ESG best practice
A look at how some of the world’s largest asset owners approach sustainable investment
The top 300 asset owners collectively manage $15.7 trillion\(^1\) of long-term retirement savings, insurance and other assets on behalf of current and future employees and retirees. This comes with great responsibility to not only generate financial returns, but also to ensure the long-term sustainability of investments, with wider considerations for society and the environment. The challenge is navigating the broad umbrella of sustainability and developing suitable strategies for different investments. In this paper we take a look at how some of the world’s largest asset owners are approaching sustainable investment and acting in the best long-term interests of beneficiaries across asset classes.

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\(^1\) Willis Towers Watson, Pensions & Investments/Willis Towers Watson 300 analysis, September 2017
Some of the world’s largest asset owners have been practicing sustainable investment or responsible investment for many years, while others are just at the beginning of their journey. Those who have a long history of sustainable investment tend to have a multi-faceted, multi-layered approach, having evolved the breadth and depth of their activities over time. In contrast, asset owners who are relatively new to the concept may still be trying to understand how they can practically incorporate environmental, social and governance (ESG) considerations across their investments in a meaningful way without feeling like they are compromising on their financial objectives.

Making the initial commitment
Asset owners can demonstrate their commitment to sustainable investment in various ways. A growing number have chosen to sign up to the UN Principles for Responsible Investment (PRI), which were launched in April 2006 to promote more sustainable markets through the consideration of ESG factors in investment. Today, more than 350 asset owners representing over US$16 trillion of assets globally have committed to the voluntary principles. Interestingly, while seven of the 10 largest asset owners are signatories, only 78 of the largest 300 asset owners have done so. The Nordics lead the way: 100% of major asset owners in Sweden have signed up to the PRI, 80% in Finland are also signatories and Norway’s largest asset owner, the Norwegian Government Pension Fund, was a drafting signatory in 2006.

Elsewhere, 92% of major asset owners in the Netherlands have signed up to the PRI compared to 38% in the UK. There is a high level of commitment in Australia with 63% of major asset owners also signatories. In contrast, and perhaps more surprisingly, asset owners in North America lag. Despite the US being the largest equity market in the world and major asset owners accounting for 38% of global assets, less than 8% have signed the principles. Across Asia, only 5% of asset owners are signatories, most of which are in Japan. Within emerging markets, where responsible investment is less advanced, there are few signatories. That said, the Government Employees Pension Fund of South Africa was a founding signatory to the PRI in 2006 and the three largest asset owners in Brazil have all signed the principles.

Becoming a PRI signatory is not for everyone though. Some of the largest asset owners have not signed up to the principles for various reasons but they are still nonetheless firmly committed to sustainable investing, such as the New York State Common Retirement Fund, Ontario Municipal Employees Retirement System and Australia’s Future Fund.

Stewardship and governance increasingly important
The first stewardship code was introduced in 2010 by the UK’s Financial Reporting Council, setting the standard for investors in terms of monitoring and engaging with companies with a view to improving corporate governance and long-term performance. Since then, stewardship codes, guidelines and principles have been introduced around the world, from the Netherlands to South Africa, Canada, Taiwan, Japan and most recently, Australia (see Figure 1). This trend looks set to continue with India and Kazakhstan in the process of developing a code.

A number of leading asset owners have signed up to their local stewardship code, but perhaps the most notable was in 2014 when the world’s largest asset owner, the Government Pension Investment Fund (GPIF), announced its acceptance of Japan’s Stewardship Code. Adhering to the Code in practice largely involves monitoring external asset managers of Japanese equities to ensure they comply with the principles since the asset owner is prohibited from investing directly in equities. External managers are required to demonstrate how they fulfill their stewardship responsibilities, including how they integrate ESG considerations, promote sustainable growth and corporate value of investee companies and exercise their voting rights. Each year, GPIF publishes a detailed annual report on its stewardship activities covering its recent activities and industry involvement, how it assesses its external managers, progress on issues identified in the previous year, issues that need to be addressed, and a summary of how its external managers exercised shareholder voting rights.

Figure 1: The rise of stewardship codes and governance principles

Source: Schroders, ICGN

2 UN Principles for Responsible Investment
3 PRI Annual Report 2017
5 “Global Stewardship Codes”, Manifest website, March 2017
Developing an ESG policy

After making the initial commitment and possibly signing up to the local stewardship code or PRI, the next step for asset owners is to develop a policy outlining how they intend to incorporate ESG considerations into their investment processes. The policy should reflect the asset owner’s investment beliefs, values, financial and sustainability goals, and take into account the type of investments (asset class, direct or indirect), legislation and international conventions. For asset owners who are new to ESG, the policy may be relatively simple to begin with compared to those who have incorporated ESG factors for much longer. Regardless of the starting point, the policy should be reviewed and updated over time to reflect the asset owner’s progress, industry developments and best practice.

California Public Employees Retirement System (CalPERS)

CalPERS is the largest public pension fund in the US, and one of the ten largest asset owners globally. It has a long history of responsible investment, with its earliest activities dating back to 1984 when it had just one corporate governance resource. Since then the public pension fund has continually developed and refined its approach to corporate governance and responsible investment, increasing the scope, scale and commitment of its activities.

Today, CalPERS is widely acknowledged for its leadership, activism and innovation in the industry. CalPERS has a clear sustainability roadmap to integrate ESG risks and opportunities into its investment processes across asset classes – a “Total Fund” approach. To help with implementation, sustainability is explicitly referenced in CalPERS’ Investment Beliefs, which guide all of its investment decisions, and the asset owner has developed asset class specific sustainable investment guidelines for internal and external managers. CalPERS also has a strategic five-year ESG plan which was adopted by the board in 2016.

Practical implementation: what does sustainable investment look like across asset classes?

While asset owners may share some common sustainable investment goals, differences in their beliefs, objectives and circumstances means that the approaches adopted and the way in which they are implemented will tend to vary.

In the following sections we look at how some of the largest assets owners around the world are implementing ESG considerations across their investments. We recognize that overarching sustainability goals and policies may span several asset classes and there are alternative ways to categorize ESG strategies, however for simplicity and comparability, we look at the following high-level ESG approaches employed for each asset class:

- **Integration**: looks at investment decisions in a wider context than traditional financial analysis and explicitly includes analysis of a range of risks and opportunities related to ESG drivers
- **Active ownership & voting**: involves actively engaging with the managers and boards of directors of investee companies on business strategy and execution, including specific sustainability issues and policies
- **Negative screening**: incorporates an investor’s moral principles by excluding companies involved in certain activities or industries (e.g. alcohol, gambling and adult entertainment)
- **Thematic**: focuses on specifics trends and themes such as the environment, diversity or demographics.
### Figure 2: Summary of approaches across a sample of asset owners

<table>
<thead>
<tr>
<th>Asset Owner</th>
<th>Third National Pension Fund (AP3)</th>
<th>Stichting Pensioenfonds ABP (ABP)</th>
<th>California Public Employees’ Retirement System (CalPERS)</th>
<th>Canada Pension Investment Board (CPPIB)</th>
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<td>Yes, founding signatory</td>
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<td>Tobacco</td>
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<td>Human rights</td>
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<td>Environmental</td>
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<td>Insurance, climate and weather-related investments</td>
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<tr>
<th>Asset Owner</th>
<th>Fonds De Reserve Pour Les Retraites (FRR)</th>
<th>Future Fund</th>
<th>Government Pension Fund Global (GPFG)</th>
<th>Universities Superannuation Scheme (USS)</th>
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*Includes real estate, infrastructure, private equity and hedge funds

Source: Schroders, PRI, asset owner websites
Equities

Across equity investments, asset owners employ various ESG approaches in order to meet their investment and responsible investment objectives. While the overarching approaches may sound similar, implementation will reflect the asset owner’s investment objectives and beliefs and the nature of the equities investment; some asset owners delegate the investment of equities to external managers while others invest in equities directly.

**GPIF**

The bulk of GPIF’s equities investments are in passive strategies, with less than 20% outsourced to external asset managers. As part of its sustainable investing strategy, GPIF announced in July 2017 that it will allocate 3% of its domestic equity portfolio (approximately ¥1 trillion) to ESG-focused index investment. In doing so, the world’s largest asset owner aims to maximize long-term investment returns while minimizing negative externalities relating to environmental and social issues. Interestingly, in selecting the ESG indices, GPIF focused on positive screening of companies with strong ESG practices rather than purely screening out ESG laggards.

**ESG integration: the most widely adopted approach**

**Externally managed equity investments**

At the basic level, asset owners with externally managed equities consider ESG issues in the manager evaluation and selection process. ESG questions are included in detailed due diligence questionnaires and managers are assessed based on a number of criteria which may include:

- How long the manager has been practicing responsible investment;
- How integrated ESG factors are within the investment process;
- The number of dedicated ESG resources;
- Average years’ worth of ESG experience;
- The number and quality of engagements conducted;
- Voting records; and
- The number of industry-wide ESG initiatives supported.

Since the asset owners are not invested in equities directly, they cannot engage with company management to encourage better outcomes and they are likely to let asset managers exercise voting rights. Engagement and voting is carried out by the investment manager on the asset owner’s behalf and it is common for asset owners to request regular reporting on ESG integration, engagement and voting activities as part of the performance review and monitoring process. To ensure sustainability remains firmly in focus, some asset owners, such as FRR, include specific sustainability objectives and requirements in their investment management agreements.

**Internally managed equity investments**

For those asset owners that manage equities internally, **ESG integration** is the most widely adopted sustainable investment approach. Using third party ESG data, in-house ESG research or a combination of both, ESG analysis is performed on each company and feeds into an assessment of that company’s ability to create long-term shareholder value and the potential risks involved. At CPPIB, the in-house Sustainable Investing Group provides ESG analysis and advice for the investment teams. Using their ESG expertise, the Group creates ESG profiles and initial high-level reviews of companies, highlighting material ESG risks and opportunities for investment teams to consider. The Group is also involved in the ongoing monitoring once an investment is made.

**Negative screening used to reflect fundamental beliefs**

Asset owners may also choose to apply **negative screening** based on fundamental beliefs and/or international norms. For example, consistent with a number of large asset owners, FRR will not invest in firms involved with the manufacture of antipersonnel landmines and cluster bombs. Norges Bank takes its screening even further and excludes any companies involved in the production of nuclear weapons and tobacco, as well as companies associated with serious violations of human rights, severe environmental damage, gross corruption or serious violations of individuals’ rights or ethical norms. The asset owner also specifically excludes companies involved in the production of coal or coal-based energy.

**Thematic investing to meet specific objectives**

A number of asset owners have allocated a portion of their funds to **thematic investing**. For example, FRR invests in renewable energy, sustainable agriculture and water, in addition to a low carbon index (MSCI Low Carbon Leaders) which it helped create to reduce the carbon footprint and fossil fuel reserves of its equity investments. Norges Bank also has environment-related mandates which invest in low-emission energy and alternative fuels, clean energy and efficiency technology, and natural resource management companies. Meanwhile, CalPERS manages an environmental index fund which is modelled on the HSBC Global Climate Change Benchmark Index. The fund invests in global companies deriving a significant proportion of revenues from environmentally friendly sectors such as low-carbon energy production, energy efficiency management and carbon trading.
Engagement and voting a common thread

Typically, ESG integration is also combined with active ownership & voting. Asset owners may engage with companies where they have material ESG concerns which could impact the company’s long-term value and/or risk profile. The nature and scope of engagements will depend on the asset owner’s key focus areas and available resources.

For example, Norges Bank regularly engages with companies, investors and regulators. Engagement is based on five central ownership themes:

1. Capital structure and strategy;
2. Executive remuneration;
3. Board composition and governing bodies;
4. Reporting and communication; and
5. Values and governance principles.

At ABP, engagements with companies are grouped into the following categories:

- Bribery and corruption;
- Corporate governance;
- Child labor;
- Environment;
- Human rights; and
- Safe working conditions.

Elsewhere, CalPERS’ engagement activities center around the companies it has identified as underperforming in terms of financial returns and governance criteria such as board quality, executive compensation and alignment of interests with shareholders.

Engagement on ESG issues may be done individually or collaboratively with other asset owners in an attempt to increase the level of influence on company management. Some asset owners may decide to take a more activist approach, using the media to bring attention to issues of concern.

Asset owners with a robust and well-established process will set specific engagement topics and objectives, and will also record and monitor progress in order to measure the success of their engagements. The use of voting rights is very important and most asset owners have a voting policy and guidelines on how they are likely to vote on a range of issues.
When it comes to fixed income, the relevance of ESG analysis tends to be less well understood compared to equities. There has been a general misconception that ESG analysis does not apply to fixed income investments since bond holders don’t have the voting rights or influence of equity holders, and engagement is difficult. However, ESG analysis, particularly in the context of identifying downside risks, is arguably even more important for fixed income investors, given the lower liquidity in individual instruments. ESG analysis helps to identify potential risks to a company’s future earnings and its ability and willingness to repay investors. In fact, credit ratings agencies claim to have long considered ESG factors when assessing the creditworthiness of issuers and assigning credit ratings.

ESG integration: the main approach
Where asset owners delegate the management of fixed income assets to an external investment manager, ESG issues tend to be considered in the manager evaluation and selection process. As with equities, ESG questions are included in detailed due diligence questionnaires and investment managers are assessed accordingly. Increasingly, asset owners are asking their investment managers to provide details on how ESG is integrated within the investment process, along with evidence of where ESG considerations have impacted investment decisions.

Since not all ESG issues will be material for all bonds, ESG integration is the most widely used approach by the largest asset owners. ESG factors are considered as part of the fundamental research process to determine the potential impact on future earnings streams and the ability of an issuer to repay its outstanding debt, as well as ongoing monitoring of portfolio credit risk. For example, the Universities Superannuation Scheme (USS) in the UK has a dedicated responsible investment team who analyze and rank countries in terms of material ESG risks, using scores from a number of global indices. These ratings feed into the fixed income investment process as well as the sovereign debt selection process for emerging markets. Similarly, the third party ESG research incorporated into Norges Bank’s company assessment on the equities side feeds into the credit rating assigned to that issuer.

Negative screening used by some
Although the practice is not as common as with equities, negative screening can also be applied to fixed income investments. CalPERS applies the same exclusions for fixed income and equity investments; it will screen out tobacco, assault weapons manufacturers and emerging market companies that are not aligned with its Emerging Market Principles. At Norges Bank, all corporate issuers are screened against international norms and any potential ESG risks are reflected in the bank’s assessment of creditworthiness.

Thematic investing becoming more popular
As asset owners look beyond ESG integration in fixed income, they are increasingly turning to thematic investing (for example, green bonds) to achieve their sustainability objectives. Green bonds are bonds where the proceeds are used to fund new and existing projects with environmental benefits; renewable energy and energy efficiency projects for example. The green bond market has continued its rapid growth with issuance in 2016 totalling $81.6 billion, almost double that in 2015 ($42.2 billion). As the market continues to mature and diversify with more countries issuing bonds and different bond types, issuer types, ratings, and use of proceeds, allocating to green bonds will become more viable for asset owners.

Third National Pension Fund (AP3)
Sweden’s AP3 was one of the earliest investors to explore the concept of green bonds in 2007 and invested in the World Bank’s inaugural green bond in 2008 alongside a handful of Swedish investors. As part of its efforts to support the transition to a low-carbon economy and further reduce the carbon footprint of its investment portfolio, the fund adopted a number of sustainability targets in December 2015, one of which was to triple its holdings of green bonds from SEK 4.5 billion to SEK15 billion by 2018. During 2016 the fund more than doubled its holdings of green bonds, bringing the total invested to SEK 9.5 billion.

Norges Bank also has an allocation to green bonds as part of its environment-related investment mandate in which the Ministry of Finance requires environmental investments to fall within a range of 30 to 60 billion krone. The bank bases its portfolio on a sub-segment of the Barclays MSCI Green Bond Indices which ensures the bonds adhere to the established Green Bonds Principles.

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6 Climate Bonds Initiative website
7 SEB, “Green bonds – a fast growing market”, June 2014
8 AP3, “AP3 adopts new ambitious sustainability targets”, December 2015
9 AP3, “AP3, Third Swedish National Pension Fund reports strong results for 2016”, February 2017
Within real estate investments, environmental factors are particularly relevant since buildings account for roughly one-third of final energy consumption and half of global electricity consumption. Environmental factors such as energy efficiency, water consumption and waste production can have a real impact on a property’s sustainability profile and performance.

GRESB: the global benchmark for asset owners

To provide a consistent way of benchmarking sustainability in real estate investments, the Global Real Estate Sustainability Benchmark (GRESB) was established in 2009. Each year GRESB collects ESG performance and sustainability information, such as energy and water consumption, greenhouse gas emissions and waste production, for property companies and funds. GRESB then validates, scores and compares the reported ESG data which investors can use to monitor, evaluate and improve the sustainability profile and performance of their portfolios. Currently more than 66 investors representing over $17 trillion in assets do so.

Through providing greater transparency on material issues impacting the sustainability performance of real estate assets and facilitating engagement with investors, GRESB has contributed to more sustainable and better-performing assets. According to the 2017 GRESB results, real estate companies and funds that embraced reporting to GRESB early on have made continuous performance improvements (see Figure 3) and also structurally outperformed those that joined later.

CPPIB’s Real Estate Investment team considers ESG factors in its formal due diligence and monitoring process. At the due diligence stage, the team looks at how asset managers integrate ESG factors in their investment processes and assesses the extent to which the managers focus on operating efficiencies, as well as health and safety. In line with CPPIB’s long-term investment objectives, the team focuses on acquiring properties with strong sustainability credentials as measured by the level of green building certification. As part of the monitoring process, the team sends out an annual sustainability questionnaire to its managers to understand and assess the level of ESG integration and sustainability performance.

Norges Bank

Norges Bank is committed to managing the properties it owns in a responsible and environmentally sustainable way. ESG factors are taken into account both when evaluating potential investment opportunities and in the ongoing monitoring of existing investments. For potential investments, ESG factors are considered as part of the due diligence process. External experts are consulted to identify issues that could have a negative environmental or social outcome, and therefore potentially affect the future value of the property under consideration. Targets to improve energy use, water efficiency and waste management are also discussed.

In terms of existing investments, Norges Bank requires all of its partners to submit information to GRESB each year. The results are then used in discussions to improve the quality, efficiency and environmental performance of the properties. The asset owner also expects its properties to have green building certifications and energy ratings, which are maintained or ideally improved. Where buildings don’t have green certification or energy ratings, they should have a plan in place to obtain them. These expectations are included in their Guidance for environmentally sustainable management.

Figure 3: The improving sustainability profile of GRESB participants

![Figure 3: The improving sustainability profile of GRESB participants](image)

Source: GRESB 2017

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11 GRESB website, November 2017
Infrastructure

Infrastructure investments involve assets such as railways, airports, toll roads, utilities, schools and hospitals. Given their physical nature, considerations such as the environment, labor relations, health and safety, community impact, governance and stakeholder management are all relevant and can have a material impact on the value of infrastructure assets. It is therefore essential that asset owners integrate ESG into their analysis, whether they invest directly or indirectly.

GRESB Infrastructure facilitating better integration

Incorporating ESG considerations in this asset class has not been straightforward for asset owners, owing to the lack of standard disclosures and comparable data. Recognizing this barrier, a number of global institutional investors partnered with GRESB to launch a sustainability benchmark for infrastructure investments in 2015. GRESB Infrastructure provides a standardized framework for asset owners to objectively evaluate ESG management and performance in their infrastructure investments. For those investing in infrastructure funds, there are ten indicators concentrating on management and the investment process. These indicators include ESG policies and processes, as well as commitment to ESG leadership and accountability. At the asset level, there are 32 indicators to consider across the following eight categories:

1. Management;
2. Policy and disclosure;
3. Risks and opportunities;
4. Implementation;
5. Monitoring and environmental management systems;
6. Performance indicators;
7. Certifications and awards; and
8. Engagement with stakeholders.

Indirect investment: understanding a manager’s commitment to sustainability is key

For asset owners invested in infrastructure indirectly, ESG factors are typically considered by asset owners as part of the due diligence process, with prospective managers required to provide details on aspects such as their commitment to responsible investing and their approach to ESG.

APG

Prior to investment, APG in the Netherlands asks a number of questions including:

- Whether a manager is a signatory to the PRI or other industry bodies;
- If they have an ESG policy in place;
- Whether they publicly disclose their responsible investment activities;
- How ESG factors are integrated at every stage of the investment process;
- What the key ESG risks associated with the investment are and how they will be managed and mitigated; and
- What KPIs (key performance indicators) will be used for ongoing monitoring of these risks.

As a founding member of GRESB Infrastructure, APG requires all new investments to provide information to GRESB Infrastructure and encourages existing investments to participate as well. Infrastructure funds also complete a detailed annual due diligence questionnaire covering aspects such as how they manage employee safety, how local communities are considered, energy consumption and waste management.

Direct investment: a more thorough evaluation required

A number of large asset owners also invest in infrastructure directly, which brings with it additional ESG considerations and complexity. AustralianSuper has long recognized the importance of identifying and managing ESG risks to protect and enhance long-term value of infrastructure assets, having invested in the asset class since the mid-1990s. The pension provider invests directly in various toll roads, airports, seaports and utilities domestically and abroad. When evaluating an infrastructure investment, the asset owner identifies and records all material ESG considerations; for example energy efficiency and the potential impacts from physical changes in the climate. It also assesses the robustness of the plan to manage these risks, and then seeks to monitor this over time to ensure they are being managed appropriately.
Private equity

A number of the largest asset owners also invest in private equity, either directly or via an external manager. Due to the long holding period, ESG factors can potentially have a significant impact on the risk and value of investments. The concept of incorporating ESG considerations in this asset class is not new; however, asset owners have found ESG more difficult to integrate in private equity, in part due to a lack of standardized, comparable data and disclosures.

Improving disclosure helping with integration

The PRI’s Limited Partners’ Responsible Investment Due Diligence Questionnaire, which was launched in 2015, has gone some way to addressing the lack of consistency by providing a detailed list of questions to understand how General Partners (GPs) integrate material ESG factors into their investment process before committing to investment. While the questionnaire is a helpful starting point, establishing relevant sustainability KPIs and monitoring progress post-investing is just as, if not more, important and requires consistent reporting to ensure transparency and accountability. This is something asset owners should require from GPs.

USS

USS has a thorough due diligence process to identify potential risks. Before investing in private equity funds or co-investing, USS reviews the GP’s sustainable investment approach and identifies and evaluates potential financial and reputational risks stemming from ESG issues. These might include conflicts of interest of key individuals relating to the investment, governance structures, energy use, health and safety and human capital management. The due diligence is performed by USS’ Operational Due Diligence team, together with its Responsible Investment team. Following the due diligence process, a report is written detailing key risks and potential mitigation measures, along with an assessment of whether there are adequate processes in place to mitigate these risks. This report is shared with the Chief Compliance Officer and the key risks are presented to the investment committee. Once investments have been made, USS will continue to monitor and evaluate ESG risks and opportunities throughout the life of the investment.

CPPIB uses a structured ESG questionnaire to assess a manager’s approach to sustainability, how it integrates ESG factors within its process, how it manages ESG risks and seeks to improve performance, how it monitors and reports on ESG and the resources committed. For direct investments, CPPIB’s ESG approach draws on the UN PRI and international standards. Investment opportunities are evaluated and monitored in the context of six factors: environment, health and safety, labor and working conditions, community relations, business integrity and corporate governance.
Hedge funds

Responsible investment has not traditionally been associated with hedge funds; however, more hedge funds are adopting ESG principles as asset owners seek to integrate ESG considerations across their entire investment portfolio.

Integration not straightforward, but progress is being made

Until recently there has been little resource to help investors identify hedge fund managers with the necessary personnel, skills and structure to incorporate ESG considerations in their investment processes. However in May 2017 this year, the PRI launched the first industry-standard responsible investment due diligence questionnaire for hedge funds. The questionnaire was developed in partnership with the Alternative Investment Management Association (AIMA) and the Hedge Fund Standards Board (HFSB), as well as a number of asset owners, investment managers and investment consultants. The due diligence questionnaire comprises 14 questions across four categories:

1. **Policy**: whether a manager has a formal ESG policy and its responsible investment philosophy;
2. **Governance**: responsibility for making investment decisions, level of oversight and incentives;
3. **Investment process**: how investment decisions are made and implemented, the data and tools used, and the engagement and voting process; and
4. **Monitoring and reporting**: how the manager monitors risks, measures its responsible investment progress, and reports on their ESG activities.

**USS**

USS has been at the forefront of getting the hedge fund industry to integrate ESG factors into their investment processes and has led international investor delegations to meet with the Cayman Islands Monetary Authority. Governance assessments form an important part of USS’ selection, appointment and monitoring process for hedge fund managers. In 2010 USS published its investment expectations for the governance of hedge funds in which it outlines best practice guidelines. The expectations document covers six key areas:

1. Board structure;
2. Definitions of independence;
3. Independent director’s role and key responsibilities;
4. Time commitment and fee;
5. Skillsets, characteristics and backgrounds; and

Hedge funds in which they invest are expected to “comply or explain”.

Other investments

In order to fulfill their sustainability objectives, a number of asset owners have also looked beyond equities, fixed income, real estate, infrastructure and private equity investments.

For example, Sweden’s AP3 has invested in FSC-certified (Forest Stewardship Council) forests since 2004 with just over SEK 5.7 billion invested across 12 investments as of May 2016. This investment has helped to offset most of the carbon emissions in the fund’s equity portfolio. The fund has also invested in insurance, climate and weather-related investments (for example catastrophe bonds and weather-related derivatives) which have a low correlation to traditional financial markets.

Meanwhile, the UK’s Environment Agency Pension Fund (EAPF) has also committed to investing in forestry and agriculture as well as venture capital funding innovative technologies providing new energy efficient solutions such as electrics vehicles and LED lighting.

12 USS website
13 AP3 website

The investments mentioned above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.
Conclusion

There are a number of ways in which asset owners can demonstrate their commitment to sustainable investment, regardless of whether they manage investments directly or delegate this responsibility to external managers. For those in the early stages of exploring sustainable investment, developing an ESG policy or statement that reflects their philosophy, beliefs and sustainability goals is a good starting point as this will shape how ESG is incorporated across their investments.

While a cookie cutter approach will not work, there is a lot that can be learned from other asset owners that have been practicing and promoting sustainable investment for a long time. The way in which they approach ESG across different investments can be examined and adapted where relevant for the individual circumstances of other asset owners. There are also a number of resources available to asset owners from the PRI and other organizations such as GRESB, ranging from guidance on high-level approaches to detailed asset class specific due diligence questions and KPIs for monitoring and measurement.

Although applying ESG considerations may be more straightforward for some asset classes compared to others, as more asset owners commit to sustainable investments and the industry continues to innovate and evolve, so will the range of approaches.