ICGN Statement of Principles on Institutional Shareholder Responsibilities

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

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About ICGN

The International Corporate Governance Network is a not-for-profit body, founded in 1995 that has evolved into a global membership organisation of more than 500 leaders in corporate governance. Its members are based in 38 countries from around the world, and include professionals, corporations, policy makers and institutional investors with capital under management in excess of $US 10 trillion.

ICGN's Mission

The ICGN's mission is to develop and encourage adherence to corporate governance standards and guidelines, and to promote good corporate governance worldwide.

The ICGN exchanges ideas and information across borders, commissions research, develops best practices and is an advocate for good corporate governance with both the market and policy makers.

The ICGN promotes understanding through its annual and mid-year meetings in different countries around the world, which bring together those engaged with reform in order to improve understanding. ICGN's working committees develop best practice, carry out research and advocate policy reforms to support raising of standards.

In seeking to achieve this mission, the ICGN can draw on three unique strengths:

- **the breadth and expertise of its membership base**, which extends across the capital markets and beyond to include senior decision makers and opinion leaders in the practice of corporate governance;

- **its international institutional investor members** who collectively represent funds under management in excess of US$10 trillion, giving a focus upon the role and responsibilities of fiduciaries responsible for the long term savings of the wider community;

- **the geographic diversity of its membership**, with members drawn from over 38 countries from every region – North America, Europe, East and South Asia, Latin America, Africa and the Middle East.

ICGN Statement of Principles on Institutional Shareholder Responsibilities

As approved by the ICGN members at the 2007 AGM in Cape Town, South Africa.

This document is a revised version of the Statement of Principles of Institutional Shareholder Responsibilities. The new version takes account of the many comments received from members during the consultation process and was formally approved at the annual meeting in July. The ICGN is particularly grateful to those who replied to the consultation and have sought to take all comments into account to produce a document that the Committee on Shareholder Responsibilities believes should command a real consensus.

The changes since last year involve a re-ordering and strengthening of the section on internal governance to highlight the overarching responsibility of institutional investors to their end beneficiaries. We have also added an annex, which gives additional detail, particularly with regard to the management of conflicts of interest. The annex also includes a bibliography as well as some examples of initiatives at both international and national levels to further responsible behaviour by institutions.

Nowadays there is fierce international debate about the role of investors, particularly hedge funds and private equity in the affairs of corporations. The Committee believes the paper makes an important contribution to this debate because it lays out key principles with regard to investor responsibility. For example it calls for considered voting and public disclosure of voting policy and says shareholder intervention should aim for long-term value creation. It also contains an explicit link to the ICGN Securities Lending Code of Best Practice. The ICGN would welcome further recommendations for the appendix and the bibliography. Comments and recommendations can be sent to Anne Simpson at execdirector@icgn.org

Peter Montagnon
Chairman
Shareholder Responsibilities Committee 2006/2007

* An asterisk indicates when a term defined in Appendix III is used in the text for the first time.

1.0 Key Considerations

1.1 This ICGN statement sets out our view of the responsibilities of institutional shareholders both in relation to their external role as owners of company equity, and also in relation to their internal governance. Both are of concern to beneficiaries and other stakeholders.

1.2 The ownership of equity carries important responsibilities, particularly due to the voting rights that can influence the way in which a business is conducted. Ultimate owners cannot delegate these responsibilities. Even when they employ agents to act on their behalf, it is up to beneficial owners to ensure that the responsibilities of ownership are fulfilled by those agents.

1.3 While some involved in the complex chain of intermediaries between beneficiaries and issuers have a simple obligation to provide a service, many have an agency function with a principal fiduciary responsibility to generate optimum returns consistent with the time horizon of the beneficiaries.

1.4 Those that represent beneficiaries need to be clear about the objectives of the beneficiaries. This involves careful consideration of key points, including the appropriate balance between short-term return and long-term value. Resources applied to governance and the exercise of votes may generate costs in the short term, but an increasing weight of evidence suggests this will add value in the long-term. The ICGN Securities Lending Code of Best Practice explores aspects of this in greater detail.

1.5 While it is vital that companies ensure shareholders can exercise their rights of ownership, these rights must be exercised responsibly. Moreover, responsible behaviour on the part of shareholders will reinforce their claim to rights. Even where companies refuse the rights of ownership to their shareholders, this does not absolve the latter from seeking to influence the behaviour of the company. Responsible ownership requires high standards of transparency, probity and care on the part of institutions, which may be met by adhering to the principles set out below.

1.6 While practice will vary in detail between national markets, the principles that underlie high standards are constant. The annex to this paper therefore includes examples of how principles have been applied in different markets to provide useful guidance. In addition, the ICGN website provides a bibliography of relevant literature.

1.7 This statement follows on from the ICGN statement of October 2003. The Principles set out here reflect the fact that understanding of the different roles played by principals and agents has developed substantially even in this relatively short time. Institutions that comply with the enlarged principles will have both a stronger claim to the trust of their end beneficiaries and to the exercising of the rights of equity ownership on their behalf.

2.0 Definitions

2.1 In this statement the terms ‘institution’ and ‘institutional investor or shareholder’ are used to refer to professional investors who act on behalf of beneficiaries, such as individual savers or pension fund members. Institutional shareholders may be the collective investment vehicles, which pool the savings of many or the asset managers to whom they allocate the funds.

Examples of the former include: pension funds, insurance companies, and mutual funds. The investment arrangements for these institutional shareholders will vary according to type, and local law or regulation.

2.2 What characterises institutional investment is a separation of the ultimate beneficiary, for whom the investment is being made and who holds the economic interest, from the agent, who acts on behalf of the beneficiary.

2.3 The duty to act solely in the best interests of the beneficiary is called in some markets a ‘fiduciary’ duty, which requires prudence, care and loyalty. These duties cannot be delegated, even though the execution of the investment will involve other parties, who are referred to as agents of the beneficiary. The beneficiary is also referred to as the ‘principal’.

2.4 The agents in the process of investment have different roles and responsibilities. These agents form a chain of investment, which can be complex, depending upon the particular arrangements made. Typically the chain will include:

i A governing body

This is responsible for overseeing the investment process and ensuring that other agents play their role in meeting the institution’s objectives. The governing body may be a board of trustees, directors or a sole individual and beneficiaries may or may not have a role in their appointment, depending upon the type of institution. The responsibilities of the governing body should be consistent with its objectives and its operational and oversight role should be clearly defined. It should be clear to whom the governing body is accountable.

The governing body is the first agent in the chain of investment.

ii Asset managers

These are the agents who are responsible for execution of the investment mandate set by the governing body. The asset manager may be employed directly by the governing body, or be external and appointed on a contract. There may be a sole asset manager, or a series, for different asset categories or regions. The governance of the fund management body itself will also be a relevant issue in considering the chain of investment. Fund managers may be publicly listed companies with shareholders and board of directors. They may be privately owned, or structured as a trust.

iii Service providers

These support the governing body in deciding upon the fund manager's brief. For example, actuaries determine projected liabilities, and consultants may measure performance. Advisers may also be appointed by the governing body to assist with execution of the mandate, for example, through the appointment of research, advisory or vote execution services and in some cases representation to companies on behalf of the governing body. While governing bodies may delegate certain functions to service providers, they should retain responsibility for the oversight and management of these providers.

iv Custodians

They are responsible for the safekeeping and maintaining of records for the assets of the fund, be these in electronic or paper form, but including shares, cash deposits, notary receipts. The custodian may sub-contract part of this function, for example, to administrators of nominee accounts. Where this happens, institutions have a right to expect that sub-custodians will recognise the natural rights of beneficial owners and their agents.

v Pension fund or other clients' assets should be legally separated from those of the custodian. The custodian cannot absolve itself of responsibility by entrusting to a third party all or some of the assets in its safekeeping.

2.5 The ICGN Principles of Shareholder Responsibility are directed at all those in the investment chain who act as an agent for another party. This primarily means the first two parties in the investment chain as described above, namely the governing body and the asset managers. These in turn will be responsible for securing the best quality contribution from service providers and custodians.

3.0 Internal Governance

3.1 As described above, different intermediaries in the institutional investment chain play different roles. Each intermediary should have internal governance arrangements that reflect the particular nature of their own role and responsibilities. The over-arching obligation of each of the intermediaries is to safeguard the interests of beneficiaries.

3.2 Four main elements apply to the internal governance of those involved in the investment chain if this fundamental principle is to be met:

i Oversight

Arrangements for oversight of agents should be such that decisions taken at every stage along the investment chain reflect the interest of their ultimate beneficiaries.

Governing bodies should have a structure and constitution, which reflects this and should be disclosed to beneficiaries. They should have mechanisms in place to receive feedback from beneficiaries and respond to their concerns.

Governing bodies, and where relevant, individuals in a fiduciary position of responsibility for ultimate investors, such as pension fund trustees and representative boards, should be aware of their primary oversight role. They should be clear about the objectives of their beneficiaries, communicate them to portfolio managers and other agents employed and ensure they are being met. They should make clear which, if any, public or regulatory authorities have responsibility to monitor and enforce their fiduciary functioning.

The way in which individuals are appointed to serve on the governing body should be disclosed as well as the criteria that are applied to such appointments. Such criteria should always take account of the need for expertise and understanding of the matters for which the governing body is responsible.

A most important factor will be the behaviour of those who sit on the governing body. It is essential that the oversight structure provides for robust decision-making so that investment and voting decisions are taken in the interest of the beneficiaries and do not reflect other objectives of those involved.

The structure of such bodies will vary from market to market and may be determined by regulation or legislation. Whatever the structure it is important that every individual who participates acts in an independent manner and in line with the overarching objective of safeguarding the best financial interests of beneficiaries. Such expectations should be set out clearly in the constitution of the governing body.

Independent decision-making is easier to achieve if the structure of the governing body is balanced with all relevant interests represented. In particular it is not desirable that the plan sponsor or employer dominate the governing body. Where this is the case, consideration should be given to the representation of individuals accountable to beneficiaries even if this is not mandatory.

A serious conflict of interest may also arise where the plan sponsor is a government or other public authority and who may take voting and investment decisions that reflect their public policy objectives rather than the interests of the beneficiaries. Where this is the case there is an additional need to ensure a majority of independent participants on the governing body.

ii Transparency and accountability

This requires regular disclosure to ultimate beneficiaries about material aspects of governance and organisation. Governing bodies should develop clear standards with regard to governance of investee companies and its link to the investment process through its impact on value, and for voting of shares and related issues like stock lending. The standards should inform their selection of portfolio managers and other agents.

Governing bodies should be critical both in the selection of consultants and in evaluating the advice they receive from them, and ensure they receive value for the fees they pay, including for brokerage. Where they or their agents outsource services, they should disclose the name of the provider of the services in question, the nature of the mandate they have been given and procedures for monitoring performance of the provider.

Governing bodies should hold their portfolio managers and other agents employed to account for adhering to the standards set for them. They should develop clear channels for communicating their policies to beneficiaries, their portfolio managers and the companies in which they invest. They should regularly evaluate and communicate their achievements in meeting these policies.

Asset managers and others in a similar agency position should also develop clear decision-making procedures and policies with regard to the governance of investee companies and for voting of shares held on behalf of clients. Their incentive structures should reflect the interests of the beneficiaries. Charges incurred on clients' behalf, for example brokerage commissions and payment for research should be justifiable. Asset managers should encourage brokers and research analysts whose services they use to factor governance considerations into their reports.

iii Conflicts of interest

Conflicts of interest will inevitably arise from time to time. It is of paramount importance that these are recognised and addressed by governing bodies and other agents in the chain, if the overarching principle of safeguarding the interest of beneficiaries is to be respected.

Those acting as agents should disclose all known potential conflicts of interest to their principal and explain how these are dealt with so as to protect their clients' interests.

The governing body should have clear policies for managing conflicts and ensure that they are adhered to. This in turn requires an appropriate governance structure as set out above.

iv Expertise

Decision makers along all parts of the investment chain should be appropriately resourced and meet relevant standards of experience and skill in matters subject to deliberation.

Governing bodies should have the right to outside advice, independent from any received by the sponsoring body. Portfolio managers and others in a similar agency position should deploy sufficient, qualified resources to meet clients' expectations. Delegation of key processes such as engagement with companies, voting decisions and execution does not absolve agents involved in the investment process from their fiduciary responsibility to beneficiaries. They should be able to justify to beneficiaries specific actions taken on their behalf whether by themselves or by those to whom specific services are outsourced.

4.0 External Responsibilities

4.1 High standards of corporate governance will make boards properly accountable to shareholders for the companies they manage on their behalf. They will also help investee companies make sound decisions and manage risks to deliver sustainable and growing value over time Pursuit of high standards of governance is therefore an integral part of institutions' fiduciary obligation to generate value for beneficiaries.

4.2 It follows that corporate governance considerations should be integrated into the investment process. Moreover, general benefits from high standards of governance will accrue over time only if all institutions are working to play an appropriate part.

4.3 Shareholder rights should always be exercised with the objective of delivering sustainable and growing value in mind. This requires attention to the specific situation of the company concerned rather than the formulaic application of governance rules. Instead of seeking to interfere in the day-to-day management of the company, institutional shareholders and their agents should actively engage in a constructive relationship with investee companies to increase mutual understanding, resolve differences, and promote value creation.

4.4 A relationship of trust is more likely to be achieved when institutional shareholders and their agents can demonstrate that they are exercising the rights of ownership responsibly. These include:

i Application of consistent policies

Just as it is important for beneficiaries to be informed of the governance policies adopted by those that act for them, so it is important for companies to be aware of the policies that shareholders are likely to adopt. In most markets this has been made easier by the development of corporate governance codes, which set standards for both sides to understand and apply.

Shareholders should be clear what standards they are applying, and how they monitor investee companies. Where this could lead to a negative vote or an abstention at a general meeting, the company's board should be informed of this, ideally in writing, and of the reasons for the decision, at least in respect of significant holdings.

Institutional shareholders should periodically measure and review the effectiveness of their monitoring and ownership activities and communicate the results to their beneficiaries, in such a way as to enhance their understanding without compromising specific engagement efforts.

ii Engagement with companies

Responsible owners should make use of their voting rights. A high voting turnout at general meetings will help ensure that decisions are sound and representative.

Successful engagement, however, requires more than considered voting. It should also include: maintaining dialogue with the board on governance policies in order to address concerns before they become critical; supporting the company in respect of good governance; and consulting other investors and local investment associations where appropriate.

When engaging with companies about governance issues, shareholders should respect market abuse rules and not seek trading advantage through possession of price sensitive information. Where appropriate and feasible, they may consider formally becoming insiders in order to support a process of longer term change. At the outset of engagement with companies they should make it clear whether or not they wish to become insiders. They should encourage companies to ensure that all sensitive information and decisions resulting from engagement are made public for the benefit of all shareholders.

They should consider working jointly with other shareholders on particular issues. In working with other investors, they should also respect rules with regard to concert parties. Institutions should encourage regulators to develop rules with regard to both market abuse and ‘concertation’ that can be enforced sensibly and do not inhibit reasonable collaboration between shareholders or constructive dialogue more generally.

Investors should have a clear approach for dealing with situations where dialogue is failing. This should be communicated to companies as part of their corporate governance policy. Steps that may be taken under such an approach include: expressing concern to the board, either directly or in a shareholders’ meeting; making a public statement; submitting resolutions to a shareholders’ meeting; submitting one or more nominations for election to the board as appropriate; convening a shareholders’ meeting; arbitration; and, as a last resort, taking legal actions, such as legal investigations and class actions.

iii Voting

Beneficial owners, or the governing bodies that invest on their behalf, have the ultimate right to vote. Markets collectively have a duty to oppose the abuse of voting power by those who do not enjoy beneficial ownership.

Voting is not an end in itself but an essential means of ensuring that boards are accountable and fulfilling the stewardship obligation of institutions to promote the creation of value. Institutional shareholders should therefore seek to vote their shares in a considered way and in line with this objective. They should develop and publish a voting policy so that beneficiaries and investee companies can understand what criteria are used to reach decisions. Voting decisions should reflect the specific circumstances of the case. Where this involves a deviation from the normal policy institutions should be prepared to explain the reasons to their beneficiaries and to the companies concerned.

Asset managers should have appropriate arrangements for reporting to beneficiaries on the way in which voting policy has been implemented and on any relevant engagement with companies concerned. As a matter of best practice they should disclose an annual summary of their voting records together with their full voting records in important cases. Voting records should include an indication of whether the votes were cast for or against the recommendations of the company management. The ICGN encourages transparency and consideration should be given to the merit of voluntary public disclosure of an asset manager's voting record as this may be a way of demonstrating a commitment to accountability and to show that conflicts of interest are being properly managed. As the level of public disclosure has increased in major markets, it is helpful if asset managers explain their thinking on public disclosure even when they have decided not to disclose.

Institutions should seek to reach a clear decision either in favour or against each resolution. In defined or specific cases, institutions may wish to abstain in order to signal to the company. This may be either that it is in danger of losing support if it persists with a particular policy or that it is moving in the right direction but has not yet implemented an appropriate policy. In either case the reason for the decision should be properly communicated to the company.

Where ownership responsibilities are outsourced, institutions should disclose the names of agents to whom they have outsourced together with a description of the nature and extent of this outsourcing and how it is regularly monitored. Where they feel it is not appropriate to name the agents they have employed, they should explain their reasons.

Institutions should work proactively with other intermediaries and, where appropriate, regulators to remove barriers to voting wherever they occur in the chain.

iv Addressing corporate governance concerns

Institutions risk failing in their responsibilities as fiduciaries if they disregard serious corporate governance concerns that may affect the long-term value of their investment. They should follow up on these concerns and assume their responsibility to deal with them properly.

Such concerns may relate to:

Transparency and performance, including the level and quality of transparency; the company's financial and operating performance, including significant strategic issues; substantial changes in the financial or control structure of the company; the accounting and auditing practices of the investee company

Board structures and procedures, including the role, independence and suitability of non-executives and/or supervisory directors; the quality of succession practices and procedures; the remuneration policy of the company; conflicts of interest with large shareholders and other related parties; the composition and adequacy of the internal control systems and procedures; the composition of the audit and remuneration committees; the management of environmental and ethical risks

Shareholder rights, including the level and protection of shareholder rights; minority investor protection; proxy voting arrangements; the independence of third party fairness opinions rendered on transactions.

5.0 Conclusion

Implementation of these principles by institutional shareholders will help generate sustainable returns for beneficiaries and secure a healthy corporate sector. While the application of the principles set out here will vary according to market conditions, including the legal framework, markets can learn from each other.

Annex

This annex is intended to give practical help to those interested in following the principles set out in the statement. While the principles are intended to be of general relevance, the cultural and legal circumstances facing institutions vary widely from market to market. In Part 1 of the Annex we have therefore assembled a short explanation of terms, which amplifies some of the expressions used in the main document. In Part 2 we have assembled a number of practical examples of how institutions seek to exercise their responsibilities in different markets. The aim is to help shareholders learn from each other's experience. Part 3 will be expanded to contain a bibliography with web-links to additional material.

The ICGN considers this Annex as a live document. The Committee on Shareholder Responsibilities welcomes examples from ICGN Members and others on how challenges in particular markets have been overcome as well as on useful additional documents that could be included in the bibliography. The Committee will periodically review submissions received and add to the Annex those that it considers may prove of broad interest. Where it comes across examples of good practice that it considers of interest, the Committee will actively commission descriptions that can be included in the Annex. Over time this will both further general understanding of best practice and help the ICGN monitor progress in acceptance of the statement of principles.

The Committee will report periodically to members through the ICGN newsletter on major changes and additions to the annex.

1 Explanation and amplification of terms

Conflicts of interest

These can arise in a number of different ways because the agent's own interests do not coincide with those of the principal to whom he or she is responsible. Relevant examples, which are often cited, are:

- an asset manager may have pension fund management business from a company with whom it is engaging on governance matters on behalf of other clients;
- asset managers may be incentivised to direct trades to specific brokers through the provision of "free" research. Their fee structure may encourage them to boost returns in the short term rather than undertake the engagement that a long-term horizon requires;
- stock-lending may boost short-term returns, even thought this means losing the right to vote;

- an asset manager may be part of a large financial organisation which may have divisions seeking to do corporate finance business with investee companies or which may provide custodian services to the asset manager and its clients;
- an institution may be the main shareholder in a particular company and therefore motivated to act in its own interest rather than that of all holders.
- pension plan sponsors may wish to reduce their company's contributions to the scheme even though this entails a risk for the members that the scheme may be under-resourced;
- a pension fund may hold shares in its sponsoring company and come under pressure to vote with management;
- labour representatives on a governing board may act to preserve jobs of existing members, for example through the way in which a vote on a merger or acquisition is exercised;
- in the case of funds serving public sector employees, politicians may be members of governing bodies. Asset managers providing services to these funds may be pressed to provide campaign donations.

It is important for all participants in the investment chain to consider what potential conflicts of interest exist for them and for those that are accountable to them. Agents should disclose these to their principal and explain how they are dealt with to protect the principal's interests. Governing bodies should consider making rules or setting procedures for dealing with conflicts and these should be disclosed and discussed with those involved.

Cost benefit considerations

There is no absolute measure for cost benefit considerations. The equation may vary according to the size of the institution and the size of the particular holding. For example, small institutions will not have the resources on their own to engage actively with all the companies in their portfolio, though they should still make considered use of their voting rights, especially in controversial situations. Sometimes it may be sensible for small institutions to exercise their ownership responsibilities as part of a larger alliance or coalition.

Even larger institutions may not find it productive to devote large resources to engagement with companies in which they have only a small stake either. Engagement resources should be sufficient to meet the needs and expectations of beneficiaries but they should be applied where they are most productive.

Disclosure of voting

Some countries now require institutional shareholders to disclose their voting record publicly as a matter of course. Even where this is not the case, institutions should disclose to their clients or the governing body that represents beneficiaries a periodic summary of their voting records together with their full voting records in important cases and an account of the general results of their engagement policies.

The nature of the disclosure should reflect the needs and expectations of the beneficiaries of the governing body that represents them. Disclosure should be sufficiently regular to be meaningful, but may be in arrears with a time lag that ensures engagement efforts are not undermined while still ensuring relevance. Voting records should normally include an indication of whether the votes were cast for or against the recommendations of the company management. The summary should also state whether the full holding was voted or whether some shares were not voted, for example because they had been lent.

2 Practical examples from national and international markets

Canada: Governance arrangements for bcIMC

The province of British Columbia's pension fund manager, bcIMC (www.bcimc.com), has an internal governance structure that is designed to facilitate both stakeholder involvement and accountability.

bcIMC has its own board of directors which provides direct corporate or operating oversight of bcIMC management. However, the bcIMC board is prohibited by legislation from getting involved in the investment decisions bcIMC makes on behalf of governing fiduciaries and ultimately, fund beneficiaries. Rather the governing fiduciaries of client pension and trust funds are responsible for oversight of investment activities, in particular for ensuring the fund's assets are invested in a prudent and appropriate manner. As a result, approximately 100 individuals participate in bcIMC's governance either as members of its board of directors or as governing fiduciaries.

BcIMC considers that the layering of governing fiduciary oversight on its corporate governance has created a strong and purposeful dual accountability framework.

International: UN Principles for Responsible Investment (UNPRI)

The Principles for Responsible Investment (PRI), launched by UN Secretary-General Kofi Annan, now have over 150 signatories, representing more than US $6,000bn in assets under management. Signatories include pension funds such as CalPERS, British Telecom Pension

Scheme, the Norwegian Government Pension Fund and ABP, as well as asset managers such as Hermes, Insight Investment, Mitsubishi UFJ Trust and Banking, and HSBC Asset Management. The full list of signatories can be found at www.unpri.org/signatories.

The PRI initiative is an investor-led partnership between the institutional investor signatories and the United Nations. The Principles contain six aspirational commitments around integration of environmental, social and governance (ESG) issues into investment management, active ownership and engagement, transparency, encouraging systemic change throughout the investment chain, and collaboration. Each Principle contains a menu of possible actions that signatories can undertake in fulfilment of their commitments.

The PRI initiative has also established the world's first shareholder engagement 'clearinghouse' where signatories share collaborative engagement opportunities using a web-based Intranet and monthly email bulletin. Over 40 invitations-to-engage have been posted in recent months, covering a broad range of environmental, social and corporate governance issues, and many new collaborations have emerged. While the corporate governance movement has led the way in investor collaboration, this is the first forum linking investors globally on a broad range of environmental, social and governance-related issues. The PRI Engagement Clearinghouse is not designed to replace or compete with existing investor initiatives, but rather provide opportunities for these initiatives to expand their support base and geographic reach.

In addition to networking signatories around engagement activities, the PRI Secretariat is also developing a range of education and awareness-raising activities around all aspects of PRI implementation. A training program will be conducted in the second half of 2007 focusing particularly on emerging markets and the issues that local and international investors face in addressing ESG issues in these markets. The training program will be backed by the development of implementation resources for each Principle across different asset classes.

For information on becoming a signatory, email info@unpri.org or go to www.unpri.org

International: Enhanced Analytics Initiative

The Enhanced Analytics Initiative is an international collaboration between asset owners and asset managers aimed at encouraging better investment research, in particular research that takes account of long-term investment-relevant issues. The Initiative's total assets under management are now approximately US $2,400bn.

EAI was created to address the absence of quality, long-term research in the market. The Initiative incentivises research providers to compile better and more detailed analysis of issues that have a bearing on company valuations in the long-term *within* mainstream research. Its impact depends on offering credible market incentives to research agencies to encourage them to adapt their research process and to become more innovative.

EAI's membership and the assets under management continue to grow as both pension funds and asset managers increasingly understand the importance of supporting change that ultimately promotes more informed investment decisions. For too long, asset owners and asset managers have accepted a situation where critical issues have not been considered as a necessary part of traditional fundamental analysis. The good news is that evidence suggests the research community is already responding to the needs of long term investors.

In addition, we are starting to see asset owners, both members and non-members, building membership of EAI into their fund management selection criteria.

The current members are ABP Pension Fund, AGF Asset Management, AXA Investment Managers, Bâtirente, BNP Paribas Asset Management, BT Pension Scheme, CalSTRS, Calvert, CPP Investment Board, Generation Investment Management, Governance 4 Owners, Hermes Pensions Management, Investec Asset Management, La Banque Postale Asset Management, London Pension Fund Authority, MetallRente, Mistra, PGGM, RCM - Allianz Global Investors, SNS REAAL, Robeco, Trades Union Congress (TUC) Superannuation Society, UniSuper and the Universities Superannuation Scheme (USS).

For more information contact Jennifer Walmsley: j.walmsley@hermes.co.uk or go to www.enhanced-analytics.com

UK: National Association of Pension Funds Case Committees

Case Committees have been around for many years in the UK, falling into disuse in the nineties, before being revived by the NAPF in 2003. Since then there have been around five formed each year. Over the years they have proved an effective way for investors to collaborate to encourage change in company behaviour.

The concept is a simple one: "to provide a forum for investors to share, on a confidential basis, concerns about any aspect of a company's strategy or management which they see as threatening or undermining shareholder value and to decide what actions, if any, they should take."

The committees are ad hoc and are facilitated and supported by the NAPF for its members and at the request of its members, but they are not committees of the NAPF. Committees are called by a member or members who wish to share their concerns and the NAPF will contact other investors on a no-names and confidential basis to assess the appetite for convening a committee. They can deal with a wide range of issues, from board governance to the company's business strategy. It is key to their success that there be a common view about the issues which need to be addressed. Some will require a brief and non-confrontational discussion with the company but at an extreme there could be a need to use the press or seek legal advice where the problems are so deep-seated as to be insoluble by other means. It is the former approach which is much to be preferred and indeed is the more likely route of the engagement. Finally, committees last only as long as the engagement.

The constitution and terms of reference of each Committee will depend on the circumstances, but at the outset the following need to be decided:

i whether the members have common concerns;
ii the manner in which any legal or other costs incurred (if any) are to be authorised and allocated between the members of the Case Committee;
iii the membership of the Case Committee;
iv whether collaboration with any other body should be considered.

Since they were first established, it has been the practice that the existence and decisions of a Case Committee have been strictly confidential unless the Committee itself decides otherwise. It is then up to the Committee to determine how it will take forward any external communications.

USA: Investment Protection Principles

In July 2002 three US state pension funds - New York, California and North Carolina retirement plans - took steps which they asserted would aim to squeeze conflicts and misalignments out of the investment chain. The "Investment Protection Principles" commit funds to require money managers to report on conflicts, how they pay their portfolio managers, and what they do to act as real owners of citizen capital "as a condition of future retention." Funds are now to include these factors when they hire, supervise and fire portfolio agents. Within months signatories had grown to 17 state pension funds.

Following the Principles, for instance, the CalPERS board adopted rules requiring current and new money managers to disclose a number of items, including:

- client relationships, including management of corporate 401(k) plans, where the money manager could invest CalPERS assets in securities of the client;

- how portfolio managers and research analysts are compensated, including any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients;
- the amount of commission paid and percentage related to CalPERS assets to broker dealers.

Equity and bond managers are required to:

- adopt safeguards to ensure that client relationships of any affiliated company do not influence the investment decisions of the firm;
- seriously consider the integrity and quality of a company's accounting and financial data, and corporate governance policies before investing CalPERS assets in the company.

Broker dealers with investment analysis are required to:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination;
- disclose in research reports whether a firm has received or is entitled to receive any compensation from a covered company over the past twelve months;
- establish a monitoring process to ensure compliance with the principles.

A copy of CalPERS' investor protection principles can be found on the System's Shareowner Forum web site at www.calpers.ca.gov, and click "Financial Market Reform Principles."

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