

# Responsible Investment update

*In this edition, we provide an update on the DWP's consultation on trustees' duties and the Prince's A4S Project. We also highlight the IPCC's special report on climate change and work done by the Institute and Faculty of Actuaries, Financial Conduct Authority and Prudential Regulation Authority on climate risks, as well as ClientEarth's letter to the trustees of 14 large UK pension schemes. Finally, we are delighted to announce the launch of Aon's Responsible Investment Network, which is due to hold its inaugural meeting in London on 27 November.*

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## Aon launches Responsible Investment Network for institutional investors

Aon has launched a new, industry-shaping responsible investment network designed to provide a unique, accessible forum through which investors can further understand key RI issues, contribute their experiences, views and ideas, and hear from peers and industry participants.

Membership of the network will provide opportunities for members to participate in leading research programmes, including Aon-led activities and insights gained through our involvement with the [Cambridge Institute for Sustainability Leadership Investment Leaders Group \(CISL ILG\)](#) and [Accounting for Sustainability \(A4S\)](#). Both are undertaking promising research and provoking interesting debate on key issues surrounding sustainable finance and responsible investment.

Members are invited to the inaugural meeting of the network on Tuesday 27 November, 6pm – 8pm, at The Aon Centre in London.

Learn more, and register to become a member [here](#) – or contact a member of the Responsible Investment team.

# DWP confirms revised trustees' investment duties

The Department for Work and Pensions (**DWP**) has completed its consultation on trustees' investment duties as they relate to environmental, social and governance considerations, which it launched earlier this year.

Under the DWP's proposals, trustees of schemes that are required to produce a Statement of Investment Principles (**SIP**) must, by 1 October 2019:

- Update their SIP to set out how they take account of financially material risks (including, but not limited to, ESG and climate change).
- Update their SIP to set out how they take account of 'non-financial matters', if at all.
- Set out their policy in relation to the stewardship of investments, including engagement, monitoring and exercising voting rights associated with investments.

In addition to the above requirements, trustees of DC schemes must:

- Update the scheme's SIP on the default arrangement to include their policies on financially material considerations and non-financial matters, as well as their policy on stewardship of the investments.
- Publish their (overall) SIP on a publicly available website and include a link to this information in the annual benefit statement sent to members.
- From 1 October 2020, produce and publish an implementation report setting out how they have implemented their investment policies and explaining and giving reasons for any change made to them.

A proposal for a "statement on members' views" was removed from the final regulations.

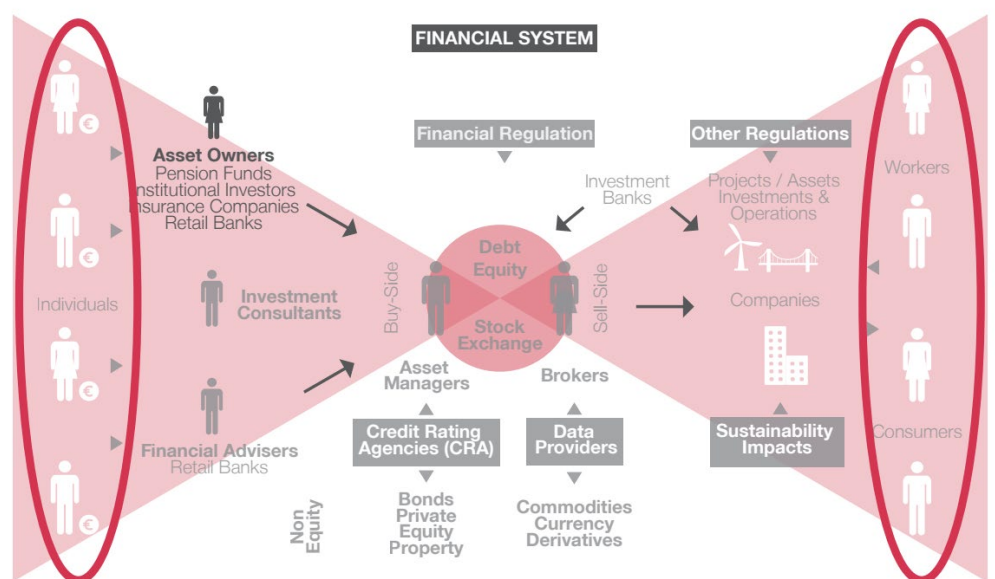
If you would like to know whether and how the DWP's proposed regulations could affect your scheme, please get in touch with your consultant or a member of the Responsible Investment team.

# The Prince's Accounting for Sustainability Project publishes its report

The Prince of Wales' Accounting for Sustainability Project published its final report, *Financing Our Future*, at the end of September. The report—co-written by the Prince's A4S Project and Aviva Investors with input from Aon—provides opportunities and actions across the investment chain (Figure 1) towards delivering a financial system that is capable of achieving the UN's Sustainable Development Goals (**SDGs**).

The recommendations include developing consistent and clear terminology, agreeing common reporting standards and pricing externalities appropriately.

Figure 1: The investment chain



Source: A4S

# IPCC releases special report

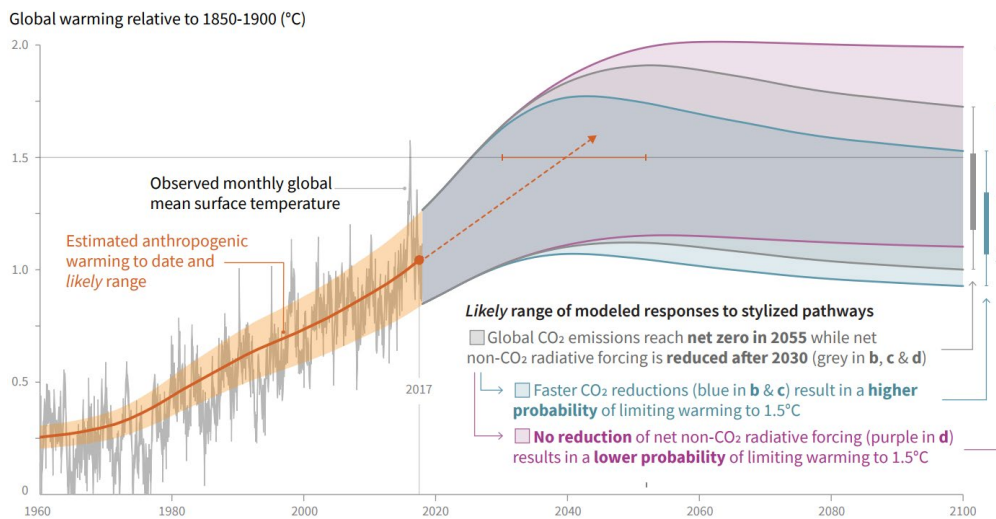
The Intergovernmental Panel on Climate Change (IPCC) released a report on 6 October 2018, [Global Warming of 1.5°C](#), which sounds the alarm on climate change and reassesses the risks posed by a 1.5°C increase in mean global temperatures above pre-industrial levels. The report notes that while past emissions are unlikely to raise temperatures by 1.5°C, the world's current trajectory is towards increases above 3°C relative to the pre-industrial average in the absence of concerted action by all countries.

While the Paris Agreement aims to keep the increase in mean global temperatures below 2°C above pre-industrial levels, the IPCC's report shows that the impact of such an increase is still substantial and will pose an existential threat to hundreds of millions of people.

Achieving the 1.5°C goal requires drastic measures and investment by the private and public sectors around the world; CO2 emissions need to reduce by 45% by 2030 and reach net zero by 2050. Achieving such drastic cuts in net emissions will require over \$2.4 trillion (or 2.5% of global GDP) in investment annually until 2035.

Human activity is estimated to have caused approximately 1°C of global warming above pre-industrial average levels. The IPCC estimates that, at the current rate, global mean temperatures are likely to rise to 1.5°C by 2030 and will accelerate thereafter, as shown in Figure 2.

**Figure 2: Observed global temperature change and projected likely range of future global mean temperature**



Source: IPCC

# The Institute and Faculty of Actuaries highlights action needed on climate change

The Institute and Faculty of Actuaries (IFoA) has tasked the *Resource and Environment Issues for Pensions Actuaries* working party to produce a working paper outlining climate change considerations for financial assumptions and practical examples of the role of scenario analysis to support them; this includes Aon's climate change scenarios.

The working party's paper, *Resource and Environment Issues for Pensions Actuaries: Considerations for Setting Financial Assumptions*, suggests several action points for actuaries who provide advice on the financial assumptions adopted by UK defined benefit pension schemes, including:

- Learn more about resource and environment (R&E) risks, particularly climate risks, and discuss them with your clients.

- Use scenarios analysis to explore the uncertainty in financial (and demographic) factors arising from climate risks.
- When giving advice, communicate your approach to R&E risks and the associated uncertainty.

The working paper will be presented at an IFoA session on 26 November 2018.

Aon's climate change scenarios feature prominently in the IFoA's work in this area. You can learn more about our climate change scenarios [here](#) and see how it has been applied in practice by reading our case studies paper, which you can read by clicking [here](#).

# FCA and PRA launch consultations on climate change policies

The Financial Conduct Authority (FCA) has published a discussion paper on climate change and green finance. The paper sets out how the impacts of climate change are relevant to the FCA's statutory objectives of protecting consumers, protecting market integrity and promoting competition. The FCA is seeking input from financial market participants on:

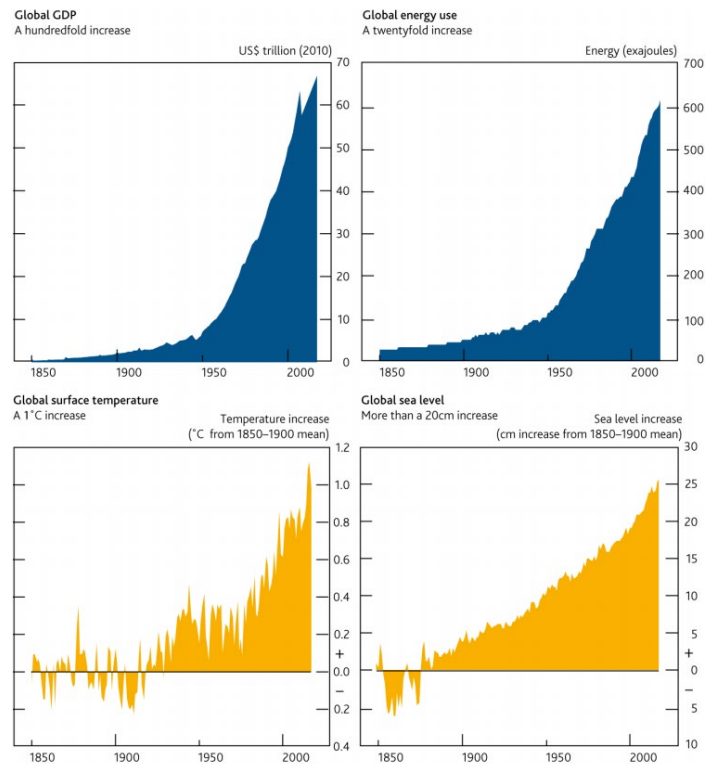
- Climate change and pensions;
- Enabling competition and market growth for green finance;
- Disclosure in capital markets on the financial impacts of climate change; and
- Public reporting on climate risks by financial services firms.

Concurrently, the Prudential Regulation Authority (PRA) has announced that it is launching a consultation on enhancing banks' and insurers' approaches to managing the financial risks from climate change.

As part of their respective consultations, the FCA and PRA have launched a joint Climate Financial Risk Forum, which is designed to help the financial sector manage the financial risks posed by climate change and encourage financial innovation as the world works to curb carbon emissions and transition to a low-carbon global economy.

Both consultations will close in January 2019.

**Figure 3: Global GDP and energy use are highly correlated with global surface temperatures and sea level increase**



Source: PRA

# ClientEarth probes large UK pension schemes on their approach to climate risks

ClientEarth, a charity dedicated to using the law to advocate for the environment, has written to the trustees of 14 large UK DB pension schemes to ask them to explain what they are doing to mitigate the risks posed by climate change. ClientEarth has indicated that legal action could follow by scheme members if they are deemed to be failing to take these risks seriously.

ClientEarth's letter follows the House of Commons Environmental Audit Select Committee (EAC) questions to the trustees of the UK's 25 largest DB pension schemes, asking them to explain how they manage the risks posed by climate change.

## Aon in the news

- [UK government urged to develop 'responsible investing framework'](#)
- [A look at Aon's rating system for fund managers on ESG](#)
- [Evidence of integration key in Aon ESG fund manager rating system](#)
- [How the LGPS is approaching responsible investment](#)

## Links to materials

- [A4S final report: Financing Our Future](#)
- [IPCC Special Report](#)
- [Climate Change Challenges](#)
- [Climate Change Challenges: Case Studies](#)
- [FCA discussion paper: Climate Change and Green Finance](#)
- [PRA consultation paper: Enhancing banks' and insurers' approaches to managing the financial risks from climate change](#)

## For your diary

Date	Event
Mid-November	The Pensions Regulator to publish guidance on trustees' duties following DWP consultation
26 November	PRI Climate Forum IFoA Sessional Meeting
27 November	Aon's Responsible Investment Network: Aon Centre, London
30 November – 1 December	G20 summit – sustainable finance likely to feature prominently in discussions
3-14 December	UN Climate Change Summit

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### About Aon

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