

Rose Easton
Principles for Responsible Investment (PRI)
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Sent via email: PRIConsultation@unpri.org
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Dear Rose,

Railpen response | PRI in a Changing World | Signatory Consultation

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for c. £37 billion of assets on behalf of over 350,000 members.

Sustainable Ownership is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors is a significant driver of investment outcomes and part of our fiduciary duty."

Our response

We value the PRI's work in raising standards and supporting progress on responsible investment worldwide, as well as acting as a powerful and credible convenor of policymakers and investors. We welcome the PRI's decision to take a step back, consult widely with signatories, and consider how it can best pursue its mission in a way that is aligned with the views of the responsible investor community.

As one of the UK's largest asset owners, and one of the few with a long-established in-house Sustainable Ownership team, we recognise our responsibility to contribute to industry debates and raise standards across the industry. As part of this, we are members of several industry organisations dedicated to various aspects of responsible investment, including the PRI, and we feel we have a good understanding of the RI membership organisation landscape.

Our submission builds on our experience as long-standing supporters of, and signatories to, the Principles for Responsible Investment (PRI), as well as on previous conversations both regarding this consultation specifically, and more broadly. While we touch upon several of the specific issues raised in the consultation here, the fundamental importance of the decision facing the PRI around its future direction, work and governance, as well as the fact that the

sustainable investment industry is at a critical juncture, means we believe it is more useful to express our perspective in a standalone response, as opposed to taking each question in turn.

Our response can be split into two key sections. The first provides our views regarding the appropriate role and mission for the PRI, and where we believe the organisation can add most value to its signatories and help drive the agenda for responsible investment forward. The second focuses on key aspects of the PRI's operations, activities and governance and our thoughts regarding what we think should be continued and areas where we see potential for improvement.

A. The PRI's role and mission

Leading the fight against the ESG backlash

Some parts of the mainstream media, as well as political decision-makers in jurisdictions like the USA and elsewhere, have begun to portray "ESG" as at best unrelated to value creation, and at worst a pernicious political agenda in sheep's clothing. If such an idea is allowed to take hold, or to create nervousness, this is a threat to the mandate of all sustainable investment professionals.

Given the PRI's credibility, profile and networks with senior global policymakers, we believe the PRI is well positioned to fight back against this backlash through demonstrating that ESG factors are financially material and the link to sustainable value creation over the long-term.

Supporting different kinds of responsible investors

We welcome the PRI's acknowledgement that "different intentions and approaches to responsible investment are to be expected based on different investor mandates, different client expectations and different regulatory requirements".

Although we recognise that within each 'category' of responsible investment approach (or type of investor), there is an expectation that progress will be made within the category's parameters, we think there will always be a) those who see their fiduciary role as responding to rules made by others (laws, signals, incentives, taxes, regulations), including sustainability-related rules and b) those who see their fiduciary role as not only responding to such rules, but as trying to shape the investment ecosystem itself, such that sustainable investment decisions are rewarded and unsustainable decisions are penalised.

Whether an investor is of type a) or type b), PRI signatories should hold in common the view that we do best by our beneficiaries when the allocation and management of capital is done in such a way as to lead to better outcomes for people and planet. Although it should not push an investor signatory into becoming a) or b), PRI can support the development of fit-for-purpose financial ecosystems, in line with signatories' wishes.

Minimising duplication and co-ordinating on systemic risk

We agree that one of the major differentiators between the development of different financial ecosystems is across regional or jurisdictional lines. We are therefore supportive of “the development of local or regional responsible investment communities of practice”.

In particular, we think that the PRI could play a larger part in minimising duplication, helping to clarify and co-ordinate amongst the thousands of ESG-related initiatives, many of which undertake activities closely related to one another. It is difficult for investors – even those, like Railpen, which are actively involved in several groups across different jurisdictions and issues – to understand the landscape and know who does what. Such fragmentation of resource, with either individual or small groups of investors working separately towards a similar end, is unlikely to efficiently achieve the progress we need to see in sustainable finance: not least because voices crowd each other out, which is inimical to corporate, policy and media leaders fully understanding the nature of the issue under discussion and unlikely to mean they have the capacity to fully engage.

We think that the PRI could play a particularly important role when it comes to investor approaches to *systemic risk*. A growing number of investors do “thematic stewardship”, with the rationale for doing so often given as something like “long-term investors have a vested interest in mitigating long-term “systemic” threats”. There is agreement around climate change as a systemic risk, but otherwise there are currently no agreed or common concepts, objectives, or measures of success. As with other ESG topics, this leads to investors allocating resource to activities slightly adjacent to one another, which is not an effective use of resource.

Please note that by our suggestion that the PRI helps minimise duplication, we do not mean that the PRI should seek to ‘own’ every ESG issues or initiative. Instead, we think the PRI should use its networks, access to information and convening power to support consolidation where necessary, collaborate further with organisations either with regional or other specific expertise, and to signpost or endorse institutional investors to the relevant organisation or initiative.

B. The PRI’s governance, operations and activities

The asset owner-led model

We believe that there is power in the PRI – or indeed, other responsible investment initiatives – being asset owner-led. This is in light of asset owners’ privileged role as fiduciaries of individuals’ and employers’ capital and their position at the end of the investment chain, able to draw good responsible investment practices through exerting pressure as clients on intermediaries and agents.

That being said, we recognise that the PRI’s signatory base has changed since its creation, and is much broader than just asset owners. We understand that, as a membership organisation, the PRI needs to have a governance structure that supports it in effectively hearing and responding to the needs of its whole membership base. Therefore, while we would not want to see the asset owner majority removed, we would be supportive of the proposal that there is “great representation of non-asset

owner signatories on the PRI Board, while maintaining the overall asset owner majority”.

The reporting burden for signatories

The PRI’s recent stewardship resourcing programme of work recognises the resource burden even large asset owners and managers are facing when it comes to their stewardship work, noting that “stewardship functions are largely under-resourced”. Part of this under-resourcing comes from higher (and welcome) expectations from key stakeholders, including policymakers and beneficiaries, regarding investors’ role in achieving real world impact.

However, in line with growing expectations has also come greater reporting and disclosure requirements. We agree that an effective way to hold investors accountable for the work they do is through disclosure that allows them the space to tell their unique story as to their responsible investment approach and outcomes. However, for many large investors in jurisdictions where the market for responsible investment policy and practice relatively well-advanced, the reporting burden is becoming unendurable.

In 2022, Railpen – like many other investors in the UK and elsewhere – published around 100,000 words of reporting on responsible investment, even though 2022 was a year without PRI reporting. This reporting is a significant opportunity cost, preventing responsible investment professionals from working on the stewardship activities that add value and achieve real world impact. We believe that the PRI could help reduce the reporting burden by offering certain investors (e.g. those that are already operating in jurisdictions with well-established markets for responsible investment activity, and where the investor is reporting to an internationally credible and recognised standard, such as the UK Stewardship Code 2020) ‘equivalence rules’ i.e. formally recognising the investor’s existing regulatory disclosures as being sufficient to demonstrate the six PRI Principles.

As a way of demonstrating how this might work, [Railpen’s 2021 Stewardship Report](#) includes an *Index of PRI Principles* in Appendix 4 (p.83) explicitly mapping relevant chapters in our Stewardship Report to the relevant PRI Principles.

The PRI’s offering to members (and the industry)

We think that the quality of the PRI’s guidance and resources, particularly those that are asset class-specific or act as basic introductions to a particular issue, is very high and we believe these tools and training are invaluable to the investment community. We think that providing template DDQs and other tools helps harmonise approaches and ultimately reduces the reporting burdens for companies and fund managers.

We also think that the PRI’s extensive academic network and significant budget make it well-placed to commission academic research, legal opinions and other forms of thought leadership to help address emerging research questions in responsible investment. We believe this programme is particularly well-placed to support both sustainable investment practitioners in the fight-back against the shift in mainstream media commentary on responsible investment that we noted earlier, as well as supporting academic institutions and business schools, some of which are struggling

financially (as are many higher education institutions) but which are the cornerstone for a thriving responsible investor industry.

We hope the comments contained here are helpful, and would welcome the opportunity to discuss further or provide any additional clarity.

Yours sincerely,

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