



## Summary of the 2<sup>nd</sup> Global Asset Owners' Forum

The 2<sup>nd</sup> Global Asset Owners' Forum was convened by GPIF on May 3<sup>rd</sup>, 2017 in California, United States. The asset owners represented at the Forum included:

Government Pension Investment Fund (GPIF)\* – Japan  
California Public Employees' Retirement System (CalPERS)\* – USA  
California State Teachers' Retirement System (CalSTRS)\* – USA  
Florida State Board of Administration (SBAFLA) – USA  
The Regents of University of California – USA  
World Bank Treasury – USA  
Harvard's Endowment – USA  
Washington State Investment Board – USA  
British Columbia Investment Management Corporation (bcIMC) – Canada  
Ontario Teachers' Pension Plan (OTPP) – Canada  
Ontario Municipal Employees' Retirement System (OMERS) – Canada  
Ontario Public Service Employees Union Pension Trust (OPTrust) – Canada  
Établissement de Retraite Additionnelle de la Fonction Publique (ERAFP) – France

\* Three asset owners are organizers of the Forum.

The goal of the Forum is to facilitate the exchange of ideas and opinions among global public pension funds on Environmental, Social and Governance (ESG) issues as well as share best practices in aligning asset owners' interests with those of asset managers. The following points summarize the topics discussed at the Forum:

### 1. **Terminology:**

The investment community seems to interchangeably use the terms Responsible Investing (RI), Corporate Social Responsibility (CSR), Sustainability and Environmental, Social and Governance (ESG) to address similar issues. Among all these, it seems ESG is the most

broad-based and widely-accepted term used. While the end goal is to consider ESG investment risk through the lens of a fiduciary, some terminology can alienate constituencies depending on the political climate, such as using “climate change” versus “climate risk”.

2. ***Integrating ESG Issues:***

Effective integration of ESG issues in the investment decision making process involves focusing on discrete, high-priority issues such as managing climate risk. Viewing ESG as one component of an overall risk mitigation effort tends to garner more support from asset managers as well as asset owners. Improved ESG data and disclosure is needed to help investors effectively manage ESG risk and accurately value investments. It would be helpful if investors could more clearly define and prioritize material ESG factors. This would provide better guidance to the empirical research community concerning relevant research topics.

3. ***Divestment versus Engagement:***

Divesting from a company or an investment for a cause deprives asset owners of their potential to effectively engage the company on the issues of concern. Staying invested and carrying out persistent engagement is likely to produce better long-term results.

4. ***Quality and Consistency of ESG Ratings:***

Currently available ESG scores from various research providers seem to have wide dispersion. To fully understand any miscorrelation of ESG scores from different vendors, it would be helpful if ESG rating companies fully disclose their ESG scoring methodology.

5. ***External Asset Managers’ Executive Compensation:***

Proper alignment of interest is essential for an effective relationship between asset owners and external managers, particularly concerning incentives, fees, liquidity and transparency. The incentive economics within the external manager’s firm would be optimal if all staff members involved in the investment decision making process are properly incentivized, as opposed to rewarding only the top executives. Performance incentives should be aligned to include longer-term time periods. The sustainability of the external manager’s firm should also be considered by evaluating leadership turnover and succession planning.

6. ***Collaboration in Legal Actions:***

Many global asset owners are involved in similar legal litigations and class action lawsuits associated with their investments. In cases where close collaboration is warranted, asset

owners can potentially reduce litigation cost by leveraging and sharing each other's legal expertise and research. The Forum is considering a follow up discussion on potential legal collaboration in fall 2017.

The attendees at the forum unanimously agreed to release a summary of discussions on the Chatham House Rule basis.

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