

May 24, 2013

Response to Consultation: OECD Draft High-Level Principles of Long-Term Investment Financing by Institutional Investors

1. The United Nations-supported Principles for Responsible Investment (PRI) Initiative is the leading global network for investors to learn about responsible investment and collaborate with their peers, companies and policymakers to generate sustainable, long-term investment returns for their clients and beneficiaries. Launched in 2006 by the then UN Secretary-General Kofi Annan, the PRI Initiative counts nearly 1,200 institutions from more than 50 countries as signatories, including many of the world's largest pension funds, insurance companies, and investment managers. PRI signatories manage combined assets of more than US \$34 trillion or close to 20% of global capital markets. Detailed information is available at www.unpri.org.
2. The goal of the PRI Initiative is to understand the implications of environmental, social and corporate governance (ESG) for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. Part of the PRI's mission is also to work with signatories, policy makers and other stakeholder to explore and overcome obstacles to a sustainable financial system. The foundation to this is a set of six voluntary Principles for Responsible Investment underpinned by the PRI Reporting and Assessment Framework, the global standard for reporting and assessing responsible investment activities, progress and capabilities. The PRI Secretariat also runs the largest collaborative forum for investor dialogue with companies, the PRI Engagement Clearinghouse, which has coordinated hundreds of engagements between investors and companies across a range of ESG issues.
3. The PRI Initiative is in the final stages of a consultation with its signatories on overcoming barriers to a sustainable financial system. Long-term horizons, particularly for the PRI's pension and insurance signatories, are clearly central to the delivery of long term returns to their members and beneficiaries. There is increasing recognition among many of our signatories that short-termism in both financial markets and corporate decision making can undermine these long-term returns. The PRI Initiative's new policy and research work programme, of which this consultation is the first step, is expected to place an increasing priority on the need for systemic market change that (i) addresses short-termism in the financial system where it most significantly impedes the practice and goals of investors to deliver the long-term returns to clients and beneficiaries (ii) strengthens the enabling environment for long-term investment that is better aligned with ESG-related value drivers, and investor stewardship.
4. The PRI Initiative therefore welcomes the priority placed by the OECD and the G20 on the issue of long-termism in institutional investment. We believe that the draft OECD principles, whilst necessarily high-level, can provide an appropriate and timely framework for further policy research and development.
5. Consideration should be given to making a specific reference to the PRI within the text of the draft, given the close alignment of objectives and intentions: whereas the draft OECD

Principles address long-term investment from the perspective of government and policy-makers, the PRI stands as an existing global standard that addresses long-term investment from the institutional investors' perspective. Potentially, therefore, there is a high degree of complementarity between the frameworks. Reference to PRI and the paradigm shift towards responsible investment in general (with its natural links to issues of long-termism and the development of a more sustainable financial system) could be achieved by the insertion of an additional 'context' paragraph in the section entitled 'Framework', perhaps between paragraphs 6 and 7.

6. In addition, as an existing mechanism for collaboration, know-how sharing, assessment and disclosure, the PRI may well be relevant to mention as a potential solution, model or starting point in relation to the points made in paragraphs 5.6, 7.3 and 7.4 of the draft Principles.

7. There are additional matters of detail and substance that we believe our signatories would be keen to provide input on before the current draft is refined prior to the July 2013 meeting of G20 Finance Ministers and Central Bank Governors.

8. Specifically, the preliminary results of the recent PRI consultation with its signatories indicate that many PRI signatories are strongly in favour of collaborating with one another on practical measures that address short-termist behaviour in the financial system and improving the enabling environment for responsible investment in a wide range of asset classes (including, but not limited to, Infrastructure, Venture Capital and Environmental Investment as well as Listed Equity and Fixed Income markets).

9. Without presumption or prejudgment, we believe it is likely that PRI signatories would be ready, willing and able to make a valuable contribution with respect to the several aspects of the draft Principles. Potential additional talking points with the investor community may include:

- a) More complete and more widely recognisable definition(s) of long term investment, especially in relation to different asset classes and the extent of convergence/divergence of objectives and terminology between different stakeholders
- b) Clearer articulation of the causes and impacts of short-termism and of the barriers and missing incentives to long-termism
- c) Stronger emphasis on fiduciary duty definitions, active ownership and stewardship, potentially including specific reference to the OECD Guidelines for Pension Fund Governance and the process for review/revisions thereto
- d) Specific examples and suggestions with regard to practical public policy measures likely to have success in the marketplace
- e) Tax treatment in relation to specific aspects of the long-term investment agenda

10. We would welcome an opportunity for further dialogue sharing between the OECD and the PRI Initiative and interested PRI signatories, given the PRI Initiative's unique constituency, convening power and close interest in the direction and impact of the OECD's valuable work on long-term investment. The PRI Initiative would be keen to engage with the OECD to explore pragmatic ways to convene such dialogue, recognising both the constraints of the OECD's timetable in the run up to the G20 Leaders Summit in September 2013 and the opportunity to create longer-term mechanisms for dialogue, information sharing and collaboration following the Summit as part of the overall process of translating the OECD Principles into action.