

# Responsible Investment Certification Program

## #11 Program Expectations for ESG Integration

### Context

The last decade has seen Responsible Investment emerge from being a niche industry to a point today where a significant proportion of the investment industry has committed to implementing a responsible investment approach. For large institutional investors, this has focused primarily on applying ESG integration practices to traditional financial analysis.

Defining and measuring ESG integration practices is challenging due to limited disclosure and a broad variation in depth of integration - from systematic implementation embedded into investment valuation practices and company engagement, to more ad hoc approaches.

For the purposes of providing guidance to certified members consistent with trending industry behaviours and heightening consumer expectations, RIAA has identified key aspects of ESG integration. We expect that this will change over time as our members try and test this in practice; and we intend to watch and learn and to update these, as leading practice evolves.

### Performance Expectation

Currently certified funds who claim ESG integration as one of their RI strategies as part of their application for entry to the RIAA RI Certification Program show compliance with or reasonable progress towards the following expectations outlined in Table 1.

The Performance Expectations table sets out the methodology to assessing the level of ESG integration adopted by investment managers. It is based on 7 pillars that constitute elements of leading practice for the integration of ESG. These pillars have been established based on reviews of organisations in the responsible investment field who are working on defining what is leading practice in RI (including SIFs, GSIA, PRI, asset consultants and others).

The Performance Expectations table uses these pillars to establish a scoring process whereby those who score a sufficiently high rating are included as demonstrating leading practice in ESG integration (**scoring a minimum of 82% or 11.5 points out of 14**). This ensures a scoring system that is not prescriptive in what investors must have in place for demonstrating good ESG integration, but rather allows each organisation to implement a variety of measures that meets their organisation's needs and style (i.e. you don't have to be a member of the PRI to be practicing ESG integration at a high standard).



The system is intended to use publicly available information to inform an assessment of investment managers, drawing on PRI RI Transparency Reports, as well as other publicly available information. This assessment is seen to be a meaningful process as it relies on responsible investors to embrace transparency as a core principle of their uptake of ESG integration.

Table 1: Performance expectations – ESG integration, its seven pillars and RIAA scoring

	Minimum expectation	Leading practice	Examples of evidence	Scoring	Scoring notes
1	Have a publicly stated <b>commitment to Responsible Investment</b>	On the website “About” section would contain some high-level statement about RI as well as dedicated pages about how RI is built into the investment process.	Page for: “Investment beliefs” “Our investment philosophy” “how we invest” with reference to RI. Logos from collaborations and certifications such as PRI, CDP etc. Easy to find RI Policy (see 2 below)	1	1 = yes, statement on website 0 = no, not evident
2	Have a <b>Responsible Investment policy</b>	The policy: + is published + is signed and dated by the highest accountable executive or office bearer + is reviewed at least bi-annually + is demonstrably referenced in the operationalization of investment decision making across all areas of the fund	URL hosting RI Policy	2	2 = yes & publicly disclosed 1 = yes, not public 0 = no, not evident
3	Have a <b>commitment to transparency</b> of processes and approach	Disclose commitment to RI it in greater detail in public documents + Report publicly on approach + Reporting is relevant, clear and complete. + Leaders can talk clearly on their website what this means to their fund.	Six monthly (minimum) performance (returns) reports including holdings, available on website or equivalent  PRI Transparency Report	2	1 = discloses process and approach on website 2 = discloses in greater detail, such as including link to PRI Report

4	Can demonstrate <b>systematic Process for ESG integration</b> and evidence of how this process is applied within traditional financial analysis	+ an explicit and documented process for applying ESG within the traditional financial analysis  + disclose this process in a clear and accessible manner to key stakeholders	Financial analysis / investment process flow chart  URL hosting flow chart  Link to section in PRI Transparency Report	3	3 = rated on self-declared level of systematic integration based on multiple measures in PRI Report, where: 3 = thorough process, and 1 = process evident but little description of integration (NB: case studies can inform this question)
5	Can produce <b>evidence of activity in other areas of Active Ownership and Stewardship</b> including voting and engagement	+ commissioning of quality ESG research + engagement of bespoke ESG research providers, as means of inputting to the internal investment decision making + use of engagement professionals (internally or externally) to evidence stewardship in action	URL to proxy voting service providers' client webpage showing how your organisation intends to, or has voted Reporting of engagement activities – including key issues canvassed	3	1 for voting (NB: should be easy to find on website) 1 for engagement 1 if systematic processes and reporting on voting and engagement
6	Are <b>members of collaborative investor initiative</b>	Actively participate in working groups and other fora that help progress the development of the RI industry as a whole	Working group membership; or cash or in-kind contribution to events that foster a stronger industry	2	1 = member of 1 group 2 = member of more than 1 group
7	<b>Coverage of total AUM by responsible investment</b> or ESG practices.	Clear narrative around the different asset classes and how they are managed with respect to RI / ESG. Where RI overlays differ, this is clearly disclosed Discussion about the percentage of the fund covered by ESG integration and/or other RI processes.	PDS  RI Guidelines  As provided in PRI Transparency Report  As stated on website	1	1.0 = 100% 0.5 = 50% 0.1 = 10%
			<b>Leading practice score (2017)</b>	14	Greater than or equal to 11.5