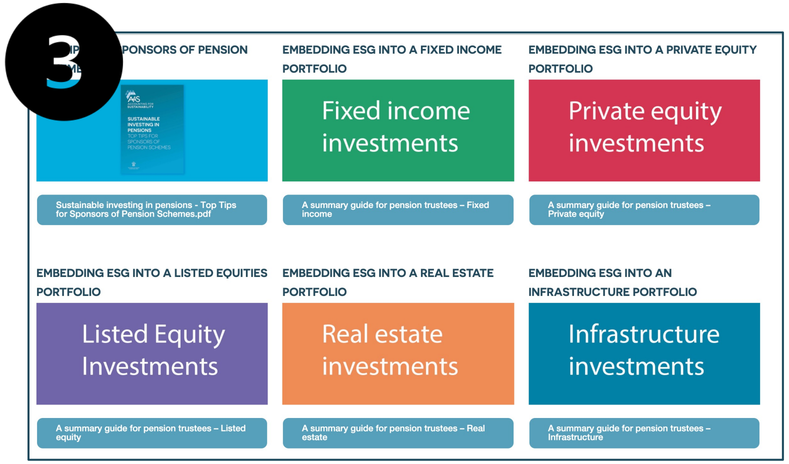
ESG TOOLKIT FOR PENSION CHAIRS AND TRUSTEES

BEYOND COMPLIANCE

WHAT IS THE ESG TOOLKIT FOR PENSION CHAIRS AND TRUSTEES?

A toolkit of resources consisting of:

1. An **ESG maturity map** with suggested steps that schemes can take to progress on their ESG integration journey.
2. **Practical examples** of pension schemes to bring ‘what good looks like’ to life.
3. **Guidance material** to highlight the practical steps eg embedding ESG factors into different asset class portfolios.



www.accountingforsustainability.org/pensions-toolkit

WHAT DOES THE TOOLKIT SEEK TO ACHIEVE?

- To support chairs and trustees of pension schemes identify the practical steps to embedding ESG considerations into their investment decisions, reporting, and engagement across the investment chain.
- To support trustees in their discussions with fellow trustees, consultants and fund managers, about actions they should take.
- To be transferable to different jurisdictions where appropriate.

"It is often hard to navigate through the plethora of information to pick out the key practical steps that pension scheme trustees should take to integrate ESG considerations into their investment strategy and processes. A4S's ESG Toolkit for Pension Chairs and Trusteeshas been specifically written for trustees in mind, to help them with this challenge and support our discussions with fellow trusteesand our members"

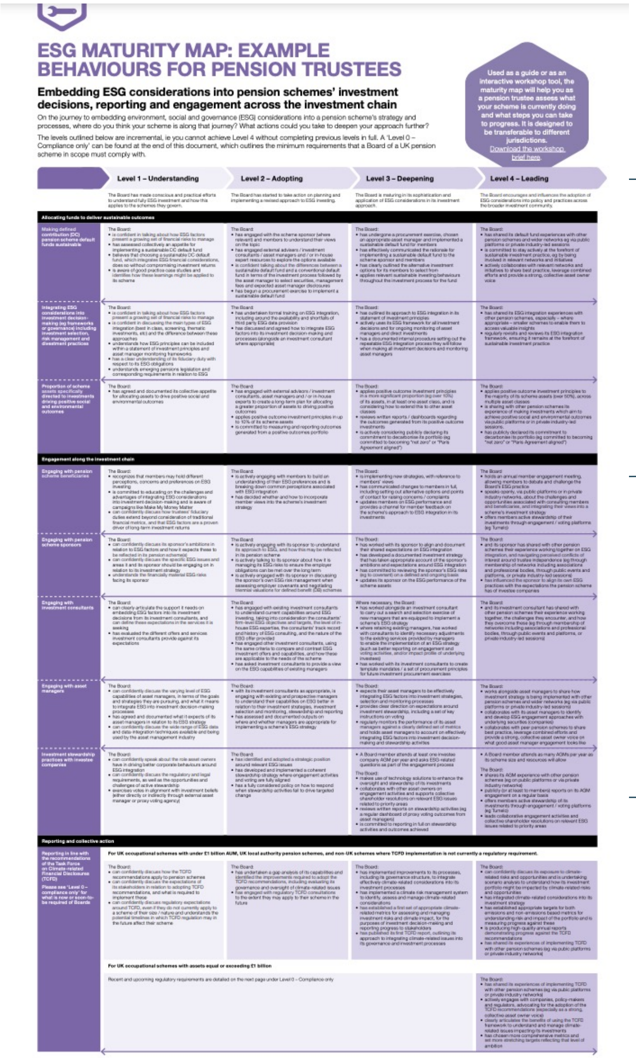
Russell Picot, Chair of the HSBC Bank (UK) Pension Scheme and Co-Chair of A4S's Asset Owners Network

"The events of 2020 have reminded everyone that we live in an uncertain world. The impacts of climate change on infrastructure, like floods and subsidence, create risks for investors. Portfolio managers need to quantify and plan for physical risk to achieve steady long-term returns, but, in the short-term, this work will also connect your pension funds with the public who increasingly demand action on the climate emergency. A4S's ESG Toolkit for Pension Chairs and Trusteeswill help you navigate through a changing landscape."

Emma Howard Boyd, Chair of the Environment Agency,and Co-Chair of A4S's Asset Owners Network

Access the ESG Maturity Map here

ESG MATURITY MAP (1/2)


ESG MATURITY MAP: EXAMPLE BEHAVIOURS FOR PENSION TRUSTEES

Embedding ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain

On the journey to embedding environment, social and governance (ESG) considerations into a pension scheme's strategy and processes, where do you think your scheme is along that journey? What actions could you take to deepen your approach further?

The levels outlined below are incremental, ie you cannot achieve Level 4 without completing previous levels in full. A 'Level 0 – Compliance only' can be found at the end of this document, which outlines the minimum requirements that a Board of a UK pension scheme in scope must comply with.

Level 1 – Understanding | Level 2 – Adopting | Level 3 – Deepening | Level 4 – Leading

This maturity map outlines 'what good looks like' embedding ESG considerations into trustees' investment decisions, reporting, and engagement across the investment chain. This is set out across four levels of maturity:

Level 1 – Understanding
Level 2 – Adopting
Level 3 – Deepening
Level 4 – Leading

Used as a guide or as an interactive workshop tool, the maturity map can help pension trustees assess what their scheme is currently doing and what steps they can take to progress.

For example, for investment stewardship activities with investee companies:

- At Level 1, a Board could confidently speak about the role of asset owners in driving better corporate behaviour around ESG integration.
- At Level 3, a Board member would be expected to attend at least one investee company AGM per year, asking ESG-related questions as part of the engagement process.

ESG MATURITY MAP (2/2)

Level 0 – compliance only.

This table sets out the minimum requirements that a UK pension scheme must currently comply with or needs to start processes in order to comply with near-term regulations as set out in the UK Pension Schemes Act 2021.

Requirement – The Board must:	Deadline	Type of scheme
Include ESG and stewardship policies in its Statement of Investment Principles (SIP) and publish this online.	By 1st October 2020 (if not earlier)	DB and DC / Hybrid
Publish 'implementation statements' explaining how it has implemented its SIP policies, including in ESG and stewardship, as well as provide further information on its asset manager and investment engagements.	First annual report from 1st October 2020 and no later than 1st October 2021	DC / Hybrid
Include a description of the voting behaviour by or on behalf of the trustees including the use of proxies within the published Implementation Statement.	By 1st October 2021	DC / Hybrid
Publish an Implementation Statement explaining how it has implemented its SIP policies, including policies around voting and stewardship.	First annual report from 1st October 2020 and no later than 1st October 2021	DB
Following the coming into force of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 on 1 October 2021, the Board in scope must:		
Disclose – within its governance policies – how it maintains oversight of climate-related risks and opportunities which are relevant to the scheme; as well as the role of any person who undertakes governance activities, or who advises or assists the Board with respect to governance (excluding legal advisers), in identifying, assessing and managing climate-related risks and opportunities – and the process by which the Board satisfies itself that the person is undertaking such identification, assessment and management.	From 1st October 2021, with the scheme's first annual TCFD report produced and published within seven months of the end of the scheme year underway on 1st October 2021 - **Occupational pension schemes with assets under management (AUM) of more than £5 billion, authorised master trusts and collective money purchase schemes.** From October 2022, on the same basis – **Occupational pension schemes with AUM of more than £1 billion.**	
Identify and then assess the impact of climate-related risks and opportunities which it considers will have an effect over the short term, medium term and long term on the scheme's investment strategy and, where relevant, the funding strategy.		
Undertake – as far as it is able – scenario analysis using at least two scenarios where there is an increase in the global average temperature, (one of which is with an average temperature rise of between 1.5°C and 2°C above pre-industrial levels); and then disclose the results.		
Disclose in a publicly available report, effective processes to identify, assess and manage climate-related risks, and ensure that this is integrated into the Board's overall risk management of the scheme.		
Select, use and disclose at least two emissions-based metrics and one additional climate-related metric to calculate in relation to the scheme's assets.		
Set a target for the scheme in relation to at least one of its chosen metrics and report annually on progress against the target.		
Have knowledge and understanding of the principles relating to the identification, assessment and management of risks and opportunities to its scheme arising from the effects of climate change; and implement trustee training where needed.		
Possible developments after the Pension Schemes Act 2021		
In the future, the Board may need to oversee the publication of the contribution of schemes' assets to climate change (the "implied temperature rise" of the scheme).		
In the future, the Board may also need to disclose what percentage of its pension scheme activities are "green", in line with a UK taxonomy.		

Following consultation with trustees and chairs, Level 0 has been added, outlining the minimum requirements that a UK pension scheme must currently, or needs to start processes in order to, comply with near-term regulations as set out in the UK Pension Schemes Act 2021.

A4S

Access the Workshop Guide here

A MATURITY MAP WORKSHOP

A4S has written an accompanying guide to help trustees ‘workshop’ the maturity map with their Board. Previous participants have said how this workshop process has helped drive consensus across the Board on where their priorities should be and what next steps they will focus on. Some schemes have also brought their fund managers and Exec team to the process.

Key features of the workshop guide:

- Suggests participants, a step-by-step activity format and tips for maximizing engagement in a virtual context.
- An outputs template to record consensus on level of maturity per area, challenges identified and agreed next steps.
- Resource links table to signpost you to peer-case studies and guidance material.
- A commitments table to commit to progress with milestones and definitions of success.

Appendix 3 – resource links to date (within the A4S ESG Toolkit for Pension Chairs and Trustees)

Action area	A4S - Case study examples	A4S - Guidance material	External resources
Sustainable default funds	NEST		IIGCC + PAII - Net Zero Investment Framework 1.5°C Implementation Guide
Proportion of scheme assets invested to drive ESG outcomes	Environment Agency Pension Fund		Impact Investing Institute and Pensions for Purpose - Impact Investing Principles for Pensions
Integrating ESG into investment decision-making (frameworks and governance)		Embedding ESG into different asset classes	CFA Asset Owner Summit SDG-ESG Infrastructure Investment Framework
Engaging with beneficiaries	Tesco Pension Fund	Top Tips for Sponsors of Pension Schemes	Cambridge Institute for Sustainability leadership - Walking the talk: Understanding consumer demand for sustainable investing
Engaging with sponsors		Top Tips for Sponsors of Pension Schemes	
Engaging with consultants			Investment Consultants Sustainability Working Group - Guide for assessing climate competency of Investment Consultants
Engaging with asset managers	BT Pension Scheme		PLSA – Engaging the Engagers – A practical toolkit for schemes to achieve effective stewardship through their managers PRI – Investment Manager Monitoring Guide
Stewardship	The Church of England Pensions Board		FRC – The UK Stewardship Code 2020 - Review of early reporting PLSA – Stewardship Guide and Voting Guidelines 2020 UNPRI – A Practical Guide to Active Ownership in Listed Equity
TCFD reporting	BBC Pension Scheme HSBC Bank (UK) Pension Scheme West Midlands Pension Fund	Top Tips for Finance Teams on implementing the TCFD recommendations	DWP - Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations

Appendix 4 – commitments table

A key output of the maturity map workshop will be to establish specific c
pension scheme. We recommend that your commitments are ambitious,
annual basis.

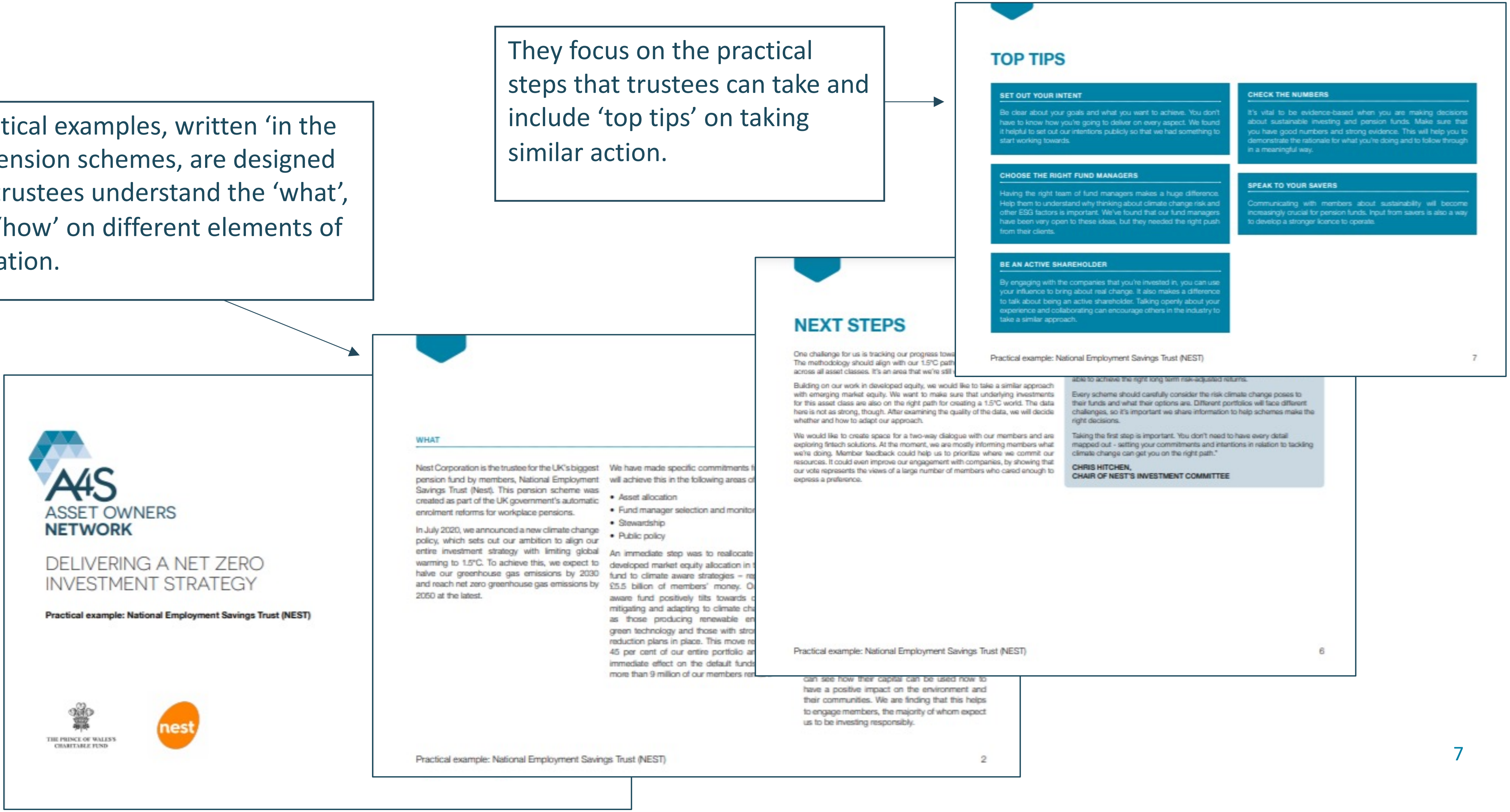
Commitment	Milestones	What will success look like?
What do you want to achieve this year? What priority area (left hand column of maturity map) does it relate to?	*How can we measure progress?*	*Provide details of what successful achievement of this commitment would look like? Eg moving from Level X on maturity map to Level X.*

Access the bank of practical examples here

PRACTICAL EXAMPLES

These practical examples, written ‘in the voice’ of pension schemes, are designed to enable trustees understand the ‘what’, ‘why’ and ‘how’ on different elements of ESG integration.

They focus on the practical steps that trustees can take and include ‘top tips’ on taking similar action.



CASE STUDY - TESCO

A4S
ASSET OWNERS
NETWORK

ALIGNING OUR MEMBER
EXPECTATIONS WITH OUR
INVESTMENT STRATEGIES

Practical example: Tesco Pension Fund

THE PRINCE OF WALES'S
CHARITABLE FUND

TESCO

A4S

CASE STUDY - BBC

A4S
ASSET OWNERS
NETWORK

OUR APPROACH TO
SCENARIO ANALYSIS

Practical example: BBC Pension Trust

THE PRINCE OF WALES'S
CHARITABLE FUND

BBC
PENSION
TRUST LTD

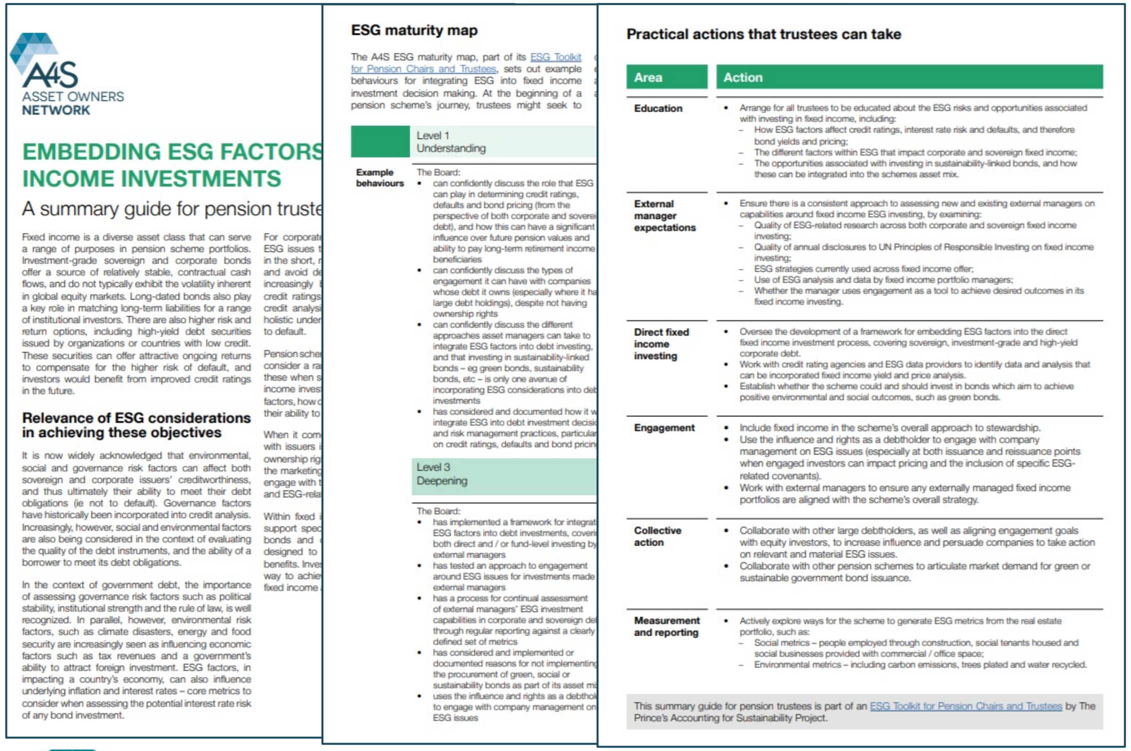
A4S

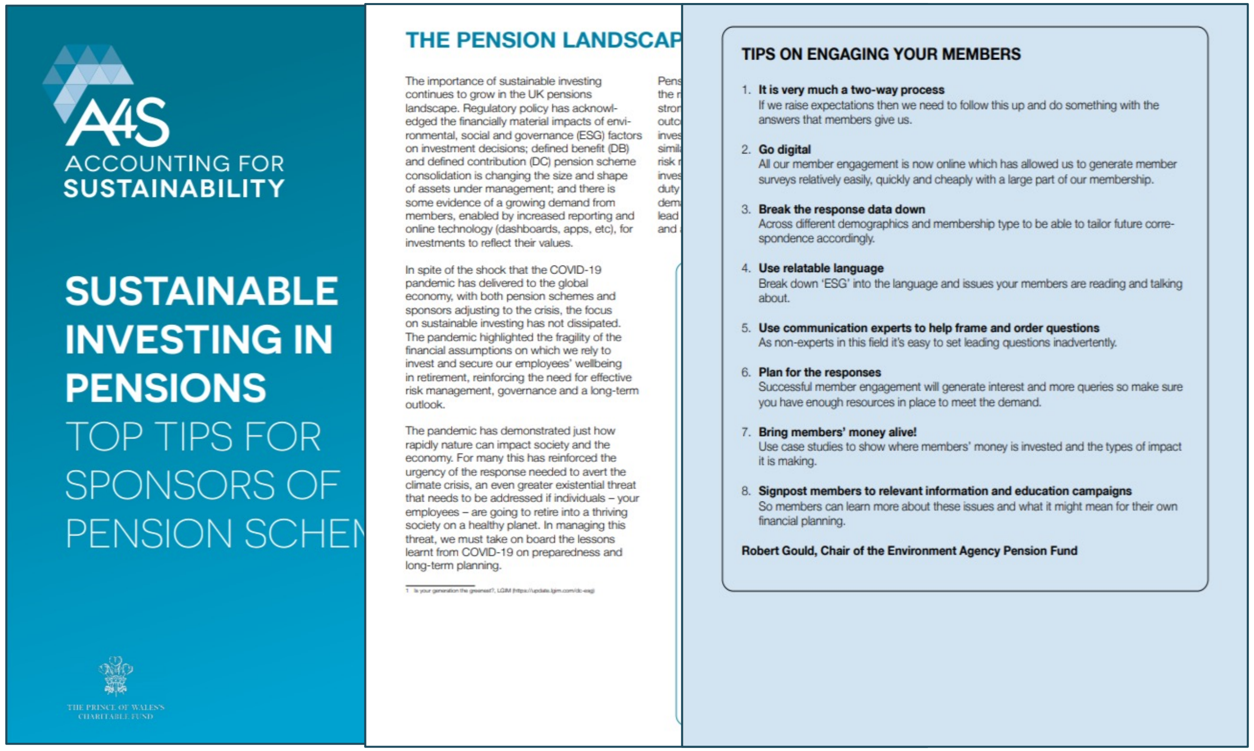
Access the guidance material here

GUIDANCE MATERIAL

We are building a bank of resources designed for chairs and trustees on different elements to integrating ESG into their investment decision-making and processes.

The different resources aim to help facilitate discussions in-house and across the scheme's investment chain, highlighting key actions and steps that can be taken.





RECENTLY LAUNCHED – NET ZERO GUIDANCE

- Aligning to a net zero pathway: guidance and practical examples for pension trustees
- Achieving net zero – practical guidance for finance teams

Tell us what resources and practical examples you would like to see – Kerry.Perkins@a4s.org

SUGGESTED NEAR-TERM ACTIONS

1. Read through the toolkit – including the maturity map and the net zero resources launched on Friday.

2. Encourage your trustee clients to schedule an ESG Maturity Map workshop session

3. Once priority areas have been agreed, encourage your trustee clients to engage peers, and read relevant case studies or guides. We can signpost you to relevant examples.

4. Suggest Chairs to join our Asset Owners Network – email Kerry.Perkins@a4s.org

ACCOUNTING FOR SUSTAINABILITY

@PrincesA4S

The Prince's Accounting for Sustainability Project (A4S)

Kerry.Perkins@a4s.org

www.accountingforsustainability.org/pensions-toolkit

A4S ASSET OWNERS NETWORK

The A4S Asset Owners Network is a grouping of pension fund chairs and trustees to discuss integrating sustainability into investment decision making. Click here to find out more.