

RepRisk partner Responsible Research reviews the PRI in Person conference

PRI in Person; Responsible Investment goes Mainstream?

by Responsible Research

The Principles of Responsible Investment (PRI), a UN backed investor initiative, gathered for their annual conference in San Francisco on October 5. Over 300 asset managers, owners and service providers gathered to celebrate a significant increase in the number of signatories since the previous year. There are now over 800 signatories, of which 80 percent manage or own assets, who have committed to the six principles of responsible investment. The total funds represented now total over USD 22 trillion, although only a fraction of those are currently run with a specific sustainability mandate. As some of the larger US pension funds, such as T Rowe Price and Legg Mason have now signed, we expect the trend to continue and the total PRI AUM to rise exponentially. This means the potential for PRI to have a positive impact on mainstream asset classes and returns will become clearer and easier to quantify.

The conference addressed many of the most pressing issues of sustainable and responsible investors with the large number of US fund managers present focusing particularly on active ownership and engagement services, such as those provided by Hermes EOS, and governance challenges. Of the E,S and G components, the latter seems to generally attract the most attention amongst the US investor base who felt that governance should anyway incorporate the management and policy setting on environmental and social impacts which could affect shareholder value.

One important topic included this year was the dialogue on Sustainable Stock Exchanges, as a follow on to the UNCTAD/PRI event in Xiamen in September this year. For this event investors were briefed with the Responsible Research report outlining the challenges and opportunities ahead for the global exchanges, many of whose ownership, governance structures and missions are ill aligned with a potential change of mandate towards improved sustainability reporting. There was significant interest in this dialogue, spearheaded by Aviva, due to the potential of increasing transparency on ESG issues. This will, in turn, make adherence to PRI much easier for investors.

One theme from the UK, which seems to be gaining ground is a renewed focus on 'stewardship' rather than 'management' of assets, spearheaded by F&C. This seems to be a healthy and balanced way forward. The initiative incorporates positive inclusions and negative exclusions (tobacco, alcohol, adult content, nuclear, weapons, gambling etc) as well as strong and active ownership to improve holdings corporate responsibility and reduce deleterious impacts on the the environment, communities,

consumers and employees. Companies which supply the basic necessities of life in a sustainable manner or improve qualities of life by using new low impact technologies are especially targeted. Those with excellent levels of communication on ESG issues would be more likely to be selected as targets for acquisition.

The PRI itself has come under some criticism recently for the lack of enforcement of the principles, resulting in many signatories simply using their association with the framework as a market positioning tool to attract funds to a new SRI asset class. We believe PRI signatories themselves should publicly commit to integrate the principles throughout their organisations within a specific time frame and diligently report on progress towards structural adherence, rather than just labelling some funds as 'responsible', 'sustainable' or 'green'. Reporting should include identifying how ESG issues are considered in the investment process and which research, tools and processes are being used by analysts and portfolio managers. We have identified First State Investments as having exemplary reporting in place which other investors could regard as current best practice.

The principles and membership subscription to PRI are, at present, still voluntary and there is no third party verification of adherence to the principles. With the number of signatories increasing almost daily, however, the task of tracking performance of signatories becomes harder. To this end we notice that, not only has PRI stated that fees will be mandatory in 2011 but they are also building up a team responsible for supporting the signatories with their reporting questionnaire.

This conference, and our conversations with the PRI executives, investors, asset owners and other service providers, leads us to believe that the Principles are still relevant and well positioned to achieve success. The organisation continues to support investors as they navigate the murky waters of fiduciary duty, independence of their research providers, delivering on mandates and maximising returns whilst tackling the thorny issues such as the use of child labor, unsustainable palm oil supply chains, independence of board committees and planning for water price increases.

The good news is that services are available to assist investors with these issues; RepRisk is a global online screening tool which can identify key areas where companies are at the receiving end of third party criticism; sustainability indices, such as the Asian Sustainability Rating methodology, can be used to spot companies which are not acknowledging, measuring and reporting on their ESG risks. There is also excellent in-depth sectoral and thematic work available focusing on non-financial risk which can guide investors and advise them on which are the key areas for future engagement.

www.responsible-research.com

www.asiansr.com