

DWP Call for Evidence:

**Consideration of social risks and opportunities
by occupational pension schemes**

A response on behalf of the Association of Professional Pension Trustees

The Association of Professional Pension Trustees is the largest professional trustee organisation in the UK representing the majority of accredited professional trustees.

To assist with our response, we have surveyed our members on certain questions from the Call for Evidence and have included the results of that survey within this response. In addition to the answers to the specific questions, the respondents highlighted the following areas:

- Many professional trustees delegate responsibility for social factors to a fund manager and/or a pooled fund
- Many consider social factors alongside their wider ESG policy, but without a particular focus on social factors
- A lack of time and resource against competing priorities is often cited as a barrier to making further progress on social factors.
- There is a growing momentum to focus on social factors, but this momentum is not yet widespread

Question 1

Does your pension scheme, or do schemes you advise, have a policy on financially material social factors? In this policy, are social factors discussed separately to ESG factors in general?

Does your pension scheme, or do schemes you advise, have a policy on financially material social factors?

Whilst 31% of surveyed members have a policy on financially material social factors for most of their schemes ("yes" responses plus "most schemes do"), 69% of members do not have such a policy in place for most of their schemes ("no" plus "some do").

Yes	28%	9
Most do	3%	1
Some do	31%	10
No	38%	12
TOTAL		32

In this policy, are social factors discussed separately to ESG factors in general?

The majority (77%) of surveyed members do not discuss social factors separately to ESG factors in general.

Yes	13%	4
Most do	0%	0
Some do	10%	3
No	77%	24
TOTAL		31

While we did not ask in our survey for members to elaborate on why not, the committee had the following points to offer on why this is not the case for the majority of the schemes they work with.

One of the below applied to the majority of the cases without a specific social policy in place.

- Schemes are small and invest via pooled funds. They have a limited governance budget so are focusing their attention on selecting a fund which has some ESG and climate related tilts.
- The sponsor is very engaged on climate issues and both the sponsor and trustee consider climate change to be more of an emergency.
- Integrating social policies into asset allocation decisions is challenging because of the illiquid nature of assets which have a positive social impact (e.g. social housing) and the tension between going global for better diversification and local for social impact.

Question 2

Does your scheme, or do schemes you advise, have (a) a stewardship policy and/or (b) a voting policy that specify covering social factors?

Approximately half of respondents have a stewardship policy (52%) and under half (42%) have a voting policy that covers social factors.

	YES	NO	TOTAL
A stewardship policy	17 (52%)	16 (48%)	33
A voting policy	14 (42%)	19 (58%)	33

Question 3

On which social factors do your scheme's investment and stewardship policies focus? What was the rationale for deciding to focus on these particular social factors? Do you refer to any international standards, such as those relating to human rights or labour rights?

There is a wide range of social factors that schemes focus upon, where a focus is provided. A number of respondents highlight general social considerations and some refer to the fact that the consideration of social factors is delegated to fund managers.

On which social factors do your schemes' investment and stewardship policies focus?

- (5) General / non-specific
- (3) Delegated to fund managers
- (3) Employment
- (2) None
- (2) Child labour
- Diversity
- Housing
- Human Rights
- Modern Slavery
- Moral
- Supply Chain

What was the rationale for deciding to focus on these particular social factors?

- (5) Trustees' view / ethical reasons
- (3) Financial risk to the scheme
- (2) Delegated to fund manager
- (2) Sponsor beliefs
- (2) Reputation risk
- Not sufficiently financially material in the context of other factors
- Information readily available
- Member pressures

Do you refer to any international standards, such as those relating to human rights or labour rights?

- (5) Yes
- (12) No
- (1) Some do
- Still being developed
- (2) Delegated to fund managers
- (2) UN Global compact adherents or violators
- OHCHR, HRC

Question 4

Which resources have you found useful when seeking to understand and evaluate social factors either for your scheme or a scheme you advise? Do you feel that you have sufficient understanding of how companies perform on social issues?

The surveyed members had a short list of useful resources, which are copied below. Most notably, the members are often reliant on the fund managers themselves or their consultants/advisers.

Which resources have you found useful when seeking to understand and evaluate social factors either for your scheme or a scheme you advise?

- (6) Fund managers / fiduciary manager
- (3) Consultants / advisers
- Sponsor
- Press/media
- HRC
- A4S maturity map
- AMNT Redbook
- Sustainalytics and other ESG measurement tools

An overwhelming majority of members (82%) believe that they do not have sufficient understanding of how companies perform on social issues. To put this into context, the surveyed members are accredited professional trustees, so are experts in the field of trusteeship.

Do you feel that you have sufficient understanding of how companies perform on social issues?

Yes	18%	6
No	82%	27
TOTAL		33

Question 7

- a. Have the trustees of your scheme, or a scheme you advise, undertaken stewardship (engagement or voting) with an investee company on a social factor in the past 5 years, whether directly or through an asset manager?
- b. If yes, please provide details including why you felt this was necessary, what was done and the impact of your intervention.
- c. If no, then please provide details including what disincentives and barriers you faced in undertaking stewardship activities (engagement or voting) with an investee company?

Have the trustees of your scheme, or a scheme you advise, undertaken stewardship (engagement or voting) with an investee company on a social factor in the past 5 years, whether directly or through an asset manager?

78% of members have not engaged in stewardship with investee companies on social factors within the past 5 years.

Yes	22%	7
No	78%	25
TOTAL		32

If yes, please provide details including why you felt this was necessary, what was done and the impact of your intervention.

In all but one case where intervention had taken place, it had been initiated and managed by the fund manager.

In the other case, which is presumably a larger scheme, the respondent had directly engaged with the underlying company.

If no, then please provide details including what disincentives and barriers you faced in undertaking stewardship activities (engagement or voting) with an investee company?

- (7) Delegated to fund manager / pooled fund
- (3) Lack of resources
- (2) Lack of data, consistent definitions and/or measurements
- (2) Not a priority yet
- (2) Scale / small pension scheme