

The sustainability spectrum

✓ 2020 has certainly been a difficult and challenging year. However, against this gloomy backdrop, we've witnessed some unexpected glimmers of hope. Community spirit has flourished and a global reduction in carbon emissions and human mobility has increased air quality. With governments across the globe wanting more action on climate change, how can we in the pensions industry use our assets to help improve sustainability and play our part towards the net zero goal?

Trustees need to understand where they sit on the sustainability spectrum, challenge the views of their trustee boards, fund managers and advisers, and work alongside the corporate sponsor to drive the sustainability conversation

2020 was a year of firsts for many of us. First to experience a global pandemic, first to work from home for the whole week, first to experience home schooling of children, first to watch yourself on video every day, and I am sure you can think of many more! However, there were several positives to come out of the pandemic, carbon emissions reduced, nature seemed to come alive and community spirit rose significantly.

Reflecting over the past year has really shown us that we need to think more about sustainability. Not only our lives and the world amid a pandemic, but also sustainability of our industry and the investments we make now to deliver for ours and our member's future.

In 2020, we have seen regulation implemented with trustees needing to report on their progress of sustainability, providing clarity within their Statement of Investment Principles (SIPs) and the new implementation statements/investment reports. But how do we shift from purely compliance, to helping trustees decide how to implement sustainability within the investments on behalf of their members

within both defined benefit (DB) and defined contribution (DC) schemes, particularly for the smaller schemes who may not have the governance bandwidth of some of the larger schemes?

Know where you sit on the sustainability spectrum

As a pension trustee board, it is important to agree on where you sit on the sustainability spectrum. This is a process where, as a trustee, you first need to know your own beliefs, then the beliefs of others on your board and then

align that to your corporate sponsor belief.

To do that, you need to consider the knowledge and expertise you have available to support you alongside what your ESG position is, is it complying or preferring to take a more active stance? An example of this spectrum is set in the figure below.

Your position on the spectrum is not just about selecting particular investment funds or solutions, but also considering the impact of third parties on sustainability, for example how your advisers, lawyers and administrators act.



Interestingly having a greater knowledge of sustainability may not necessarily move the dial on the solutions you would choose for your schemes, but this knowledge will help inform what the right solution should be for the different membership groups. For example, knowing the membership of your DC scheme, you may feel it is right to offer members an impact-based fund within the self-select offering but may not believe it is right to include it within the default strategy.

Once each trustee has placed themselves on the sustainability spectrum, the trustee board should review this and challenge each other, discussing and concluding the position on the spectrum as a board. We have seen varied and wide differences of opinion, so getting to an agreed approach is important before considering how these concepts will be implemented within a pension scheme.

Recording the outcome of the discussions and including them within your regulatory statements, will allow you to monitor your progress and continue to reflect on the position of the trustee board. This certainly won't be a 'set and done' piece of work, as more information is released, reporting improves and data is presented, the views and opinions of the trustee board will change. The position on the spectrum therefore needs at least an annual review or refresh.

Gaining more knowledge

2020 has certainly been the year for ESG (environmental, social and governance) news, which encompasses sustainability and investing for our future. Everyday my LinkedIn news feed has something around this topic. This, hand in hand, with news from governments across the globe around their stance and regulation for the future sustainability of their countries means it can be very difficult to split the fact from the opinion and decide which news flow is the one to focus on.

So where should you look to find the information you need?

I recommend you rely on experts and advisers to give you the information you need, with details on why they have the view they have and where they gained their knowledge and insight. Consultants, like Capita, can present to your trustee board to provide insights, the latest thinking and possible solutions.

A great source of information is the sustainability report of the corporate entity that is responsible for your scheme. Many, if not all, will have set out their own beliefs and actions they are looking to take to ensure they are a sustainable business. By understanding these views and aligning the pension scheme with them is a great place to start.

There are also several industry media organisations that help to filter the information, *Pensions Age* being a great example of this. So sign up to daily news feeds to get your daily sustainability fix!

Challenge the fund managers

When it comes to thinking about how the investments are being managed and implemented with sustainability in mind, speaking directly to your fund managers is vital, and we recommend you work with your investment consultants alongside meeting the fund manager(s) on a reasonably regular basis to understand what they are doing. It is also a good opportunity to hear about other solutions that may be applicable to the scheme and its members.

We have a series of 10 questions that are a reasonable starting point for understanding the views and actions of the fund managers, which include areas such as:

- the firm wide philosophy on responsible investment/ESG;
- integrating ESG factors into your investment process; and
- reporting on the role of ESG factors in your investment decision making process.

The future of sustainability

The need for evidencing and monitoring how your scheme invests sustainably is only going to increase. We have seen an increase in regulation recently, but as governments push companies to do more, the same will be true for pension schemes. Getting ahead of this by requesting and analysing the data will put you in a good position when it comes to reporting on the activities and changes that have been made, with that necessary focus on sustainability.

The data currently available is certainly not perfect or complete, but we need to start somewhere. By considering the trends of data and reviewing investment performance regularly, we will gain a clearer view of how the pension scheme strategy can be aligned to a sustainable future.

We all have our role to play in the sustainability of our industry, to ensure our members have the financial sustainability they desire and understand what part they can play. It is important to stay ahead of the game and assume that members will want to understand where sustainability sits within their pension savings, both DB and DC. Being prepared will certainly help and clear, interesting communications could mean a more engaged membership in the future.

It is important we keep our members informed of the trustees' views and beliefs and provide them with the positive steps the schemes are taking to secure their future benefits.

Sustainability and how it fits within pension schemes is a particular passion of mine, if you would like to read more, please follow me on LinkedIn.



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