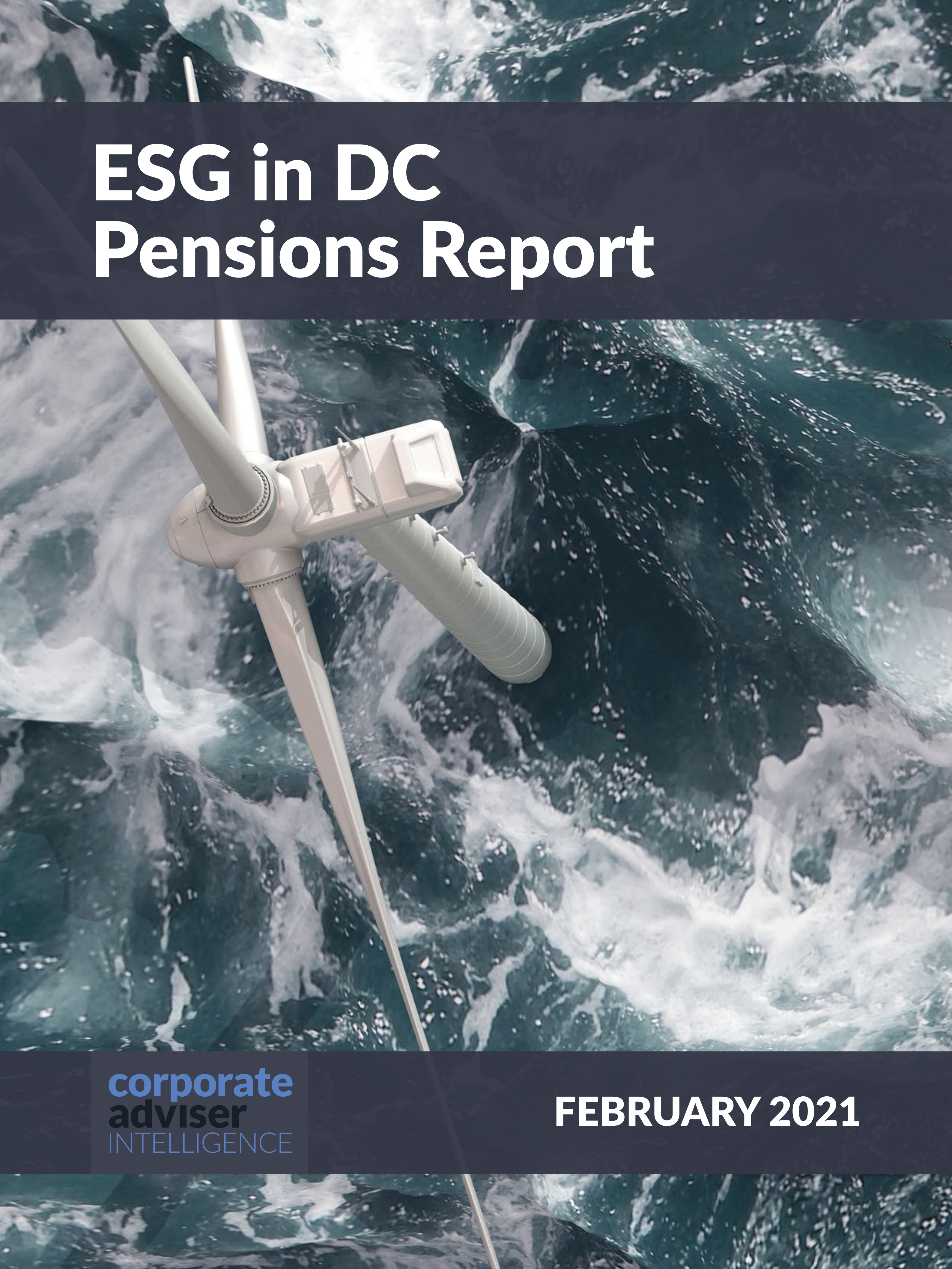

ESG in DC Pensions Report

corporate adviser INTELLIGENCE

FEBRUARY 2021

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This research has been sponsored by:

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INTRODUCTION

In recent years responsible investment strategies and the integration of environmental, social and governance (ESG) factors in the investment process have moved from a niche concern to the mainstream. In the last 12 months ESG and responsible investing have shot to the top of the agenda for pension professionals, driven by a combination of regulatory pressure, increased consumer awareness, reputation management concerns and the Covid pandemic. Greater public awareness of the relationship between investments and their impact on climate change has turbocharged this process.

There is a growing consensus that the global financial industry has a major role to play in helping the transition towards a low carbon economy to limit global warming to well below 2 degrees and preferably 1.5 degrees above pre-industrial levels, as set out in the Paris Agreement.

Within the UK's financial sector, DC pensions have a major part to play in helping meet the Paris targets. Auto-enrolment has placed defined contribution (DC) pensions at the heart of retirement provision in the UK. The eight biggest FCA-regulated workplace pension providers alone already hold over £360bn in DC assets[1], while TPR-regulated master trusts are adding tens of billions in DC assets every year[2].

An industry consensus is emerging that a net zero by 2050 target is a realistic route to meeting the Paris Agreement goals. However, a net zero target of any sort is arguably a political or reputational decision as well as an investment one. A net zero target goes beyond regulatory requirements to consider ESG in investment decision-making. Debate will continue amongst fiduciaries as to whether meeting net zero targets is completely aligned with maximising members' long-term returns.

Recent regulatory changes have significantly improved standards of reporting of ESG issues within the DC sector, with new rules requiring schemes to disclose 'financially materially' ESG factors and specifically consider the potential fiscal impact of climate change in their investment strategy decision-making process. At the same time there has been significant action by campaign groups and environmental charities — in some cases backed by high profile celebrities — to demand that fund managers and pension providers use the considerable assets they manage to do more to tackle the climate emergency. Proposed government policy — combined with action from these groups — could see pension schemes compelled to disclose their carbon footprint in the near future.

Such initiatives are likely to garner increased support from both individual members and sponsoring employers going forward as technology connects individuals to their investments ever more effectively, and as measurement and accounting of the ESG impact of corporate activity becomes more rigorously documented. Pensions professionals are increasingly alive to the potential for there to be a mismatch between an organisation's values and the investments held in its pension scheme. Such a misalignment presents significant reputational risk for the sponsoring employer, while also potentially undermining trust in the employer, pension provider and the concept of pension saving itself.

Not surprisingly the pensions industry – providers and the asset managers they use - is keen to champion its ESG credentials with terms such as 'sustainability', 'responsible investment', and 'stewardship' all prevalent in marketing material. However the challenge for advisers, scheme sponsors and investors is understanding what these claims mean, how these strategies are implemented in practice and how successful they are in achieving the responsible investment goals they claim to deliver. The world of ESG and responsible investment is complex and many-layered, and comparisons between propositions are difficult to achieve. It is therefore unsurprising that some sceptics point to 'greenwashing' by some asset managers and pension providers, accusing them of using ESG as a marketing tool rather than a device to fundamentally improve asset allocations.

The terminology used in the ESG space can also often be confusing to the public and industry professionals alike, or open to fiercely different interpretations. While there is an overlap between them, there is often a blurring of the concepts of 'ESG',

[1] https://corporate-adviser.com/lg-extends-lead-as-biggest-uk-dc-pension-provider/

[2] https://corporate-adviser.com/ca-master-trust-gpp-report-reveals-sector-growth-performance-and-asset-allocation/

'responsible investment' and 'ethical investing', particularly in the minds of the investing public. Employee scheme members, and some employers, may for example expect a strategy which takes 'environmental' factors into account to not be invested in industries that continue to rely on fossil fuels and contribute to global warming. However, in many cases ESG-badged funds may still have exposure to some of the most polluting industries. This is because asset managers, pension scheme trustees and Independent Governance Committees of GPPs' primary objective remains maximising financial returns.

The ESG and responsible investment sector is made more complex by the proliferation of accreditation bodies, pledges, campaigns, coalitions and other organisations that are working hard to make finance work better for the planet and the people who live on it. The criteria required by these organisations – often NGOs, charities and pressure groups – either for accreditation or membership, can vary significantly. While these bodies' motives are positive and laudable, the sheer number of them and the variability in the rigour with which they grant endorsement make understanding the value of such endorsements difficult for consumers and employers.

The purpose of this report is to unravel some of these layers of complexity, interpret the terminology being used and take a data-driven look at the options available within the DC pensions sector and the approaches taken by the asset managers operating within it. The report aims to highlight how products and strategies actually implement ESG factors, including climate change, based on the investments they hold and the stewardship activities they undertake, and give a deeper understanding of the concrete steps asset managers and leading DC pension providers are taking, and the potential impact these strategies could have on long-term returns.

This report examines the capabilities of the main asset managers active across the UK DC sector as well as the responsible investment and ESG features of the propositions of the key master trust and contract-based pension defaults. The report also includes a meta-analysis of research from leading ESG ratings agencies and campaign groups, to give consultants and advisers working in this sector a better overview of providers' and asset managers' credentials in this important area.

ABOUT THIS RESEARCH

This research is based on data collected from 15 asset managers who are all active in the DC auto-enrolment pension market. Between them these companies manage assets of circa £19 trillion. The report also incorporates research with 17 master trust and contract-based DC providers, and over 60 senior employee benefit consultants and corporate IFAs. Interviews were also conducted with industry professionals working across the ESG sector, pension consultants, trustees and other stakeholders. All research was conducted between October 2020 and January 2021.

The following asset managers were not prepared to share information with us about their ESG strategy: Amundi, HSBC Global Investors, Investec, Nomura, Pimco, Royal London Asset Management, T. Rowe Price, UBS.

Royal London was the only major pension provider to decline to reveal to Corporate Adviser how its pension default funds address ESG or responsible investment issues.

Transparency is one of the founding pillars of ESG and responsible investment. It is disappointing that these organisations were not prepared to expose their data to scrutiny in an industry-wide analysis.

EXECUTIVE SUMMARY

Key findings

- The shift towards responsible investment strategies has triggered the emergence of a complex ecosystem of organisations, charities, independent bodies, working groups and forums, each with their own vision of the standards, principles and frameworks that the investment industry players should adopt in relation to a range of ESG and responsible investment issues

- Legal & General Investment Management and Schroders are the only two asset managers in the UK DC universe to have committed to clear decarbonisation targets through the Net Zero Asset Managers Initiative

- The asset manager most likely to vote against the board across all its votes in the year to 30.9.20 was Aviva Investors, at 23 per cent. Some asset managers declared higher percentage figures for meetings actually attended

- A meta-analysis of ESG/climate change analysis shows Legal & General Investment Management ranked highest across three out of the four data sets covered in the study. Vanguard achieved low rankings across all four data sets

- Nine providers, Aegon, Atlas, Aviva, Legal & General, Nest, Smart Pension, Scottish Widows, Standard Life and The People's Pension have committed to net zero emissions by 2050 for their DC assets. Scottish Widows has extended its pledge for its entire asset portfolio. Cushon has pledged to be net-zero-now by offsetting

- Twelve master trust and GPP providers have a default proposition that invests in funds using ESG screens or tilts. Two years ago just five providers took such an approach. Hargreaves Lansdown and Standard Life are the only providers that have no specific sector tilts or screens across their defaults funds

- Seven providers exclude tobacco investments from their investments. All exclude cluster bombs and controversial weapons. Just one, TPT, excludes investments in animal testing and the fur trade

- Asset managers used by master trusts and GPPs have seen big increases in ESG assets, with Aviva Investors, JP Morgan Asset Management, Impax, LGIM and SSGA all expanding their assets significantly using these strategies

- Six asset managers have net zero targets for their corporate operations, with three, Aviva Investors, BlackRock and JP Morgan net zero now

- The vast majority of master trusts and GPPs have no set allocation to impact investments, with the exception of Lewis Master Trust, which has a 10 per cent allocation. Smart Pension is looking to move to a 6 per cent allocation in 2021, and Mercer is planning some exposure

- Asset managers used by master trusts and GPPs are affiliated to 134 different investor networks, forums, steering groups, committees, standards organisations and campaign groups

Responsible Investment definitions and terminology

There is still a degree of confusion as to the definition of umbrella terms used across the investment industry, such as responsible investing, ESG, impact investing, ethical investing and stewardship.

The Investment Association (IA) has worked with industry stakeholders to create a Responsible Investment Framework (RIF) and a series of definitions to bring clarity and consistency to the way products and strategies are described. 93 per cent of consultation respondents agree or broadly agree with the definitions determined by the IA. The RIF adopts existing initiatives where terms are well understood and widely adopted, including definitions already created by the UN Principles for Responsible Investment (UN PRI), the Global Impact Investing Network (GIIN) and the Financial Reporting Council (FRC).

Responsible investment – Encompasses the full suite of approaches in the RIF.

Sustainability focus – Can refer to environmentally sustainable goals (eg climate action), socially sustainable goals (eg alleviation of poverty or gender equality) or goals relating to economic sustainability (eg economic growth, industry innovation and infrastructure). Investments are chosen on what they produce and their business conduct.

Includes sustainability themed investing, best in class approaches that target sector-leading companies on the basis of certain sustainability criteria or positive tilts, that overweight investments that fulfil certain sustainability criteria and/or deliver on a specific and measurable sustainability outcome – eg half the carbon intensity of a benchmark.

ESG – The UN PRI defines environmental, social and governance (ESG) integration as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions." ESG integration is the analysis of all material factors in investment analysis and investment decisions, including ESG factors.

An ESG strategy involves: analysing financial information and ESG information; identifying material financial factors and ESG factors; assessing the potential impact of material financial factors and ESG factors on economic, country, sector, and company performance; and making investment decisions that include considerations of all material factors, including ESG factors.

An ESG strategy does not mean: certain sectors, countries, and companies are prohibited from investing; traditional financial factors are ignored (e.g., interest risk is still a significant part of credit analysis); every ESG issue for every company/issuer must be assessed and valued; every investment decision is affected by ESG issues; major changes to investment process are necessary; and crucially, portfolio returns are sacrificed to perform ESG integration techniques.

Materiality - ESG integration involves integrating only the material ESG issues that are considered highly likely to affect performance. If ESG issues are considered material, an assessment of their impact is carried out. If ESG issues are analysed and found not to be material, an assessment is not carried out.

Impact investing - The GIIN definition of impact investing is investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Stewardship - The FRC's Stewardship Code 2020 is a revision of the 2012 edition of the Code, which took effect from 1 January 2020. The new code has a stronger focus on activities and outcomes of stewardship that goes beyond policy statements. The Code asks investors to explain how they have exercised stewardship across asset classes.

Stewardship is defined as the responsible allocation and management of capital across the institutional investment community, to create sustainable value for beneficiaries, the economy and society. Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities.

Exclusions - Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of sector; business activity, products or revenue stream, a company; or jurisdictions/countries.

Examples of exclusions include investment approaches that apply ethical/values- based/religious exclusions; an investment approach that excludes investments on the basis of ethical, values- based or religious criteria, for example, gambling, alcohol, or pork.

Exclusions can also include sustainability, eg fossil fuel companies, or on the basis of ESG assessments.

CHAPTER 1
THE SIZE AND SHAPE OF THE DC ESG SECTOR

This report looks at the ESG strategies of the major asset managers working in the UK DC pensions market. Between them these asset managers are deciding where to invest more than £19 trillion assets globally. ESG-led mandates have become an increasingly important part of these assets under management.

There is now widespread acceptance from many in the investment industry that ESG factors are relevant when it comes to financial due diligence and assessing the future value of assets. This can include a company's carbon emissions, it board make-up, management diversity and even it tax disclosure policies.

For the vast majority of asset managers, ESG analysis has become a core part of their business. Increasingly this diverse range of factors is being analysed with the same rigour as traditional metrics such as liquidity and credit risk. This analysis is now embedded in investment processes and often used on portfolios that are not explicitly badged as 'responsible' or 'green' investment products.

Increased regulatory action has forced asset managers to focus on the longer-term systemic risks presented by issues such as climate change. At the same time increased public awareness about this threat, and wider concerns about corporate responsibility, have further fuelled demand for investment solutions that address these issues.

As a result ESG-led mandates have been a valuable source of growth for the asset management industry over the past year, in both the institutional and retail sectors. Figures from the Investment Association showed inflows into ESG funds quadrupled over 2020, while Morningstar reports the money flowing into ESG funds rose sharply following the Covid pandemic, with a 72 per cent increase into these funds in the second quarter of 2020. Responsible investment fund sales trebled in 2020 to £10bn according to the most recent figures from the Investment Association.

Investor appetite for more sustainable solutions is extending to passive investments, with Bloomberg reporting record inflows into ESG-themed ETFs in 2020.

The major asset managers in the DC market are listed below with their global assets under management, and where data has been supplied, details of how these have changed over the past year.

1.01 The size of asset managers in the UK DC universe

As the table shows, many of these asset managers have enjoyed considerable asset growth over the year to 30.9.20, with BlackRock, Fidelity International, Impax, Schroders and Vanguard all seeing significant upswings in assets under management, while Aberdeen Standard Investments and Newton Investments both saw falls. These changes should be seen against a context of broad rises in stock markets - there has been a 9 per cent increase in the MSCI World Index over the period, which is virtually identical to the average change in assets for the data set. Any asset manager with less than a 9 per cent increase has lost market share.

Figure 1: Assets under management - global total 30.9.20

	Total assets under management to 30.09.2020	Total assets under management to 30.09.2019	% Up/down
BlackRock	£6,050bn	£5,310bn	+13.9
Vanguard Group	£5,230bn	£4,652bn	+12.4
State Street Global Advisors	£2,400bn	£2,400bn	0
JPMorgan AM	£1,600bn	£1,523bn	+5.1
Legal & General IM	£1,200bn	£1,134bn	+5.8
Schroders	£536bn	£451bn	+18.8
AllianceBernstein	£488bn	£481bn	+1.5
Aberdeen Standard Investments	£455bn	£526bn	-13.5
Columbia Threadneedle	£385bn	£380bn	+1.3
Aviva Investors	£357bn	£337bn	+5.9
Fidelity International	£365bn	£256bn	+42.6
Newton Investments	£44.9bn	£50bn	-10.2
Impax	£20.2bn	£15bn	+34.7
Total	**£19.1tn**	**£17.5tn**	**+9.1%**

1.02 Defining ESG assets under management

Pension schemes in the UK are required to consider 'financially material' ESG factors in their investment approach. As set out in the front section of this report, there is a clear definition of the broad principles of ESG and responsible investment. These broad terms cover a range of different investment strategies and approaches which can take very different stances when it comes to excluding or divesting away from certain sectors or industries.

In the DC market there can be considerable overlap between ESG and responsible investment approaches, with asset managers using a variety of strategies to ensure portfolios, or individual funds, have more attractive ESG characteristics. Several asset managers argue that all of their assets under management are essentially ESG funds because analysis of environmental, social and governance factors is now a fundamental risk management tool and is fully integrated within their investment process. Some have also argued that their stewardship activity (see chapter three), which can play a crucial role in improving company track records on a range of issues, from carbon emissions to fair pay and board diversity, makes all their assets ESG assets.

These approaches are an essential part of ESG investing, However, for external observers — advisers, trustees and ultimately investors — it can sometimes be difficult to understand what weighting asset managers place on these individual factors, and how ESG portfolios differ from non-ESG ones.

This chapter measures asset managers' assets by the following ESG criteria:

- **Filtering/ Screening of stocks or sectors:** where individual stocks, or industries are excluded from a fund or portfolio on the basis of ESG factors

- **Tilting:** where allocations to particular sectors or industries are either increased or decreased on ESG grounds. This is typically used in passive strategies

Figure 2: ESG assets under management

	Total AUM filter/ screen out stocks on the basis of ESG factors 30.09.20	30.09.19	YOY % change	Total AUM that tilt an index on basis of ESG factors 30.9.20	Best-in-class ESG assets
Aberdeen Standard Investments	£25bn	£18bn	+38.8	£1.6bn	£1.6bn
AllianceBernstein	£380bn	£176.2bn	+115.6	-	£12.3bn
Aviva Investors	£41.6bn	£2.4bn†	-	£8.6bn	£20.3bn
BlackRock	£473.3bn^^	£410.3bn	+15.4	-	£125bn^^
Columbia Threadneedle	£23.6bn**	£25.7bn	-8.2	-	£8.4bn
Fidelity	£364.8bn	-	-	-	£520m
Impax	£20.2bn	£15bn	+34.7	£1.3bn	N/A
JPMorgan AM	£656m	£407m	+61.2	£1.1bn	£783m
Legal & General IM	£202.6bn^^^	-	-	£160.7bn	£41.9bn
Newton Investments	£5.2bn*	£4.7bn	+10.6	-	£1.6bn
Schroders	£69.4bn	£47bn	+47.7	-	All assets fully ESG integrated
State Street Global Advisors	£289bn	£256bn	+12.9	£125bn	£24bn
Vanguard AM	-^^^^				

† Last year's figure covers stricter Stewardship funds only
¬¬¬* applies to portfolios that adhere to ethical guidelines/ sustainable objectives. ESG factors taken into account in investment decision for all AUM.
** includes best-in-class assets
*** 'Best in class' comprises the summed AUM four funds within Sustainable Family: Sustainable Global Equity Fund, Sustainable Eurozone Equity Fund, Sustainable Strategic Bond Fund and Sustainable Research Enhanced Equity ETF
^^ BlackRock figures YOY to Q4. Includes portfolios that use baseline and additional screens. Other includes broad, thematic ESG and impact funds
^^^ YOY to Q2
^^^^ Vanguard has £3.3bn in UK SRI/ESG funds to Q4 2020

This table shows there has been a significant increase in the assets that are now invested using these specific ESG-related strategies. While the data is not comprehensive when compared to last year's data set, there is clear evidence that there has been an increase in the use of tilts to implement ESG strategies, with Aviva, JP Morgan, Impax, LGIM and SSGA all expanding these strategies significantly. While some of these increases are due to new money flowing into newly-launched ESG funds and new money into existing ESG funds, this growth has also been boosted by asset managers applying an ESG overlay to existing funds and portfolios.

However there also appears to be some differences in the way asset managers interpret these definitions. Fidelity for example now embeds ESG analysis across its portfolio, so has stated that its total AUM are in funds which filter or screen stocks on the basis of ESG factors.
In contrast ASI, states it also embeds ESG analysis across its portfolio, but lists just £25bn in funds which impose filters or screens. Newton states it has £5.2bn invested in portfolios that either adhere to strict ethical guidelines or have a sustainable objective.

1.03 The impact of regulation

Government and regulators are forcing a sustainability agenda across all sectors of the economy. One of the biggest changes has been in the pension market, where new DWP regulations stipulate that DC schemes have to consider 'financially-material' ESG factors as part of their investment policy. These regulations explicitly highlight climate change as a financially material ESG risk.

How trustees are meant to embrace ESG and climate change

Trustees are required to prepare and review every three years a statement of investment principles (SIP). Since 1 October 2019, trustees have been required to specify:

- Their policies in relation to financially material considerations (including those relating to environmental, social and governance (ESG) considerations, such as climate change)

- Their policy in relation to the exercise of the rights (including voting rights) attaching to the investments, and undertaking engagement activities in respect of the investments

From 1 October 2020, trustees have been required to specify:

- How they incentivise their asset managers to align their investment strategy and decisions with the trustees' policies

- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

- How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range, and the duration of the arrangement with the asset manager

- The extent (if at all) to which members' views on non-financial matters (including ethical views, views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme) are taken into account in the selection, retention and realisation of investments

Financial factors

TPR requires trustees to take into account all factors that are financially material to the performance of an investment. A relatively minor negative financial factor for the default fund or default arrangement may have an impact on a very high proportion of the scheme membership and may be of a material concern to trustees.

Non-financial factors

TPR defines non-financial factors as factors that are not motivated by 'financial' concerns of balancing rewards against risk in certain circumstances. These factors are subordinate to the main purpose of providing a pension, but the Law Commission concluded that trustees may take account of non-financial factors if they have good reason to think scheme members share a particular view and if their decision does not risk significant financial detriment to the fund. However, where there is a disagreement among members around a controversial non-financial investment proposal, the Law Commission recommends that the courts are likely to expect trustees to focus on financial factors. TPR guidance makes clear that trustees are not obliged to take members' views into account.

From April 2020, FCA regulations impose requirement on IGCs operating in the contract-based pension market to consider ESG factors, the views of pension scheme members on where their assets are invested and stewardship issues.

Climate change

TPR requires trustees to consider the recommendations of the Taskforce on Climate–Related Financial Disclosures (TCFD), which have been endorsed by the UK government. These recommendations provide a global framework for identifying, assessing, and managing climate-related risks. For more detail on the impact of TCFD regulation on master trusts and GPPs see chapter 5.

Future planned regulatory changes

Subject to both consultation and parliamentary approval, proposed Department for Work and Pensions regulations will mean the following:

The criteria by which trustees come into scope of the requirements:

• Trustees of schemes whose relevant assets are £5bn or more at the end of their first scheme year to end on or after 1 March 2020 will be subject to the requirements from 1 October 2021

• Trustees of authorised master trusts will be subject to the requirements from 1 October 2021

• Trustees of schemes whose relevant assets are £1bn or more at the end of their first scheme year to end on or after 1 March 2020 will be subject to the requirements from 1 October 2022

The steps trustees must take:

• Trustees must meet the climate change governance requirements which underpin the recommendations of the TCFD. Details of steps to meet these requirements are included in draft statutory guidance to which trustees must have regard.

• **Governance** - Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme.

• **Strategy** - Trustees must identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over different time horizons.

• **Scenario Analysis** - Trustees must (as far as they are able) undertake scenario analysis assessing the impact on the scheme's assets and liabilities. One scenario must correspond to a global average temperature rise of between 1.5 and 2°C inclusive on pre-industrial levels.

• **Risk Management** - Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks which are relevant to the scheme.

• **Metrics** - Trustees must select and (as far as they are able) calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets. Trustees must also select one additional climate change metric to calculate in respect of the scheme's assets.

• **Targets** - Trustees must set a non-binding target for the scheme in relation to at least one of the metrics which they have selected and review and measure performance against the target (as far as are they are able) annually.

Trustees must also report on how they have met these requirements by:

- Publish their TCFD report on a publicly available website, accessible free of charge.

- The TCFD report must be referenced from – but need not be included in – the Annual Report.

- Members must be told via any annual benefit statement they receive that the report has been published and where they can locate it. Trustees of DB schemes must also provide this information to members via the scheme funding statement.

- Trustees must provide TPR with the website address where they have published their most recent TCFD report via the annual scheme return form (this requirement will be extended to the published Statement of Investment Principles (“SIP”) and (where applicable) implementation statement and published excerpts of the Chair’s Statement).

In relation to ensuring compliance with these measures:

- A mandatory penalty would be administered for complete failure to publish any TCFD report. Other penalties would be subject to TPR discretion.

CHAPTER 2
MAKING SENSE OF PROVIDER AND ASSET MANAGER ESG CREDENTIALS

The shift towards responsible investment strategies has triggered the emergence of a complex ecosystem of organisations, charities, independent bodies, working groups and forums, each with their own vision of the standards, principles and frameworks that the investment industry players should adopt in relation to a range of ESG and responsible investment issues.

Many of these pledges relate to climate change, in particular meeting the targets of the Paris Agreement. It is not determined in law or regulation that pension schemes must become net zero in line with the Paris targets. Nor is it established that investing with the goal of achieving net zero carbon by a specific date falls within trustees' fiduciary duty to members. But increasing awareness of ESG and responsible investment factors and the potential risk they present to the reputation of scheme sponsors, coupled with demand from sponsoring employers and scheme members for responsible investments, means demonstrating ESG credentials is becoming increasingly important for providers and the asset managers running funds on their behalf.

2.01 Untangling ESG credentials

The sheer number of organisations overseeing providers and asset managers is staggering. The asset managers and pension providers surveyed in this report have named more than 130 different bodies, coalitions and initiatives that they have signed up to.

Many of these groups offer accreditation to affiliated asset managers and providers who sign up to their principles or agree to meet certain pledges. Some are 'broad tent' organisations with relatively flexible affiliation criteria, while others have strict requirements for acceptance.

Some of these bodies are global regulatory organisations, setting out international standards on ESG practices within the investment industry. Others are coalitions, investor alliances or NGOs which may be focused on specific regions, countries or sectors. Some of these bodies have a far narrower remit, focusing on one issue, such as carbon reporting, fairer farm practices or reduction in plastics.

The picture is further complicated by some organisations overlapping or partnering with other organisations. For example, investor initiative Climate Action 100+ is co-ordinated through five regional investor networks - Asia Investor Group on Climate Change (AIGCC), Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

Some accreditation bodies have different tiers of recognition. While signatory status of the UN PRI is claimed by 3,000 signatories across 135 countries worldwide, only 20 asset managers were named PRI Leaders Group members in 2020, just 1 per cent of all asset manager signatories. Four per cent of asset owners were named in the Leaders Group.

The box below gives details of some of the most commonly cited organisations, in each of these categories.

List of ESG/RI-related bodies

Standard-providers & standard-setters:
- CDP (formerly Carbon Disclosure Project)
- GRI (Global Reporting Initiative)
- SASB (Sustainable Accounting Standards Board)
- TCFD (Task-Force on Climate-Related Financial Disclosures)

Groups of investors / coalitions:
- Climate Action 100+
- PRI (Principles of Responsible Investment)
- IIGCC (Institutional Investors on Climate Change)
- UKSIF & EUROSIF
- Net Zero Asset Owners Alliance
- Net Zero Asset Managers Initiative

NGOs focused on financial sector accountability:
- 2degrees Investing Initiative
- FinanceWatch
- Influence Map
- Make My Money Matter
- Positive Money
- ShareAction
- World Benchmarking Alliance

NGOs that lead on shareholder activism:
- As You Sow
- Follow This
- Majority Action
- Market Forces
- ShareAction

NGOs specifically focused on climate/environment:
- Carbon Tracker
- ClientEarth
- E3G

The box above only scratches the surface of the number of organisations in existence, many of which have overlapping aims.

This number continues to proliferate. At the start of 2021 HRH The Prince of Wales was the latest high profile individual to launch his own initiative, the ‘Natural Capital Alliance’, which works with asset managers to promote ‘nature’ as an investment theme in a bid to tackle climate change.

There is a genuine sense of enthusiasm amongst many professionals working within the asset management, pensions and broader financial services industry that it is rising to the challenge of making the fundamental changes needed to transition to a cleaner, greener, more socially equitable future.

It is debatable whether the changes sought by pressure groups will happen quickly enough, but what change is achieved will be in no small part down to these many activist groups. Many asset managers and providers will use these accreditations as a means of demonstrating their commitment to high ESG and responsible investment standards. But cynicism remains that some will also use the goodwill generated by affiliation and accreditation for purely marketing and communications purposes.

The problem for advisers, trustees and investors is that the sheer number of different organisations has created a confusing acronym soup. Furthermore, it is unclear whether the number of organisations affiliated to is a useful measure of ESG/responsible investment credentials. Aviva Investors — for example— has cited 44 separate ESG-related bodies and organisations to which it is connected. Impax, meanwhile, a specialist ESG and responsible investment asset management house, has cited only 12. SSGA has only signed up to five of the 10 leading affiliation campaigns identified in this report, yet is one of only two asset managers in this report to be named in the UN PRI's Leaders Group on climate change, an endorsement held by just 1 per cent of asset managers.

2.02 Membership of or affiliation to ESG, sustainability and responsible investment organisations

This report analysed the engagement by asset managers with 10 of the highest profile responsible investment coalitions and alliances.

CDP (formerly Carbon Disclosure Project): Runs a global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation at the request of their investors, purchasers and city stakeholders.

GRI (Global Reporting Initiative): An independent, international organisation that helps businesses and other organizations take responsibility for their impacts, by providing them with the global common language to communicate those impacts. It provides the world's most widely used standards for sustainability reporting – the GRI Standards.

SASB (Sustainable Accounting Standards Board): The Sustainability Accounting Standards Board (SASB) is an independent non-profit organisation that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. SASB Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each of 77 industries. SASB also provides education and other resources that advance the use and understanding of its Standards.

Climate Action 100+: Requires commitments from boards and senior management to implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk; take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees; and provide enhanced disclosure in line with TCFD.

UN PRI: Institutional investors pledge that they believe ESG issues can affect the performance of investment portfolios. Signatories also recognise that applying six prescribed ESG principles may better align investors with broader objectives of society.

IIGCC (Institutional Investors Group on Climate Change): The European membership body for investor collaboration on climate change. Has more than 270 members, mainly pension funds and asset managers, across 16 countries.

TCFD (Task-Force of Climate-related Financial Disclosures): A global effort to achieve standardisation of carbon reporting

EUROSIF: An association for the promotion and advancement of sustainable and responsible investment across Europe. UKSIF is a member of EUROSIF

Make My Money Matter: A people-powered campaign aiming to ensure investors understand where their money is invested and encourage switching away from harmful investments towards those aligned with the UN Sustainable Development Goals and the Paris Agreement.

Net Zero Asset Managers Initiative: A group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Figure 3: Asset managers' membership of or affiliation to ESG, sustainability and responsible investment organisations

	CDP	GRI	SASB	Climate Action 100+	UN PRI	IIGCC	TCFD	EUROSIF	Make My Money Matter	Net Zero Asset Managers Initiative	Number of top 10	Total declared number of organisations affiliated to
Aberdeen Standard Investments	Y	N*	N*	Y	Y	Y	Y	Y	N	N	6/10	6
AllianceBernstein	Y	N	Y	Y	Y	Y	Y	Y	N	N	7/10	23
Aviva Investors	Y	N	Y	Y	Y	Y	Y	Y	N	N	7/10	51
BlackRock	Y	N*	Y	Y	Y	Y	Y	Y	N	N	7/10	6
Columbia Threadneedle	Y	N	Y	N	Y	N	Y	Y	N	N	5/10	18
Fidelity International	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	9/10	25
Impax	Y	N	N	N	Y	Y	Y	N	N	N	4/10	12
JPMorgan Asset Management	Y	N	Y	Y	Y	Y	Y	Y	N	N	7/10	13
Legal & General IM	Y	N	Y	Y	Y	Y	Y	N	N	Y	7/10	15
Newton Investments	Y	Y	Y	Y	Y	Y	Y	N	N	N	7/10	22
Schroders	Y	N	Y	Y	Y	N**	Y	Y	N	Y	7/10	7
State Street Global Advisors	Y	N	Y	Y	Y	N	Y	N	N	N	5/10	5

*ASI says both are reporting frameworks and when evaluate individual companies look for their compliance with this in the ESG-related disclosure. ** Currently assessing membership

The table above shows that all asset managers in this survey are signatories to the CDP, the UN-backed Principles of Responsible Investing (PRI) and TCFD.

The vast majority are also signatories to the SASB (Sustainable Accounting Standards Board) the IIGCC (Institutional Investors on Climate Change) and Climate Action 100+.

However there are a number of exceptions. Columbia Threadneedle is not signed up to the principles of either the IIGCC or Climate Action 100+, Impax is not a members of the SSAB or Climate Action 100+, while SSGA is not a member of the IIGCC. Only two asset managers, Schroders and Legal & General Investment Management, are signed up to the Net Zero Asset Managers Initiative. Just Newton and Fidelity International have signed up to the GRI, and none of those surveyed are members of Make My Money Matter.

2.03 A proliferation of ESG/RI affiliation bodies

Asset managers were asked what other ESG and responsible investment-related organisations they were signatories of. Collectively they listed 134 different investor networks, forums, steering groups, committees, standards organisations and campaign groups.

ESG/RI affiliation bodies

2020 Stewardship Working Party
30% Club
Access to Medicines Index
Access to Medicines AMR Benchmark
Access to Nutrition Index, collaborative initiative on the responsible marketing of breastmilk substitutes (BMS)
Aldersgate Group
American Council on Renewable Energy
American Wind Energy Association
Asia Investor Group on Climate Change (AIGCC)
Asia Research and Engagement (ARE)
Asian Corporate Governance Association (ACGA)
Association for Financial Markets in Europe - Sustainable Finance Policy Working Group
Association for Sustainable and Responsible Investment in Asia
BITC - Environmental Leadership Team
Broadridge Independent Steering committee
Business Ambition for 1.5 Degrees C
Business Benchmark for Farm Animal Welfare
Business Sustainable Development Commission (BSDC)
Canadian Coalition for Good Governance
Carbon Disclosure Project (CPD)
CDP Climate Change, Forests and Water
Carbon Market Institute
Carbon Trust Standard
Center for Climate and Energy Solutions (C2ES)
Ceres Investor Network on Climate Risk and Sustainability
CICERO Climate Finance
The Child Safety Pledge
Climate Action 100+
Climate Bond Initiative (CBI)
Climate Disclosure Standards Board (CDSB)
Climate Financial Risk Forum (CFRF)
Climate Leadership Council
The ClimateWise Principles
ClimateWise, University of Cambridge Institute for Sustainability Leadership (CISL)
Coalition for Climate-Resilient Investment
Commonsense Principles of Corporate Governance
Corporate Governance Forum
Corporate Human Rights Benchmark (CHRB)
Council of Institutional Investors (CII)
Defined Contribution Institutional Investment Association - ESG subcommittee

Ellen MacArthur Foundation
Energy Transitions Commission (ETC)
EP 100
The Equator Principles
European Fund and Asset Management Association - RI and Stewardship committee
European Sustainable Investment Forum (Eurosif)
EU High-Level Expert Group (HLEG) on Sustainable Finance
Eumedion Corporate Governance Forum
EV 100 (Electric vehicles)
Extractive Industries Transparency Initiative (EITI)
Farm Animal Investment Risk and Return Initiative (FAIRR)
FAIRR's initiative on sustainable protein, antimicrobial resistance
FAIRR / CERES initiative on fast food supply chains
Financial Stability Board (FSB) TCFD
GC100 & Investor Group
Global Innovation Lab for Climate Focus
Global Investors Governance Network (GIGN)
Global Impact Investing Network (GIIN)
Green Bond Principles
Global Real Estate Sustainability Benchmark (GRESB)
Global Reporting Initiative (GRI)
Hong Kong Green Finance Association
IFC Operating Principles for Impact Management
IFRS Advisory Council
IGCN Global Stewardship Principles
Impact Investing Institute
Institut du Capitalisme Responsible
Institute of Chartered Accountants of Scotland - Sustainability Panel
Institutional Investors Group on Climate Change (IIGCC)
Interfaith Center on Corporate Responsibility (ICCR)
International Capital Markets Association
International Corporate Governance Network (IGCN)
International Integrated Reporting Council (IIRC)
Investing in a Just Transition
Investment Association - Stewardship Working Group
Investment Association - Sustainability and RI committee
Investment Company Institute (ICI)
The Investor Agenda
Investor Environmental Health Network (IEHN)
The Investor Forum (for different regions, eg Japan, UK)
Investor Group on Climate Change (Australasia) (IGCC)
Investor Network on Climate Risk (INCR)
Investor Mining & Tailings Safety Initiative
Investor Stewardship Group
Investor Working Group on Tailings & Accounting Provisions
Japan Stewardship Code
KnowTheChain Investor Statement
London Stock Exchange Primary Markets Group
Lux Flag (Luxembourg Finance Labelling Agency)
Make My Money Matter

Net Zero Asset Owners Alliance
Net Zero Asset Managers Initiative
One Planet Asset Managers Initiative
Paris Pledge for Action
Pensions and Lifetime Savings Association Stewardship Advisory Group
Pensions for Purpose
Plastic Solutions Investor Alliance
PLSA Stewardship Disclosure Framework
Powering Past Coal Alliance (PPCA) Finance Principles
Renewable Energy 100 Pledge
Responsible Investment Association Australasia
Share Action Healthy Markets
Shareholder Voting Working Group
Stewardship Principles for Institutional Investors in Taiwan
Social Bond Working Group (ICMA)
Sustainable Accounting Standards Board (SASB)
Sustainable Stock Exchange (SSE) Initiative
Task Force on Climate-Related Financial Disclosures (TFCD)
Taskforce for Nature-related Financial Disclosure (TNFD)
Taskforce on Pension Schemes Voting Implementation
The Terrawatt Initiative
Thirty Percent Coalition
Thinking Ahead Institute
Transition Pathways Initiative (TPI)
UNEP FI - Principles for Sustainable Insurance
UNEP FI - TCFD work stream
United Nations Global Compact
UN Principles for Responsible Investing (PRI)
UN Sustainable Development Goals (UN SDG)
University of Cambridge Institute for Sustainability Leadership
The UK Green Finance Taskforce
UK Investor Forum - Governance and Engagement Committee
UK HMT Asset Management Taskforce
UK Pre-Emption Group
UK Social Impact Implementation Task
UK Stewardship Code
UK Sustainable Investment Forum (UKSIF)
UK Women in Finance Charter
Vatican Energy Transition and Care for Our Common Home
VBDO - Dutch Association of Investors for Sustainable Development
Workforce Disclosure Initiative
World Benchmarking Alliance
World Business Council for Sustainable Development
World Economic Forum’s Future of Energy Council

2.04 Progress towards net zero emissions

Climate change remains the biggest single issue that is driving the ESG-agenda and trustees are specifically required to consider its impact in their investment decision-making, although they are not obliged to avoid carbon-intensive investments. Rising global temperatures, extreme weather conditions and increasingly compelling scientific evidence are driving widespread acknowledgement that climate change is not a future issue, but one that affects societies across the world today. Organisations like Extinction Rebellion and the school strikes organised by Swedish teenager Greta Thunberg have ensured this issue is rarely out of the news headlines.

At the same time there is growing consensus from governments, regulators and asset owners about the long-term financial consequences of allowing climate change to continue unchecked - and the role the financial industry has to play in helping transition to a lower carbon economy. Governments around the globe have signed up to the Paris Agreement, limiting global temperature increase by less than 2 degrees and as close to 1.5 degrees above pre-industrial levels. The Paris Agreement has been boosted by the decision on the first day of US President Joe Biden's presidency to rejoin.

In order to meet this global goal, many individual businesses and organisations have set their own targets to reduce carbon emissions and other greenhouse gases. Increasingly there has been focus on financial services organisations to not only reduce their own emissions but to monitor and reduce the carbon intensity of the portfolios they manage.

In order to help facilitate this, the Institutional Investors Group on Climate Change (IIGCC) has set out a framework for the investment industry to use to work towards a net zero economy, the Net Zero Investment Framework. Launching this new framework in August 2020, the IIGCC noted that a range of innovations, methodologies and tools have emerged to help investors take action on climate change. However it argued these efforts have been fragmented and none have provided a comprehensive, systemic and forward-looking approach to guide investors action and deliver impact in the real economy.

The Net Zero Investment Framework has been designed to shape metrics to assess investments and measure alignment, and requires investors to set concrete targets at both a portfolio and asset level. It will evolve as time goes on, to reflect the fact that the net zero ambition relies on the development of technologies, such as carbon capture, that do not yet exist, and as the true extent of actual progress is revealed. Some stakeholders argue there is still significant progress to make in order to build consensus around the difficult question of what a net zero commitment actually involves. However, the IIGCC's framework is seen as the industry benchmark for robust transition targets.

Working in parallel to these industry-wide initiatives are organisations such as Make My Money Matter, which have promoted the possibility of 'net-zero pensions', where the underlying investments are not contributing to climate change beyond the Paris targets, in direct contrast to '4 degree pensions', which do not incorporate ESG factors but simply track the index.

2.05 Asset managers' net zero emissions targets

Asset managers were asked whether they have specific carbon reduction targets, for both their organisations and the assets they manage, and the date by which these targets are likely to be achieved. Participants were also invited to share interim targets and other progress they have made to reduce carbon emissions.

Figure 4: Net zero emissions targets

	Net zero emissions target for the operation of your company	Details of any interim targets	Net zero emission target for assets under management	Details of interim targets
Aberdeen Standard Investments	No		No	Currently working to develop net zero propositions across different asset classes. Eg in active equities the Active Climate Transition framework is under development using IIGCC net zero investor framework
AllianceBernstein	No	No explicit target but committed to reducing impact to the global environment. In 2019 emissions 4.5% less than in 2018, and 13% decrease over previous 5 years	No	In process of establishing explicit net zero emissions target for UK retirement business
Aviva Investors	Corporate operations carbon neutral since 2006. Uses offsetting		No. Currently scoping net zero ambition for Aviva Investors	Aviva's Real Asset Business aims to be net zero by 2040 across real estate/ infrastructure
BlackRock	Operations are carbon neutral		No. In 2021 will announce additional actions that are aligned to net zero ambitions	
Columbia Threadneedle	No	Meets requirement for the ISO14001:2015 standard throughout 2019. Total carbon emissions were 18.6% lower due primarily to reduced air travel	No - but monitoring characteristics of funds and strategies to develop approach	Specific carbon reduction strategies are client-agreed. But does not impose carbon mandates on clients in general
Fidelity International	Yes - Target to be carbon net zero by 2040. Target set in June 2020	2040 target equates to 5% reduction year on year in greenhouse gas emissions	No	
Impax	No	Pioneered reporting of net CO2 footprint of its thematic energy and new energy strategy for past 6 years. Publishes results in comparison with current economy and 2 degrees scenario, as well as showing net zero comparison	No	In the firm's 2020 Impact Report all portfolios demonstrated a net footprint below a 2 degree scenario and all showed net carbon impact of less than zero
JPMorgan Asset Management	Carbon neutral in operations from start of 2020		No. Currently considering net zero emission target for AUM	
Legal & General Investment Management	Yes. Policy to achieve net zero carbon on assets on balance sheet by 2050	From 2030 operational footprint will operate with net zero carbon emissions	Yes. AE defaults to be net zero by 2050. Will provide defaults aligned with Paris trajectory	Reviews short term targets every five years in line with NZAMI

Newton Investments	No — but taken steps to reduce carbon footprint	Parent company BNY Mellon set greenhouse gas emissions reduction target in line with 2 degrees. Goal to reduce by 20% by 2025 (2018 base year)	No	Total greenhouse gas emissions of client investments fallen significantly in recent years and are well below those of reference benchmarks
Schroders	Yes - net zero by 2050 or sooner.	In process of setting science-based target and will publish short, medium and long-term targets this year	Yes - founding member of Net Zero Asset Managers Initiative. Working with asset owner clients on decarbonisation goals with ambition to reach net zero emissions by 2050 or sooner across all AUM	Setting interim targets for proportion of assets to be managed in line with this goal, reviewed at least every five years.
State Street Global Advisors	No	Interim targets are carbon neutrality for Scope 1 and Scope 2 emissions starting in 2020; and a reduction in CO_2 emissions by 27.5% by 2030 (2019 baseline), based on the Science Based Target Initiative's well-below 2°C scenario	No	

It is significant that despite being signatories to bodies such as Climate 100+, UN PRI and a huge number of other ESG-related organisations, several asset managers do not yet have clear targets to achieve net zero emissions, either for their own company, or for the considerably bigger challenge of their assets under management.

Six asset managers have net zero targets for their operations, with three, Aviva Investors, BlackRock and JP Morgan net zero now.

When it comes to assets under management, Legal & General Investment Management and Schroders are the only two to have committed to clear targets, through the Net Zero Asset Managers Initiative. 2021 looks to be a pivotal year in this regard, with several others looking to declare their net zero strategies. Future iterations of this report will continue to track this information and ask whether asset managers are achieving interim goals that have been set.

Carbon neutral, net zero and zero carbon

As with many issues surrounding climate change, ESG and sustainability there is a proliferation of terms that are often conflated when discussing the transition to a low carbon economy.

The terms 'carbon neutral' and 'net zero' are often used interchangeably in relation to emissions. In broad brush terms they are similar, but there are some nuanced differences.

Carbon Neutral: If a business is carbon neutral its means it is not adding carbon to the atmosphere. Any carbon produced in the course of activities should be offset. This can be done by purchasing carbon credits or through direct investment in activities such as reforestation.

To be carbon neutral a business should look at its direct emissions as well as those its suppliers create, and that its consumers create using its products.

Net Zero: This is a similar concept: a company or business that is net zero should ensure any emissions created are offset by other activities.

However while carbon neutral relates just to CO2 (carbon dioxide), net zero relates to other greenhouse gas emissions, such as methane and nitrous oxide.

Companies also have to reduce their overall emissions as far as possible to be net zero, although emissions can be offset by investing in carbon-absorbing activities, such as reforestation. Carbon credits are generally not deemed part of the equation.

Zero Carbon: This term is for that small group of organisations that produce zero carbon across the full spectrum of business activities. Firms that generate renewable energy for example would fit this definition.

2.06 A meta-analysis of recent research data: How asset managers' ESG strategies have stood up to external scrutiny

The vast majority of asset managers have, through the initiatives referenced in this chapter, made public commitments to improve their track record on ESG issues, particularly in relation to climate change. But for consumers, employers, trustees and advisers, rating and assessing individual asset managers on their track record is no easy task, as much will depend on the exact metrics being used. For example some managers may have a better track record when it comes to a stewardship agenda, and voting against company proposals that contribute to CO2 emissions; others may have a better track record when it comes to setting net zero emission targets across their portfolios, not just those sold under an environmental 'badge'. This stewardship and engagement is covered in greater detail in chapter 3.

This report analyses four major studies on sustainability and responsible investment, in an attempt to give an overview of which fund management houses are leading the way on these issues, and which are lagging behind.

- **ShareAction: Point of No Returns**[1]
- **Majority Action: Climate in the Boardroom**[2]
- **UNPRI Leaders Group 2020**[3]
- **Morningstar fund management sustainability ratings**

The table comprises asset managers involved in the UK's DC pensions sector, including some who have not provided detailed information for this report, but who will have been considered for entry to the UNPRI Leaders Group 2020 and by the Morningstar survey referred to below. In all these surveys, global asset managers not involved in the UK DC market will have featured.

[1] https://shareaction.org/research-resources/point-of-no-returns/ [2] https://www.majorityaction.us/asset-manager-report-2020
[3] https://www.unpri.org/showcasing-leadership/leaders-group-2020/6524.article

Figure 5: Corporate Adviser meta-analysis of leading ESG/climate change analysis

	ShareAction 'Point of No Returns' report • Green - asset managers appearing in top 10 of survey. • Red - asset managers appearing in bottom 10	MajorityAction: Climate In the Boardroom report Number of votes in support of Climate100+ 12 key climate-critical resolutions with companies in the energy, motor and airline industries	UNPRI – Leaders Group 2020 Top 20 asset managers that excel at climate reporting	Morningstar sustainability ratings - number of 5 Globe funds offered by asset manager (global)
Aberdeen Standard Investments	-	Not covered in report	Does not feature	16
Aegon Asset Management	Top 10	Not covered in report	Does not feature	0
AllianceBernstein	-	Not covered in report	Does not feature	13
Amundi	-	3 out of 4	Does not feature	83
Aviva Investors	Top 10	Not covered in report	Does not feature	15
BlackRock	-	2 out of 12	Does not feature	20
BNY Mellon/ Newton	Bottom 10 - Mellon Investments Corporate	7 out of 12	Does not feature	19
Columbia Threadneedle	-	Not covered in report	Does not feature	16
Impax Asset Management	-	Not covered in report	Does not feature	1
JP Morgan Asset Management	Bottom 10	8 out of 12	Does not feature	39
Legal & General IM	Top 10	12 out of 12	In top 20 list	3
Nomura	-	Not covered in report	Does not feature	21
PIMCO	-	12 out of 12	Does not feature	0
Royal London	-	Not covered in report	Does not feature	4
Schroders	Top 10	Not covered in report	Does not feature	20
State Street Global Advisors	-	3 out of 12	In top 20 list	20
T.Rowe Price	-	Not covered in report	Does not feature	2
UBS	-	Not covered in report	Does not feature	54
Vanguard	Bottom 10	0 out of 12	Does not feature	8
Wellington	-	Not covered in report	Does not feature	2

Corporate Adviser's meta-analysis shows Legal & General Investment Management performing extremely well across three of the four data sets it considers. Its stewardship activities have earned it top 10 status in the ShareAction Point of No Return research, it is one of the 1 per cent of asset managers to be named a UN PRI Leaders Group member and it has voted in accord with its ClimateAction 100+ pledge on 12 out of 12 occasions, as identified by Majority Action. It has a lower number of 5 Globe rated funds by Morningstar however.

It is notable that only two of the asset managers operating in the UK DC market appear in the UN PRI's Leaders Group top 20 list, the other being State Street Global Advisors, although its stewardship was marked down by Majority Action. JP Morgan was rated well for its stewardship by Majority Action, but achieved bottom 10 status from ShareAction.

Amundi's record on voting achieved a high score with Majority Action, and it has the highest number of Morningstar 5 Globe-rated funds, which measure ESG risks. Schroders was ranked a top-10 asset manager by ShareAction, and has 20 Morningstar 5-Globe funds. Aegon AM also achieved a top-10 asset manager ranking from ShareAction.

Several of the large US-based global asset managers have not have not scored well on the stewardship surveys. BlackRock only supported two of Climate100+'s key 12 shareholder resolutions, despite having signed up to the initiative at the beginning of 2020, although it does have 20 5 Globe-ranked funds with Morningstar.

Vanguard appears in ShareAction's list of the "bottom 10" asset managers when it comes to ESG credibility and did not support any ClimateAction100+ crucial climate change votes as monitored by Majority Action, although it has not signed up to the coalition.

CHAPTER 3
THE IMPLEMENTATION OF ESG IN MASTER TRUSTS AND GPPs

3.01 ESG implementation in master trusts and group personal pensions (GPPs)

Workplace pensions have grown at an exponential rate in recent years, with particularly strong growth in the master trust sector. Despite the more recent Covid challenges, there has been considerable progress made on ESG strategies over the past year, with many master trusts and group personal pension (GPP) providers switching some, or all of their default proposition into funds that impose more stringent ESG criteria.

Nest, the UK's largest master trust by number of members, has been pioneering new approaches in ESG and its default now overlays a comprehensive responsible investment strategy across each of the different assets classes in which it invests.

Over the last year Aegon, Aviva, Legal & General, Scottish Widows and Cushon are just some of the workplace pension providers that have made changes to make their default proposition greener, and ensure more of their members' money is invested in funds that screen-out certain sectors and companies or tilt towards those with more positive ESG characteristics.

Two years ago, when the first iteration of this report was published, just five master trusts had a default proposition that invested in funds using ESG screens or tilts. That number has increased significantly to 12 in this year's report.

This increased adoption of ESG has been driven in part by legislative changes. From 2019 trustees of master trusts have had to publish a statement of investment principles (SIP) which includes their policies on 'financially material' ESG factors, such as climate change. They also have to publish an implementation statement, demonstrating how they have acted on the principles declared in their SIP.

However, while progress through 2020 has been significant, a number of master trust and GPP defaults still do not invest in funds with an explicit ESG criteria — despite evidence suggesting this is what many members want.

3.02 Tilts, screens and positive stock selection: workplace pension provider approaches to ESG investing

There is often considerable confusion around the terminology of ESG and what this means in practice in terms of portfolio construction. Within the investment industry ESG may be seen as primarily a risk management tool, factors that are now taken into account alongside financial metrics in a bid to predict what assets will grow or hold their value over the longer term.

However for sponsoring companies and individual members a term that includes the words 'environmental' and 'social' may create the expectation that these propositions will take more of a responsible investment approach and be fundamentally different at a portfolio level from a standard default fund.

To help bring clarity to this issue this report takes a more detailed look at how master trusts and GPPs are currently incorporating ESG strategies within their default propositions. To this end master trust and GPP providers were asked to give the proportion of their default funds that invest using the following strategies.

- **Filtering/ screening of individual stocks:** where individual stocks are excluded from a fund or portfolio on the basis of ESG factors

- **Filtering/ screening of sectors:** where whole sectors, or industries are excluded from a fund or portfolio on the basis of ESG factors
- **Tilting** where allocation to particular sector or industries are either increased or decreased on ESG grounds
- **Positive ESG stock selection:** where fund managers take a 'best in class' approach to stock selection, based on ESG factors

The table also shows proportion for 2019, where available, and any planned increases for the year ahead.

Figure 6: DC providers' ESG tilts, filters and positive stock selections

	% of default filters/ screens out individual stocks (2019)	% of default filters/ screens out individual stocks (2020)	Target for 30.9.2021	% filters / screens out sectors (2019)	% filters / screens out sectors (2020)	Target for 30.9.2021	% using tilts 2019	% using tilts 2020	Target for 30.9.2021	% using positive stock selection 2019	% using positive stock selection 2020	Target for 30.9.2021
Aegon Master Trust	21.8%	**30%**	50%	0%	**30%**	50%	21.8%	**30%**	50%	0%	**0%**	0%
Atlas	30%	**70%**	80%	30%	**70%**	80%	30%	**57%**	60%	0%	**57%**	60%
Aviva My Future Focus	100%	**100%**	100%	-	**-**	-	100%	**100%***	100%	0%	**0%**	0%
Cushon	-	**100%**	100%	-	**100%**	100%	-	**100%**	100%	-	**100%**	100%
Evolve	-	**32.9%^**	91.7%	-	**9%**	77.2%	-	**100%**	100%	-	**9%**	24.9%
Fidelity - FutureWise	-	**30%**	100%	-	**30%**	100%	-	**0%**	30%	-	**30%**	100%
Hargreaves Lansdown	-	**0%**	90%	-	**0%**	90%	-	**0%**	60%	-	**-**	-
Legal & General Pathway Funds**	0%	**55.3%**	66.3%	0%	**55.3%**	66.3%	0%	**55.3%**	60.3%	0%	**0%**	5%
Lewis	10%	**10%**	20%	-	**-**	-	-	**-**	-	-	**-**	-
LifeSight***	56%	**56%**	56%	56%	**56%**	56%	56%	**56%**	56%	-	**44%**	44%
Mercer	0%	**0%**	0%	31%	**17%**	100%	5%	**5%**	25%	0%	**5%**	25%
Nest	19.9%	**100%**	100%	100%	**100%**	100%	13%	**59.1%**	-	-	**-**	-
The People's Pension	16.8%	**16.8%**	70%	0%	**16.8%**	70%	16.8%	**16.8%**	16.8%	0%	**0%**	0%
Scottish Widows Balanced PIA	-	**32%**	84%	-	**32%**	84%	-	**8%**	16%	-	**8%**	16%
Smart Pension	0%	**24%**	76%	0%	**24%**	76%	0%	**25%**	76%	0%	**0%**	-
Standard Life Active Plus III	0%	**0%**	-	0%	**0%**	n/a	0%	**0%**	n/a	0%	**0%**	n/a
TPT****	0	**43%**	95%	0	**10.5%**	62.5%	7.5%	**100%**	100%	0	**10.5%**	36%

*All index funds in this default tilted to companies with higher ESG scores
• While individual stocks are screened out this is based on sector they're in
** Steady Growth Stage
*** For primary medium risk default
****All figures for investors at least 20 years from retirement
^ for 20 years from retirement - % does drop for those 10 or 1 year out at moment. Projections for year ahead show there will be a negligible difference between phases in ESG terms

This table is an attempt to quantify the filtering, screening and tilting within master trust and GPP defaults. Comparing providers' responses to the questions in this table is complex as some have more stringent interpretations of what amounts to a filter or screen.

As the table shows there is a significant variation in the approach taken by providers. Scheme members, employers and advisers may be surprised at the low levels of filtering, screening and tilting across many workplace schemes. For example, Scottish Widows, which has taken the progressive step of pledging to make set its entire investment portfolio a target of carbon net zero by 2050, announced in November 2020 that its new exclusions policy would exclude companies which derive more than 10 per cent of their revenue from thermal coal and tar sands, manufacturers of controversial weapons and violators of the UN Global Compact (UNGC) on human rights, labour, environment and corruption - unless the size and type of investment means that the insurer can influence positive change in their business models.

It is arguable that most investors and other stakeholders will have presumed that manufacturers of controversial weapons or UN Global Compact violators would have been excluded by their workplace pension, regardless of provider, as a matter of course.

Providers such as Nest and Aviva now have 100 per cent of their default propositions in funds that screen out certain sectors or companies.

Atlas, which uses Schroders to manage its assets, has 70 per cent of its default proposition in funds that deploy screens, while LifeSight and L&G have over half of their default assets in funds that use screens or tilts.

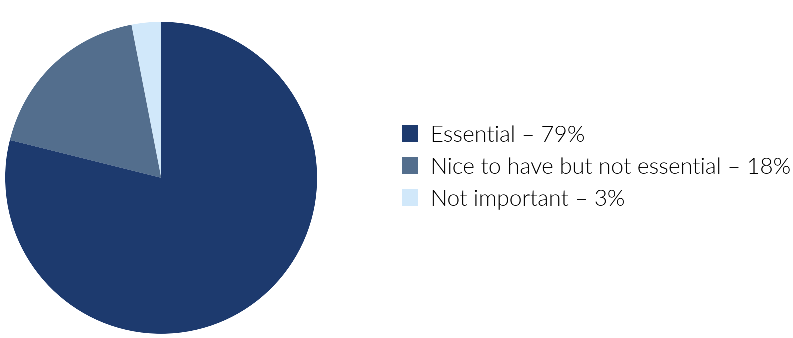
At the other end of the scale, there are a number of providers that are yet to embrace tilts and screens. Standard Life and Hargreaves Lansdown, for example, do not have any of their defaults in funds that tilt or screen funds based on ESG characteristics.

However, while it reported no substantive filters or tilts, Standard Life does have an explicit exclusion for companies that are involved in the manufacture of controversial weapons.

This table shows how these propositions have changed over the past year, with providers including Atlas, Cushon, Evolve, Fidelity, L&G, Nest, Smart Pension and TPT all substantially increasing the proportion of their default propositions that are invested in funds with more stringent ESG criteria.

This trend looks set to continue through 2021. Many of these providers - including Smart Pension, The People's Pension, TPT, Hargreaves Lansdown, Evolve and Atlas - are pledging to have at least three quarters of their default propositions to be using filters, tilts and screens in a years' time. Those that do not may face serious headways with regard to new business as almost four fifths of advisers see some form of ESG tilt as essential.

Figure 7: How important is it to advisers that workplace pension scheme defaults include an ESG tilt?



3.03 Key issues for screening stocks

As outlined elsewhere, ESG is a broad term covering an investment company's approach to a whole range of factors, from climate change, to boardroom pay to a company's health and safety record and transparent governance.

The table below aims to drill down deeper into this catch-all term, to show what specific sectors and industries companies take into account when screening or tilting funds. This can help trustees and consultants ensure a chosen pension arrangement aligns to corporate values and member interests.

Where necessary we have included additional explanatory information on the criteria for these screens

Controversial weapons, such as the manufacture of cluster bombs remains the most frequently used filter, screened by all 17 providers' defaults.

Other common exclusions include companies involved in the production of thermal coal and tar sands and those companies that are violators of the UN Global Compact, both filtered by 10 providers. Tobacco companies are screened by 7 providers. No providers other than TPT filter on grounds of animal testing or fur trade investments. Atlas excludes high interest rate lending and human embryonic cloning (sales more than 10%) .

Atlas, Evolve, Mercer and TPT operate filtering across a wide range of sectors, while several providers have minimal filters.

Rather than exclude, some providers' defaults tilt their exposure to sectors.

Figure 8: Does your principal default exclude the following sectors?

	Alcohol	Tobacco	Gambling	Pornography	Fossil Fuels (general)	Thermal coal and tar sands	Armaments (general)	Specific types of weaponry, eg cluster bombs	Nuclear industry	Animal testing	Fur trade	Violators of UN Global Compact *
Aegon		Y (greater than 15% revenue)				Y	Y	Y				Y
Atlas	Y (sales more than 10%**)	Y (sales more than 10%)	Y (sales more than 10%)	Y (sales more than 3%)	Y (sales more than 5%)	Y (sales more than 10%)	Y	Y	Y			
Aviva								Y				
Cushon												
Evolve	Y	Y	Y	Y	Y	Y	Y	Y	Y			Y
Fidelity		P***				P	P	Y				Y
Hargreaves Lansdown												
Legal & General Mastertrust					Exclude pure coal miners	Y		Y				Y
Lewis		Y					Y	Y	Y			
LifeSight		P				Y[a]	P	Y				P
Mercer	Y	Y	Y	Y	Y	Y		Y	Y			Y
Nest		Y				Y[b]		Y				
The People's Pension								Y				Y
Scottish Widows						Y		Y				Y
Smart Pension						Y		Y				Y
Standard Life ^								Y				
TPT	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y[c]	Y

P=Partially

[a] Sales more than 10% mining, 20% power

[b] 20% revenues from activities. Phasing out completely, along with arctic oil and gas exploration

[c] Ethical only

* On human rights, labour, environment and corruptions

** Sales of up to 25% permitted if responsible alcohol policy

*** FutureWise operates a roll-down strategy, but aims to have 100% of Diversified Markets fund under sustainable strategies.

^ For Active Plus III fund, there is only one explicit exclusion to companies that have exposed to controversial weapons. Whilst ESG is fully integrated into ASI's bottom-up company research process, Active Plus III itself does not filter, screen or tilt solely on ESG grounds

3.04 Key issues for tilting portfolios

Many default propositions also use funds — often passive funds — that tilt to either increase exposure to the companies on an index that have higher ESG scores and/ or reduce exposure to those with lower scores and poor track records on these issues.

Typically this tilting strategy is used to address the issue of climate change and carbon emissions, with many funds setting a target to reduce the overall carbon intensity of a portfolio, relative to an index or benchmark. However, as the data below shows, some providers are also using ESG scores to tilt portfolios and reduce exposure to other controversial sectors.

Figure 9: Does your principal default tilt away from the following sectors?

	Alcohol	Tobacco	Gambling	Pornography	Fossil Fuels (general)	Thermal coal and tar sands	Armaments (general)	Specific types of weaponry, eg cluster bombs	Nuclear industry	Animal testing	Fur trade	Violators of UN Global Compact*	Other
Aegon													Tilting is based on composite ESG score
Atlas	Y – 19%	Y – 70%	Y – 70%	Y – 19%	Y – 70%	Y – 70%	Y – 70%	Y – 70%	Y – 70%	-	-	-	
Aviva													Tilting is based on composite ESG score
Cushon	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Evolve	Y	Y	Y	Y	Y	Y	Y	Y	Y			Y	
Fidelity													
Hargreaves Lansdown													
Legal & General Mastertrust													Tilting is based on composite ESG score
Lewis													
LifeSight													Tilting based on composite ESG scores
Mercer	Y – 5%	Y – 17%	Y – 5%	Y – 5%	Y – 5%	Y – 5%		Y – 17%	Y – 17%			Y – 5%	Currently implementing screens in remainder of portfolio - 100% target for Sept 2021
Nest					Y – 59.1%							Y – 7.3%	
The People's Pension					Y – 16.8%								
Scottish Widows					Y								
Smart Pension						Y – 76%		Y – 76%				Y – 76%	-
Standard Life													
TPT													

Here, fossil fuels are amongst the issues that are most commonly tilted against, as well as companies violating the UN Global Compact.

A number of providers point out that while they do not specifically tilt against these factors, their default propositions tilt against all of these factors to an extent, as they use an ESG scoring matrix that effectively takes into account a wide range of factors to do with a company's environmental, social and governance track record.

3.05 Carbon offsetting

Master trust market newcomer Cushon has opened a new front in the battle to have the greenest pension proposition, by offering a scheme it describes as the world's first net-zero pension. It offsets the carbon generated by the member's investments through net-zero solution provider Vertree.

The provider's strategy has highlighted the significant carbon footprint of investors of all sorts – pensions or otherwise – that do not take net carbon impact into their portfolio construction.

Cushon has published figures showing the FTSE100 emits 480m tonnes a year of CO2 across its £1.8trillion market cap, which works out at 0.265 tonnes per £1,000 of investment, or 23 tonnes for an average pot of around £89,000. While precise carbon footprint will vary depending on the actual allocation of a scheme –the oil- and mining-heavy FTSE100 is one of the more carbon-intense indices – Cushon's figures suggest any UK citizen with more than £22,000 in their pot is responsible for more carbon through their pension than the average 5.6 metric tonnes they are responsible for in their day-to-day life. Put another way, each £22,000 of non-ESG-invested pension assets is broadly equivalent to the annual personal carbon use of one UK citizen, according to Cushon's interpretation.

The master trust has received plaudits for its move, including from Make My Money Matter founder Richard Curtis.

Cushon is paying for the cost of the offsetting from its own capital, not from within the master trust, to ensure returns are not affected. It uses a range of Verified Carbon Standard (VCS) projects, with 75 per cent of projects being triple, double or single gold rated under the Climate, Community and Biodiversity (CCB) Standard. The money will be invested in sustainability projects and investments in new technology.

However, it has not revealed what it is paying for the offsetting – its default has a carbon intensity around a fifth lower than the FTSE100 figures quoted.

Competitors have suggested the cost of offsetting an £89,000 pot could be in the region of £100 a year, a level that many providers would find unsustainable over the long term for a provider operating a price-capped workplace pension. Cushon says the cost of its offsetting pledge will decrease as it gradually reduces the carbon intensity of its default fund.

It also argues it is the only net-zero-now proposition available on the market, compared to competitors that are at best targeting net zero by 2030 or 2050.

Many environmental groups say offsetting is not a credible solution to the climate emergency, and will do nothing to change the behaviour of big polluters. Several other providers argue that stewardship activities are a more effective way to achieve the necessary changes to the economy to meet the Paris goals.

Advisers will be watching to see whether Cushon can maintain this financial commitment as it gains scale and the cost of the offsetting increases.

3.06 Carbon Accounting

Cushon's focus on offsetting and the footprint of savers highlights the growing area of carbon accounting, which has the potential in future to give increasingly detailed data on the emissions related to the activities of organisations and investments.

The IFRS Foundation is the body that oversees the International Accounting Standards Board (IASB), which established financial reporting requirements for most companies in the world across 140 jurisdictions.

In September 2020 the IFRS Foundation launched a consultation paper on sustainability reporting[1], essentially a sustainability equivalent of today's mainstream accounting standards, that could bring accurate sustainability data to investors at the same speed and with the same comparability that other market data is currently delivered.
The consultation paper says:

"A set of comparable and consistent standards will allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change."

The proposals have received robust support from the FCA[2], as well as many other influential stakeholders and institutional asset holders. If implemented in the future, which seems likely, these standards will lead to a radical shifting of capital away from polluting companies towards more sustainable ones.

3.07 Impact Investing

This report also asks master trust providers what proportion of their default fund is invested in impact investments, which measure the social benefits they create. The vast majority have no set allocation to impact investment, with the exception of Lewis Master Trust, which has a 10 per cent allocation.

Smart Pension is looking to move to a 6 per cent allocation in 2021, and Mercer said it is looking to incorporate this in future.

A number of respondents pointed out that while there was no explicit measure of the positive impact of these investments, many are invested in sectors and companies that deliver positive environmental and societal benefits, for example renewable energy companies and infrastructure projects.

Scottish Widows invests 10 per cent of its default fund is in BlackRock's Climate Transition World Equity Fund, which is a tilted fund aiming for a 50 per cent reduction in carbon intensity and a 60 per cent increase in clean tech revenues.

Current legislation may limit the ability of master trusts to invest more widely in impact investments. LifeSight points out that trustee fiduciary responsibilities limit their ability to take into account impact or ethical considerations as trustees' focus is on the direct financially material outcomes for members, although it will take due regard of broader real-world impacts of this approach.

3.08 Pension providers' net emission targets

As well as collating information about asset managers' net emission targets, the report has also asked leading providers what targets they have set to reduce the carbon intensity of both their own operating company, and their assets under management.

[1] https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf?la=en

[2] https://www.fca.org.uk/publication/corporate/fca-response-ifrs-foundation-consultation.pdf

Increasingly campaign organisations such as ShareAction and Make My Money Matter are demanding that trustees set targets to ensure they are on track to achieve net zero emissions by at least 2050, in alignment with the 1.5 degree ambition in the Paris Climate Accord, and also set staging points on the way to that target.

In order to achieve this, the approach may align with the framework set out by the IIGCC Net Zero Investment Framework. This also covers issues of engagement with businesses and divestment from those unwilling to align with the Paris targets. The IIGCC framework is seen as best practice for robust, measurable net zero transition, although the concept of what a net zero commitment actually entails may change in the decades ahead.

Figure 10: Pension providers' net emission targets

	Net-zero emissions target for the operations of your company	Net-zero emissions target for DC assets under management
Aegon UK	Carbon neutral since 2016	Yes. Net zero by 2050 across default pension strategies. Exploring feasibility of 50% reduction by 2030
Atlas	Not stated	Yes. Manager Schroders supports goal of net zero gas emissions for assets by 2050 or sooner. Includes setting interim targets reviewed on five-year basis
Aviva	Carbon neutral since 2006	Yes. arget net zero carbon emission by 2050 for AE default pension funds
Cushon	Yes - achieved in January 2021	Yes - achieved in January 2021
Evolve	Not stated	No. For default AllianceBernstein in process of developing explicit net zero target
Fidelity	Carbon net zero by 2040	Not currently, but will shortly be making net zero commitment for workplace investing default, FutureWise
Hargreaves Lansdown	No. Current undergoing feasibility study	No
Legal & General Mastertrust	Yes, by 2050, operational footprint (offices and travel) by 2030	Yes. Commitment to decarbonise all AE defaults by 2050 and provide defaults aligned with Paris trajectory to be revealed in March 2021
Lewis	Yes - set in 2018 with a target to be net zero by 2031	No - but planning to introduce
LifeSight	No	No.
Mercer	No - actively discussing setting target	No - actively discussing setting target
Nest	No	Yes - to be net zero by 2050. Interim target to halve emission by 2030 and working on more short-term targets
The People's Pension	No - but researching use of carbon offsets	Yes - net zero by 2050. From mid-2020s aims to make all future contributions into investments with net zero emissions
Scottish Widows	No - but Lloyds Banking Group had target to reduce operational emissions 60% by 2030. It has now met this so is setting additional targets in first half of 2021	Yes. All assets, DC and otherwise, targeting net zero in line with IIGCC Net Zero Investment Framework. Interim 50% net zero target of 2030
Smart Pension	No	Yes - net zero by 2050, with at least 50% reduction in carbon emissions by 2030.
Standard Life	Phoenix Group has target to be net zero by 2025	Yes. Phoenix Group has target to be net zero across all portfolios by 2050. Piloting portfolio against IIGCC criteria
TPT	No	No

Cushon claims to be the first pension fund to achieve net zero status, having done so by January 2021, as detailed above, by carbon offsetting.

A number of DC providers – Aegon, Atlas, Aviva, Nest, Smart Pension, Scottish Widows, Standard Life and The People's Pension have committed to net zero emissions by 2050 for their DC assets.

All the other master trust and GPP providers in the sample except Hargreaves Lansdown, LifeSight and TPT have said they are actively working on or developing a net zero transition plan for the assets in their workplace proposition. However despite progress on this there is still a majority of providers that have yet to set an explicit target.

3.09 TCFD and ESG reporting standards

While it may be some time before the carbon accounting measures outlined in paragraph XX come into being, there has been significant regulatory action in relation to improving the reporting of ESG factors, particularly in relation to climate change.

Key to this are the new Task-Force on Climate-related Financial Disclosures (TCFD). The TCFD was established by the Financial Stability Board (FSB) in 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders and insurance underwriters about their climate-related financial risks. In 2017 it agreed recommendations that set out the disclosures essential to understanding a company's climate-related risks and opportunities. Since then 60 per cent of the world's 100 largest public companies have committed to support the TCFD, report in line with them, or both.

In November 2020 Chancellor Rishi Sunak introduced mandatory reporting requirements that will mean by 2023 the vast majority of assets invested with pension scheme trustees, asset managers, and insurers will be disclosing climate-related financial risks and opportunities in line with recommendations of the TCFD. By 2025, TCFD-aligned disclosures will be mandatory across the economy.

In August 2020 the DWP signalled that mandatory TCFD-aligned disclosures would be required, beginning with larger schemes. However, a subsequent consultation has acknowledged the challenges trustees face in getting accurate TCFD data and proposed trustees be required to carry out scenario analysis and obtain data to calculate their chosen metrics 'as far as they are able'.

The Government will not require trustees to calculate an 'implied temperature rise', as a way of understanding and reporting progress towards alignment with the goal of global average temperature rise set out in the Paris Agreement. Stakeholders argued that the quality of data would make robust comparisons difficult. A proposed requirement to require trustees to publish targets have also not been included.

Final rules on TCFD reporting[3], which will not direct pension trustees' investment decisions but will require them to monitor and disclose climate risks on an ongoing basis, will be published by the end of 2021 and come into force in 2022.

As the table below shows the vast majority of master trust and GPP providers are adopting these recommendations, and many have now started producing reports that align to these recommendations.

[3] https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes

Figure 11: Adoption of TCFD recommendations

	Are you adopting Task Force on Climate Related Disclosures recommendations
Aegon	Yes
Atlas	Yes - via main investment manager Schroders
Aviva	Yes
Cushon	Yes support, and adopting is under review
Evolve	Yes - AllianceBernstein published first TCFD-aligned report in 2020
Fidelity	Yes - recently published first report
Hargreaves Lansdown	Intend to disclose by 2022
Legal & General	Yes
Lewis	No
LifeSight	Yes
Mercer	Yes
Nest	Yes
The People's Pension	Published support for recommendation but have not yet published a report
Scottish Widows	Yes
Smart Pension	Yes
Standard Life	Yes
TPT	Yes, AllianceBernstein published TPT's first TCFD-aligned report in 2020

3.10 Pension providers' membership of or signatory to ESG organisations/ campaigns

Figure 12: Pension providers' membership of or signatory to ESG organisations/ campaigns

	Carbon Disclosure Project (CPD)	Global Reporting Initiative (GRI)	Sustainability Accounting Standards Board (SASB)	Climate Action 100+	UN Principles for Responsible Investment (UN PRI)	Institutional Investors Group on Climate Change (IIGCC)	UK Sustainable Investment and Finance Association (UKSIF)	European Sustainable Investment and Finance Association (EUROSIF)	Make my Money Matter	Net Zero Asset Owners Alliance
Aegon	Y	N	N	N	Y	N	N	N	N	N
Atlas	N	N	N	N	Y	N	N	N	N	N
Aviva	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Cushon	Y	N	N	N	Y	N	N	N	Y	N
Evolve	N	N	N	N	N	N	N	N	N	N
Fidelity	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Hargreaves Lansdown	Y	N	N	N	N	N	N	N	N	N
Legal & General	Y	N	Y	Y	Y	Y	N	N	N	N
Lewis	N	N	N	N	N	N	N	N	N	N
LifeSight – via Willis Towers Watson, LifeSight founder	N	N	N	N	Y	Y	N	N	N	N
Mercer	Y	N*	N*	Y	Y	Y	Y	N	N	N
Nest	N	N	N	Y	Y	Y	Y	N	Y	N
The People's Pension	N	N	N	N	Y	N	N	N	N	N
Scottish Widows	Y	Y	N	N	Y	Y	N	N	Y	N
Smart Pension	N	N	N	N	Y	N	N	N	Y	N
Standard Life	Y	N	N	Y	Y	Y	N	N	N	Y
TPT	Y	N	N	N	Y	N	N	N	N	N

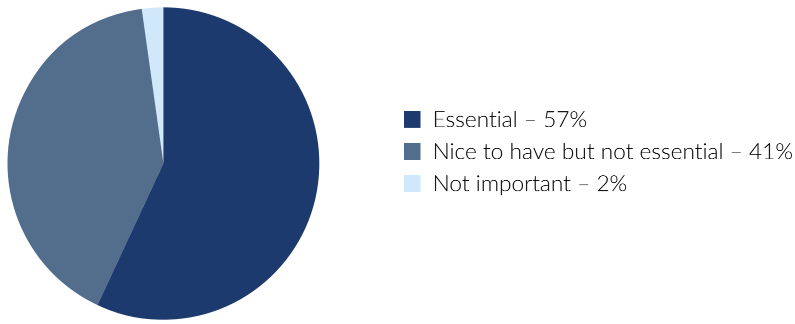
* actively discussing

Within the DC sector master trusts and GPP providers are less likely to be members of international or national ESG accreditation or affiliation bodies. It is notable that in the table above, those that are member of the most groups listed tend to be those who are part of bigger asset management or life insurance groups. Providers such as Atlas and Evolve point out that while they are not members of a high number of these bodies, their principal asset managers are. The vast majority of providers have signed up to the UN PRI. Hargreaves Lansdown is currently exploring use of the SASB materiality framework and is aiming to sign up to the UN PRI in 2021.

3.11 Providers' other ESG offerings

Not all scheme members will find the investment strategy adopted by the default fund rigorous enough for their ethical or environmental beliefs. Therefore offering some level of choice for those who have stronger ethical or responsible investment convictions is seen as important. A majority of advisers see offering a high quality, dark green ESG alternative to the default as crucial.

Figure 13: How important is it for pension providers to offer a high quality, dark green ESG alternative to the default?



As well as the default proposition, most master trust and GPP providers offer members access to a broad range of self-select funds. Many of these include specialist ethical, SRI or shariah funds.

A full list of ESG-related options is given below.

Figure 14: What ESG or ethical alternatives to the default are offered

	Alternative fund options
Aegon Atlas	Targetplan customers - 3 ethical funds, 5 ESG funds. ARC customers - 200 ethical/ESG funds Atlas Sustainable Multi Factor Equity fund
Aviva	Range of five stewardship funds (UK Equity, UK Equity Income, International Equity, Managed and Bond) managed by Aviva Investors
Cushon	Full fund range which includes over 100 ethical funds
Evolve	Alternative default lifestyle strategy now includes weighting in LGIM Future World. Shariah fund also available to members
Fidelity	20 green/ RI/ ethical and shariah funds offered on wider investment platform for Workplace Investing
Hargreaves Lansdown	Several hundred responsible investment-focused fund on platform. Three RI funds in HL's Wealth Shortlist
Legal & General	L&G Future World Fund, L&G PMC BMO Global Equity fund, L&G PMC BMO UK Income Fund, L&G PMC Ethical Global Equity Fund, L&G PMC UK Equity Index Fund, L&G PMC Kames Ethical Equity, Legal & General FTSE TPI Global (Ex-fossil fuels) Equity Index Fund
Lewis	Option to switch to an Ethical Fund
LifeSight	LifeSight Equity fund; Global Equity ESG Smart Beta Fund; Ethical Global Equity fund - all available on self-select basis
Mercer	Mercer Sustainable Global Equity is available as self-select option. Also offers Mercer Passive Sustainable Global Equity fund (which allocated to default) as self-select option. Tilts on ESG and carbon metrics and screens in a number of areas
Nest	Ethical and Sharia-compliant self-select options
The People's Pension	Ethical and Shariah funds available
Scottish Widows	Offer range of options, including impact equity, sustainable equity, bond and multi-asset funds alongside ethical and Sharia options.
Smart Pension	Default portfolio uses LGIM Future World regional fund range of 76% of allocation. Will also be introducing an impact and climate-specific allocation during 2021 as self-selection options. Current self-select options also include Ethical global equity fund, Sharia-compliant fund and LGIM Future World global Equity fund
Standard Life	15 additional ethical, sustainable, shariah and ESG funds - includes a range of active and passive offerings for ASI, Nordea, Threadneedle, Vanguard, BlackRock, HSBC and Schroders
TPT	Option to invest in ethical TDF range as well as Socially Responsible Investment fund as self-selection option

CHAPTER 4
STEWARDSHIP AND RESEARCH

4.01 Stewardship and engagement

Effective stewardship involves active and transparent monitoring of assets and constructive dialogue with companies as to their activities and the way they create sustainable value for investors.

In recent years there has been pressure for boardroom action on a range of key ESG issues such as carbon emissions, executive pay, gender pay gaps, treatment of workers and boardroom diversity. Investor activity has very often helped to drive change on these issues via stewardship activity that carries the ultimate sanction of sacking board members in the event that corporate activity is not improved.

Stewardship can help preserve long-term value for asset owners and counter the short-termism of corporate management. This is particularly important for those running pensions funds, where the ultimate asset owners are investors with 40-plus year investment horizons.

Climate change is a very high profile issue for stewardship of pension funds. The concept of 'long-term value' can be manifold here: do those saving into pensions want to retire in a world dealing with the financial, social and climatic effects of rising temperatures? In addition, there are the financial consideration that if governments around the world take action to force companies to reduce carbon emissions, pension schemes not addressing these issues could see the value of assets they currently hold fall, potentially damaging returns.

4.02 The unstoppable rise of shareholder activism?

Recent regulatory changes and the exponential growth of DC assets thanks to auto-enrolment mean that stewardship has now become a significant issue for the DC pensions sector. The fact that DC pensions hold assets on behalf of the scheme member, rather than the sponsor's scheme as is the case with DB pensions, has created a stronger link between the member and the companies in which that member's assets are invested, arguably increasing the likelihood of members becoming engaged in ESG issues.

Shareholder activist organisations are increasingly tapping into this connection (see table XX). The range of issues that can become potential stewardship factors is broadening, and is adapting to reflect the political and ethical debates taking place across society as a whole. For example, the recent Equity in the Boardroom report by US pressure group MajorityAction took asset managers to task over the racial justice and equity of their voting behaviour and their political lobbying activities[1].

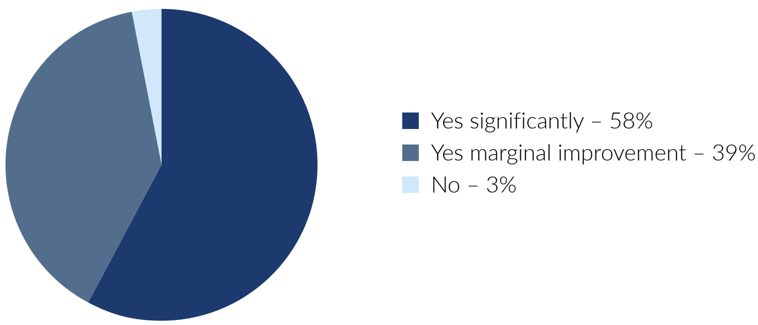
But providers are also getting in on the act – Tumelo is a fintech start-up whose technology enables pension scheme members to have their say on shareholder resolutions. The technology, which has been adopted by Legal & General and Aviva, allows members to see all companies in their portfolio and vote on contentious resolutions. Investors are informed about new votes and vote results via email or in-app notifications, and trustees are able to adapt their ESG investment policy to reflect the views of members.

As well as enabling members to express their wishes with regard to the activities of the companies they part own, the solution is seen as having the potential to drive stewardship activity, increase member engagement and assist trustees and independent governance committees in deepening their understanding of member views, particular with regard to environmental, social and governance issues.

This approach can also increase trust in providers through the behavioural phenomenon of 'punch back' - where people - in this case consumers - have higher trust in those organisations that give them the power to have their say.

The increasingly digitised nature of shareholder activism and member engagement appears to be leading to the emergence of a stewardship ecosystem in which pension fund asset allocation is more closely aligned with political and ethical beliefs. Increasingly rigorous carbon accounting will accelerate this.

Figure 15: Adviser poll: Will ESG-led investment strategies increase employee engagement with pensions?



A key area of debate in the field of ESG implementation, particularly in relation to climate change, is which approach is more effective – divestment, engagement or offsetting. The simplest answer may be 'all three', and many providers use engagement together with the threat of divestment. But different asset managers and pension providers operate approaches that place different emphases on each of these different approaches.

Some pressure groups are pushing for decarbonisation of pension defaults as a top-line objective – either through divestment or offsetting. Significant reductions in the carbon footprint of a portfolio can be achieved relatively easily by the removal of a few heavily polluting stocks, with little impact on performance. Carbon neutrality can be achieved immediately by paying to offset the carbon, as UK master trust Cushon has done with its January 2021 product launch.

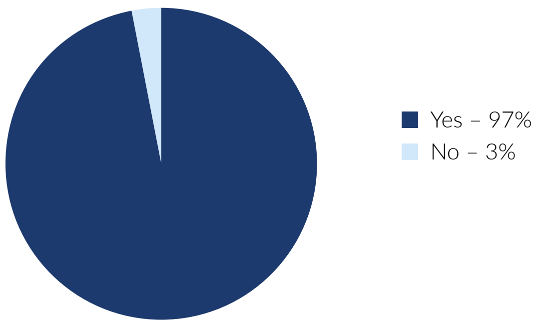
But other providers and asset managers are promoting the value of engagement with the boards of polluting companies, pressurising them to establish plans to achieve a transition to a lower carbon future on threat of being sacked if they do not comply. Ironically, the more shares an asset manager, pension provider, scheme or individual has in polluting companies, the greater their voice in the boardroom.

This more pragmatic approach, say its supporters, is based on a view that simply cutting fossil fuel and plastics use today is unrealistic as it would send the global economy into meltdown, whereas an approach that sets tough but achievable transition targets will be more effective.

Advisers support the notion that the pensions industry should endeavour to persuade scheme members that engagement activities through stewardship can be as effective in achieving ESG and sustainability goals as divestment.

Figure 16: Adviser attitudes to engagement versus divestment

On the issue of climate change, should the pensions industry endeavour to persuade scheme members that engagement can be as effective as divestment?



4.03 Voting Record

When it comes to measuring divestment or exclusion it is relatively straightforward to see which funds invest in oil companies, for example, and which do not. For advisers, trustees and investors though it can be more difficult to monitor this stewardship activity and measure results.

When it comes to stewardship programmes, asset managers may be in dialogue with companies for a number of years in a bid to improve certain practices.

It is difficult to quantify the efficacy of such programmes, and understand which improvements are the result of this advocacy, and which are also due to a general corporate shift towards better ESG practices. That said, many will argue that such shifts that have happened have only occurred because of ongoing stewardship activity over a number of years. And the evidence does suggest that many companies of all shapes and sizes, although by no means all, are making genuine progress towards better ESG practices.

One measure is looking at voting records: how many votes asset managers take part in, and how often they are prepared to vote against management or board proposals, particularly on key ESG issues.

"The launch of a pension that is net zero now – not later – shows what is possible from the pensions industry when tackling the climate emergency is taken seriously." Pressure group

"Simply kicking oil and mining stocks out of your portfolio isn't going to do anything about global warming. Holding the stocks and pressing management to improve may do"
Asset manager

"Divestment or engagement? It's not an either/or debate – you need both – engagement with the threat of divestment, if progress on climate change is to be made" Sustainability consultant

Figure 17: Asset manager voting record - year to 30.9.20

	How many company votes did you take part within last year	Number of votes/ meetings in previous year	% of votes against the board	% against board in previous year
Aberdeen Standard Investments	64,175	5,193 meetings	13%	13%
AllianceBernstein	132,761 - Management proposals 130,003 - Shareholder proposals - 2,758	8,942 meetings	10.67%	12.09%
Aviva Investors	70,530	5,235 meetings	23%	22%
BlackRock	16,200 meetings globally 2,434 - EMEA ex-UK 775 - UK*	16,124 meetings (globally)	9% - global 13% EMEA ex-UK 5% UK 37% - at meetings attended globally	8%
Columbia Threadneedle	5,733 meetings 59,553 proposals	1,023 meetings	14.9% 58.8% - at meetings attended	12.05%
Fidelity International	3,761 meetings, 39,870 voting items	4,441 meetings	5.59%	4.75%
Impax	223 meetings	195 meetings	6.8%	6.6%
JPMorgan AM	75,000*	5,679 meetings	8.3%	6.4%
Legal & General IM	56,400	3,686 meetings 50,900 votes	52% at meetings attended, on at least 1 resolution	71% at meetings attended, on at least 1 resolution
Newton Investments	8,002	475 meetings	15.3%	41% (on shareholders votes from 2014-2019)
Schroders	6,518 meetings and 68,992 resolutions	5,775 meetings	13%	9%
State Street Global Advisors	322,490	109,305	13.6%	13.3%

* July 1 2019 - June 30 2020 **June 1 2019 - May 31 2020

The figures show a wide variance in both the number of votes taken and the number of times an asset manager was prepared to vote against the board.

The size of an asset manager clearly has a bearing on the shareholder meetings it attends, with the larger companies in this report voting on the most proposals.

BlackRock declared attendance at the highest number of meetings, while the asset manager that voted on the most resolutions was State Street Global Advisors. The asset manager most likely to vote against the board across all its votes was Aviva Investors with 23%, while some asset managers declared higher percentage figures for meetings actually attended.

Evidence supplied by JPMAM showed that while it voted against boards on environmental issues the most common reasons for opposing management included directors not meeting independence criteria, executive compensation plans that are poorly aligned or inadequately disclosed and capital issuance that are overly dilutive or not justified to shareholders.

Although this information wasn't provided by other asset managers it seems likely that this trend would be borne out across the industry.

As studies from groups like Majority Action and ShareAction show, the influence of large asset managers can be crucial, particularly on shareholder votes in companies that are some of the largest carbon emitters across the globe. Action can help drive change, challenging board decisions; conversely pressure groups have accused some asset managers of being a roadblock to global investor action on climate, by voting with directors of companies who are failing to manage climate risk. See Chapter 2 for more detail on the voting record of specific asset managers.

4.04 How ESG research influences default strategies

While many asset managers now have extensive in-house ESG teams, these are supported by a burgeoning industry of specialist third-party companies and organisations which focus on different parts of the ESG spectrum. These data providers help identify the extent to which companies carry ESG risks, and many will also evaluate the potential effect on future share price or asset value. All asset managers surveyed now use a wide range of these third-parties when conducting ESG research.

Contributors to this report said data providers will often rate the same company very differently, scoring highly on one set of metrics, but then given a poorer ESG rating by a different agency.

Increasingly asset managers are using these third parties to provide raw ESG information, which is then analysed and interpreted by their own in-house teams. Many have now developed their own proprietary 'scoring' systems. This information is then fed into portfolio managers who may be running different mandates with varying ESG requirements.

The breadth and depth of ESG ratings

One high profile illustration of the nuanced nature of ESG ratings is a company one might assume would be an obvious holding for a sustainable portfolio - electric vehicle manufacturer Tesla, which now has a market cap roughly equivalent to the next nine largest car makers combined. While Tesla's soaring share price has seen it enter the S&P500, it will not be admitted to the S&P500 ESG Index until it has been assessed against a series of criteria in April 2021 – and admission is not guaranteed. S&P not surprisingly scores Tesla highly on its 'low carbon strategy' with a near-perfect score of 99. But its score was much lower in 'environmental reporting', 'climate strategy' and 'environmental policy and management systems'. S&P also marked down Tesla on social metrics across the board, including 'human capital development', 'social reporting', and 'labour practice indicators'. Tesla did comparatively well in the Governance categories.

ESG data providers

Most commonly-used third party ESG data providers, and their areas of specialism

- Comprehensive ESG data: Sustainalytics, Vigeo EIRIS, ISS-ESG, ISS-Ethix Bloomberg
- Climate-related data: S&P Trucost, FTSE Green, Carbon Disclosure Project (CDP), Climate Bonds Initiative, Carbon Delta
- Specialized ESG data (e.g., governance, gender, real estate): ISS-governance, Global Real Estate Sustainability Benchmark (GRESB), BoardEx, Sustainalytics Country Risk Ratings
- Business and product involvement: MSCI Business Involvement Screening Research (MSCI BISR), Sustainalytics Product Involvement, Sustainalytics Controversial Weapons Radar, Sustainalytics Global Standards Screening
- Proxy Voting and Engagement services and research: ISS, Glass Lewis

Figure 18: Which asset managers use which third party sources

	Main data sources used
Aberdeen Standard Investments	Employs own ESG methodology but makes use of externally-sourced datasets sourced from MSCI, ISS-Ethix, Sustainalytics, Bloomberg, Trucost
AllianceBernstein	MSCI, MSCI ESG Manager, Sustainalytics, Bloomberg, ISS-Ethix, FTSE, SASB (Sustainable Accounts Standards Board) ISS
Aviva Investors	Bloomberg, CDP, Vigeo EIRIS, ISS, MSCI, Carbon Delta
BlackRock	MSCI, Sustainalytics, Refinitiv, RepRisk, ISS-Ethix Bloomberg, Verisk Maplecroft, SASB, CDP, Rhodium. BlackRock Also announced minority investment with Clarity AI in Jan 2020
Columbia Threadneedle	MSCI ESG Research, ISS, ESG brokers, RI news services, Bloomberg (ESG data), Sustainalytics, CPD, TPI, 427 (physical climate risk data) Ideal Ratings (Islamic/ Sharia strategy specific research) IVIS, GlassLewis, The Conference Board
Fidelity	MSCI, Sustainalytics, Trucost,
Impax	MSCI ESG Manager, MSCI ESG Controversial Rating, Sustainalytics, Glass Lewis, Bloomberg, CDP, ENDS Europe, Sell side analysis includes CLSA, Kepler Cheuvreux, Morgan Stanley (ESG and sustainability research)
Legal & General Investment Management	Bloomberg, Boardex, CDP, HSBC, Influence Map, ISS, IVIS, Maplecroft, MSCI, Refinitive, Reprisk, Sustainalytics, Trucost
Newton Investments	MSCI ESG research, RepRisk, Gerson Lehrman Group, ISS, Bloomberg, ISS Climate Solutions, Carbon Delta plus information from sell-side brokers inc Morgan Stanley, Citi and Exane
Schroders	MSCI ESG, Sustainalytics, Refinitiv, Bloomberg, EIRiS ISS, Investment Association Institutional Voting Information Service (IVIS)
State Street Global Advisors	Sustainalytics, Vigeo EIRIS, ISS-ESG, S&P Trucost, FTSE Green, CDP, Climate Bonds Initiative, ISS-Governance, Global Real Estate Sustainability Benchmark (GRESB), BoardEx, MSCI Business Involvement Screening Research (MSCI BISR), Sustainalytics Product Involvement, Sustainalytics Controversial Weapons Radar, Sustainalytics Global Standards Screening, ISS, Glass Lewis

4.05 In-house ESG resources

Last year, this report asked asset managers to quantify the number of specialists ESG professionals and analysts working in their in-house teams.

Most fund management houses now have dedicated research teams embedded within their investment departments providing information to fund and portfolio managers across the organisations, not just those working on specific ethical or RI strategies.

The report shows the growth in these specialist teams over the past year, as ESG has moved into the mainstream.

Figure 19: In-house ESG resources

	Size of in-house research team (2020)	Size of research team (2019)
Aberdeen Standard Investors	21 members in centralised ESG team	20 in central ESG team
AllianceBernstein	186 - every research analyst at AB considers ESG explicitly. In addition 13-member Responsible Investing Steering Committee which providers oversight of integrated approach	126, plus 13-strong RI steering committee
Aviva Investors	25	22
BlackRock - not give answers	39 sustainable investing team	No size given
Columbia Threadneedle	16 specialists in Responsible Investment (RI) team	14 in global investment team
Fidelity	13 sustainable investing analysts	10
Impax	Two dedicated sustainability and ESG specialists - provide oversight to all 19 portfolio managers	46: portfolio management and analyst team, all of which provide proprietary in-house ESG analysis
JPMorgan AM	16 personnel including 14 dedicated sustainable investment specialists	10: global team looking at sustainability-focused investment research
Legal & General IM	107, includes 16 in stewardship team	14 dedicated personal in corporate governance team
Newton Investments	Four strong responsible investment team embedded within Newton's global research team.	7 strong RI investing team, part of centralised global research team
State Street Global Advisors	19 full time ESG specialists. In addition ESG increasingly integrated into work of colleagues across the business	19 fully time ESG specialists
Schroders	21 dedicated ESG professionals in sustainable investment team	17 ESG professionals in sustainable investment team

Several asset managers —including AllianceBernstein, Aviva, Columbia Threadneedle JPMAM — have all expanded these specialist teams. While several others have stayed the same only Newton/ BNY Mellon has reduced the numbers working on its central RI teams.

The data request form asked asset managers to quantify the number of 'ESG specialists' they employ. There may be some discrepancy as to how different firms have interpreted this term. AllianceBernstein for example, states that all research analysts now consider ESG data explicitly, which explains why it has the highest number of specialists, at 186.

Others asset managers such as Aviva and JPMAM have counted only those working in centralised ESG or RI teams who work alongside general research analysts.

CHAPTER 5
ESG IN ASSET MANAGERS' DC DEFAULT OFFERINGS

5.01 Managers' ESG options for DC pension defaults

Regulations now stipulate that trustees and IGCs overseeing contract-based DC schemes have to take into account 'financially material' ESG factors including climate change as part of their investment policy. This has created demand for investment solutions with an explicit ESG focus, designed to meet the needs of a default DC pension strategy.

The table below shows the range of options now available from leading asset managers. Many of these are suitable as a standalone default option, offering a range of target-dated funds, lifestyling and mixed asset options.

Other funds listed may be used as a component part of a default strategy. Some only cover specific assets such as equities or bonds, while others take a more stringent RI approach.

While pressure from activist groups targets clearly-defined goals such as net-zero carbon by a particular date, the obligation on trustees and IGC members is to maximise the return for the member, and incorporate ESG factors including climate change into their decision-making.

This chapter analyses asset manager ESG propositions. The way in which the largest master trusts and GPP providers are integrating ESG strategies within their default funds is covered in chapter 5.

Figure 20: Asset managers' standalone ESG default pension fund options

	Default fund ESG options	Active or Passive	Index followed if passive
Aberdeen Standard Investments	ASI Sustainable Index Strategies. Includes: ASI Sustainable Index World Equity Fund; ASI Sustainable Index UK Equity Fund	Passive - uses seven customised indices	ASI Sustainable Index World Equity Index. Targets 20% improvement in ESG score + 50% reduction in carbon intensity and 50% improvement in green revenue scores ASI Sustainable Index UK Equity Index targets 10% improvement in ESG score, plus 50% reduction in carbon intensity and 50% improvement in green revenue scores
AllianceBernstein	All TDFs consider ESG factors. Also offers Ethical TDF strategy	Active	
Aviva Investors	My Future Focus: two multi-asset fund of funds Lifestyle strategy created using three Stewardship funds, which can be used as default solution	Underlying fund offers active and passive options	Passive funds tilt indices to companies with higher ESG scores (based on proprietary scoring) and exclude those in lowest 10%
BlackRock	LifePath Target Date Fund		

	Default fund ESG options	Active or Passive	Index followed if passive
Columbia Threadneedle	Range includes: Threadneedle Global Sustainable Equity Strategy; Threadneedle UK Social Bond Fund; Threadneedle UK Sustainable Equity Fund; Columbia Threadneedle European Sustainable Infrastructure Fund	Active	
Fidelity	Fidelity Funds - Sustainable Water and Waste Fund	Active	
Impax	Range of equity strategies. Includes Impax Environmental Market (Ireland) Fund Impax Environmental Leaders (Ireland) Fund Impax Environmental Asian Market (Ireland) Fund Impax Global Equity Opportunities Fund Also offers segregated mandates	Active	
JP Morgan AM	Range of equity fixed income, multi-asset and alternatives funds that can be used as components in default strategies.		
Legal & General IM	L&G Target Date Funds; L&G Future World Multi-Asset Funds	Actively managed mix of active and passive funds	
Newton Investments	Newton Sustainable Real Return Strategy - (using BNY Mellon Sustainable Real Return Fund)	Active	
Schroders	Schroders Dynamic Multi Asset Fund; Schroders Multi Factor Equity Fund	Active Active	
State Street Global Advisors	Timewise Target Retirement Funds	Smart Beta Index funds	Allocation made to SSGA Multi-Factor + ESG ACS fund this: excludes controversial weapons and companies not complying with UN Global Compact. 50% reduction in carbon intensity of portfolio+20% improvement in ESG score (vs MSCI World index)

*Newton says all its portfolios incorporate ESG analysis. The funds listed take ESG considerations further

While some of these default fund options remain relatively new there are a number that have now built up longer track records, with some asset managers converting existing strategies to incorporate a more thorough ESG overlay.

Many of these options offer lifestyling, where the asset mix is altered as members move closer to their set retirement date. This may alter exposure to assets that tilt or screen out certain sectors based on ESG analysis.

In most cases a mixture of both active and passive funds are used in many of these default strategies.

One noticeable trend is for a number of asset managers to now offer two options: a default option that takes into account ESG factors, and then a more focused RI or 'ethical' option which has more stringent exclusions.

5.02 Performance of ESG default options

Figure 21: Performance of ESG default options

All figures annualised to 30.9.20 unless otherwise stated	One- year performance	Three-year performance	Five-year performance	Other
AllianceBernstein - 2050-2052 TDF	-0.24%	4.43%	9.86%	
Aviva Investors	-0.7%	5.2%	8.9%	
BlackRock LifePath Target Date Funds	-	5.1%	8%	
Columbia Theadneedle UK Social Bond **Columbia Threadneedle Global Sustainable Equity Strategy**	2.8% 16.2%	2.9% -	4.1%	
Fidelity Sustainable Water and Waste	- 1%	-	-	
Impax Environmental Markets (Ireland) Fund	11.3%	8.5%	15%	
L&G TDFs (Higher Growth Phase)	-2.07%	3.82%	-	
L&G Future World Multi Asset Fund	0.4%	-	-	
Newton Investments: BNY Mellon - Sustainable Real Return Fund	5.37%	N/A	N/A	
Schroders Dynamic Multi Asset Fund	0.2%	1.8%	3.8%	
State Street Global Advisors - Timewise 2050 fund	2.02%	5.29%	9.05%	
CAPA: Corporate Adviser Pension Average (30 years to SPA)	0.61%	4.8%	9.35%	

The table above shows that there are now a growing number of ESG default options that have a performance record of three or more years.

These performance figures, all of which are annualised before charges are deducted, have been compared to the CAPA (Corporate Adviser Pensions Average) return of default funds for investments for savers with 30 years to State Pension Age, reflecting 26 default master trust and GPP providers, covering over 13 million savers (see www.capa-data.com).

While some of the funds listed would be components of an entire strategy, so do not correlate with the CAPA universe averages, it can be seen that two of the target date funds in the data set, ESG-led TDFs from AllianceBernstein and SSGA, have broadly similar performance characteristics to the CAPA average over 1,3 and 5 years, reinforcing assertions from supporters of ESG that pension savers need not sacrifice performance by choosing more sustainable and responsible pension options.

One of the key questions for trustees and advisers is whether an ESG approach leads to better member outcomes in terms of increased performance. There are growing concerns that funds that do not adopt robust ESG strategies could be vulnerable to under-performance over the longer term with the transition to lower carbon economies around the globe.

Of course, the question for advisers, trustees, and ultimately investors, is how successful asset managers are in implementing these ESG strategies. It is not just a question of looking at which has the highest RI standards, but how this correlates with investment returns over different time periods.

5.03 The financial case for ESG investing

One of the key tenets of regulation of ESG investment strategies in pensions has been that it should deliver better risk-adjusted returns for investors over the long term. But getting robust data showing the performance of ESG investment strategies relative to non-ESG ones is not always straightforward. Meta-study analysis has shown ESG/ responsible investment strategies performing better or no worse than their non-ESG counterparts in a majority of situations. But it has been difficult to establish a link between more responsible investment strategies and outperformance. However, this performance question remains a key consideration for trustees and those managing and advising on DC pension schemes.

Part of the problem is that many of these RI or ESG strategies have relatively short track records. The problem is further compounded by the variety and intensity of different ESG approaches taken across the asset management industry. Advisers and trustees are also increasingly concerned that ESG alternatives may prove to be more expensive than the bare trackers typically used within DC schemes. However the latest data available does seem to indicate a more positive correlation between sustainable investment and outperformance.

There has been a flurry of short-term data during 2020 that underlined this link. Morningstar, for example found that funds with higher ESG ratings were more likely to outperform their benchmark index than funds with lower ESG ratings. It also found those with the lowest ESG ratings were most likely to underperform during 2020. This analysis didn't just include funds that explicitly market themselves as sustainable funds. It uses Morningstar's own sustainability ratings which look at the underlying ESG credentials of each fund. Similarly, data from Fidelity International found that since the Covid crisis, stocks which were rated more highly for ESG characteristics outperformed those with weaker ESG ratings.

These are both very short term pieces of research. The findings may also be influenced by the fact that the global lockdown and subsequent fall in oil prices have negatively affected share prices in many sectors, particularly oil and gas companies, airlines, and mining companies. By definition many funds with a sustainable investment mandate tend to be less exposed to these sectors which are among the largest polluters.

Looking to the longer term though, Morningstar has looked at the performance of a sample of 745 Europe-based sustainable funds and concluded that the majority of these strategies have outperformed non-ESG funds over one, three, five and 10 years. Morningstar says this analysis debunks the myth that there is a performance penalty associated with ESG investing. However outperformance did depend on sector: US large blend equity funds with 80 per cent of funds in this category beat non-ESG peers over 10 years.

There was less of a trend in the corporate bond market, with just three out of 10 ESG corporate bond funds achieving better returns than non-ESG funds over a decade.

This works builds on an earlier meta-study conducted by Deutsche Bank and the University of Hamburg which analysed the findings of 2,200 individual studies into the impact of ESG criteria and corporate financial performance. It found that in 90 per cent of these studies — covering a period from 1970 to 2015 — there was a 'non-negative relationship' between ESG and financial performance, and the large majority found a positive relationship between the two.

Even if a causal relationship is accepted, this does not mean all ESG portfolios will outperform non-ESG ones. Much will depend on the skill of managers and analysits, the range of data available and their selecting appropriate investments to deliver better outcomes for investors. It is clear though that there is a need for better disclosure and standardisation of a range of ESG factors at a company level, and at a portfolio/ fund level. This should help the data to become more robust and build a clearer picture between the relationship between a company or fund share price and its performance on a range of ESG factors. It must be said that the enthusiasm towards ESG and responsible investment seen in Europe is not reflected in US workplace DC scheme, where low cost remains a primary motivator in fund choice, and where being placed in an ESG fund can even be cause for litigation against the scheme sponsor that made that choice for the individual.

5.04 Adviser attitudes to ESG's impact on performance

A big majority of advisers and consultants now believe that ESG investment is worth the cost and effort, with 79 per cent believing ESG investments will outperform over the longer term. A slightly smaller majority of 76 per cent agree that the regulatory and broader industry initiatives that have put so much focus on ESG will lead to better member outcomes in the long term.

Figure 22: Do you think ESG investments will outperform, net of charges, over the long term

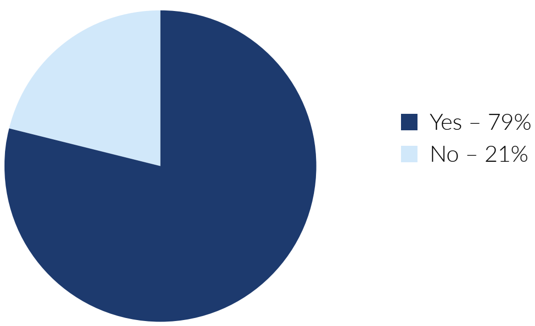
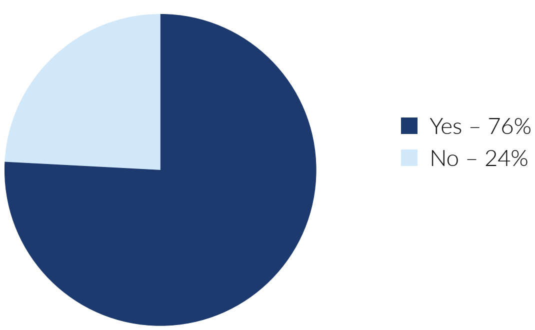
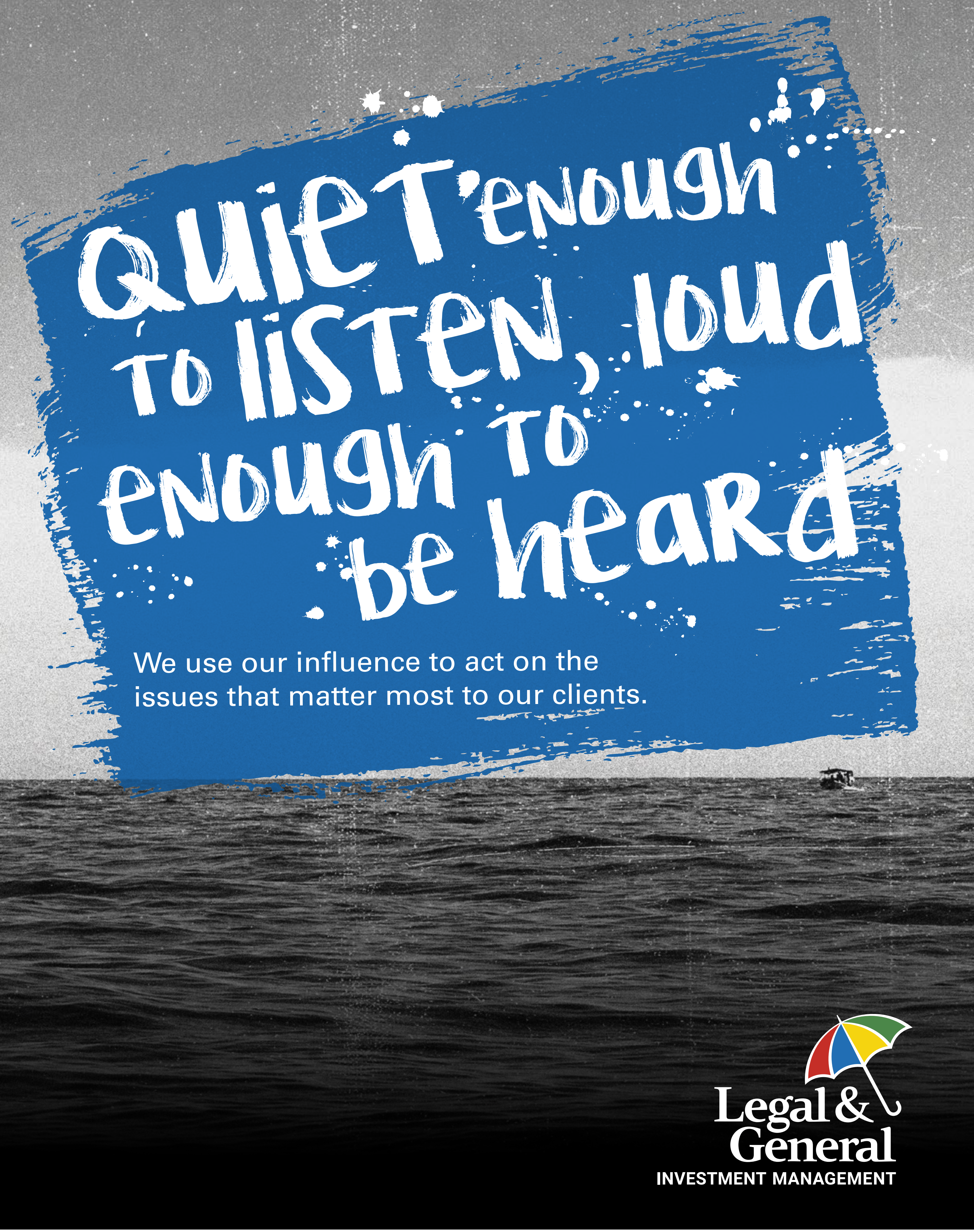


Figure 23: Do you think regulatory and industry initiatives in relation to ESG lead to better long-term net returns, after charges?




lgim.com/uk/ad
For investment professionals
Capital at risk


Quiet enough to listen, loud enough to be heard
We use our influence to act on the issues that matter most to our clients.
Legal & General
INVESTMENT MANAGEMENT

ASSET MANAGER ESG PROPOSITIONS

ABERDEEN STANDARD INVESTMENTS

Aberdeen Standard Investments (ASI) has a strong footprint in the DC pensions sector, in part resulting from its historic links with workplace pensions giant Standard Life Assurance.

One of the largest institutional investors in the UK, ASI has a dedicated in-house ESG team of over 20 professionals supporting all asset classes and ensuring ESG considerations are fully embedded in the investment decision-making process.

Over the past year the asset manager has launched its range of sustainable index strategies, which target higher ESG stocks, and those with 'green revenue' scores along with a 50 per cent reduction in carbon intensity when compared to its benchmark index.

ASI says it believes the best client outcomes are generated by investing responsibly and sustainably and it now fully integrates ESG considerations within its investment process. It says this integration involves analysing the key issues, risks and opportunities for each investment and using this analysis to make better informed decisions for clients.

As an active long-term investor, ASI believes that companies that operate responsibly will be better managed and therefore deliver better returns.

Total global assets under management 30.9.20	£456bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£25bn
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£1.6bn
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£1.6bn
Standalone ESG default fund suitable for default DC strategy	ASI Sustainable Index Strategies. These use customised MSCI indices. There are seven strategies, within two options: ASI Sustainable Index World Equity Fund ASI Sustainable Index UK Equity Fund These both target broad improvements in sustainability outcomes: eg enhanced ESG scores, increased 'green' revenues and reduced carbon intensity in addition to specific (financially based) exclusions
Details of fund:	All seven strategies are equity only, passive solutions
Annualised performance to 30.9.20:	N/A - World and UK strategies launched in November 2020
Third party ESG data sources used	Employs own ESG methodology but utilises externally sourced data sets from MSCI, ISS-Ethix, Sustainalytics, Bloomberg and Trucost
Number of expert analysts working exclusively on ESG	21 members in centralised ESG team
Net zero emissions target for the operations of your company	No current targets but working to develop net zero propositions
Net zero emissions target for company's assets under management	No current targets but working to develop net zero propositions across different asset classes with a programme of work starting in 2021. For example, in active equities the Active Climate Transition framework is under development which uses the IIGCC net zero investor framework as the foundation
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes - first TCFD report published in March 2020
Number of company votes taken part in	64,175 proposals
Percentage of these votes against the board/ management	13%
Number of board meetings took a stewardship role in	5,094 distinct company meetings

ALLIANCEBERNSTEIN

AllianceBernstein (AB) has been a pioneer in the introduction of target date fund in the UK DC sector. These funds now incorporate a range of ESG criteria and the company also offers other responsible investment solutions including its Ethical Target Date Funds range. This uses the exclusions of the MSCI SRI Index and Global Responsible Factor fund — which emphasises exposure to desired factors from companies with outstanding ESG ratings — or the Global Sustainable Thematic Strategies, which seeks superior returns through investments that benefit society and the environment anchored by UN Sustainable Development goals.

The company has also launched a climate change and impact investment curriculum in conjunction with Columbia University in recent years. The company takes a three-pronged approach to active ownership: AB directly engages with issuers and other stakeholders as part of the research process; the asset manager utilises an engagement framework to assist in identifying companies with whom to engage on ESG issues; AB selectively engages as part of its proxy voting process. This creates a two-way channel to discuss all the issues relevant to an investment decision, such as strategy, capital allocation, business operations and board governance, alongside environmental, and social issues that are material to that company and industry.

Total global assets under management 30.9.20	£488bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£380bn
Total AUM in funds that tilt an index on the basis of ESG factors(£)	N/A
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£9.3bn - 'Portfolios with Purpose' £3bn - UK Time Dated Funds
Standalone ESG default fund suitable for default DC strategy	All UK TDFs consider ESG factors in the investment process. Also offers Ethical TDF strategy for those wanting heavier exclusionary and ESG-focused approach
Details of fund:	Active Multi-Asset
Annualised performance to 30.9.20:	AB Retirement Strategies 2050-2052 TDF 1 Year: -0.24% 3 Years: 4.43% 5 Years: 9.86%
Third party ESG data sources used	MSCI, MSCI ESG Manager, Sustainalytics, Bloomberg, ISS-Ethix, FTSE, SASB, ISS
Number of expert analysts working exclusively on ESG	186 - every research analyst explicitly considers ESG and engages accordingly with companies/ issuers
Net zero emissions target for the operations of your company	No explicit targets but committed to reducing impact on the global environment
Net zero emissions target for company's assets under management	No current overarching carbon emission targets for all AUM For UK retirement business and TDF in process of developing and establishing explicit net zero emissions target AB is evaluating the prospect of expanding this across product range
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Total number of proposals: 132,761 Management proposals: 130,003 Shareholder proposals: 2,758
Percentage of these votes against the board/ management	10.67%
Number of board meetings took a stewardship role in	8, 928

AVIVA INVESTORS

Aviva Investors has a long history of responsible investment, holding companies to account by voting at their annual meetings since the 1970s. Its Stewardship fund range has its roots in the Friends Provident brand, which launched the UK's first ethical fund back in the 1980s, although the management of that fund was only transferred to Aviva in 2018.

Within the UK DC sector it now offers a lifestyle option that utilises three of these funds. Its main DC offering is its My Future Focus Funds, which use a fund-of-funds approach. More recently these have integrated ESG factors as part of its investment process, including a tilt on passive funds to exclude companies with poorer ESG track records.

Aviva was a founding signatory to the UN Principles of Responsible Investment.

Aviva sees responsible investment as a way to get the best possible return for customers in the long term, and believes companies that conduct their business in a responsible and sustainable way are more likely to succeed over time, benefiting both the individual and society.

Total global assets under management 30.9.20	£357bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£41.6bn in Optimised or Sustainable Transition strategies. Optimised strategies have ESG considerations embedded throughout the investment process and also have optimised ESG features Sustainable Transition strategies have ESG considerations embedded throughout the investment process and focused on a particular ESG thematic
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£8.6bn AUM invested in the My Future Focus funds, which incorporates a tilt of an index based on ESG factors
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£20.3bn Includes all strategies which have ESG considerations embedded throughout the investment process and also make use of enhanced ESG screening
Standalone ESG default fund suitable for default DC strategy	My Future Focus, is a default investment solution comprising of 2 multi-asset funds: My Future Focus Growth and My Future Focus Consolidation. Both are structured as fund of funds. In addition, a lifestyle strategy has been created using three of the Stewardship funds which can be used as a default investment solution.
Details of fund:	Multi-Asset Active asset allocation of active and passive underlying funds
Annualised performance to 30.9.20:	My Future Focus Growth: 1 Year: -0.7% 3 Years: 5.2% 5 Years: 8.9%
Third party ESG data sources used	Bloomberg, CDP, Vigeo EIRIS, Institutional Shareholder Services ('ISS'), MSCI, Carbon delta
Number of expert analysts working exclusively on ESG	25
Net zero emissions target for the operations of your company	Aviva has been carbon neutral in its operations since 2006. Aviva has reduced operational carbon emissions by 66 per cent since 2010 and has been purchasing renewable electricity in the UK since 2002. It is in the process of setting a target for net zero emissions — which will also include procurement and claims fulfilment supply chain
Net zero emissions target for company's assets under management	Currently in the process of scoping the net zero ambition for Aviva Investors Aviva Investors is part of the Aviva Group, a signatory to the United Nation's Net Zero Asset Owners Alliance. As a group it has set a new 2050 net-zero carbon emissions target for its auto-enrolment default pension funds
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	70,530
Percentage of these votes against the board/ management	23%
Number of board meetings took a stewardship role in	Substantive: 1,351 Non-substantive: 3,128 Total: 4,429

BLACKROCK

The world's biggest asset manager, BlackRock now has a significant proportion of its assets in ESG funds.

Recent communications from the firm's CEO set out how sustainable investment strategies, particular in relation to climate chance are reshaping finance and investing and will lead to a profound reassessment of risk and asset values.

Within the DC market BlackRock is moving more of the assets held within its DC strategy into ESG-related funds. In November 2020 BlackRock announced more than half of LifePath's UK assets would be invested in ESG strategies by mid 2021.

BlackRock engages with a large number of companies held in index and active portfolios on material ESG issues that the company believes affect its clients' long-term economic interests. While BlackRock has dedicated sustainability specialists, it says all of its investment professionals now consider environmental, social and governance (ESG) factors as part of its investment process. BlackRock's view is that asset managers have a big responsibility to their clients to help their assets drive a better future for their business and for the communities in which they operate. It exercises its huge voice as an investor through direct engagement and proxy voting, although has been criticised for not backing all ClimateAction100+ resolutions.

Total global assets under management 30.9.20	£6,050bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£19.5bn in baseline screened assets and £447bn in additional screened products
Total AUM in funds in other ESG strategies (£)	Broad ESG strategies £88bn, Thematic £29.7bn, Impact £8.1bn
Standalone ESG default fund suitable for default DC strategy	LifePath Target Date Fund, a default DC investment strategy
Details of fund:	Multi asset funds
Annualised performance to 30.9.20:	LifePath Target Date Fund 3 Years: 5.1% 5 Years: 8%
Third party ESG data sources used	Multi external data providers including MSCI, Sustainalytics, Refinitiv, RepRisk, ISS-Ethix, Bloomberg, Verisk Maplecroft, SASB, CDP and Rhodium. BlackRock announced a minority investment with Clarity AI in January 2020
Number of expert analysts working exclusively on ESG	39 globally
Net zero emissions target for the operations of your company	Operations currently are carbon neutral
Net zero emissions target for company's assets under management	In 2021 will announce additional actions aligned to net zero ambitions
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Total number of meetings: 16,200 globally 2,434 in EMEA (ex-UK) region 775 - in UK
Percentage of these votes against the board/ management	37% globally 57.6% - EMEA (ex UK) region 31.5% - UK

BNY MELLON / NEWTON INVESTMENT MANAGEMENT

Newton Investment Management is a London-based global investment firm, and one of the eight investment firms that is now owned by parent group BNY Mellon, which has £1.6 trillion assets under management. Newton provides actively-managed investment strategies to public and private sector DB and DC pension funds, corporations and charities. The company uses bottom-up security selection tied with a top-down thematic framework to create and manage strategies that aim to secure future asset growth. The company has particular expertise in absolute-return, income-focused, high-conviction and sustainable investing.

Newton Investment Management has been a longstanding player in responsible investment, and it employs three distinct approaches. The first of these is an exclusion/screening approach, run since 1988 for some of the company's faith-based and charity investors. The second approach is integrated ESG, which is the way the company manages the vast majority of its clients' assets. Newton Investment Management was an early adopter among peers by expanding the investment universe in which it makes active voting decisions and engagements with companies. The third and newest element of Newton's responsible investment approach is 'sustainable' investing. Sustainable strategies adopt the fundamental principles captured by the integrated-ESG approach, and amplify the responsible investment requirements.

Total global assets under management 30.9.20	£44.9bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£5.2bn in portfolios that adhere to strict ethical guidelines or have sustainability objective. All portfolios take into account ESG factors
Total AUM in funds that tilt an index on the basis of ESG factors(£)	N/A
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£1.6bn
Standalone ESG default fund suitable for default DC strategy	All portfolios integrate ESG analysis. In addition Newton offers number of sustainable strategies, biggest is Newton Sustainable Real Returns (BNY Mellon Sustainable Real Return Fund)
Details of fund:	Active Multi-Asset
Annualised performance to 30.9.20:	Newton Sustainable Real Return 1 Year: 5.37% Since inception (24.4.18) 7.43%
Third party ESG data sources used	MSCI ESG, RepRisk, Gerson Lehrman Group, ISS, Bloomberg, ISS Climate Solutions, Carbon Delta, information from sell-side brokers including Morgan Stanley, Citi and Exane
Number of expert analysts working exclusively on ESG	Newton has a four-person dedicated responsible investment team
Net zero emissions target for the operations of your company	No but taken various steps to reduce carbon footprint. Parent company BNY Mellon has set a target to reduce greenhouse-gas emissions by 20% by 2025 (from 2018 base year). This, combined with offset, are in line with below 2degree methodology
Net zero emissions target for company's assets under management	No. Total greenhouse gas emission for client investments fallen significantly in recent years and are well below those of reference benchmarks
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	8,002
Percentage of these votes against the board/ management	15.3%
Number of board meetings took a stewardship role in	106 company engagement for primary purpose of raising ESG concerns

COLUMBIA THREADNEEDLE

Columbia Threadneedle recognises that climate change is an important issue for investors, not least due to the emerging legal and regulatory frameworks and the potentially significant implications for markets and businesses. This company – which has significant assets under management – offers a range of ESG strategies to investors. A number of its ESG funds are now utilised as components of default funds in the DC sector. The company recently launched a RI ratings system, that combines an assessment of a company's financial stewardship with a view on how well it manages its ESG risks. These ratings are now used by the company's global investment teams to provide enhanced analysis of over 5,500 listed equites from across the globe. The asset manager says work is currently underway to extend this across the fixed income universe.

Total global assets under management 30.9.20	£385bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£23.5bn - includes assets in funds that identify best-in class stocks
Total AUM in funds that tilt an index on the basis of ESG factors(£)	N/A
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£8.4bn
Standalone ESG default fund suitable for default DC strategy	Range of ESG strategies that can be utilised as components of DC default funds. This includes Threadneedle Global Sustainable Equity Strategy Threadneedle UK Social Bond Fund Threadneedle UK Sustainable Equity Fund Columbia Threadneedle European Sustainable Infrastructure Fund
Details of fund:	All active funds. Asset class depends on individual fund
Annualised performance to 30.9.20:	Threadneedle UK Social Bond Fund 1 year: 2.8% 3 years: 2.9% 5 years: 4.1% Threadneedle Global Sustainable Equity Strategy (launched Dec 2018) 1 year: 16.2%
Third party ESG data sources used	MSCI ESG Research, ISS, ESG brokers, RI news services, academia, NGOs, Bloomberg, Sustainalytics, CDP, TPI, 427, Ideal Ratings, IVIS, Glass Lewis, The Conference Board
Number of expert analysts working exclusively on ESG	16 specialists in global responsible investment (RI) team
Net zero emissions target for the operations of your company	No specific target, but Columbia Threadneedle maintains an Environmental Management System to ensure measurable and auditable data is accurately maintained for all major environmental impacts Company continues to meet all requirements for the ISO14001:2015 standard through 2019, with total carbon emissions 18.6% lower than in 2018 (primarily due to reduced air travel)
Net zero emissions target for company's assets under management	No. Specific carbon reduction strategies are client agreed and applied in segregated institutional mandates. The company does not impose carbon targets to clients in general However Columbia Threadneedle is monitoring the carbon characteristics of funds and strategies on an ongoing basis and will continue to develop this approach
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Meetings: 5,733 Proposals: 59,553
Percentage of these votes against the board/ management	Meetings: 58.82% Proposals: 14.87%
Number of board meetings took a stewardship role in	Engaged with 311 companies over this time on ESG or sustainability issues

FIDELITY INTERNATIONAL

Fidelity International, which is a separate company from Fidelity Investments, believes that high standards of corporate responsibility generally make good business sense, and have the potential to protect and enhance investment returns for clients. Consequently it incorporates ESG issues into the investment decision-making process when it believes they have a material impact on the investment, or have the potential to affect the long-term value of the investment.

More recently Fidelity has launched its new ESG range, known as the Sustainable Family. This is designed to provide a more consistent and transparent ESG framework across multiple asset classes.

Fidelity International supports the view that responsible investment is essential in maximising returns for clients.

The asset manager says it strives to gain an in-depth understanding of the relevant ESG issues applicable to its investments through an internal research process, so it can identify issues before they escalate into events that may potentially threaten the value of its investments.

Total global assets under management 30.9.20	£364.8bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£364.8bn
Total AUM in funds that tilt an index on the basis of ESG factors(£)	N/A
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£713.8m - 'Best in class' comprised the assets under management from the four funds from Sustainable Family Range: Sustainable Global Equity Fund, Sustainable Eurozone Equity Fund, Sustainable Strategic Bond Fund and Sustainable Research Enhanced Equity ETF
Standalone ESG default fund suitable for default DC strategy	Fidelity Funds - Sustainable Water and Waste Fund
Details of fund:	Active Equity
Annualised performance to 30.9.20:	Fidelity Sustainable Water & Waste Fund 1 year: -1% Since inception (Nov 2018) annualised returns of 11%
Third party ESG data sources used	MSCI, Sustainalytics, Trucost
Number of expert analysts working exclusively on ESG	13 sustainable investment analysts
Net zero emissions target for the operations of your company	Target to be carbon net zero by 2040, introduced in June 2020. This target equates to a 5% reduction year-on-year in greenhouse gas emissions
Net zero emissions target for company's assets under management	Not currently
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Total number of meetings: 3,762 Total number of voting items: 39,870
Percentage of these votes against the board/ management	5.59%
Number of board meetings took a stewardship role in	1,484 stewardship meetings of which 164 with board members

IMPAX ASSET MANAGEMENT

Impax is a specialist asset manager investing in the opportunities arising from the transition to a more sustainable global economy.

The company was founded in 1998 and now has more than £20bn assets under management. The company believes that capital markets will be shaped profoundly by global sustainability challenges — including climate change, pollution, and resource efficiency — and that this will drive growth for well-positioned companies and create risks for those unable or unwilling to adapt.

The primary objective of the company's investment strategies is to deliver strong risk-adjusted returns for investors.

Impax offers clients around the world solutions in equities, fixed income and real assets. Impax's Listed Equity investment team has a policy of active engagement on ESG issues. Part of this ESG analysis takes into account the outcomes of this engagement with portfolio companies.

Impax strategies incorporate pooled funds and segregated client mandates. The firm manages a range of listed equity strategies, all of which adhere to an investment process that includes in-depth ESG analysis.

Total global assets under management 30.9.20	£20.2bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£20.2bn - Impax invests in companies an assets that are well positioned to benefit from the shift to a more sustainable global economy
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£1.3bn - Smart Beta Strategy, accessing North American, not available in Europe
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	N/A
Standalone ESG default fund suitable for default DC strategy	Range of listed equity strategies all of which exclude companies in violation of 10 principles of UN Global Compact. Four strategies available to institutional investors via Irish-domiciled Oeics: Impax Environmental Markets (Ireland) Fund Impax Environmental Leaders (Ireland) Fund Impax Environmental Asian Markets (Ireland) Fund Impax Environmental Global Equity Opportunities Fund Impax also offers segregated mandates and works in partnership with clients to manage their own products
Details of fund:	Equity only fund, all actively managed
Annualised performance to 30.9.20:	Impax Environmental Markets (Ireland) Fund 1 year: 11.3% 3 years: 8.5% 5 years: 15%
Third party ESG data sources used	MSCI ESG Manager, MSCI ESG Controversial Rating, Sustainalytics, Glass Lewis, Bloomberg, CDP, ENDS Europe, Sell side analysis includes CLSA, Kepler Cheuvreux, Morgan Stanley (ESG and sustainability research)
Number of expert analysts working exclusively on ESG	Two dedicated sustainability and ESG specialists - provide oversight to all 19 portfolio managers
Net zero emissions target for the operations of your company	No net zero target but Impax has pioneered the reporting of net CO2 footprint of its thematic equity and new energy infrastructure for past six years. Result published in comparison with the current economy and a 2degreesC aligned scenario, as well as showing net zero comparison
Net zero emissions target for company's assets under management	No. Impax invests portfolios in line with belief the economy is transitioning to more sustainable model, including pathway to net zero emissions in line with the Paris agreement In the firm's 2020 Impact Report all portfolios demonstrated a net footprint below a 2 degree C scenario, and all but one showed net carbon impact of less than zero
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Voted in 223 meetings
Percentage of these votes against the board/ management	6.8%

JP MORGAN ASSET MANAGEMENT

JP Morgan Asset Management is a leading global manager, and part of the larger JP Morgan Chase group. Across the group it has a coordinated strategy for global sustainable investment, which is driven by Jennifer Wu, the global head of the sustainable investing team. This team focuses on ESG-related research and works with clients to build and implement sustainable investment solutions, in addition to driving and overseeing the corporate engagement and proxy voting strategy.

JPMC leverages its expertise in the financial markets to promote sustainable business practices and help clients capitalise on opportunities to achieve positive environmental and social outcomes, including the transition to a lower-carbon economy.

In recent years JPMC has taken steps to restrict financing for some of the most carbon-intensive activities, such as coal mining and mountaintop mining. However it says it recognises that transition will take time and require greater market penetration of energy efficiency, renewable energy and other forms of lower carbon energy such as natural gas.

JPMAM has developed its own proprietary research to assess ESG risks and uses information from third-party vendors to give a 'base case' analysis although it will frequently take a different view, depending on its own research, engagement activity or its own insights.

Total global assets under management 30.9.20	£1,594bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£654m
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£1.1bn
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£782m
Standalone ESG default fund suitable for default DC strategy	Range of equity fixed income, multi-asset and alternatives funds that can be used as components in default strategies.
Details of fund:	N/A
Annualised performance to 30.9.20:	N/A
Third party ESG data sources used	ISS-ESG, ISS-ESG SRI, Bloomberg, CDP, ECPI: E Capital Partners International, MSCI, Sustainalytics
Number of expert analysts working exclusively on ESG	16, including 14 dedicated sustainable investment specialists
Net zero emissions target for the operations of your company	No, but commitment to be carbon neutral in operations from start of 2020
Net zero emissions target for company's assets under management	No - but considering a net zero emission target from AUM
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	75,000 individual ballot items
Percentage of these votes against the board/ management	89.8% supporting management recommendations 8.3% against management recommendations 1.9% abstentions
Number of board meetings took a stewardship role in	330 engagement discussion with portfolio companies globally

LEGAL & GENERAL INVESTMENT MANAGEMENT

Legal & General Investment Management has been at the forefront of developing ESG strategies for use within DC schemes, with its Future World funds range offering an off-the-peg solution.

During the past year it has also revamped its main default fund to include its Future World funds as a key component. This change was made in July 2020 and effectively moved £30bn as assets, and the pension savings of 2.1m investors into ESG strategies.

An an asset manager LGIM has played a leading role when it comes to engagement and stewardship, representing its clients in a high number of company votes. LGIM adopts an engagement "with consequences" model, where laggards can be subject to voting sanctions and potential divestment from select funds.

LGIM has enhanced engagement when it comes to climate risk and the net zero challenge. It is a founding signatory of the Net Zero Asset Managers Initiative. According to ShareAction, in 2019 it supported more climate resolutions than any of the world's 20 largest asset managers. This had led to LGIM co-filing its first ever shareholder resolution which led to BP adopting industry-leading climate targets.

Total global assets under management 30.9.20	£1.2 trillion
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£202.6bn - this includes full range of ESG strategies which are thematic or filter/ screen/ tilt stocks and sectors on basis of ESG factors
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£160.7bn
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£41.9bn
Standalone ESG default fund suitable for default DC strategy	L&G Target Date Funds and L&G Future World Multi Asset Fund both incorporate ESG factors L&G TDFs (formerly called Pathway funds) most popular default option for new schemes entering Master Trust or GPP arrangement. The L&G TDFs incorporate several aspects of ESG directly into the strategy as follows, including integration of Future World Multi-Asset fund as core component of glidepath
Details of fund: multi-asset or equity only; active or passive	Both options are multi asset and actively managed but use a mixture of active and passive funds as building blocks, some specifically designed by LGIM to implement ESG views
Annualised performance to 30.9.20:	TDFs (Higher growth stage; 30 plus years from retirement) 1 year: -2.07% 3 years: 3.82% Future World Multi Asset Fund 1 years: 0.4%
Third party ESG data sources used	Typically buys raw data from third party providers, as opposed to off-the-shelf ESG scores/ rating External providers include: Bloomberg, Boardex, CDP, HSBC, Influence Map, ISS, IVIS, Maplecroft, MSCI, Refinitive, Reprisk, Sustainalytics, Trucost
Number of expert analysts working exclusively on ESG	107 in total, includes stewardship team and those working in dedicated ESG roles globally
Net zero emissions target for the operations of your company	Yes, policy to decarbonise the assets on our balance sheet to achieve net zero carbon emissions by 2050 or sooner
Net zero emissions target for company's assets under management	Yes, as a DC provider committed to decarbonise all AE default funds by 2050 and will provide defaults aligned with Paris trajectory.
Do you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	56,400
Percentage of these votes against the board/ management	52% at meetings attended, on at least 1 resolution

SCHRODERS

Schroders stepped up its commitment to responsible investing in 2020, with all investment decisions made by the firm now taking into account ESG factors. This is an extension of Schroders Sustainability Accreditation, launched in 2017. This accreditation spans different responsible investment strategies, which include 'screened, integrated sustainable and impact' categories.

This work builds on recent fund launches, including its Sustainable Multi-Factor Equity Fund. The company has also developed its own proprietary tool: SustainEx, which is designed to provide an objective framework in which to measure the social costs companies impose, or the benefits they provide. This combines economic logic, sustainability expertise, industry knowledge, company data and academic research to deliver a transparent, objective and robust measure of corporate impact across around 9,000 global companies.

Schroders has a long track record of engagement with governance issues. Its first corporate governance policy was published in 1998, followed by the publication of its responsible investment policy in 2001.

Schroders describes itself as steward of its clients' capital, leading to a focus on the long-term prospects for the companies in which it invests. It believes successful investment is intrinsically linked to identifying, understanding and incorporating the effects of ESG trends in its decisions and ownership.

Total global assets under management 30.9.20	£563.3bn
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£69.4bn
Total AUM in funds that tilt an index on the basis of ESG factors(£)	N/A
Total AUM that identify best in class stocks based on ESG factors(£)	As of Dec 31 2020 Schroders achieved its target to become fully ESG integrated
Standalone ESG default fund suitable for default DC strategy	Two ESG solutions most commonly used by DC schemes are: Schroders Dynamic Multi Asset Fund Schroders Multi Factor Equity Fund
Details of fund:	Schroders Dynamic Multi Asset fund is a multi-asset fund Schroders Multi Factor Equity fund is an equity only fund Both actively managed
Annualised performance to 30.9.20:	Schroders Dynamic Multi Asset Fund 1 year 0.2% 3 year 1.8% 5 years 3.8%
Third party ESG data sources used	MSCI ESG, Sustainalytics, Refinitiv, Bloomberg, Eiris ISS, Investment Association Institutional Voting Information Service (IVIS)
Number of expert analysts working exclusively on ESG	21 dedicated ESG professional responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client report and product development
Net zero emissions target for the operations of your company	Net zero by 2050 or sooner
Net zero emissions target for company's assets under management	Yes - founding member of Net Zero Asset Managers initiative. As part of this, is commit to: work in partnership with asset owner clients on decarbonisation goals with ambition to reach net zero emissions by 2050 or sooner across all AUM set interim targets for proportion of assets to be managed in line with this goal, which are reviewed at least every five years
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes
Number of company votes taken part in	Voted on 68,992 resolutions Voted at 6,518 meeting Both in 12 months to 31 Dec 2020
Percentage of these votes against the board/ management	13% In 12 months to 31 Dec 2020

STATE STREET GLOBAL ADVISORS

State Street Global Advisors (SSGA) is an asset management giant with more than £2 trillion of assets under management, of which £289bn integrate ESG factors as part of their strategy.

SSGA has a 30-year heritage of ESG innovation and helping clients achieve their ESG objectives. It offers a broad range of sophisticated screening and integration strategies that help investors align their portfolios with their values and beliefs, while targeting the performance they need.

SSGA solutions are directly informed by the company's extensive ESG research program, while its global investment platform provides investment opportunities across a range of asset classes and the risk spectrum.

Its ACS Multi-Factor Global ESG Index Equity Fund is a passive equity-only index tracker that combines portfolio exclusions with tilts towards improvement in ESG score and a 50 per cent reduction in carbon intensity.

This a core component within its Timewise Target Retirement funds.

Total global assets under management 30.9.20	£2.4trillion
Total AUM in funds that filter/screen out stocks/sectors on the basis of ESG factors (£)	£289bn - includes exclusionary screen, ESG best-in-class and /or thematic ESG investments. Of this total £271bn applies negative or exclusionary screens
Total AUM in funds that tilt an index on the basis of ESG factors(£)	£125bn - this includes indices that apply exclusionary screening, ESG best-in-class, and/or thematic ESG investments
Total assets under management in funds that identify best in class stocks based on ESG factors(£)	£24bn
Standalone ESG default fund suitable for default DC strategy	Timewise Target Retirement Funds
Details of fund:	Range consists of 12 multi-asset vintages, with allocated based on members' expected retirement dates. Underlying funds are index funds Active asset allocation of active and passive underlying funds
Annualised performance to 30.9.20:	Timewise 2050 fund: 1 year: 2.02% 3 year: 5.29% 5 year: 9.05%
Third party ESG data sources used	Comprehensive ESG data: Sustainalytics, Vigeo EIRIS, ISS-ESG Climate-related data: S&P Trucost, FTSE Green, CDP, Climate Bonds Initiative Specialized ESG data (e.g., governance, gender, real estate): ISS-governance, Global Real Estate Sustainability Benchmark (GRESB), BoardEx, Sustainalytics Country Risk Ratings Business and product involvement: MSCI Business Involvement Screening Research (MSCI BISR), Sustainalytics Product Involvement, Sustainalytics Controversial Weapons Radar, Sustainalytics Global Standards Screening Proxy Voting and Engagement services and research: ISS, Glass Lewis
Number of expert analysts working exclusively on ESG	19 full time specialists
Net zero emissions target for the operations of your company	No - however interim targets for carbon neutrality starting in 2020. Aim to reduce carbon dioxide emissions by 27.5% by 2030 (2019 baselines)
Net zero emissions target for company's assets under management	No - but increasingly offering low carbon and climate-focused funds and strategies
Are you adopting Task Force on Climate-Related Financial Disclosures recommendations	Yes for some as requested by clients
Number of company votes taken part in	322,490
Percentage of these votes against the board/ management	13.6%
Number of board meetings took a stewardship role in	Conducted 508 comprehensive engagements with companies

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OPINION

MEET THE REAL INFLUENCERS: HOW SOCIAL MEDIA TOOLS CAN EMPOWER AND ENGAGE PENSION SAVERS

» **Emma Douglas** head of DC, Legal & General Investment Management

Giving scheme members a voice on the ESG issues that matter to them can keep them focused on their pensions

In a survey of 1,000 workplace savers, 68% told Legal & General Investment Management (LGIM) they would engage more with their pension if they knew it was invested in environmental initiatives.[1]

Large swathes of the pension industry hold up environmental, social and governance (ESG) integration as the 'silver bullet' for engaging members. But people behave differently with the virtual money in theoretical questions than with the real money in their pensions. Several people in our survey admitted that without further prompting, their new-found engagement with their pension was likely to fade over time.[2] Millennials, in particular, reported that they may lose interest if they did not feel there was a meaningful impact to support their pension provider's statements.

Knowing that good intentions, driven by ESG concerns, may not lead to concrete action in members' pensions, we teamed up with fintech Tumelo. Our aim was to test whether combining ESG with familiar technologies, inspired by social media, can help get scheme members' attention – and keep it.

Keeping your savings in tech

One way to engage members is to make them feel invested in the outcomes – and not just financially. In our survey, we asked participants how they would feel if their provider regularly informed them about the use of their investor rights to push for positive change. Some 45% confirmed that it would make them more interested in their pension savings.[3]

In particular, members wanted to know:

- How has their provider influenced things?
- What are the benefits of any changes brought about?

With these questions in mind and inspired by the convenient app-based technology which has democratised a range of products and services, we collaborated with Tumelo, an ESG reporting start-up, during 2020. We aimed to create a user-friendly way for members to find out about the ESG issues in their pension, but also to go one step further by giving them a shareholder voice on the issues they care about.

> Most of our logins came from people in the 25-34 age bracket, which is a breakthrough for bringing early savers into their pension journey. This may have been down to the ease and user-friendliness of the format

During a 12-week pilot, we offered 1,140 people across two schemes access to an online platform via their pension login.

Every time a member logs on to Tumelo's platform, their dashboard shows the funds they are invested in.

It also encourages members to learn about upcoming shareholder votes at annual general meetings (AGMs) for companies their pensions are invested in, and submit vote preferences. After casting their own vote on an issue using a 'like' button, members are 'nudged' by an email or push notification to view the result of that vote at the meeting, see how other scheme members and their provider voted, and read a statement explaining the provider's decision. These action-led functions, borrowed from social media, keep the administrative burden on the user low.

Making savers' voices heard

The platform was widely used; 3,778 votes were cast overall: an average of 3.31 votes per person. By the time 3,295 votes had been cast, 41% of users had placed at least one vote on the platform.

The platform was particularly effective with groups where engagement has often been lowest: amongst people who are just starting on their pension savings journey and those with smaller pots, in temporary or part-time employment.

Most of our logins came from people in the 25-34 age bracket, which is a breakthrough for bringing early savers into their pension journey. This may have been down to the ease and user-friendliness of the format. As one member put it: "I really love this idea – it has simplified such a complex and foreign concept into an actionable, all-in-one platform".

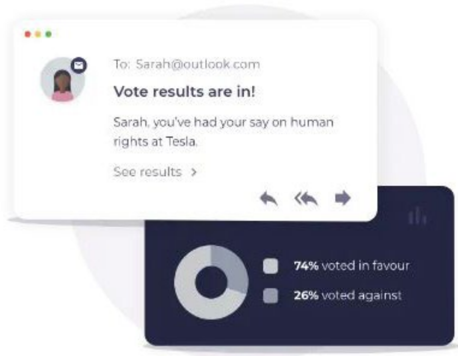
Members with smaller pots in more temporary or part-time employment often spent more time looking at the companies they were invested in, perhaps as they were unaware that their pension fund owned these shares in the first place. The dashboard showed the names and logos of some household brands, which we think helped make pensions feel that little bit more familiar to users. One user commented that they had "never had this level of detail before about something

[1] Source: LGIM. Quantitative research was conducted on 29 October 2019. [2] Respondents commented that after checking their account to answer their immediate questions, their pension quickly fell back down their list of priorities. [3] Source: LGIM. Quantitative research was conducted on 29 October 2019. [4] Source: LGIM and Tumelo data, as at August 2020. *Examples shown for illustrative purposes only.

(they're) invested in". Using the platform was evidently the first time some savers' attention had been captured by pension information.

Familiarity was also important for members who were already engaged to some extent with their pensions. People tended to show the most interest in brands that were part of their everyday lives, so votes on the consumer goods and consumer services, tech and telecoms sectors were very popular, with the most-answered questions involving companies such as Tesla, Netflix and Kroger, regardless of the theme of the vote.*

The information available about voting decisions on the platform made users feel empowered and allowed them to understand the impact their pension was having. In the words of one user, it "doesn't matter how tiny of an investor you are, you can still have your voice heard… (and) pass it on to someone with higher power who is capable of instigating change". Seeing the provider's voting rationale was reassuring in cases where the provider's decision differed from their own.



Crucially, this was a concept with staying power. Over the trial period, nearly one-third (31.9%) of users returned to the platform every month. "That email got me really excited," commented one person. "I logged in straightaway, which isn't something I usually do. I normally leave these sorts of administrative emails in my inbox".

Democratising pensions with ESG

Since 2012, millions of savers – or 'generation auto-enrolment' – have been placed into workplace pensions by their employer, many for the first time.

But meeting savers' expectations of retirement will require stronger engagement, earlier on in the accumulation journey.

We believe that tools augmented by social media to address relevant issues can help switch a new generation of members on to pensions.

Technology can be both a 'gateway' for those who are less familiar with their pension savings and an engagement tool for those who are already confident with their money.

In future, we will look to enhance our tech's educational capabilities in an interactive way, as well as think about other ways to broaden members' understanding of and sense of ownership over their money.

Connecting the dots – between what is happening in the wider world and at home, between pensions and ESG issues, between the saver's future and the world's future – is a powerful way to ensure a new generation is plugged in to their money. ■

THE THEMES TOPPING SCHEME MEMBERS' AGENDAS

High-profile companies and themes dominated member activity on Tumelo during the pilot period.

Issues straight from the headlines, such as 'Should Mike Ashley be re-elected as CEO of Sports Direct?'*, proved popular, with 125 votes and 80% of members voting against the proposal.

Heavily reported-upon themes attracted a lot of attention too, with the number-one topic being the environment. Popular votes included 'Should Dollar Tree report on how climate change will influence its strategy?'* (88% voted in favour), and 'Should Delta report on how their lobbying activities impact climate change?'* (109 votes, 94% voted in favour). Human- rights votes also piqued members' interest, as the second-most popular theme. The most popular vote overall was 'Should Tesla report more on how they protect human rights?'* Out of 169 votes, 93% were in favour.

In the wake of reports about the inequality the coronavirus pandemic has exposed, there was a flurry of interest in executive pay. More than 100 users voted on motions about each of Keurig Dr Pepper, Netflix and Tesla's policies.*

Certain issues may have been seen as affecting some sectors and companies, but not others. For example, sexual harassment was perceived to be a big issue for Delta, where 93 voters out of 100 agreed it was, but less so for Walmart, with only 21 votes overall.*

Other topics gained smaller numbers of votes but with striking amounts of unanimity. For example, 95% of 58 voters were in favour of P&G reporting on workplace diversity, and 100% of 56 people supported them reporting on their deforestation policies.*

Q&A

ESG – MEANINGFUL OR JUST WELL-MEANING?

» **Emma Douglas,** head of DC, Legal & General Investment Management

Pension schemes have a key role to play in helping tackle climate change. Some approaches to decarbonisation are more effective than others.

What does meaningful climate action look like in the DC pensions industry?

There are two ways pension providers can help bring about meaningful change in tackling the climate emergency – asset allocation and active asset ownership.

Decisions around asset allocation need to incorporate climate considerations, which means participating in financing the transition to a low carbon economy and encouraging investments in clean energy.

Active asset ownership means using the investments we manage on behalf of our members to influence the companies that we're investing in. Whether investors hold companies to account or not has a crucial impact on how these companies are run and the likelihood of them achieving decarbonisation targets aligned with the Paris Agreement to limit climate change to well below 2 degrees.

I love the enthusiasm with which parts of the pensions industry are embracing climate change and environmental, social and governance (ESG) factors. Yet in some cases it feels like a box-ticking exercise, with pension funds and providers choosing an ESG label without really looking under the bonnet and ensuring the fund managers being used are engaging effectively with investee companies on behalf of their members.

How are you reflecting these views in your investments, including in your default funds?

Active ownership is key. Legal & General Investment Management (LGIM) works with companies, policy makers and other investors to create sustainable value over a long term horizon through engagement and voting. And part of this engagement specifically targets climate change and Paris alignment.

We have implemented a minimum standards exclusion policy across all of the equity holdings in our auto enrolment DC defaults. This filters out pure coal miners, manufacturers and producers of controversial weapons, and perennial violators of the UN Global Compact.

Furthermore, Legal & General Group has committed to net zero carbon by 2050, and is starting to decarbonise the assets on its balance sheet. And we already incorporate ESG considerations in a number of other ways. As well as the climate impact pledge that we run across the whole of our default range, the Future World Multi-Asset Fund incorporates ESG tilts across equities and corporate bonds, and will be tilting across more asset classes going forward.

How are you engaging with members on ESG issues and giving them a voice?

The reality is that before we even talk about ESG to our 4 million members we need to explain the basics of pensions. Our survey of around a thousand workplace pension savers found 50 per cent of women and 48 per cent of men were not even aware their pensions were invested in companies. So that is the first engagement priority. But encouragingly, once they realise that their pension is invested in companies people can get very engaged, as long as you explain it in language that they understand.

To take stewardship and voting to the next level we have partnered with Tumelo, a fintech platform that shows members the holdings in their portfolios and allows them to feed in how they would vote on key initiatives. In a Tumelo pilot across two schemes over 3,500 votes were cast. Interestingly, scheme members were really interested in high profile companies – such as whether Mike Ashley should be re-elected as CEO of Sports Direct – but they were also engaged in ESG themes.

What can the pensions industry learn from other sectors' approach to ESG factors?

When you're talking about environmental or socially responsible approaches, people need reassurance that there are no drawbacks. They want to know that the essential features they value in a product, whatever that product is, are uncompromised or even enhanced.

If you buy an electric car, you want to make sure it is going to work. For pensions, you need to be reassured that you're not going to lose out in terms of investment returns.

The experience of other industries has also shown us the need to make the product relevant and come up with stories that connect to people's personal context or lived experience.

How will the pensions industry's response to climate change evolve over the near and longer term?

In the near future the focus will be on regulation, for example around Task-Force on Climate-related Financial Disclosures (TCFD) reporting. And I expect more focus on the detail of how we approach Paris alignment, and the points on the way on the long road to 2050.

I also expect more focus on the standardising of industry reporting, which will enable investors to see the percentage of a portfolio that is ESG-tilted or how much carbon reduction is being achieved.

Going forward we can expect a greater focus on extending ESG and climate integration beyond equities into other asset classes. We can also expect to see considerably more investments with a direct climate impact, such as renewables. ■

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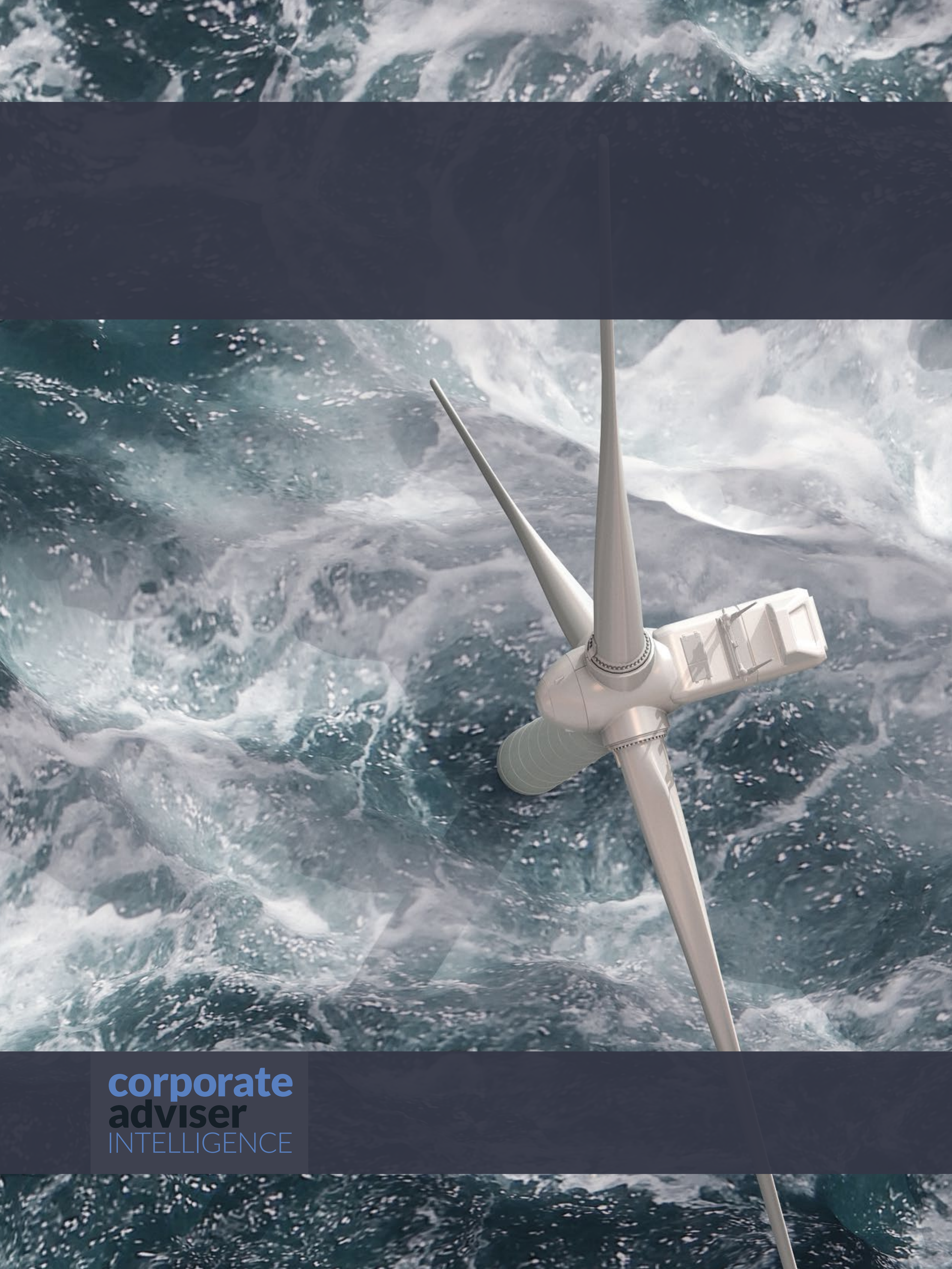

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