

Writing a responsible investment policy

Guidance for asset owners

About this tool

This tool provides guidance to asset owners who would like to develop a responsible investment policy. By responsible investment we mean the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.¹

Responsible investment policies can take many forms and there is no single right way of developing one. Currently, policies can take the form of high-level statements on an organisation's webpage, a separate responsible investment policy document, a range of policy documents covering different areas, or in some cases are incorporated into an organisation's Investment Policy Statement. Additionally, policy content may depend on which country the signatory resides in.

This tool offers a suggested policy structure based on an analysis of current responsible investment policies amongst PRI signatories. When developing a policy, an end goal would be to cover all relevant asset classes and investment regions, based on a thorough knowledge of key ESG issues. However, this is a long-term project, and your first policy does not need to be all encompassing – it can be aspirational. Over time, as you develop your responsible investment programme, you can review and update your policy to expand its scope. This tool is designed to help you keep that long-term goal in sight.

This tool will help you prepare, draft and review a responsible investment policy. It provides some guidance on how you can get started. Next, it outlines a suggested policy structure including guidance on what you can include in the various sections. Finally, the tool provides some suggested questions to assist you with reviewing the policy on a regular basis.

It is important to highlight that this is just one way of presenting a policy on responsible investment. The proposed policy structure can be amended and used as you see fit, and you can pick and choose which parts suit your organisation. Certain issues are more important to include than others depending on your liabilities, investment strategy, asset allocation and the overall structure of your portfolio.

The PRI Secretariat would like to extend a special thanks to the Small Funds Steering Committee for their ideas and input into the development of this tool.

¹ Source: Mercer's definition of responsible investment.

Getting started

Developing a responsible investment policy need not be a cumbersome task. Before starting the drafting process, you may want to consider the following steps:

- **Undertake a peer review**

Investigate how other investors have formulated their policies. Policies can take many different shapes, as exemplified by these two policies: [StatewideSuper](#) and [CalPERS](#). Please see the Appendix and links throughout this document for more example policies from other PRI signatories.

- **Review your statement of investment beliefs**

Identify the core high-level beliefs that are central to your organisation. It is likely that your RI policy will be informed by this.

- **Create a plan to develop the policy**

Possibilities include internal review process, stakeholder consultation etc. You could use your existing channels of communication with members and other stakeholders and incorporate their input on the contents of your policy.

- **Set up a diverse working group and time schedule**

A working group could include both internal staff and external experts from relevant fields. Schedule the finalisation of drafts around board meetings.²

- **Familiarise yourself with ESG and pension specific legislation and listing rules**

For example, the UK Pensions Act 2004 requires pension funds to have a Statement of Investment Principles. In South Africa, relevant legislation includes Black Economic Empowerment Charters and Regulation 28 (effective from 1 July 2011) of the Pension Funds Act that will require trustees of pension funds to consider material ESG into their investment analysis and decision-making.

- **Familiarise yourself with the debates, language and terminology within responsible investment**

Local sustainable investment forums (SIFs) may be a good place to start for local information, vocabulary etc.

- **Familiarise yourself with regional and international ESG-related standards**

Please click [here](#) for a list of relevant standards.

² This will depend on which board, committee or person has the ultimate responsibility for your RI policy.

Writing up your policy

A. Introduction

The introductory section of a policy sets the stage and could include:

- Your organisation's motives for developing a policy.
- Background on how the policy was developed. For example, if a working group developed the policy, what was its objective and who were its members? Did you consult stakeholders?
- Reference to existing policies and compatibility with them. Is the responsible investment policy an intrinsic part of the main investment policy or is it a distinct policy?
- Policy scope. For whom/what parts of the organisation is the policy binding? What asset classes, regions, markets and securities does it apply to?
- Policy compliance.
- Who approved the policy and how often it will be reviewed? Are there any implications of policy breaches?
- Responsibilities in relation to the policy, e.g. Chief Investment Officer, Investment Team, Board, etc

B. Definitions

This section of a policy could include definitions of some of the key terms and acronyms used in the policy and reference to other codes and principles that your policy is built on. For example,

- Your definition of responsible investment. If you do not have one, you can use Mercer's definition: *'The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.'* Please note that local SIFs may have vocabulary in the local language.
- Your definition of a responsible investment. What kind of investment objectives are you looking for?
- You can refer to the United Nations-backed Principles for Responsible Investment (PRI).

C. Responsible investment guidelines

This section sets out your core responsible investment guidelines and will look very different from organisation to organisation. Before writing up this section you may want to:

- a) Identify the responsible investment strategies/practices that fit with your organisation's investment process and philosophy. Consider how your policy will apply to both internally and externally managed assets.
- b) Consider jurisdictional specificities and legal aspects that may affect the guidelines.

This section could specifically include guidelines on:

- **ESG standards for investee companies.** Minimum environmental, social and governance (ESG) standards which your organisation expects investee companies to adhere. The depth of content in this section may vary widely. At one end of the scale, you may choose to have only a high level statement on ESG. On the other hand, and possibly a goal for the future, this section could include specific details around how companies manage ESG issues and minimum standards, for example Environmental Management Standard ISO14001, which you expect them to adhere to. You can find a list of ESG issues [here](#) and different ESG-related standards [here](#).
- **Asset classes.** Guidelines and procedures for responsible investment practices across different asset classes; for example, listed equities, bonds, private equity, real estate, hedge funds, commodities etc. If you do not have specific guidelines for the asset classes you invest in, you could include which asset classes the policy is more generally intended to apply. If you are at the beginning of your journey, you can indicate the sequence of priorities according to which you intend to progressively apply your policy.
- **External managers.** Guidelines for working with external managers. This could, for example, include a short statement that external investment managers should have a RI policy in place or adopt the asset owner's own policy. It could further include guidelines on manager selection and monitoring, for example inclusion of ESG issues in RFPs and requirements on reporting on RI issues. You can find examples of this [here](#).

D. Responsible investment procedures/approaches

In this part of the policy, you can outline which responsible investment approaches your organisation will implement. Potential approaches include positive and negative screening, ESG integration, themed investing, and active ownership. You can find a list with definitions of these approaches [here](#). You could elaborate on those responsible investment approaches you apply, including specific guidelines. For example:

- **Positive and negative screening**
 - Guidelines on what you prefer investing in and why, specific sustainability themes etc.
 - Guidelines on what you will refrain from investing in and the reasoning behind that.
 - How often you will screen your portfolio.
 - You can find examples of this [here](#).
- **ESG integration**
 - Guidelines on integrating ESG issues into investment analysis and processes. [Examples](#).
- **Themed investing**
 - Guidelines on themed investing.
- **Active ownership**

Many signatories incorporate voting and engagement guidelines in the main RI policy document. However, others have a separate active ownership policy. If you choose to house your active ownership policy within the main RI policy, you could include some general guidelines on what ownership activities you will employ or prioritise. Examples include guidelines around:

- Voting, including AGM participation and proxy voting.
- Company engagements, including how your organisation will decide on which engagements to conduct, which companies to target, how you will measure success, and your approach to divestment.
- Which ownership activities your organisation may take, such as voting, engagement, raising shareholder resolutions, request a seat on the board, etc.

If you have a separate active ownership policy covering voting and engagement, you could for example state a global active ownership policy here, and include your more detailed policy on specific issues and shareholder proposals in your active ownership policy. You can find examples of separate active ownership policies [here](#).

- In this section you could also allocate responsibilities. For example, will ESG integration be done in-house or by external managers? Will your active ownership activities be organised by internal staff or be outsourced? Who will supervise these activities? The board/investment committee/RI committee?
- In what form and how often do you expect your external managers to report on proxy voting conducted on your behalf.

E. Reporting

It is best practice to report on your responsible investment activities, either to beneficiaries or publicly. In your policy, you could outline your approach to reporting. This section could include:

- How, when and to whom you will report.
- Level of publicity, i.e. available publicly or only to clients?
- Connection to PRI reporting.
- Internal review processes. This could for example include what is expected in terms of reporting from portfolio managers, external engagement and proxy voting provides, and what review processes should be put in place by the board/investment committee/responsible investment committee to ensure objectives are being met.
- Guidance on key performance indicators to measure the outcomes of your RI activities.

For examples of how PRI signatories report on responsible investment activities, please click [here](#).

Reviewing the policy

ESG policies are organic documents and need to be regularly reviewed. This could include asking questions such as:

- How well is the policy working? Is it achieving the goals you set out for it?
- Are policies consistent with investment beliefs?
- Has anything changed that requires you to change your ESG policy? For example, have you expanded into new asset classes that are not yet covered by your policy? Are there new approaches to responsible investing that could be added?

Appendix: Example asset owner policies

Africa

Organisation	Country	Type	Policy
Government Employees Pension Fund	South Africa	Non-corporate pension fund	Responsible Investment Policy Statement Additional documents are available here .

Asia and Oceania

Organisation	Country	Type	Policy
CBUS	Australia	Non-corporate pension fund	ESG policy
LGSS Pty Limited	Australia	Non-corporate pension fund	Sustainable and responsible investment policy
New Zealand Superannuation Fund	New Zealand	Non-corporate pension fund	Statement of Responsible Investment Policies, Standards and Procedures
StatewideSuper	Australia	Non-corporate pension fund	Environmental, social & governance (ESG) investment policy
Victorian Funds Management Corporation	Australia	Non-corporate pension fund	ESG Policy

Europe

Organisation	Country	Type	Policy
ABP	The Netherlands	Non-corporate pension fund	Various documents are available here .
ATP – The Danish Labour Market Supplementary Pension	Denmark	Non-corporate pension fund	Policy of Social Responsibility in Investments
CDC Group plc	UK	Development finance institution	Investment code
Norwegian Ministry of	Norway	Government owned	General RI policy and strategy

Finance on behalf of the Norwegian Government Pension Fund Global			document . Additional documents are available here .
PNO Media	The Netherlands	Non-corporate pension fund	Socially Responsible Investment Code
The Central Church Fund of Finland	Finland	Non-corporate pension fund	Guidelines for responsible investing
The Church of England National Investing Bodies	UK		Ethical Investment Policies
Unipension	Denmark	Non-corporate pension fund	Retningslinjer for ansvarlige investeringer

North America

Organisation	Country	Type	Policy
Caisse de dépôt et placement du Québec	Canada	Non-corporate pension fund	Policy on responsible investment
CalPERS	USA	Non-corporate pension fund	A range of policies can be found here
CalSTRS	USA	Non-corporate pension fund	A range of policies can be found here
Canada Pension Plan Investment Board	Canada	Non-corporate pension fund	Policy on Responsible Investing
Comité syndical national de retraite Bâtirente	Canada	Non-corporate pension fund	Guidelines on extrafinancial risks management
General Board of Pension and Health Benefits of The United Methodist Church	USA	Non-corporate pension fund	Investment strategy statement

South America

Organisation	Country	Type	Policy
PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil	Brazil	Non-corporate pension fund	RI policy