

## PRI Reporting Framework

# SELECTION, APPOINTMENT AND MONITORING OF EXTERNAL MANAGERS

2021

## WHO DOES THIS MODULE APPLY TO?

The selection, appointment and monitoring (SAM) module is designed for signatories who outsource some or all their investment activities to external investment managers.

Signatories who engage investment consultants to support them in selecting, appointing and monitoring external managers will be asked to report their own and/or their investment consultants' responsible investment activities.

It is mandatory to complete this module for signatories who have **either 10% of their AUM, or US\$10bn or more**, in an externally managed asset class in the relevant reporting year.

However, the following exceptions apply:

- Signatories who have a captive relationship<sup>1</sup> with their external manager(s) affecting over 90% of their externally managed AUM for a specific asset class do not have to report on their external manager **selection** for that asset class.
- Signatories who only invest their externally managed AUM in pooled funds do not have to report on their **appointment** of external managers.

Indicators on engagement and (proxy) voting will only be displayed if signatories indicate in the Organisational Overview module that their external managers perform these functions on their behalf for the relevant asset class.

## MODULE HIGHLIGHTS:

- Detailed questions focus on how external managers' policies and responsible investment practices are assessed during the selection process.
- Closed-ended indicators focus on responsible investment clauses included in appointment contracts, especially for segregated mandates.
- Stewardship indicators on selection and monitoring focus on the quality and objectives of engagement and voting instances, rather than their quantity.
- Monitoring indicators focus on the depth and frequency with which signatories examine external managers' stewardship and responsible investment practices.
- 'Plus' indicators focus on:
  - how signatories assess the use of derivatives during manager selection; and the monitoring of passive investments and alternative asset classes;
  - how signatories consider the sustainability outcomes of their externally managed investments; and
  - how signatories verify information provided by external managers.
- New, more detailed indicators focus on signatories' escalation processes to address concerns raised during external manager monitoring.

More information on **how to incorporate ESG in selecting, appointing and monitoring managers**, including practical guides, tools and case studies, can be found on the PRI's dedicated [Selecting, appointing and monitoring managers](#) webpage.

The module's explanatory notes will provide additional guidance and resources at an indicator level.

<sup>1</sup> Refers to the relationship between some asset owners and their external manager(s), where the asset owner has limited or no control over the external manager(s) they use. This may be the case, for instance, where the asset owner and external manager(s) belong to the same group or corporation.

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## RESULTS OF THE REPORTING FRAMEWORK REVIEW

### SIMPLER AND MORE CONSISTENT

- There are fewer indicators and sub-indicators than in previous years.
- We removed indicators that were largely descriptive, required overly detailed responses, prone to misinterpretation and geared towards what signatories are doing rather than how.

### EVOLVED AND MORE CHALLENGING

- The module is still process oriented but has a focus on whether responsible investment considerations are consistently applied to external manager selection, appointment and monitoring.
- In most indicators, signatories will be required to indicate the proportion of the AUM to which their responsible investment practices apply (see *Module Overview below*).
- The module aims to clearly showcase the various responsible investment practices that signatories engage in, depending on how advanced they are.

**15%**  
decrease  
in number of  
indicators

compared to 2020

16 CORE

6 PLUS

## MODULE OVERVIEW

The SAM module consists of the following<sup>1</sup> sections and sub-sections:

INVESTMENT CONSULTANTS (1 INDICATOR)	SELECTION (10 INDICATORS)	APPOINTMENT (2 INDICATORS)	MONITORING (9 INDICATORS)
<ul style="list-style-type: none"> <li>Investment consultant selection</li> </ul>	<ul style="list-style-type: none"> <li>Responsible investment policy</li> <li>Research and screening (Indicate AUM coverage)</li> <li>Investment practices <b>PLUS</b> (Indicate AUM coverage)</li> <li>Stewardship (Indicate AUM coverage)</li> <li>Sustainability outcomes <b>PLUS</b> (Indicate AUM coverage)</li> <li>Documentation and track record (Indicate AUM coverage)</li> </ul>	<ul style="list-style-type: none"> <li>Pooled funds (Indicate AUM coverage)</li> <li>Segregated mandates (Indicate AUM coverage)</li> </ul>	<ul style="list-style-type: none"> <li>Investment practices <b>PLUS</b> (Indicate AUM coverage)</li> <li>Stewardship (Indicate AUM coverage)</li> <li>Sustainability outcomes <b>PLUS</b></li> <li>Review (Indicate AUM coverage)</li> <li>Verification <b>PLUS</b> (Indicate AUM coverage)</li> <li>Engagement and escalation</li> </ul>

**PLUS** 'Plus' indicators included in this sub-section.

<sup>1</sup> While every effort has been made to ensure this overview is a true reflection of the Reporting Framework, elements such as the number of indicators per section or sub-section are subject to change.