

Principles
for Responsible
Investment

PRI Report on Progress 2008

A decorative graphic consisting of a 3x3 grid of squares. The top row has one large blue square. The middle row has two medium blue squares. The bottom row has three small blue squares.

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Acknowledgements

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Message from the Executive Directors of UNEP and the UN Global Compact

It has been just over two years since the launch of the Principles for Responsible Investment and engagement in the initiative continues to build at a thrilling rate. During the past 12 months the number of signatories has almost doubled to approximately 360 institutions. This represents an astonishing US\$14 trillion-plus in assets.

Indeed, despite serious upheaval in global credit and financial markets during the past year, interest in environmental, social and governance (“ESG”) issues as they pertain to investment management shows no sign of slowing.

This surely reflects the fact that increasing numbers of investors – including fiduciaries and their money managers – recognize that ESG issues are material to the performance of their portfolio companies and other assets they hold, and therefore must be factored into investment analysis and decision-making. For investors, this is not an exercise in philanthropy but rather an effort to maximize long-range investment returns, while also contributing to societal goals.

It is this convergence – between the interests of business and finance, on the one hand, and those of the UN, on the other – that marks one of the most important developments of the 21st century. The process of globalization continues to bind societies and economies closer and closer together. Solving problems as diverse as climate change, water scarcity, poor labour conditions, and corruption – to name just several priorities – must be a collective effort.

As this Report on Progress shows, the PRI has created an international investor network that is acting both individually and collectively. The report presents a range of encouraging statistics with respect to implementation of the PRI by signatories. As well as areas for improvement.

At the same time, it is worth highlighting a number of special initiatives.

In early 2008, a group of PRI signatories launched a high-profile interaction with companies in the UN Global Compact – urging more than 70 major corporations to improve their performance vis-à-vis disclosure, while praising a number of companies on their good performance.

United Nations Environment Programme Finance Initiative (UNEP FI) compiled a study on responsible property management, distilling best practices from leading PRI and UNEP FI signatories.

And on 17-18 June in Seoul, South Korea, the PRI will convene a major event – “Changing Landscapes” – in partnership with the UNEP FI and the UN Global Compact. The conference will provide a powerful platform in spreading the tenets of responsible investment in the Asian region.

Of course, much more work remains to be done. We encourage the investment community to intensify its efforts with respect to implementing the PRI and to continue to maximize synergies with the work of the United Nations – in particular through initiatives such as the UNEP FI and the UN Global Compact.

The United Nations stands by as a ready and able partner. We look forward to this shared journey.



Achim Steiner
Executive Director
United Nations Environment Programme



Georg Kell
Executive Director
UN Global Compact

Message from the Chair

The last year has seen very strong and consistent growth in support for the PRI. While gaining new signatories is still important (particularly in emerging markets), now is the time to focus firmly on assisting signatories in implementing the Principles, and fostering greater collaboration among signatories in doing so. Over the last year, considerable progress has been made in developing our implementation support activities, but more still needs to be done. The Small Funds Initiative has been established to focus on how funds with limited resources can collaborate in implementing their responsible investment strategies. The Emerging Markets Project is reaching out to new regions, with successful signatory workshops and recruitment events in South Africa, Thailand and Brazil, and more planned in different countries over the next year. A guidance document providing examples of responsible investment in property portfolios has been developed in partnership with the UNEP FI Property Working Group.



Perhaps the most exciting developments have been within the PRI Engagement Clearinghouse, our online forum for signatory collaboration. There are now around a dozen active collaborations being undertaken at any one time on a wide range of environmental, social and governance issues. This report highlights some recent examples.

Looking forward, year three will focus on content development as well as expanding collaboration. There will be a strong focus on developing implementation materials across all six principles, looking at different asset classes and various approaches to responsible investment, and within various regional contexts. We will be seeking out best practice case studies from within the signatory body, and communicating those to signatories, seeking to encourage signatories to work together wherever practical.

The PRI Reporting and Assessment process has now been conducted for a second year. The results, set out later in this report, provide the first real evidence of the contribution being made by the PRI Initiative. Clearly, the signatory body as a whole is moving in the right direction, and I believe that the PRI is, at least in part, responsible for this progress. The Reporting and Assessment process will also continue to be refined to ensure it is a useful tool, both for signatories' internal processes as well as for evaluating the progress of the PRI Initiative overall.

There is still much to do. But at the two year mark, I believe we can all be proud of the progress we have made and the impact that the Initiative is having in the market.

A handwritten signature in black ink, appearing to read 'Donald MacDonald'. The signature is fluid and cursive, with a large initial 'D' and 'M'.

Donald MacDonald

Chair of the PRI Initiative and Trustee of the British Telecom Pension Scheme

Report from the PRI Secretariat

James Gifford, Executive Director

Signatory recruitment and outreach

The PRI Initiative continues to grow strongly. As of 1 May 2008, there were 362 signatories – 133 asset owners, 152 investment managers, and 77 professional service partners. This is up from around 180 a year before. European investors continue to lead the way with 148 signatories representing US\$ 9.7 trillion in assets under management (AUM). North America counts 70 signatories with US\$ 2.3 trillion. Oceania has 69 signatories with US\$ 570 billion. Asia has 28 signatories representing US\$ 1.46 trillion. Latin America had 24 (US\$ 107 billion AUM) signatories and Africa 21 (US\$ 232 billion).

Between 10 and 15 new organisations sign the PRI every month, with a record 25 in April 2008. Over the past year, we saw strong growth in new signatories, including from Australia (36), USA (22), UK (18), South Africa (17), and the Netherlands (15). The PRI is also now represented in a number of new countries, including Mexico, Italy, Spain, South Korea, Singapore and China (Hong Kong).

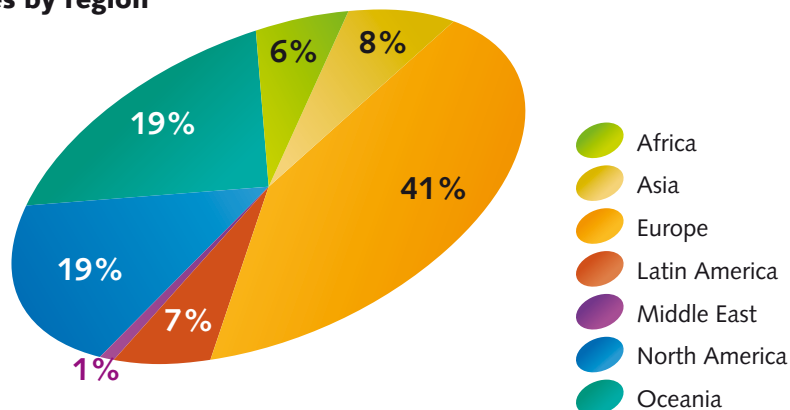
The great majority of new signatories continue to be mainstream pension funds, insurance companies and investment managers, with a minority coming from the dedicated socially responsible investment sector.

Our recruitment efforts continue to be led by signatories themselves, through encouraging their peers, clients and service providers to sign. The PRI Initiative has also been supported by the consistent efforts of our UN partner agencies, UNEP Finance Initiative and the UN Global Compact. PRI Secretariat staff, signatories and our partner UN agencies have presented the PRI in dozens of events around the world, including in Melbourne, Oslo, Amsterdam, New York, Brussels, Vancouver, Tokyo, Singapore, Paris, London, Rio, Sao Paulo, Stockholm, Montreux, Cape Town, Johannesburg and more. The PRI in Emerging Markets Project, rolled out with the assistance of the Swedish International Development Agency, has provided resources to reach out into new markets such as Brazil and South Africa, and has started to create new inroads in other countries.

In the coming year, we plan to continue the focus on areas of the world with little PRI penetration, and in particular, an ongoing focus on emerging markets and developing countries.

The Secretariat wishes to thank signatories for their support and we encourage them to continue building the initiative through encouraging peers to sign.

Figure 1 Signatories by region



Implementation support activities

Now that we have a very strong base of signatories, the focus of the PRI Secretariat has shifted from recruitment to facilitation of collaboration among signatories and implementation support.

Engagement Clearinghouse

Signatories report that the PRI Engagement Clearinghouse has been one of the most useful tools provided through the PRI Initiative. Established in late 2006, the Clearinghouse is an opt-in online forum where investors can post ideas and proposals for collaboration with peers to seek changes in company behaviour, policies or systemic conditions, or simply conduct an exploratory dialogue about an issue of concern. For the first year, the Clearinghouse was a basic bulletin board within the PRI Signatory Intranet. Over the last year, the tool has become an active hub of investor collaboration hosted on a flexible and searchable IT platform, backed by dedicated staff. Signatories now also have the opportunity to present their ideas to their peers and explore emerging issues in monthly 'webinars' as well as at the *PRI in Person* annual event.

In the last year, items that have been posted include proposals around the following ESG issues:

- Climate change disclosure and performance
- ESG disclosure in emerging markets using the Global Reporting Initiative
- A range of corporate governance issues
- Executive compensation
- Access to medicine
- Shareholder rights
- Director elections
- Biodiversity risk and opportunity in the food and beverage sectors
- Encouraging communication on progress by Global Compact participants

As highlighted in the Reporting and Assessment section later in this report, usage of the Clearinghouse has grown considerably since its launch.

Over the coming year, we will work with signatories to refine the functionality further and enhance the collaborative experience.

It is important to note that activities conducted using the Clearinghouse as a collaborative forum are signatory-led, and are not conducted in the name of the PRI or any UN partner agencies. The Clearinghouse is simply a meeting place and a forum for investors to come together around common areas of interest and join activities in the ESG space.

PRI in action

Promoting sustainability disclosure in emerging markets

Principle 3 of the PRI asks investors to seek disclosure from investee entities on ESG performance. Principle 5 focuses on collaboration. The Emerging Markets Disclosure Project is a good example of a signatory-led initiative that combines these two Principles, bringing investors together to seek better sustainability disclosure from companies in emerging markets. The initiative was presented by Calvert Asset Management Company, Inc. at the PRI in Person event in July 2007 and posted to the Clearinghouse to gain support from additional signatories and communicate updates as the project proceeded. Calvert teamed up with other partners – the Sustainable Investment Research Analyst Network (SIRAN), KLD Research & Analytics, Inc. (KLD), ASRIA, the Global Reporting Initiative (GRI), and the General Board of Pension and Health Benefits of the United Methodist Church. This group produced a document on the current state of sustainability reporting in several emerging markets including China, India, South Africa, Brazil, Korea and Russia. This was followed by an investor sign-on statement encouraging emerging

> market companies to use the GRI as their framework for reporting. As of May 2008, the sign-on statement has been endorsed by 28 global institutional investor signatories, representing close to US\$1 trillion in assets under management.

The next phase, currently underway, involves several investors and supporting organizations engaging in dialogue with companies in China, Korea, and South Africa to encourage improved sustainability disclosure. HSBC Investments is coordinating efforts in China and Calvert is leading efforts in South Africa. The Clearinghouse is being used as one of the avenues to find additional partners in different countries and build support for the initiative among investors. The collaboration will involve a variety of approaches, ranging from sending letters to conducting conference calls to having in-person meetings with companies in those regions. As additional investors become involved, the goal is to extend the company dialogue to the remaining emerging markets covered in the study.

PRI in action

PRI joint engagement on the iron and steel industry

In late 2006, some worrying allegations about inappropriate labour practices in the iron and steel industry came to the attention of a number of PRI signatories. The companies implicated included some of the largest manufacturers and users of iron and steel in the world, companies in which, jointly, the signatories had sizeable holdings. The allegations – which appeared in several media – were not that these companies were themselves mistreating their workers but that, via their supply chains, they were inadvertently condoning the use of forced labour at charcoal plants in Brazil. Charcoal is an important raw material used in the manufacture of a low-grade metal known as pig iron.

Hermes took the lead in bringing together a group of signatories to undertake a collaborative engagement on this issue. It identified a list of target firms by size and geographical location. The investors then jointly wrote to those companies setting out their concerns and asking what steps they had taken to ensure that their supply chains did not include inappropriate labour practices.

Those letters were then followed up with telephone calls. In some cases the companies themselves initiated the conversations after learning of investor concerns. Where this did not happen, Hermes contacted the company and requested a meeting or telephone call with the relevant senior individual. During these conversations, which took place over a period of about twelve months, we were careful always to discuss our concerns in a business context, focussing on the negative impact on reputation resulting from any association with inappropriate labour practices.

There was a wide range of responses. A number of companies told us that they were aware of the risks of sourcing raw materials from Brazil and had already put into place an audit system to deal with these. At the other end of the scale were companies that had not considered the impact of such allegations on their business at all and were surprised by shareholder interest in this area. These firms undertook to look into our concerns and revert back to us. We then had further conversations to follow up on those commitments and to hold the companies to the actions they had undertaken to carry out.

The fact that this engagement was undertaken jointly sent a clear message to the boards of these companies that investors had real concerns about this issue. We believe that the positive changes made as a result will help to protect the value of these companies over the long term.

PRI in action

Engaging with the Global Compact Leaders and Laggards

Morley Fund Management led a PRI collaborative engagement focussed on the UN Global Compact. Working very closely with the Clearinghouse, we developed a coalition of twenty investors representing approximately US\$2.13 trillion in assets. In our letters to company chief executives, we focussed on adherence to the disclosure requirement of the UN Global Compact, which is known as a Communication on Progress (or COP).

Without adequate reporting on progress, companies' signing up to the Global Compact's ten principles represents little more than a statement of good intentions. While an engagement focus on reporting is only a part of the process of improvement advocated by the Global Compact, it represents the most obvious initial area in which PRI signatories have the most potential leverage and influence. It is through the COP process that participants can be held to account by stakeholders, including us as the investment community. Where companies have committed to produce a COP, but not delivered on that commitment, then we believe that investors should use their influence to ensure that the management does deliver. Equally, where companies have produced notably good communications, then this should be welcomed.

Depending on whether the company was a leader or a laggard in meeting this COP disclosure requirement, we either welcomed good practice, or challenged the company to achieve full participant status.

In total, we wrote to the CEOs of 103 companies in more than 30 different countries – 25 companies received the group's congratulations; 78 were asked to improve their engagement with the Compact. Of the latter group, 8 were subsidiaries, where we also asked for the parent company to sign up to the Global Compact at the group level.

A collaborative engagement initiative by global investors should therefore increase the influence of the initiative. The Global Compact has informed us that 17 of the companies that we asked to re-engage have done so.

We believe that this initiative supports three core principles from those set out by the PRI:

- *Under Principle 2, signatories pledge to 'be active owners and incorporate ESG issues into our ownership policies and practices.' Our engagement on the Global Compact offered an ideal opportunity to exert ownership influence and encourage 'non-communicating', and 'inactive' companies to re-engage with the Global Compact.*
- *Principle 3 states: 'We will seek appropriate disclosure on ESG issues by the entities in which we invest.' Possible actions listed within the PRI include requesting information from companies regarding their adherence to relevant international initiatives, and specific reference is made in the principles to the Global Compact.*
- *Principle 5 states 'We will work together to enhance our effectiveness in implementing the Principles.'*

A response rate of around 20% suggests that this modest initiative was worthwhile, and we are currently looking at ways of further increasing its effectiveness.

PRI in Practice implementation blog

The goal of *PRI in Practice* is to become a repository for implementation guidance on all aspects of implementing the six principles across all asset classes, investor types, responsible investment approaches and regional contexts, with a number of concise and relevant articles and other resources posted every month. This remains an area where we have considerable scope for improving our offering to signatories. It is a major focus for the second half of 2008, with a dedicated staff member coming on board in July to develop this resource. Currently, signatories can find information to broaden their understanding of responsible investment issues, and the approaches taken by other signatories. It includes interviews with leading practitioners from signatory organisations on how they implement the various Principles. It also includes book reviews, issues briefs and listings of other collaborative activities.

Small Funds Initiative

Implementing responsible investment strategies requires investment in staff time, internal and external capability, enhanced research, voting services, etc. The PRI Small Funds Initiative aims to assist those signatories with limited resources (typically those managing less than US\$ 2 billion) to implement their responsible investment goals by bringing them together to pool resources and share knowledge. Many small funds face the same challenges: lack of staff time and specialised expertise, lack of leverage with large fund managers, pooled investment products that result in the loss of shareholder rights, difficulty and expense of voting (particularly internationally), and the sometimes prohibitive cost of high-quality ESG research.

This group of small funds has regular conference calls and is developing a number of collaborative initiatives to address some of these challenges. The dialogue focuses on highlighting the experiences of small funds, their responsible investment needs and ideas for addressing them. Going forward, the group will continue to share best practice, but also explore specifics such as the potential for joint investment mandates, pooled voting, and collaborative shareholder engagement activities. An online resource bank has been set up as part of the *PRI in Practice* blog, and case studies of small fund responsible investment are being developed.

PRI in other asset classes

The UNEP FI Property Working Group and the PRI recently collaborated to develop a guidance document on implementing the PRI in property portfolios. The consultation was coordinated through the Clearinghouse and involved a small questionnaire, followed by a number of consultation calls, involving PRI and UNEP FI signatories. The publication will be launched at the June 2008 *PRI in Person* event in Seoul. The content will also provide an important contribution to the *PRI in Practice* implementation blog.

An exploration of what the PRI means for the private equity context is also planned for 2008.

Emerging Markets and Developing Countries Project

This work stream, funded by the Swedish International Development Agency, has allowed a major expansion of PRI outreach and implementation support activities into a number of new markets. There is now considerable PRI momentum within key emerging markets, particularly in South Korea, South Africa and Brazil.

The project has been conducting workshops and recruitment events, as well as networking signatories in those regions and supporting implementation. It has also supported a dialogue with signatories invested *into* these markets. Events include a joint seminar with the UN Conference on Trade and Development (UNCTAD) in Geneva in February 2008, focusing on the emergence of the first-ever ESG index in India, co-led by PRI signatory, KLD. Signatory workshops and recruitment events have also been held in South Korea, Thailand, South Africa and Brazil, with more planned over the next year in the Middle East, Malaysia, India, Mexico and Eastern Europe.

Support for multiple languages – currently limited to the Principles themselves and the PRI overview document – will be extended to additional resources, such as the Reporting and Assessment Tool and relevant Clearinghouse items.

The PRI in EM Project is also running regular conference calls with a group of signatories interested in emerging market issues. These calls include presentations from signatories and other experts, updates on signatory activities around emerging market investments, and open discussion.

This project has also provided additional support to a number of Clearinghouse activities such as the Emerging Markets Disclosure Project, Carbon Disclosure Project, Extractive Industries Transparency Initiative and the Natural Value Initiative.¹ The project will also work with members of the PRI Academic Network outlined below on issues relevant to emerging markets.

Another aspect of this project is the exploration of systemic barriers to responsible investment, and stimulating a dialogue with policy makers to address these barriers. An investor/public sector dialogue is planned for November 2008 in Geneva, in collaboration with UNCTAD to explore how investors and policy makers can assist each other through responsible investment.

Regional working groups

Despite an increasingly globalised world, many markets remain very local. They work in their own languages and within their own cultural contexts (and, of course, time zones). Our experience over the last year, particularly through the Emerging Markets Project, clearly demonstrates the need for region-specific approaches to recruitment, collaboration and implementation support.

A Portuguese language group for our Brazilian signatories is to be established on the back of the successful signatory workshops in Rio de Janeiro and Sao Paulo.

The Asia-Pacific Working Group has taken its first steps to bring together signatories in that region to focus on issues relevant to them and develop region-specific collaborations through the Clearinghouse. Our partner organisation, the EPA Victoria, is providing secretariat support for the PRI in the region.

Academic Network

The PRI Academic Network, proposed during year one, is also moving ahead in 2008. While still in its early days, the network has a number of initial goals for moving forward:

- Building a global community of academics and interested practitioners around PRI-related research
- Developing a number of joint research programs on responsible investment on areas such as engagement, integration and the 'Universal Owner' Hypothesis
- Working in collaboration with others on promoting responsible investment education in business school curricula
- Providing a platform for interaction between the academic and practitioner communities
- Translating cutting edge academic research into a practitioner-friendly format and disseminating throughout the industry
- Catalysing a special edition of a mainstream journal focusing on responsible investment
- Nurturing the next generation of responsible investment researchers

The first conference of the network is being held in Maastricht in September 2008, in conjunction with the European Centre for Corporate Engagement. We have also partnered with the oikos Foundation at the University of St. Gallen, Switzerland, to conduct the first ever PhD academy focused on Responsible Investment, to be held in early 2009.

Reporting and Assessment

This report presents the results of the second PRI Reporting and Assessment process. The number of questions was reduced considerably from year one after extensive input from signatories. However, it remains sizable, and additional efforts will be made to streamline the questionnaire further for 2009.

It should be noted that this process is based on signatory self-assessment, and while a number of pilot verification calls with selected signatories were conducted to help ensure consistency across responses and identify issues for next year's survey, the results should be seen as a survey of signatories' own perceptions of their progress.

This survey was developed by Mercer with significant input from the PRI Assessment Working Group, involving a number of asset owners and investment managers, as well as other signatories. The aggregate results are presented later in this report. The individual results are not published, but signatories are notified of their progress, as they see it, in comparison with their peers. While there is an accountability aspect to this questionnaire, the most important function is to provide a framework for signatories themselves to monitor their own progress, and for the signatories and others to evaluate progress of the Initiative overall. Another important purpose is to allow the PRI Board and Secretariat to identify best practices so they can be reflected back to the signatory body as part of the Secretariat's implementation support program. The process also provides an off-the-shelf reporting framework for signatories to feed back to their members and clients on their responsible investment activities.

The process has now been run for two years in a row and the data shows considerable progress by those signatories who participated in both years. This exercise is not without

its challenges. Some signatories feel that it is too prescriptive, while others feel that signatories should be held more accountable for their progress. We have attempted to strike a balance by developing what we believe is a useful tool with which to evaluate their progress and gain an understanding of areas where they can progress, while not discouraging new signatories through imposing an unreasonable burden. Of course, there are calls for greater transparency of individual results, but in keeping with the PRI's voluntary and non-prescriptive philosophy – and the self assessment aspect of the process – we leave the decisions about disclosure to signatories themselves. Given that the questionnaire reflects the Principles themselves, we would encourage signatories to use this tool as a way of fulfilling their obligations under Principles 6.

While there is scope for improvement, this process has delivered results, particularly in demonstrating the overall progress of signatories in implementing responsible investment.

PRI in Person annual event, Seoul

Recognising the growing importance of the Asian region, the 2008 *PRI in Person* event is to be held in Seoul, South Korea. The two-day *PRI in Person* event will focus on practical implementation of the Principles, networking and enhancing collaboration among signatories. Part of this event will be a joint conference – Changing Landscapes – with UNEP Finance Initiative and the UN Global Compact, focusing on the challenges of responsible investment, sustainable finance and corporate responsibility in Asia. We are delighted that the Prime Minister of South Korea will be joining as a keynote speaker.

Financial aspects of the Initiative

The PRI Initiative relies primarily on voluntary contributions from signatories. It has also received support from the Swedish International Development Agency for the Emerging Markets Project, and the UK Carbon Trust to work on engagement with UK listed companies on reducing carbon emissions.

The voluntary contribution model has proved to be successful, indicating the value that signatories place on supporting the Initiative. In 2006/2007, signatory contributions totalled US\$ 340,000. In the year just past, 2007/2008, contributions totalled US\$ 710,000.² This reflects the growth in numbers of signatories and the relatively consistent proportion that choose to contribute. This sum was contributed from a quarter of the signatory body. The 2007 *PRI in Person* annual event was designed to break even and did so.

Expenditure in 2007/2008 was based on US\$ 442,000 expected income. US\$ 430,000 was spent, with 20% going to marketing (including the annual report, PRI brochures and events). 55% was spent on staff, administration, travel and IT, and 25% was spent on implementation support, including the Reporting and Assessment process, Clearinghouse and *PRI in Practice*.

We thank signatories for their support of the PRI. This has allowed the initiative to put aside a six month operating reserve a number of years ahead of schedule. Establishing such a reserve is important for non-profit organisations, particularly those that rely on voluntary contributions.

After setting aside the reserve, the 2008/2009 budgeted expenditure is projected to be US\$ 841,000, which will be covered by carrying over unspent contributions from the previous year of US\$ 209,000 plus US\$ 775,000 in projected new contributions and other income in 2008/2009.

As part of our ongoing strategic development, the emergence of a number of new work streams such as training and education will require further budget allocations later in 2008.

Turning to the future, our current level of financial stability provides the confidence that the Initiative needs to engage in a long-term planning process and develop the five-year strategy.

These funds will provide significant support for the expanded activities that have been outlined in other parts of this report, including hiring a communications manager to oversee and develop *PRI in Practice* as well as more general external communications. It also allows allocations to work streams such as the Small funds Initiative, the PRI Academic Network and our exploration of PRI in other asset classes. Our core work programme (Reporting and Assessment, annual report, *PRI in Person* annual event, etc.) will also be enhanced.

Looking forward

In September 2006, the PRI Board approved a short- to medium-term strategy for the establishment of the initiative and the setting up of the basic infrastructure to support implementation and collaboration. This strategy included the setting up of the Clearinghouse, development of basic implementation resources, creating a governance structure and building a sustainable financial base. Most of the 2006 vision for the PRI has been realised or is well underway. Over Q3 2008, the PRI Board and Secretariat will be developing a longer-term strategy for the initiative, and where it should head over the next five years. This will include addressing questions such as:

- Should the Initiative develop a think tank capacity, perhaps focusing on higher-level global issues relevant to investors collectively that are not being addressed by the ESG research sector?
- Should we seek to lead the agenda on emerging issues, rather than simply raising awareness of current responsible investment best practice?
- How can the Initiative best complement and support other investor initiatives focusing on responsible investment, globally and regionally?
- Can the PRI play a role within the world's sovereign wealth funds?
- What is the future of PRI collaboration with the public sector and the policy maker community, including deeper links into the UN and multilateral governmental system?
- For a voluntary initiative such as the PRI, where is the right balance between accountability and aspiration?
- What implementation services could the PRI offer that are not being provided by the market?

In the shorter term, as outlined above, there are a number of key priorities for the Initiative:

- Provision of additional implementation resources. To address this need, a communications manager has been recruited, focusing primarily on implementation support. This role will focus on documenting best practices from leading signatories and developing implementation resources for the *PRI in Practice* blog and other publications. Over the next year, we plan to deepen the coverage of implementation guidance to cover all signatories and, at least at an introductory level, resources on all asset classes.
- A PRI education and training program is planned for the next 12 months, with the likely initial focus on the development of a number of online modules around implementation. Partnering with organisations with expertise in training will be an important component of this initiative.
- Enhancing signatory participation in various working groups, monthly webinars and Clearinghouse posts.

Report on implementation

Introduction

This is the second annual report¹ on PRI implementation by signatories. Given the growing profile of the PRI, and its increasingly global nature, this report provides an extensive guide to the responsible investment approaches to investment decision making and ownership practices currently being practiced within a significant segment of the institutional investment industry. In particular, it provides insight into the progress achieved by signatories over the course of 2007 as well as specific examples of best practices and initial implementation steps.

The approach followed in preparing this report was similar to that used in 2007. The report is based on information provided by signatories in answers to an online questionnaire that was designed to capture information on their RI activities. The questionnaire retained much of the structure used for the 2007 report. However, in response to feedback from signatories and input from the PRI Secretariat and Assessment Working Group, improvements were made. In particular, the number of questions was reduced substantially and efforts were made to reduce the time required to complete the questionnaire. The questionnaire was again structured around the six Principles and signatories were asked to select from possible answers (e.g. *Large extent*, *Moderate extent*, *Small extent* or *Not at all* in relation to the extent they were involved in a nominated activity), provide data (e.g. percentage of staff receiving ESG training), and offer free-text responses to further elaborate on their activities.

The scores and comments presented in this report are based largely on self-assessments made by signatories. However, approximately 25 per cent of responses from both Asset Owners (AOs) and Investment Managers (IMs) were verified in an effort to enhance the consistency with which the guidance provided in the self-assessment tool was interpreted. The responses chosen for verification were broadly those which attained the highest scores under the self-assessment. The verification was undertaken jointly by the PRI Secretariat and Mercer and involved one-hour telephone discussions of 15 key indicators.

The overall assessment results are presented first, followed by a discussion of progress in implementing various aspects of each Principle. Signatories were also asked a series of questions focused on RI/ESG issues in emerging markets, the results of which are presented next. Finally, signatories were asked for general comments on issues such as their priorities in the RI/ESG area, suggestions for the PRI Secretariat and their ranking of the Principles according to difficulty of implementation. Some of the insights gained from these comments are presented.

Key findings

Overall results

- Signatories who participated in the 2007 survey (conducted early in 2007) have made considerable progress in implementation during the last year. Progress was evident across all six Principles.
- Signatories who participated for the first time in 2008 lag behind the earlier group. This is expected given that more recent signatories have had less time to implement responsible investment strategies.
- As in 2007, IMs recorded higher scores than AOs across the Principles. However, AOs are closing the gap in some areas.
- North American and European signatories retained their edge over signatories from Asia-Pacific and the emerging markets.

Principle 1

- Almost all signatories who participated in the 2007 survey now have a formal policy or statement regarding integration and most of the remainder plan to adopt one in 2008. The vast majority of these documents are disclosed publicly.
- The reported level of integration of RI/ESG factors into internal investment decision making is very high in the case of developed market listed equities. Many signatories are also making good progress in other mainstream asset classes and in alternative investments but more work remains to be done in these asset classes.
- A clear majority of AOs indicated that they assess the capability of IMs to integrate RI/ESG issues into decision making and more plan to do so. Generally, AOs do not consider that the level of integration being achieved by their managers is as great as the self-assessment by IM signatories would indicate. This seems to indicate that more pedagogical effort is needed from IMs.
- Signatories have been active both in developing internal RI/ESG expertise and in supporting the development of non-proprietary tools, analysis and research.

Principle 2

- Active ownership (comprised of proxy voting, engagement with companies both collaboratively and directly, etc.) practices across the signatory body continue to broaden and deepen.
- Signatories continue to be particularly active in voting. The vast majority of signatories now report either a *Moderate* or *Large* use of proxy voting, and very few are not voting at all. The structure and processes around voting activity, particularly relating to policy documentation and monitoring, has also been strengthening.
- Signatories are also increasingly engaging in dialogue with companies. IMs have been leading the way in engagement, but this year's results demonstrate that AOs are closing the gap. Of AOs who participated in the survey in both years, the proportion reporting *Medium* or

Large involvement in collaborative engagement rose from 38% to 47% over the year, and the proportion stating no involvement halved. The PRI Engagement Clearinghouse has been a major factor in facilitating collaborative engagement, especially across borders.

- North American signatories are particularly strong in most forms of active ownership.
- Active ownership is not as well-developed in emerging markets. Signatories who are not based in emerging markets are involved to a lesser extent than those based in these markets. Signatories based outside emerging markets are also less active in emerging markets than in developed markets.

Principle 3

- IMs are more likely to ask companies to produce standardised reporting on RI/ESG policies, practice and performance. AOs are also increasing their activities in this area.
- A strong majority of IMs now provide feedback to companies on their reporting and more plan to do so.
- IMs are also increasingly scrutinising the adoption of and adherence to standards and codes of conduct by companies. Some IMs now expect companies to demonstrate standards of conduct beyond those specified in widely-recognised codes.

Principle 4

- The proportion of signatories considering RI/ESG when appointing service providers is increasing. Notably, when searching for an external manager, 84% of AO signatories now consider these issues.
- More signatories are now linking RI/ESG performance into formal relationships with service providers and many, especially IMs, have revisited relationships with service providers based on performance on RI/ESG issues.
- There has been only slow progress, however, in linking service providers' incentives with their RI/ESG performance. Progress in measuring efforts to improve integration by external managers has also been slow.
- Most signatories have taken some steps to promote the PRI, although more could be done in this area.
- Many signatories are also involved in dialogue, lobbying or other initiatives relating to government policy and/or industry regulations in the RI/ESG area. AOs in particular appear to have increased their activity in this area.

Principle 5

- The PRI Engagement Clearinghouse became widely used by both AO and IM signatories over the year. The momentum looks set to continue with a further significant proportion of signatories planning to use the Clearinghouse for the first time in 2008.
- Many signatories report that their use of the Clearinghouse resulted in subsequent action or collaboration with other signatories.
- Signatories participated in a wide range of collaborative initiatives during the year, more than 80 in total. The

Carbon Disclosure Project was the most widely-supported – a number of signatories sponsored the CDP in their respective countries. The Enhanced Analytics Initiative, the Extractive Industries Transparency Initiative, the three regional climate change groups, regional social investment organisations and the UN Environment Programme Finance Initiative were also well-supported.

Principle 6

- A large majority of both IM and AO signatories disclose how they integrate RI/ESG considerations into their investment process.
- Systematic reporting of RI/ESG related engagement is also undertaken by most signatories and more are planning to commence such reporting in 2008.
- Disclosure of voting records is less widespread.
- More AOs are observing changes in behaviour among external IMs in areas such as integration, RI/ESG resourcing, active ownership and communication on RI/ESG activities. AOs making such observations remain in the minority however.
- Some progress has been made by signatories in measuring the impact of their efforts in the RI/ESG area on company behaviour, portfolio performance and on external service providers other than managers. More remains to be done in this regard.

PRI in action

Note on selection of case studies

The case studies featured throughout this report were selected based on responses to the questionnaire from those signatories that assessed themselves as undertaking various activities to a large extent, or undertaking practices that demonstrated a relevant aspect of implementation. An attempt was made to reflect the diversity of the signatory body by featuring both AO and IM signatories, signatories of varying size and from different regions. Efforts will be made in future years to ensure that a continuing diversity of examples is featured.

About the findings

The questionnaire was designed recognizing that not all questions would be relevant for all PRI signatories and that there is diversity among signatories in terms of asset allocation, the mix between internal and external management, passive and active management approaches, etc. Where signatories were asked to choose from possible answers (*Large extent, Medium extent, Small extent* etc), guidance was provided regarding the interpretation of those responses. 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:

- All monetary figures are in US dollars and slight variations in exchange rates used when converting from other currencies are likely.
- 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 only apply to those signatories that invest in that asset class).
- Percentages may not add up to 100 percent due to rounding.
- For clarity, 'Not applicable' or missing responses have been excluded from many charts.
- The title of each chart includes the corresponding question number from the questionnaire.
- While the PRI 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 how these signatories reported PRI implementation across varying parts of their business.
- Responses reflect activities from 1 January 2007 to 31 December 2007.
- The 'PRI in Action' examples presented within this report were identified through analysis of signatory responses. Each quote has been approved for use by the relevant signatory organisation. While we believe these examples to be relevant and legitimate, the PRI Secretariat and Mercer assume 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 who responded to the 2007 and/or 2008 surveys.

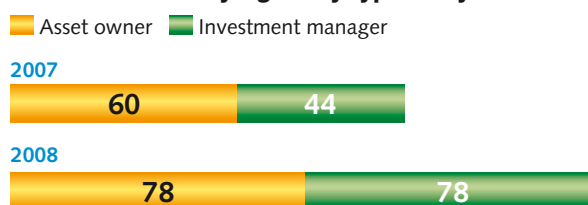
About the respondents

The questionnaire was sent to 116 AOs and 116 IMs, representing all 232 of the AO and IM signatories as at 31 December 2007. As at the cut-off date for inclusion of data in this report, responses had been received from 78 AOs and 78 IMs. This represents a response rate of 67% for both AOs and IMs. While this is a slight drop from the participation rate in 2007, because of the greater number of signatories this year, the overall number of responses rose to 156 from 104 in 2007. Additional responses were received after the cut-off date but were unable to be included in this analysis.

Assets under management (AUM) for respondents ranged from US\$1 million to more than US\$500 billion, with total AUM in excess of \$10 trillion, or around 80% of PRI signatory assets. The respondents have a variety of RI-related mandates, with some considered mainstream and others reflecting a more traditional SRI approach.

Key characteristics of the respondents are summarised in the following charts.

Figure 1 Responses to the PRI Reporting and Assessment Tool by signatory type and year



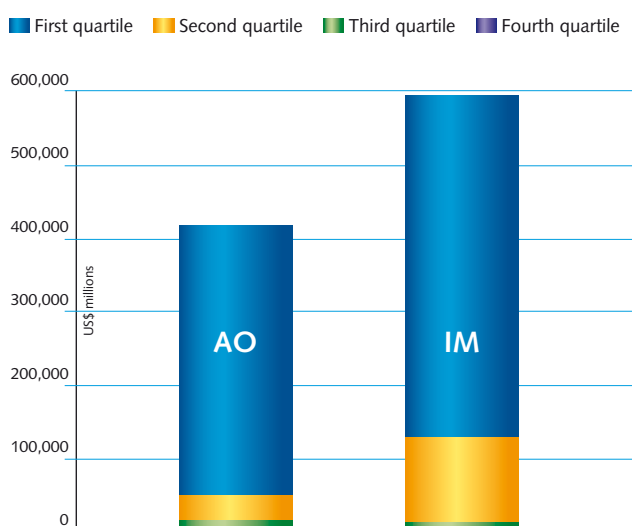
There was an equal split between AO and IM respondents this year whereas in 2007 AOs were slightly in the majority. The equal split between AOs and IMs reflects the overall mix of PRI signatories.

Figure 2 Number of signatories and response rate to the PRI Reporting and Assessment Tool by region



Participation in the PRI Reporting and Assessment process is a requirement for all signatories of more than one year. As was the case in 2007, Europe provided a larger number of respondents than any other region as would be expected given their significant representation within the signatory body. This year, respondents from Europe represented almost half of the total. Participation from the Asia-Pacific region also grew strongly. On the other hand, the number of respondents from North America grew only slightly. North American signatories represented just 15% of total participants in this year's survey, broadly matching North America's share of total signatories as at 31 December 2007 (19%). Of the 23 participants from North America, eight are from Canada and 15 are from the US. There appears to be an under-representation of US funds within the PRI.

Figure 3 Distribution of sizes of signatories who responded to the PRI Reporting and Assessment Tool



There is an enormous variation in the size of both AO and IM respondents. Among AOs, the median AUM is approximately \$16.8b, and 75% of respondents have assets below \$51.3b. There are, however, a small number of much larger funds. Similarly, among IMs, the median size is just \$14.7b and the 75th percentile is \$129.9b, but there are also a small number of very large IMs.

As is to be expected, the average AUM of respondents varies substantially across regions with many of the smaller AOs and IMs being from Asia-Pacific and emerging markets.

Results in detail

It was concluded that it is not possible to compare implementation progress between Principles. Accordingly, we have not used differences in scores across Principles as an indication of where signatories are having the greatest challenges in implementation. However, signatories were asked which Principles they felt were the most difficult to implement.

Nevertheless, it is possible, with qualifications, to assess the progress achieved during 2007 by comparing scores for the same Principle between the two years².

The number of PRI signatories grew sharply over the course of 2007, and many respondents to the 2008 survey joined late in 2007, or even in early 2008. These recent signatories are unlikely to have made substantial progress in implementation as at the date of the 2008 survey (January through April 2008). Accordingly, the best way to assess progress is to focus on those signatories who participated in both the 2007 and 2008 surveys and compare their scores over the two years. This comparison is illustrated in Figure 4. For each Principle, and for both the 2007 and 2008 years, the chart shows the scores recorded by all signatories as a proportion of the total possible score. The results are presented in quartiles. For example, the purple coloured section of each bar shows the range of scores recorded by signatories who were in the lowest quartile of scores for the Principle in question. The median score occurs at the point where the green and yellow sections meet.

Figure 4 Signatory scores for those who responded in both 2007 and 2008

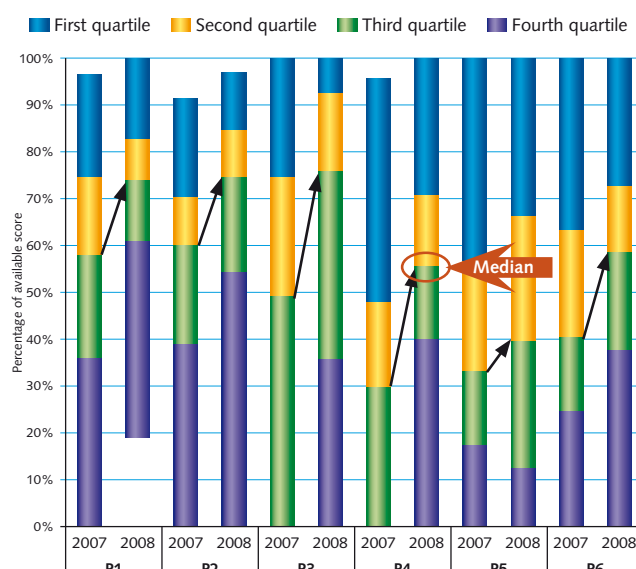


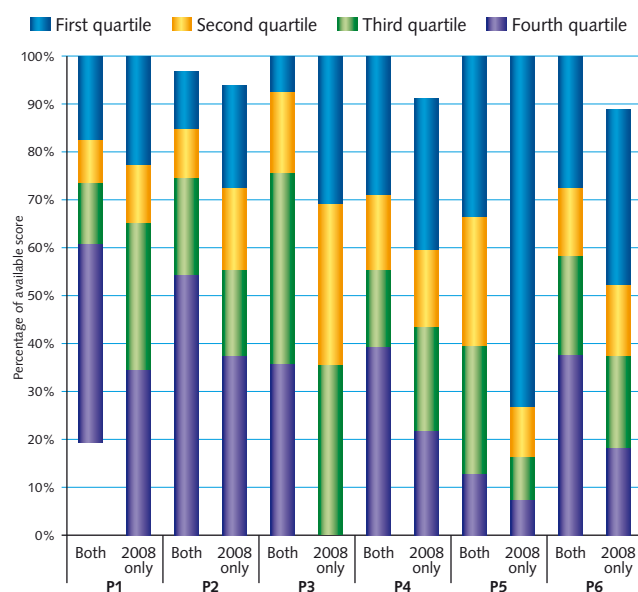
Figure 4 indicates that very substantial progress has been made over the year by the early signatories. The median score recorded by this group of signatories increased for each Principle. Indeed, the score at the 25th and 75th percentiles of the distribution also increased for each Principle with only one exception. In a number of cases, the scores recorded at corresponding points of the distribution increased substantially.

The Principle with the largest increase in median score was Principle 3 (“Seek Disclosure”). This can in part be attributed to an increase in the number of scored questions for this Principle. However, there has been genuine improvement in this area. The data shows that more signatories asked investee companies to produce standardized reporting on RI/ESG issues and more signatories sought information from companies regarding their adoption of or adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG issues such as the UN Global Compact or the International Labour Organization Standards.

As highlighted above, between the 2007 and 2008 surveys, there was a significant increase in the proportion of participants based in the Asia-Pacific and to a lesser extent emerging markets, where investment markets sometimes differ from North American and European markets for political, regulatory or technological reasons. Another effect of the inclusion of these new signatories is that the average size of the organisations fell, both in terms of assets under management and the numbers of staff focused on responsible investment.

With these factors in mind, lower average scores are to be expected among the newer signatories. The gap between the signatories who participated in the survey in both 2007 and 2008 and those who participated for the first time in 2008 is illustrated in Figure 5. Again, the scores represent proportions of the maximum possible scores and are shown in quartiles.

Figure 5 Signatory scores in 2008 for those who responded in both 2007 and 2008 and for those who only responded in 2008



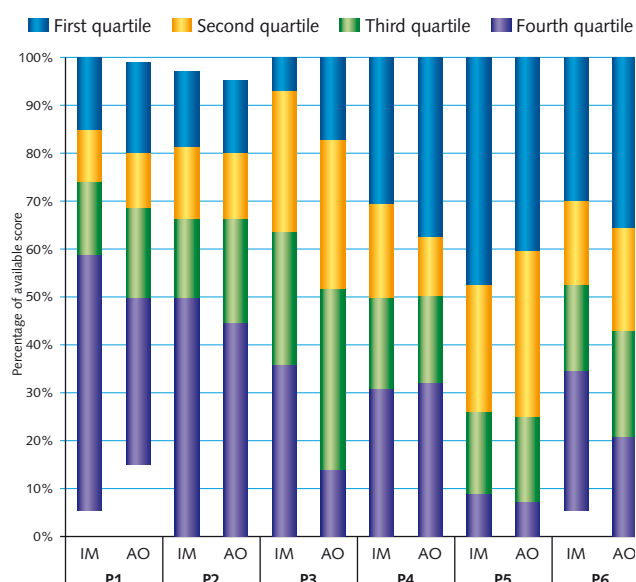
For all Principles, for signatories who commenced participation in the 2007 survey, scores were higher than those for signatories who participated for the first time in 2008, in some cases quite substantially. As mentioned above, this is to be expected and should not be seen as a reflection on the efforts or the commitment of the more recent signatories.

Effective implementation of responsible investment practices takes time.

The gap between the first group of respondents and the signatories who responded for the first time in 2008 illustrates the potential for progress to be made in implementing the PRI. Even if the more established signatories were to remain at their current level of implementation, considerable overall progress within the signatory body could still be made as the newer group improves. In practice, we expect the early adopters to continue to build on their efforts and continue to lead the way. Nevertheless, as new signatories join, they will learn from those with more experience, and add to the momentum behind PRI implementation.

In Figure 6, the survey results of AOs and IMs for each of the Principles are presented.

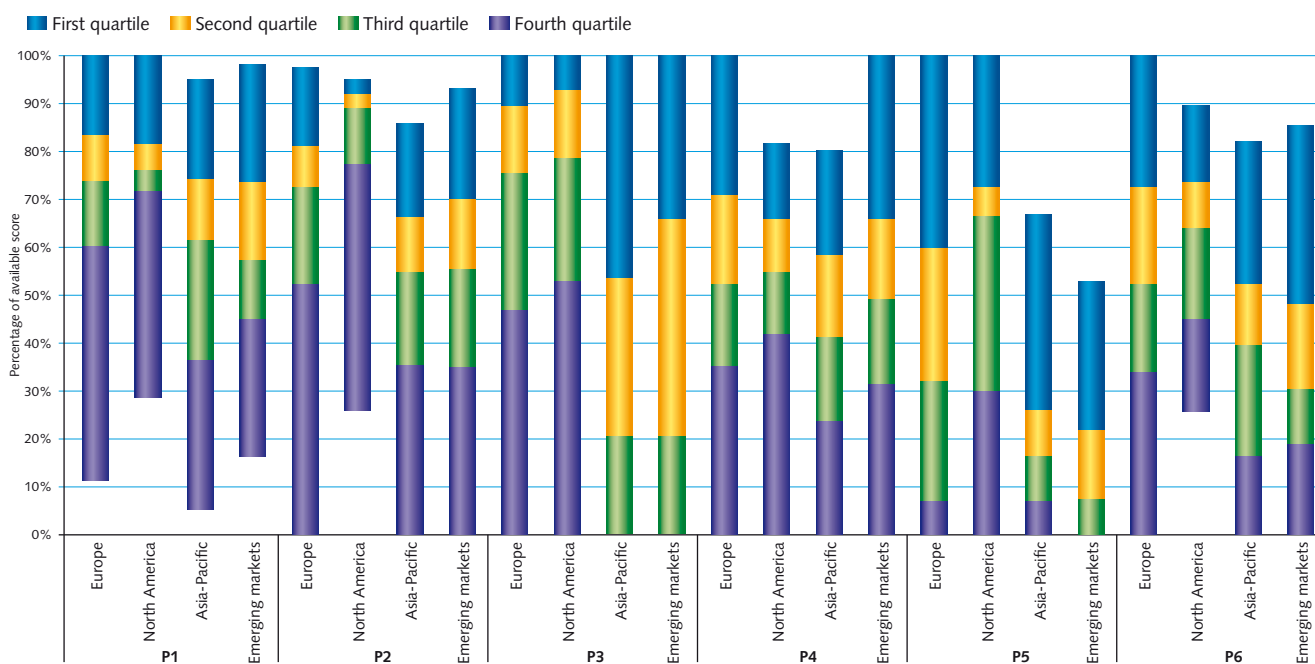
Figure 6 Signatory scores in 2008 for AO and IM



The data indicates that IMs generally assess themselves at higher levels than AOs in their PRI implementation.

Results across regions are shown in Figure 7 (opposite). Please note that in some cases, the scores recorded within quartiles of the distribution did not span a range that is sufficient to be identified in the chart.

Figure 7 Signatory scores in 2008 for Europe, North America, Asia-Pacific and Emerging Markets



Comparisons across regions are complicated by differences in assets under management, split between AO and IM and period of involvement in the PRI initiative. Also, the number of participants from some regions is quite small. Nevertheless, it is clear that average scores recorded by signatories from Asia-Pacific and emerging markets trail those of signatories from Europe and North America. This observation applies to all six Principles and in some cases the gap is very substantial. In some areas, the infrastructure to support implementation is not as well developed in these regions and the implementation options (for example, the purchasing of quality ESG research) are therefore more limited. Also, on average, signatories from these regions are smaller and have fewer resources to apply to RI. Furthermore, many signatories in these regions have joined the PRI recently and therefore have had less time to develop their RI strategy.

Scores recorded by signatories from North America and Europe are closer, although the North American group has the edge. The average size of North American respondents exceeds that of European respondents. Also, as pointed out above, the number of participants from North America, especially the US, is low. Accordingly, despite the strong efforts of a small number of leading North American signatories, this group is not of sufficient size to justify a conclusion that North America leads the way in implementing the PRI.

Principle 1

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

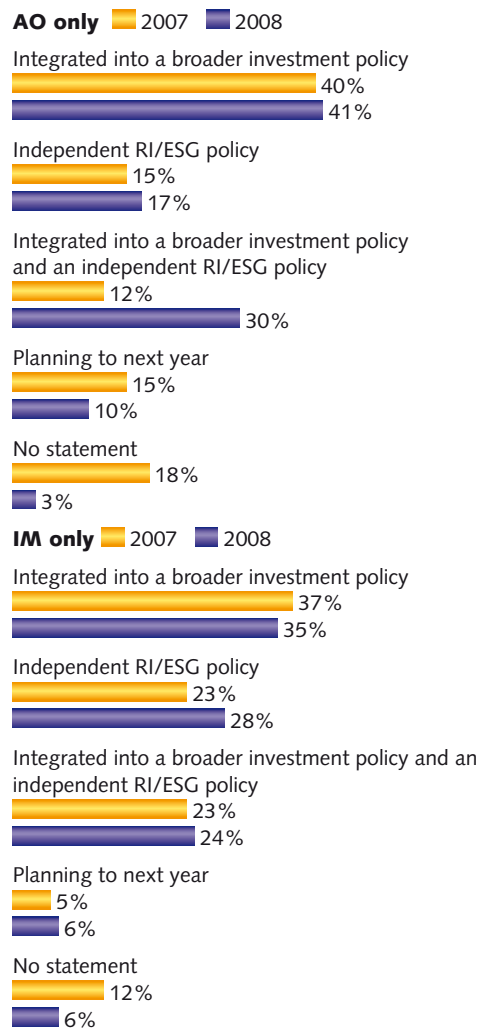
It was clear from some of the free-text responses to survey questions that interpretations of Principle 1 vary. As an example, some signatories consider that incorporating ESG issues into investment analysis and decision making requires integrating RI/ESG thinking into the investment process at all levels – philosophy, research, portfolio construction – alongside more traditional thinking and analysis. Other signatories consider that incorporating ESG is achieved by removing from further consideration in the investment process possible investments which do not meet specified criteria related to ESG (negative screening).

By and large, there is greater consistency in interpretation of the other five Principles. Survey results reported below should be interpreted accordingly.

Documentation of policy

In most cases, documentation of a policy on responsible investment can be seen as a logical first step towards implementing the PRI. Whereas at the time of the 2007 report a significant minority of signatories had not as yet taken that step, substantial progress was made during 2007. At the end of 2007 (based on responses received in the 2008 survey), the proportion of signatories yet to adopt a formal statement was 13% for AOs and 12% for IMs, down from 33% and 17% respectively at the end of 2006.

Figure 8 Statement that makes specific reference to integrating RI or ESG issues within investment decision-making and ownership practices – all respondents (Q7, Q8)



PRI in action

Integrating ESG: beyond public equities

New York City Employees Retirement System (NYCERS)

The New York City Employees Retirement System (NYCERS) has undertaken a series of initiatives to try and better integrate ESG issues into the investment decision making process over the past year, as well as pursue its usual array of corporate governance and corporate responsibility initiatives.

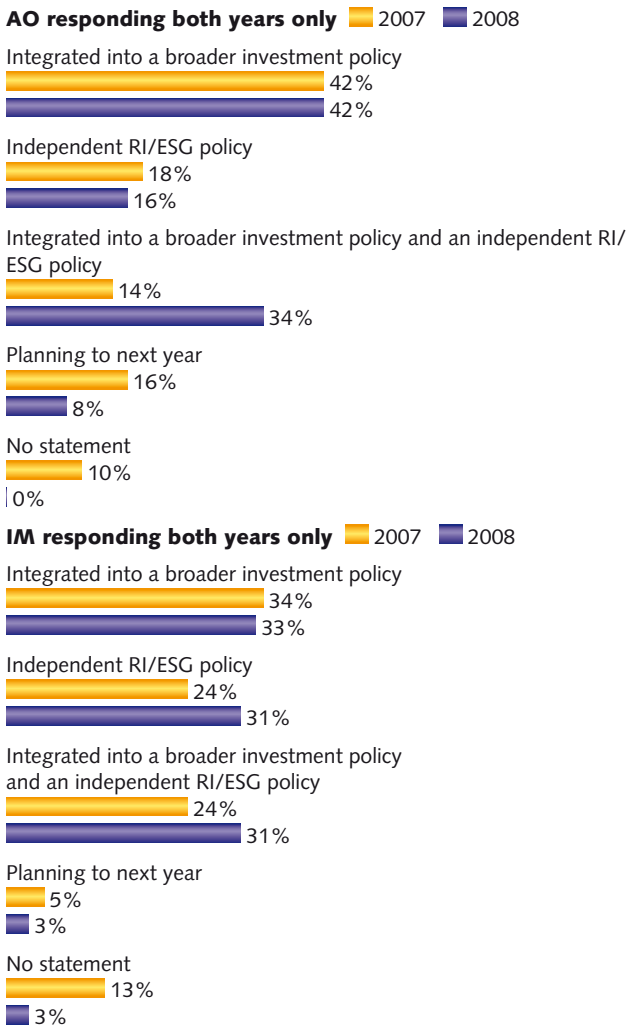
NYCERS, for instance, undertook a review of its Request for Proposal (RFP) process and has added a number of questions to better ascertain how investment managers and other providers utilize ESG issues into their processes---including whether or not staff is dedicated to ESG and the type of research the firm provides in the area. The responses will be used in the ultimate rating of firms vying for business with the fund.

NYCERS also made initial investments in a Sustainable/Environmental allocation in the public equity markets. Four external managers were selected that demonstrated an ability to integrate ESG issues into portfolio construction in an effort to generate alpha. In addition, NYCERS also expanded the number of activist managers, firms that seek to unlock value, in part, through corporate governance improvements, and included, for the first time, an international component.

Finally, NYCERS has instructed both its Private Equity and Real Estate consultants to enhance the fund's ability to integrate ESG issues into both asset classes. The fund made an investment along with CALPERS in a Clean Tech Fund in Private Equity and a "green" building investment in Real Estate.

Furthermore, it appears that the signatories who have yet to address this issue are largely those who have joined the PRI Initiative more recently. Of the 2008 respondents who also participated in the survey in 2007, all of the AOs who have not yet adopted a formal policy (8%) plan to do so in 2008.

Figure 9 Statement that makes specific reference to integrating RI or ESG issues within investment decision-making and ownership practices – those who responded in both 2007 and 2008 (Q7, Q8)



Developing a policy or statement which reflects all the relevant circumstances facing a signatory and which will act as an effective blueprint for future activities is not a straightforward step and must be considered carefully. Nevertheless, signatories who have not yet taken this step are urged to do so, as it is an important precondition to implementing a coherent responsible investment policy. Failure to go through the policy development process is likely to limit a signatory's capacity to move ahead with implementing the PRI and RI in general.

Of course, developing a policy is only a first step. It is vital that the document is revisited and updated as required, keeping pace with industry developments. Signatories are encouraged to review their policy regularly, and see this process as an opportunity to identify new strategies that can be explored and new approaches that can be evaluated.

PRI in action

Adding ESG issues to your investment policy and investment process

VALIA - Fundação Vale do Rio Doce de Seguridade Social

Valia is the Brazilian Pension Fund of Vale which became a signatory to the PRI in March 2007. In order to support Principle 1, the fund has developed a methodology to analyze environmental, social and economic financial elements of the publicly listed companies it has already invested in.

The companies which are in Dow Jones Sustainability Indices or in ISE (Corporate Sustainability Index from Bovespa, Brazil) were deemed to be worthy of inclusion in our investment universe. Moreover, to commit itself to improving this methodology in investment decision-making, Valia formally included this procedure in our investment policy in 2008.

We created a questionnaire including 10 questions about ESG issues. Valia's investment analysts used only public information to fill in the questionnaires and this proved to be challenging as most of the companies do not publish ESG information on their website or otherwise.

After compiling the results from the questionnaires, the analyzed companies were ranked according to their corporate sustainability score. It was decided that only those companies achieving a score of 70% or better are best positioned to deliver strong long-term investment performance. These rankings will be reviewed annually and the analysts have to mention in their quarterly progress reports how the companies are performing on ESG issues.

Among both AOs and IMs, the most common approach is to integrate the policy or statement into a broader investment policy document, although in many cases there is also an independent statement covering RI/ESG issues. The vast majority of signatories are now publicly disclosing their policy or statement. Again, strong progress was made during 2007, with the proportion of signatories not publicly disclosing their policy dropping by half from 22% to 10%.

Integration – internal investments

As expected, signatories have made most progress in integrating RI/ESG considerations into their internal investment decision making processes in developed market listed equities. Fully 85% of signatories assessed their extent of integration as either *Large* or *Medium* in this asset class, with the proportions being similar for both AOs and IMs.

Many signatories also appear to have made good progress in integration (i.e. assessed their integration as *Moderate* or *Large*) in active emerging markets listed equities, real estate and infrastructure, although significant minorities have not

undertaken any integration in these asset classes.

Among mainstream asset classes, signatories appear to be making the least progress in integration in fixed income where *Not at all* was the most common response to the question on this, both in developed and emerging markets.

PRI in action

Developing a central research service as the foundation for firm-wide integration

AXA Investment Managers

AXA IM's decision to take a mainstream and integrated approach to Responsible Investment involves two major challenges. First, the limited availability of material (i.e. investment relevant) information on ESG issues. Second, AXA IM is a large multi-expert investment manager so it would not be possible to build an RI team big enough to service such demand. In addition, separating analysts from fund management decisions would go against the organisation's general approach.

To address the first challenge, AXA IM issued a request for proposals from Specialist Research Organisations (SROs) who could deliver timely, transparent and logically defensible data and analysis covering material extra-financial factor indicators for companies, sectors and markets.

What we found was that no single provider could meet our need across the full ESG spectrum and in all key markets. Hence we have appointed five agencies.

The second challenge was information dissemination. How do we package and disseminate information to different investment expertises? The solution was to build an information database – RIsearch – which provides our various investment expertises with easy access to extra-financial data and analysis of a kind that adds value in relation to their particular needs as and when they want it.

This represents a significant investment in IT infrastructure, given that each investment expertise operates its own database system and creating the right "plumbing" is critical for the operation of the service.

RIsearch is a necessary building block of AXA IM's mainstreaming strategy. As a one-stop resource, it gives our investment expertises the capacity to systematically consider relevant and up to date information on ESG issues so that they can make this a natural part of their investment decision-making process. On its own it does not guarantee integration but without this tool integration in a large fund management house would not be possible.

Read more: www.unpri.org/0801

Figure 10 Extent of RI/ESG issue integration into internal investment decision-making processes for fixed income in developed markets (Q13)

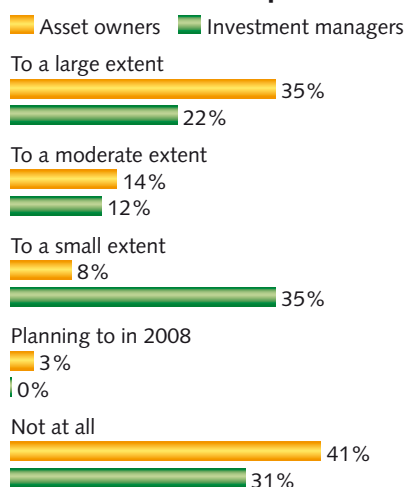
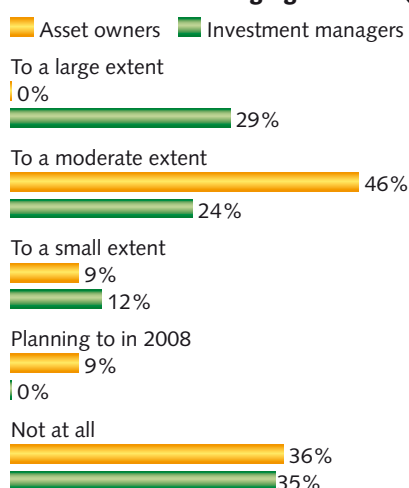


Figure 11 Extent of RI/ESG issue integration into internal investment decision-making processes for fixed income in emerging markets (Q13)



Where resources available to analyse RI/ESG issues are limited, it is understandable that they be deployed in the equity area. Furthermore, most IMs and AOs invest a substantial part, in some cases all, of their fixed income portfolios in government bonds, where RI/ESG issues can be difficult to integrate, just as with corporate securities. These factors appear to explain some of the reason for the slower rate of progress in fixed income and this remains a significant opportunity for signatories to continue to address.

Overall responsibility for RI/ESG issues

In the large majority of cases, signatories report that responsibility for RI/ESG issues resides at high levels of their organisation. A common approach is for the full board or a senior committee of the board to formally approve the RI policy and implementation guidelines. A group comprising senior investment personnel then oversees implementation. In some cases, special committees with specific responsibility for overseeing implementation of the PRI were mentioned.

Integration – external investments

Responses from AOs regarding the proportion of their externally managed assets where their external managers integrate RI/ESG issues into investment decisions, and the extent of that integration, provide an interesting perspective on the overall industry. In general, AO signatories assess the level of integration being achieved by external managers to be below that which IM signatories assess in relation to their own integration. For instance, as mentioned above, 85% of IM signatories consider that they are achieving integration to a *Moderate* or *Large extent* in actively managed developed market equities. Only 53% of AO signatories consider that their external managers are achieving that level of integration, even excluding the part of their portfolios where there is no integration (see following chart)³. IMs also believe that the external managers appointed to manage their assets are achieving a considerably lower level of integration (48% of responses indicated integration to a *Medium* or *Large extent*) than they themselves are achieving in respect of their internally managed assets (85% *Medium* or *Large extent*). This broad pattern is repeated in other asset classes.

The universe of external managers used by AO signatories does not exactly match the universe of IM signatories, although there is overlap. Three possible explanations for the discrepancy between these answers are:

- Some of the external managers (who are not PRI signatories) being used by AO signatories may be well behind the IM signatories in their RI/ESG integration.
- IMs may have some room for improvement in the way that they communicate their integration to their AO clients.
- What AOs define as RI/ESG integration, IMs may already be doing but not defining it in the same way.

PRI in action

Size matters – driving change in large organisations

HSBC Global Asset Management

For a financial institution the size of HSBC Global Asset Management, implementing the PRI is essentially a question of change management. We recognised at the onset that in order to embed sustainability into our core business and corporate culture, we needed to “hardwire” ESG considerations into our policies and processes and to “soft wire” it into the hearts and minds of our employees.

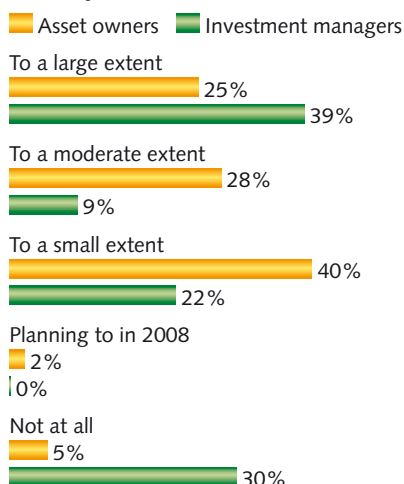
Getting internal buy-in is essential in any organisation, regardless of size. But with over 500 front office investment professionals operating from 18 different country locations, our challenge was to get the necessary buy-in at all levels throughout the organisation. Critically, our CEO Mark McCombe was on board from day one. He became personally involved and was instrumental in driving the process, requesting that a review of our progress in implementing the PRI be added to every board meeting’s agenda – at the local, regional and global level. This provided the necessary impetus to ensure that the training we had developed could be rolled out progressively across our offices worldwide.

The training was designed to create a mindset shift amongst analysts and fund managers. To succeed, we needed to demonstrate the business case for responsible investment and the relevance of ESG issues to our investment processes in an intellectually rigorous way, whilst at the same time tapping into employees’ personal values and enthusiasm.

We used a very effective photo-journalistic slideshow developed by the Responsible Investment Association Australasia (RIAA) in collaboration with a number of partners and PRI signatories. Investment teams also needed to understand the commercial relevance of this initiative, so we took the opportunity of the PRI event last year to capture the views of leading pension funds. Using video interviews to illustrate the growing client demand for responsible investment proved an effective way to build the business case internally and we are pleased that these videos are broadly shared amongst signatories via the PRI Intranet. Investment teams in Paris and London were trained in 2007. Further training is being conducted at our Hong Kong, Istanbul, Sao Paulo, Dusseldorf, New York and Vancouver offices throughout 2008.

Institutionalising passion is not straightforward. At HSBC Global Asset Management, we have learnt that securing top management buy-in and enthusing operational staff are critical ingredients of success. A clear top-down strategy needs to be complemented by practical bottom-up initiatives that enable all staff to take ownership of the change management process. The Principles are strongly aligned with the Group’s values and whilst we recognise that we still have a long way to go, we have made a long-term commitment to the PRI and we feel confident that we have made some important steps in the right direction. Most importantly, we have built some solid foundations to embed responsible investment in our corporate DNA.

Figure 12 Extent of RI/ESG issue integration into investment decision-making processes of external investment managers for active listed equity in developed markets (Q15)



A further insight into the attitudes of AO signatories regarding their external managers is provided by the fact that 62% state that they assess the capabilities of managers to incorporate RI/ESG issues into decision making. A further 18% of AO signatories plan to commence making such an assessment during 2008. With the substantial and growing penetration of the PRI among AOs, these results are certainly noteworthy for all IMs, PRI signatories or not, who wish to understand attitudes towards RI/ESG among the AO community.

Staff assessment and training

A further indication of progress being achieved in integration comes from efforts among signatories in the areas of staff assessment and training.

A clear majority of signatories report that they assess the capability of internal investment staff to consider RI/ESG issues. As was the case in the 2007 survey, IMs are considerably more likely to conduct such assessments than are AOs, presumably because IMs are typically more focused on the security and transaction level. More information about how signatories conduct this assessment would be useful for signatories to share.

PRI in action

Integrating responsible investment into fund governance mechanisms

New Zealand Superannuation Fund

Board-level commitment to the PRI, together with our view that responsible investment is part of evolving best-practice portfolio management, provides a sound foundation for implementing our Responsible Investment Policy. However, it is through our internal governance structure and procedures that responsible investment can become hard-wired into what we do.

Much of the business of the Guardians of New Zealand Superannuation is conducted through internal executive committees: responsible investment is incorporated into their terms of reference or broader requirements. For example, the Management Committee approves the responsible investment objectives in our annual Statement of Intent, a public document tabled in Parliament. The Investment Committee provides a forum to discuss responsible investment recommendations to the Board, and ensures responsible investment is included in the approval of new investment mandates. Public reporting on responsible investment is part of the remit of the Communications Committee.

It is therefore important that responsible investment is captured in our internal procedures, including due diligence checklists and portfolio monitoring. We are still developing responsible investment guidelines across the different asset classes of our portfolio, and criteria to incorporate into our investment manager assessments. The PRI working groups are proving valuable for developing best practice standards in these areas.

We will increasingly rely on our external investment managers to assist us in meeting our PRI goals. Built into most of our Investment Manager Agreements is an acknowledgment, by the manager, that they must comply with our Statement of Investment Policies, Standards and Procedures – which includes our Responsible Investment Policy. In addition, there is a requirement for us to consult with managers over any directions we may wish to give regarding responsible investment.

Our intention therefore is to work collaboratively with our investment managers when implementing our responsible investment policy. For example, on local voting, we ask for recommendations from both our proxy voting agency and our managers. This is an interactive way of learning from our managers, and demonstrates our interest in long-term shareholder issues such as governance.

We face a number of challenges in determining how to best integrate environmental and social factors into our investment mandates. However, by integrating responsible investment into our own governance and procedures, finding the answers is now a matter of “business as usual” for our organisation.

Read more: www.unpri.org/0802

Figure 13 Assessment of the capabilities of internal investment staff to incorporate RI/ESG issues (Q19)



Practice regarding the provision of RI/ESG training for non-ESG investment staff varies substantially. While many signatories report that all relevant staff received such training in 2007, many others provided no training. Again, IMs appear to be more active in this area than AOs.

Informal internal training, attendance at conferences and regular briefings on key issues were the most popular forms of training for both IM and AO signatories.

Supporting development of non-proprietary tools, analysis and research

Signatories reported that they were active in supporting the development of non-proprietary tools, metrics, analysis or academic research (64% of IMs and 48% of AOs responded *Moderate or Large extent*). Some noteworthy examples:

Caisse des Dépôts et Consignations finances its subsidiary Novethic, a research centre on SRI and CSR, an academic program with various French asset managers and an internal research team on carbon issues.

F&C Asset Management every year writes, commissions or contributes to research reports, surveys and management guidelines on a wide range of ESG-related subjects that it believes can have an impact on company performance. During 2007, F&C published four detailed studies:

- F&C Guide to Carbon Offsetting
- In the Front Line: The insurance industry's response to climate change
- Managing Access, Security & Privacy in the Global Digital Economy
- Do You Know What Junior is Doing?: Managing ESG risks in independently managed operations in the mining sector.

PRI in action

Enabling integration through better communication

F&C Asset Management

To ensure that ESG issues are considered on a routine basis within our investment philosophy and processes, we have implemented the following steps:

Organisational structure

The Head of the Governance and Sustainable Investment (GSI) team, responsible for coverage of ESG issues, reports directly to the Head of Investments and is a member of the eight-person Investment Division Management Committee (IDMC). The IDMC shapes F&C's overall fund management processes and meets formally on a weekly basis to discuss risk and control procedures. ESG issues are systematically addressed at these meetings.

Cross-departmental processes

During 2007, the IDMC approved a pragmatic initiative to promote closer integration between F&C's Equity, Fixed Income and GSI teams. The "research connectivity" initiative recognises that close collaboration between these core teams improves F&C's chances of achieving high performance and meeting clients' objectives. Research connectivity promotes increased communication through a single shared research database and a shared company meetings calendar. In addition, all GSI analysts are paired with investment counterparts by sector and region to help integrate ESG issues and traditional financial analysis.

Fund management integration

Our responsible investment approach is fundamental to our global investment philosophy across all F&C funds. ESG issues are raised in joint company meetings with members of the Equity, Fixed Income and GSI teams. The GSI team's proprietary thematic and sector ESG analysis is shared with the Equity and Fixed Income teams.

Read more: www.unpri.org/0803

The following links point to examples of research produced or commissioned by signatories:

Standard Life: www.unpri.org/0804

Newton Investment Management: www.unpri.org/0805

Ethos - Swiss Foundation for Sustainable Development: www/unpri.org/0806

Generation Investment Management: www.unpri.org/0807

Insight Investment: www.unpri.org/0808

Summary for Principle 1

2007 saw clear progress by signatories in implementing Principle 1. Based on current intentions, by the end of 2008, policy documents will have been adopted by virtually all of those signatories who participated in the 2007 survey. Signatories report high and increased levels of integration in internally managed developed market listed equities and AOs are increasingly focused on the efforts of their external managers in this area. Signatories are devoting more attention to the capability of their staff in the RI/ESG area and supporting the development of expertise in the industry generally.

The obvious challenge is to extend the integration into asset classes other than listed equities. While some signatories have made considerable progress in this regard, more work is required across the signatory base and in the industry generally.

PRI in action

Reorganizing staff to facilitate integration

Frater Asset Management

Frater Asset Management's (FAM) investment team used to be split between fundamental analysis and engagement. Although the Engagement team attended Investment Committee meetings and was part of the investment decision making process, the day-to-day activities of the Engagement team were not fully aligned with the Fundamental team's research and analysis requirements. A decision was taken to fully integrate the Engagement team and the Fundamental team. The early results of the integration have been a better alignment of ESG research and analysis in the investment process. In addition, engagement activity is now more clearly focused on material ESG issues in our investment holdings and reflects our overall investment strategy.

Investment team processes now include:

- *Proxy voting decisions are communicated to the Chief Investment Officer (CIO), portfolio managers and investment analysts prior to casting votes.*
- *Sensitive vote recommendations are discussed with the Investment Committee prior to finalisation.*
- *Investment analysts attend AGMs, which in the past were only attended by members of the former Engagement team.*
- *Investment analysts and the CIO are fully involved in engagement activity. Previously specialist Engagement team members would be the only group involved in company engagement.*
- *Fundamental and engagement analysts integrate their approach to research and analysis.*
- *Improved integration of ESG issues into investment analyst valuation reports.*

We expect the integration to continue to improve our valuations of companies, help us invest with increasing conviction and to deliver better long-term returns for our clients.

Read more: www.unpri.org/0809

PRI in action

Applying the PRI to other asset classes: property

Please read Building responsible property portfolios: a review of current practice by UNEP FI and PRI signatories at www.unpri.org/property

Principle 2

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

Proxy voting

Proxy voting has been an important activity among both AOs and IMs. In the 2007 survey, the vast majority of signatories stated that they voted their shares to a *Large* or *Moderate extent* (90% for IM signatories and 70% for AOs). The percentage of signatories indicating high levels of voting remained strong in the 2008 survey. It was also encouraging to see that the percentage of AOs not voting at all fell from 16% to 10% over the course of this single year, despite the influx of new signatories.

The vast majority of signatories, both IMs and AOs, now have formal voting policies, and in most cases these are disclosed publicly. Most policies apply to all voting regions where possible (76% for IMs, 69% for AOs) and there is a strong degree of monitoring to ensure that voting is actually undertaken in line with the policy (80% of IMs and 72% of AOs state that they ensure that all voting is undertaken in line with their policy).

Voting activity – governance versus environmental and social issues

Company general meetings are by their very nature focused on corporate governance issues. Reflecting this, many signatories reported that their formal voting policy directs action to a greater extent on governance issues than on environmental and social issues.

Further, the key features of a strong governance framework are fairly widely accepted and well documented. In the social and environmental areas, the issues are perhaps more contested, and appropriate standards of corporate behaviour are more difficult to define. Accordingly, it is more difficult to formulate a policy that provides clear direction on voting, yet retains sufficient flexibility to respond appropriately to the issues that can arise. Nevertheless, a small number of signatories stated that they are intending to address this imbalance over the coming year and plan to enhance the detail on environmental and social issues in their voting guidelines.

This is an area of implementation that could be addressed by more signatories over time. While ensuring appropriate flexibility, greater clarity in voting policies of expectations around corporate environmental and social performance would signify important progress.

Engaging with companies

In the 2008 survey, the proportion of IM signatories reporting high levels of both private⁴ direct engagement with companies and collaborative engagement was lower than in 2007. This was due in large part to the addition of new signatories. Among IM signatories who participated in both years, levels of engagement were higher in the 2008 survey (69% of IMs who participated in both years reported *Large* or *Moderate extent* of collaborative engagement in the 2008 survey, up from 55% in 2007).

AOs are becoming more active in their engagement with companies. Of signatories who participated in both years, the proportion of AOs involved in collaborative engagement to a *Large* or *Moderate extent* rose from 40% to 48% and the proportion not involved at all fell from 37% in 2007 to 20% in 2008. Broadly, whereas in the past, and as reflected in the 2007 survey, IMs have led the way in engagement, the 2008 survey indicates a much more balanced mix between AOs and IMs in this activity. This broad trend is consistent with the earlier experience in the voting field and reflects the increased size and sophistication of AOs.

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

PRI in action

Initiating proxy voting

KLP Kapitalforvaltning

In 2002 KLP developed a policy for responsible investments and in 2005 the board approved a new RI policy allowing new tools: active ownership and proxy voting. The first step towards implementation of these new tools included discussing voting policies with proxy voting service providers and their ability to meet KLP's RI criteria. The next step was to identify the costs of proxy voting, especially concerning the variation in costs, by markets and custodian. Due to the complexity of voting, and unreasonably high costs in some markets, proxy voting started with the biggest portfolios in "straight forward" markets. Evolving from this work, KLP's ownership principles were developed in 2007.

A portion of KLP's assets are managed by KLP's daughter company KLP Mutual Funds. Therefore, there was need for a board commitment by the mutual fund company to vote proxies. There were some policy discussions and the policy was rejected the first time it was put to a vote. Nevertheless, in 2007 the mutual fund company approved the policy, and the first proxy votes were cast the same year. In 2008, KLP estimates that it will vote its shares in almost 87% of the companies it owns, and will strive to increase this portion. One barrier to voting in some markets is the high voting charges charged by custodians.

Voting is coordinated by the RI department, which ensures systematic follow-up and consistent voting. Controversial cases are discussed with portfolio managers, representative unit holders and lead management.

Read more: www.unpri.org/0810

Figure 14 Extent to which collaborative engagement was employed in active ownership strategies for listed equities – those who responded in both 2007 and 2008 (Q29)



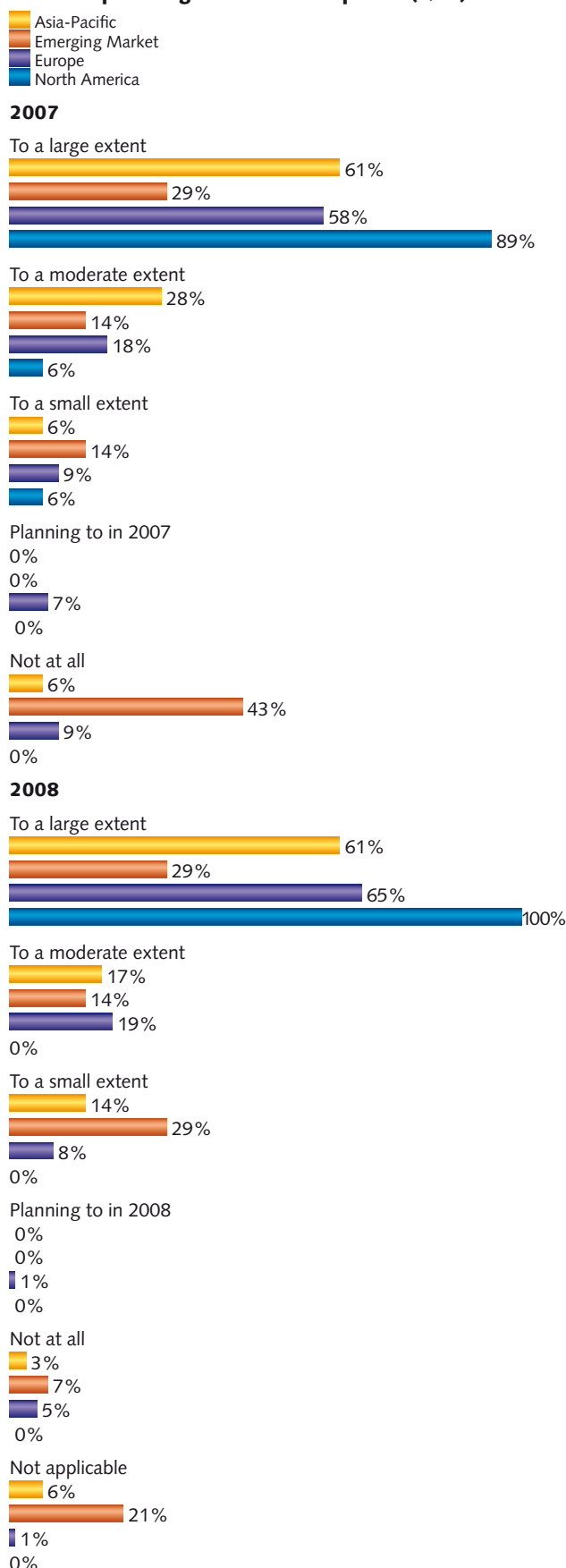
Public engagement tends to be used sparingly, if at all. The proportion of IM signatories reporting large levels of public engagement fell significantly over the year. Interpretation of this result is, however, complicated by the change in regional mix of respondents. As reported above, the proportion of respondents from North America was lower in this survey and this region, the US in particular, is by far the most active in public engagement (see below).

Regional differences

The extent to which various approaches to active ownership are employed varies across regions. North American signatories are most active, universally employing voting as well as recording strong levels of private and collaborative engagement, together with greater involvement in public engagement and shareholder resolutions than seen in other regions.

Voting is now practised by the vast majority of signatories, especially those in North America, all of whom indicated that they employ voting to a *Large extent*. Over 90% of signatories from Europe and Asia-Pacific indicated that they vote to at least some extent.

Figure 15 Extent to which signatories in different regions employed (proxy) voting in their active ownership strategies for listed equities (Q29)



A number of signatories mentioned that they have begun to advise companies of the rationale for their votes. Furthermore, publishing of voting records, often with explanatory comments is widespread.

Collaborative engagement has been a logical first step for some signatories seeking to extend their active ownership practices beyond voting. North American signatories are also more active than those from other regions. This practice has grown particularly among signatories in emerging markets. In the 2008 survey, the proportion of signatories from emerging markets not participating in collaborative engagement and not planning to in 2008 has fallen to 14% from 63% in the 2007 survey. On this measure, emerging markets are now well ahead of Asia-Pacific (33% not participating in collaborative engagement and not planning to 2008).

(See Figure 16, opposite)

Direct private engagement is another form of active ownership in common use across regions. North America again has the highest proportion of signatories involved to a *Large extent* (68%). However, 90% of European signatories are now engaging with companies to some extent. Again, emerging markets signatories have increased their engagement activities sharply over the last year – the proportion not engaging at all and not planning to fell from 44% to 29%. On this measure, signatories from emerging markets also demonstrate broader take-up of this practice than those from Asia-Pacific.

Fifty percent of North American signatories record being involved in filing of shareholder resolutions. This is the only region with substantial activity of this sort. While North American signatories are heavily involved in active ownership activities generally, this particular result appears to be at least partly explained by differences in regulatory regimes and cultural considerations.

Public engagement is less frequently undertaken. Again, US signatories are more likely to participate in public engagements than those from any other region. However, even in the US, just 27% of signatories report a *Large extent* of public engagement, well below the proportion participating to a *Large extent* in other forms of active ownership. Comments from signatories indicate that most believe that outcomes can be better achieved through private dialogue, and that use of the media or other public forums is seen only as a last resort.

Engagement – spreading from governance to environmental and social issues

Signatories were asked to identify the number of companies with which they undertook engagement, classified both by the intensity of the engagement and the split between environmental, social and governance issues. This allows an assessment of the balance of engagement activity across the issues. Summarised results from this question are shown in the following table. In particular, for signatories reporting that they were involved in engagement, the mean number of companies engaged with is shown, for environmental, social and governance categories and Extensive, Moderate and Basic engagement.

Figure 16 Extent to which signatories in different regions employed collaborative engagement in their active ownership strategies for listed equities (Q29)

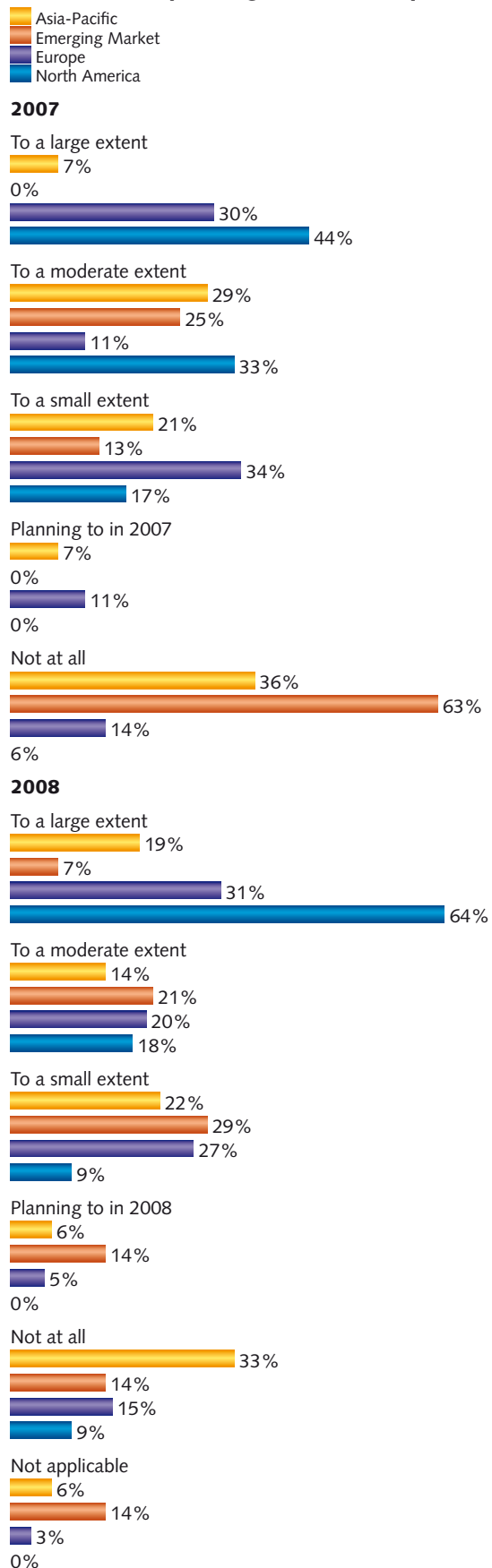


Table 1 Number of portfolio companies engaged directly by signatories or on their behalf in 2007* (Q43)

	Extensive	Moderate	Basic			
Governance	Mean	31.82	Mean	49.55	Mean	62.36
	Median	1	Median	0	Median	0
	Max	800	Max	2400	Max	3279
	Total	4391	Total	6838	Total	8605
Environmental	Mean	18.3	Mean	49.51	Mean	87.94
	Median	0	Median	0	Median	0
	Max	729	Max	2400	Max	3279
	Total	2526	Total	6832	Total	12136
Social	Mean	14.01	Mean	46	Mean	45.02
	Median	0.5	Median	0	Median	0
	Max	482	Max	2400	Max	3279
	Total	1934	Total	6348	Total	6213

* Only includes signatories that indicated that they employ some form of engagement in their active ownership strategy

Because of the overlap across the signatories' responses, these figures do not show the total number of discrete issues engaged upon, either in total or in the three categories. Nevertheless, the fairly even spread across the environmental, social and governance categories is noteworthy. Extensive engagement is undertaken with more companies on governance issues on average. However, in terms of total number of engagements (i.e. including *Extensive*, *Moderate* and *Basic* engagements), environmental issues lead the way and the frequency of engagement on social issues is not sharply lower than that for governance issues.

Changes to the questions do not allow a direct comparison with results from the 2007 survey. Nevertheless, a comparison with similar questions last year indicates that governance issues have represented a much larger share of total engagements in previous years.

Summary for Principle 2

It is clear that active ownership was well-entrenched among many participants in the industry prior to the establishment of the PRI. Nevertheless, signatories have moved ahead in implementing Principle 2 during 2007. Activity in the area has deepened and broadened, particularly among AOs.

PRI in action

Analysis of ESG Factors to Improve Integration

CPP Investment Board

As part of the CPP Investment Board's efforts to integrate environmental, social and governance (ESG) factors into our investment process, we actively encourage financial analysis of relevant long-term ESG factors by external research providers.

In 2006, the CPP Investment Board joined the Enhanced Analytics Initiative (EAI), an international collaboration of asset owners and fund managers, actively encouraging investment dealers to integrate ESG factors into investment analysis. Members work collaboratively to signal the type of analysis that is most useful as well as committing a portion of their commissions.

Since joining the EAI, the CPP Investment Board has directly reached out to heads of equity research and analysts at investment dealers to encourage enhanced research on potential material risks such as tightening environmental regulations and long-term social risks in the extractive industries. In part, as a result of our efforts, we have seen increased quantity and quality of research relevant to our long-term investment strategies.

In order to enable better analysis of relevant long-term ESG factors, we also actively seek increased disclosure by public companies of these factors. This past year, we actively encouraged the Canadian Institute of Chartered Accountants to provide improved guidance for companies to disclose environmental risks in the Management's Discussion and Analysis section of annual reports. We also support initiatives such as the Carbon Disclosure Project (CDP) and have directly encouraged companies to improve their disclosure of material ESG risks in financial reporting.

We are pleased to see improving analysis of long-term ESG factors because we gain insight into management understanding of long-term risks and potential impacts on share price performance. Investor efforts to increase financial analysis of ESG factors and disclosure by companies also ensure long-term shareholder value creation as boards enhance oversight and management improves long-term strategy and performance with regard to ESG factors.

Read more: www.unpri.org/0811

Principle 3

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

Standardised reporting on RI/ESG Issues

IMs continue to lead the way in asking investee companies to produce standardised reporting on their RI/ESG policies, practice and performance. The proportion of IMs making such requests was 74%, compared with 67% for AOs. A number of AOs specifically address this issue in their policy documents. Nevertheless, a lower level of activity in this area among AOs generally is to be expected given that many AOs invest entirely via external fund managers and therefore do not have direct relationships with investee companies.

Figure 17 Extent to which respondents have asked investee companies to produce standardized reporting on their RI/ESG issue policies, practices or performance (Q51)



AOs, however, are closing the gap. In 2008, the proportion of AOs not asking for such standardised reporting was 26%, down from 34% in 2007. Signatories are broadly equally split between those who ask for RI/ESG reporting to be integrated

PRI in action

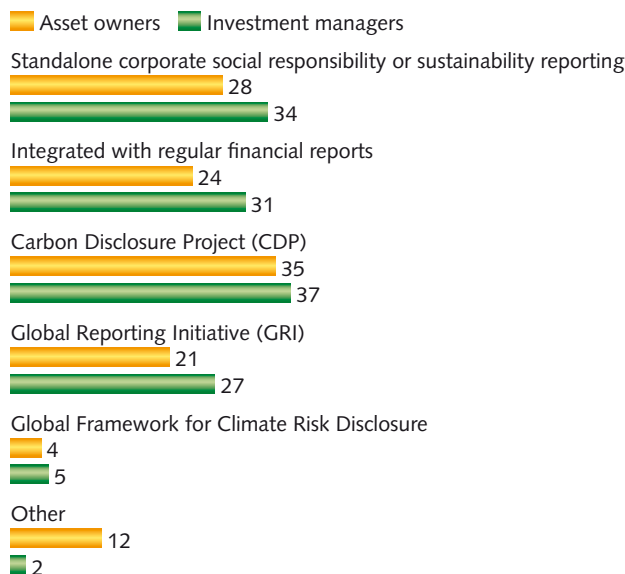
Outsourcing the gathering of ESG information

Etablissement du retraite additionnelle de la fonction publique - ERAFP

ERAFP has outsourced the ESG assessment of the issuers represented in its portfolio to two external ESG rating agencies. They adapt their methodologies, including information gathering, to different types of issuers: corporations, States, local authorities and supranationals. The information gathered relates to international standards such as the ILO conventions, the Universal Declaration of Human Rights and the OECD Principles of Corporate Governance, but also, to a lesser extent, to industry-specific initiatives such as the Equator Principles and to indicators specific to ERAFP. The agency covering companies does not require that issuers use standardized formats for ESG reporting, but cooperates with the Global Reporting Initiative to improve the relevance, reliability and comparability of the information that is disclosed. Moreover, transparency is in itself seen as part of a company's ESG commitment, so a lack of it will lead to a lower rating. This may encourage issuers to improve their reporting. Feedback is also provided to issuers on their reporting. The same approach was applied to local authorities in 2007 to overcome their currently lower level of public disclosure. From this information the rating agencies produce quarterly reports, which ERAFP uses to monitor the compliance of its portfolio with its ESG guidelines and as a basis for discussion with the external asset managers.

with regular financial reports and those asking for standalone corporate social responsibility or sustainability reporting.

Figure 18 Formats of standardized reporting on RI/ESG issue policies, practices or performance requested by respondents (Q52)



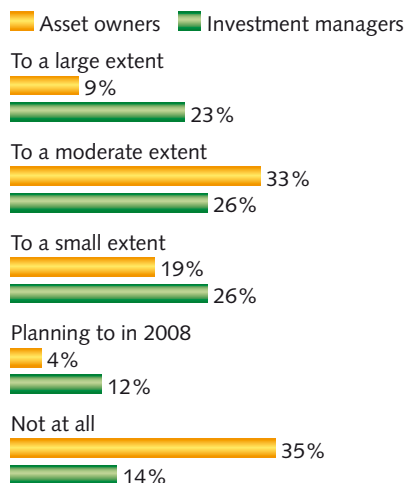
The Carbon Disclosure Project and the Global Reporting Initiative remain the two most commonly favoured RI/ESG reporting frameworks used by signatories in dialogue with investee entities.

The feedback loop

IMs actively provide feedback to investee companies about their reporting on RI/ESG issues, with 75% of managers stating that they provide such feedback to at least some extent (23% to a *Large extent*) and a further 12% planning

to do so in 2008. Feedback of this sort is likely to encourage constructive dialogue. We expect it to become more common as companies recognise that RI/ESG issues are increasingly becoming mainstream within the investment community.

Figure 19 Extent to which respondents have provided feedback to investee companies on their reporting on RI/ESG issues (Q53)



PRi in action

Detailed steps towards getting appropriate disclosure

Newton Investment Management

Good disclosure on Social, Ethical and Environmental (SEE) matters is important to Newton. It provides our investors with protection from reputational risk while highlighting an investee company's strength of management and strategy. Should reporting on these matters prove to be inadequate, Newton will engage with the company to secure improvement. If, after an appropriate period of time, no change is noted, Newton will vote against accepting the report and accounts at the Annual General Meeting (AGM).

A good example of Newton's approach relates to a Construction & Building company in the UK. In April 2005, Newton assessed the company's disclosure regarding SEE matters and found it to be inadequate. Newton contacted the company to discuss its poor reporting and to encourage improvement in this area. The company acknowledged its failings. Newton outlined its expectations with regard to SEE disclosure, including its approach to voting at AGMs should expected disclosure levels not be met.

In April 2006, Newton, again, assessed the company's reporting on SEE matters. Disappointingly, Newton felt that the company had not made any significant improvements since 2005. Newton contacted the company to discuss the matter. The company stated that information on health, safety and environmental performance was being collected and measured, but was not publicly available. The company was planning to improve this going forward.

Newton highlighted the type and level of information it would expect to see from a company in the Construction & Building industry when reporting on SEE matters. However, having already given the company an opportunity to respond to concerns, Newton voted against accepting its report and accounts.

In April 2007, when again assessing the company's SEE reporting, Newton was encouraged to discover that significant improvements had been made.

Read more: www.unpri.org/0812

Adherence to norms and codes of conduct

A similar picture emerges when looking at the extent to which signatories seek information from investee companies on adoption of and adherence to standards or codes of conduct related to RI/ESG issues. IMs are more likely to request such information than AOs, and although IM performance in this area appears to have decreased between the 2007 and 2008 surveys, this is due to the change in the population of IM signatories. Among signatories who participated in both years, performance improved. A number of signatories commented that they are now expecting companies to adopt levels of corporate responsibility beyond those specified in widely-recognised codes, and also that they analyse the internal codes of conduct and professionalism adopted by companies, and adherence to them (although it is not yet clear if these expectations are being met).

PRi in action

Partnering with CDP in Switzerland

Ethos – Swiss Foundation for Sustainable Development, Pictet Asset Management

In 2007, the Ethos Foundation together with Pictet Asset Management (PAM) partnered with the Carbon Disclosure Project (CDP) to seek information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the 50 largest Swiss companies.

We felt we had limited information on how these companies approached and handled the issues posed by climate change in our home market and we sought to raise awareness of these issues and the profile of the CDP.

Figure 20 Extent to which respondents who participated in both 2007 and 2008 have sought information from companies regarding their adoption of or adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG (Q54)

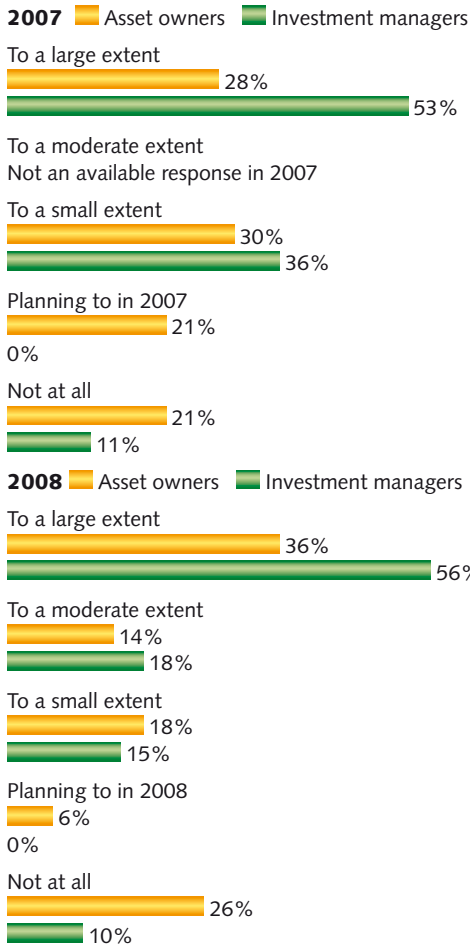
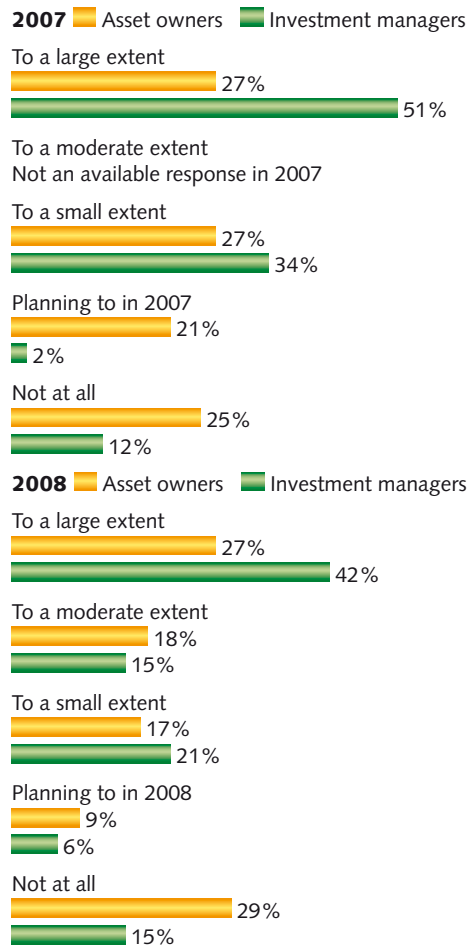


Figure 21 Extent to which all respondents have sought information from companies regarding their adoption of or adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG (Q54)



Summary for Principle 3

There has been progress in implementing Principle 3 with signatories demanding greater disclosure from the companies in which they invest. This is an important step, as easier access to relevant information on important RI/ESG issues facilitates the task of incorporating analysis of those issues into investment decisions.

> We collaborated closely with the global CDP Secretariat during the distribution of the CDP questionnaire. Subsequently, Ethos' specialized engagement officers contacted each company to provide them with further information on the process and to encourage them to participate. As a result, the Swiss CDP achieved a remarkable participation rate of 78% in its first year, the third-highest response rate of all countries.

The company answers to the questionnaire were evaluated by Centre Info, the SRI research provider of Pictet and

Ethos. The results were published in a report and officially presented to institutional investors, business leaders, and the scientific and political community at an event in Geneva.

In 2008, we will again collaborate with the CDP and will extend the request for information to the largest 100 publicly listed Swiss companies.

Read more Ethos: www.unpri.org/0813
Pictet: www.unpri.org/0814

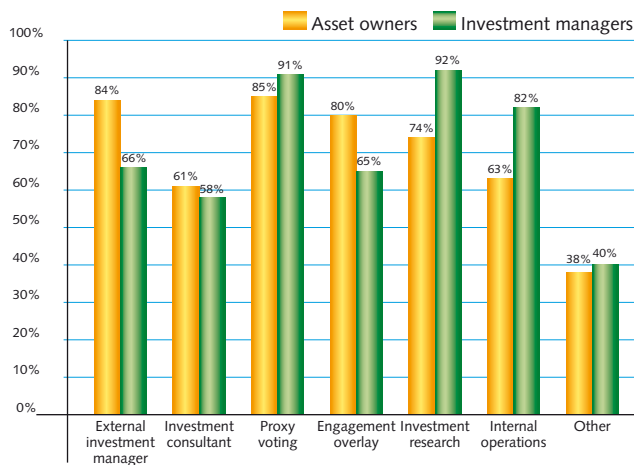
Principle 4

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

Influence on service providers

A large majority of both asset owners and investment managers are considering RI/ESG requirements when selecting service providers. Results are summarised in the following chart.

Figure 22 Consideration of RI/ESG requirements when searching for and selecting service providers (Q59)



While the question addressing this matter was structured quite differently in the 2007 survey, it is clear that there has been considerable progress in this area over the last 12 months. It is reasonable to expect that service providers would be building their RI/ESG expertise in response to this development.

A noteworthy result is that of the AOs who use external managers (for asset classes where RI/ESG capability is applicable), 84% are considering RI/ESG capability when searching for managers. This confirms the result noted under Principle 1 that a clear majority of AOs are already considering the RI/ESG integration capability of their external managers, with more intending to do so in 2008.

RI/ESG performance of service providers – the formal link

The 2007 report highlighted the relatively slow progress (compared with other Principles) being made in directly linking performance by investment managers on RI/ESG issues into formal incentive structures and relationships. Changes to the 2007 questions on this topic preclude a direct measure of change in activity since last year. Nevertheless, some progress appears to have been made. For instance, a significant number of IM respondents appear to be incorporating RI/ESG issues into investment monitoring reports for the first time, and a clear majority of IMs state that they do this. A significant minority of signatories now link RI/ESG performance to contractual relationships with external IMs (38% of AOs and 32% of IMs) and into incentive structures for internal investments (27% for AOs, 34% for IMs).

PRI in action

Participating in policy and regulation development to improve disclosure of environmental risks

CalPERS

CalPERS first made a commitment to its goal of improving data transparency and timely disclosure of environmental risks such as those associated with climate change in early 2005. CalPERS has been engaged in numerous efforts to achieve its goal including but not limited to efforts supporting regulatory and policy developments. Examples include:

- CalPERS played a key role in a national effort to seek federal regulations to address climate change. The “Call to Action” campaign organized by CERES and the INCR held a press conference in Washington, D.C., in mid-March 2007 and issued a letter urging the federal government to take three specific actions to address the uncertainty created by the lack of national policy on climate change. The Call to Action was developed to draw attention to the fact that the uncertainty creates risks for both investors and business as they engage in long-term strategic planning, asset management, and capital budgeting.
- In September 2007, CalPERS and 21 other co-petitioners submitted two requests to the U.S. Securities and Exchange Commission: (1) clarify that material climate-related information must be included in corporate disclosures and (2) request the Division of Corporation Finance devote particular attention to the adequacy, under existing regulations, of disclosures concerning climate risk.
- On October 31, 2007, CalPERS’ Chief Investment Officer testified at the Senate Subcommittee on Securities, Insurance, and Investment hearing entitled “Climate Disclosure: Measuring Financial Risks and Opportunities.” The testimony centered on the position that climate change represents material risk and opportunity; current inadequate voluntary disclosure makes it impossible to assess companies’ long-term financial prospects; and climate risk disclosure could and should be standardized.

Read more: www.unpri.org/0815

Promoting shareholder rights

Comité syndical national de retraite Bâtirente

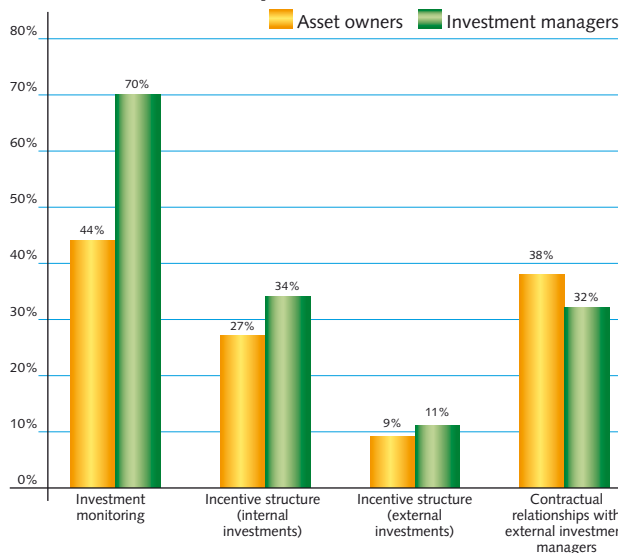
In 2007, as part of its mandate to promote ESG integration, Bâtirente conducted a survey to review the Canadian regulations allowing shareholders the right to file proposals at general meetings. The fund noticed significant differences between federal and provincial jurisdictions. The provincial law in Quebec was particularly restrictive as it did not refer to such rights at all. This situation allows companies incorporated in Quebec to omit a shareholder proposal in the proxy circular without having to provide any justification. As a pension fund from Quebec, Bâtirente decided that it had to make a public statement in order to have the law modified. In April 2008, in the midst of a public policy review, the fund submitted a document to the Minister of Finance which argues that current shareholder law actually limits the ability of institutional investors to fully meet their fiduciary duties. The fund issued several recommendations to improve the system highlighting the positive aspects of other regulations in Canada.

Such changes in regulations on shareholder rights are possible in Canada as the last decade has shown. The federal law which had been highly restrictive was amended following years of efficient lobbying by the SRI community and high profile court cases. The fact that the US has a long tradition of shareholder engagement has also helped in improving shareholder rights in Canada.

Read more: www.unpri.org/0816

On the other hand, the proportion of signatories linking RI/ESG performance to incentive structures for externally managed investments remains very low (9% for AOs, 11% for IMs).

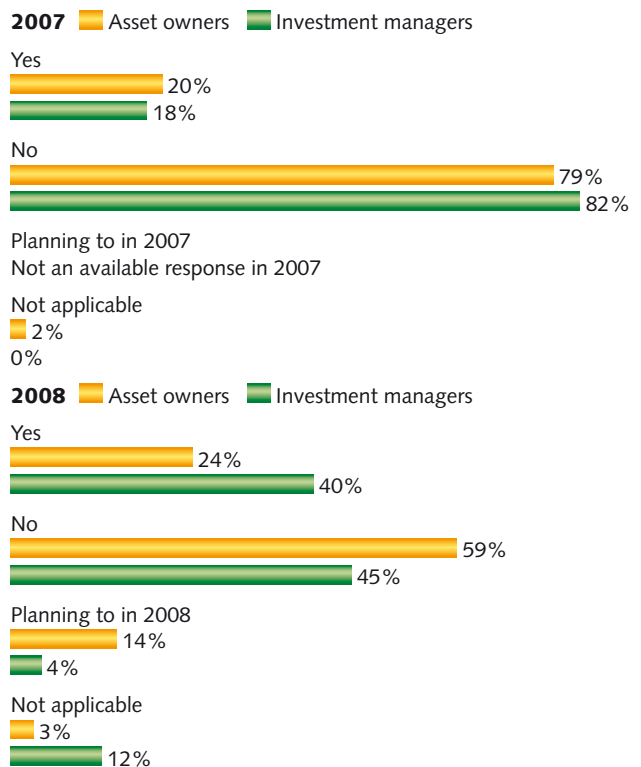
Figure 23 Linkage between performance on RI/ESG issues and investment monitoring, incentives and contractual relationships (Q60)



Relationships with service providers

Signatories are beginning to consider RI/ESG capabilities when evaluating relationships with their existing service providers. The proportion of IM signatories who have revisited relationships with service providers on this basis rose strongly (up to 40% in 2008 from 18% in 2007). AOs seem less inclined to address this issue.

Figure 24 Revisiting relationships with service providers in light of RI/ESG issue-related capabilities (Q67)



Also, a clear majority of IMs (75%) either include an ESG component in their broker evaluation process or have a budget for broker research on ESG issues. Given the important role played by brokers, both in provision of research to AOs and IMs and as an avenue for dialogue with and feedback for companies, this is an important development.

Working with asset consultants

Statewide Superannuation Trust

A central part of Statewide Superannuation Trust's role in implementing the PRI is to ensure both the advisers we use and the investment managers we select are taking our sustainability concerns into account within their investment processes. For this we have adopted an "if not, why not" approach.

For example, in 2007, Statewide formally requested our asset consultant to articulate the degree to which ESG factors were presently incorporated into their investment process and investment recommendations to Statewide on an "if not, why not" basis. Together with our sustainability consultant, Sustainable Business Practices, we developed a questionnaire that incorporated the Australian Council of Super Investors (ACSI) guidelines. The questions posed required the asset consultant to document the:

- *priority afforded to ESG issues when making various investment decisions and assessments*
- *extent to which they believe ESG factors affect investment returns over different time horizons*
- *major ESG risks for each of Statewide's largest investments*
- *process with which they have incorporated those risks into their investment recommendations and management of those assets*
- *extent to which they consider the impact of a national Emissions Trading Scheme on Statewide's investments*
- *key opportunities and risks relevant to Statewide's portfolio on the basis of a series of ESG factors*
- *mechanism by which ESG factors are incorporated into their existing investment processes*
- *verification procedures that take place of any ESG information received*
- *extent to which the asset consultant monitors developments and innovations in the broader market to better incorporating ESG factors into investment processes*
- *ESG policy that they have adopted, including who is responsible for both implementing and reviewing it*
- *wider commitment and capacity they have to assessing ESG factors*

In addition to engaging our asset consultant in relation to certain areas covered in the report, we continue to promote our belief in the PRI as we meet with investment managers and the wider investment community.

Read more: www.unpri.org/0817

Active promotion of the PRI

If the PRI is to have an impact across the entire investment chain, it is important that the majority of participants adopts it. Most signatories have taken some steps to encourage their clients, service providers and, especially, peers to become PRI signatories. Even so, in most categories, a significant minority of signatories report taking no action to encourage adoption of the PRI. Furthermore, the proportion of the default pension or retirement funds offered to employees of signatory organisations has changed little over the year (63% for AOs, 45% for IMs⁵) and falls well short of what might be expected. Feedback from signatories indicated a preparedness to promote the PRI but uncertainty as to the most effective ways of doing so.

Measuring the improvement of external managers – more work required

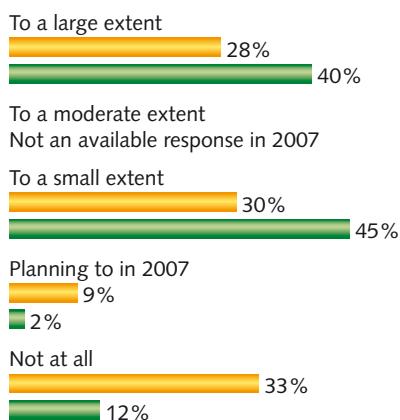
Progress has been slow in evaluating the role being played in encouraging improved integration of RI/ESG issues by external managers. 57% of IMs and 32% of AOs state they have no evidence of having played such a role, while only 14% of IMs and 10% of AOs report having such evidence to a *Large extent*. It will always be difficult for any signatory to develop an objective and formal measure of the extent of their influence with managers, given the range of factors involved and the diversity of clients sending different signals to those managers. Nevertheless, there is great scope for clients to influence managers, and signatories are encouraged to monitor their efforts in this area to a greater degree.

Dialogue with policy makers

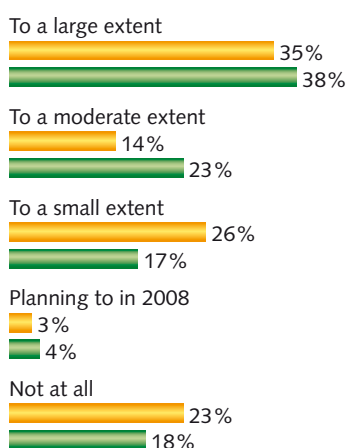
The 2007 report indicated that signatories were active in dialogue, lobbying or initiatives on government policy and/or industry regulations related to RI/ESG during 2006 and this continued in 2007. 78% of IMs and 75% of AOs report being involved in such activity to at least some extent with 39% of IMs and 35% of AOs being involved to a *Large extent*. AOs in particular appear to have increased their activity in this area over the year.

Figure 25 Extent to which all respondents have engaged in dialogue, lobbying or initiatives pertaining to government policy and/or industry regulations (Q68)

2007 ■ Asset owners ■ Investment managers



2008 ■ Asset owners ■ Investment managers



Summary for Principle 4

Solid overall progress has been made by signatories in implementing Principle 4, notably in terms of considering the RI/ESG capabilities of service providers and in participation in the policy debate.

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

PRI in action

Encouraging others to become PRI signatories

Imarinen Mutual Pension Insurance Company

When we signed the PRI in November 2006 it seemed that no other Finish investor would join us in our commitment to responsible investment. To encourage others to join we began to disclose our PRI signatory position whenever and wherever possible. We still continue to promote the PRI through various sources e.g. speaking at conferences, seminars, holding internal and external presentations, our web pages and annual reports. We wrote an article on the PRI in our customer magazine (circulation of 89,000 copies). Possibly due to these efforts we have been contacted by a couple of investors interested in the PRI. Whenever asked about it, we have provided information on PRI both in writing and in meetings to highlight the benefits and requirements of becoming a signatory. We are pleased to see that today there are four Finnish asset owner PRI signatories. We also ask potential new fund managers whether they are PRI signatories. This is done using our standard due diligence questionnaire. A section of this questionnaire contains issues on responsible investment and the PRI.

Some sample questions from our due diligence questionnaire:

- Are you a PRI signatory?
- Are you a member of corporate governance group/network? (E.g.. ICGN, ECGI or local cg group)?
- Do you have an engagement policy?
- If yes, then describe the policy.
- Do you have dedicated RI staff?

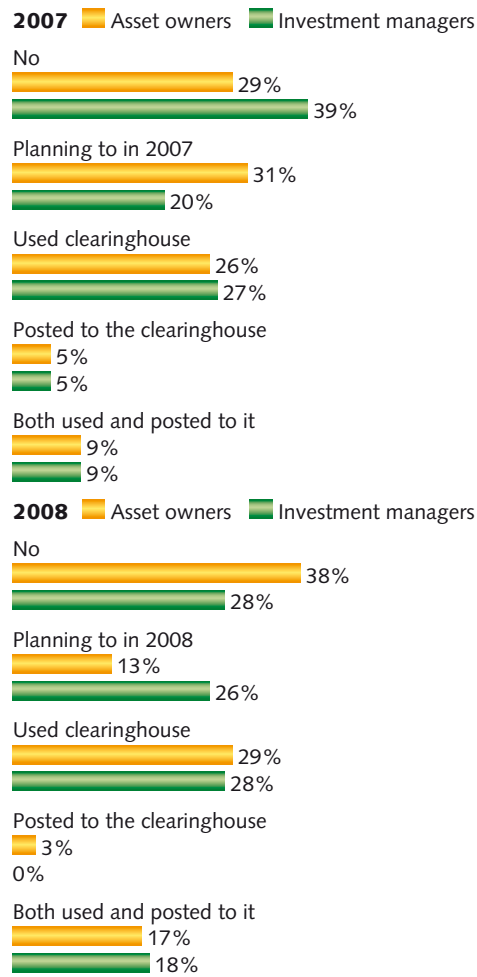
Principle 5

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

The PRI Engagement Clearinghouse – momentum is building

The PRI Engagement Clearinghouse was established in the fourth quarter of 2006. Collaborative activity undertaken through the Clearinghouse increased consistently throughout 2007, demonstrated by the number of items posted and participation in collaborations. There was a large increase in the proportion of (and much larger number of) signatories who used the Clearinghouse during the year. The momentum appears set to continue with a further 26% of IMs and 13% of AOs planning to use the Clearinghouse for the first time during 2008.

Figure 26 Use of the PRI Engagement Clearinghouse (Q72)



PRI in action

Supporting clearinghouse initiatives

Catholic Super

In 2007 we were alerted to the U.S. Securities and Exchange Commission's request for public comment on proposed rule changes concerning shareholder proposals by a posting by Domini Social Investments to the PRI Engagement Clearinghouse. Domini was raising the awareness of signatories regarding this opportunity for public comment and had drafted a letter of response to the SEC addressing common signatory objections to some of the proposed rule changes. Upon reviewing the draft letter, we decided to add our names in support. The letter was submitted to the SEC with signatures from 47 PRI signatories from 10 countries, representing assets under management of approximately US\$ 1.4 trillion.

Read more: www.unpri.org/0821

Working collaboratively with the Carbon Disclosure Project

CPP Investment Board

Along with other members of the Carbon Disclosure Project (CDP), CPP Investment Board supported the CDP Secretariat in the development of the CDP response database, launched in October 2007. This database enables improved comparability and integration into investment analysis. We have encouraged equity research analysts to use the database to improve company-specific analysis of climate change related risks and opportunities.

The CPP Investment Board is one of 385 institutional investors from around the world representing a total of US\$57 trillion in assets under management who are signatories to the CDP. The most recent CDP questionnaire was sent to over 3,000 companies worldwide. Companies are asked to provide investment relevant information on their greenhouse gas emissions and report on their strategy for dealing with risks and opportunities associated with climate change.

The CPP Investment Board is also a member of the Advisory Group for the CDP Canada Report which recognizes leading practices by Canadian companies regarding transparency on climate change related risks.

Read more: CPPIB: www.unpri.org/0818
CDP www.unpri.org/0819

Promoting transparency of electric utilities on GHG emissions

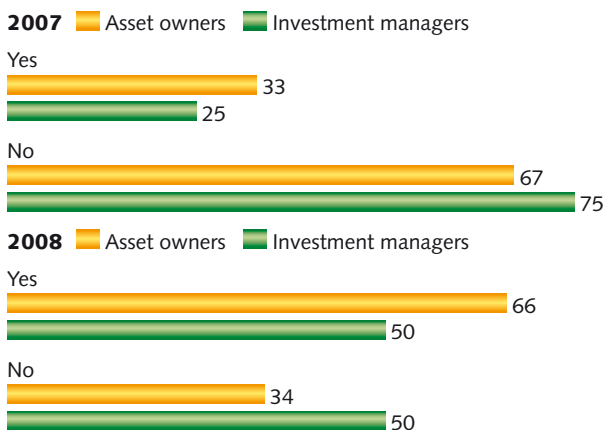
BNPParibas Asset Management

Climate change is increasingly recognised as a strategic issue for the electric utilities, yet experience to date shows that there remain significant gaps and inconsistencies in the data that companies provide on their GHG emissions, making it difficult for investors to properly assess the risks and opportunities related to climate change. As part of its on-going commitment to the Institutional Investors Group on Climate Change (IIGCC), BNP Paribas Asset Management led a working group of asset managers and asset owners in order to produce the first investor-led reporting framework dedicated to electric utilities. The framework, developed with support from sell-side analysts from CA Cheuvreux, covers a range of qualitative and quantitative questions and involved extensive consultation with a number of utility companies. Launched in September 2007 with a European focus, the disclosure framework was expanded globally early 2008 in partnership with the Institutional Network on Climate Risk (INCR/CERES) in North America and the Investor Group on Climate Change (IGCC) in Australia/ New Zealand.

Read more: www.unpri.org/0820

Furthermore, a substantially higher proportion of signatories, both AOs and IMs, reported that their use of the Engagement Clearinghouse resulted in subsequent action or collaboration with other signatories.

Figure 27 PRI Engagement Clearinghouse use resulting in action or collaboration (Q73)

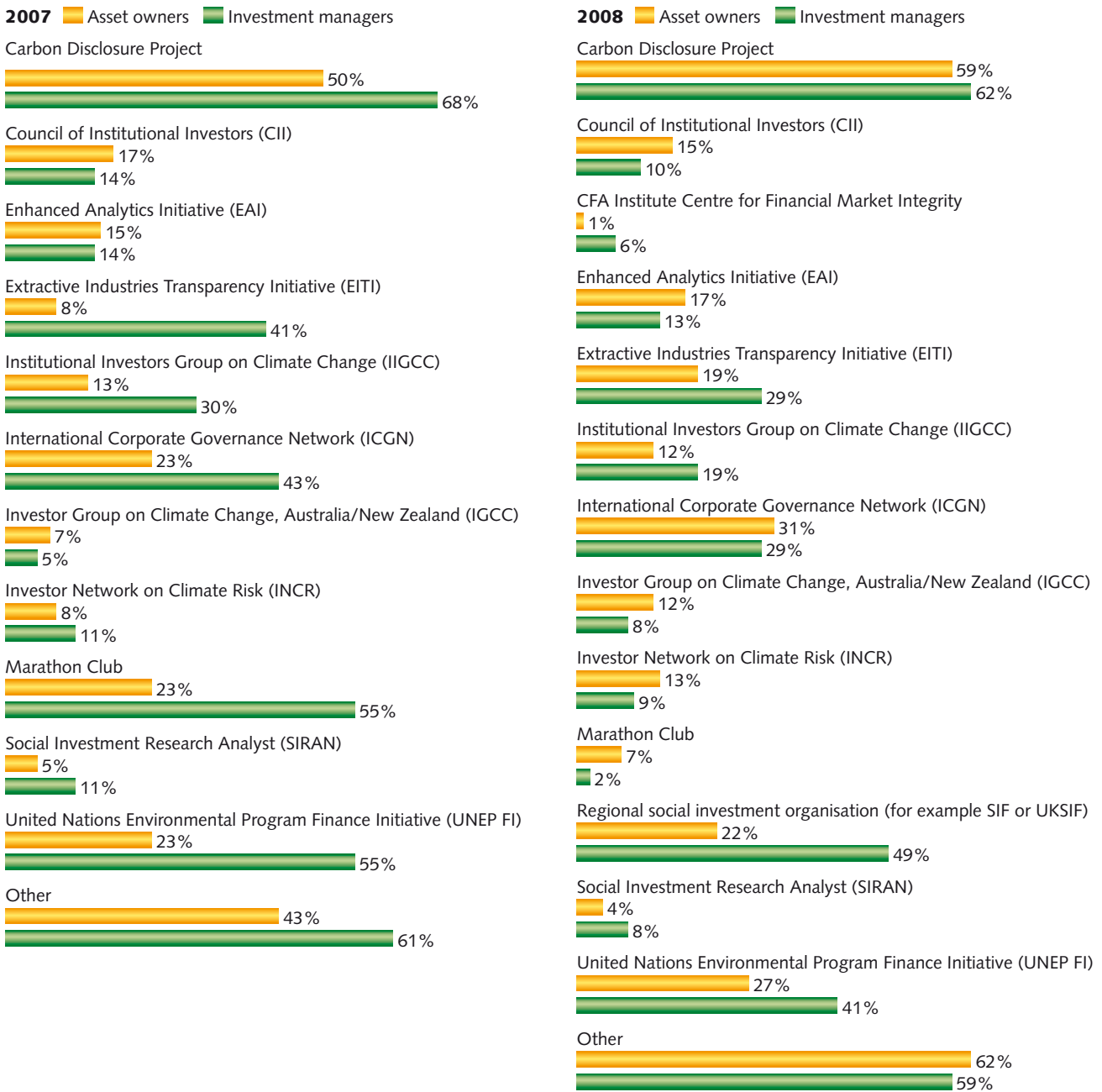


Other collaborative initiatives

A higher level of participation in other collaborative engagement initiatives was also reported in the 2008 survey, both for IM and AO signatories. The Carbon Disclosure Project remains the most widely supported collaborative initiative. However, the Enhanced Analytics Initiative, the Extractive Industries Transparency Initiative, the three regional climate change investor groups, the regional social investment organisations and the UN Environment Program Finance Initiative also attract considerable support among signatories.

Signatories indicated they were involved in more than 80 collaborative initiatives or associations.

Figure 28 Participation in RI/ESG issue-related collaborative engagement initiatives or industry associations (Q75)



Summary for Principle 5

Collaboration, particularly on engagement, can present communication and coordination difficulties not encountered when engaging with companies directly. And some signatories may feel that they still need to develop their internal capabilities to make the most of collaboration. Nevertheless, it is clear that considerable progress was made under Principle 5 during the year. A number of signatories commented on the benefits they derived from participation in the Clearinghouse. In some cases, it was stated that the Clearinghouse – and the activity within it – was the most important benefit of PRI participation.

PRI in action

Leading clearinghouse initiatives

There are 3 case studies on leading successful clearinghouse initiatives on pp. 5/6 of this report

Collaborating to improve research and engagement in Australia

The Australian Council of Super Investors (ACSI)

The Australian Council of Super Investors (ACSI) provides its member superannuation funds with governance and ESG advice on Australia's investment market.

ACSI was formed in 2001 with the explicit purposes of mutualising the cost of research on corporate governance and providing a strong, collective voice to companies on key governance issues.

ACSI's Corporate Governance Guidelines have been accepted as best practice by Australia's corporate sector.

ACSI has 41 members who are collectively responsible for over AUD250 billion, which is approximately 1 in every 4 Australian superannuation dollars. 19 of ACSI's members are also signatories to the UN PRI.

ACSI's activities:

- Research, which underpins ACSI's engagement with companies, regulators and other parts of the investment industry. The research findings and any subsequent engagement are reported to members regularly.
- Education and guidance for trustees, including guidelines, seminars and conferences on ESG issues.
- ACSI's Corporate Governance Guidelines outline the practices that ACSI believes Australian companies should follow in relation to corporate governance. The Guidelines supplement the regulatory and industry standards set out in the Corporations Act and Australian Stock Exchange Listing Rules.
- ACSI's ESG Guidelines set out suggestions and practical tools for fund trustees, fund managers and other parts of the investment industry about incorporating ESG considerations into investment decision-making.
- ACSI's Voting Alert Service provides voting recommendations (based on ACSI's Corporate Governance Guidelines) for each of the top 200 listed Australian companies, together with other relevant corporate governance information for each company.

Where ACSI identifies a matter of concern, either as part of the Voting Alert Service or arising from its research, ACSI will contact the company to discuss the issue. Increasingly, companies may contact ACSI to discuss upcoming general meeting agendas, particularly regarding remuneration reports and director re-elections. The engagement outcomes are reported to members.

Very rarely, ACSI may co-ordinate litigation against companies to enforce shareholder rights. In 2006, ACSI successfully coordinated litigation in the Delaware Court of Chancery on behalf of Australian and international pension funds collectively worth USD 5 trillion. The action arose as a consequence of News Corporation breaching its agreement with shareholders regarding a "poison pill" arrangement.

ACSI also engages at a broader level by participating in industry roundtables and parliamentary enquiries or through the media.

PRI signatories who are ACSI members: ARIA (Australian Reward Investment Alliance), AustralianSuper, CARE Super, Catholic Superannuation Fund, CBUS Superannuation Scheme, ESSSuper, Health Super, Hesta Super, Local Government Superannuation Scheme, Local Super, LUCRF Super, NGS Super, Statewide Superannuation Trust, Telstra Super Pty Ltd, TWUSUPER, UniSuper, VicSuper, Vision Super.

PRI signatories who are Regnan clients: ARIA (Australian Reward Investment Alliance), BT Financial Group, Catholic Super, Hermes Investment Management Limited, HESTA Super Fund, NSW Local Government Superannuation Scheme, VicSuper, Victorian Funds Management Corporation (VFMC)

Read more: www.unpri.org/0822

Regnan

Institutional investors have developed a unique approach within the Australian market, with the establishment in 2007 of dedicated ESG business, Regnan Governance Research and Engagement. Regnan had its origins in 2001 in following an approach by ARIA (Australia's public sector fund, then the PSS/CSS) well ahead of broader market acceptance of ESG legitimacy. Then known as the Governance Advisory Service, the unit was set up within Westpac (and later BT Financial Group) with ARIA underwriting costs in its early years.

The unit worked closely with Monash University to develop a rigorous process for identifying and assessing ESG investment risks, and used this benchmarking as the basis for engaging companies in confidential two-way discussion to influence improved ESG risk- management.

By 2006, the engagement process was well-established; the unit had a strong bank of trusted relationships with corporations and significant experience and data on ESG risks and corporate practices. In 2007, BT facilitated the unit's launch as an independent business, and retained a one-eighth share alongside seven other institutions. Each owner committed to a three-year subscription to the engagement service. With a total of twelve institutional clients, the total domestic equities funds represented is AUD 70 billion.

Regnan today represents public and private sector investors, pension funds, fund managers and treasury pools. With five permanent staff in a Sydney office and six professional researchers at Monash University, Regnan's resourcing allows for systematic risk analysis. Client institutions retain control of the agenda via an input and approvals process for each ESG program of work.

In recognition of the emerging market for ESG, Regnan's owners determined that the rich vein of data that underlies engagement activities should also be available to fund managers to facilitate the development and implementation of ESG valuation. Regnan sells ESG data and analysis to fund managers via a partnership with GoldmanSachs JB Were.

Read more: www.unpri.org/0823

Principle 6

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

Disclosure by signatories

Levels of disclosure reported by signatories in the 2008 survey were generally high, especially among IMs. 91% of IMs state that they disclose how they integrate RI/ESG into their investment process either publicly, to beneficiaries or both. The corresponding figure for AOs was 73%.

Among IMs, 75% of respondents are systematically reporting their RI/ESG related engagement activities to at least some extent and a further 18% plan to do so in 2008. For AOs, the corresponding figures are 76% already reporting and 6% planning to do so in 2008.

Disclosure of voting records is less widespread. A significant minority of signatories (38% for IMs and 33% for AOs) disclose both votes and guidance explaining votes, and another 18% of IMs and 17% of AOs disclose their votes only. On the other hand, 26% of IMs and 33% of AOs make no such disclosure currently and do not plan to do so in 2008.

Observing changes in behaviour of external managers

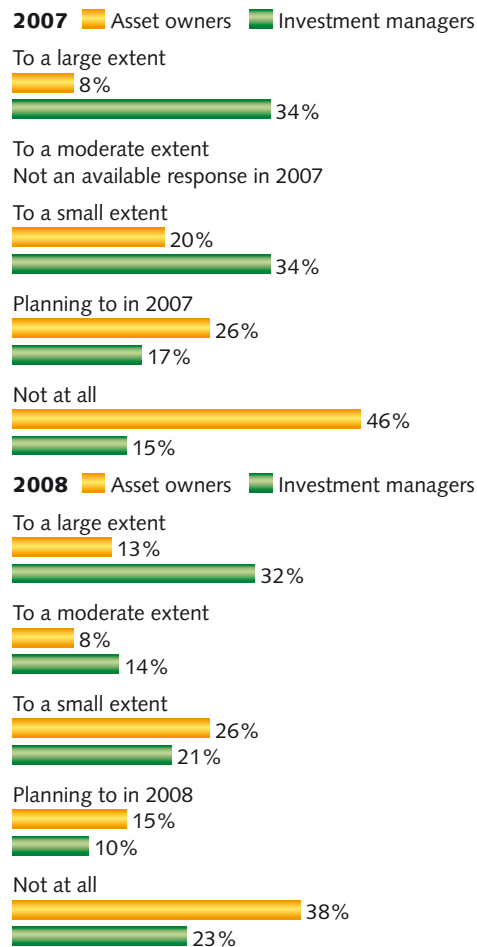
Compared with 2007, a higher number of AOs are observing evidence of changed behaviour among external managers across a range of areas such as investment policy, investment decisions, engagement, proxy voting, improved ESG communication and expansion of ESG resources. In no

such areas, however, did more than half of AOs note the change. This appears to indicate that external managers have considerable scope for improvement, either in their activities in these areas or in communication of the activities that they are undertaking.

Measuring the impact on companies and portfolio performance

A further area where considerable work remains to be done is in measurement of the impact of RI/ESG related efforts on company behaviour, portfolio performance and on external service providers other than investment managers. This challenge was also highlighted in the 2007 report. While some progress appears to have been made, the majority of respondents in 2008 indicated that such measurement was occurring to a *Small extent* or *Not at all*. This was especially the case for AOs.

Figure 29 Extent to which respondents have sought to determine what impact their RI/ESG issue-related approach has had on the performance of their portfolio (Q91)



PRi in action

Reporting on responsible investment

Pensioenfonds Zorg en Welzijn

In early 2008, Pensioenfonds Zorg en Welzijn (PFZW) published its second report on responsible investment. The report details the fund's approaches to responsible investment as well as progress made throughout the year. It covers subjects like integration, exclusion, voting, engagement and shareholder litigation. The indicators of the GRI Financial Services Sector Supplement are addressed in this report.

PFZW also publishes all of their investment holdings. This annual publication is not limited to listed equity and bonds, but also covers private investments and external mandates, both direct and indirect.

Read more: www.unpri.org/0824

Figure 30 Extent to which respondents have sought to determine what impact their RI/ESG issue-related efforts, requests, and guidance have had on the consideration of RI/ESG issues by their external investment managers (Q92)



PRI in action

Reporting on responsible investment

AP1, AP2, AP3, AP4

In early 2008, The Ethical Council of the first four Swedish buffer funds (AP1-AP4) published its first annual report on responsible investment. The report details the buffer funds' approaches to responsible investment as well as progress made throughout the year.

Read more: www.unpri.org/0825

PRI in action

Public reporting of proxy voting record

General Board of Pension and Health Benefits
United Methodist Church

The General Board of Pension and Health Benefits of The United Methodist Church began voting its proxies in a timely and consistent manner in 1975 based on guidelines that reflect the environmental, social and governance-related values of the Church.

In early 2002, the General Board was among the first faith-based investors to publish its proxy voting record. Several factors contributed to this decision:

- *The Enron scandal convinced the General Board's Board of Directors of the need for greater transparency and disclosure around corporate governance issues.*
- *The Securities and Exchange Commission began discussing mandatory proxy vote disclosure.*

After deciding to make its proxy voting record public, the General Board evaluated the proxy advisory services offered by several vendors. The General Board wanted to ensure the selected vendor could provide the capability of posting proxy votes to the General Board's SRI web page for a competitive fee. A suitable vendor was then selected.

The General Board continues to disclose its current and past years' proxy voting record for more than 3000 securities on its web site.

Read more: www.unpri.org/0826

The positive link at a company level between RI/ESG performance and operational, financial and investment performance is becoming increasingly recognised. Establishing a clear link between engagement or other RI/ESG effort undertaken by an individual signatory and the behaviour of companies and portfolio performance remains a challenge. Nevertheless, the time, effort and resources committed to RI/ESG issues by signatories has an opportunity cost. It is inevitable that tangible evidence of the benefits being delivered will eventually be required to justify the RI/ESG effort and expense. Many signatories acknowledged this in their free-text responses. More work is required in this area.

Summary for Principle 6

Progress was made under Principle 6 during 2007. Levels of reporting of integration approaches and engagement activity are high. Progress was also made in establishing the link between RI activities and the behaviour of investment managers and in measuring the impact on performance of companies and portfolios. Scope remains for further progress in these latter areas however.

Special theme 2008: emerging markets

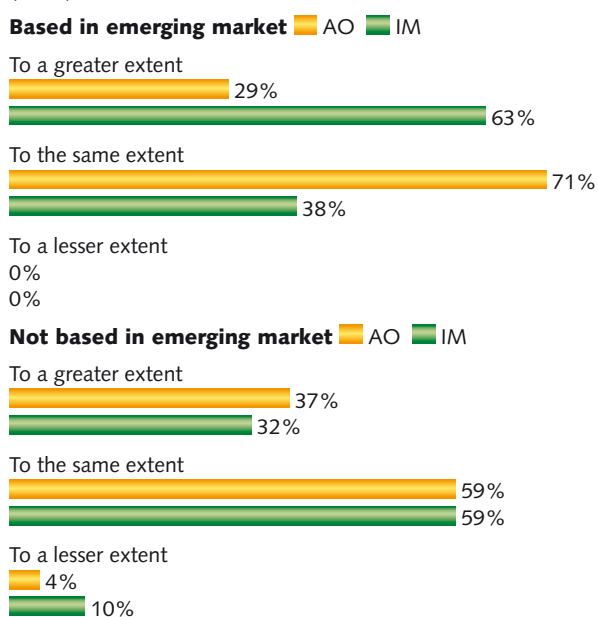
In addition to the questions carried over from the 2007 survey, respondents in 2008 were asked a series of questions related to RI/ESG issues in emerging markets. The questions addressed issues mainly relating to integration (Principle 1) and active ownership (Principle 2).

Only 13 of the respondents are based in emerging markets. Despite this small sample, some of the following comments touch on the differences in responses received from that group of signatories and those received from the remainder of respondents. Most of the signatories based in emerging markets have a large part of their total assets invested in these markets whereas those based elsewhere tend to have less than 5% of total assets invested in emerging markets. Signatory assets in emerging markets total more than \$500 billion.

Integration

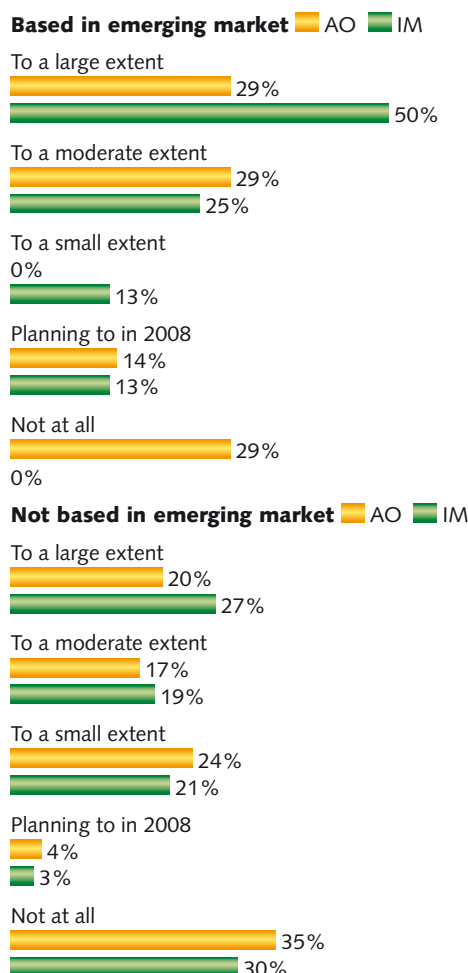
Among signatories not based in emerging markets, the most common response was that RI/ESG integration is as relevant in emerging markets as in developed markets. A significant minority believe that integration is more relevant in emerging markets. Among signatories based in emerging markets, there was also a strong belief that relevance is at least as great in emerging markets as in developed markets.

Figure 31 Extent to which respondents believe integrating RI/ESG issues in emerging markets is as relevant as integrating RI/ESG issues in other markets (Q99)



Reflecting this assessment, the majority of signatories have given some consideration to integrating RI/ESG issues in emerging markets. A significant minority of signatories have yet to address this matter.

Figure 32 Extent to which respondents have considered how to integrate RI/ESG issues within investment decision-making and ownership practices with regards to emerging markets investments (Q97)



It is clear from responses to other questions that the extent of integration trails that observed in developed markets.

A much lower proportion of signatories report taking RI/ESG considerations into account when selecting external investment managers, especially in the case of signatories based outside emerging markets.

Figure 33 Extent to which respondents consider RI/ESG issues when selecting and approving emerging markets external investment managers (Q104)

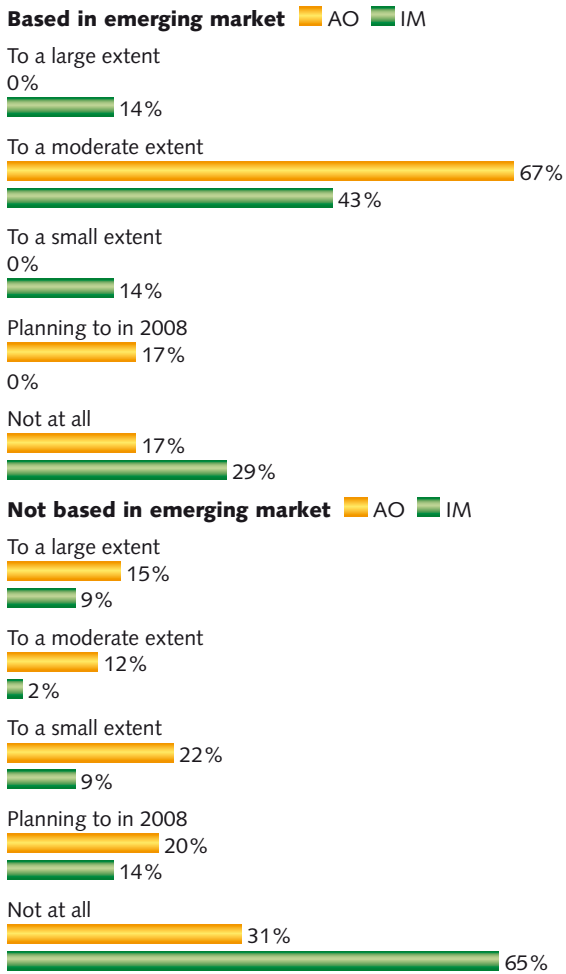
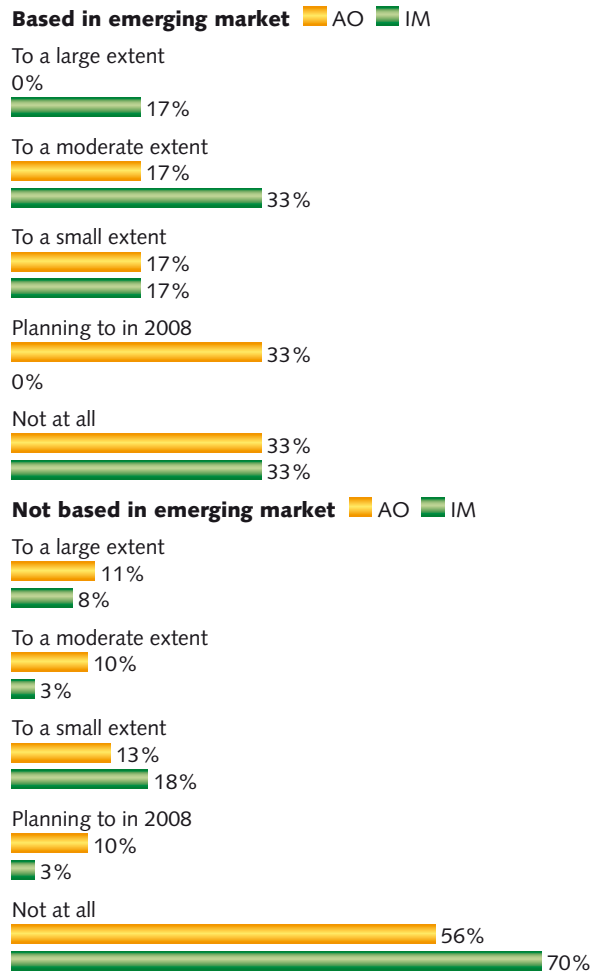


Figure 34 Extent to which consultants consider RI/ESG issues when shortlisting emerging markets external investment managers (Q105)

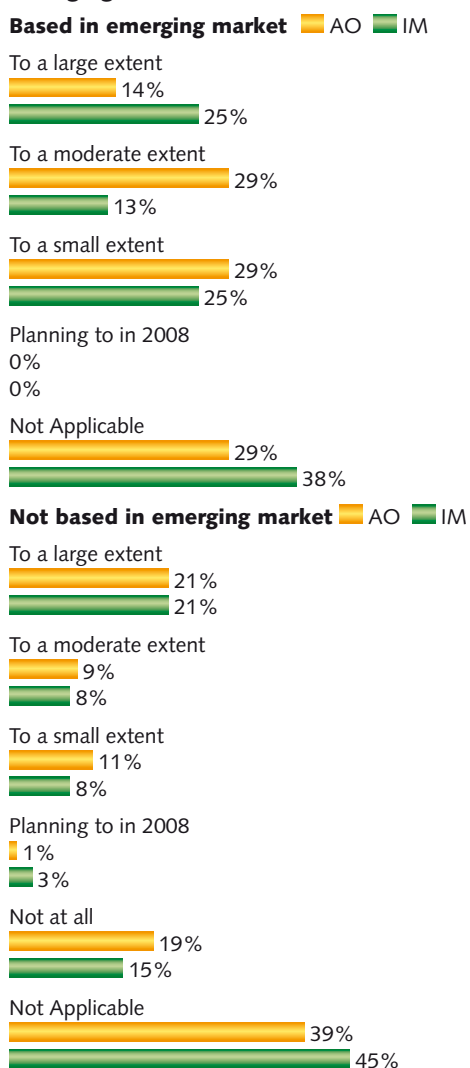


A large proportion of signatories report that consultants take RI/ESG considerations into account either *Not at all* or to a *Small extent* only when shortlisting candidates for external investment management mandates.

Active ownership

Most signatories based in emerging markets are using voting to at least some extent, especially the IM signatories. Signatories based elsewhere are not as active in voting in emerging markets however.

Figure 35 Extent to which voting was employed in active ownership strategies for listed equities in emerging markets (Q100)



A similar picture emerges in respect of private and public engagement. A reasonable proportion of signatories based in emerging markets engage with companies. Managers based elsewhere do not, however, engage as actively as managers based in emerging markets or as they themselves do in developed markets.

Figure 36 Extent to which direct engagement conducted privately was employed in active ownership strategies for listed equities in emerging markets (Q100)

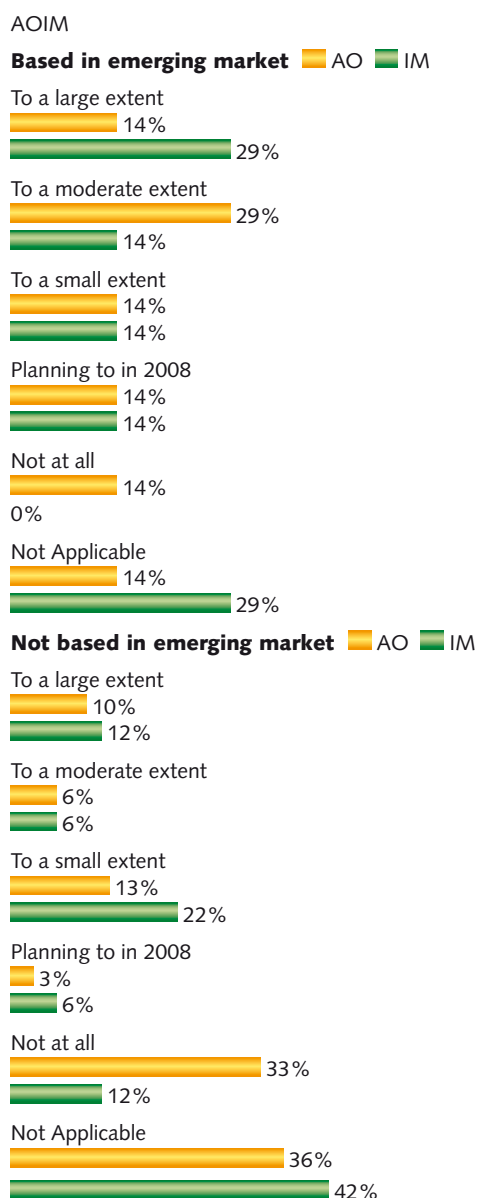


Figure 37 Extent to which direct engagement conducted publicly was employed in active ownership strategies for listed equities in emerging markets (Q100)

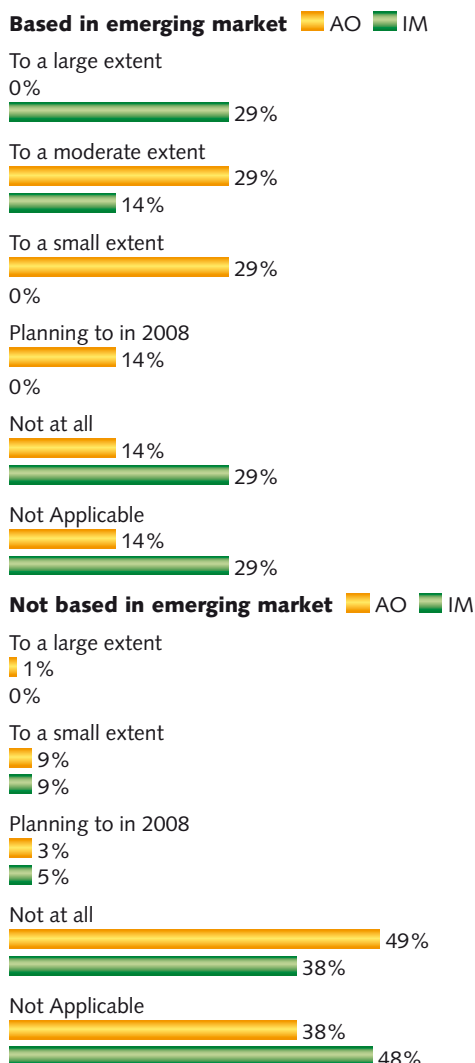
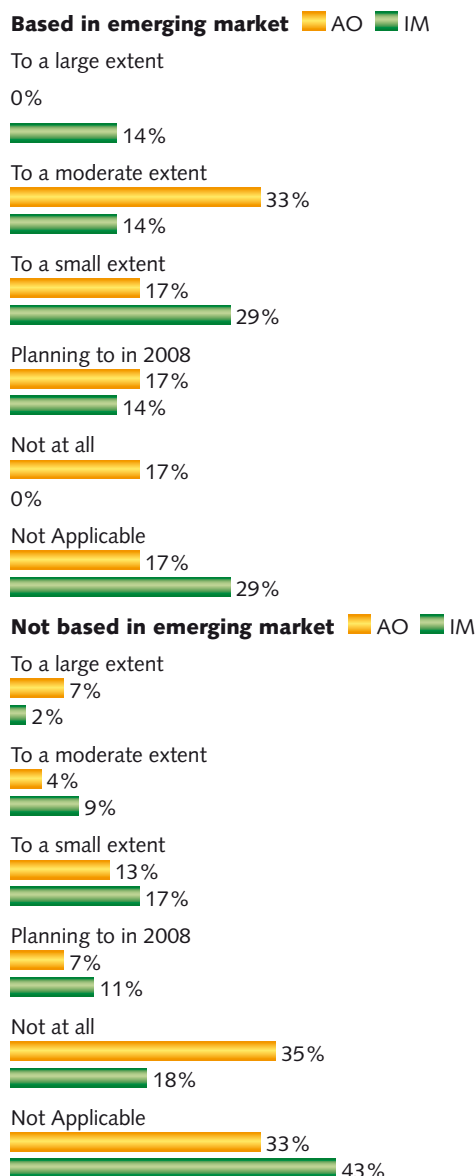


Figure 38 Extent to which collaborative engagement was employed in active ownership strategies for listed equities in emerging markets (Q100)



Possible explanations for this are that the managers are not as well informed on the relevant issues, distance presents logistical difficulties and the small portfolio allocations mean that the cost of engagement activity is more difficult to justify. There is also less corporate disclosure of ESG issues in emerging markets than in developed markets and different regulatory environments.

Other aspects of signatories' activities in emerging markets

Other questions in the survey related to evidence of the role played in encouraging integration by external managers in emerging markets, seeking enhanced disclosure from com-

panies, working together to improve the effectiveness of PRI implementation in emerging markets, steps taken to measure the impact of RI/ESG efforts on company behaviour and additional efforts to raise awareness of RI/ESG issues.

Responses indicate that managers based outside these markets are not undertaking RI activity to anywhere near the extent that prevails in developed markets. Managers based in emerging markets are participating to a greater extent than their developed market peers, but not to the extent of the developed market signatories in their own markets.

In summary, implementation of the PRI in emerging markets is not as advanced as it is in developed markets.

Looking forward

Respondents to the 2008 survey were asked a number of questions regarding their experience to date in implementing the PRI and their views and aspirations for the future. We report on some of the key themes evident in the responses in this section.

The PRI so far – benefits enjoyed by signatories and changes observed

The main benefits noted by signatories from their membership of the PRI and from the activities of the PRI generally have been in building networks among like-minded investors, facilitating information-sharing and enhancing the profile and credibility of RI/ESG issues and investment approaches. Some specific comments received follow:

- Platform to find other owners with the same agenda"
- "Act as focal point internally (in co-ordination of RI work) and externally (communication with clients and other stakeholders)"
- "Promoted more robust ways of sharing ESG information"
- "Enhanced credibility amongst both clients and at Board level for RI efforts"
- "Especially useful as a tool to benchmark ESG policy"
- "Created a step change in the credibility of and demand for sustainable and responsible investment"
- "Increased credibility when in dialogue with managers".

A number of signatories specifically mentioned the value of the PRI Clearinghouse ("the Clearinghouse has been an incredibly useful tool" ... "the potential impact is enormous").

On the other hand, a small number of signatories stated that they had not yet derived any tangible benefit from their participation in the PRI Initiative.

A large number of signatories mentioned that the PRI has been successful in raising awareness and many are confident that significant change will eventually follow. Some examples of changes in behaviour were provided:

- "Greater interest from asset owners in how managers are implementing the PRI"
- "More coverage of ESG issues by brokers"
- "Significant increase in global investor collaboration"
- "Many of our active European managers have changed their organisation to implement the PRI more effectively"
- "Slowly changing mindsets"
- "Media and consultants are taking notice. And forcing managers to become even better at integration"
- "Corporate awareness of ESG issues is growing as a result of the increase in engagement".

A further theme was that behavioural changes are still slow to emerge:

"The main challenge is now to move beyond the increase in number of signatories and demonstrate real change"
 "...but the actual progress of ESG/PRI effort is still slow".

Experience of signatories in implementing the Principles

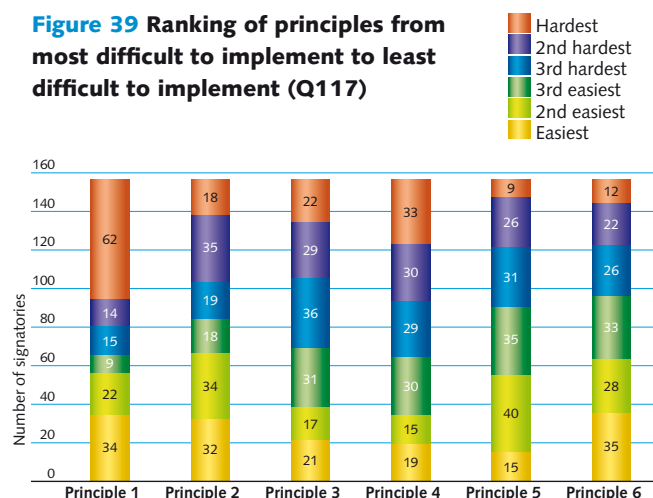
Signatories were asked to rank the Principles from most difficult to implement to easiest.

Principle 1 ("we will incorporate RI/ESG into analysis and decision making") was ranked the most difficult to implement by 62 signatories, 40% of the number who completed the question. This was nearly double the number nominating any other individual Principle as most difficult.

These responses suggest that many signatories are finding the re-organisation, re-tooling and, in some cases, cultural change required to effectively integrate RI/ESG to be challenging. Unlike engagement, which can be conducted by a team of dedicated staff, effective integration requires changes in mindset across a larger number of analysts and fund managers, as well as support from other participants in the investment chain, such as research providers.

Principle 6 ("we will report on progress") was nominated easiest to implement more often than any other Principle (35 signatories). Although the responses were less clear-cut in this case, this may be because signatories can act independently without relying on other market participants. Principle 1 and Principle 2 ("we will be active owners") were nominated as easiest by almost as many signatories (34 and 35) while Principles 6 and 2 were nominated as either easiest or second easiest by almost the same number of signatories (63 and 66).

Figure 39 Ranking of principles from most difficult to implement to least difficult to implement (Q117)



Comments from signatories indicated that some aspects of active ownership are difficult to pursue in some markets, for example filing of shareholder resolutions. Nevertheless, active ownership approaches have been developed progres-

sively over a number of decades and the infrastructure supporting this activity is generally well developed in most regions. This represents a possible explanation for the views of signatories in relation to Principle 2.

Finally, it is worth noting that although Principle 1 was ranked most difficult by many signatories, there were also 34 signatories who ranked it easiest, only slightly less than Principle 6 and more than Principle 2. These mixed responses in relation to Principle 1 suggest that, as outlined above in introductory comments on findings in respect of this Principle, interpretation of this Principle varies. It is also possible that specific circumstances facing signatories (size, resources, location) exert a greater influence on the difficulties encountered with integration than on difficulties met in other areas.

Goals and priorities for the future

There is a wide variation both in the current status of signatories in terms of integrating the PRI and addressing RI/ESG issues more generally and in their background and circumstances. Naturally, therefore, aspirations and goals for the future also vary.

In some cases, comments indicated that signatories still see themselves as being at a preliminary stage, with stated goals such as:

- “Develop more detailed plan and policy”
- “Implement policy”

Other comments suggested that substantial progress has been made already and the focus is on building on that progress. Goals include:

- “Strive to integrate in all asset classes”
- “Increase E and S engagement”
- “Extend to other asset classes”.

Finally, some signatories appear to be looking to bring additional rigour to their efforts:

- “Maximise impact of engagement”
- “Develop specific policy positions”
- “Formally adopt environmental management tasks in the key performance indicators for staff”
- “Make reporting more systematic”.

A further theme evident in the responses was the need to gear up reporting and communication with a wide variety of stakeholders, both internal and external, on the PRI and RI/ESG generally.

Where to for the PRI?

Signatories made a number of useful and innovative suggestions for the PRI. Many of the suggestions related to mechanisms for providing enhanced guidance on implementation and for facilitating additional networking and collaboration. All suggestions received will be examined by the PRI Secretariat and addressed where possible and appropriate.

Notes

1 The first report can be found at www.unpri.org/report07

2 In the 2008 survey, the specific questions asked and the options available for answers were modified somewhat from the 2007 survey. Some caution must therefore be exercised when making comparisons between the two years.

3 Please note that this observation does not follow from comparing the IM and AO responses regarding the extent of integration of their externally managed assets. Rather it relates to the comparison of the IMs responses regarding the integration of internally managed assets and the AOs responses regarding externally managed assets.

4 Private engagement is defined as engagement (face to face meetings, private correspondence) undertaken between a signatory and a company outside the public domain. Engagement becomes public when it occurs via open forums such as the media, speeches at conferences etc. Direct engagement is engagement undertaken directly by a signatory or their agent with a company. Collaborative engagement occurs when a group of AOs or IMs join together to engage with a company, generally with one party acting as the spokesperson for the group.

5 These figures relate to the cases where a default fund is in place. A significant proportion of both AOs and IMs answered Not applicable to this question, indicating that there is no default fund for their employees.

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UN Global Compact

The United Nations Global Compact is the world's largest corporate citizenship initiative, encompassing more than 4,500 companies and stakeholders from over 100 countries. Participating companies commit to advancing ten principles in the areas of human rights, labour conditions, environmental stewardship and anti-corruption. The objective of the Global Compact is to help achieve a more stable and inclusive global economy by rooting markets and societies in universal principles.

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