



Insight sponsors and endorses the new UN Principles for Responsible Investment

The launch of the Principles for Responsible Investment

At the end of April 2006, the United Nations Principles for Responsible Investment (PRI) were launched in New York and Paris. Speaking at the New York Stock Exchange at the launch event, UN Secretary-General Kofi Annan outlined the fundamental importance of the initiative: "Today, it is increasingly clear that UN objectives – peace, security, and development – go hand-in-hand with prosperity and growing markets. If societies fail, so will markets."

The Principles were developed jointly by the UN Global Compact and the UN Environment Programme and have the direct support of the UN Secretary-General. They are intended to develop and promote best practice in the area of responsible investment by institutional investors – both asset managers and asset owners such as pension funds and charitable trusts. The UN has supported their development in order to 'lend vital international support to practices that should both enhance financial performance over the long term and deliver positive environmental and social outcomes.'

Insight's sponsorship of the Principles

Insight sponsored the launch of the Principles. We did so in order to underline our commitment to promoting responsible investment around the world. We were among the 34 founding signatories to the Principles, whose combined assets under management total more than \$4 trillion. (That figure is split equally between asset owners and investment managers.) It is expected that others will add their support to the Principles in the coming months.

Insight has actively supported the development of the Principles over the last two years through our membership of the UNEP-FII. We believe – as demonstrated by our long-standing commitment to investing this way – that it is in our clients' best interests that we actively integrate environmental, social and governance (ESG) issues into our investment analysis and engage proactively with companies on these issues.

The Principles

The full text of the Principles is presented in Box 1. In summary, the six main Principles include commitments to:

- Integrating environmental, social and governance (ESG) issues into conventional investment analysis.
- Being active, responsible owners by promoting good corporate practice on environmental and social issues, and on governance.
- Reporting transparently on actions that have been taken.

The Principles also set out thirty five suggested actions that signatories might take to demonstrate that they are operating in line with the Principles, including, significantly, embedding adherence to the Principles into the investment mandates that pension schemes agree with their asset managers.

Over the next two years, the UN aims to promote the Principles to institutional investors and public policy makers. It also intends to establish an international forum for responsible investors in order that they can share best practice in this area. Further information about the UN's work in this area is available at www.unepfi.org/work_programme/investment.principles.

The importance of the principles

The launch of this initiative underlines the strong international interest among governmental, inter-governmental and non-governmental bodies in the role that investment can play in creating a sustainable and equitable future. The fact that institutions with responsibility for in excess of \$4 trillion of assets have committed to integrating consideration of ESG factors into the management of their investments seems to indicate that the view that such factors can affect investment returns is no longer that of a minority but one that is beginning to be accepted more widely. We hope that it will persuade the broader market to embrace this view.

The launch of the Principles is also a welcome recognition of the economic and social importance of the work of those institutional investors and asset managers currently practising responsible long-term share ownership.

The way forward

In launching these Principles, the UN has successfully co-ordinated an initiative involving experts from some of the world's largest private pension schemes, asset managers, academics and non-governmental organisations; it should be congratulated for this significant achievement. However, the UN is at the beginning rather than the end of the process; it will require far more than the symbolic signing of these Principles to achieve the broad vision set out by Kofi Annan. Just how easy will it be for institutional investors and their asset managers to implement them, and what potential do they have for promoting positive change? The Principles offer institutional investors an opportunity to showcase best practice and to

strengthen the effectiveness of investor collaboration on ESG issues. The initiative also provides institutions seeking to build capacity and competence in this area an opportunity to do so. Moreover, it provides newcomers to the concept of responsible investment a forum within which to share lessons learned with organisations that have already developed considerable knowledge and experience in this area.

One of the most important challenges to which the initiative needs to rise is to hold signatories to account – to ensure that they follow through on the commitment they have made. The PRI calls for regular reporting by signatories on a 'comply or explain' basis. In other words, signatory bodies are required to set out what they have done in relation to each of the six Principles and thirty five supporting actions, or explain why they have not complied. We hope that the active oversight of signatories' reports by stakeholders (including, not least, the UN itself), will ensure that signatories follow through on their commitments.

Perhaps the most important reason for financial institutions to collectively embrace this initiative and sign up to the PRI was elegantly captured in the Kofi Annan's closing statement: "By acting collectively on the basis of these Principles for responsible investment, we can help protect all the world's resources."

The long-term implication of the depleting the Earth's stock of natural capital is that economic and financial prosperity will be undermined. Investors should seek to avoid such a future, even if for only purely for financial reasons.

We look forward to working closely with the other financial services supporters in ensuring the successful development and implementation of these Principles.

Box 1: The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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

Possible actions:

- Address ESG issues in investment policy statements.
- Support development of ESG-related tools, metrics, and analyses.
- Assess the capabilities of internal investment managers to incorporate ESG issues.
- Assess the capabilities of external investment managers to incorporate ESG issues.

- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- Encourage academic and other research on this theme.
- Advocate ESG training for investment professionals.

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

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles.
- Exercise voting rights or monitor compliance with voting policy (if outsourced).
- Develop an engagement capability (either directly or through outsourcing).
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- File shareholder resolutions consistent with long-term ESG considerations.
- Engage with companies on ESG issues.
- Participate in collaborative engagement initiatives.
- Ask investment managers to undertake and report on ESG-related engagement.

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

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).
- Ask for ESG issues to be integrated within annual financial reports.
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- Support shareholder initiatives and resolutions promoting ESG disclosure.

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

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs).
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
- Communicate ESG expectations to investment service providers.
- Revisit relationships with service providers that fail to meet ESG expectations.
- Support the development of tools for benchmarking ESG integration.
- Support regulatory or policy developments that enable implementation of the Principles.

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

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues.
- Develop or support appropriate collaborative initiatives.

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

Possible actions:

- Disclose how ESG issues are integrated within investment practices.
- Disclose active ownership activities (voting, engagement, and/or policy dialogue).
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles.
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'¹ approach.

- Seek to determine the impact of the Principles.
- Make use of reporting to raise awareness among a broader group of stakeholders.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. In signing the Principles, we as investors publicly commit to adopt and implement them, where

consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

¹ The 'comply or explain approach' requires signatories to report on how they implement the Principles or provide an explanation as to why they do not comply with them.

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