

THE
INVESTMENT
ASSOCIATION

# THE RESPONSIBLE INVESTMENT FRAMEWORK

18 November 2019



## ABOUT THE IA

The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages 37% of European assets.

Investment Association (IA) members hold in aggregate, one third of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account.

More information can be viewed on our website.

## IA RESPONSIBLE INVESTMENT FRAMEWORK

**NOTE:**

The components below are not mutually exclusive. They will typically be used in combination with one another. "Fund-level components" is a short-hand and can also refer to segregated mandates and individual investment strategies.

### FIRM-LEVEL COMPONENTS



**STEWARDSHIP**

EXAMPLES INCLUDE:

SETTING EXPECTATIONS

OVERSIGHT OF ASSETS AND SERVICE PROVIDERS

ENGAGING WITH ISSUERS AND HOLDING THEM TO ACCOUNT

EXERCISING RIGHTS AND RESPONSIBILITIES (E.G. VOTING)

ESCALATING CONCERNS



**ESG INTEGRATION**

EXAMPLES INCLUDE:

PRI SIGNATORY

STATEMENT OF COMMITMENT

FIRM-WIDE POLICIES



**EXCLUSIONS**

EXAMPLES INCLUDE:

ETHICAL/VALUES-BASED/RELIGIOUS

NORMS

SUSTAINABILITY

### FUND-LEVEL COMPONENTS



**EXCLUSIONS**

EXAMPLES INCLUDE:

ETHICAL/VALUES-BASED/RELIGIOUS

NORMS

POOR SUSTAINABILITY

ESG ASSESSMENT



**SUSTAINABILITY FOCUS**

EXAMPLES INCLUDE:

SUSTAINABILITY THEMED

POSITIVE TILT

BEST IN CLASS



**IMPACT INVESTING**

EXAMPLES INCLUDE:

SOCIAL BOND FUNDS

PRIVATE IMPACT INVESTING

SDG FUNDS



**STEWARDSHIP**

APPROACH AND ACTIVITIES SPECIFIC TO INVESTMENT STRATEGY



**ESG INTEGRATION**

APPROACH AND ACTIVITIES SPECIFIC TO INVESTMENT STRATEGY

## GLOSSARY

Below is the glossary to accompany the Responsible Investment Framework.

### COMPONENT:

#### Stewardship<sup>1</sup>

##### **Definition:**

The Investment Association adopts the definition of “Stewardship” according to The UK Stewardship Code 2020 of the Financial Reporting Council.

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”<sup>2</sup>

##### **Explanatory Note:**

*Stewardship is shown on both a firm level and a fund level to reflect that, whilst firms will adopt their approach to Stewardship at a firm level, stewardship activities will differ across funds, asset classes and geographies.*

### COMPONENT:

#### ESG Integration<sup>3</sup>

##### **Definition:**

The Investment Association adopts the definition of “ESG integration” according to the UN PRI:

“The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions”<sup>4</sup>

##### **Explanatory Note:**

*ESG Integration alone does not prohibit any investments. Such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and taken into account.*

##### **Firm Level**

*ESG integration can be adopted as a firm-wide policy and, in such instances, reflects a firm’s commitment to integrate ESG considerations, which will include both risk and opportunities.*

##### **Fund Level**

*The precise ways in which ESG considerations will be taken into account in investment analysis and in the investment decision-making process will differ in practice between different investment funds, mandates and strategies. Therefore, the framework reflects ESG integration undertaken at a firm level (typically articulated by a firm-level policy) as well as the practical application of ESG integration to specific funds, mandates or strategies.*

<sup>1</sup> Global Sustainable Investment Alliance (GSIA) Equivalent: “Corporate Engagement and Shareholder Action: the use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.”

<sup>2</sup> [https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code\\_Final2.pdf](https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Final2.pdf), p. 4. The Investment Association reserves the right to review its alignment with the FRC definition at any time.

<sup>3</sup> GSIA Equivalent: “ESG Integration: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis”

<sup>4</sup> [https://d8g8t13e9vf2o.cloudfront.net/Uploads/d/t/z/maindefinitionstoprireportingframework\\_127272.pdf](https://d8g8t13e9vf2o.cloudfront.net/Uploads/d/t/z/maindefinitionstoprireportingframework_127272.pdf) p.5. The Investment Association reserves the right to review its alignment with the UK PRI definition at any time.

# GLOSSARY

## COMPONENT:

### Exclusions<sup>5</sup>

#### Definition:

Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of:

- Sector
- Business activity, products or revenue stream
- A company; or
- Jurisdictions/countries.

#### Examples:

- Investment approach that applies ethical/values-based/religious exclusions: Investment approach that excludes investments on the basis of ethical, values-based or religious criteria, for example, gambling, alcohol, or pork.

- Investment approach that applies norms-based exclusions<sup>6</sup>: Investment approach that excludes investments on the basis of not complying with international standards of conduct, for example, the UN Human Rights Declaration.
- Investment approach that applies exclusions on the basis of poor sustainability: Investment approach that excludes investments on the basis of sustainability considerations, for example, fossil fuel companies.
- Investment approach that applies exclusions on the basis of ESG assessment: An investment approach that excludes the worst performing companies relative to peers on the basis of ESG assessment, for example, on the basis of ESG ratings.

#### Explanatory Note:

*Other terms used to refer to exclusions may include “exclusionary approaches”, “negative screens” and “screens”. Unlike the term “divestment”, which involves selling ownership of something, exclusions refer to the strategy having not invested in something from the start.*

*Exclusions determine that a fund or mandate does NOT invest in certain things. It does not constitute an approach that is characterised by proactively allocating capital to specific assets.*

*It may involve excluding investments from a certain sector or investments that derive a portion of their income from the sale of certain specified products.*

*Exclusions may be applied at both a firm and a fund level.*

#### Firm Level

*Exclusions that apply across the entire firm/group.*

#### Fund Level

*Exclusions that are specific to a particular investment approach e.g. to a fund or are set by a client in a particular mandate.*

<sup>5</sup> GSIA equivalent: Negative/exclusionary screening: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria

<sup>6</sup> GSIA Equivalent: Norms-based screening: screening of investments against minimum standards of business practice based on international norms

# GLOSSARY

## COMPONENT:

### Sustainability Focus

#### Definition:

Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).

#### Examples:

- Sustainability Themed Investing<sup>7</sup>: An investment approach that specifies investments on the basis of a sustainability theme/themes. Examples might include climate change mitigation, pollution prevention, sustainability solutions and approaches that address one or more of the UN Sustainable Development Goals (SDGs).
- Best in Class<sup>8</sup>: An investment approach that includes investments based on certain sustainability criteria to focus exposure on sector-leading companies. Best in Class approaches can vary from selecting from amongst the best performing companies (e.g. the lowest carbon / most energy efficient energy producers) to excluding the worst performing companies relative to peers.
- Positive Tilt: A portfolio that overweights investments that fulfil certain sustainability criteria and/or deliver on a specific and measurable sustainability outcome(s), relative to a benchmark (e.g. FTSE 100, S&P 500), for example, half the carbon intensity of the benchmark.

#### Explanatory Note:

*Adopting a Best in Class approach can mean having exposure to companies from sectors that may not typically be considered “sustainable”. A Positive Tilt approach may also mean this. A Positive Tilt is typified by having less exposure to these kinds of companies than a traditional benchmark (e.g. FTSE 100, S&P 500).*

<sup>7</sup> GSIA Equivalent: Sustainability themed investing: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)

<sup>8</sup> GSIA Equivalent: Positive/best-in-class screening: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers

## GLOSSARY

### COMPONENT:

#### Impact Investing<sup>9</sup>

##### Definition:

The Investment Association endorses the Global Impact Investing Network's (GIIN) definition of Impact Investments:

"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."<sup>10</sup>

##### Examples:

- Social bond fund: A fund that invests in bonds, whose funding is ring-fenced for projects or initiatives that have the intention to generate positive, measurable social and environmental impact alongside a financial return, for example, one or more of the Sustainable Development Goals (an "SDG fund").

- Private impact investing: Investing directly in unlisted projects, companies or initiatives that have the intention to generate positive, measurable social and environmental impact alongside a financial return, for example, one or more of the Sustainable Development Goals (an "SDG fund").
- SDG Impact Funds: Funds where impact is measured with respect to the UN Sustainable Development Goals (SDGs). This can be achieved, for example, through listed equities, a social bond fund or private impact investing.

##### Explanatory Note:

According to GIIN, "there are four key elements:

*Intentionality: Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.*

*Financial Returns: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.*

*Range of Asset Classes: Impact investments can be made across asset classes.*

*Impact Measurement: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments."*

<sup>9</sup> GSIA Equivalent: "Impact/Community Investing: targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose"

<sup>10</sup> Global Impact Investing Network (GIIN), "What you need to know about impact investing" <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>. The Investment Association reserves the right to review its alignment with the GIIN definition at any time.



## **The Investment Association**

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