

Principles
for Responsible
Investment

PRI Report on Progress 2007

A decorative graphic consisting of a grid of blue squares of varying shades, arranged in a pattern that tapers to the right, positioned to the right of the main title.

Implementation, Assessment and Guidance

Acknowledgements

The PRI Secretariat and its partner organizations are indebted to all of the signatories who took part in this assessment.

Special thanks are due to Jane Ambachtsheer, Brian Minns, Jenni Myllynen, Rita Incristi and Danyelle Guyatt from Mercer Investment Consulting for implementing and facilitating the assessment exercise.

We are grateful for the skilled editing of the report by Adam Garfunkel.

The agencies would also like to extend their appreciation to the PRI Assessment Group for their invaluable contribution to the process:

Marcel Jeucken, PGGM Investments

Donald MacDonald, British Telecommunications Pension Scheme

Peter Lunt, VicSuper

Marie-Claude Provost, Caisse de dépôt et placement du Québec

Laetitia Tankwe, Comité syndical national de retraite Bâtirente

Wilco van Heteren, PGGM Investments

Nada Villermain-Lecolier, Fonds de réserve pour les retraites (FRR)

Contents

Report from the PRI

- 4 Message from the Executive Directors of UNEP and the UN Global Compact
- 5 Message from the Chair
- 7 Report from the PRI Secretariat

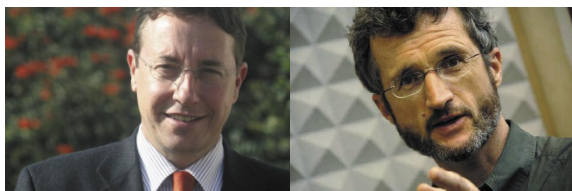
Report on implementation

- 11 Introduction and key findings
 - Overall assessment results
 - Key findings per Principle
- 13 Response rate and methodology
 - About the respondents
 - Methodology
- 14 Principle 1 findings
 - Policy statements
 - Internal investment management
 - Staff expertise and internal training
 - External investment management
 - Fostering industry development
- 19 Principle 2 findings
 - Overall approach to active ownership
 - Voting policies
 - Proxy voting execution
 - Filing of shareholder resolutions
 - Shareholder engagement
 - Defining engagement success
 - Signatory self-assessment
- 25 Principle 3 findings
 - Reporting on ESG issue performance
- 27 Principle 4 findings
 - Influencing the supply chain
 - Aligning investment processes with RI/ESG integration
 - Engaging on the 'big picture'
 - Developing tools for the industry
- 30 Principle 5 findings
 - PRI Engagement Clearinghouse
 - Collaborative initiatives
- 32 Principle 6 findings
 - Disclosure of signatories
 - Communicating about the PRI
 - Determining impact
- 36 Looking forward
 - Barriers remain
 - Future goals and aspirations
 - Opportunities moving forward
 - In closing
- 38 Index of 'PRI in action' case studies by signatory; Notes

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

Nothing embodies the nature of our modern globalised world more than the financial markets. Trillions of dollars of free flowing capital, allied with the internationalisation of investment portfolios, means that money earned and saved on one side of the world often ends up invested in and lent to companies on the other.

Investors are thus increasingly facing the same types of challenges and opportunities that are of primary concern to the United Nations. These challenges include poverty, human rights, war, environmental degradation, climate change and corruption; and opportunities such as rapid growth, democratisation, peace, education, clean and renewable energy and sustainable development.



The UN, through UNEP Finance Initiative and the UN Global Compact, has been working hard to minimize the challenges and maximize the opportunities and we are pleased with the progress to date.

Since 2000, the Global Compact has been working with companies to promote responsible corporate citizenship and to assist business to be part of the solution. The Global Compact, particularly through the 'Who Cares Wins' process, has leveraged the role that the financial sector can play in promoting environmental, social and governance (ESG) issues in investment management.

UNEP FI, a global partnership between UNEP and the financial sector, has brought together more than 160 institutions to understand and address a range of key ESG issues in banking, asset management, insurance, private equity and other key areas. Through its innovative publications on materiality and fiduciary duty, the Asset Management Working Group of UNEP FI has been a major contributor to the emerging global consensus that ESG issues are business issues and important factors to consider in investment processes and ownership practices.

UNEP FI and the UN Global Compact are also proud to have built a strong partnership to bring investors together to develop and implement the Principles for Responsible Investment (PRI).

One year on, the PRI has gained the support of more than 180 signatories, developed a reporting and assessment framework, provided implementation tools and created the first global investor network dedicated to addressing the broader ESG agenda.

Over the coming year we look forward to continuing to support the PRI as well as reaching out to new signatories particularly in emerging markets.

We believe that there is a natural 'fit' between the goals of the United Nations and those of investors from curbing climate change to addressing child labour.

We look forward to working with signatories to realize our mutual objectives that are the twin targets of more intelligent development and a sustainable future.



Achim Steiner
Executive Director
United Nations Environment Programme



Georg Kell
Executive Director
UN Global Compact

Message from the Chair

In a little over a year, the Principles for Responsible Investment (PRI) have gained the support of more than 190 signatories representing over US\$9 trillion assets under management. As the number of signatories increases, so too does the influence the Principles can bring to bear on the financial sector, and ultimately the economy as a whole.

The PRI Initiative has made an impact on the industry by establishing a common framework for addressing ESG risks in investment. But beyond this, the PRI has started to build a vibrant network for sharing information, best practices and engagement strategies. Historically, investors have had no place to come together to pool ideas and learn from one another. The initiative's dissemination of industry best practice is a major step towards establishing industry norms for responsible investment and active ownership.



Another important contribution the PRI has made since its launch is establishing the Engagement Clearinghouse, an online resource for connecting signatories interested in actively engaging companies on ESG issues, or exploring other collaborative opportunities. There is no doubt that collaboration among shareholders works – and the Clearinghouse is there to make it easier. As an example, a group of 12 signatories has begun a collaborative activity engaging with 33 automotive and steel companies that face supply chain risks related to the use of slave labour in parts of the steel industry in Brazil. While it is too soon to see results, we expect to see the Clearinghouse facilitate more collaborations of this type.

But by far the most important contribution the PRI has made is to reinforce and promote the paradigm that environmental, social and corporate governance issues matter to the financial performance of companies, and that mainstream investors have a responsibility to take these issues seriously and where appropriate, act to address them.

Reflecting on the progress made so far, I look forward to a productive year ahead for the PRI.

A handwritten signature in blue ink, appearing to read 'Donald MacDonald', with a stylized flourish at the end.

Donald MacDonald

Chair of the PRI Initiative and a Trustee of the
British Telecommunications Pension Scheme

Report from the PRI Secretariat

James Gifford, Executive Director

Signatory recruitment

The goal of the PRI Initiative is not to 'preach to the converted' but to mainstream responsible investment – globally. It will be successful only if we can engage a significant proportion of the assets in every major market in the world. Therefore an early priority was to spread the word about the Principles and enlist as many new signatories as possible, particularly those that are influential in their own markets.

We have certainly succeeded in our signatory recruitment efforts, both in the number of funds signing up and total assets represented.

At the New York and Paris launches of the PRI, 65 signatories signed the Principles. In the year since, an additional 130 signatories have joined them, more than doubling the assets under management to in excess of US\$9 trillion. In mid-2007, we welcomed the 200th signatory.

Leveraging the networks of UNEP Finance Initiative, the UN Global Compact, other partners and the signatories themselves, the PRI has been featured in dozens of events held all over the world, including in Athens, Bangkok, Beijing, Bogota, Bonn, Brisbane, Copenhagen, Frankfurt, Geneva, Johannesburg, London, Lausanne, Melbourne, Monaco, Montreal, Montreux, New York, Paris, Sao Paolo, Seoul, Stockholm, Sydney, Tokyo, Washington DC, Warsaw and Zurich.

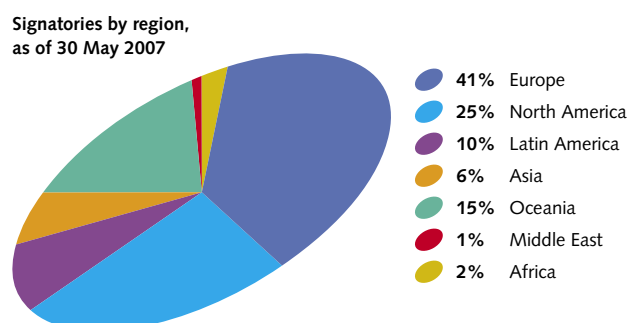
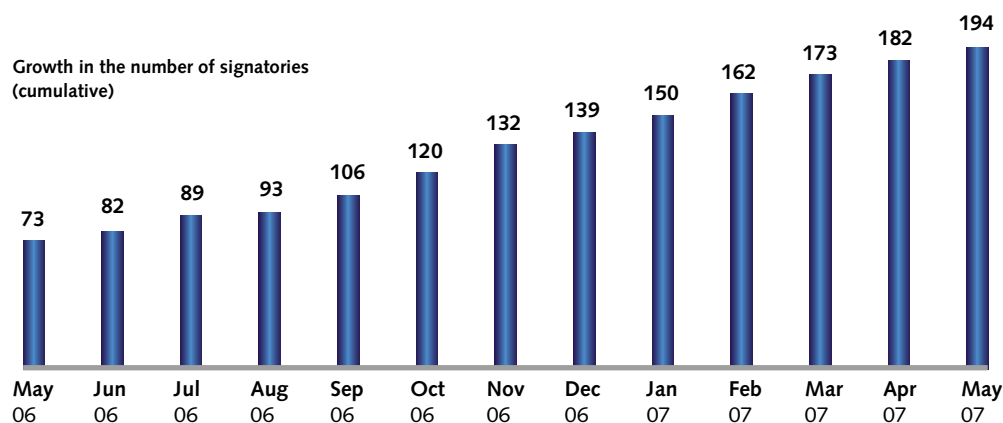
But it is the signatories themselves that deserve the most credit for the rapid growth of the PRI. Asset owner signatories have been asking their investment managers about the PRI, creating a direct incentive for managers to participate. Investment managers have been raising awareness about the PRI to their clients. Investment consultants and other research service providers have been promoting the PRI to their trustee and fund manager clients. Signatories have organised events in their own countries, and encouraged their peers to sign. Examples include the tremendous efforts of PREVI in Brazil, whose PRI support activities are largely responsible for signing up more than 15 new Brazilian funds. In Australia, the Australian Council of Super Investors has played an important role in building support for the PRI among superannuation funds and their managers. In Japan, the leadership of Mitsubishi UFJ Trust and Banking has encouraged other funds in that country – representing more than one trillion dollars – to come on board. And most recently in Korea, Eco-Frontier led the recruitment of nine new Korean institutions.

However, we have only scratched the surface of potential support for the PRI. There are many regions and sectors that are still unaware of the PRI. For example, there is enormous potential in the investment side of the insurance sector. While insurance and reinsurance are leading on the management of risk relating to long-term ESG issues, there is significant potential for the investment side of the industry to be more active. We hope to work with our insurance company colleagues, and the UNEP FI Insurance Working Group, to build support for the PRI in that sector.

There are still many countries with few signatories or no signatories. In year two, we will reach out to investors in these regions, focusing in particular on the emerging markets. As discussed below, thanks to the Swedish government and UNEP FI, we have a new project manager beginning in June 2007, part of whose role it is to engage institutional investors in emerging markets. We will also draw upon the UN Global Compact's extensive regional networks.

While the signatory base has grown dramatically in year one, there is still great potential for bringing in new organisations, and we will be working with the signatories, UNEP FI and the UN Global Compact to do so.

We would like to encourage signatories to continue their PRI awareness-raising activities, both in their own countries and abroad.



Implementation support activities

The PRI Secretariat has an ambitious program to provide signatories with support to assist their efforts in implementing the Principles.

In its first year it focused on setting up the infrastructure and tools to support implementation. The coming year will focus on consolidation, and ensuring that existing tools and resources are effective and comprehensive.

PRI Engagement Clearinghouse

The PRI Engagement Clearinghouse, established in late 2006, provides signatories with a forum for sharing information about engagement activities they are conducting, or would like to conduct. It is the first of its kind in the world, and we believe it holds great promise for stimulating collaboration among signatories.

Despite numerous examples of effective shareholder engagement by individual PRI signatories, there are still relatively few investors that have the power and legitimacy to significantly affect corporate performance on ESG issues – and apply that influence in a systematic way.

One of the reasons is that there is a 'tragedy of the commons' dilemma inherent in shareholder engagement, where the costs of monitoring corporate performance and engaging with companies are borne by those conducting the engagement, yet the benefits are shared among all shareholders of the company. And when engagement is conducted in a professional and systematic way, these costs can be significant.

In addition, small – and medium – size investors (and in many cases, large investors) often lack a significant stake in the company, reducing their ability to influence management, and when they do, reducing the benefits realised.

The PRI Engagement Clearinghouse is designed to help address this collective action problem. It is based around a private online forum for signatories to pool their resources and influence, and seek changes in company behaviour, policies or systemic conditions.

To use the Clearinghouse, signatories develop a proposal for the engagement they would like to undertake, with details of how it would be conducted, expected outcomes, background information and any associated documents. Other signatories can see which activities are being proposed, and then choose to participate, or simply use the Clearinghouse as a learning platform. Items that have been posted include proposals around the following ESG issues:

- Climate change disclosure and performance
- Specific corporate governance matters
- Poor disclosure of ESG performance
- Executive compensation
- Shareholder rights
- Director elections
- Slave labour in the Brazilian steel supply chain
- ESG performance in the building and construction sector
- Investment in weak and conflict-prone states
- Biodiversity risk.

Although the Clearinghouse shows great promise and has received positive feedback from many signatories, it has yet to be used by the majority of signatories. However, most signatories intend to use it in the next year (see PRI Engagement Clearinghouse in the Report on Implementation section for more information).

We are currently improving the usability and effectiveness of the Clearinghouse so more signatories take advantage of it. Signatories will soon be able to search for activities by region, issue or company. In addition, a dedicated staff member will be recruited to assist signatories in coordinating engagements, briefings, conference calls and other activities.

PRI in practice implementation blog

One of the first questions we hear from potential signatories is “Once we sign up, what then? What exactly do we do?”

The PRI in practice implementation blog was set up in early 2007 to answer these questions. Signatories can find information to broaden their understanding of responsible investment issues, and the approaches taken by leading signatories. PRI in practice 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.

While still in the early stages, new articles and resources are being added every month, and we expect that by the end of year two, it will contain a comprehensive database of implementation resources across all Principles and asset classes.

PRI in emerging markets project

In partnership with the Swedish International Development Agency, UNEP FI is leading a two-year project to promote the PRI in emerging markets and developing countries. This project is due to begin in June 2007. The project goals are to:

- promote the PRI in emerging markets, and build up the signatory base
- provide training, implementation support and other assistance to signatories in these regions
- encourage collaboration and the building of networks
- work with all PRI signatories to address issues of corporate responsibility, good governance and other ESG issues in emerging markets and developing countries.

This project will build on and expand existing PRI tools such as the Clearinghouse and PRI in Practice, and will also fund dedicated research on emerging market and developing country investment issues.

Building partnerships

There are many organisations that share the goals of the PRI and are willing to help, and building partnerships is essential. To date, most of the partnerships have been with signatories themselves. However, the PRI Initiative has also entered into a number of partnerships with other organisations.

In January 2007, the PRI Initiative and the Enhanced Analytics Initiative (EAI) released a joint statement of support. Apart from encouraging cross membership, the PRI and EAI will promote the sharing of best practice between their respective members and in particular will work on how ESG issues can be better integrated into mainstream investment processes.

A partnership was also established with EPA Victoria to support the PRI in the Asia-Pacific region. EPA Victoria has been supporting UNEP FI in that region for a number of years. In year two, we are planning to build links between signatories and the academic community, to ensure that cutting edge research is being made available to practitioners, and that the academic community is responding to practitioners' needs.

Reporting and Assessment Tool

Although the PRI is voluntary and aspirational, with no absolute performance benchmarks, it is still important to evaluate progress and the effectiveness of various implementation activities.

Until now, there has been no robust tool to assist investors with this.

To address this need, we commissioned Mercer Investment Consulting to work with signatories to develop a reporting and assessment tool, based around an annual questionnaire (see the analysis in the later chapters).

This tool allows signatories to measure their own progress over time – on a Principle-by-Principle basis – and to see how they compare against their peers. It is designed to draw out best practices from amongst the signatories, so they can be showcased. This process will also help the PRI Board and Secretariat identify barriers to implementation and new opportunities when planning training and other signatory support activities.

PRI Report on Progress 2007 contains the analysis of this year's questionnaire in later chapters.

Governance and finances

Governance structure

The 13-person PRI Board consists of 11 asset owner signatory representatives and two UN representatives from the UN Environment Programme and the UN Global Compact. The current Board members are listed on the inside back cover of this report.

The PRI Secretariat reports to the Board. The governance of the initiative is set out in the constitution, which is expected to be approved in mid-2007.

Under the Board, the following working groups have been established:

- Governance: developed the PRI constitution, supervises Board electoral processes, and any other governance-related issues
- Engagement: manages the Clearinghouse and implementation of Principle 2
- Training and assessment: manages the PRI Reporting and Assessment Tool, and resulting training activities for signatories.

Additional working groups are planned, including an integration working group, responsible for Principle 1. Other ad hoc working groups of signatories – based on regions, asset classes and other topics – are facilitated through the Clearinghouse. An example is the ad hoc work stream on PRI implementation by small funds.

Financial aspects of the initiative

With the exception of the Emerging Markets Project, the PRI Initiative is funded exclusively by annual voluntary contributions from signatories, who are asked to contribute US\$10,000 to support the activities of the initiative. At the end of year one (30 April 2007), signatories had contributed slightly more than US\$340,000. This includes sponsorship specifically for the PRI launch in April 2006, totalling US\$40,000. In total, 21 signatories contributed the suggested amount or more, and another 29 signatories contributed smaller amounts.

While this is sufficient to provide modest support for signatories, assistance can be expanded considerably if a large majority of signatories were to contribute. The ultimate goal of the PRI Initiative is to have well-resourced working groups supporting implementation across all Principles, regions, investment styles and asset classes.

We are hoping that more signatories will contribute to the PRI in year two, as they see the benefits of the activities we are undertaking.

In year one, the expenditure of the initiative was US\$165,000. This was less than might be expected because the costs relating to the first Reporting and Assessment Tool, the Report on Progress and the PRI in Person event were not incurred during the first year. In addition, the team has also grown since late 2006 from one to four.

The initiative's banking and accounting functions are run under the Foundation for the Global Compact, based in New York. The accounts are audited by David Ashenfarb of Schall & Ashenfarb Public Accountants and will be published by September 2007 on the foundation's web site: www.globalcompactfoundation.org.

Report on implementation

How to use this report

This report on implementation is designed to give signatories an overview of how the Principles for Responsible Investment are being implemented by their peers, as well as specific examples of best practice. It is intended to be a tool – a reference manual – that signatories can use on an ongoing basis as they implement the Principles.

Signatories can choose to work through the report Principle-by-Principle as they develop their own implementation processes. Or they may simply choose to browse the best practices, identified at the beginning of each chapter and in the 'PRI in Action' boxes. To navigate the document, please refer to the detailed table of contents and navigation on the edge of the right hand pages.

Introduction and key findings

This report is the first-ever global undertaking that captures in significant detail how investors are integrating environmental, social and governance (ESG) issues within investment decision making and ownership practices.

The assessment tool was developed for the PRI by Mercer Investment Consulting with extensive input from the PRI Secretariat, the PRI Assessment Working Group, and a range of experts from signatory and other organisations. The online reporting interface was launched in February 2007, with final submissions accepted in early May.

The questionnaire was intended to capture the responsible investment (RI) progress and activities of asset owner and investment manager signatories up until the end of 2006 and into the early part of 2007. It contained both objective and subjective elements. The questionnaire was structured around the six Principles, which allowed all signatories – regardless of the degree to which they had implemented the PRI – to report on progress. The information provided in this chapter does not follow the exact order of the questionnaire. The overall assessment results are presented first, followed by a discussion of progress the signatories have achieved in implementing various aspects of each Principle. Finally, the future barriers and opportunities faced by signatories as they continue to implement the PRI are discussed. The full set of aggregate data is available on the PRI website at www.unpri.org/report07.

Overall assessment results

- Signatories have performed best in implementing Principles 1 and 2. Implementation of the other Principles is not as progressed.
- The top performers in implementing Principles 4 through 6 tend to have the widest range of scores, which may indicate that a wide variety of approaches are being employed by the leading signatories in these areas.
- Signatories with the weakest implementation of Principles 1 and 2 also have a wide range of scores, which can be attributed to there being some recent signatories who are still building up their RI capabilities.
- Investment managers perform better than asset owners overall, and signatories from North America and Europe have the strongest performance by region.

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

Key findings per Principle

Principle 1

- Findings from Principle 1 reveal that signatories are generally moving in the right direction with respect to integrating ESG into their investment decisions, with investment managers performing better than asset owners.
- Sixty-seven percent of asset owners and 83% of investment managers have adopted a formal policy on RI – typically this is integrated within core investment policy statements.
- More than half of the respondents have reportedly integrated ESG considerations into their internal investment decision making processes to at least some extent, and very few have done nothing.
- On the selection and approval of fund managers, 44% of asset owners indicate that they consider RI/ESG factors to a small extent, with the number integrating it to a large extent (22%) being similar to the number that do not take it into account at all (20%).
- The reported level of ESG integration is high.
- ESG integration focuses on listed equity, although many signatories plan to extend integration to private equity, real estate and fixed income in 2007.

Principle 2

- More than half of the respondents from North America were in the group of top performers on Principle 2, while respondents from Europe were evenly distributed across the four quartiles¹.
- Investment managers performed better than asset owners on Principle 2 and were more likely to have proxy voting policies, evaluate whether voting is conducted according to that policy and implement a comprehensive RI/ESG engagement strategy. This may change as a broader spectrum of investment managers become signatories to the PRI.
- Voting policies were twice as likely to direct action on governance issues as they were on environmental or social issues.
- The number of signatories that track whether votes are cast in line with their policies is low, with only about one half of investment managers and one third of asset owners doing this.
- About half of respondents set RI/ESG issue-related engagement objectives, with investment managers more likely to do so and a fifth of asset owners planning to develop this capability in 2007. Engagement activities are more likely to focus on governance rather than environmental or social issues, but the trend suggests that this could level out in future.

Principle 3

- North American signatories are more likely to use shareholder resolutions to encourage greater ESG disclosure, including promotion of the Global Reporting Initiative and climate change disclosure.
- More than three-quarters of investment managers are likely to have asked investee companies for standardised ESG reporting, while nearly a third of asset owners have not.

Principle 4

- Top performers are more likely to raise the PRI with service providers and move towards including PRI requirements in investment mandates.
- Top performers are also more likely to be engaged in dialogue, lobbying and initiatives in the area of government policy and industry regulations relating to RI/ESG.
- More than a quarter of respondents indicated that the pension fund offered to their employees was also a PRI signatory.
- The majority of signatories have not asked their service providers to sign the PRI (45% of asset owners and 58% of investment managers have not done so), but it will be on the agenda for 18% of asset owner signatories and 4% of investment managers in 2007.
- There is little reported use of performance indicators and incentive structures in integrating ESG into investment processes, with more than half of asset owners not using these tools and fewer than 20% using them to a large or moderate extent.

Principle 5

- Top performers were likely to be engaged in several collaborative initiatives and working with other investors on engagement, on either a systematic or ad hoc basis.
- About 40% of respondents have used the PRI Engagement Clearinghouse, and 15% have posted to it.

Principle 6

- Top performers reported how RI/ESG issues are integrated into their investment processes, and have sought to evaluate the impact of RI/ESG integration and engagement activities.
- Asset owners are planning to get more actively involved in assessing the implementation of their RI/ESG policies with 36% of respondents planning to adopt a 'comply or explain' approach in 2007.
- Asset owners have been less active than investment managers in assessing the impact of RI/ESG factors on portfolio performance. However, 26% of asset owners intend to pursue this in 2007.

Response rate and methodology

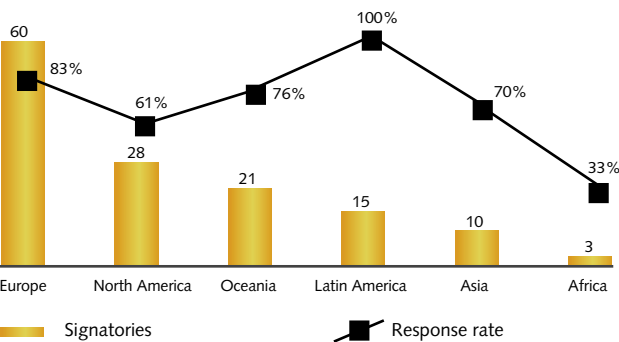
About the respondents

The questionnaire was sent to 73 asset owners and 64 investment managers and completed by 62 asset owners and 44 investment managers. This represents an overall response rate of 77% (106 responses from 137 questionnaires distributed), with 85% of asset owners and 69% of investment managers participating.

Assets under management (AUM) ranged from under US\$100 million to more than US\$250 billion, with total AUM in excess of US\$6.5 trillion, or around 75% of PRI signatory assets.

The respondents have a variety of RI-related mandates, with more responses from mainstream investors from Europe and a higher proportion of SRI and activist funds from the USA.

Chart 1: Signatory response rate by region



Methodology

The tool was designed to assist signatories in assessment as well as reporting. For many questions, each possible answer was assigned a different score. Because there are no absolute performance standards in the PRI, most questions also allowed a 'not applicable' option that would not reduce a signatory's score. For each Principle, signatory scores were ranked relative to their asset owner or investment manager peers, with signatories being placed in one of four groups per Principle (ranging from the top performers to those new to responsible investment).

All respondents will receive feedback on their individual results, allowing them to determine relative positioning against peers. The development of relevant and accurate metrics is a difficult and iterative process. An attempt was made to develop a system that is straightforward and practical, and every effort was made to maximise the validity of the metrics. This year's assessment is the beginning of an ongoing annual process that will be improved over time.

About the findings

There are several caveats to keep in mind regarding the survey methodology and the presentation of signatory practices:

- All monetary figures in this report are in US dollars.
- Percentages are based on responses received to each question and consequently may not reflect the views of all respondents.
- Many questions permitted multiple responses, including 'Not applicable', and not all respondents answered each question.
- Data may not add up to 100 percent due to rounding.
- For clarity, 'Not applicable' responses have been excluded from many charts. However, the number of respondents who indicated 'Not applicable' for each question is presented, along with the number of respondents who answered each question.
- The title of each chart includes the corresponding question number from both the asset owner and investment manager questionnaires (for example, AO49, IM47).
- 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.
- Responses reflect activities and status as of the end of 2006, although in some cases, signatories reported activities that took place in the early part of 2007.
- The majority of the 'PRI in Action' examples presented within this report are reproduced directly from the responses to questions. Some examples have been edited for clarity. In some instances, examples from other sources were added to illustrate specific practices that were considered highly relevant to a particular Principle. 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 Investment Consulting assume no legal responsibility for the validity of these statements.

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

Principle 1 Findings

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

The table below outlines the actions that leading signatories take to implement Principle 1². It also indicates which of these actions represents a good first step and those that are best practice.

Following that we review investment policy statements and their reference to RI/ESG issues. Next is a review of signatory practices in regards to internal investment management and staff. External investment management is examined after that, and, finally, we review the efforts of signatories to foster the development of industry tools and research.

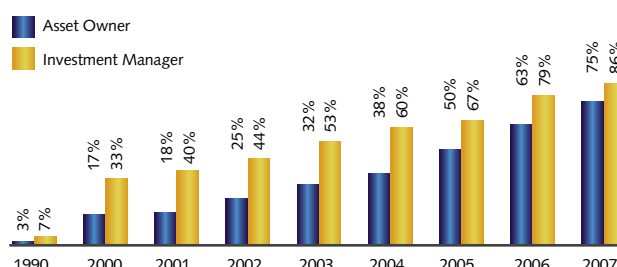
In implementing Principle 1, top-performing signatories tend to do the following:	First steps	Best practice
<ul style="list-style-type: none"> Have a formal, public investment policy statement that makes reference to RI/ESG and: <ul style="list-style-type: none"> - integrate this within the organisation's broader investment policy or - expand upon it in a stand-alone document 	●	★
<ul style="list-style-type: none"> Guide the integration of RI/ESG issues in internal investment decision making through a formal document or policy that covers listed equities and in many cases other asset classes such as real estate 		★
<ul style="list-style-type: none"> Have specialist staff dedicated to RI/ESG issue analysis (even if it is a partial time allocation) 		★
<ul style="list-style-type: none"> Provide training for their organisation's internal non-ESG specialist investment management staff (such as briefings on climate risk) 		★
<ul style="list-style-type: none"> Assess the ESG capability of ESG specialists and internal investment managers 		★
<ul style="list-style-type: none"> Take RI/ESG considerations into account when selecting and reviewing fund managers by specifically asking questions about the PRI or responsible investment activities when meeting with current or potential managers (and indicate that in future, these issues will become a mandatory part of managers' performance) 	●	
<ul style="list-style-type: none"> Ask consultants to factor RI/ESG issues into fund manager selection (this can either be done as a stand-alone evaluation of manager RI performance or integrated as part of ongoing monitoring criteria) 	●	
<ul style="list-style-type: none"> Support the development of RI/ESG tools, metrics or academic research, such as through funding academic positions or exchanging best practices with peers (for example undertaking regular conferences to discuss ESG considerations) 	●	
<ul style="list-style-type: none"> Advocate RI/ESG issue-related industry-wide training for investment professionals (such as the incorporation of ESG materials within the CFA programme). 		★

Policy statements

Sixty-seven per cent of asset owner respondents and 83% of investment manager respondents report having a formal investment policy statement that makes specific reference to the integration of RI/ESG issues within investment decision making and ownership practices. A further 15% of asset owners and 5% of investment managers plan to develop a policy in 2007. While this reflects the majority of signatories, an investment policy forms the basis of an investment organisation's outlook and priorities, and implementation of the PRI will not occur unless the policies of signatories duly reflect RI priorities. Therefore, it is expected that 100% of signatories will eventually establish a formal investment policy statement that makes specific reference to responsible investment.

It is worth noting that many signatories had responsible investment policies in place prior to the launch of the PRI.

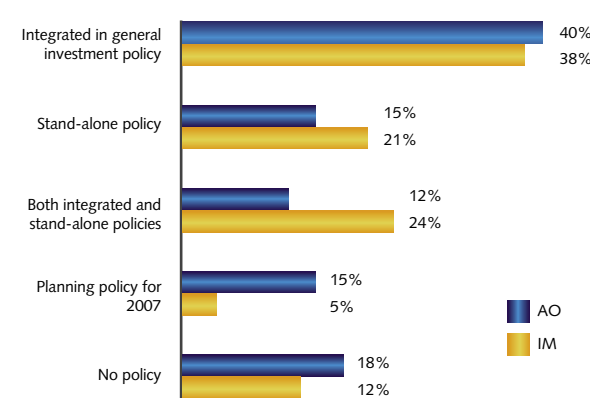
Chart 2: Year in which RI/ESG issues were formally addressed in this policy (cumulative) (AO14, IM12)



60 asset owner responses, 43 investment manager responses

As shown above, it is most common for signatories to address RI/ESG integration within their general investment policy statement. Many large institutional investors have both an enhanced investment policy statement that includes reference to ESG issues and a stand-alone policy. Often, the stand-alone RI policy is more extensive, outlining the steps involved with the organisation's approach. One approach is not better than the other, and often the approach will depend on the nature and structure of the organisation.

Chart 3: Policy statements that make specific reference to the integration of RI/ESG issues within investment decision making and ownership practices (AO13, IM11 and AO15, IM13)



60 asset owners responses, 42 investment manager responses.

About three-quarters of signatory policy statements are publicly available (in line with implementation of Principle 6) and are a good reference for those signatories yet to develop an investment policy on RI.

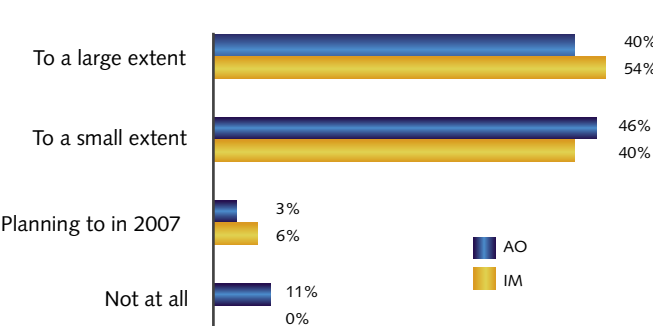
Table 1: Sample responsible investment policies

Signatory	URL
Canada Pension Plan Investment Board	www.unpri.org/0701
AP3	www.unpri.org/0702
Ethos - Swiss Foundation	
for Sustainable Development	www.unpri.org/0703
Hermes Pensions Management Limited	www.unpri.org/0704
Morley Fund Management Limited	www.unpri.org/0705
New Zealand Superannuation Fund	www.unpri.org/0706
Norges Bank	www.unpri.org/0707

Internal investment management

The next section reviews the internal investment management practices of PRI signatories. More than half of investment managers and 40% of asset owners indicated that they currently integrate RI/ESG issues into internal investment decision making processes to a large extent. Where this integration occurs, slightly more than half the signatories follow a formal process.

Chart 4: Extent of RI/ESG issue integration into internal investment decision-making processes (AO20, IM18)



59 asset owner responses, 42 investment manager responses (10 asset owners and 1 investment manager answered 'Not applicable')

PRI in action

Integrated decision making

Generation was built on the belief that sustainability issues can impact a company's ability to generate returns and therefore must be fully integrated. Consequently, its formal investment philosophy articulates a belief in the materiality of RI/ESG issues, and Generation's investment process formally guides the integration of sustainability issues into the firm's decision making processes. To support idea generation and decision making, the firm undertakes thematic research into issues that have the potential to impact the long-term operating context for business, such as bribery and corruption, climate change, corporate governance, human capital, lobbying and pandemics such as HIV/AIDS.

Generation Investment Management LLP,
United Kingdom

PRI in action

Corporate governance assessment for internal equities

Six years ago, the Government Pension Fund of Thailand (GPF) developed a corporate governance rating system inspired by the OECD Principles of Corporate Governance. The rating system applies to the GPF's internally managed active Thai equity portfolio. According to this system, the GPF rates Thai companies according to corporate governance criteria such as shareholder rights, board quality, accountability, disclosure and transparency. The target prices of companies that are positively rated are increased by 10%-20%, whereas the target prices of companies that perform poorly are discounted. Although companies' ratings are not publicly available, the rating methodology is available on the GPF's website. Companies' ratings are reviewed annually. For corporate bonds, the GPF also looks at the corporate governance quality of the issuer when considering an investment.

Government Pension Fund, Thailand³

The highest level of integration (aside from listed equity) is in fixed income, with 24% of investment managers and 12% of asset owners integrating ESG 'to a large extent'. This reflects the fact that ESG research (and engagement) can be applied equally to equity and bond portfolios. For example, Insight Investment states that its Corporate Governance Working Group was established 'to identify financially relevant governance risks in companies whose bonds or equities we hold'.⁴

The extent to which signatories integrate RI/ESG considerations into additional non-equity asset classes is much lower. For example, only 3% of investment managers and 7% of asset owners do so to 'a large extent' in relation to private equity, 6% and 10% respectively for real estate, and 6% and none respectively in relation to hedge funds.

Some signatories apply exclusionary screens to some or all of their assets. The Reporting and Assessment Tool survey included some questions regarding screening but the findings were inconclusive as a result of different interpretations by signatories of the questions asked.⁵

Internal sessions and conferences are the most common forms of training, with a smaller number of signatories using outsourced, customised courses to train staff.⁶ This reflects, at least in part, the fact that relatively few such professional courses exist in most regions. Two examples of such programmes are the Ethical Investment training course offered by the Ethical Investment Association⁷ in Australia and the Sustainable Finance Academy offered by the Schulich School of Business in Canada.⁸ A number of ESG service providers and investment consulting firms offer off-the-shelf and/or bespoke training programmes on responsible investment.

PRI in action

'Greening' the management of real estate portfolios

British Columbia is making energy efficiency and conservation a standard practice in how it designs, builds, manages and refurbishes the properties in its clients' real estate portfolio – these measures also generate carbon emissions reductions as a side benefit. To date, approximately 72 of its property investments have received green awards/certification through Leadership in Energy and Environmental Design (LEED) or through the Building Owners and Managers Association (BOMA) Go Green environmental programme.

British Columbia Investment Management Corporation (bcIMC), Canada

PRI in action

Providing training for internal investment staff

As a first step towards implementing its socially responsible investment policy, the Caisse provided training to all its internal investment managers and analysts (more than 80 in total). This training was mandatory.

In order to maintain education on ESG issues and further their integration within investment decision making, the Canadian equity director was given the mandate to provide and maintain updated information on ESG matters and to support the team members in this regard. Daily updated ESG analysis for each portfolio is available, and the ESG score of each portfolio is monitored. Important issues are discussed at daily investment meetings and, when appropriate, are subsequently raised with company management. Such engagements are documented.

Caisse de dépôt et placement du Québec, Canada

Staff, expertise and internal training

This section looks at the extent to which signatories have staff focused on ESG/RI integration, and the training programmes that are in place to support development in this area. Forty-one per cent of asset owners and 83% of investment managers have specialist staff solely dedicated to RI/ESG issue analysis. Not surprisingly, the number of specialist staff ranges widely (from 1 to 55) depending on size and focus of the organisation. The median number of dedicated specialist staff is two for asset owners and four for investment managers.

As the size of teams working on ESG grows, it is interesting to review the extent to which the ESG-related performance of internal staff is reviewed. Currently, investment managers are about twice as likely as asset owners to assess such performance to 'a large extent' (60% versus 37%), and 26% of asset owners don't do this at all. This may be because investment management teams are larger and are more likely to have related measurement systems in place. Seven per cent of asset owners plan to begin this assessment in 2007.

Investment managers are also more likely to provide training to internal non-ESG specialist staff, with 34% doing so to a large extent and 59% to a small extent. Asset owners are only half as active as investment managers on this front, although 24% plan to provide training in 2007.

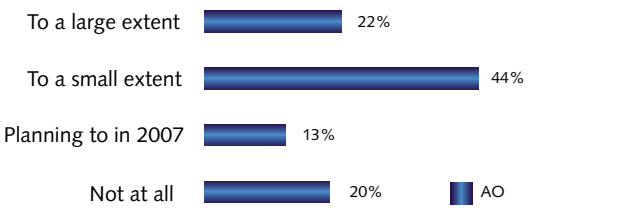
External investment management

A key indicator of the PRI's success will be the role it plays in the selection of new fund managers. The survey found that 22% of asset owner signatories currently consider RI/ESG issues in selection processes to a large extent and 44% do so to a small extent; another 13% plan to consider these issues in 2007.

One asset owner indicated that when selecting a new manager – all else being equal – they would select a manager that is also a PRI signatory. Another asset owner mentioned that they now request all RFPs and manager interviews to cover governance topics.

Investment managers generally responded that they do not employ external investment managers. However, where investment managers do employ external investment managers, they indicated that they consider RI/ESG issues when considering and approving fund managers and assess the ability of managers to integrate RI/ESG analysis into investment decision making.

Chart 5: Extent to which RI/ESG issues are considered when selecting and approving fund managers (AO39, IM37)



51 asset owner responses (respondents with external investments only; 6 answered 'Not applicable')

Forty-five per cent of asset owners formally assess the extent to which integration by external fund managers is actually taking place. In some cases, signatories will ask managers to regularly report on ESG integration or will undertake periodic reviews to assess this. In other cases, they rely on third-party assessments of their managers.

Fifty-five per cent of asset owners do not assess their managers on the extent to which they are integrating RI/ESG issue analysis into investment decision making. For the investment industry to shift further towards systematic integration of ESG within investment decision making, a greater proportion of asset owners will need to monitor and evaluate their external managers in this area.

The survey found that more than half of asset owners indicated that they don't know what percentage of their external equity managers are members of the Enhanced Analytics Initiative, indicating that more work needs to be done in terms of how asset owners are monitoring investment manager practices in regards to RI.

Beyond integrating ESG considerations within mainstream investment practices, a number of signatories have also developed thematic investment strategies with focus on specific ESG factors, such as carbon trading and clean

energy. A number of related investment products now exist across a range of regions and asset classes (such as public equity, private equity and venture capital).

At present, 43% of asset owners do not have their consultants consider RI/ESG issues when short-listing fund managers. These asset owners should address this given the role that investment consultants play in setting parameters for how investment managers are selected and monitored. A number of signatories mentioned that their investment consultants have not yet been very active in advising on ESG. One mentioned that it has had to push its investment consultant to take seriously its RI intentions, and that while this has been successful locally, 'the larger global firm seems less interested, and sometimes this is a problem'.

PRI in action

Evaluating and selecting managers

PGGM has sent an ESG questionnaire to all relevant external asset managers in order to gain insight into their philosophy and practical approach of incorporating ESG factors in their investment decisions. Based on these responses PGGM has had active dialogues with the managers to encourage them to make progress on these topics. The ESG questions have become a standard part of our RFPs and external managers' assessment framework. PGGM scores the ESG performance of its external managers, monitors the progress and takes this into account when evaluating its current managers and while selecting new managers. In addition, PGGM encourages all external managers to subscribe to the PRI.

PGGM, Netherlands

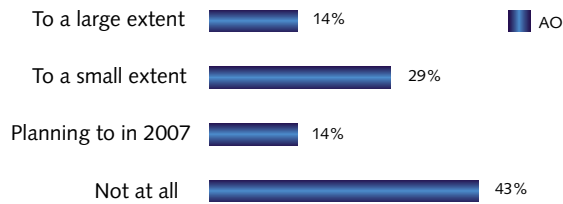
PRI in action

Monitoring managers on ESG performance

PREVI is in the process of selecting five new external private equity investment managers. The consideration of ESG issues is a mandatory part of the RFP. Previ will monitor its external investment managers on the basis of their implementation of a responsible investment strategy and it intends to participate in the investment decision making process by sitting on its fund managers' investment committees.

PREVI, Brazil⁹

Chart 6: Consideration of RI/ESG by consultants when short-listing fund managers (AO40, IM38)



51 asset owner responses (respondents with external investments only;
23 answered 'Not applicable')

Fostering industry development

The survey showed a much larger proportion of investment managers are willing to support the development of industry tools to a large extent (61%) than are asset owners (36%). This could be due to budget constraints and resource capacity for such endeavours amongst asset owners versus investment managers.

Some signatories choose to support industry innovation by sponsoring industry events (such as 'SRI in the Rockies'), and others provide direct funding for academic positions. For example, the European Centre for Corporate Engagement (ECCE), supported in part by ABP, aims to 'help institutional investors remove barriers to successful implementation of sustainable investment strategies.'¹⁰ In the press release announcing its launch, Roderick Munsters, CEO of ABP Investments commented, 'ECCE's research helps us to include sustainability issues in our regular investment policy. It is extremely important for us that, via ECCE, we have direct access to knowledge and instruments that shed new light on the relationship between sustainability and investment risks and returns'.

Many PRI signatories mentioned their involvement with the UNEP FI Asset Management Working Group as a means to further their understanding of the impacts of environmental and social considerations on financial performance. In 2007, UNEP FI launched reports on ESG issues in private banking (with onValues) and pension funds (with the United Kingdom Social Investment Forum). Additional work planned for 2007 includes a report on how investors can include ESG issues in a full range of asset classes (with the Institute for Responsible Investment) and a literature review looking at how ESG issues affect financial performance (with Mercer Investment Consulting).

About 14% of the research supported by asset owners is proprietary, while more than half supported by investment managers is proprietary – reflecting the commercial nature of most managers.

The survey found strong support for industry wide training on RI/ESG, just as there was strong support for internal training programs, with more than half of respondents in both categories supporting industry wide training on RI/ESG to a small or large extent.

Conferences and other events are the most common form of industry wide training, with more than half of asset owners and investment managers attending, sponsoring, speaking or otherwise participating. It is also very encouraging to see that just over half of the PRI signatories are involved in dialogue or information exchanges with peers as such interactions play an important role in fostering learning and the sharing of best practices.

PRI in action

Facilitating academic research

SAM Group, in which Robeco holds a majority stake, enables academic research by making its extensive database of corporate sustainability information available to selected academic parties. Robeco has also asked its research providers and brokers to conduct some bespoke work in the extra-financials area, which we evaluate internally and share with our clients.

Robeco, Netherlands

Principle 2 Findings

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

Approaches to active ownership vary according to signatories' missions, objectives, resources and ownership philosophies. Following the table of how leading companies implement Principle 2, this section considers:

- Overall approaches that signatories are taking to active ownership
- Voting policies and practices
- Proxy voting execution
- Filing of shareholder returns
- Shareholder engagement practices
- Defining engagement success
- Signatory self-assessment.

In implementing Principle 2, top-performing signatories tend to do the following:

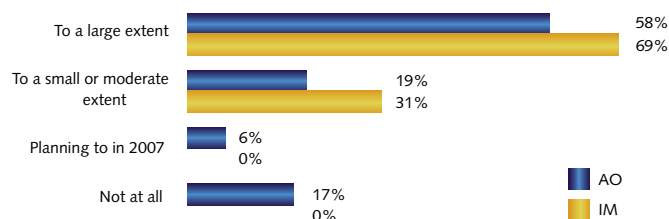
- Develop active ownership strategies including voting, direct engagement (private or public), collaborative engagement, filing/co-filing shareholder resolutions where necessary
- Develop or adopt formal, public voting policies that explicitly address environmental, social and governance considerations
- Apply their voting practices internationally where possible
- Require reporting on voting activity to ensure votes are executed according to policy direction (such as tracking voting instructions or requiring reports on voting)
- Develop comprehensive RI/ESG engagement capabilities in-house, outsource to fund managers with substantial engagement capacity or employ an unbundled engagement service
- Establish engagement objectives and systematically evaluate progress
- For investment managers, execute client-specific voting (when requested) and proactively inform clients of RI-related engagement opportunities.

First steps

Best practice

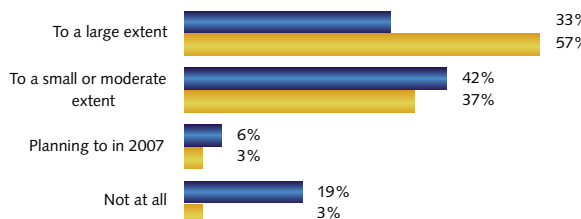
Chart 7: Extent to which signatories employed the following approaches to engagement (AO49, IM47)

Proxy voting



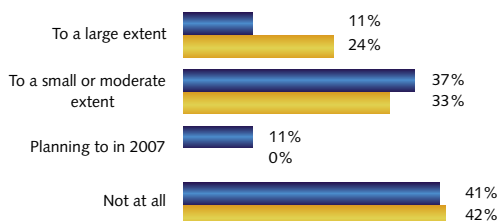
(57 asset owner responses, 41 investment manager responses)

Direct engagement conducted privately



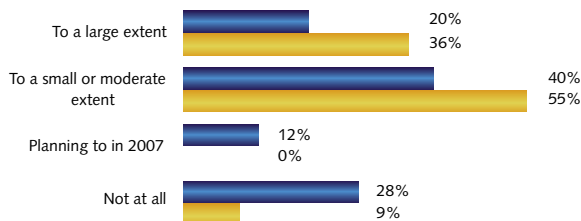
(56 asset owner responses, 38 investment manager responses)

Direct engagement conducted publicly



(55 asset owner responses, 38 investment manager responses)

Collaborative engagement



(57 asset owner responses, 35 investment manager responses)

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

Overall approach to active ownership

Asset owners and investment managers employ multiple approaches to active ownership. For asset owners, voting and private direct engagement are the most common approaches. This may change, as asset owners have indicated that they plan to increase their voting, engagement and use of resolutions in 2007, whereas most investment managers are not planning to introduce new approaches this year.

Investment managers are more active in their ownership than asset owners in the majority of areas, which is unsurprising when considering that many asset owners manage their assets externally through investment managers and therefore do not have direct active ownership capabilities (but rather indirect through their managers). In this vein, the asset owners' responsibilities are to ensure that there is a policy in place and that it is reflected in the way their assets are managed (whether internally or externally).

Voting policies

Seventeen percent of asset owner signatories are not involved in the voting process. All investment managers are involved in voting to some extent, and 93% of investment managers have a policy. This level of activity is reflected in the high proportion of investment managers who have custom policies created in-house (85%, versus 71% of asset owners). The remainder of signatories either have used an advisor to support the development of custom guidelines or use off-the-shelf policies available through proxy voting service providers.

Eighty-five percent of investment managers conduct proxy voting on behalf of their clients and 78% of managers can execute client-specific voting programmes.

Table 2: Sample voting policies

Signatory	URL
Caisse de dépôt et placement du Québec	www.unpri.org/0708
Canada Pension Plan Investment Board	www.unpri.org/0709
Domini Social Investments	www.unpri.org/0710
Ethos - Swiss Foundation for Sustainable Development	www.unpri.org/0711
Fonds de réserve pour les retraites (FRR)	www.unpri.org/0712
Frater Asset Management	www.unpri.org/0713
Hermes Pensions Management Limited	www.unpri.org/0714

When looking at the issues most commonly addressed within voting policies, governance is featured to a large extent by both asset owners (84%) and investment managers (87%). The environment comes next, with 35% of asset owners featuring it to a large extent, 22% to a moderate extent and 16% to a small extent (versus 47%, 17% and 28% respectively for investment managers).

Social factors receive a similar level of consideration.

In terms of geographic reach, 40% of asset owner voting policies apply to all regions versus 61% of investment managers.

Seventy-three per cent of investment managers publicly disclose their voting policies, versus 46% of asset owners. This likely reflects the desire for investment managers to make policies available to prospective clients.

A trend towards increased disclosure is well under way, driven in large part by regulation. For example, mutual funds in the USA and Canada are now required to disclose their votes.

PRI in action

Quality ESG information is required for effective voting

Morley's current policy is that it expects all FTSE 350 and FTSE EuroFirst 300 Index companies to disclose information on their exposure to and management of key environmental, social and corporate governance risks. Where companies publish insufficient information, Morley may abstain or vote against the resolution to adopt the Report and Accounts. The audit reviewed Morley's votes against and abstentions on approving a company's Reports and Accounts due to poor ES disclosure from January 2002. This covered 121 companies. 'Success' was defined as Morley being able to vote in favour of ARA, having withheld support in previous years. The mean average 12-month success rate over the data period was 58.7%. Focusing on the 2002 data, the 24-month success rate is 84% and the 36-month success rate 97%.

While these results indicate that the voting practices may have been effective, Morley notes that improvements in ES narrative reporting would have been highly likely to take place without Morley's voting, as considerable emphasis was being placed on corporate ES disclosure by a range of stakeholders. Morley notes that it would therefore be wrong to claim all or even most of the credit for the changes that took place. This highlights some of the challenges when measuring the effectiveness of engagement. Nevertheless, Morley believes that the results indicate that the annual process of reviewing, consulting and publishing its voting policy – as well as the voting and engagement activity itself – has made a positive contribution.

Morley Fund Management, United Kingdom

PRI in action

Reporting on how votes are cast

Disclosure is an important element of CPP Investment Board's core practice and philosophy. This is why we disclose how we vote on all our proxies. We are not required by regulation to disclose our votes but do so for transparency. Proxy voting is a key element in our approach to responsible investing. CPP Investment Board believes that good corporate governance enhances long-term shareholder value. Proxy voting is one component of the corporate governance process, enabling shareholders to express their views on a variety of issues.

As a percentage of shares outstanding, CPP Investment Board owns on average 2 to 3 percent of Canadian companies and 0.05 per cent of international companies. CPP Investment Board votes at shareholder meetings for over 2,000 public companies, both domestic and international. Its votes go on its website the next day and a historical voting record is also available on its website (www.cppib.ca) and searchable by company name and date. A proxy voting report is produced annually to provide a summary of voting by category of proposal. CPP Investment Board's public equity holdings are disclosed annually at fiscal year end.

CPP Investment Board, Canada

Proxy voting execution

PRI signatories employ a range of approaches to voting. Thirty-three per cent of asset owners execute votes internally, and 36% use a combination of internal and external voting resources. Fourteen per cent outsource proxy voting to a service provider, and 17% of asset owners have their managers vote on their behalf.

In contrast, a larger proportion of investment managers (59%) execute votes internally, and 21% use a combination of internal and external voting. The remaining 20% outsource their voting completely (15% to a proxy voting service provider and 5% to external managers). The approach taken will relate to the size and structure of signatories, their reliance on external management, commitment to active ownership and overall resources dedicated to this function.

Investment managers are also more likely to assess whether voting has been conducted in accordance with their policy: 53% of investment managers track voting instructions and 47% require voting reports. A smaller number of asset owners track voting instructions (38%) or require voting reports (37%). Overall, these figures are low, and could be expected to grow in the future.

Apart from voting at shareholder meetings by proxy, both asset owners and investment managers can also attend meetings or provide power of attorney to a third party to vote at a meeting on their behalf. For example, Dutch shareholder meetings are attended by participants of Eumedion, the corporate governance platform which aims to improve corporate governance in the Netherlands.

Filing of shareholder resolutions

Seventeen per cent of asset owners and 24% of investment managers filed or co-filed RI/ESG-related shareholder resolutions during 2006. The highest level of activity is witnessed among US investors. Looking forward, an additional three investment managers (from Australia, the Netherlands and the USA) and two asset owners (from Sweden and the United Kingdom) plan to file or co-file shareholder resolutions in 2007. This group is relatively small, indicating that the filing of resolutions will not become widespread outside the USA in the short term. This may reflect the apparent preference in non-US jurisdictions on dialogue, with the use of formal shareholder rights only as a last resort.

PRI in action

From engagement to filing shareholder proposals

Bâtirente's decision to integrate ESG issues into its investment process is reflected in its annual engagement plan. The fund targets companies with the highest ESG risks and engages with them through open dialogue; where necessary, this is followed through with filing shareholder proposals.

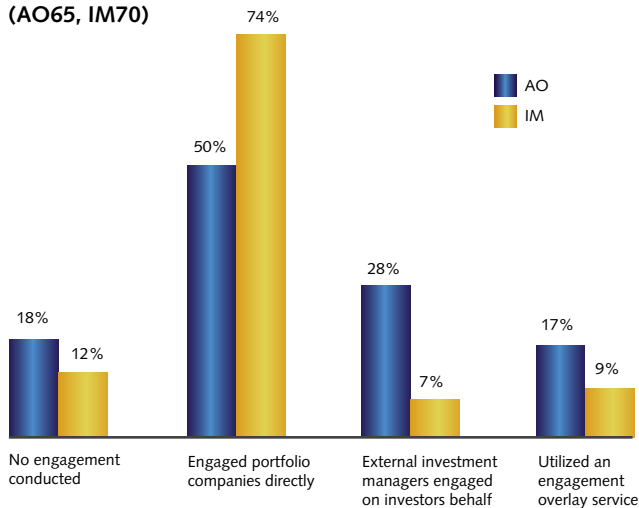
Bâtirente filed two shareholder proposals with TD Bank in 2007. The first proposal asked the bank to adopt the Equator Principles and to apply them widely across its lending activities. Bâtirente received a commitment from the bank to adopt the Equator Principles; as such the first proposal was withdrawn. The second proposal requested the bank to integrate ESG performance indicators into the performance assessment process of its senior executives. This went to a vote at the AGM and received almost 13% of votes in support. This success of such an innovative proposal has encouraged the fund to continue to engage in a dialogue with the bank around this critical issue.

**Comité syndical national de retraite
Bâtirente, Canada**

Shareholder engagement

The majority of signatories undertake some form of engagement with investee companies. The most popular approach is direct engagement through dialogue with companies, with a smaller number of signatories employing an unbundled engagement overlay service¹¹ or relying on external managers to engage on their behalf.

Chart 8: Types of engagement with portfolio companies (AO65, IM70)



PRi in action

Engaging companies on ESG issues

The Ethos Foundation believes that integrated asset management applied over the long term requires active dialogue with the companies in which the Foundation invests. The aim of its engagement programme is to heighten corporate awareness on issues of sustainable development and on the principles of good corporate governance, and to encourage businesses to direct their strategies accordingly. Ethos engages in active dialogue with Swiss listed companies on corporate governance (such as individual election of board members, remuneration policy and composition of the audit committee) and environmental and social responsibility (such as reporting, corporate principles and codes of conduct).

For each engagement theme, Ethos defines indicators that are systematically monitored and reported on a yearly basis. Environmental and social ratings of the companies in which the Foundation invests are made public in order to heighten awareness - both among the companies that are engaged, as well as in the market as a whole.

Ethos Foundation, Switzerland

For those signatories who are engaging with companies, the following level of activity was reported in terms of direct activity undertaken. We have shown both the median figure and the highest numbers reported, in order to provide a sense of the wide range of activity taking place in terms of direct corporate engagement.

Table 3: Number of portfolio companies engaged directly by, or on behalf of, signatories (AO68, IM75)

	Asset owners		Investment managers	
	Median	Highest number	Median	Highest number
Meetings	13.5	222	35.0	143
Letters	37.5	3999	24.5	3996
Other means	6.0	1799	10.0	638
	22 answered		22 answered	

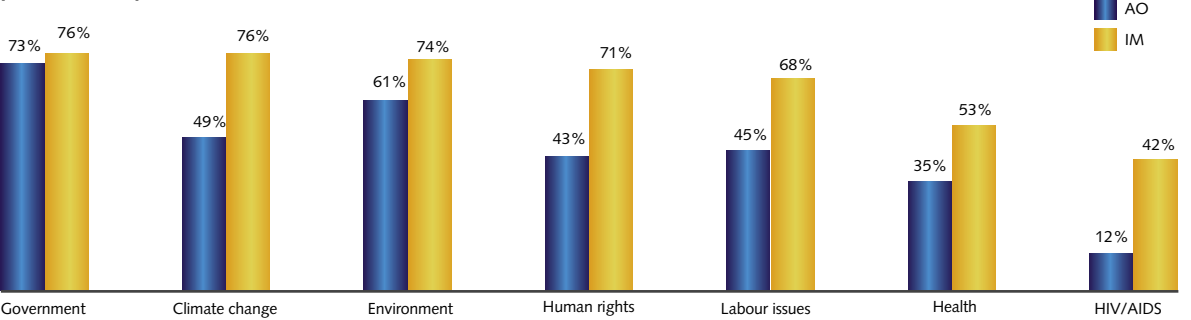
PRi in action

Bringing engagement into 'focus'

Since 1987, CalPERS "Focus List" Program has used a quantitative and qualitative process focused on governance and financial performance to review its US equity holdings. Companies with low governance and financial scores are analysed to determine whether discussions with the board and company management could potentially add value. If CalPERS engages an underperforming company and is unsuccessful, the company may be placed on the CalPERS Focus List. The list is widely published, and upon being placed on the list some companies are engaged for over three years on their issues. CalPERS may also file shareowner proposals at these companies to effect change on relevant issues. The Focus List may be the most well known CalPERS engagement initiative. CalPERS is currently working on a similar initiative that is focused on improving environmental disclosure. Through the environmental company engagement initiative, companies that experience poor financial performance relative to their industry peers, fail to respond to the Carbon Disclosure Project or do not apply the Global Framework for Climate Risk Disclosure may be engaged.

CalPERS, United States

Chart 9: RI/ESG-related issues addressed in shareholder engagement initiatives (only respondents who engaged portfolio companies) (AO71, IM78)



PRI signatories explore a range of factors when determining engagement targets and topics. The most common factors are:

- risk profile (looking at the specific risk factors within a company or issue)
- focus issues (working within a priority theme already identified, such as climate change) and
- ad hoc engagements, where investors react to a development or an event at a company.

Between 35% and 58% of asset owners and investment managers consider each of these three factors when determining engagement targets. Half of the investment managers also consider sector exposure, and 28% take client direction on this matter.

About a quarter of asset owner signatories have developed comprehensive engagement capability to a large extent, with similar proportions having done so to a moderate or small extent. More than 15% of asset owners plan to increase the extent to which they engage on social and environmental issues during 2007 and more than 10% will increase their level of engagement activity in relation to governance. This trend will level the engagement activity between environment, social and governance issues over time. Currently, governance issues are the most common topic of engagement, followed by the environment.

When considering how comprehensive investment manager engagement strategies are, more than 30% report 'to a large extent' on environmental and social issues, reaching 43% in relation to governance.

Defining engagement success

Sixteen per cent of asset owners and 19% of investment managers have yet to define and measure engagement success, and 26% of asset owners and 6% of investment managers are planning to in 2007. One signatory suggested that metrics for evaluating the effectiveness of engagement have yet to be defined.

About a third of asset owners and investment managers establish issue-related engagement objectives and evaluate success 'to a small extent' (34% and 38% respectively). A sample of approaches to setting engagement objectives and measures for success is illustrated below.

Table 4: Sample of engagement objectives and measures for success

Engagement objectives (AO74, IM81)	Defining engagement success (AO76, IM83)
Enhance or protect shareowner value through engagement concerning sustainability issues.	Percentage of proposals accepted by company.
Address stakeholder concerns, financial performance and corporate governance.	Satisfactory proxy voting percentages.
Follow up on statements or promises made by corporate managers.	Shareholder resolutions withdrawn.
Make companies aware of ESG issues.	Improvement or stabilisation of share price.
Improve environmental footprint of investee organisation.	Share price relative to sector.
Promote adoption of international norms and codes such as the UN Global Compact or the ILO labour standards.	Disclosure improvements.
Collect ESG information to help inform investment decisions.	Reforms adopted by targeted countries.

Thirty-eight per cent of investment managers and 24% of asset owners set engagement objectives and attempt to evaluate success 'to a large extent' and have developed sophisticated mechanisms for tracking and measuring this. In these instances, specific objectives are set for each engagement programme or governance topic and formal tracking systems are put in place to track the engagement with each company to determine whether engagement targets have been achieved (either company or topic specific).

Success can be measured in financial and non-financial terms, with financial improvement assessed in terms of share price relative to sector over a certain time period (such as three to five years). The establishment of engagement objectives at the outset is critical to an investor's ability to measure and report engagement success. When reviewing the evidence of engagement success, three indicators are commonly used:

- Evidence of improvement in investee company RI/ESG performance due to engagement activity – 28% of asset owners and 49% of investment managers make this claim.

- Signatories indicate that satisfactory proxy voting percentages on resolutions filed provide evidence of engagement success (23% of asset owners and 40% of investment managers).
- The number of shareholder resolutions successfully withdrawn was reported by 13% of asset owners and 16% of investment managers.

A fifth of investment manager signatories do not systematically bring RI/ESG engagement opportunities to clients, while 27% do so to a small extent and 24% to a large extent. An additional 5% will begin to do so during 2007. Some investment managers provide an annual report on ESG issues to clients, others help to educate groups of investors on RI/ESG issues and others keep clients informed of engagement activities (through quarterly or ad hoc reporting). We expect to see an increase in systematic reporting on ESG engagement activities to clients.

Signatory self-assessment

We asked signatories to self-assess their engagement programmes. Nineteen per cent of asset owners and 38% of investment managers identify themselves as having industry-leading engagement programmes. The majority of signatories rate themselves below this, identifying their capability either as progressing (33% of asset owners and 38% of investment managers) or as in the beginning stages (29% of asset owners and 8% of investment managers). The remainder report that they have not yet developed an engagement programme.

PRI in action

Setting objectives and monitoring progress

Each year, and on an ongoing basis, Domini Social Investments sets and assesses objectives for each engagement. Its objectives always relate to tangible progress on the social or environmental issue we are seeking to address. These objectives vary by issue, and by company, although virtually every engagement will seek some form of public disclosure as part of its request to management. Most issues addressed through its engagement activities are long-term in nature, such as climate change or supply chain labour conditions. Therefore, it assesses incremental progress towards long-term sustainability goals.

For example, if Domini is seeking a sustainability report, there are various stages of success including a high vote on a resolution, a commitment to produce a report, a commitment by company management to work with Domini by sharing drafts and incorporating feedback, and actually publishing a high-quality report.

The goal of virtually every engagement is to reach a point of true dialogue, where both management and shareholders can learn from each other and work together towards solutions to long-term problems.

Domini Social Investments, United States

Principle 3 Findings

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

Reliable information about ESG performance of investee entities is an important precondition for the effective implementation of the PRI.

In implementing Principle 3, top-performing signatories tend to do the following:	First steps	Best practice
■ Ask companies to produce standardised reporting on their RI/ESG issue performance using frameworks such as the Global Reporting Initiative and the Carbon Disclosure Project	●	
■ Seek information from companies regarding their adoption of/adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG issues	●	
■ Support shareholder resolutions promoting ESG disclosure.	●	★

Reporting on ESG issue performance

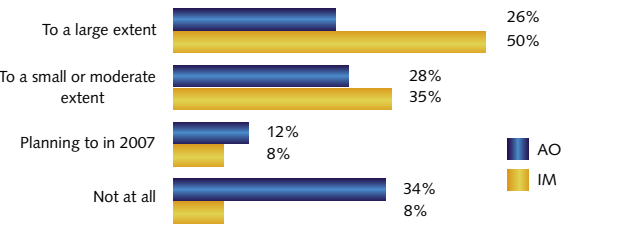
Investment managers are almost twice as likely to have asked investee companies for standard reporting on ESG issues. This is done through collaborative initiatives such as the Carbon Disclosure Project or direct communication with companies.

Using shareholder resolutions to promote ESG disclosure

Through its \$500 million endowment, the Nathan Cummings Foundation is committed to building a socially and economically just society. To support this, in 2007 the Nathan Cummings Foundation filed several resolutions requesting disclosure on climate change, energy efficiency, healthcare and overall sustainability. The Foundation also participates in shareholder initiatives focused on disclosure and is an associate member of the Interfaith Center on Corporate Responsibility (ICCR) and a member of the Investor Network on Climate Risk (INCR).

Nathan Cummings Foundation, USA

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')

Table 5 provides a short list of the most commonly requested formats for RI/ESG issue performance reporting.

Table 5: Common formats requested for RI/ESG issue performance reporting	
Carbon Disclosure Project (CDP)	www.unpri.org/0715
Extractive Industries Transparency Initiative (EITI)	www.unpri.org/0716
Global Framework for Climate Risk Disclosure	www.unpri.org/0717
Global Reporting Initiative (GRI)	www.unpri.org/0718
Integrated with annual reports	

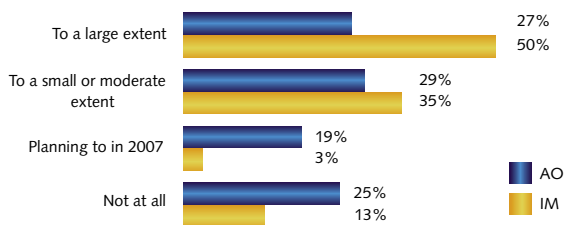
Seeking standardised reporting on ESG

Calvert has championed the Global Reporting Initiative (GRI), issuing its own sustainability report according to the guidelines and filing several shareholder resolutions encouraging companies to use the GRI guidelines for reporting. In addition to GRI reporting in general, Calvert has sponsored resolutions calling for increased disclosure on climate change, political contributions and workplace diversity. In all, Calvert filed 20 resolutions in 2007 calling for increased disclosure on sustainability or specific ESG issues, including eight advocating GRI reporting. Resolutions calling for climate change and disclosure of political contributions also reference the increasingly accepted standards of the Center for Political Accountability and the Carbon Disclosure Project.

Calvert, USA

A similar percentage of investment managers and asset owners who have sought standard ESG reporting from companies have also asked about their adherence to norms, standards and codes of conduct (such as the Global Compact). Nineteen per cent of asset owners plan to begin this practice in 2007 (versus 12% who will begin to request standard corporate ESG reporting), suggesting that corporate behaviour in relation to international norms and practices will be increasingly important to asset owners in the future.

Chart 11: Extent to which respondents have sought information from companies regarding their adoption of/adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG issues (AO81, IM88)



58 asset owner responses, 43 investment manager responses (6 asset owners and 3 investment managers responded 'Not applicable')

PRI in action

Promoting transparency and disclosure

F&C expects high standards of transparency and disclosure from investee companies, including a narrative account within its annual report about the trends and factors affecting the performance and future development of the business. This includes areas that have not been traditionally covered in annual reports, such as material ESG issues. While recognising that ESG reporting varies by geography and sector, F&C have identified – and informed companies about – 13 steps to best practice ESG reporting.

F&C provides feedback to investee companies on their sustainability reporting throughout the year. Our engagement approach, detailed under our 'Transparency & Performance' programme, references specific guidance on matters such as the Global Reporting Initiative (GRI) and the ABI (Guidelines on Responsible Investment).

F&C Asset Management, United Kingdom

Principle 4 Findings

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

The promotion and acceptance of the PRI's objectives throughout the investment chain are essential to the long-term success of the initiative and the integration of RI/ESG issues. This section examines:

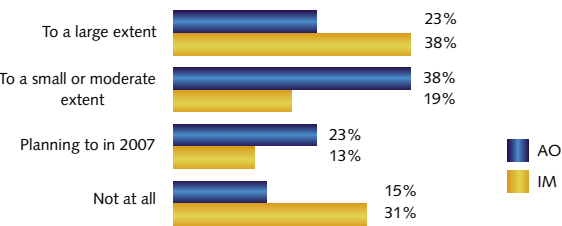
- The influence of signatories in effecting change throughout the investment supply chain and the alignment of policies with the incentives offered to service providers; and
- The support of signatories for RI/ESG performance measurement within the investment industry.

In implementing Principle 4, top-performing signatories tend to do the following:	First steps	Best practice
■ Include PRI-related requirements in requests for proposals sent to <ul style="list-style-type: none">- Investment managers- Proxy voting service providers- Investment consultants	●	
■ Align investment processes such as mandates or monitoring reports to facilitate and promote RI/ESG issue integration	●	
■ Offer employees a pension fund that is also a signatory to the PRI		★
■ Ask service providers to sign the PRI	●	
■ Revisit relationships with service providers when RI/ESG capabilities are inadequate		★
■ Engage in dialogue or lobbying on government policy or industry regulations related to RI/ESG issues		★
■ Support the development of tools for benchmarking RI/ESG issue integration (such as sector-based comparisons).		★

Influencing the supply chain

More than half of asset owner signatories made some reference to PRI-related requirements in requests for proposals, with another 23% planning to add PRI-related requirements in 2007. This could have important implications for the supply chain as PRI signatories start to build in minimum standards for service providers' ESG integration and ownership performance.

Chart 12: Extent to which PRI-related requirements are being included in requests for proposals (AO83, IM90)



59 asset owner responses, 42 investment manager responses (12 asset owners and 26 investment managers responded 'Not applicable')

Aligning investment processes with RI/ESG integration

Few asset owners have taken formal steps towards structuring processes to explicitly address RI/ESG issues. Where they have done so, they are most likely to have focused on investment mandates. However, there is still little use of performance indicators or incentive structures

to promote ESG integration, as shown by the chart below. The majority of asset owners do not use these tools, and fewer than 20% are using them to a large or moderate extent. This is consistent with the 20% of asset owners who said that they would consider revisiting relationships with service providers because of inadequate RI/ESG-related capabilities (the number was slightly lower for investment managers, with 18% saying they would revisit relationships in this instance).

PRI in action

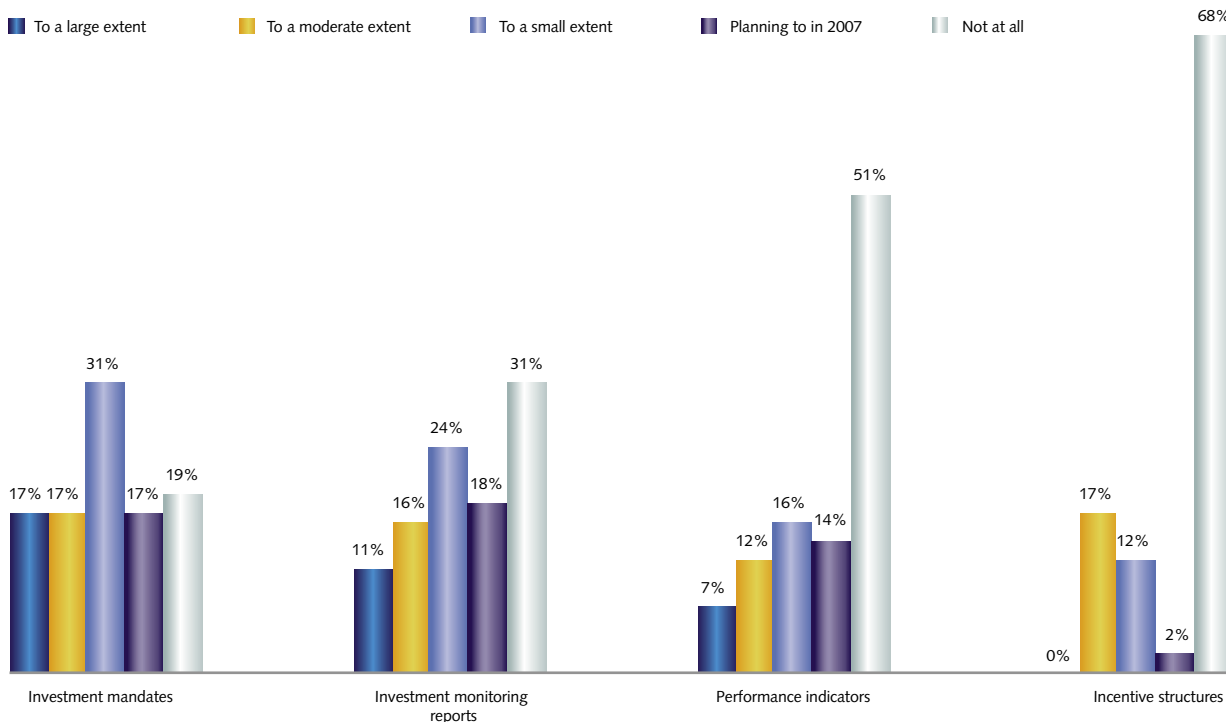
'the Manager must have regard to...'

In appointing new fund managers or modifying existing relationships, VicSuper requests that the following clause be inserted into the legal documents that govern the investment activities: 'the Manager must have regard to, and use its best endeavours to comply with, the United Nations Principles for Responsible Investment'.

In recognising the non-prescriptive nature of the PRI, VicSuper supplemented this requirement with a brief set of sustainability covenants to guide investment behaviour in this context. In practice, the extent to which the manager implements this clause through the investment supply chain and into relevant investment decisions, legal documentation and investment analysis is still open for review. VicSuper is monitoring the investment activities of managers and engaging where appropriate.

VicSuper, Australia

Chart 13: Extent of alignment of investment processes to facilitate and promote RI/ESG issue integration, asset owners only (AO85)



52 responses for investment mandates, 51 responses for investment monitoring reports, 52 responses for performance indicators and 50 responses for incentive structures ('Not applicable' responses: 4 for investment mandates, 6 for investment monitoring reports, 9 for performance indicators and 9 for incentive structures)

PRI in action

Alignment of incentives and RI/ESG issue performance

A proportion of USS's incentive structure is focused on non- or extra-financial performance. USS fund managers have 20% of their bonuses related to these factors that, whilst not necessarily ESG factors, do include a consideration of how individual activities contribute to enhanced performance of the fund as a whole. The fund is also exploring how it can better evaluate and reward extra-financial/ESG integration into individual fund manager and overall investment performance.

Universities Superannuation Scheme (USS), United Kingdom

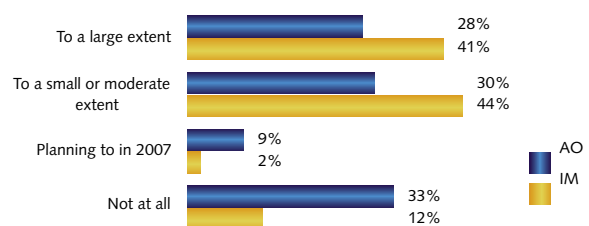
To date, the majority of signatories have not asked their service providers to sign the PRI; 45% of asset owners and 58% of investment managers have not done so. It will be on the agenda for 18% of asset owner signatories and 4% of investment managers in 2007.

Investment managers were asked about the pension funds their employees are offered and whether those funds are also signatories of the PRI. Only 21% of these default pension funds are PRI signatories. In line with signatories' commitments to the PRI, we would expect this figure to increase over the long term.

Engaging on 'the big picture'

Many RI/ESG concerns involve systemic or structural problems and can be comprehensively addressed only by policy makers. For many signatories, participation in policy debates to encourage reforms that support responsible investment and encourage improved ESG performance is an important element of PRI implementation.

Chart 14: Extent to which respondents have engaged in dialogue, lobbying or initiatives pertaining to government policy and/or industry regulations related to RI/ESG issues (AO92, IM99)



59 asset owner responses, 43 investment manager responses (2 asset owners and 2 investment managers responded 'Not applicable')

PRI in action

National roundtables on corporate social responsibility

The Government of Canada held a series of roundtables across Canada in order to facilitate discussion of corporate social responsibility (CSR) in the mining, oil and gas sectors and their operations in developing countries. The objective was to examine measures that could be taken to position Canadian extractive sector companies operating in developing countries to meet or exceed leading international CSR standards and best practice.

Three Canadian PRI signatories participated in this process. Ethical Funds was a member of the Advisory Group providing guidance and assistance to the government Steering Committee. CPP Investment Board participated in the roundtable discussions regarding market-based incentives. Bâtirente raised public awareness in Quebec, and made recommendations for how to increase transparency in the industry (such as mandatory Global Reporting Initiative reporting for Toronto Stock Exchange listed companies).

Ethical Funds, Canada Pension Plan Investment Board and Bâtirente, Canada

More than half the signatories have engaged in dialogue concerning government policy and/or industry regulations to some extent, with the proportion increasing to 85% for investment managers. About a third of asset owners are not involved in this activity.

There are a number of reasons why funds may be reluctant to engage in policy debates such as:

- a lack of time or capacity
- a perception that such activities may not be relevant to investment management; and
- a desire to avoid controversy.

PRI in action

Assessing the capabilities of external managers on ESG issues

The Agency integrates RI/ESG into its investment decision making processes through its investment manager selection and performance measurement processes. Investment managers are evaluated on their ESG competencies and have to detail their RFP response to address how financially material environmental risks and opportunities are integrated into the investment process. This includes stock selection, portfolio management, research, engagement, voting and performance reporting.

The Agency encourages managers to use research and performance rating/ranking tools on various environmental risks and regular review meetings address compliance with policy statements. Managers may be requested to explain and justify financially any investment decisions considered to be environmentally controversial. Managers are also required to provide an annual report on compliance with the Agency's 'green' policies.

Environment Agency Pension Fund, United Kingdom

PRI in action

Undertaking innovative benchmarking studies

Insight builds analysis of RI/ESG issues using a combination of thematic research, a corporate risk initiative, fundamental analysis and integration of governance issues into investment decisions and broker research.

Insight has conducted several benchmarking studies of companies' management of ESG issues. For example, in 2003-04 it assessed the quality of labour standards management of 35 companies in six sectors (with AccountAbility) and subsequently undertook two benchmarking studies of UK housebuilders, reviewing the management of sustainability issues and the quality of reporting (2004 and 2005). These reports, and the benchmarks conducted of biodiversity management and reporting in the oil, gas mining and utility sectors (2004 and 2006), are publicly available. Insight's housebuilders benchmarking study is being replicated in the USA, UNEP FI's Ecosystem and Biodiversity Working Group has adopted its biodiversity benchmark framework, and Insight's electricity utility disclosure framework is being adopted by the Institutional Investors Group on Climate Change.

Insight Investment Management (Global) Limited, United Kingdom

Developing tools for the industry

Another sign of progress is the fact that 30% of asset owners and 54% of investment managers have supported the development of tools for benchmarking RI/ESG issue integration. Another 17% and 9% of owners and managers respectively are planning to do so in 2007.

Principle 1

Principle 2

Principle 3

Principle 4

Principle 5

Principle 6

Principle 5 Findings

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

Collaboration was identified as one of the essential ingredients of success for the PRI. After the table of how leading signatories are implementing Principle 5, this section looks at:

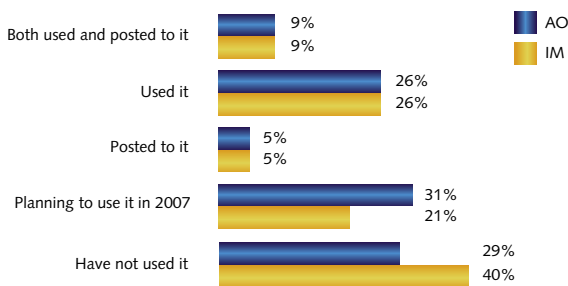
- PRI Engagement Clearinghouse
- Signatory participation in other collaborative initiatives.

In implementing Principle 5, top-performing signatories tend to do the following:	First steps	Best practice
■ Participate in collaborative activities that have been posted to the PRI Engagement Clearinghouse	●	
■ Initiate collaborative engagements and seek support from other investors, including through the Clearinghouse		★
■ Encourage external equity managers to join the Enhanced Analytics Initiative	●	
■ Participate in collaborative engagement initiatives or industry associations such as:	●	
- Carbon Disclosure Project		
- Extractive Industries Transparency Initiative		
- International Corporate Governance Network		
- Various climate change investors initiatives		
- Local social investment organisations.		

PRI Engagement Clearinghouse

The PRI Engagement Clearinghouse allows signatories to share information about engagement activities and to find like-minded organisations with which to collaborate.

Chart 15: Use of the PRI Engagement Clearinghouse (AO96, IM103)



58 asset owner responses, 43 investment manager responses

Eighteen per cent of asset owner respondents and 16% of investment manager respondents indicated that their use of the Clearinghouse resulted in collaboration (this low figure reflects the relative newness of the Clearinghouse).

PRI in action

Gaining support for proposals through the Clearinghouse

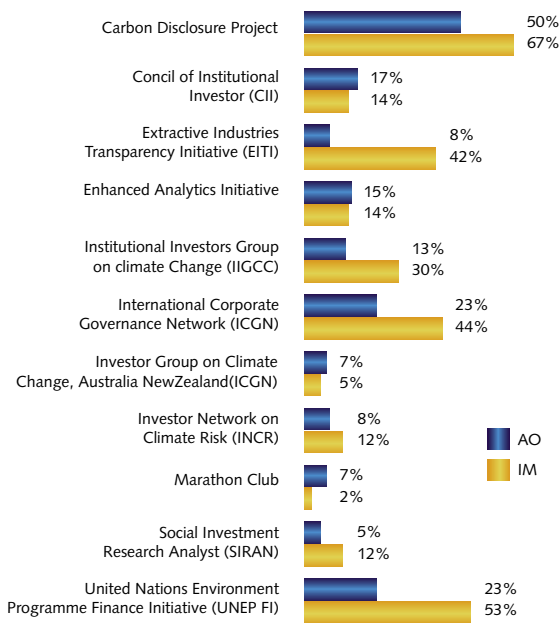
In the lead-up to the submission deadline, New York City Employee Retirement used the PRI Engagement Clearinghouse to make other PRI signatories aware of its intention to submit a shareholder proposal to Wal-Mart for the consideration and vote of shareholders at the company's 2007 annual meeting. The proposal requested the Board of Directors to issue a report to the shareholders, by September 2007, on the negative social and reputational impacts of reported and known cases of management noncompliance with International Labour Organization conventions and standards on workers' rights and the company's legal and regulatory controls. After its posting to the PRI Engagement Clearinghouse, a number of signatories became co-sponsors of the proposal.

New York City Employee Retirement System, United States

Collaborative initiatives

Collaborative engagement has the potential to offer a relatively high level of impact for a relatively low level of resource commitment. Some initiatives are regionally focused, while some are global. The Carbon Disclosure Project currently has the greatest participation from signatories, followed by the International Corporate Governance Network (ICGN) and UNEP Finance Initiative.

Chart 16: Participation in RI/ESG issue-related collaborative engagement initiatives or industry associations (AO107, IM114 and AO100, IM107)



A large number of signatories participate in a range of ESG-related industry groups and initiatives. Respondents mentioned 57 initiatives other than those listed by the PRI. Twenty-eight signatories reported that they are members of one or more regional social investment organisations (such as ASrIA, Ethical Investment Association, Eurosif, Forum de l'Investissement Responsable, UKSIF or US SIF). A small number of signatories reported involvement in other groups, such as the Australian Council of Super Investors (7), Global International Governance Network (4), Pharmaceutical Shareowner Group (4), Association of British Insurers (2), Canadian Coalition for Good Governance (2) and National Association of Pension Funds (2).

Enhanced Analytics Initiative and the PRI

In early 2007, the PRI and the Enhanced Analytics Initiative announced a collaboration to encourage the signatories of each initiative to join the other and to showcase leading ESG research. The Enhanced Analytics Initiative is an international collaboration between asset owners and asset managers aimed at encouraging better investment research, in particular research that takes account of the impact of extra-financial issues on long-term investment.

PRI in action

Fostering governance practices abroad

In addition to the Canadian Coalition for Good Governance, the International Corporate Governance Network and the Institutional Investor Summit on Climate Risk, bclMC is also a member of the Asian Corporate Governance Association (ACGA). The ACGA is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999 on the belief that corporate governance is fundamental to the long-term development of Asian economies and capital markets. In 2006, bclMC assisted the ACGA in publishing a report, titled Voting for Change – Bringing Proxy Voting Systems in Asia into the 21st Century. The report ranks Asian proxy voting systems against international best practices/markets and sets out action points for companies, investors and regulators. bclMC has begun engaging companies and regulators on the ACGA recommendations.

British Columbia Investment Management Corporation (bclMC), Canada

Principle 6 Findings

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

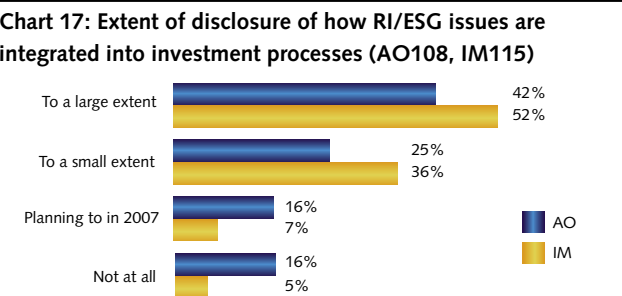
This section looks at the various forms of disclosure that signatories are undertaking including communicating about the PRI, and then we detail signatory efforts to evaluate the impact of their RI/ESG efforts.

In implementing Principle 6, top-performing signatories tend to do the following:	First steps	Best practice
■ Disclose how RI/ESG issues are integrated into investment processes	●	★
■ Disclose annual voting records with analysis of key votes		★
■ Systematically report on RI/ESG engagement activities, results and progress		★
■ Communicate on RI/ESG issues and the PRI to beneficiaries (asset owners)	●	
■ Raise awareness of the PRI and RI/ESG issues among broader stakeholders		★
■ Report on progress or achievements relating to the PRI using a 'comply or explain' approach (many have done so by participating in this assessment process and publishing the bulk of their responses)	●	
■ Contribute to the improved integration of RI/ESG issues by investment managers (including engagement and voting practices) and communicate on RI/ESG issues (asset owners)		★
■ Contribute to the improved integration of RI/ESG issues by investment managers (including engagement and voting practices) and communicate on RI/ESG issues (asset owners). - Evaluate the impact of their RI/ESG efforts on - Corporate behaviour or performance - Portfolio performance or risk - RI/ESG issue consideration by service providers.		★

Disclosure by signatories

Robust disclosure is the basis for accountability and transparency to beneficiaries and clients. Just as investors expect adequate disclosure from investee entities, so too, investors themselves must set an example. Widespread and systematic disclosure also gives investors who are relatively new to responsible investment an opportunity to understand how other investors are addressing RI/ESG issues.

Given that most RI activity is relatively recent, it is encouraging to see that about three quarters of signatories disclose, at least to a small extent, how RI/ESG issues are integrated into investment processes. Depth of disclosure varies significantly, and over time we expect the quality and quantity of reporting to improve.



60 asset owner responses, 43 investment manager responses (5 asset owners and 1 investment manager responded 'Not applicable')

The disclosure of voting policies is also relatively high amongst respondents, with more investment management firms disclosing policies to a small or larger extent (around

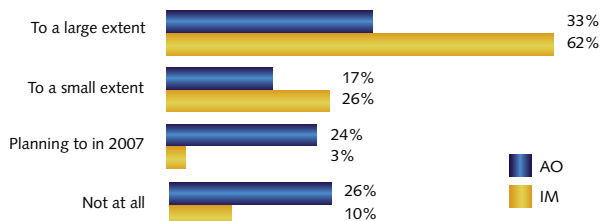
PRI in action

Disclosing how ESG issues are integrated within investment practices

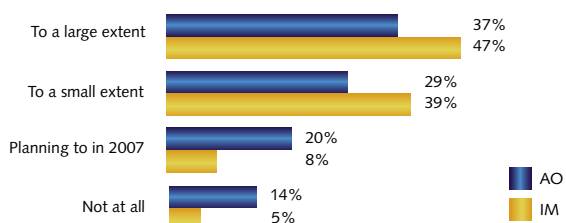
Hermes is an active investor, integrating ESG issues into dialogue with companies, voting proxies and participation in public debates. In its engagement activities, the firm clearly articulates its goals and approach. Though specific discussions with companies are not often documented, Hermes explains on its website how it determines engagement targets and the range of issues to discuss and describes the steps taken to enter into dialogue with companies. The document 'Hermes' Approach to Engagement' lets companies know the principles that Hermes adheres to when it begins an engagement. Although this document is geared towards engagement targets, it gives all audiences insight into their approach.

Hermes Pensions Management, United Kingdom

three quarters) than asset owners (fifty percent). Again, this difference may reflect the fact that many asset owners are less directly involved in actual voting practices but rather participate in such activities indirectly via specialist providers and fund management firms. If the 24% of asset owners who indicate that they will begin disclosing voting records in 2007 do so – the two groups will be on an almost equal footing.

Chart 18: Extent to which respondents disclose voting records (AO110, IM117)

59 asset owner responses, 43 investment manager responses (13 asset owners and 4 investment managers responded 'Not applicable')

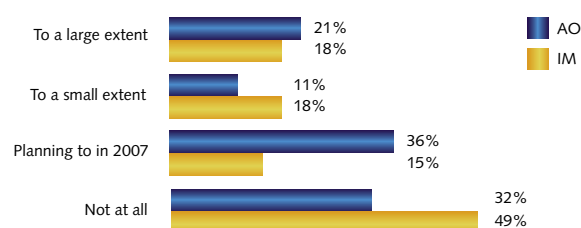
Chart 19: Extent to which respondents systematically report (internally and/or externally) on RI/ESG issue-related engagement activities, results and progress (AO113, IM120)

58 asset owner responses, 43 investment manager responses (7 asset owners and 5 investment managers responded 'Not applicable')

Table 6: Sample RI reporting

Signatory	Voting	Engagement	URL
California Public Employees' Retirement System (CalPERS)	As available	n/a	www.unpri.org/0719
Calvert Group	As available	n/a	www.unpri.org/0720
F&C Asset Management	Monthly and annually	Quarterly and annually	www.unpri.org/0721
Hermes Pensions Management Limited	Quarterly	n/a	www.unpri.org/0722
Insight Investment	Quarterly and annually	Quarterly and annually	www.unpri.org/0723
Newton Investment Management	Quarterly	Quarterly	www.unpri.org/0724
Universities Superannuation Scheme (USS)	n/a	Quarterly	www.unpri.org/0725
VicSuper	n/a	Annually	www.unpri.org/0726

On the question of reporting progress and achievements relating to PRI using a 'comply or explain' approach, the results suggest that relatively few signatories are doing so already, but that over a third of asset owners are planning to introduce such practices in 2007. This trend is likely to increase the pressure to validate practices throughout the industry. Table 6 includes a sample of signatories already reporting on their active ownership practices.

Chart 20: Extent to which respondents are reporting on progress and/or achievements relating to the PRI using a 'comply or explain' approach (AO122, IM127)

57 asset owner responses, 41 investment manager responses (10 asset owners and 2 investment managers responded 'Not applicable')

A number of signatories that will begin to report on PRI implementation in 2007 will do so by making their responses to this reporting and assessment tool public. Visit www.unpri.org/report07 to view individual signatory reporting, where available.

PRI in action

Using a 'comply or explain' approach

Insight lists 'communication' and 'transparency' as two primary ways the firm implements and encourages best practice on environmental, social and governance issues. Clients or interested parties can register to receive Insight's regular briefings, which cover proxy voting, integrating ESG into investments, results of engagement with companies, and analysis of trends and issues. In addition, Insight publishes quarterly and annual reports on proxy voting and engagement and provides an online search tool so users can look up voting and engagement activities with respect to a particular company in a given year.

On 30 April 2007, Insight published its first annual report on responsible investment, entitled 'Putting Principles into Practice', covering activities in 2006. The report provides a comprehensive account of how it embeds analysis of corporate governance and corporate responsibility issues into day-to-day investment operations and how companies are encouraged to improve their performance through engagement. In the launch of the report, Insight stated, "Putting Principles into Practice" is our way of demonstrating our compliance with the PRI and extends our long-standing commitment to transparency and accountability'.

Insight Investment Management (Global) Limited, United Kingdom

Communicating about the PRI

Eighty percent of asset owners report that they have communicated on RI/ESG issues and the PRI to beneficiaries. When looking at the 37% of asset owners who indicated they had communicated 'to a small extent', the most common forms of communication were through newsletters, annual reports, and/or websites. For example, one signatory advised its members in their last newsletter that they had become a signatory to the PRI, and that they intend to provide updates and increase disclosure during 2007.

Asset owners who reported 'to a large extent' also communicated on RI/ESG issues through newsletters, annual reports, and/or websites, as well as through members' meetings, presentations, and/or brochures. One asset owner reported using radio or television.

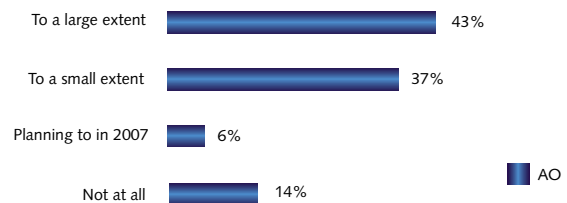
PRI in action

Informing members

An important part of implementing the PRI for Christian Super has been communicating regularly with its members. Christian Super maintains a library of discussion papers on its website and also sends each Fund member a newsletter twice each year. It reports on both positive and negative investment issues – for example a recent issue on climate change identified potential investment risks, as well as outlining some of the investments made which seek to address climate change, while having the potential to benefit from regulatory or market sentiment change in the area.

Christian Super, Australia

Chart 21: Extent to which asset owner respondents have communicated on RI/ESG issues and the PRI to beneficiaries (AO118)



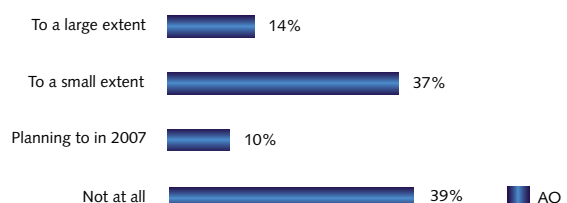
58 responses (7 asset owners responded 'Not applicable')

Almost two-thirds of asset owners and three-quarters of investment managers have also undertaken efforts to raise awareness of the PRI among broader stakeholders, and an additional 23% and 15% respectively are planning to do so in 2007.

Determining impact

Half of asset owners have some evidence that they have impacted the integration of ESG issues by investment managers. These signatories report that integration is taking place across a range of areas, including; proxy voting (17%), engagement (15%), improved communication on ESG (15%), investment decision making (14%), investment policy (13%), and the provision of new research (13%).

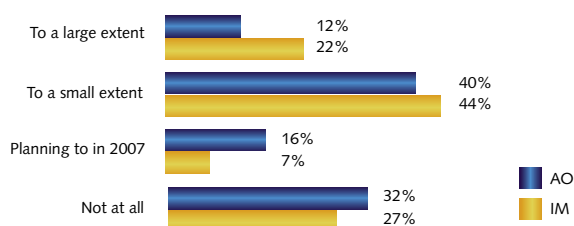
Chart 22: Extent to which asset owner respondents have evidence that they have been responsible for the improved integration of RI/ESG issues by investment managers (AO124)



59 responses (10 responded 'Not applicable')

Slightly fewer asset owners report that they have sought to determine the impact of their RI activities on corporate behaviour or performance. In terms of the evidence of engagement success, 28% of asset owners and 49% of investment managers indicate that they have evidence of an improvement in investee company performance on RI/ESG considerations.

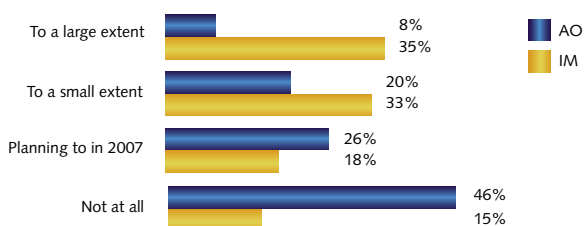
Chart 23: Extent to which respondents have sought to determine what impact RI/ESG issue-related efforts (voting and engagement, investment decision making, disclosure, etc.) have had on corporate behaviour or performance (AO126, IM129)



59 asset owner responses, 43 investment manager responses (9 asset owners and 2 investment managers responded 'Not applicable')

In contrast to the impact on corporate performance, there was more divergence in practices on assessing the impact on portfolio performance between asset owners and managers. Indeed, while two thirds of managers have been active to some or a large extent on assessing the portfolio implications, less than a third of asset owners have done so. Looking forward, 26% of asset owners intend to pursue this in 2007 (see Chart 24).

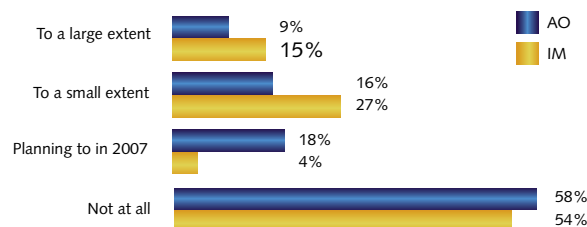
Chart 24: Extent to which respondents have sought to determine what impact an RI/ESG issue-related approach has had on the performance portfolios or portfolio risk (AO128, IM131)



59 asset owner responses, 43 investment manager responses (9 asset owners and 3 investment managers responded 'Not applicable')

In the areas where signatories have sought to determine impact, only a few signatories have assessed their impact on external service providers (such as research providers and investment consultants).

Chart 25: Extent to which respondents have sought to determine the impact RI/ESG issue-related efforts and requests have had on the consideration of RI/ESG issues by external service providers (e.g. research providers, consultants, etc.) (AO130, IM133)



57 asset owner responses, 43 investment manager responses (12 asset owners and 17 investment managers responded 'Not applicable')

PRI in action

Evidence of service provider consideration of RI/ESG issues

F&C systematically encourages its external service providers to consider ESG issues in their business operations. It meets with them and provides regular feedback on their progress. As a result of pressure from F&C and others, the following changes have been identified:

- Increased supply of ESG-related research
- Research that increasingly links governance issues with environmental and social issues
- An increasing number of sell-side brokers providing ESG analysis and developing ESG research teams
- Increased breadth and depth of coverage of ESG issues by research providers for ethically screened funds
- Increased breadth and depth of analysis by proxy voting service providers
- Increased number of inquiries from consultants about ESG-related products and services.

F&C Asset Management, United Kingdom

Looking forward

This final chapter contains feedback from signatories offered in the 'closing comments' section of the questionnaire.

Three areas are addressed:

- Existing barriers to PRI implementation
- Future goals and aspirations of signatories
- Suggested next steps for the PRI Secretariat.

Barriers remain

Although 2006 witnessed tremendous growth in responsible investment activities, signatories continue to face practical and cultural barriers to further PRI implementation. According to many signatories, the tools and the conditions required to make use of the Principles have yet to fully emerge.

The good news is that a significant body of knowledge and experience is building up, and is being disseminated throughout the industry at a rapid pace.

The major barriers identified by signatories revolve around resource considerations, insufficient research inputs and unsupportive operating environments. A summary of feedback from signatories is outlined below.

Future goals and aspirations of signatories

- 'Push the ongoing integration of ESG issues within equity, credit and fixed income research, and thus within the investment process'
- 'Help build the case for materiality of ESG factors'
- 'Interact with national and supranational authorities in questions related to long-term environmental changes and liabilities'
- 'Work with others where possible to promote wider acceptance of, and support for, responsible investment and to encourage others to adopt the PRI'
- 'Participate in a successful clearinghouse engagement'
- 'Collaborate with research providers to provide bespoke ESG research which is relevant to fund managers'.

Table 7: Barriers to PRI implementation

Resources are constrained and the ability to integrate ESG issues is questioned:

Many organizations have insufficient staff to devote to these issues, and available staff have competing claims on their time and attention.

As a result of a lack of expertise and commitment by some advisory firms, signatories report being unable to access needed services.

Boards question whether their organizations can have a demonstrable impact, and worry about how investment managers may react to new ESG-related mandates.

There is a real and pervasive need for performance measures:

There is a deficiency in mainstream, quantitative and historical performance attribution data.

Improved metrics and analytical frameworks are required to sufficiently demonstrate performance that results from integrating ESG in investment processes.

Research budgets are insufficient, and it is difficult to obtain adequate funding to carry out the research and analysis needed to validate ESG-related investment beliefs.

Scepticism and inertia linger:

Scepticism lingers as the investment industry continues to question the value of incorporating ESG issues into investment decision-making processes.

Low and insufficient demand for associated products and services make it difficult for investment manager signatories to justify allocating resources to this area (for example, to purchase external research).

Short-termism in decision making and performance measurement is pervasive and translates into misaligned incentive structures.

Investment philosophies and approaches ingrained in decision-making processes and organizational cultures are formidable barriers that must be overcome if ESG issues are to be integrated into decision making.

Opportunities moving forward

Alongside outlining barriers, signatories suggested a number of activities they would like to see undertaken by the PRI Secretariat. These have been categorised into the following areas: capitalise, formalise, and publicise. Potential action items are outlined in Table 8 below.

Table 8: Suggestions for the PRI Secretariat

Capitalise	
	Capitalise on other initiatives that have had success in fostering performance and materiality research. For example, to help disseminate and build interest in the materiality of ESG factors, a more formal relationship could be developed between the PRI with the AMWG of UNEP FI.
	Capitalise on the experience of other signatories and the PRI infrastructure, network and membership. Enable collaboration between signatories; foster discussion and benchmarking through interactive meetings, conferences and workshops; and improve dialogue between asset owners and investment managers in order to clarify expectations and visions and facilitate the formation of coalitions or working groups around issues of common interest.
	Capitalise on signatories' willingness to learn: Undertake capacity building initiatives (such as networking and training programmes) across regions.
Formalise	
	Formalise a reporting and benchmarking process to ensure that signatories are honouring their implementation commitments. This will serve to protect and enhance the credibility of the initiative.
	Formalise requirements for action by de-listing signatories that, after sufficient opportunity to do so, do not demonstrate that they are upholding the Principles.
Publicise	
	Publicise (in a range of languages) best practices for integrating ESG into front-line investment decision making.
	Publicise the PRI at the trustee level and amongst governments to raise awareness and commitment at senior levels.
	Publicise findings of robust research that clarify the relationship between ESG issues, PRI implementation and superior long-term financial returns.

In closing

It is clear that the sharing of practical experiences and the willingness of signatories to collaborate and communicate on best practices (as demonstrated in this report) will be critical to accomplishing the next steps in PRI implementation. The PRI Secretariat is already hard at work on some of these recommendations. In particular, this report addresses the suggestion to 'formalise a reporting and benchmarking process to ensure that signatories are honouring their implementation commitments'.

We trust that this report has been helpful in understanding how PRI signatories are implementing the Principles.

We welcome your feedback as we work towards improving this process for the 2007 reporting year.

Index of 'PRI in action' case studies, by signatory

There were many other examples of interesting practices provided by signatories. Practices were selected to provide examples relevant to each area of the assessment being discussed.

Signatory	Title	Page
AP3	Considering ESG issues when selecting external managers	
British Columbia Investment Management Corporation (bcIMC)	Canada 'Greening' the management of real estate portfolios	16
British Columbia Investment Management Corporation (bcIMC)	Fostering governance practices abroad	31
Caisse de dépôt et placement du Québec	Providing training for internal investment staff	15
CalPERS	Bringing engagement into 'focus'	22
Calvert	Seeking standardised reporting on ESG	25
Christian Super	PRI in Action: Informing members	34
Comité syndical national de retraite Bâtirente	From engagement to filing shareholder proposals	21
CPP Investment Board	Reporting on how votes are cast	21
Domini Social Investments	Setting objectives and monitoring progress	24
Environment Agency Pension Fund	Assessing the capabilities of external managers on ESG issues	29
Ethical Funds, Canada Pension Plan Investment Board and Bâtirente	National roundtables on corporate social responsibility	29
Ethos Foundation	Engaging companies on ESG issues	22
F&C Asset Management	Promoting transparency and disclosure	26
F&C Asset Management	Evidence of service provider consideration of RI/ESG issues	35
Generation Investment Management LLP	Integrated decision-making	15
Government Pension Fund of Thailand	Corporate governance assessment for internal equities	15
Hermes Pensions Management	Disclosing how ESG issues are integrated within investment practices	32
Insight Investment Management (Global) Limited	Undertaking innovative benchmarking studies	29
Insight Investment Management (Global) Limited	Using a 'comply or explain' approach	34
Morley Fund Management	Quality ESG information is required for effective voting	20
Nathan Cummings Foundation	Using shareholder resolutions to promote ESG disclosure	25
New York City Employee Retirement System	Gaining support for proposals through the Clearinghouse	30
PGGM	Evaluating and selecting managers	17
PREVI	Monitoring managers on ESG performance	17
Robeco	Facilitating academic research	18
Universities Superannuation Scheme (USS)	Alignment of incentives and RI/ESG issue performance	27
VicSuper	'The Manager must have regard to...'	27

Notes

1. A quartile contains one quarter of the responses.

2. This table format is repeated for all six Principles. First step opportunities were selected using a process that included discussions between the PRI Secretariat and Mercer Investment Consulting and an analysis of signatory responses to the Reporting and Assessment tool. Particular attention was paid to the difference between the practices employed by average signatories and the practices employed by low scoring signatories. Many of the first steps are also suitable for smaller signatories. Best practices were largely drawn from the responses of top performing signatories. They were further refined during discussions between the PRI Secretariat and Mercer Investment Consulting.

3. This example was extracted from 2007 Report: Responsible Investment in Focus: How leading public pension funds are meeting the challenge, UNEP FI Asset Management Working Group (AMWG) and United Kingdom Social Investment Forum (UKSIF) Sustainable Pensions Project. UNEP FI is one of the lead partner agencies of the PRI.
www.unepfi.org/fileadmin/documents/infocus.pdf

4. www.insightinvestment.com/Documents/responsibility/Reports/Putting_Principles_into_Practice_FINAL.pdf, pg. 16.

5. The Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria (although this may be an appropriate approach for some investors).

6. By way of illustration, the survey showed that internal sessions were used by 43% and 81% of asset owners and investment managers respectively, with 58% and 56% of asset owners and investment managers relying on conferences and a much smaller percentage (10% and 23% respectively) using professional training programs.

7. For more information, see www.ethicalinvestmenttraining.com.

8. For more information, see www.sustainableenterpriseacademy.com.

9. This example was extracted from 2007 Report: Responsible Investment in Focus: How leading public pension funds are meeting the challenge, UNEP FI Asset Management Working Group (AMWG) and United Kingdom Social Investment Forum (UKSIF) Sustainable Pensions Project. www.unepfi.org/fileadmin/documents/infocus.pdf

10. European Centre for Corporate Engagement website: www.corporate-engagement.com

11. An engagement overlay service is a third-party service that engages investee companies on behalf of shareholder clients. This is currently offered by a small number of investment fund managers and independent service providers.

PRI Secretariat

James Gifford	Executive Director
Jerome Tagger	Project Manager
Trevor Bowden	Project Manager
Gordon Noble	Communications Assistant
Eliza Eubank	Project Assistant

PRI Board

Els Bos	PGGM
Antoine de Salins	Fonds de réserve pour les retraites (FRR)
Howard Jacobs	USS
Georg Kell	UN Global Compact (ex officio, Gavin Power as special designate)
Martin John Kuscus	Government Employees Pension Fund of South Africa
Donald McDonald	British Telecommunications Pension Scheme
José Reinaldo Magalhães	PREVI
Mike Musuraca	NYCERS
Glen Saunders	New Zealand Superannuation Fund
Daniel Simard	Comité syndical national de retraite Bâtirente
Anne Stausboll	CalPERS
Achim Steiner	UNEP (ex officio, Paul Clements-Hunt as special designate)
Visit Tantisunthorn	Government Pension Fund of Thailand

Contact info@unpri.org
www.unpri.org

Postal address c/o UN Global Compact
United Nations, S-1894
New York, NY 10017
USA

Partner UN agencies

UNEP Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between UNEP and the private financial sector that works closely with approximately 170 financial institutions to develop and promote linkages between sustainability and financial performance. Through regional activities, a comprehensive work programme, training and research, UNEP FI carries out its mission to identify, promote and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

Contact **Paul Clements-Hunt**, Head of Unit
fi@unep.ch
www.unepfi.org

UNEP FI team members assisting with PRI outreach
Graham Sinclair Project Manager, PRI in emerging markets and developing countries
Philip Walker African Task Force and Asset Management Working Group Coordinator
Careen Abb Latin America Task Force Coordinator

UN Global Compact

The United Nations Global Compact is the world's largest corporate citizenship initiative, encompassing nearly 3,000 companies and stakeholders from 90 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.

Contact **Gavin Power**, Senior Advisor
globalcompact@un.org
www.unglobalcompact.org

Support from the Foundation for the Global Compact
Karen Newman Treasurer



www.unpri.org
info@unpri.org