



ESG TOOLKIT FOR PENSION CHAIRS AND TRUSTEES AN OVERVIEW



WHAT AND WHY

- A toolkit of resources that bring to life what good looks like.
- Aims to inspire action on next steps to mature the scheme's ESG integration approach.
- A 'live' document with new resources continually being added.
- Supports trustees in discussions with fellow trustees, consultants and fund managers about practical actions they should take.
- Transferable to different jurisdictions and sizes (where appropriate).
- Also useful for service providers, actuaries and pension managers.



Access the toolkit [here](#)

KEY COMPONENTS

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.



1. ESG MATURITY MAP

- Outlines ‘what good looks like’ and embeds ESG considerations into investment decisions, reporting, and engagement across the investment chain.
- Assesses what the scheme is currently doing and what steps can be taken to progress across 4 levels of maturity.
- For example:
 - Level 1: a Board could confidently speak about the role of asset owners in driving better corporate behaviour around ESG integration.
 - 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.



Access the [ESG Maturity Map here](#)

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 investment, 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 South East pensioners are encouraged to use the maturity map to assess their current level of ESG integration. Consideration only can be found at the end of the document. Adult trustees for minimum requirements for Board of a UK pension scheme should refer to the maturity map.

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

Category	Level 1 - Understanding	Level 2 - Adopting	Level 3 - Deepening	Level 4 - Leading
Investment Strategy	ESG is not explicitly mentioned in the investment strategy.	ESG is mentioned in the investment strategy as a risk factor.	ESG is mentioned in the investment strategy as a material factor.	ESG is mentioned in the investment strategy as a core factor.
Reporting	ESG is not explicitly mentioned in the reporting.	ESG is mentioned in the reporting as a risk factor.	ESG is mentioned in the reporting as a material factor.	ESG is mentioned in the reporting as a core factor.
Engagement	ESG is not explicitly mentioned in the engagement process.	ESG is mentioned in the engagement process as a risk factor.	ESG is mentioned in the engagement process as a material factor.	ESG is mentioned in the engagement process as a core factor.

1. ESG MATURITY MAP: LEVEL 0

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.		

- Level 0 outlines the minimum requirements that a Board of a UK pension scheme must comply with, as set out in the UK Pensions Schemes Act 2021.



Access the ESG Maturity Map [here](#)

1. ESG MATURITY MAP: IN PRACTICE

- A4S has written an accompanying guide to help trustees ‘workshop’ the maturity map with their Board.

Key features of the workshop guide:

- 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 4 – commitments table

A key output of the maturity map workshop will be to establish specific commitments that reflect your own specific priorities, strengths and resources, as a pension scheme. We recommend that your commitments are ambitious, clearly defined and measurable, so you will be able to track progress on a regular / annual basis.

Commitments	Milestones	What will success look like?
<p>What do you want to achieve this year? What priority area (left hand column of maturity does it relate to?)</p>		



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	NCCF		NGCC + FMI - The ESG Investment Framework 3.1.1. Implementation Guide
Proportion of scheme assets invested to drive ESG outcomes	Environment Agency Pension Fund		Impact Investing Institute and Pensions for Purpose - Impact Investing Provision for Pensions
Integrating ESG into investment decision-making (frameworks and governance)		Understanding ESG into Different Asset Classes	CI's Asset Owner Summit 2020: ESG and operations Investment Frameworks
Engaging with beneficiaries	Trusts Pension Fund	The Tip for Trustees of Pension Schemes	Cambridge Institute for Sustainability Leadership - Working the Lata: Understanding consumer demand for sustainable investing
Engaging with sponsors		The Tip for Trustees of Pension Schemes	
Engaging with consultants			Investment Consultants Sustainability Working Group - Guide for enhancing climate competency of Investment Consultants
Engaging with asset managers	A4 Pension Schemes		PISA - Engaging the Investors - A practical toolkit for investors to achieve effective stewardship through their providers PFI - Investment Manager Monitoring Guide
Stewardship	The Church of England Pensions Board		FRC - The UK Stewardship Code 2020 - Review of 2020 reporting PISA - Stewardship Guide and Voting Guidelines 2020 UNPRI - A Practical Guide to Active Ownership in Listed Equity
TCD reporting	BBC Pension Scheme NCCF Beta 2020 Pension Scheme West Midlands Pension Fund	The Tip for Trustees of Pension Schemes Implementing the TCD recommendations	ENAP - Reporting your pension scheme with the TaxPayers on Climate-Related Financial Disclosures recommendations





Access the [Workshop Guide here](#)

2. PRACTICAL EXAMPLES

- A growing bank of case studies produced in collaboration with a variety of pension schemes (DB, DC, small, large, public, private, single/multi-employer).
- ‘In the voice’ of pensions schemes, focusing on practical steps for trustees, and including top tips for taking similar action.



AAS
ASSET OWNERS
NETWORK

DELIVERING A NET ZERO
INVESTMENT STRATEGY

Practical example: National Employment Savings Trust (NEST)



WHAT

Nest Corporation is the trustee for the UK's biggest pension fund by members, National Employment Savings Trust (NEST). This pension scheme was created as part of the UK government's automatic enrolment reforms for workplace pensions.

In July 2020, we announced a new climate change policy, which sets out our ambition to align our entire investment strategy with limiting global warming to 1.5°C. To achieve this, we expect to halve our greenhouse gas emissions by 2030 and reach net zero greenhouse gas emissions by 2050 at the latest.

We have made specific commitments that we will achieve this in the following areas:

- Asset allocation
- Fund manager selection
- Stewardship
- Public policy

An immediate step was to develop market equity a fund to climate aware strategy. £5.5 billion of members' aware fund positively tilts mitigating and adapting to as those producing renewable green technology and those reduction plans in place. This has had an immediate effect on the fund, with more than 9 million of our members' investments now aligned with our climate change policy.

Practical example: National Employment Savings Trust (NEST)

NEXT STEPS

One challenge for us is tracking our progress towards net zero carbon emissions. The methodology should align with our 1.5°C pathway and measure our progress across all asset classes. It's an area that we're still working on.

Building on our work in developed equity, we would like to take a similar approach with emerging market equity. We want to make sure that underlying investments for this asset class are also on the right path for creating a 1.5°C world. There is not as strong, though. After examining the quality of the data, we will consider whether and how to adapt our approach.

We would like to create space for a two-way dialogue with our members and explore practical solutions. At the moment, we are mostly informing members what we're doing. Member feedback could help us to prioritise where we can use our resources. It could even improve our engagement with companies, by showing our vote represents the views of a large number of members who care and express a preference.

Practical example: National Employment Savings Trust (NEST)

2

TOP TIPS

- SET OUT YOUR INTENT**
Be clear about your goals and what you want to achieve. You don't have to know how you're going to deliver on every aspect. We found it helpful to set out our intentions publicly so that we had something to start working towards.
- CHECK THE NUMBERS**
It's vital to be evidence-based when you are making decisions about sustainable investing and pension funds. Make sure that you have good numbers and strong evidence. This will help you to demonstrate the rationale for what you're doing and to follow through in a meaningful way.
- CHOOSE THE RIGHT FUND MANAGERS**
Having the right team of fund managers makes a huge difference. Help them to understand why thinking about climate change risk and other ESG factors is important. We've found that our fund managers have been very open to these ideas, but they needed the right push from their clients.
- SPEAK TO YOUR SAVERS**
Communicating with members about sustainability will become increasingly crucial for pension funds. Input from savers is also a way to develop a stronger licence to operate.
- BE AN ACTIVE SHAREHOLDER**
By engaging with the companies that you've invested in, you can use your influence to bring about real change. It also makes a difference to talk about being an active shareholder. Talking openly about your experience and collaborating can encourage others in the industry to take a similar approach.

Practical example: National Employment Savings Trust (NEST)

7



Access the bank of practical examples [here](#)

BANK OF PRACTICAL EXAMPLES

TOPICS COVERED

- Engaging with service providers
- Stewardship
- TCFD reporting (including a deep dive into metric and target setting and scenario analysis)
- Setting Net Zero investment strategies
- Establishing opportunity funds
- Engaging with beneficiaries
- Considering climate in the employer covenant process



Access the bank of practical examples [here](#)



3. GUIDANCE MATERIAL

- A growing bank of resources for chairs and trustees to integrate ESG into their decision-making and processes.
- Aim to facilitate discussions in-house and across the investment chain, highlighting key actions and steps that can be taken.



EMBEDDING ESG FACTORS INCOME INVESTMENTS

A summary guide for pension trustees

Pension income is a diverse asset class that can serve a range of purposes in pension schemes: providing investment-grade income and corporate bonds, and a source of relatively stable, contractual cash flows, and do not typically exhibit the volatility present in global equity markets. Long-term value also lies in a key role in meeting long-term liabilities for a range of institutional investors. There are also rights and return options, including high-yield debt securities issued by corporations or countries with low credit. These securities can offer attractive, ongoing returns to compensate for the higher risk of default, and investors would benefit from improved credit ratings in the future.

Relevance of ESG considerations in achieving these objectives

It is now widely acknowledged that environmental, social and governance risk factors can affect both economic and corporate success. Investment funds, and thus ultimately their ability to meet their ESG obligations, do not lie outside. Government-backed bond funds have been recognised as credit assets. Increasingly, however, social and environmental factors are also being considered in the context of making the quality of the asset investments, and the ability of a trustee to meet its obligations.

In the context of government debt, the importance of assessing governance risk factors such as political stability, institutional strength and the rule of law, is well recognised. In general, however, environmental risk factors, such as climate change, energy and food security are increasingly seen as affecting economic factors such as tax revenues and a government's ability to attract foreign investment. ESG factors, in particular, is climate, security, debt and influence underlying relation and interest rates – care needs to be taken when assessing the potential impact on the rate of any bond investment.

ESG maturity map

The AAS ESG maturity map, part of the [AAS Guide to Embedding ESG in Investment](#), sets out various 4 dimensions for integrating ESG into fund income investment decision making. At the beginning of a pension scheme's journey, trustees might seek to:

Level 1 Understanding	Example activities
Non-conflicted	Review the risk that ESG can play in determining credit ratings, defaults and bond pricing. Use the published credit ratings and default rates, and look for any significant changes over short periods and ability to pay long-term interest income.
Non-conflicted	Review the type of engagement it can have with companies whose debt is being regularly issued in large quantities, despite not having committed to ESG.
Non-conflicted	Review the different approaches to ESG that can be used to integrate ESG factors into debt investing, and that involving sustainability-linked bonds, ESG green bonds, sustainability-linked, etc – is only the extent of incorporating ESG considerations into debt investments.
Not considered	Use the provided flow to integrate ESG into debt investment decisions and risk management objectives, particularly on credit ratings, defaults and bond pricing.

**Level 2
Developing**

The Trustee

- Has implemented a framework for integrating ESG factors into debt investments, covering both short-term and long-term investing by external managers.
- Has adopted an approach to engagement around ESG issues for investment-grade external managers.
- Has a process for robust assessment of external manager ESG investment capabilities in corporate and sovereign debt through regular reporting against a clearly defined set of metrics.
- Has considered and implemented or developed measures for not engaging the investment of green, social or sustainability bonds as part of its debt or to keep the relevant rights as a vehicle to engage with companies, management on ESG issues.

Practical actions that trustees can take

Area	Action
Evaluation	<ul style="list-style-type: none"> • Arrange for all trustees to be educated about the ESG risk and opportunities associated with investing in bond income, including: <ul style="list-style-type: none"> – How ESG factors affect credit ratings, interest rate risk and defaults, and therefore bond price and yield. – The relevant factors within ESG that impact corporate and sovereign bond income. – The opportunities associated with investing in sustainability-linked bonds, and how these can be integrated into the scheme asset mix.
External manager expectations	<ul style="list-style-type: none"> • Ensure there is a consistent approach to assessing new and existing external managers on capabilities around bond income ESG investing, by ensuring: <ul style="list-style-type: none"> – Quality of ESG-related research across both corporate and sovereign bond income investing. – Quality of ESG-related research across both corporate and sovereign bond income investing. – ESG strategies commonly used across bond income offers. – Use of ESG advice and tools by bond income portfolio managers. – Whether the manager seeks engagement as a tool to address related concerns in its bond income investing.
Direct bond income investing	<ul style="list-style-type: none"> • Increase the development of a framework for embedding ESG factors into the direct bond income portfolio, covering coverage, investment grade and high yield, corporate debt. • Work with credit rating agencies and ESG data providers to identify data and practices that can be incorporated into bond income debt and price analysis. • Consider whether the scheme could and should invest in bonds which aim to address positive environmental and social outcomes, such as green bonds.
Engagement	<ul style="list-style-type: none"> • Include bond income in the scheme's overall approach to stewardship. • Use the influence and rights as a shareholder to engage with company management on ESG issues regularly at both investor and individual points where engaged investors can impact pricing and the inclusion of specific ESG-related concerns. • Work with external managers to ensure any externally managed bond income portfolios are aligned with the scheme's overall strategy.
Collective action	<ul style="list-style-type: none"> • Collaborate with other large institutional investors, as well as signing engagement goals with equity investors, to increase influence and pressure companies to take action on relevant and material ESG issues. • Collaborate with other pension schemes to influence market demand for green or sustainable government bond issuances.
Measurement and reporting	<ul style="list-style-type: none"> • Develop regular tools for the scheme to generate ESG metrics from the asset portfolio, such as: <ul style="list-style-type: none"> – Bond metrics – people employed through construction, waste reported to local authorities and commercial office space. – Government metrics – electricity carbon emissions, time passed and water recycled.

This summary guide for pension trustees is part of the [AAS Guide to Embedding ESG in Investment](#), by the Pension Accounting for Sustainability Project.



SUSTAINABLE INVESTING IN PENSIONS

TOP TIPS FOR SPONSORS OF PENSION SCHEMES

The importance of sustainable investing continues to grow in the UK pension landscape. Regulatory policy has acknowledged the financially material impacts of environmental, social and governance (ESG) factors on investment objectives. Defined benefit (DB) and defined contribution (DC) pension schemes are changing the size and shape of assets under management, and there is some evidence of a growing demand from members, enabled by increased reporting and online technology (dashboards, apps, etc.) for investments to reflect their values.

In spite of the shock that the COVID-19 pandemic has delivered to the global economy, with both pension schemes and sponsors adjusting to the crisis, the focus on sustainable investing has not diminished. The pandemic has highlighted the fragility of the financial assumptions on which we rely to invest and secure our employees' wellbeing in retirement, reinforcing the need for effective risk management, governance and a long-term outlook.

The pandemic has demonstrated just how rapidly nature can impact society and the economy. For many this has reinforced the urgency of the response needed to avert the climate crisis, an event greater existential threat that needs to be addressed if individuals – your employees – are going to enter into a thriving society on a healthy planet. In managing this threat, we must take on board the lessons learnt from COVID-19 on preparedness and long-term planning.

There's a lot about sustainability that members give us.

Members want to know what we're doing to make sure their money is invested in a way that's good for the planet and society.

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TIPS ON ENGAGING YOUR MEMBERS

1. **It is very much a two-way process**
If we have expectations then we need to follow the up and do something with the answers that members give us.
2. **Go digital**
All our member engagement is now online which has allowed us to generate member surveys relatively easily, quickly and cheaply with a large part of our membership.
3. **Break the response data down**
Across different demographics and membership type to be able to take future communication accordingly.
4. **Use relevant language**
Break down 'ESG' into the language and issues your members are reading and talking about.
5. **Use communication experts to help frame and order questions**
As non-experts in this field it's easy to get leading questions inadvertently.
6. **Plan for the responses**
Successful member engagement will generate interest and more queries so make sure you have enough resources in place to meet the demand.
7. **Bring members' money alive!**
Use case studies to show where members' money is invested and the types of impact it is making.
8. **Signpost members to relevant information and education campaigns**
So members can learn more about these issues and what it might mean for their own financial planning.

Robert Gould, Chair of the Environment Agency Pension Fund

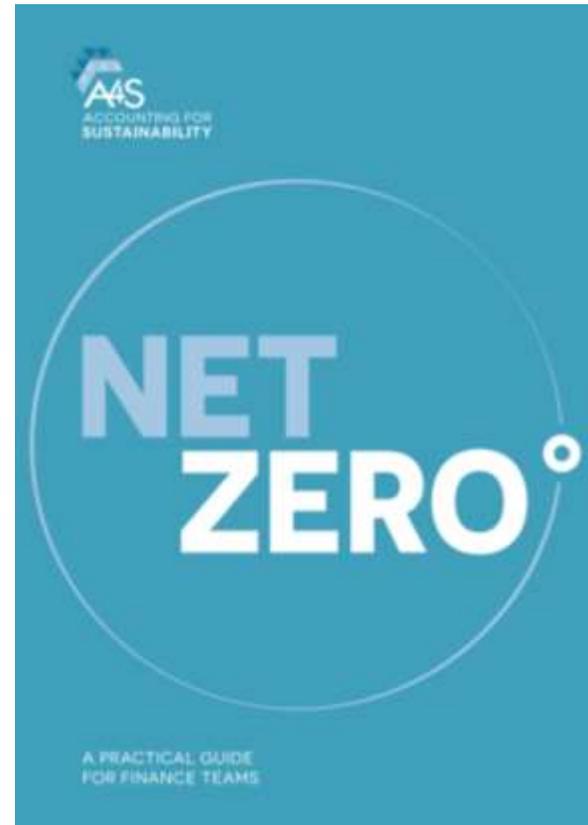
OUR GUIDES



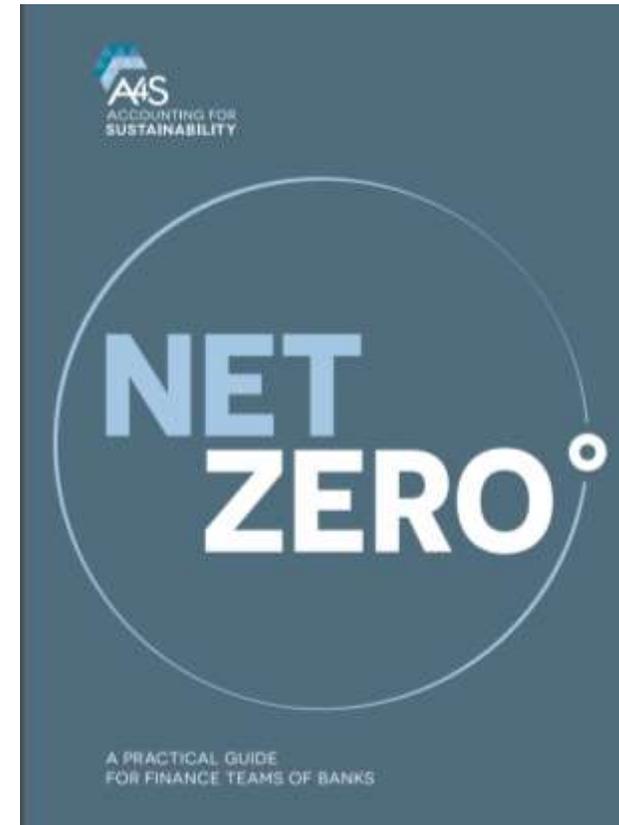
[Considering ESG in the employer covenant process](#)



[Aligning to a net zero pathway: Top tips for pension trustees](#)



[Achieving net zero: practical guidance for finance teams](#)



[Achieving net zero: guidance for finance teams of banks](#)



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

FEEDBACK

"A4S's ESG Toolkit for Pension Chairs and Trustees will help you navigate through a changing landscape."

Emma Howard-Boyd, former Chair of the Environment Agency

"A4S's ESG Maturity Map helps put the trustees back in control of the agenda. It enabled me and my peer trustees to challenge and probe further into previous statements and responses from our investment consultants."

Marcus Hurd, Professional Trustee, ndapt

"We used the A4S Maturity Map in a Climate Training session with our Board. It was extremely useful to give the Trustees a picture of where we were, vis-a-vis other schemes, and where we might aspire to be across different parameters. It provided a good framework to prompt a thought-provoking discussion around our status, our goals and our specific areas of focus when it comes to climate risk."

Catherine Claydon, Chair of BBC Pension Scheme and British Steel



ABOUT A4S

- Accounting for Sustainability (A4S) was established by HM King Charles III in 2004, when he was The Prince of Wales, to transform finance to make sustainable business, business as usual.
- Exists to inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy.
- Three core aims underpin everything we do:
 - Inspire finance leaders to adopt sustainable and resilient business models
 - Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
 - Scale up action across the global finance and accounting community





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Accounting for Sustainability (A4S)



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www.accountingforsustainability.org/pensions-toolkit



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.](#)