



# 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?

Used as a guide or as an interactive workshop tool, the maturity map will help you as a pension trustee assess what your scheme is currently doing and what steps you can take to progress. It is designed to be transferable to different jurisdictions.

	Level 1 – Understanding	Level 2 – Adopting	Level 3 – Deepening	Level 4 – Leading
<b>Allocating funds to deliver sustainable outcomes</b>				
<b>Making defined contribution (DC) pension scheme default funds sustainable</b>	The Board: • is confident in talking about how ESG factors present a growing set of financial risks to manage • has assessed collectively an appetite for implementing a sustainable DC default fund • believes that choosing a sustainable DC default fund, which integrates ESG financial considerations, does so without compromising investment returns • is aware of good practice case studies and identifies how these learnings might be applied to its scheme	The Board: • has engaged with the scheme sponsor (where relevant) and members to understand their views on the topic • has engaged external advisers / investment consultants / asset managers and / or in-house expert resources to explore the options available • is confident talking about the differences between a sustainable default fund and a conventional default fund in terms of the investment process followed by the asset manager to select securities, management fees and expected asset manager disclosures • has begun a procurement exercise to implement a sustainable default fund	The Board: • has undergone a procurement exercise, chosen an appropriate asset manager and implemented a sustainable default fund for members • has effectively communicated the rationale for implementing a sustainable default fund to the scheme sponsor and members • has clearly outlined the alternative investment options for its members to select from • applies relevant sustainable investing behaviours throughout the investment process for the fund	The Board: • has shared its default fund experiences with other pension schemes • is committed to stay actively at the forefront of sustainable investment practice, eg by presenting at sustainable pension scheme networks and leading initiatives
<b>Proportion of scheme assets specifically directed to investments driving positive social and environmental outcomes</b>	The Board: • has agreed and documented its collective appetite for allocating assets to drive positive social and environmental outcomes	The Board: • has engaged with external advisers / investment consultants, asset managers and / or in-house experts to create a long-term plan for allocating a greater proportion of assets to driving positive outcomes • applies positive outcome investment principles in up to 10% of its scheme assets • is committed to measuring and reporting outcomes generated from a positive outcomes portfolio	The Board: • applies positive outcome investment principles in up to 30% of its scheme assets	The Board: • applies positive outcome investment principles to at least 30% of its scheme assets • is sharing experiences of making investments which aim to achieve positive social and environmental outcomes
<b>Integrating ESG considerations into investment decision-making (eg frameworks or governance) including investment selection, risk management and divestment practices</b>	The Board: • is confident in talking about how ESG factors present a growing set of financial risks to manage • is confident in discussing the main types of ESG integration (best in class, screening, thematic investments, etc) and the difference between these approaches • understands how ESG principles can be included within a statement of investment principles and asset manager monitoring frameworks • has a clear understanding of its fiduciary duty with respect to its ESG obligations • understands emerging pensions legislation and corresponding requirements in relation to ESG	The Board: • has undertaken formal training on ESG integration, including around the availability and shortfalls of third party ESG data provision • has discussed and agreed how to integrate ESG factors into its investment decision-making and processes (alongside an investment consultant where appropriate)	The Board: • has outlined its approach to ESG integration in its statement of investment principles • actively uses its ESG framework for all investment decisions and for ongoing monitoring of asset managers and direct investments • has a documented internal procedure setting out the repeatable ESG integration process they will follow when making all investment decisions and monitoring asset managers	The Board: • has shared its ESG integration experiences with other pension schemes • regularly revisits and reviews its ESG integration framework, ensuring it remains at the forefront of sustainable investment practice
<b>Engagement along the investment chain</b>				
<b>Engaging with pension scheme beneficiaries</b>	The Board: • recognizes that members may hold different perceptions, concerns and preferences on ESG investing • is committed to educating on the challenges and advantages of integrating ESG considerations into investment decision-making and is aware of campaigns like Make My Money Matter • can confidently discuss how trustees' fiduciary duties extend beyond consideration of traditional financial metrics, and that ESG factors are a proven driver of long-term investment returns	The Board: • is actively engaging with members to build an understanding of their ESG preferences and is breaking down common perceptions associated with ESG integration • has decided whether and how to incorporate member views into the scheme's investment strategy	The Board: • is implementing new strategies, with reference to members' views • has communicated changes to members in full, including setting out alternative options and points of contact for raising concerns / complaints • provides a channel for member feedback on the scheme's approach to ESG integration in its investments	The Board: • holds an annual member engagement meeting, allowing members to debate and challenge the Board's ESG practice • speaks openly and publicly about the challenges and opportunities associated with consulting members and beneficiaries, and integrating their views into a scheme's investment strategy • offers members active stewardship of their investments through engagement / voting platforms (eg Tumelo)
<b>Engaging with pension scheme sponsors</b>	The Board: • can confidently discuss its sponsor's ambitions in relation to ESG factors and how it expects these to be reflected in its pension scheme(s) • can confidently discuss the specific ESG issues and areas it and its sponsor should be engaging on in relation to its investment strategy • understands the financially material ESG risks facing its sponsor	The Board: • is actively engaging with its sponsor to understand its approach to ESG, and how this may be reflected in its pension scheme • is actively talking to its sponsor about how it is managing its ESG risks to ensure the employer obligations can be met over the long term • is actively engaged with its sponsor in discussing the sponsor's own ESG risk management when assessing employer covenants and negotiating triennial valuations for defined benefit (DB) schemes	The Board: • has worked with its sponsor to align and document their shared expectations on ESG integration • has developed a documented investment strategy that has taken appropriate account of the sponsor's ambitions and expectations around ESG integration • has committed to reviewing the sponsor's ESG risks on a defined and ongoing basis	The Board: • and its sponsor proactively talk to peers about moving to an ESG-invested scheme, making reference to navigating perceived conflicts of interest around trustee independence • openly and publicly shares its experiences with other pension schemes
<b>Engaging with investment consultants</b>	The Board: • can clearly articulate the support it needs on embedding ESG factors into its investment decisions from its investment consultants, and can define these expectations in the services it is seeking • has evaluated the different offers and services investment consultants provide against its expectations	The Board: • has engaged with existing investment consultants to understand current capabilities around ESG investing, taking into consideration the consultants' firm-level ESG objectives and targets, the level of in-house ESG expertise, the consultants' track record and history of ESG consulting, and the nature of the ESG offer provided • has engaged other investment consultants, using the same criteria to compare and contrast ESG investment offers and capabilities, and how these are applicable to the needs of the scheme • has asked investment consultants to provide a view on the ESG capabilities of existing managers	Where necessary, the Board: • has worked alongside an investment consultant to carry out a search and selection exercise of new managers that are equipped to implement a scheme's ESG strategy • where retaining existing managers, has worked with consultants to identify necessary adjustments to the existing services provided by managers to enable the implementation of an ESG strategy (such as better reporting on engagement and voting activities, and/or impact profile of underlying investees) • has worked with its investment consultants to create template mandates / a set of procurement principles for future investment procurement exercises	• The Board and investment consultant speak openly and publicly about their relationship and the challenges they encounter, and how they overcome these
<b>Engaging with asset managers</b>	The Board: • can confidently discuss the varying level of ESG capabilities of asset managers, in terms of the goals and strategies they are pursuing, and what it means to integrate ESG into investment decision-making processes • has agreed and documented what it expects of its asset managers in relation to its ESG strategy • can confidently discuss the wide range of ESG data and data-integration techniques available and being used by the asset management industry	The Board: • with its investment consultants as appropriate, is engaging with existing and prospective managers to understand their capabilities on ESG better in relation to their investment strategies, investment selection and monitoring, stewardship and reporting • has assessed and documented outputs on where and whether managers are appropriate for implementing a scheme's ESG strategy	The Board: • expects their asset managers to be effectively integrating ESG factors into investment strategies, selection and monitoring processes • provides clear direction on expectations around investment stewardship, including a set of key instructions on voting • regularly monitors the performance of its asset managers against a clearly defined set of metrics and holds asset managers to account on effectively integrating ESG factors into investment decision-making and stewardship activities	The Board: • works alongside asset managers to share publicly and profile how investment strategy is being implemented • collaborates with its asset managers to identify and develop ESG engagement approaches with underlying securities (companies)
<b>Investment stewardship practices with investee companies</b>	The Board: • can confidently speak about the role asset owners have in driving better corporate behaviours around ESG integration • can confidently discuss the regulatory and legal requirements, as well as the opportunities and challenges of active stewardship • exercises votes in alignment with investment beliefs (either directly or indirectly through external asset manager or proxy voting agency)	The Board: • has identified and adopted a strategic position around relevant ESG issues • has developed and implemented a coherent stewardship strategy where engagement activities and voting are fully aligned • has a fully considered policy on how to respond when stewardship activities fail to drive targeted change	• A Board member attends at least one investee company AGM per year and asks ESG-related questions as part of the engagement process  The Board: • makes use of technology solutions to enhance the oversight and stewardship of its investments • collaborates with other asset owners on engagement activities and supports collective shareholder resolutions on relevant ESG issues related to priority areas • is committed to reporting in full on stewardship activities and outcomes achieved	• A Board member regularly attends at least 5 AGMs per year  The Board: • openly and publicly shares its AGM experiences with other pension schemes • reports on its AGM engagement on a regular basis • offers members active stewardship of its investments through engagement / voting platforms (eg Tumelo) • leads collaborative engagement activities and collective shareholder resolutions on relevant ESG issues related to priority areas
<b>Reporting and collective action</b>				
<b>Reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)</b>	The Board: • can confidently discuss how the TCFD recommendations apply to pension schemes • can confidently discuss the expectations of its stakeholders in relation to adopting TCFD recommendations, and what is required to implement these • has undertaken a gap analysis of its capabilities and identified the improvements required to adopt the TCFD recommendations, including evaluating its governance and oversight of climate-related issues	The Board: • has published its first TCFD report, outlining its approach to integrating climate-related issues into its governance and investment processes • has implemented improvements to its processes, including its governance structure, to integrate effectively climate-related considerations into its investment processes • can confidently discuss its exposure to climate-related risks and opportunities and is undertaking scenario analysis to understand how its investment portfolio might be impacted by climate-related risks and opportunities • has established a first set of appropriate climate-related metrics for assessing and managing investment risks and climate impact, for the purposes of investment decision-making and reporting progress to stakeholders	The Board: • has integrated climate-related considerations into its investment strategy • has implemented a climate risk management system to identify, assess and manage climate-related considerations • has established appropriate targets for both emissions and non-emissions based metrics for understanding risk and impact of the portfolio and is measuring progress against these • is producing high-quality annual reports demonstrating progress against the TCFD recommendations	The Board: • has openly and actively shared its experiences of implementing TCFD with other pension schemes • actively engages with companies, policy-makers and regulators, advocating for the adoption of the TCFD recommendations • clearly articulates the benefits of using the TCFD framework to understand and manage climate-related issues impacting its investments • has chosen more comprehensive metrics and set more stretching targets reflecting that level of ambition