University of Bristol

ESG – what are clients doing to address increased member and regulatory focus

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What is RI?

LCP uses RI as an umbrella term for ESG and stewardship

RI aims to improve long-term risk-adjusted returns by:

• Incorporating **ESG** factors in investment decisions
• Exercising **stewardship**, eg voting, engagement

**Note:** not to be confused with ‘ethical’ investing

* ESG = Environmental, Social and Governance
Examples of how these factors affect fund performance

Environmental
- Biodiversity
- Climate change
- Energy efficiency
- Pollution
- Waste management
- Water scarcity

Social
- Community relations
- Diversity and inclusion
- Human rights
- Labour standards
- Product safety
- Training

Governance
- Board composition
- Bribery and corruption
- Compliance
- Executive remuneration
- Lobbying
- Succession planning

Committee members may have different views on ESG, but all should be satisfied that their investment manager (i.e. L&G) is considering the major risks when making investment decisions.
Why the increased focus on RI?

Catalysts for change

Increased media and Global interest in RI
Green Energy coverage, Climate Change activism

Increased member and investment manager focus on RI
UN PRI signatory, fund carbon footprint, member of Stewardship Code, active engagement

 Increased regulatory focus
New SIP Requirements for DC Trust Based Schemes (October 2019) now require trustees to set out policies on financial and non-financial matters and publish implementation statement

Increased DC scheme action
Ongoing and varies according to (Trustees)/Scheme sponsors
New SIP requirements – for trust schemes

By 1 October 2019, all trustees must have updated their SIP to set out their policies on financially material considerations (usually including ESG issues and climate change), the extent to which non-financial matters are taken into account (if at all) and undertaking engagement activities.

Trustees of DC schemes also need to publish the SIP online and link it from member benefit statements.

From 1 October 2020, trustees of DC schemes will need to produce and publish an annual implementation statement.

What this means for the GPP Governance Committee
- Before October 2019 requirement to reflect the above in the Plan SIP (trust schemes only, so N/A)
- Continue to be cognisant of developments from L&G in offering RI / ESG funds and offer any suitable funds as part of any manager selections undertaken (relevant to the GPP)
- Continue to liaise with L&G regarding their engagement and stewardship (relevant to the GPP)
What are other LCP clients doing?

Over 50% of schemes we advice now offer an ethical self-select solution to members.

Three schemes (all trust based) now offer a climate-tilted equity fund as the sole accumulation fund for their lifestyle.

A number of clients are currently reviewing their lifestyle in light of recent regulation.

Two clients (trust) are currently selecting an active ‘impact’ fund to add to the members’ self-select range.
What should the Governance Committee be doing?

- As this Scheme is a GPP, the regulations that apply to trust-based schemes is less stringent / relevant. In particular, it is not a regulatory requirement to;
  - Articulate ‘investment beliefs’ in relation to financial and non-financial factors; and
  - Report on them to members on an annual basis.

- That said, the Governance Committee should note the trajectory of both media, regulatory and investment focus in this area.

- There has already been evidence of engagement with members on this issue (Pat’s email of 3 December 2019 refers).

- L&G has already supplied a newsletter and video for distribution.

- The GPP offers access to the L&G Future World Fund range

- The Governance Group could use this as an opportunity to re-assess the fund options available to members, either;
  - As part of the default;
  - As a ‘promoted fund’; or
  - As part of a wider communication programme to members (see above).
Use of our work

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