

Overcoming barriers to a sustainable financial system: PRI Policy and Research work programme

December 2013

Executive summary

The PRI Initiative has been developing its approach to policy and research since the PRI Advisory Council (PRIAC) approved the strategy as a priority in March 2012. Following a formal signatory consultation, face-to-face meetings, webinars and the recruitment of a new Director with policy and investment expertise in an asset owner environment, the final work plan for the PRI Policy and Research work stream was approved by the PRI Advisory Council in September 2013.

This paper outlines the plan to signatories in more detail. The PRI Mission states that a: “sustainable global financial system is a necessity for long-term value creation” and that the PRI will work to achieve this by “encouraging adoption of the Principles and... addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.” The aim of this programme is to assist signatories in fulfilling this ambition.

Two major projects to encourage long-term responsible investment have been approved for 2013-15:

- **Project 1 - Operationalising long-term responsible investment mandates:** This project will involve groups of PRI signatories implementing measures to build responsible, long-term investment approaches into manager appointment and reappointment processes. The project will aim to assess the impacts of these measures on signatories and their agents, and on ESG and investment performance. It will also explore the role of benchmarks and incentive structures.
- **Project 2- Policy frameworks for long-term responsible investment:** This project will involve establishing a research and collaboration platform for PRI signatories to engage with policy makers on the creation of enabling policy environments for long-term responsible investment. This project aims to include analysis of the various regulatory structures of retirement savings and pensions (e.g. defined benefit (DB), defined contribution (DC)) and their impact on long-term responsible investment approaches.

A third stream will see the PRI actively collaborate with other third party initiatives focused on encouraging long-term responsible investment

An indication of success on Project 1 will include the adoption of longer term investment practices by project participants as well as evidence to support wider adoption by signatories; on Project 2, success will include better and more informed dialogue between investors and policy makers on responsible investment issues.

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Section 1: Overview

Developing the programme

In its March 2012 strategy review, the PRI Advisory Council gave high priority to new work by the PRI to address “top down” barriers to the development of a sustainable financial system. The Council believed that ‘the financial crisis clearly demonstrated the need for fundamental problems...to be addressed’.

A formal written consultation followed between January and March 2013¹ with signatories and stakeholders asked to give input into the direction of the work via an online survey. Conclusions from formal and informal conversations with 126 signatories and stakeholders confirmed there is clear support from the majority of signatories for the PRI to commence a project in this area, subject to further analysis and scoping. There was strong support for the PRI to work on the issue of short-termism and in the 55 responses received via the online survey, 92% of respondents identified short-termism as being ‘relevant’ or ‘highly relevant’ to addressing barriers to a sustainable financial system, where short-termism was understood to cover investor short-termism (i.e. in mandate design), company short-termism and the role policy plays in encouraging short-termism over long-termism in investment markets.

Respondents noted that the PRI’s work needed to encompass its existing work and projects addressing these barriers (e.g. PRI Clearinghouse work on sustainable stock exchanges), PRI’s contribution to other initiatives in this area (e.g. on integrated reporting), PRI’s role as a provider/sharer of information and PRI’s role as a thought leader.

Some signatories also used the consultation to raise concerns about the PRI’s work in this area (e.g. the importance of ensuring that new work was not at the expense of PRI’s existing projects and programmes, the importance of not duplicating other initiatives, and the importance of managing external perceptions, particularly with policy makers, where PRI may be seen as representing its entire signatory base). Taking on board signatory feedback, we have set out detailed project selection criteria for projects that cover both what policy makers can do as well as what the industry itself can do to address obstacles to a sustainable financial system.

The consultation called for project suggestions and a list of over 60 potential ideas were identified (as listed in the [July 2013 update](#)) but did not provide a clear answer on which specific projects the PRI should focus on. To help develop the programme, the PRI established an advisory committee with a similar role to advisory committees operating in other work streams to assist during the scoping phase. The PRI Secretariat, working with the PRI Association Board and PRI Advisory Council, assembled a diverse group of members with a range of views to provide advice while developing an initial work plan. The committee had a clear terms of reference to help prioritise potential project areas, develop an overarching work plan and develop appropriate strategies for managing the risks and challenges likely to be encountered. A list of the members of the advisory committee and their terms of reference are included in Appendix A.

The committee also considered responses that suggested the projects should not “reinvent the wheel” but should “delineate between what investors can already do themselves with tools available, projects that are better done by others, and ones that can readily be taken forward by signatories as part of their PRI commitments and work streams”. Project selection criteria focussed on the following factors:

- **Alignment** with the PRI’s overarching goals, the PRI Principles and investor focus

¹ For a summary of the consultation findings, [click here](#).

- **Goals and outcomes** from each project/activity – does the proposed project have tangible outcomes or material benefit to signatories?
- **Implementation** – is the project workplan suitable given the PRI's unique group of signatories

(See Appendix B for more detail on the project selection criteria.)

In the area of short-termism, some signatory were concerned that there is already considerable focus on this subject and research is already being undertaken by other groups. We highlight that the PRI's role will be to collaborate on projects as well as gather, summarise and build upon work currently being undertaken. We will bring to these projects the advantage of a global view as well as the unique perspective of asset owners

Proposed work programme

Two major projects to encourage long-term responsible investment are proposed: one will focus on the actions that signatories themselves can take and the other will focus on the role and contribution of policy. More detailed descriptions of the projects are provided in Section 2 and 3 of this document. The proposed projects/ activities are:

- Project 1 - **Operationalising long-term responsible investment mandates**
- Project 2- **Policy frameworks for long-term responsible investment**

We have deliberately chosen projects and activities where progress can be measured and deliverables produced from the efficient use of existing PRI financial and human resources within a two year period, up to the beginning of PRI's next strategic plan in 2015. By delivering measurable outcomes, we will develop the trust and leadership credibility in this area and demonstrate accountability to signatories (as, at the end of this period, they can review the outcomes achieved and the potential for future work in this area).

Managing the work plan

The work programme will be led by Helene Winch, Director of Policy and Research, who joined the PRI in September 2013 from the BT Pension Scheme. Given resource constraints, we have limited our initial project selection to two and we will leverage existing resources within the PRI Secretariat.

The PRI will establish a steering committee to help guide the work plan going forward and in this document we include the call for expressions of interest to join the committee and members will be selected based on pre-defined criteria. A number of thematic, regional and asset class specific working groups may also be established over time.

The costs of the activities proposed here (i.e. the projects, any additional research, facilitation of the steering committee, participation in the collaborative initiatives, the PRI Policy Network) will be funded initially through core PRI budgets. It will not depend on developing major project funding from signatories at this stage. Once the programme is established, opt-in or project funding may be considered.

It is worth noting that signatories and stakeholders have advised us that this is a dynamic and quickly changing area and some capacity will be reserved for reactive activities. Both the Director and Manger of Policy and Research will therefore allocate some of their time to taking advantage of opportunities as and when they emerge. As with the specific projects proposed here, the

decision on whether or not to participate will be informed by the criteria/factors set out in Appendix B.

Next steps

The first step will be to produce a status report of current research and projects. The PRI will also reach out to signatories to establish who is currently active and interested in participating in these projects, and we encourage those reading this document to contact the Director of Policy and Research where appropriate. This will also assist with the formation of the steering committee.

Schedule of deliverables

A number of background reports will set the scene and benchmark current practices as a starting point for the steering committee and for subsequent activities. These may include:

- Initial background reports summarising current research and studies in the area of short – termism, noting that most work to date has been on highlighting the issues rather than suggesting actions or solutions.
- Initial report on the existing policy tools (both hard and soft) to promote long-term responsible investment in place in key markets, including Denmark and South Africa.
- Timeline of important high level policy meetings, with opportunities for signatories to provide input into the policy process (such as UN, EU, WEF and G20 meetings).

Once the steering committee is established, the next stage of work will involve discussions with groups of signatories to help identify specific research requirements and stimulate discussions on actions that signatories could take that need further analysis.

On Project 1, the working group aims to develop a report on current practices by investors on long-term responsible mandates, including case studies where relevant. On project 2, case studies on signatories' policy activities to date and their impact will be developed.

Final project reports will include proposals and suggestions on practices and actions that signatories (and policy makers as relevant) could consider. It is worth noting that these reports will not be framed as 'best practice' or recommended investment beliefs, but will provide a 'state of play' on what is currently being undertaken by those signatories and policy makers who are taking action to address these issues. We acknowledge that there are many approaches to long-term responsible investing and there is no one-size-fits-all approach.

PRI Policy and Research Steering Committee:

A call for applicants to join the steering committee will be advertised in the "Policy and Research" section of the PRI website and in our monthly newsletter. The criteria for applicants [Terms of Reference](#) and [application form](#) are now available and applications will close on 17 January 2014.

Subject to the requirements above, the Secretariat will decide and announce committee members by the end of January 2014 with the first face to face meeting in London on March 2014.

Signatory participation

An appropriate level of PRI signatory participation in the project is required for the project to succeed. The PRI Secretariat will proactively engage initially with a small group of supportive asset owner signatories at CEO/CIO level, and then with PRI signatories more broadly to encourage them to participate in the working groups. A number of PRI Association Board and PRI

Advisory Council members will actively support this project, both through committing their organisations to participate and through encouraging other PRI signatories to participate. This leadership will be critical to ensure that we engage with the wider PRI signatory base.

Ideally, the working groups will be representative of the PRI's signatory base as a whole with a focus on asset owners and we will endeavour to have participation from (a) emerging markets and (b) small and medium-sized funds. However, initially, it may be that some markets are more engaged on the issue of short-termism and showcasing the successes and outcomes of these initial projects may be required before building groups in other markets.

While this is as an asset owner-led project, investment managers have a critical role to play. Given that the project will consider the actions that asset owners can take to encourage their investment managers to take a longer-term approach to their investment practices, it is important that investment manager provide input into the selection of the measures to be adopted (i.e. which actions do asset owners see as most likely to influence their practices) and to critically review the findings/conclusions from the working groups. The project will therefore involve a structured dialogue with investment managers at the initial stages of the project (i.e. when the working groups are being established and terms of reference being defined) and at the point when findings and conclusions and being reviewed.

Timing

This is an initial two year plan to lead us to project reporting at PRI in Person in late 2015 with the steering committee delivering annual progress reviews covering continued relevance and participation of the projects. The PRI aims to issue a final report from each project, drawing together common themes and findings from the relevant workshops and research. These reports will include case studies and examples of interesting initiatives and offer a short list of suggested ideas to signatories on how to minimise short-termism.

Section 2:

Project 1- Operationalising long-term responsible investment mandates

Overview

While there is now a significant amount of discussion on the possible actions that might be taken by different investment actors to encourage longer-term approaches to investment², there has been relatively little analysis of (a) the contribution that various practices – individually and collectively – might make to encourage long-term (or to addressing the issues around short-termism) responsible investment, or (b) the practicalities of implementing different approaches.

This project will begin with a review of current market use of long-term mandates and practices that encourage long-term behaviour from investment managers (including the identification of PRI asset owner signatories that have already experimented with or adopted such mandates and practices). Following working group discussions and analysis of the options, groups of PRI asset owner signatories would then implement one or more long-term practices (e.g. adopting the ICGN Model Mandate³, building responsible, long-term investment approaches into manager appointment and reappointment processes, encouraging different approaches to reporting from investment managers to clients, changing incentive structures, role of benchmarks). The project will assess the obstacles to implementing these practices, and impacts of adopting them on the signatories and their agents, and on investment performance.

Investment managers would be engaged on the question of whether the signals they are receiving from their clients do or do not encourage long-term behaviour by their portfolio managers, and the incentives and practices that could be put in place that would help. Additionally, feedback from UN Global Compact LEAD companies will feed in messages they receive from investors.

As a possible Part B of the project, the PRI will explore the potential for a number of leading signatories to allocate a pool of capital (for example, US\$50million in global equities) to a specific long-term mandate (or fund) managed by an appropriate investment manager signatory. This would enable participants to dig more deeply into the details of mandate design and implementation, while also providing firm evidence on the practicalities of implementing these sorts of mandates, and on the implications for measuring investment performance.

Project aims/objectives

- To develop a robust body of evidence on how long-term responsible investment practices might be implemented, how the challenges and barriers might be addressed, and the outcomes that might result.
- To have a significant number of PRI asset owner signatories take concrete action by piloting – and subsequently adopting – long-term responsible investment practices.

² For example the Kay Review www.gov.uk/government/consultations/the-kay-review-of-uk-equity-markets-and-long-term-decision-making, the EC's green paper on long-term financing of the European economy http://ec.europa.eu/internal_market/finances/financing-growth/long-term/index_en.htm and white papers by the 300 Club www.the300club.org and Tower Watson's www.towerswatson.com/en-AU/Insights/IC-Types/Survey-Research-Results/2012/09/Sustainable-investing-we-need-a-bigger-boat

³ ICGN model mandate Initiative www.icgn.org/

- To understand the signals coming to investment managers from clients, and how they can be modified to reinforce longer-term thinking within portfolio management teams.
- To build signatory capacity through a process of action research that enables the participants and others to learn through doing.
- To catalyse PRI asset owner signatories to adopt long-term responsible investment practices through the development of a robust body of evidence and through the establishment of a group of leadership organisations that can share their experiences with other PRI signatories.
- To have a number of PRI signatories, facilitated by the PRI secretariat, commit capital together to a long-term mandate (or fund), where the signatories work collaboratively to design and implement the mandate, and where the lessons are shared with the PRI signatory base.

Project description: long-term responsible investment practices (part A)

Process

We will start by preparing a briefing note summarising existing research on long-term mandates. This will include a list of the long-term practices that have been proposed or implemented (and, where available, information on their impacts and implications), that identifies the PRI asset owner signatories that have implemented such practices, and that identifies the key initiatives and organisations working in this area. We will also conduct an informal survey of PRI signatories to gather information on their experiences implementing long-term practices, and investment manager experiences of the signals from clients. We recognise that the prevalence of long-term mandates differs between asset classes; while they are relatively novel in equities and fixed income, they are more common in other asset classes such as private equity, infrastructure and property, where the nature of the investments or the liquidity of the asset class influence investment timeframes and mandate structures.

One of the most important areas of focus for this project is investment mandates. However, given that mandates are typically reviewed/renewed every three to five years, it may be impractical to complete this work in a two year period. We may be able to overcome this by identifying asset owners that have already implemented such mandates and encouraging them to participate in the working group. We may also need to allow a longer period for this working group to complete its work and produce substantive results.

We would like to consider how asset owners monitor their investment managers to understand how asset owner behaviour (e.g. frequency of monitoring, the issues raised in investment meetings, the attention paid to short-term performance, the individuals that participate in monitoring meetings) affects their investment managers, and to test whether a greater focus on longer-term value drivers from asset owners would change investment manager perceptions. This work may build on the PRI's [Aligning Expectations document](#) published in 2013.

Under guidance from the steering committee, we propose establishing a series of working groups where signatories work together on specific long-term practices. The participants in these groups will commit to implementing the relevant practices and will provide regular updates to the working group on the progress they have made in implementation, the actions that have been taken, the lessons that have been learned, the obstacles they have faced and the outcomes that have been seen.

Each group will, in conjunction with the PRI Secretariat, develop its own specific work plan and schedule, including specifying the long-term practices to be adopted and defining the performance/measures/indicators that will be used to assess the outcomes that result.

Deliverables

The final deliverable will include:

- a report that describes the long-term practices that have been considered and where appropriate adopted, assesses the implications of their adoption, explains how they might be implemented, and discusses how the challenges and barriers might be addressed.
- practical tools and guidance that can be used by signatories (e.g. case-studies of particular long-term practices, model meeting agendas, and manager monitoring checklists) to assist with the delivery of long-termism with investment mandates.

Long-term funded mandate (part B)

A second objective of the project is to facilitate the establishment of a long-term funded mandate in a particular asset class, for example, global equities. This would allow signatories to take forward some of the ideas in a relatively low-risk way with a relatively modest commitment of capital. We recognise the difficulties in establishing such a project, as it involves location of capital and requires a very close alignment of interests among the asset owner participants at the investment level. This raises challenges, both in terms of encouraging signatories to participate and then designing/implementing the mandate. We have yet to gauge signatory interest in participation and recognise that it simply may not be feasible to deliver this part of the project. Due to the complexity of negotiating and setting up of the mandate/fund, achieving this objective is likely to require at least 12 months. It is likely that it will then take 2-3 years for evidence of the implications to emerge.

Alignment with PRI's overarching goals

Both elements of this project align with the PRI Principles, and are focused on the specific roles that investors might play in addressing the issues associated with short-termism, and with the belief that short-term investment is less consistent with responsible investment.

Outcomes

The key outcomes sought from this project are (a) practical information on how long-term mandates can be implemented, in particular on the specific challenges likely to be encountered, (b) robust evidence on the implications of these mandates (e.g. the costs of establishing such a mandate/fund, the investment impacts, the influence on the participating organisations and their agents).

The indication of success of this work will be PRI signatories adopting longer-term investment practices in concrete ways. This will probably occur in two phases. First, we hope that the asset owner participants themselves will maintain their commitment to the implementation of the long-term practices beyond the duration of the project. Second, we intend using the lessons and evidence from this project to engage with other signatories to explore whether these practices may be more broadly supported.

The project will focus on bridging the gap between the theory of what investors might do and the practical realities of what they can do. It is also an area where PRI, with its large membership base of asset owners and investment managers and its global reach, is uniquely placed to catalyse investor action. In the future, lessons and experience from this work will become part of the PRI Implementation Support Team's programme of work.

Linking “responsible” to “long-term” investment

While this project focuses on long-term practices, we are aware that ‘long-term’ does not always equate to ‘responsible’, and that ‘long-term’ does not necessarily mean that environmental, social and governance (ESG) issues are fully taken into account. However, we are aware that a lot of the terminology on responsible investing, much of it used by the PRI, is associated by “long-term” values, etc. We will of course ensure that the importance of responsible investment/ESG-related issues is an integral part of our communications on long-term mandates.

Section 3:

Project 2- Policy frameworks for encouraging long-term responsible investment

Overview

The project will involve an international collaboration between PRI signatories and policy makers on the frameworks and policy tools that encourage and support long-term responsible investment. The project will explore, through case studies and workshops, the variety of tools that can be used by policy makers (e.g. formal regulation, making responsible investment capabilities a requirement for managing state/government funds, mandatory and voluntary disclosure requirements, capacity-building and awareness-raising, setting an example with governments' own investments) and discuss the possible effects that various approaches have had, or could have, on long-term responsible investment practice. It would also explore policy obstacles that may be inhibiting long-term responsible investment.

The project will be taken forward in two areas. The first would involve PRI signatories collaborating with policy makers to understand how long-term responsible investment can be incentivised, and to analyse how particular regulatory structures (e.g. prudential standards, disclosure requirements, regulatory structure of the retirement savings and pensions,) contribute to short-termism and prevent responsible approaches to investment. We would also like to take an evidence-based approach to discussing the benefits of responsible investment on reducing systemic risks. The dialogue will cover a range of policy instruments and approaches, including regulation, incentives and other economic instruments, information/disclosure-based approaches, and voluntary approaches (e.g. industry codes of conduct, self-regulation).

The second area will involve stimulating a dialogue between PRI signatories and those international organisations and initiatives that can influence market adoption of long-term responsible investment practices. The organisations targeted will be those that have some kind of quasi-governmental or policy role, such the OECD, the CFA Institute, stock exchanges (encapsulating our existing work on sustainable stock exchange), director /business /pension associations, and other standard setting bodies. We will also coordinate and leverage off our UN partners.

Project aims/objectives

- To facilitate a dialogue between signatories and policy makers globally to identify opportunities for the creation of supportive policy environments for long-term responsible investment.
- To develop relationships between PRI signatories, policy makers and other relevant stakeholders.
- To encourage PRI signatories to play an active role in policy, and to support this through the provision of research and analysis.
- To build PRI signatory capacity on policy issues.
- To identify common themes and messages on the creation of supportive policy environments for long-term responsible investment
- To help policy makers better understand the range of tools available to them to leverage long-

term responsible investment for policy goals.

Project description

Process

We aim to take this project forward through the PRI Policy Network (see Appendix D), which will be an ongoing collaborative network of policy makers and signatories interested in working together to explore areas of policy that can support and encourage long-term responsible investment. We expect that PRI will research and analyse specific policy issues and produce reports that present the results of this analysis, potentially including case studies, examples, and recommendations on how policy might be designed or implemented to address the issue in question. We expect PRI signatories (on an 'opt in' basis) to decide whether they wish to use this research and these publications to engage with their relevant government agencies.

In addition, from time to time, it is likely the PRI will also want to communicate directly with policy makers or send submissions to public consultations. However, this would not be in a representative role, but rather speaking on behalf of the PRI or PRI Advisory Council itself, promoting the PRI's mission with the policy community, raising awareness of the PRI's existence and purpose, and firmly grounded in the Principles and the Mission of the PRI. This use of the PRI 'voice' was defined and approved by the PRI Association Board in mid-2012⁴ and is overseen by the PRI Communications team.

Capacity-building

We will develop a report outlining how policy can support long-term responsible investment. This will also assist with capacity building within the signatories in understanding policy levers that may support long-term responsible. We envisage that we would also run webinars and conduct a number of workshops (most likely in conjunction with other PRI events around the world).

Country-level collaborations

We will, for selected countries (or regions such as the EU), aim to convene a workshop (or workshops) of signatories, industry experts and policy makers to discuss how the policy framework (regulation, economic incentives/instruments, disclosure requirements, voluntary initiatives, etc.) in that country encourages or discourages long-term responsible investment. We will bring examples and speakers from other countries and seek to internationalise the dialogue. The workshops will also consider the current and potential contribution of key actors (e.g. policy makers, investor bodies) and the role of both hard law (i.e. regulation) and soft law (e.g. voluntary agreements, codes of practice) in encouraging (or discouraging) long-term responsible investment. These workshops will be conducted in close collaboration with national organisations working on policy (e.g. SIFs, corporate governance bodies, industry associations, etc.) and will seek to bring an international perspective and networks to national discussions.

For each relevant country/region, we will prepare a short summary paper discussing the workshop findings, and convene webinars (led by investors from the countries in question) to share the key findings with PRI signatories.

⁴ PRI 'voice': [Guidelines for PRI public communications](#)

International collaborations

We will use the individual country findings to identify common themes and key messages for PRI to incorporate into its collaborative engagement with international organisations (e.g. on the various policy tools that can support long-term responsible investment). We will also use the findings as the basis for a publication on comparative policy levers to support long-term responsible investment.

In many countries, both policy makers and investors have little awareness of the potential of policy to influence this area, or the benefits a more responsible investment landscape could bring. The internationalisation of this discussion will be a core part of the work programme. There is currently no network or community that brings together policy makers from around the world to discuss responsible investment or long-termism in financial markets. The PRI, as a global investor-UN partnership, is the ideal platform to build such a network of investors, policy makers and other experts to come together to discuss these issues.

Next steps

Our first step in this programme will be to agree the regional focus. We are likely to focus initially on countries where the PRI already has significant representation and where a number of PRI signatories are willing to play an active role in this work. At this point, we would consider the UK, the Netherlands, US, Canada, Australia, France, Brazil and Japan as the most likely countries, but we will look to the steering committee for guidance.

Some workshops are expected to include a relatively high-level discussion on long-term responsible investment whereas other may involve a much more detailed discussion on specific aspects of national policy. For example, discussions might focus on public sector support for responsible investment (e.g. how can public sector agencies encourage investors to adopt responsible investment strategies), on the potential for government agencies and investors to work together on specific issues (e.g. encouraging improved corporate reporting on ESG-related issues), on how government funds might adopt responsible investment policies and integrate ESG issues into their practices and processes.

The follow ups/actions that result from the workshops will depend on the views and interests of the participants, in particular, the appetite of PRI signatories to further engage with policy makers on the issues of long-term responsible investment.

Deliverables

We are planning the following outputs:

- An initial report that describes policy measures that have been implemented in different countries or regionally to encourage long-term responsible investment. This would include some analysis of the contribution that these measures have made as well as the involvement of signatories in the facilitation of these new measures. This report would be a resource that gives investors and policy maker's ideas on the sorts of policy measures they might consider in their markets, and provide some ideas on the benefits of engagement on influencing policy to the benefit of signatories.
- Key conclusions and findings from the country-specific workshops to support education and capacity-building for signatories, illustrating the benefits and outcomes from policy engagement.
- Report on key findings drawing together some of the common themes from the workshops. It will include case studies and examples of interesting policy initiatives, reflect on policy interventions that seem to have greater or lesser likelihood of success, and offer suggestions on how investors might encourage policy makers to create enabling environments that are supportive of long-term responsible investment. It will also reinforce the general message about the important role that investors can play in the policy process. It would offer a menu of

ideas that investors themselves could then take up directly with their own policy makers in their regions.

Alignment with PRI's overarching goals

One of the key findings from the PRI signatory consultation in early 2013 was that focusing on the strategic barriers (in particular short-termism) to a sustainable financial system is a relevant and important area for the PRI and this project and workshops will deliver on this

Outcomes

This programme will have four outcomes:

1. It will develop links and relationships between PRI signatories and relevant national and international policy makers, and between PRI and key international organisations in the areas of long-term responsible investment.
2. It will develop the capacity of PRI signatories and policy makers to understand the range of policy tools available and develop their thinking on what policy measures may or may not work for their regions. We also intend to build signatories' capacity to engage with policy makers effectively and in an informed way.
3. It will inform the work of PRI and its signatories on overcoming barriers to a sustainable financial system, identifying valuable policy initiatives and innovations and providing the evidence base to support signatories in their engagement with policy makers.
4. It will expose policy makers to the expertise and knowledge that exists in the investment industry, and should encourage policy makers to proactively engage with investors as an integral part of their communications and engagement in the design and implementation of policy.

Implementation

We are very aware of the concerns expressed by some PRI signatories about how the PRI manages the issues around being seen as a lobbying organisation, and about the potential for the PRI's opinions on policy to be interpreted as positions that are shared by all PRI signatories. Our approach to this process is intended to manage this risk effectively by (a) positioning the workshops as collaborative, signatory-policy maker dialogues, convened by the PRI; (b) allowing PRI signatories to decide on how they intend to follow up on the workshops; (c) delivering the PRI's contribution primarily through convening the PRI Policy Network, with clear communication to signatories throughout.

While we expect to produce a number of reports (e.g. an overview document early in the process and one on the key findings from the workshops), these will inform policy debates and highlight a menu of ideas, rather than advocate that specific governments should take particular actions.

Section 4:

Collaboration with third-party initiatives

It was highlighted in the consultation responses that many initiatives, organisations and governments are already doing research and projects on short-termism and related issues. As such, the PRI will not seek to duplicate this work but where investors or investor bodies are already well represented, our role will be to collaborate and broaden these efforts. In many cases, the PRI's primary contribution will be to support third party initiatives, where required, by providing access to engage with our signatories, offer support where that is deemed of value, and share the costs of research. We will also ensure PRI signatories are aware of the work of other initiatives and understand its relevance. We encourage signatories that are involved in existing initiatives in these areas will communicate with the PRI and bring the PRI into their programmes where relevant.

There are a number of initiatives that are of particular importance to the PRI's work on short-termism (e.g. they have already completed some of the research/analysis required, they have the ability to convene key stakeholders, they are focused on important building blocks for a sustainable financial system) and where we will look to play a more active role (for more information see Appendix C). These are:

1. Projects/initiatives where the PRI is already involved:
 - The UN Global Compact's LEAD companies work on short-termism.
 - Key reporting/disclosure-related initiatives – in particular the International Integrated Reporting Council (IIRC) and the Sustainable Stock Exchanges (SSE) Initiative.
 - The Tomorrow's Company project 'Tomorrow's Capital Markets'.
2. Projects/initiatives where the PRI is not currently involved but where it may seek alliances and collaboration if relevant:
 - The Generation Foundation and the Rotman International Center for Pension Management's (ICPM's) work on a sustainable capital markets.
 - The CFA Institute's "Future of Finance" project.
 - The CPP Investment Board and McKinsey & Company "Focusing Capital on the Long Term" project.
 - The Group of Thirty's work on long-term finance and economic growth.
 - Cambridge Program for Sustainability Leadership (CPSL) - Investment Leaders Group (ILG).
 - GSIA (Global Sustainable Investment Alliance) and local member SIFs

A number of universities, consultancies and research organisations are also completing research around short-termism. The PRI will monitor these programmes via our Academic Network and share key research findings from these initiatives as they emerge.

Appendix A: The Advisory Committee (planning process)

The advisory committee involved in the planning and project prioritisation process is listed below.

Members of the Advisory Committee

- Jane Ambachtsheer, Mercer, Canada
- H el ena Charrier, Caisse des D ep ots, France
- Stephen Davis, Harvard University, US
- Danyelle Guyatt, Catholic Super, Australia
- Johan Mellerup, ATP, Denmark
- Paul Murphy, ACSI, Australia
- Fagmeedah Petersen Lurie, Eskom Pension & Provident Fund and GEPF, South Africa
- Raj Thamotheram, Raj Thamotheram Associates, UK
- Ed Waitzer, Stikeman Elliot, Canada
- Steve Waygood, Aviva Investors, UK

Terms of Reference

The advisory committee was established to help the PRI Secretariat develop concrete options and priorities for investor action to enable substantial progress to be made in overcoming the barriers to a sustainable financial system. Specifically, it was expected that the committee would:

- Advise on the criteria (or factors) that the PRI should consider in prioritising potential project areas.
- Help the PRI to develop a short-list of potential project areas, and help prioritise this short-list using the prioritisation criteria.
- Advise the PRI on appropriate strategies for managing the implementation risks and other issues identified in the course of the consultation.
- Advise on how to best leverage collaborations with other organisations.

The committee's role was expertise-based and advisory rather than governing or decision-making. The formal sign-off for any projects or other activities under the auspices of PRI's activities on the strategic barriers to a sustainable financial system rested with the PRI executive, and the PRI Association Board and PRI Advisory Council.

Appendix B: Project selection criteria

The PRI used the following questions to evaluate and prioritise projects/activities, and to think through the risks and challenges likely to be encountered:

1. Alignment with the PRI's overarching goals
 - Is the project/activity focused on areas that align with the Principles?
 - Is the project/activity focused on areas that align with investors' interests?
 - Does the project/activity focus on investors, the role that investors can play and the actions that investors can take?

2. The specific goals/outcomes from the project/activity
 - Is the project/activity focused on significant strategic issues (i.e. those with the greatest potential to make a significant difference to the development of a sustainable financial system)?
 - Is the project/activity focused on areas where the PRI can add real value?
 - Is the project/activity likely to lead to tangible actions and outcomes?
 - Is the project/activity likely to deliver benefits to investors?
 - Is the project likely to deliver outcomes or benefits (or significant progress towards the delivery of outcomes or benefits) over the period 2013 to 2015?

3. Implementation
 - Does the project/activity focus on areas that are particularly suited to the PRI's unique characteristics – its asset owner leadership, its depth of mainstream investment manager participation, its global reach, its leverage and its UN links?
 - Does the project/activity focus on those areas where the PRI and its signatories are able to speak with real expertise, and so best able to be influential?
 - Does the project/activity duplicate work that is being carried out by others, or does it add value above and beyond what is already being done?
 - Does the PRI and its signatories have the resources necessary to take the project/activity forward?
 - How many PRI signatories are likely to participate in/contribute to the project/activity?
 - Can the legitimate concerns of PRI signatories be addressed?
 - Will the project/activity build capacity among PRI signatories?

Note: While we used this criterion to guide our selection of the initial projects for this programme, we see that a similar criterion could be used to inform decisions on future activities/projects.

Appendix C: List of potential collaborative initiatives

The list of potential collaborative initiatives related to issues with short-termism include:

UN Global Compact project on short-termism with LEAD companies⁵

The Global Compact has requested that PRI support a discussion paper on short-termism in financial markets and how it impacts business decision making via (a) the preparation of a briefing paper on short-termism to be presented at Davos in January 2014; (b) the preparation of a briefing on the importance of companies and investors focusing on long-term value drivers; and (c) research on how investor leaders view sustainability-related drivers of business value.

International Integrated Reporting Council (IIRC)⁶

The IIRC is one of the key reporting-related initiatives which assist companies to communicate in a clear way how they are drawing on the resources and relationships they utilise to create value in the short, medium and long term, hence helping investors to manage risks and allocate resources most efficiently. Helene Winch is a member of the working group of the IIRC and the PRI collaborates with IIRC to operate the Pilot Programme Investor Network.

Sustainable Stock Exchange (SSE) initiative⁷

The SSE is delivered by the PRI and the SSE investor working group and is hosted by the PRI Clearinghouse. The initiative's aim is to enhance transparency in reporting by stock exchanges, working with regulators, companies and investors.

The Tomorrow's Company project 'Tomorrow's Capital Markets'⁸

Tomorrow's Capital Markets looks at how individuals and institutions within the capital markets are incentivised, the implications of these incentives and how incentives might be restructured and/or redesigned to deliver more sustainable capital markets. Fiona Reynolds, PRI Managing Director, serves on the Steering Committee.

The Generation Foundation⁹ and the Rotman International Center for Pension Management (ICPM)'s¹⁰ report on sustainable capital markets

The joint paper concludes that the adoption of "concentrated long-term investment mandates as being a potentially high impact initiative and wide adoption would constitute a major step towards the sustainable form of capitalism." Specifically the Generation Foundation's white paper on sustainable capital markets has a fifth action point to "Encourage long-term investing".

⁵ http://www.unglobalcompact.org/Issues/financial_markets/index.html

⁶ <http://www.theiirc.org/>

⁷ <http://www.sseinitiative.org/>

⁸ <http://tomorrowscompany.com/tomorrows-capital-markets>

⁹ <http://genfound.org/initiatives/>

¹⁰

www.rijpm.com/key_insight_files/Ten_Strategies_for_Pension_Funds_to_Better_Serve_Their_Beneficiaries_June_20_2013.pdf

ICGN Model Mandate Initiative¹¹

The ICGN developed and published a “model mandate” in March 2012 which developed model contract terms between asset owners and their fund managers to promote long-term decision making.

The CFA Institute’s “Future of Finance” project¹²

The CFA has been highlighted as a critical party to facilitate a change in behaviour in the investment industry, with this project focussing on the future of finance.

The CPP Investment Board and McKinsey & Company "Focusing Capital on the Long Term" project¹³

The two parties are reported to be doing a joint project on long-term investing,

The Group of Thirty’s work on long-term finance and economic growth¹⁴

This very high level economic-focussed group has long-termism on its radar and has published research on long-term finance and economic growth

Long Term Investors Club (LTIC)¹⁵ and European Long Term Investors association (ELTA)¹⁶

Both groups include PRI signatories and are focussed on long-term investment, with the LTIC having a global focus and the ELTA a European focus.

OECD¹⁷

The OECD-led Task Force on Institutional Investors and Long-Term Financing, which is open to G20, FSB, APEC members and relevant international organisations, started work on developing G20-OECD High-level Principles of Long-term Investment Financing by Institutional Investors in March 2013.

GSIA¹⁸

The Global Sustainable Investment Alliance (GSIA) is an alliance of 8 local SIFs (sustainable investment organisations) who are active in their local markets and networks.

¹¹ <http://www.professionalpensions.com/professional-pensions/news/2163996/icgn-creates-optimal-alignment-model-contract-asset-owners-managers>

¹² <http://www.cfainstitute.org/learning/future/about/pages/index.aspx>

¹³

[http://www.cppib.com/content/dam/cppib/common/PDF/Address to the ICD Focusing Capital on the Long Term May 22 2013 .pdf](http://www.cppib.com/content/dam/cppib/common/PDF/Address_to_the_ICD_Focusing_Capital_on_the_Long_Term_May_22_2013_.pdf)

¹⁴ http://www.group30.org/rpt_65.shtml

¹⁵ <http://www.ltac.org/>

¹⁶ http://europa.eu/rapid/press-release_BEI-13-182_en.htm

¹⁷ <http://www.oecd.org/daf/fin/private-pensions/principles-long-term-investment-financing-institutional-investors.htm>

¹⁸ <http://www.gsi-alliance.org/>

Appendix D: The PRI ‘Policy Network’

Policy-related work will take place primarily through the PRI Policy Network where investors, policy makers and other stakeholders will work together to discuss issues around long-term responsible investment and explore the role that investors and policy makers can play to encourage it¹⁹. This may involve some of these actors commissioning research or bringing their research or ideas to the group for discussion and review. The PRI will therefore play a convening, educating and coordinating role, building relationships and common understanding between investors and the policy community, rather than a representative role. This is very much aligned with the PRI’s unique role as a partnership between the UN and investors. The PRI is exploring how we can facilitate this network via the Clearinghouse.

¹⁹ While we need to further define the mode of operation and function of the Policy Network, we see the Impact Investing Policy Collaborative (IIPC) (<http://iipcollaborative.org/about-iipc/>) as a model that we may seek to emulate. IIPC strives to grow impact investing markets by building a global network for policy research and innovation. The IIPC helps investors, public officials, advocates, researchers and related communities to identify and support policies that lead to more robust and effective capital markets with intentional social and environmental benefits. The IIPC achieves these goals through:

- Supporting research: Organisations are encouraged to apply for grants to support research on discrete projects intended to advance global understanding of impact investing markets and where policy could support or enhance these markets.
- Convening network of investors, policymakers and practitioners: The IIPC website serves as a central hub for researchers and policymakers, and includes a comprehensive library and resource centre. The website also provides a staging ground for knowledge-sharing and dissemination, idea generation, technical assistance and advisory services on key policy needs related to global impact investing markets.
- Hosting an annual international conference.

Publishing reports: To date, the project has released two reports to identify the role of policy in supporting impact investing.