



# Responsible Investment: The Implementation Challenge

Anne-Maree O'Connor

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# Outline for today

- United Nations Principles for Responsible Investment
- Investment Case for RI
- Institutional Investors & Government Funds
- New Zealand developments & KiwiSaver
- New Zealand Superannuation Fund
- Future directions



# UN Principles for Responsible Investment (UN PRI)

- Principles for Responsible Investment are a framework to incorporate environmental, social, and governance (ESG) issues into investment processes
- Supported by United Nations Environment Program Finance Initiative and the UN Global Compact
- Voluntary and aspirational, not prescriptive
- 362 signatories representing more than US\$13 trillion in assets
- Six principles

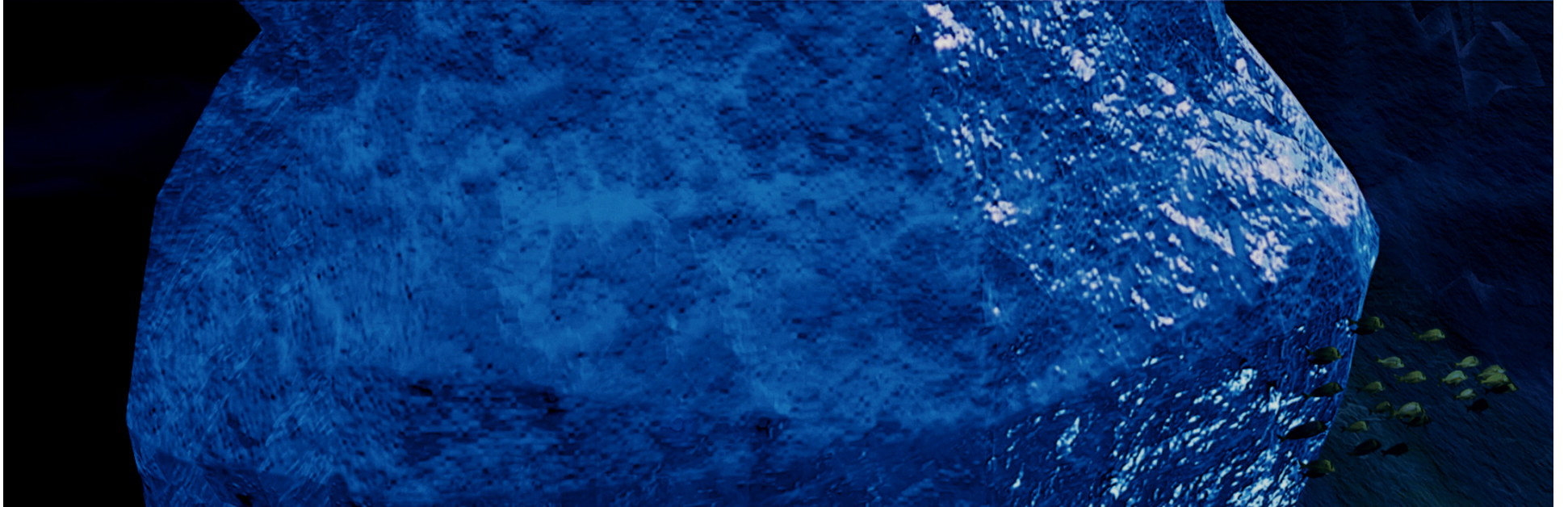


# UN PRI Six Principles



## **Integration: Ownership: Collaboration: Communication**


- Incorporate ESG issues into investment analysis and decision-making processes
- Be active owners and incorporate ESG issues into our ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which we invest
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance our effectiveness in implementing the Principles
- Each report on our activities and progress towards implementing the Principles



# Integration: Extra-Financial Issues



Environmental, employee, human rights, governance risks can lead to:

- brand and reputation damage
  - litigation and regulation
  - security issues, operational down-time
  - poor employee relations and retention
  - environmental constraints
  - poor community or customer relations
  - planning constraints
  - increased insurance costs
- 

# Do High Standards = Good Returns?

Some indicators show a correlation:

e.g. GSJBWere analysis

short poor performers: long good performance:

- Good Governance = Good Returns  
+12% overall; + 46% remuneration policy;  
+ 37% Audit; Board skills + 19%  
-7% accounting(?)
- Good Workplace Health & Safety Management Systems + 38%
- Investors beginning to benchmark corporate practices to broader standards e.g. UN Global Compact



# Environmental: Economic Constraints

Société Générale Asia Chief Economist: “If China and India followed the US, in the next 2 decades:

- China and India would have 2.2bn cars (current world total is 800m); consuming 200bn barrels of oil per day (current world production 84bn)
- Paper demand would exhaust world’s forests
- China now consumes more grain, meat, coal and steel than United States
- Air conditioning and refrigerator demand will explode
- Energy needs by 2030 will rise 50%

**Clearly this is not sustainable**



# Environmental: Economic Constraints

- Water needed per litre of product
  - World average: 2.50 litres
  - Africa: 3.68 litres
- 37% of Coke plants are located in areas of extreme water stress



**The  
Economist**

OCTOBER 20TH-26TH 2007

[www.economist.com](http://www.economist.com)

Battlefield low

Why Sudan could get even worse

Some doubts about Facebook

In praise of a strong euro

The king of the mercenaries

# Lessons from the credit crunch

A special report on central banks and the world economy



# Responsible Investment Drivers for Institutional Pension Funds

- Environmental, social, and governance risk to long-term financial value
- Broader interpretation of fiduciary responsibility
- Political or beneficiary expectations or legislative requirements



# Government Funds Responsible Investment requirements



<b>Government funds</b>	<b>Legislative requirements</b>
Canada Pension Plan	Investment Board must address social and environmental risks
Fond de Réserve pour les Retraites	Must include social, environmental and ethical issues in investment policy
New Zealand Superannuation Fund	Guardians must avoid prejudice to New Zealand's reputation as a responsible member of the world community and adopt an ethical policy
Norwegian Government Pension Fund	Ethical Guidelines requiring negative screening with decisions taken by Minister of Finance.
Sweden's AP Fonden 1 to 5 and 7	Must take into account environmental and ethical considerations without relinquishing the overall goal of a high return on capital.
Thailand Government Pension Fund	Investments must meet Corporate Governance requirements and the Fund discourages investment in companies with poor environmental, social or ethical conduct.

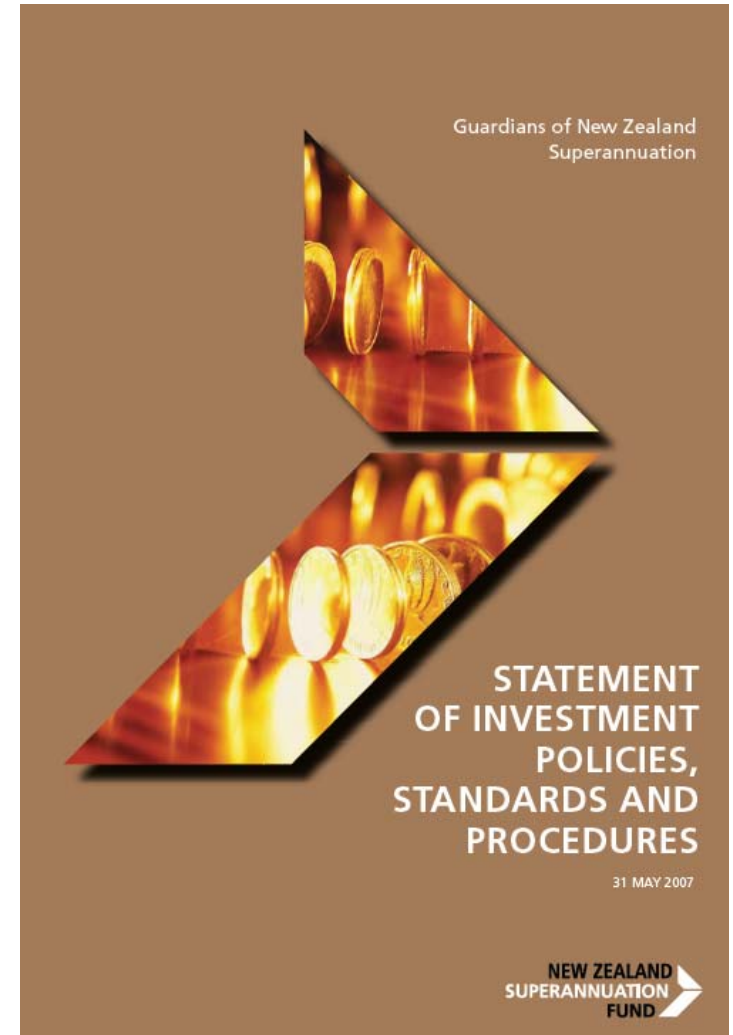
# New Zealand Developments



- 11 UNPRI New Zealand signatories
- Some Crown Financial Institutions are required to have responsible investment policies
- KiwiSaver responsible investment disclosure requirements:
  - Compulsory disclosure of whether or not scheme takes responsible investment into account
  - If yes, must provide full explanatory notes by 30 September 2008
  - Includes how RI decisions fit into overall process, actions taken, scope of considerations and application to portfolio
  - SEC responsible for enforcement
  - Anomaly is that it is difficult to state that ESG is *not* taken into account

# New Zealand Superannuation Fund

- Mandate:
  - Best-practice portfolio management;
  - Maximising return without undue risk to the Fund as a whole; and
  - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- Responsible Investment Policy integrated into the Statement of Investment Policies



# Investment Beliefs

- Responsible investment considerations are integrated into the Fund's investment beliefs:

*“Long-term financial performance can be affected by environmental, social, and governance (ESG) issues. The Guardians ... encourage the companies they invest in to meet international standards in these areas.”*



# Responsible Investment: Integration



<b>Resource</b>	<b>Application</b>
<b>Internal:</b> Investment Committee Portfolio team Operations Communications	Investment manager approval Mandate implementation Portfolio data and monitoring Transparency and reporting
<b>External:</b> Proxy voting agency RI research agencies UN PRI  Crown Financial Institutions	Corporate Governance & Voting Portfolio monitoring Collaborative engagement and external assessment Knowledge sharing



# Active Ownership

## UNPRI Principle 2

Issue: slave labour in pig-iron supply chain

- UNPRI Clearinghouse coordination
- 30 companies globally contacted in steel and automobile industries
- Result: companies reviewed supply chain risk management

Issue: Climate change disclosure

- Carbon Disclosure Project coordination
- 2,300 companies globally
- Contact NZ NZX non-responders
- Response: ASX200 68% NZX50 38%



# Getting Started



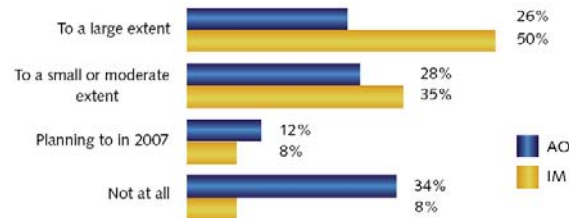
- Build the foundations: Responsible Investment Policy; Investment beliefs; UNPRI(?)
- Integration
  - Asset Owners: fiduciary responsibility; investment manager selection, mandate and monitoring; portfolio monitoring
  - Fund Managers: investment analysis and due diligence; broker research; company meetings; client reporting
- Active share-ownership (engagement and voting)
- Other suppliers: fiduciary advice; company analysis; portfolio monitoring, voting, engagement and research.
- Companies: disclosure; verification; communication

# Support: Tools and Networks

- Specialist agencies
  - Monitoring & research, consultants, engagement & voting, investment products
- Benchmarking
  - UN PRI assessment
  - Responsible Investment forum surveys
- Collaborations
  - UN PRI clearinghouse
  - CDP, EAI
  - Responsible Investment Associations



Chart 10: Extent to which respondents have asked companies (or other investment entities) to produce standardised reporting on RI/ESG issue performance (AO78, IM85)



60 asset owner responses, 43 investment manager responses (10 asset owners and 3 investment managers responded 'Not applicable')

# UNPRI Report on Progress 2008



Principles  
for Responsible  
Investment

## PRI Report on Progress 2008



# Future directions and challenges

- UN PRI Commitments and collaboration
- Policy across asset all classes e.g. private equity
- Effectiveness of shareholder action e.g. divestment; engagement; integration
- Assessing new specialist investment opportunities
- Challenges: short-termism; information; quantitative analysis

