



## The early stages of a sustainable investment journey

This document has been produced by the Investment Consultants Sustainability Working Group (“ICSWG”) for asset owners based in the UK – principally pension funds. The Group is a collaboration between investment consulting firms in order to engage with its collective stakeholders and give added power to asset owners and their ultimate beneficiaries in order to secure better sustainable investment practices across the investment industry.

Responsible Investment, Sustainable Investment, ESG. Chances are that all asset owners have heard these terms a great deal over the last few years. It is the view of the ICSWG that if we are to succeed at securing better sustainable investment practices, we first need to create a level playing field. An objective of this guide is to start the leveling process.

Our intended audience is any UK asset owner that has any uncertainty over what the right approach to investing sustainably is for them and are likely in the very early phases of their journey to date.

To help make progress, we have set out three early stages where we believe some schemes may be. For each of these stages we have identified what these asset owners can expect from their investment consultant. It is the intention of this document to enable asset owners to articulate clear requests of their investment consultant in order to make progress on their sustainable investment journey.



## How you might be feeling and what to ask from your consultant

	Very beginning	Early progress	Getting going
How you might be feeling?	You have not made any meaningful progress, or face meaning barriers in understanding why issues relating to environmental, social and governance (“ESG”) considerations may be financially material to your investment strategy. You struggle to state how you have implemented any policies and you fear you are at risk of breaching your regulatory requirements.	You appreciate the importance of risks associated with ESG factors however you need more understanding of the subject and advice on practical solutions You feel there is more you could be doing.	You are confident that you are acting in accordance with your policies on ESG as a whole, however specific issues like climate change risk still seem daunting.
Indicators this is you?	<ul style="list-style-type: none"> <li>• Members of your committees face challenges to spend time and resources on ESG discussions at meetings</li> <li>• You have had limited opportunity to receive training from your advisers on ESG issues</li> <li>• You are focused on achieving “minimum compliance”</li> <li>• Limited governance time is already used up with other agenda items</li> </ul>	<ul style="list-style-type: none"> <li>• You have received some ESG training and documented your specific beliefs, but you are yet to begin implementing the concepts</li> <li>• You understand how a small number of your investment managers integrate ESG issues, but you have not yet gathered a complete picture</li> <li>• You do not know how you could integrate your ESG policy strategically.</li> </ul>	<ul style="list-style-type: none"> <li>• You now receive more tailored training on specific topics like climate change and sustainable investing</li> <li>• You receive regular updates on how ESG and RI is integrated in your portfolio</li> <li>• You are ready to make investment decisions based on your position on ESG issues</li> <li>• However, you still consider “ESG” as one big topic and haven’t drilled down</li> </ul>



- You are yet to link the longer-term issues of ESG to your shorter-term horizon i.e., “we will buy out the scheme in 5 years” or “we need more evidence before we make a move”
- You might believe “ESG is just a box ticking exercise”
- Members of your committees are unclear on the distinction between ethical/moral considerations and financially material ESG issues.

- You are starting to consider how your ESG policy aligns with other stakeholders i.e., sponsoring employer of a pension scheme, policy holders of an insurer, employees’ views vs. those of their master trust
- You are ready to explore how your investment strategy (DB, DC or other) can be invested more sustainably

into individual aspects i.e., climate change, voting policy, social and positive impact etc.

- You have a willingness to be more open and transparent and want to understand what good/leading practices are
- You have started mapping/aligning yourself with other stakeholders i.e., sponsoring employer of a pension scheme, members of their DC scheme, policy holders of an insurer



## The expectations of your investment consultant

<p><b>Ask from your consultant now:</b></p>	<p>To demonstrate their commitment to upholding best practice standards in responsible investment</p> <p>To provide clear training on responsible investment and your regulatory requirements</p> <p>To undertake a survey of decision makers responsible investment beliefs</p> <p>To draft a belief statement to be included in your policy documents</p> <p>To set out a clear overview of the next steps and when these will be delivered</p>	<p>To add ESG training and discussions periodically to your annual business plan</p> <p>To demonstrate how your existing policies on ESG and Stewardship have been implemented</p> <p>To provide periodic updates on how ESG and RI is integrated in your portfolio</p> <p>To explain how your consultant assess the effectiveness of ESG integration by the managers they have recommended you invest with</p> <p>To include ESG-related issues, including climate change on your internal governance mechanisms (e.g., Risk Register)</p>	<p>To provide a review of the Scheme’s current position on ESG issues and governance plan to implement improvements and review progress over time.</p> <p>To provide training on how ESG is integrated across different asset classes</p> <p>To evaluate the quality and effectiveness of stewardship and engagement activities (including voting) of your asset managers</p> <p>To provide an overview of the the responsible investment organisations you, or your managers on your behalf, could be a part of</p> <p>To undertake a review of your investment strategy showing whether it is appropriate to invest in sustainable investment opportunities</p> <p>To demonstrate an overview of the ESG reporting that you can receive</p>
<p><b>Key readings</b></p>	<p><a href="#">ESG and climate change for pension funds</a></p>	<p><a href="#">ESG and Stewardship: A Practical Guide to Trustee Duties</a></p>	<p><a href="#">ESG Maturity Map: Example Behaviours for Pension Trustees</a></p>