INCORPORATING ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS INTO INVESTING:

A Survey of Investment Consultant Practices

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Ceres

ABOUT CERES

Ceres is a nonprofit organization advocating for sustainability leadership. It mobilizes a powerful network of investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy. Ceres also directs the Investor Network on Climate Risk (INCR), a network of 100 institutional investors with collective assets totaling more than $10 trillion.

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Introduction

Members of the Investor Network for Climate Risk (INCR) have long recognized the role of Investment Consultants as “gatekeepers” to the integration of environmental, social and governance (ESG) considerations in investment decision-making. This is particularly true for General Consultants, who supply the research and recommendations used by most institutional investors in adopting asset allocation models, risk and benchmarking metrics, investment strategies, and in selecting secondary consultants and asset managers for individual investment portfolios. Except for a small group of individuals at a few firms, the investment consultant community has not deeply engaged in issues of environmental and social sustainability (the E and S pieces of ESG risks). A 2009 Investment Consultants Survey by the Social Investment Forum Foundation, found that of 38 major Consulting firms surveyed, half (19) reported having no staff or no full-time staff dedicated to ESG issues.[1]

In January 2012, INCR, a network of more than 100 pension funds, asset managers and state treasurers (with cumulative assets under management of more than $10 trillion), with support from Ceres, committed to engaging with the investment consultant community to develop shared best practices for integrating ESG considerations into investment decision-making.

The report that follows reflects the first phase of Ceres' and INCR members' work with the investment consultant community both to understand current investment consultant practices around ESG factors and to identify areas for collaboration in addressing ESG issues in the investment process.

1 *Investment Consultants and Responsible Investment: Current Practice and Outlook in the United States*, (Social Investment Forum Foundation, 2009).

Methodology

Because fifty top investment consulting firms advise more than 95% of the assets held by institutional investors worldwide, Ceres staff and a working group of INCR members began by looking at a small number of these top investment consultants to both understand the range of investment consultant practices and provide direction for future work.[2] Ceres selected a group of fourteen consultants serving a range of U.S.-based clients including public pension funds, Taft-Hartley pension funds (labor pensions), religious pension funds, high net worth individuals and foundations and other "mission-oriented investors." The consultants' client bases included large and small investors, those with strong values-based investment policies and those with primarily passive investment strategies. While these fourteen firms do not speak for the consultant industry or cover all of the varieties of services provided or clients served, they are a "representative" sample generally reflecting the variety of practices in the consultant industry.

Thirteen of the fourteen firms chosen for study agreed to in-depth interviews. Of these, four are signatories to the UN Principles for Responsible Investment (PRI). Six were large firms (over $500 billion in assets under advisement ["AUA"]). Five were global firms (four of the global firms were large and one was a medium sized firm—$20-$500b in AUA). Ten of the thirteen were generalist consultants and the remaining three specialty consultants focused primarily on alternative investments or private markets.

While these fourteen firms do not speak for the consultant industry or cover all of the varieties of services provided or clients served, they are a "representative" sample generally reflecting the variety of practices in the consultant industry.

Ceres conducted background research on all fourteen identified consulting firms, examining their published research reports and press statements, analyzing the quantity and types of speeches and public presentations made by firm principals, and reading news stories looking for evidence about their beliefs about how ESG factors impact long-term portfolio value or short-term pricing of assets. Ceres also looked for evidence of each firm's staff expertise on ESG issues, specialized ESG products or services, or dedicated research or other special projects on ESG related issues.

After reviewing the consultants' public profiles, Ceres requested interviews with the fourteen firms. Thirteen of the fourteen firms agreed to hour-long interviews exploring their ESG beliefs, strategies and practices, including the firm's investment philosophy, how ESG factors are integrated into asset allocation and asset/liability studies, risk budgeting, and portfolio construction; how ESG factors are integrated into manager evaluation and selection; and some questions about the firms' internal ESG expertise and external resources for implementing their strategic vision.

2 Throughout this report, we will refer to "Ceres" as a shorthand for the team of Ceres staff, project consultant Sarah Cleveland and INCR working group members who worked together on this project.

Findings

CONSULTANTS FELL INTO TWO DISTINCT CATEGORIES WITH RESPECT TO THEIR ESG BELIEFS

When asked open-ended questions about their ESG beliefs, participating consultants divided into two distinct categories: six of the thirteen said ESG factors can have an impact on long term risk and return in all or nearly every asset class, and the other seven either said that they don't believe these factors matter to long term risks or returns or gave a "relative answer" indicating that they think ESG factors matter to some clients, but not to others. Many of those in the second category treat ESG as a "niche" issue and focus on ESG risks or opportunities only when their clients demand ESG services (like specialized proxy voting guidelines or asset manager searches for socially or environmentally screened portfolios). These consultants believe that investments can have environmental impacts and social benefits (or create social harms), but they view these issues as separate from financial risks and returns. They tended to look at ESG factors as "double bottom line" initiatives for investors who want to achieve both financial returns and environmental and social benefits.

Comments by the six firms that said that they believe ESG factors impact long-term risk and return of portfolios included:

- *"It makes good business sense; we can see economic and quantifiable factors"*
- *"Yes, we do believe it impacts long-term risk and return yet it's not stated in our materials"*
- *"Our objective is to create the best investment programs and have ESG be a part of that"*
- *"Early adopters are those that make money"*

Interestingly, the consultants who clearly articulated the belief that ESG factors matter to long term financial risks and returns tended to be global firms serving non-U.S. clients as well as U.S.-based clients and, not surprisingly, were more likely to be PRI signatories.

Of those whose beliefs about the impact of ESG factors were ambiguous, unclear or not universally accepted across the firm, some comments included:

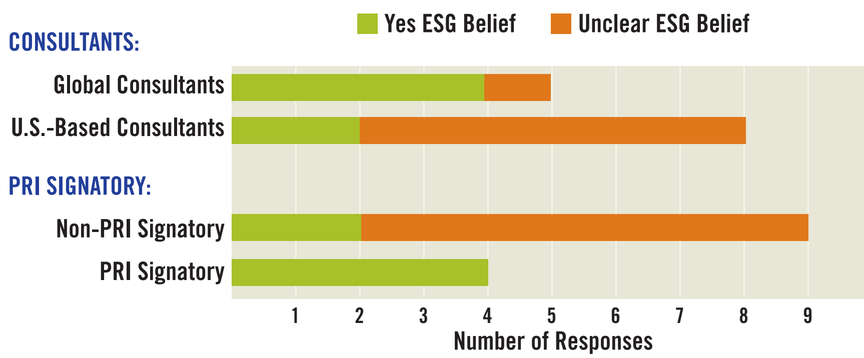
- *"Yes, I do believe that ESG factors matter, yet it is not the company view"*
- *"ESG is important but not necessary"*
- *"We see managers actively integrating ESG but they are not identified as an ESG manager"*
- *"We are focused more on SRI ('socially responsible investing') than ESG"*
- *"It is not universally adopted across the firm"*
- *"We are agnostic on ESG"*
- *"It's not our job to articulate a belief, our job is to do unbiased analysis that will help our clients make decisions"*

Interestingly, the consultants who clearly articulated the belief that ESG factors matter to long term financial risks and returns tended to be global firms serving non-U.S. clients as well as U.S.-based clients and, not surprisingly, were more likely to be PRI signatories.

Of the five global consultants interviewed, four clearly expressed the belief that ESG matters to long-term risks and returns. Of the eight U.S.-based consultants, only two stated that they believe ESG impacts long-term risk and return.

All four PRI signatories stated a belief that ESG matters to long-term risks and returns. Of the nine non-PRI signatory firms, only two stated a similar belief.

Consultant Beliefs about the Investment Impacts of ESG Issues



When asked about their perception of client demand for ESG services, seven of the thirteen firms interviewed indicated that they see an increasing client demand for ESG expertise and integration of ESG factors into all of their consulting services. All five global firms perceived increasing client demand—especially in regions including the U.K., Continental Europe and Australia. Five of the firms (four global and one U.S.-based) who perceived increased client demand for ESG services also articulated a clear belief that ESG factors matter to long-term financial risks and returns.

We cannot say for sure whether consultant beliefs about ESG followed the demands of their clients or whether a consultant who believes ESG matters is more likely to have the perception of client demand for ESG services. But it is clear that there is a correlation between perceived client demand and ESG beliefs. Likewise, the fact that consultants who articulated clear beliefs that ESG factors matter to financial risks and returns are more likely to be PRI members could be either a cause or an effect. One of the consultants interviewed noted that because they made an express decision not to offer "discretionary" services (services in which they assume the fiduciary duty for investment decisions such as voting the proxies for their clients or selecting asset managers), they would not make statements about their beliefs and would consider it inappropriate to join PRI because this is a decision that should be left to the investor.

If asset owners want to work with a consultant who understands how ESG factors might impact long-term financial risks and returns, they need to ask a range of questions…. These cannot be "check-box" questions, but must probe how the consultant addresses ESG issues for current clients who have articulated investment beliefs about ESG factors….

Importantly, if asset owners want to work with a consultant who understands how ESG factors might impact long-term financial risks and returns, they need to ask a range of questions including whether the consultant is a PRI signatory, whether they are serving global clients (who are more likely to integrate ESG factors into their investment decision-making) and some in-depth questions about how the consultant believes ESG factors impact investments. These cannot be "check-box" questions, but must probe how the consultant addresses ESG issues for current clients who have articulated investment beliefs about ESG factors or if they do not yet have any clients with clear ESG belief statements, how they would help a client develop an ESG investment belief statement.

CONSULTANT PRACTICES VARY CONSIDERABLY WITH RESPECT TO ESG SERVICES

Ceres asked consultants about four categories of services:

1) development of investment policies
2) asset manager searches and research
3) asset allocation modeling and recommendations
4) corporate governance and active ownership support.

Only one-third of the consultants interviewed have internal staff dedicated to ESG issues.

Very few firms had significant dedicated resources for ESG analysis. Four of the thirteen firms interviewed have one or more individuals 100% focused on research for searches for ESG oriented asset managers. Several firms had shared roles where a consultant provided ESG expertise for asset manager research as well as managing direct client relationships. In terms of keeping up with trends around ESG integration into investment processes, education at most firms was haphazard, not systematic. Consultants or manager researchers participated in industry conferences or events and followed ESG topics as they "came across their desk."

Only half of the consultants interviewed are actively participating in ESG investor events, or communicating about ESG factors and investing through the media and their own publications.

There are some significant variations in the firms' presence at ESG focused investment conferences or media events. Six of thirteen had a public presence at ESG events. Seven of thirteen published ESG related research reports. The consultants' articulated beliefs about ESG impacts on financial risks were not perfect indicators of their practices. Two firms that regularly send representatives to ESG focused investor meetings or conferences and have published ESG oriented research gave unclear answers about whether they thought ESG factors mattered to long term risks and returns. One firm that did state a clear belief in the importance of ESG in investment practices did not appear to have participated in any public ESG investor events or to have articulated ESG beliefs in media statements.

Only one consultant interviewed explicitly integrates ESG factors into their asset allocation and risk/return modeling.

All thirteen firms interviewed focused on 10, 20 or 30-year time horizons in their investment modeling. Only one, however, explicitly altered inputs into their risk models to account for ESG factors. Other firms stated that ESG inputs into their models are implicit and embedded in their assumptions, market views, macro economic factors, and commodity pricing. Many firms indicated that they do scenario analysis with various economic growth and inflation conditions, and that they may do a scenario analysis that includes climate change assumptions if a client asks for this analysis. Other firms noted that they could not quantify the impact of most ESG factors and therefore could not adjust models accordingly. For example, one consultant outlined its model inputs—gross domestic product growth, inflation and interest rates—and indicated it was not likely to modify its GDP growth inputs to include the possibility a catastrophic drought. After completing the model, the consultant would do scenario analysis, testing a model portfolio under specific economic conditions (high/low inflation, high/low growth) where the water shortage may imply a higher probability of low growth, to see how sample portfolios may be impacted. If the consultant and the client agreed that water shortages could impact the portfolio, the next stage would include looking for products that either mitigate water shortage risks or look for water solutions.

When asked how they handled the trade-offs between long-term and short-term objectives, some consultants mentioned they include a 5-7 year view to reflect an approximate market cycle and also a 30-year view that reflects the actuarial cycle for pension plans.

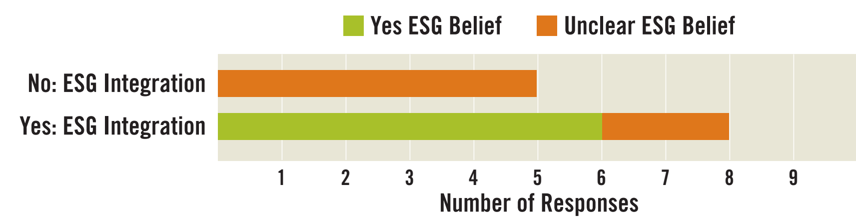
It appears that this area of work—the incorporation of ESG factors into consultants' asset allocation recommendations or their risk/return modeling—is still nascent and only one of the consultants interviewed has sophisticated mechanisms for weighing these factors in their recommendations. While some asset owners may be interested in incorporating ESG factors into their investment decision-making across their portfolios, most consultants are not yet equipped to assist them in constructing a portfolio to account for these factors.

Curiously, two of the firms who claimed that they do believe that ESG factors matter to long-term financial risks and returns do not expressly include questions about ESG expertise or experience in their manager evaluation process.

Two-thirds of the consultants interviewed claim to evaluate asset managers on their ESG expertise, but how ESG figures into their recommendations to clients is unclear.

Some consultants claimed to have expertise helping asset owners select managers with ESG expertise and experience. Eight of the thirteen firms interviewed said they integrate ESG considerations into the manager evaluation process, even though two of these firms stated that they did not believe ESG factors influence long-term risk and return. Curiously, two of the firms who claimed that they do believe that ESG factors matter to long-term financial risks and returns do not expressly include questions about ESG expertise or experience in their manager evaluation process.

Integrating ESG Considerations into the Manager Evaluation Process



Asking whether they included ESG factors in the search process mostly revealed unsystematic and informal processes, making it difficult to determine precisely how ESG issues figured in decisions and recommendations. One firm specifically rated managers on the systems they had in place to evaluate ESG factors in their portfolio management. But the majority of the consultants did not have systematic or formalized ways of looking for ESG expertise or experience. Several firms mentioned that ESG analysis depended on which asset class they were reviewing. Real estate, for example, was mentioned as an asset class where ESG factors have clear, quantifiable evidence of impact on returns. Even firms that had a clear process for ESG evaluation of managers indicated the process may not be adopted across the firm or used when researching U.S.-based managers.

Real estate, for example, was mentioned as an asset class where ESG factors have clear, quantifiable evidence of impact on returns.

More than one consultant raised the concern that there is often a disconnect between analysts/researchers and portfolio managers. The analysts and the researchers may understand ESG issues and their impact while portfolio managers don't.

When asked about their perspective on what set apart managers who were integrating ESG, consultants stated it was the manager's process—whether the manager fully integrated the financial and ESG analyses into one, or whether they had separate analyses. Consultants felt that the majority of ESG managers currently have separate financial and ESG analyses, yet the consultants' assessment of firms "that get it" are those that either have fully integrated the financial and ESG analyses or are in the process of doing so. The consultants interviewed believe that ESG integration is the exception among asset management firms; when asked what percentage of managers assessed by the firm were integrating ESG into their decision-making, most firms estimated less than 10%.

More than one consultant raised the concern that there is often a disconnect between analysts/researchers and portfolio managers. The analysts and the researchers may understand ESG issues and their impact while portfolio managers don't. This may result in a failure to integrate ESG analysis into the investment process.

Most consultants interviewed help clients find an engagement or proxy voting specialist and do not directly assist clients in their shareholder engagements or proxy voting around ESG issues.

We asked consultants how they understood their role in helping clients who wanted to engage the companies they invest in around ESG issues. Most consultants indicated that they would help their clients find a "specialty proxy voting service" if their client asked for it. The one firm that provides discretionary proxy services directly to clients stated they use outside resources and do their own research on behalf of their clients who want ESG services. This firm also has its own proxy voting guidelines.

The majority of the consultants viewed their role as a facilitator to help connect clients with outside firms providing proxy voting and shareholder services. None of the consultants who indicated that they refer clients to outside proxy voting services had specific processes in place to evaluate proxy voting and shareholder services from an ESG perspective before they recommended them to their clients.

CONCLUSIONS FROM THE CONSULTANT INTERVIEWS AND BACKGROUND RESEARCH

From our representative sample of consultants, we conclude that most consultants are not offering or are just beginning to offer ESG services to their U.S. clients because they do not perceive a strong U.S. client demand for ESG integration throughout the investment process. Nor are investment consultants leading their U.S. clients in the process of integrating ESG factors throughout the investment process. If some U.S. investors are demanding ESG integration services from their consultants, they will be hard pressed to find the expertise they are looking for. Some consultants are equipped to assist asset owners in the process of selecting managers with ESG expertise, but even these consultants do not necessarily believe that ESG factors matter to long term financial risk and return.

In order to attract more attention to these issues and to demonstrate client demand, asset owners have to clearly articulate their belief that ESG factors matter to long-term risks and returns.

Some investors will set investment policies (or statements of investment belief) that strive to achieve "double-bottom line" returns with environmental and social benefits at that same time as they achieve financial returns. Other investment policies will clearly express the need to measure the risks and opportunities around ESG factors in every asset class and incorporate those into investment decision-making throughout the portfolio.

A vast majority of the consultants stated that client demand will make ESG integration a priority for their firm.…"if our clients ask for it, we'll develop services to meet the client demands."

A vast majority of the consultants interviewed (ten of thirteen) stated that client demand will make ESG integration a priority for their firm. These firms expressed a willingness to help clients integrate ESG factors into the investment process whether in strategy (asset allocation), portfolio construction (risk budgeting), asset manager selection or shareholder engagement and proxy voting: "if our clients ask for it, we'll develop services to meet the client demands."

Recommendations

Recognizing that ESG integration is not a "one size fits all" practice and that there are no universal "leaders" among the consulting firms that we examined, our research leads us to make recommendations. (Following the recommendations, we have included an appendix that summarizes new research on asset owner statements of investment beliefs.) These recommendations (and the findings that led to them) are made at a point in time (September 2012). We recognize that practices are evolving and change will continue to come unevenly as individual firms adopt new practices in one area of their services and others may more quickly embrace new practices for a single category of clients. Our purpose in making these recommendations is to help asset owners and their consultants begin a collaborative process to establish new practices around ESG integration—practices that will be specific to their unique investment objectives and strategies.

DEFINING ESG INVESTMENT BELIEFS AND ESG INVESTMENT POLICIES

Asset owners and their investment consultants must clearly define the ESG factors that matter to an investor's particular investment strategy. This definition of ESG should be established and articulated in a statement of investment beliefs. (For examples of ESG investment belief statements and a summary of research on this topic, see appendix 1 on page 16). Such a statement of investment beliefs will shape all of the fund's (and the consultants') practices.

Flowing from this statement of investment beliefs, asset owners and their consultants should explicitly include ESG statements in their procurement policies (RFPs or selection criteria), in their investment policies, proxy voting or other governance policies and in all of their ongoing performance reports.

DEVELOPING ESG EXPERTISE

Working together, asset owners, consultants and asset managers need to identify appropriate data sources and analytical tools to get ESG information relevant to their investment strategy.

Asset owners who have a clear expectation that ESG factors will be incorporated into their investments must develop internal expertise and articulate clear expectations regarding the ESG expertise of their investment consultants and asset managers. Working together, asset owners, consultants and asset managers need to identify appropriate data sources and analytical tools to get ESG information relevant to their investment strategy. Investment consultants need to have sufficient ESG expertise to consider ESG in their asset allocation recommendations and to evaluate asset managers' ESG capabilities. As the consultants make asset manager recommendations, they need to look for analysts and portfolio managers with expertise on material ESG issues specific to geographic regions, industry sectors, and asset classes. Consultants need to ensure that the asset managers' dedicated ESG experts play a central role in the portfolio construction process and that there are formal systems in place to ensure that ESG data is incorporated into investment decisions.

INTEGRATING ESG FACTORS INTO INVESTMENT DECISION-MAKING

Investment Consultants' roles in ESG integration include:

- developing a process for identifying and considering material ESG risks and opportunities across the investment portfolio and including these considerations in asset allocation recommendations and risk profiles;
- identifying asset managers who have robust ESG expertise and evaluating this expertise as part of every manager search;
- ensuring that asset managers appropriately integrate ESG factors into portfolio construction, buy-sell decisions (for active managers), selection of benchmarks, corporate governance dialogues, and proxy voting; and
- reporting to asset owners on how the ESG factors are affecting long-term investment performance in every asset class.

Asset owners and consultants need to establish expectations and standards for how the consultant will perform these functions to best implement the investor's statement of beliefs.

INTEGRATING ESG FACTORS INTO CORPORATE GOVERNANCE STRATEGIES

Robust dialogues with companies about ESG risks and opportunities are a necessary complement to integrating ESG factors into asset allocation models and portfolio construction. For investors with a primarily passive investment strategy, corporate engagement around ESG issues can enhance portfolio performance without selling securities. Investment consultants can support asset owners and asset managers in their corporate governance work by producing reports that highlight opportunities and risks around ESG factors in industry sectors or geographic regions. They can also assist asset owners and managers in developing transparent governance and proxy voting policies that identify ESG issues for active owners.

CONTRIBUTING TO THE GROWING BODY OF ESG RESEARCH AND EXPERTISE

Consultants have an important role in developing research reports and public presentations that highlight ESG issues for all market players. Consultants can contribute to the growing consensus among companies, investors, rating agencies, stock exchanges and asset managers about the importance of ESG risks and opportunities to long-term value creation and a more sustainable economy. Consultants can also highlight the importance of ESG issues in their professional associations and in their advocacy initiatives around financial market reforms and environmental regulations, and support research on the impact of ESG factors on investment outcomes.

Conclusion

This report outlines some preliminary findings on how thirteen members of the investment consultant community view ESG factors as part of the investment decision-making process. It is clear there are skeptics that question whether these factors matter to long term value creation. Even when investment consultants do believe that ESG factors matter, clear "best practices" for how to incorporate these factors into the services that investment consultants provide to their clients are lacking.

The recommendations suggest five areas for future work:

- defining ESG investment beliefs and establishing investment policies;
- developing ESG expertise;
- integrating ESG factors into investment decision-making;
- integrating ESG factors into corporate governance strategies; and
- contributing to the growing body of ESG research and expertise across the business and investor communities. The recommendations in this report suggest a roadmap for future work in this area.

It is the hope of Ceres and the Investor Network on Climate Risk that this first report on Investment Consultant Practices will spark this necessary engagement and collaboration between asset owners and their consultants and managers on integrating ESG factors into investment decision-making, so as to better mitigate ESG risks, capture ESG opportunities, and build sustainable long-term value for institutional investors' portfolios.

Appendix:

Investment Beliefs Research Summary and Sample Statements[1]

Institutional investors articulate their views on how capital markets function in governing board-adopted statements of "Investment Beliefs." Beliefs are distinct from Investment Policies, which describe in more specific detail how the institution plans to achieve its goals.

Academic research suggests that developing Investment Beliefs can be beneficial to institutional investors' achievement of their mission.[2] Investment Beliefs help ensure that trustees and investment managers aren't making decisions on an ad-hoc basis and that the decisions made by investment managers are aligned with the interests of the institution (principal-agent problems). In a recent survey of 685 asset owners, asset managers and consultants by Pensions & Investments, about 57% said that their organizations have Investment Beliefs.[3]

Many institutional investors worldwide include in their Investment Beliefs statements about how environmental, social and governance ("ESG") factors influence capital markets and should be used in the investment process. Certain belief statements assert a social or mission-driven responsibility to address environmental and social issues with their investments, while other institutions state a belief that environmental and social factors are linked to the "bottom-line" financial performance of a company or investment.

These latter "bottom-line"-focused ESG belief statements vary from strong statements that assert a link between good financial performance and good management of environmental and social factors to more agnostic statements that discuss the importance of considering environmental and social factors during the investment process.

Financial:
Environmental and social factors affect financial performance and should be considered in the investment process

Positive:
"Good" management of environmental and social factors positions companies for long-term financial success

Philosophical/Mission-Driven:
Institution should address environmental and social issues using their investments

1 Steven Lydenberg "Investment Beliefs Statements: What They Are and Why They Are Important," *Initiative for Responsible Investment (IRI) Working Paper* (October 2011): http://hausercenter.org/iri/publications/working-papers (accessed September 27, 2012).

2 Kees Koedijk and Alfred Slager, "Do Institutional Investors Have Sensible Investment Beliefs?" *Rotman International Journal of Pension Management* 2, no. 1 (Spring 2009): 19.

3 Gordon L. Clark, "P&I/Oxford University Long-Term Investment Beliefs Survey Results," *P&I Online* (July 23, 2012), http://www.pionline.com/specialreports/other/20120723 (accessed September 27, 2012).

The following are a few examples of Investment Belief statements that mention ESG. All are excerpts. There is much work to be done on establishing model statements of Investment Beliefs. Over the next year, Ceres and other responsible investor groups will be working with consultants and others to provide guidance to asset owners in this realm.[4]

ASSET OWNERS

Ontario Municipal Employees' Retirement System (OMERS) has a positive statement of the value of ESG integration:

> **2.1 Socially Responsible Investing**
> OAC believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long-term financial performance. As part of its due diligence in researching investments and monitoring performance, OAC incorporates environmental, social and governance factors into its decision-making processes.[5]

Stichting Pensioenfonds ABP's investment belief statement includes both the positive impact of ESG and a financial performance perspective:

> **Environmental, social and corporate governance policy**
> ABP feels it has an obligation to achieve the highest possible return for participants. In doing so, we believe that companies with strategies which, in addition to financial return, place a high value on the environment, social factors and good corporate governance will perform better in the long term. In addition, we are aware of the far-reaching influence of our investments and the social responsibility that this implies. The reason for this is the large amount of capital that we invest and our substantial position in the capital market. For this reason, we have chosen to implement a strong ESG policy.
>
> **The long term**
> As a long-term investor, ABP places a priority on the long-term goals of the companies in which it invests. Sustainable economic growth, as well as information on environmental, social and corporate governance issues, are all important factors in our investment analysis. These topics are not always covered in a company's financial statements, but they are particularly relevant for a long-term investor such as ABP. We believe that the companies in which we invest must take their stakeholders' interests into account. These include shareholders and other suppliers of capital, employees, customers, suppliers and the environment. We believe that companies must take appropriate account of all these parties in their efforts to earn a profit. If stakeholders act in the same spirit we can create a virtuous circle of responsible business. Our activities in the area of ESG do not represent a goal in and of themselves. ESG helps us to discharge primary responsibility by increasing return and lowering risks. We keep implementation of our policy in these areas under constant review.[6]

4 Brandon Rees, Acting Director, Office of Investment, AFL-CIO noted that this work is a top priority for pension trustees. Brandon Rees, "Responsible Investor Conference: ESG in RFPs and the Asset Manager Selection Process" (remarks, SUNY Global Center, New York, NY, September 14, 2012).

5 OAC is OMERS Administration Corporation the administrator of the OMERS Pension Plans. OMERS (Ontario Municipal Employees Retirement System), "Enterprise Statement of Investment Beliefs" (Ontario, Canada), http://www.omers.com/pdf/Statement_of_Investment_Beliefs.pdf (accessed September 27, 2012).

6 Stichting Pensioenfonds ABP, often referred to as ABP, is the pension fund for government and education employees in the Netherlands. ABP, "ABP Environmental, Social and Corporate Governance Policy" (Heerlen, The Netherlands), http://www.abp.nl/en/about-abp/investments/esg-policy.asp (accessed September 27, 2012).

The Needmor Fund's investment beliefs focus on the mission of the foundation:

> **XI. Mission Related and Social Goals and Restrictions**
>
> In keeping with its mission of seeking to empower traditionally disadvantaged populations, the Needmor Fund believes it has a responsibility to use its resources to promote health and human dignity and to give special attention to the needs of the poor. Therefore, the Needmor Fund will include in its investment decisions a consideration of the social impact of corporate behavior. In deciding where to invest its resources, the Needmor Fund will seek to promote social justice and world peace. We encourage transparency and accountability of corporations and encourage disclosure to affected stakeholders. We support corporate cooperation with efforts to require higher standards of public disclosure and to cooperate with independent monitoring and social auditing.
>
> **E. Environment**
>
> 1. The Needmor Fund wishes to support efforts to produce a cleaner environment. Given that corporations play a substantial role in environmental issues, the Fund wishes to encourage improvements in this area by investing in those firms whose environmental records are average or better for their industry, and avoid investment in those firms that have below-average environmental records. We like to invest in companies with Board and management commitment to environmental issues, including an environmental policy statement, incentive packages that reflect positive and negative environmental performance, and demonstrated support for strong public environmental policies.[7]

CONSULTANTS

Mercer Consulting has embedded a statement of Investment Belief that emphasizes the financial impact of climate change in one of its research reports:

> Institutional investors must develop new tools to more effectively model systemic risks such as climate change. These tools require an expansion of the way we think about portfolio risk, looking beyond mere volatility. Describing probable scenarios, identifying the potential sources of risks, and measuring and monitoring them over time are the components of an improved risk management strategy that seeks to protect the long-term assets that institutional investors oversee on behalf of their stakeholders.[8]

Towers Watson's statement of Investment Belief focuses on the positive impacts of ESG investment strategies:

> **Alpha-Related**
>
> …25. Environmental, social and corporate governance factors and catastrophes have material influences on risks and returns, which investors may find difficult to price fairly. This creates an information advantage for those investors who are skilled at pricing these risks accurately.[9]

7 Needmor Fund, "Investment Policy" (Toledo, OH, May 2005), http://www.needmorfund.org/investments.htm (accessed September 27, 2012).

8 Mercer Consulting, *Climate Change Scenarios—Implications for Strategic Asset Allocation* (February 2011), 4, http://www.mercer.com/climatechange (accessed September 27, 2012).

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