Sustainable Investing for Institutional Investors

5th Annual CFA Sustainable Investment Conference
2018
The United Nations Joint Staff Pension Fund (UNJSPF) is a defined benefit fund established by the General Assembly of the United Nations in 1948, which:

- The Office of Investment Management (OIM) manages a US$65 billion multi-asset, global investment portfolio, 85% of which is actively managed in-house.

- Invests globally in over 100 countries and regions, and in multiple asset classes (global equities, global fixed income, private equity, real estate, infrastructure, timber, and commodities).

- Entrusted to provide retirement, death, disability and other benefits and related services to its participants, retirees and beneficiaries, currently comprising over 205,000 staff and retirees of the United Nations and 23 other organizations admitted to membership in the Fund.

- Has a long-term investment return target of 3.5% real annualized in USD terms, which it has to achieve while remaining within approved risk tolerance parameters and meeting investment criteria mandated by the General Assembly.
Why sustainability matters: a world in transition

Unpredictability, nonlinearity, and circularity of cause-and-effect relationships within these systems is a notable departure from the simpler, linear models that underpin traditional management and investment thinking.

Risk management is based on resilience: heterogeneity, redundancy, and modularity – properties that enable systems to withstand and adapt to shocks.
The Value of money is undervalued: CSR=ESG=SDG=TSR

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- Sustainable investing is not about philanthropy, it is our fiduciary responsibility to evaluate all factors which could materially impact the long-term risk-return profile of our portfolio, including ESG factors.
• The UNJSPF’s Investment Policy Statement addresses Environmental, Social and Governance (ESG) concerns by explicitly prohibiting investments in the tobacco and armaments sectors, while it does not mandate divestment in other areas.

• The Fund acknowledges its responsibility to society as part of an international organization committed to social progress by being a founding signatory to the Principles for Responsible Investment (PRI) and its association with the United Nations Global Compact (UNGC) and the UN Environment Program (UNEP) Finance Initiative.

• Our Sustainable Investment strategy is aligned with our fiduciary duty and responsibility, which includes material Environmental, Social and Governance (ESG) considerations which we are in the process of integrating throughout the investment decision making process.
We believe that portfolios which take into account material ESG metrics in their investment decision making process have the potential to provide returns that are superior to those of conventional portfolios, while exhibiting lower risk over the long term.

We started our ESG journey by restricting investments in armaments and tobacco. OIM became a signatory to the PRI in 2006. This was followed by investing in the first Green bonds in 2008, and being the catalyst investor in Low Carbon Exchange Traded Funds in 2014.

As of 2016, we started to develop an integrated approach to Sustainable Investing.
Our Goal: Sustainable Investing across all asset classes

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OIM is in the process of full implementation

- The UNJSPF aims to holistically integrate ESG metrics into the investment process, so that portfolio managers have a broader set of tools to make more optimal investment decisions.

- For internally managed equity and fixed income, we are piloting a four stage process, tailored around PRI’s recommendations.

- The UNJSPF external advisors for private markets integrate a comprehensive analysis of ESG issues into their due diligence process.
Monitoring, analyzing & reporting ESG Metrics

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**ESG Universe Radar Screen:** Reputational Risk Management & Universe Monitoring

**ESG Portfolio Analytics:** Snapshot Scoring, Custom Screening, Attribution & Carbon Intensity & Footprint Analysis

**ESG Company Analytics:** Deep-dive Analytics, Scoring & Trend Summary & Qualitative Analysis

**Corporate Engagement:** Company Engagement, Record Retention and Proxy Voting (ESG & Controversies)
Core Elements of Recommended Climate-Related Financial Disclosures

- **Governance**
  The organization’s governance around climate-related risks and opportunities

- **Strategy**
  The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

- **Risk Management**
  The processes used by the organization to identify, assess, and manage climate-related risks

- **Metrics and Targets**
  The metrics and targets used to assess and manage relevant climate-related risks and opportunities
“About 80% of all new energy-related foreign investment are now going toward alternative energy sources”
UNJSPF’s sustainable investment strategy is continually evolving as new tools become available, and our partnership with Entelligent is an important step forward in this evolution.

In that context, OIM’s 2014 efforts to signal our commitment to a low carbon strategy through a passive investment in low carbon Exchange-Traded Funds (ETFs) was just the first step.

We are now planning to move to an active strategy by using a highly sophisticated climate and energy simulation model to assess companies’ ability to adapt to various carbon emission scenarios. This nonfinancial “E” score will be used as an input factor in our proprietary ESG investment-decision supporting technology.

“The investment feedback loop below shows how investors can accelerate carbon-reduction goals by motivating firms to invest more in alternative energy sources while simultaneously aligning portfolios to more favorable climate scenarios”*
UN Green Bond Portfolio vs. Green Bond Market (*Use of Proceeds)

Source: Bloomberg

*Use of Proceeds = Outstanding – Cumulative Issuance
Measuring SDG impact: a research project

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SDG Impact Across Industries/Sectors
Calculated for Benchmark

SDG Impact Across Industries/Sectors
Calculated for public Equity Portfolios
An active sustainable voting policy combined with an engagement approach, creates a more effective positive sustainable impact and change consistent with our mission.

The Fund believes in an effective and productive dialogue with company management in order to affect corporate behavior and advocate for better action and outcomes.

Sustainability voting policy seeks to promote sustainable business practices and stewardship that advocates for improving the environment, fair labor practices, non-discrimination, and the protection of human rights.

OIM believes that engagement delivers greater and more enduring long-term impact, and divestment from individual investments is always available as an option in the event engagement does not produce the desired results.
Recognition of our sustainable investing approach

The Fund is also an active participant in the Asset Owners Disclosure Project (AODP), CERES | Climate Action +100 Initiative, PRI & Bretton Woods II Responsible Asset Allocator Initiative

Our sustainable investment approach has been recognized:

• Awarded an A+ rating for the PRI in 2018

• Ranked number #17 out of 500 investment managers in the 2017 Asset Owners Disclosure Project (AODP)

• Ranked number #7 out of 100 global pension funds in the 2018 Asset Owners Disclosure Project (AODP)

• Recognized as one of the top twenty-five most responsible asset allocators in the Bretton Woods II List for 2017
Sustainable Investing is an imperative, not an option...

Our Approach to Sustainable Investing

As a signatory to the United Nations' Principles of Responsible Investing or PRI, the Office of Investment Management (OIM) incorporates environmental, social and governance (ESG) considerations throughout the investment decision-making process.