

ESG Viewpoint: UN-supported Principles for Responsible Investment (PRI)

RepRisk interviews Fiona Reynolds, Managing Director at UN-supported PRI

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six principles for responsible investment into practice. Its goal is to understand the implications of environmental, social and governance issues (ESG) for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the principles, signatories contribute to the development of a more sustainable global financial system.

Fiona Reynolds joined the PRI as Managing Director in February 2013, tasked with overall responsibility for the PRI, its operations, development, and delivery of its strategic plan. Fiona has more than 20 years' experience in the pension sector working in particular with the Australian Government and has played a key role in advocating pension policy change on behalf of working Australians. Prior to joining PRI, Fiona spent seven years as the Chief Executive Officer at the Australian Institute of Superannuation Trustees ("AIST") an association for Australian asset owners. Fiona has formerly been a Director of AUSfund, Industry Funds Credit Control, Australia, for UNHCR and the National Network of Women in Super. In September 2012 she was named by the Australian Financial Review as one of Australia's top 100 women of influence for her work in public policy.



RepRisk: Why did you decide to join the organization after almost twenty years in the pension sector? Could you give some insight into the organizational structure of the PRI?

Fiona Reynolds: At the Australian Institute of Superannuation Trustees, I was involved in lobbying the government to increase compulsory pension contributions from 9 percent to 15 percent and found some success, with contributions eventually raised to 12 percent. But I also witnessed many Australians, as elsewhere in the world, lose a significant proportion of their retirement pot when the financial crisis struck.

If you are 20 or 30 years old, it is OK to have some losses in your pension fund because it will naturally fluctuate over time, and since you are in it for the long term, those fluctuations are not of concern. But it was different for those people who were already in their 50s. They had saved for retirement their entire lives – and then found in some cases 30 percent of their balances were gone in one fell swoop.

I then thought, "Why am I spending all of this time trying to get more money put into the system when there are obviously fundamental problems?" It was clear the markets were not secure and that they were not considering risk in a holistic way. This is when I decided that I needed to work for an organization that could tackle the systemic risks in the financial services sector and make the sector more transparent. On

top of that – with the weight of money that pensions have – I truly believe that pension funds can make the world a better place.

The PRI is comprised of a Board, which is made up of one independent Chair, confirmed by a signatory vote; and ten Directors, seven elected by asset owner signatories, two by investment manager signatories and one by service provider signatories. The Chair and all elected Directors are the Statutory Members of the Company. There are two Permanent UN Advisors to the Board, representatives from the PRI's founding UN partners: UN Global Compact and UNEP Finance Initiative.

RR: Do you think institutional investors are becoming more aware of ESG risk?

FR: Yes, definitely. The global financial crisis, not to mention high-profile incidents such as the BP oil spill in the Gulf of Mexico and the Lonmin mining fatalities in South Africa, has woken investors up to the fact that they need to look at more than the bottom line before deciding to invest in a company. Things might look good on paper but the numbers might be obscuring the fact that the company is involved in activities such as toxic waste dumping or tax manipulation. Investors now realize that looking at the way a company addresses ESG factors says a lot about how that company is run and that ESG considerations are as important as financial performance. Finally, we have seen a lot of data in recent months which shows that [looking at ESG over the long-term can translate into financial returns](#) that meet or exceed financial benchmarks.

RR: Do you think the global financial system has become more sustainable since the financial crash of 2008? What is PRI's goal mission in the development of a more sustainable global financial system?

FR: Progress to move the world to a more sustainable financial system has been slow – and there is a lot more that needs to be done if we are going to see responsible investment become a mainstream issue, which is one of PRI's main aims.

One of the six PRI Principles is that you need to report about what you are doing to integrate ESG and the principles into your investments. We do not want the PRI to be a box-ticking exercise, which is why we ask signatories on an annual basis to report to us about their progress; it is also mandatory for them to disclose this information. So it's not just that they report to us – these details are also on public record.

We are also going to pay closer attention to the progress being made by signatories and how that feeds into the PRI's credibility, and to making better use of the data collected during the reporting process.

RR: What steps need to be taken to make the financial system more robust from a sustainability point of view?

FR: We know that companies that are well governed, have good boards, and have the right policies and practices, are better companies. They perform better and they outperform other companies. So we know companies that do consider ESG risks are going to be better bets for people over the long term.

Pension funds, because they have a long-term horizon of 40 years or more, think in a long-term way, which is ultimately better for the markets. Companies also need to start taking a long-term approach to their activities. But in order to do this, we need to incentivize staff at all levels, from linking ESG to executive pay, to incentivizing investment managers in order to wean them away from their current short-term mentality. [over the long-term can translate into financial returns that meet or exceed financial benchmarks.](#)

RR: What are the main challenges that face the corporate responsibility / corporate sustainability sectors?

FR: Investors and managers still see responsible investment as niche. PRI does not think that responsible investment should be a separate product — it should be integrated into everybody's investment processes. We are not saying that ESG risk is more important than others, but it must be included in the risk bucket.

Education is vital to continue moving ESG into mainstream investing. For example, PRI recently purchased the Responsible Investment Academy, an online training group that has been renamed the PRI Academy. Eventually I would like to have some kind of accreditation for practitioners that is global, and the PRI is the natural place to do that.

RR: How does PRI use RepRisk's business intelligence and what are the main benefits of the partnership?

FR: RepRisk provides the PRI with ESG data, which is used by our Investor Engagement Team through the PRI Clearinghouse. The data enables PRI's signatories to better understand the implications of ESG-related risks, thereby allowing them to incorporate these issues into their investment decision-making and ownership practices.

Recently, RepRisk has started providing financial professionals enrolled in the PRI Academy with a month-long trial account to the ESG Risk Platform, giving participants an additional practical element to support the learning process. Access to RepRisk's dynamic data will be an invaluable tool for those enrolled in PRI Academy courses.