



Driving the transition

► Amid the UK Sustainable Investment and Financial Association's (UKSIF) 30-year anniversary, chief executive, James Alexander, chats to Sophie Smith about the work that the group has achieved so far and what lies ahead in the future

► **What work has UKSIF been doing in the pensions space over the past year?**

We've got a lot of members that are pension funds, and we are really proud to have that membership across the asset owner space, as well as the asset management space. We have actually done some quite exciting work on pensions.

We went to the House of Lords for what is now the Pension Schemes Act, pushing for the inclusion of the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations and for greater consideration of the Paris Agreement goals when ensuring effective climate change governance. We're really pleased and excited that those amendments were accepted and that the Pension Schemes Act now does make reference to TCFD and makes reference to sustainability. We actually think that pensions are moving in a really exciting and positive directions.

We have seen a lot of our members now starting to commit to net zero, which is hugely exciting, and our job at UKSIF is to learn from our members and to support each other, to try and figure out how to progress on that journey to net zero as quickly and effectively as possible and to drive towards that sustainable future. We were also really pleased the Pensions Minister took

our proposal for a central registry of statement of investment principles (SIPs) in December last year, which will basically ensure that all of us can have better scrutiny of pension schemes ESG policies. That's one of the biggest policies wins for us on the pension side of things.

► **Issues around SIPs were also mentioned in The Pensions Regulator's (TPR) climate strategy, as well as a broader focus on climate change and sustainability in its corporate strategy. What are your thoughts on this and what it could mean for the future regulatory landscape?**

We were really pleased to see that SIPs were referenced in that new strategy. TPR also did a wider corporate strategy, and in our response we said that it needed far more reference to climate change throughout this strategy, and to their credit they took that on board and they have now added climate change considerations across the wider corporate strategy, which is really important. Climate change can't be a separate strategy, it has to be embedded into every decision, and we're pleased the government is pushing that point as well.

In terms of SIPs, we think that this is a really positive start to having a register of SIPs. Where we want to get to eventually is that those SIPs are decision-useful, where they are easily accessible and a format that people can understand.

We are getting part way there, there's still a bit more work to be done in the longer term, but it's great that that's being taken seriously and we're moving forward.

I think there are going to be some bigger challenges and in our policy vision we talk about the skills needed at the trustee board level, and how we think there should be specific skills on the trustee boards about ESG and sustainability and climate change so that those considerations are able to be effectively embedded into investment decisions.

The pension scheme absolutely has to be investing in long-term value adding assets that are an investment opportunity, that are basically not destroying themselves or destroying the world, because that doesn't create long-term value creation either.

I think there are pension funds that have huge opportunity because they are investing for the long term because they've got savers that are active participants in the real world, and research shows that people want to see their investments aligned with their values. Pensions are a really key place to be making sustainable investments, and we're so glad that TPR recognises that and that many of our members that are big pension funds working hard on this recognise this as well.

► **With concerns around trustees'**

knowledge and understanding of sustainability issues, and UKSIF's previous research suggesting that pension schemes were taking a 'thin and non-committal' approach towards disclosures, is now the right time for further regulation to be added, or does this risk creating more burden than change?

It's so necessary for regulation to be effective. Of course, there are areas where regulation is needed. Driving sustainability requires a degree of regulation. I think the challenge has got to be to look at every piece of regulation and make sure that it's not duplicating something that's already there.

The challenge we've got to balance is we have got a very short amount of time to do an enormous amount of work, particularly when it comes to environmental issues around net zero. Halving our carbon emissions by 2030 is a monumental undertaking that makes tackling Covid-19 look straightforward, and we've all seen the challenges associated with that.

The amount of work that needs to be done is huge and we need every single participant to do their part. That means going the extra mile to build the skills and build up the expertise necessary to make effective decisions. From time-to-time that will require regulations, and our members support regulation when it is about driving us forward towards our mission, towards a sustainable future.

When you add in all the work we need to do on social issues as well though, there are so many things that now need to be considered. I think one of the key aspects is making sure we've

got the right data, and that the data industry is able to provide us with the data that's necessary to make good and strong decisions.

➤ Considering the impact of the pandemic, do you expect to see this additional focus on social issues to grow further?

Absolutely, our members are increasingly concerned about social issues, some of which are on the borderline of what is an environmental issue and what is a social issue, so the just transition is a really interesting example.

There's also a real view that building back better is the right approach. I think how we do it requires a lot of strategy and thinking across the country, but there is a keenness and willingness to be part of that building back better from Covid and to create a stronger society. Diversity and inclusion is another massive issue that our members are interested in from an investment perspective.

➤ How do you think these issues can feed into stewardship, and what role can this play in a transition to a more sustainable future?

Stewardship plays an absolutely vital role in this transition. If we want to have the sort of impact we want, stewardship and engagement have to form a vital part of that. The problem is that I think because it's quite hard to be very open about your stewardship negotiations and it's sometimes hard to show quick results from that.

There's a lack of trust in the industry actually being effective stewards and driving the company as investors towards

the future that people want. So, we need to start building that confidence when really effective stewardship is actually having a really positive impact and can be a really important tool for getting us to a sustainable future. I think there needs to be some cross industry thinking around how we can better collaborate on stewardship. The UK stewardship code is very positive and I know other countries around the world look to ours as an example of good practice but I still think that there's more to do around public confidence.

➤ Looking ahead, do you think regulation and policy should continue to place a focus on pension schemes, or are further changes still needed in other areas of the investment chain?

In reality, the whole investment chain has a role to play. Nobody in the investment chain can say 'this isn't my problem someone else has to deal with this', because everybody has to play a role in this.

Everyone has a role to play, including the investment consultants, the asset managers, the funds themselves, and the individuals. Individuals have a role to play in articulating what they want to see their pensions doing and making choices accordingly. Of course, not forgetting government and regulations. They can't just outsource sustainable future to the financial services industry; they've got to help knead and drive that transition too.

But everyone is working on this. We engage regularly with the whole industry and there's such willingness to act and to move and to play a key part in this. The thing we're helping people to do is make that engagement in the most effective way, and to collaborate.

This is not something where people need to think of the finer solutions on their own, this is an industry-wide challenge. That's why UKSIF's here, to create industry-wide solutions and share knowledge across the industry.

➤ Written by Sophie Smith

