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# The Exchange

Aon's Responsible Investment Network Bulletin

February 2021

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# Introduction



**Tim Manuel**  
Head of Responsible  
Investment, Aon

Welcome to The Exchange: Aon's Responsible Investment Network Bulletin for institutional investors, focused on key developments and new thinking in responsible investment.

Aon's Responsible Investment Network provides an accessible forum through which investors can build their knowledge of responsible investment and collaborate with peers, industry participants and thought leaders on this topic and exchange ideas and views.

We want to encourage dialogue among pension trustees and other investors to proactively confront issues such as climate risk and sustainable investment opportunities in their portfolios.



There is still a lot to do. The Pensions Regulator's annual DC scheme survey, released in February 2021, showed that only 43% of trustees are actively considering climate change in their investment strategies. And 21% said that they did not believe climate change to be relevant to them.

At the opposite end of the scale, pioneering DB and DC schemes are putting pressure on their consultants and asset managers to improve reporting and show more innovation when it comes to addressing climate risk.

Trustees have enormous power when it comes to responsible investment and must use it wisely. They can drive change throughout the investment chain, but to do so they need to be ambitious, get engaged and take ownership. This is the year that objectives and policies need to translate into practice. I hope this bulletin will help drive that shift from conversation to action.

To learn more about what Aon is doing in this area visit: [aon.com/responsibleinvestment](https://aon.com/responsibleinvestment) or download our [services brochure](#).



## Only 43%

of trustees are actively considering climate change in their investment strategies

Source: The Pension Regulator's annual DC scheme survey, 2021.

Trustees have enormous power when it comes to responsible investment and must use it wisely.

# Trustees' new reporting duties on climate risk

From 1 October 2021, pension schemes with more than £5bn in assets, and authorised master trusts, must report on how they manage governance around climate risks in their portfolios.

All trustees will need to monitor regulatory changes this year which will affect how they report on climate risk.

From 1 October 2021, pension schemes with more than £5bn in assets, and authorised master trusts, must report on how they manage governance around climate risks in their portfolios, based on Task Force on Climate-related Financial Disclosures (TCFD) guidelines. They must also explain how they assess opportunities for sustainable investment.



The TCFD framework has been designed for many different investors, including banks and insurers as well as pension schemes. To help DB and DC trustees, the government has published new guidance. [Aligning your pension scheme with the Task Force on Climate-Related Financial Disclosures](#) which is specifically aimed at pension schemes. It has been developed by the Pensions Climate Risk Industry Group (PCRIG), a government and industry body.

While only the largest schemes are required to comply this year, the requirements will be extended to schemes with over £1bn in assets from October 2022 and will be reviewed to include smaller schemes for 2024. Trustees of all pension schemes should become familiar with the regulations now, and plan how they will implement them.

The final details of the regulations are [currently under consultation](#).

# Is your consultant climate competent?

Investment Consultants Sustainability Working Group (ICSWG) launches a trustee guide for assessing consultants' climate competency.

If trustees are to take full ownership of responsible investment, their consultants and asset managers must be well equipped to support them.

Aon has contributed to a [new climate competency framework](#) that will help schemes assess how effectively their investment consultant is performing on climate risk.

The guide is the culmination of a collaboration by [Investment Consultants Sustainability Working Group \(ICSWG\)](#), a joint initiative between 17 consultancy firms, including Aon, and other industry bodies, in response to the PCRIG's consultation (see the story '[Trustees' new reporting duties](#)'). PCRIG recommends that trustees should explore how their consultants and asset managers demonstrate climate competence and if they deliver best practice.

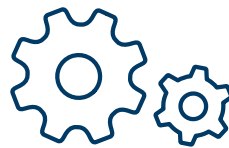
## The ICSWG's guide identifies five themes that trustees should assess:



**Firm-wide climate expertise and commitment**



**Individual consultant climate expertise**



**Use of tools and software to support climate-related risk assessment and monitoring**



**Thought leadership and policy advocacy**



**Assessment of investment managers and engagement with them**

We – along with the other members of the ICSWG – hope it empowers trustees to demand higher standards and greater accountability from their advisers and managers. That, in turn, should drive future innovation and best practice across the pensions industry.

This new and powerful initiative underscores the importance the UK consulting industry places on the urgent climate change challenge and on its role in supporting all market participants to play their part.

[Learn more about the ICSWG](#)

Watch video: Creating global impact  
– Investing for a brighter future

Read article: Impact Investment:  
Capital as a catalyst for change

The [Intergovernmental Panel on Climate Change](#) suggests that, over the next 20 years, investments in 'green' projects will need to meet an estimated value of \$2.4trn (£1.8trn) per annum, to successfully tackle the climate crisis<sup>1</sup>.

## Impact investing: how to address a £1.8trn problem

The economic environment, financial markets and asset prices are all influenced by global megatrends, such as climate change, shifting demographics, and political tensions worldwide.

At the same time, pension scheme members' interest in addressing environmental and social issues through their investments is increasing – and so is pressure from the government and regulators.

This is not a small problem. The [Intergovernmental Panel on Climate Change](#) suggests that, over the next 20 years, investments in 'green' projects will need to meet an estimated value of \$2.4trn (£1.8trn) per annum, to successfully tackle the climate crisis<sup>1</sup>.

Impact investing is one way to meet the needs of portfolios, people and the planet. Funds aim to generate strong investment returns while driving positive, sustainable outcomes for both society and the environment. Rather than simply excluding 'sin stocks' from portfolios, impact investing seeks out well-run companies that provide products or services that positively impact the world around us.

That's the philosophy behind Aon's new [Global Impact Fund](#). The fund focuses on investing in businesses which help to drive the United Nations Sustainable Development Goals (SDGs), and that actively address long-term issues such as climate change, healthcare innovation and social equity.

Learn more about Aon's Global Impact Fund or contact Geri McMahon.  
[Aon's Global Impact Fund](#)

<sup>1</sup><https://www.ipcc.ch/sr15/chapter/spm/>



Only **7%**

of DC scheme members checked their pension savings to see if they had been affected by last year's market volatility.



Just **4%**

have checked where their pension is invested to see if they are comfortable with this from an environmental and ethical standpoint

Source: Keeping on track in challenging times - Aon's DC member survey, 2021.

## About the Cambridge Institute of Sustainability Leadership

Aon is a member, and the current Chair, of [The Investment Leaders Group \(ILG\)](#), a global network of pension funds, insurers and asset managers, with over £15 trillion under management and advice, committed to advancing the practice of responsible investment. It is a voluntary initiative, driven by its members, facilitated by the [Cambridge Institute for Sustainability Leadership \(CISL\)](#), and supported by academics in the University of Cambridge.

The ILG's vision is an investment chain in which economic, social and environmental sustainability are delivered as an outcome of the investment process as investors go about generating robust, long-term returns.

[Get in touch](#) to learn more, or to participate in research projects undertaken by CISL.

# Members want DC schemes to manage their investments for them

Aon's latest DC member survey – [Keeping on track in challenging times](#) – reveals the extent to which members depend on trustees to manage responsible investment issues on their behalf.

We surveyed 2,000 DC scheme members and found that, despite last year's market volatility, only 7% checked their pension savings to see how they had been affected. On that basis, it's not surprising that just 4% said they had checked to see if they were comfortable with the way their pension is invested from an ethical or environmental standpoint.

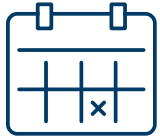
Trustees really are in the driving seat when it comes to managing members' investments, and simply offering an ESG self-select fund isn't sufficient. A study that we carried out as part of our involvement with the Cambridge Institute for Sustainability Leadership, [Walking the talk: Understanding consumer demand for sustainable investing](#), found that if members are given the choice between two similar funds, they would choose to invest in the one with better sustainability credentials.

With most members unlikely to make active choices or monitor investments for themselves, DC scheme trustees must take the reins on their behalf. That means proactively putting responsible investment at the heart of the default strategy and communicating it to members.

These factors, combined with Aon's core belief in the importance and potential risk and return benefits of responsible investment, have contributed to our decision to use a low-carbon investment approach for all our defined contribution (DC) pension default funds. That includes our solutions for in-house DC schemes, as well as our master trust and GPP offerings.

[Learn more.](#)





## Key dates and resources

### Impact investing: capital as a catalyst for change

Wednesday 10th March, PLSA Annual Conference. 3.10 – 3.30pm

We will host a 'Lightning Session' at this year's conference, exploring the latest developments in responsible and impact investing. Not attending PLSA this year? A recording of this session will be available after the event – please **get in touch** if you would like to receive this.

### The power behind your capital: investing for a better future

Wednesday 24th March. 11.15am – 11.40am

Discover the power wielded by your assets and how your managers are using it. Learn about the tools you must have to take back control, the steps Aon are taking to make an impact and the latest regulation surrounding responsible investment. **Register here.**

This session will form part of Aon's Pension Conference *Reflect, Reset and Re-Plan*, taking place 22nd – 26th March 2021

### Aon's Responsible Investment Network: Impact Investment

Wednesday 21st April 2021. 2pm – 3pm

**Join us** to discuss and debate the merits of impact investing. You may also be interested in this article, *Impact investing: Capital as a catalyst for change*, recently featured in portfolio institutional.

Learn more about Aon's [Responsible Investment Network](#).

### Recent articles and thought leadership

- [Covid, climate and compliance – Focus on Responsible Investment](#)
- [Investing for Impact – Exploring opportunities in publicly-traded equity](#)
- [Active Ownership: An underappreciated impact](#)
- [A little less conversation, a little more action please](#)
- [Transparency in ESG investing: Full disclosure](#)
- [Collaborate to combat climate change, trustees urged](#)
- [Pension schemes have 'nothing to lose' in collaborating to address climate change](#)
- [Keeping pace with responsible investing – trustee essentials](#)

## Contacts

If you would like to find out more, please contact us or ask your local Aon consultant for more details.



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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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