



July 2018

Responsible investment update

In this edition, we look at the DWP's consultation on trustees' duties, further developments by the European Commission as it works to implement its sustainable finance action plan and His Royal Highness, The Prince of Wales' Finance Leaders Summit organised by the Accounting for Sustainability Project. We are also proud to discuss Aon's work in this area, including our new ESG ratings system, the publication of our inaugural global responsible investment survey and our commitment to the UN's Principles for Sustainable Insurance.

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Aon introduces ESG ratings for fund managers

A common impediment to wider adoption of Responsible Investment (RI) principles among institutional investors is the lack of a standardised framework for evaluating RI behaviours in fund managers.

To address this issue, we have developed a system designed to assess whether and how well investment managers incorporate environmental, social and governance (ESG) considerations into their investment decision making process.

The ratings assess fund managers across the four key RI behaviours:

1. **ESG integration:** The degree to which ESG risk factors are incorporated in a manager's investment decision making processes.
2. **Active ownership:** The level of active share ownership a manager can demonstrate alongside active proxy voting policies.
3. **Engagement:** The willingness of a manager to engage with companies in relation to ESG risk factors, and the ability of a manager to make progress on these issues.
4. **Collaboration:** The extent of external collaboration a manager undertakes with the wider RI community, furthering best practice and understanding.

For more information about our ESG ratings, please refer to our guide (which can be found [here](#)) or contact your consultant or a member of the Responsible Investment team.

Aon publishes its global responsible investment survey

Our global responsible investment survey has recently been published and can be found [here](#).

The survey is part of our ongoing work with the institutional investor community and is the first step in the formulation of definitions, best practices and data.

We surveyed a large and diverse set of financial market participants (223 in total) from around the world, including endowments, foundations and pension funds.

The key findings are:

- Responsible investing is important to a large proportion of respondents; less than 1 in 20 indicated that RI is not important to their organisation.
- Nearly 40% of respondents believe that the incorporation of non-financial ESG data leads to better investment decisions.
- Over a quarter of respondents cited a desire to impact certain global issues as a reason for engaging in responsible investment practices.
- For the majority of respondents, climate change is a key focus and causing concerns about investments; 80% of UK respondents indicated that climate change ranks first among investment concerns.
- More than a third of respondents have no responsible investing policy in place within their organization. Conversely, and more encouragingly, over half of respondents do have a policy in place or are in the process of developing a policy.

DWP launches consultation on trustees' duties

The DWP has formally launched its consultation on trustees' fiduciary duty to consider environmental, social and governance risks as part of their investment process. In particular, the DWP is considering whether the definition of "financially material risks" should be broadened to include ESG and climate change considerations.

Under the DWP's proposals, every scheme that is required to produce a Statement of Investment Principles (SIP) must, by 1 October 2019:

- Update its SIP to set out how it takes account of financially material risks (including, but not limited to, ESG and climate change).
- Set out its policy in relation to the stewardship of investments,

including engagement, monitoring and exercising voting rights associated with investments.

After 1 October 2019, trustees will need to prepare a separate "statement on members' views" when they update their SIPs.

We have been in contact with the DWP throughout this process and have responded to the consultation, which closed on 16 July. You can read our response [here](#). The outcome of the consultation is likely to be published mid-October.

If you would like to know whether and how the DWP's proposed regulations could affect your scheme, please get in touch with your consultant or a member of the Responsible Investment team.

Accounting for Sustainability Finance Leaders' Summit

His Royal Highness, The Prince of Wales recently hosted a number of senior representatives from across the financial and regulatory community to identify actions to support achievement of the UN Sustainable Development Goals and put us on a pathway towards achieving the Paris Climate Agreement.

The summit provided a welcome opportunity for industry leading experts to discuss the progress made to date and identify areas of future action.

The Prince's Accounting for Sustainability (A4S) project was established by the Prince of Wales in 2004. Its aim is to make sustainable decision making business as usual.

A4S work with the financial and accounting community to:

- 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; and
- Scale up action across the global finance and accounting community.

Aon attended the summit and contributed to the report that was tabled for discussion. The final report and outcomes are expected to be published in September 2018.

The European Commission presents its legislative proposals on sustainable finance

The European Commission (EC) has formally presented its proposed package of measures on sustainable finance. These measures are a follow-up to the action plan it adopted in March 2018.

The proposals, which the EC intends to bring into law between 2019 and 2022 subject to agreement by the European Parliament and Council, have three principal aims:

1. Harmonise the criteria that determine whether an economic activity is environmentally sustainable;

2. Clarify investors' duties as they relate to factoring ESG in their investment decision making process; and
3. Create a new category of low-carbon benchmarks to allow investors to better monitor a portfolio's carbon footprint.

Separately, the EC has launched a consultation to assess ways to include ESG considerations into the Markets in Financial Instruments Directive II (**MiFID II**). In particular, the consultation will focus on investment firms' obligations to include ESG considerations into the advice they provide to their clients.

Aon signs up to the UN Principles for Sustainable Insurance

We are pleased to announce that Aon has become a signatory to the UN's Principles for Sustainable Insurance (**PSI**), the first insurance broker to do so. Aon is also proud to be a signatory to the UN's Principles for Responsible Investment (**PRI**).

The PSI was created to serve as a framework for the insurance industry to better understand ESG risks and apply its unique expertise and position to help mitigate and manage these risks.

The PSI's four principles that we are proud to adhere to are:

- **Principle 1:** We will embed in our decision making environmental, social and governance issues relevant to our insurance business.

- **Principle 2:** We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
- **Principle 3:** We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
- **Principle 4:** We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

More information about the UN PSI can be found [here](#).

Aon in the news

- **Actuarial Post:** Institutional investors are split on responsible investing
- **Professional Pensions:** How schemes are taking first steps to integrate ESG
- **ESG Clarity:** Interview with Aon's UK Head of Responsible Investment
- **Portfolio Institutional:** All climate change scenarios could spell trouble for pension funds

Links to materials

[Global Perspectives on Responsible Investment](#)

[Guide to Aon's ESG Ratings for Fund Managers](#)

[Consultation on Clarifying and Strengthening Trustees' Investment Duties: Aon Response](#)

For your diary

Date	Event
24-30 September	Climate Week NYC
27 September and 2 October	Aon's DB Investment Conference – key note speech by a Cambridge University academic on RI
12-14 October	World Bank and IMF annual meetings – deforestation and coal likely to be discussed
Mid-October	DWP to publish outcome of its consultation on trustees' investment duties
30 November – 1 December	G20 summit – sustainable finance likely to feature prominently in discussions
3-14 December	UN Climate Change Conference

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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