Looking ahead

As the world of sustainable investing and ESG considerations continues to evolve, *Pensions Age* hears what may be in store for the future from industry bodies

Make My Money Matter
A new government and ongoing cost-of-living crisis make the future of sustainable investing uncertain. However, one thing is clear – government, business and financial institutions such as pension funds must act on the commitments made at COP26.

Among the most ambitious was the UN-backed Race to Zero initiative which saw $8.7 trillion in AUM committed to ending deforestation – of which pension funds such as Aviva and LGIM played a key role. In 2022, we know that there is still support and momentum on this, and we are seeing a continued ramp up of action in relation to deforestation, in terms of tackling deforestation-linked investments in portfolios and investment in nature-positive entities.

With both TCFD, TNFD, and the Race to Zero initiative incoming, it's clear that increasing regulatory changes will, alongside growing public pressure, force funds to act on nature. That's why, together with Global Canopy and 12 pension funds, we created a 6-step guide to help schemes do exactly this.

As COP27 approaches, it will be vital that pension funds deliver on their current Net Zero commitments, with over £1.3 trillion of UK pension money now expected to make a 1.5 degree aligned transition. Make My Money Matter is writing to the 20 largest DC workplace pension providers asking them to provide evidence of their progress. We will continue this public scrutiny so that members can be sure their funds are not reneging.

A big question mark over how our new government will pursue sustainability hangs over our the pension sector. What we would say is this: Schemes have a responsibility to their members to return a profit, as well as to build a world we'd all want to retire into.

Delays to green initiatives and regulation should not be used as an excuse to return to the bad old days of wanton investment. We will see who keeps their promises on climate risk.

Campaign manager, Kenneth Green

Principles for Responsible Investment (PRI)
Asset owners, including pension funds, need to be prepared to play an active role in ensuring they can evaluate the sustainability performance of the companies they invest in and the investment managers they work with. PRI signatories have made it clear in recent years that they want more tools to identify what are truly responsible business practices and what should be considered as greenwashing. Success in this area has also brought ESG practices into the mainstream conversation, and with that, sustainable investing's detractors have become more vocal. Though it is a loud minority, it cannot be ignored.

To address these trends head-on, PRI recommends two key areas of focus for pension funds. First, asset owners should actively seek to engage for better data. ESG is not an end in itself – rather, it is a means to an end. It affords a framework to deliver better understanding of investment considerations, which are unlikely to be captured on a balance sheet. Thus, ESG requires inputs – quantifiable and transparent data across the spectrum of responsible investment issues. This data affords investors the ability to understand the long-term feasibility of their portfolio better, and in turn empowers them to deliver the best outcomes for scheme beneficiaries.

Secondly investors should consider deliberate engagement with policymakers; and continued efforts to push regulators to clarify rules and standards. These efforts can help mainstream responsible investment practices, which largely already allow (and sometimes require) trustees to consider sustainability outcomes.

Engagement with policymakers has already proven to be successful. In the United States, new rules around what must go into climate disclosures has created the groundwork for consistent comparable information about companies' impact on the environment. In the UK, reforms to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations in 2021 are another great example.

But, like ESG, these measures are not ends in themselves. Policy changes like these have been rooted in meeting investor demand for increased information. Pension investors need to know where their money is going and what the implications of material ESG factors like climate change are on the value of their investments.

While the investing community has made progress on increased disclosures, there is still more work to be done. But, by continuing to put in the work to engage policymakers and regulators, investors can demonstrate the importance of sustainable investing to the broader public and help ensure its continued long-term growth.

CEO, David Atkin

ShareAction

In the UK, gender pay gap reporting has been mandatory for companies with over 250 employees since 2017. Despite evidence of vast discrepancies in pay that exist between ethnic minorities and White British workers, there is no equivalent legislation to monitor pay disparity for workers of different ethnicities.

Ethnicity pay gap (EPG) disclosures are a critical step for identifying and tackling inequality in the workplace. Yet, only a tiny fraction of FTSE 100 companies are reporting on this. ShareAction is campaigning to address this, in partnership with minority-led groups including the Runnymede Trust and reboot.

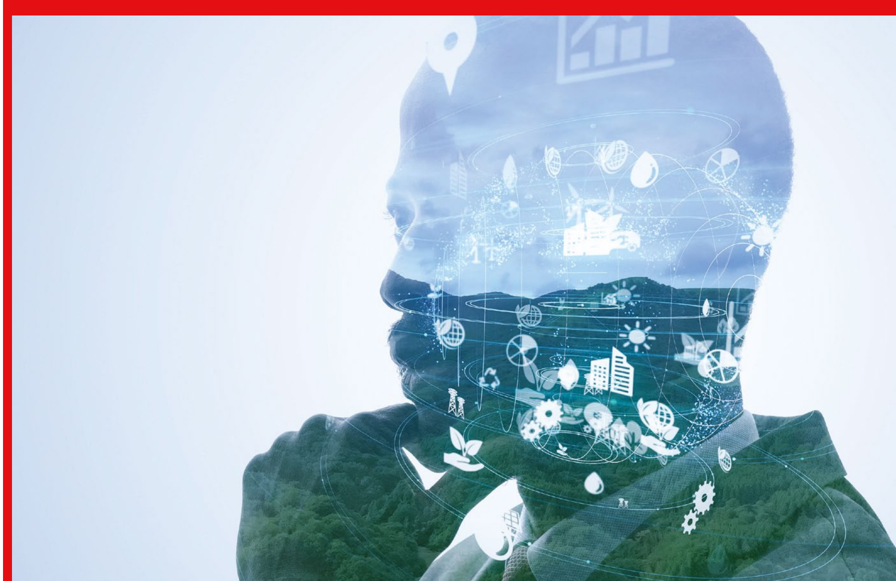
We will be working with a coalition of investors to ensure that companies have procedures in place for EPG reporting, and that these measure a sufficient level of complexity. Once these are in place, companies can analyse the disparities that exist. This creates opportunities to identify the possible causes, and, by extension, solutions to address them.

Whilst focused on companies in the financial sector this year, we're turning our attention in the next two years to low wage sectors. With many people struggling to make ends meet as the cost of living soars, it is more important than ever for investors to take responsibility for the impact of their investments on issues such as low pay and precarious work.

The majority of consumers now want to see their pensions invested responsibly. Pension funds are uniquely positioned to think about the long-term material benefits for their beneficiaries of tackling systemic risks like inequality, which business leaders like Unilever CEO, Alan Jope, have identified as a moral and economic priority.

EPG reporting has a vital role to play in this. Any pension fund that takes racial and social inequity seriously should write to their fund manager to ensure this is firmly on their agenda.

Senior campaigns officer, Kohinoor Choudhury



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