

XPS ESG beliefs survey results

Defined benefit trustees
want to do much more

July 2021

Overview

XPS has collated the views of over 200 pension scheme trustees and professionals across over 80 defined benefit pension schemes on the extent and means by which ESG and sustainability should feature in their pension schemes' investment strategies.

In this short note we summarise the key findings of this survey.

Key findings:

94%

The vast majority of trustees feel it is important to consider ESG risks as part of investment decision making.

90%

90% of trustees are in favour of addressing climate change risk within their investment strategy.

90%

This extends to creating positive impact for society as long as it is not at the cost of financial performance, with 90% supportive of this.

40%

However, there is room for significant progress as only a 40% of trustees thought their scheme's policy reflected their preferred approach.

46%

There was no consensus that member views on ESG should be reflected in the investment strategy. Less than half agreed they should.

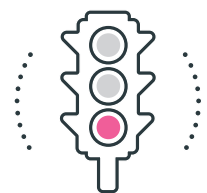
84%

However it was considered important to communicate the responsible investment approach to the membership, with 84% agreeing with this.

Source: XPS ESG beliefs survey results

What trustees can do:

- ✓ **Discuss and establish** your scheme's ESG beliefs and priorities using our **free online survey**
- ✓ **Seek to fully understand** ESG and climate risks and how they relate to your scheme
- ✓ **Undertake training** to fill any gaps in understanding
- ✓ **Review your current investments** against your policy and consider whether there is scope for change to adopt a more responsible investment strategy
- ✓ **Assess options** for how your chosen approach is best monitored



Alex Quant
Head of ESG research



We've started to see some schemes taking action to address ESG and climate change risks, and the results of this survey suggest that will only continue. There is clear appetite for investment fund products that are differentiated to meet these needs.

Why XPS consider it essential to establish trustees' views on ESG

The stern hand of Regulation has been steering pension scheme trustees to think hard about how risks in relation to environment, social and governance (ESG) factors are appropriately addressed within their strategy.

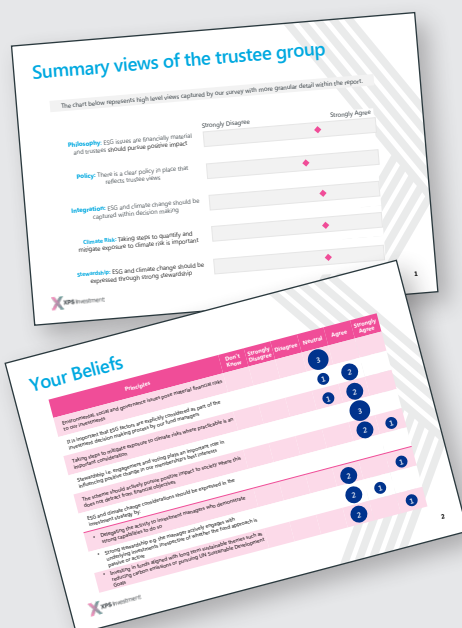
However, the relationship between ESG factors and financial implications is complex, with significant interdependence and notable unknowns. Furthermore, there are different perspectives on where lines should be drawn. As it stands the regulations themselves provide little guidance on what a scheme's policy should be. Most are focused on disclosing a scheme's chosen policy, or reporting on its implementation, rather than setting it in the first place.

ESG factors affect schemes differently, depending on where they are in their journey. A well-funded scheme with a credit driven strategy that is close to buyout, will have very different ESG risk exposures and mitigating options versus a scheme which is still open to accrual invested heavily in equities and with a time horizon of decades. Therefore, an important initial step in the process of establishing a suitable ESG policy for a scheme is to discuss and establish the trustee board's collective beliefs and desired approach for that specific scheme. There is room for more than one right answer when it comes to ESG.

The outcome of these discussions can inform the approach in many different ways, ranging from factoring in ESG considerations into investment decisions and good stewardship via the scheme investment managers, through to more specific strategies focused on sustainable themes such renewable energy, or impact strategies pursuing the UN Sustainable Development Goals.



ESG can affect schemes differently – it's important for trustees to identify their beliefs and priorities in the context of broader objectives.



XPS has used an **online survey** to help clients collate these views in a time efficient way and offers this to both clients and prospects at no charge.

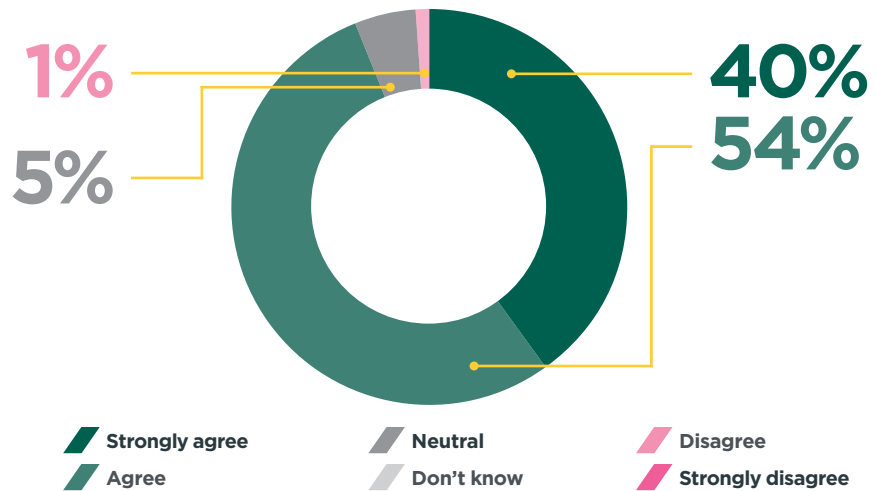
If you wish to use the survey for your scheme please click [here](#) and we will provide access for you and your colleagues and will arrange for you to receive a collated report free of charge.

An extract of the survey results:

1 94% feel ESG important in investment decisions making

Question:

It is important that ESG factors are explicitly considered as part of the investment decision making process by our fund managers.

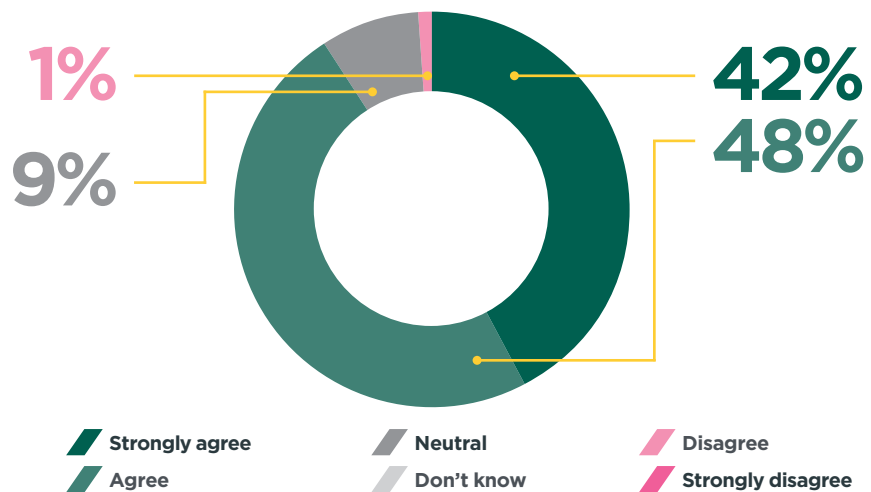


Source: XPS ESG beliefs survey results

2 90% responded that schemes should mitigate climate change where practical

Question:

Taking steps to mitigate exposure to climate risks where practicable is an important consideration.

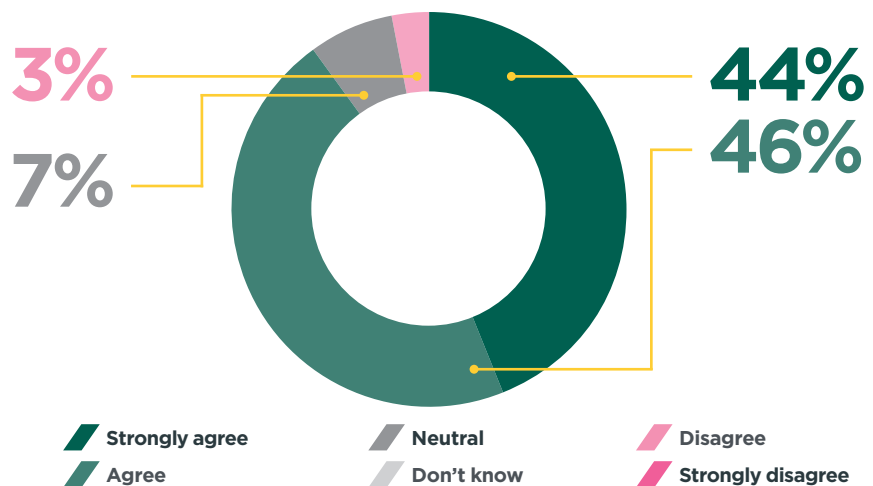


Source: XPS ESG beliefs survey results

3 90% think that schemes should actively pursue positive impact to society where this does not detract from financial objectives

Question:

The scheme should actively pursue positive impact to society where this does not detract from financial objectives.

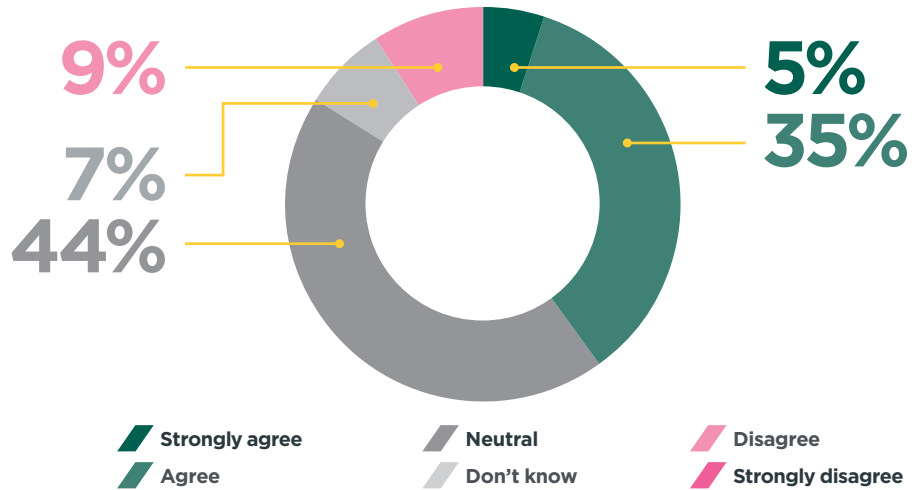


Source: XPS ESG beliefs survey results

4 40% think the current investment policy reflects their preferred approach

Question:

Our current investment policy reflects my preferred approach in relation ESG and sustainability.

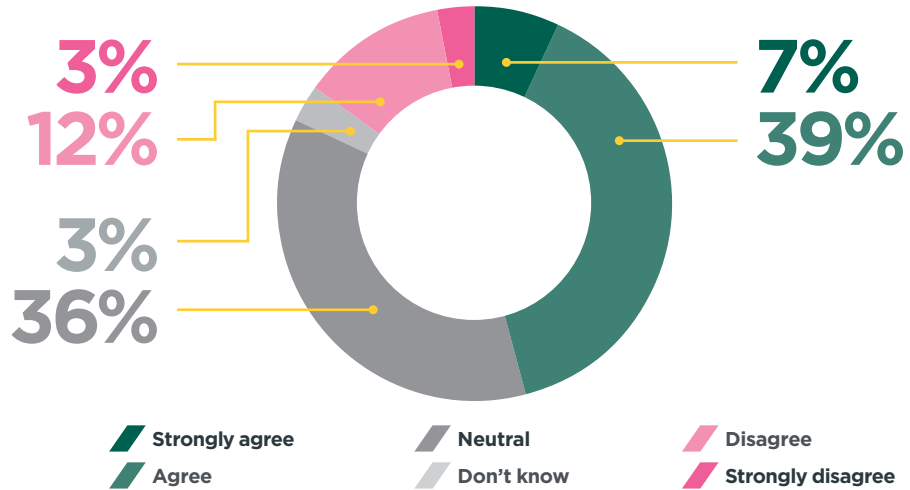


Source: XPS ESG beliefs survey results

5 There was no consensus that member views on ESG should be reflected in the investment strategy

Question:

Our members are likely to have ESG related views that we should look to reflect in our policy.

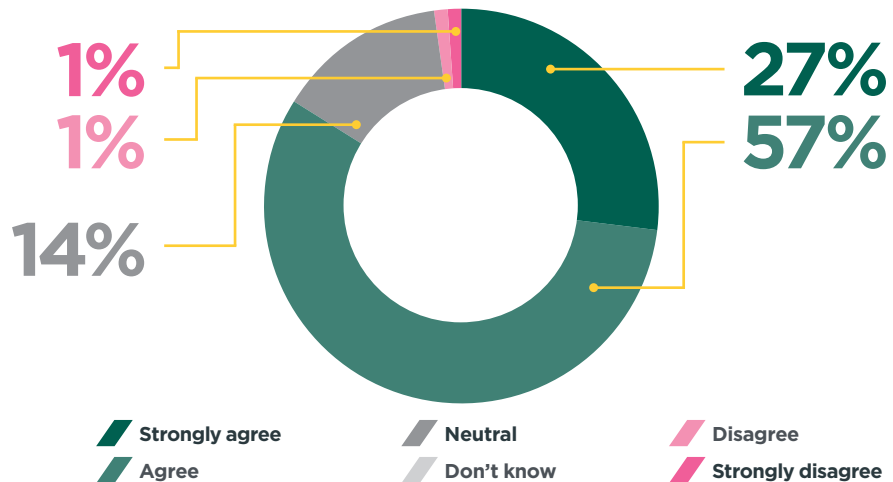


Source: XPS ESG beliefs survey results

6 84% think that it is important to communicate the scheme's responsible investment policy to members

Question:

Communicating the scheme's responsible investment approach with members is important.



Source: XPS ESG beliefs survey results

The way forwards

We observe a widely held view that ESG and climate change represent financial risks to the long term prospects of pensions and that these risks should be mitigated.

We believe now may be a turning point for pensions schemes and expect that this recognition of importance will turn into action.

We propose that the following will facilitate this progress:

- **Innovation in fund products** to ensure trustees are able to employ a strategy which effectively delivers on their ESG and climate change objectives;
- **Clear fund labelling** so as to avoid confusion between responsible investment, sustainable investment and impact investment. For example, we would propose the development of a UK specific equivalent of the EU Sustainable Finance Disclosure Regulation, which helps identify funds that incorporate ESG risk a management and sustainable issues into decision making;
- **Enhanced practices and reporting** from fund managers for existing fund products to ensure accountability around effective integration and risk management;
- **Proactivity of advisors** to bring the latest thinking to pension schemes and champion continuing improvement in the asset management industry; and
- **Trustees to challenge their advisors** to place sufficient weight on ESG aspects within overall strategy advice and fund recommendation and to provide training to fill in any gaps in trustee knowledge.



It's clear there is growing demand for ESG integration into pension scheme investment strategy from trustees; the investment markets must continue to provide solutions which meet the shifting needs of one of their greatest sources of capital.

Alex Quant
Head of ESG research

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