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To whom it may concern

Dear Sir / Madam

## Considering Social Factors in Pension Scheme Investments

The Association of Professional Pension Trustees (APPT) acts as the representative body for trustees of occupational pension schemes who fall within the Pension Regulator's description of professional trustee as set out in its August 2017 policy document.

The APPT acts as the collective voice of the profession and we estimate that our members work as trustees on over 1,500 defined benefit (DB) schemes. Our members also sit on a large number of trustee boards for defined contribution (DC) schemes including DC master trusts. Our members each typically work on multiple appointments and in total are responsible for managing schemes with assets of over £1,200bn.

Our answers to the questions in the [consultation document](#) are set out below.

### **1. Do you agree the report will be helpful for pension scheme trustees to better understand social issues and the impetus to act on them?**

Yes, there is unanimous agreement among contributors that the report will be broadly helpful for pension scheme trustees. The report's clarity in defining social issues, such as the gender gap, and its provision of practical measures are highlighted as key strengths. It is seen as providing a comprehensive framework, case studies, and practical guidance that can equip trustees with insights into the integration of social factors, particularly focusing on modern slavery, diversity, and fair labour practices. Additionally, the report is acknowledged for helping trustees formulate pertinent questions to ask investment managers, further enhancing its practical utility. The consensus is that the report offers valuable information to better understand social issues and the impetus to act on them. However, the summary would be easier to digest if on a page of its own, rather than an afterthought on acknowledgements.

While there is consensus the guide is useful to increase awareness among trustees we recognise that there remain barriers to overcome before the increased awareness translates to changing behaviours by companies. The actions suggested in this guide could go further to address some of these structural barriers described below:

- **One message is more powerful than many** - To create positive change companies need one message with clear targets specific to their organisation and where it operates. If acted on by the industry this guide risks companies hearing lots of different messages which are less specific to its operations.
- **Greater size gives greater influence**- Linked to the point above on speaking with one voice but also recognising that large groups of asset owners are more likely to be able to influence behaviours. The guide could go further in encouraging investors to speak with one voice.
- **Need to be specific** - Evidence suggests that targeted engagement with companies on social impacts is more effective than attempting to engage on broad themes via a third-party manager. Boards generally do not have sufficient time, resources, and data to engage at company level. Collaborative engagement is a potential solution to this.

**2. For scheme trustees, does this report adequately address and provide a way forward for your scheme circumstances?**

Yes, there is a shared perspective that the report adequately addresses and provides a way forward for scheme trustees. We would like further research into any links between implementing good outcomes on social policies and improving return on investments. However, it is noted that the evidence supporting this link, especially considering examples like the Uber IPO, is open to debate. Despite this, the report is seen as providing a practical way forward for trustees by offering draft clauses, case studies, and a systematic materiality assessment framework. It is acknowledged for navigating the complexities of integrating social factors into portfolios and providing valuable insights and recommendations.

While the consensus is that the report offers a tangible pathway for scheme trustees to address their specific circumstances, it was recognised that social factors impact different pension schemes in different ways and how material each of the steps outlined in the guidance is will vary. For example:

- **Social factors are very relevant to long term investors such as those of DC schemes that are Universal Owners.** Minimum standards for longer term investors could be made clearer in the guide or a separate guide considered for DB and DC schemes. The biggest barrier to most DC schemes of engaging with social issues is time and resources. The DWP could consider being more explicit about the governance requirements for DC schemes so as to allow more time for effective stewardship, but in a proportionate way. It could also focus on more effective pensions structure via consolidation or vehicles for collaborative engagement as described above.
  - **Most defined benefit schemes are in their end game and are largely invested in gilts and bonds.** Putting social issues into a defined benefit schemes voting policy is not going to be effective or material as they do not own a lot of equity. There are some opportunities to engage with issuers of corporate debt through the asset manager however some asset managers take the position that social factors are not financially material over the timeframe in which companies would be repaying their debt.
  - **More clarity on trustees' duties is required before trustees will engage with the UK government policies on social issues.** Most trustees are interested in improving social factors in the companies with whom they invest but with limited governance time and budgets, and the view that unless demonstrably financially beneficial such factors should otherwise be discounted, Trustees are not necessarily in a position to give this sufficient attention.
3. **Do you see the proposed systematic materiality assessment framework for social factors as something you can practically implement in your portfolio?**

Yes, there is agreement among contributors that the proposed systematic materiality assessment framework for social factors is viewed as practical and implementable in portfolios. One perspective highlights its practicality, especially with limited resources, emphasizing the ability to adjust themes and link them back to member outcomes. Specific examples, such as comparing CEO pay to workers, are mentioned, suggesting that companies can act in these areas. Furthermore, it is noted that investment managers have a greater chance of

influencing companies, aligning with the idea that the framework is actionable. We noted that asset managers themselves also tend to score well on social impact in terms of diversity, pay equality and fairness and this inherent conflict may limit the effectiveness of using asset managers to drive engagement on these issues.

The respondents acknowledged a few points limiting the practicality of the guidance:

- **Engagement works best on specific issues.** There is a concern that the materiality assessment described is too high level and will result in unactionable generic themes.
- **Location matters.** Where a company is listed does not inform you as to the location it operates or the location of its key supply chains and the impacts it will have on those communities.
- **Seeing the wood for trees** - It is not particularly useful to consider social issues separately from other issues such as biodiversity and climate change when designing engagement strategy. For example, investors in a company with heavy water usage in a region which is prone to water scarcity will want to understand the climate, biodiversity risks and the impact of that water usage on the local community. Engagement on the last point alone doesn't make a lot of sense.
- **Acknowledging trade-offs** - The guide also doesn't help trustees on how to balance social issues with other ESG issues, for example a mining company could have negative impacts on both the local community and land use but is producing something that is vital to the green transition.

There is an additional point raised regarding 'reporting fatigue' in the number of reports including TCFD, TNFD, TPT, Implementation statement and compliance with the stewardship code mean that boards spend all their time on reporting rather than doing any engagement.

#### 4. Do you believe the three-level framework for addressing social factors in pension portfolios provides useful developmental guidance?

Certainly, contributors agree that the three-level framework for addressing social factors in pension portfolios provides valuable developmental guidance. One key perspective is that trustees should actively engage with investment managers,

applying pressure to implement measures aligned with the outlined goals. The importance of assessing material outcomes, understanding the impact on weighting or divestment, and determining the role played in these decisions is emphasised.

The overall consensus is that the three-level framework offers a structured pathway for trustees. It encompasses key areas such as governance, risk assessment, and continuous improvement, serving as a comprehensive roadmap. However, the respondents emphasised the need for changes to the pensions ecosystem such as introducing a body (following further consultations) to coordinate collective engagement and finding ways to be less reliant on asset managers to drive engagement.

**5. Do you agree with the resulting recommendations for the pensions ecosystem?**

The recommendations are seen as aligning with best practices and emphasizing collaboration, ongoing monitoring, and a commitment to improvement. The holistic approach outlined is acknowledged as inherently good practice. Notably, contributors highlight the importance of ensuring that various stakeholders play their part, considering the limited resources of workplace pensions and tight budgets of providers.

Again, the respondents highlighted the need for changes to the pensions ecosystem such as introducing a body to coordinate collective engagement and finding ways to be less reliant on asset managers to drive engagement.

**6. Do you find the information in appendices practical and informative?**

The consensus is affirmative regarding the practicality and informativeness of the information presented in the appendices. Contributors highlight the value of draft clauses, assessment tools, and case studies, emphasising their practicality and the depth they add to the main report. The appendices are considered instrumental in aiding trustees to understand and implement the concepts discussed in the main report. Specifically noted are the insights into the reputational risk of not participating in the process, the implications for being an employer of choice, attracting better talent, and the guidance on data and metrics. Overall, the appendices are viewed as a valuable resource complementing the main body of the report.

**7. Is there anything else that you would like to see covered?**

The unanimous view is that additional coverage on specific challenges, best practices in implementation, potential pitfalls, and real-world examples of successful integration of social factors in pension portfolios would enhance the report. Contributors express a need for more information on evidence that engagement has led to improvements beyond voting, guidance on selecting factors, and consideration of overarching proportionality. Additionally, there is a request for clarity of best practices for investors with different time horizons.

Should you wish to follow up any matters in this response please contact the lead author of the response, APPT member **Tegs Harding** at [Tegs.Harding@weareigg.com](mailto:Tegs.Harding@weareigg.com)

Your sincerely

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On behalf of the APPT Council  
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