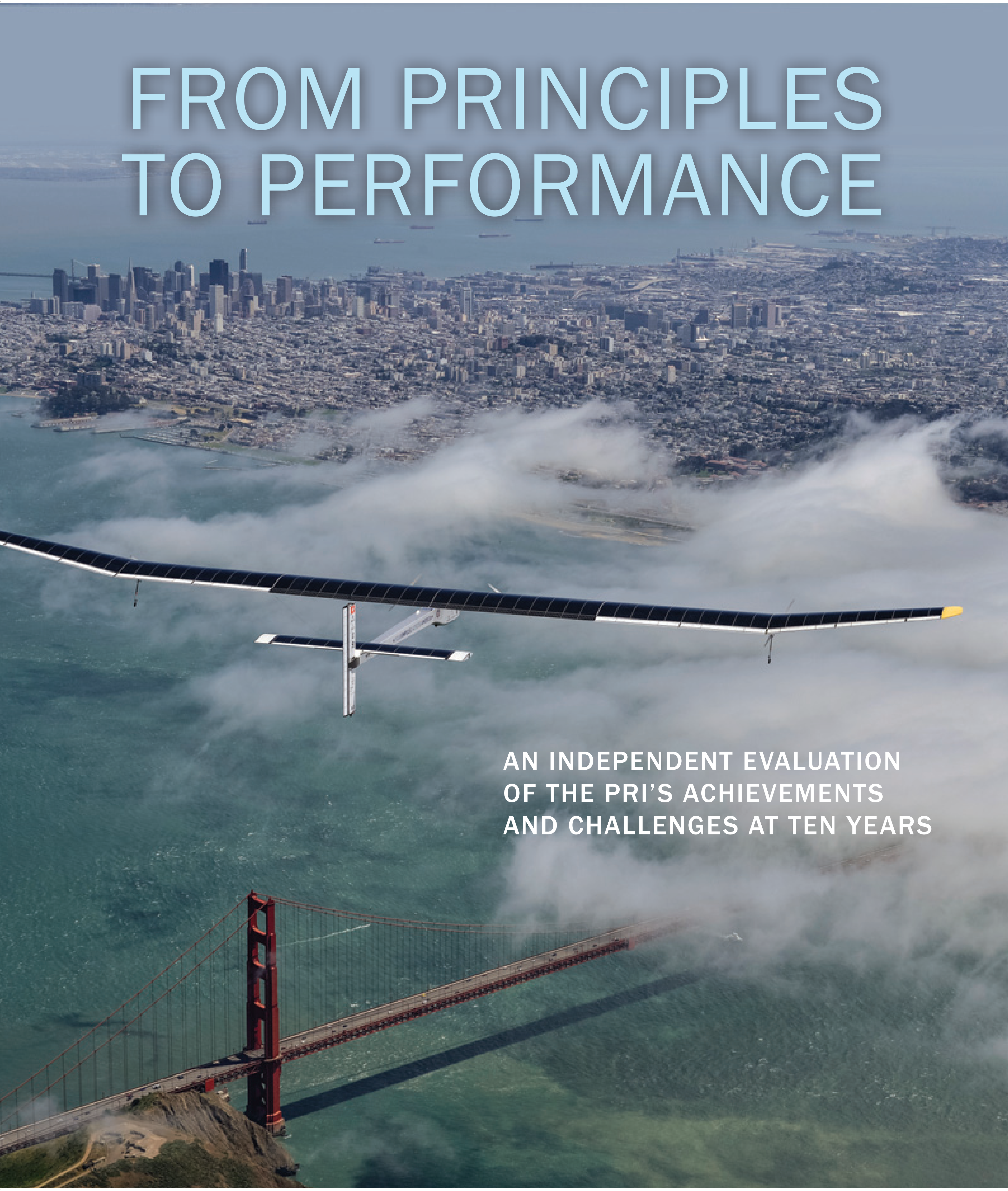
PRI Principles for Responsible Investment

FROM PRINCIPLES TO PERFORMANCE



AN INDEPENDENT EVALUATION OF THE PRI'S ACHIEVEMENTS AND CHALLENGES AT TEN YEARS

steward redqueen

ON THE FRONT COVER

The Solar Impulse is circumnavigating the globe powered only by renewable energy. The airplane has achieved such a high level of energy efficiency that it has flown 5 consecutive days and nights relying only on the sun. A ground-breaking performance that will have a large impact on the transportation industry. Like the Solar Impulse the PRI shows how a vision and a strong purpose can overcome obstacles and change perceptions of performance.

Photo: Solar Impulse | Rezo.ch | Revillard

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APRIL 2016

PREFACE

Guided by six principles, the PRI is the leading global platform bringing together global investors to demonstrate their commitment to responsible investment (RI). Through a combination of engagement, sharing of best practices and learning, the PRI supports signatories in understanding the implications of sustainability for investors and moving towards incorporating environmental, social and governance (ESG) factors within their investment processes. A decade after its establishment, the PRI is today widely recognised for its leadership role in creating global awareness about RI and helping progress RI within the core processes of investors around the world. This alone is a remarkable achievement.

At the same time, we are forced to conclude that RI has not yet been mainstreamed. Despite increased awareness, implementation still lacks depth. This said, mainstreaming RI involves a system change — a paradigm shift that, amongst other things, will require a corresponding culture change within the world of institutional investors. And this is no easy task: at a fundamental level, it is proving difficult to change or redirect the financial sector. Even following the global financial crisis it would appear that, rather than change, the failing system has, in broad terms, merely been repaired.

Genuine ESG integration will require additional efforts. In this report we conclude that the PRI with its mission to contribute to achieving a sustainable global financial system, is uniquely positioned to play an important role in this. The size and diversity of its signatory base, its global outreach, its brand and its thought leadership are all invaluable assets. By working with its signatories to progress their investment practices and by influencing the ‘enabling environment’, the PRI can help align the huge potential of the investment industry with global societal needs.

However, to be successful over the next few years the PRI will have to step up its efforts. At the time of its inception, the Principles were seen as ‘aspirational’. In view of the global challenges we face 10 years on, and their impact on societies and the investment world, we would argue that putting the Principles into practice is no longer something to aspire to, but now the only ‘rational’ choice facing investors. Increasingly the focus of the PRI and its signatories should be on moving from principles to practice.

Ultimately, the success of the PRI will not be measured by its ability to engage the investor world in dialogue about change, but by its ability to influence their investment practices. And the impact this has on the lives of current and future generations, and indeed on the planet itself.

We would like to thank the many survey respondents and interviewees for their contribution to our research.

Steward Redqueen B.V.

Haarlem, The Netherlands, April 2016

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EXECUTIVE SUMMARY

The PRI is widely applauded for putting responsible investment (RI) on the agenda of investors and policy makers. In just ten years since its establishment it has become the leading global investors' platform for learning, engagement and the sharing of best practices on RI. Launched in 2006 as a partnership between the UN Global Compact and UN Environment Programme Finance Initiative (UNEP FI), the PRI represents the investor's voice in dialogues with stakeholders in the 'enabling environment' to advocate policy development and other supportive practices.

The PRI is also appreciated for being a 'big tent' organisation that helps new signatories embrace the basics of RI on the one hand and facilitates a 'race to the top' amongst signatories on the other.

But while there is now significant awareness about RI, implementation still lacks depth. Even the PRI signatories seem to be struggling to put the Principles into practice. It may well be that much more advanced RI practices within the global capital markets could not have been realised within a decade. Nevertheless, it is clear that the PRI must now step up its efforts if it is to continue to have impact in the future.

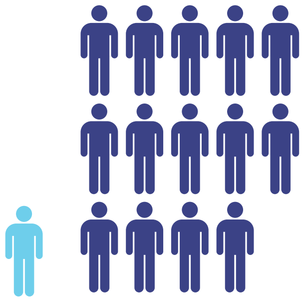
For the PRI to progress RI practices and support 'real-world change', this report has three recommendations:

1. Signatories' views vary as to the PRI's purpose and ambitions. Some see it as a platform for learning and engagement, others want it to be a (more activist) voice for real-world change with concrete outcomes. As this seems increasingly to hamper its effectiveness, the PRI should make more clear to signatories that progressing RI integration is not optional;
2. Managing a 'big tent' organisation is challenging. The PRI needs to focus its activities to optimise its added value and avoid losing traction. We recommend the PRI focus its efforts on changing market practices in Europe and the USA, given their dominant market position. In addition, the PRI should select a number of new markets, and for each one develop a clear entry strategy plan. The Clearinghouse can be better utilised to address specific sustainability challenges;
3. Accountability is key to progressing RI. In order to improve accountability while reducing the workload for both the PRI and its signatories, we recommend identifying a reporting partner. Teaming up with, for example, the Global Reporting Initiative (GRI) or the International Integrated Reporting Council (IIRC), could significantly improve both the effectiveness and efficiency of accountability.

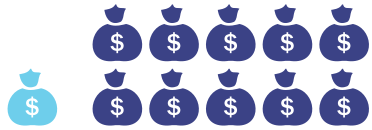
The PRI is well positioned to have a positive impact on the investment industry and facilitate real-world change. By pursuing a focused agenda, setting clear goals and KPIs, and managing these consistently the PRI can continue to be a driver for sustainable development for another ten years and beyond.

It should be mentioned that the PRI is aware of many of the points and issues mentioned here, and that most are addressed in the PRI strategy 2015-2018 'From Awareness to Impact' and broader stakeholder consultations. Findings of the consultations will feed into a responsible investment blue print which will define the PRI's strategic objectives and direction for the next ten years. We believe strongly that the investment industry needs the PRI and the PRI can in turn guide the investment industry to greater real-world impact.

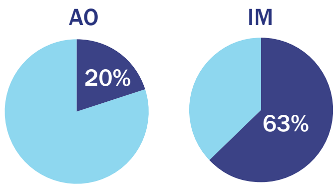
IN 10 YEARS TIME THE PRI HAS BECOME THE GLOBAL VOICE OF THE INVESTMENT INDUSTRY



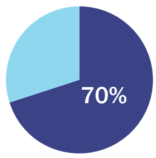
From 100
to > 1500 signatories



From USD 7 trillion
to > USD 60 trillion AuM



Increased market penetration of
AO's (to 20%) and IM's (to 63%)



70% of signatories' RI performance
significantly impacted by the PRI

MANY ACTIVITIES OF THE PRI ARE WIDELY APPRECIATED

THE PRI STRONGLY INCREASES AWARENESS, STIMULATES ENGAGEMENT AND, TO SOME EXTENT, DEEPENS THE RI PRACTICE

- > 400 events organised
- Transparancy and accountability by R&A
- > 700 posts at Clearinghouse
- Influencing the enabling environment

THE PRI IS WELL POSITIONED FOR THE FUTURE

FOR THE PRI TO PROGRESS RI PRACTICES AND SUPPORT REAL-WORLD CHANGE, THIS REPORT HAS THREE RECOMMENDATIONS:

- Create more clarity and consensus about purpose and ambition
- Enhance focus and added value
- Improve the accountability process

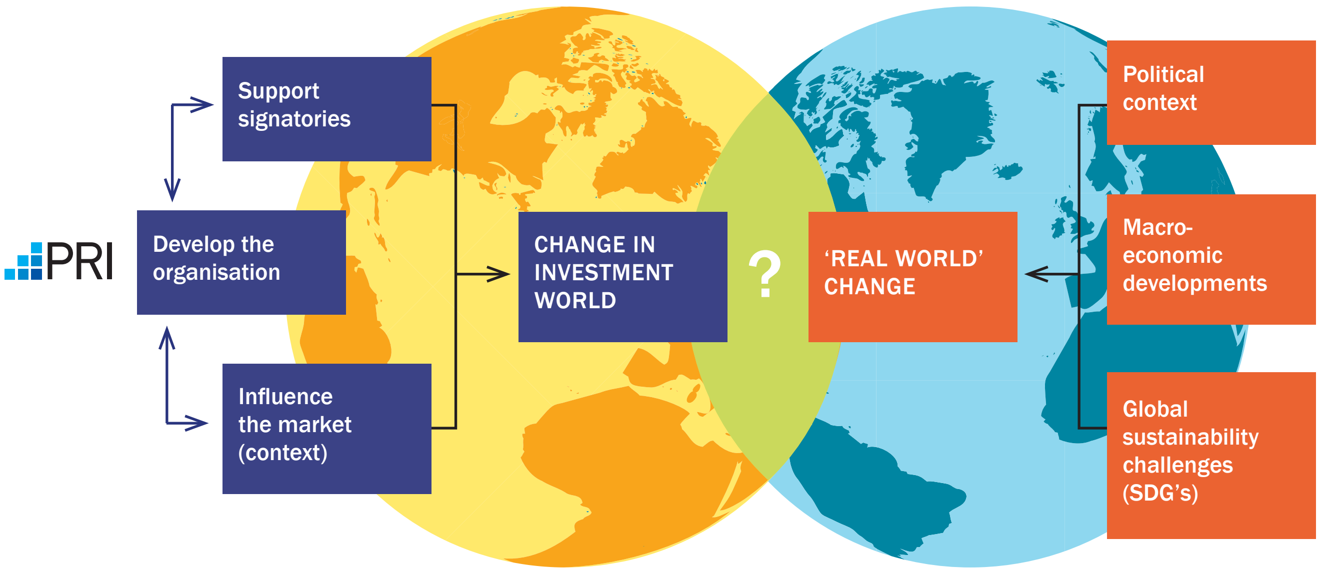
I. INTRODUCTION

Investment based on environmental, social and governance (ESG) factors has long been viewed as a niche strategy. Though RI is not yet mainstream, it is clear an increasing number of asset owners and investment managers have to a degree embraced ESG. The PRI has created an international network of investors, and thereby established a platform where investors can work together to put the six Principles for Responsible Investment into practice. Just ten years after its launch, the PRI is recognised as the global voice on responsible investing for the investment industry.

Independent assessment

Accountability is central to the PRI's activities and the organisation has communicated extensively on the progress it is making. In the 'Report on Progress 2015', Fiona Reynolds, the PRI's managing director, applauds the rapid evolvement of RI and the commitment to the Principles of many organisations. However, she also points out that the implementation still lacks depth and many signatories continue to see RI as being distinct from their mainstream investment processes. She therefore calls on investors to now build on the progress many institutions have already made towards meaningful change in their policies, strategies and practice.

Exhibit 1: Theory of Change
Source: Steward Redqueen



* Please refer to Annex 1 for source of quotations used in text.

‘Responsible investment today is a top management responsibility, whereas it used to be a subject driven by staff departments.’*

‘What is helpful for the investor world is to have standards and common definitions. We need to be able to compare information across borders.’

This independent assessment of its impact has been commissioned in addition to the PRI’s own efforts to track its progress. The objective of this assessment is to chart the progress of the PRI’s implementation of its Principles across the investment industry, using data and activity from 2006 as a baseline:

- What has the PRI contributed to increasing awareness of RI globally, and the dissemination of know-how and best practices?
- What has been its impact on the investment industry, and has there been a real-world impact?
- Can areas for improvement be identified?

Methodology

This assessment was structured along the following ‘theory of change’ (Exhibit 1).

Three core elements of the PRI’s activities were distinguished:

- The first (covered in Chapter 3) concerns the development of the PRI’s organisation: growing its signatory base and building a reputation in order to become and remain the voice for the investment industry in this space.
- The second (Chapter 4) encompasses all activities for and with the signatories. These include the PRI’s role as a platform for learning, engaging and sharing best practices in various ways. These interventions aim to increase awareness about RI and strengthen the capabilities of signatories to integrate RI in their investment processes.
- The third (Chapter 5) concerns how the PRI influences key stakeholders and impacts the ‘enabling environment’.

Underpinning all activities are the six Principles, which are central to what the PRI stands for and wants to achieve.

The main focus of this research is on how the PRI’s interventions impact the investment industry. Where possible, this research aims to verify PRI’s ‘real-world impact’. However, given that the PRI itself acknowledges that its signatories’ RI implementation still lacks depth, we assume there has been little attributable impact in this respect. Up until now at least, political context, macro-economic circumstances and global sustainability developments have been more likely to directly impact the real world.

More information on the methodology can be found in Annex 1.

II. RESPONSIBLE INVESTMENT: THE CONTEXT

The global investment management sector has an important role to play. It is a channel for finding good investments for households' savings and securing the effective management of assets through stewardship. It thus helps households carry their wealth through their lifetime and across generations. The investment chain from the household to the final asset can be a long one and includes asset owners (such as pension funds and insurance companies), invest managers, fund-of-funds managers, private equity investors, investment consultants, independent financial advisors and others.

Definitions of Responsible Investment

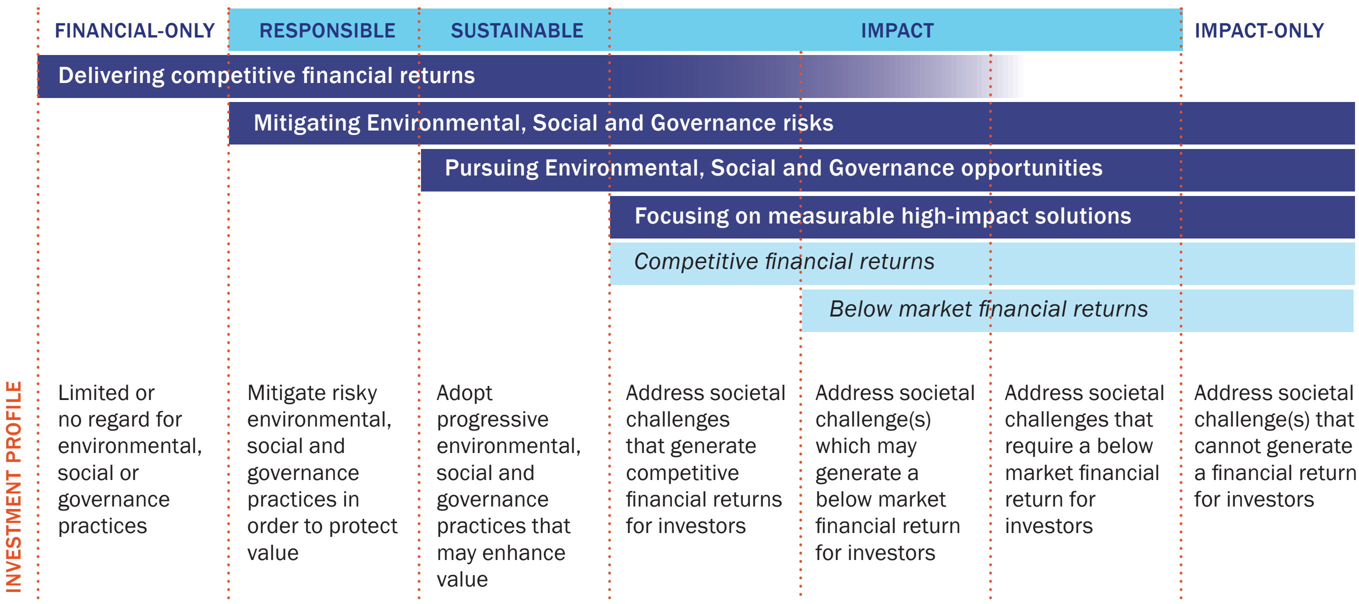
Determining the amount of responsibly managed global assets under management (AuM) and the size of the RI market is a difficult task, particularly given the lack of a universally accepted definition. Different investment strategies are captured under the umbrellas of responsible, sustainable or impact investment, and the potential impact of the various strategies also differs. Examples of strategies include negative screening, positive screening, ESG integration and engagement, all of which can also be used in various combinations. Is it sensible, for example, to simply add the amounts of assets of negatively screened investments to those that are truly ESG-integrated and actively managed? There is an element of comparing apples with oranges. The PRI's definition seems to be widely accepted in the market, but it still leaves room for different interpretations.

THE PRI DEFINITION OF RESPONSIBLE INVESTMENT

'Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.'

As an example, the RI spectrum as included in the 'Allocating for Impact' report by the Social Impact Investment Taskforce ('SIIT') provides a higher level of detail of the progression of various strategies (Exhibit 2).

Exhibit 2: Alternative definition
Source: Social Impact Investment Taskforce



Total market size

Measuring the amount of global AuM is hard, if not impossible. Industry experts underline various challenges, as well as the risk of double counting. In reports and other literature we identified a range of approaches and numbers.

In a working paper, UNEP Inquiry estimates the value of global assets to be USD 450 trillion. Half of which - USD 225 trillion - is said to be 'in the hands of institutional investors as being managed, actively or passively, or otherwise controlled by such institutions'. UNEP Inquiry rightly concludes that this is a higher figure than previously thought. However, the overall consensus seems to be on lower amounts, which are used by the PRI itself in its reports and shown below (exhibit 3).

Exhibit 3: Worlwide assets under management
Source: BCG, PwC, Towers Watson

	MARKET TOTAL IN 2006 (USD TRILLION)	MARKET TOTAL IN 2015 (USD TRILLION)
AO	58.2	64.4
IM	68.2	74

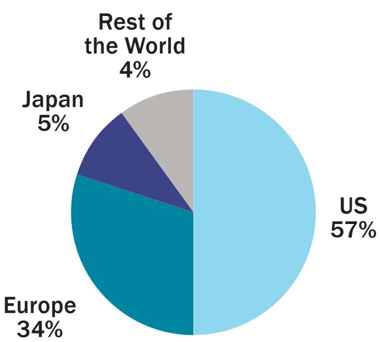


Exhibit 4: Where are the assets?
Source: Towers Watson

According to Towers Watson (2015), AuM of the world's top 500 invest managers reached USD 78 trillion in 2014. In 2006, the year the PRI was launched, this was USD 64 trillion. The USA and Europe dominate this field; while listed equity (45.5%) and fixed income (34.1%) make up the majority of assets, with alternatives including, for example, private equity and real estate.

The increase in RI and integration of sustainability by businesses has seen the emergence of a whole new industry. Sustainability consulting and reporting, for example, have become mature services. The accountancy sector, too, has major interests in the verification of both non-financial (sustainability) and integrated reports. The human resources and recruitment business also has departments dedicated to servicing the growing demand related to RI and sustainability.

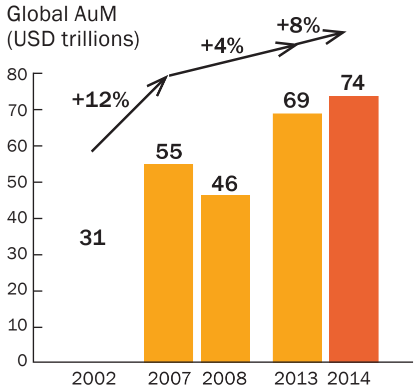


Exhibit 5: Overview of worldwide Assets (asset owners)
Source: BCG

Amount of Responsible Investment

The lack of a clear understanding as to what constitutes RI has not deterred investors from seeking to find more RI solutions. Research by the Global Sustainable Investment Association (GSIA) concludes that the global sustainable investment market is growing in both absolute and relative terms. By its calculations, at the start of 2014, USD 21.4 trillion was managed sustainably, constituting 30.2 % of the professionally managed assets in the regions covered.

The proportion of responsibly managed assets relative to total managed assets is highest in Europe (59%). In the USA, responsible investing had grown to USD 6.6 trillion at the start in 2014 (an increase of 76% compared to 2012). US SIF concludes that these assets now account for one in every six dollars under professional management in the USA (approx. 16%).

GSIA research distinguishes between various RI strategies and concludes that negative screening is the most commonly used strategy (covering USD 14.4 trillion), followed by ESG integration (USD 12.9 trillion) and engagement (USD 7 trillion); and obviously some strategies are used in parallel. Though the definitions used by GSIA also differ from SIIT's, results do suggest that a large part of RI is still limited to negative screening. Engagement and active ownership are however becoming increasingly evident, particularly in the liquid market. As noted by a respondent, 'in liquid stock markets ESG integration or RI hardly have any impact without engagement'. Given that constructive activism is central to stewardship, but engagement only a minority strategy, the investment industry cannot afford to be complacent about progress with RI integration.

Benefits of Responsible Investment

Some investors are still not convinced of the rationale behind RI. They worry about the potential effect on profitability, despite mounting evidence from studies that responsible investments are value enhancing, due to, amongst others, lower cost of capital and market outperformance.

Another major debate has been the degree to which investors have the room and commitment to go beyond the exclusive financial interests of beneficiaries. In the US in particular, this has been a contentious issue. Investment managers and advisers have often cited fiduciary duty as a reason for not incorporating ESG factors into the investment decision-making process, claiming that looking at non-financial indicators is not consistent with this fiduciary duty.

To clarify investors' fiduciary duties, the PRI has put efforts into changing perceptions and legislation. It has published a study, based on extensive research and interviews with investment professionals and other experts, that concludes that failing to consider long-term investment value drivers (which include ESG factors) in investment practice is a failure of fiduciary duty. Recently the US Department of Labor announced new guidance that clarified that pension funds governed by the Employee Retirement Income Security Act of 1974 may consider ESG factors when making investment decisions, prompting a new focus on investor interest in ESG issues.

‘The business case for responsible investment is robust and has become clear. It is no longer about the WHY but about HOW.’

‘The PRI has coined the term ESG and brought a new vocabulary around responsible investment.’

‘Will RI become more mainstream? Well, at least it will be more of a requirement for business. Yet we have the concern of it only becoming a part of the compliance, a tick box necessity, and not really a thorough policy assessment.’

Growing urgency

At times it feels as though discussions on RI methodologies and strategies are technocratic and disconnected from the urgent need to deal with various acute global challenges. Climate change, human rights and supply chain responsibilities need to be addressed. RI is the investment industry’s contribution to meeting the Sustainable Development Goals (SDGs). A fundamental belief that investors can make a difference in the real world is necessary if we are to avoid RI aspirations being confined to the academic domain.

One ongoing barrier to RI is the fact that negative ESG externalities (in particular carbon emissions) are not properly priced by either markets or governments (through tax structures). The importance of this cannot be underestimated and clarity on internalisation of ESG externalities would surely be a major step forward in further mainstreaming RI in the investment world.

Though the previous two points imply investors have a choice whether or not to act, they should also be aware of their increased responsibilities. A case in point is the final statement by the Dutch National Contact Point (NCP) for the OECD Guidelines for Multinational Enterprises in the ABP/APG POSCO case (September 2013). The NCP concluded that investors have a responsibility under the OECD Guidelines, even when they are only minority shareholders in a company. This means, as the NCP puts it, that investors and other financial institutions have a responsibility to exert influence where possible on companies they invest in to help prevent or mitigate the possible adverse impacts of these companies’ operations.

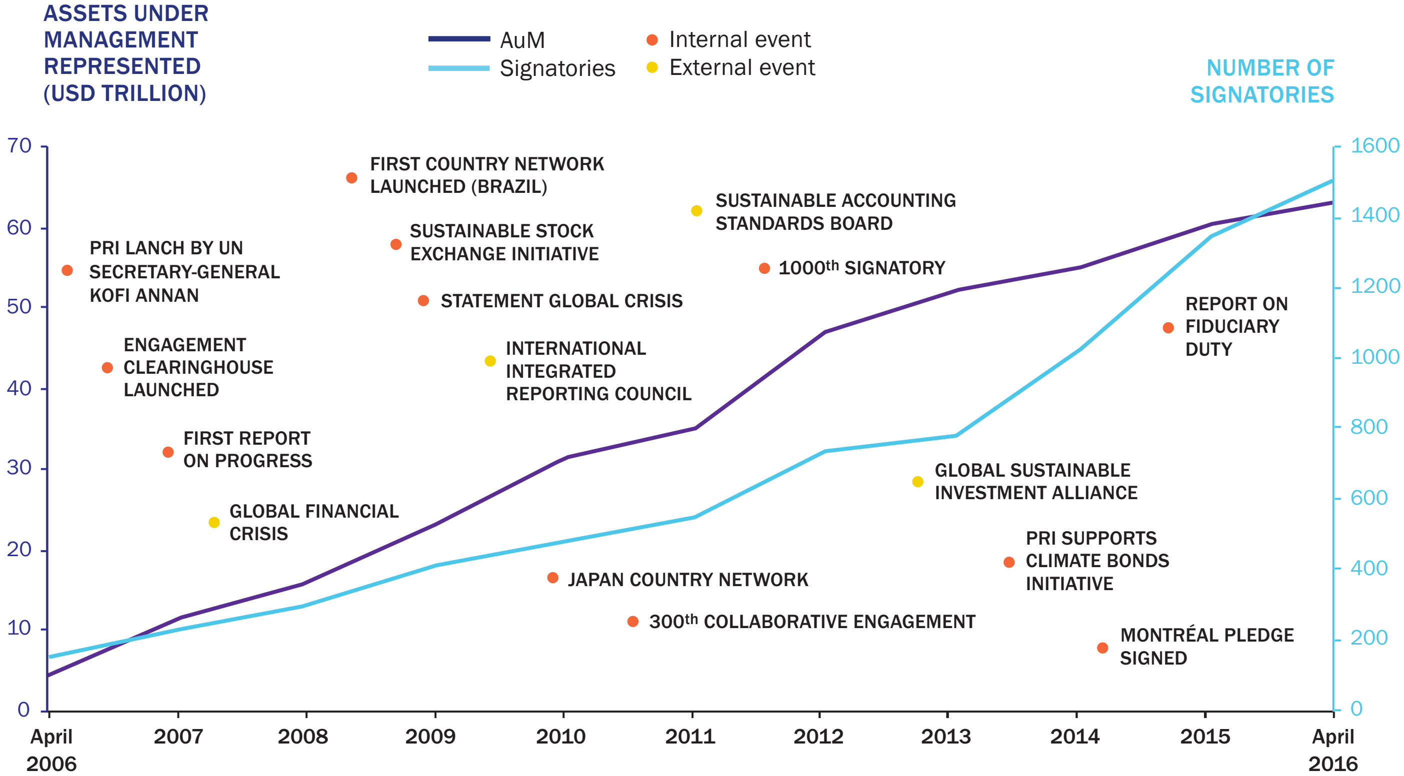
III. DEVELOPMENT OF THE PRI: THE GLOBAL VOICE FOR RESPONSIBLE INVESTMENT

This chapter discusses the PRI as an organisation: how has it evolved since its establishment to what it is today?

A brief history

The Principles for Responsible Investment were launched in April 2006 at the New York Stock Exchange. This was the result of an initiative of the then UN Secretary-General, Kofi Annan. The notion that investment decision-making did not sufficiently reflect the tenets of sustainable development resulted in bringing together a group of the world's largest investors and experts from the investment industry, intergovernmental organisations and civil society. The six Principles are voluntary and aspirational. They encompass a range of actions for incorporating ESG issues into investment practices across asset classes. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

Exhibit 6: History of the PRI
Source: The PRI data



Core activities of the PRI include:

- Increasing awareness of the Principles and RI in general, and encouraging adoption of the Principles;
- Supporting signatories in their implementation of the Principles through capacity building, information provision and research;
- Facilitating networking amongst signatories and collaboration in the PRI implementation.

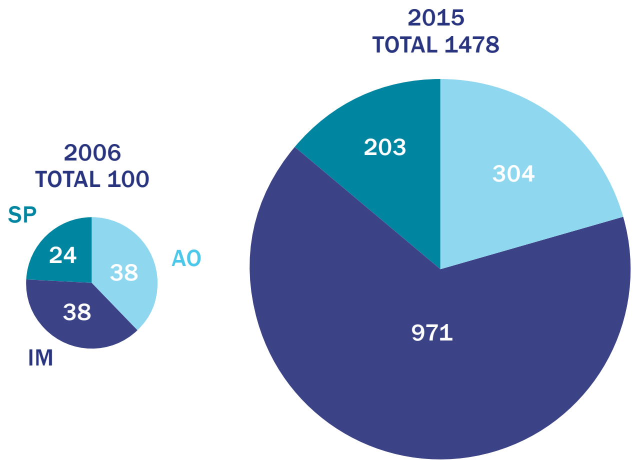
In the first Report on Progress in 2007, the following was stated: 'The goal of the PRI Initiative is not to 'preach to the converted' but to mainstream RI – globally. It will be successful only if we can engage a significant proportion of the assets in every major market in the world.'

The PRI has grown significantly, both in terms of the number of funds signing up and the total assets represented, as can be seen in Exhibit 6 (note: AuMs represented have been corrected for double-counting by the PRI). At the time of the launches in New York and Paris, 65 institutions signed the Principles, a number that has now reached more than 1500 signatories. The PRI is to be applauded for in such a short time becoming the globally-recognised investor voice.

Large and diverse signatory base

The signatory base of the PRI has grown significantly over time, representing institutional asset owners, investment managers and service providers (SP). Over the years, the investment managers have become the largest group of signatories, representing two-thirds of the total number. The signatories represent different types of asset classes (most often in directly and indirectly managed listed equity) and vary in size. Signatories include frontrunners like Hermes Fund Managers Limited and Generation Investment Management, some of the largest investment managers in the world, such as BlackRock and Vanguard, and many others.

Exhibit 7: The PRI Signatories: Proportion of Asset Owners (AO) – Investment Managers (IM) – Service Providers (SP)
Source: The PRI data



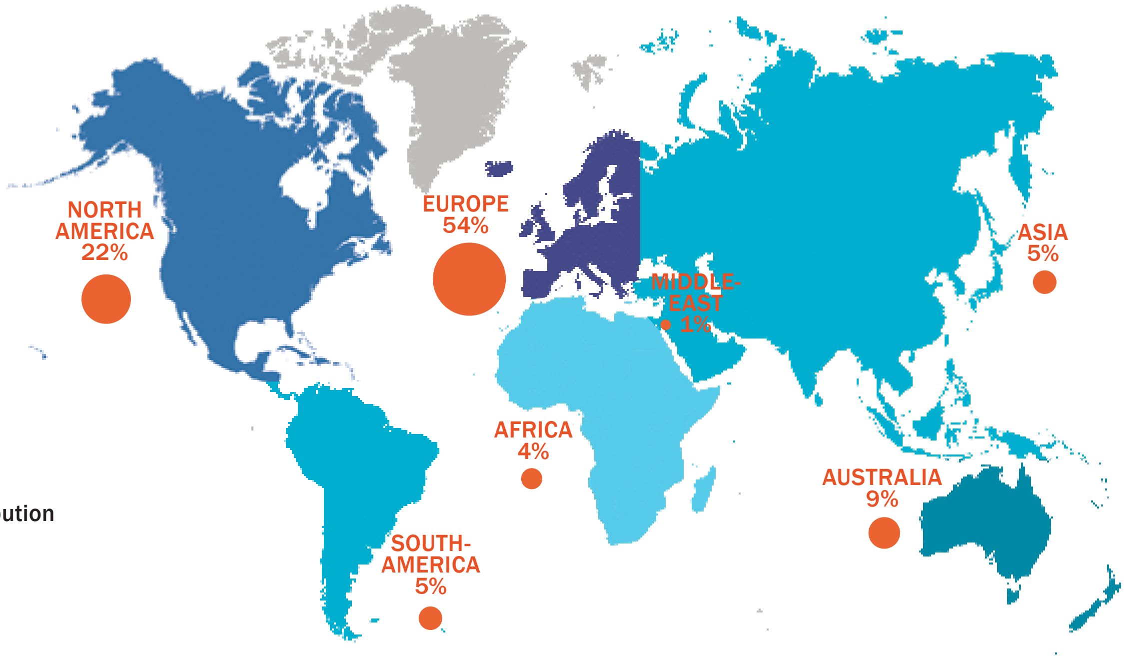


Exhibit 8: Global distribution of signatories (2015)
Source: The PRI data

Global reach

Signatories are to be found all over the world, though the largest share are in Europe (54%) and North America (22%). Headquartered in London, the PRI has over the years invested in local presence opening the first country network in Brazil in 2008 and with regional offices in New York and Hong Kong. Additional country networks have been established across the globe.

As RI gains traction within the investment community globally, language barriers and cultural issues have to be recognised. For example, engagement and active ownership is not as natural a component of the toolbox in some geographies as it is for many Western signatories.

In just ten years, the PRI has managed to attract a large number of signatories, representing a significant part of the market. Taking, for example, Towers Watson's World's 500 Largest Asset Managers, 88% of the top 50 investment managers have signed the Principles. This top 50 represent 64.5% of the market. So while investment managers' motivation in becoming a the PRI signatory may in some cases have been primarily marketing, the potential impact of ESG incorporation by these institutions is nevertheless tremendous. It is also interesting to note that of this top, 51% originate from the US and 36% from Europe.

The potential of the US market is also seen in the outcomes of the Asset Owner Disclosure Project (AODP), which examines asset owners' management of climate risks and opportunities. Many of the high-performing asset owners are the PRI signatories; while of the 230 underperforming asset owners, almost none are the PRI signatories. 44% of these underperformers are from the USA, again indicating the upward potential for the PRI in this region.

Exhibit 9: Market penetration by the PRI signatories
Source: BCG, McKinsey, Towers Watson, the PRI data

	ASSET REPRESENTED BY SIGNATORIES (USD TRILLION)		ESTIMATED MARKET PENETRATION	
	2007	2015	2007	2015
AO	4.9	12.4	6%	19%
IM	3.1	46.3	4%	63%
	total 8	total 58.7		

‘The PRI is changing the way we think in the investment industry.’

‘The PRI has global credibility because of its signatory base. It is to be applauded what they have achieved in only 10 years.’

‘The PRI is the global leader in evolving the understanding of long-term systemic risk which includes human, environmental and governance factors, and it provides a forum for thought leaders to work together and evolve best practices.’

Organisational growth and governance

In line with its signatory base, the PRI as an organisation has grown considerably over the last decade. From a staff of just 4 in 2006 the organisation now directly employs over 70 people.

The growth of the organisation has brought its challenges. Interviewees indicated that in the early days the PRI seemed to be more issue-driven, and less focused on building a professional organisation and corresponding governance structure. Many respondents applauded the organisation on how its staff has grown in gravitas and seniority, contributing to its professionalism and the added value it brings to the table. Respondents also showed appreciation for its handling of governance issues flagged up at the end of 2013 by a group of Danish pension funds who decided to leave the PRI because of ‘long-standing frustration with the organisation’s governance structure - especially its lack of transparency and democracy.’ The subsequent improvements made to the governance structure indicates the PRI is able to deal with criticism. Yet, it may even be that the PRI is working too hard to listen to all its members, asking frequently for their input by means of consultation. Managing a diverse, big tent organisation is a balancing act. Both executive management and the Board have worked hard to strike this balance, and at the moment the organisation has a stronger foundation than ever to now focus on what is most relevant: implementation and progress of the six Principles.

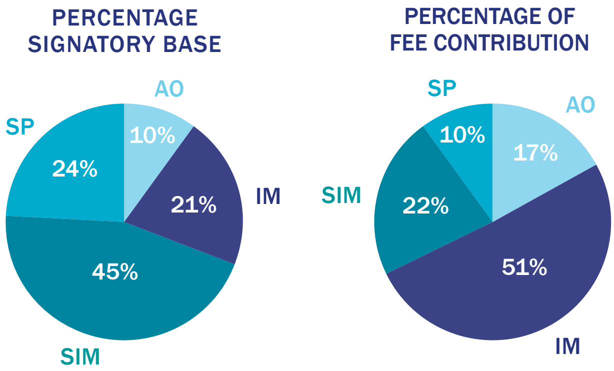


Exhibit 10: Fee contribution of signatories
Asset Owners (**AO**)
(> USD 10 billion AuM)
Investment Managers (**IM**)
(> USD 10 billion AuM)
Small Investement Managers (**SIM**)
(< USD 10 billion AUM)
and Service Providers (**SP**)

Annual membership fee

The PRI is funded primarily via an annual membership fee payable by all signatories. Additional funding comes from grants from governments, foundations and international organisations (the PRI receives no funding from the United Nations). The amount of fees is scaled according to each signatory's category type and AuM. An analysis of incoming fees (Exhibit 10) reveals the following:

- Signatories with significant AuMs contribute the most in terms of fees
- Smaller signatories represent a large share of the membership base but only a small proportion of the fees

This would seem a normal distribution for a diverse membership organisation like the PRI.

Conclusion

In general, it can safely be concluded that the PRI has gained worldwide traction. A significant amount of asset owners, investment managers and service providers from across the globe have signed the Principles and represent a vast amount of AuM. The PRI has truly become a 'big tent' organisation. During its impressive growth, the organisation has encountered some challenges that are recognised and being addressed by the PRI management. The PRI is considered by many to have a strong foundation on which to build in the coming years.

This said, on a number of fronts there are challenges to be addressed. First, the proportion of asset owners relative to that of investment managers should grow. Asset owners are best positioned to change the market – they hire managers as their agents, and their mandates define the objectives and scope of the investment process, putting them in a unique position to use their weight to combine long-term financial results with positive societal impact. Secondly, the US is a clear growth market for the PRI: it is where the largest amounts of assets are to be found, plus there seems to be a growing momentum there for adopting RI. Both challenges are recognised by the PRI and part of its strategic plans.

IV. SUPPORTING THE INTEGRATION OF RESPONSIBLE INVESTMENT

This chapter discusses the work of the PRI with and for its signatories: what are the focus areas of the platform, and what are the results of these activities?

Introduction

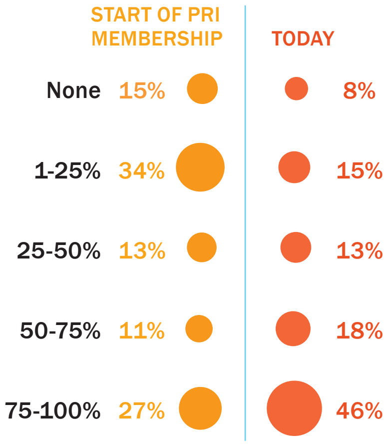
The PRI provides its support to its signatories through a range of activities. On the basis of the interviews conducted, the signatories would appear to value the following three areas most: networking and events, the Clearinghouse platform for collaborative engagement, and reporting and assessment. Before elaborating on the PRI's programmes, we'll first examine the effect that signatories say the PRI has had on their operations.

Exhibit 11: Different learning phases
Source: Survey data

Indications of the PRI's contribution to RI integration

Instead of basing conclusions of RI integration by the PRI's signatory base on existing research, we decided to add some questions to the most recent engagement and satisfaction survey. The key objective was to understand the actual progress signatories felt they had made in integrating RI since becoming a the PRI signatory, as reflected in Exhibit 11, which is based on the broad steps signatories often take on their path towards full integration. The signatories' current level of integration maturity was compared to their initial level measured when they became the PRI members.

Exhibit 12: RI integration of assets overall
Source: Survey data



To start with, 85% of respondents state it is their ambition to reach phase 4 'full integration across their portfolio'. On the basis of the research, progress is being made in achieving this ambition: 64% of surveyed signatories have integrated 50-100% of their portfolio. Overall, more than 80% of surveyed signatories indicate that they now either partially or fully integrate RI into their operations, as against a minority of signatories 10 years ago. These results illustrate the strides made amongst signatories in their integration of RI principles into their operations. Although positive, we believe the results of this self-assessment do reflect a sense of optimism, given that these outcomes are more positive than in other studies. Most likely this has to do with different opinions on the actual meaning of RI integration and desired depth.

The progress made can be attributed in part to the PRI's efforts, with 70% of respondents indicating that the PRI had a moderate-to-strong impact on mainstreaming RI within their institution. This is reflected in exhibit 13.

WHAT HAS BEEN THE PRI'S IMPACT ON THE RI PERFORMANCE OF YOUR INSTITUTION?

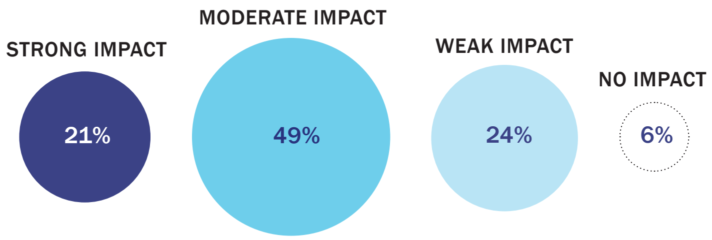


Exhibit 13: Impact the PRI on RI performance of signatories
Source: Survey data

These results illustrate the effectiveness of the PRI's efforts to promote change within institutions, and corresponds with the responses we received from interviewees, who quite consistently applauded the PRI for promoting the case for RI.

The PRI's activities and how they are valued

In the interviews, respondents were asked which the PRI activities stand out for their organisation in terms of impact and contribution. In the following sections the three most frequently mentioned activities will be discussed.

Networking and events

Over the past 10 years, more than 400 events have been organised. The annual 'PRI in Person' conference exemplifies how some the PRI events have become landmark conferences in the field. The 2015 conference in London had more than 1000 participants from over 500 organisations.

In addition to larger conferences, smaller events are also organised. These are often attended by less than 20 people, are region- or country-specific, and have a particular networking purpose, or are focused on a topic or asset class. Topics covered range from fiduciary duty, climate change and responsible tax policies to innovation and human rights. In the context of the COP21 conference in Paris, a number of events covering climate change were held to trigger signatories to

'The PRI is a great community of investors.'

'The quality of events (presentations) is too low. They are good for networking, not for content.'

'They bring credibility to the RI space. Through expansion of its networking role, a lot of still untapped brand equity can be captured.'

think further about COP21 implications for investors. A result of the PRI's efforts is the launch of the Montreal Carbon Pledge. In the run up to Paris more than 120 signatories managing USD 10 trillion signed the Pledge. This signals a commitment by investors to, for the first time, measure and annually disclose the carbon footprint of their investment portfolios.

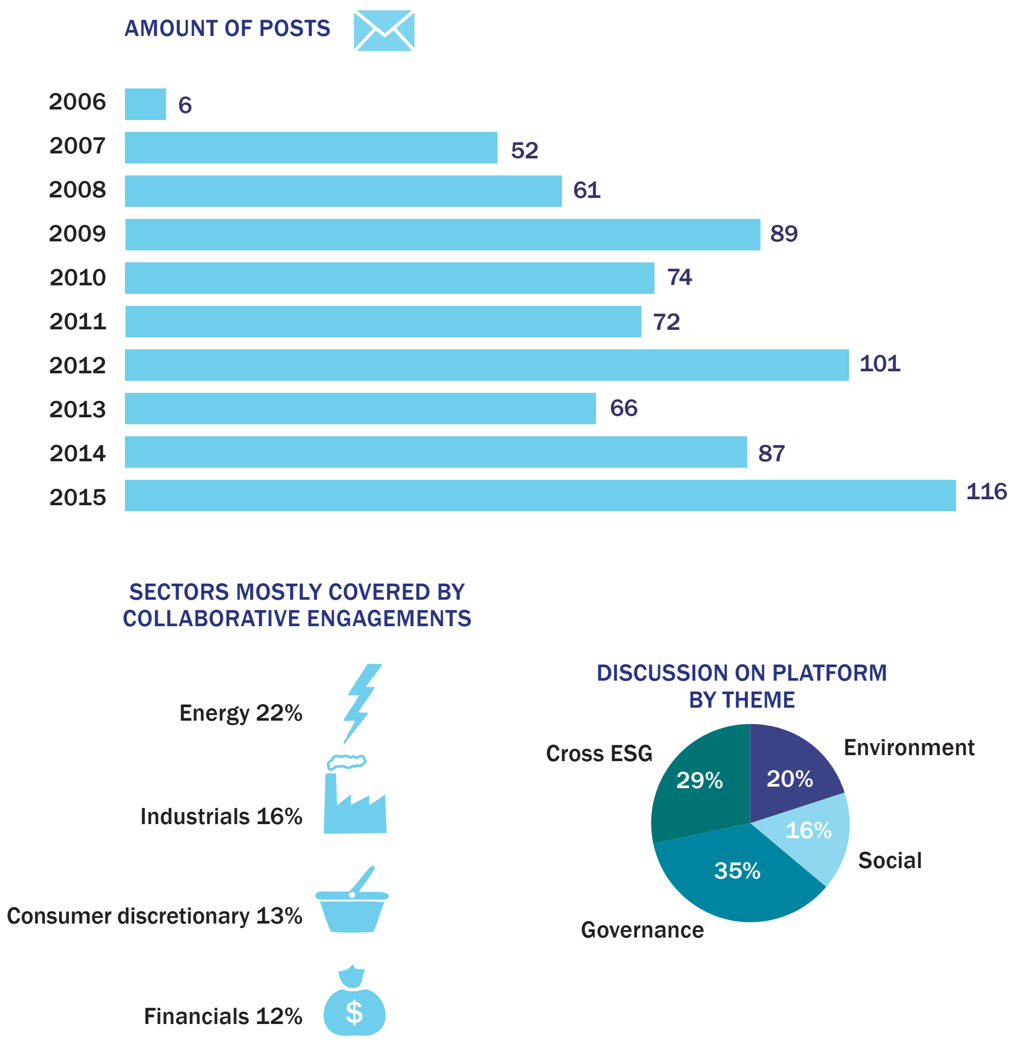
The convening power of the PRI is especially important in the early stages, when the majority of signatories are still in the process of learning and formulating business cases to integrate RI into their operations. In the first two phases, it is crucial that signatories get the opportunity to build a network, share knowledge and learn best practices.

The PRI's events remain relevant today. However, there is an increasing need for events to be tailored to the stage of RI integration signatories have reached. Some events can continue to be 'meet and greet' opportunities, but for frontrunners events require an added depth, for example on learning how to put policies into practice. A balance must therefore be struck between the content and networking dimensions of events.

Clearinghouse

The PRI Clearinghouse is a global platform for collaborative engagement initiatives. It provides signatories with a private forum to pool resources, share

Exhibit 14: Clearinghouse in numbers
Source: the PRI data



‘Clearinghouse is great for engagement and trying to get support for our efforts.’

‘The engagements are slow in progress. Signatories should lead but they generally do not and engagement is not leading to anything.’

information, enhance influence, and engage with companies, stakeholders, policy makers and others in the investment value chain across different sectors and regions. Engagement initiatives have covered a wide range of environmental topics (e.g. palm oil and sustainable fisheries), social topics (e.g. labour issues and supply chain issues) and governance topics (e.g. anti-corruption, sustainable stock-exchanges and director nominations).

The Clearinghouse was often mentioned as being a useful platform, however one that was underutilised by the signatories. This was already recognised in the PRI’s 2007 Report on Progress. The underutilisation of the platform is to a degree attributable to the lack of ownership the PRI team takes of the Clearinghouse. This has led to unclearly defined roles and responsibilities and, according to respondents, a hampered effectiveness. Potential participants may as a result organise their own dedicated engagement initiatives, particularly when their access to the boardroom of a target company is not restricted. It is, however, difficult for the PRI team to take full ownership of the Clearinghouse and claim a Clearinghouse success, as often participants are keen to claim individual success themselves when a desired outcome is achieved.

From its inception in 2006 until the end of 2015, 724 engagements had been posted in the Clearinghouse, with the highest number of engagements occurring in 2012 and 2015. Though the number of engagements is a crude indicator of the success of the Clearinghouse, it is nevertheless notable that the number of engagements per annum has not increased at the same pace as signatory growth. In 2015, 21% of signatories were active in the Clearinghouse and over the years collaboration has often been triggered by the same signatories. Nonetheless, we feel that ultimately the success of the Clearinghouse is best measured not by the number of engagements or issues, but by the effectiveness of those engagements. There is a risk that having too many at the table will detrimentally affect quality and risk ‘free riding’.

We feel the Clearinghouse has great potential, despite the continuing struggle to have the platform better utilised. The challenge for the PRI is to evolve the Clearinghouse so that for a significant number of signatories it becomes not a ‘nice-to-have’ but a ‘need-to-have’. This could be achieved by working on ownership, focusing on the quality of engagements and, if necessary, limiting but strengthening the issues for engagement. In addition, it is vital that members of a particular engagement feel responsible for the target and KPIs they have committed to for that engagement, and that overall the greatest emphasis is placed on the issues most urgently requiring investment focus.

Exhibit 15
Source: The PRI data

ASSESSING RI IMPLEMENTATION BY SIGNATORIES OVER TIME

The change over time in RI implementation by signatories is difficult to assess. Except for the information provided in the Reports on Progress, the underlying data sets from before 2013 were either unavailable or incomparable. Furthermore, when assessing the reports on progress we noted a lack of consistency in methodology and terminology.

REPORT ON PROGRESS 2007 Extent of integration measured. Text mentions integration for listed equity (unspecified numbers) and fixed income (12% integration by AOs, 24% by IMs).

REPORT ON PROGRESS 2008 Extent of integration measured, no hard data available.

REPORT ON PROGRESS 2009 Data shows RI integration grew significantly. In addition, the PRI reports on amount of assets per asset class, subject to integration and percentages of market penetration.

REPORT ON PROGRESS 2010 The 2010 report assesses the extent to which asset classes are ESG-integrated by signatories, internally or externally. In addition, it reports on ESG Integration for internally actively managed assets by PRI signatories relative to total market.

REPORT ON PROGRESS 2011 Assesses percentage of investment managers applying ESG integration to some extent by asset class and percentage of asset owners applying ESG integration by asset class 3 (internally managed, active funds only). Levels of ESG integration between internally and externally managed assets (AOs and IMs) are compared. 96% of signatory investment managers report integrating ESG into internal assets. Finally, the report assesses ESG integration for internally active managed assets by the PRI signatories relative to market value.

REPORT ON PROGRESS 2012/13 No data available due to the transition phase towards new Reporting and Assessment Framework.

REPORT ON PROGRESS 2014 Elaborates on methods of ESG integration used by signatories.

REPORT ON PROGRESS 2015 Gives a broad overview of ESG integration methods and implementation of RI across asset classes, by both asset owners and investment managers, directly managed and indirectly managed. Numbers on market penetration are also given.

Reporting and assessment

Reporting and assessment has from the outset been a priority activity of the PRI, and a direct reflection of the PRI's commitment to Principle 6. The objectives of the framework are three fold: (1) ensure the PRI's own accountability, (2) provide transparency about RI implementation per signatory, and (3) provide a tool for signatories to measure their own performance using objective indicators.

The framework was revised fundamentally in 2013. It needed a fresh approach to enhance the credibility, legitimacy and transparency of the process.

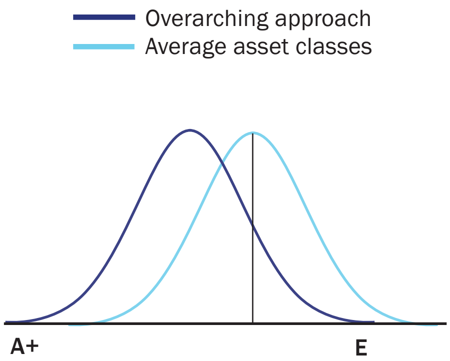
Almost all asset owners and invest managers deliver their transparency reports each year, and it is an important achievement that the large majority actually deliver them on time. Compliance with the PRI is said to be an important driver of progress on transparency among (European) responsible investors (Novethic, 2015).

Based on the signatory reports, the performance is rated on an internally developed scale. Each year, the PRI makes a candid assessment of the overall results and trends they can discern from analysis of the transparency reports, albeit at a high and aggregate level. The annual report points out in which areas real progress has been achieved, but also stresses areas where action is needed. Conclusions are supported by detailed analyses, reflecting percentages of signatories' responses to reporting questions. However, there are no references made to the ratings per signatory, individually or in aggregate.

There are also some weaknesses to the current reporting structure.

First of all, there is concern about the fact that the framework merely reflects investment processes rather than actual signatory progress. The reports and their underlying questions seem to be too detailed and technical. They hardly function as documents that individual signatories themselves can use for internal discussion or policy purposes. In fact, a number of interviewees claimed that the monitoring report is filled out at a technical level, and not discussed or verified at the level of senior management.

Exhibit 16: Normal distribution of signatory scores
Source: PRI data



Secondly, ratings are not made public, even though some signatories use them in the market. It's not really possible to assess the quality of the reports, and thus the validity of the marketing claims. The process allows for gaming and 'green wash', a view confirmed by both the PRI and interviewees.

Thirdly, the skewed nature of the normal distribution of ratings raises interesting issues. Internally, the PRI assigns relatively high ratings to signatories in their assessment of the so-called 'overarching approach', as can be seen in Exhibit 16. However, this is not the case for the internal rating of signatory performance within the different asset classes, where scores are significantly lower and the normal distributions less skewed. The question is, how does the overarching approach score relate to the scores on various asset classes? For example we

> **'It is unclear with whom we are being compared, we get too little feedback. We would appreciate more transparency. Also because the process is very detailed and time consuming.'**

> **'We are a bit concerned that this work results in a PRI-wide compliance and tick-box process which is not that helpful.'**

> **'There are 1000 manuals in the PRI, but what is needed are more practical toolkits and more honest conversations about what is working and what is not.'**

noted several signatory A+ scores for the overarching approach, while only D or E for an asset class. The methodology for internal scoring needs to be re-evaluated.

External evaluations also point in this direction. In a recent analysis by Willis Towers Watson, an assessment is made of the state of sustainability for global leading asset owners. It concludes that although these 20 asset owners, including 12 the PRI signatories, have a wide spectrum of sustainability policies, the range of effective sustainability practices is limited. Shallow beliefs on sustainability, low commitment on long-horizon investing and mixed quality of governance are examples of this.

External validation of reports would help to solve a lot of these issues. However, validation of a separate framework or questionnaire will be costly for signatories.

All-in-all, the framework seems suboptimal to create real accountability and a 'race to the top' amongst asset owners and investors. The objectives underlying the reporting and assessment tool are therefore only partially being achieved.

Other the PRI activities

The agenda of the PRI extends much further than the aforementioned activities. Other programmes are focused on areas such as policy, implementation support, and education & training. In view of the diverse needs of signatories, all the activities under these programmes may potentially be relevant. However, it is difficult to be effective and efficient and deliver high quality across so many areas, and concerns were expressed about the breadth of the PRI's activities and the negative impact this can have on quality.

As resources are by definition limited, the PRI may want to focus on those areas that are seen as adding most value. If so, the survey responses of signatories and other respondents ranking the roles of the PRI should be taken into account when allocating the resources where they're most needed.

Exhibit 17: The PRI's primary roles as considered by the PRI signatories
Source: Survey data

NETWORKING AND FACILITATING ROLE	ADVISORY ROLE	ADVOCACY ROLE	ACCOUNTABILITY ROLE
36%	25%	18%	20%

Networking and knowledge-sharing are still considered the primary role by a majority of respondents, as can be seen in Exhibit 17. In addition, the survey indicated that:

- All groups of respondents consider networking and facilitating the most important role of the PRI, except for the Middle East;
- Service providers and non-signatories consider accountability much more important than asset owners and investment managers do;
- Service providers and non-signatories appreciate advisory much less than signatories;
- When asked what other roles should be prominently covered education, training and research were mentioned most frequently.

V. INFLUENCING THE ENABLING ENVIRONMENT

This chapter discusses the PRI interventions geared towards the 'enabling environment': how is the PRI influencing the wider context and what is the impact on the investor world?

The enabling environment

The 'enabling environment' constitutes key stakeholders that influence the investment industry, such as regulators and governments, corporations, the media and academia. Through a variety of interventions, the PRI influences these stakeholders, collaborating with them to bring about change in the investment industry. This is vital because no organisation can optimise the conditions for RI on its own.

Exhibit 18 gives an overview of some key relationships in this area. The PRI engages and at times works together with the corporate world, not least in cooperation with UN Global Compact. The academic network brings academics and practitioners together, showcasing the best academic research to the investment industry and encouraging academia to respond to the research needs of investors. The PRI enjoys considerable media exposure as thought leader and spokesperson for RI. This helps to build its reputation as the global investors' platform. In addition, it works together with peer organisations to learn from each other, and try to harmonise and align work streams of these organisations. It has a clear focus and adds value to work done by longer established organisations such as US SIF, World Business Council for Sustainable Development, International Corporate Governance Network, Global Reporting Initiative, Carbon Disclosure Project and the Institutional Investors Group on Climate Change. Strong synergies have been created and the PRI has worked together with peers on a number of agendas.

The PRI also engages with regulators and political bodies. A small number of signatories feel, and quite strongly, that the PRI should stay away from this kind of advocacy. They fear the PRI becoming a more politicised organisation, while they want it to be a networking and learning platform for its signatories. Others expressed the view that self-regulation, useful as it is up to a point, may not be the full answer to achieving real change in the investment world. They therefore want advocacy for investment regulation to become a core part of the PRI's mission and the PRI to partake more in agenda-setting and even be 'provocative'. According to these signatories, networking will not generate the incentives to make real changes in the investment industry. The process towards agreement on a seventh principle, focused on the financial system, is likely to be coloured by these opposing views. In the next chapter we recommend the PRI align the different opinions by being more clear on its purpose and its implications for signatories.

> ‘The PRI has been an astute example of how self-regulation does not do the job. Enforced government regulation is what is needed. The PRI should therefore also focus on the policy front and lobby for stronger regulation’

Exhibit 18: The PRI’s enabling environment.
Source: Steward Redqueen

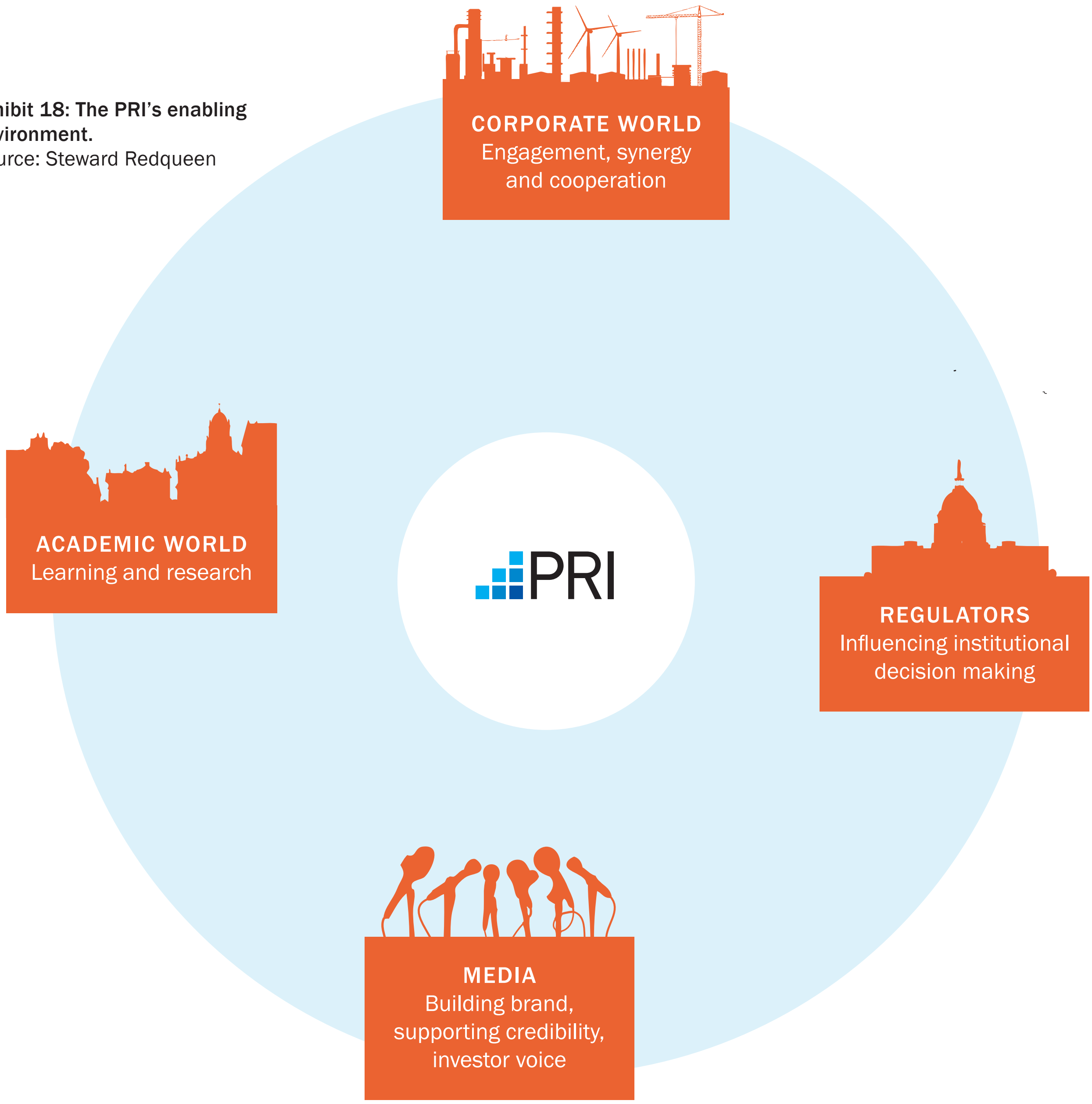


Exhibit 19

10 HIGHLIGHTS OF THE PRI'S INTERACTIONS WITH THE ENABLING ENVIRONMENT

1. FIDUCIARY DUTY IN THE 21ST CENTURY REPORT.	The 2015 report on fiduciary duty by the PRI, UNEP FI, UNEP Inquiry and the UN Global Compact has been well received by multiple audiences and gained traction in many articles.
2. SUCCESSFUL COORDINATED ENGAGEMENTS.	Next to initiatives from the Clearinghouse, the PRI has supported a wide range of coordinated engagements. Examples include engagements on hydraulic fracturing ('fracking') in order to improve company disclosure in this area, on water risks and agricultural supply chains, and an engagement in collaboration with WWF and PwC.
3. EMERGING MARKET DISCLOSURE PROJECT (EMDP).	The PRI supported the EMDP by US SIF, a project that brought together partners from around the globe in a collaboration aimed at improving sustainability disclosure in emerging markets. Over the five years of the project, the participants published four original research reports, created teams in various countries across the global, engaged 72 companies, and achieved their goal of advancing sustainability reporting in emerging markets.
4. CREATION OF REGIONAL NETWORKS.	With the first regional network, founded in 2008 in Brazil, a start was made on local the PRI representatives engaging with local companies and policy makers collectively on specific ESG issues.
5. PUBLIC RELATIONS.	The PRI has an incredible visibility at worldwide events and is often quoted in well-respected journals and newspapers, such as the Financial Times and the Guardian.
6. ACADEMIC NETWORK.	Though the PRI's Academic Network, both awareness and partnerships are created with renowned universities. Moreover, the RI Quarterly is read by a large range of both signatories and non-signatories.
7. THOUGHT LEADER.	The PRI is often invited as a guest and influencer to events like the UNFCC-Conference in Paris, contributing to international standards and policies.
8. PROMOTING RESPONSIBLE REGULATION.	The RI has had a role in creating awareness within local governments, for example by contributing to the Japan Stewardship code and regulatory changes in South Africa.
9. SUPPORT TO SUSTAINABLE STOCK EXCHANGES (SSE) INITIATIVE.	The PRI supports the SSE Initiative, a peer-to-peer learning platform for exploring how exchanges — in collaboration with investors, regulators and companies — can enhance corporate transparency, and ultimately performance, on ESG issues, and encourage sustainable investment, together with UNCTAD, UNGC and UNEP-FI. The PRI continues to co-convene the flagship Global Dialogues events.
10. SUPPORTING EUROPEAN COMMISSION IN THEIR RESEARCH.	In 2011, together with the International Corporate Governance Network (ICGN) and European Federation of Financial Analyst Societies (EFFAS), the PRI was appointed to lead a new programme to build the capacity of investors to integrate ESG information into their investment decisions. The result was a comprehensive professional development programme, as well as guidance on best practice in the integration of ESG information into investment decisions.

> ‘The PRI has been a key driver for policy change in my country. The Pension Fund act and codes now require investors to include ESG factors in decision-making. Big leverage.’

> ‘The PRI was formed in a critical time to align investors and is a frontier. Still, there is a gap in how it deals with the Sustainable Development Goals. Implementation of these in organisations would bring opportunities.’

> ‘Impact has yet to be achieved. Teach people now how to make decisions in the future.’

Impact of advocacy activities

The impact of the PRI’s interventions in the ‘enabling environment’ is qualitative and anecdotal. To what extent this has actually impacted on the investment world is hard to establish for a number of reasons. Advocacy initiatives are geared to stakeholders who may, at best, be in the scope of influence of the PRI, but not in its scope of control. With advocacy, the PRI hopes to influence decision-making for the advancement of RI, and that is difficult given that the PRI is not the only one with specific interests. In order to change either regulation or the behaviour of the corporate world, it is vital to engage with key stakeholders and secure much-needed broad support for improving investment conditions. Through these activities, the PRI has secured investors a seat at the table in a range of dialogues. Without the PRI, it is less likely that there would have been a thought leader and shared voice to promote the investment perspective. Many of the advocacy efforts have by their nature a long horizon. We therefore recommend that the PRI be highly selective in the battles it picks, uses its strengths to create synergies wherever possible, balances resources, and communicates clearly on its focus and desired outcomes.

VI. CONCLUSIONS AND RECOMMENDATIONS

For a decade, the PRI has been working to achieve a sustainable global financial system which rewards long-term RI, and benefits the environment and society as a whole. Realising this mission is a huge task, as its means changing the focus and culture of the global financial system. Returning the system to its fundamental purpose – looking after the money of the general public - is already a huge challenge. Incorporating ESG only makes the task bigger, because it means challenging the status quo and addressing complex issues. The Principles have proved a compass in this quest to mainstream RI and promote the long-term health of the financial system.

We conclude that, in this highly complex environment, the PRI has been successful in realising the following accomplishments in just 10 years:

- It has united a large proportion of the investment industry around the objective to incorporate ESG issues into investment analysis and decision-making processes;
- It has become the leading investors' platform for learning, engagement and sharing of best practices in RI;
- It is recognised as the global voice on RI for the investment industry and a thought leader in ESG integration;
- It represents the investor perspective in global dialogues on sustainability.

However, on the basis of our evaluation, the following areas need to be addressed and improved upon:

- The PRI is serving a diverse signatory base, which contributes to its strength and credibility. This also implies that signatories are in different stages of integrating RI into their investment practices. By engaging in many activities, ranging from networking to advocacy, the PRI risks sacrificing a degree of focus and quality. The challenge for the PRI is to service both front runners and late adopters in a way that satisfies all, while maintaining a strong brand value. The PRI has to focus its value proposition and contributory impact to avoid getting stuck in the middle.
- The PRI must do more to support its signatory base in strengthening their RI practices. Awareness and policies have not yet been translated into incorporation of ESG within all pockets of their portfolios. Across the board, RI practices are the exception rather than the rule, as confirmed not least by internal signatory scores. There is consensus that ESG practices in the investment industry still have to be scaled up significantly and the PRI's platform can play a major role in this process.

Towards real-world impact

Ultimately, the PRI is aiming for 'real-world change'. As Fiona Reynolds puts it in her introduction in the PRI's annual report 2015: 'for our impact on investors to be meaningful it needs to be reflected in their impact on companies'. Our theory of change suggests that the PRI can have 'real-world' impact by mainstreaming RI practices in the investment industry and through advocacy to improve the 'enabling environment'. As the PRI is not unique in its aim for the transition towards a sustainable economy, it will remain hard to assess its contribution to any change. A wide range of political, economic and global sustainability developments are having an impact on the way companies act. Although many hope that these forces will be a stimulus for scaling up RI and ESG incorporation, there are no guarantees. Advocacy will remain crucial.

We believe that the PRI's on-going strategy should include a discussion of the precise impact it wants to achieve and what the road towards this point on the horizon might look like. The drivers for change and KPIs must be aligned to those strategic choices. Drawing a baseline at the start of the new strategy, and understanding the 'chain of events' that are the underlying drivers for change, will allow the PRI to define its KPIs, track progress and assess impact going forward.

Evaluating the PRI's achievements and challenges, we have captured its strengths, weaknesses, opportunities and threats in a SWOT analysis (Exhibit 20)

Exhibit 20
SWOT analysis

	HELPFUL TO ACHIEVING THE PRI MISSION	**HARMFUL** TO ACHIEVING THE PRI MISSION
INTERNAL ORIGIN (attributes of the organisation/ signatory platform)	S • 'Big tent' organisation • Growing global signatory base • UN partners • Strong brand • Global investors' voice on RI • The PRI Clearinghouse platform • Engagement, learning, best practices amongst signatories • Well-networked • Strong signatory and stakeholder consultation • New strategy focused on impact and accountability	W • Wide-ranging agenda (could result in lack of focus, diluted delivery) • Divergence of opinion among signatories about the PRI's purpose and ambitions • Different level of commitment by signatories to integrate RI in practices • Inconsistent signatory reporting
EXTERNAL ORIGIN (attributes of the environment)	O • Rise of 'sustainability' on global agenda of many stakeholders • Growing appetite for RI in investment industry (fiduciary duty clarified) • Better understanding of the RI business case • Untapped potential for more commitment/ signatories in Europe and USA due to high global volume of AuM • Growth in financial markets in other regions • New and innovative partnerships with a range of organisations (also in reporting)	T • Lack of alignment and no level playing field in RI regulation • Uncertain political climate • Macro-economic downturn • Weak governance of the global financial sector • 'Competition' with other sustainability initiatives • RI/ESG and sustainability lose traction

Looking ahead, we propose three recommendations to ensure the continued relevance of the PRI for the next decade and beyond:

THREE RECOMMENDATIONS FOR THE PRI

1) CREATE MORE CLARITY AND CONSENSUS ABOUT THE PRI'S PURPOSE AND AMBITION

Signatories have different views on the purpose and scope of the PRI. Some see it as a platform for learning and engagement, while others want it to be a (more activist) voice for real-world change. These differences seem increasingly to hamper the effectiveness of the organisation.

ESG integration is a fundamental change process and aspirational organisations need time to go through it. Geographical origins and types of asset class can make the challenge even greater. Becoming a signatory is voluntary, but in our view the PRI should make it clearer that progressing RI integration is not optional. To this end, and to serve as a 'guiding star' for all signatories, an active approach should be a condition of being a signatory. There should be no place for free-riding; a deep commitment to, and measurable progression towards, an integrated financial system should be the agreed objective.

2) ENHANCE FOCUS AND VALUE ADDED

Being a 'big tent organisation' should increase the urgency to focus. The PRI is serving a wide range of signatories with varying needs, and as responsible investing is evolving, there seems to be no limit to the number of possible additional activities. The PRI should be more critical about prioritising its own activities, to make them as effective as possible in triggering change. Resources are by definition limited and they should be used effectively to ensure implementation progress. It is not feasible or desirable to have an ever-expanding organisation. With a growing signatory base, it is increasingly important to identify which activities generate the best added value for its signatories and the overall cause. More specifically, we think the focus and added value of the PRI can be improved by the following:

a) To change market behaviour, we recommend focusing on the USA and Europe. Institutions from these geographies continue to have dominant market position in terms of AuM (approx. 80% of global volume), making this the sweet spot for going from principles to practice. Adding depth to asset owners and investment managers practices in those markets, potentially even at the expense of resources for other geographies, would be a game changer;

b) To prepare institutions in new markets for the challenges of RI, we recommend the PRI focus on networking, engagement and dialogue in a select number of countries. One-off events will not suffice to change those markets. Clear strategic plans, that also take account of cultural aspects, should guide these focused efforts;

c) To address specific sustainability challenges requiring investor push, we recommend the PRI better utilise the potential of the Clearinghouse. Through specific collaborative engagements, the PRI signatories can leverage their influence to have an impact on the real world and contribute to the SDGs. This will require participants agreeing in advance on desired outcomes, KPIs and responsibilities.

3) IMPROVE THE ACCOUNTABILITY PROCESS

Accountability is a precondition of RI integration. We believe the quality of the current accountability process needs to be improved: the current process is seen as complex and time-consuming, there are concerns about a compliance drive, and it is open to abuse through gaming and gold-plating. We question whether the PRI can ever come up with a system of its own that will meet all its needs, especially given that signatories already produce other reports. We therefore recommend the PRI look to team up with a recognised global standard:

- Investigate which peer organisation with a robust track record on non-financial reporting (e.g. GRI or IIRC) is best positioned to work with the PRI here;
- Design an investment industry supplement for the PRI's process. This should include clear information on the progression of RI implementation, from negative screening to impact investing;
- Encourage external verification, which adds to the reporting quality;
- Require signatories to report according to agreed guidelines, with a brief supporting letter on how the Principles were advanced during the reporting year.

This new process will have greater credibility than the current one. It would also deliver a considerable workload reduction within the PRI organisation, freeing up resources for other activities. In addition, it would end the PRI's 'policing role' that many signatories believe is hard to combine with its main purpose of being a partner to its signatories in progressing implementation of the Principles.

We also recommend the PRI design positive incentives that will encourage signatories to improve their practices. Awards or a 'gold star' classification may be the carrot to persuade signatories to really make a difference and incentivise a 'race to the top'.

The combination of these various steps will insure signatories at least reach a certain baseline. Moreover, the PRI will leverage and spark the competitive spirit within the industry, inspiring signatories to ever greater heights.

It should be mentioned that the PRI is aware of many of the points and issues here mentioned, and that most are addressed in the PRI strategy 2015-2018 'From Awareness to Impact' and broader stakeholder consultations. Findings of the consultations will feed into a responsible investment blue print which will define the PRI's strategic objectives and direction for the next ten years. We believe strongly that the investment industry needs the PRI and the PRI can in turn guide the investment industry to greater real-world impact.

LIST OF ABBREVIATIONS

AO	Asset Owner
AODP	Asset Owner Disclosure Project
AuM	Assets under Management
CDP	Carbon Disclosure Project
ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
GSIA	Global Sustainable Investment Association
ICGN	International Corporate Governance Network
IIGCC	Institutional Investors Group on Climate Change
IM	Investment Manager
KPI	Key Performance Indicator
PRI	Principles for Responsible Investment
RI	Responsible Investment
SDG	Sustainable Development Goals
SIIT	Social Impact Investment Taskforce
SP	Service Provider
UNEP FI	United National Environment Programme Finance Initiative
UNEP Inquiry	United Nations Environment Inquiry
UN Global Compact	United National Global Compact
US SIF	Forum for Sustainable and Responsible Investment
WBCSD	World Business Council for Sustainable Development

ANNEX 1: METHODOLOGY

The methodology followed in preparing this evaluation included a desk review, interviews, a survey and an in-depth analysis of the results.

Desk research included reference to a large number of articles, papers, news articles and books, of which a selection is given in Annex 2.

In addition to desk research, a number (41) of signatories and other stakeholders were interviewed. Quotations used in the text have been taken from these interviews. It was agreed with interviewees they would not be quoted directly in the report, as this would allow for more frank and open feedback. The list of interviewees can be found in Annex 3.

Questions were also included in PRI's most recent signatory satisfaction survey, which was filled in by both signatories (350) and non-signatories (81). The survey questions are included in Annex 4.

Limitations

Several challenges in the assessment of the impact of PRI were identified during this research. One important observation is that PRI did not formulate specific KPIs when it was established. The organisation has reported extensively, but not consistently, on a certain set of indicators. Data availability for the period 2006-2013, as well as data consistency, have been a handicap in the assessment of progress made over the past 10 years.

On a more conceptual level, it was a challenge that there is no universally-accepted definition of 'responsible investment'. In some ways, RI is also a moving target, as new issues have to be addressed (for example fair tax), at the same time that many investors still struggle with the basic processes of negative screening. But despite the challenges, the evaluation team is convinced a fair assessment has been possible.

ANNEX 2: SELECTION OF LITERATURE

AMF (2015). AMF report on socially responsible investment in collective investment schemes.

Asset Owner Disclosure Project (2015). Global Climate 500 index.

Acre (2014). CSR salary survey 2014.

BCG (2014). Global Asset Management 2015. Sparking growth with go-to-market excellence.

Blackrock (2015). The price of climate change.

Blackrock (2014). Who owns the assets?

Brown, B. Wallace, M. (2016) The ESG disruption: don't be left behind.

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Clark, G.L., Feiner, A. and Viehs, M. (2015). From the stockholder to the stakeholder.

Coerver, H., & Cae, M.B. (2012). Race for relevance.

Deutsche Bank (2012). Sustainable Investing: establishing long-term value and performance.

EIRIS (2012). Evolving markets: what's driving ESG in emerging economies?

EY (2015). Tomorrow's investment rules 2.0.

Gifford, J. (2010). Financial markets and the United National Global Compact: the Principles for Responsible Investment.

GSIA (2015). Global Sustainable Investment Review 2014.

IFC (2009). Sustainable Investment in China.

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JSIF (2014). Review of Socially Responsible Investment in Japan.

Kay, J. (2015). Other people's money.

McKinsey & Company (2013). Global asset management in 2013: will the goose keep laying golden eggs?

McKinsey & Company (2015). The $64 trillion question: convergence in asset management.

Monks, R.A.G. (2013) Citizens DisUnited.

Murray, J. (2015). Global green consultancy market hit 1 billion, but is it in a lull?

Piani, V. & Gond, J.P. (2014). Facilitating Investor Engagement on ESG Issues: The PRI Initiative in Action.

PRI (2015). Wide range of documents.

PWC (2014). Asset Management 2020: A Brave New World.

Novethic (2015). Profile of responsible investors in Europe.

Russel Research (2015). Russel Investments Bond Manager ESG survey.

Social Impact Investment Taskforce (2014). Allocating for Impact.

SOMO (2015). Mobilising the financial sector for a sustainable future.

Strategic sustainability consulting (2013). By the numbers: US sustainability consulting market.

Towers Watson (2015). The top 500 largest asset managers.

UNEP Inquiry (2015). The financial system we need.

UNEP Inquiry (2015). The value of everything.

University of Cambridge Institute for Sustainability Leadership (2014). The value of responsible investment.

US SIF Foundation (2015). Report on US Sustainable, Responsible and Impact Investing Trends.

Waring, P. and Edwards, T. (2008). Socially Responsible Investment: Explaining its uneven development and human resource management consequences.

Willis Towers Watson (2015). Sustainability and ESG: CalPERS and the world's leading asset owners.

World Economic Forum (2011) Accelerating the transition towards sustainable investing

ANNEX 3: LIST OF INTERVIEWEES

Alecta, Peter Lööw, Sweden

APG, Claudia Kruse, Netherlands

Arisaig, Rebecca Lewis, Singapore

Bank of America Merrill Lynch, Surya Kollori, United States

Bâtirente, Daniel Simard, Canada

Blue Wolf Capital, Mike Musuraca, United States

California Public Employees' Retirement System (CalPERS), Priya Mathur, United States

California State Teachers' Retirement System (CalSTRS), Brian Rice, United States

Cambridge Institute for Sustainability, Carlos Joly, United Kingdom

Cbus Superannuation Fund, David Atkin, Australia

Climate Bonds Initiative, Sean Kidney, United Kingdom

Financial Service Board, Rosemary Hunter, South Africa

Generation Investment Management LLP, David Blood, United Kingdom

Global Reporting Initiative, Eszter Vitorino, Netherlands

Harvard Business School, Robert Eccles, United States

Harvard Initiative for Responsible Investment, James Gifford, United States

Hermes Equity Ownership Services, Colin Melvin, United Kingdom

HESTA Super Fund, Angela Emslie, Australia

PRI Japan, Michiyo Morisawa, Japan

Japan Sustainable Investment Forum, Masaru Arai, Japan

Kohlberg Kravis Roberts & Co. L.P., Elizabeth Seeger, United States

Man Group plc, Jason Mitchell, United Kingdom

Middletown Works Hourly and Salaried Union Retirees Health Care Fund, Jay Youngdahl, United States

NN, Nina Hodzic, Netherlands

Ownership Capital, Antoinette van Lier, Netherlands

Ownership Capital, Francois Schockaert, Netherlands

PGGM, Else Bos, Netherlands

PKA, Pelle Pederson, Denmark

PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil, Marcel Barros, Brazil

Principles for Responsible Investment, Valeria Piani, United Kingdom

Principles for Responsible Investment, Fiona Reynolds, United Kingdom

Principles for Responsible Investment, Martin Skancke, Norway

Principles for Responsible Investment, Adrian Bertrand, South Africa

Santander, Luzia Hirata, Brazil

Sedco Capital, Hasan al Jabri, Saoudi Arabia

Sedco Capital, Christian Gueckel, Saudi Arabia

The Abraaj Group, Geetha Tharmaratnam, United Arab Emirates

The ATP Group, Ole Buhl, Denmark

The IIRC, Neil Stevenson, United Kingdom

Triodos Investment Management, Rosl Veltmeijer, Netherlands

UN Global Compact, Gavin Power, United States

Universities Superannuation Scheme, David Russel, United Kingdom

West Midlands Pension Fund, Leanne Clements, United Kingdom

ANNEX 4: SURVEY QUESTIONS

1) LEARNING
Researching the dynamics of responsible investment, engaging with others on this topic, exploring the narrative.

2) FORMULATING THE BUSINESS CASE
Designing the plan to capture the value of responsible investment in terms of reputation, risk management or value creation.

3) APPLYING RESPONSIBLE INVESTMENT IN POCKETS OF THE PORTFOLIO
Recognising the potential of the PRI principles and having the management systems in place to actively apply them in pockets of the portfolio.

4) FULL INTEGRATION OF RESPONSIBLE INVESTMENT ACROSS THE PORTFOLIO
Having embraced the business case of responsible investment and mainstreaming RI across the portfolio (what the signatory stands for is leading the organisation more than meeting the PRI principles).

Question 1

In the context of this evaluation Steward Redqueen distinguishes four phases towards full incorporation of Responsible Investment. Not every organisation will follow an identical path, yet these steps are appreciated as a compass for RI.

We now have three questions on these phases with respect to your organisation.

1) *In what phase was your organisation when you became a signatory of the PRI?*
   1 2 3 4

2) *In what phase would you position your organisation today?*
   1 2 3 4

3) *Is it the ambition of your organisation to reach phase 4?*
   Yes No

   Comment:

Question 2

How strong has the impact of PRI been for your company in mainstreaming Responsible Investing since you became signatory of PRI?

a) No impact
b) Weak impact
c) Moderate impact
d) Strong impact

Comment:

When you became a signatory of PRI, what percentage of your managed assets could have been marked as 'responsibly invested'?

a) 0-25%
b) 25-50%
c) 50-75%
d) 75-100%

As of today, what percentage of your managed assets can be marked as 'responsibly invested'?

a) 0-25%
b) 25-50%
c) 50-75%
d) 75-100%

Question 3

Going forward, which role should PRI play to have the biggest impact on mainstreaming Responsible Investing amongst asset owners and investment managers? Please rank the roles as outlined below.
If you wish to add a suggestion use e).

a) A networking role, inviting the largest possible number of signatories to engage, share knowledge and share best practices on this subject
b) An advisory role, giving hands-on implementation support and guidance to signatories on a voluntary basis.
c) An accountability role, giving PRI a stronger mandate to pro-actively manage the relationship with signatories which do not comply with accountability requirements put by PRI, utilising the results of its annual reporting and assessment process
d) An advocacy role, PRI to maximise its influence on governments, regulators and other constituencies to mainstream Responsible Investing in investment analysis and decision making.
e) Other: [..................]

Question 4

Early next year PRI will celebrate its 10th anniversary. What do you consider to be the largest impact of PRI over the last ten years?

....

What should PRI's TOP 3 priorities be in order to maximise its impact by 2026 (20th anniversary)?

1)
2)
3)

ABOUT STEWARD REDQUEEN

Profile

Steward Redqueen is an independent consultancy that works across the globe advising organisations on impact and sustainability. Its mission is to make business work for society. Steward Redqueen focuses on integrating sustainability, private sector development, quantifying impact and facilitating change.

The company's main offices are in Haarlem, the Netherlands, with representation in Barcelona (Spain) and New York (USA). It also has network partners in Bangalore (India), Guatemala City (Guatemala) and Washington DC (USA).

Clients of Steward Redqueen include global corporations such as Heineken, Coca Cola and Maersk. The financial sector is a focus area and clients there include household brands (e.g. Aegon, ABN AMRO, Rabobank, MN Services and Standard Chartered) and development finance institutions (e.g. IFC, FMO, DEG and CDC). In addition, Steward Redqueen serves a range of companies, non-profit organisations and industry bodies everywhere from Indonesia to Ghana and Paraguay to Romania.

For more information www.stewardredqueen.com

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