

Principles for Responsible Investment

The Principles for Responsible Investment (PRI) are a set of six principles designed to foster a sustainable global financial system. After becoming a PRI signatory, asset managers, investment managers, and service providers will submit an annual report that evaluates their investing activities, policies, and accountability. Specific guidance has been created for the impact investing industry, where ten main impact investing categories have been tied to the Sustainable Development Goals. PRI is supported by the United Nations Environmental Programme Finance Initiative and the United Nations Global Compact.

<https://www.unpri.org/>

THE BASICS

The Principles for Responsible Investment promotes the incorporation of Environmental, Social and Governance (ESG) issues into investment-making decisions and reporting.

PRI is defining the scope of responsibility and reporting framework for investments as the industry responds to ESG risks, regulation, and market demands. Its mission to achieve a sustainable global financial system is advanced by the adoption of the six Principles promoting governance and accountability, and by addressing obstacles within markets and regulations.¹

Investors can become signatories of PRI by adopting the six Principles and submitting annual public reports on their responsible investment activities.

Each signatory must publicly submit an annual report on investing activities, adopt a responsible investing policy that covers more than fifty percent of assets under management, and establish senior-level oversight and accountability.² These public reports can be found on the [PRI Data Portal](#).

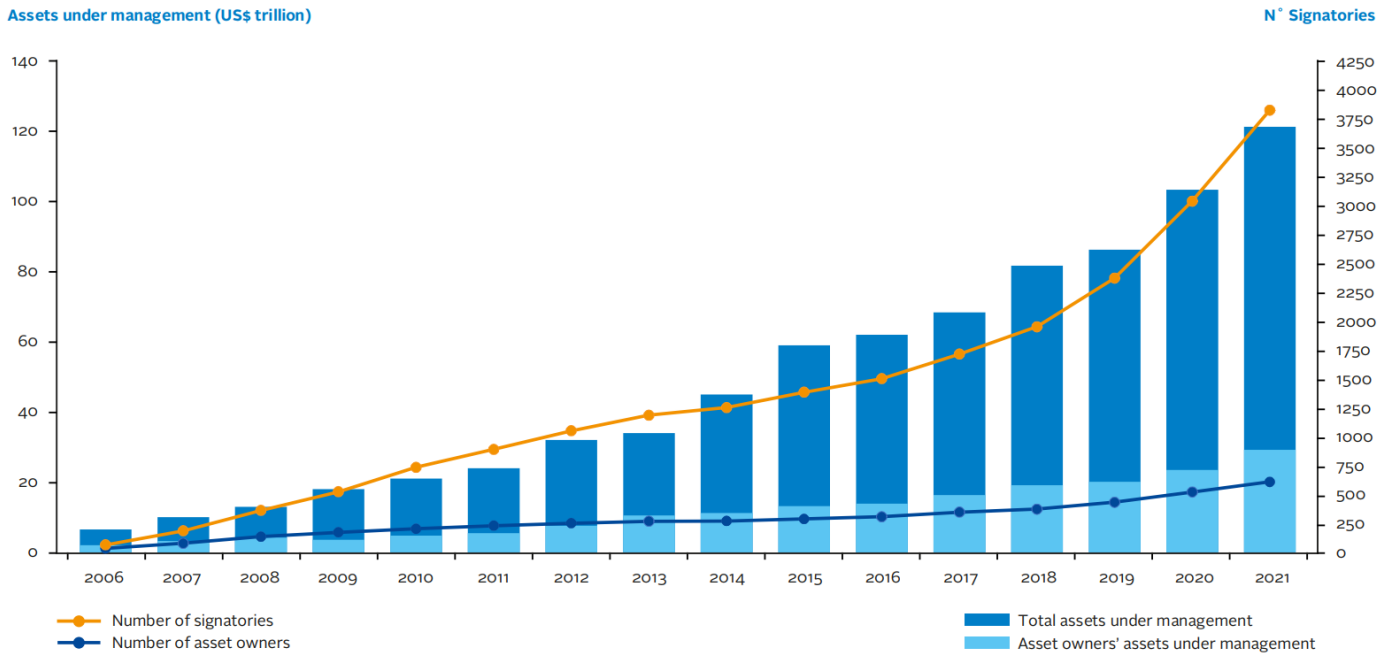
6 Principles for Responsible Investment

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

Source: [Principles for Responsible Investment](#). Accessed 6/2/2022

PRI signatories represent a significant amount of assets under management. Since its introduction in 2006, PRI has built its total signatories to close to 4,000, representing over \$120 trillion in assets under management.³ Signatories can be found through the [directory](#) on the PRI website.

PRI participation growth from 2006-2021



Source: Principles for Responsible Investment. Accessed 6/2/2022

USEFUL FOR

PRI was created for participants across the investing spectrum. PRI provides specific guidance and ratings for asset owners and advisors across different equity and debt investments, private markets, hedge funds, and impact investments.⁴

Investment managers and asset owners have to meet three minimum requirements to qualify as a PRI signatory. These include a responsible investment policy that outlines an approach for ESG factors that covers more than fifty percent of assets under management, senior level oversight of responsible investment, and staff implementation of the responsible investment policy.⁵ In addition, signatories have to file an annual report with PRI that conforms to the reporting cycle and standards.⁶ PRI has proposed strengthening the minimum requirements, which are currently under consideration.

IMPLEMENTATION & IMPACT

After submitting their annual report, signatories receive a scorecard that details their performance. In 2021 the assessment methodology underwent a major overhaul, resulting in a new 1 to 5 star system for module scores, and 1 to 100 point system for indicator scores. Assessments provide peer benchmarks based on anonymized data.⁷ PRI aggregates, anonymizes, and publishes annual results from all submissions in order to draw conclusions about industry participation, assets under management, and the relative scores achieved across investors.⁸

Firms that fail to comply with minimum requirements and reporting face a compliance process. Firms go through a two-year period of formal engagement with PRI to bring the firm back into compliance. Unsuccessful engagement over the two-year period will result in delisting.⁹

PRI has launched the PRI Academy, an online education and training center, to assist with PRI and ESG reporting. The PRI Academy courses are advertised to feature practical case studies, financial modelling, and content relevant to international audiences to help maximize the practical application of key ESG concepts. in a convenient timeframe.¹⁰

PRI has published the Impact Investing Market Map with the goal of bringing a methodology to the identification, criteria, and KPI's of impact investing. The Impact Investing Marketing Map lists out 10 mainstream impact investing themes that were designed by leveraging the UNSDG's and the PRI framework. Each theme has its own specific guidance that will help investors within relevant impact investment sectors.¹¹

CURRENT GAPS

Only asset managers, investment managers, and service providers are eligible to become signatories. An annual fee that is scaled to total assets under management is required to maintain membership (ranging from approximately £480 to £14,100).¹²

PRI Incorporation in emerging markets has been slow in most areas. PRI has stated that concentrated effort has been made and is still needed to mitigate the negative effects of failing to meet the SDG's in emerging markets.¹³

Data transparency is voluntary on a per-signatory basis. Assessment reports can be shared with anyone, but must also include a link to the full transparency report. PRI maintains the full database, and will release anonymized macro-level data of their own choosing.

Link between being a signatory and ESG score is unclear. A 2020 Harvard study found that becoming a PRI signatory did not lead to an increase in a fund's ESG score. While PRI has been successful in creating principles which firms commit to, it is unclear if the principles need stronger enforcement mechanisms or if signatories need stronger definitions by which to adhere by.¹⁴

¹ <https://www.unpri.org/download?ac=10948>

² <https://www.dechert.com/knowledge/onpoint/2020/3/overview-of-united-nations--principles-for-responsible-investmen.html>

³ <https://www.unpri.org/about-us/about-the-pri>

⁴ <https://www.unpri.org/investment-tools>

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⁶ <https://www.unpri.org/reporting-and-assessment/the-reporting-process/3057.article>

⁷ <https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article>

⁸ <https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article>

⁹ <https://www.unpri.org/reporting-and-assessment/minimum-requirements-for-investor-membership/315.article>

¹⁰ <https://priacademy.org/pages/about>

¹¹ <https://www.unpri.org/thematic-and-impact-investing/impact-investing-market-map/3537.article>

¹² <https://www.unpri.org/about-us/about-the-pri/financial-information>

¹³ [https://www.unpri.org/annual-report-2020/how-we-work/building-our-effectiveness/enhance-our-global-footprint#:~:text=The%20collective%20AUM%20represented%20by,investors%20and%20337%20service%20providers\).](https://www.unpri.org/annual-report-2020/how-we-work/building-our-effectiveness/enhance-our-global-footprint#:~:text=The%20collective%20AUM%20represented%20by,investors%20and%20337%20service%20providers).)

¹⁴ <https://www.forbes.com/sites/bobeccles/2020/08/04/do-signatories-to-the-principles-for-responsible-investment-practice-what-they-preach/?sh=bc2e7426b820>