

## PRI AND ESG

The **P**inciples for **R**esponsible **I**vestment (**PRI**) and **E**nvironmental, **S**ocial and **G**overnance (**ESG**) issues occupy an increasingly important place in investing. The PRI are an initiative of former UN Secretary-General Kofi A. Annan, who in 2005 invited the main global investors to develop a set of general principles in order to provide investors with a framework for incorporating environmental, social and governance issues. The PRI signatories are invited to follow six principles:

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

## PBI AND THE PRI

As a signatory to the Principles for Responsible Investment (PRI), PBI Actuarial Consultants Ltd. (PBI) actively promotes the PRI and provides financial support to the PRI initiative. PBI will include a report on shareholder initiatives on ESG issues within investment performance reports given to pension committee members. This annual report is created using the SHARE database and the PRI website as a source of information. It lists and describes shareholder ESG proposals tabled during annual shareholders' meetings at Canadian companies. Examples of proposals include requests for environmentally and socially responsible production methods, gender parity in governance

positions, and more transparent governance by business leaders.

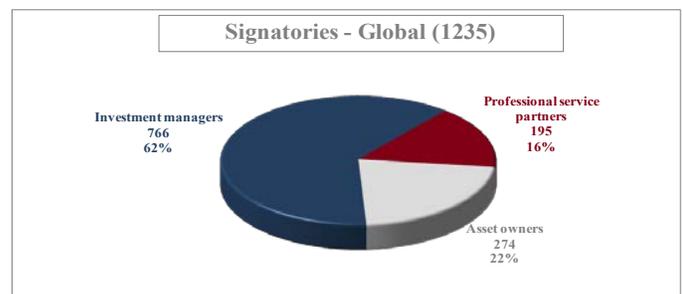
These reports by PBI are created as a tool for members of pension committees who have a fiduciary responsibility for the administration of the property of others.

Because of its long-term liabilities, a pension fund needs to follow long-term investment approach. The aim of the PRI is consistent with this approach. "The Principles for Responsible Investment aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries." (Excerpted from: Principles for Responsible Investment, UN).

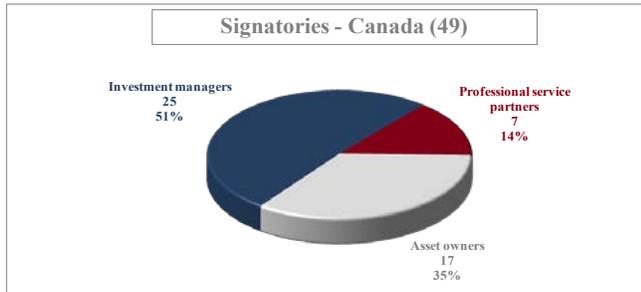
## STATE OF THE CURRENT SITUATION

A growing number of global investors are committed to promote the responsible investment initiative. Here are some key numbers from the PRI Annual Report 2013:

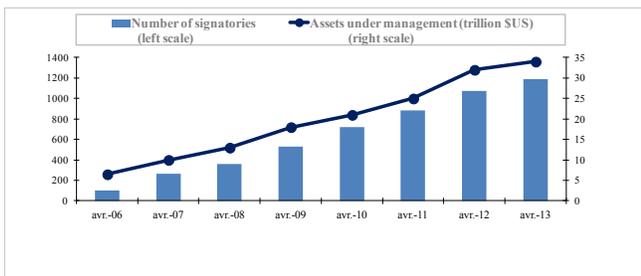
- The PRI now count over 1,235 signatories from 55 countries with 190 new signatories since last year: a 15% increase from the prior year.
- The majority of the signatories (62%) are investment managers.



- The Canadian presence is relatively modest, however, with only 49 signatories broken down as follows:



- The value of assets managed by PRI signatories was around 34 trillion American dollars in April 2013, or about 15% of assets invested globally, in comparison to 32 trillion American dollars the previous year.



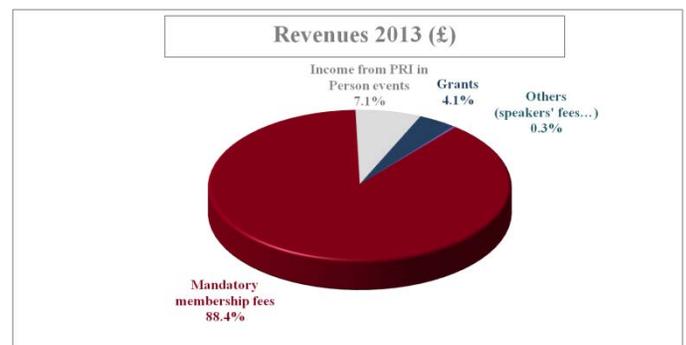
- 94% of signatories have now adopted a socially responsible investment policy and many have published it on their website.
- 90% of the signatories have collaborated with one or many investors on matters linked to responsible investment.
- Close to 550 signatories have completed the last annual PRI assessment survey and 44% of them publish their responses publicly. The survey asks signatory organisations how they are putting the six Principles for Responsible Investment into practice and is mandatory for asset owner and investment manager signatories

## SITUATION IN CANADA

According to the SRI Review 2012 of the Canadian Social Investment Organization (SIO), socially responsible investments (SRI) represent 20% of the financial industry's assets under management at \$600.9 billion. Close to 89% of these funds, or \$532.7 billion, belong to pension plans.

## BUDGET AND OPERATIONS

Since 2011, PRI signatories have had to pay an annual membership fee to finance the PRI Association's activities. According to the 2013 annual report, the PRI Association's operating budget was 3.6 million (£) and membership fees represented 88.4% of income.



## ACTIVITIES

According to the SRI Review, here are the main strategies used by SRI investors:

- Corporate engagement and shareholder engagement (proxy voting, shareholder proposals).
- Negative or exclusion screening (e.g. tobacco, arms trade).
- Incorporation of ESG factors by fund managers into their traditional financial analyses.
- Positive or "best in class" screening.
- Sustainability theme investing, e.g. clean energy.

Via the PRI Clearinghouse, the PRI's global platform for regrouping shareholder engagements, over 400 PRI signatories have led comprehensive dialogues with over 1,400 companies, including 274 in the past year, to encourage engagements in environmental, social and corporate governance. Here are some examples:

- Out of 24 companies targeted by 18 signatories, 10 have already agreed to set greenhouse gas (GHG) reduction targets.
- A coalition of 25 signatories representing US\$2.0 trillion is encouraging the sustainable production of palm oil and asking producers to observe Roundtable on Sustainable Palm Oil (RSPO) principles.
- A coalition of 34 signatories representing US\$3.3 trillion is encouraging 1,900 companies in 44 countries to consider joining the UN Global Compact, an initiative launched during the Rio conference in 2012 that asks companies to embrace universal UN principles. To date, 7,000 companies in 135 countries have joined this initiative.
- Further to pressure from a coalition of investors representing US \$1.6 trillion, the governments of Canada and Alberta announced a joint implementation plan for oil sands monitoring in March 2012.
- 8 signatories are currently discussing occupational health and safety issues with electronic products manufacturers in emerging markets.
- 21 investors are currently working with 21 companies on anti-corruption measures.
- 8 stock markets have announced an engagement to promote sustainable, long-term investment in their markets by joining the Sustainable Stock Exchange (SSE) Initiative to enhance corporate transparency on ESG issues, including NYSE Euronext (the world's leading exchange group), NASDAQ OMX, the Bombay Stock Exchange (BSE) and BM&FBOVESPA in São Paulo, Brazil.

The above are examples of recent activities involving responsible investment. PRIs are much more than a passing fad. An increasing number of investors are endorsing these principles and taking action to walk the talk. Since the creation of the PRI in 2005, there has been much progress, but there is still a long way to go. Nevertheless, many investors no longer seem content with the status quo.

## IMPACT OF PRI ON PERFORMANCE

### Studies

Investors often raise the issue of performance. Is it possible to strike a balance between responsible investing without compromising performance? Many studies have looked into the matter:

- A recent study by the Canadian Social Investment Organization (SIO) shows that as at June 30, 2013, average returns on socially responsible funds (SRI) performed better compared to the industry's average returns across most asset classes. The periods analyzed were 3 years and 5 years. Over a 10-year period, Canadian equities outperformed industry funds; however, the history available for SRI funds does not allow a comparison with other asset classes:

	3 yrs		5 yrs	
	SRI funds	Industry	SRI funds	Industry
Canadian bonds	3,48%	3,09%	4,46%	4,12%
Canadian equity	6,51%	5,13%	0,00%	-1,24%
Global equity	9,46%	9,83%	0,17%	1,53%
US equity	14,79%	13,68%	6,26%	3,76%
International equity	8,35%	7,51%	0,93%	-1,50%

- A 2012 report by RBC Global Asset Management analyzed whether responsible investing hinders performance. This report is based on several studies that analyzed the performance of SRI indices vs. traditional indices, the performance of SRI mutual funds vs. traditional mutual funds, the performance of an SRI portfolio vs. a traditional portfolio, and

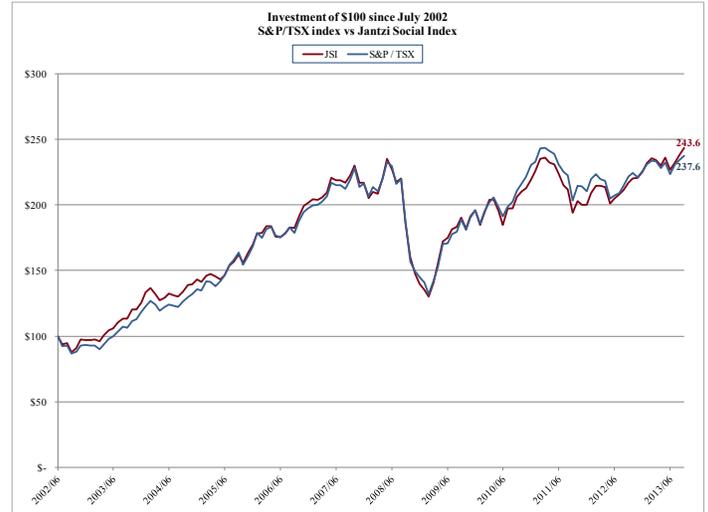
lastly, by assessing the link between corporate social responsibility and financial performance. The RBC report concluded that investors can consider a responsible investing program and expect to obtain results similar to a traditional investment program.

Furthermore, additional studies have shown that implementing such strategies does not adversely impact a portfolio's returns:

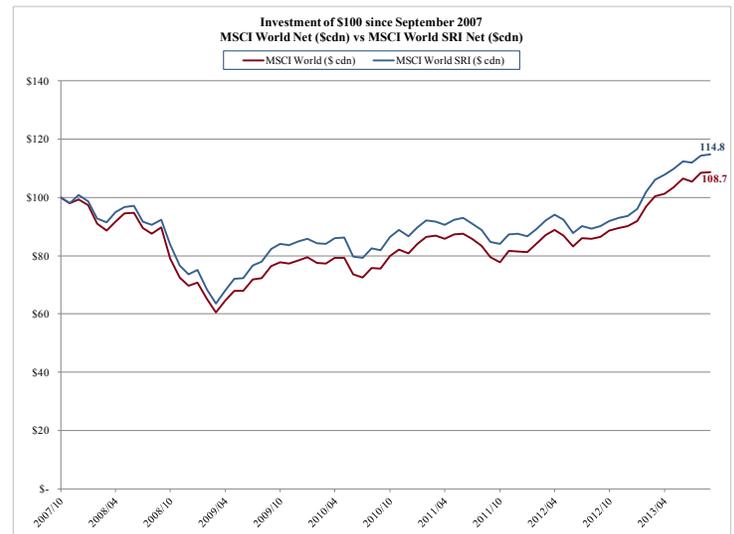
- Research done in 2012 by Deutsche Bank Climate Change Advisors looked at the performance of SRI funds and concluded that while the majority of SRI fund managers (88%) did not outperform traditional funds, they did not underperform either. They also noted that most of these SRI funds were using only negative screening, instead of positive or best-in-class screening.
- According to a 2010 study by Hörter et al., the integration of ESG factors in a portfolio with a 30% investment in global equities can reduce portfolio risk (as measured by VaR) for a single rate of return or increase the return for a same risk level.
- A 2008 study by Galema et al. showed that positive screening had a significant impact on portfolio performance.
- A 2005 study by Shank, Manullang & Hill showed that over a 5-year and 10-year period (1993–2003), portfolios of US equities with positive screening outperformed the S&P 500 index.

**PRI performance indices**

Index suppliers have also developed indices to measure the performance of socially responsible companies. Among these providers, the Jantzi Social Index measures the performance of the Canadian market. MSCI also produces ESG indices. The Jantzi Social Index shows that \$100 invested in July 2002 was worth \$243.60 in September 2013, compared to \$237.60 for the S&P / TSX index.



The MSCI World SRI Index shows that \$100 invested in September 2007 was worth \$114.80 in September 2013, compared to \$108.70 for the MSCI World Index.



### **NEWS AND UPCOMING PRI EVENTS**

#### **2014 Conference**

The next annual PRI in Person conference will be held in Montreal from 24 – 26 September 2014: <http://www.unpri.org/partnerships/opportunities/>. For information about other upcoming events and the Principles for Responsible Investment, please visit [www.unpri.org](http://www.unpri.org).

#### **PRI Regional Networks**

PRI signatories in Quebec have set up the Réseau PRI Québec in February 2013. This network comprises of 25 signatories whose mission is to make investors aware of the importance of integrating environmental, social and governance considerations into their investment activities and decisions. The network also aims to promote the pooling of members' expertise and the sharing of best practices in responsible investing to foster their adoption by an increasing number of Quebec financial players.

The first major event organized by the Réseau PRI Québec was the Colloque québécois sur l'investissement responsable (Quebec symposium on responsible investment) held in Montreal on February 19, 2013. Information about this symposium is available on the website (in French only):

<http://www.inm.qc.ca/colloques/colloque-quebecois-sur-linvestissement-responsable>.