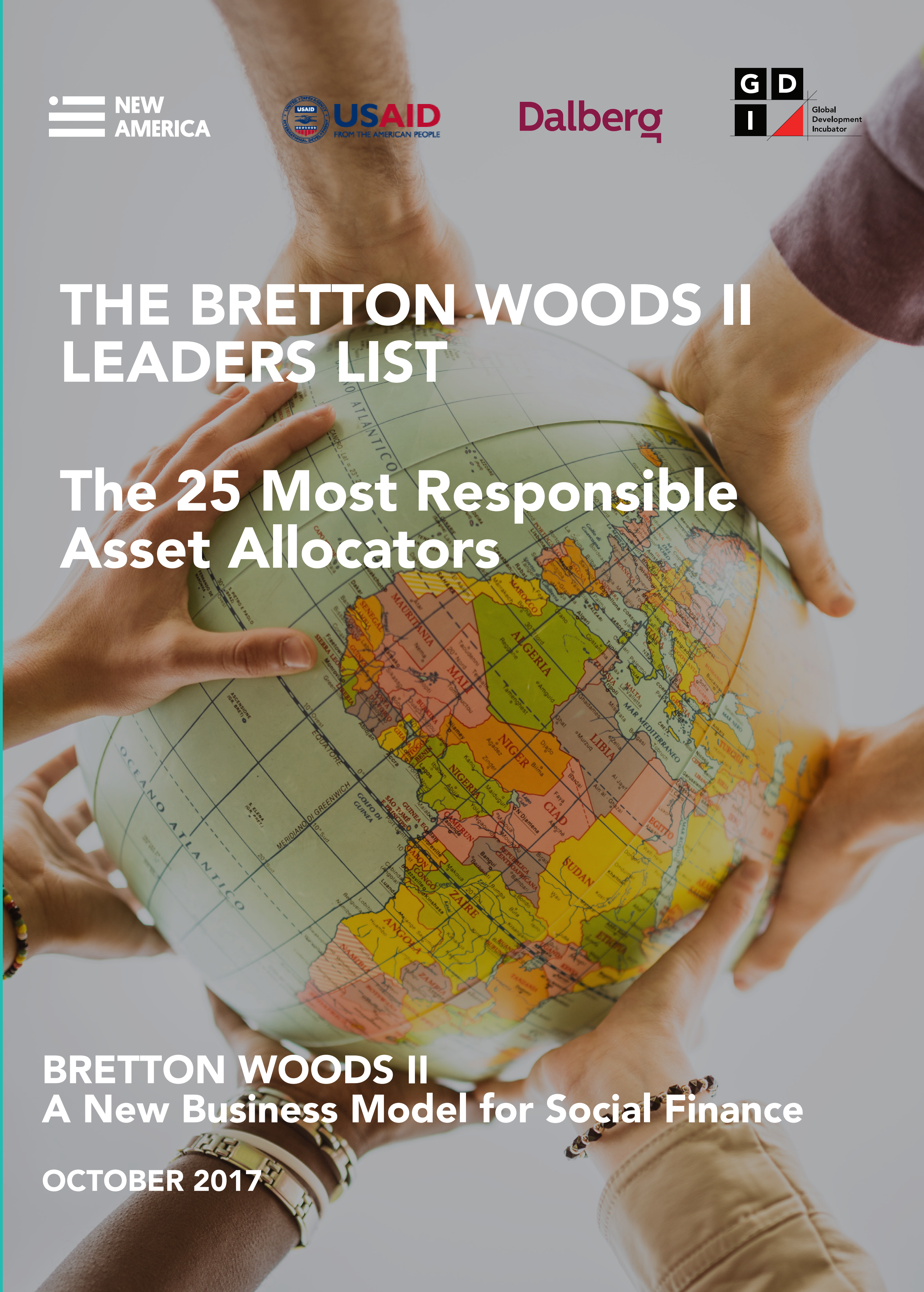

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THE BRETTON WOODS II LEADERS LIST

The 25 Most Responsible Asset Allocators

BRETTON WOODS II
A New Business Model for Social Finance

OCTOBER 2017

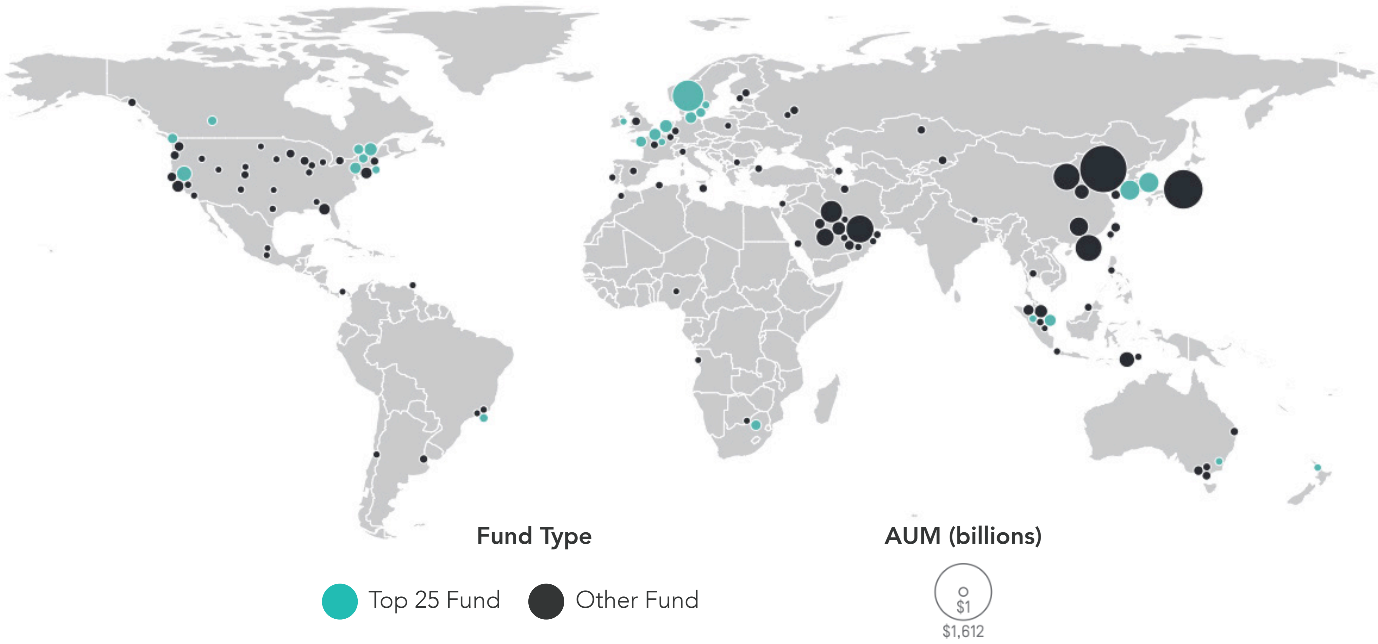
THE 25 MOST RESPONSIBLE ASSET ALLOCATORS

No sensible asset allocator would willingly invest in companies that pollute the environment, exploit labor, or operate unethically. This is especially true for global sovereign wealth funds (SWF) and government pension funds (GPF) that represent a significant share of the world's $70 trillion in institutional investor assets. Many have begun incorporating environmental, social, and governance (ESG) risk metrics into their portfolio selection process. However, this trend, while promising, is far from universal, and the total amount of capital deployed based on responsible investment practices remains far below its potential. A critical reason is that asset allocators lack uniform, easy to use standards and guidelines that can help to fully integrate their investment and sustainability decision making.

While sophisticated ESG tools exist, many are overly complex, have onerous reporting requirements, and are not very user friendly; they are geared specifically towards guiding highly specialized teams within companies, asset managers, and asset allocators. What steps can be taken to fill this important gap and encourage the largest pools of institutional capital to invest more responsibly, laying the groundwork for supporting the UN's Sustainable Development Goals? This is the key challenge **Bretton Woods II (BWII)** has sought to address by publishing the **BWII Leaders List: The 25 Most Responsible Asset Allocators**. This report, a focus of the BWII Responsible Asset Allocator Initiative, is grounded in the realization that for long-term institutions, investing sustainably is not only the right thing to do but also the smart thing to do. Most asset allocators still operate under a false choice: that they must choose between optimizing return to their stakeholders, and environmental, social, and governance concerns.

What has become particularly clear, however, over the last decade in academic study after academic study is that **companies and projects with higher scores on environmental, social, and governance metrics generate higher financial and economic returns over time**. Large asset allocators, with investment horizons spanning generations, do not need to choose between sustainability and return. In fact, combining analysis of long-term sustainability and traditional financial metrics is an important way to optimize return, reduce risk, and identify opportunities for future growth, all while aligning portfolios with broader societal goals of prosperity,

MAP: THE 25 MOST RESPONSIBLE ASSET ALLOCATORS



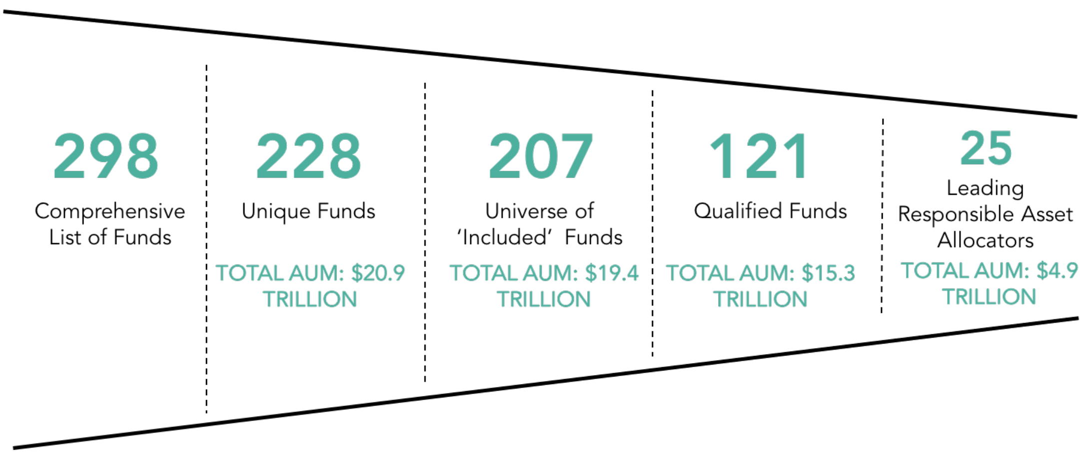
stability, and accountable governance. Regulators too are coming to support this idea, opening a path for allocators to include non-traditional financial risks such as ESG factors in the portfolio selection process while highlighting their impact on long-term value. Pressure also is mounting from stakeholders and the public, who would like to see sustainability risks incorporated into their pensions and long-term savings funds. As stewards of long-term capital, the question is not whether large institutional investors can afford to integrate responsible investment practices into their portfolios but rather, can they afford not to.

The BWII Leaders List: The Top 25 Responsible Asset Allocators report was created to fill this gap. By focusing on a core group of SWFs and GPFs that are providing leadership on responsible investing practices, Bretton Woods II and its partners USAID, GDI, and Dalberg, believe they can jump-start investment by the broader community of asset allocators toward sustainability. Highlighting top performers from the peer group, based on clear and easy-to-understand guidelines, is an important first step toward encouraging greater adoption of responsible investment practices and ultimately toward mobilizing capital to support the Sustainable Development Goals. Bretton Woods II focuses its attention on the world's largest asset allocators—the SWF and GPF—because they not only invest trillions of dollars, to achieve appropriate commercial returns for their stakeholders, but also must take steps to mitigate social, environmental, and governance risks that could negatively impact their portfolios over the long-term. In discussions with some of the largest asset allocators on the globe, it has become clear that many of them are ready to make a firmer commitment, but lack the tools, and a user-friendly, peer-comparison featuring leaders from the community. Measuring their performance against peers that are leaders in addressing sustainable investment risks can go a long way toward moving the broader community forward.

A robust process was followed to produce the BWII Leaders List. After an initial evaluation of over 200 global sovereign wealth and government pension funds, representing over $20 trillion in assets under management, 25 top funds were short-listed, through careful analysis of how they address long-term, sustainability risks in their portfolios based on ten core principles: Disclosure, Intention, Clarity, Integration, Implementation, Commitment, Accountability, Partnership, Standards, and Development. The methodology is based on guidelines from multilateral institutions in the field including the UN PRI, SASB, CDP, UNGC and IFSWF. Evaluation relies on expert analysis of annual reports, websites and other materials in the public domain. BWII also measures SWF and GPF sustainable investment practices in emerging markets as part of its commitment to support the UN Sustainable Development Goals.

The aim is for the BWII Leader's List Report to highlight and provide insights from the leading asset allocators, establishing a tool for SWF and GPF boards, beneficiaries, and other stakeholders to understand how a given fund can effectively optimize the portfolio's balance between long-term risk and return. The broader BWII Responsible Asset Allocator Initiative will greatly inform international donor efforts to work more collaboratively with institutional capital in developing markets by identifying future

METHODOLOGY BEHIND THE LEADERS LIST



partners, creating competition around channeling investment towards the SDG's, and lending insight into the key risks that prevent asset allocators from deploying more capital in developing markets.

The Responsible Asset Allocator Initiative (RAAI) is part of the overall Bretton Woods II effort to help large asset allocators reduce risks and optimize returns through strategic investments in responsible investing and sustainable development. BWII focuses on resolving market failures in three areas that impede progress in these areas:

Analytics: In addition to establishing benchmarks such as the RAA principles that help asset allocators measure and manage their performance relative to their peers, BWII is also working with the OECD to prioritize and sequence investment in different sectors in order to optimize benefits for society.

Advocacy: The initiative is working closely with the G-7 and the 55 governments in the United Nations Group of Friends for financing the SDGs to shape tax and regulatory changes that will help channel assets toward long-term investment in solutions to global challenges.

Finance: Each investment exists on a continuum; as capital is deployed it either alleviates or exacerbates long-term social, governance, and environmental risks. Bretton Woods II is developing global risk-rating solutions with the goal of streamlining the decision-making of investment committees and helping investors assess how capital allocation decisions will shape their exposure to non-traditional risks.

As stewards of long-term capital, major asset allocators are too big and too diversified to hide from global challenges. They are also large enough that they do not have to accept the world as they find it. The Bretton Woods II program is helping these critical systemic actors shape a landscape that will be more conducive to prosperity, sustainability, and accountability, while delivering the returns necessary to meet their financial objectives.

10 CORE PRINCIPLES OF THE RAAI

I. Disclosure: The Fund should provide public disclosure of its mission, investment beliefs, objectives, asset allocation, portfolio and long-term performance on its website or through an annual report.

II. Intention: The Fund should publish an annual statement that discusses what sustainable investing means to the organization and how it manages long-term non-traditional financial risks including ESG issues.

III. Clarity: The Fund should define the organization's objectives as they relate to addressing non-traditional long-term sustainable risks.

IV. Integration: The Fund should explain how the management of long-term sustainable investment risks is applied to the whole portfolio.

V. Implementation: The Fund should explain how sustainable investing practices are implemented in specific investment strategies and the benchmarks used to measure and manage these investments.

VI. Commitment: The Fund should disclose resources dedicated to implementation of sustainable investment practices and the management of long-term non-traditional investment risks.

VII. Accountability: The Fund should provide information on how it measures, monitors and reports the financial and non-financial performance of sustainable investments.

VIII. Partnership: The Fund should provide information on partners it is working with to manage long-term, non-traditional investment risks and strategies.

IX. Standards: The Fund should provide information on uniform, independent, external standards it has adopted to guide and measure its sustainable investing strategy.

X. Development: The fund should provide information on asset allocation and sustainable investment practices in emerging markets, specifically foreign frontier markets.

THE LEADERS LIST:
THE 25 MOST RESPONSIBLE ASSET ALLOCATORS

FUND NAME	COUNTRY	REGION	INCEPTION	AUM ($bn)	AUM DATE
Alberta Investment Management Corp (AIMCo)	Canada	North America	2008	95.7	2017
AP Funds	Sweden	Europe	1960	195	2016
APG Groep	Netherlands	Europe	1922	531.76	2017
ATP Group	Denmark	Europe	1968	118.9	2017
British Columbia Investment Management Corp.	Canada	North America	1999	107.5	2017
Caisse de dépôt et placement du Québec	Canada	North America	1965	235.12	2017
Caisse des Dépôts et Consignations	France	Europe	1865	231.2	2017
California Public Employees' Retirement System	USA	North America	1932	331.9	2017
Canada Pension Plan Investment Board	Canada	North America	1997	251.3	2017
Commonwealth Superannuation Corp	Australia	Oceania	1976	30.2	2016
ERAFP	France	Europe	2003	26	2017
Government Pension Fund – Global	Norway	Europe	1990	980.82	2017
Ireland Strategic Investment Fund	Ireland	Europe	2014	10	2017
Khazanah Nasional Berhad	Malaysia	Asia	1994	37.7	2016
National Pension Service	South Korea	Asia	1988	521.8	2017
New York State Common Retirement Fund	USA	North America	1983	192	2017
New Zealand Superannuation Fund	New Zealand	Oceania	2003	25.9	2017
Ontario Teachers' Pension Plan	Canada	North America	1990	139.3	2016
PGGM	Netherlands	Europe	1969	242	2016
PKA	Denmark	Europe	1954	40.14	2017
PREVI	Brazil	Latin America	1904	74	2015
Public Investment Corp.	South Africa	Africa	2005	137.86	2017
Public Sector Pension Investment Board	Canada	North America	1999	135.6	2017
Temasek Holdings	Singapore	Asia	1974	202.2	2017
United Nations Joint Staff Pension Fund	Global	Global	1949	60.33	2017

KEY INSIGHTS FROM THE BWII LEADERS LIST

1. The total assets controlled by the 25 funds on the Leaders List – $4.95 trillion – is…

a. Larger than the GDP of every country in the world except the United States and China

b. Larger than the combined GDP of 141 countries

c. 33x bigger than all official development assistance (ODA) extended in 2016

d. 25x bigger than total loans and disbursements of all multi-lateral development banks (MDB) in 2016

2. Channeling just 1% of the total capital of the Leaders to sustainable development would create a pool of resources…

a. Larger than the GDP of 107 countries

b. Equivalent to 83% of total loans, grants, investments, and guarantees provided to developing countries by the World Bank in FY 2016

c. Nearly twice as much as all financial services extended to developing countries by the International Bank for Reconstruction and Development (IBRD) in 2016

d. More than three times the amount of interest free loans and grants to the worlds poorest countries extended through the International Development Association (IDA) in 2016

3. The 25 asset allocators on the Leaders List…

a. Received an average total score of 96.2 (out of 100) on the Bretton Woods II Responsible Asset Allocator rating system

b. Represent funds from Africa, Asia, Australasia, Europe, Latin America and North America

c. Punch above their weight, comprising 32% of total assets of the 121 asset allocators rated by Bretton Woods II

LESSONS FROM THE LEADERS

1. **Know yourself**. Identify your principles and core investment beliefs, then build your framework for investing around them. Work to understand the non-traditional financial risks that could impact long-term value creation in your portfolio and make sure those risks are properly priced and addressed. You can only engage effectively with portfolio companies and stakeholders if you truly understand and believe in your approach.

2. **Normalize the conversation with the Board**. Make sure the Board, senior management and the organization are on the same page when it comes to ESG. Agree on standards that make sense to your stakeholders. The board should approve your responsible investing statement as a core component of the fund's investment philosophy.

3. **Work hard on communicating**. Develop a culture of transparency. Being open about responsible investment practices promotes "trust and confidence" among stakeholders, the public and the investment community, all key to success. Continually refine your communication protocols. If you don't communicate your responsible investing principles and investment framework effectively, it will limit your chances for success.

4. **Be the "author" of your own story, not a "character" in the play**. Sustainable and responsible investing practices are gaining broad momentum, supported by academic evidence, regulatory policies, stakeholder interest and public pressure. Funds on the Leaders List have been addressing non-traditional financial risks for years. They believe it is better to get ahead of the curve than to wait and have the issues forced upon you.

5. **Start with the low hanging fruit**. When it comes to implementation, begin with the tasks that are easiest for your organization. For example, introducing ESG into the due diligence process for private equity may provide a quick win. The process already exists, you simply need to define additional criteria and standards.

6. **Build internal champions**. For many funds on the Leaders List, sustainable investing has become part of the DNA that permeates the organization. Early on, however, the leaders noted how important it was to develop internal champions who could help in setting goals, working with staff, and moving the agenda forward.

7. **Join a responsible investing association**. Use your peers as a sounding board. Exchange ideas with the community. Get a roadmap. See how you compare with like-minded institutions. Benchmark yourself and show the results to the Board and to stakeholders. Understand that this is a "live" process. Work on building up your expertise and assimilating best practices from peers with shared values.

8. **Don't try to save the planet; stick with stewardship**. Your work should always be aligned with the final objectives and goals of the fund. A robust responsible investing program really means making sure that the companies you invest in know what they are doing, operate with a long-term perspective, understand both traditional and non-traditional risks, and price and address those risks properly and consistently.

9. **Socialize your responsible investment beliefs throughout the organization**. Fund leadership must carry the torch, set goals, and challenge the organization to deliver, but if you really want to build a successful, sustainable investment process, everyone needs to buy in, from top to bottom. Create an environment where investment professionals at the fund understand and internalize non-traditional ESG risks. Make ESG considerations part of everyone's evaluation process.

10. **Set up a reporting framework to monitor your progress**. Establish goals and metrics to help gauge your organization's success over time. Has the carbon footprint of the portfolio been reduced? Have portfolio company governance practices improved as the result of engagement? How often did you vote against managements and on what issues? Report publicly and transparently on the outcomes of your efforts.

ABOUT BRETTON WOODS II

The Responsible Asset Allocators Initiative (RAAI) was established by Bretton Woods II (BWII) at New America, a not-for-profit think tank and policy center based in Washington DC. BWII helps large asset allocators reduce risks and optimize returns through strategic investments in responsible investing and sustainable development. *The BWII Leaders List: The 25 Most Responsible Asset Allocators* report is produced in partnership with the Global Development Incubator and Dalberg, with support from USAID.

Visit www.newamerica.org/in-depth/bwii-responsible-asset-allocator to learn more.

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