Report on Sustainable Investing 2018
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the UNJSPF</td>
<td>6</td>
</tr>
<tr>
<td>Investment Policy Statement and Highlights</td>
<td>8</td>
</tr>
<tr>
<td>OIM Sustainable Investing Approach</td>
<td>9</td>
</tr>
<tr>
<td>Our ESG Journey</td>
<td>10</td>
</tr>
<tr>
<td>Three Pillars of ESG Integration</td>
<td>11</td>
</tr>
<tr>
<td>Environmental, Social, and Governance (ESG) Integration</td>
<td>13</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>15</td>
</tr>
<tr>
<td>Equity</td>
<td>16</td>
</tr>
<tr>
<td>Private Equity</td>
<td>17</td>
</tr>
<tr>
<td>Real Estate</td>
<td>18</td>
</tr>
<tr>
<td>Sustainability, Innovation, and Achievements</td>
<td>19</td>
</tr>
<tr>
<td>Partnerships and Global Initiatives</td>
<td>22</td>
</tr>
<tr>
<td>2019 Outlook</td>
<td>25</td>
</tr>
</tbody>
</table>
Introduction

The mission of the Office of Investment Management (OIM) is to contribute to the global mission of the United Nations (UN) family of organizations by ensuring the long-term financial sustainability of the United Nations Joint Staff Pensions Fund (UNJSPF). The defined benefit lifetime pension provided by the UNJSPF to staff and their survivors is a vital component of the UN family’s employee value proposition. It enables the UN family to continue to attract the best and the brightest from around the world to serve with them, in an era otherwise defined by resource constraints.

In pursuit of this mission, we have articulated a vision for OIM: to become a best-in-class global long-term investment institution, defined as an organization able to deliver to its stake-holders superior returns over the long term – net of costs, adjusted for risk, and relative to peers.

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 through its association with the United Nations Global Compact (UNGC) and the United Nations Environment Programme Finance Initiative (UNEP FI).

OIM seeks to ensure, on a best efforts basis, that the investments of the Fund conform to the high ethical standards of the United Nations, and do not violate the aims, principles and purposes of the United Nations, as set forth in its Charter.

OIM has begun the process of integrating environmental, social and governance (ESG) factors into our investment decision-making process.

We believe that portfolios which are able to do this successfully have the potential to provide returns that are superior to those of conventional portfolios, while exhibiting lower risk over the long term.

Our approach to sustainable investing is therefore entirely consistent with our fiduciary responsibility to meet or exceed our Long-Term Investment Objective.

The Fund restricts investments in the tobacco industry and in the securities of companies producing controversial weapons, including weapons of mass destruction.

The Fund adheres to sustainable investment proxy voting guidelines in partnership with a leading global provider. OIM’s sustainable voting policy promotes sustainable business practices, fair labour practices, non-discrimination, the protection of human rights, and gender diversity on boards, among other objectives.

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.

Our office has made substantial efforts in recent years to develop our approach to sustainable investing.

This is our first report on the Fund’s approach to sustainable investing. We hope to make this an annual publication.
The actuarial required long-term real rate of returns in US Dollars.

**Fund Investments by Asset Class**
As of December 31, 2018

- **5%** Cash & Short Term
- **27%** Global Fixed Income
- **4%** Alternative Investments (e.g., private equity)
- **7%** Real Assets (e.g., real estate, infrastructure, and commodities)
- **57%** Global Equities

**Internally Managed Assets**
As of December 31, 2018

- **16%** Externally Managed
- **84%** Internally Managed

**Long-Term Investment Objective** (as of 31 December 2018)

<table>
<thead>
<tr>
<th>Horizon</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 years</td>
<td>5.4%</td>
</tr>
<tr>
<td>15 years</td>
<td>4.0%</td>
</tr>
<tr>
<td>20 years</td>
<td>3.5%</td>
</tr>
<tr>
<td>25 years</td>
<td>4.1%</td>
</tr>
<tr>
<td>50 years</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

*3.5%*

*The actuarial required long-term real rate of returns in US Dollars.*
Countries and regions\(^*\) where the Fund has investments (as of Dec 31, 2018)

**AFRICA**
- Angola
- Botswana
- Cameroon
- Chad
- Ethiopia
- Gabon
- Ghana
- Kenya
- Malawi
- Mauritius
- Mozambique
- Namibia
- Nigeria
- Rwanda
- Senegal
- South Africa
- Togo
- Uganda
- United Republic of Tanzania
- Zambia
- Zimbabwe

**ASIA & THE PACIFIC**
- Australia
- Bangladesh
- China
- India
- Indonesia
- Israel
- Japan
- Kazakhstan
- Malaysia
- Marshall Islands
- New Zealand
- Philippines
- Republic of Korea
- Singapore
- Sri Lanka
- Taiwan\(^*\), Province of China
- Thailand
- Viet Nam

**AMERICAS**
- Argentina
- Bermuda\(^*\)
- Brazil
- Canada
- Cayman Islands\(^*\)
- Chile
- Colombia
- Dominican Republic
- El Salvador
- Grenada
- Mexico
- Peru
- Puerto Rico\(^*\)
- Suriname
- Trinidad and Tobago
- United States of America
- Uruguay
- Venezuela, Bolivarian Republic of

**EUROPE & CENTRAL ASIA**
- Armenia
- Austria
- Azerbaijan
- Belgium
- Bosnia and Herzegovina
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Georgia
- Germany
- Greece
- Guernsey\(^*\)
- Hungary
- Ireland
- Italy
- Jersey\(^*\)
- Latvia
- Luxembourg
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russian Federation
- Serbia
- Slovenia
- Spain
- Sweden
- Switzerland
- Turkey
- Ukraine
- United Kingdom of Great Britain and Northern Ireland

\(^*\)Regions are geographical entities which are not Member States of the United Nations.
The Office of Investment Management

The Office of Investment Management (OIM) is responsible for managing the investments of the United Nations Joint Staff Pension Fund (UNJSPF).

Established in 1949 (per UNJSPF rules and regulations), the defined-benefit fund provides retirement, death, disability and related benefits. Its members include more than 207,000 staff and retirees of the United Nations (UN), and 23 other member organizations.

Our Mission

The mission of the Office of Investment Management (OIM) is to contribute to the global mission of the UN family of organizations by ensuring the long-term financial sustainability of the UN Joint Staff Pension Fund (UNJSPF). The defined benefit lifetime pension provided by the UNJSPF to staff and their survivors is a vital component of the UN family’s employee value proposition. It enables the UN family to continue to attract the best and the brightest from around the world to serve with them, in an era otherwise defined by resource constraints.

Office of the RSG

The Office of the Representative of the Secretary-General (RSG) provides oversight and overall management for OIM activities. It ensures that all investment operations support the financial objectives, maintain the sustainability of the Fund, and are in the best interest of the plan members. This involves setting overall fund strategy and creating the framework that OIM’s functional areas use to establish their respective strategies and priorities.

The RSG is supported by the Director and other specialized staff, including the Sustainable Investing Team.
Investments Group

The Investments Group is responsible for achieving the best possible investment return while avoiding undue risk. Over the short term, success is measured by the Group's ability to meet or exceed the return of the Policy Benchmark. It consists of ten teams:

- North American Equity
- European Equity
- Asia Pacific Equity
- Global Emerging Markets Equity
- Fixed Income and Treasury
- Real Estate
- Real Assets
- Alternative Investment
- Trade Execution
- External Managers

Risk and Compliance Group

The Risk and Compliance Group is responsible for identifying, measuring, and monitoring all aspects of the Fund's market and operational risks. In addition, the group implements adequate monitoring and control processes for the Fund's investments to ensure policy compliance.

Operations and Information Systems

The Operations and Information Systems Group is responsible for ensuring the security of the Fund. Operating and IT infrastructure environment is accomplished by maintaining and upgrading business applications and information systems infrastructure. The Group provides support throughout the entire investment process, including back office and accounting.

More than 126,000 participants pay into the fund each month.
The management of the investment of the assets of the UNJSPF is the fiduciary responsibility of the Secretary-General (SG) of the United Nations, in consultation with an Investments Committee, and in light of the observations and suggestions, made from time to time, by the Pension Board on the investment policy.

The Representative of the Secretary-General (RSG) has been delegated the responsibility and authority to act on behalf of the SG in all matters involving the fiduciary duties of the SG relating to the investment of the assets of the Fund, including representing the SG at meetings of the Investments Committee, the Board, and other meetings where investment matters pertaining to the UNJSPF are being discussed. The RSG is assisted by the Office of Investment Management (OIM). Investments must, at the time of initial review, meet the criteria of safety, profitability, liquidity and convertibility.

Investments are carried out within the framework of an Investment Policy Statement (IPS) which is usually updated comprehensively subsequent to the completion of an Asset-Liability Management (ALM) study, conducted once every four years. The Investment Policy Statement was last updated in 2016, and will be revised in 2019.

Investments in companies that derive any revenue from the production of tobacco and that primarily deal with manufacturing and distribution of tobacco and tobacco-related products are prohibited. In addition, the Fund shall not invest in securities of companies that derive any revenue from the production of military weapons systems or weapons of mass destruction, including nuclear, chemical, or biological weapons, or derive more than 10 percent of their revenue from the production of customized components for purposes of the production of military weapons, weapons systems or weapons of mass destruction.

**Highlights**

Our sustainable investment approach has been globally recognized, including:

- Awarded an A+ rating for the PRI in 2018
- Ranked number #7 out of 100 global pension funds in the 2018 Asset Owners Disclosure Project (AODP)
- Ranked number #17 out of 500 investment managers in the 2017 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 not about philanthropy or sacrificing returns to satisfy investor preferences. Rather, investment values are influenced by many global drivers:

- Technological advancements
- Environmental conditions and climate change
- Demographics and migration
- Natural resource supply
- Geopolitics
- Globalization

For that reason, we focus on how these global drivers impact the long-term financial viability of our investment decisions by integrating Environmental, Social, and Governance (ESG) factors.

Here at the UNJSPF, we see evidence that ESG considerations are beginning to enter the mainstream investment world — altering the linear view of traditional investment management. This is evidenced by:

- The proliferation of ESG-related data providers and rating agencies
- The increasing number of ESG-related items on corporate proxy voting agendas
- The rise of corporate disclosure on ESG issues over the past decade

The market for ESG data and analytics can provide investors with a vast amount of information. When this information revolution is combined with new technology, artificial intelligence and big data analytics, investors will be able to better mitigate risks and capitalize on opportunities in their investment practices.

We believe that ESG considerations that are systematically integrated with active portfolio management present an ample opportunity for asset managers. With the use of new technology and alternative sets of data, asset managers will be able to make more informed investment decisions and to better evaluate the risk-return characteristics of actively managed portfolios. The challenge, that institutional investors face, lies in the practical implementation of this approach. It requires leadership, a culture of innovation, and perhaps most importantly, effective engagement with all stakeholders.
Our ESG Journey

- **1948**: Restriction of Weapons
- **1960s**: Restriction of Tobacco
- **2000**: UNGC Incorporation
- **2006**: PRI Founding Signatory
- **2008**: Invested in the First Green Bonds Issued by the World Bank
- **2014**: Low Carbon ETF’s Launch, Climate Action +100 Tobacco-Free Pledge AODP #7 out of 100 (Pension Funds)
- **2016**: ESG Integration Strategy Across All Assets
- **2017**: PRI A+ Rating, AODP #17 of 500, BW Top 25 Responsible Investors
- **2018**: GRESB as Benchmark for Core Real Estate
- **2019**: Sustainable Proxy Voting Policy
Three Pillars of ESG Integration

Utilizing technology and data analytics
OIM is evaluating the application of unconventional datasets to support our investment decisions. We are constructing an internal, proprietary ESG database by leveraging our partnerships with key data providers.

These partnerships will provide the investment teams with robust screening capabilities by making sense of material ESG data and determining what is relevant.

Developing new investment tools
To successfully evaluate return and risk exposures related to climate change and new energy sources, investors need new tools. These tools will integrate energy economics and alternative climate scenarios with traditional financial data. Ultimately, they will help our team achieve greater climate sustainability for the Fund.

We are testing the use of forward-looking methodologies that will evaluate the impact of climate change on our investment portfolio.

OIM has recently signed a strategic partnership with a leading provider of predictive climate analytics. With this partnership, we are transitioning to an active strategy. Our team will be able to use highly sophisticated climate and energy simulation models to assess a firm’s ability to adapt to various carbon emission scenarios.

An environmental score will be used as an input factor in developing our proprietary ESG investmentdecision technology.

We are planning to incorporate these scores into our risk management and reporting.

Engaging and collaborating
The last pillar of our sustainable investing approach is engagement.

An active sustainable voting policy, combined with engagement, can lead to more effective and durable changes. OIM believes in a collaborative and constructive dialogue with company management to achieve mutually beneficial outcomes.

A proxy vote is a ballot cast by a person or firm on behalf of a corporate shareholder. Our portfolio managers are able to vote on various proposed corporate actions. This includes things like electing board members and amending executive salaries.

Data Partners
arabesque
RepRisk
Bloomberg
telligent
MSCI
Sustainable Proxy Voting Guidelines

OIM has made a commitment to create and preserve economic value and advance principles of responsible corporate governance. A sustainable voting policy has a positive impact consistent with our mission. The Fund believes in an effective and productive dialogue with company management, which will ultimately affect corporate behavior and advocate for better outcomes.

Our proxy voting guidelines are tailored to the Fund’s mission and commitment set forth in the Investment Policy Statement. OIM’s voting seeks to promote UN values. For example, we support:

- Sustainable business practices
- Fair labor practices
- Non-discrimination
- The protection of human rights

OIM’s voting policy generally references globally recognized sustainability-related initiatives. Each of these initiatives promote a fair, unified and productive compliance environment. They advance positive corporate ESG contributions, by promoting practices that mitigate risks while seizing new opportunities.

Improved Sustainable Proxy Voting Guidelines

Gender Board Diversity: Vote against or withhold a vote if there is not at least one woman on the board.

Uncontested Election of Directors (Governance Failures): Under extraordinary circumstances, vote against or withhold a vote due to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, including failure to adequately guard against or manage ESG risks.

Advisory Vote on Executive Compensation (Management Say-on-Pay): Vote against the Advisory Vote on Executive Compensation if:

- There is a significant misalignment between CEO pay and company performance
- The company maintains significant problematic pay practices
- The board exhibit a significant level of poor communication and responsiveness to shareholders
- The percentage of the CEO’s performance-based equity pay (LTIP) is less than 33 percent
- CEO pay exceeds 4 times the average Named Executive Officer pay
- The magnitude of CEO pay exceeds the 75th percentile of industry peer group
ESG Integration Target

Asset Plan Level Integration Process
Sustainable investing requires integration across all asset classes.
Compared to a conventional investment approach, our approach will systematically combine metrics of financial and alternative data. This allows our team to develop stronger investment rationales and will increase the odds of improving the risk and return profile.

OIM Sustainable Integration Approach

- ESG Factor Analysis and Measurement
- ESG / Carbon Footprinting Measurement and Screening
- Investment Rationale Integration, Engagement, and Proxy Voting
- Portfolio and Company Level Reporting
- ESG Leadership Funds/ETFs Allocation
- Investment Policy Statement
In 2018, OIM began the process of developing a five-stage process for internally managed equity and fixed income portfolios. The process is tailored around PRI’s recommended integration for investment analysis and valuation. Along with this, the framework includes unique features that are customized for our particular ESG requirements:

**ESG Index and Universe Screening:** Screening individual companies for reputational risk and controversies.

**Portfolio Analytics:** Carbon footprinting, customized controversies screening for weapon and tobacco sales, stranded asset* analysis and Sustainable Development Goals (SDG) impact analysis.

**ESG Database:** Sourcing and consolidating material ESG data points to enhance fundamental and valuation analysis, using both historical and forecast values.

**Company Analysis:** A deeper dive into individual companies on both a qualitative and quantitative level. This includes a peer analysis on company and prospective holdings that is ultimately integrated into our investment rationale and company risk due diligence.

**Sustainable Proxy Voting & Engagement:** Identifying strategies corporations can take to improve their long-term sustainability and aligning proxy voting accordingly.

*Stranded assets* are assets which, prior to the end of their traditional economic life, will no longer earn an acceptable return due to changes associated with the transition to a low-carbon economy.

If OIM identifies that a corporation should have an independent board, the team will vote “for” electing independent members and “against” electing dependent members.

---

*e.g.*

OIM’s external advisors for private markets integrate an analysis of ESG issues into their due diligence process. They start by reviewing our commitment to, and implementation of, ESG principles. During the planning and due diligence process, the OIM Alternatives Team and their respective advisors evaluate how ESG factors may impact prospective investments. The results of this review are critical in the final analysis that is presented to the internal investment committees.
The Fixed Income Group was the first mover with respect to OIM's overall Sustainability Programme in 2008, and remains integral to the ESG strategy the Fund pursues takes today. The team's primary integration objective is to build its long-term sustainable green bond portfolio.

Green Bond Approach

Given the excess demand and relatively tight supply of the global green bond market, green bonds can sometimes be overpriced. OIM monitors valuation and liquidity conditions to ensure adherence to its investment process. This is due to the fact that liquidity measures how quickly the bond can be resold without having to significantly reduce its price.

In the transport and logistics sector, we tie in climate modeling scenarios where we see the greatest impact. It is important to note that transport is a large contributor to climate change - the sector accounted for a quarter of total carbon dioxide emissions globally in 2016. Our green bond investments are primarily funding transport projects, and are helping to reduce this impact.

The broad expansion of the OIM Green Bond portfolio is a testament to the growth of the Green Bond market. Not only that, but it is also a factor that has aided in constructing a diversified internal portfolio with a lower risk profile.

Green Bond Market Allocation

OIM seeks to match this allocation in our own green bond portfolio.

- Energy 9%
- Water 23%
- Transport 57%
- Other 11%

Green Bond Market Allocation vs. Green Bond Market

OIM seeks to match this allocation in our own green bond portfolio.

- Energy 9%
- Water 23%
- Transport 57%
- Other 11%

Green Bond Characteristics

- Global portfolio invested in over six different currencies
- Sector exposure in corporates and governments
- Balanced approach across multiple durations

Duration measures how sensitive a bond’s price is in relation to interest rate changes.

Green Bond Market Allocation

OIM seeks to match this allocation in our own green bond portfolio.

- Energy 9%
- Water 23%
- Transport 57%
- Other 11%

Green Bond Market Allocation vs. Green Bond Market

OIM seeks to match this allocation in our own green bond portfolio.

- Energy 9%
- Water 23%
- Transport 57%
- Other 11%

Green Bond Characteristics

- Global portfolio invested in over six different currencies
- Sector exposure in corporates and governments
- Balanced approach across multiple durations

Duration measures how sensitive a bond’s price is in relation to interest rate changes.

Green bond is a bond specifically earmarked to be used for climate and environmental projects.
The Global Emerging Markets (GEM) Public Equity Team is piloting how to integrate ESG into its investment process through multiple avenues. The starting point of GEM’s integration process is quantitative in nature. The team has developed a comprehensive set of screening tools that constitute the central pillar of its approach. The screening and tools include criteria such as:

- Valuation
- Operational quality
- Momentum and market indicators
- ESG-related metrics

In collaboration with the ESG Team, the GEM Team developed a dashboard and compiled a list of various external databases. They use these to assess a company’s current ESG score, as well as how these scores change over time.

ESG considerations are systematically taken into account when the team conducts specific, detailed research on a particular stock, industry or country. The head of the team assigns specific research projects to individual investment officers, who then present the case to the team in regular meetings. Each project contains a section dedicated to ESG and how it could impact the investment case.

The team also regularly engages with companies’ management on ESG-related issues during meetings and conferences.

In specific markets where gaining a competitive edge internally may be difficult or excessively time consuming, the team is assessing the suitability of adding external managers. If added, these managers will be required to undertake the comprehensive ESG analysis outlined above.

ESG considerations are an important aspect of the selection process and may help enhance the risk and return profile of the portfolio. Thus, the team continuously looks for new research, data, and ideas that can help with further ESG integration.

In today’s world consumers require environmentally sound products and services, delivered in a socially responsible manner, by reliable and transparent corporations. For institutional investors like us, integrating these parameters have become a critical part of a sound investment process.

Frederic Perrin
Senior Investment Officer, Emerging Markets
ESG Leadership Fund

Recently, OIM has partnered with a leading renewable energy investment fund. The fund is focused on growth markets that are well-resourced with high solar exposure and strong wind speeds.

While focusing on risk mitigation, the fund also capitalizes on renewable energy’s competitive advantages. For instance, the cost of renewables is decreasing and the demand for electricity is significantly increasing in growth markets. To take advantage of these trends, the fund invests in various equities, including:

- Companies that build infrastructure for power generation, and often have hard assets and predictable cash flows
- Companies that distribute power, and are often high-growth monopoly businesses

Through this partnership with the ESG leadership fund, OIM is aiming to:

- Increase our exposure to renewable energy projects in emerging markets
- Diversify our sustainable investments and reduce concentration risk
- Learn from our partner’s industry-leading expertise and capabilities
- Generate superior long-term portfolio returns
- Contribute to three of the UN’s Sustainable Development Goals; (1) affordable and clean energy, (2) decent work and economic growth, and (3) industry, innovation and infrastructure.

ESG Due Diligence

The OIM Private Equity Team ensures that the majority of all external investment managers:

- are a signatory of the PRI
- incorporate the most recent ESG Disclosure Framework across their investment process

The external advisor is mandated by OIM to identify and evaluate the ESG impacts of their prospective investment. This is based on trends that contribute positively to both financial and sustainability performance. Our investment advisors also provide details on all matters pertaining to advisory committees and boards, including current unresolved matters and the number of meetings held.
**Integration & Reporting**

The Real Estate Group also incorporates ESG analysis into their due diligence process by identifying ESG-related investment risks. The team’s objective is to increase the return on investment (ROI) through substantial ESG-related efficiency gains. To achieve this outcome, the Real Estate ESG programme takes the following approach:

**Due Diligence**

- Together with our external advisor, the Real Estate Team identifies significant ESG-related opportunities and risks associated with prospective investments. This occurs during both the selection process and the manager review.
- Fundamental to this review and selection process is the completion of a custom ESG due diligence (DDQ) and open-end core real estate (OECF) questionnaire.
- The Sustainable Investments team assesses ESG trends that contribute positively to both financial performance and ESG impact.

**Standard Reporting Framework**

- OIM is collaborating with the Global Real Estate Sustainability Benchmark (GRESB) to monitor ongoing real estate investments from a sustainability lens. GRESB was introduced in 2009 and assesses the ESG performance of real estate and infrastructure assets worldwide.
- The team is also working toward requiring a standard format for ongoing reporting.
- The Real Estate Group proactively engages General Partners on material ESG issues, and ensures adherence to the agreed-upon ESG guidelines and reporting framework.

*The impacts of climate change have already influenced real estate markets at the global scale.*

35% of REITs’ properties are exposed to climate hazards

- 17% to inland flood risks
- 12% to hurricanes or typhoons
- 6% to sea level rise and coastal floods
Measuring Impact on Sustainable Development Goals

OIM is conducting research with leading ESG academics in order to develop quantifiable Sustainable Development Goal (SDG) scores. Artificial intelligence (AI) will leverage big data and systematically measure a firm's impact on the 2030 SDGs. This research aims to provide evidence to address the perception that there must be a trade-off between financial returns and incorporating ESG or SDG considerations when making investment decisions. Following this research, OIM will publish a white paper on this topic which will serve as a catalyst for a broader discussion among long-term institutional investors.

ESG Database and Dashboard Integration

The abundance of non-financial qualitative and quantitative data in corporate disclosure has steadily increased in the last two decades. In the last eight years alone, the amount of S&P 500 companies producing sustainability reporting has skyrocketed. This has been ignited by the launch of the Global Reporting Initiative (GRI), the International Integrated Reporting Initiative (IIRC), the Task Force on Climate-related Financial Disclosures (TCFD) and the US-based Sustainability Accounting Standard Board (SASB).

To efficiently analyze the abundance of data in the market, OIM has utilized several data providers and rating agencies. The data and ratings will be consolidated using an ESG dashboard that OIM is working to create for all investment managers. This dashboard will serve as a starting point to help equity portfolio managers analyze ESG signals from both “fast-moving” predictive data and “slow-moving” historical data.

Historical Data

By using slow-moving data, OIM has created ESG signals based on issues pertaining to certain markets such as Europe, the U.S., the Pacific region, and emerging markets.

To analyze the effects of ESG integration in factor investing, OIM has backtested whether certain ESG metrics combined with traditional factor investing such as momentum, value, growth, and quality can generate returns that exceed benchmarks. These results will be discussed in our aforementioned whitepaper.
Predictive Data: Climate Risk Mitigation

OIM's sustainable climate strategy is constantly evolving as newer and more advanced tools become available. When the Fund began its strategic initiative, most data providers were almost exclusively focused on carbon footprint as a measure of climate change risk. However, the Fund had been seeking alternative ESG data providers with more robust and sophisticated ESG tools. Primarily, the Fund was looking for data which could be more readily separated by the "blender" into signal and noise.

The Fund also wanted to specifically distinguish between data sets which contained "slow moving" signals tending towards historical or backward looking data versus "fast moving" signals of forward looking and predictive data. The latter is more likely associated with the future consequences of climate change, such as:

- Potential impacts on economic growth
- Changing policies and regulations
- Innovations that arise as a result of these changes

OIM has been collaborating with seven data and technology providers to ensure a holistic collection of alternative data sets. Amongst these is Entelligent, a technology firm that uses large-scale integrated resource models to capture predictive market signals. These signals are then embedded in their climate transition metrics and investment strategies. The company takes a scenario-based approach to climate analytics that is aligned with the recommendations outlined by organizations such as SASB and TCFD.

Forward-looking Climate Transition Approach versus Historical Carbon Footprint Application to Manage Climate Risk

To evaluate return and risk exposures related to climate change, Entelligent blends energy economics and alternative climate scenarios with traditional financial data. The approach provides a prediction of a company's transition risk using climate forecasting as a starting point. The transition risk is then calculated from Smart Climate E-Scores, which take macroeconomic factors and multiple climate scenario analyses into account. This risk analysis has the ability to capture current and future energy transition trajectories at both company and asset levels.

This approach can be combined with the traditional carbon footprint analysis, which aggregates direct and indirect emissions to show the realized carbon footprints of the company/asset at a given time. This static picture of their carbon footprint is then constructed into a "Low-Carbon" portfolio that is typically designed to track a given security index.

Both historical and forward-looking approaches are pivotal when evaluating the overall climate risk of investments.

Traditional carbon footprint analysis provides insight on where an asset currently sits on the carbon meter, whereas Entelligent's Smart Climate E-scores indicates which direction an asset is moving based on its energy transition trajectory.

Using E-Score values, OIM can easily evaluate the climate change transition risk and achieve greater climate sustainability in the Fund.
The Relationship Between the E-Score and Scope 1 and Scope 2 emissions

The E-Score measures the level of carbon emission reductions at the security level by evaluating an asset’s current and future exposure to competing climate scenarios. The E-Score is a valuable predictor of reductions in Scope 1* and Scope 2** emissions.

The E-Score is an indicator of an investment’s energy efficiency and, thus, its reductions of both Scope 1 and Scope 2 carbon emissions. Companies that are increasing capital expenditure in energy efficiencies show favorable E-Score rankings. Considering the current data gaps and noise in traditional carbon footprint analysis, using E-Scores can provide OIM with a more holistic view and a more robust methodology.

Custom Equity Benchmark Integration

In 2018, OIM collaborated with the benchmark provider MSCI to customize its global equity index. The index is designed to encompass MSCI’s universe of All Country World Index (ACWI) equity securities for a highly diversified portfolio.

This index takes into account investment restrictions on companies which surpass a defined threshold of revenue generated from tobacco or controversial weapons. The exclusions are determined by publicly available company information, which is regularly maintained by MSCI ESG Research.

OIM has not invested in tobacco and controversial weapons companies for decades, so this index will better reflect the available investment universe for OIM’s global equity investments. It will also provide a more accurate measure of relative performance and risk in UNJSPF’s global equities portfolio.

OIM worked closely with MSCI’s Custom Index and ESG Research teams to determine parameters that capture business involvement in these controversial activities. From this information, an appropriate investment universe of public equity securities was created.

---

*Direct emissions from owned or controlled sources
**Indirect emissions from the generation of purchased energy
Partnerships and Global Initiatives

United Nations Global Compact (UNGC)

The UNGC is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. The Ten Principles of the UNGC are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization’s Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

They are divided into themes such as human rights, labour, the environment, and anti-corruption business practices. With 7,000 corporate signatories in 135 countries, it is the world’s largest voluntary corporate sustainability initiative.

The United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement provide the most powerful common agenda the world has ever seen for achieving peace and prosperity on a healthy planet – with an essential role spelled out for business.

OIM pays special attention to the 2030 SDGs and how our investments can make a measurable impact on the world, its inhabitants, and its environment.
In 2006, OIM became a founding signatory of the principles which are the world's leading proponent of responsible investment. PRI works to understand the investment implications of ESG factors. It also supports its international network of investor signatories in incorporating these factors into their investment decisions.

In 2019, the six principles have more than 2,000 signatories from over 60 countries representing over US$80 trillion in assets.

OIM's sustainable voting policy generally references the principles and ensures our partners adhere to the principles as well.

United Nations Environment Programme Financial Initiative (UNEP FI)

UNEP FI is a partnership between the United Nations Environment Programme and the global financial sector. It was created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 240 financial institutions including banks, insurers, and investors work with UN Environment. Together, they take steps to understand today's ESG challenges, why they matter to finance, and how to actively participate in addressing them.

UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organizations, to develop and promote linkages between sustainability and financial performance.

OIM's guidelines for best practices are referenced in OIM's Investment Policy Statement.

In 2018, UNJSPF also became a signatory of the Tobacco-Free Finance Pledge. This recognises the significance of the United Nations' Sustainable Development Goals (SDGs), particularly SDG 3—Good Health and Well-Being and SDG 17—Partnerships for the Goals. It also recognises the World Health Organization Framework Convention on Tobacco Control, the first global public health treaty.
GRESB is an investor-driven organization assessing the global ESG benchmark for real assets. Working in collaboration with the industry, GRESB provides standardized and validated ESG data to the capital markets.

**GRESB’s dataset covers 207 entities, over 64 countries, representing $3.5 trillion in gross asset value.**

In the beginning of 2019, OIM announced that it had signed a membership agreement with the Global Real Estate Sustainability Benchmark (GRESB). This will further strengthen our efforts to incorporate sustainable investing practices into the Fund’s investments. OIM will utilize GRESB’s comprehensive dataset to assess and benchmark the ESG performance of our investments in real assets.

The GRESB partnership will also facilitate our collaboration with other asset owners, such as “best-in-class” global pension funds.

OIM announced its partnership with the Sustainability Accounting Standards Board (SASB) in the beginning of 2019. The SASB Foundation develops and maintains a robust reporting standard that enables equity portfolio managers to identify, manage, and quantify financially-material sustainability information.

The 77 industry-specific SASB standards are evidence based and developed with broad market participation. They are designed to be cost effective for companies and useful for investors in their decision-making processes.

The SASB partnership will supplement OIM's internal company analysis capabilities.
In the upcoming year, we will continue our journey towards holistic ESG integration and further develop our sustainable investment strategy. We will be striving to ensure that integration is deeply embedded in our investment culture and processes. To support these efforts, our Investment Policy Statement (IPS) will be adjusted to include an expanded section about sustainable investing. We will also be training our staff to better use ESG investment tools throughout the integration process.

Furthermore, we will continue utilizing data and technology in the development of new investment tools and forward-looking methodologies. Our aim is to transition these tools into our investment processes. This will enable our portfolio managers to make more informed decisions that will mitigate risks and capitalize on innovation and opportunities in the market. Throughout the organization, we will increase collaboration to support these efforts.

Engagement and collaboration will be strong themes for OIM in 2019. Not only do we consider these themes pertinent to our internal efforts, but we will also be focused on increasing engagement with our external partnerships. We want to extract more value from these relationships by making full use of the multilateral knowledge and tools our partners have to offer.

We will also be implementing Task-Force on Climate-Related Financial Disclosures (TCFD) recommendations within our due diligence processes and partnering with Hermes EOS Stewardship Services to assist with our corporate engagement strategy.

2018 was a fruitful year for sustainability innovation and achievement, growth that will carry us through the coming years. In 2019, we will continue to advance our research using AI and quantitative investing methods to show the relationship between long-term alpha generation and overall SDG impact. In addition, we will focus on our portfolio’s SDG footprint in order to highlight opportunities that might improve the Fund’s risk-return profile.

Looking ahead, OIM is confident that we will enhance our ESG integration across all asset classes. We look forward to reporting on the milestones in next year’s Sustainable Investing Report.
Office of Investment Management (OIM)
One Dag Hammarskjold Plaza
885 Second Avenue, New York, NY 10017
Tel: +1.212.963.6931
investmentinfo@unims.org
https://oim.unjspf.org/