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60-second summary

The Pensions Regulator review of trustee compliance with ESG duties

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The Pensions Regulator (tPR) has conducted a review of trustee compliance with environmental, social and governance (ESG) duties, through a review of statements of investment principles (SIPs) and implementation statements (ISs). It published a report that sets out findings designed to help trustees understand what is expected of them when meeting ESG duties and acting on the risks and opportunities arising from climate change.

As regulatory requirements have been in place for ESG-related duties, the tPR's review is an important assessment of how the industry has implemented these and where there could be improvement.

Key findings

"While the vast majority of trustees are meeting their ESG-related disclosure requirements, our deeper analysis shows many are only delivering minimum compliance."

- Trustees often failed to demonstrate ownership of their policies or key activities in respect of ESG.
- Broadly, where trustees delegated activities to managers, Trustees often failed to explain or demonstrate oversight of ESG activities.
- Where schemes are invested in pooled funds, some Trustees highlighted they had limited ability to influence underlying managers on decisions related to ESG.

Recap of Trustee Duties

Trustees have a duty to make investment decisions that protect savers and are designed to bring good member outcomes. This means they have a fiduciary duty to consider financially material risks and opportunities, including in relation to climate change. Through ESG publication and disclosure requirements, trustees must demonstrate they are taking appropriate action to address these risks and opportunities.

Under the 2018 regulations, trustees of schemes in scope (around 3,500 schemes) must publish a compliant SIP and IS on a website accessible to the public and available free of charge. They also need to provide a link to the website in the **scheme return** they submit to tPR.

What does the tPR recommend?

The following table sets out eight recommendations from tPR, and outlines both practical steps trustees can take to ensure compliance and further steps towards best practice – both of which we would be delighted to support on:

tPR Recommendations	What can Trustees do?
1. Trustees should dedicate sufficient time and resource to preparing their SIP and IS	**Core**: Schedule annual SIP and IS reviews. Include link to SIP in IS **Additional steps**: Schedule a review of voting and engagement activity in lead-up to IS preparation, highlighting areas for continued engagement, and record activity. Provide detail on stewardship activity undertaken in IS
2. Trustees must take proportionate & appropriate action to mitigate risks	**Core**: Assess ESG risks and high-level mitigation steps; consider which risks are high priority; report in IS **Additional steps**: Ensure that all strategy and fund manager reviews have a clear process for assessing ESG risks, and detail mitigation steps in IS
3. Trustees must take ownership of ESG activities	**Core**: Define a responsible investment (RI) policy setting out how ESG risks affect the scheme and steps taken by the trustees to mitigate them. Include methods of engagement, monitoring and escalation **Additional steps**: Identify who is responsible for oversight of ESG activities, defining responsibilities and annual plan
4. Trustees of schemes invested in pooled funds should review fund manager policies on ESG-related issues	**Core:** Conduct annual review of asset manager policies on ESG integration and stewardship. Include in IS scheme specific examples of stewardship activity (i.e. what was done by trustees) **Additional steps:** Define in a policy trustee expectations of asset managers, communicate these expectations, and use review to identify areas to engage with managers and create accountability
5. Trustees should provide more detail on policy to show they are considering specific ESG-related risks	**Core:** Review the SIP to better detail ESG-related policies; report in IS **Additional steps:** Conduct ESG risk assessment and schedule engagement with managers on scheme-specific issues. Carry out further training sessions on topics related to RI priorities. Define RI priorities
6. Trustees should provide more scheme specific detail on voting activity	**Core:** Dedicate time to reviewing voting activity and evaluate satisfaction with activity carried out on scheme's behalf **Additional steps:** Review alignment of voting activity with expectations (e.g. on specific issues related to RI priorities) and assess avenues to improve alignment (e.g. through engagement or selection of voting policy)
7. Trustees should provide more detail on asset management arrangements	**Core:** Clearly state in IS what options are available to scheme for voting or stewardship, and how this reflects expectations of managers **Additional steps:** Provide detail in IS on manager incentive structures; routinely assess ESG and stewardship policies, and alignment with expectations

8. Trustees should consider going beyond climate change reporting	**Core:** Ensure all commitments made in SIP have been fulfilled and reported on within IS. **Additional steps:** Evaluate asset exposure to specific risks; collate voluntary Taskforce on Nature (and/or) Social-related Financial Disclosures reporting and challenge managers for improved disclosure

General Investment Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance.

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