Synopsis for Breakout session 2 Group C

ESG (Environmental, Social and Governance) has become a mainstream topic. Some of the World's largest wealth funds are moving to 100% ESG mandates. The Pensions Regulator Guidance asks trustees to consider financially material ESG factors and the recent consultation from the Department for Work and Pensions (DWP) aims to strengthen trustees' duties, proposing a number of measures related to ESG considerations. How can trustees ensure their schemes' strategies are prepared for this momentum shift, that an ESG policy is not merely a box- ticking exercise and, importantly, what is the measure of investment success?

The United Nations Principles for Responsible Investment (UNPRI) defines Responsible Investment as follows:

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

An ideal situation would be for pension fund trustees to consider ESG risks in setting investment strategy in the same way as they do other investment risks, such as market volatility, inflation risk, credit risk, interest rate risk and liquidity risk, amongst others.

For the above non ESG risks there are established methods for modelling and quantifying their impact, including how they interact with each other. With no current agreed standard for measuring ESG risk, as well as uncertainty on impact on risk and return from following "ESG" strategies, there are challenges for trustees in attempting to implement an ESG policy.

What practical steps, therefore, can trustees take in complying with the proposals set out in the DWP consultation that are proportionate for the size of scheme and resources available to the trustees?

The following proposals should be considered in helping to build an ESG framework that is part of a robust and appropriate responsible investment policy.

1. Establish high level objectives of a Responsible Investment Policy

An example from a public pension fund, the Brunel Pension Partnership.

"Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society."

2. Undertake training on ESG issues and seek evidence of impact

Understand that integration is an evolving journey. Academic evidence is vast and growing. Dedicating time to ESG on each meeting agenda ensures trustees remain up to date on thought leadership, new opportunities and new risks.

3. Understand how investment managers integrate ESG factors in decision making

Ensure this is integrated into Consultants' manager recommendations. Challenge those managers that state ESG is not relevant to their asset class. Understand the investment managers' firm wide policy on ESG matters.

4. Understand how investment managers are discharging fiduciary duties.

How are managers engaging and voting on company matters. Does this reflect the scheme's beliefs and policies.

5. Begin measuring

The success, or otherwise, of a Responsible Investment policy is necessarily subjective. To begin to make an assessment, there must be meaningful measurement. This may be measuring tracking error for excluding certain sectors, voting statistics, carbon footprint of a portfolio, exposure to certain sectors, governance scores of a portfolio. Trustees can and should push their consultants and managers to report on such matters.