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Socially responsible investment, decent work and pension funds: Concepts and international experiences

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Global Campaign on Social Security and Coverage for All

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List of acronymes

CDP	Carbon Disclosure Project
CG	Corporate Governance
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
EFAMA	European Fund and Asset Management Association
EMS	Environment Management System
ESG	Environmental, Social, Governance
EUROSIF	European Social Investment Forum
GEPF	Government Employees Pension Fund (Republic of South Africa)
GPF	Government Pension Fund (Thailand)
GRI	Global Reporting Initiative
IBGC	Brazilian Institute for Corporate Governance (Instituto Brasileiro de Governança Corporativa)
ICGN	International Corporate Governance Network
ILO	International Labour Organization
ISSA	International Social Security Association
NGPF-G	Norwegian Government Pension Fund – Global (Norway)
OECD	Organization for Economic Co-operation and Development
SEE	Social, Environmental, Ethical
SRI	Socially Responsible Investment
UKSIF	United Kingdom Social Investment Forum
USSIF	United States Social Investment Forum
UNEP FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact
UNPRI	United Nations Principles for Responsible InvestmentWBCSD World Business Council for Sustainable Development

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1. Introduction

Socially Responsible Investment (SRI) has always been of significance to the International Labour Organization and can make a relevant contribution to the promotion of decent work and ILO core Conventions. Indeed, investment based on environmental, social and good governance criteria is a means of creating stable and decent jobs and encouraging the diffusion of decent working conditions. In this regard, it is important to realize the strong demonstration effect that decisions taken by leading investment and pension funds may have on the behaviour of economic and social actors in their respective economies.

This paper aims at reviewing concepts and international experiences of SRI practices, especially among pension funds. It also provides an overview of what a pension fund can do if its stakeholders and managers take the decision to apply SRI criteria. The document should be seen as a contribution to the implementation of the Statement of Intent between the Government of Brazil and the International Labour Organization to promote decent work through the investment policies of Brazilian private pension funds, signed during the International Labour Conference in June 2011.

The paper's frame of reference is the investment of the assets of funds, such as pension schemes or funds of a similar nature, in the securities issued by corporate entities, and mainly - but not exclusively - company shares. Securities issued by countries such as government bonds or sovereign bonds are not taken into account, since the issues at stake are slightly different.

1.1. What is Social Responsible Investment?

There are various definitions of SRI. According to one of these, SRI is "an investment process that seeks to achieve social and environmental goals alongside financial objectives" (Mercer, 2007, p. 10). In addition, the signatories of the United Nations Principles for Responsible Investment (UNPRI) state that they "believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)." [1]

As we shall see later in the text, the diversity of these definitions of SRI reflects the variety of approaches in "socially responsible" investment. According to the OECD, "the definition of SRI itself varies between investors in different countries. Social investment organisations from different countries typically include social and environmental criteria in their definitional of SRI, but some also place emphasis on other factors. For example, the UK and US Social Investment Forums (SIFs) include community investment and other economically-targeted investments (ETI) in the definition of SRI, while other countries do not. The UK SFI's SRI definition includes ethical considerations, while the Canadian and US definitions do not." (OECD, 2007, p. 4).

An SRI fund may therefore address different topics including ethics, environment, governance, social issues, economics, labour rights, international and national norms, and so on. As we shall see, the choice of the dimensions to be covered by the funds, and the way in which this is to be done is up to the managers and their constituents, thus influencing the definition of SRI. For this reason, any organization planning to engage in

[1] United Nations Principles for Responsible Investment, see Appendix IV.

SRI needs to establish a clear strategy based on a sound knowledge of the various available options.

This paper will not try to provide a comprehensive definition of SRI, but will rather – as stated above – provide the reader with specific information on SRI in practice and on the way in which the principles of this concept can be applied.

Box 1. Several Definitions of Socially Responsible Investment (SRI)

Australia: the Australian Ethical Investment Association defines SRI as "the integration of personal values with investment decisions. It is an approach to investing that considers both the profit potential and the investment's impact on society and the environment."

Canadian Social Investment Organisation: The Social Investment Organization defines SRI as "the process of selecting or managing investments according to social or environmental criteria."

Sweden's Forum for Sustainable Development: SRI "is investment that in addition to financial criteria, also takes social, ecological, and ethical factors into investment decision-making processes."

UK Social Investment Forum: "Socially Responsible Investment (SRI) combines investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues."

US Social Investment Forum: "Integrating personal values and societal concerns with investment decisions is called Socially Responsible Investing (SRI). SRI considers both the investor's financial needs and an investment's impact on society. With SRI, you can put your money to work to build a better tomorrow while earning competitive returns today."

European Social Investment Forum (Eurosif): "Socially Responsible Investment (SRI) combines investors' financial objectives with their concerns about social, environmental, ethical (SEE) and corporate governance issues. SRI is an evolving movement and even the terminology is still very much in the evolving phase. Some SRI investors refer only to the SEE risks while others refer to ESG issues (Environmental, Social, and Governance). Eurosif believes both are relevant to SRI. SRI is based on a growing awareness among investors, companies and governments about the impact that these risks may have on long-term issues ranging from sustainable development to long-term corporate performance."

Association for Sustainable and Responsible Investment in Asia (ASrIA): "Sustainable and Responsible Investment, also known as Socially Responsible Investment, is investment which allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations."

Source: OECD, 2007, p. 5.

Taking investment decisions based on such criteria constitutes an investment strategy that attempts "to do good" while performing well. It will be seen that evidence and expert opinion support the argument that doing good may not only be carried out as a parallel activity but that it actually has a direct causal link to performing well. This "double dividend is considered to be rooted in a long-term and more comprehensive take on the corporate world" (Allianz Global Investors, 2010, p. 4). The broader vision behind SRI links the financial investment process with its probable consequences and/or incentives on subjects such as climate change, financial crisis or the need to strengthen social protection.

In the following pages, we shall refer to different definitions – SRI, Responsible Investment, Environmental, Social, Governance (ESG), Social, Environmental, Ethical (SEE), and so on – considering them equivalent to each other.

1.2. Socially Responsible Investment and Corporate Social Responsibility

Socially responsible investment is closely related to the notion of Corporate Social Responsibility (CSR). CSR is another concept with multiple definitions. The ILO defines CSR as "a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law." [2]

CSR plays an important role in the ILO with regards to labour standards and social dialogue processes, which are at the heart of the "Decent Work" concept. The ILO's commitment to CSR is guided by the ILO Declaration on Fundamental Principles and Rights at Work (1998) and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977). The ILO also participated in the development process of the United Nations Global Compact (2000). Subsequently the World Commission on the Social Dimension of Globalization (2004) highlighted CSR and the role of companies. During 2006-07, the ILO implemented an InFocus Initiative on CSR promoting the principles of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). This Initiative builds on and complements the ILO's role in setting, implementing and supervising labour standards, promoting social dialogue and assisting countries in implementing good policies in this regard. [3]

The European Commission recently defined CSR as "the responsibility of enterprises for their impacts on society" (European Commission, 2001, P. 6). This same comprehensive report states that "to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;

- identifying, preventing and mitigating their possible adverse impacts."

It is important to note that CSR is at the root of SRI. Indeed, as seen above, SRI can be defined as a process that seeks to achieve social and environmental goals alongside financial objectives. It implies that the same concerns (social, environmental, ethical, etc.) should be integrated with those that are the focus of CSR.

Furthermore, CSR is relevant to SRI in two ways. First, an institution that decides to follow SRI strategies establishes a strong commitment to meet its own responsibilities and to put its values into practice. Second, it will have to examine companies' CSR policies and practices to determine whether they are "responsible enough" (for example: has the company infringed international norms on social or environmental issues? - If so, which one(s) and to what extent?). This duality reflects the objectives of the European Commission, referred to above, as it has an effect on both the creation of shared value and the management of possible impacts. It may therefore be stated with certainty that CSR and SRI are strongly linked to each other - and, as seen later in the text, SRI constantly refers to CSR.

[2] ILO: *The ILO and Corporate Social Responsibility (CSR). ILO Helpdesk Factsheet No.1*, at; http://www.ilo.org/empent/Publications/WCMS_116336/lang--en/index.htm (12.01.2013).

[3] Ibid.

1.3. Structure of the paper

The first part of the paper presents the business case for SRI, demonstrating why it is relevant for a pension fund to adopt socially responsible investment policies. It then introduces different concepts related to SRI, showing specifically how they might be applied by a pension fund. The third part of this paper introduces five case studies of pension funds that may be considered as a demonstration of good SRI practices. Finally, the conclusion will include a synthesis of the main points and considerations on the future of SRI for pension funds.

2. The business case for SRI for pension funds

There are a variety of reasons for a pension fund to invest on a socially responsible basis. The OECD identifies four factors responsible for the increasing interest in socially responsible investment:

- "The concern over the ability of public policy (national governments and international organisations) to address issues such as environmental degradation and human rights abuses, especially in developing countries, coupled with an acknowledgment that (international) business has the responsibility and financial resources to address these issues.
- Empirical research showing that investors can increase their portfolio risk-adjusted rate of returns by considering ESG issues.
- The perception in some countries that fiduciary responsibility may and should include wider concerns than financial returns.
- Public opinion favouring SRI, largely as a result of intense advocacy by lobbying groups" (OECD, 2007, p. 9).

In a recent report, Eurosif (2011) introduces five motivations for SRI, which are quite similar to those of the OECD; these will be reviewed in the following pages.

2.1. Ethical reasons

An increasing number of institutions feel they have a responsibility to contribute to sustainable development in their business activities. Pension funds are no exception to the rule. One can believe that "investors have a unique kind of power: Their beliefs can shape markets. If they believe something is true, and invest as if it were, then it often becomes so" (UNEP FI, 2006, p. 6). More and more investors believe that they can do well by "doing good". They are convinced that they can include their values in the investment decision process. As an Allianz Global Investors report informs us, an "ethical approach is oriented towards specific moral values. These investment portfolios exclude any company whose business runs contrary to the moral convictions of its investors" (Allianz Global Investors, 2010, p. 16).

2.2. Fiduciary duty

Fiduciary duty for a pension fund essentially "means that the managers […] must be guided by the ultimate imperative: paying out the pensions. […] Companies that don't perform are of no use to pension plans" (Cramer and Karabell, 2010, p. 145). Therefore, the question is to know whether a socially responsible pension fund would be in line with its fiduciary duty. In 2005, Freshfields Bruckhaus Deringer, a law firm, compiled a report for the UNEP Finance Initiative (UNEP FI). It demonstrated that different jurisdictions have different interpretations of the fiduciary responsibility of pension funds. This responsibility, however, does not force pension funds to merely consider financial criteria: "…integrating [Environmental, Social and Governance] ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions" (Eurosif, 2011, p. 9).

In addition, the UNPRI "are based on the premise that ESG issues can affect investment performance and that the appropriate consideration of these issues is part of delivering superior risk-adjusted returns and is therefore firmly within the bounds of investors' fiduciary duties."[4]

Not only does it appear that SRI is within the bounds of investors' fiduciary duties, but SRI principles even seem to be strongly recommended. This obviously leaves the door open for further questions, most importantly: is there a financial incentive to be socially responsible?

2.3. Financial performance and risk management

Raising the question of the financial incentives for SRI is a slightly controversial issue - and, basically, the main issue at stake. Amongst the studies published so far, a number have argued that there is a positive correlation between responsible investment and higher profits; while others have stated that there is no correlation at all; and there are still other evaluations concluding that there is a negative correlation. An important argument put forward by some experts is that the recent and ongoing financial crisis blurs a precise assessment of the performance of these relatively new SRI funds.

However, over the past few years, evidence for a positive link between SRI and increased profits has been found. The UNEP FI report, *Show me the money: Linking environmental, social and governance issues to company values* (UNEP FI, 2006, p. 11), concluded that:

1. ESG issues are material – there is robust evidence that shareholder value can be enhanced by ESG issues in both the short and long term; analysts have presented significant evidence of the positive and negative impacts environmental, social and governance issues can have on share price across multiple sectors;

2. The impact of ESG issues on share price can be valued and quantified;

3. Key material ESG issues are becoming apparent, and their importance can vary between sectors (automotive, mining, textile and apparel, etc.).

Moreover, the same report argues that investors and asset managers "can manage risk better if they consider ESG issues. Application of ESG criteria in investment decision-making processes by asset managers and financial advisors has the potential to reduce portfolio risk through identification of material, but often overlooked investment issues." They could "potentially increase profits if they incorporate ESG issues into investment decisions. […] Concrete examples linking financial value to ESG issues are now strong enough to support this notion. […] ESG issues can be demonstrated to have a potentially financially-significant impact on specific drivers of equity valuation (for example revenues, costs)" (UNEP FI, 2006, p. 12).

Even if – in theory – any restriction of the investment universe could lead to a lower return due to the lack of diversification, several studies over the last few years have made the case that "companies paying more attention to social and environmental issues will reach better financial results because better investment choices are made."[5] The UNEP FI Asset Management Working Group (AMWG) and Mercer report, *Demystifying responsible investment performance*, argues that even though the "common school of thought is that a limited investment universe, as a result of a screening approach, entails a performance penalty, […] of the twenty [academic] studies reviewed, ten showed evidence of a positive

[4] UNPRI website, http://www.unpri.org/faqs/ (05.04.2012).

[5] Eurosif, op.cit, 2011, p.11.

relationship between ESG factors and portfolio performance, seven reported a neutral effect and three a negative association" (UNEP FI; Mercer, 2007, p. 7). In a more recent report, Mercer reviewed 16 academic studies, of which "10 showed evidence of a positive relationship between ESG factors and financial performance; two found evidence of a negative-neutral relationship; and four reported a neutral association" (Mercer, 2009, p. 2).

In a study of exceptional scope, Eccles, Ioannou and Serafeim tracked the performance of 180 companies over 18 years, in order to "delve into the crucial performance implications of a corporate culture of sustainability." Ninety of those companies were identified as "*High Sustainability* companies": "with a substantial number of environmental and social policies that have been adopted for a significant number of years (since the early to mid-1990s) which reflect policy and strategy choices that are independent and, in fact, far preceded the current hype around sustainability issues."(Eccles; Ionnaou; Serafeim, 2011). The other ninety companies were deemed to be "*Low Sustainability* companies": comparable firms that have adopted almost none of these policies. The main question of this study was whether firms in the *High Sustainability* group would under or outperform their counterparts in the *Low Sustainability* group. The idea behind this question was that "firms in the *High Sustainability* group might outperform traditional firms because they are able to attract better human capital, establish more reliable supply chains, avoid conflicts and costly controversies with nearby communities (i.e., maintain their license to operate), and engage in more product and process innovations in order to be competitive under the constraints that the corporate culture places on the organization" (ibid.). The figures in Appendix V show the cumulative stock market performance of both value-weighted and equal-weighted portfolios in the two groups. "Both figures document that firms in the *High Sustainability* group significantly outperform firms in the *Low Sustainability* group. Investing $1 in the beginning of 1993 in a value-weighted (equal-weighted) portfolio of sustainable firms would have grown to $22.6 ($14.3) by the end of 2010, based on market prices. In contrast, investing $1 in the beginning of 1993 in a value-weighted (equal-weighted) portfolio of traditional firms would have only grown to $15.4 ($11.7) by the end of 2010" (ibid.).

In parallel with financial performance, it appears that the financial sector also considers SRI as a matter of risk management. Taking sustainability and ethical risk into account "can improve an investor's understanding of financial risks and its capacity to deal with these risks" (Eurosif, 2011). This aspect of risk is central in the SRI strategies that are used, as will be seen below.

2.4. Public attention

In recent years, NGOs, media and individuals have increasingly focused their attention on the impact of financial institutions' investments. The possibility of reputational risk has therefore also increased. That is why many investors, in order to avoid damage to their own reputation, have realized that "they have to avoid investments that are publicly perceived as (socially) unacceptable or irresponsible" (ibid).

Reputational risk seems to be a major issue for pension funds. According to a survey conducted by Allianz Global Investors among pension experts in France, Germany, Italy, the Netherlands Switzerland, and the United Kingdom, public opinion "is considered to be the single most important factor driving SRI (78% on average)" (Alliance Global Investors, 2010, p. 14). Of course, addressing this kind of risk is key to investors. "The avoidance of environmental and social risks can reduce the client's reputational risk and its exposure to claims for damage" (Eurosif, 2011, p. 10).

According to the "Pension Programme SRI Toolkit" published by Eurosif (2004-05), companies and investors increasingly acknowledge reputational risk. Some of the Toolkit's key aspects are: "Government's decisions to grant operating license; consumer decisions to buy products, 3) job-seekers' decisions to apply at a company; and impact of a CG/SEE event on share price" (Eurosif, 2004-05, p. 9).

For these reasons, it may be concluded that refraining from investing in companies that are likely to give the institution a bad press is a responsible investment practice. It is therefore important to take into account this aspect of "public attention" when establishing a SRI strategy.

In this context, it is relevant to refer to the specific role of the labour movement, and particularly that of trustees representing workers on pension fund boards. It should also be recalled that the appointment of worker trustees, or the granting of equivalent influence to workers and employers, is a requirement of ILO standards, which build upon the principle of social dialogue and tripartism or bipartism.[6] One of the historic goals of the labour movement has been to address the fundamental inequalities that run through society and economy. "By the late 1970s, unions began to show an increased interest in how pension funds were being invested" (Quarter et al., 2001, p. 94). Unions have therefore played a crucial role in the advancement of socially responsible investment amongst pension funds. "Growing awareness and interest […] for example from labour and pension funds [is] a result of increased education of union pension fund trustees regarding the potential to achieve risk-adjusted, non-concessionary rates of return from community investment and the allocation of resources within the labour movement to support economically targeted investment, investments which fill capital gaps in the economy, deliver risk-adjusted rates of return and provide collateral benefits to stakeholders" (Strandberg, 2005, p. 20). This clearly explains why the labour movement as a whole is very concerned about SRI issues, as they give workers a voice in the capital markets - enabling them to lead initiatives on matters such as corporate governance or executive compensation and to advocate for legislative and regulatory reform through capital stewardship programmes. The labour movement has its say on the way pension funds manage their investments – in particular through labour trustees on pension funds' boards. It is therefore crucial to take into account this specific stakeholder's point of view.

2.5. Universal ownership

On account of their characteristics, pension funds may be considered natural supporters of SRI. The amount of the total pension fund investment, the respective time horizons and the necessary diversification, play in favour of a long-term socially responsible investment approach to reduce risks and increase returns.

According to the UNEP Financial Initiative and the Principles for Responsible Investment (PRI), "Large institutional investors are, in effect, "*Universal Owners*", as they often have highly-diversified and long-term portfolios that are representative of global capital markets. Their portfolios are inevitably exposed to growing and widespread costs from environmental damage caused by companies. They can positively influence the way business is conducted in order to reduce externalities and minimise their overall exposure to these costs. Long-term economic wellbeing and the interests of beneficiaries are at

[6] Article 72(1) of the Social Security (Minimum Standards) Convention, 1952 (N0. 102) addresses this specific aspect: "Where the administration is not entrusted to an institution regulated by the public authorities or to a Government department responsible to a legislature, representatives of the persons protected shall participate in the management, or be associated therewith in a consultative capacity, under prescribed conditions; national laws or regulations may likewise decide as to the participation of representatives of employers and of the public authorities."

stake. Institutional investors can, and should, act collectively to reduce financial risk from environmental impacts" (UNEP FI; UNPRI, 2011, p. 3).

In order to have a better understanding of this concept of "*universal owner*", it might be relevant to quote the report, *Doing good by investing well*, published by Allianz Global Investors: "according to the "universal owner" hypothesis, pension funds have become so big that they are not as much invested in single companies as they are in broad markets, making their investment performance dependent more on how the aggregate market develops and less on how individual companies perform. Therefore, universal owners cannot escape (negative) externalities – the negative economic effect of how one company's conduct impacts another company or the broader public for which they do not have to pay" (Allianz Global Investors, 2010, p. 7).

Given these facts, it is understandable that a pension fund might, as a universal owner, tend to favour SRI strategies, because they are good for the health of the corporate economy as a whole. As will be seen later in this paper, this concept is strongly linked to the "engagement" strategy – since, as universal owners, pension funds have to engage with companies they invest in, in order to make sure they adopt appropriate policies.

Eurosif adopts a similar position: "Institutional investors can use their position as capital providers to deny notorious polluters and human rights offenders access to capital, and stimulate the large majority to become more sustainable" (Eurosif, 2011, p. 12). This statement goes even further: not only do universal owners have a stake in global challenges, but they can also use their position to influence companies in which they have invested, as well as other investors, to adopt responsible investment policies. This is one of the main practices in SRI, as shall be seen later in the text. Indeed, the reasons for which pension funds and other investors with a remit to take a long-term perspective should be aware of the need to take into account responsible investment are now obvious; however, one question remains – how is this to be done?

3. Investment strategies

The business case for socially responsible pension funds has been established; this now calls for a closer look at what might be done. As mentioned above, there are several ways to be socially responsible. It is important to add that while the terminology of SRI has become prominent only recently, the basic ideas behind this concept are much “older” (references to Quakers and anti-apartheid investments are made later in the text). A case in point are the International Social Security Association (ISSA) Guidelines for the investment of social security funds (ISSA, 2008), which explicitly envisage that the investment of social security funds may take into account social and national considerations. These ISSA Guidelines state that security and profitability are main objectives for the investment, but once these have been addressed “social and economic utility of investments may also be taken into account” (ISSA, 2005).

A pension fund that aims to be socially responsible has the following six options:

- Negative screening;
- Positive screening;
- Engagement;
- Integration;
- Collaborative initiatives;
- Combining strategies.

It is important to mention that although this is not a fully comprehensive list, these six options are the most common and widespread strategies.

3.1. Negative screening

Negative screening, also known as “avoidance” or “exclusion”, is the most common approach to socially responsible investment. The original funds to be considered “socially responsible” were based on an exclusion strategy. Religious communities were the first to use what would be now called SRI. In the United States, Quakers and Methodists refused to invest in “sin stocks”, such as those related to tobacco, alcohol or gambling. In the 1980s, there was a similar move with investors refusing to invest in companies linked to the apartheid regime in South Africa.

Today, negative screening has become a common practice. Even though it can still be linked to ethical - and therefore partly subjective – considerations, it is now a much more institutionalized practice. The institution chooses which themes or norms it wants to use in accordance with its investors’ values and excludes from its portfolio those companies operating in the sectors covered or which have committed violations of these norms. Negative screening can be considered as an ongoing process since the institution can also divest from companies that turn out to be in violation of these standards.

Eurosif explains that pension funds employ negative screening in order to:

- “Eliminate a very specific risk from one’s portfolio;
- “Make an ethical statement;

- “Communicate in an effective way with members and the general public on ethics;
- “Uphold their investment policy” (Eurosif, 2004-05, p. 18).

It is therefore apparent that this method focuses on two main elements: ethics and risk management. As seen later in the text, using negative screening implies a strong commitment from the investor to his/her values. Additionally, it constitutes a matter of risk management, including reputational risk.

This paper will focus on two similar - but distinct - ways to screen companies. First, it will look into the common negative screening themes adopted by investors and examine the implications of adopting such a strategy. Second, it will take a close look at norm-based screening, a specific type of exclusion.

3.1.1. Common themes

As previously mentioned, an investor who wishes to screen out companies, entire sectors or even countries has several available options. Table 2.1 displays different themes that are usually screened out of portfolios by investors.

Table 1. Common negative screening themes used by institutional investors

Common negative screening themes used by institutional investors
Armaments and nuclear weapons
Alcohol manufacture and promotion
Manufacture and promotion of hazardous substances, such as pesticides, chlorine-containing chemicals (PVC)
Environmentally damaging practices
Poor employment practices
Animal exploitation (for industry, factory farming)
Activities, process or products that have a major impact on climate change (automobile, oil and gas industry, road building, etc.)
Manufacture and promotion of ozone-depleting substances
Nuclear energy
Gambling
Animal testing (pharmaceutical and cosmetic industry)
Genetic engineering
Tobacco manufacture and promotion
Oppressive regimes
Pornography

Although it is not exhaustive, this list of themes gives an overview of possible components of a negative screening strategy.

Adopting a negative screening strategy obviously involves making choices, and these choices necessarily contain an element of subjectivity. A screening strategy implies the investor’s values, and the need to determine whether the products or production processes of some companies are at odds with these values. It is therefore difficult to reach an agreement on what is acceptable and what is not. For example, in the list provided by the

Observatoire de la Finance, there is no reference to “abortion” or “contraception,” although some investors use these as filters. For instance, the United States Conference of Catholic Bishops (USCCB) has adopted guidelines on SRI for the management of its financial resources, which include a mention of abortion: “In view of the nature of abortion, the investment policy of the USCCB should remain as it is, namely, *absolute exclusion* of investment in companies whose activities include direct participation in or support of abortion.” [7] Once again, it may be seen that adopting a negative screening strategy implies making choices that are a strong commitment to the investor’s values.

Main challenge

The key issue to address is that many companies may not have their entire business in the sector that an investor wishes to exclude, but only a part of it. It then becomes necessary to determine where to draw the line, and which threshold to set. The same applies to norm-based screening, which is the next approach to be discussed: most investors who use this kind of screening state that companies can be screened out following a “serious violation” of a standard. The problem is here to establish what constitutes a “serious” violation.

3.1.2. Norm-based screening

Box 2. ***8 fundamental ILO conventions that deal with 4 major issues: freedom of association, non-discrimination, prohibition of child labour and forced labour***

- *The freedom of association and protection of the right to organise convention, 1948 (no 87);*
- *The right to organise and collective bargaining convention, 1949 (no 98);*
- *The forced labour convention, 1930 (no 29);*
- *The abolition of forced labour convention, 1957 (no 105);*
- *The minimum wage convention, 1973 (no 138);*
- *The worst forms of child labour convention, 1999 (no 182);*
- *The equal remuneration convention, 1951 (no 100);*
- *The discrimination (employment and occupation) convention, 1958 (no 111).*

Norm-based exclusions have been developed with “the idea that, even if companies do not face the legal requirements regarding environmental, social or governance issues between one country and another, they must be in a position to comply with a certain number of fundamental international norms” (Novethic, 2012, p. 4). Norm-based screening, according to Novethic, primarily excludes companies based on non-compliance or violations of international standards and conventions.

It is therefore a very interesting method to use in screening companies from the point of view of pension funds. Indeed, since their perspective is one of a universal owner, pension funds often have to deal with companies operating in varying countries and under different legislations. Using internationally accepted standards can provide a solution to this kind of problem.

A number of standards are used - or could be used. This paper will list four of them. This list is therefore non-exhaustive, but provides a good overview of the main indicators used in the frame of norm-based screening.

[7] USCCB website, http://www.usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm, (11.04.2012).

ILO core Conventions

Amongst the international norms used by investors, the International Labour Organization's Conventions are the most specific. The core Conventions encompass four major issues: freedom of association, non-discrimination, prohibition of child labour, and prohibition of forced labour. [8]

ILO - Decent Work

Decent work provides a unified framework for the major areas of ILO work and draws attention to the relationships between its four strategic objectives:

- Promote and realize standards and fundamental principles and rights at work;
- Create greater opportunities for women and men to decent employment and income;
- Enhance the coverage and effectiveness of social protection for all;
- Strengthen tripartism and social dialogue.

The overall goal of decent work is to bring about positive change in people's lives at the national and local levels. The framework provided by decent work is encompassing, since it addresses issues covered in the ILO core Conventions and in the United Nations Global Compact. It is therefore a consistent standard to use in the context of norm-based screening.

An example of such an approach are the goals foreseen in the Statement of Intent between the Government of Brazil and the International Labour Organization to promote decent work through the investment policies of private pension funds, signed in June 2011. The Statement of Intent refers to the ILO Declaration on Fundamental Principles and Rights at Work (1998) and the ILO Declaration on Social Justice for a Fair Globalization (2008), and proposes that both partners promote the development of investment practices of Brazilian pension funds which include:

- complying with the principles and rights at work enshrined in the ILO Declaration on Fundamental Principles and Rights at Work, 1998, associated with the prohibition of child and forced labour, the adoption of discriminatory practices or violation of freedom of association;
- encouraging investment in sectors with high employment generation, especially in small and micro enterprises;
- encouraging investment to induce the adoption by businesses of measures to promote decent working conditions, including the exercise of collective bargaining, training policies and updating of skills, occupational safety and health measures and affiliation to social security.

It is important that pension funds regularly report on their contribution to employment generation and the promotion of decent work.

[8] International Labour Organization website: http://www.ilo.org (10.04.2012).

United Nations Global Compact

The United Nations Global Compact (UNGC) is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles [9] in four areas:

- human rights;
- labour;
- environment;
- anti-corruption.

According to the UNGC website, "the Global Compact is a practical framework for the development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of workstreams, management tools and resources — all designed to help advance sustainable business models and markets." [10] The UNGC is a voluntary initiative; however signatories have to report on their progress through a transparency and accountability policy known as the Communication on Progress. Failure to communicate can lead to expulsion. [11]

Organisation for Economic Co-operation and Development

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. [12]

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises. "They provide voluntary principles and standards for responsible business conduct consistent with applicable laws" (OECD, 2008, p. 9). These principles cover several issues:

- Human rights;
- Labour rights and standards;
- Employment and professional relationships;
- Environment;
- Corruption;
- Solicitation of bribes and other forms of extortion;
- Interests of consumers;

[9] See Appendix III.

[10] UNGC website, http://www.ungl;balcompact.org/AboutTheGC/, (10.04.2012).

[11] Ibid.

[12] OECD website,http://www.oecd.org/pages/0,3417,en_36734052_36734103_1_1_1_1_1,00.html, (10.04.2012).

- Science and technology;
- Competition;
- Taxation.

While they are not binding, the Guidelines also include a process for handling complaints and for mediation. Therefore, "the OECD Guidelines not only provide a complete framework of recommendations for companies in terms of ESG issues, but are also linked to a mediation system for applying those Guidelines, which make them a functional tool, and one that is, in fact, regularly used by investors seeking to implement a norm-based exclusion process" (Novethic, 2012, p. 7).

3.2. Positive screening

According to Eurosif (2005), positive screening is the selection, within a given investment universe, of stocks of companies that perform best against a set of sustainability or Corporate Governance/Social Environmental Ethical (CG/SEE) criteria.

Unlike exclusion, positive screening introduces an element of assessment of the companies' performance. In other words, it is "seeking to invest in companies with a commitment to responsible business practices, or that produce positive products and/or services" (ROBECO, 2008, p. 4).

Thus, the first question that must be asked is how to define the criteria against which the performance of companies might be evaluated. Table 2. provides us with an extensive list of common positive screening themes.

Table 2. Common positive screening themes

Corporate Governance	**Human Rights**	**Social Policy**	**Relations with external stakeholders**
Transparency, communication policy, environmental and social reporting, relations with shareholders, CEO salary and benefits, position of the officer responsible for environmental and social affairs, codes of conduct, charters, internal audits...	Operations in countries with oppressive regimes or with a record of human rights violations, rights of indigenous peoples, labour standards (child labour, safety, forced labour...)	Personnel rotation, education and training, income levels and distribution, gender representation in top decision-making positions, employees benefits, safety and hygiene, conflict resolution, rights of association...	Relations with NGOs, involvement in the local community, support of local socio-economic development...
Supply-chain management and business ethics	**Environment**	**Environmental Management System (EMS)**	**Product and services**
Relations with customers and suppliers, procurement policy, fair competition, publicity policy, corruption.	Emissions, pollution, waste, resource use (energy, water, raw materials), transport policy, eco-efficiency, hazardous substances, industrial accidents, risk and liabilities, non-compliance with legislation, infrastructure and equipment, environmental objectives, environmental accounting.	Audits, reporting, initiatives, monitoring systems, objectives and verification.	Direct Impacts, impacts of use or consumption, recyclability, packaging, labelling, eco-design, innovative products or services promoting health, public transportation, renewable energies, training, sustainable development.

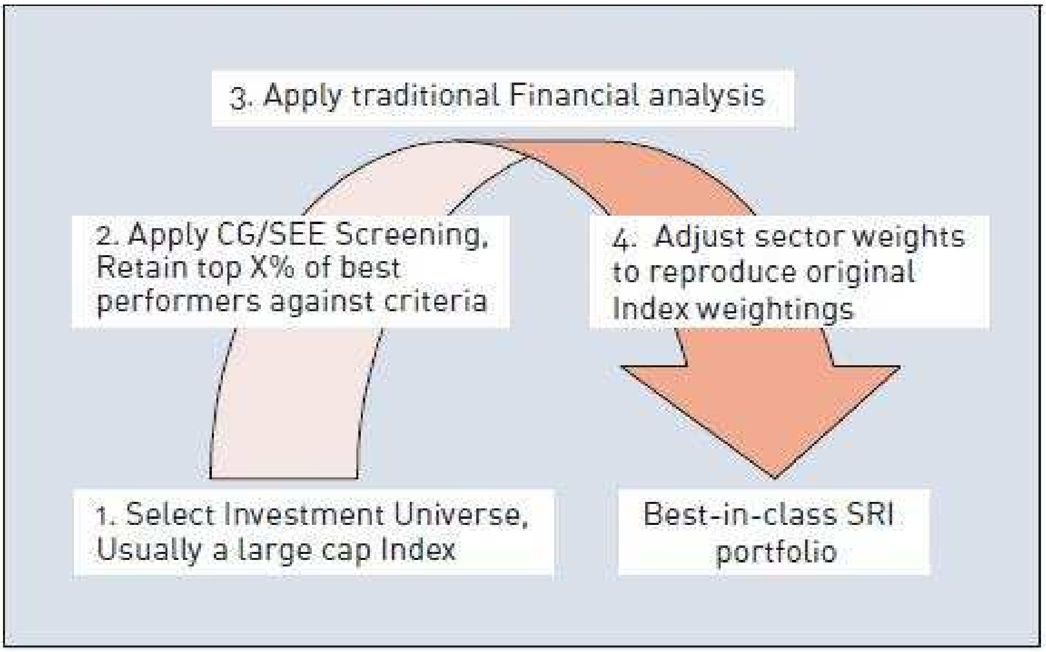
Source: Eurosif (2004-5).

Interestingly, these eight main categories (in table 2.) match – at least partially – the themes for negative screening. It might be said that positive screening goes one step further than its negative counterpart: not only do the trustees exclude companies guilty of violations of standards, but they seek out those performing well with respect to these same standards.

3.2.1. Best-in-class

The most popular form of positive screening is called "best-in-class", which involves ranking firms on ethical/sustainability issues relative to industry peers. Such an approach looks "within a sector or country to see which companies best meet the given criteria. This prevents the returns varying too much from the benchmark, which is an issue in an exclusion strategy" (EFAMA, 2001, p. 8).

Figure 1. Positive screening: Building a best in class portfolio



Source: Eurosif: Pension programme SRI toolkit (Brussels, 2004-05), p. 20.

An investor who wishes to use best-in-class approach needs to rank the companies. Figure 1 illustrates the creation of a best-in-class portfolio. [13]

Main challenge

There is one major technical difficulty to address: what criteria should be selected - and how should the companies' performance be measured against such criteria? Consequently, this is a resource-consuming strategy, as it involves creating a whole methodology (similar to the one presented in figure 1), the most difficult aspect being the elaboration of key performance indicators (KPIs).

[13] It is important to explain that the method introduced in the figure is not the only way to do it. For example, some best-in-class portfolios are constructed using only the first two steps. In addition, it is important to stress that the ranking as well as other screening regimes are the domain of the fund; the ILO cannot be associated with the evaluation of companies.

In order to avoid this kind of technical difficulty, investors can decide to follow indexes, within the framework of their responsible investment policies. The Dow Jones Sustainability Index (DJSI) or the FTSE4Good are such indexes. The developers of the Dow Jones Sustainability Indexes claim that they represent "the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios."[14] Similarly, the FTSE4Good Index Series "has been designed to objectively measure the performance of companies that meet globally recognised corporate responsibility standards."[15] The DJSI is a typical example of a best-in-class approach. It is therefore a very useful tool for investors who want to use a positive screening strategy, since it provides a ranking. In this case, it can be considered "passive screening" or "index tracking," but still remains a form of positive screening.

It is important to notice that such an index can be used as benchmark, even though "it is intended more as a method to relate performance of the manager to an objective measure, and not really as a method of selecting investment" (EFAMA, 2011, p. 9).

3.2.2. Pioneer screening

Pioneer screening is a specific form of positive screening. It consists in investing in companies that are seen as "pioneers". For example, Triodos Bank decided to invest in companies that are pioneers in four areas:[16]

- Climate protection (sustainable energy);
- Healthy people (medical technology);
- Clean earth (environmental technology and water);
- Corporate social responsibility (CSR).

Of course, it is up to the investor to decide which area he/she wants to invest in. Whatever the areas, pioneer screening is a form of positive screening that can be seen as a "thematic" investment strategy which may focus on sectors such as water, energy, CSR, etc. According to SAM, "theme funds allow investors to profit from a targeted selection of future-oriented companies that develop and market innovative products and services addressing today's key sustainability challenges, and that are thus expected to achieve above-average long-term growth."[17] Pioneer screening is therefore based on the same rationale as other SRI strategies, namely that companies addressing sustainability challenges will provide long-term returns.

[14] Dow Jones Sustainability Index website, http://www.sustainability-index.com/, (04.04.2012).

[15] FTSE4Good website, http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp, (04.04.2012).

[16] Triodos Bank website, http://www.triodos.com/en/distribution-partners/overview-page/sustainable-pioneer-fund/about-this-fund/, 04.04.2012.

[17] SAM website, http://www.sam-group.com/en/investment-funds/sustainability-theme investing/investment-philosophy-process.jsp, (10.04.2012).

3.3. Engagement

According to Allianz Global Investors, pension funds "were among the first to put SRI strategies on the corporate and public agenda, especially in terms of investor activism" (Allianz Global Investors, 2010, p. 7). As the term "activist" has a somewhat negative connotation, it is more common to use the term "engagement" to describe the investor's efforts to influence companies' practices and policies.[18] Novethic describes engagement as "investor's stance on ESG issues, requiring that the companies in which they invest improve their practices" (Novethic, 2011, p. 5). Mercer gives a similar definition: "the practice of monitoring corporate behaviour and seeking changes where appropriate through dialogue with companies or through the use of share ownership rights, such as filing shareholder resolutions. Shareholder engagement is often employed in attempts to improve a company's performance on environmental, social and corporate governance issues" (Mercer, 2007).

It is an increasingly frequent practice that investors, and in particular pension funds, seek to influence the companies in which they invest. Clark and Hebb describe one of the reasons why engagement is a common practice, especially amongst pension funds, in their article, *Pension fund corporate engagement*: *The fifth stage of capitalism*. The authors state that: "we also find that the enormous size of today's pension funds denies them the ability to exit from firms in which they are invested even in the face of dissatisfaction with firm performance. […] Pension fund managers must continue to hold firms in their portfolios […] because their size of ownership would erode share prices on exit. As a result, pension funds are increasingly resorting to voice in order to influence investee firms and measure long-term shareholder value for beneficiaries" (Clark; Hebb, 2004, pp. 149-150). It can also be argued that the long-term perspective of pension funds, as well as the fact that they invest in a large variety of countries, add to the need to engage with companies rather than to divest. Of course, divestment can be the last resort when all other tactics have failed. In 2006, the decision of the Norwegian Government Pension Fund – Global - to exclude Walmart, underlining serious and systematic human rights and labour rights violations, did not go unnoticed. Still, divestment as a result of failed engagement approaches is rare (Novethic, 2011, p. 21).

Engagement encompasses a variety of practices. This paper will briefly describe the two main forms of engagement: voting and ongoing dialogue.[19]

3.3.1. Voting

As shareholders, investors have voting rights. Annual general meetings are therefore opportunities for them to try to influence the company's policies. Many pension funds have taken to actively voting at shareholder meetings. In addition, they can introduce or support shareholder resolutions promoting sustainable development and corporate social responsibility. By doing so, "investors can push companies towards improvement and corrective action" (Eurosif, 2011, p. 13). In recent years, pension funds and other investors

[18] There are other terms in the SRI literature, such as "shareholder engagement", "corporate engagement", "shareholder activism", "active ownership", and so on. In this paper, reference will be made to "engagement.

[19] It must be mentioned here that some authors do not differentiate these two forms of engagement, while other authors consider "voting" as totally separate from "engagement". It will be assumed in this context that voting and ongoing dialogue are separate, since there is a difference in temporality; "voting" will also be considered as a subset of engagement, since it is a way of monitoring corporate behaviour and seeking changes.

have often exercised their right to vote, particularly with regards to executive compensation. [20]

3.3.2. *Ongoing dialogue*

In addition to regular or specific interventions such as voting, investors can establish an ongoing dialogue with the companies in which they invest. This can take many forms - such as addressing requests, monitoring, providing feedback after an assessment, etc. This kind of engagement aims at influencing the company's policies and practices, on a day-to-day basis.

It is common for SRI analysts to question the company on certain practices related to matters such as the environment, ethics, social and corporate governance. This research and analysis phase can be used to "initiate dialogue, but this is only a first step. Dialogue only constitutes engagement if it sets specific improvement objectives for the company" (Novethic, 2011, p. 10). Such discussions regarding improvements usually take place during in-person or telephone meetings with company executives from the relevant field. Some investors prefer to send written communications in order to make the dialogue more official and for traceability purposes.

The objectives can be set according to the investor's specific criteria, or they can be related to a norm or a standard. For example, Pury Pictet Turrettini & Cie SA – a Swiss investment manager – bases its engagement approach for at least two of its funds on the UN Global Compact "encouraging companies to align their standards of transparency on ESG issues accordingly" (Novethic, 2011, p. 10).

Main challenge

Unfortunately, the focus of engagement is limited by human factors - including the size of teams and time allotment – so that this strategy potentially covers less ground than others. Some investors have a whole team dedicated to engagement; despite this, they cannot engage with every company on every topic they would like to cover. Choices must therefore be made, reflecting the need for companies to focus on specific issues and on a restricted number of companies every year.

3.4. Integration

Integration can be defined as the explicit inclusion of extra-financial risks and opportunities in traditional financial analysis. It is thus a way of combining financial and extra-financial analysis, implying that non-financial criteria play a role in the investment selection process. According to Eurosif, a wide variety of approaches can be used for integration. "This can vary from having ESG information being made available to the investor making investment decisions to over- or underweighting a company within a portfolio based on ESG information" (Eurosif, 2011, p. 13). This kind of strategy is similar to positive screening. However, these strategies are not considered equivalent, as positive screening does not necessarily include financial analysis.

[20] For that matter, Ethos, the Swiss Foundation for Sustainable Development, is an example of active engagement. It has led multiple engagement activities with, for instance, Novartis and Nestlé. Further information can be found on the Foundation's website: http://www.ethosfund.ch/e/ethos-foundation/default.asp.

A good example of integration is the index Goldman Sachs GS Sustain. Cramer and Karabell provide the following description of this index: “Goldman Sachs developed a proprietary index called GS Sustain. Its goal is to identify the companies ’best positioned to sustain competitive advantage and superior returns through analysis of 1) return on capital, 2) industry positioning, and 3) management quality with respect to environmental, social & governance issues. By combining traditional financial analysis with sustainability factors, Goldman aims to identify companies that not only score well on sustainability issues, but also those that outperform the comparable universe of competitors. In essence, they hope that GS Sustain will be an index of gold-standard companies rather than companies that are icons of only sustainability” (Cramer and Karabell, 2010, p. 6).

Main challenge

The main challenge is to decide how to weight the financial and the extra-financial aspects, therefore requiring analysts with a strong expertise. Once again, the key issue is to determine where to draw the line.

3.5. Collaborative initiatives

Collaborative engagement is defined as “the engagement activities conducted collaboratively by multiple parties (for example pension funds and/or fund managers) in order to gain leverage and minimise costs and risks” (Mercer, 2007, p. 2). According to the same report, collaborative engagement forms a subset of collaborative initiatives. The UNPRI,[21] the Carbon Disclosure Project (CDP) as well as national and regional social investment organizations can be considered as examples of collaborative initiatives.

It is striking to note that almost every pension fund studied in the UNEP FI report, *How leading public pension funds are meeting the challenge, contributes to at least one collaborative initiative* (UNEP FI, 2007). Even though pension funds are deemed major investors, it is obvious that they gain more power and influence as members of such initiatives: “By joining forces with fellow investors and other stakeholders such as companies, NGOs and governments, investors can leverage the larger scale to more effectively bring about desired change” (Eurosif, 2011, p. 13). Being part of a collaborative initiative is therefore a great opportunity for investors to strengthen their impact on the market and instigate change.

For example, Ethos, the Swiss Foundation for Sustainable Development, was created in February 1997 by two Geneva-based pension funds and is currently composed of 130 institutional investors. Its purpose is to promote the consideration of sustainable development principles and corporate governance best practice in investment activities; and to promote a socio-economic environment that serves the society as a whole and preserves the interests of future generations. Being an association of institutional investors makes Ethos an important investor, which can effectively engage and influence the companies in which it invests. Ethos undertakes its ownership responsibilities by asking questions, identifying potential improvement and, where appropriate, formulating proposals at annual general meetings. Consequently, it can strongly influence the companies’ policies, in particular those related to executive compensation or conflicts of interest.[22]

[21] See Appendix IV for a description of the Principles.

[22] Ethos website, http://www.ethosfund.ch/e/ethos-foundation/ethos-foundation.asp, (18.05.2012).

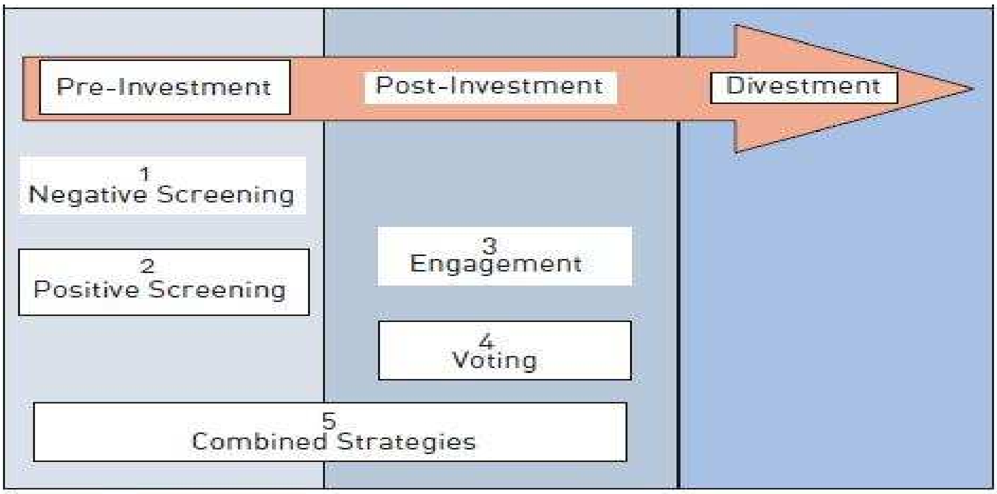
Lastly, mention should be made of the UNPRI's "Engagement Clearinghouse". This is a forum designed to help signatories to draw the attention of other shareholders to specific issues and promote collaborative actions. It enables them to share information about collaborative engagement activities they are conducting, or would like to conduct.[23]

Main challenge

The parties have to reach an agreement before engaging with the companies. It can therefore be a time-consuming approach, especially if the initiative is conducted by a large number of participants.

3.6. Combining strategies

Figure 2. SRI strategies in the lifetime of an investment process



Source: Eurosif

A
s a logical development, most investors use a mix of the different strategies listed here. It is accepted that these strategies are not mutually exclusive: rather, they are seen as complementary. As one can see in figure 2. (Eurosif, 2004-05, p. 18), these strategies address SRI issues at different moments in the lifetime of the investment process. Most investors use a mix of these strategies. For example, it is common to see an institution first perform a negative screening, in order to avoid sectors in which it does not want to invest. Then, there is a positive screening phase, quite often a "best-in-class", to identify the "champions" in each sector. And once the investor has invested in the companies, it engages with them on an ongoing basis.

Main challenge

Combining strategies is definitely a resource-consuming approach, involving the need to provide large engagement and/or analyst teams. Since it encompasses different strategies, it has to deal with their respective downsides, as well as the benefits.

[23] UNPRI Clearinghouse website, http://www.unpri.org/areas-of work/collaborations/ (19.09.2012).

4. Good practices

In the following pages, an examination will be made of five case studies, ranging from Thailand, Brazil, the United States, Norway, and South Africa, each of which will provide concrete examples of what a socially responsible pension fund can do. It will be seen that elements of the business case, as well as the concepts introduced above, are found in the case studies.

4.1. Government Pension Fund (Thailand)

The Government Pension Fund (GPF) is one of the largest institutional investors in Thailand. It operates as a body autonomous of the Ministry of Finance.[24]

4.1.1. The rationale behind responsible investment

As one of Thailand's largest funds and a long-term investor, the GPF plays a central role in the development of the Thai economy. The Fund considers the introduction and promotion of good investment practices in Thailand to be one of its main goals. It also believes that the development of a sustainable pension system is good for fiscal management, that it will help strengthen the Thai economy, and that its investment decisions will have a dual impact on both share prices and corporate and market practices.

In order to ensure its own credibility, GPF believes that it must guarantee that its own operations follow high standards of corporate governance. In this respect, the Fund sees the benefits of good corporate governance as being bi-dimensional – with respect to both the Fund's own performance and its role as a responsible investor, which takes into account companies' corporate governance practices in its investment decisions. The GPF's investment policy is based on a series of guidelines, and its policy statements include CSR guidelines (including PRI principles), pension fund governance, proxy voting guidelines, and governance rating methodology.

4.1.2. Responsible investment approach

The GPF combines strategies in its approach to responsible investment by first practising negative screening, excluding companies if any of the following activities are evident:

- Pollution and environmental problems;
- Breaches of intellectual property law;
- Impediments to good morals and customs;
- Social problems and the endangerment of public security;
- Questionable accountability.

In an example of the GPF's strategy, the Fund does not invest in the alcoholic beverages sector as this runs counter to the values of most Thai people and the GPF does not wish to offend its beneficiaries.

[24] Information provided in this section comes from the UNPRI website, http://www.unpri.org/; the Government Pension Fund website, http://www.gpf.or.th/Eng/what.asp; and *Responsible investment in focus: How leading public pension funds are meeting the challenge* (UNEP FI, 2007).

The GPF also assesses the corporate governance of the companies it invests in according to a rating system inspired by the OECD Principles of Corporate Governance. The rating system's criteria include shareholder rights, board quality, accountability, disclosure and transparency. In line with its CSR Guidelines – which follow the OECD Guidelines for Multinational Enterprises – and the UNPRI, the GPF has extended its responsible investment focus to include performance on environmental and social issues.

The GPF votes at the general meetings of Thai companies in accordance with its corporate governance and voting guidelines, in accordance with US corporate governance best practice and the OECD Principles of Corporate Governance. It also practises ongoing engagement by asking questions at companies' annual general meetings, participating in seminars, brainstorming sessions and sitting on various working-group committees.

In addition, the GPF works with other investors such as insurance companies to encourage improvements at the level of both individual companies and markets. It signed the UNPRI when they were launched, as it was a member of the investor group that created them in the first place.

4.2. PREVI (Brazil)

PREVI is the employees' pension fund of the state-owned Banco do Brasil. It is the largest pension fund in Latin America.

4.2.1. The rationale behind responsible investment

PREVI views companies as potential agents of change through which social and environmental issues can be addressed and contributions made to development and sustainable growth in Brazil. It sees corporate governance as a set of practices that optimize company performance, protect investors, employees, creditors and other interested parties, and facilitate the company's access to the capital markets, while providing the company with a framework that clearly defines goals and ways to achieve them.

The following box indicates PREVI's rationale for the environmental and social aspects of its investments (UNEP FI, 2007, pp. 62–63).

Box 3. PREVI's rationale when considering environmental and social aspects of its investments

PREVI is a long-term investor and as such, must be concerned with the sustainability of its investments. Consistent returns over a long period are more important than short-term returns. Therefore, PREVI favours the establishment of an environment that is conducive to sustainable development.

PREVI's main objective is to assure the financial security of its members at the end of their working life. PREVI believes that it is in the interest of its members to retire into a world that is characterized by a healthy environment and a healthy society.

PREVI is the largest institutional investor in Brazil. Because of its size, positioning and history, its decisions significantly influence other pension funds, companies and the Brazilian financial market. PREVI recognizes its leadership role in the Brazilian economy and accepts the responsibility that comes with it.

PREVI must be attuned to the concerns and demands of the society in which it operates. This society tends to be increasingly demanding in terms of the responsible performance it expects from organizations and companies.

PREVI believes that ESG issues are important to determine the capacity of a company to generate and to preserve value over the long term. Inversely, companies that do not properly manage social and environmental issues are more exposed to risk and may potentially face value destroying consequences.

PREVI believes that it is not only possible but also necessary to combine the pursuit of sound financial returns with social and environmental responsibility.

PREVI believes that the adoption of a social and environmental policy for all its activities will not only help PREVI improve as an institution, but also achieve its objectives.

PREVI's management is preoccupied with the positive sustainable development of the Brazilian society and as such, believes that proper consideration needs to be given to ESG issues.

Source: Information provided below comes from the PREVI website:
http://www.previ.com.br/portal/page?_pageid=57,1&_dad=portal&_schema=PORTAL; and UNEP FI (2007).

4.2.2. Responsible investment approach

PREVI uses various strategies in fulfilling its commitment to responsible investment practices. It votes on shareholder resolutions in accordance with its corporate governance code, which outlines the expected behaviour and practices of invested companies. The code also includes a focus on areas such as transparency, disclosure and accountability. It recommends that companies disclose their initiatives, sustainability and social responsibility practices, in accordance with guidelines such as the Global Reporting Initiative. [25]

PREVI frequently assigns a representative to attend the board meetings of companies in which it has significant holdings and PREVI also meets with board representatives to raise any concerns it might have and discuss possible risks and areas for improvement. In 2007, PREVI employed 28 people to undertake this activity internally.

PREVI also invests in companies that are both profitable and socially responsible, and which promote actions to the benefit of the communities in which they operate. PREVI seeks to integrate ESG issues into its investment decision processes and is a member of the following initiatives: The Brazilian Association for Pension Funds (Abrapp), the Brazilian Institute for Corporate Governance (IBGC), the ICGN, the CDP, and the UNPRI.

4.3. CalPERS (United States)

CalPERS is the largest public pension plan in the United States and the third largest in the world in terms of assets under management. It provides a variety of programmes and services to the State of California’s public employees, retirees, and their families. [26]

4.3.1. The rationale behind responsible investment

CalPERS is recognized as a leader in the area of corporate governance. Its approach can be described as the prudent exercise of ownership rights with the aim of increasing shareholder value while minimizing risk. The rationale is based on the idea that shareowners collectively have the power to influence corporations.

4.3.2. Responsible investment approach

CalPERS exercises its shareholder rights through two main approaches: voting and engagement. In addition to conducting its own analysis, CalPERS considers advice from proxy voting agencies when making voting decisions. It also submits its own resolutions and encourages other shareholders to support proposals on corporate governance issues. CalPERS also undertakes long-term engagement regarding its investments, engaging with companies on issues which may pose a risk to the value of its portfolio. In the framework of its engagement activities, CalPERS runs executive compensation programmes and advocates majority voting for corporate directors and environmental corporate governance.

[25] See Appendix VI.

[26] Information provided below comes from the CalPERS website http://www.calpers.ca.gov/; CalPERS corporate governance website, http://www.calpers-governance.org/; Cramer and Karabell (2010); and UNEP FI (2007).

CalPERS also runs a programme called "Corporate Governance Focus List," which identifies poorly performing companies within its domestic portfolio. These companies are selected on an annual basis and are targeted for engagement on corporate governance. This engagement process gives them an opportunity to make changes. This programme has led to positive results, and research shows that CalPERS' actions in seeking to influence corporate governance can lead to performance improvements over time. According to Cramer and Karabell (2010, p. 142) "one indication of its effectiveness is that companies do not usually appear on the list more than once."

CalPERS has adopted screening strategies as part of its policy on equity investment in emerging markets. This policy sets minimum acceptable standards for investment in order to control risk and enhance returns. CalPERS allows investment managers to invest in companies listed in countries that meet prudent market standards and outweigh risk. The threshold is a mix of scores raging from one to three for political stability, transparency, labour practices (including adherence to the ILO Conventions and principles), market regulation, etc. Once the draft list is placed on its website, countries (and other interested parties) can consult it. They can review the report and provide feedback or additional information. CalPERS recommends that companies active in emerging markets formalize a reporting mechanism, such as the Global Reporting Initiative (GRI), through which their practices can be disclosed to stakeholders.

CalPERS also uses legal action and advocacy when necessary. It also undertakes "specialist mandates" and it has a track record of mobilizing financial capital and exploring ways in which it can combine capital market investment with public purpose. By investing in three different asset classes with environmental considerations, CalPERS' goals are to achieve positive financial returns while promoting energy savings, sustainable growth and sound environmental practices. This can be considered as a kind of positive screening.

Finally, it is important to note that CalPERS takes part in several collaborative initiatives such as UNPRI, Carbon Dioxide Project (CDP), and International Corporate Governance Network (ICGN).

4.4. Norwegian Government Pension Fund - Global (Norway)

The Norwegian Government Pension Fund - Global (NGPF-G) is a sovereign fund that invests proceeds from Norway's petroleum industry. It is closely tied to the government and the Ministry of Finance is responsible for the management of the Government Pension Fund, which is comprised of two funds: the Government Pension Fund Global and the Government Pension Fund Norway. The NGPF-G is managed by the Norwegian Central Bank (Norges Bank). [27]

4.4.1. The rationale behind responsible investment

In 2001, the Norwegian Government established a dedicated "Environment Fund" for a three-year trial period to invest in companies in emerging economies that met environmental performance criteria.

The Graver Committee was appointed in 2002 to develop an approach to ethical investment for the Fund and to propose ethical guidelines. The Committee stressed that sustainable economic development was essential for a long-term return on investment. In

[27] Information provided below comes from the Norwegian Ministry of Finance website http://www.regjeringen.no/en/dep/fin.html?id=216; Richardson (2011); and UNEP FI (2007).

addition, the Committee advised that the Fund should avoid complicity in violation of ethical norms linked to human rights and to the environment.

Ethical guidelines for the management of the Fund have been implemented since 2004. In the same year, the Fund's Council of Ethics took charge of evaluating potential investments for their compliance. It submits recommendations to the Ministry of Finance, which makes final decisions on the exclusion of companies. The NGPF-G's current ethical guidelines were adopted in 2010 following a major review, which concluded that the guidelines had proven to be generally robust. However, the review recommended more engagement with companies, particularly with those under scrutiny.

4.4.2. Responsible investment approach

The Environment Fund uses a positive screening approach in addressing its mission to serve as a mechanism for supporting sustainable development. At the same time, the Graver Committee has focused on exclusion, a negative screening strategy, as a way of distancing the Fund from practices and behaviours deemed unsatisfactory.

The 2010 guidelines continue the exclusion mechanism while strengthening the use of engagement strategies. The negative screening criteria stipulate that a company will be screened out if it contributes to or is responsible for:

- "Gross or systematic violation of human rights, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation;
- Gross violations of individual rights in war or conflict situations;
- Severe environmental degradation;
- Gross corruption;
- Other particularly serious violations of fundamental ethical norms" [28]

In addition to these criteria, the Fund may also consider positive actions taken by a company to safeguard the environment, and companies excluded may be readmitted to the Fund if their behaviour improves. Engagement can be used before excluding a company.

Given its extremely large portfolio, it is not possible for the Council of Ethics to scrutinize every company and it increasingly relies on external consultants to monitor companies and provide it with monthly reports, which it then uses for selecting firms for investigation. It also uses third parties to implement its engagement policies.

Finally, it is important to mention that the NGPF-G takes part in several collaborative initiatives, including the UNPRI.

[28] Norwegian Ministry of Finance, *The Report from the Graver Committee*, 2003, http://www.regjeringen.no/en/dep/fin/tema/statens_pensjonsfond/ansvarlige-investeringer/graverutvalget/Report-on-ethical-guidelines.html?id=420232 (09.04.2012).

4.5. Government Employees Pension Fund (Republic of South Africa)

Established in 1996 after the consolidation of various public sector funds, the Government Employees Pension Fund (GEPF) is a defined benefit pension fund with a core business of managing and administering pensions and other benefits for government employees in South Africa.[29] With more than 1.2 million active members, around 318,000 pensioners and beneficiaries, and assets worth R1 trillion, the GEPF is Africa's largest pension fund.

4.5.1. The rationale behind responsible investment

The GEPF states that its mission is to improve the financial security of government employees and pensioners and to effectively manage and invest member assets in order to meet current and future liabilities. As part of this mission and of particular importance to SRI, the GEPF believes that implementing a strategy to ensure the integration of ESG issues in investment decisions and ownership practices, can improve its ability to achieve its objectives.

The Fund considers the following ESG issues to be particularly important in the South African investment context:

- Transformation and Broad-Based Black Economic Empowerment (B-BBEE) opportunities and challenges;
- Energy security risks;
- Water security risks;
- HIV and AIDS;
- Human capital and skills development management.

It is also of the opinion that a lack of management of ESG issues can cause securities and other assets to lose value. By this token, an appropriate approach to managing ESG issues can enhance value and provide competitive advantage. As an investor, the GEPF believes that the integration of ESG issues in investment decisions can help to create more ethical companies.

The GEPF's investments have four characteristics that make them particularly sensitive to ESG issues: the Fund is a long-term investor; its investments are broadly diversified; the majority of the portfolio's components are managed through a passive investment strategy; and the portfolio's size requires a responsibility to consider its actions and their consequences carefully. The Fund also feels that it has a responsibility to signal concerns and encourage change in ESG-related areas. In order to do so, the Fund can exercise its ownership rights, as it has the leverage to communicate with and influence the companies in which it invests.

Finally, the GEPF believes it has a role to play in addressing some of South Africa's pressing socioeconomic challenges, namely poverty, extreme economic inequality and the need for further B-BBEE. The GEPF feels that its participation in addressing these challenges will be beneficial for the economic and social health of South Africa.

[29] Information provided below comes from the GEPF website: http://www.gepf.gov.za

4.5.2. Responsible investment approach

The GEPF has various strategies to put its responsible investment practices into practice, thereby adopting a “combining strategies” approach. The GEPF uses a positive screening strategy to incorporate ESG issues into its investment decisions. An example of this is the way in which the Fund devotes a portion of its assets to investments that address socio-economic imbalances, particularly through financing B-BBEE initiatives. However, the GEPF’s main strategy is engagement and it engages in ongoing dialogue with companies as necessary. In addition, the Fund exercises its voting rights at annual general meetings and also participates in other formal and informal active ownership activities. GEPF is also a founding signatory of the UNPRI.

5. Conclusion

The aim of the paper is to review concepts and international experience of SRI practices, especially among pension funds. It starts by establishing the business case for socially responsible investment, and then shows that the rationale behind SRI is made up of various components: ethical reasons, fiduciary duty, universal ownership, financial performance and risk management, and public attention.

After having established the business case for SRI, the paper examines the different strategies that can be adopted to achieve this. First, it studies the negative screening strategies, also known as “exclusion strategies.” This kind of strategy allows investors to screen out companies, sectors or countries in which they do not want to invest. Screening can be carried out in accordance with specific and common themes, such as tobacco, pornography, weapons, etc., or it can be conducted in relation to international norms and standards. The paper also refers to the way in which United Nations values and the ILO’s “Decent Work” approach provide relevant criteria regarding labour and social protection standards for screening.

The paper then turns to positive screening, considered as an inclusion strategy. The most common form of positive screening is the “best-in-class” strategy, which consists of selecting the best performing companies amongst their peers. “Pioneer screening” is another kind of positive screening: it includes companies that are deemed to be pioneer in their area, therefore adopting a more “thematic” approach.

The third major SRI strategy is engagement, whereby investors establish a dialogue with the companies in which they invest or want to invest. This dialogue can take different forms including voting and ongoing engagement.

Two further strategies include integration and collaborative initiatives. Integration is about combining financial and non-financial analysis, thus providing a more encompassing overview of the companies’ performance. Collaborative initiatives are defined as activities conducted collaboratively by multiple parties to gain leverage and minimise costs and risks. The most common collaborative initiative is the UNPRI.

Finally, since these strategies are not mutually exclusive, investors have the opportunity to combine strategies. Combining strategies is a widespread approach, as established through the five case studies introduced in this paper. The study looks into both the rationale for responsible investment and the strategies of the five funds.

5.1. The future of SRI

This paper has introduced the main concepts that should be taken into account when applying a socially responsible investment strategy.[30] The question about the future of SRI amongst pension funds still remains. The Allianz report (Allianz Global Investors, 2010) provides an insightful analysis, noting that the most important reason for SRI still seems to be reputation; the argument that SRI also yields higher returns than non-SRI is not so widespread. As a result, negative screening is still strongly represented among the various screening strategies.

[30] Additional information on ways to set up a SRI fund can be found in Appendices I and II.

It therefore seems obvious that SRI will become a major trend among pension fund investment strategies. Even if the prevailing motivations are still negative selection and the prevention of reputational damage, the case studies demonstrate that engagement and positive screening have played an increasing role in the investment strategies of the funds considered. A further examination of the way in which this trend evolves would contribute to the identification of good practices and to the creation of more efficient methodologies. It is impossible to predict exactly how markets will behave over the next two decades - but one thing is certain. It is no longer possible for a leading pension fund to ignore the recent and current developments in the field of SRI.

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Appendices

I. What is the pathway to integrate CG/SEE issues into a pension plan?

In 2005, Eurosif – the pan-European network and think-tank whose mission is to develop sustainability through European financial markets – published the following suggestions for trustees and board members (Eurosif, 2004-05, p. 34):

1st STEP: Discuss

- Encourage other trustees in your plan to read the Eurosif toolkit and use other means to become familiar with SRI.
- Encourage discussion of SRI at trustee meetings.
- Find out about other existing SRI activities by pension funds in your country. Talk to your national SIF.
- Your plan, or Union, should be in a position to provide training on investment, corporate governance and SRI. Require it.
- Discuss legality with lawyers at your plan.
- Discuss existing possibilities with your current Asset Managers as well as other specialists in the market. Find out about their voting practices and records.
- Inquire about SRI collaboration possibilities, such as collaborative engagement or voting: inquire within your plan, within organisations your plan is associated with (such as NAPF, SCGOP, etc.), with other plans or organisations.

2nd STEP: Push

- Use your power as a trustee to push for implementation of an SRI policy at your plan.
- Seek commitment from other trustees and from the Executive Board.

3rd STEP: Decide

- Decide which CG/SEE issues are most relevant to your plan. This could be a means to approach Asset Managers and see how they can fulfil your needs.
- Based on your discussions, decide what SRI strategies best suit your plan.
- Based on practical and cost issues, decide whether to go it in-house or using external suppliers.
- Decide which amount of the plan’s assets to initially allocate to your strategy. This could mean:
    - running a test SRI programme by creating a fund;
    - running a test SRI programme by buying into existing funds;

– joining collaborative initiatives.

- In a Defined Contributions scheme, decide to offer SRI allocation options to members.

4th STEP: Draft

- Participate in drafting or redrafting your pension plan's Investment Principles or Code of Prudential Investment. Make sure that it specifies the importance of CG/SEE issues.

- Participate in drafting or redrafting your plan's Voting Policy.

- Communicate these documents to your asset managers and make them public.

5th STEP: Follow-up

- Ensure that you receive proper reporting and information from your Asset Managers on fund performance, engagement records, voting records and policy choices.

- Review performance of asset managers.

- Review policy in light of experience: step up to the next level.

II. How you can integrate SRI into your investment principles

In 2005, Eurosif published the following suggestions to implement SRI into the pension funds' investment principles (Eurosif, 2004-05, p. 32):

- Amend the governing documents of the pension plan to provide explicit direction to pension trustees to engage in socially responsible investment practices.

- Specify your expectations and commitments from/to companies as a shareholder in your governing documents.

- Develop a Statement of Investment Principles and Guidelines that include guidelines for socially responsible investment. It is advisable to include the following points in drafting the guidelines:

  – Explicit authorisation to consider non-financial criteria;

  – Appropriate diversification levels in accordance with any statutory or common law requirements;

  – Discretion for trustees to not apply socially responsible investment guidelines where it would result in harm to plan beneficiaries.

- Develop and follow written procedures for developing investment policies and guidelines, selecting investments, advisors and agents, consulting with beneficiaries, and making other investment-related decisions.

- Establish procedures for the implementation and timely review of investment policies.

- Ensure safe risk/return and diversification levels.

III. United Nations Global Compact [31]

The Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights;
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development;
- The United Nations Convention Against Corruption.

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

[31] United Nations Global Compact website, http://www.unglobalcompact.org (28.03.2012).

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

IV. United Nations Principles for Responsible Investment [32]

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements;
- Support development of ESG-related tools, metrics, and analyses;
- Assess the capabilities of internal investment managers to incorporate ESG issues;
- Assess the capabilities of external investment managers to incorporate ESG issues;
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis;
- Encourage academic and other research on this theme;
- Advocate ESG training for investment professionals;

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles;
- Exercise voting rights or monitor compliance with voting policy (if outsourced);
- Develop an engagement capability (either directly or through outsourcing);
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights);

[32] United Nations Principles for Responsible Investment website, http://www.unpri.org (28.03.2012)

- File shareholder resolutions consistent with long-term ESG considerations;
- Engage with companies on ESG issues;
- Participate in collaborative engagement initiatives;
- Ask investment managers to undertake and report on ESG-related engagement.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative);
- Ask for ESG issues to be integrated within annual financial reports;
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact);
- Support shareholder initiatives and resolutions promoting ESG disclosure;

4. We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs);
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate);
- Communicate ESG expectations to investment service providers;
- Revisit relationships with service providers that fail to meet ESG expectations;
- Support the development of tools for benchmarking ESG integration;
- Support regulatory or policy developments that enable implementation of the Principles

5. We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning;
- Collectively address relevant emerging issues;
- Develop or support appropriate collaborative initiatives;

6. We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices;
- Disclose active ownership activities (voting, engagement, and/or policy dialogue);
- Disclose what is required from service providers in relation to the Principles;
- Communicate with beneficiaries about ESG issues and the Principles;
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'[33] approach;
- Seek to determine the impact of the Principles;
- Make use of reporting to raise awareness among a broader group of stakeholders.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

[33] The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

V. Cumulative stock market performance of value-weighted and equal-weighted portfolios

The following figures are extracted from Eccles; Ioanniou; Serafeim (2011, p. 54)

Figure 3. Evolution of 1$ invested in the stock market in value-weighted portfolios

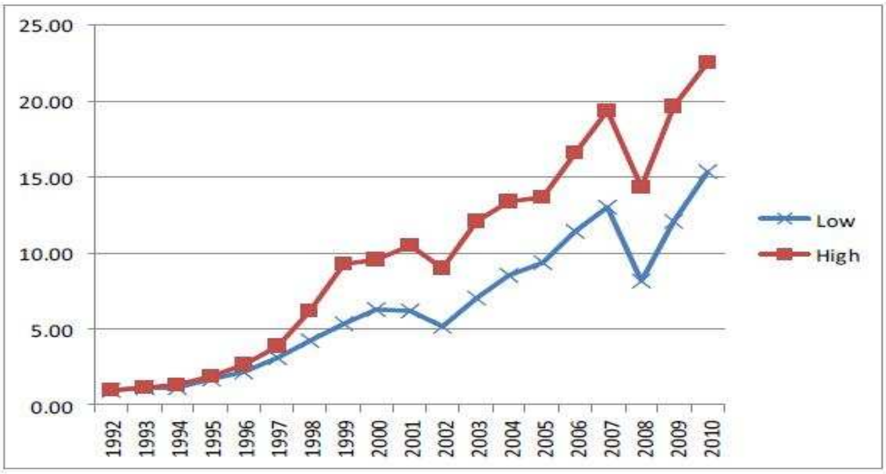
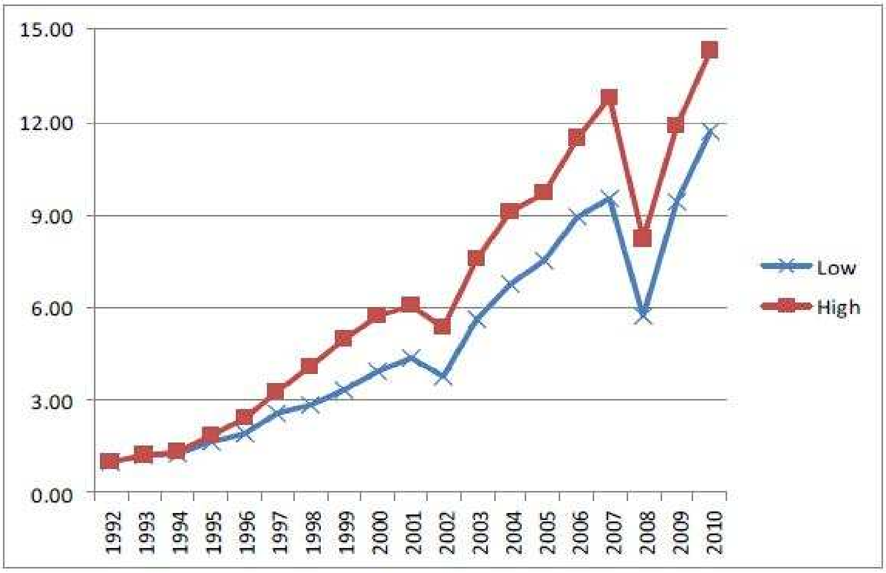


Figure 4. Evolution of $1 invested in the stock market in equal-weighted portfolios



N.B. “Low” and “High” stand respectively for “High Sustainability” and “Low Sustainability”.

VI. Global Reporting Initiative Quick Facts

The Global Reporting Initiative framework can be a relevant tool for any organization wishing to introduce a SRI approach. Indeed, it provides comprehensive guidelines on sustainability reporting that can be used to assess the performance of companies. In this Appendix, we shall focus on the social dimension, and more precisely on the "Labour practices and decent work" aspect. [34]

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all organizations with a sustainability reporting framework, widely used around the world. The framework enables all organizations to measure and report their economic, environmental, social and governance performance.

GRI's is a multi-stakeholder, network-based organization. It is headquartered in Amsterdam, the Netherlands. GRI has Focal Points in Australia, Brazil, China, India and the United States. GRI has also established partnerships with UNEP, the UN Global Compact, the OECD, the International Organization for Standardization (ISO) and others.

From 1 January to 31 December 2010, the number of sustainability reports registered on the GRI Reports List increased by 22 per cent. The largest growth by location was in Brazil, with a 68 per cent increase in registered reports compared to 2009. In 2011, more than 2600 organizations published a GRI report.

The Guidelines

The Guidelines serve as a framework for reporting on an organization's sustainability performance. They consist of Reporting Principles (Content and Quality), Reporting Guidance, and Standard Disclosures. The Standard Disclosures part of the Guidelines calls upon the organization to provide information on: Strategy and Analysis; Organizational Profile; Report Parameters; Governance, Commitment, and Engagement; Management Approach and Performance Indicators. The Performance Indicators are organized into three categories: Economic, Environmental and Social. The Social dimension is broken down into four categories:

- Labour practices and decent work;
- Human rights;
- Society;
- Product responsibility.

Depending on the Application Level the organization decides to use, it will have to provide more or less of the information mentioned above.

Application Levels

There are three different Application Levels: A, B and C. Organizations are required to assess their own Application Level. Application Levels indicate the extent to which the

[34] Information provided below comes from the Global Reporting Initiative website http://www.globalreporting.org; and from the GRI G3.1 Sustainability Guidelines.

Guidelines have been applied in the report. GRI offers a service for organizations to have their Application Level checked.

In addition to the GRI Application Level Check, it is recommended that organizations seek external assurance. The status of Plus - "+" - can be added to an Application Level when the report has been externally assured.

Financial Services Sector Supplement

The Financial Services Sector Supplement (FSSS) provides organizations in the sector with a tailored version of GRI's Sustainability Reporting Guidelines. It includes the original Guidelines. The additional commentaries and Performance Indicators, developed for the sector, focus on the most important issues for organizations in the financial services sector.

Issues covered are:

- Product portfolio;
- Audit to assess the implementation of environmental and social policies;
- Active ownership;
- Community investment strategies and programmes;
- Performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste);
- Policies and practices on accessibility to financial services;
- Fair design and sale of financial products;

FSSS and Application Levels

All GRI reports published by organizations in the financial services sector are required to use the FSSS to be declared as Application Level A. For level B and C, organizations can incorporate FSSS indicators to make up the required number of indicators.

Social: Labour practices and decent work ndicators

Aspect: Employment

Performance Indicators:

LA1: Total workforce by employment type, employment contract, and region. (Core);

LA2: Total number and rate of employee turnover by age group, gender, and region. (Core);

LA3: Benefits provided to full-time employees that are not provided to temporary or part-time;
employees, by major operations. (Additional);

Aspect: Labor/Management relations

Performance Indicators:

LA4: Percentage of employees covered by collective bargaining;
agreements. (Core);

LA5: Minimum notice period(s) regarding significant operational changes;
Including whether it is specified in collective agreements. (Core);

Aspect: Occupational health and safety

Performance Indicators:

LA6: Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety; programmes. (Additional);

LA7: Rates of injury, occupational diseases, lost days, and absenteeism, and number of work; related fatalities by region. (Core);

LA8: Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases; (Core);

LA9: Health and safety topics covered in formal agreements with trade unions. (Additional);

Aspect: Training and education

Performance Indicators:

LA10: Average hours of training per year per employee by employee category. (Core);

LA11: Programmes for skills management and lifelong learning that support the continued; employability of employees and assist them in managing career endings. (Additional);

LA12: Percentage of employees receiving regular performance and career development; reviews. (Additional).

Aspect: Diversity and equal opportunity

Performance Indicators:

LA13: Composition of governance bodies and breakdown of employees per category; according to gender, age group, minority group membership, and other indicators of diversity. (Core)

LA14: Ratio of basic salary of men to women by employee category. (Core)