Investing responsibly for our customers

Maria Nazarova-Doyle explains why investors can't lose sight of the importance of responsible investing during the Covid-19 crisis

Right now, it can be difficult to think of anything that's as important or challenging as the Covid-19 pandemic, and Scottish Widows is working hard to deal with its impact and help our customers through this difficult period.

But we must also look beyond the virus, and it's in this context that we recognise that environmental, social and governance (ESG) factors such as climate change are some of the biggest issues facing society today. We're proud to be part of Lloyds Banking Group (LBG), who have really taken the initiative in supporting a greener economy, and we can make a real difference to tackling these challenges by helping to finance a greener and more prosperous future together.

We believe this will require new ways of living, working and investing for our business and our customers, and our experience during the Covid-19 lockdown suggests that different ways of doing things are feasible and would benefit the environment. In early June both Scottish Widows and LBG co-signed a letter to the Prime Minister from the UK Business Group Alliance for Net Zero, in which we and other business groups urged Mr Johnson to ensure we don't lose sight of climate change in our haste to help the economy recover, and we aim to build a more sustainable, inclusive and resilient UK economy for the future.

There is an urgent need to transition to a low-carbon future, grow the green economy and tackle inequalities for the future prosperity of the UK. As a group, we have recently set ourselves an ambitious goal to accelerate working with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 - the estimated equivalent of removing the emissions produced by almost a quarter of UK homes.[1] The Global Commission on the Economy & Climate has estimated that over the next 15 years, approximately $93 trillion will be needed for investment in low-carbon infrastructure across the world to meet global targets.[2]

While we don't have all the answers today, we are committed to making progress across the breadth of our operations. For example, through Lex Autolease, we have one of the UK's largest ultra-low emission vehicle fleet, with more than 21,000 ultra-low emission vehicles.[3] Also through our £2 billion Clean Growth Finance initiative, we offer discounted finance to Commercial Banking clients investing in a lower carbon future. Through this initiative, Lloyds Bank and Scottish Widows have provided collective funding of £273 million for the world's biggest offshore wind farm, Hornsea Project One.[4]

Our commitment to helping Britain prosper

Using the expertise we have across Lloyds Banking Group, we are actively engaged in unlocking further investment in support of the transition to a low-carbon economy – which we believe will lead to delivering stable, long-term sustainable returns for our customers. We currently lend more than £7 billion from our growing annuity fund to support housing, higher education, sustainable energy and infrastructure projects.[5]

Scottish Widows' responsible investment approach

Scottish Widows is a signatory to the UN Principles for Responsible Investment and the Institutional Investors Group on Climate Change (IIGCC). Our work with IIGCC encourages public policy solutions to ensure an orderly transition towards a low-carbon economy, and also helps encourage and inform investment practices aimed at preserving and enhancing long-term investment value.

As a leading pension provider in the UK, Scottish Widows is looking after the retirement savings of millions of hard-working people. Given the nature of the products we offer, our goal is to help our customers secure their financial future and so it is imperative we understand the financial implications of ESG issues. Where we believe these factors pose downside risk to investments or offer potential upside opportunities, we will incorporate them into our investment decision making.

To refine our approach, we recently launched our Responsible Investment and Stewardship framework, outlining plans to enhance our sustainability practices and influence positive change across the industry.

The framework provides greater transparency on how we will develop our investment fund range, helping address material financial risks and opportunities linked to ESG issues. It also helps shape decisions on asset allocation, manager selection, fund research and engagement activity.

Developed by Scottish Widows' Responsible Investment team, the focus of the framework is to integrate responsible investment activity across the fund range and ensure it meets customers' evolving needs.

Made up of Six Principles of Responsible Investment, the framework includes implementing exclusions across funds managed and mandated by Scottish Widows, such as the funds we use in our default workplace pension investment options; reducing the carbon intensity of their equity exposure; and developing a broader range of funds that enables customers to support causes close to their hearts.

With the aim of extending these principles to all asset classes over time, the team is working with policymakers and the industry to promote direct investment opportunities required to successfully transition to a lower carbon economy.

Better stewardship leads to better long-term investment outcomes

We believe that effective stewardship drives better long-term investment returns for our customers. So our new framework also outlines our stewardship approach to influence positive change among companies we invest in. Most of our customers will invest with us for decades and material risks that are on the horizon will impact their savings if we do not take action now. So we will be active in our stewardship approach and will focus activity on those companies which are failing to address climate change risks. We will challenge them to report on the financial impact of climate change on their business, to improve their business practices and reduce their carbon footprint.

While we delegate voting activities to our investment managers, we will work together with them to understand their voting practices and will monitor their voting activities to ensure their approach to systemic issues like climate change and other major risks allows for the value of investments to be preserved and, where possible, enhanced. Should material concerns arise, we will take action and vote our shares directly.

When implementing our exclusions policy, we recognise that removing all bad performers on material ESG factors would mean we lose the opportunity to drive positive change. So we will restrict exclusions to the most controversial companies where we believe engagement will not yield results, while striving to influence investee companies to engender positive change. Where we have a material holding we will always seek to engage first before divesting. Where we do not see material progress we will use our shareholder rights to challenge the company and will divest where it is clear that progress will not be made.

When selecting investment managers, we will pay particular attention to their ESG and stewardship credentials and will hold them to account, insisting that they demonstrate that they are doing what they have committed to.

It is also important to us that we practice what we preach. Therefore we are looking at ways of improving our own sustainability practices for the benefit of our customers and shareholders and to continue to build a future worth living in.

To learn more about the Scottish Widows approach to responsible investing, visit www.scottishwidows.co.uk/responsibleinvestment

Written by Scottish Widows head of pension investments, Maria Nazarova-Doyle

Sources

1. Ministry of Housing, 2017.
2. Global Commission on the Economy & Climate, 2014.
3. Lex Autolease, Feb 2020.
4. Lloyds Banking Group, Feb 2020.
5. Lloyds Banking Group, Feb 2020.