

# Socially Responsible Investing

Support for the UN Principles for Responsible Investment (UN PRI) has grown considerably in a short amount of time. In early 2005, UN Secretary-General Kofi Annan invited a small group of the world's largest institutional investors, including the CPP Investment Board (CPPIB), to join a process to develop the principles. This initiative has its roots in the growing understanding that investment decision-



the policy is based on engagement, recognizing that companies which manage ESG issues well are more likely to deliver long-term financial performance and that investors need to evaluate the impact of ESG factors to the extent that they affect long-term corporate performance. In so doing, the CPPIB is concerned with ESG factors only as they affect potential risk and return of investments. Consistent with the CPPIB's belief that constraints decrease returns and/or increase risk



By: David McCann

## Sticking To Principles

making and ownership practices could better integrate the consideration of environmental, social, and governance (ESG) issues.

Today, there are approximately 362 signatories to the UN PRI, representing US\$14 trillion in assets under management. While the bulk of these firms (41 per cent) are European-based, Canada has a strong showing with a total of 17 signatories.

### Founding Signatory

As a founding signatory to the UN PRI, CPPIB takes seriously its commitment to a best practices framework to integrate ESG issues into investment decision-making. However, in order to understand the UN PRI's importance and how it can be used as a tool by institutional investors, it is important to understand the mandate under which the CPPIB operates.

The CPPIB has a unique governance structure. It was created as a crown corporation, but operates at arm's length from governments competing in the private sector world of investment management and financial markets. The investment professionals of the CPPIB report to an independent, qualified board of business experts.

The nature of the legislated mandate and the investment mission are relevant in two ways. First, we operate within an investment-only mandate with the purpose of maximizing returns without undue risk of loss for the benefit of CPP beneficiaries and contributors. Second, the CPPIB operates with a very long-term investment horizon.

It is with these frameworks in place that the CPPIB created a 'Policy on Responsible Investing' in October 2005. Because of our investment-only mandate,

over time, we do not screen stocks.

### UN Principles

The UN principles reflect the view that ESG issues can affect the long-term financial performance of investments. Effective management of ESG issues can be material to the performance of portfolios over the long term and investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return. Implementing these principles can lead to a more complete understanding of a range of material issues.

But what are the 'UN Principles for Responsible Investment' and how can institutional investors incorporate them into their investment decision processes?

There are six principles:

- ◆ Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- ◆ Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- ◆ Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- ◆ Principle 4: We will promote acceptance and implementation of the principles within the investment industry.
- ◆ Principle 5: We will work together to enhance our effectiveness in implementing the principles.
- ◆ Principle 6: We will each report on our activities and progress towards implementing the principles.

Essentially, the principles are designed to be compatible with the investment styles of institutional investors that operate within a fiduciary framework.

The principles apply across the whole investment business and are not designed to be relevant only to traditional socially responsible investment activities. They point to a number of emerging approaches such as active ownership and the integration of ESG issues into investment analysis.

#### 'Possible Actions'

Institutional investor signatories voluntarily implement the principles in a manner consistent with their fiduciary role.

CPPIB implements the principles in a manner that is consistent with, and relevant to, our mandate to maximize returns without undue risk of loss. Below are some examples of CPPIB's activities by principle. However, it is by no means an exhaustive list of our responsible investing initiatives.

- ◆ Principle 1 (Investment Analysis): CPPIB is a member of the Enhanced Analytics Initiative. Members commit to allocate trading commissions to encourage better investment research on the long-term materiality of ESG factors.
- ◆ Principle 2 (Active Ownership): CPPIB executes its Proxy Voting Principles and Guidelines for all its public equity holdings, approximately 2,600 companies globally.
- ◆ Principle 3 (Disclosure): CPPIB supports the Extractive Industries Transparency Initiative (see the February 2007

issue of *Benefits and Pensions Monitor*), a multi-stakeholder coalition of investors, governments, companies, and non-governmental agencies seeking transparency and good governance regarding government revenue from the oil, gas, and mining industries to improve local community development and greater long-term shareholder value.

- ◆ Principle 4 (Investment Industry): CPPIB contributed to the Chartered Financial Analyst (CFA) Institute publication 'Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors.'
- ◆ Principle 5 (Collaborative Engagement): CPPIB is a signatory to the Carbon Disclosure Project, a coalition of 385 global investors managing more than US\$57 trillion who are actively encouraging companies around the world to disclose the implications of climate change to their businesses.
- ◆ Principle 6 (Reporting): CPPIB publishes a summary of its proxy voting activity on an annual basis. This year, we will also begin to report on our engagement efforts.

#### Annual Benchmarking Process

In addition to the Principles framework, the UN PRI supports investor implementation with working groups, an Engagement Clearinghouse, and an annual benchmarking

process. The Engagement Clearinghouse is an online forum where investors can post ideas and proposals for collaboration with peers. The annual benchmarking survey is a requirement for signatories within two years of joining and helps signatories measure their progress. The benchmarking survey leads to the annual 'UN PRI Report on Progress' which highlights responsible investing best practices around the world. We were pleased to be recognized in the 2008 report for our active ownership and collaborative initiatives.

The UN PRI is an important component of CPPIB's responsible investing strategy as a means to learn from, and work with, global peers on relevant, long-term ESG factors. The UN PRI enables CPPIB to build and maintain a leading approach to responsible investing within a fiduciary framework. We encourage other investors to consider becoming a signatory to the 'UN Principles for Responsible Investment.' ■

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