

Small fund signatories behave and perform similarly or better compared to large funds in some areas of implementation, for example on ESG integration in listed equities. However in other areas, such as reporting, small funds under perform. The paragraphs below provide a snapshot of how small fund signatories as a group are implementing each of the Principles. For a more detailed analysis, please see the Small Funds Assessment Analysis.

Principle 1

ESG integration in small funds that are actively managed by internal staff varies widely across asset classes. Like larger signatories, listed equity is the main asset class in which integration of RI/ESG issues in investment decision-making processes takes place. Small investment managers integrate RI/ESG issues in 84 per cent of listed equity investments. The corresponding figure for large investment managers is 73 per cent. However the few small asset owners that do manage listed equity investments internally integrate RI/ESG issues in 93 per cent of their listed equities.

Small investment managers integrate RI/ESG in a larger portion of their fixed income investments compared to larger investment managers. Small asset owners, on the other hand, report that they are not integrating RI/ESG issues into asset classes other than listed equity.

Principle 2

Small investment managers are similar to larger investment managers in how they organise their voting activities: internal staff make and implement the majority of voting decisions. The picture is quite different for small asset owners, where 69 per cent responded that external managers and service providers are the most important voting decision-makers. In larger asset owners the figure is closer to 50 per cent. However, 17 per cent of small funds do not monitor whether their votes are cast in accordance with their policy, and 19 per cent stated they monitor only to a small extent. The majority of investment managers use internal staff to engage with companies, while most asset owners outsource engagement activities to external managers or providers.

Principle 3

Internal staff at small funds, like their larger counterparts, are more likely to ask investee companies to disclose their ESG policies, practices and performance. Seventy per cent of small funds use internal staff to request and collect ESG information, compared to 78 per cent of large funds.

Principle 4

For signatories that have most of their assets managed by external investment managers, it is important to ensure that managers have ESG capabilities. This can be achieved by including RI/ESG requirements in contractual agreements with external investment managers. In this regard small funds perform better than large funds, with 40 per cent of small funds referencing ESG issues in all contracts with investment managers, and 30 per cent for some contractual agreements. Corresponding figures for large funds are 30 per cent and 34 per cent respectively.

Principle 5

Collaboration with other investors can help small funds implement responsible investment activities. This is because collaboration reduces costs and man hours while increasing the ability to influence investee companies. By collaborating, investors can pool resources and learn best practice from their peers. Yet only 31 per cent of small funds responded that they collaborate to a large extent with other investors, compared to 38 per cent of large funds. Fourteen per cent of small funds responded that they do not collaborate.

Of the small funds that do collaborate, 42 per cent responded they collaborate most on Principle 1. This may involve collaborating on developing ESG-related tools and metrics. Surprisingly, only 26 per cent of small funds responded that they collaborate most on Principle 2 where options for working together include joining collaborative engagement initiatives, or participating in the development of policy, regulation and standard-setting related to active ownership.

Principle 6

Reporting is a time-consuming activity and it is not surprising that the mean score on Principle 6 for small funds is lower than larger funds: 46 per cent for small funds and 60 per cent for larger funds. However, some small funds are now disclosing all or some of their responsible investment policies and activities in detail. While 42 per cent of small funds publicly disclosed their voting policy in 2009, only 27 per cent publicly disclosed their voting record. The corresponding figures for larger funds were 60 per cent and 55 per cent. Only 31 per cent of small funds disclosed their active ownership and engagement policies publicly, and 23 per cent disclosed non-voting RI/ESG issue-related active ownership and engagement activities, results and progress.

It is clear that resource constraints can be an obstacle for small signatories trying to implement the PRI. Few small signatories have dedicated in-house RI/ESG specialists, making it difficult to develop and implement responsible investment policies and find the time to monitor and report on activities.

However, a significant number of small funds, despite their reduced resources, are showing real innovation in implementing the Principles. The nine case studies that follow highlight some of these examples. All case studies include key takeaways providing a practical resource for other signatories.

Christian Super

Principle 1: Getting more ESG research for less

Signatory type: Superannuation fund

Country: Australia

Established: 1989

AUM: US$630 million

Christian Super is an Australian superannuation fund. It uses ESG research in its investment decisions for two main reasons. First, it believes that understanding ESG issues is a vital component of long-term risk mitigation. Second, the Fund has a mandate to put its members' values into its portfolio. ESG analysis enables it to fulfil this obligation. This case study examines how Christian Super assesses and manages its research needs.

Managing research needs

After Christian Super joined the PRI in 2006, the fund decided to develop a more active corporate engagement programme and move beyond negative screening to ESG integration. Due to its small size, Christian Super felt it could not change company behaviour solely through decisions on investing or divesting. This created a need for more ESG research. However, given the limited resources at Christian Super, staff required specific information that was relevant and easy to understand.

Negotiating with service providers

Christian Super had previously used GES Investment Services (GES) for its exclusion criteria. With its new approach, the fund now needed assessments on which companies are managing ESG risks and opportunities well and which are lagging. Christian Super's total ESG research and responsible investing budget is three basis points (0.03 per cent of fund size). The fund presented GES with its budget and asked, 'what can we get for this?' The fund operates within a competitive and somewhat fee-sensitive superannuation environment within Australia, but sees the incorporation of members' values into the fund's investments as critical for the fund's ongoing competitive advantage. This budget covers:

- Independent ethical advice and production of ethical research papers
- ESG research (domestic and international)
- Membership subscriptions (PRI, Investor Group on Climate Change, etc.)
- Internal research and analysis resources.

Christian Super
adding values to money

"You do not need a US$ 1 million research budget to get results."

Tim Macready (CIO)
Christian Super

GES provided Christian Super with data to show how it could meet the fund's needs. For example, stem cell research is a contentious topic, but what concerned Christian Super was whether GES data was able to provide clear information about the types of medical research conducted and whether they fit with its investment values. Normally, an annual fixed fee is charged in this situation, but seeing the long-term potential of this client relationship GES decided to settle on a basis point fee.

Creating a policy together through workshops with a research provider is one way to create custom-made solutions like this. These two-way workshops can help both sides understand the scope of the brief, issues that need to be addressed, and the motivation for commissioning research such as brand or financial performance. For smaller organisations, taking small steps and undertaking evaluations on an annual basis may be necessary.

Key takeaways

Christian Super believes that all investors, regardless of size, should be encouraged to take ESG factors into account in their investment decision-making and understand the methods for integrating them. ESG issues are part of fundamental investment decision-making and should not be considered an additional cost. Instead, it represents an opportunity to add value to the portfolio. Solutions that are both effective and inexpensive do exist and Christian Super would assert that you do not need a US$ 1 million budget to get results. However, it is important to know what you want. You need to be clear why you want to consider ESG issues. Is it for alpha or is it for ethical reasons? From this, you can establish your research needs. The fact that Christian Super has specific values made it easier for GES because the objectives of the fund are clear, enabling GES to be more effective and therefore cheaper.

More information:
www.christiansuper.com.au

Northward Capital
Principle 1: Incorporating ESG factors into the assessment of a stock

Signatory type: Mainstream investment manager

Country: Australia

Established: 2007

AUM: US$3.0 billion

Northward Capital is a small investment manager focused on Australian listed equities. ESG issues form a central part of Northward Capital's investment process. Northward Capital considers ESG issues as key indicators of a company's management and its investment potential. ESG factors are included with the firm's portfolio valuation system and form part of the overall valuation metrics of a company's rating. This case study shows you how you can build an effective ESG valuation system that can be used in conjunction with financial research to make better investment decisions.

Building an ESG database

Building an ESG database, which includes ESG analysis of all the top ASX 100 companies plus other companies in Northward Capital's investment universe, was a key step in formalising integration of ESG issues within the firm's investment process. The database has been a work in progress, evolving from an excel spreadsheet to being fully incorporated in Northward Capital's investment and valuation processes.

Northward Capital populated its database with information gained from an ESG survey, along with its own additional research. The information in the database is divided into four parts: environmental, social, governance, and a summary section. Each ESG component is broken down into a variety of relevant assessment criteria. Additionally, detailed commentary on the most salient E, S, and G factors with the potential to affect a company's valuation is also included.

NORTHWARD CAPITAL

The portfolio managers use this information to assess each company they follow and give them an E, S, and G score. They also make an overall assessment of the investment potential of a company including its ESG rating. Each portfolio manager is responsible for evaluating the ESG issues for the companies they follow and updating the database accordingly.

The ESG database is also included in the firm's portfolio management systems. This means that the ESG assessment derived through the information in the database is now integrated within the valuations and market information systems that fund managers use to manage their portfolios.

Incorporating ESG in stock assessment: A quick step-by-step guide

When a portfolio manager at Northward Capital wants to invest in a new stock, he or she writes up an investment thesis that is then reviewed by the Chief Investment Officer and the Chief Executive Officer. The investment thesis includes, among other aspects, what the company does, what its main earning streams are, its financial position and forecasts, a review of management, a review of the industry sector, and the portfolio manager's valuation of the stock. It also includes an assessment of ESG issues. These are all integral to the final investment decision on the stock. Within this, there are often ESG factors that are considered to have a real impact on the risk and return outcomes for a company. ESG issues can also contribute to the team's assessment of the quality of a company's management.

> *“ESG has now been incorporated into how our portfolio managers are thinking about companies.”*
>
> Michael Bentley, Sector Portfolio Manager
> *Northward Capital*

The financial and ESG information is gathered from:

- Public information – such as annual reports, sustainability reports, company releases etc.
- Broker research – Northward Capital has been very involved in encouraging better ESG research from brokers through ESG Research Australia
- Company management – senior management is readily accessible in smaller companies making them a key source of material information.

It is important to note that ESG issues vary in importance across sectors and companies. For example, environmental and social issues can be vital to mining companies’ license to operate. Additionally, the health and safety of employees and the wellbeing of their local communities are top priorities in the management of any mining operation. However, these issues will not have as great an impact on the valuation for Australian banks. This sector faces issues such as reputational risk, stakeholder relations and appropriate board structures.

Key takeaways

- Use ESG as an indicator of management quality and risk. Think about how these issues can affect the valuation of a company.
- Think through your investment process and see whether you already incorporate ESG issues in some way. It may be that you are already analysing a range of ESG issues but have yet to formalise this process.
- Make sure you and your clients have a good understanding of ESG issues. You can do a lot of on-the-job training and you can learn a lot from publicly available information and the staff of the companies you are engaging with.
- Recognise that some ESG risks are more appropriate to some sectors. Ensure this is captured in your analysis.

More information:
www.northwardcapital.com

Bâtirente
Principle 2: Being an active owner with limited resources

Signatory type: Pension fund

Country: Canada

Established: 1987

AUM: US$850 million

Principle two encourages signatories to be active owners, to vote in an informed way at company meetings or on boards and engage with investee companies in order to improve corporate ESG performance. These activities can be undertaken internally, or be outsourced to third parties. Comité syndical national de retraite Bâtirente (Bâtirente), a small labour-sponsored retirement system, organises its active ownership activities internally, led by one staff member who devotes approximately 75 per cent of his time to engagement activities. This case study examines Bâtirente's engagement process and provides advice to other investors who are interested in developing their own in-house engagement programme.

Engagement process and methodology

Bâtirente believes that by engaging on ESG issues, investors can mitigate extra-financial risks and enhance the financial profile of their portfolio. It categorises engagements into three groups: basic, moderate, and extended. Over the last year, Bâtirente has conducted engagements with over 90 companies and communicated over 120 recommendations, focused on community relations, human rights, climate change, diversity and ESG disclosure. These engagements have been going well and as a result Bâtirente filed a shareholder proposal at only one corporation this year.

Bâtirente performs an ESG analysis of its portfolio on an annual basis to identify potential engagement targets. Companies with significant extra-financial risks are prioritised. Bâtirente focuses its engagement with Canadian corporations because of proximity and capacity to influence. It also monitors emerging ESG issues and attempts to incorporate them in its engagement program.

Each engagement is planned carefully. Bâtirente usually begins by sending a letter to investor relations requesting a meeting to discuss the concerns with appropriate staff at the company. Ideally, this meeting would happen in person but more often it takes place over a conference call. The goal at this stage is to voice concern, establish a relationship and test the response to various recommendations for improving the management of the identified extra-financial risks. Bâtirente's experience is that patience is usually rewarded. Shareholder proposals are only used as a last resort when companies prove unresponsive. Bâtirente informs its external money managers of the outcomes of its engagements so that they can factor this information into their investment decisions.

Collaborative engagements with other investors

Approximately a third of Bâtirente's engagements are undertaken in collaboration with other investors. It participates in and leads collaborative engagements, such as the Indigenous rights collaborative initiative through the PRI Clearinghouse. Bâtirente also communicates with some NGOs through multi-stakeholder initiatives or directly when relevant to a particular company.

> *"The size of a fund does not prevent the running of effective engagements. The key is to identify the right companies to engage with."*

François Meloche (Extra-Financial Risk Manager) to the right and Daniel Simard (General Coordinator), *Bâtirente*

In shareholder engagements, it values partnering with other investors to share tasks, resources, skills and expertise as well as to improve chances of a successful outcome. Collaboration also allows the fund to reach more companies and reduce costs.

The cost of engagement

There are many different types of engagements. Some engagements will require direct meetings with companies and in some cases visits to company operations. For example, a successful dialogue with a Canadian energy company has required extensive research, commenting on draft papers and policies and meetings. Other engagements have simply involved commenting on and adding a signature to an investor letter.

The most significant cost of engagement is staff time. The engagement budget also includes research, membership in responsible investment organisations, conferences, travel expenses and proxy voting, but these are relatively small compared with staff costs. It is difficult to put a price on a typical engagement as they do not all have the same scope and Bâtirente does not currently put a price or time limit on each individual engagement. In total Bâtirente estimates that its engagement activities cost less than two basis points (US$ 0.15 million). This can be reduced through collaboration and in particular, through using the Clearinghouse.

Key takeaways

For investors interested in doing engagements in-house, Bâtirente recommends the following:

- Map out the resources you currently have.
- Create a policy and make an annual engagement program.
- Work with investor networks, especially the PRI Clearinghouse.
- Set realistic but ambitious demands and goals. Always remain focused on them.
- Be careful to track and manage all communications with companies and information.
- Measure your results and adjust your strategies.
- Do your own research and do not just rely on service providers.

More information:
www.batirente.qc.ca

Ethos
Principle 2: Reducing the cost and time commitment of engagement

Signatory type: Service provider

Country: Switzerland

Established: 2004

Number of EEP members: 63

Average AUM of EEP members: 1.5 billion Swiss Francs (US$1.5 billion)

Background

Ethos was created by two Swiss pension funds in 1997 to promote environmental, social and corporate governance issues in investment activities, and now has 113 institutional investor members. Ethos Foundation owns Ethos Services, an investment management and consulting firm. In addition to organising engagements for the Ethos Engagement Pool, Ethos Services provides asset management and proxy voting services.

The Ethos Engagement Pool (EEP)

The EEP is a written contract between 63 pension funds, giving Ethos Services a mandate to organise engagements with companies on behalf of members. The pool represents 100 billion Swiss Francs (US$ 100 billion), about 20 per cent of total Swiss pension fund assets. Two-thirds of the members are private pension funds while one-third are public pension funds.

The majority of EEP members are small and do not have the resources to employ in-house engagement practitioners. EEP allows pension funds to join forces and strengthen their engagement abilities with investee companies while sharing engagement costs.

EEP members have different amounts invested in Swiss equities. To ensure equal contributions, members pay 0.4 basis points of their Swiss equity ownership into the pool, with 2,500 Swiss Francs the minimum fee. A fund with 1.5 billion in Swiss equities will pay 60,000 Swiss Francs to the pool.

EEP in practice

Engagements undertaken by Ethos on behalf of EEP members focus on the 100 largest Swiss listed companies. EEP members and Ethos meet annually to discuss the group's strategy and decide which companies and engagement issues to focus on. At this meeting, members also make decisions on budget needs and allocation, and debate the progress of ongoing engagements. Rather than reacting to individual company incidents, engagements focus on larger, more systemic issues. Governance issues are a significant focus, with remuneration being one of the most important issues in 2011.

Engagements are undertaken only if EEP is able to define an indicator of progress. All engagement themes are linked to a specific indicator in order to measure the impact of engagement efforts as they progress.

Examples of successful engagements

- Election of individual board members. In 2004, only 20 per cent of the 100 Swiss companies in EEPs selected universe permitted shareholders to participate in the election of individual board members. This became an engagement theme for EEP and by 2009, 87 per cent of companies elected board members individually.

“The Ethos Engagement Pool allows pension funds to join forces and strengthen their engagement abilities with investee companies whilst sharing engagement costs.”

Jean Laville (Deputy Managing Director)
Ethos Foundation

- Code of conduct. In 2006, only 42 per cent of companies had a publicly available code of conduct. Ethos carried out a study on what constitutes best practice in this area. For Ethos, a code of conduct should cover provisions regarding business ethics, as well as social and environmental corporate responsibility. Ethos defined its expectations and made this information available to companies. Ethos received a significant amount of feedback from companies, who said the study was instrumental in pushing them to adopt or amend their code of conduct. Today, approximately 70 per cent of companies disclose their code of conduct.

Reporting on engagement activities

EEP aims to be transparent about the progress and methodology of its engagements towards its members. An annual report is published after each annual meeting. Furthermore, the website hosts studies and reports on specific engagement themes. However, the details of dialogues with specific companies are not disclosed in order to protect corporate relationships.

Key takeaways

When looking at the successes and challenges of Ethos and the EEP, here are some lessons on setting up a similar engagement platform:

- Be proactive when selecting engagement themes and work on a targeted universe of companies, rather than being ad hoc and reactive. If there is too much ‘name and shame’ on one company, it will not be sustainable.
- Be patient. Engagements can take a long time to achieve any progress. The EEP has worked on some themes for more than six years.

More information:
www.ethosfund.ch

Element Investment Managers

Principle 3: Requesting and using ESG information from investee companies

Signatory type: Mainstream investment manager

Country: South Africa

Established: 1998

AUM: US$3.12 billion

For Element Investment Managers, Principle 3 lies at the core of responsible investment. In order to integrate ESG issues in investment decisions and be active owners, investors need companies to provide data on ESG performance, impacts, risks and opportunities. This case study examines how Element Investment Managers requests ESG information from investee companies and how this information is subsequently used in the investment process.

Requesting company ESG disclosure

As a long-term investor, Element Investment Managers believes it is important to fully understand the risks and opportunities of the companies in which it invests. Responsible investment tools can help you get the range of information you need for more accurate valuation and a better understanding of investee companies. This, in turn, leads to better investment decisions, reducing risk and increasing value for clients.

Element Investment Managers seeks ESG disclosure from companies in three main ways:

- **Collaborative initiatives.** The PRI Clearinghouse (CH) has been useful in bringing to attention collaborative initiatives that can help improve information that is available to investors. For example, Element became aware of the Emerging Markets Disclosure Project through the CH. This initiative has pushed for improved ESG disclosure in South Africa and other emerging markets. Element is also involved with the Carbon Disclosure Project as it believes that requesting climate information will help it get a better understanding of investee companies and wider climate risks. Finally, being heavily invested in South African equities, Element is active in the Water Disclosure Project to encourage better information on company water usage and management.
- **Direct engagement with companies.** Element Investment Managers engages directly with a number of South African companies on their ESG practices and disclosure. Engagements bring investors in contact with executives, the board, shareholders, and other stakeholders. Through this process Element gets better and additional information that can change their earlier views on a company.
- **Allocating a significant portion of brokerage to sell side analysts based on their ESG research.** Element Investment Managers encourages sell side analysts to increase their coverage of ESG issues and to integrate this into their research. Ensuring brokers receive payment for their research supports this process.

Element Investment Managers is also an active participant in the PRI South Africa Network. This local PRI network has, amongst other things, participated in developing the Draft Code for Responsible Investing by Institutional Investors in South Africa. The code requires institutional investors to integrate ESG issues in their investments, be active owners, request ESG disclosure by investee companies and disclose their own RI activities.

> *Information is at the heart of everything we do.*
>
> David Couldridge
> (Investment Analyst)
> *Element Investment Managers*

Element believes all these efforts are needed to improve company ESG disclosure. The best information usually comes from direct engagements with companies, yet systemic, collaborative engagements are needed to push for the availability of better ESG information over time.

Using the information collected in the investment process

Responsible investment is fully integrated into Element's business model and investment team. All analysts are required to consider ESG issues when they value a potential new investee company, or when they update the valuation of a company in which they are already invested. When Element engages with a company on ESG issues, both the CIO and the analyst responsible for that company are involved. This ensures that the knowledge about ESG issues gained through the engagement is considered in the stock assessment process.

Key takeaways

Element Investment Managers provides the following advice for other investors looking for better ESG information: Really understand the investment environment you are in and collaborate with those you can. If you are at an early stage of responsible investment implementation, spend some time getting to know your investment environment and who the active investors are. Make sure you fully understand any local regulation that covers investor collaboration such as 'acting in concert' issues.

- If you do not have a local PRI network, work towards starting one. Find out who the other PRI signatories are and have a coffee with them. You can start with an informal network, and then eventually put governance structures in place. The PRI is there to support new local networks.
- Use all the tools that are available to you. For example, ensure you know what is going on at the PRI Clearinghouse and participate in collaborative initiatives.
- Size should not stop you from engaging and working with companies to improve their practices and disclosure.

More information:
www.elementim.co.za

StatewideSuper
Principle 4: Engaging with investment consultants to build ESG into manager searches

Signatory type: Superannuation fund

Country: Australia

Established: 1986

AUM: US$2.2 billion

StatewideSuper is a small Australian superannuation fund with a large portion of its assets invested in pooled trusts and other collective investment vehicles. To ensure StatewideSuper can implement its ESG investment policy, it is important for the fund to select a majority of investment managers that are able and willing to integrate ESG issues into their investment process where applicable. A part of this process is communicating ESG expectations to the investment consultancy that assists StatewideSuper with the search and selection of investment managers. Last year, StatewideSuper's investment consultant contract came up for renewal, providing an opportunity for the fund to hire a consultancy that it could work with to include ESG issues in manager searches. This case study outlines the process StatewideSuper went through to find its consultant. It also highlights how it worked with the new consultant to include ESG issues in the manager search process and in investment management agreements (IMAs).

Including ESG capabilities in the consultant search

ESG capabilities were a consideration in StatewideSuper's search for a new investment consultant. The fund included an ESG question in the request for proposal (RFP) allowing consultants to provide as much information as they wanted to. This is how the question was framed:

> *Describe your firm's policy with respect to 'ESG' matters. Please also provide an overview of how ESG considerations are integrated into your process.*

The second stage involved evaluating the responses from different firms to arrive at a shortlist. Face-to-face discussions were then held with the shortlisted consultants to better assess their approach, skills and various other factors including their willingness and capacity to work with StatewideSuper on ESG.

Working together with the consultant

Once the decision about who to hire had been approved by the trustee and agreements were in place, StatewideSuper worked with the new consultants to develop a framework for assessing the ESG philosophies and approaches of new investment managers. In response to client needs, the consultants had recently engaged a person to help them integrate ESG into their business and had begun developing internal frameworks including training staff. At this stage the consulting firm had not previously been actively involved in the evaluation of managers from an ESG perspective specifically, instead leaving this aspect of evaluating suitability to its asset owner clients.

Initially StatewideSuper built a relationship with the consultant's dedicated ESG professional and they worked closely together to develop an ESG question for inclusion in the manager RFP. The following (consciously open-ended) text was included in the main body of the RFP under 'Investment Process':

Describe your firm's philosophy with respect to Environmental, Social and Governance 'ESG' considerations and investment performance. How is E, S and/or G incorporated into your stock selection and portfolio construction processes? Please include specific examples of any E, S and/or G information regularly collected from companies (or sourced via responsible investment service providers). Over the last 12-month period, have E, S and/or G factors influenced or impacted investment decisions or actions? If so, please provide brief examples.

During initial discussions on the manager evaluation process, the consultant was reluctant to assess and grade potential managers based on their ESG approaches. This was mainly due to a lack of a grading framework that could be applied, and the fact that individual clients had differing requirements. After a period of dialogue with the consultants, StatewideSuper developed its own basic scoring system for investment managers and shared this with the consultants. The consultants then agreed to adopt this framework for the impending StatewideSuper manager search and evaluation.

Outcomes

1. StatewideSuper's investment consultants now include ESG criteria in all manager RFPs issued on its behalf.
2. The manager selection process culminated in engaging two PRI signatories to manage some of StatewideSuper's Australian equities (although this was not a prerequisite).
3. The investment management agreements (IMAs) for the newly appointed managers include ESG clauses as follows:

Consideration of Trustee's ESG (environmental, social and governance) policy

The Trustee has adopted an ESG Investment Policy. A copy of this policy will be supplied to the manager on commencement of this Agreement and upon the Trustee amending the policy as it may do from time to time. The Manager must have regard to, and use its best endeavours to act consistently with, the Trustee's ESG Investment Policy and the United Nations Principles for Responsible Investment ("UN PRI") of which the Trustee is a signatory.

ESG Reports

The Trustee expects the Manager to assist it to meet its obligations under the UN PRI which may include the provision of periodic reporting, research or information.

> *"It is key to work together with your consultants to develop the ESG services you need."*

Suzanne Ridding (Sustainability Manager)
StatewideSuper

The IMA also includes specific requirements for annual reporting on proxy voting.

These clauses were developed based on guidelines from the Australian Council of Superannuation Investors (ACSI). A group of Australian PRI signatories are in dialogue with the Financial Services Council to have ESG clauses incorporated into the standard template for IMAs.

Key takeaways

Key lessons learned from StatewideSuper's experience:

- Work with the consultancy to develop the services you need. Find key people within the consultancy firm that have an interest and responsibility in what you want to do and willingness to collaborate.
- Perseverance is needed. Processes like this take time.
- Do not reinvent. Wherever possible, use existing guidelines and speak with peers to learn from each other.
- AUM and staff size did not make a difference in the process outlined above. The process was run by one part-time employee who spends two days a week on responsible investment activities and one ESG consultant that works for StatewideSuper a few hours per month.

More information:
www.statewide.com.au

Church of Sweden

Principle 5: Creating mutual funds with responsible investment criteria

Signatory type: Endowment

Country: Sweden

AUM: US$800 million

In 2006 the Church of Sweden set up a Swedish equity fund and a fixed income fund together with its investment manager. These funds, named Ethos, adhere to the Church's responsible investment guidelines and are open to investments from parishes and dioceses around Sweden. A key objective of developing these funds was to simplify the responsible investment process for these smaller investors. This case study outlines how the funds were set up and the key benefits for the parishes and dioceses invested in these funds.

Creating the funds

Few resources were needed in setting up the funds. The Church initially approached several investment managers with this project and finally chose Skandinaviska Enskilda Banken (SEB) as a partner. The bank's responsible investment experience was limited at the time, but the Church thought this project would be a good opportunity to introduce SEB to responsible investment. SEB is now a signatory to the PRI and has joined Sweden's Sustainable Investment Forum (SWESIF).

The Church decided on the responsible investment guidelines and worked with SEB on the content of the Ethos funds. It further negotiated a fee structure with SEB on par with what is normally charged to bigger institutional investors. The central body of the Church, as well as the Church's pension fund, have invested in the funds. Increasing the number of investors in the funds has lowered the management fee for all its investors.

Church of Sweden

“Small investors working together can negotiate lower investment management fees.”

Gunnela Hahn (Head of Responsible Investment)
Church of Sweden

Benefits of the funds for the parishes

The main benefits for the parishes are firstly that they can be sure their assets adhere to the Church’s responsible investment guidelines. The Church oversees the management of the funds and ensures that the products suit the values and investment performance criteria required by it. Second, it is important that the funds are inexpensive for the parishes. Finally, ensuring that it is easy to invest in the Ethos funds improves accessibility. Parishes do not need to handle any administration to invest in these funds, which they would with a separate mandate.

The Swedish equity fund and the fixed income fund are up and running and both are performing in line with their benchmarks. Both the Church of Sweden and the parishes invested in the funds are satisfied with the process and performance of the funds. The Church has recently added a global equity fund into the Ethos group of funds, and is interested in offering other investment products to the parishes, for example it would like to offer parishes a microfinance product. In the future, it would also like to add products within clean tech and emerging markets to the Ethos product family.

Key takeaways

- Separate mandates established to fulfil a certain investment policy can be replaced by a mutual fund.
- Establishing mutual funds with responsible investment criteria simplifies the responsible investment process for small investors.

More information:
www.svenskakyrkan.se

New Zealand Superannuation Fund

Principle 5: Developing agreements among responsible investors to share resources

Signatory type: Superannuation fund

Country: New Zealand

Established: 2001

AUM: US$11.26 billion

Collaborating with other investors can help smaller investors improve the effectiveness of their responsible investment strategies. This case study examines the Responsible Investment Agreement between the Guardians of New Zealand Superannuation and three other Crown Financial Institutions (CFIs) in New Zealand. The agreement has helped all four funds save resources by sharing information and research and collaborating on engagements. The four Funds are:

- Accident Compensation Corporation
- Earthquake Commission
- Government Superannuation Fund Authority
- Guardians of New Zealand Superannuation.

The Responsible Investment Agreement

The Guardians and the three other CFIs all have similar mandates: to maximise returns without undue risk and avoid investments that may harm New Zealand's reputation as a responsible member of the world community. The Guardians manage the New Zealand Superannuation Fund, which is the largest of the four CFIs. While the Guardians have an internal RI team to implement its strategy, the other three CFIs cannot justify having their own dedicated RI resource.

NEW ZEALAND SUPERANNUATION FUND

As PRI signatories, a degree of collaboration was developing naturally between the other CFIs. The organisations decided to formalise a resource-sharing arrangement and were encouraged in this endeavour by the Minister of Finance. This led to the signing of the CFI RI Agreement in February 2009.

In this Agreement, the Guardians act as a Secretariat for the CFI group and provide a series of outputs related to implementing responsible investment. These outputs are based on their RI Policies, including the six principles of the PRI as follows:

- Research and policy development
- Integration of ESG factors in investment including investment manager selection and monitoring
- Portfolio monitoring, which involves updating exclusion lists, identification, analysis and prioritising high RI risks with investments and issues, and proposing actions
- Active share-ownership activities through developing a framework and implementing an engagement programme with companies and other investors
- Assisting the CFIs with communication and collaboration. All the CFIs are responsible for their own communication but the Guardians help them report internally and externally on common RI activities. The Guardians also share information such as presentations, research report press releases, letters, and media articles as appropriate.

The CFI Agreement in practice – how it works

During the first few meetings of the CFI group, discussions focused on agreeing ESG priority issues for engagement. As ESG issues are broad, creating a feasible work plan required the group to narrow the priority issues to severe environmental risks and concerns, human rights, and bribery and corruption. These were seen as issues particularly relevant to New Zealand's reputation as a responsible investor.

"Banding together with other investors with similar characteristics and priorities can enhance the cost-efficiency and effectiveness of responsible investment activities."

Anne-Maree O'Connor and Arti Prasad-Naidu
Guardians of *New Zealand Superannuation Fund*

From Back left (facing you): *Earthquake Commission (EQC), Michael Daly (Manager, Investment Strategy), Annuitas, Government Superannuation Fund (GSF), Paul Bevin (General Manager, Investments), Accident Compensation Corporation (ACC), Atholl Law (Manager, External Managed Funds)* Front left to right (facing you): *New Zealand Superannuation Fund (GNZS), Anne-Maree O'Connor (Head of Responsible Investment), Arti Prasad-Naidu (Responsible Investment Analyst)*

The group also set some principles on how it should prioritise its approach to engagement with companies. The CFIs also agree on recurring agenda items, such as integration and research, portfolio monitoring, engagement and communications.

The CFIs pay the Guardians an annual fee as part of the Agreement. This fee contributes to the cost of the time the Guardians spend on the Group's RI activities and reflects the cost savings the other CFIs enjoy by not needing dedicated staff for this function. Furthermore, the CFI group saves on the total costs of buying ESG research by selecting common RI suppliers. This has roughly halved total costs.

The fee provided by the CFIs helps support their Principle 4 and 5 activities through the Guardians' participation in working groups, conference-speaking and other wider industry activities on their behalf.

The group meets quarterly with a set agenda and papers. Outside of these meetings, the group is in regular contact via phone and email. The Guardians use the PRI assessment results as one way to oversee group performance.

Key takeaways

The Guardians recommend three places to start for signatories interested in creating a similar agreement. Signatories should:

- Have similar objectives. It is important that signatories have similar mandates or objectives. Being part of the PRI may be enough. For funds already involved with the PRI, begin direct discussions with senior management.
- Identify what they have in common. For example, on prioritising corporate engagements, common holdings are a logical place to start.
- Have a streamlined approval process for engagements. In the establishment phase, focus on signoff and delegated lines of approvals and responsibility. This will help the group to meet deadlines. It is also beneficial for the signatories to develop a standard reporting template for RI meetings and activities.

More information:
www.nzsuperfund.co.nz

Signatory type: Foundation

Country: USA

Established: 1949, with operations beginning in 1989

AUM: US$415 million

Reporting is a time-consuming activity and many small PRI signatories find it a challenge. However, according to the Nathan Cummings Foundation (NCF), reporting does not need to be a cumbersome task. This case study looks at how the NCF wrote its first standalone report on its active ownership activities, '*Changing Corporate Behavior through Shareholder Activism: The Nathan Cummings Foundation's Experience*'. It also provides key takeaways for other signatories looking to write their first responsible investment report.

Why NCF wrote the report

Shareholder activism, defined by the NCF as voting proxies, filing shareholder proposals, and engaging with companies, is core to the Foundation's approach to responsible investment. NCF has a Director of Shareholder Activities and believes shareholder activism can further the Foundation's program goals and create long-term shareholder value.

One of the goals of writing '*Changing Corporate Behaviour through Shareholder Activism*' was to evaluate what the Foundation had achieved with its shareholder activism programme. Another key goal was to encourage other foundations to adopt a similar shareholder activism programme. By showing a linkage between shareholder activism and program goals, the NCF hopes to inspire other foundations to use their voice as shareholders more actively.

THE NATHAN CUMMINGS FOUNDATION

How they organised the content and structure of the report

In order to make the report easy to read for different audiences, the NCF structured the report according to the main themes of its shareholder activities: executive compensation, climate change, sustainability reporting, health care, and political contributions. This enables the reader to easily pick out the issues that relate to their own work and interests. For example, a foundation that is primarily interested in health care can easily find and read about how this issue can have an impact on shareholder value.

The report also outlines why the NCF focuses on each of these thematic issues and how its shareholder activities are linked to the foundation's goals. The report was written in this way to ensure a convincing case for shareholder activism and to allow for the incorporation of existing work into the new report. Additionally, the NCF spends some time at the beginning of the report outlining the rationale for choosing active ownership as its core responsible investment approach.

Process of writing and publishing the report

Writing a report like this does not need to be an onerous task for smaller investors. Small funds often have the advantage of having only one or two people who are very attuned to the organisation's responsible investment activities. For example, there is less need for harnessing information and data from various internal departments.

“Small signatories should not be intimidated by this process. When it comes to reporting, being small can be an advantage.”

Laura Campos (Director of Shareholder Activities)
The Nathan Cummings Foundation

Only two NCF staff members were involved in writing and editing the report – the Foundations’ President and its Director of Shareholder Activities. To fit the report in to the daily work routine, the writing was spread over a one-year period, with large chunks written one or two days at a time.

The Foundation chose to make its own copies of the report and did not spend any additional money on printing. It did, however, spend US$ 200 on proofreading and US$ 1,500 on graphic design. One person was able to give the final signoff on the report, making the review process faster than for bigger, more complex organisations. Further, compliance signoff was not needed.

To ensure the report reached its target audience, it was promoted through a variety of forums: Harvard Law School Corporate Governance blog posting, Council on Foundations blog posting, Philanthropy New York, and INCR. The report was also presented at an event organised by Philanthropy New York in an attempt to get more foundations involved in responsible investment.

Key takeaways

The Nathan Cummings Foundation’s experience shows that:

- Small and resource-constrained signatories should not be scared to undertake this process. In small organisations, work is concentrated in people and work areas. This is an advantage.
- Identify your key audience before you start writing a report. This will help you decide on a structure and will help focus the narrative.
- Existing work can be used when possible to reduce the overall effort required.
- The internal review process and working through edits of reports can take a long time. Your timeline needs to leave plenty of room for this.

For more information and to read ‘*Changing Corporate Behavior through Shareholder Activism: The Nathan Cummings Foundation’s Experience*’ please visit:
www.nathancummings.org

The Small Funds Work Stream is dedicated to providing implementation support to small and resource-constrained signatories. In practice this includes providing practical implementation tools for small and resource-constrained asset owners and investment managers on a range of RI issues; providing case studies and arranging webinars on how small funds are currently implementing the Principles; and supporting and engaging the network of small and resource-constrained signatories. The Small Funds Work Stream is governed by a steering committee composed of eight signatories. For more information about the work stream and to gain access to these resources, please visit the Small Funds Work Stream page on the PRI Signatory Extranet or contact **info@unpri.org**

Share your experience of implementing the Principles

The PRI will continue to collect and publish case studies on how small and resource-constrained signatories are implementing the Principles and plans to both update this publication and offer further examples with the 'PRI in Practice' section of its Extranet.

For more information, or if you would like to contribute a case study, please contact **info@unpri.org**

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Principles for Responsible Investment

An investor initiative in partnership with
UNEP FI and the UN Global Compact

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