



FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | LONG-TERM FINANCE

Sustainable Investment: Best Practice Disclosure Checklist for Pension Funds



WORLD BANK GROUP

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ABBREVIATIONS AND ACRONYMS

AUM	assets under management
CalPERS	California Public Employees' Retirement System (USA)
CDP	formerly the Carbon Disclosure Project
CPF	Central Provident Fund (Singapore)
CPP Investments	Canada Pension Plan Investment Board
ESG	environmental, social and governance (issues)
GPIF	Government Pension Investment Fund (Japan)
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
NBIM	Norges Bank Investment Management (Norway)
NPS	National Pension Service (South Korea)
NSSF	National Social Security Fund (China)
PFZW	Stichting Pensioenfonds Zorg en Welzijn (The Netherlands)
PRI	Principles for Responsible Investment
SSGS	Special Singapore Government Securities
TCFD	Task Force on Climate-related Financial Disclosures
UNCTAD	United Nations Conference on Trade and Development
UNEP-FI	United Nations Environment Programme – Finance Initiative



BEST PRACTICE

ACKNOWLEDGMENTS

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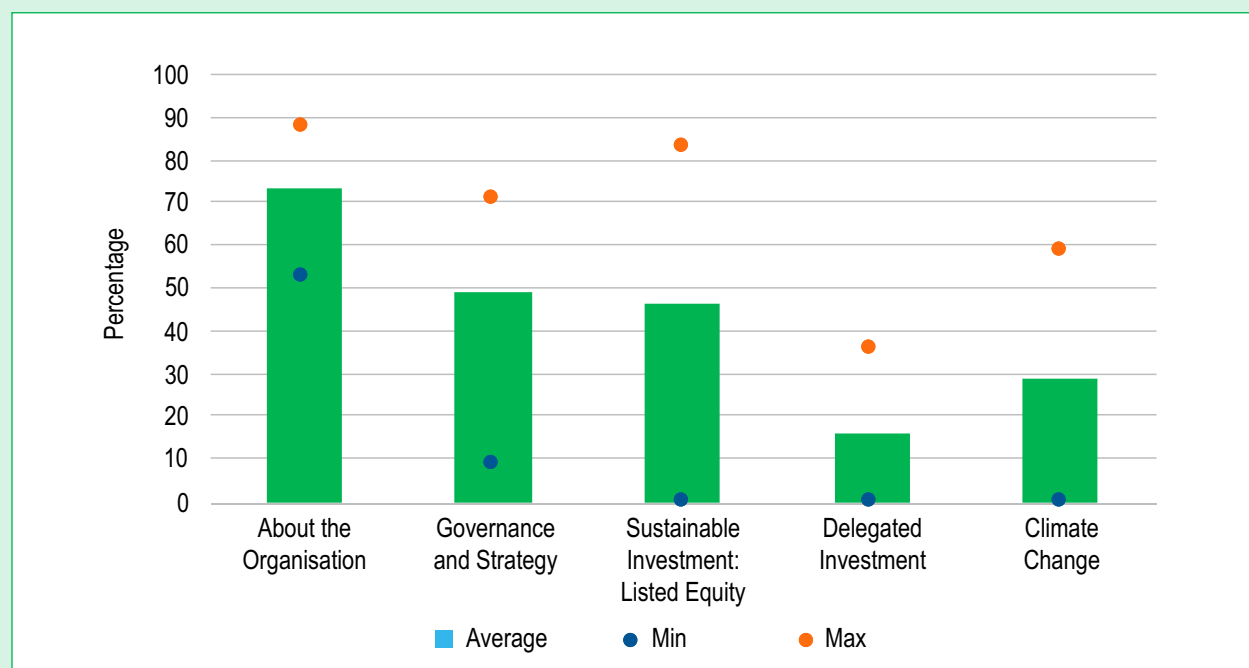
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EXECUTIVE SUMMARY

There are compelling reasons for asset owners – in particular large pension funds and sovereign wealth funds – to adopt sustainable investment, and for governments to support them in these endeavours. First, asset owners have a key role to play in providing the capital that supports national economic and development goals. Second, sustainability issues – for example, climate change, labour rights, public health – are important drivers of investment value. Third, asset owners play a key role in building the conditions for the widespread adoption of sustainable investment.

Better disclosure (or transparency) by asset owners is an important mechanism for driving sustainability in investment markets and in the wider economy¹. Yet, while the general case for asset owner disclosure is clear, it is not clear what disclosures asset owners should provide or what information would be most useful to their stakeholders (which include governments, asset managers, companies and civil society). This checklist has been developed to provide a comprehensive list of the disclosures that asset owners' stakeholders are likely to be interested in. It has been tested on some of the

world's largest pension funds. This analysis has provided some interesting insights into how these funds – many of whom are regarded as leaders on sustainable investment – are currently reporting on their approach to sustainable investment. It has also helped us to identify a series of best practice examples that might be of interest to other pension funds as they proceed on their reporting journey. These insights and examples, which are relevant to both developed and emerging market pension funds, are presented in this report.



REPORT BACKGROUND AND OBJECTIVES

The World Bank/GPIF Partnership

In 2017, the World Bank Group and the Japanese Government Pension Investment Fund (GPIF) established a partnership to direct more capital towards sustainable investments². The partnership, which was expanded in 2019³, includes collaborating on initiatives that promote the inclusion of environmental, social and governance (ESG) criteria in investment decisions across different asset classes and convening regular conversations with investors to explore opportunities and challenges of integrating ESG into investment strategies.

As part of this programme, the World Bank Group and GPIF have published two reports: *Incorporating Environmental, Social and Governance Factors into Fixed Income Investment*⁴ in 2018 and *Public Pension Fund Governance and Investment: Lessons from Asia*⁵ in 2019.

Why Focus on Asset Owners?

There are compelling reasons for asset owners – in particular large pension funds and sovereign wealth funds – to adopt sustainable investment, and for governments to support them in these endeavours. First, **asset owners have a key role to play in providing the capital that supports national economic and development goals**. Asset owners can encourage capital flows into more sustainable activities and companies, and away from activities and companies that are considered less sustainable. Asset owners can also help ensure that the companies and other entities they invest in have robust governance and management systems and processes, and respond effectively to the opportunities and the risks presented by trends such as the transition to the low carbon economy, the desire for safe and high quality food, and rising standards of living.

Second, **sustainability issues – for example, climate change, labour rights, public health – are important drivers of investment value**. This is particularly relevant to asset owners as they

often hold assets over the medium and long term, corresponding to the timeframes over which many sustainability issues are expected to play out. There is evidence that companies with better performance on these issues tend to have better operational performance with lower risk, and that investment strategies that incorporate sustainability-related issues tend to outperform comparable investment strategies that do not account for these issues⁶. There are also significant investment opportunities. For example, between now and 2030, between US\$5-US\$7 trillion a year is needed to realise the Sustainable Development Goals worldwide⁷.

Third, **asset owners play a key role in building the conditions for the widespread adoption of sustainable investment**. This is particularly important in emerging markets where government-backed asset owners are frequently the dominant actors in the domestic market. When these asset owners strengthen their commitments to sustainable investment, they create a series of positive and reinforcing changes through the investment system as a whole. These can include encouraging investment managers and investment advisers to develop and offer products that enable asset owners to deliver on their sustainable investment commitments, and encouraging investment in more sustainable activities and companies⁸. There is also an element of peer pressure, where other asset owners feel pressure to mirror or match the commitments being made by their industry peers⁹.

The Best Practice Checklist

Better disclosure (or transparency) by asset owners is an important mechanism for driving sustainability in investment markets and in the wider economy¹⁰. Such disclosures allow asset managers and companies to see the importance being assigned to sustainability issues by asset owners in their investment practices and processes. They help explain how sustainability issues are taken into account by asset owners in their investment decision-making, in asset manager selection and in active ownership (company engagement). They allow stakeholders – beneficiaries, government, wider society – to hold asset owners to account for their approach to sustainability. They facilitate shared learning and provide examples for other asset owners, for companies and for asset managers to follow.

While the general case for asset owner disclosure is clear, it is not clear what disclosures asset owners should provide or what information would be most useful to their stakeholders (which include

governments, asset managers, companies and civil society). A variety of reporting frameworks and assessment frameworks have been developed for asset owners. There are many commonalities across these but also some important points of difference. We have therefore developed a best practice checklist that provides a comprehensive list of the disclosures that asset owners' stakeholders are likely to be interested in. We describe this checklist in more detail in Appendix 1.

We have tested the checklist by applying it to some of the world's largest pension funds. This process has presented some interesting insights into how these funds – many of whom are regarded as leaders on sustainable investment – are currently reporting on their approach to sustainable investment. It has also helped us to identify a series of best practice examples that might be of interest to other pension funds as they proceed on their reporting journey. These insights and examples, which are relevant to both developed and emerging market pension funds, are presented in this report.

THE BEST PRACTICE DISCLOSURE CHECKLIST: AN OVERVIEW

Figure 1 presents the key elements of the checklist. The main subject areas covered by the checklist set out in Table 1 below and the specific questions are presented in Appendix 1.

Figure 1: Key Elements of the Best Practice Checklist



The checklist structure aligns with the general process organisations generally follow when developing and implementing sustainable investment. That is, they start by clarifying their own organisational purpose and mission, and their organisational objectives. They then define their aims and objectives for responsible investment, the main responsible investment strategies that they use and the main targets that they set for themselves.

They will then move to implementation in the various asset classes that they manage. In the checklist, we analyse this implementation in three ways. First, we analyse how sustainable investment is implemented in the major asset classes held by the asset owner. Second, we analyse how sustainable investment is implemented in outsourced (or delegated) investment management. Third, we look at the specific case of climate change (as a specific ESG issue).

The checklist is a comprehensive list of the disclosures that should be provided by asset owners when reporting on their sustainable investment activities. This information should enable stakeholders to understand:

- What the organisation is and what its core purpose and objectives are.
- What the organisation's beliefs and commitments on sustainable investment are.
- How these beliefs and commitments are translated into action.
- The organisation's performance against its beliefs, its commitments and its objectives and targets.

The checklist builds on and aligns with the most commonly used disclosure frameworks in the sustainable/responsible investment area. These include:

- The Principles for Responsible Investment (PRI)¹¹ Reporting and Assessment Framework
- The Investment Leaders Group Long-Term Disclosure Framework¹²
- The Sovereign Wealth Fund Institute Linaburg-Maduell Transparency Index¹³
- The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)¹⁴

- CDP disclosure requirements¹⁵
- The Asset Owners Disclosure Project rankings of asset owners, asset managers and insurance companies¹⁶
- The VBDO ranking of Dutch pension funds¹⁷
- The Responsible Investor reporting awards¹⁸

The checklist does not offer a view on the ‘right’ approach to sustainable investment but on the disclosures that should be provided about the asset owner’s approach to sustainable investment.

Table 1: An Overview of the Best Practice Checklist

About the Organisation	
History and context	Does the organisation provide an overview of its history including the reasons for its creation?
Mission and mandate	Does the organisation describe its overarching mission and objectives?
Finance and governance	Does the organisation publish information on its investment performance and strategy? Does the organisation publish details of its overall governance structure?
Assets under management	Does the organisation publish details of its total assets under management, and their allocation by asset class, geography and investment strategy?
Reporting	Does the organisation have its sustainable investment-related reporting assured or otherwise reviewed by an external party?
Sustainable Investment Strategy and Governance	
Investment beliefs	Does the organisation publish its investment beliefs, including its views on the relevance of sustainability to its investment practices, processes and performance?
Investment strategy	Does the organisation describe its investment strategy, and explain how sustainability is integrated into its risk management processes?
Investment objectives	Does the organisation specify its investment objectives and the timeframes over which it assesses performance?
Policy	Does the organisation publish an overarching sustainable investment policy or similar document?
Stakeholder Engagement	Does the organisation identify its key stakeholders and the issues that are of concern to these stakeholders?
Objectives and Targets	Does the organisation publish objectives and targets for its sustainable investment activities, and does it report on progress against these?
Responsibilities and Accountabilities	Does the organisation specify who is responsible for oversight and for implementation of the sustainable investment policy?

Promoting Sustainable Investment	Does the organisation list the sustainable investment initiatives and codes it is a member of or a signatory to?
Public Policy Engagement	Does the organisation report on its dialogue with public policy makers or regulators in support of sustainable investment?
Asset Allocation	Does the organisation describe how it considers sustainability issues in asset allocation decisions?
Sustainable Investment by Asset Class	
Investment	<p>Does the organisation describe its approach to assessing and managing sustainability-related issues in the asset class?</p> <p>Does the organisation describe how its approach affects the composition of its portfolio?</p> <p>Does the organisation explain how its approach has affected the sustainability performance of its portfolio?</p>
Active Ownership	<p>Does the organisation describe how it engages with (and, for listed equity, voted on) the companies/entities/assets in which it is invested?</p> <p>Does the organisation describe how this engagement has influenced the sustainability-related performance of these companies/entities/assets?</p>
Delegated Investment	
General	Does the organisation describe how sustainability-related issues are managed by its external investment managers?
Manager Selection	Does the organisation explain how sustainability-related information is incorporated into manager selection processes?
Manager Appointment	Does the organisation describe how sustainability-related issues are incorporated into manager requirements (e.g. mandates, reporting requirements)?
Manager monitoring	Does the organisation describe how it monitors and reviews the sustainability-related performance of its external investment managers?
Climate Change	
Governance	Does the organisation describe how it oversees and manages climate-related risks and opportunities?
Strategy	Does the organisation describe the impact of climate-related risks and opportunities on its investments and on its businesses, strategy and financial planning?
Risk Management	Does the organisation describe its processes for identifying, assessing and managing climate-related risks?
Metrics and Targets	Does the organisation describe the metrics and targets it uses to manage climate-related risks and opportunities, and does it report its performance against these targets?

TESTING THE CHECKLIST: APPROACH

The world's largest asset owners (see Table 2) are, as a group, widely recognised as leaders on sustainable investment. They have been to the forefront of efforts to drive sustainability through investment markets and into the wider economy. They have also provided extensive disclosures on their approach to responsible investment, the actions they have taken and the outcomes they have achieved.

We have applied the best practice checklist to eight of the ten asset owners listed in Table 2. We excluded the Central Provident Fund (CPF) of Singapore because its approach is very different to the others on the list. The CPF Board invests CPF members' monies in Special Singapore Government Securities (SSGS) issued specially by the Singapore Government to the CPF Board. This arrangement insulates CPF members from investment risk, as SSGS are guaranteed by the Singapore Government, and allows the CPF Board to pay what it promises to CPF members. We also excluded the Chinese National Social Security Fund (NSSF) because it is currently in the process of researching sustainable investment and ESG and deciding how these might be relevant to China and to Chinese asset owners and asset managers.

We would like to thank the teams from all funds which provided detailed comments and extremely useful insights and feedback on the process.

Each of the eight asset owners was initially assessed in Q3 2019. The focus was on the organisation's most recent sustainable investment (or equivalent) report and, if relevant, the sustainable investment section of their websites. In addition, where the asset owner pointed to other sources of information (e.g. their response to the PRI signatory survey, information published on their behalf by their investment managers), this information was also taken into account. The assessment was based on information/reports in the public domain on the date that the assessment was conducted.

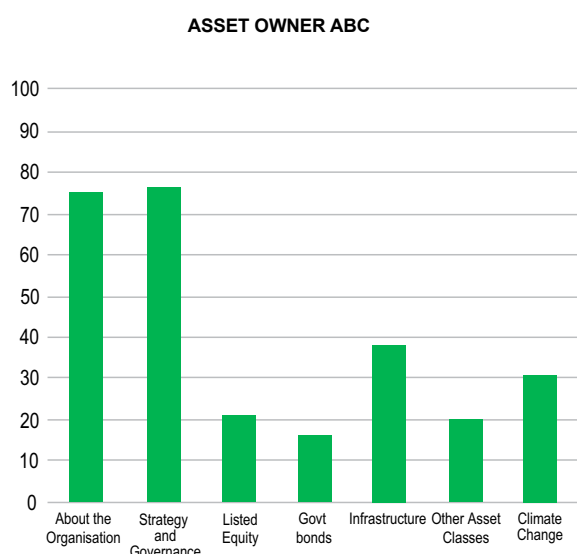
Table 2: The World's Largest Asset Owners (at September 2019)

Fund Name	Country
Government Pension Investment Fund (GPIF)	Japan
Norges Bank Investment Management (NBIM)	Norway
Federal Retirement Thrift	USA
National Pension Service (NPS)	South Korea
ABP	The Netherlands
National Social Security Fund (NSSF)	China
California Public Employees' Retirement System (CalPERS)	USA
Canada Pension Plan Investment Board (CPP Investments)	Canada
Central Provident Fund (CPF)	Singapore
Pensioenfonds Zorg en Welzijn (PFZW)	The Netherlands

Following this initial assessment, asset owners received a short summary of their results and a detailed question-by question assessment. They were requested to check the assessments for factual accuracy and completeness, and to identify areas where they considered they achieve best practice in terms of practice, performance or reporting. Four of

ten asset owners responded with detailed comments. A final review of the assessments was conducted in late December to ensure the completeness and accuracy of the assessments and to incorporate any additional information that had been provided by the participating asset owners.

Asset owners were provided with a summary of their results and a detailed question by question assessment.



Summary

Asset Owner ABC provides a comprehensive description of the organisation and of its overall sustainable investment-related strategy and governance. It provides a clear account of its organisational mission, its investment beliefs, its investment objectives and strategy and its sustainable investment policy. It explains who is responsible for oversight and implementation of the policy and of how sustainable investment is incorporated into its reward processes. The scores for these sections could be further improved if additional information was provided on Asset Owner ABC's financial performance and the overall sustainability-related characteristics of its investment portfolios.

Asset owner ABC's reporting on the specific asset classes within its portfolio is more limited. While it a high-level description of its approach to sustainable investment, it provides limited information on the sustainability-related characteristics of these portfolios or of how its activities have influenced these characteristics. Its slightly higher score for infrastructure reflects the fact that it lists all of the holdings in this asset class, and provides some data on the greenhouse gas emissions from its energy sector investors in this asset class.

The score on climate change reflects the fact that Asset Owner ABC provides a clear account of its climate change governance and of its risk management processes but limited information on the greenhouse gas-related characteristics of its investment portfolio.

ASSET OWNER ABC

QUESTION BY QUESTION ASSESSMENT (extract)

SUSTAINABLE INVESTMENT AND STRATEGY			
2.1 Investment Beliefs			
No	Question	Yes/No	Comments/Notes/Sources
2.1.1	Has the organisation published its investment beliefs?	Yes	See Sustainability and Responsibility section of Asset Owner ABC's website (www.assetownerABC.sustainabilitywebsite).
2.1.2	Do the investment beliefs set out the organisation's views on the relevance of sustainability to its investment practices, processes and performance?	Yes	See Sustainability and Responsibility section of Asset Owner ABC's website (www.assetownerABC.sustainabilitywebsite).
2.1.3	Does the organisation explain how sustainability-related issues create long-term investment value?	Yes	See Sustainability and Responsibility section of Asset Owner ABC's website (www.assetownerABC.sustainabilitywebsite).
2.1.4	Does the organisation define what it means by 'long term'?	No	We were unable to find a formal definition or specification of long-term.
2.2 Investment strategy			
2.2.1	Has the organisation described its investment strategy, explaining how it will deliver on its investment beliefs?	Yes	See Sustainability and Responsibility section of Asset Owner ABC's website (www.assetownerABC.sustainabilitywebsite), in particular the discussion of leveraging thematic drivers
2.2.2	Has the organisation explained how sustainability is integrated into its risk management processes?	No	While Asset Owner ABC's states 'We integrate ESG and sustainability issues in our risk management process', it does not explain provide any additional information on the process.
2.2.3	Has the organisation identified its material sustainability-related issues?	No	Asset owner ABC states 'The issues we focus on include climate change and corporate governance' but it does not describe the process it has worked through to identify material issues nor does it provide a comprehensive list of the issues considered in its materiality assessment.

Some Notes on the Assessment Process

1. Information that was not clearly sign-posted from the asset owner's website and/or website was not included in the assessment. The reason is that asset owners cannot assume that stakeholders have the time or technical knowledge to effectively search other sources of information.
2. The assessments were based on information/reports in the public domain on the date that the assessment was conducted.
3. For the purposes of trialling the checklist, the focus was on the three largest asset classes (by AUM) managed by each asset owner.
4. Asset owners that did not delegate investment management to investment managers or other providers were not assessed on that element of the framework.
5. Questions were assessed on a Yes/No basis with 2 points awarded for Yes, and 0 points for No. If there was ambiguity or incomplete information questions were assessed as partial (i.e. the criterion was partially met), 1 point was awarded.
6. Questions that were considered to be not applicable (e.g. the questions on voting are not relevant to asset classes other than listed equities), were excluded from the assessment.

THE CHECKLIST: KEY FINDINGS AND INSIGHTS

Overall Findings

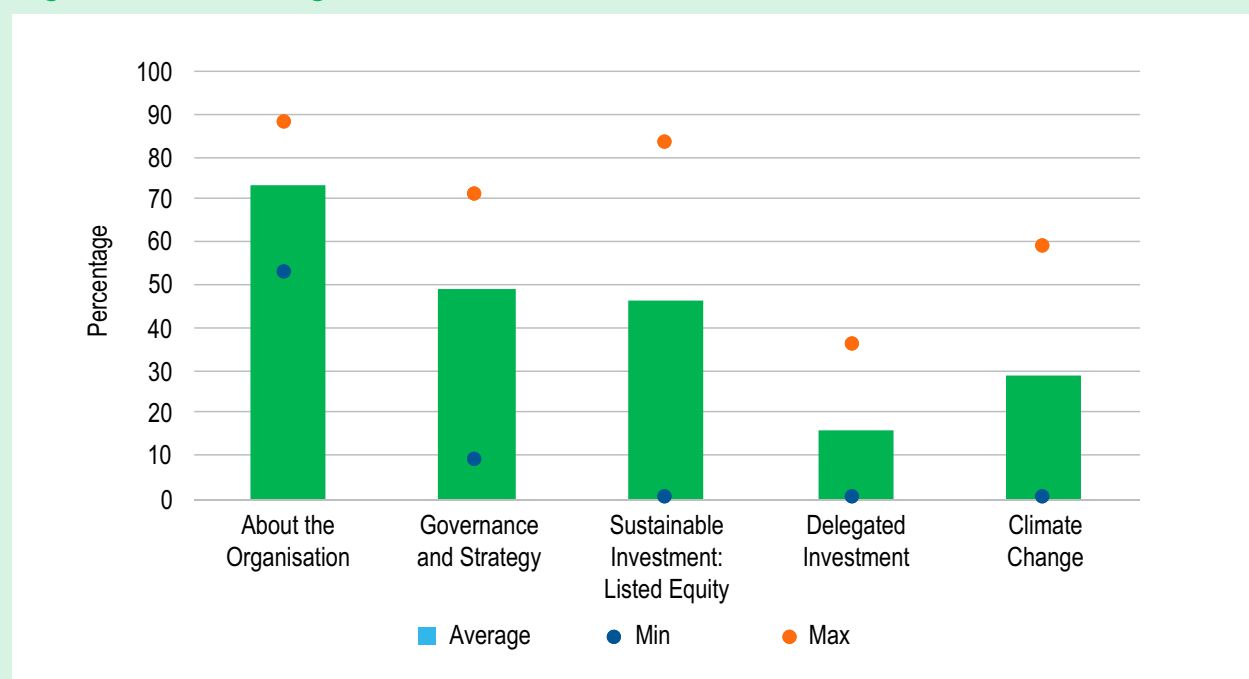
The overall findings are presented in Figure 2.

As can be seen, all of the funds provide quite extensive disclosures about their organization, their mandates and their governance. Those organizations that have made commitments to sustainable investment provide similarly good disclosures. The lower average score can be explained by the fact that some funds have only recently started to develop their sustainable investment objectives and strategies, and their disclosures are correspondingly lagging.

The results also tell us that the disclosures being provided about their organizational approach to sustainable investment is not matched by the disclosures they provide about their implementation of their sustainable investment commitments, e.g. how these commitments are implemented in listed equities, in delegated (outsourced) investment management or in the specific case of climate change.

Figure 2 includes the results for listed equity as this is the most common asset class across the funds surveyed. For other asset classes, the average and maximum scores are significantly lower. The one exception is real estate where a number of the pension funds use building ratings standards such as GRESB to structure their reporting.

Figure 2: Summary Results



In the following sections we discuss the results in more detail but we offer two wider reflections here. The first is that many of the asset owners have additional information about their approach to sustainable investment that they do not currently disclose. For example, some noted that they do engage with stakeholders but choose not to publish this information. The second is that many are not making use of their asset managers to support their reporting. The asset managers used by these asset owners can often provide a significant amount of information on how they integrate ESG issues into their investment processes and on the engagement they conduct on behalf of their clients. Yet, this

information is often not available through the asset owner's website, meaning that it is difficult for stakeholders to gain a full picture of the asset owner's approach to responsible investment or the outcomes and impacts that result from these efforts.

About the Organization

The aim of these questions is to assess whether the pension fund provides core information about itself (for example its size (or assets under management), its main investments by asset class, its investment and organizational objectives, its governance).

Organizational Overview

Has the organisation provided an overview of its history including the reasons for its creation?	Yes	Yes	Yes	Yes	Partial	Yes	No	No
Has the organisation explained the origins of its wealth (i.e. how it is funded)?	Yes	Yes	Yes	Yes	No	Yes	Partial	Yes
Has the organisation described its ownership structure?	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Has the organisation described its overarching mission and objectives?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Has the organisation described the legal and other obligations that apply to it? Note: These include sustainability-related obligations, and other obligations that affect its approach to sustainability.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Has the organisation published an annual report describing its overall performance and strategy?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Has the organisation reported on its investment performance over at least three years?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Has the organisation published details of its overall governance structure?	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Has the organisation published the names of its board of directors?	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Has the organisation published the names of its senior management team?	Partial	Yes	Yes	Yes	No	Partial	Yes	No

All eight of the funds provide comprehensive disclosures about their organisation, their history, their sources of funding, and their ownership. All also describe their governance processes, including details of their boards of directors and their senior management teams.

In addition, they all provide a detailed description of their mission and objectives, and of the legal and other obligations that apply to them. These are important as they define the approach that the organisation can take to implementing its sustainable investment strategy, as illustrated by the example of GPIF in Box 1.

Best Practice Case-study²⁰

Norges Bank Investment Management (NBIM) has prepared a short video describing the fund.

The fund in brief



Best Practice Case-study¹⁹

The South Korean National Pension Service lists the key the laws and regulations that apply to it.

Laws & Regulations

The National Pension Act

The National Pension Act states that the National Pension Scheme should contribute to the stabilization of public livelihood and promotion of national welfare by providing pension benefits for old age, disability and death.

- A linked document can only be used for reference; it is a translation into English of an original Korean document. In the event of and discrepancy between the two texts, the Korean text shall prevail.

The Financial Investment Services and Capital Market Act

The Financial Investment Services and Capital Market Act was enacted in March 2008 to contribute to the development of the national economy by facilitating financial innovation and fair competition in the Korean capital market. As an investor, we comply with the Act and related laws and regulations on investment activities.

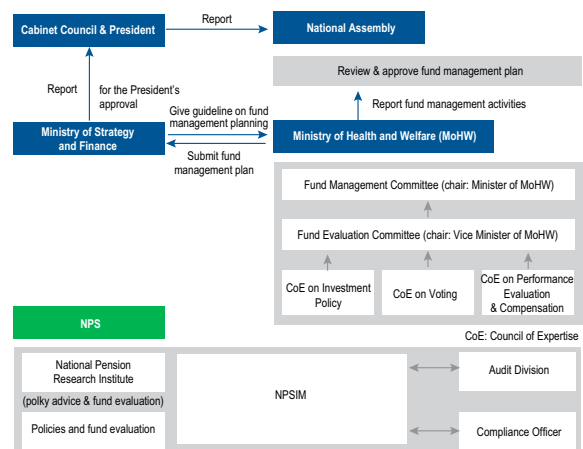
- A linked material or website may be helpful for your understanding of Korean laws and policies, but all readers are responsible for obtaining exact legal information by themselves or from their own legal counsel.

The National Pension Fund Investment Guideline

Every year, the National Pension Fund Management Guideline is drawn up by the Ministry of Health and Welfare and becomes effective after being finalized by the National Pension Fund Management Committee, in observance of Article 103 of the National Pension Act, especially for fund investment and management. The Guideline assists investment managers in implementing investment policies and strategies and achieving management targets, as an investment policies statement for the National Pension Fund.

Best Practice Case-study²¹

The South Korean National Pension Service describes how its key stakeholders and committees relate to each other.



Best Practice Case-study²²

NBIM provides a clear description of its governance structures.

Governance model

The fund's governance model builds on a clear delegation of duties and effective systems for control and supervision.

Stortinget (Norwegian parliament)

Has laid down the formal framework for the fund in the Government Pension Fund Act.

→ [www.stortinget.no](#)

→ [Government Pension Fund Act](#)

Ministry of Finance

Has the overall responsibility for the fund's management and has issued guidelines for its management.

→ [Ministry of Finance \(Japan government .no\)](#)

→ [Management principles](#)

→ [Guidelines for the fund's investment and management of investments](#)

Norges Bank Executive Board

Norges Bank has been tasked with the management of the fund, and its Executive Board has delegated the operational management of the fund to Norges Bank Investment Management. Supplementary governing documents are laid down for the fund's management.

→ [Norges Bank Executive Board \(norgesbank.no\)](#)

→ [Executive Board composition](#)

→ [Investment principles](#)

→ [GPIF risk management](#)

CEO of Norges Bank Investment Management

Has the overall responsibility for implementing requirements defined by the Executive Board. The CEO sets policies and develops mandates and job descriptions for the leader group of Norges Bank Investment Management.

→ [CEO of Norges Bank Investment Management](#)

→ [Policies](#)

Leader group at Norges Bank Investment Management

Sets guidelines and delegates work tasks and investment mandates within their delegated areas of responsibility.

→ [The leader group](#)

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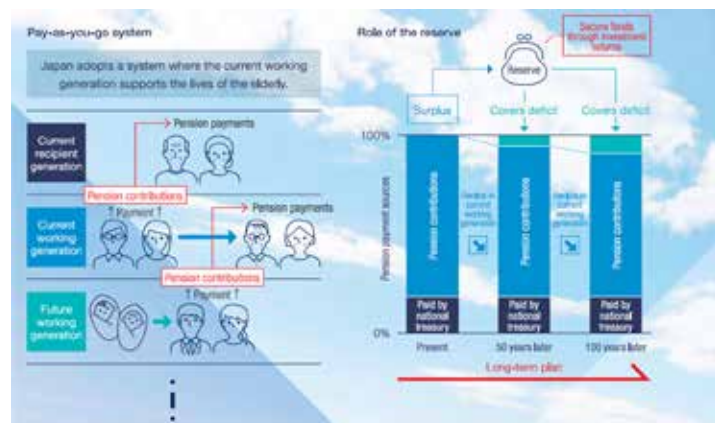
Best Practice Case-study²³

The Federal Retirement Thrift publishes details of the key regulations that apply to it.



Best Practice Case-study²⁴

GPIF provides an overview of the Japanese retirement and pension system.



Box 1: Extracts from the GPIF Annual Report Fiscal Year 2017²⁵

- “The third Medium-term Objectives call for thorough compliance with the duty of care and fiduciary duty of prudent experts.”
- “When managing the pension reserve, GPIF is required to consider the market size, not to be exposed to unfavourable market impact, and to avoid concentration of timing of investment and/or collection.”
- “GPIF is required not to unduly exert influence on corporate management but to take appropriate measures such as exercise of shareholders’ voting rights for maximizing long-term returns to shareholders.”
- “We fulfil Stewardship Responsibilities based on Japan’s Stewardship Code. However, we do not select individual stocks by ourselves, in consideration of the impact on corporate management.”

Assets Under Management

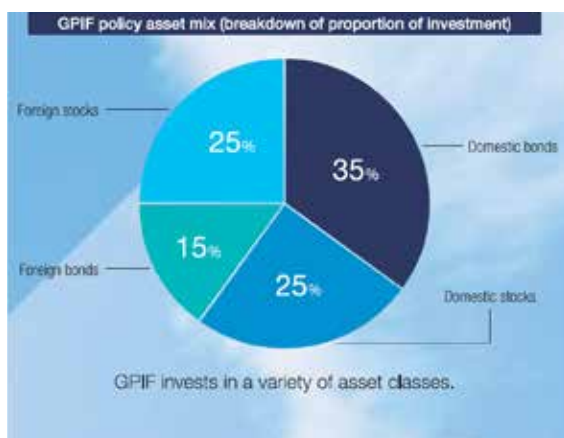
Has the organisation stated its total assets under management?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
• By asset class?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
• By geography (domestic versus international)?	No	Yes	No	Yes	Yes	Yes	Yes	Yes
• By whether the assets are internally or externally managed?	Yes	Partial	No	Partial	Yes	Yes	Yes	Yes
• By whether the assets are actively or passively managed?	No	Partial	No	No	No	No	Yes	No
• In terms of the proportion that are covered by ethical screens?	Yes	Partial	No	Yes	No	No	Yes	Yes
• In terms of the proportion that are covered by active ownership strategies?	Yes	No	No	No	No	No	Yes	Partial
• In terms of the proportion where sustainability-related issues are explicitly integrated into the investment research and decision-making process?	Yes	No	No	No	No	No	No	Yes
• In terms of the proportion that are invested in sustainability-related areas?	Yes	No	No	Yes	No	No	No	Yes

While all of the funds state their total assets under management, the level of information provided on how these assets are allocated by asset class or by geography is variable. Most provide limited information on whether their assets are internally or externally managed, or whether they are actively or passively managed. In addition, limited information

is provided on the coverage of their sustainable investment strategies, e.g. on the proportion of assets where screens are applied, where active ownership is practiced or where sustainability issues are explicitly integrated into the investment research and decision-making process.

Best Practice Case-study²⁶

GPIF provides a breakdown of its investments by asset class.



Best Practice Case-study²⁷

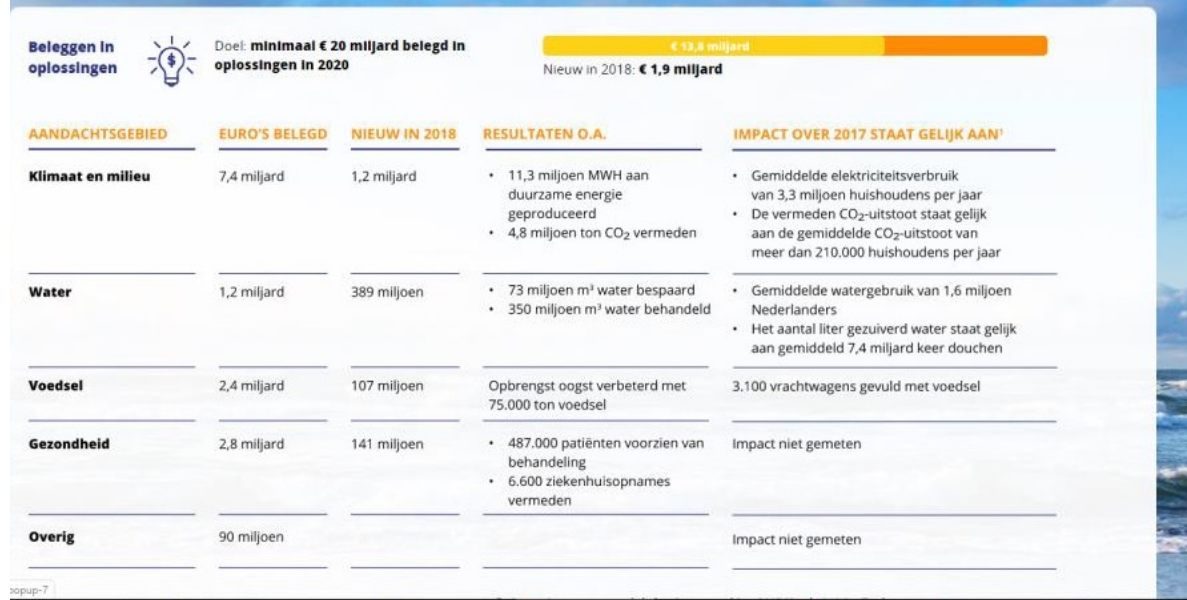
Canada Pension Plan (CPP) Investments reports on the geographic distribution of its investments.



Best Practice Case-study²⁸

PFZW describes its investments in different sustainability-related areas.

Wat we doen



Sustainable Investment: Strategy and Governance

The aim of these questions is to determine whether the pension fund provides information about its investment beliefs, strategy, policies, objectives and targets, and sustainability governance.

Most of the funds publish their investment beliefs and/or their views on the relevance of sustainability

to their investment practices, processes and performance. Many supplement this information with descriptions of how their investment strategy aligns with their investment beliefs and of how sustainability is integrated into their risk management processes. Most also identify their material or most significant sustainability-related issues, and define the timeframes over which they assess their investment performance.

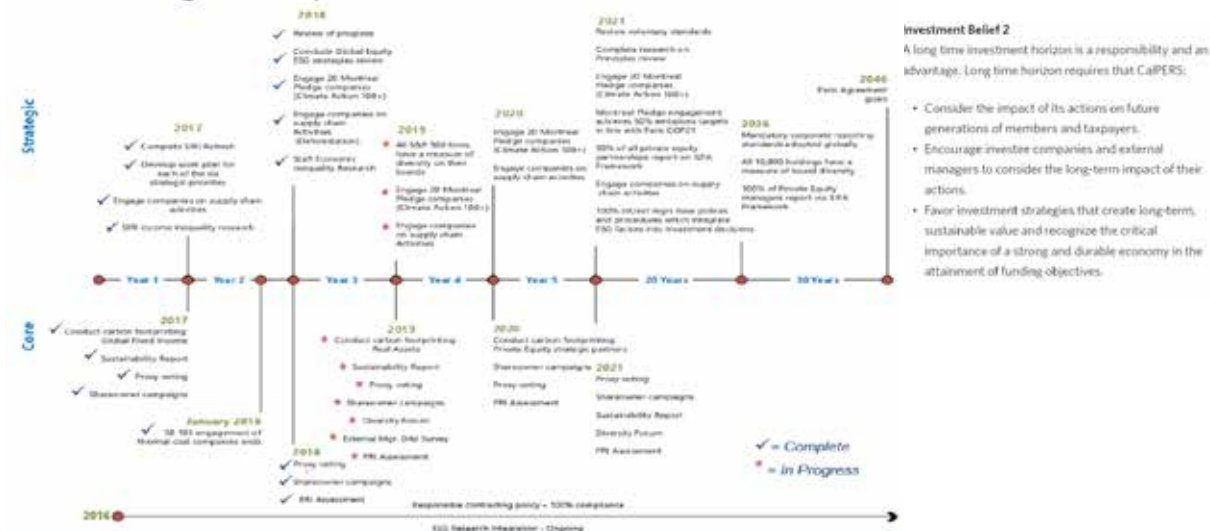
Investment Beliefs

Has the organisation published its investment beliefs?	Partial	Yes	Yes	Yes	Yes	No	Yes	Yes
Do the investment beliefs set out the organisation's views on the relevance of sustainability to its investment practices, processes and performance?	Partial	Yes	Yes	Yes	Partial	No	Yes	Yes
Does the organisation explain how sustainability-related issues create long-term investment value?	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Does the organisation define what it means by 'long term'?	No	Partial	No	Yes	No	Partial	Partial	No
Has the organisation described its investment strategy, explaining how it will deliver on its investment beliefs?	Yes	Yes	Yes	Yes	Yes	Partial	Yes	Yes
Has the organisation explained how sustainability is integrated into its risk management processes?	Yes	Yes	Yes	Yes	No	No	No	No
Has the organisation identified its material sustainability-related issues?	Yes	Partial	Partial	Yes	No	No	Yes	Partial
Does the organisation specify its investment objectives, e.g. by highlighting the benchmarks it uses to track and assess performance?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Does the organisation specify the timeframes over which it assesses performance?	No	Yes	No	Yes	No	Yes	Yes	Yes

Best Practice Case-study²⁹

CalPERS publishes its investment beliefs and a timeline describing the progress of its ESG strategic plan.

ESG Strategic Plan | Timeline



Sustainable Investment Policy

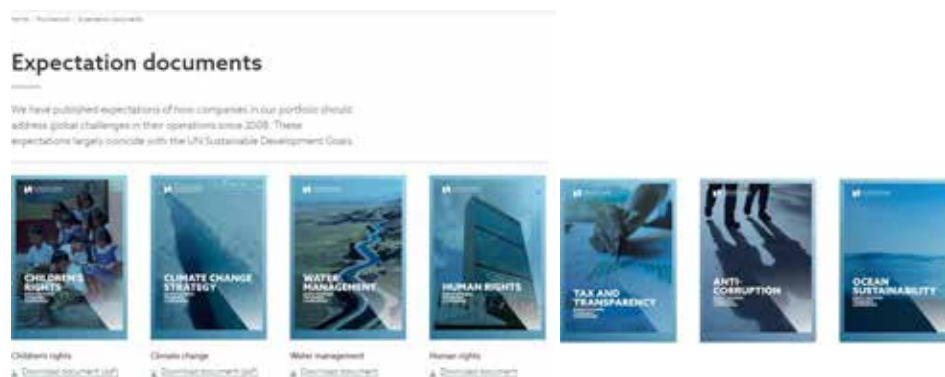
Has the organisation published an overarching sustainable investment policy or similar document?	Yes	Yes	Yes	Yes	No	No	Partial	Yes
• Specify the coverage of the policy (in terms of the asset classes and AUM covered by the policy)?	Yes	Partial	Yes	Partial	No	No	Partial	Yes
• Identify any exceptions to the policy?	Yes	Partial	Yes	No	No	No	Partial	Yes
• Describe the integration of sustainability-related issues into its investment decision-making?	Yes	Partial	Yes	Yes	No	No	Partial	Yes
• Describe the organisation's approach to active ownership/engagement?	Yes	Yes	Yes	Yes	No	No	Partial	Yes
• Describe the organisation's approach to voting its listed equities holdings (if relevant)?	Yes	Yes	Yes	Yes	No	No	Yes	Yes
• Describe the organisation's approach to climate change?	Yes	Yes	Yes	Yes	No	No	Partial	Yes
Has the organisation published a policy on managing conflicts of interest in its investment process?	No	Yes	Yes	No	No	No	No	No

A majority of the asset owners surveyed have published an overarching sustainable investment policy or equivalent document that describes how they take account of sustainability-related issues in their investment practices and processes. These policies generally specify the coverage of the policy,

exceptions to the policy and the organisation's approach to investment decision-making, active ownership and voting. One notable omission is that few of the asset owners have published a policy explaining how they manage conflicts of interest.

Best Practice Case-study³⁰

NBIM has published a series of documents setting out its views on how companies in its portfolio should manage and respond to global challenges.



Best Practice Case-study³¹

CPP Investments' Policy on Responsible Investing explains how it approaches ESG factors within the context of its mandate to maximize long-term investment returns without undue risk of loss.

CPP Investments' Code of Conduct sets out its expectations on a range of ethical issues, including conflicts of interest and fraud, and also explains how the Code is implemented and enforced.



Policy on Responsible Investing

2. Our Guiding Principles - Integrity, Partnership and High Performance	3
2.1. Expectations	3
2.2. Fraud, Corruption and Bribery	4
2.3. Fraud	4
2.4. Corruption and Bribery	5
2.5. Gifts, Entertainment and Other Benefits	5
2.6. Personal Conduct – Ability to Perform	7
2.7. Conflicts of Interest	7
2.8. Personal Trading and Market Manipulation	7
2.9. Political Activity	8
2.10. Communication	9

Stakeholders

Has the organisation identified its key stakeholders?	No	No	Yes	No	No	No	No	Yes
Has it indicated which of these it has engaged with?	No	No	Yes	No	No	No	No	Yes
Has is identified the key issues raised by these stakeholders and the actions taken as a result?	No	No	Yes	No	No	No	No	Yes

Asset owners have a range of stakeholders. These can include their beneficiaries, governments, regulatory agencies, the companies and other entities in which they invest, investment managers and other investment system actors, their employees and the people and communities who are affected by the social and environmental impacts of the companies and other entities in which they invest. These stakeholders are also affected by the decisions made by the asset owner, in terms of what they do and do not invest in, in terms of how they deliver

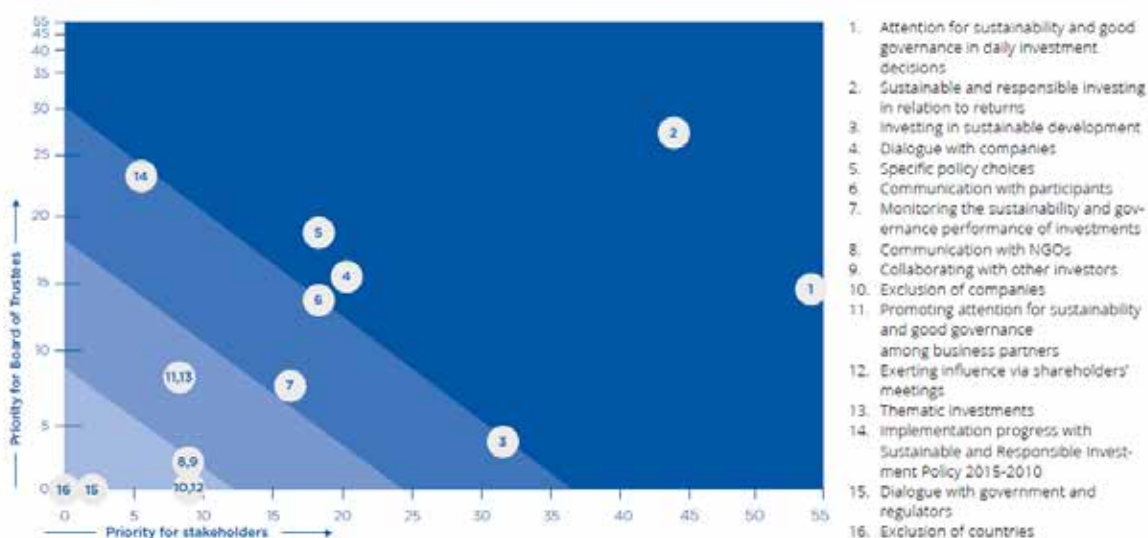
their active ownership strategies, and in terms of the role they play in the public policy process.

It is, therefore, striking that just two of the eight asset owners identify their stakeholders, or discuss the issues raised by these stakeholders. In their feedback on their draft assessments, two other asset owners did state that they engaged with a range of stakeholders but confirmed that they did not publish information on this engagement.

Best Practice Case-study

ABP has surveyed its stakeholders to identify the subjects that they are interested in hearing about in ABP's responsible investment report. It discusses the priority of these issues for its board and for stakeholders.

Materiality analysis 1



Objectives, Targets, Responsibilities and Accountabilities

Has the organisation published objectives and targets for its sustainable investment activities?	Yes	No	Yes	No	No	No	Yes	Yes
Are the objectives and targets SMART (specific, measurable, achievable, realistic, time bound)?	Yes	No	Yes	No	No	No	Partial	Yes
Has the organisation explained how the targets are to be achieved?	Yes	No	No	No	No	No	Yes	Yes
Has the organisation set key performance indicators (KPIs) to assess progress towards the targets?	Yes	No	Yes	No	No	No	No	Yes
Has the organisation reported on progress against the targets?	Yes	No	Yes	No	No	No	Yes	Yes
Has the organisation described the factors that have affected its performance against these targets?	Partial	No	Yes	No	No	No	Yes	Partial
Has the organisation specified who is responsible for oversight of the sustainable investment policy?	No	Yes	Yes	No	No	Partial	Yes	No
Has the organisation specified who is responsible for implementation of the sustainable investment policy?	No	Yes	Yes	No	No	Partial	Yes	No
Has the organisation stated who is responsible for the delivery of the targets?	No	No	No	No	No	Partial	No	No
Has the organisation described how sustainable investment is incorporated in performance management and reward processes?	No	No	No	No	No	No	No	No
Has the organisation described how sustainable investment is incorporated in personal development processes (e.g. training)?	No	No	No	No	No	No	No	No

Disclosure on objectives and targets is much more limited than on other aspects of strategy and governance. Half of the eight asset owners do report on their objectives and targets, on the metrics they use to assess their performance, and on their performance against these targets.

Less than half report on who is responsible for the oversight and/or implementation of their sustainable investment policy. Strikingly, none of the asset owners report on how sustainable investment is incorporated into performance management, professional development or reward processes.

Best Practice Case-study³²

PFZW publishes information on its progress against the sustainable investment-related commitments it has made.



Public Policy Engagement

Has the organisation listed the sustainable investment initiatives it is a member of/signatory to?	No	Yes	Yes	Yes	No	No	Partial	Yes
Has the organisation listed the sustainability-related codes and other commitments it has made?	No	No	No	Yes	No	No	Partial	Partial
Has the organisation reported on its dialogue with public policy makers or regulators in support of sustainable investment?	No	No	Yes	Yes	No	No	Yes	No
Has the organisation published copies of the sustainable investment-related submissions it has made to governments, regulators or public policy-makers?	No	No	Yes	No	No	No	No	No

Approximately half of the funds list the sustainable investment initiatives and collaborative programmes that they are involved with. A lower proportion

report on their engagement with policymakers and just one reports on the submissions it has made to policymakers, governments and regulators.

Sustainable Investment: Listed Equity

Does the organisation describe its approach to assessing and managing sustainability-related issues in the asset class? Note: This may be screening, best in class, enhanced analysis.	Partial	Yes	Yes	Yes	No	No	Yes	Partial
Does the organisation describe any variations in its approach across the asset class?	Partial	Yes	Yes	Yes	No	No	Yes	Partial
Does the organisation describe how its approach affects its investment decisions (e.g. narrowed the investment universe, influenced buy-sell decisions)?	Partial	No	No	Yes	No	No	No	Partial
Does the organisation describe how its approach affects the composition of its portfolio?	No	No	No	Yes	No	No	No	Partial
Does the organisation describe how its approach has affected its financial performance or the financial characteristics (e.g. tracking error) of its portfolio?	No	No	No	No	No	No	No	Partial
Does the organisation describe how its approach has affected the sustainability performance of its portfolio?	Yes	No	No	No	No	No	No	Partial
• All of its holdings in the asset class?	Yes	Yes	Yes	Yes	No	Partial	No	Partial
• The percentage of the asset class in sustainability-related investments?	No	No	No	Partial	No	No	No	Partial
• The sustainability-related characteristics of the asset class?	Yes	No	No	Yes	No	No	Yes	Partial
Does the organisation describe how it engages with the companies/entities/assets in which it is invested?	Partial	Yes	Yes	Yes	No	No	Yes	Partial
Does the organisation describe how this engagement has influenced the sustainability-related performance of these companies/entities/assets?	Partial	Partial	Partial	Yes	No	No	Yes	Partial
• The number of engagements carried out?	No	Yes	Partial	Yes	No	No	Partial	Partial
• The engagement strategies/approaches used?	Partial	Partial	No	Yes	No	No	No	Partial
• The proportion of the portfolio covered by engagement?	No	No	No	Yes	No	No	Partial	Partial
• The subjects (topics) of engagement?	Yes	Yes	No	Yes	No	No	Partial	Partial
• The objectives of its engagement?	Partial	Partial	No	Yes	No	No	Yes	Partial
• The outcomes (i.e. changes in company practice) achieved from engagement?	Partial	No	No	Yes	No	No	Yes	Partial
Does the organisation specify the shareholder meetings at which it voted its shares?	No	Yes	Yes	Yes	No	No	No	Partial
Does the organisation report on the number of votes for and against management, and the number abstained?	No	Yes	Partial	Yes	No	Yes	Yes	Partial
Does the organisation comment on the reasons for abstentions and votes against management?	No	No	No	Partial	No	Partial	No	Partial
Does the organisation comment on the outcomes (i.e. changes in company practice) achieved through voting?	Partial	No	No	Partial	No	No	No	Partial

The aim of these questions is to determine whether the pension fund provides information about its approach to investment decision-making and active ownership in its major asset classes. In presenting these results, we focus on public equity – which, depending on the asset owner, could be domestic or international public equity – as this is the asset class where sustainable investment reporting is best developed. The findings for other asset classes are similar.

Our key finding is that most pension funds provide little or no information on how their sustainable investment policies are implemented in this asset class. There are pockets of best practice. For example, some funds do publish a full list of their holdings in the asset class, and describe the engagement and voting they have carried out. However, there is limited information on how sustainability-related, engagement or voting have affected the financial performance of the portfolio, or the sustainability performance of the portfolio.

Best Practice Case-study³³

GPIF reports on trends in the governance characteristics of its listed equity portfolios.



Best Practice Case-study³⁴

In 2016, each CalPERS asset class developed a set of sustainable investment practice guidelines that reflects their needs and strategies. The guidelines integrate existing beliefs, principles, and policies related to ESG considerations, including CalPERS' Investment Beliefs and Global Governance Principles, and the requirements of the Principles for Responsible Investment.

CalPERS also established its Sustainable Investment Research Initiative (SIRI) Library to promote innovative thought leadership that would advance and inform its understanding of sustainability factors and the impact they may have on companies, markets, and investment intermediaries. SIRI is now a searchable database of over 1,900 papers on ESG topics, including issues such as income inequality and diversity.

Global Equity Sustainable Investment Practice Guidelines

Background

This document sets forth the practices by which Global Equity staff will integrate Environmental, Social, and Governance (ESG) risks and opportunities at the individual and Aggregate Portfolio level. The practices described herein focus on long-term value creation and preservation, and the identification of ESG risks and opportunities. These practices are grounded in CalPERS' Investment Beliefs, the United Nations Principles for Responsible Investments (UNPRI) and our Governance & Sustainability Principles.



Sustainable Investment: Delegated (outsourced) Investment Management

The aim of these questions is to determine whether the pension fund provides information about how it outsources investment management.

Does the organisation describe how sustainability-related issues are managed by its external investment managers?	Yes	No	Partial	Yes	No	No	Partial	Partial
Does the organisation specify the sustainability-related strategies (e.g. screening, integration) that are to be applied by its external investment managers?	Yes	No	Yes	No	No	No	Partial	Yes
Does it explain how these differ between investment managers or between asset classes?	n/a	No	Yes	No	No	No	No	Yes
Does the organisation describe how its investment managers are rewarded for their sustainability-related performance?	No	No	No	No	No	No	No	No
Does the organisation explain how rewards and incentives align with its investment beliefs, policies and objectives?	No	No	No	No	No	No	No	No
Does the organisation describe the sustainability-related information it typically reviews when selecting external investment managers?	n/a	Yes	Yes	No	No	No	Yes	No
Does the organisation explain how sustainability-related information is incorporated into manager selection processes?	n/a	No	Yes	Partial	No	No	Yes	Partial
Does the organisation specify what proportion of manager selection processes take account of sustainability-related information?	n/a	No	No	No	No	No	No	No
Does the organisation explain how sustainability-related information has influenced decisions on manager selection	n/a	No	No	No	No	No	No	No
Does the organisation explain how these decisions differ from those that would otherwise have been made?	n/a	No	No	No	No	No	No	No
Does the organisation describe how sustainability-related issues are incorporated into manager requirements (e.g. mandates)?	No	No	Partial	Partial	No	No	No	No
• The investment performance benchmarks (or other expectations) it sets for its external investment managers?	No	No	No	No	No	No	Yes	No
• The sustainability-related performance objectives (or other expectations) it sets for its external investment managers?	No	No	No	No	No	No	No	No
• The sustainability-related incentives it provides to its external investment managers?	No	No	No	No	No	No	No	No
• The sustainability-related reporting it requires from its investment managers?	No	No	Partial	No	No	No	Partial	No
• The actions it takes if investment managers do not meet their contractual obligations or do not perform in line with the organisation's policies and other commitments?	No	No	No	No	No	No	No	No
Does the organisation describe how it monitors and reviews the sustainability-related performance of its external investment managers?	No	No	Yes	Partial	No	No	Partial	No
Does the organisation report on the sustainability-related performance of its external managers?	Yes	No	No	No	No	No	No	No

Our key finding is that the pension funds provide limited information on how they delegate (outsource) investment management. Limited information is provided on how investment managers are rewarded for their sustainability-related performance, on what sustainability-related information is reviewed when selecting external investment managers, or on how sustainability-related information is incorporated into manager selection, reporting and review processes. In addition, the asset owners surveyed do not report on how sustainability-related information has influenced decisions on manager selection, or how the decisions they have made differ from those that would otherwise have been made.

Limited information is provided on how investment managers are rewarded for their sustainability-related performance, on what sustainability-related information is reviewed when selecting external investment managers, or on how sustainability-related information is incorporated into manager selection, reporting and review processes.

Finally, it is striking that the asset owners surveyed tend not to report on the sustainability performance of their external managers, but capture this in the overall sustainability and financial reporting they provide to their stakeholders. One consequence of this is that they may be missing an opportunity to showcase some of the work that their investment managers have conducted on their behalf.

Best Practice Case-study³⁵

ABP publishes a list of its external investment managers.



Belangrijke externe managers 2018

Belangrijke externe managers 2018
Aberdeen Asset Management
Acadian Asset Management, Inc.
Arrowstreet Capital, Limited Partnership
Ashmore Group plc
Baillie Gifford Overseas Limited
Blackrock Investment Management Ltd.
Connor Clark & Lunn Investment Management Ltd.
Franklin Resources, Inc.
Genesis Investment Management, LLP
Goodman Group
Janus Henderson Global Investors Ltd.
JPMorgan Asset Management (UK) Ltd.
Lazard Asset Management LLC
Los Angeles Capital Management and Equity Research, Inc.
Macquarie Group Limited
Numeric Investors LLC
Nuveen
Panagora Asset Management INC
T. Rowe Price International Ltd.
UBS Global Asset Management (Singapore) LTD.

ABP geeft geen detailinformatie wanneer zijn positie op de beleggingsmarkt zou worden geschaad door openbaarmaking ervan. Dat is bijvoorbeeld het geval als andere beleggers op basis van de informatie in de beleggingsmarkt kunnen concurreren met ABP, wat ten koste gaat van het rendement. Ook maakt ABP niet de naam bekend van een specifieke belegging als dat op juridische bezwaren stuit, bijvoorbeeld wanneer het fonds contractueel is verplicht om vertrouwelijkheid te respecteren.

De omvang van het beheerd vermogen van de hierboven gepubliceerde externe managers varieert van 1,3 miljard tot 6,9 miljard euro.

De hierboven genoemde managers beheren circa 52% van het vermogen dat beheerd wordt door externe managers.

De hierboven genoemde managers beleggen in de volgende beleggingscategorieën:

- aandelenbeleggingen;
- vastrentende beleggingen;
- infrastructuur;
- niet-genoteerd onroerend goed;
- commodities.

Sustainable Investment: Climate Change

The aim of these questions is to determine if the pension fund provides information about its approach to climate change, as a specific ESG issue, in its investment process.

Has the organisation described its board oversight of climate-related risks and opportunities?	No	Yes	Yes	Partial	No	No	Yes	Yes
Has the organisation described management's role in assessing and managing climate-related risks and opportunities?	No	Partial	No	Partial	No	No	No	Yes
Has the organisation described the climate-related risks and opportunities it has identified?	Partial	No	No	Yes	No	No	Partial	Yes
Has the organisation described the impact of climate-related risks and opportunities on its investments and on its businesses, strategy and financial planning?	No	No	No	Yes	No	No	No	Partial
Has the organisation described the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario?	No	No	No	No	No	No	No	No
• Has the organisation described the scenarios it has used in its modelling?	No	No	No	No	No	No	Yes	Yes
• Has it described the results of its modelling?	No	No	No	No	No	No	Yes	Partial
• Has it explained how the results of the modelling have influenced its investment decisions?	No	No	No	No	No	No	No	No
Has the organisation described its processes for identifying and assessing climate-related risks?	No	Yes	No	Yes	No	No	No	Partial
Has the organisation described its processes for managing climate-related risks?	No	No	No	Yes	No	No	No	Partial
Has the organisation described how processes for identifying, assessing and managing climate-related risks are integrated into its overall risk management processes?	No	No	No	Yes	No	No	No	Partial
Has the organisation described the metrics it uses to assess climate-related risks and opportunities in line with its strategy and risk management process?	Yes	No	No	Yes	No	No	Yes	Partial
Has the organisation disclosed its portfolio-related Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks?	Partial	Partial	Partial	Yes	No	No	Partial	Partial
Has the organisation indicated the percentage of its total AUM in investments that support the low carbon transition?	Yes	No	No	Yes	No	No	No	No
Has the organisation indicated the percentage of its total AUM in investments that support effective adaptation?	No	No	No	No	No	No	No	No
Has the organisation described the targets it uses to manage climate-related risks and opportunities, and its performance against the targets?	Yes	No	No	Partial	No	No	No	No

Our key finding is that, at the time at which the assessments were conducted (August-September 2019), the asset owners surveyed provided little or no information on their approach to climate change. There were some climate change-related disclosures (e.g. on carbon footprints, on climate governance), although there were usually provided as part of a wider discussion on ESG or sustainability issues.

Approximately half of the funds have identified climate change as a strategic priority, and have indicated that they intend to report more information in 2020. Most have indicated that they intend to use the TCFD recommendations to structure this reporting.

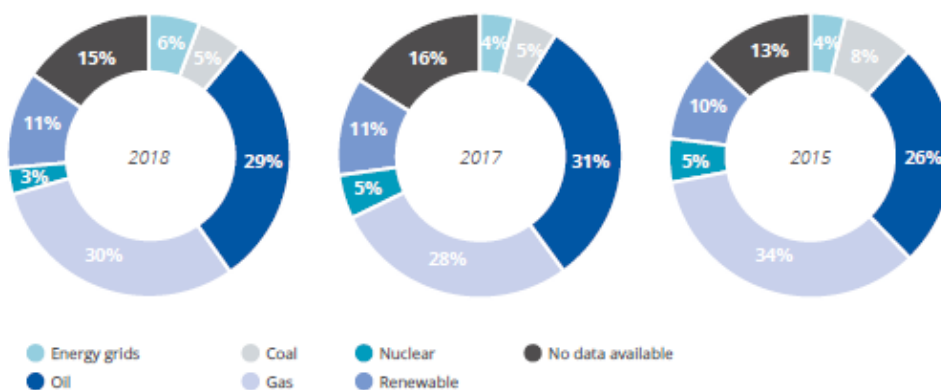
Best Practice Case-study³⁶

As part of its discussion of its approach to managing climate change, ABP presents a high-level assessment of how climate change will affect its investments and information on the distribution of its energy investments (by fuel type).

How do climate changes impact our investments?

Climate factor	Description
Policy & Regulations	The consequences of a stricter climate policy for companies and investors, for example pricing CO ₂ emissions, stimulation measures for cleaner alternatives, or limitations for CO ₂ intensive industries.
Technology, Market & Reputation	The consequences of cleaner alternatives for CO ₂ intensive production methods and products becoming available (for example, electric cars or energy efficiency). Changes in the preferences of consumers, companies and investors with regard to the products that they buy or the companies in which they wish to invest.
Physical impact	The impact of changing weather patterns, including more frequent and more intense extreme weather (such as floods) and structural changes (for example long dry spells).

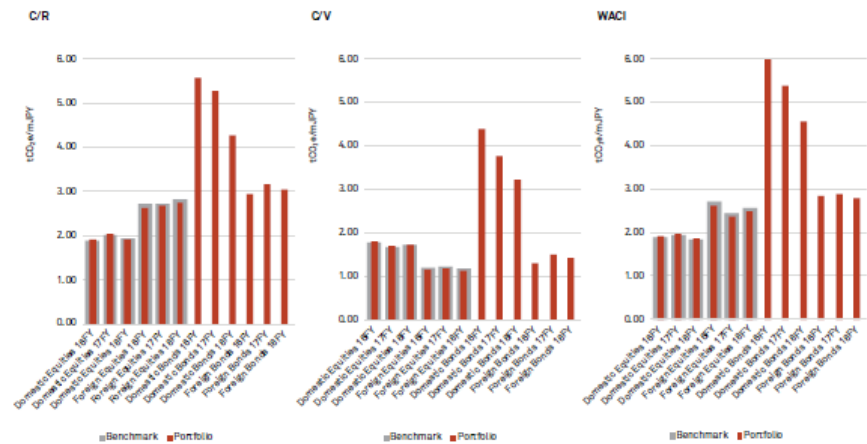
How are our energy investments distributed?



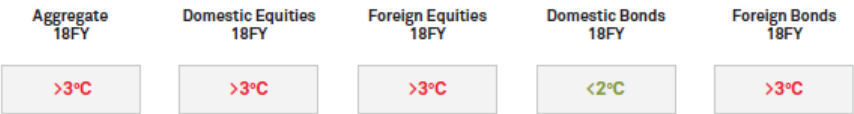
At the end of 2018, our total energy investments amounted to € 25.9 billion. This largely corresponds to the amount in the spring of 2017. In the fall of 2015, our energy investments totaled € 20.6 billion.

Best Practice Case-study³⁷

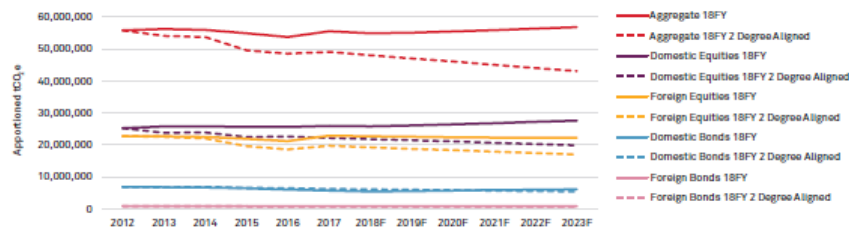
Trucost analysed GPIF's portfolios across a range of carbon and financial metrics.



Temperature Trajectory for Latest Portfolio Holdings:



Portfolio apportioned emissions versus 2°C aligned levels, 2012-2023

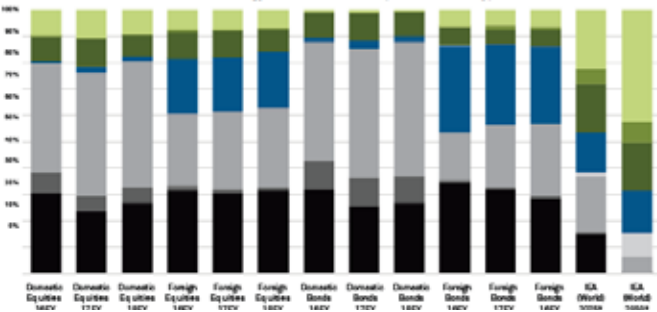


2 Degree Alignment: Energy Transition

Energy Generation Mix

In addition to energy revenue analysis, Trucost collects disclosed information relating to the amount of physical units of power (GWh) generated by companies in a portfolio. Understanding a portfolio's energy mix allows it to be compared not just against benchmarks that reflect the economy of today, but also against forward looking benchmarks that — as suggested by the International Energy Agency — are what is required for the low-carbon economy of tomorrow.

Portfolio, Benchmark and IEA Scenario Energy Mix - Percent Share per Generation Type:



CONCLUDING COMMENTS

Through their reporting on sustainable investment, the global asset owners surveyed are making an important contribution to driving sustainable investment through the investment market as a whole. By explaining how they account for these issues in their investment processes and in their outsourcing to external investment managers, they are demonstrating that not only are they concerned about sustainability-related issues but that they are prepared to take effective action on these issues. This, in turn, creates strong incentives for investment managers to take account of these issues in their investment practices and processes, and for companies to improve their policies, practices, performance and reporting on sustainability-related issues.

The results of this exercise – which focused on leading asset owners - can be taken as a proxy for how far institutional investors have come, and how far they still have to go. The asset owners surveyed do a good job of describing themselves and their mandates, and of their overarching approaches to sustainable investment. However, they provide relatively little detail on how they actually incorporate or embed these practices in their investment portfolios, in the manner in which they mandate their external managers to follow such

practices, and in how they apply these high-level commitments to a specific issue such as climate change.

Our hope is that this checklist will support asset owners in their reporting and, critically, in their implementation of sustainable investment. It provides a practical framework for action and, for asset owners starting on their sustainable investment journey, it can be used as a gap analysis tool to identify those areas where action might be required.



APPENDIX 1:

THE CHECKLIST IN DETAIL

Section 1. About the Organisation

1.1 History and context	
1.1.1	Has the organisation provided an overview of its history including the reasons for its creation?
1.1.2	Has the organisation explained the origins of its wealth (i.e. how it is funded)?
1.1.3	Has the organisation described its ownership structure?
1.2 Mission and mandate	
1.2.1	Has the organisation described its overarching mission and objectives?
1.2.2	Has the organisation described the legal and other obligations that apply to it? Note: These include sustainability-related obligations, and other obligations that affect its approach to sustainability.
1.3 Finance and governance	
1.3.1	Has the organisation published an annual report describing its overall performance and strategy?
1.3.2	Has the organisation reported on its investment performance over at least three years?
1.3.3	Has the organisation published details of its overall governance structure?
1.3.4	Has the organisation published the names of its board of directors?
1.3.5	Has the organisation published the names of its senior management team?
1.4 Assets under management	
1.4.1	Has the organisation stated its total assets under management?
1.4.2	By asset class?
1.4.3	By geography (domestic versus international)?
1.4.4	By whether the assets are internally or externally managed?
1.4.5	By whether the assets are actively or passively managed?
1.4.6	In terms of the proportion that are covered by ethical screens?
1.4.7	In terms of the proportion that are covered by active ownership strategies?
1.4.8	In terms of the proportion where sustainability-related issues are explicitly integrated into the investment research and decision-making process?
1.4.9	In terms of the proportion that are invested in sustainability-related areas?
1.5 Reporting	
1.5.1	Has the organisation had its sustainable investment-related reporting assured or otherwise reviewed by an external party?

Section 2: Sustainable Investment Strategy and Governance

2.1 Investment beliefs	
2.1.1	Has the organisation published its investment beliefs?
2.1.2	Do the investment beliefs set out the organisation's views on the relevance of sustainability to its investment practices, processes and performance?
2.1.3	Does the organisation explain how sustainability-related issues create long-term investment value?
2.1.4	Does the organisation define what it means by 'long term'?
2.2 Investment strategy	
2.2.1	Has the organisation described its investment strategy, explaining how it will deliver on its investment beliefs?
2.2.2	Has the organisation explained how sustainability is integrated into its risk management processes?
2.2.3	Has the organisation identified its material sustainability-related issues?
2.3 Investment objectives	
2.3.1	Does the organisation specify its investment objectives, e.g. by highlighting the benchmarks it uses to track and assess performance?
2.3.2	Does the organisation specify the timeframes over which it assesses performance?
2.4 Policy	
2.4.1	Has the organisation published an overarching sustainable investment policy or similar document?
If yes, does the policy:	
2.4.2	Specify the coverage of the policy (in terms of the asset classes and AUM covered by the policy)?
2.4.3	Identify any exceptions to the policy?
2.4.4	Describe the integration of sustainability-related issues into its investment decision-making?
2.4.5	Describe the organisation's approach to active ownership/engagement?
2.4.6	Describe the organisation's approach to voting its listed equities holdings (if relevant)?
2.4.7	Describe the organisation's approach to climate change?
2.4.8	Has the organisation published a policy on managing conflicts of interest in its investment process?
2.5 Stakeholder Engagement	
2.5.1	Has the organisation identified its key stakeholders?
2.5.2	Has it indicated which of these it has engaged with?
2.5.3	Has it identified the key issues raised by these stakeholders and the actions taken as a result?
2.6 Objectives and Targets	
2.6.1	Has the organisation published objectives and targets for its sustainable investment activities?
2.6.2	Are the objectives and targets SMART (specific, measurable, achievable, realistic, time bound)?
2.6.3	Has the organisation explained how the targets are to be achieved?
2.6.4	Has the organisation set key performance indicators (KPIs) to assess progress towards the targets?
2.6.5	Has the organisation reported on progress against the targets?
2.6.6	Has the organisation described the factors that have affected its performance against these targets?

2.7 Responsibilities and Accountabilities	
2.7.1	Has the organisation specified who is responsible for oversight of the sustainable investment policy?
2.7.2	Has the organisation specified who is responsible for implementation of the sustainable investment policy?
2.7.3	Has the organisation stated who is responsible for the delivery of the targets?
2.7.4	Has the organisation described how sustainable investment is incorporated in performance management and reward processes?
2.7.5	Has the organisation described how sustainable investment is incorporated in personal development processes (e.g. training)?
2.8 Promoting Sustainable Investment	
2.8.1	Has the organisation listed the sustainable investment initiatives it is a member of/signatory to?
2.8.2	Has the organisation listed the sustainability-related codes and other commitments it has made?
2.9 Public Policy Engagement	
2.9.1	Has the organisation reported on its dialogue with public policy makers or regulators in support of sustainable investment?
2.9.2	Has the organisation published copies of the sustainable investment-related submissions it has made to governments, regulators or public policy-makers?
2.10 Asset Allocation	
2.10.1	Has the organisation undertaken sustainability-related scenario analysis and/or modelling?
2.10.2	If yes, has it provided a description of the scenario analysis?
2.10.3	Has the organisation described whether and how it considers sustainability issues in asset allocation decisions?
2.10.4	Has the organisation indicated the percentage of its total AUM invested in sustainability-themed areas?
2.10.5	Has the organisation reported on the overall sustainability performance and impact of its investment portfolio?

Section 3: Sustainable Investment by Asset Class

3.1 Investment	
3.1.1	Does the organisation describe its approach to assessing and managing sustainability-related issues in the asset class? Note: This may be screening, best in class, enhanced analysis.
3.1.2	Does the organisation describe any variations in its approach across the asset class?
3.1.3	Does the organisation describe how its approach affects its investment decisions (e.g. narrowed the investment universe, influenced buy-sell decisions)?
3.1.4	Does the organisation describe how its approach affects the composition of its portfolio?
3.1.5	Does the organisation describe how its approach has affected its financial performance or the financial characteristics (e.g. tracking error) of its portfolio?
3.1.6	Does the organisation describe how its approach has affected the sustainability performance of its portfolio?
Does the organisation disclose:	
3.1.7	All of its holdings in the asset class?
3.1.8	The percentage of the asset class in sustainability-related investments?
3.1.9	The sustainability-related characteristics of the asset class?

3.2 Active Ownership	
3.2.1	Does the organisation describe how it engages with the companies/entities/assets in which it is invested?
3.2.2	Does the organisation describe how this engagement has influenced the sustainability-related performance of these companies/entities/assets?
Does the organisation provide data on	
3.2.3	The number of engagements carried out?
3.2.4	The engagement strategies/approaches used?
3.2.5	The proportion of the portfolio covered by engagement?
3.2.6	The subjects (topics) of engagement?
3.2.7	The objectives of its engagement?
3.2.8	The outcomes (i.e. changes in company practice) achieved from engagement?
3.3 Voting (listed equity)	
3.3.1	Does the organisation specify the shareholder meetings at which it voted its shares?
3.3.2	Does the organisation report on the number of votes for and against management, and the number abstained?
3.3.3	Does the organisation comment on the reasons for abstentions and votes against management?
3.3.4	Does the organisation comment on the outcomes (i.e. changes in company practice) achieved through voting?

Section 4: Other Asset Classes

4.1	Does the organisation describe its approach to sustainable investment in other asset classes?
4.2	Does it describe how it assesses and manages sustainability-related issues in these asset classes?
4.3	Does it describe how it engages with the companies/entities/assets in these asset classes?
4.4	Does it describe the sustainability-related characteristics of these asset classes?
4.5	Does it list its holdings in these asset classes?

Section 5: Delegated Investment

5.1 General	
5.1.1	Does the organisation describe how sustainability-related issues are managed by its external investment managers?
5.1.2	Does the organisation specify the sustainability-related strategies (e.g. screening, integration) that are to be applied by its external investment managers?
5.1.3	Does it explain how these differ between investment managers or between asset classes?
5.1.4	Does the organisation describe how its investment managers are rewarded for their sustainability-related performance?
5.1.5	Does the organisation explain how rewards and incentives align with its investment beliefs, policies and objectives?

5.2 Manager Selection	
5.2.1	Does the organisation describe the sustainability-related information it typically reviews when selecting external investment managers?
5.2.2	Does the organisation explain how sustainability-related information is incorporated into manager selection processes?
5.2.3	Does the organisation specify what proportion of manager selection processes take account of sustainability-related information?
5.2.4	Does the organisation explain how sustainability-related information has influenced decisions on manager selection?
5.2.5	Does the organisation explain how these decisions differ from those that would otherwise have been made?
5.3 Manager Appointment	
5.3.1	Does the organisation describe how sustainability-related issues are incorporated into manager requirements (e.g. mandates)?
Does the organisation describe:	
5.3.2	The investment performance benchmarks (or other expectations) it sets for its external investment managers?
5.3.3	The sustainability-related performance objectives (or other expectations) it sets for its external investment managers?
5.3.4	The sustainability-related incentives it provides to its external investment managers?
5.3.5	The sustainability-related reporting it requires from its investment managers?
5.3.6	The actions it takes if investment managers do not meet their contractual obligations or do not perform in line with the organisation's policies and other commitments?
5.4 Manager monitoring	
5.4.1	Does the organisation describe how it monitors and reviews the sustainability-related performance of its external investment managers?
5.4.2	Does the organisation report on the sustainability-related performance of its external managers?

Section 6: Climate Change

6.1 Governance	
6.1.1	Has the organisation described its board oversight of climate-related risks and opportunities?
6.1.2	Has the organisation described management's role in assessing and managing climate-related risks and opportunities?
6.2 Strategy	
6.2.1	Has the organisation described the climate-related risks and opportunities it has identified?
6.2.2	Has the organisation described the impact of climate-related risks and opportunities on its investments and on its businesses, strategy and financial planning?
6.2.3	Has the organisation described the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario?
6.2.4	• Has the organisation described the scenarios it has used in its modelling?
6.2.5	• Has it described the results of its modelling?
6.2.6	• Has it explained how the results of the modelling have influenced its investment decisions?

6.3 Risk Management	
6.3.1	Has the organisation described its processes for identifying and assessing climate-related risks?
6.3.2	Has the organisation described its processes for managing climate-related risks?
6.3.3	Has the organisation described how processes for identifying, assessing and managing climate-related risks are integrated into its overall risk management processes?
6.4 Metrics and Targets	
6.4.1	Has the organisation described the metrics it uses to assess climate-related risks and opportunities in line with its strategy and risk management process?
6.4.2	Has the organisation disclosed its portfolio-related Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks?
6.4.3	Has the organisation indicated the percentage of its total AUM in investments that support the low carbon transition?
6.4.4	Has the organisation indicated the percentage of its total AUM in investments that support effective adaptation?
6.4.5	Has the organisation described the targets it uses to manage climate-related risks and opportunities, and its performance against the targets?

ENDNOTES

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5. Stewart, F. and Kawai, E. (2019), Public Pension Fund Governance and Investment: Lessons from Asia (World Bank, Washington DC).
6. For a recent review, see Sullivan, R., Martindale, W., Feller, E., Pirovska, M. and Elliott, R. (2019), Fiduciary Duty in the 21st Century: Final Report (The Generation Foundation, PRI and UNEP FI, London). <https://www.unpri.org/download?ac=9792>
7. UN Commission on Trade and Development (UNCTAD) (2014), World Investment Report 2014. Investing in the SDGs: An Action Plan (UNCTAD, Geneva), https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
8. Martindale, W., Sullivan, R. and Fabian, N. (2016), How Asset Owners Can Drive Responsible Investment: Beliefs, Strategies and Mandates (Principles for Responsible Investment, London), <https://www.unpri.org/download?ac=1398>
9. For example, in their 2016 report on investor duties in Asia, the UNEP FI, the PRI and The Generation Foundation noted: "... the 2015 amendment to the South Korean National Pension Service Act requires the National Pension Service to take account of ESG factors in its investment processes or to explain why it is not doing so. This has led the National Pension Service to start monitoring investment managers' approach to integrating ESG factors. In turn, local investment managers have started to develop their ESG capabilities in order to bid for contracts.", and "[GPIF's decision to sign the Principles for Responsible Investment, to support the Japanese Stewardship Code and to invest in ESG indices has]... sent a positive market signal about the expected capacity and approach of institutional investors... GPIF's position and scale gives it a special capacity and role in influencing the formation of market norms... Its activities should provide strong encouragement to other Japanese asset owners, particularly public plans, to explore ESG integration and responsible investment." See, further, Sullivan, R., Feller, E., Martindale, W. and Robinson, J. (2016), Investor Duties and Obligations in 6 Asian Markets (Principles for Responsible Investment, UNEP Finance Initiative and The Generation Foundation, London), <https://www.unpri.org/download?ac=1393>

10. See, for example, the country case studies and analysis prepared as part of the UNEP FI, the PRI and The Generation Foundation's Fiduciary Duty in the 21st Century project: <https://www.fiduciaryduty21.org/publications.html>
11. <https://www.unpri.org/signatories/reporting-for-signatories>
12. Sullivan, R., Czyz, K. and Dembele, F. (2019), Applying the Long-View to Investment Funds: Introducing the Long-term Disclosure Framework (Cambridge Institute for Sustainability Leadership (CISL), Cambridge), <https://www.cisl.cam.ac.uk/resources/publication-pdfs/long-term-disclosure-framework-18-march.pdf>. See also the predecessor report Lake, R. and Oulton, W. (2016), Taking the Long View: A Toolkit for Long-term, Sustainable Investment Mandates (CISL, Cambridge), <https://www.cisl.cam.ac.uk/resources/publication-pdfs/taking-the-long-view-ilg-mandates-report.pdf>.
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