

PRI BOARD MEETING REPORT

The PRI Board had a meeting on 6 & 7 July 2017, in Oslo, Norway.

ATTENDANCE

The meeting was attended by the following PRI Board members and PRI Executive staff.

Board members present:	PRI Executive in attendance:
Marcel Barros (PREVI)	Mark Blair
Sandra Carlisle (HSBC) (via conference call)	Kris Douma
Angela Emslie (Hesta Super)	Nathan Fabian
Eva Halvarsson (AP2)	Peter de Graaf
Priya Mathur (CalPERS)	Mandy Kirby
Hiro Mizuno (GIPF)	Fiona Reynolds
Renosi Mokate (GEPP)	Christopher Sperling
Gavin Power (UNGC)	
Martin Skancke (Chair)	
Eric Usher (UNEP FI)	
Xander den Uyl (ABP)	
Peter Webster (Vigeo Eiris)	
Apologies:	
Geeta Aiyer (Boston Common Asset Management)	

WELCOME FROM THE CHAIR

The Chair outlined the key agenda items for the Board meeting: the preliminary 2018-21 strategy discussion and signatory accountability discussions.

DECLARATION OF INTERESTS

The Chair declared that he is on the board of a new PRI signatory, Norfund. The Board discussed the independence of the Chair. The Articles state: *The Chair is under a duty at all times to exercise his or her own independent judgment in the performance of his or her office, without regard to any connection he or she may have with any particular Signatory or Signatories, or any other person or organisation.* There was general agreement that strict restrictions, with regards to working with PRI signatories, should not be placed on the Chair role. The Chair should abide by the spirit of the Articles and the PRI should be transparent about any appointments and potential conflicts of interest. The Board agreed that the Chair remains independent.

SIGNATORY INTERACTION (INCLUDING FORMAL CORRESPONDENCE)

The Correspondence agenda item has historically consisted of formal correspondence with the PRI Board. The scope of the agenda item has been broadened to include feedback from interaction between PRI Board members and signatories.

The Board discussed feedback from recent meetings with signatories in Australia, Norway and the UK. Issues included: regional consultation processes; the interaction between 'London HQ' and regional networks; balancing the requirements of signatories and seeking asset owner signatory growth; the perceived shift from an aspirational to a compliance focus; and the role of the reporting framework. The Board reflected on the importance of communication with signatories and stakeholders, systematic communication via the media, social media, emails and in person meetings. Messages must be tailored to different roles within organisations.

At future meetings the Board will consider *Signatory and Stakeholder Interaction* as a standard agenda item.

CHAIR REPORT

The Chair reported to the Board on the key activities since the March 2017 Board meeting and activities planned from July to September 2017. Key activities since the March meeting included:

- working with the Executive on the Blueprint and the planning for the 2018-21 strategy;
- representing the PRI in China at meetings with potential signatories, stakeholders and partner organisations; and
- participating in the FSB Taskforce on Climate-Related Financial Disclosures.

MANAGEMENT REPORT

Fiona Reynolds, Managing Director, presented the management report. The Board discussed several topics as part of the management report.

- **PRI in Person.**
 - PRI in Person 2018 will be in San Francisco at the same time as Global Climate Action Summit. The PRI will work closely with the summit organisers to coordinate an investor relevant climate action programme.
 - The location of PRI in Person 2019 is to be decided, with broad support from the Board for a European or developing market location.
 - PRI in Person 2020 will be in Japan.
- **Awards.** The Board encouraged the Executive to plan signatory awards that are structured to ensure that all signatories can learn from leading practices and awards events that are accessible to the global signatory base.
- **PRI Francophone network.** The Executive will continue to encourage this very active signatory network, including the translation of key PRI documents into French.
- **Climate collaboration and the FSB Taskforce on Climate-Related Financial Disclosures.** There are a number of climate focused initiatives and the PRI is working closely with relevant organisations to ensure that efforts are aligned, with minimal duplication of resources. The PRI has commissioned legal reviews of the Taskforce's recommendations for six countries and aligned climate related reporting will be incorporated into the PRI reporting framework on a voluntary basis. The Taskforce will continue until September 2018 to monitor the uptake of the reporting principles and how investors are using the information. The PRI can help the Taskforce to understand how investors use the reporting in their investment and engagement decisions.

COMMITTEE REPORTS

The Board received updates from the chairs of the respective committees:

- Finance, Audit and Risk committee (Peter Webster)
- HR and remuneration committee (Renosi Mokate)
- Signatory and stakeholder engagement committee (Priya Mathur)
- Skills, Diversity and Elections committee (Angela Emslie)

The Board discussed the forthcoming elections and outreach to prospective candidates. The Board agreed that an investment manager with unlisted assets skills and experience (inc. private equity, infrastructure, real assets) would complement the skills on the Board and add value to the Board's discussions.

Outreach to prospective suitable candidates can be coordinated via the Executive. The Board does not endorse candidates in the annual elections, but individual Board members can encourage suitable candidates to nominate.

HR AND REMUNERATION

Renosi Mokate, chair of the HR and Remuneration committee, presented the items for Board approval.

The Board welcomed the reduction in the gender pay gap in the annual pay review, but questioned why it had not been eliminated entirely. The proposed pay review reflects roles, experience and skills. The remaining pay gap is a reflection that there remains an experience gap, rather than a gap as a result of gender alone. The work undertaken to reduce the gender pay gap will be noted in the annual report and Signatory General Meeting papers. The Board questioned the balance of PRI versus individual staff pension contributions.

The Board approved:

- The annual PRI staff pay review;
- The proposed increase to PRI employer pension contributions; and
- The three HR policies: *Grievance*, *Discipline* and *Flexible Working*.

PRI BOARD ALLOWANCE

The PRI offers to make a contribution towards the travel expenses of Directors that attend in person meetings. The Board allowance is not intended to cover all expenses. The aim is to not discourage candidates from resource constrained organisations to apply to be on the Board and attend meetings. The Board reviewed the current policy and agreed to increase the travel allowance *up to £3000* upon application, starting in September 2017. The allowance will be reviewed on an annual basis.

SIGNATORY CATEGORISATION

There was a consensus that there are clear criteria for the categorisation of asset owners in the Signatory categorisation guidelines¹. If an organisation has a clear preference for the signatory category, the applicant must make the argument based on the published criteria. The Board agreed to the categorisation of Utilities Trust of Australia as an investment manager.

¹ Signatory categorisation guidelines: https://www.unpri.org/download_report/26321

2018-21 STRATEGY AND LONG-TERM FUNDING

The meeting's objective was for the Board to provide appropriate guidance to the Executive on the priorities and resources, before the Executive start to draft the details of the strategy in advance of the September 2017 Board meeting.

Key elements for the Executive to consider:

- ESG integration remains core to the PRI work.
- Importance of empowerment of asset owners.
- Global strategy, with complimentary tailored regional strategies.
- Signatories at different stages of the RI journey.
- Core work, non-core work and value adding extra funding requirements.
- How to effectively communicate with signatories.
- Key partners for the PRI.
- Organisational structure, skills and experience that will deliver the strategy.
- Plan for signatory growth and levels of core reserves over the 3 years.
- Measures of success.

The Chair also asked the Board and Executive to review the existing strategy document, the format, structure, narrative and effectiveness as a communication tool to signatories.

The priority now for the Executive is to prioritise the nine areas of the Blueprint for responsible investment within the next three-year strategy, consider regional strategies, measures of success, funding implications and how the PRI is organised to deliver. For consideration by the Board and the Finance Audit and Risk committee will be the relative funding of the nine priority areas, different signatory growth scenarios, grant and sponsorship expectations and effects of further decentralisation.

SIGNATORY ACCOUNTABILITY – PROGRESS AND LEADERSHIP

Mandy Kirby, Director of Reporting and Assessment, joined the meeting to present the proposals.

Progress

The Board discussed the proposed measures to enhance signatory accountability as well as the means, timeline and risks inherent in this process. The advantage of the proposed approach is that the clear criteria are binary, based on self-assessment and there is no element of judgement. The Board agreed that the accountability measures were necessary, but the PRI should not place too much emphasis on the measures.

The Board stressed the importance of effective communication on the accountability measures:

- The PRI's core work is to drive responsible investment through a market approach.
- The objectives of the accountability measures are to encourage signatories to implement the Principles, as well as protecting the credibility of PRI initiative by delisting signatories that are taking no action.

Recognise leadership

The leadership label seeks to identify signatories' best practices accounting for size, type and region. Introducing leadership status will recognise signatories who are already implementing

leading practices while providing guidance to aspiring signatories. The Board reflected on the criteria proposed, including the thresholds, weighting, and fairness for all signatories irrespective of size.

The PRI intends to recognise leadership as measured through the PRI reporting as well as leadership awards. The awards will recognise individual leadership and collaborations, for example 'best engagement', that aren't captured in the reporting framework.

The Board approved the proposed consultation on proposals and methods to strengthen signatory accountability. The consultation will be from 1 August to 30 September 2017².

SIGNATORY ACCOUNTABILITY - SERIOUS VIOLATION

Christopher Sperling, Associate Director, Corporate Office, presented the proposal.

One challenge identified in the '*Strengthening Accountability, Recognising Diversity*'³ consultation was that:

A number of asset owners noted that some managers had faced regulatory, legal and/or financial sanctions in recent years as a result of corporate wrong-doing. In their feedback, they argued that these behaviours contravene the spirit of the Principles and raise questions about the true level of commitment to responsible investing throughout the organisation. If the behaviour of these organisations has the potential to bring the PRI, and by extension the work of the signatory base as a whole, into disrepute, additional accountability measures for these firms may need to be introduced, they argued.

Signatories were consulted on whether the PRI should delist signatories whose actions or behaviour undermine their public commitment to responsible investing, the criteria and the process. Of the 497 organisations that responded to the formal consultation, 71% agreed that the PRI should "*delist signatories if they act in a manner that brings their publicly stated commitment to responsible investing, or the work of the PRI (and by association, other signatories), into question*".

The Board discussed the draft proposals for signatories that seriously violate the spirit of the Principles. Key issues discussed included:

- the complexity of potential scenarios
- who can raise an issue?
- the option of voluntary delisting
- the criteria for engaging with and potentially delisting signatories.

The Board agreed that there needs to be a transparent policy to provide assurance to signatories that there is a process and predictable response to a serious violation. The Executive requires a formal process to reference when there is an allegation of a serious violation. The Executive will draft a policy for signatory consultation and final Board approval.

² For more information see the consultation page on the PRI website: <https://www.unpri.org/about/pri-governance/consultation>

³ https://www.unpri.org/download_report/9625

PRI ACADEMY

Nathan Fabian, Director of Policy and Research, briefed the Board on the progress of the PRI Academy.

The PRI acquired the venture in November 2014. The PRI Academy is on track to enrol 1000 students in 2017/18. In 2018/19 it will break even financially for the first time since it commenced in 2010. Over the next year, the Executive will deliver a trustee training course, refresh the content, evaluate the addition of further course material and consider markets beyond signatories. The Board raised several points about the future direction of the PRI Academy, including translations, developing the education platform, in person training, strategic partnerships and the targeting of 'millennials'. The Board agreed that the PRI Academy is one tool to promote elements of the nine priorities set out in the Blueprint for responsible investment and its strategy should be fully integrated into the broader PRI strategy.

FIDUCIARY DUTY IN THE 21ST CENTURY AND STEWARDSHIP CODES AND THE PRI'S ROLE

Nathan Fabian, Director of Policy and Research, and Will Martindale, Head of Policy, joined the meeting to present an update on the fiduciary duty projects and stewardship codes.⁴

The Board welcomed the informative presentation and shared experiences within their markets on the interpretation of fiduciary duty. The Board raised the issue of general counsels and their interpretation of fiduciary duty.

SUSTAINABLE STOCK EXCHANGES (SSE)

Nathan Fabian, Director of Policy and Research, presented an update on the SSE work programme.

The PRI is one of four partners who jointly oversee, fund and implement the SSE, along with UNCTAD, UNGC and UNEPFI. The mission of the SSE is to serve as a global platform for collaboration among stock exchanges, investors, companies, regulators, policymakers and other issue experts to enhance corporate transparency, and ultimately performance, on ESG issues and encourage responsible long-term approaches to investment. SSE has successfully recruited 64 partner exchanges to the initiative and obtained commitments from 27 exchanges to provide ESG guidance to issuers. The initiative has exceeded initial expectations in terms of support from exchanges.

The Board raised several issues related to the SSE and the PRI work programmes:

- The role of asset owners in the SSE programme and engaging with exchanges more broadly.
- The barriers to large stock exchanges signing up to the SSE.
- The long-term future of the initiative.

⁴ For more information see the Fiduciary Duty in the 21st Century website:
<http://www.fiduciaryduty21.org/about.html>

- Potential opportunities for fundraising, including programmes related to climate disclosure and the sustainable development goals.

The Board was impressed with the progress of the SSE. The work of the initiative is very aligned to the core PRI work and there was broad support for the initiative. The Board asked to receive future updates on the SSE strategy and exchanges related work as part of the PRI's Sustainable Financial System programme.

SUSTAINABLE DEVELOPMENT GOALS

Kris Douma, Director of Investment Practices and Engagements, joined the meeting to present the PRI's plans for SDG aligned work.

The PRI has established an SDG Advisory Committee which has now developed a work programme. PRI's signatories are at very different stages of thinking when it comes to the SDG's and the work programme is designed to reflect this. There will be five major areas of work, one that will be the main responsibility of the PRI executive, four prepared by SDG working groups.

- **PRI Executive:** SDG landscape map of current SDG initiatives.
- **Working Group 1:** SDG investment case
- **Working Group 2:** How to allocate capital to the SDGs
- **Working Group 3:** SDG engagement
- **Working Group 4:** Measurement and reporting of SDG aligned investments

The Board agreed that the SDGs have had a galvanising and positive effect, providing a common language for beneficiaries, investors, companies and governments. The Board discussed the importance of language and terminology, PRI's potential role in convening mainstream investment with DFIs to scale-up SDG aligned investment and the role of the research, policy and the sustainable financial system programmes to further the impact of the SDGs aligned work.

The Board suggested testing the presented paper with signatories that are starting to think about the investment implications of the SDGs. The PRI needs to be conscious of the diverse signatory base and produce explanatory materials. The SDGs will be one important element of the next three-year strategy plan and the Board asked the Executive to consider the appropriate scope, level of ambition and where the PRI can make a unique contribution that will provide value for signatories. The challenge for future Board discussions will be to fully integrate the SDGs with the other eight priority areas of the Blueprint for responsible investment as well as agree on measurable objectives for the SDG work programme.

PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE (PIIF)

Kris Douma, Director of Investment Practices and Engagements, presented the PRI's plans.

The PIIF was launched in January 2011 with funding from the Dutch Ministry of Foreign Affairs. The Principles were conceived in response to a call for responsible inclusive finance (namely microfinance). The PRI reporting module for PIIF's signatories was launched in 2011.

Increasingly the PIIF have been incorporated within the broader Environmental and Social (E&S) themed investing work programme. The Board agreed to end the separate PIIF, including the reporting module, and fully integrate the work into the E&S / Impact investment work programme.

CHAIR SECOND TERM

The Board agreed to nominate the Chair for a second term, provisionally to commence in January 2018. The nomination will be announced after the July meeting and put to signatory vote in October 2017. A person nominated by the Directors to be the Chair must, before taking office, have his or her appointment as Chair, and term of office (including commencement date), confirmed by the approval of a simple majority of signatories, including a simple majority of asset owner signatories, voting in an electronic poll.

FUTURE MEETINGS

The next Board meeting will take place on 23 & 24 September 2017 in Berlin, before the annual PRI in Person conference. In addition to regular agenda items, planned discussion points include:

- Mid-year budget review
- 2018-21 strategy and long-term funding
- Service provider reporting update
- Investment consultants' sustainable financial system project
- Asset owner recruitment update
- US market update
- Signatory General Meeting key messages

Signatories wishing to provide input on these agenda items or raise additional issues for Board consideration should email christopher.sperling@unpri.org by 1 September 2017.