

How much leeway -
practically and legally -
do trustees have to
exclude asset classes or
pressure fund managers
to invest in specific ways,
e.g. ESG?



Introduction

What do we mean by ESG?

Environmental

Includes:

- Climate change
- Resource depletion
- Waste management
- Pollution control

Social

Includes:

- Human rights
- Labour standards
- Community impact
- Employee relations

Governance

Includes:

- Board diversity
- Executive compensation
- Shareholder rights
- Risk management and compliance

Fiduciary Duties and the Purpose of a Pension Trust

Purpose

The ***purpose*** of a pension fund is to pay benefits as they fall due.

Fiduciary duties

Trustees are required to act
in the best interests of
members



What is meant by
"best interests"?

Are fiduciary duties evolving?

Legal Considerations – decision making

Financial Factors

2 main definitions:

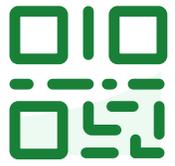
Investment Regulations: *“includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change), which the trustees of the trust scheme consider financially material”*

Law Commission: *“any factors which are relevant to pension fund trustees’ primary investment duty of balancing returns against risks.”*

Non-Financial Factors

2 stage test:

1. Trustees must have good reason to think that all scheme members share the concern; and
2. The decision must not involve a significant risk of financial detriment to the fund



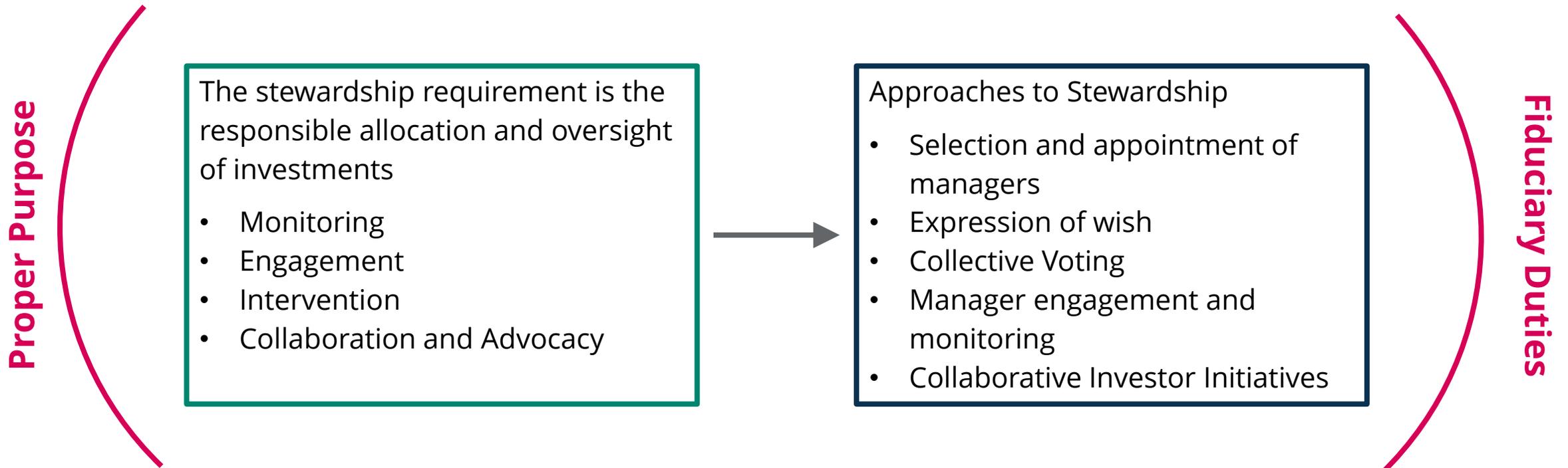
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**Does anyone work with a
DB scheme which considers
non-financial factors?**

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Legal Considerations – Stewardship



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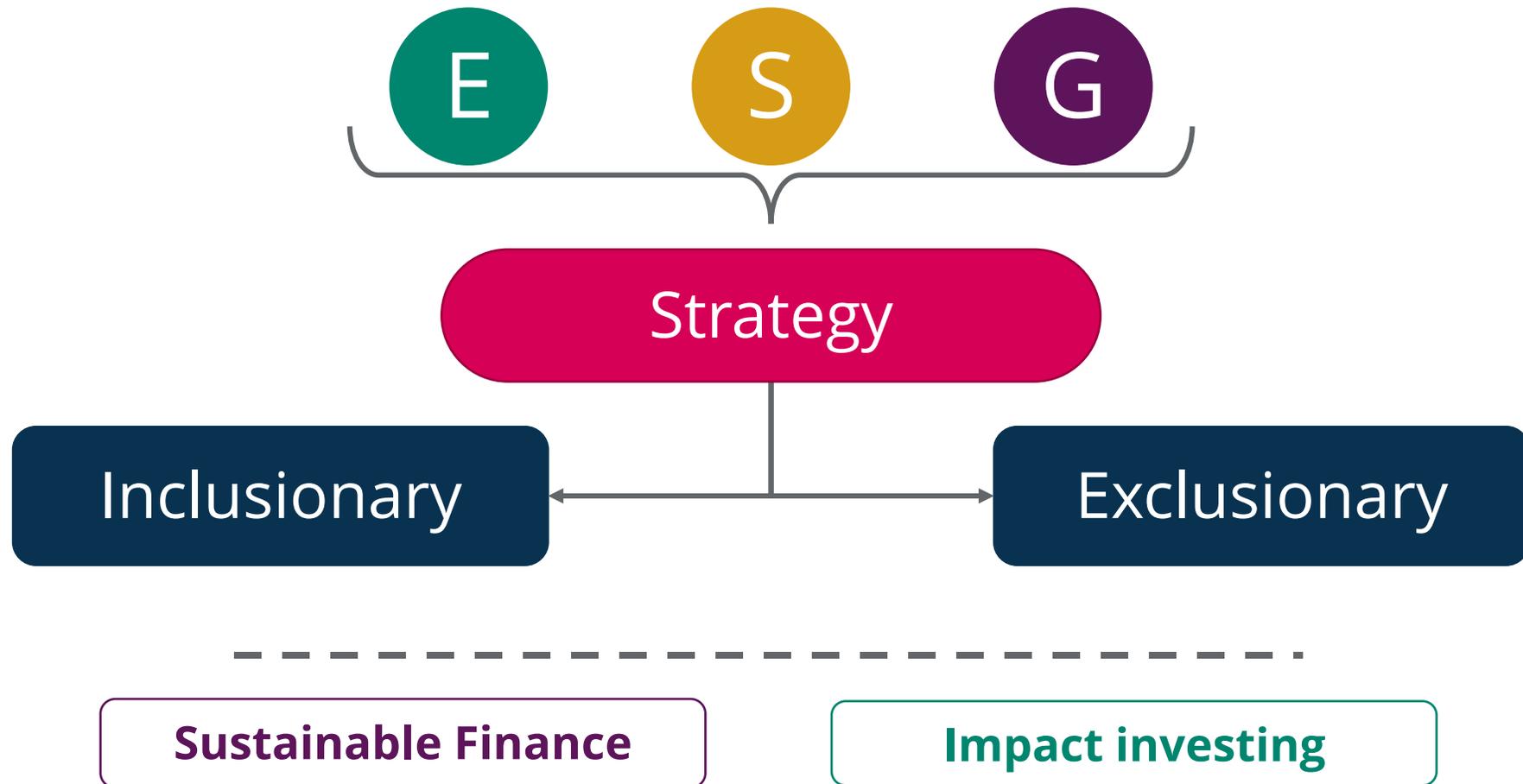
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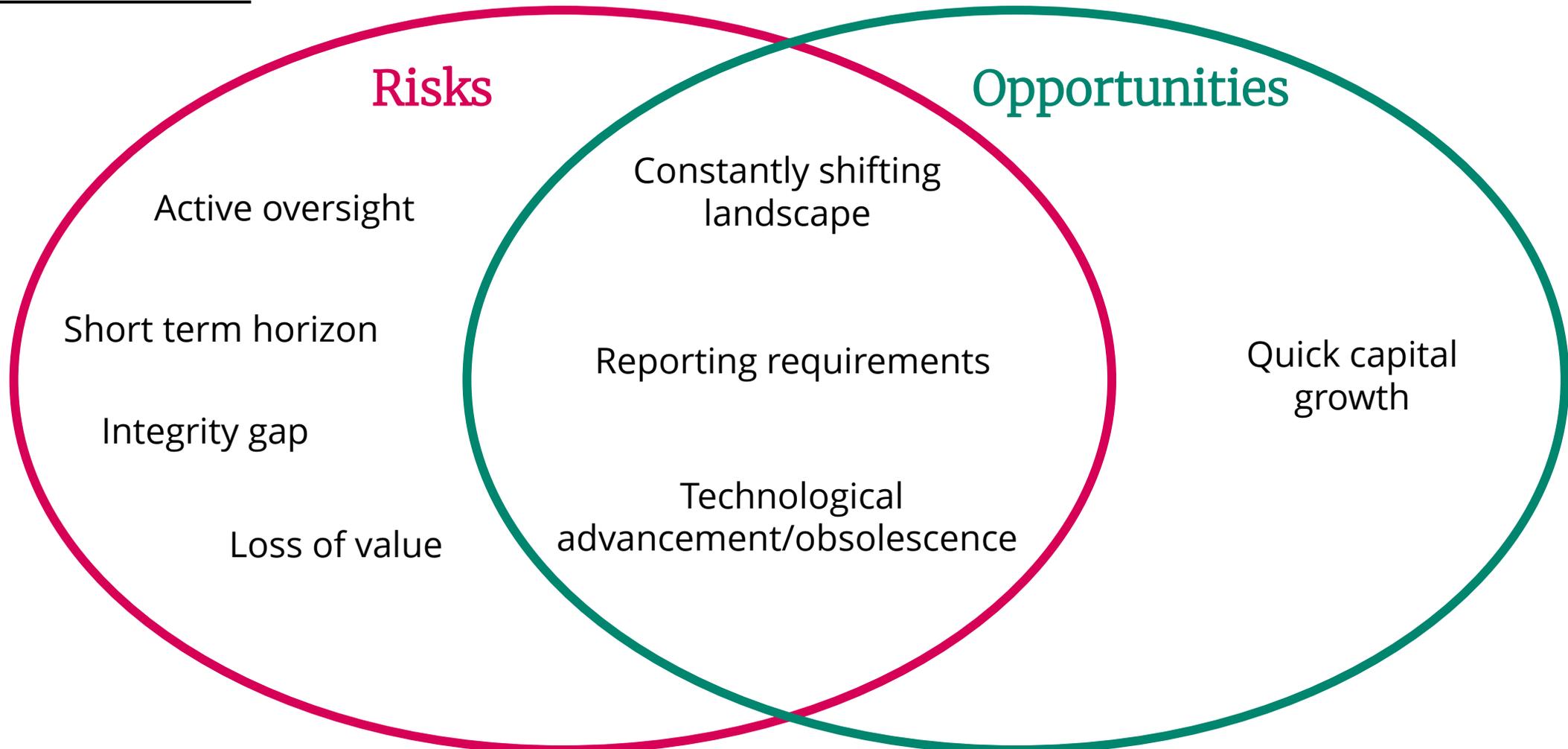
Which approach to stewardship do you use, or have seen used in schemes you've worked on?

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Picking the right ESG investment



Risks and Opportunities



Setting ESG strategies in practice

Establish core ESG considerations for the Scheme and key factors from a Scheme perspective

Time horizon

Covenant

Current investment strategy

Wider employer activity

Liquidity needs

Statement of Investment Principles

ESG Considerations in Practice



This area is constantly evolving and is something Trustees should monitor

Conclusion

- 1 Trustees have significant leeway provided that they can tie decisions to the proper purpose of the scheme and relevant financial factors
- 2 ESG is here to stay, and choosing not to act on ESG is still a business decision with significant implications
- 3 Aligning ESG considerations with your scheme's purpose will help to ensure long-term sustainability

Contact us



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