

Responsible Investment update

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Investing with impact

CISL publishes its impact framework

Gaps in data are stopping investors from choosing sustainable investments, a new report finds.

Investors need more, and better, information to be able to rate and choose financial products including pensions, savings, and investments, according to a new report published by the Cambridge Institute of Sustainability Leadership Investment Leaders Group, of which Aon is a member.

While investment performance is regularly reported and standardised, sustainability performance is not, preventing savers from making informed investment choices. The report and principles aim to help provide “meaningful data on the social and environmental impact of funds”, with a view that that this could be “transformational for the investment industry”.

Using limited existing data, members of the Investment Leaders Group, including Aon, developed and tested a traffic light system for sustainable investments and found information about social and environmental impact to be lacking. The Cambridge Impact Framework provides a dashboard to help the industry assess against outcomes such as “climate stability” and “decent work”.

The authors described the report as an open invitation to the investment industry to gather, clean, share and standardise the data needed to gain useful insights into the real-world impact of funds. “Make no mistake, however: market demand for funds telling a credible story about social and environmental impact is increasing and will favour early adopters.”

The report can be accessed [here](#).

IFC Impact Principles

The International Finance Corporation (IFC), a sister organisation of the World Bank and a member of the World Bank Group, has published its [Operating Principles for Impact Management](#).

The principles are intended to offer consistency, transparency and comparability to impact investing and prevent so-called “impact-washing”.

The nine principles were developed in collaboration with asset owners, asset managers, development banks and other financial institutions. The IFC estimates that global demand for impact investing, which connects environmental and social outcomes with financial returns, could grow to \$26 trillion.

Amongst other requirements, signatories to the principles will be required to disclose annually on their adoption of the principles, which will then be independently verified. 60 organisations (with \$350 billion AuM) have adopted the principles so far.



Aon's Responsible Investment Network

Putting Responsible Investment into Practice

Our Network continues to grow and now represents a wide range of views – from institutional investors and industry participants to academics, think tanks and research bodies.

In the last quarter, we held an informative meeting, focused on the practicalities of adopting responsible investment: [Putting Responsible Investment into Practice](#). We gained a breadth of insight and real-world experience from our contributors, among them senior representatives of Lloyds of London, Diageo, Direct Line, Agility and RBS.

Impact Investment

Our most recent meeting, held in April, focused on Social and Environmental Impact Investing, with presentations from Will Goodhart, Chief Executive of the CFA Society of the UK and Working Group Lead for the [Social Impact Investing Taskforce](#), and Staffan A. Qvist, co-author of [A Bright Future](#), who talked about how countries have tackled the energy transition and in particular the (sometimes controversial) role of nuclear. We also chaired a hugely thought-provoking discussion with Will and two of our members, representing DC and DB pension schemes.

To learn more about our Network and to receive invitations to future meetings, [please get in touch](#).

Stewardship

Revision to the UK Stewardship Code

The Financial Reporting Council (FRC) has launched a [consultation](#) on revising the UK Stewardship Code to strengthen the commitments of signatories and broaden the scope following criticism that the Code has not evolved and does not go beyond “boilerplate reporting”. Aon's response to this consultation can be accessed [here](#).

The Code, first published in 2010, has been a key factor in driving engagement and transparency between fund managers and the companies in which they invest, however following criticism, including from the recent [Kingman Review](#), the Code will now be overhauled.

The proposed changes include an updated definition of “stewardship”, a broader scope which will now transcend more asset classes as well as requiring firmer commitments from signatories.

One key proposed change is that signatories to the Code will be required to take into account material environmental, social and governance (ESG) factors (such as climate change) within the stewardship of investments.

The FRC and the Financial Conduct Authority (FCA) have also published a discussion paper entitled [“Building an effective regulatory framework for stewardship”](#). The paper discusses effective stewardship, what should be expected of share owners and how UK regulations can support stewardship of investments.

The deadline for submission of responses to the consultation was 29 March. The 2019 Code will be published in (and be effective from) July 2019.

Survey: Global perspectives on responsible investing

Launch of second investor survey — get involved!

For those of you seeking consensus across your investment boards and committees, understanding the range of different attitudes and views of responsible investing views can be an important first step. For a second year, we will be running a survey to gain insight to how investors are thinking about responsible investing, globally — and we want to hear from you!

We invite you to participate in the survey — it's short and should take no more than 10 minutes.

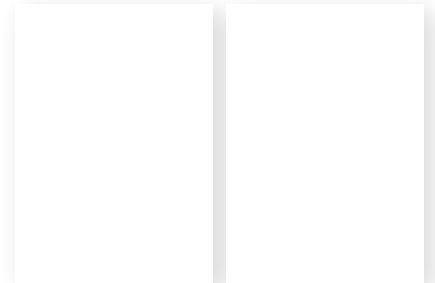
With your support, we hope the final analysis will provide valuable insights and benchmarking for your future investment programmes.

[Take the survey](#)



Missed last year's survey findings?

[Download the report here.](#)



Climate change

The FCA and PRA's joint climate working group holds its first meeting

The Climate Financial Risk Forum (CFRF), set up by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in 2018 to help the financial sector manage the risks posed by climate change and encourage the development of innovative solutions to climate risks, held its first meeting in early March.

While they note that firms continue to improve their approaches to managing climate risks, both regulators agree that barriers to implementing forward-looking, strategic approaches remain. The forum aims to reduce these barriers, and so it was decided to set up four working groups to focus on the following areas:

- risk management;
- scenario analysis;
- disclosure; and
- innovation.

The working groups will produce practical guidance on their respective areas of focus and will draw on experts from industry and academia where required. The final outputs will be publicly available, though the forum did not state when it expects the working groups to complete their work.



In the news

UK declares climate emergency

London saw ten days of travel disruption in April owing to protests, ultimately culminating in MPs declaring a climate emergency.

The protests were organised by the Extinction Rebellion group, which describes itself as an “international movement” using “non-violent civil disobedience” to focus attention on issues such as climate change. Extinction Rebellion’s demands are threefold:

1. The UK government must declare a “climate and ecological emergency”.
2. The UK must pass and enforce legislation to reduce carbon emissions to net zero by 2025.
3. The government must form a Citizens’ Assembly to navigate the way to this goal to mitigate political myopia.

Following the protests, a motion to declare an environment and climate emergency was tabled and subsequently approved in the House of Commons. The move by MPs follows dozens of towns and cities across the UK who have already declared a climate emergency.

There is no clear definition of what a climate emergency means, however a common feature is the desire to be carbon-neutral by 2030. The motion, tabled the Labour party, calls on the government to aim for net-zero carbon emissions by 2050 and for ministers to outline urgent proposals to deliver a “zero waste economy” within the next six months. This is a far more ambitious target than the UK government’s current target of reducing carbon emissions by 80% compared to 1990 by 2050.

The leader of the Scottish National Party, Nicola Sturgeon, has also stated that she believes the world is facing a climate emergency and has stated that Scotland will “lead by example” by cutting carbon emissions.

Trump signs executive order on ESG

US president Donald Trump signed an executive order in April which could backtrack on prior guidance for US pension plans surrounding consideration of ESG factors in investments.

The order pushes the Labor Department to examine how US pension plans using ESG metrics deploy these within their energy investments and will likely look at how screens are applied and how investors engage and vote.

The stated intention of the executive order, which focuses on the issues of ESG investing and stewardship for US pension plans, is to “promote energy infrastructure and economic growth”. The order states that US capital markets have “thrived under the principle that companies owe a fiduciary duty to their shareholders to strive to maximize shareholder return” and could shepherd capital towards fossil fuels and away from investment in renewables.

Critics have argued that the move is seemingly at odds with the Republican Party’s principle of not interfering with markets. Whilst investors are demanding greater transparency and reporting on issues such as climate change, the move could be seen to be at odds with what investors are demanding.

Aon in the news

- ▶ [Fund managers worth \\$10.2 trillion urge oil firms to align with Paris Agreement goals](#)
- ▶ [48,259 SMEs exited the market in 2017: study](#)
- ▶ [Aon highlights insurance shortfall over top risk](#)
- ▶ [Opinion: Aon's Martyn Denney on keeping an international focus](#)

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About Aon

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