

Introduction to the Principles for Responsible Investment

San Jose Federated City Employees' Retirement System
February 20th 2020



This presentation is being provided to you by PRI Association (“the PRI”) and its subsidiaries for information purposes only. The presentation is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by the PRI. No reliance may be placed on its accuracy or completeness. Neither the presentation, nor any of its contents, may be reproduced, or used for any other purpose, without the prior written consent of the PRI. PRI Association is incorporated in England & Wales, registered number 7207947 and registered at 25 Camperdown Street, London E1 8DZ.

Contents

- Introduction to responsible investment

- Introduction to the PRI

- PRI tools and resources

What is responsible investment?

Incorporates 'value' and 'values-based' investing

Responsible investment is a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership



Why invest responsibly?

Manage risks, meet market demand and fulfil investor duty



Materiality

Increasing recognition within the financial community that ESG factors often play a material role in determining risk and return.



Market demand

Growing demands from beneficiaries and investors for greater transparency about how and where their money is being invested.



Regulation

Higher levels of regulatory guidance that incorporating ESG factors is part of an investor's fiduciary duty to their clients and beneficiaries.

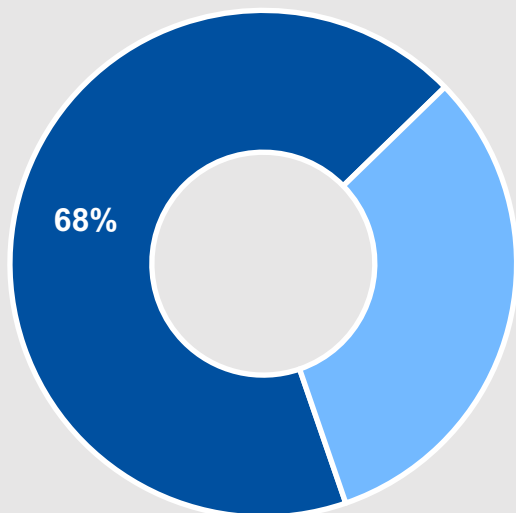


Growing academic evidence supports that
ESG incorporation does not come at a cost

Demand for responsible investment is growing

Institutional demand

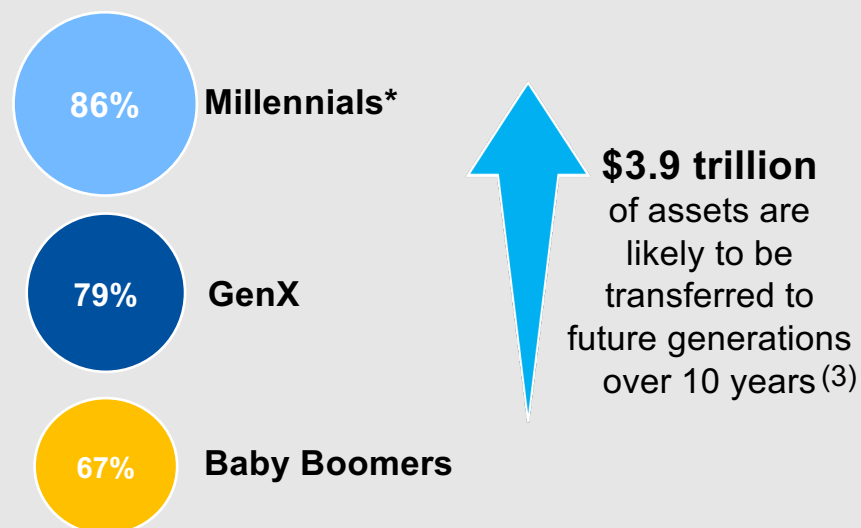
*PRI asset owner signatories **actively include ESG criteria in their RfPs***



(1)

Retail demand

*Percent who feel **sustainable investing is more important** now than five years ago (2)*

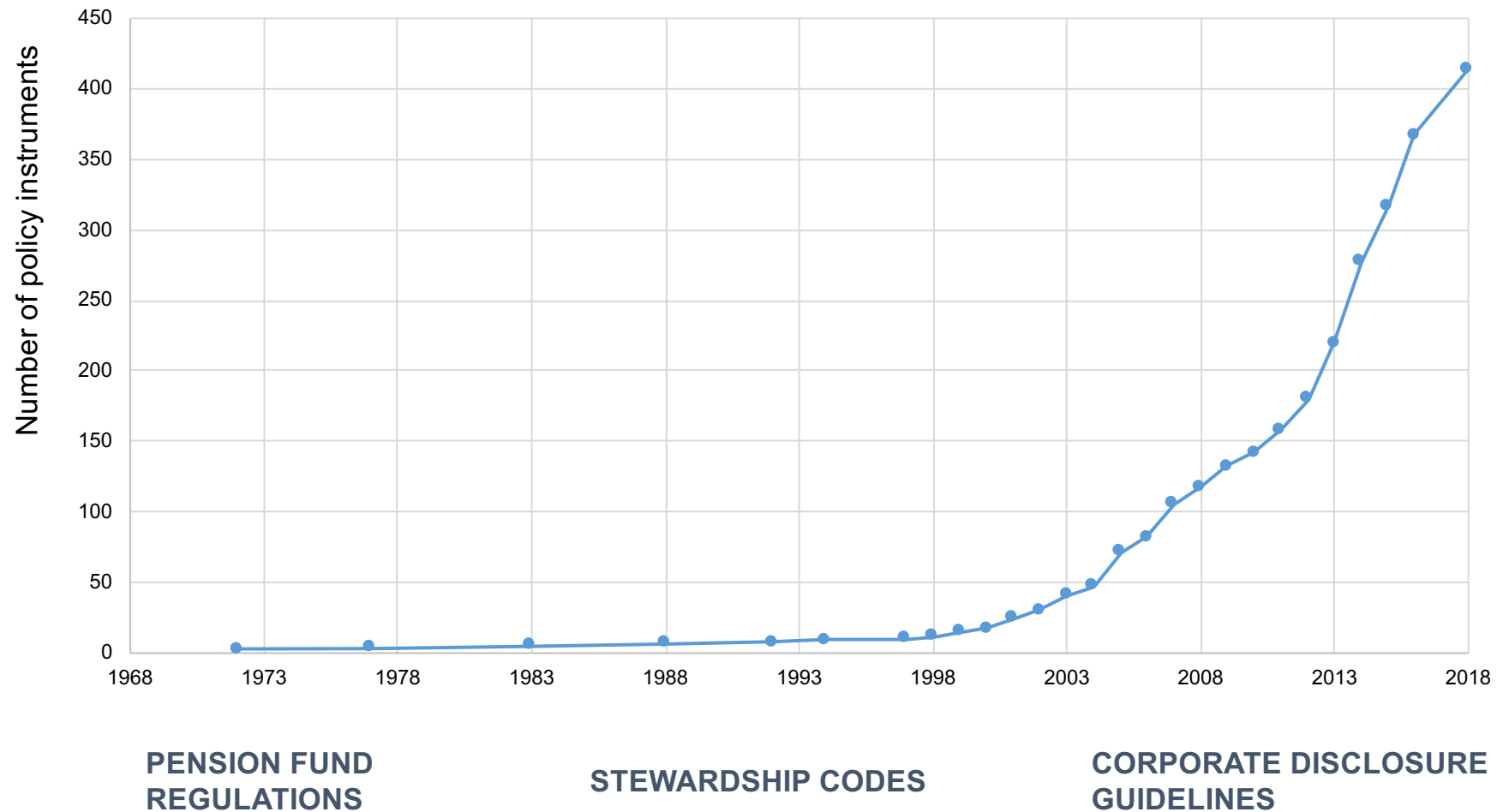


**Millennials are born between 1983-2000, GenX 1978-1982, Baby boomers 1949-1967*

Sources: (1) PRI 2018 Reporting Framework responses, (2) "Global perspectives on sustainable investing – Global Investment study" Schroders, 2017 (3) Wealth X and NFP Wealth Transfer Report, 2016

Responsible investment policy is widespread

And the pace is increasing



Academic research

ESG and financial performance

Meta-study (December 2018)

OUT OF
2,000+
STUDIES
SINCE 1970



**BETWEEN A COMPANY'S ESG PERFORMANCE
AND ITS FINANCIAL PERFORMANCE**

Friede, Lewis, Bassen & Busch
*University of Hamburg/
DWS*

November 2009

"There are statistically significant positive abnormal returns associated with going long good corporate governance firms and shorting those with poor governance"

Cremers & Ferrell
Yale School of Management

November 2012

"Firms with high levels of job satisfaction, as measured by inclusion in the 'Best Companies to Work For in America', generate high long-run stock returns"

Edmans
The Wharton School

January 2012

"High-sustainability companies dramatically outperformed the low-sustainability ones in terms of both stock market and accounting measures"

Eccles, Ioannou & Serafeim
Harvard Business School

March 2015

"Responsibility and profitability are not incompatible but wholly complementary... 80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment"

Clark, Feiner & Viehs
Oxford University

August 2015

"After successful engagements companies experience improved accounting performance and governance and increased institutional ownership"

Dimson, Karakas & Li,
*Fox School of Business/
University of Cambridge*

January 2016

"Firm-size-adjusted carbon emissions have a positive and significant effect on loan spreads... suggesting that spread premia are driven by environmental risks rather than investor preferences"

Kleimeier & Viehs,
*Oxford University/
Maastricht University*

Contents

- Introduction to responsible investment

- **Introduction to the PRI**

- PRI tools and resources

The PRI

Investor-led, supported by the United Nations

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were **developed by investors** and are supported by the UN. They have more than 2,900 signatories from over 50 countries representing over US\$90 trillion of assets.

2

UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



2900+

SIGNATORIES:

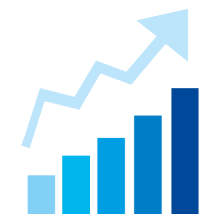
ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS



90

US\$ trn

**ASSETS UNDER
MANAGEMENT**



One mission – Six principles

The Mission

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."

- | | |
|---|--|
| 1 We will incorporate ESG issues into investment analysis and decision-making processes. | 4 We will promote acceptance and implementation of the Principles within the investment industry. |
| 2 We will be active owners and incorporate ESG issues into our ownership policies and practices. | 5 We will work together to enhance our effectiveness in implementing the Principles. |
| 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest. | 6 We will each report on our activities and progress towards implementing the Principles. |



PRI governance

PRI Board Members

CHAIR



Martin Skancke
Independent

DIRECTORS ELECTED BY ASSET OWNERS



Angela Emslie
HESTA (Australia)



Eva Halvarsson
AP2 (Sweden)



Hiromichi Mizuno
GPIF (Japan)



Renosi Mokate
GEPIF (South Africa)



Laetitia Tankwe
Ircantec (France)



Xander den Uyl
ABP (Netherlands)



Sharon Hendricks
CalSTRS (US)

DIRECTORS ELECTED BY NON ASSET OWNERS



Wendy Cromwell
Wellington
Management (US)



Tycho Sneyers
LGT (Switzerland)



Michael Jantzi
Sustainalytics (NL)

PERMANENT ADVISORS

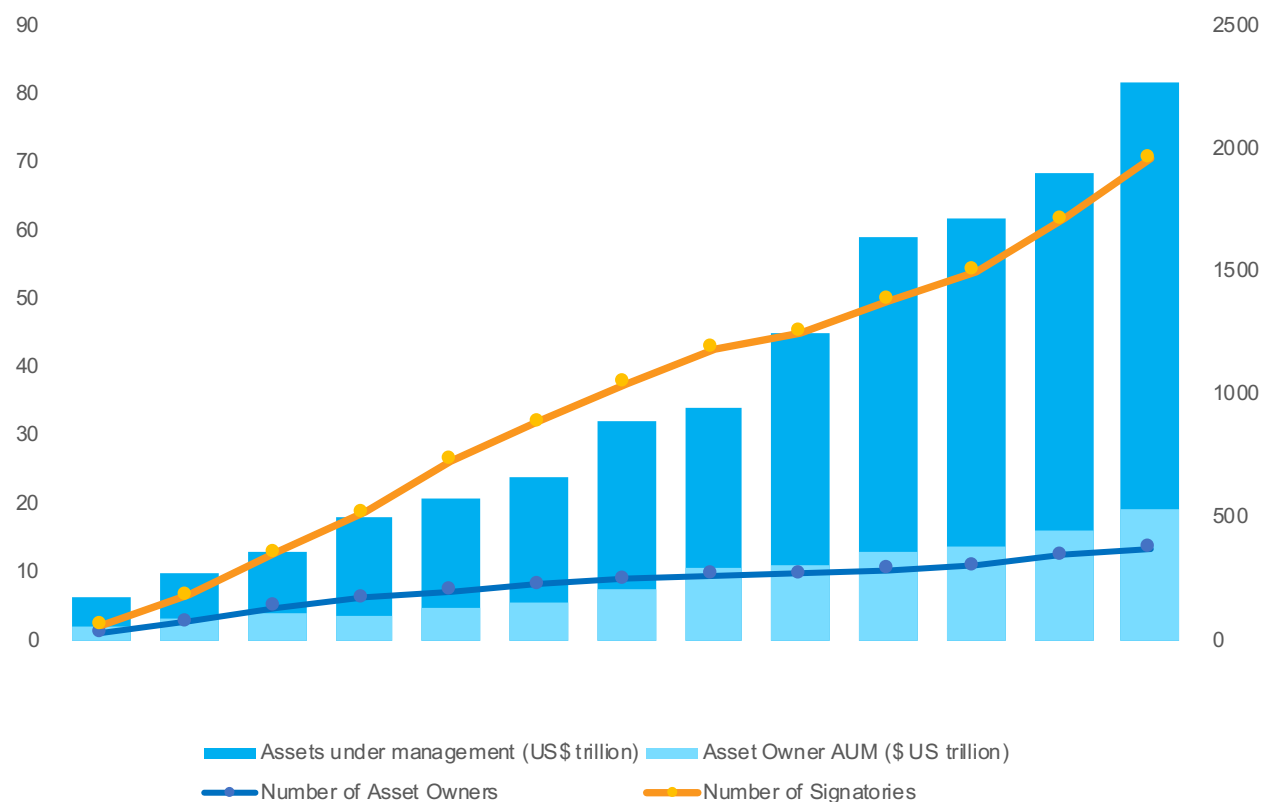


Lise Kingo
UN Global Compact

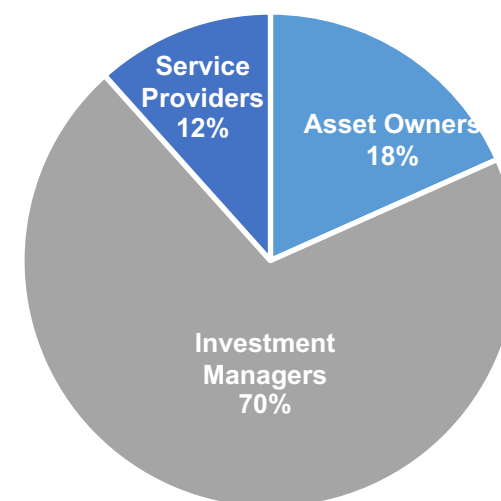


Eric Usher
UNEP FI

PRI signatory base

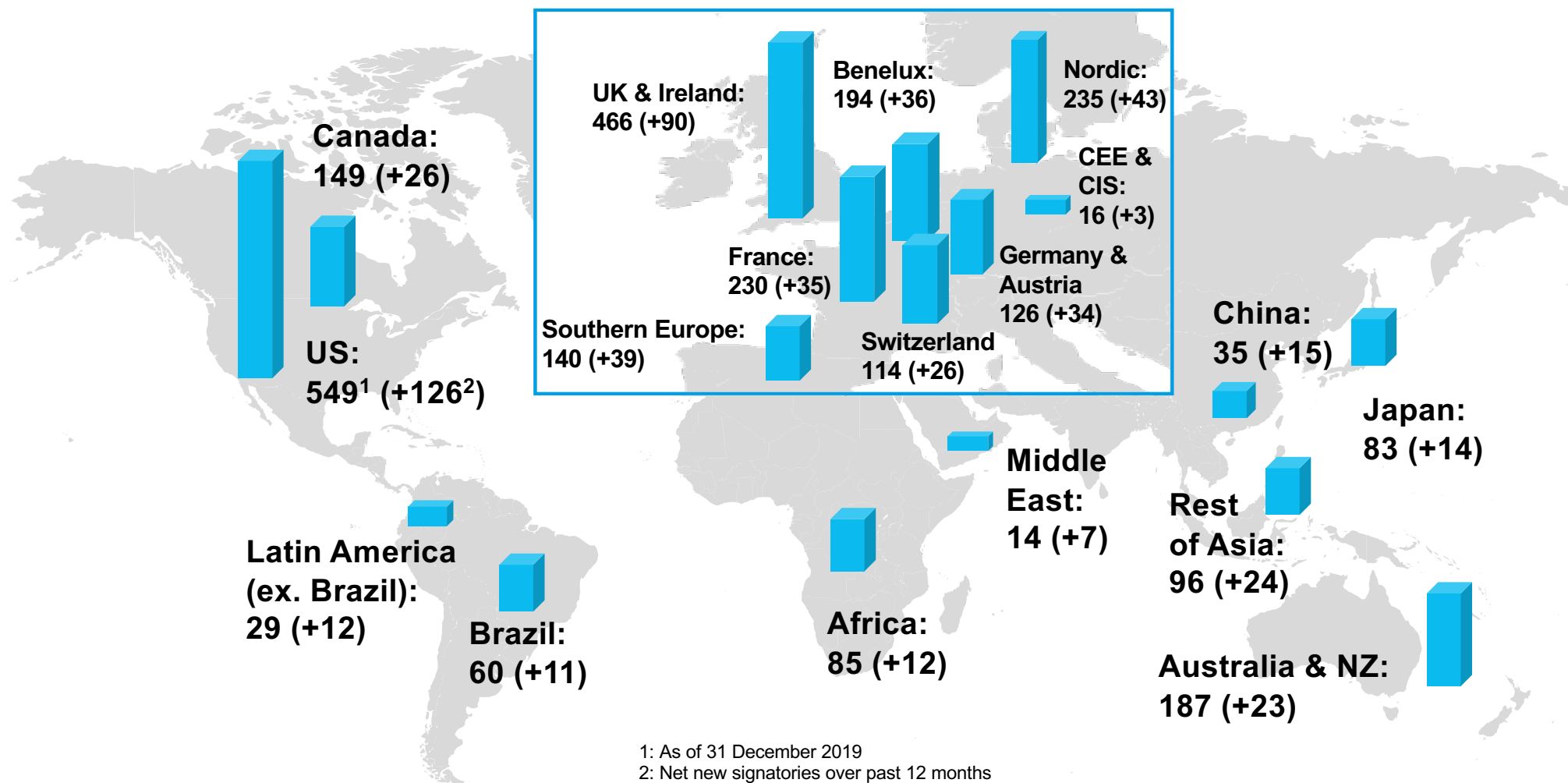


Three types of signatories:



More than 2,900 signatories worldwide

Have adopted the Principles for Responsible Investment

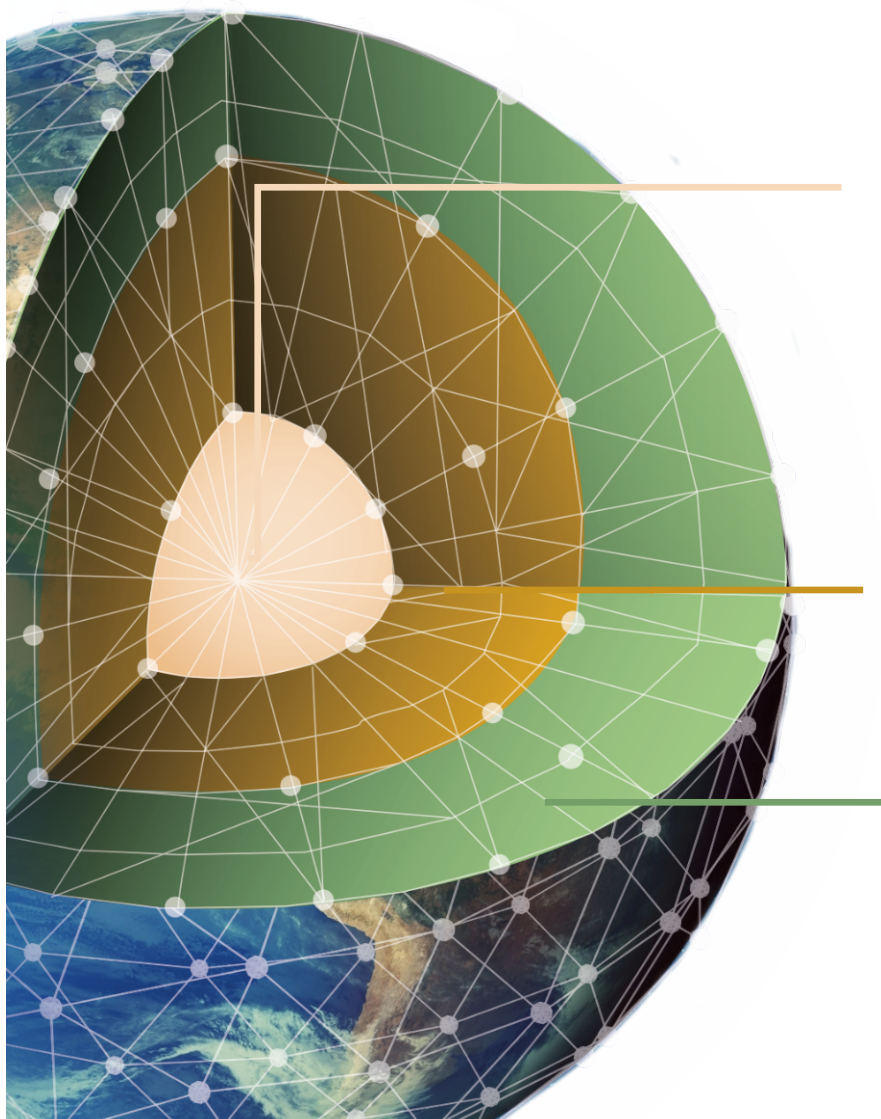


US Asset Owner Signatories

Signatory Name	State
Sealaska Corporation	AK
Humboldt State University Advancement Foundation	CA
Los Angeles County Employees Retirement Association	CA
Los Angeles City Employees Retirement System	CA
San Francisco Employees Retirement System	CA
Sierra Club Foundation	CA
Loyola Marymount University	CA
California Public Employees' Retirement System CalPERS	CA
California State Teachers' Retirement System CalSTRS	CA
University of California	CA
Connecticut Retirement Plans and Trust Funds (CRPTF)	CT
World Resources Institute	DC
World Bank Group Retirement Benefit Plans	DC
SEIU Pension Plans Master Trust	DC
International Finance Corporation (IFC)	DC
AFL-CIO Reserve Fund	DC
United Nations Foundation	DC
The Phi Beta Kappa Foundation	DC
Employees' Retirement System of the State of Hawaii	HI
Northwestern University	IL
Wespath Investment Management (General Board of Pension and Health Benefits of the United Methodist Church)	IL
Office of the Illinois State Treasurer	IL
City of Chicago Treasury	IL
Presbyterian Church U.S.A. Foundation	IN
Unitarian Universalist Common Endowment Fund, LLC	MA
Middletown Works Hourly and Salaried Union Retirees Health Care Fund	MA

Signatory Name	State
Harvard University Endowment	MA
The University of Maryland Foundation, Inc	MD
Maryland State Retirement and Pension System	MD
Montgomery County Employee Retirement Plans	MD
UAW Retiree Medical Benefits Trust	MI
Minnesota State Board of Investment	MN
Mercy	MO
Mercy Investment Services, Inc.	MO
Reinsurance Group of America	MO
University of New Hampshire Foundation	NH
New York State Local Retirement System	NY
Teachers' Retirement System of the City of New York	NY
New York City Employees Retirement System	NY
United Nations Joint Staff Pension Fund	NY
Nathan Cummings Foundation	NY
The Pension Board-UCC, Inc.	NY
Rockefeller Brothers Fund	NY
United Church Funds	NY
Treehouse Investments, LLC	NY
Bloomberg LP Retirement Plans	NY
The Episcopal Diocese of New York - Diocesan Investment Trust	NY
Green Mesa Capital	NV
Friends Fiduciary Corporation	PA
National Wildlife Federation	VA
Vermont Pension Investment Committee	VT
Seattle City Employees' Retirement System (SCERS)	WA

The Blueprint vision



Responsible investors

- Empower asset owners
- Support investors incorporating ESG issues
- Create an industry of active owners
- Showcase leadership and increase accountability
- Convene and educate responsible investors

Sustainable markets

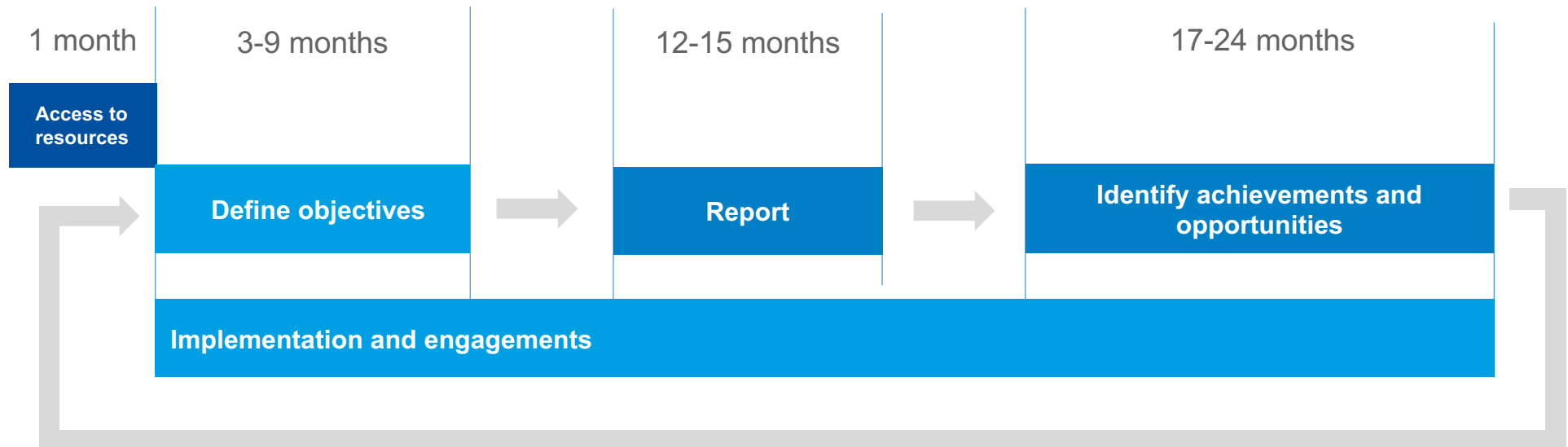
- Challenge barriers to a sustainable financial system
- Drive meaningful data throughout markets

A prosperous world for all

- Champion climate action
- Enable real-world impact aligned with the SDGs

The signatory roadmap

Signing the Principles



The timeframe for reporting will depend on when an organisation signs the Principles. New signatories will always have one full reporting cycle during which it is voluntary to report. The PRI encourages signatories to report in their first year and use this process as a learning experience.

Minimum signatory requirements

- Investment policy that covers the firm's responsible investment (RI) approach
- Internal/external staff responsible for implementing RI policy
- Senior-level commitment and accountability mechanisms for RI implementation



*Signatories that do not meet the criteria are being informed privately; delisting will only be as a last resort following unsuccessful engagement over the **two-year period**.*

More information including accountability FAQs and consultation responses can be found www.unpri.org/signatories/increasing-accountability

Reporting & Assessment

Measure progress against your targets and your peers

The Reporting Framework was launched in October 2013 to **ensure accountability** of the PRI and the work of its signatories, to **encourage transparency** from signatories on responsible investment and to **foster continued learning and development** through annual assessment.

Key details:

- The largest global reporting project on responsible investment
- Developed with signatories, for signatories: 1,000+ signatories reported in 2016
- Robust and practical disclosure requirements
- Intuitive, efficient and customised online tool to simplify data submission
- More than 80,000 downloads of PRI Transparency Reports per year
- Assessment results are yours to use as you wish: share to demonstrate performance against peers, or keep in-house as an internal learning and development tool



TRANSPARENCY REPORT

Shows signatory responses to all of the mandatory indicators in the Reporting Framework, as well as responses to voluntary indicators that the signatory has agreed to make public.



ASSESSMENT REPORT

Demonstrates how a signatory has progressed in its implementation of the Principles year-on-year and relative to peers across asset classes. Confidential between the PRI and signatories.

Contents

- Introduction to responsible investment

- Introduction to the PRI

- **PRI tools and resources**

Fiduciary Duty in the 21st Century



FIDUCIARY DUTY IN THE 21ST CENTURY FINAL REPORT
(2019)

Published in October 2019, the final instalment of the four-year Fiduciary Duty in the 21st Century programme affirms that fiduciary duty requires the incorporation of environmental, social and governance (ESG) issues into investment analysis and decision-making processes.

ROADMAP SERIES

- [Australia roadmap](#)
- [Brazil roadmap](#)
- [Canada roadmap](#)
- [Investor duties and ESG integration in China](#)
- [ESG data in China](#)
- [France roadmap](#)
- [Germany roadmap](#)
- [Ireland roadmap](#)
- [Japan roadmap](#)
- [South Africa roadmap](#)
- [US roadmap](#)
- [UK roadmap](#)

Partner organisations:



To find out more visit the fiduciary duty website at: fiduciaryduty21.org/

Investment Practices

Integrate the principles into your investment process

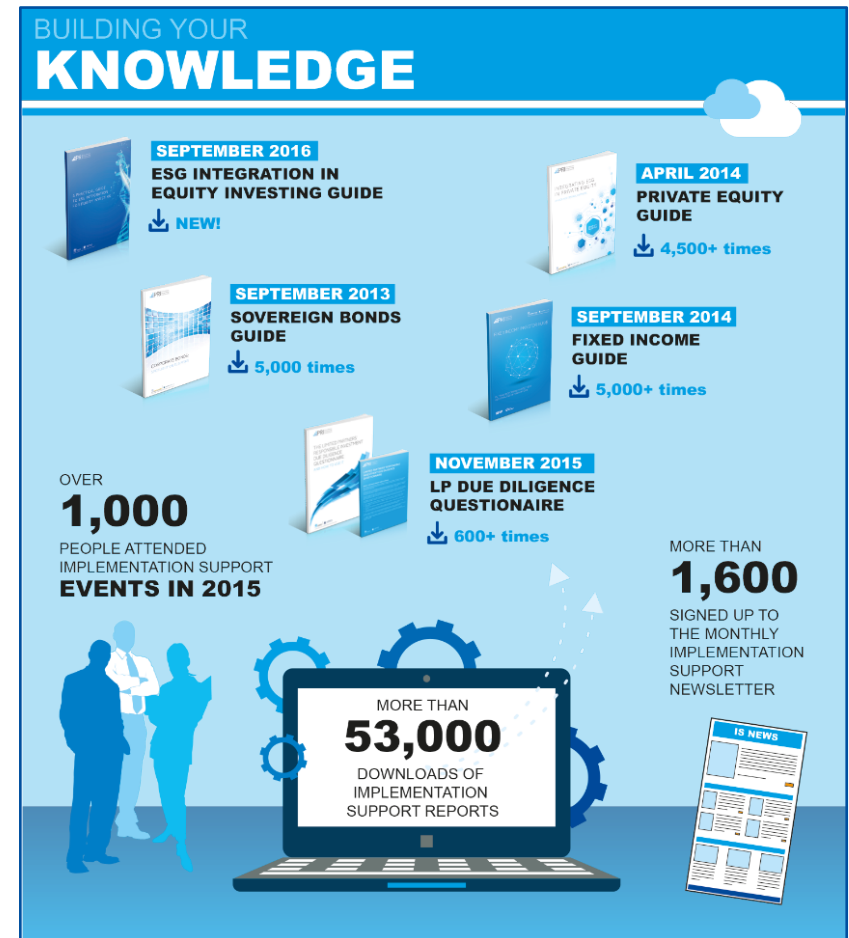
The Investment Practices team provides signatories practical tools to help them implement the Principles across all asset classes.

Work areas

- Listed equity
- Fixed income
 - Sovereign and corporate
 - Credit ratings
 - Private credit
- Asset owner insight
 - Investment strategy
 - Investment policy
 - Selecting, appointing and monitoring managers
 - Passive investments
 - Strategic asset allocation
- Alternative and themed
 - Private equity
 - Hedge funds
 - Property
 - Infrastructure
 - Forestry and agriculture
 - Environmental and social themed

Tools

- Guidance documents
- Case studies
- Webinars
- Working groups and committees
- Newsletters



Asset owner resources



HOW TO CRAFT AN INVESTMENT STRATEGY (MARCH 2018)

Supports asset owners, including their board of trustees and executives, in developing and formulating their investment strategy for a rapidly changing investment landscape.



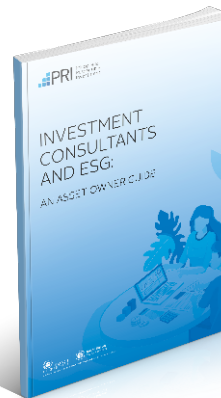
INVESTMENT POLICY: PROCESS & PRACTICE (OCTOBER 2016)

Provides a concise and implementable framework to support asset owners in revising their investment policy in order to incorporate long-term factors in their investment chains.



ASSET OWNER MANAGER SELECTION GUIDE (MARCH 2018)

Aims to support asset owners in making informed decisions about the managers they select and the specific funds in which they want to invest. This includes guidance on asset owner requirements on active ownership in the selection process.



INVESTMENT CONSULTANTS AND ESG (JULY 2019)

Guides asset owners on how to ensure that the services they get from their consultants, whether covering specific assignments or the full-service suite, are aligned with their own responsible investment objectives, strategies and policies.

See all asset owner resources at: unpri.org/asset-owners

Responsible investment DDQs by asset class



- **REAL ESTATE (2019)**: Developed to help investors appraising potential real estate investment managers to evaluate how a manager handles ESG factors.
- **PRIVATE DEBT (2019)**: Designed for use by indirect investors (e.g. limited partners or asset owners) when assessing potential private debt managers.
- **FORESTRY (2019)**: Developed to help investors appraising potential forestry investment managers to evaluate how a manager handles ESG factors.
- **FARMLAND (2019)**: Developed to help investors appraising potential farmland investment managers to evaluate how a manager handles ESG factors.
- **INFRASTRUCTURE (2018)**: This publication aims to ensure a globally consistent approach to infrastructure investor due diligence and ESG disclosure by infrastructure managers.
- **HEDGE FUNDS (2017)**: Helps identify those hedge funds that have the personnel, knowledge, and structure to incorporate environmental, social and governance (ESG) factors in the investment decision-making process.
- **PRIVATE EQUITY (2015)**: A tool to establish dialogue between LPs and GPs. Limited partners (LPs) should first establish their own expectations and processes around responsible investment before they can engage with their general partners (GPs).

Discover all our DDQs at: unpri.org/ddqs

Climate tools

The climate emergency – how can investors take action?

Investment	<ul style="list-style-type: none"> Investor guides: <ul style="list-style-type: none"> How to invest in the low-carbon economy Climate change and the just transition Asset owner guide to TCFD
Corporate engagement	<ul style="list-style-type: none"> Collaborative investor engagement: Climate Action 100+ Investor guides: Corporate climate lobbying
Investor disclosure	<ul style="list-style-type: none"> Climate scenario analysis tools directory TCFD-aligned climate indicators in PRI reporting mandatory from 2020
Policy advocacy	<ul style="list-style-type: none"> The Inevitable Policy Response to climate change Global Investor Statement on Climate Change



These four areas are defined by the Investor Agenda, a global investor platform set up by investors to tackle climate change of which PRI is a co-founder.

Visit unpri.org/climate-change or contact climate@unpri.org for more information.



ESG Engagements

Join forces with your peers to engage investee companies

- The **PRI Collaboration Platform**: Create your own engagement or initiative and use webinar-hosting software and a confidential online workspace to work with peers.
- **PRI-coordinated engagements** bring together groups of signatories across asset classes to engage with investee companies from different sectors and regions in order to reduce risk and better manage ESG issues, such as:

Environmental	Social	Governance
Water risks Climate lobbying Carbon disclosure	Labour standards Human rights	Anti-corruption Director nominations Cyber security Corporate Tax

- **Research reports and engagement guidance:**
 - *From poor working conditions to forced labour: What's hidden in your portfolio?*
 - *Engagement guidance on corporate tax responsibility*
 - *Water risks in agricultural supply chains*

THE POWER OF ACTING COLLECTIVELY

More than **550 signatories** have used the Collaboration Platform to collaborate on over **800 engagements**, targeting **in excess of 1,800 companies**.

In a sample of **379 companies**, with a combined market capitalisation of US\$19 trillion, PRI signatories held on **average 46.2% of all shares** managed by institutional investors.

EXAMPLES

HUMAN RIGHTS

The PRI-coordinated engagement on human rights attracted

51 signatories
with **US\$7.3 trn in AUM**

CORRUPTION

The PRI-coordinated engagement on anti-corruption led to

75% of engaged companies
significantly improving transparency.

Climate Action 100+

Investors compel the world's largest corporate greenhouse gas emitters to take action on climate change

Engagement priorities

- Lobbying reform
- Emissions targets towards net zero by 2050
- Implementation of TCFD

Investor action in Q4 2019

- Qantas – announced net zero carbon emissions by 2050
- Vistra Energy – goal to reduce emissions: 50% by 2030; 80% by 2050
- Nestle – ambition to achieve zero net greenhouse gas emissions by 2050



410+

INVESTORS SIGNED UP



37+

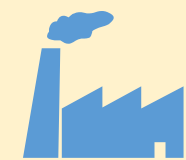
US\$ trn



ASSETS COMMITTED

160

COMPANIES



80%

GLOAL INDUSTRIAL
EMISSIONS



For more information, please see the 2019 Progress Report at climateaction100.wordpress.com/progress-report/

Policy

Engagement in areas including duties, stewardship, taxonomy and disclosure



United States

The PRI is engaging with the SEC to improve ESG disclosure standards and on the protection of shareholder rights.

To find out more, read our [briefing](#) and contact us about sign-on letters.



European Union

The EU has agreed the legal framework for the EU taxonomy: a classification tool to help investors and companies make informed investment decisions on environmentally friendly economic activities.

To find out more read the [PRI pages introducing the taxonomy](#).



China

Building on *Fiduciary duty in the 21st century*, the PRI is engaging with policy makers to support ESG disclosure and the integration of sustainability in China's investment market.

To find out more read [ESG disclosure in China](#) and contact the us about ongoing engagement.

Contact policy@unpri.org for more information

PRI Academy

Convene and educate responsible investors

The global leader in responsible investment training

The PRI Academy provides industry leading training on how ESG issues are impacting company performance, shareholder value and investment decision-making.

The courses features content from international experts, real and hypothetical case studies and financial modelling.



6,000

Enrolments since 2015



63

Countries represented by participants



90%

Satisfaction rate



Entirely online and can now be accessed on tablet devices

Courses

Getting Started in RI

Foundations in RI

Advanced RI Analysis

RI for Trustees

Case Studies



Available for CFA Institute CE Credits
Available for CFP Board CE Credits (USA Only)

HOW TO ENROL

To enrol please visit our website at www.priacademy.org

For discounted group enrolments please email us at priacademy@unpri.org

Questions