PRI

Principles for Responsible Investment

Report on Progress 2010

An analysis of signatory progress and guidance on implementation

UNEP Finance Initiative
Innovative financing for sustainability

United Nations Global Compact

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

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Abbreviations used in this report

PRI	Principles for Responsible Investment Initiative
AO	asset owner
IM	investment manager
GPS	governance, policy, strategy
AUM	assets under management
ESG	environmental, social and corporate governance
RI	responsible investment

Signatories
Unless otherwise stated, the term 'signatories' and 'respondents' are used interchangeably throughout the report to refer to the survey respondents.

Introductory message

from the Executive Director

Dr James Gifford

Welcome to the PRI Report on Progress 2010. This report presents the findings from our annual survey on how investor signatories are implementing the six Principles and captures the latest trends and practices on responsible investment.

This year, nearly 80% of signatories eligible to complete the survey did so, and 97% of the signatories required to respond this year did so. This suggests that investors are increasingly recognising that reporting on responsible investment activities is important.

It is also encouraging that 40% of respondents to this year's survey chose to publicly disclose their organisations' individual responses to the survey, up from 25% last year.

Beyond accountability and transparency, the PRI Reporting and Assessment survey is also a learning tool aimed at helping signatories to drive real change within their organisations and their agents'.

This report shows that signatories' implementation of the Principles is developing strongly. There has been an impressive growth in reported activity from investors in Spain, North America, Denmark and New Zealand. The use of ESG research within mainstream funds as well as themed asset classes such as microfinance, sustainable forestry and clean tech, continues to expand. Over 4,000 engagements with companies have been reported by signatories.

While there has been strong progress, there is still a long way to go, particularly in asset classes such as fixed income, the monitoring of outsourced voting activities, and incentivising staff and other agents on ESG performance. The number of asset owners including ESG criteria in their contracts with investment managers continues to rise but there are still many that are not yet embedding these criteria in a systematic way in their requests for proposals and manager evaluation processes.

Alongside the findings from the survey, this report also includes case studies from a range of investors across investor types, asset classes and geographical location. We hope the information gathered proves useful for all PRI signatories.

Completing the survey is a demanding task that requires time and effort. We thank signatories for the effort they have put into their responses.

We are also grateful to the PRI Secretariat's Reporting and Assessment team, the Assessment Working Group, our verification team and many others who have put thousands of hours into the PRI Reporting and Assessment Process.

Dr James Gifford
Executive Director,
PRI Secretariat

> **All publicly disclosed individual responses to the survey can be found at www.unpri.org/report10**

Key findings

About the respondents

- The 433 respondents this year represent 80% of the total number of signatories eligible to complete the survey, compared with 77% in 2009 (287 out of 375). The response rate among those signatories required to complete the survey was 97%.
- Among the investment manager category, 73% consider themselves mainstream investors, the rest being categorised as dedicated 'SRI' or 'themed' fund managers.
- Australia, US and UK provided the largest number of responses, with South Africa and Brazil among the top ten of those signatories that responded.
- The number of responses from Spanish investors grew from zero to ten this year. Responses from investors in North America, Denmark and New Zealand are also growing fast.
- Most asset owners assets are actively managed. Over 85% of asset owners have at least some funds that are passively managed.

Governance, policy and strategy

- Over 95% of asset owners and 87% of investment managers now have an overall investment policy that addresses ESG issues.
- Nearly 80% of respondents assign responsibility for ESG issues to the CEO or CIO, up from 73% last year.
- In total, 49% of respondents have a dedicated RI/ESG specialist within the organisation.
- Nearly 50% of respondents have internal management processes for responsible investment in place to a large extent within their listed equities in developed markets.
- Around 50% of respondents do not have responsible investment processes to cover fixed income asset investments, or have them only to a 'small extent'. Only 10% of hedge fund investments have such processes.
- Around 70% of senior managers with a responsible investment function have undertaken relevant training, mainly through conferences and seminars. A smaller minority also participated in structured or formal RI training.
- Less than 30% of asset owners incentivise performance on ESG aspects for individual staff, excluding ESG specialists, compared to around 50-60% for investment managers.

Principle 1

- The proportion of signatories integrating ESG in their active managed funds has grown from 64% to 69% on average across asset classes.
- The proportion of respondents that monitor processes for the consideration of ESG issues has more than doubled from 15% last year to 34% this year (for integrated internally active managed assets).
- The proportion of respondents that monitor processes for considering ESG issues (on integrated actively and internally-managed funds) has more than doubled from 15% last year to 34% this year.
- More than 40% of respondents invest in ESG-themed alternatives such as microfinance, sustainable forestry and clean tech.
- More than 50% (55%) of relevant respondents use a combination of integration techniques and/or ethical exclusions to implement Principle 1. Thirty-five per cent use only integration without ethical screens, while 10% use ethical criteria without integrating.
- Principle 1 takes place to the greatest extent in listed equity and infrastructure, and least in hedge funds and sovereign fixed income.
- In the global market as a whole, ESG integration is being implemented across 8% and 6% of listed equities in developed and emerging markets respectively. A rise from 5% and 4% last year.

Principle 2

- More than 90% of respondents have a relevant proxy voting policy, an increase from 88% last year.
- Almost 90% (88%) of respondents vote at least a portion of their listed equity porfolios.
- Around 40% of asset owners do not monitor whether their external managers vote in accordance with their RI policy, or do so to a small extent.
- The number of respondents that assess/monitor the ESG competencies of internal staff dealing with engagements rose from 20% to 43% this year.
- Over 4,000 extensive engagements run by internal staff have been reported by signatories for the second consecutive year.
- Approximately 60% of signatories holding investments in infrastructure, non-listed real estate and private equity report being active owners on ESG issues.

Principle 3

- Over 75% of respondents use internal staff to identify and gather ESG information.
- Sixty-seven per cent of respondents review ESG data that is integrated into corporate financial reports.
- Over half (54%) of respondents ask companies to respond to the Carbon Disclosure Project, and approximately 20% ask for the UN Global Compact Communication on Progress.
- Forty percent of signatories ask for the Global Reporting Initiative framework to be used.
- The number of respondents asking for ESG disclosure from companies within their infrastructure investment rose from 21% to 46%.

Principle 4

- The number of asset owners that put specific ESG considerations into their contracts with investment managers rose again this year from 63% to 66%.
- Seventy per cent of respondents include ESG considerations in their recruitment of third party providers. Although only around 50% of asset owners and investment managers incorporate them into contractual agreements.
- Around 50% of investment managers and 30% of asset owners provide financial incentives to brokers to produce quality ESG research. No change from last year.
- The percentage of asset owners involved in dialogue with regulators on ESG issues rose to 85% this year compared to 74% last year.
- Geographically, the bulk of activity to promote the benefits of responsible investment for investors is happening in Europe and the Americas.

Principle 5

- Approximately 90% of signatories were involved in formal or informal collaboration with other investors on ESG issues, up from 75%. More than 35% of signatories collaborated to a large extent.
- The proportion of signatories that have led a collaborative engagement on the PRI Clearinghouse this year rose from 12% to 17%. Nearly 50% have joined an engagement, up from 41% last year.
- From July 2009 to July 2010 a total of 223 signatories were involved in collaborative engagements promoted through the Clearinghouse and posted 85 new proposals, up from 70 proposals in 2008/09.

Principle 6

- Forty per cent of respondents disclose their responses to the PRI Assessment survey, compared with 25% last year. Forty-three per cent of asset owners disclosed their survey responses, compared with 36% of investment managers.
- Ninety-four per cent of signatories publicly disclosed their policies on ESG integration, compared to 85% last year.
- Just under 50% of respondents disclose their proxy voting records publicly to some extent, with 40% of asset owners and 25% of investment managers not sharing their votes even to clients or beneficiaries.
- Of those that publish voting records, 55% of investment managers and 51% of asset owners also published explanations of how they voted, compared with 38% and 44% respectively last year.
- Of applicable signatories disclosing their engagement activities, 28% do so to a large extent.

About the respondents

This section provides a snapshot of the investors that responded to the PRI Reporting and Assessment survey this year. Details on the methodology of the survey can be found in Appendix 1.

The number of respondents and response rate continue to rise

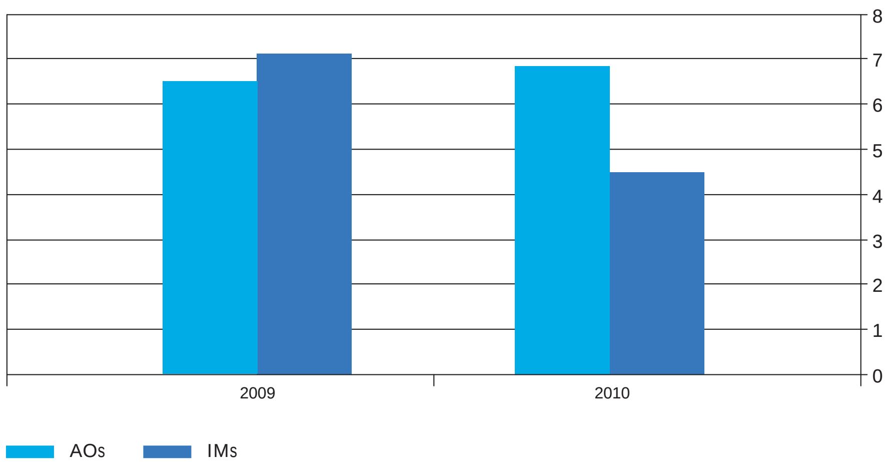
The number of PRI signatories continues to grow, so it is no surprise that the number of investors invited to complete the survey in 2010 increased from 375 to 540 this year. This 44% growth rate is driven by a 58% and 26% growth rate in the number of investment managers (IMs) and asset owners (AOs) respectively. Of the 540 signatories invited, 347 were IMs and 193 were AOs. Over 65% of the signatories on this invite list were required to participate (61% last year).[1]

The percentage of signatories responding to the survey – both those required to complete it and those that volunteered – grew from 77% last year to 80% this year. Responses were received by 170 asset owners and 263 investment managers, representing a response rate of 88% and 76%, respectively. The survey was therefore completed by 433 signatories (up from 287 respondents last year), and the full list of participants can be found in Appendix 2. Of those required to respond, the completion rate was 97% at the date of writing.

1. New signatories to the PRI Initiative are given a one year 'grace period' where completion of the Reporting and Assessment survey is not mandatory, although it is encouraged.

This year more IMs completed the survey than AOs. IMs now represent 61% of respondents and AOs 31%, compared to a fifty-fifty split in 2008. Investment managers represent 80% of the total assets under management (AUM) of all respondents. However the median size of IMs is smaller than that of AOs (see Figure 1).

Figure 1.
Median AUM of respondents (in US$ bn)



Europe dominant but North America and Oceania growing quickly

This year, the largest block of respondents comes from Europe with almost 200 investors completing the survey and 46% of respondents (see Table 1). The region with the second highest number of respondents is Oceania, (covering Australia and New Zealand). With over 80 respondents North America occupies the third position and shows a rapid growth rate.

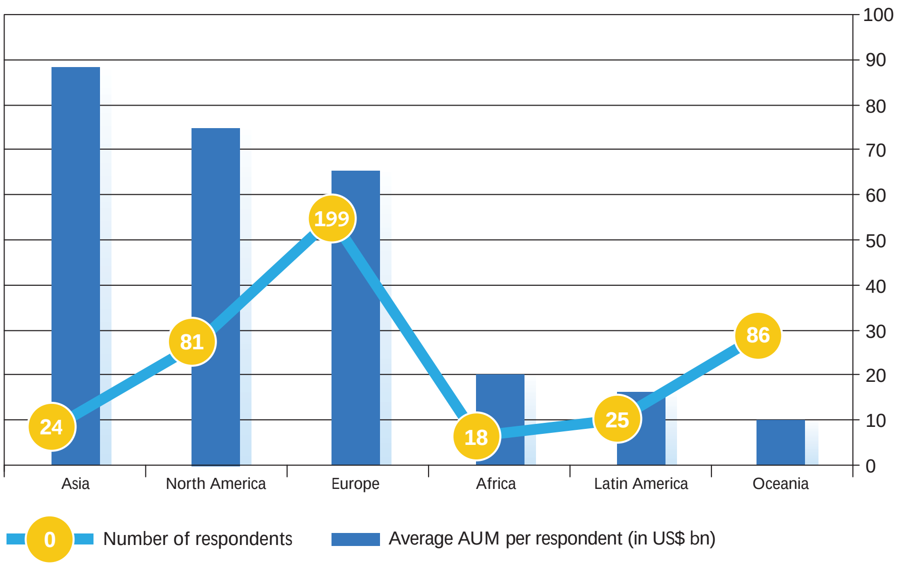
Table 1. Responses per region

	Respondents 2009	Respondents 2010	% Growth
North America	48	81	69%
Europe	127	199	57%
Oceania	58	86	48%
Africa	13	18	38%
Asia	20	24	20%
Latin America and the Caribbean	21	25	19%

The biggest regions in terms of the respondents' average AUM are North America and Asia (see Figure 2).

Figure 2.

Respondent's average AUM and number of respondents by region



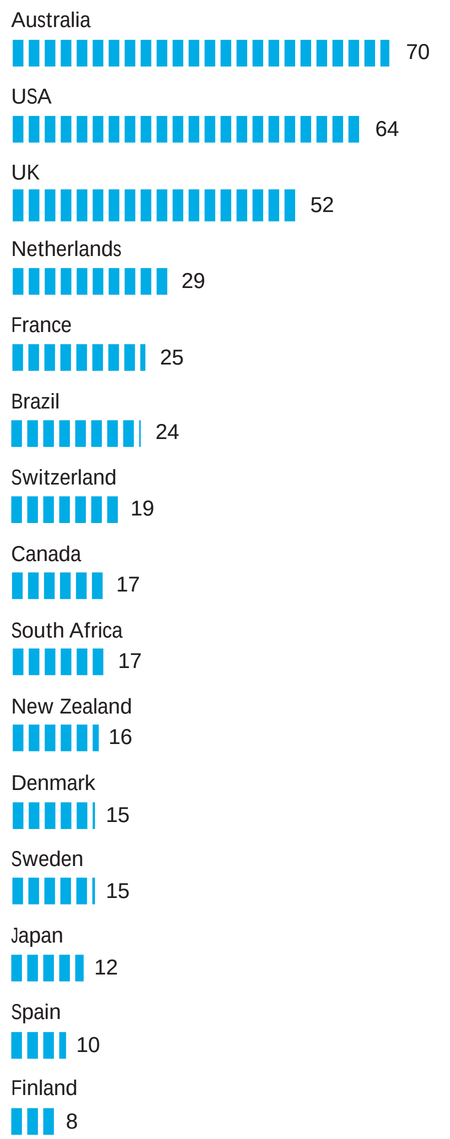
At the country level, the highest number of responses came from Australia, US, UK, Netherlands and France'. The strong presence of Brazil and South Africa is also noticeable, together representing over 40 signatories (see Figure 3). The most notable increase in respondents came from Spain and Denmark. Spain went from having no participants in last year's survey to ten this year and Danish respondents increased by 150%, possibly reflecting the impact of new legislation requiring public pension funds to incorporate responsible investment disclosure into their annual reporting. Outside Europe, the second highest percentage growth, although from a low base, was in New Zealand, with 100% (see Table 2).

Table 2. Highest number and growth rate of respondents by country

	Respondents 2009	Respondents 2010	% Growth
Spain	0	10	n/a
Denmark	6	15	150%
New Zealand	8	16	100%
France	14	25	79%
USA	36	64	78%
UK	36	52	44%
Canada	12	17	42%
Australia	50	70	40%
Netherlands	21	29	38%
Sweden	11	15	36%
South Africa	13	17	31%
Brazil	20	24	20%

Figure 3.

Highest number of respondents per country



A mainstream mix

The respondents are a diverse mix of investors.

Within the asset owner community, pension funds remain the largest group (see Figure 4). However, there has been a significant growth, though from a small base, in responses from foundations/endowments, government reserve funds and insurance companies: 133%, 100% and 89% respectively.

Among investment manager responses, a total of 73% now come from mainstream organisations (note that even if these managers promote a particular 'SRI' product the Principles are designed to apply to the whole organisation). Only 15% categorise themselves as dedicated 'ethical' or 'SRI' fund managers (see Figure 5).

Figure 4.
Breakdown of number of asset owners by category

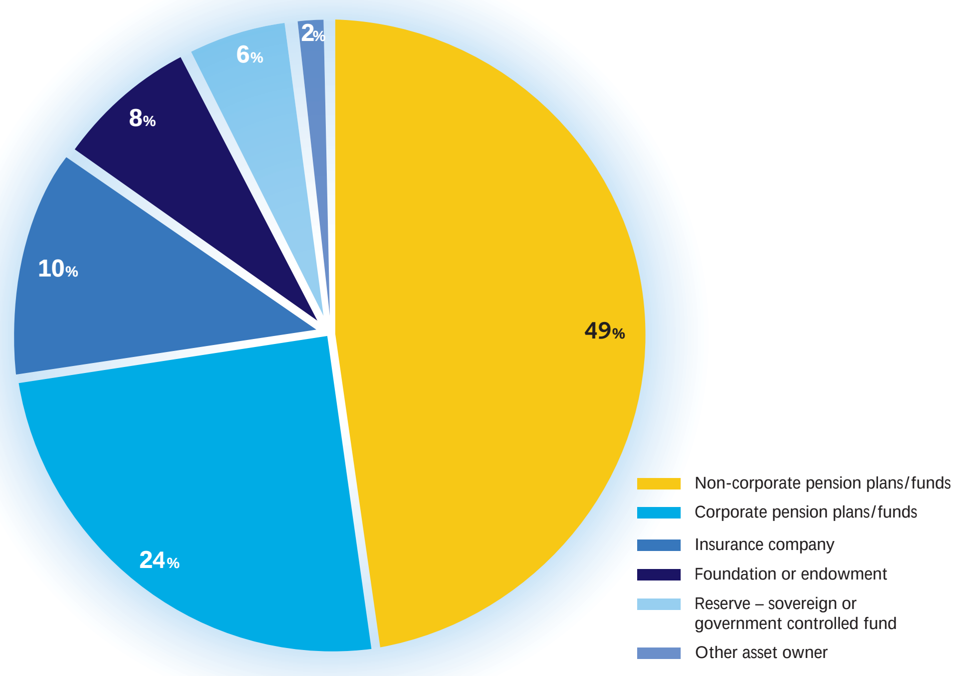
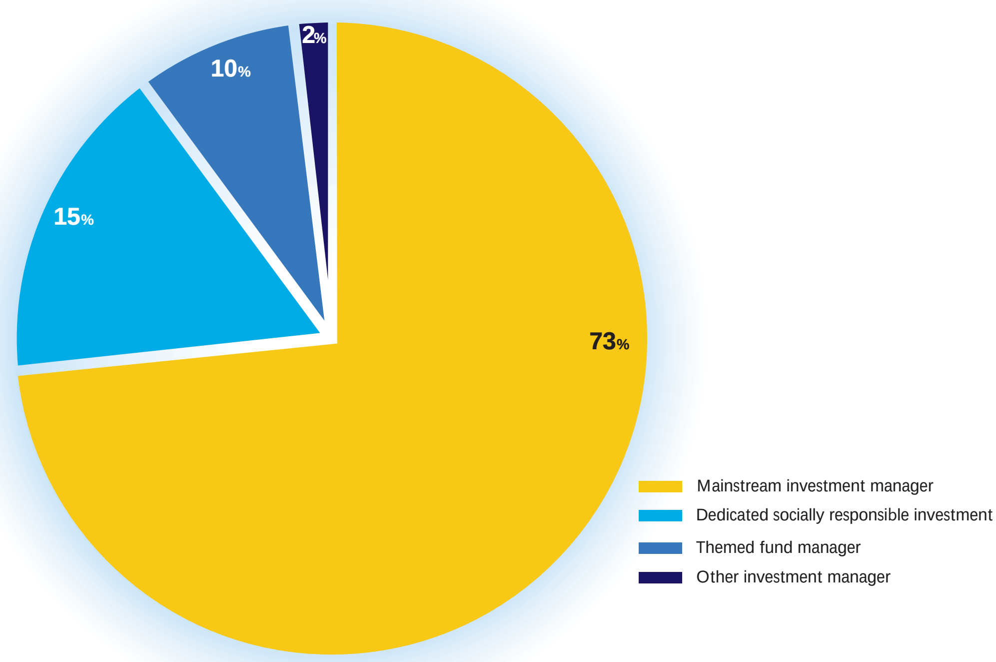


Figure 5.
Breakdown of number of investment managers by category

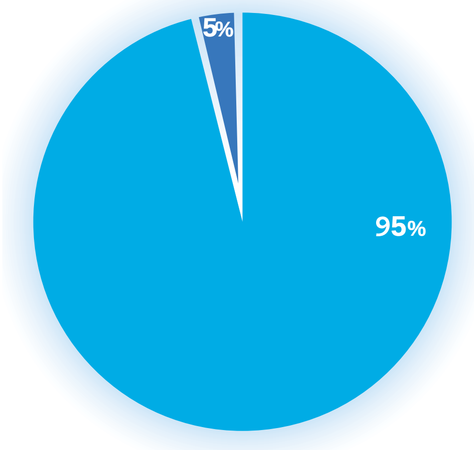


A majority manage in-house

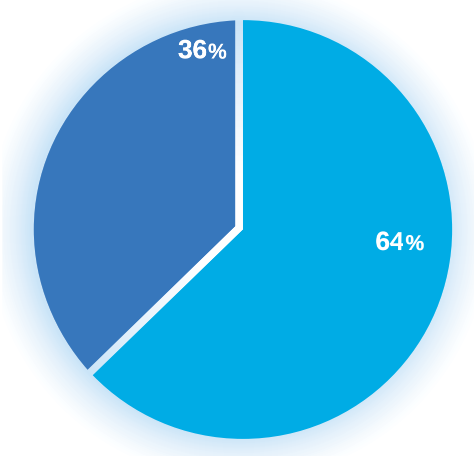
The majority of signatories use their own internal teams to manage assets. This is particularly the case for IMs, which have less than 5% of their AUM managed externally. Most AOs' assets are managed internally, but 38% are managed by external managers (see Figure 6). Moreover, 92% of AOs have at least a small portion of their funds managed externally.

Figure 6.
Total AUM managed internally and externally

Total IMs AUM



Total AOs AUM



Internal External

Increase in passive management

Passive management is a financial strategy in which the investor seeks to match – rather than outperform – a particular stock or bond market index and so minimizes transaction costs.

The survey found that approximately US$ 4 trillion of the total respondents' assets are passively managed, 17% of the total asset mix. Overall, signatories typically hold passive funds (based on their median value) worth US$ 1.9 bn, up 31% from last year.

AOs typically have lower volumes of passive investments than IMs. However, over 63% have at least some funds that are passively managed.

This significant presence and growth in passively managed assets prompted the PRI Secretariat to provide a new guidance document this year to clarify what is expected of passive funds in terms of implementing the Principles.

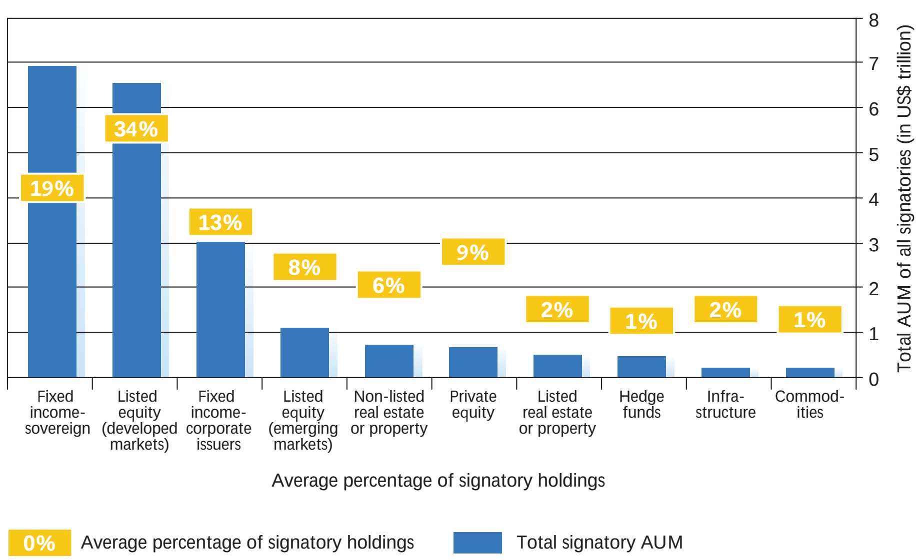
For example Principle 1 (integration) is of limited relevance for index-tracking funds, which would implement the PRI to a larger extent through active ownership (Principle 2) and the other Principles.

> **This guidance is available at www.unpri.org/passive**

Signatories hold primarily sovereign fixed income and listed equities

In terms of the asset class mix, the largest investments by respondents were in sovereign fixed income, representing approximately US$ 7 trillion. However, in terms of respondents' average holdings, listed equities in developed countries made up over 30% of AUM for the average respondent, while sovereign fixed income came second with less than 20% of AUM.

Figure 7.
Breakdown of all respondents' holdings by asset class



Governance, policy and strategy

This section explores the policies, processes and frameworks that signatories use to support their implementation of responsible investment.

Please note that the term 'signatories' and 'respondents' are used interchangeably throughout the remainder of this report to refer to the survey respondents (unless otherwise stated)

RI policies now the norm

Most signatories agree that one of the first steps to implementing the Principles is to create an organisation-wide policy that shapes operational activities such as proxy voting and engagement. Over 95% of AOs and approximately 87% of IMs now have an overall policy to manage ESG issues, although there are wide differences in the size and scale of the policies.

> **For some examples of these publicly available policies, please see page 10 of the Report on Progress 2009 available at www.unpri.org/publications**

Principles in action

RI Policy in South Africa

As the saying goes: A thousand mile journey begins with a single step. For the Government Employees Pension Fund (GEPF) of South Africa, that initial step was the decision to become one of the founding signatories to the Principles for Responsible Investment in 2006. Now this year it has published a comprehensive policy that sets out the GEPF's strategy for integrating environmental, social and governance (ESG) issues into investment decisions and ownership practices.

The GEPF is currently the largest pension fund in Africa, with 1.2 million contributing members, 320,000 pensioners and beneficiaries and net assets greater than R800bn (US$ 110 bn). Their Responsible Investment Policy defines the guiding principles, institutional framework and basic strategies for implementing the Principles and related activities.

Because of GEPF's size relative to its domestic investment market, the fortunes of the fund are very closely linked to the fortunes of South African citizens. The policy therefore includes the GEPF's commitment to address socio-economic imbalances through support for South Africa's Financial Sector Charter and other industry-specific Black Economic Empowerment Charters. It also aims to position the GEPF as a major player in the reshaping of a prosperous and sustainable future for Africa through investments and the promotion of good ESG practices.

The basis of its Responsible Investment Policy is the belief that:

(i) *Sound environmental management forms an essential part of sustainable economic growth and social development – the basic ingredients for corporate sustainability;*

(ii) *The mismatch between social and private financial returns is not sustainable; the two need to be aligned if the market system is to be sustainable; and*

(iii) *Enhanced governance mitigates risks of total corporate failure, which ultimately leads to enhanced long-term returns.*

As a leading African Investor, GEPF's commitment to the responsible investment journey is consistent with a commitment to invest in a way that will benefit its members and pensioners over the long term, while at the same time impacting positively on some of the pressing challenges that face our world.

> **More information: www.gepf.gov.za**

Putting RI processes in place proves difficult

Having a RI policy is a good first step, but this year's survey results show that putting internal management processes in place that fulfil this policy, is a more difficult step. Only a minority of signatories said they had these processes in place to a large extent across their entire portfolio.

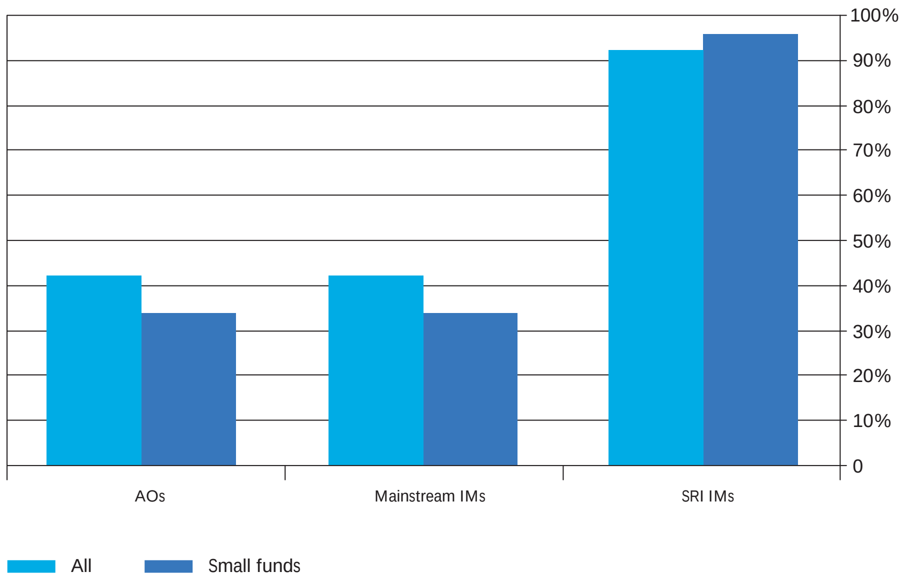
Examples of 'responsible investment processes' might include:

- Benchmark tools that compare all companies in a particular sector on a particular ESG issue;
- Requests for Proposals that include ESG criteria;
- Models to put financial values on ESG data; and
- Staff training modules and KPIs that cover sustainability issues as-well as finance issues.

For small funds, defined by the PRI as signatories with less than US$ 2 bn AUM, resource constraints are the biggest obstacle to setting up responsible investment processes. Only 33% of small asset owners have the capacity to implement these processes to a large extent. It is the same ratio – 33% – for small, mainstream IMs in this area.

However, it is notable that when looking at all small IMs, 64% report that they have the capacity to implement RI processes to a large extent. This is driven by the presence of dedicated SRI funds, making up 40% of all small IMs. Dedicated SRI investment managers, small funds or not, tend to have these processes in place to a large extent in over 90% of cases.

Figure 8. Signatories with RI processes in place to a large extent (%)



The PRI and small funds

Small funds represent approximately 30% of the PRI signatory base. Although a diverse group, small funds typically operate under resource constraints and face different challenges from their larger peers. Many small funds have only one staff member, if any, dedicated to ESG issues, pay a relatively high price for ESG research and proxy voting services and can have limited influence if they engage alone with investee companies.

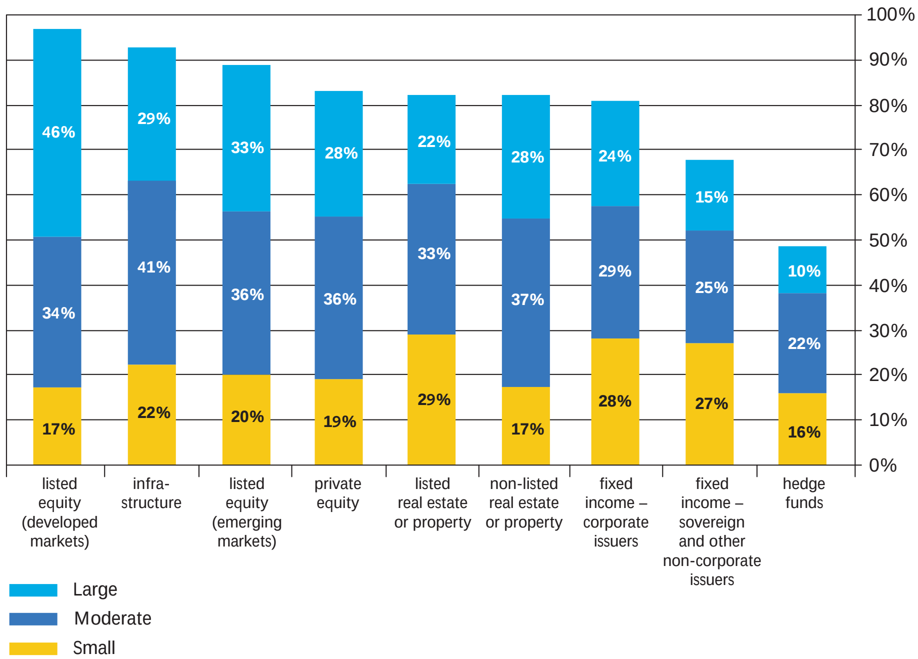
To help small funds overcome these issues the PRI set up the Small Funds Initiative (SFI) in 2007. The SFI is dedicated to funds with less than US$2 bn AUM or with particular resource-constraints. The SFI provides implementation support and learning opportunities. For example, the Initiative organises quarterly webinars on small fund specific topics, and produces best practice case studies on topics such as collaborative engagements and resource-sharing. The SFI is also an opportunity to identify collaboration opportunities and brainstorm ideas and to help small funds with the PRI Reporting and Assessment survey.

Despite the challenges, many small fund signatories are performing well, and have found creative solutions to the challenges they face. For example, the small funds that have case studies featured in this report include Pax World (p.21), Stratus Group (p.16), Krull&Company (p.20) and Christian Super (p.28).

For bigger funds, the task of applying these processes to all asset classes appears to be the main challenge. While almost 50% of signatories have implemented these processes to a large extent in listed equities in developed markets, approximately only 10-30% of signatories can say the same across all other asset classes. For example, only 10% of hedge fund investments go through these processes to a large extent. In the fixed income asset class (both sovereign and corporate), around 50% of signatories do not have any processes in place or do so only to a 'small extent'.

Increasing interest in responsible investment is, however, occurring across asset classes. For example, in the private equity community it is evidenced by the fact that 30% of signatories holding infrastructure and private equity investments now have an RI management process in place to a large extent, with an additional 40% having such processes to a moderate extent.

Figure 9. Signatories that have ESG management processes: breakdown by asset class and level (%)



Principles in action
Building ESG issues into a risk management process

The risk management process for Canadian asset owner Caisse de dépôt et placement du Québec evaluates three groups of risk factors: Qualitative, quantitative and behavioural factors. ESG issues make important contributions in all three areas.

In the qualitative segment the Caisse look at risks from areas such as management of a company, operations risk, financial risk, valuation risk and broader world-wide economic risk. Here ESG risks such as health and safety concerns can be easily added in.

Quantitative factors include a lot of mathematical measures of risk: value at risk, equity scenarios, portfolio concentration and betas and the investor applies these tools to an ESG issue too. For example, their financial stress testing includes analysis of the transparency and reputation of the company and whether it is aligned with the Caisse's investment policy.

The assessment of behavioural risk is done mostly by the manager, and is dependent on each manager's experience, personality, investment strategy and how they have constructed their portfolio. For example a manager might include reputational risk as part of this assessment and take time to consider whether a particular investment in a portfolio poses any risk to the reputation of the Caisse itself.

For an investment in the mining sector, the risk management process would include doing an environmental impact study on any new or operational mine, dialogue with the company, reviewing a company's response to the Carbon Disclosure Project and seeking insight from industry groups and other stakeholders about that company.

All this and other research provides them with a risk rating for the company and this feeds into their valuation process.

> **More information: www.lacaisse.com**

PRI in private equity

More than in any other asset class, the speed in which the responsible investment agenda has taken root in private equity has been remarkable. When the PRI Initiative convened the first formal conversations on responsible investment in private equity in May 2008, it was a small meeting of 50 stakeholders, and the road ahead, if any, was uncertain. Two years later the number of PRI signatories with an exclusive or significant focus on private equity has risen from 2 to 65, representing over US$ 300bn in assets under management and including eight of the biggest fund of funds in the world.

The PRI's early work in private equity focused on building key relationships within the industry and creating a Guide for Limited Partners and accompanying case studies from across the asset class. These documents were released in July 2009. As the numbers of General Partners (GP) signatories has increased, the focus of the PRI's second phase of work has accordingly focused more on meeting the implementation needs of GPs. A Steering Committee, made up of 30 GPs and Limited Partners (LPs) from across the globe, has overseen the work stream in the past year and will shortly release the results from a study of ESG impacts at exits and a survey of GP implementation needs. The Steering Committee has also continued to reach out to LPs.

Indicators of the sector's momentum are also apparent within the broader investment community. The Institutional Investors Group on Climate Change, representing European investors with € 4 trillion of AUM, has published guidance for LPs and GPs on climate risk and the IFC has developed an Environmental and Social Management Toolkit for Private Equity. The national PE associations in Australia, Brazil, Europe, France, UK, Europe and US all have responsible investment working groups, in which PRI signatories have been active participants. Through consultations with the PRI, the twelve members of the US Private Equity Council have adopted the PEC Responsible Investment Guidelines and the British Private Equity and Venture Capital Association (BVCA) has recently published a Guide on Responsible Investment for GPs. The European Venture Capital Association (EVCA) is also in the process of revising its professional standards to more explicitly refer to ESG.

In June 2010 the PRI and Private Equity International (PEI) co-hosted a major international conference on responsible investment dedicated exclusively to private equity and drew the participation of over 250 private equity professionals. Several PRI signatories also ran a workshop on Responsible Investment at the Annual Conference of the Institutional Limited Partners Association (ILPA), the largest international PE investor group.

Given how recent the concept of responsible investment has been formally considered in the private equity world, the level of awareness within the sector demonstrates that alternative asset classes can make tremendous strides in a short time.

> **Support to help private equity investors implement the Principles is provided on the PRI website at: www.unpri.org/privateequity**

> **Useful guidance for private equity investors can also be found from colleagues at the Institutional Investor Group on Climate Change (www.iigcc.org), British Private Equity & Venture Capital Association (www.bvca.co.uk) and European Private Equity and Venture Capital Association (www.evca.eu) and other partners.**

Who has responsibility for responsibility?

The number of signatory institutions assigning responsibility for ESG issues to the CEO or CIO has grown from 73% last year to 79% today. Among those institutions that have done the survey in both years, 81% assign RI responsibilities to this senior level.

The percentage of boards (and/or their committees) with clear responsibility for these issues is lower, at 63% and 76% for investment managers and asset owners respectively.

Nearly half of signatories (49%) have a dedicated RI/ESG specialist in the organisation. This is in line with the overall statistics from last year. Although among the sub-group of respondents that did the survey both years this number grows to 56%. The survey also found that portfolio managers are typically assigned day-to-day management of responsible investment within both investment managers and asset owners.

Training happens, incentives are sporadic

A significant number of signatories report having had access to some training on how to consider and act on ESG issues. Of the signatories that named a Board member, CEO or CIO as having ultimate responsibility for ESG issues, almost 70% indicated these senior managers had had responsible investment training. However, findings from the verification process suggest that training is mostly informal in nature with many signatories classifying attendance at conferences and seminars as training. Only a small number of signatories indicated that those managing the implementation of responsible investment programmes had participated in structured or formal training.

Principles in action
Deutsche Asset Management's ESG training

Deutsche Asset Management employs over 1,000 fund managers, analysts and other investment professionals and they want to ensure all employees understand the critical importance of ESG factors in portfolio selection and performance, analysis of data and as pro-active equity owners.

As a fiduciary, this integration is conducted in accordance with their investment mandates and in the best interests of its clients and is driven by CEO Kevin Parker.

The core of this effort is the development of a multi-layered training programme to educate portfolio managers and analysts initially – and eventually, every single employee – about the details of the PRI and Deutsche AM's responsibilities as a signatory. In early 2010, this commenced with the rollout of an online training module.

First, the module demonstrates how ESG, and especially climate change, information is material to both equity and fixed income portfolios. It then shows how investment professionals can access additional information on these factors using Deutsche AM's proprietary portfolio management platform. This has been built to provide detailed data and analysis on the ESG and climate change performance of corporations and sovereign entities. Portfolio managers and analysts are also strongly encouraged to integrate this information into their daily investment analyses and decision-making processes.

The training module also reviews Deutsche AM's Global Proxy Voting Policy and encourages portfolio managers to escalate ESG issues to their Global Proxy Voting Committee. The training module explains the firm's ownership policies and principles encouraging active engagement with portfolio companies on ESG issues and to build ESG concerns into their global proxy voting guidelines. It also emphasises the importance of engaging the senior management of investee companies on ESG issues that are material for the sector in which the companies operate.

The module also highlights Deutsche AM's PRI implementation activities throughout the investment industry, such as disclosure requests to the US Securities and Exchange Commission on climate change issues and their involvement in collaborative initiatives to respond to climate change.

The training module thus sets out a clear PRI framework for investment professionals to work within and, so far, has encouraged more communication throughout the firm on the importance of ESG issues to its business.

> **More information: www.dbcca.com**

The RI Academy

The mission of the Responsible Investment Academy is to develop a broad set of learning tools to educate, encourage and train the global responsible investment community.

The Academy is an Australian Government-funded initiative of the Responsible Investment Association Australasia and this year agreed to collaborate with the PRI Secretariat to help PRI signatories gain better access to more structured training on responsible investment.

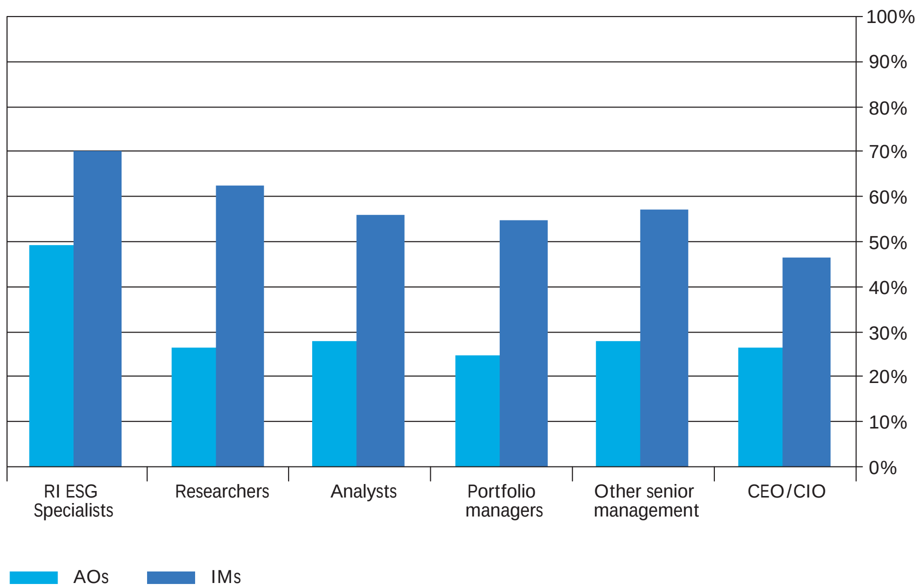
The Academy's mission is to foster a responsible investment profession through the provision of structured learning pathways, continuing professional development and opportunities for collaboration, research and innovation. Its online curriculum is comprised of several pathways depending on the level of specialisation needed by the investor. For example the 'Essentials Pathway' is suitable for those new to the field and consists of an introductory module which defines responsible investment and examines the steps required for the implementation of a responsible investment programme.

The Academy's 'Professional Pathway' provides a more rigorous study programme for investment professionals. The latter pathway includes 100 hours of learning and an electronic assessment that leads towards certification. The topics covered include PRI implementation, ESG integration in securities analysis and portfolio construction, engagement and voting, analysing sustainability information, greenhouse gas accounting, climate change and the transition to a low carbon economy, human rights, labour issues, health challenges, water security and energy security. The Professional Pathway also includes access to the RI Academy Toolkit which will contain practical tools for signatories to assist with ESG analysis and the implementation of RI programmes.

> **More information: www.riacademy.org**

Only a relatively small minority of mainstream signatories incentivise performance on ESG issues for relevant staff. Excluding ESG specialists, less than 30% of any role with responsibility for ESG implementation within an AO organisation has incentives relating to performance on those aspects. However, the prevalence of these incentives is higher for IMs, with around 50-60% basing rewards on ESG performance to relevant people (see Figure 10).

Figure 10. Respondents (AOs and IMs) with incentives schemes by staff role



Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

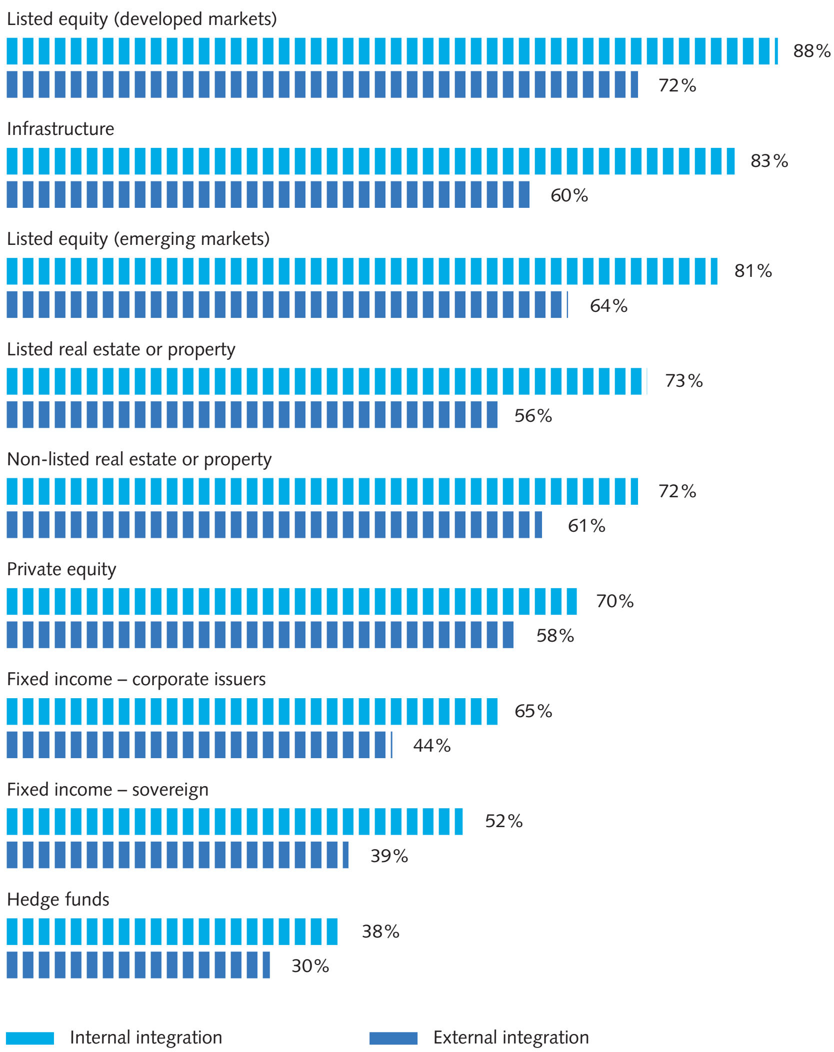
The integration of ESG issues can be defined as using ESG research and analysis and/or screening potential investments based on ESG criteria in order to improve the portfolio's financial performance.

Integration continues to grow within the PRI Initiative and relative to the market

Encouragingly, the average percentage of signatories integrating ESG issues across asset classes has grown for both for internally and externally managed assets. Among internally managed assets, (the majority of the total assets of respondents), this ratio has risen from 64% to 69%.

The asset classes in which the highest percentage of signatories have integrated ESG issues are listed equities (both developed and emerging markets), and infrastructure. The asset classes with the lowest percentage of integration are hedge funds and sovereign fixed income. This is true for both internally and externally managed funds, as shown in Figure 11, although across all asset classes the percentage of signatories that integrate is higher for those that manage assets internally. This, most probably, is caused by the external managers that AOs hire, among whom there is a mixed level of integration.

Figure 11. Signatories integrating ESG issues across major asset classes



Principles in action

An organically grown integration process

Threadneedle Asset Management has found that successful ESG integration into the investment process is based on a mix of building personal relationships with fund managers, establishing mutual trust, demonstrating financial materiality and developing sensible processes. Apart from an enhanced internal research process, client demand has also been a powerful catalyst encouraging fund managers to consider ESG issues.

The RI team at Threadneedle has allowed the integration process to develop organically, starting with a few key individuals, often linked to a sector with particularly material ESG issues. Ad-hoc conversations and meetings are facilitated by the physical integration of the team, which is located in the middle of the investment floor. The interaction of Threadneedle's RI analysts with their in-house financial analysts is seen as essential and focuses work around financially material business drivers. The team also uses RI brokers who receive dedicated commission, alongside ESG ratings providers, company meetings, NGO's and academic research.

Over time a tailored yet dynamic integration process has gradually developed. Threadneedle has found a rating system to be a simple way of initiating dialogue between RI and internal analysts. They purchase external ESG ratings which range from 'CCC' to 'AAA' and are used in the mainstream research process to focus ESG research on stocks with material risks or opportunities. The team also pays particular attention to significant holdings or companies involved in current sustainability related investment themes.

The internal RI team has seen a steady uptake of the holistic ESG analysis and has rolled out full ESG reviews for all stocks researched on the UK and European equity desks. They also attend relevant mainstream meetings, work with the Global and Far East Desks and submit papers to the firm's monthly investment themes meeting.

Internal analysts and fund managers at Threadneedle also attend ESG specific meetings to gain insights to the issues that their investments face. For company investments commitment to ESG initiatives must come from the top. Threadneedle is fortunate to meet with hundreds of companies every year which gives them a unique insight to executive management and their commitment to ESG opportunities and performance. Hesitant fund mangers are encouraged to meet best-in-class companies who can explain the value link to the business case on the back of an integrated business strategy.

The process continues to develop. Threadneedle continuously evaluates and monitors the opportunity to add value across different investment regions and asset classes. Again, patience, perseverance, visibility and materiality are all key to successfully establishing a value driven ESG process which naturally runs through the core of the investment process.

> **More information: www.threadneedle.com**

Principles in action

Integration in private equity in Brazil

Brazilian private equity firm Stratus Group implements its belief in responsible investment through an internally developed set of policies that encompass activities at different levels within the firm.

At a transaction level, Stratus incorporates ESG checkpoints at all stages of their investment process. From the initial ‘project register’ documents to the final investment memorandum and deal-closing summary, all have an ESG chapter, which is also an item on the agenda of the meetings where the investment decisions are made. At a fund level, they include ESG related policies in bye-laws. For example, most funds include sector exclusion rules. Another important aspect is that it has incorporated the analysis of ESG issues into its hiring and promotion policies. Stratus interviews potential hires for adherence to sustainable investment and evaluates staff compliance with this investment process when deciding on promotions and bonuses.

Monitoring compliance is also recognised as an important part of implementing Principle 1. A senior partner has been assigned as ‘PRI champion’, and he reviews the documents and meeting minutes every quarter, and validates the quality and depth of the discussion around potential ESG related issues. Those are later used on PRI training for investment staff.

For Stratus, the adoption of the PRI has paid off many times. Investment staff discuss ESG related potential deal-breakers early in the investment process and portfolio companies monitoring consistently reduce their potential ESG related liabilities. Stratus report that clients positively perceive the extra quality and depth of work on ESG issues and that it also provides a common language to discuss ESG with new local and global clients.

> **More information: www.stratusbr.com**

In addition to finding that a growing percentage of signatories are integrating, the survey also reviewed the percentage of integration being achieved by signatories in terms of AUM. Table 3 highlights some of the findings, though it presents only internally managed funds to avoid double counting. Moreover, it is worth noting that the survey does not measure any ESG integration relating to passively managed assets as it is assumed that Principle 1 is not relevant for these funds. That said, approximately 30% of IMs and 10% of AOs, have requested that some of their passive index tracking investments be benchmarked against indices that are constructed using ESG factors.

The overall amount of integration of internally actively managed AUM has grown from 39% in 2009 to 54% in 2010.[2] A similar growth was found on externally active managed funds (see Table 3). In particular, significant growth in integration levels within the PRI Initiative seem to be occurring in listed real estate and infrastructure, growing from 26% to 58% and from 59% to 89% of signatory AUM, respectively.

Given the increase in signatories and higher percentage of ESG integration, it is not surprising that the level of integration within the global market and across asset classes has risen from 4% to 7% across asset classes.[3]

2. These averages include those with zero integration.

3. As market sizes and definitions are quite diverse, the percentage of integrations across different asset classes against the overall market are not sufficiently representative to compare.

Table 3. ESG Integration for internally active managed AUM relative to total market

2008 AUM figures in US$ billions	Total signatory internally Active AUM	Internally active assets subject to integration via PRI signatories	Share of signatory internally active AUM subject to integration	Market size	Share of total market subject to integration by PRI signatories*
Listed equity (developed markets)	2,264	1,337	59%	27,107[(a)]	5%
Listed equity (emerging markets)	308	185	60%	5,313[(a)]	4%
Fixed income-sovereign	3,430	690	20%	24,596[(b)]	3%
Fixed income-corporate issuers	1,978	883	45%	6,380[(b)]	14%
Private equity	232	105	45%	2,492	6%
Listed real estate or property	289	74	26%	694[(d)]	14%
Non-listed real estate or property	303	239	79%	10,915[(e)]	3%
Hedge funds	210	25	12%	1,500	2%
Infrastructure	67	39	59%	19,900[(f)]	0.2%
Total	**9,081**	**3,578**	**39%**	**98,897**	**4%**

2009 AUM figures in US$ billions	Total signatory internally Active AUM	Internally active assets subject to integration via PRI signatories	Share of signatory internally active AUM subject to integration	Market size	Share of total market subject to integration by PRI signatories*
Listed equity (developed markets)	3,674	2,525	69%	37,500[(a)]	8%
Listed equity (emerging markets)	700	478	68%	9,589[(a)]	6%
Fixed income-sovereign	5,253	1,579	30%	30,232[(b)]	6%
Fixed income-corporate issuers	2,437	1,373	56%	7,329[(c)]	22%
Private equity	201	122	61%	2,337	9%
Listed real estate or property	297	172	58%	678[(d)]	34%
Non-listed real estate or property	497	418	84%	10,256	5%
Hedge funds	188	36	19%	1,700	5%
Infrastructure	71	63	89%	21,600[(f)]	0.4%
Total	**13,317**	**6,766**	**51%**	**121,220**	**7%**

(a) Split developed and emerging markets by MSCI country membership. Deduct listed real estate by market capitalisation weighting
(b) Sovereign plus quasi-sovereign
(c) Corporate plus high yield but excluding asset-backed
(d) Figures for public equity
(e) Figures for private debt, public debt and private equity
(f) Estimated total stock of infrastructure assets, including assets in public ownership.

** This percent conservatively underestimates the findings of the survey. In fact, the numberator does not include the externally managed funds, to avoid some double counting. Moreover, the market size in the denominator includes passive managed funds, which instead are not measured in the numerator as not necessarily subject to Principle 1.*

Sources:
Listed equity (developed markets); World Federation of Exchanges
Listed equity (emerging markets); World Federation of Exchanges
Fixed income- sovereign and other; Bank of America Merrill Lynch – Bond Index Almanac
Fixed income-corporate issuers; Bank of America Merrill Lynch – Bond Index Almanac
Private equity; Preqin Global Private Equity Review
Listed real estate or property; DTZ Research
Non-listed real estate or property; DTZ Research
Hedge funds; IFSL Research – Hedge Funds
Infrastructure; RREEF Research analysis

Use of ESG research grows

To understand the level of integration being applied by signatories, the survey analysed the depth of integration by signatories, both for internally and externally managed funds.

For signatories with internally managed funds, their ESG research and/or its effects on portfolio construction was analysed. In terms of research, it found that the use and depth of ESG research is increasing. On average, among signatories that integrate, use of such research across asset classes to a 'large extent' grew this year from 40% to 45% (See Figure 12). This result is encouraging, but it is important to note that the percentage of relevant signatories that applied ESG research to portfolio construction has remained the same as last year. A total of 32% of signatories had no significant processes in place to enable ESG considerations to affect their portfolio construction on average across asset classes.

Among the signatories integrating via externally managed funds, fewer than 30% do so to a large extent on average across asset classes; this is lower than those managed internally. However, as captured in part by the verification process, some of these signatories are showing leadership by setting agreements with their external managers to ensure they undertake ESG research and analysis and, whenever relevant, feed the outcomes of this research into valuation methodologies, asset allocation and portfolio construction.

Principles in action

Using ESG research to create value

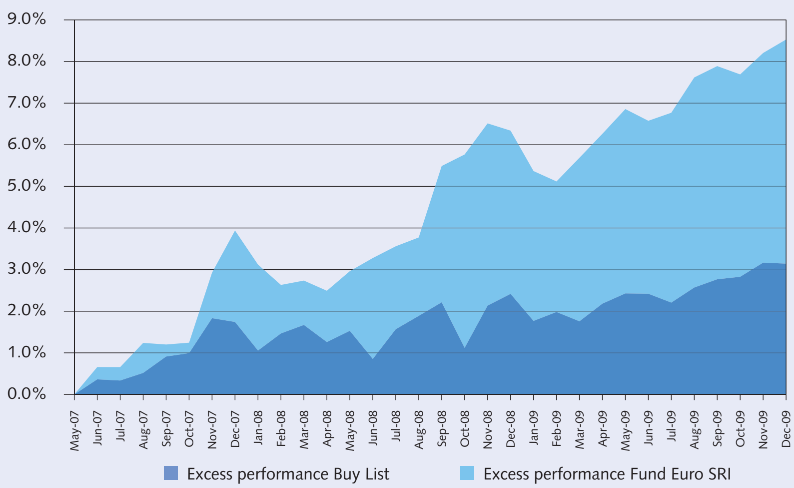
Within BNP Paribas Asset Management (BNPP AM) the SRI research team acts as a centre of excellence for ESG research for the broader organisation.

The analysts have developed a number of sector-specific indicators that measure those ESG issues deemed to be the most financially material for companies. For instance, these might include a car maker's actual and expected average emissions per vehicle, a bank's level of financial and technical expertise on the Board of Directors or a construction company's capacity to deal with the scarcity of skilled workforce. The analysts then enrich their research in brainstorming sessions with portfolio managers and sector specialists.

Using a Best in Class approach, the ESG analysts identify the best companies in each sector. The performance is measured independently by a specialist performance measurement team.

In the example below, BNPP AM explains how a responsible investment overlay is applied to a euro equities mandate. The exclusion of the bottom third worst performing companies on ESG issues from the investment universe has, on its own, generated a 3.1% excess return compared to the benchmark, over a three year period. Stock picking by the portfolio manager has added extra-value and brought another 5.4% of outperformance. The inclusion of the portfolio manager in the process itself ensures a deeper understanding of the ESG issues and the broader coherence of portfolio decision making.

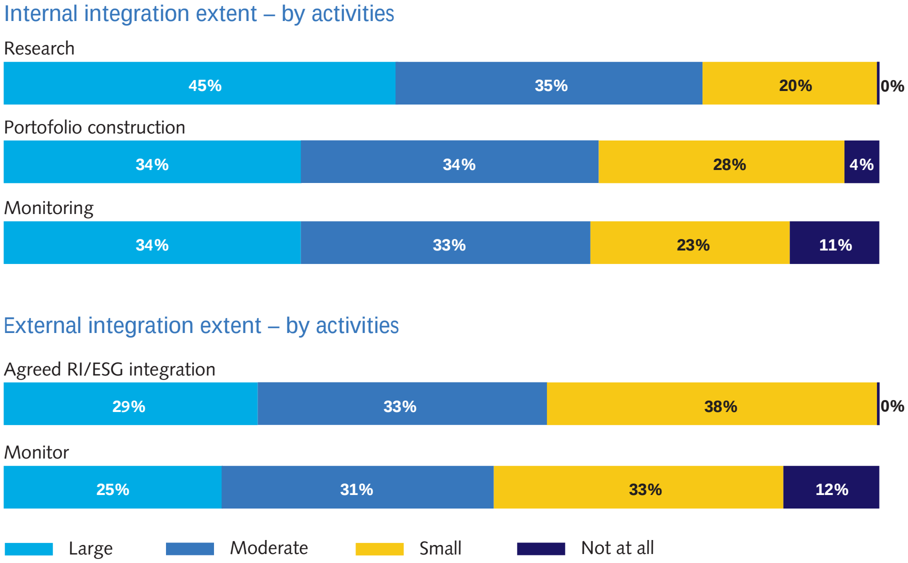
Outperformance net of fees of a French institutional mandate



BNPP AM found that ESG analysis is a value adding complement to traditional financial analysis thanks to the way it highlights longer term risks and opportunities that will ultimately have to be integrated into market pricing.

> **More information: www.bnpparibas-am.com**

Figure 12. Extent of ESG integration by activity



The monitoring of integration is growing

Respondents tend to monitor ESG integration less than they actually do it. However, the number of respondents that do monitor these processes is growing. For example, among respondents with integrated internally managed assets, the number monitoring ESG integration to a large extent more than doubled compared to last year – from 15% to 34%. Monitoring of external managers remains lower: only 25% of signatories do so to a large extent.

Principles in action

ESG criteria to select and instruct passive managers

The € 30 bn asset owner French National Reserve Fund (FRR) has integrated ESG considerations into their process for recruiting and instructing passive managers.

The first step in their selection procedures asks prospective candidates to answer a quantitative questionnaire and around 15-20% of the questions in this are ESG-related. For example, asking whether they are signatories to initiatives like the PRI or Carbon Disclosure Project and if they vote. Only the highest scores are allowed to submit a proposal. The second step is a more complex and qualitative questionnaire with ESG-related questions incorporated throughout. For example, they ask passive managers how they use their right to vote corporate proxies, how they decide which way to cast these votes and whether they can guarantee that FRR's own proxy voting guideline will be used as reference in this process.

Once managers are selected, ESG considerations also feature prominently in the mandate – the contract that binds FRR and its asset management company. The mandate's introduction spells out FRR's responsible investment policy and aspirations as a signatory to the PRI and asks managers to disclose their RI strategy if appropriate. It also includes a commitment by the manager to exclude companies involved in the production of anti-personnel mines and cluster bombs as well as other companies decided by the RI committee.

However FRR generally favours engagement over exclusion and one of the most important elements of the mandate is an obligation by managers to vote their shares and to assist FRR in corporate engagements by, 'making its resources and skills available as needed'. In regard to voting passive managers are asked to, 'exercise the voting rights attached to financial instruments exclusively in the interest of the FRR, in accordance with its guidelines, and to report back to the FRR on the exercise of these voting rights'. The manager must report on proxy voting practices quarterly and annually and include a table that recaps how votes were cast, offers explanations and provides an analysis of any problems encountered.

> **More information: www.fondsdereserve.fr**

Principles in action

ESG criteria to select and monitor external managers

By PRI standards, Krull & Company in the US is a small firm, but it uses mutual funds to create scale for impact. Using external managers also enables the company to focus on clients' needs and customise asset allocation. However, it also adds to the need to monitor external managers.

The firm uses several criteria when selecting and monitoring investment managers. First, ESG metrics must be an integral part of their written investment policy. At a minimum, the managers must show a rigorous screening process, but more importantly, they also should have an engagement policy, as Krull believes that engagement makes the biggest material difference.

The company also looks at each of the managers' holdings. Two excellent, yet different examples are Calvert and Portfolio 21. In the case of Calvert, Krull uses their 'Know What You Own' tool to see which holdings meet standard screening metrics. In the case of Portfolio 21, Krull benefits from their clear descriptions of their rationale for buying and selling all of their holdings. This transparency should be adopted by more investment managers.

Krull officially monitors and reviews fund holdings on an annual basis in January, although in the process of quarterly performance review, they also unofficially look at each fund's top holdings. If questionable securities are found, they will contact the managers for clarification. Most times, fund managers are in direct engagement with the company, working to improve their practices or owning shares to vote proxies. Krull will eliminate a manager that consistently owns questionable securities without a legitimate engagement rationale.

In terms of performance, the company starts by comparing funds versus a particular benchmark. Krull wants to see competitive long-term performance as opposed to unrealistic short-term results. Every quarter, Krull monitors both the overall portfolio and the individual managers to make sure that long-term returns are competitive and that asset allocation is appropriate.

If a fund shows consistent underperformance for the trailing twelve months, they are put on watch. If no improvement happens at eighteen months, they will make the decision to replace the manager with another SRI manager. If no other SRI manager exists, they will change the approach or add a traditional manager temporarily, with full disclosure to clients.

> **More information: www.krullandcompany.com**

Exclusion and integration can go hand-in-hand

As highlighted earlier, the main focuses of this year's survey, in relation to Principle 1, was signatories' progress on integration, rather than on ethical or reputational exclusion or themed investments, even though these approaches can play an important role in responsible investment.

This helps explain why a significant number of signatories combine integration techniques with exclusions on ethical criteria. When focusing on signatories applying at least one of these approaches, the survey found that approximately 55% of signatories use both together. An additional 35% use integration techniques without ethical screening while just 10% of signatories use only ethical screens without integrating ESG in their holdings.

ESG-themed investments prove popular

Respondents are paying increasing attention to themed investing. Only 10% of investment managers respondents specialise in ESG-themed investments, yet a total of 42% of the respondents (both AOs and IMs) are making some kind of themed investments. Among these, the vast majority are also integrating ESG issues across the rest of their portfolios, with only 10% of these investors not doing so.

Principles in action

Both ethical exclusion and integration

The distinction between exclusions based on ethical or religious criteria and portfolio construction based on the integration of ESG issues is not always apparent, and the line between the two is sometimes blurred. At Pax World Management, some of the exclusionary criteria, such as exclusion of weapons or tobacco companies, are based on the traditions of faith. However, other exclusionary criteria, such as prohibitions on extractive industries, nuclear power and genetically modified organisms are at least as much based on fiduciary risks as beliefs.

For example, some SRI or RI funds exclude companies that own or operate nuclear power plants. Often this exclusion is based on an assessment of the risks of nuclear power, which are substantial, for example, concerns over nuclear weapons proliferation, the possibility of accidents at power plants and the issue of safe long-term disposal for spent nuclear fuel. Unlike accidents at other factories a major incident at a nuclear power plant may be catastrophic on a much larger scale, both to society and to investors.

However, the world is still largely dependent on fossil fuels for electricity generation, and as climate change has emerged as one of the world's most pressing problems, nuclear power may offer a bridge technology between today's dependence on fossil fuels and a future based on clean renewable electricity. While there are many viable and fast-growing renewable alternatives, some of the technologies that make economic sense are not yet ready to serve as the backbone of baseload power.

Therefore Pax World does not have exclusionary criteria that apply to all nuclear power plant owners and operators, but Pax does exclude some companies that own or operate nuclear power plants based on their safety and security records (or for any other ESG issue). Records of inspections and infractions are often available from national nuclear regulatory authorities, as well as from the International Atomic Energy Agency (IAEA).

Most exclusionary criteria have some grounding in risk, whether they are adopted on moral or ethical grounds or due to considerations of financial materiality.

> **More information: www.paxworld.com**

Principles in action

ESG integration and microfinance

SNS Asset Management (SNS AM) in the Netherlands has established two Institutional Microfinance Funds totalling more than € 300m (US$ 400m). In close cooperation with their investment managers Developing World Markets and Triple Jump, SNS AM is aiming to provide resources for small self-employed operators in a large number of developing countries around the world. SNS AM considers microfinance as a fundamental part of its approach towards impact investment.

Responsible investment in microfinance institutions requires more than a sound financial analysis. It is vital to take into account a set of non-financial indicators to assess whether microfinance institutions provide an appropriate and flexible set of products to their clients. Furthermore, such indicators help to examine whether these products are offered in a responsible manner. This implies, among other things, that microfinance institutions behave according to ethical standards, listen to the needs of their clients, are transparent about costs and pricing, and also offer non-financial services to their clients in the area of education, health care, and the like.

After an in-depth investigation of available tools and frameworks for integrating non-financial indicators in the investment analyses of microfinance institutions, SNS AM realised there is no harmonised international standard to align with. Many investors are currently searching for a solid approach to integrate these non-financial indicators in investment decisions for microfinance. A comparison of applicable tools resulted in the decision to co-operate with Oikocredit on the development of a Scorecard to assess responsible behaviour of microfinance institutions. This scorecard will be fully integrated in the due diligence process and annual visits of microfinance institutions in the SNS Institutional Microfinance Funds. The data collected through this scorecard gives insight into the non-financial performance of the organisation, ranging from board governance to client protection, and impact on the welfare of the entrepreneur, the family and community in which the client works and lives. The Scorecard is an example of how SNS AM incorporates ESG issues into investment analysis and decision-making processes.

A member of the ESG research team has also worked with Kenya Women Finance Trust for six weeks to help SNS AM to assess which non-financial indicators are relevant for microfinance institutions and to understand which technical assistance they need to establish sustainable growth, in which both a financial and a social return on investment are guaranteed.

> **More information: www.snsam.nl**

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

This Principle encourages signatories to take a stewardship approach, vote in an informed way at company meetings or on boards, and engage with investee companies and other entities in order to improve corporate ESG performance.

In the main, signatories vote their listed equity proxies

A key part of being an active owner within listed equities is voting of shares in an informed way at company meetings, including on shareholder resolutions on ESG performance issues. The survey found that approximately 88% of IMs and AOs vote at least a portion of their listed equity portfolios.

Those respondents that vote cast an average of around 88% of their ballots. This is considered high given the difficulties in voting across the whole of a portfolio. Difficulties include, for example, national governance rules, cultural nuances or resource constraints when an investor votes outside their domestic market. Practices such as 'share blocking' – rules to prevent investors trading before company meetings – can also prevent signatories from voting their full allocation of proxies.

Respondents that vote cast an average of 88% of their ballots. This figure increased to 95% among those signatories that have completed the survey in both of the past two years. All respondents that hold shares (100%) now have a voting policy that covers corporate governance issues (improving on the 94% last year), although less include environmental and social issues in their voting policy.

It should also be noted that over 40% of signatories that vote have a security-lending programme. Within these, those that participated in the last two surveys and do not recall their shares for voting purposes fell from 22% last year to 16% this year. Moreover, those that recalled at least some securities, either on ad hoc or systematic basis, went from 76% to 86% this year.

Principles in action

Using proxy voting as an engagement tool

Domini Social Investments has a long-term commitment to direct engagement with its funds' holdings, through proxy voting, dialogue, and the filing of shareholder resolutions. For example a shareholder proposal played an important role in reaching an agreement this year with U.S. steel producer Nucor that aims to ensure slave labour is not used in the company's supply chain.

Nucor is the largest buyer of Brazilian pig iron and in 2006 Domini and other PRI signatories sent a letter of concern to the company in response to a media story about slavery and illegal deforestation at the small camps in Brazil that produce charcoal for pig iron production. After failing to obtain a satisfactory response, Domini filed a shareholder proposal, joined by members of the Interfaith Centre on Corporate Responsibility.

The original proposal was withdrawn in exchange for a written agreement by Nucor to adopt a policy to prohibit forced labour in its supply chain. Domini and its co-filers however were not satisfied with Nucor's compliance with its agreement and re-filed the proposal, which then received a 27% vote.

In 2010, Domini and Nucor finalised a written agreement. Nucor will require its top-tier Brazilian pig-iron suppliers to either join the Citizens Charcoal Institute – an association of Brazilian companies formed to combat slavery – or sign and adhere to the Brazilian National Pact for the Eradication of Slave Labour (the National Pact). Nucor will also publish annual progress reports on implementation of these policies.

Domini notes that the shareholder proposal was a particularly important tool, that helped draw the attention of large institutional investors to the issue.

> **More information:**
www.domini.com/shareholder-advocacy/index.htm

Principles in action

Engagement through voting rights

Swiss investment manager De Pury Pictet Turrettini & Cie S.A. (PPT) has a strong conviction that exercising voting rights on ESG issues is fundamental to an investor's role as a shareholder.

They find that it is relatively simple to exercise voting rights, since the custodian bank executes the votes. The process is facilitated by working with service providers (the Ethos Foundation, ECGS, RiskMetrics PIRC, etc.) to receive a previously analysed agenda for each General Shareholders' Meeting and sometimes voting recommendations based on their governance policy.

PPT receives outside voting recommendations for the Guilé Funds, which their 'traditional' analysts then submit to those analysts that specialise in corporate responsibility in order to exchange opinions on the various subjects up for a vote. Internal divergence of opinion arises on occasion. For example, the 'traditional' analysts would not necessarily be opposed to an appropriate director holding the position of both Chairman and CEO, while the responsible investment specialists would prefer a clear separation of these two roles. These are decisions that develop with time and as events arise.

In 2010, for example, exercising voting rights permitted PTT to contribute to the refusal to discharge the UBS Board of Directors, thereby validating the legitimacy of shareholder demands for good corporate governance.

Today's greatest challenge is to increase the number of shareholders who exercise their voting rights and, in doing so, actively engage in promoting corporate responsibility. The subjects addressed at general shareholders' meetings now essentially relate to corporate governance, while PPT promotes more overall responsibility with regard to social, environmental, and anti-corruption measures based on the 10 principles of the United Nations Global Compact.

Therefore as well as voting, the responsible investment team at PPT also engages in direct dialogue with the management of their Guilé Funds companies in order to initiate and monitor their progress, year after year, in all of the initiatives supported by PRI signatories.

> **More information: www.ppt.ch**

Levels of monitoring and follow-up vary

The survey shows most asset owners ask third parties to conduct their voting for them, based on a pre-defined voting policy. Over 60% of AOs said external managers and third party providers are the most important agents in making and/or implementing voting decisions. However, almost 20% of asset owners do not monitor whether their votes are cast in accordance with their policy and 21% only do so to a small extent (see Figure 13). Both statistics highlight an area with significant space for improvement.

Among investment managers, the survey shows internal staff and governance groups are the most important agents in making and implementing voting decisions. A total of 80% of managers use internal staff to make voting decisions. Typically, IMs vote according to their own policies only (around 30%) or according to a combination of their own and clients' policies (around 50%). Around 20% of IMs that hold listed equities do not provide voting services for their clients at all.

Signatories often comment that informing a company of the reasons why a vote against management was cast can be a valuable part of the engagement process. As highlighted in Figure 14, around 25% of AOs and IMs do not undertake any follow-up with companies after such a vote, and around 20% of AOs and 15% of IMs make sure that all companies are informed of voting decisions.

Figure 13. Extent to which voting decisions are analysed

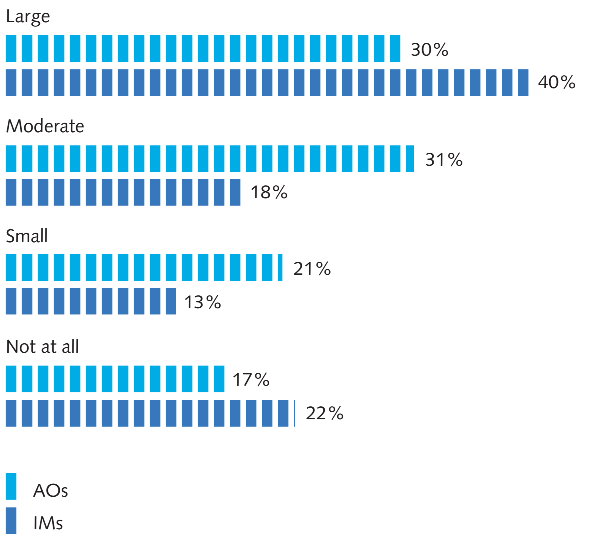
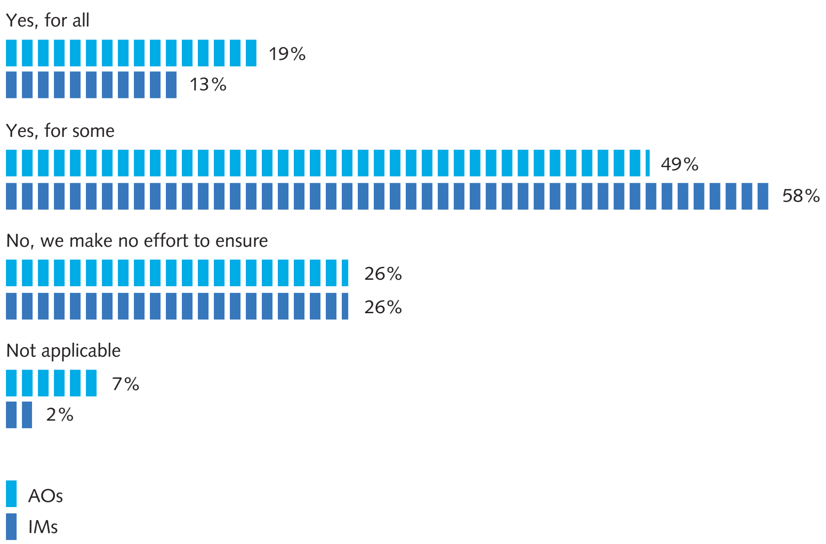


Figure 14. Extent to which signatories inform listed equity companies of their rationale for voting against management



Principles in action

Shareholder dialogue alongside voting

AMUNDI has been active in exercising the voting rights held in its funds for nearly two decades. But in 2003, AMUNDI launched a new step in its active ownership commitment with the extension of the voting perimeter to a worldwide basis, the integration of social and environmental criteria in its voting policy and the implementation of a shareholder dialogue process.

This process was structured around a pre-meeting alert system. Companies presenting resolutions contradicting AMUNDI's voting policy are alerted by email of the investor's negative voting intentions and areas of concern. This system was initially concentrated on French listed companies of the SBF120 index and was extended in 2009 to a group of European companies covering major blue chip indexes.

This shareholder dialogue process has become a necessary complement to the exercise of voting rights on three levels. First, it allows AMUNDI to explain the rationale of their vote directly to the company as the message under the voting instruction alone may sometimes appear obscure to the issuer. Second, when the dialogue has begun, it gives the investor the chance to obtain additional explanations and information that can result in a change in the voting intention. Third, the engagement can lead to a change in the practice of the company either directly after the first dialogue through a modification of the resolution or through a longer process where over multiple alert letters and engagements the company will finally modify its practice.

AMUNDI has noticed a continuous improvement over the years of the dialogue following the alerts especially for the SBF120 companies. An interesting tendency is the reversal of the dialogue process where more and more issuers become the initiators of the dialogue by asking the voting intentions before the alert letters or by organizing meetings to discuss the future agenda of their shareholders meetings.

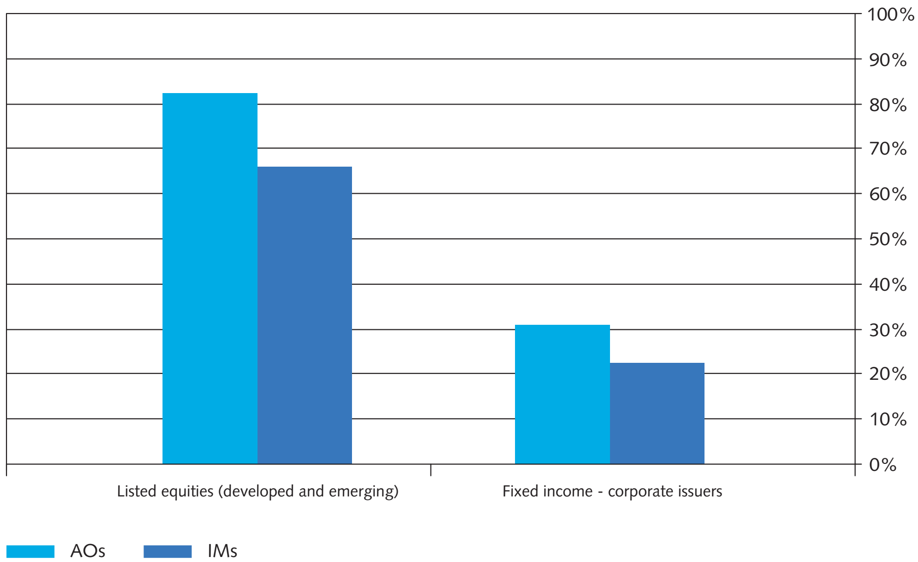
> **More info: www.amundi.com**

Engagement policies for listed equity are common, but rare for corporate fixed income

The findings in this section refer to engagement activities, which can be largely defined here as contact by investors with a company in order to promote improved ESG performance.[4]

The first step to being an active owner is often to set an engagement policy and it is encouraging that over 65% of IMs and 80% of AOs have a shareholder engagement policy in place for listed equities that goes beyond covering only proxy voting. On the other hand, only 20% of IMs and 30% of AOs have an engagement policy for their corporate fixed income investments. However, engagement on fixed income corporate issuers does appear to be growing, as in the case study from South Africa opposite. Even when a corporate bond holder is not represented in the equity holdings of a company, there are still incidences of engagement with that company.

Figure 15. Signatories with policy or document that directs engagement



4. Note that the findings in this and the following section focus on engagements with listed equities and corporate fixed income. Findings related to active ownership in other asset classes are presented in the last section of the Principle 2 chapter of this Report.

Principles in action

Active ownership in corporate fixed income

South African Manager Futuregrowth is primarily a debt investor, and their active engagement involves engaging with issuers of corporate fixed income products.

In many transactions – RI or otherwise – Futuregrowth receives regular financial reports and attends debt-holders' meetings to stay updated on the investee business and use these opportunities to engage management. Where suitable Futuregrowth also participates in various committees of investees (i.e. Lenders' committees, credit committees, remuneration) to actively effect change at senior management level.

Futuregrowth seek strong covenants on loans to protect clients during the term of the loan and these frequently include conditions about how borrowed money is utilized to ensure it accomplishes the stated responsible investment goals. Good credit terms can serve to protect all stakeholders (as management tend to be a bit enthusiastic with debt/gearing, potentially to the ultimate detriment of shareholders and staff). Engaged lenders help companies exercise restraint.

An example of a recent issuer that Futuregrowth engaged is National Urban Reconstruction and Housing Agency (NURCHA), an innovative construction finance company facilitating low income housing and small scale infrastructure in South Africa. NURCHA has a 15 year track record showing innovation, delivery and adaptation to the developmental needs of South Africa. NURCHA has provided loans to developers and contractors for the construction of over 240 000 homes and a large number of infrastructure projects throughout the country.

Futuregrowth has recently provided a R150m (US$ 20m) facility to provide finance for the construction of community and/or infrastructural projects. Futuregrowth has an active relationship with NURCHA, staying updated on various projects and business issues by attendance at quarterly review meetings. By mutual arrangement, Futuregrowth occupies a seat on NURCHA's Board of Directors.

Futuregrowth also work with regulators and other stakeholders on capital market development. They believe that it is not adequate to merely engage with borrowers one-to-one, but that they must also engage on the improvement of markets. For example they have participated in industry-wide discussions with issuers, Credit Ratings Agencies, regulators, exchanges and others to improve South Africa's capital markets. They have also engaged with the South African Government on improving market transparency and the Johannesburg Stock Exchange in its works to implement meaningful listing requirements for debt instruments, and define rules around debt placement procedures.

> **More information: www.futuregrowth.co.za**

Thousands of engagements recorded by investors

Both IMs and AOs reported a significant amount of engagement on ESG issues. These engagements are managed by either internal staff, external investment managers or third party providers. The survey found that approximately 85% of IMs and 45% of AOs have internal staff responsible for implementing their engagement policies. Hence, while IMs conduct most engagement activities internally, AOs typically use third parties to undertake engagements.

Over 50% of the total number of engagements reported are run by internal staff, while service providers run almost 30%, with the remaining by external investment managers.

Of the signatories that use external managers, approximately 50% do not track the progress of the engagement. This is a significantly higher percentage than internally managed engagements or engagements managed by other external service providers where only between 15-20% do not track progress.

Principles in action

Collaborative engagement with Wesfarmers

Christian Super is an Australian pension fund with AUD 500m AUM and as part of its investment strategy it undertakes engagement with Australian companies, as well as participating in collaborative engagement efforts where possible. Christian Super's engagement with Wesfarmers is an example of the Fund's active engagement strategy at work.

Wesfarmers is a diverse Australian business, operating supermarkets, department stores, home improvement and office supply retailers. It also has holdings in coal mining, energy, insurance, and chemicals and fertiliser production. In 2009, Christian Super became aware – through ESG research provider GES – that Wesfarmers' fertiliser manufacture business, CSBP Limited, was importing phosphate from disputed territory in Western Sahara. Christian Super's policy on companies operating in Western Sahara is to seek further information and opportunities to engage, as there are significant political risks and ethical concerns involved in such operations.

At the time of engagement, Wesfarmers represented Christian Super's tenth largest holding, and the Fund's largest exposure to the Consumer Staples sector.

Christian Super developed an internal paper on the extent and nature of Wesfarmers' operations in Western Sahara, with extensive discussion on the risks associated with these operations. GES also developed briefing notes on the risks and ethical issues involved. The fund also participated in a coalition of support from other shareholders which was initiated through the PRI Clearinghouse with fellow signatories GES and Ilmarinen. Christian Super's CEO travelled to Wesfarmers' headquarters together with other investors to discuss these concerns with Wesfarmers and tour the company's fertiliser production facilities to better understand the nature of the operations.

This visit was followed up with communication to Wesfarmers asking the company to reconsider its stance in relation to phosphate imports from Western Sahara. Wesfarmers responded positively to the engagement process and the dialogue was constructive. The result was a commitment from Wesfarmers to upgrade their technology and equipment to utilise phosphate from alternative sources.

This will take up to two years at a cost of AUD 5m and represents a significant commitment from Wesfarmers to dealing with the risks and ethical issues identified through the engagement process. Wesfarmers also committed to conducting an independent audit on human rights abuses within the phosphate mining operations.

Christian Super continues to monitor Wesfarmers' progress in this area and will continue to dialogue with the company where opportunities arise. Through participating in engagement rather than applying an exclusion, Christian Super was able to retain exposure to the Australian Consumer Staples sector, work to reduce risk in one of the Fund's most significant portfolio holdings and be part of working towards an outcome that is strongly aligned with the Christian values held by the Fund's members. Wesfarmers continues to be a significant part of the Fund's portfolio and is now its sixth largest company holding.

> **More information: www.christiansuper.com.au**

> **More examples of collaborative engagements facilitated by the Clearinghouse can be found in the PRI Annual Report 2010 at www.unpri.org**

Engagement activities entail a range of actions and vary in intensity. Activities can go from letter writing to organising meetings and conference calls with the company management, to filing a resolution and/or issuing a public statement. These different levels were defined in the supporting notes to the survey and varied from 'extensive'[5] to 'basic'.[6]

Sixty-six percent of internally managed engagements are typically classified as 'basic'. Similarly, those engagements run by external investment managers tend to be of either basic (50%) or moderate (35%) level.

More extensive engagements tend to be run by specialist engagement service providers and 40% of IMs and 30% of AOs reported running engagements through these third parties.

If engagement efforts are analysed by country (see Table 4), it can be seen that the number of 'extensive' engagements has grown in some countries and dropped in others. Countries showing both more engagers and engagements from respondents this year include France, Netherlands and South Africa. Signatories in Australia, Brazil, Canada, Sweden and the US have reported a lower number of total engagements this year.

Table 4: 'Extensive' engagements undertaken by internal staff

	2009		2010	
	Number of signatories with extensive engagements	Number of extensive engagements	Number of signatories with extensive engagements	Number of extensive engagements
Australia	9	123	31	103
Brazil	3	127	5	83
Canada	10	335	11	132
Denmark	1	4	7	27
Finland	1	1	4	2
France	4	97	15	212
Japan	2	20	4	25
Netherlands	7	67	18	348
New Zealand	1	5	3	69
South Africa	4	24	10	241
Sweden	9	208	9	133
Switzerland	3	105	5	202
UK	22	3013	34	1995
USA	19	594	33	532

** For confidentiality, countries listed have at least 5 signatories in the survey.*

5. 'Extensive' engagements were defined in the survey as those where: 'You and/or your agents may have had multiple instances of focused interaction with a company on ESG issues with a view to changing the company's behaviour. You and/or your agents were predominantly engaging with people at the company with the authority to change corporate behaviour. The engagements were systematic and you and/or your agents began them with a clear goal in mind. Extensive engagement includes more than writing letters and entails bilateral meetings in person or on the phone with the management with power to address your issues. You and/or your agents may and may not have identified other investors to work with to extensively address the issues you have identified'.

6. 'Basic' engagements were defined in the survey as those where: 'You and/or your agents directly contacted companies but your engagements tended to be ad hoc and reactive. You and/or your agents may not have pursued the issue beyond your initial contact with the company. You and/or your agents may have signed letters authored by others. You and/or your agent's engagements might be more about gathering information than seeking ESG related improvements. You and/or your agents may or may not have identified other investors to work with to basically address the issues you have identified'.

Principles in action

Engagement with passive managers

In 2008, Lothian Pension Fund (the Fund) undertook a review of its investment managers' activity on environmental, social and governance (ESG) issues and found its passive managers performed poorly.

Passive investment managers' holdings are dictated by index providers so the lack of ESG activity, including voting, was particularly concerning. The Fund, with relatively small amounts of assets invested passively, recognised it was unlikely to have any great impact when trying to influence the managers in isolation. Therefore the Fund's findings were presented to the Local Authority Pension Fund Forum (LAPFF) which represents 49 UK local authority pension funds with combined assets of over £ 75bn.

LAPFF agreed to pursue the issue and commissioned ESG specialists RImetrics to undertake a comprehensive audit of the largest passive managers in the UK.

The audit found that a significant proportion of equity holdings managed within passive funds were not subject to high levels of environmental, social and governance risk management. Fund managers were evaluated and rated across five key responsible investment themes of strategic orientation, engagement, research, proxy voting and transparency and the key findings were:

- The extent of managers' voting was inconsistent across the world and an estimated £ 130bn of assets were not regularly voted.
- Managers' engaged inconsistently with companies and an estimated £ 350bn of assets were rarely, if ever, engaged.
- Small cap stocks were rarely engaged and holdings in emerging markets were typically never engaged.

Representatives of LAPFF and Lothian Pension Fund discussed the findings with the passive managers and since then there have been notable changes, including greater levels of voting and increased transparency.

While the LAPFF's survey is not the only reason for these positive changes, pressure from LAPFF members undoubtedly had an impact. This example shows how a relatively small investor can collaborate with like-minded investors to have greater influence in the investment market.

> **More information: www.lpf.org.uk**

Increase in signatories with extensive processes for engagements

To run different engagements and do so effectively, signatories are putting in place different processes and procedures for:

- Assessing and monitoring the competencies and capabilities of those performing the engagements (either internally or externally);
- Identifying and prioritising engagements; and
- Setting engagement objectives and evaluating success.

As highlighted earlier, those signatories that use specialist providers to manage engagements tend to conduct the most extensive engagements. As shown in Figure 16, it is therefore not surprising that they are also more likely to assess competencies, identify priorities and set objectives for engagements to a moderate or large extent. These processes are not as widespread by those using internal staff or investment managers. For these signatories the most difficult part of the process is 'identifying engagement objectives' and 'evaluating success'.

Figure 16. Signatories that have engagement processes to a large or moderate extent, broken down by who runs their engagements

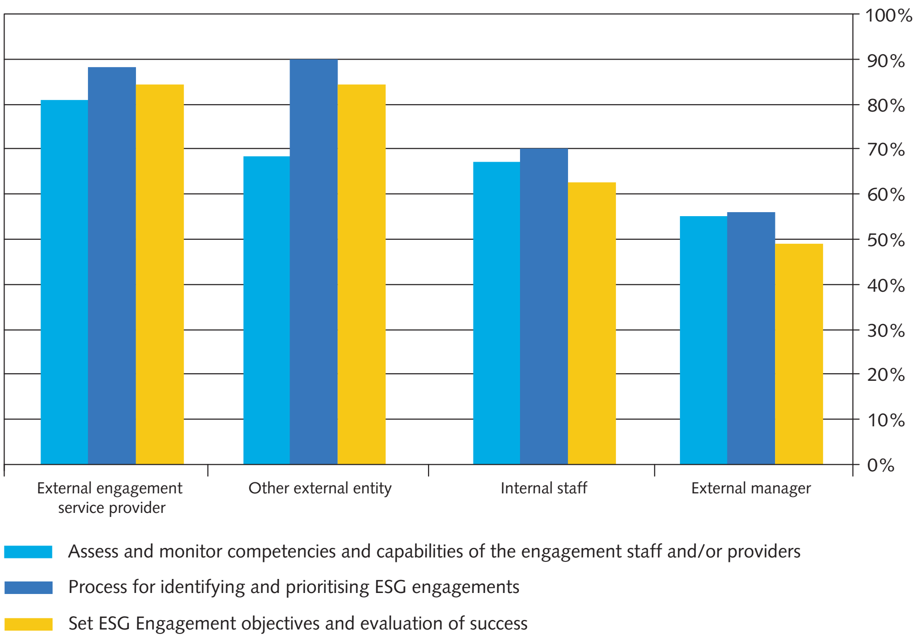
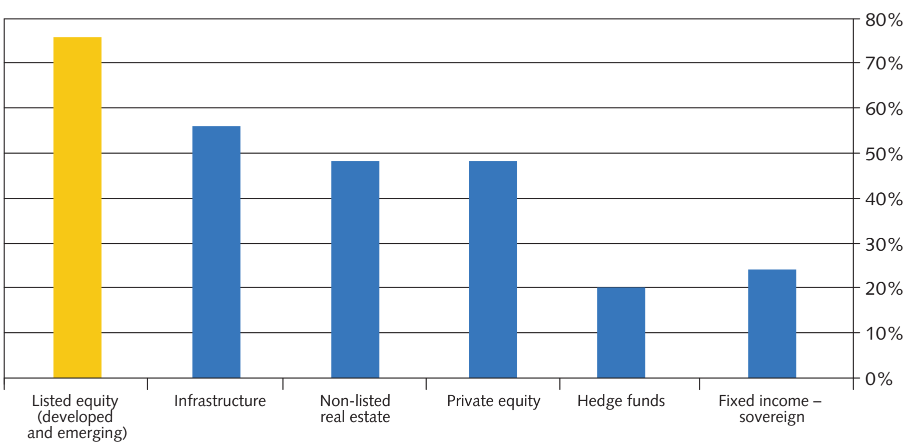


Figure 17. Signatories holding ESG active ownership policies, broken down across asset classes



Progress however is occurring. This year's survey found the number of respondents that assess/monitor ESG competencies and capabilities of internal staff to a large extent rose to 43% from 20% last year. Respondents monitoring investment managers on the engagement process to a large extent rose from 13% to 20%, and those monitoring engagement service providers to a large extent rose from 41% to 54%.

The number of signatories reporting that their internal staff are identifying and prioritising ESG engagement opportunities to a large extent rose from 39% to 48%.

Active ownership policies in non-listed asset classes are less common

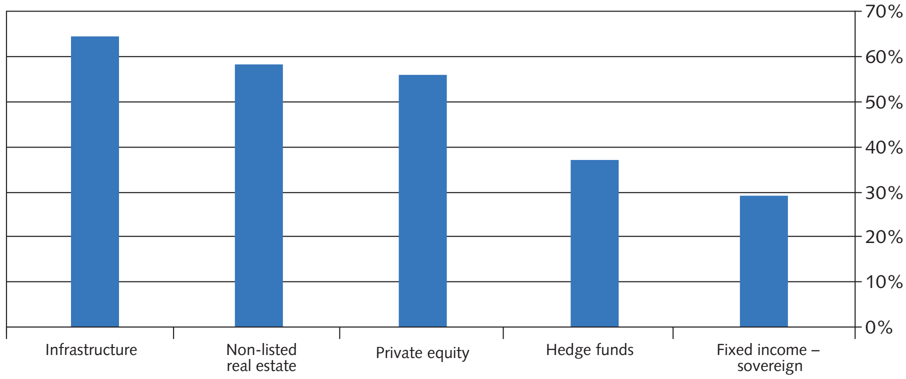
Outside of listed equities and corporate fixed income, being an active owner is seen as quite different. Because of this, the survey this year reviewed other asset classes separately. The analysis showed that the number of signatories that have an active ownership policy (on ESG issues) for infrastructure, non-listed real estate, private equity or hedge funds and fixed income sovereign is much lower than for listed equities (see Figure 17).

However, among these asset classes, the most advanced in terms of active ownership, regarding policies as well as actual implementation, are infrastructure, non-listed real estate and private equity (see Figure 18 below). In fact, around 60% of signatories holding investments in these three asset classes report being active owners on ESG issues despite not always having an RI policy. Of these, more than 75% are doing so to a moderate and large extent. This seems to be driven by the nature of these asset classes.

In private equity, for example, a GP that agrees with its LPs to implement ESG active ownership activities can bring significant influence. In fact, the large stakes held by GPs, their Board seats on companies and at times, their direct management of companies, allows for significant levels of active ownership. In real estate investment, managers often also have direct control of the management of the property, thus providing a greater opportunity to directly address ESG issues.

It is therefore a positive sign that almost all of the private equity GPs and specialist non-listed real estate IMs that responded to the survey have been implementing ESG active ownership activities and over 80% of them are doing so to a moderate or large extent.[7]

Figure 18. Signatories' ESG active ownership activities by non listed asset classes



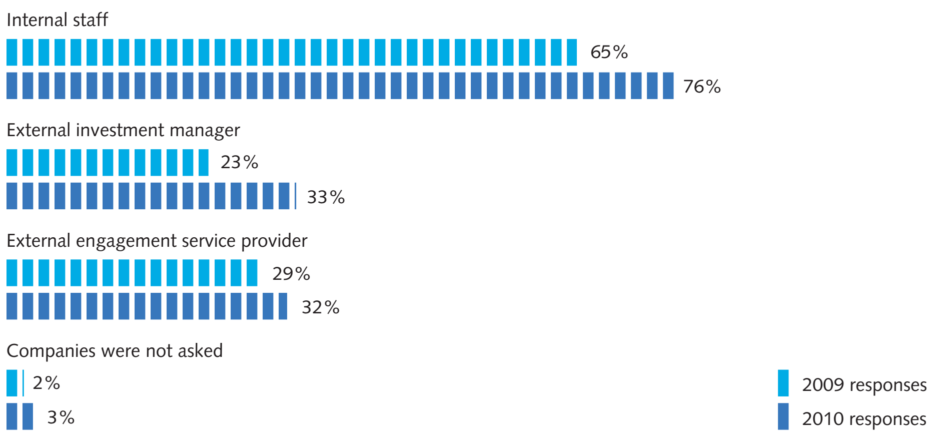
Undertaking active ownership activities in sovereign fixed income investments and hedge funds is a more difficult task. However, this is starting to happen with some signatories engaging with municipalities and national governments on their performance on ESG issues. Some signatories have also utilised hedge funds, as indirect holders of listed equities, to cast votes on ESG issues when this can reasonably be done.

7. Due to the limited number of dedicated infrastructure managers in the Initiative, their statistics are not presented.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

For signatories to be able to implement Principles 1 and 2, they need companies and other entities to provide data on ESG performance, impacts, risks and opportunities. Until the disclosure of such data becomes standard practice in global markets, investors need to use their influence to drive transparency and disclosure from their investees, either directly or via third parties.

Figure 19. Responsibility for ESG data collection in 2009 and 2010



Internal staff in front line of requesting ESG disclosure

The survey showed that internal staff are most likely to ask investee companies for disclosure related to ESG policy, practices and performance. Over 75% of signatories use internal staff for identifying and gathering ESG information. A smaller but growing percentage of signatories (around 30%) also use their external investment managers to collect this information and a similar percentage use third party service providers.

In their responses to the survey, some signatories noted that there is now less need to actively collect ESG information from the investees. This is due to the increasing prevalence of specialist research houses and mainstream information providers that have added ESG data provision to their list of services. This makes it easier for internal staff and external managers to review this information.

The year that ESG data went mainstream?

As the responsible investment market has grown, so has the market for acquiring and selling ESG data, such as benchmarks that compare companies' carbon emissions, labour policies or corporate governance structures.

For many years, this type of information was left to specialist service providers, many of whom are PRI signatories. However, one noticeable change in recent times has been the entrance of large, mainstream providers of investment information into the ESG data business.

In June 2010 MSCI Inc., a leading global provider of investment decision support tools including the MSCI indices, completed its acquisition of RiskMetrics Group and plans, according to the Financial Times, to 'push to include hard-to-quantify social criteria – including the environmental or political risks faced by companies – into its investment products'.

At the same time, financial service giants such as Bloomberg and Thomson Reuters have recently made ESG data a strategic priority. Thomson Reuters acquired specialist ESG data houses ASSET4 and Point Carbon, while Bloomberg recently bought New Energy Finance and allowed clients using their 250,000 data terminals to have access to all publicly available ESG data from 2,000 to 3,000 companies.

Bloomberg chairman Peter Grauer told a conference organised by Responsible Investor magazine in 2010 that his company plans to integrate ESG into the 'decision-making process of the capital markets'.

Principle 3 mainly implemented in listed equities

It is no surprise that implementation of this Principle varies widely within different asset classes. Signatories ask for ESG disclosure mainly within the listed equities, and only to a very small extent within sovereign fixed income and hedge funds (see Figure 20).

Comparing this year's mean responses against last year's, it is encouraging to note that the percentage of signatories asking for ESG disclosure to a large or moderate extent has risen from 28% to 38% in all asset classes. The largest increase in disclosure is within infrastructure and private equity.

Principles in action

Asking for ESG disclosure within infrastructure

Australia's Industry Funds Management holds interests in the infrastructure asset class through privately held companies that invest in renewable energy, toll roads, water, social infrastructure, airports etc.

IFM has the ability to influence ESG outcomes because it takes substantial and direct equity positions and appoints nominee directors on investee company boards. IFM seeks to ensure that ESG has an appropriate level of priority within the policies and strategies of its investee companies.

In 2009, IFM facilitated a detailed disclosure from all of its infrastructure investee companies on ESG issues including governance structures, workplace safety, turnover, gender diversity, environmental issues and strategies to reduce carbon emissions.

IFM requested that its investee companies complete questionnaires based in part on frameworks such as the Global Reporting Initiative, Carbon Disclosure Project and ASX Corporate Governance Principles. Based on the responses it received, IFM then identified areas for potential improvement, for example suggesting an improvement in policy or practice to a particular company. IFM also set up a database to track successful implementation of these improvements over time.

Some of the improvements in ESG disclosure that have been implemented as a result of this initiative include a carbon footprint assessment of all investee companies, a collaborative initiative with four Australian airport companies to develop a best-practice workplace safety reporting framework, implementation of a responsible contractor policy and ethics policy for a North American electricity generation company and procedures for seven investee company boards to evaluate their collective competence and performance through regular reviews.

IFM believes that ESG is simply good business. With over twenty companies in IFM's infrastructure asset class, IFM is using this initiative to help its companies do things better and protect its investors' long-term returns.

> **More information: www.industryfundsmanagement.com**

Figure 20. Breakdown of requests for systematic ESG disclosure by asset class

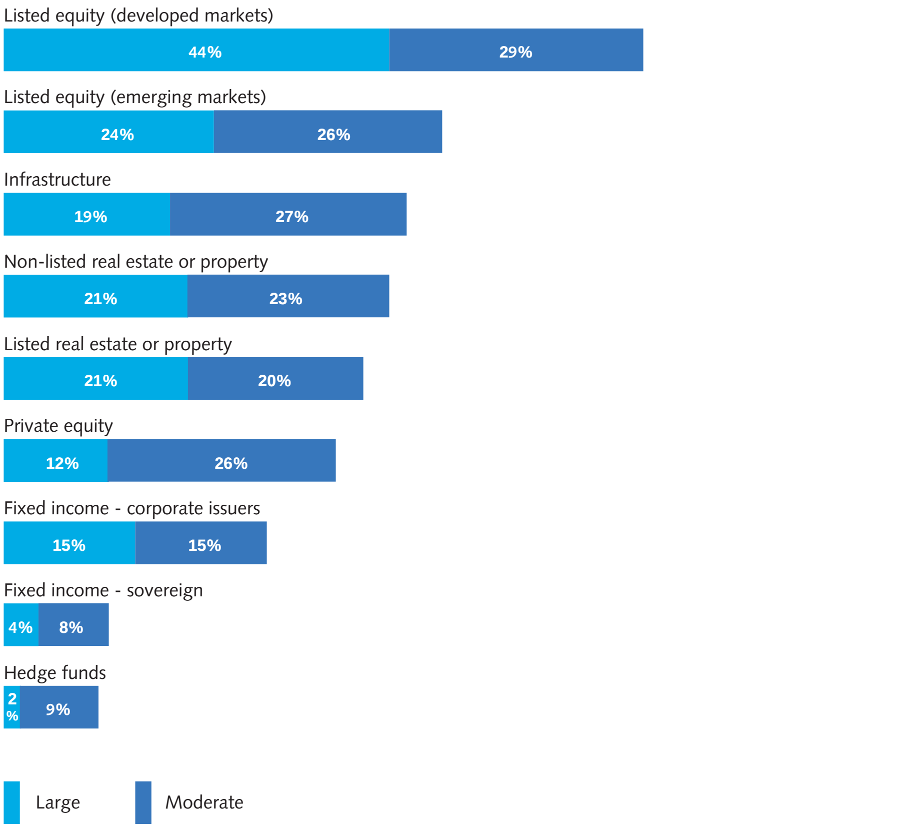
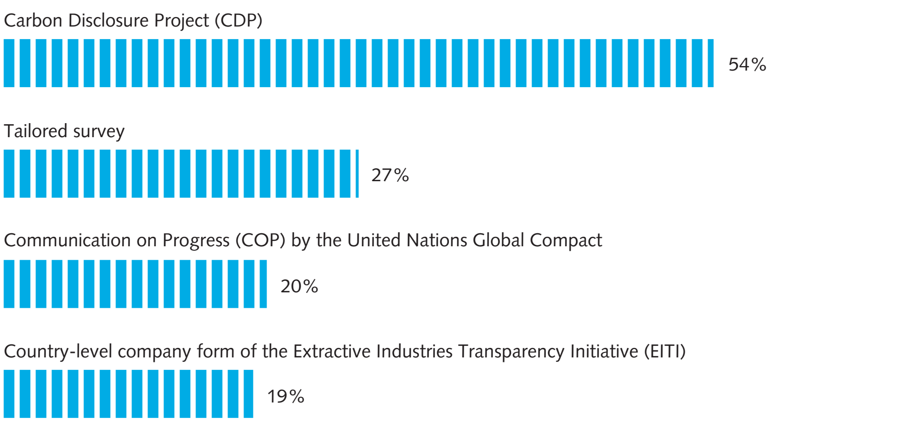


Figure 21. Channels used by investors to collect ESG data (beyond stand-alone or integrated financial reports)



Demand for appropriate disclosure rises

There is a growing discussion within the responsible investment community about how investors can standardise requests for ESG disclosure and what those disclosures should look like to be of most use to investors. For example, should the data be integrated within regular financial reports or contained in a standalone corporate responsibility report?

The survey reflects this debate and shows signatories are doing both. In fact, among the many different channels available, a total of 67% of signatories requested ESG information integrated into regular financial reporting, while 62% requested standalone reports. Compared to last year, there is a slight shift towards more investors requesting standalone reports. The numbers clearly indicate that a number of investors rely on both sources: 217 out of 337 signatories reading these reports analyse both.

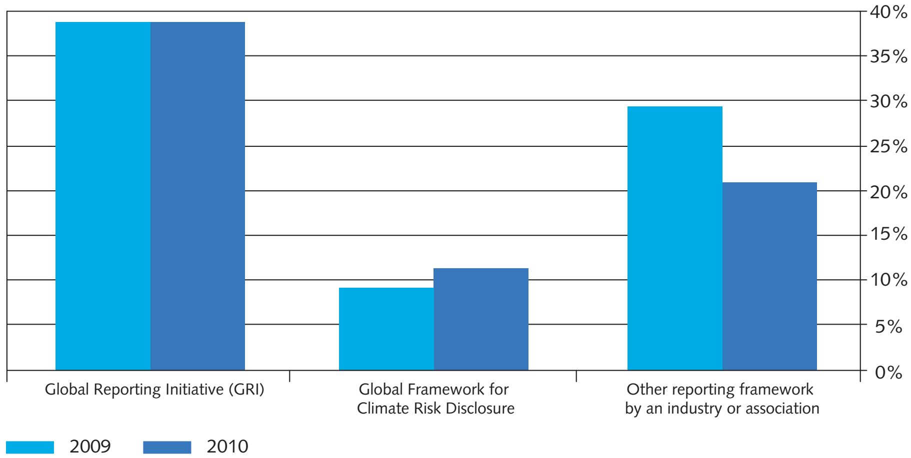
However, signatories also collect ESG information in other ways. Some of the main channels are the Carbon Disclosure Project (CDP), the Communication on Progress (COP) documents produced by UN Global Compact participants, the country-level company form of the Extractive Industries Transparency Initiative (EITI) and other tailored surveys. Figure 21 below highlights the percentage of signatories using such sources.

Responses also showed that around 70% of signatories seek information about corporate compliance and alignment with international norms, standards and codes of conduct in relation to ESG issues, such as the UN Global Compact. This is a slight increase on last year.

Signatories were also asked which reporting framework they suggest to companies for reporting ESG information. The responses showed that around 40% of signatories requested that investee companies use the Global Reporting Initiative (GRI) as a framework. This matches recent research from CorporateRegister which found that around one third of reporting companies (4,000/year) followed the GRI framework in their reporting to some extent in 2009.[8] The Global Framework for Climate Risk Disclosure was also used by a number of investors as a framework for corporate reporting (see Figure 22).

Some signatories also reported efforts to ensure the quality of ESG reporting was verified and reviewed by a third party.

Figure 22. Reporting frameworks for ESG disclosure used by investors



8. Source: CRRA, CR Reporting Awards '10, Global Winners & Reporting Trends; CorporateRegister, April 2010.

Principles in action

ESG disclosure as part of a holistic approach

Asset Owner CommInsure recently became a signatory to the PRI and one of its early priorities has been sourcing ESG research and data from fund managers and external service providers.

CommInsure has anticipated a number of benefits in making this an initial priority:

- providing information so better decisions can be made in how to incorporate ESG data and research into the investment process over time;
- increasing transparency from fund managers to facilitate reporting to all stakeholders;
- comparing fund managers on levels of ESG engagement;
- providing evidence of fund managers' approach to corporate governance;
- providing a benchmark to identify areas for further analysis and research; and
- highlighting areas where collaboration and engagement with fund managers can be targeted.

In order to entrench ESG disclosure from fund managers they work with, CommInsure has specified regular reporting requirements in service level agreements with their major fund managers and are looking to roll this out with other fund managers over time. The level of disclosure includes proxy voting and fund manager engagement with companies.

For example, fund managers provide sustainability and responsible investing reporting for unlisted assets and listed assets, where this is available. CommInsure also supports their fund managers to encourage companies to report in-line with the Global Reporting Initiative G3 Reporting Framework where appropriate, as well as their own corporate governance and engagement policy. In addition, a key focus for CommInsure in 2009 was participating in the Carbon Disclosure Project.

However reporting is only a tool by which to gain disclosure. CommInsure combines reporting from their fund managers with regular meetings. In these meetings fund managers are asked to provide examples of how they have engaged with companies on ESG issues. This includes where they have been successful in engaging with companies and where they have met with less success.

CommInsure's approach to requesting ESG information from fund managers is consistent with their expectation that fund managers are to be active owners and manage all portfolio risks. Therefore the approach is to gain an understanding of the different issues the fund managers are facing and what they are doing to incorporate ESG related issues into their investment process and thereby be an active owner. It is acknowledged and appreciated there are challenges involved in implementing ESG into investment processes, so CommInsure seeks to encourage open dialogue with fund managers through the disclosure.

> More information: www.comminsure.com.au

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

The Principles were designed to be a framework for the whole investment industry, and Principle 4 asks signatories to help spread responsible investment throughout the investment chain.

Principles in action

Promoting sustainability across the German market

In its role as one of the world's leading supranational/agency issuers, and in its activities as an investor within its liquidity management framework, KfW Bankengruppe (a promotional bank of the German Federal Republic and the federal states) is actively engaged in addressing the topic of sustainability and the PRI in the capital markets and enhancing awareness of the need for sustainable investment both as an issuer and an investor.

KfW as an issuer

As a bond issuer, KfW cooperates with a wide range of syndicate banks, and in 2009 KfW for the first time asked these business partners about their activities in the area of sustainability. Specifically, it surveyed 19 banks on these topics asking them:

- If it was a signatory to the PRI, and in some cases why their asset management subsidiaries had committed to the PRI but not them?
- If it included sustainability aspects in its loan appraisal process?
- If SRI investors play a strategic role in its customer relations?

The answers submitted by the business partners were evaluated internally and are used as an information basis for future talks in the framework of the business relationship with KfW.

KfW as an investor

Under its liquidity management, KfW invests in bonds with fixed and variable interest rates. KfW focuses on liquid issues, e.g. Pfandbriefe, financials and bonds issued by public entities. A large portion of these investments are held in the so-called liquidity portfolio. The investment strategy for this portfolio (approximately € 20 bn) takes into account the financial standing of the issuers and their sustainability rating. This means that the amount invested in the bonds of a specific issuer depends on the quality of its sustainability rating, with KfW giving preference to issuers that have received a particularly good sustainability rating.

In order to illustrate the importance of the topic of sustainability for KfW's investment strategy, KfW wrote to the roughly 150 issuers included in its liquidity portfolio and informed them of the increasing importance of ESG issues in KfW's portfolio management. As a next step, KfW intends to inform the issuers about the sustainability rating it has assigned to them. This measure will highlight whether KfW could increase the weight of a particular issuer in its portfolio if its sustainability rating were to improve.

> **More information: www.kfw.de/kfw/EN_Home/KfW_Bankengruppe/Our_Actions/Sustainability**

RFPs increasingly address ESG issues

A significant number of signatories are implementing Principle 4 by highlighting the importance of ESG factors in their searches for third party providers. As shown in Figure 23, across different third party providers on average 70% of IMs and AOs are doing so. However, the survey found that this is being done most frequently with voting and engagement providers, and to a lesser extent with brokers, investment consultants and research providers. In particular, approximately 50% of asset owners are using RI/ESG criteria when searching for brokers, investment consultants, and research providers. Forty percent of investment managers are doing so for their brokers.

Moreover, over 60% of signatories integrating using external managers now consider RI/ESG capabilities to a large or moderate extent when searching for and selecting their external investment managers, an increase from 52% last year. Similarly, the number of signatories not considering these issues at all in manager-hiring decisions decreased from 14% to 11% this year. Request for proposals (RFPs) are thus being designed accordingly with specific sections on ESG competencies.

Principles in action

Educating asset owners through the RFP process

Global investment manager RCM has decided to educate industry participants about the importance of sustainability research.

RCM has seen a definite rise in the number of asset owners proactively requesting information regarding their sustainability capabilities and understanding of ESG risks and opportunities. However, there are many Requests for Information and Requests for Proposals which make no reference to the importance of managing assets in accordance with sustainability principles or with the benefit of ESG integration.

In order to promote awareness among those who might otherwise have limited insight or interest, the RCM sales and marketing team has committed to provide a summary of their philosophy on sustainable investment in every tender document response they provide. Among other items they highlight why it is important that sustainability research sits alongside mainstream sector research and how it might be used by mainstream sector analysts and fund managers.

By providing this information RCM hopes to stimulate interest from potential clients and encourage further discussions about the benefits of ESG analysis in portfolio management.

The RCM Sustainability Research team has also made a commitment to engage with the wider investment community. This year, for example, the Gulf of Mexico oil spill has forced all investment professionals to consider how they understand operational risks in the companies in which they are investing. RCM has taken this opportunity to promote the need for greater transparency around, and better understanding of, safety performance in those industries with significant environmental footprints, in order to avoid exposure to disasters such as the one at the Macondo well.

> **More information: www.rcm.com**

Explicit reference to ESG issues in contracts and incentives

The number of asset owners that put specific ESG considerations into their contracts with investment managers rose again this year from 63% to 66%. This follows a large increase from 38% in 2007.

However, the proportion of respondents that include ESG-related criteria in their contractual agreements and incentive scheme structures across their third party providers are fewer than the percentage that include them in their selection process (see Figure 23). Against the 70% of respondents that now include ESG considerations in their recruitment search, only 57% of AOs and 47% of IMs incorporate them into contractual agreements. Only 16% of AOs and 31% of IMs incorporate them into incentive schemes.

Around 50% of IMs, and 30% of AOs provide financial incentives to brokers to produce quality ESG research – the same as last year (see figure 24). This lack of progress in the market makes it more difficult for brokers to turn their attention to these issues.

Asia lagging behind in promotion of RI/ESG considerations

Numerous signatories implement Principle 4 by encouraging peers, partners and clients to consider RI/ESG issues in private discussions, at conferences and via working groups. Geographically, the bulk of RI/ESG outreach, promotion and incentivisation activity is occurring in Europe and the Americas. It is happening to a much lesser extent in Asia, although this is influenced by a smaller number of signatories (see Figure 25).

Figure 23. AOs and IMs searching, contracting, and incentivising ESG issues across third party providers

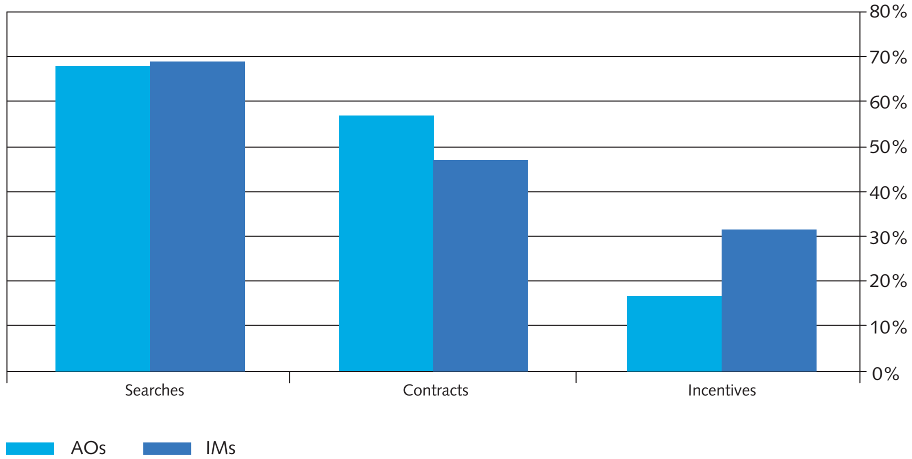


Figure 24. Signatories that have a budget for broker research on ESG issues

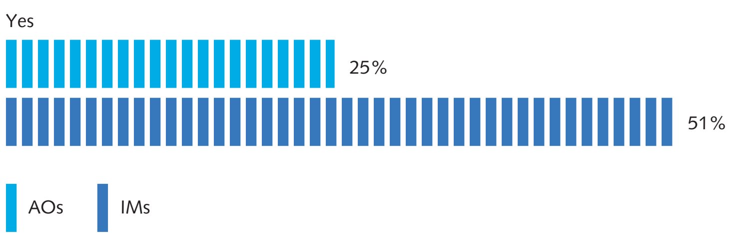
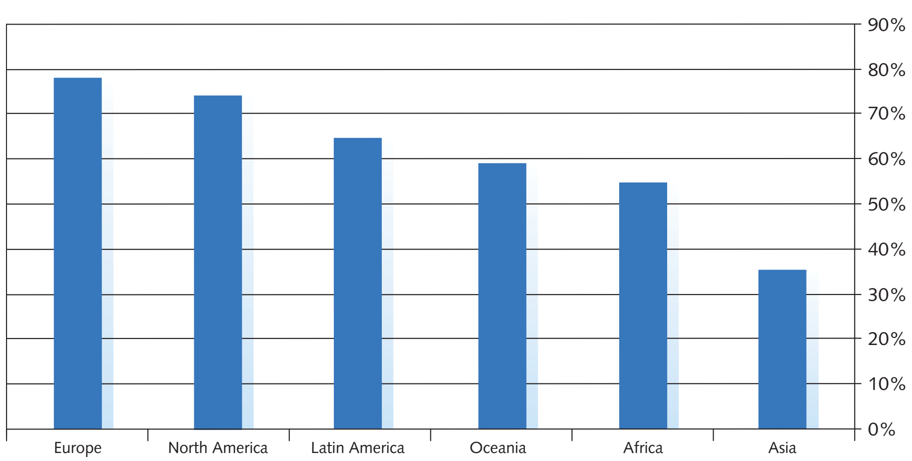


Figure 25. Signatories encouraging responsible investment among industry peers to a large or moderate extent – by region



Principles in action

Promoting responsible investment in emerging markets

Being the growth powerhouse of the planet, representing close to 40% of the world's GDP, emerging markets are attracting growing interest among institutional investors. However, ESG considerations can be overlooked during the investment process. HSBC therefore has been working to encourage emerging markets companies to follow the ESG agenda and embed it in their day-to-day business practices through proactive engagement policy.

HSBC has set up a three-step engagement process to facilitate this. Firstly, a letter is sent to describe the key ESG sectoral stakes of the company's sector. Secondly, HSBC meets the company through a one-on-one meeting or teleconference to facilitate a dialogue based predominantly on publicly available information. Finally, they follow up with detailed minutes and work with the organisation to ensure any development points are being actioned. In addition, every quarter, HSBC issues an engagement report.

HSBC first implemented its emerging markets ESG research capability in early 2007 and since then has met 170 companies located throughout the region including those in South Africa, Brazil, China, South Korea, India and Turkey.

This ongoing dialogue is key to identifying responsible behaviour, to managing ESG-related risks, and to extending company knowledge beyond financial fundamentals. Indeed, this engagement approach contributes to identifying hidden risks and opportunities and to increasing transparency.

HSBC's observation from the field are that emerging markets standards are converging towards those of developed markets. Frameworks such as the GRI, UN Global Compact and international treaties are now more widespread and HSBC uses its global footprint and local presence to encourage this trend.

They consider an open dialogue to be a highly efficient method of raising ESG awareness, mitigating hidden risks, revealing opportunities and more generally, facilitating a better understanding of the emerging markets as a regional asset class which is undoubtedly set to play an increasing role in long-term investors' allocations.

> **More information: www.assetmanagement.hsbc.com**

Working with regulators

Principle 4 implementation also means working, where appropriate, with regulators and other stakeholders to create the right local climate for responsible investment to grow and succeed. This year, around 85% of AOs were involved in dialogues related to government policy and industry regulation on ESG issues, a noticeable increase from the previous two years when 74% and 69% respectively, were involved. Similar to last year, around 80% of IMs reported that they were participating in discussions with regulators around ESG issues. The relatively high level of interest may be driven by the growing attention at the regulatory level to ESG issues. The PRI Secretariat is supporting the dialogue within this growing trend, as described below.

Investor participation in public policy and regulatory developments

An increasing number of investors are providing input on policy at the national, UN, and multilateral levels with regards to the responsible investment agenda. The launch of the PRI Public Policy Network has actively encouraged this increased investor participation with policy-makers and quasi-regulators, such as stock exchanges and accounting standards boards.

As part of the Sustainable Stock Exchanges initiative, the PRI, UN Global Compact, and the UN Conference on Trade and Development have been engaging with the World Federation of Exchanges and International Organisation of Securities Commissions to explore how the world's exchanges can work together with investors, regulators, and companies to enhance corporate transparency and performance on ESG issues. In August 2010, Aviva Investors invited all signatories to support a new proposal, via the Clearinghouse, which calls for listing authorities to consider requiring companies to put a sustainability report and strategy to vote at their AGM.

In February 2010, the PRI provided feedback to the European Commission during a series of ESG disclosure workshops. Many PRI signatories support the national disclosure requirements that have emerged from several of the EU member states in recent years, which provide investors with the information needed to make positive and holistic investment decisions.

Also in February 2010, the US Securities and Exchange Commission released a guidance document on how companies should provide disclosures related to climate change in financial filings. The SEC guidance was issued in response to requests from large, mainstream investors, including US public pension funds CalPERS and CalSTRS, as well as 50 other European and US investors representing US$ 6.5 trillion in assets.

Many signatories also continue to support the investor statements on climate change policy drafted in collaboration with Ceres through the Investor Network on Climate Risk, the Institutional Investor Group on Climate Change, the Investor Group on Climate Change Australia/New Zealand and UNEP FI. This is in the lead up to the COP15 and the COP16 summits, held by the United Nations Framework Convention on Climate Change. The 2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change was supported by 186 investment institutions, representing US$ 13 trillion in assets.

With respect to regulatory developments in responsible investment, the United Kingdom's Financial Reporting Council (FRC) has issued a Stewardship Code which 'aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities'. The Clearinghouse held a webinar on the consultation process, with a speaker from the FRC and UKSIF.

In 2011, the PRI Public Policy Network will produce a publication showcasing collaborations between investors and policy makers, including examples of investor participation in creating effective regulation, governments acting as responsible investors, and public-private investment partnerships furthering ESG goals.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

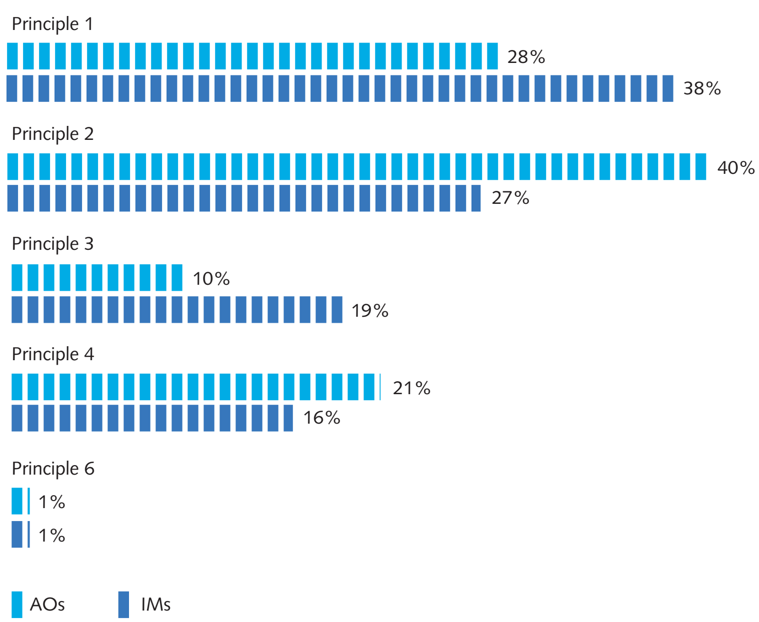
Many ESG issues are too large and too complex for any one signatory to solve on their own. Therefore collaboration – through forums like the PRI Clearinghouse, PRI work streams and other industry initiatives – has become a key part of responsible investment implementation. Working together can increase the influence that investors bring to bear on investee entities, and being able to raise issues with other investors in a company is vital to sending unified signals on the importance of managing ESG issues appropriately.

Collaboration on the rise

This year approximately 90% of signatories collaborated with other investors through formal investor initiatives or informal networks aimed at addressing responsible investment issues. This figure has risen from 75% last year.

Strikingly, more than 35% of signatories claimed to have collaborated with others to a large extent. It is on issues of ESG integration and active ownership where most collaboration is taking place (see Figure 26).

Figure 26. Breakdown of which Principles respondents collaborated most in



Clearinghouse a ‘powerhouse’ for collaboration

The percentange of respondants that have taken the lead on collaborative engagements in the PRI Clearinghouse over the last two years has risen from 12% to 17%, and the percentage joining such engagements has risen from 41% to 49%.

From July 2009 to July 2010, a total of 223 signatories were involved in collaborative engagements promoted through the Clearinghouse and posted 85 new collaborative proposals. This is up from 70 in 2008/09 and 60 in the year before that.

> **More information on Clearinghouse activities can be found in this report’s sister document, the PRI Annual Report 2010 (www.unpri.org).**

Principles in action

Clearinghouse facilitates action in Sudan

In late 2007, an item was posted on the Clearinghouse to draw signatories' attention to the risks they faced from investments in companies with operations in, or exposure to, Sudan – a country whose human rights record, weak governance and history of violence is the subject of ongoing public and political concern.

The posting soon led to the formation of the Sudan Engagement Group (SEG), which consists of 22 institutional investor signatories with approximately US$ 2.1 trillion in assets under management. As fiduciaries, the Group wants to better understand these risks and the steps companies need to undertake to avoid activities that exacerbate or fuel instability and a negative business environment.

The SEG is aware of ongoing calls for international companies to withdraw from Sudan. However, the Group recognises that withdrawing from a country may not be the most viable or constructive solution for protecting human rights and promoting the strong governance, long-term stability and economic development that benefits ordinary citizens. The SEG is therefore involved in ongoing engagement with selected companies operating in Sudan. The aim of the engagement has been to encourage these companies to disclose more information on their activities in the country, act responsibly, respect the UN Global Compact Principles, recognise their role and show leadership to trigger a stable and sustainable business environment and therefore contributing to lasting peace in the region.

For example, over the past 18 months, the SEG has issued formal correspondence and held private meetings with target companies operating in Sudan to discuss investors' concerns related to their long-term performance. In addition, the Group has commissioned an independent research study with the goal of acquiring more information on the current practices of selected companies on the ground.

The findings of the research have also guided representatives of the SEG who visited Sudan from 27 February to 4 March 2010 and met with local and international representatives of target companies, oil consortia, other international and local companies operating in the country, NGOs, communities, diplomats, international experts and government representatives. In addition to bilateral meetings, representatives of the Group presented at the event: 'Responsible Investment and Responsible Business Practices in Conflict-Affected Countries' organised by the PRI Initiative and the UNGC in Khartoum on 1 and 2 March this year.

Going forward, the Group hopes to continue its dialogue with companies to encourage and monitor concrete actions to address remaining areas of business risk. The Group will also encourage companies to enhance their corporate disclosure on social, environmental and governance issues given their importance to sustainable development in Sudan.

> **For more information on Clearinghouse collaborations visit: www.unpri.org/collaborations**

More signatories are also participating in sector-specific or industry-wide initiatives and associations aimed at achieving responsible investment objectives in cooperation. More than 50 signatories are part of each of the following RI initiatives:

Figure 27: Initiatives where more than 50 signatories participated

Initiative	Number of signatories
Carbon Disclosure Project (CDP)	215
Regional Social/Sustainable Investment Forums	100
International Corporate Governance Network (ICGN)	80
United Nations Environmental Program Finance Initiative (UNEP FI)	80
Extractive Industries Transparency Initiative (EITI)	58
Institutional Investors Group on Climate Change (IIGCC)	52

Protecting the right to collaborate

Many investors have also been involved in work to ensure that ‘acting in concert’ regulations in a number of countries and jurisdictions do not prevent legitimate shareholder engagement on ESG issues, as described overleaf.

Principles in action

Collaboration on climate change

As asset owners ARIA seeks value-enhancing collaboration with other investors and industry bodies in order to serve the needs of their superannuation scheme members. They believe that working together can amplify their voice and give a collective momentum when presenting their views and needs.

In the area of climate change, ARIA acknowledges that climate change represents a set of very long-term risks, and that policy responses to climate change represent shorter-term risks and opportunities for investment capital. They also expect that investors in industries associated either directly or indirectly by climate change will be operating within an environment that is likely to be highly uncertain, as there is little clarity on the models that policy makers will adopt to develop their climate change strategies.

To help meet this challenge ARIA is working to increase transparency on the assessment of climate-change-related risk on investment strategy. To achieve this ARIA collects climate change data on their specific investments and integrate this into their investment process to a large extent. However part of the work must also be done in collaboration with other investors.

ARIA works with other investors through participation in the Investor Group on Climate Change and by being an investor signatory to the Carbon Disclosure Project.

They also leverage their network of ESG relationships to improve the transparency of ESG reporting from portfolio companies, thereby encouraging efficient price discovery. Through key relationships such as those with Regnan and the Australian Council of Super Investors they encourage companies to report on their ESG policies, practices and performance.

Collaboration with other investors has proved to be efficient for both investors and companies. It allows investors to work together to determine what information is needed and it facilitates a cost-effective and consistent response from companies to multiple investors with similar interests.

> **More information: www.aria.gov.au**

Acting in concert

Many active investors share ESG information and analysis about companies, on agenda items for upcoming shareholder meetings and jointly engage with companies beyond the issues that arise at these meetings. In order to address effectively principal-agent conflicts in companies with widely dispersed ownership, much more co-operation between investors is necessary. However, there has been considerable legal uncertainty in many jurisdictions – across Europe, South Africa, North America and elsewhere – about whether this type of co-operation and communication goes beyond sharing information to a level where investors are working together to achieve the same investment goal.

For example, the term ‘acting in concert’ is vaguely defined in two Directives at the European level, which define the circumstances in which shareholdings of investors need to be aggregated for disclosure or mandatory bid purposes. This uncertainty at the European level is further aggravated by different interpretations of the concept at the national level, and legal consequences for investors acting in concert differ between Member States. Investors who would like to share information and work together in Europe are therefore faced with considerable legal uncertainty.

In order to assist signatories in limiting their exposure to potential legal challenges on collaborative engagements, and to help the European Commission clarify its rules on acting in concert, a coalition of eight investors, led by Hermes, was established through the PRI Clearinghouse to work to clarify the current state of affairs. The group determined the first course of action would be to open dialogue with European policy makers, seeking clarification of the rules concerning concert parties. To this end, in 2009 investors initially wrote joint letters to the European Commission, Committee of European Securities Regulators (CESR), and the French and Italian financial authorities (Autorité des Marchés Financiers (AMF) and Commissione Nazionale per la Società e la Borsa (Consob), respectively). Later in the year, the engagement was extended to the Spanish financial regulator, Comisión Nacional del Mercado de Valores (CNMV), as well as direct consultation with the Financial Services Authority (FSA) in the UK.

The activities of the group have borne fruit in the form of clarification from several of the bodies with which it has engaged. Investors in the group have been active participants in an ongoing consultation with the European Commission on modernising the Transparency Directive, and have attended meetings with other investors and the Commission which aim to address the continuing lack of clarity in this area. The FSA have provided guidance that in the majority of activities in which investors might engage collaboratively, there will be no contravention of its rules on acting in concert. A joint collaborative effort between signatories and the Spanish Social Investment Forum has resulted in a joint letter to the CNMV seeking assurances regarding collaborative engagement. The AMF has spoken with investors about the topic of acting in concert, and dialogue with the body continues, as it does with Consob.

Investors will continue its efforts in the coming months, and will continue to push for greater clarification throughout Europe on issues relating to acting in concert, in particular the outcome of the consultation on the Transparency Directive.

More information on this initiative can be found on the PRI Clearinghouse.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

The issue of transparency and reporting is of increasing importance to investors and applies to both an investor's policies and how they are implemented. It is core to Principle 6 that investors report on how they put the Principles into practice. From 2012, greater transparency requirements will be introduced by the PRI Initiative.

RI policies widely disclosed

The survey found that responsible investment policies are increasingly being disclosed, though with different frequencies (see Figure 28):

- An overwhelming majority of respondents (94%, up from 85% last year) now disclose, at least in part, how they approach the integration of ESG processes and decision-making;
- Of those invested in listed equities, 55% choose to disclose their voting policy publicly and another 17% disclose solely to clients and beneficiaries. However, it is noticeable that almost 40% of AOs still do not disclose their voting policies at all (Figure 29);
- Only 47% of applicable respondents choose to disclose their active ownership and engagement policies publicly while another 15% do so to clients and beneficiaries. AOs more frequently publish their policies, with 58% doing so, against 36% of IMs (see Figure 30).

Figure 28. AOs and IMs average disclosure rate publicly or to clients and beneficiaries

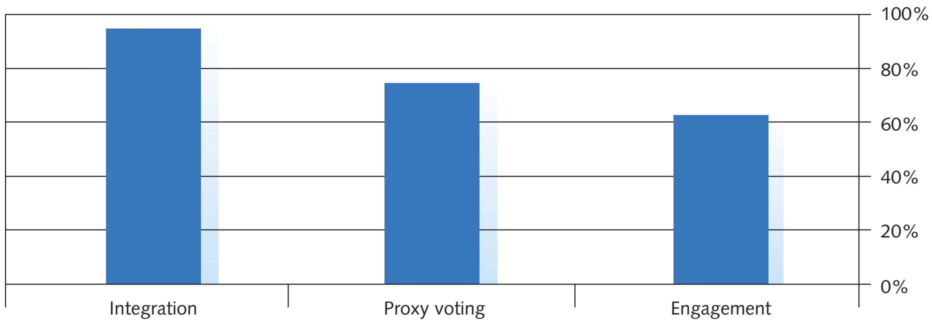


Figure 29. Breakdown of respondents' disclosure of proxy voting policy

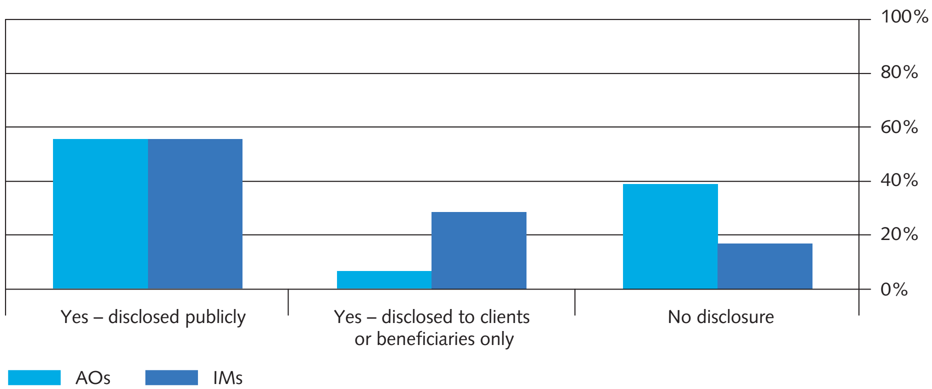
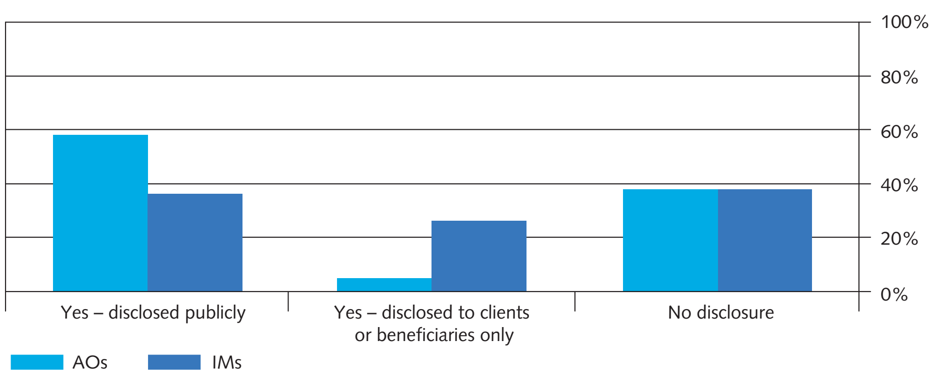


Figure 30. Breakdown of respondents' disclosure of engagement policy/approach (for listed equity and corporate fixed income)



Disclosure of voting records is mixed

Voting records are not as widely shared as their policies by AOs or IMs with slightly less than 50% of each disclosing some of their records. However, IMs are more inclined to share their voting record with clients and beneficiaries (see Figure 31). Over 40% of AOs and about 25% of IMs do not share voting records at all.

Encouragingly, among the signatories that disclose their voting records, more signatories are disclosing all their votes compared with the previous year: 55% of IMs and 51% of AOs do so this year, versus 38% and 44% respectively last year.

However, the public explanation of voting decisions is even less widespread than the voting itself. When sharing their voting records only around 25% of respondents also disclose the reasons for all their votes, while an additional 40% provide explanation for some of their votes. This provides a valuable tool for many signatories to both signal to their investees their views, as well as to enable clients and beneficiaries to monitor and influence the ESG risks and opportunities in their portfolio.

When they disclose voting activities, IMs and AOs typically do so annually and around a third do so quarterly. For the small number of signatories that disclose continuously throughout the voting season, it is more likely that they disclose soon after the votes are cast rather than before meetings. Encouragingly, the percentage of signatories disclosing continuously has grown from 7% to 18% after the meetings and from 3% to 8% before the meetings.

Figure 31. Breakdown of respondents' disclosure of proxy voting records

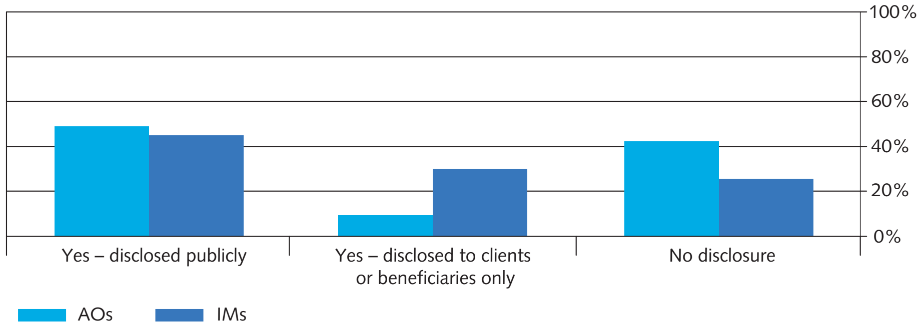
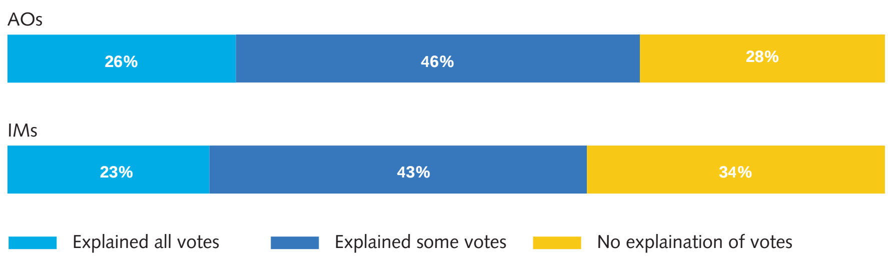


Figure 32. Extent to which proxy voting decisions are explained by signatories that disclose their voting records



Engagement activities also being revealed

Around 70% of applicable respondents state that they disclose details of their engagement and active ownership activities to some extent, with 28% doing so to a large extent. No significant difference was identified between AOs and IMs in their disclosure of engagement activities.

Many ways to disclose

The survey also showed that signatories are using many different ways to disclose their RI policies and activities both for the public at large and for clients and beneficiaries. As might be expected, RI/ESG reporting to clients and beneficiaries seems to be more comprehensive compared to that available to the wider public.

A list of some of the ways signatories choose to communicate their responsible investment activities are:

- Standalone ESG/CSR reports
- ESG reporting within annual report
- Newsletter with investor updates
- Dedicated page(s) on public website
- Third party RI assessment report
- Face-to-face meetings
- Intranet for clients
- RI yearbook with fund's activities
- Policy, code of practice, charters etc
- Press releases

Boom in use of PRI Reporting and Assessment survey as a reporting framework

The PRI survey, upon which this Report is based, is designed as a useful 'off-the-shelf' tool for investors to report on responsible investment activities. It is encouraging therefore that 40% of respondents have decided to publicly disclose their answers this year, compared to 25% last year. The willingness to disclose was slightly higher among asset owners, 43% versus 36% for investment managers.

Among those respondents publishing online, the region with the highest level of transparency was Latin America, driven by the high number of Brazilian signatories that published (13 out of 24 respondents). Among those with at least five signatories, the country with the highest percentage of respondents who published was Sweden with 10 out of 16 respondents (63%) putting their survey online. Asia was the region with the lowest percentage in this area.

Figure 33. Regional breakdown by percentage of respondents publishing PRI survey

	% that publish
Latin America and the Caribbean	52%
Europe	42%
Oceania	39%
North America	35%
Africa	33%
Asia	13%

Principles in action

Using the PRI survey as a reporting tool

Information is a key resource in the responsible investment industry; therefore transparency is a key issue for investors.

As investors AP2 want ESG information released by companies to enable them to make a qualified assessment of the company's future development and understand which factors generate shareholder value. They want companies to establish an open and ongoing dialogue with their shareholders.

For AP2 as a national pension fund it was self-evident therefore that they should also be open and transparent with their stakeholders in order to gain credibility and trust. Therefore, for the last two years AP2 have opted to publish in full their answers to the PRI survey. This gives them an opportunity to communicate with peers and other stakeholders and, by looking at the responses of others, they benefit from learning what others investors are doing.

The survey is far from perfect. AP2 has concerns about the size and the scope of the current questionnaire. There is a risk that it becomes to prescriptive and in-flexible, and hence unable to cover the multitude of investment strategies and responsible investment policies of the diversified signatory group.

However, the most important thing is that the survey captures how the signatories are implementing the Principles in a credible manner.

> **More information: www.ap2.se**

> **This year's responses and links to previous years' responses can be found at www.unpri.org/report10**

Appendix 1:
About the Reporting and Assessment process and the survey findings

The Reporting and Assessment process is one of the most important activities of the PRI Initiative.

Each year all asset owner and investment manager signatories receive an emailed invitation to participate in an annual online survey that asks for details on how they are putting the six Principles into practice. The responses to this survey are brought together to produce this 'Report on Progress'.

The survey is self-reported and no independent third party has provided an assurance or audit of the responses. The PRI Secretariat however does perform an annual verification across one-third of participants. This involves a one-hour call that, among other objectives, has the purpose of identifying inconsistencies.

As-well as publishing the aggregated results in this report the PRI Secretariat also sends respondents an individual feedback report which highlights for each of the Principles their relative score compared to different sets of peer groups. These are confidential reports that signatories can use to review their internal strengths and weaknesses on responsible investment and find guidance for improvement.

The process also provides signatories with an easy way to report on their responsible investment practices, thereby fulfilling Principle 6.

The PRI is a voluntary and aspirational framework, however participation in this survey (after an optional one year grace period for new signatories) is a mandatory requirement for investor signatories. Professional service provider signatories do not complete the survey.

The Reporting and Assessment process was designed to recognise the diversity of PRI signatories in terms of asset allocation, the mix between internal and external investment management, and passive and active management approaches. Where signatories were asked to choose from possible answers (large extent, medium extent, small extent), guidance was provided regarding the interpretation of those responses. Nevertheless, with such diversity of practice and experience, it is inevitable that differences in interpretation of questions and answers remain in the data. Points to bear in mind when interpreting the findings include the following:

- The percentages presented in most charts are based on the number of applicable responses received to each question and consequently may not reflect the overall views or practices of all respondents to the survey (for example, questions relating to a particular asset class would apply only to those signatories that invest in that asset class).
- Percentages may not add up to 100%, due to rounding.
- For clarity, 'Not applicable' and/or missing responses have been excluded from many charts.
- While the PRI Initiative is focused on the mainstreaming of responsible investment, many signatories have multiple operations and some have multiple funds that may apply different strategies and implementation processes. Overall results may be influenced by the way in which these signatories reported PRI implementation across varying parts of their businesses.
- Unless otherwise stated, responses for this survey reflect activities from 1 January 2009 to 31 December 2009.
- The analysis in this report is based on data from the 433 surveys submitted at the time of writing and does not include data from survey's submitted after the cut off date for completion of the 2010 survey. Note that due to late submissions the total number of survey respondents rose to 434 at the time of printing (see next appendix).
- The 'Principles in action' and guidance boxes presented within this report were identified primarily through analysis of signatory responses and/or signatory verifications. Each example has been approved for use by the relevant signatory organisation. While we believe these examples to be relevant and legitimate, the PRI Secretariat assumes no legal responsibility for the validity of these statements.
- The term 'signatories' has been used in many places in this report to refer to those signatories that responded to the questionnaire. In places, as noted, sub-sets of the participating signatory group are also referred to.
- Figures from last year's Report on Progress have been modified and restated any time signatories or other sources provided adjusted or improved information.

> **More information:**
www.unpri.org/reporting

Appendix 2: List of all signatories that participated in this year's survey

Below is the list of all 434 participants to this year's Reporting and Assessment survey, prior to finalisation of this Report.[9]

Asset owners

Asset owners	Country
ARIA	Australia
Accident Compensation Corporation	New Zealand
Achmea	Netherlands
AFL-CIO Reserve Fund	USA
AFL-CIO Staff Retirement Plan	USA
AP1	Sweden
AP2	Sweden
AP3	Sweden
AP4	Sweden
AP7	Sweden
ASB Community Trust	New Zealand
ATP – The Danish Labour Market Supplementary Pension	Denmark
Australian Capital Territory	Australia
AustralianSuper	Australia
Banesprev	Brazil
BBC Pension Trust Limited	UK
BBVA Fondo de Empleo	Spain
BP Pension Fund	UK
Bpf AVH	Netherlands
British Columbia Municipal Pension Plan	Canada
BT Pension Scheme	UK
Caisse de dépôt et placement du Québec	Canada
Caisse des dépôts et consignations – CDC	France
California Public Employees' Retirement System CalPERS	USA
California State Teachers' Retirement System CalSTRS	USA
Canada Pension Plan Investment Board	Canada
CARE Super	Australia
Caser Pensiones Entidad Gestora de Pensiones, S.A.	Spain
Catholic Superannuation Fund	Australia
CBUS Superannuation Fund	Australia
Celpos	Brazil
CENTRUS- Fundação Banco Central de Previdência Privada	Brazil
Ceres – Fundação de Seguridade Social	Brazil
Christian Super	Australia
Church of Sweden	Sweden
CIA (Caisse de Prevoyance du Canton de Geneve)	Switzerland
Comité syndical national de retraite Bâtirente	Canada
CommInsure	Australia
Community Trust of Southland	New Zealand
Connecticut Retirement Plans and Trust Funds (CRPTF)	USA

Asset owners	Country
CSR Capital	Denmark
Danish Pension Fund for Engineers	Denmark
Dexia Insurance Services	Belgium
Earthquake Commission	New Zealand
Economus	Brazil
Environment Agency Pension Fund	UK
ESSSuper	Australia
Etablissement du Régime Additionnel de la Fonction Publique – ERAFP	France
Ethias Assurance	Belgium
FAELBA – Fundação COELBA de Previdência Complementar	Brazil
FASERN	Brazil
First State Superannuation Scheme	Australia
Folksam	Sweden
Fondo de Pensiones Cajasol Empleados	Spain
Fonds de réserve pour les retraites – FRR	France
Forluz	Brazil
Fuji Pension Fund	Japan
Funcef	Brazil
Futurcaval, F.P.	Spain
General Board of Pension and Health Benefits United Methodist Church	USA
Global Crop Diversity Trust	Italy
Goldman Sachs JBWere Staff Superannuation Fund	Australia
Government Employees Pension Fund of South Africa	South Africa
Government Pension Fund of Thailand	Thailand
Government Superannuation Fund Authority	New Zealand
Health Super	Australia
HESTA Super Fund	Australia
HOSTPLUS	Australia
HYY Group	Finland
IAG & NRMA Superannuation pty Limited	Australia
Illinois State Board of Investments	USA
Ilmarinen Mutual Pension Insurance Company	Finland
Infraprev	Brazil
Insurance Australia Group (IAG)	Australia
Jessie Smith Noyes Foundation	USA
Joseph Rowntree Charitable Trust	UK
KfW Bankengruppe	Germany
Kikkoman Corporation Pension Scheme	Japan
KLP	Norway

9. *The survey analyses only the data of 433 signatories as one was not submitted in time for this report.*

Asset owners	Country
Lægernes Pensionskasse	Denmark
LD Pensions	Denmark
Lifeyrissjodur Verzlunarmanna (Pension Fund of Commerce)	Iceland
Local Government Pensions Institution	Finland
Local Government Superannuation Scheme	Australia
Local Super	Australia
London Borough of Haringey Pensions Committee	UK
London Pensions Fund Authority (LPFA)	UK
Los Angeles County Employees Retirement Association (LACERA)	USA
Lothian Pension Fund	UK
LSR	Iceland
LUCRF Super	Australia
MAIF	France
Maryland State Retirement and Pension System	USA
Merseyside Pension Fund	UK
Midat Cyclops FP	Spain
Middletown Works Hourly and Salaried Union Retirees Health Care Fund	USA
Mistra	Sweden
Mode Interieur Tapijt & Textiel (MITT)	Netherlands
Multi-Employer Property Trust	USA
Munich Reinsurance AG	Germany
Mutual Insurance Company Pension Fennia	Finland
Nathan Cummings Foundation	USA
National Pensions Reserve Fund of Ireland	Ireland
New York City Employees Retirement System	USA
New York State Local Retirement System	USA
New Zealand Fire Service Superannuation Scheme	New Zealand
New Zealand Superannuation Fund	New Zealand
Non-government Schools Superannuation Fund	Australia
Northern Ireland Local Government Officers' Superannuation Committee	UK
Norwegian Ministry of Finance on behalf of the Norwegian Government Pension Fund Global	Norway
Norwegian Ministry of Finance on behalf of the Norwegian Government Pension Fund Norway	Norway
Pen-Sam Liv forsikringsaktieselskab	Denmark
Pensioenfonds Metaal en Techniek	Netherlands
Pensioenfonds PNO Media	Netherlands
Pensioenfonds Predikanten	Netherlands
Pensioenfonds Vervoer	Netherlands
Pension Fund of Zürcher Kantonalbank	Switzerland
Pension Protection Fund	UK
PensionDanmark	Denmark
Pensionfund Metalektro (PME)	Netherlands
Pensions Caixa 30 FP	Spain
Petros	Brazil
PFA Pension	Denmark
PKA	Denmark

Asset owners	Country
Plan de Pensiones Iberdrola	Spain
PREVI – Caixa de Previdência dos Funcionários do Banco do Brasil	Brazil
Régime de Retraite de l'Université de Montréal	Canada
Sameinadi lifeyrissjodurinn (United Pension Fund)	Iceland
SAMPENSION	Denmark
SEIU Pension Plans Master Trust	USA
SISTEL	Brazil
Société d'assurance-vie inc. (SSQ)	Canada
SOMPO JAPAN INSURANCE INC	Japan
SPOV	Netherlands
Standard Life	UK
Statewide Super	Australia
Stichting Beroepspensioenfonds voor Zelfstandige Kunstenaars AENA	Netherlands
Stichting Ondernemingspensioenfonds Mn Services (Opf)	Netherlands
Stichting Pensioenfonds ABP	Netherlands
Stichting Pensioenfonds Zorg en Welzijn	Netherlands
Stichting Shell Pensioenfonds	Netherlands
Stichting Spoorwegpensioenfonds	Netherlands
Storebrand	Norway
Strathclyde Pension Fund	UK
Swedish Pensions Agency	Sweden
Swiss Reinsurance Company	Switzerland
Taiyo Life Insurance Company	Japan
Tapiola Mutual Pension Insurance Company	Finland
Tasplan	Australia
Teachers' Retirement System of the City of New York	USA
Telstra Super Pty Ltd	Australia
The Canterbury Community Trust	New Zealand
The Central Church Fund of Finland	Finland
The LankellyChase Foundation	UK
Tradeka Corporation	Finland
Trust Waikato	New Zealand
TrygVesta A/S	Denmark
TWUSUPER	Australia
Unipension	Denmark
UNISON Staff Pension Scheme	UK
UniSuper Management Pty Limited	Australia
United Church Foundation	USA
United Nations Joint Staff Pension Fund	USA
Universities Superannuation Scheme – USS	UK
Vaekstfonden	Denmark
Valia	Brazil
VicSuper	Australia
Victorian Funds Management Corporation	Australia
Vision Super	Australia
Vital Forsikring ASA	Norway

Investment managers

Investment managers	Country
27Four Investment Managers	South Africa
Aberdeen Asset Management	Singapore
Acadian Asset Management	USA
Access Capital Partners	France
Actis	UK
ADM Capital	Hong Kong
Advanced Investment Partners	USA
Advantage Asset Managers (Pty) Limited	South Africa
AEGON Asset Management	UK
AEW Europe	France
Albright Capital Management	USA
Alcyone Finance	France
Allianz Global Investors France	France
Allianz Global Investors Korea Limited	South Korea
AlpInvest Partners N.V.	Netherlands
Amalgamated Bank	USA
AMP Capital Investors	Australia
Amundi	France
Anacacia Capital	Australia
APG Asset Management	Netherlands
Arcano Group	Spain
Ark Investment Advisors Inc.	South Korea
Arkx Investment Management	Australia
Astra Investimentos	Brazil
ATI Asset Management Pty Ltd	Australia
Atom Funds Management Pty Ltd	Australia
Australian Ethical Investment Ltd.	Australia
Aviva Investors	UK
Aviva Investors Australia Limited	Australia
AXA Investment Managers	France
Baillie Gifford	UK
Bakers Alternative Energy Ltd	Australia
BaltCap	Estonia
Bank Sarasin & Co. Ltd	Switzerland
BankInvest	Denmark
BC Investment Management Corporation	Canada
Bennelong Funds Management Limited	Australia
BlackRock	USA
Blue Marble Capital Management Limited	Canada
Blue Wolf Capital Management	USA
BlueOrchard	Switzerland
BNG Vermogensbeheer	Netherlands
BNP Paribas Asset Management	France
Boston Common Asset Management	USA
Boston Trust	USA
Bridges Ventures	UK
BT Financial Group	Australia
Cadiz Holdings	South Africa

Investment managers	Country
Calvert Investments	USA
Capital Dynamics	Switzerland
Capital Innovations	USA
Capricorn Investment Group, LLC	USA
Catella Fondförvaltning AB	Sweden
Caudex Capital GmbH	Germany
Cazenove Capital Management	UK
CCLA	UK
Celeste Funds Management Limited	Australia
Central Finance Board of the Methodist Church	UK
Challenger Managed Investments Limited	Australia
CHAMP Private Equity	Australia
Charter Hall Group	Australia
ClearBridge Advisors	USA
Colonial First State Global Asset Management (including First State Investments)	Australia
Community Capital Management, Inc	USA
Cordiant	Canada
Coronation Fund Managers	South Africa
Corston-Smith Asset Management	Malaysia
Cyrte Investments	Netherlands
Daiwa Asset Management Co. Ltd	Japan
Dalton Nicol Reid	Australia
de Pury Pictet Turrettini & Cie	Switzerland
Delta Lloyd Asset Management	Switzerland
Deutsche Asset Management	Germany
Developing World Markets	USA
Devon Funds Management	New Zealand
Dexia Asset Management	France
Direct Capital Limited	New Zealand
Disciplined Growth Investors	USA
DnB NOR Asset Management, Carlson Investment Management	Sweden
DNZ Property Group Limited	New Zealand
Domini Social Investments	USA
Doughty Hanson & Co	UK
Dr. Höller Vermögensverwaltung und Anlageberatung AG	Austria
Drapac	Australia
Earth Capital Partners LLP	UK
EG Funds Management	Australia
Element Investment Managers	South Africa
Epworth Investment Management	UK
ERSTE-SPARINVEST KAG	Austria
Ethos Foundation	Switzerland
Etica SGR	Italy
Eureka Funds Management	Australia
F&C Asset Management	UK
Federal Finance	France
Fédéris Gestion d'Actifs	France

Investment managers	Country
Fiera Capital Inc	Canada
Financière de Champlain	France
Financière de l'Echiquier	France
FIR Capital Partners	Brazil
First Affirmative Financial Network, LLC	USA
First Reserve	USA
Five Oceans Asset Management	Australia
Futuregrowth Asset Management	South Africa
Gaineswood Investment Management, Inc	USA
Generation Investment Management LLP	UK
Genesis Asset Managers	UK
Gestión de Previsión y Pensiones E.G.F.P	Spain
Gimar Capital Investissement	France
Global Currents Investment Management, LLC	USA
Goldman Sachs JBWere Asset Management (Australia)	Australia
Governance for Owners	UK
Green Century Capital Management	USA
Greencape Capital	Australia
GreenStream Network plc	Finland
Groupama Asset Management	France
Growthworks Capital	Canada
Hamilton Lane	USA
Harcourt Investment Consulting	Sweden
Henderson Global Investors	UK
Hermes Pensions Management	UK
Herschel Asset Management	Australia
Highland Good Steward Management	USA
Holland Private Equity B.V.	Netherlands
HSBC Group Investment Businesses Limited	UK
Huljich Wealth Management	New Zealand
Hyperion Asset Management Limited	Australia
ICE Canyon LLC	USA
Impax Asset Management	UK
Industry Funds Management	Australia
ING Investment Management	Netherlands
Inhance Investment Management Inc.	Canada
Insight Investment	UK
Investa Property Group	Australia
Investec	South Africa
Investment Solutions	South Africa
Investors Mutual Limited (IML)	Australia
Ironbridge Capital	Australia
Itaú-Unibanco Asset Management	Brazil
JF Capital Partners Ltd	Australia
JPMorgan Asset Management	USA
Jupiter Asset Management	UK
Kagiso Asset Management	South Africa
Kaiser Ritter Partner Privatbank AG	Liechtenstein

Investment managers	Country
KBC Asset Management	Belgium
Kempen Capital Management NV	Netherlands
Kennedy Associates Real Estate Counsel, LP	USA
Kepler-Fonds Kag	Austria
Krull & Company	USA
La Banque Postale Asset Management (LBPAM)	France
Legg Mason Asset Management Australia Limited	Australia
Lend Lease Investment Management	Australia
LGT Capital Partners	Switzerland
Light Green Advisors	USA
Limestone Investment Management	Estonia
Living Planet Fund Company	Switzerland
Lloyd George Management	UK
Lombard Odier Darier Hentsch & Cie	Switzerland
Loring, Wolcott & Coolidge Office	USA
Lundmark & Co Fondförvaltning AB	Sweden
Macif Gestion	France
Maple-Brown Abbott Limited	Australia
Marc J Lane Investment Management Inc.	USA
Martin Currie Investment Management	UK
Mauá Investimentos Ltda	Brazil
Mazi Visio Manco Pty Ltd	South Africa
Mercapital	Spain
Mergence Africa Investments	South Africa
Meritas Financial Inc.	Canada
Miller Howard Investments	USA
Mirae Asset Investment Management Co., Ltd	South Korea
Mitsubishi UFJ Trust and Banking Corporation	Japan
Mitsui Asset Trust and Banking Co., Ltd. (MATB)	Japan
Mizuho Trust & Banking Co., Ltd	Japan
Mn Services N.V.	Netherlands
Montanaro	UK
Munros Capital Management LLP	UK
Natcan Investment Management	Canada
Natixis Asset Management	France
New Amsterdam Partners	USA
Newton Investment Management	UK
Nikko Asset Management Co. Ltd.	Japan
Nissay Asset Management Corporation	Japan
Nonghyup CA Asset Management Co.	South Korea
Nordea	Sweden
Northward Capital	Australia
Northwest & Ethical Investments L.P.	Canada
NSG Capital	Brazil
Nykredit Realkredit Group	Denmark
Oasis Group Holdings	South Africa
OFI Asset Management	France
OFI Private Equity	France

Investment managers	Country
Panoramic Growth Equity	UK
Pantheon Ventures Limited	Belgium
Parnassus Investments	USA
Partners Group	Switzerland
Pax World	USA
PCG Asset Management	USA
Perennial Investment Partners Limited	Australia
Perpetual Investments	Australia
PGGM Investments	Netherlands
PHITRUST Active Investors	France
Pictet Asset Management	Switzerland
Pioneer Global Asset Management S.p.A	Italy
Prescient Investment Management	South Africa
Prime Energy Investments	Thailand
Progressive Asset Management	USA
Prudential Portfolio Managers	South Africa
PRUPIM	UK
QIC	Australia
Rathbone Brothers Plc	UK
RCM	UK
Relational Investors LLC	USA
Resona Bank Limited	Japan
responsAbility Social Investments AG	Switzerland
Robeco	Netherlands
Royal London Asset Management	UK
Russell Investments	USA
Ryan Labs Asset Management	USA
SAM Sustainable Asset Management AG	Switzerland
Sanlam Investment Management (SIM)	South Africa
Santa Fé Portfolios Ltda	Brazil
Santander Brasil Asset Management	Brazil
Satori Capital, L.L.C.	USA
Schroders	UK
Scipion Capital Limited	Switzerland
Scottish Widows Investment Partnership Ltd.	UK
Shinhan BNP Paribas	South Korea
Skandinaviska Enskilda Banken (SEB) AB	Sweden
Smith Pierce	USA
SNS Asset Management	Netherlands
Société Générale Asset Management	France
Socrates Fund Management Ltd	New Zealand
Solaris Investment Management Limited	Australia
SPF Beheer	Netherlands
Squadron Capital	Hong Kong
STANLIB Asset Management Ltd	South Africa
Stockland	Australia
Stratus	Brazil
Sumitomo Trust	Japan

Investment managers	Country
Sustainable Capital Ltd	Mauritius
Syntrus Achmea Asset Management	Netherlands
Tarpon Investimentos S.A	Brazil
TD Asset Management Inc.	Canada
TDAM USA Inc.	USA
The Co-operative Asset Management	UK
The GPT Group	Australia
Threadneedle Asset Management Ltd	UK
TOWER Investments	New Zealand
Trillium Asset Management	USA
Triodos Investment Management B.V.	Netherlands
Turner Investment Partners	USA
Tyndall Equities Australia Limited	Australia
UBS Global Asset Management	UK
UCA Funds Management	Australia
University of Dayton Davis Center for Portfolio Management's Flyer Investments	USA
Vancity Investment Management	Canada
Vector Casa de Bolsa	Mexico
VietNam Holding Limited	Switzerland
VOGA	Brazil
Wealth Limited	New Zealand
Westmount Pacific LLC	Thailand
Winslow Management Company	USA
Zegora Investment Management Ltd.	Switzerland
Zurich Financial Services Australia Ltd	Australia

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Principles for Responsible Investment

PRI

OUR UN PARTNERS

UN Global Compact

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance ten universal principles in the areas of human rights, labour, environment and anti-corruption. Through the power of collective action, the Global Compact seeks to mainstream these ten principles in business activities around the world and to catalyze actions in support of broader UN goals. With over 7,700 corporate participants and stakeholders from over 130 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between UNEP and the private financial sector that works closely with approximately 180 financial institutions to develop and promote linkages between sustainability and financial performance. Through regional activities, a comprehensive work programme, training and research, UNEP FI carries out its mission to identify, promote and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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