Heartland Capital Strategies

FIDUCIARY DUTY

MINI-BOOK #3

Companion to The Responsible Investor Handbook

KEY TAKEAWAYS

- Fiduciary duty is a straightforward concept, as long as trustees follow basic standards, document their decisions, and always keep the best interest of plan participants in mind.
- Trustees can and should question conventional capital market wisdom and hold accountable those whom they have in turn entrusted with the investment of retirement savings.
- Fiduciary duty can no longer be used a barrier to incorporating ESG considerations in investment decision making; infact, many experts consider failure to include ESG considerations a failure of fiduciary duty.

About Heartland Capital Strategies

Since 1995, Heartland Capital Strategies (HCS) has been mobilizing workers' capital, i.e., pension plans, in the U.S. and Canada, towards greater responsible investments. We do so by convening events, highlighting investment opportunities in the real economy, educating capital stewards, and laying the foundation for bringing together a new generation of responsible investors.

Based in Pittsburgh, Pennsylvania, HCS is a partnership launched by the Steel Valley Authority (SVA), an innovative regional organization that has been successfully restructuring troubled manufacturing firms in the American rust belt for more than 30 years. Heartland was co-founded by the Steelworkers, the AFL-CIO HIT, AFL-CIO IUC and SVA to bring together labor's capital stewards to explore ways to rebuild our economy and reclaim workers' capital. In the aftermath of the 2008-2009 financial markets crash and recession, HCS was re-booted to align its goals with the responsible investment movement and to reflect a broader category of services offered.

Heartland's Mini-Handbook Series

In July 2016, HCS staff authored The Responsible Investor Handbook: Mobilizing Workers' Capital for a Sustainable World. The Handbook helps pension trustees re-align their governance and investment strategies with the long-term interests of plan participants (the workers) and their families by incorporating responsible investment practices into the investment decision-making process for plan assets.

Heartland's mini-handbook series takes important topics from the Handbook and breaks them down into individual mini-handbooks, each focused on addressing barriers to the integration of responsible investments in pension plan portfolios. Topics range from clarifying fiduciary responsibilities to highlighting good corporate and pension plan governance practices, showcasing responsible investments across asset classes, and creating effective investment policy statements that take into account responsible investment practices.

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CAPITAL STRATEGIES

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Introduction

The management of pension investments involves a number of players, ranging from the asset owners (workers, retirees, and their beneficiaries), consultants, asset managers, and various investment professionals that help invest pension plan assets, to the users of capital (investee companies/projects seeking investments and providing returns). Also included are regulatory authorities that pass the rules and regulations that govern pension plan management and investments. Together, these players represent the "investment value chain."

The value chain's purpose is to prudently govern, manage, and invest pension assets on behalf of the plan participants and beneficiaries. However, the role of the players in the chain is mismatched. While consultants and investment managers tend to exert an oversized influence on the investment of plan assets, plan participants and beneficiaries—the ultimate owners of plan assets—have little say on the same.

One reason for this is the intentional delegation of investment responsibilities to professional advisors and investment managers in order to relieve trustees of direct investment decision-making responsibilities. But, rather than being engaged in a linear fashion—i.e., seamlessly moving capital from owners to users—the players in the chain are interconnected, with disparate motives and a potential for conflicting interests with those of the plan participants and beneficiaries.

For example, many players in the chain are motivated by a short-term, narrow interpretation of investment returns, whereas plan participants and beneficiaries would judiciously prefer a long-term investment strategy matching their retirement security needs. The resulting "agency separation" underscores potential conflicts of interest and also suggests why the investment industry as a whole does not give full consideration to the impact of material ESG risks and opportunities in arriving at the intrinsic value of investments.

Most players in the investment chain are regarded as fiduciaries of workers' capital. According to Investopedia, a fiduciary is "a person or organization that owes to another the duties of good faith and trust. The highest legal duty of one party to another, it also involves being bound ethically to act in the other's best interests." And an investment fiduciary is someone "who is providing investment advice or managing the assets of another person and stands in a special relationship of trust, confidence, and/or legal responsibility (Fi360)."

Many of the actions involved in operating and investing a pension plan make the person or entity performing them a fiduciary. As such, fiduciary status is based on the functions performed for the plan, not just on a person's title. As noted in the PRI paper, *Responsible Investment and Fiduciary Duty*:

In the United States, ERISA explicitly states that fiduciary liability attaches not only to trustees but also to anyone exercising discretion over investment plan assets. That is, under ERISA, asset managers have direct fiduciary obligations, and the appointment of asset managers is itself a fiduciary function.

Introduction

Fiduciary duty has at times been defined erroneously as the maxim of solely maximizing profit. In addition, pension trustees often fear the personal liability associated with their responsibilities as fiduciaries; but:

- ✓ Fiduciary duty is a relatively simple & straightforward concept
- ✓ Trustees should do their homework & follow basic standards
- ✓ Document the process to protect themselves and ensure they do the best by the plan's participants and beneficiaries

Furthermore, fiduciary duty can no longer be used as a barrier to implementing ESG principles within investment portfolios, as argued by both academics and industry leaders.

A 2015 global report by the PRI, *Fiduciary Duty in the 21st Century*, notes that ESG issues are in fact integral to an investment's financial performance. "We've found that failing to consider longer-term drivers like ESG in investment practices is actually a failure of fiduciary duty," argues Fiona Reynolds, managing director, PRI.

And regulations are catching up as well. The Department of Labor's (DOL) Interpretive Bulletin 15-01 supports the use of ESG factors "solely to evaluate the economic benefits of investments and identify economically superior investments."

Therefore, the new guidance views the inclusion of ESG factors as "'proper components' of a fiduciary's economic analysis," and not just as "collateral considerations or tie-breakers," as has been with the use of Economically Targeted Investments (ETIs) in the past. This historic ruling also makes it easier for pension funds to offer ESG options to plan participants within 401(k) plans.

In this third installment of Heartland's mini-handbook series, our aim is to help pension plan trustees navigate two key themes presented above. Firstly, enable trustees to better understand and manage prevalent agency separation issues. And secondly, give trustees the confidence to effectively pursue their fiduciary duty to plan participants and beneficiaries both by holding other fiduciaries accountable to the same goal and by considering and managing ESG related risks and opportunities in the management of the plan's assets.

In Samuel Beckett's seminal play *Waiting for Godot*, two protagonists kill time while they wait for a mysterious man named Godot to show up and save them. The duo has been waiting for Godot for some time, but Godot hasn't shown up. They decide that they should leave the scene, but never end up taking any action.

We don't have to wait for Godot!

Key Players in the Investment Value Chain

Plan Participants & Beneficiaries

Everyday working people - teachers, steelworkers, firefighters, pilots, engineers – (and their beneficiaries), who are the ultimate owners of pension assets.

TRUSTEE

A person who holds legal title to property in trust for the benefit of another person (beneficiary) and who must carry out specific duties with regard to the property.

INTERNAL INVESTMENT TEAM

Consisting of a CIO and investment staff team that combine strategy selection and/or execution of the investment plan.

PLAN ADMINISTRATOR

Person designated by the trustees in order to perform daily administrative duties and act as custodian for the trust.

BOARD OF TRUSTEES OR SINGLE TRUSTEE

Govern the pension funds, including developing a strategic plan, overseeing internal management, consultants, and assets managers, establishing key policy goal and monitoring investment performance.

EXTERNAL INVESTMENT MANAGER

Responsible for investing the assets of the plan, on proper authority from the trustees. External managers generally have expertise in certain asset/subasset classes, such as public equities, bonds, or real estate.

INVESTMENT CONSULTANTS

Individual or firms that advise and assist trustees in establishing investment policies and objectives, evaluating investments, reviewing asset allocation, and selecting and monitoring the investment manager.

RESEARCH PROVIDERS

Sell-side analyst who uncover investment opportunities from a universe of listed investments.

UNIVERSE OF INVESTEE COMPANIES/PROJECTS

The users of pension assets who seek to provide a commensurate return.

Heartland CAPITAL STRATEGIES

The Investment Value Chain: Issues and Solutions

As mentioned in the introduction, a number of intermediaries are involved in the management of pension assets. This delegation of investment management leads to a separation of interests between the end asset owners (pension plan participants and beneficiaries in our discussion) and the intermediaries. Financial market complexities and often complicated securities and regulatory guidance have exacerbated this issue, perpetuating a culture of investment short-termism that ignores negative impacts on society and our environment.

The result is that rather than being engaged in a linear fashion—i.e., seamlessly moving capital from owners to users—the players in the chain are interconnected, with disparate motives and a potential for conflicting interests with those of the plan participants and beneficiaries. A 2005 World Economic Forum report notes that the disconnect between players in the investment value chain is not necessarily due to differences in their personal values, but rather due to a "blend of available information, participant competencies and, most of all, the institutionalized incentives that drive their behavior."

These incentives are often driven by an obsession with quarterly financial results and short-term profit maximization. As such, a majority of the players in the value chain perpetuate a herd mentality that prevents them from going against conventional market wisdom and adopting longer-term, value-enhancing responsible investment strategies. Thus, as the report asserts, any expansion in the application of responsible investment considerations will require "multiple, diverse reforms at different places in the investment value chain."

Further, to minimize the agency separation issue within the chain, fundamental improvements need to be put into place regarding pension fund governance, the competence of the board of trustees and internal pension staff, and the incentive structures for players in the chain.

The *2012 Kay Review of UK Equity Markets and Long-Term Decision Making*, an important report produced in the aftermath of the 2008 financial market crisis, noted a continued misalignment of interests between players in the investment value chain and the resulting investment short-termism that led up to the crisis. As noted in the report, there is a need to "restore relationships of trust and confidence in the investment chain, underpinned by the application of fiduciary standards of care by all those who manage or advise on the investments of others."

Similarly, the Canada Pension Plan Investment Board (CPPIB) and McKinsey & Co. are leading an initiative called Focusing Capital on the Long Term (FCLT), which has brought together investment professionals with over $6 trillion in assets under management. The initiative's goal is to "develop practical ideas for how institutional investors might reorient their portfolio strategies and management practices to emphasize long-term value creation and, by doing so, be a powerful force in promoting a long-term mind-set throughout the investment value chain."

To achieve this goal, the FCLT provides recommendations across 5 core areas: investment beliefs, risk appetite statement, benchmarking process, evaluations & incentives, and investment mandates.

Fiduciary Duty: A Brief History

The idea of fiduciary duty is ancient, emerging in Europe during feudalism.

The word “prudence” derives from the Latin term for “foresight” and means acting with or showing care and thought for the future. The concept of fiduciary trusts came about as a way for families to pass on their wealth to their children. Trusts were established to ensure that, according to the law of primogeniture, a “prudent” man overseeing a family’s assets would act only in the interests of the (male) heirs of the family, and not on his own behalf.

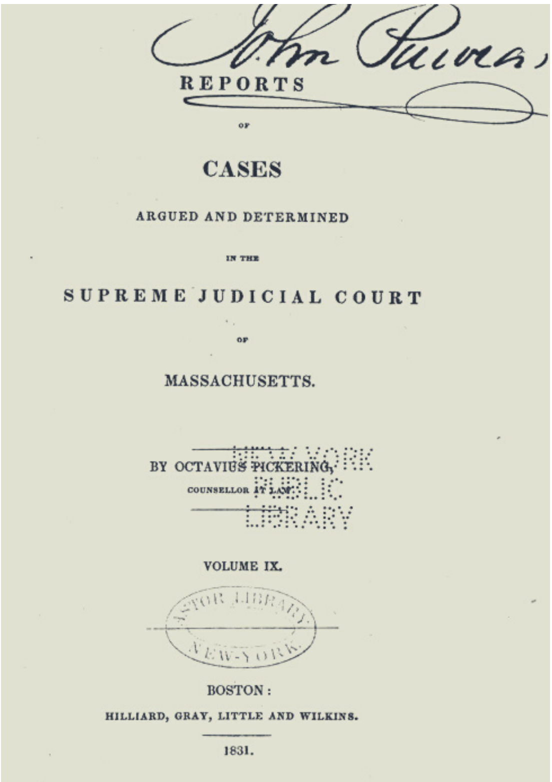
But we begin with U.S. trust law, which originated with an 1830 case in Massachusetts, Harvard College v. Amory. The ruling stated that the trustee’s duty is to:

Conduct himself faithfully and exercise a sound discretion, observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested.

The above decision overturned the rules of the English courts of equity that had restricted investments to government debt and well-secured mortgages and had explicitly banned certain other investments. These rules, called the “legal list” approach, were adopted generally after the South Sea bubble of the early 1700s. The changing complexities of the financial and economic markets made the legal list rule impractical, however.

As such, the Harvard case articulated an objective, behavioral standard for trustee investment practice, focusing on conduct and imposing duties of care and loyalty rather than following the legal list approach. While subsequent decisions reversed or confused the 1830 case, modern law now stands behind it.

The passage of ERISA by Congress in 1974 codified the prudent person rule as the crux of fiduciary duty into permanent law in the U.S.A. As Jayne Zanglein pointed out in the Capital Stewardship Certification Program, ERISA was enacted to protect the interests of pension plan participants and beneficiaries, and to ensure that plan assets would be properly managed and available at retirement. We take a closer look at the ERISA mandate that underlies fiduciary responsibility in subsequent sections.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Harvard College v. Amory Case Report

The Scope of Fiduciary Duty

Many of the actions involved in operating a plan make the person or entity performing them a fiduciary. As such, fiduciary status is based on the functions performed for the plan, not just on a person's title. A plan must have at least one fiduciary (a person or entity) named in the written plan—or through a process described in the plan—as having control over the plan's operations. The named fiduciary can be identified by office or by name and can be an administrative committee or a company's board of directors.

Plan fiduciaries will ordinarily include the trustee, investment advisers, all individuals exercising discretion in the administration of the plan, all members of a plan's administrative committee (if it has such a committee), and those who select committee officials. Furthermore, the fiduciary rules do not just affect trustees. As noted in the PRI paper, *Responsible Investment and Fiduciary Duty*:

> *In the United States, ERISA explicitly states that fiduciary liability attaches not only to trustees but also to anyone exercising discretion over investment plan assets. That is, under ERISA, asset managers have direct fiduciary obligations, and the appointment of asset managers is itself a fiduciary function.*

In 2015, with the support of President Obama, DOL introduced the Fiduciary Rule that would require investment advisors to act in the best interest of their clients in retirement accounts, reduce conflicts of interest, charge reasonable fee, avoid misleading statements, and overall bring more advisors into the fold of ERISA fiduciary accountability.

As then DOL Secretary Thomas Perez (shown below) said, "With the finalization of this rule, we are putting in place a fundamental principle of consumer protection into the American retirement landscape: A consumer's best interest must now come before an adviser's financial interest...this is a huge win for the middle class", adding that "today's rule ensures that putting clients first is no longer a marketing slogan. It's the law (Investment News)."

Though parts of the rule went into effect in June 2017, under the new Trump administration a full implementation of the rule has faced many obstacles and repeated delays.

Although the rule withstood several legal challenges by detractors, the final blow came when the 5th Circuit Court of Appeals struck down the Fiduciary Rule in March 2018. As of now, the DOL will not be enforcing the rule, but it is to be seen whether the court's decision will be appealed.

The Scope of Fiduciary Duty

The Fiduciary Rule would not have applied to ERISA plans such as 401(k)s but to IRA's and non-ERISA plans. However, with declining Defined Benefit plans (where benefits are fixed and the employer takes the investment risk on behalf of plan participants) and increasing Defined Contribution plans and IRAs (where contributions are fixed, rather than the benefits, and the risk of investment lies with the plan participant/individual investor) the new Fiduciary Rule would have important implications for asset owners (PRI Roadmap).

Further, though the ERISA standard is still the highest standard, "the death of the fiduciary rule would once again allow more brokerage and insurance company-based advice providers to navigate around fiduciary accountability (Investment News)."

One result, as reported in a scathing review by the New York Times editorial board, is that consumers obviously land up bearing the brunt of lax fiduciary oversight in paying an estimated $17 billion a year in excessive fees because advisers steer them into high-cost products despite the availability of lower-cost ones (NY Times).

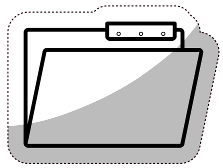
In general, how can trustees, and even individual investors, ensure that investment advisors and managers are acting in the best interest of the asset owner? How can they ensure that the advisors and managers are held accountable to a high standard of fiduciary duty? And how can they ensure that the advisors and managers have considered all material factors, including ESG issues, when making investment recommendations?

As a first, get to know your advisors and managers, their qualifications, years of experience, and the business and investment philosophy of their firm, among other important background information. In addition, determine whether your advisor is a fiduciary – that is placing your or your plan's best interests before his/her. Then, as the PRI recommends, determine whether the advisors "are reflecting the fiduciary duties against which they are held in the scope and content of their investment advice." That is, is the investment advice sound and compatible with the advisors fiduciary responsibilities? Trustees and individuals can also seek to understand how their advisors are paid (percentage of assets under management, commission, referral-based, etc) to help shed light on any conflicts of interest.

ERISA
Fiduciary Duty Framework

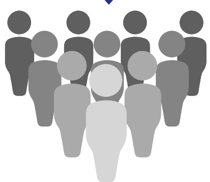
PLAN DOCUMENT RULE

Requires fiduciaries to abide by documents and instruments governing the plan, including, but are not limited to, the plan description, summary plan description, collective bargaining agreement, trust agreement, and investment guidelines.



PORTFOLIO DIVERSIFICATION

The golden rule of investing is to diversify (different asset classes, geographic regions, and industries) thus spreading risk to various/unrelated, sectors. Any losses realized have the potential to be offset by gains from another investment.



EXCLUSIVE BENEFIT RULE

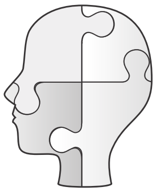
A fiduciary should act solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them.

The DOL, which oversees ERISA, notes that fiduciaries have important duties and responsibilities and are subject to standards of conduct because they act on behalf of the ultimate asset owners. For pension fund trustees subject to ERISA, these responsibilities include a requirement to manage the fund: *"With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent [person] acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."*

PRUDENT PERSON STANDARD

A fiduciary must act with respect to the plan solely in the interest of the participants & their beneficiaries by:

A. Providing benefits and defraying reasonable expenses of plan administration
B. Acting with care, skill, prudence, & diligence
C. Diversifying investments to minimize risk
D. Administering the plan in accordance with plan documents



FAIR COSTS RULE

There is not a specified amount or percentage to base an inquiry on; however, legally, a fee must be “reasonable” & based on factors specific to each portfolio. Fiduciaries need to inquire about the specific services covered under the agreement and pricing for items that may be deemed important to the fiduciary but may not be covered under the current agreement.

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CAPITAL STRATEGIES

Fiduciary Duty and ESG

Outside the U.S., modernized laws drive the consideration of ESG and other nonfinancial issues in the management of pension assets. For example, the U.K. Pensions Act (2000) requires pension funds to disclose how they account for sustainability factors in constructing their investment portfolios. Germany requires the use of sustainability criteria as part of the fiduciary's duty, and France requires public pension funds to disclose how their investment policy guidelines address social and environmental issues. Australia's Financial Service Reform Act requires superannuation (i.e., retirement) and mutual funds to disclose the extent to which ESG considerations are taken into account. South Africa mandates that institutional investors, including pension funds, "before making an investment into and while invested in an asset, consider any factor which may materially affect the sustainable long-term performance of the investment, including those of an environmental, social and governance character."

In light of their fiduciary responsibilities under ERISA in the U.S., how can trustees and other fiduciaries justify making responsible investments? As the PRI paper on fiduciary duty states, the importance and materiality of ESG factors has often been ignored in the pursuit of the status quo while carrying out investment responsibilities. This is changing, however, largely as a result of four factors:

1 **Breach of duty**
The ground-breaking 2005 Freshfields Report on Fiduciary Duty stated: "in our opinion, it may be a breach of fiduciary duties to fail to take account of ESG considerations that are relevant and to give them appropriate weight."

2 **Changing laws and regulations**
As noted below, the U.S. Congress and the Securities and Exchange Commission (SEC) are beginning to require companies to disclose certain material ESG issues, and the DOL's Interpretive Bulletin 15-01 views the inclusion of ESG considerations as part of a fiduciary's prudent analysis of investment opportunities.

3 **Changing expectations**
Investor expectations are changing, and as more and more investment organizations make commitments to responsible investments, it is likely that the duties that investors owe their clients will also evolve to reflect these changes.

4 **Faulty financial assumptions**
Assumptions in relation to the efficiency of markets underlying prevailing financial theories used in the last half of the 20th century have come under great scrutiny, particularly as a result of repeat financial crises. In making their investment decisions, investors are now expected to take into account systemic risk and low probability events, as well as insights from areas such as behavioral finance.

Fiduciary Duty and ESG

Further, some experts believe that we are on the cusp of the evolution of fiduciary duty due to the globalization of financial markets, asset concentration, increasing economic shocks, computerization of the investment industry, and resource limitations, etc. As noted in the *Cambridge Handbook of Institutional Investment & Fiduciary Duty:*

Both academics and practitioners increasingly stress the importance of looking beyond what are today's financial concerns (indeed, often too narrowly conceived) to consider wider environmental, social and governance (ESG) matters. What are sometimes called "extra financial" are often "not yet financial."... Arguments for an emphasis on ESG factors have been mounted from the fiduciary principle of impartiality, but also from an appeal to beneficiaries' broader interests in a healthy society and planet, as well as from general ethical and precautionary principles. Views of a particular issue can and often have become transformed into a broad social norm and as such can become "material" factors that affect asset prices.

This framework was also articulated years ago in legal commentary by Professor A.W. Scott, a leading American scholar on trust law, who said, presciently:

Trustees, in deciding whether to invest in, or retain, the securities of a corporation, may properly consider the social performance of a corporation. They may decline to invest in, or retain, the securities of corporations whose activities or some of them are contrary to fundamental and generally accepted ethical principles. They may consider such matters as pollution, race discrimination, fair employment, and consumer responsibility ... a trustee of funds for others, is entitled to consider the welfare of community and refrain from allowing the use of funds in a manner detrimental to society.

The future of integrating ESG considerations into fiduciary duty has arrived. The 2015 PRI report mentioned previously emphasizes that fiduciary duty is not an obstacle to asset owner action on ESG issues. In another report published in 2016, the PRI notes that the DOL's Interpretive Bulletin 15-01 views the inclusion of ESG factors as "'proper components' of the fiduciary's economic analysis" and not just as "collateral considerations or tie-breakers," as with previous interpretations of such investments, such as through ETIs.

In 2016, DOL released Interpretive Bulletin 2016-01 which stated that fiduciaries may adopt investment policies that include the consideration of ESG factors when evaluating investments as well as voting proxies and conducting other shareholder engagements, as long as such engagements are expected to enhance the long-term economic value of the plan's investments (Fed Register).

A recent Field Assistnace Bulltien (FAB 2018-01) released by DOL under the Trump administration maintains IB 2015-01 and IB 2016-01 as the laws of the land but limits the interpretation of the bulletins to ensure that the primary focus of ERISA fiduciaries is on enhancing a plan's economic value (Groom).

The main point in all DOL's guidances is that plan fiduciaries can never sacrifice the expectation of economic returns in favor of any other considerations. As we have iterated in our work in the past and as has been promoted by the PRI and other responsible investors, ESG considerations, in study after study, have in fact been found to enhance long-term investment returns and, as noted by the PRI, "sit squarely within the scope of modern interpretations of how fiduciaries make prudent investment decisions (UN-PRI)."

In addition, the SEC now recognizes climate change risk as a material issue that needs to be disclosed by companies: "information is material if there is a substantial likelihood that a reasonable investor would consider it important in deciding how to vote or make an investment decision, or, put another way, if the information would alter the total mix of available information."

Further, under the Dodd–Frank Act, Congress has required the SEC to adopt certain disclosure requirements of U.S. companies related to the CEO/employee pay ratio, the sourcing of conflict minerals, resource extraction payments, and mine safety, among others. Underpinning this shift toward greater disclosure of ESG-related issues is the launch of the Sustainability Accounting Standards Board (SASB), an independent non-profit organization that is developing robust accounting standards to help public corporations disclose "material, decision-useful" information to investors. The SASB believes that these broader extra-financial disclosures may be material under existing securities law disclosure requirements.

There are more concrete and comprehensive disclosure rules being established in the European Union (EU) that are expected to ultimately affect many U.S. companies as well.

For example, in September 2014, the EU Council formally adopted Directive 2014/95/EU on disclosure of nonfinancial and diversity information by certain large undertakings and groups, introducing measures that will strengthen the transparency and accountability of approximately 6,000 companies (firms with more than 500 employees) in the EU. Affected firms will be:

- **Required to report** on environmental, social, and employee-related human rights, anti-corruption and bribery matters
- Required to **describe their business model**, the outcomes and risks of the policies on the above-mentioned areas, and the diversity policy applied for management and supervisory bodies
- **Encouraged to rely on recognized responsible frameworks** such as the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, the UN Global Compact (UNGC), the UN Guiding Principles on Business and Human Rights, OECD Guidelines, International Organization for Standardization (ISO) 26000 and the International Labour Organization (ILO) Tripartite Declaration

Fiduciary Duty and ESG

In relation to environmental issues, a 2011 mega-analysis of 25 pension funds showed that there are no negative effects on financial performance resulting from incorporating these issues. The authors of the report developed a test of the prudent integration of ESG criteria in realistic and synthetic pension fund investment processes, analyzing more than 1,500 firms from 26 developed countries over a 77-month period using aggregated and dis-aggregated corporate environmental responsibility ratings. They concluded that there are "zero indications that the integration of aggregated or dis-aggregated corporate environmental responsibility ratings into pension fund investment processes has detrimental financial performance effect" for pension funds concerned about the environment." In fact, they found that the downside volatility (of incorporating ESG) is substantially lower.

How do trustees and capital stewards begin integrating ESG issues into their fiduciary duty process? As noted in the 2016 Ceres report, *The 21st Century Investor: Ceres Blueprint for Sustainable Investing*:

"Today, new investment risks and opportunities based on emerging trends like climate change and resource scarcity require consideration by prudent fiduciaries. This approach, which we have termed sustainable investing, adopts a longer term focus, is less tied to short term benchmarks as the sole measure of success, and incorporates ESG factors into investment analysis and strategy."

There are various approaches for integrating ESG considerations into fiduciary processes, from adopting ESG language into investment policy statements to incorporating such language in investment contracts. In their seminal work, *Reclaiming Fiduciary Duty Balance*," Hawley et al., include among these approaches a commitment to:

- Allocate resources and time to understand challenges
- Adopt an enterprise risk management approach
- Ensure sustainable plan design

Thus, as part of their fiduciary oversight responsibilities, trustees need to ensure that there is both expertise to address ongoing challenges, as well as to research long-term issues. This includes the ability to manage ESG risks and opportunities for sustainability and impartiality.

Following its important report, *Fiduciary Duty in the 21st Century*, the too PRI has created a roadmap to help investors fully integrate ESG considerations within their fiduciary obligations.

The roadmap draws on over thirty meetings and calls with key senior stakeholders throughout the US. The roadmap addresses and provides recommendations on fiduciary training, corporate reporting, asset owner interaction with service providers, legal guidance, the development of investment strategies, ESG disclosure and governance structures.

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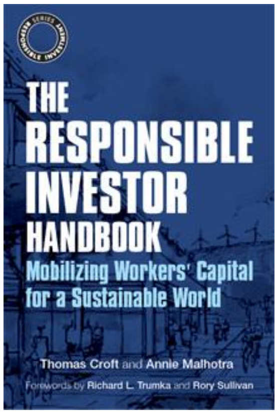
Please note:
All additional citations are available in the *Responsible Investor Handbook*



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