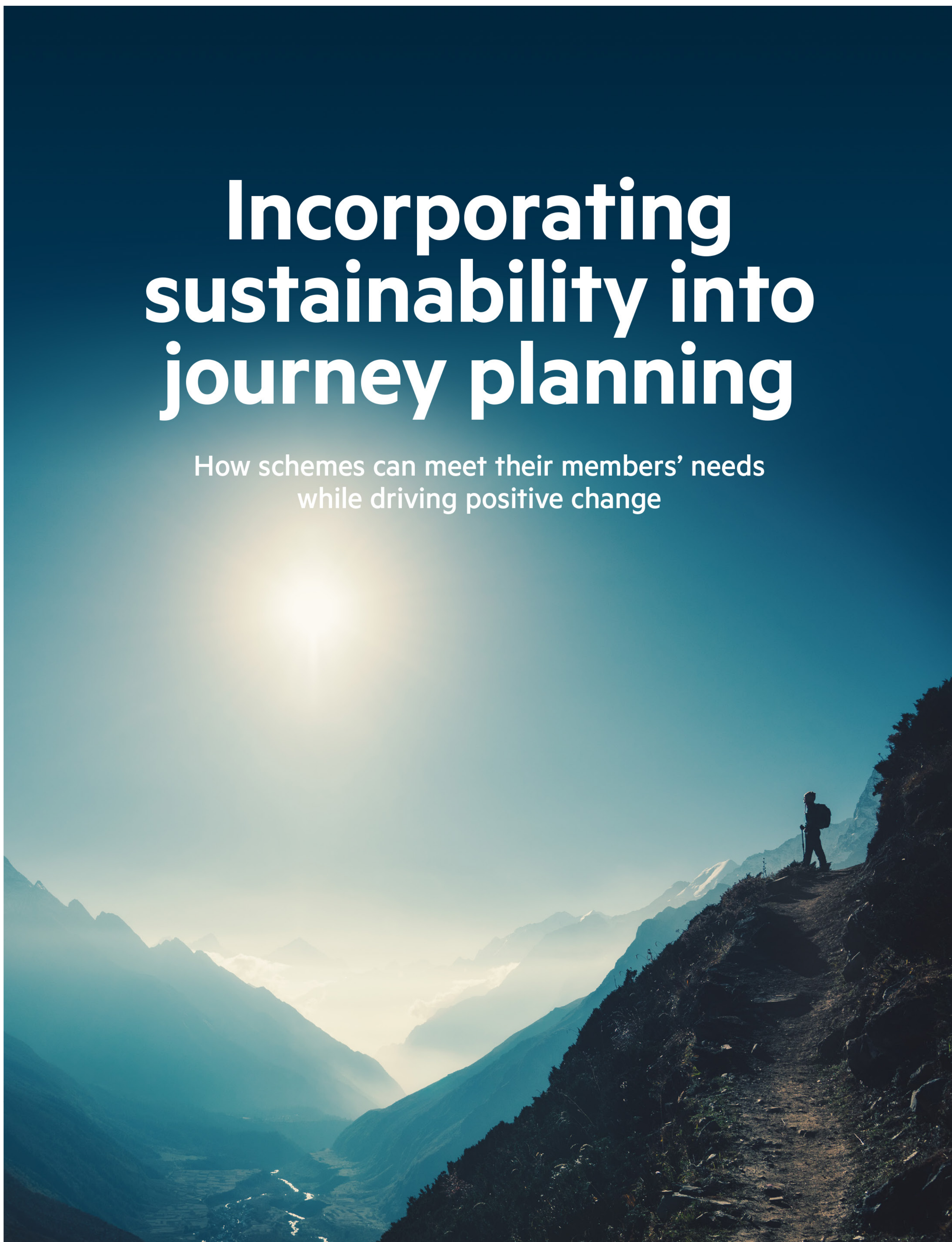
Incorporating sustainability into journey planning

How schemes can meet their members' needs while driving positive change



In association with

Pensions expert

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A publication from the Financial Times

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Incorporating sustainability into journey planning

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Incorporating sustainability into DB and DC pension funds

By Will Martindale, co-head of sustainability at Cardano Group

While many pension funds have made commitments to integrate ESG issues into their scheme journey planning, we think that there is further work to do

At Cardano, we believe that effective implementation can create a multiplier effect and positively contribute to more sustainable capital markets.

This is why, in partnership with Pensions Expert, we're pleased to present our trustees' guide; "Incorporating sustainability into journey planning".

Across the Cardano Group, our investment, sustainability and advisory colleagues, in both the UK and the Netherlands, have come together to present the team's best ideas in a series of articles.

The articles in this guide go through the subject logically from fundamental foundations towards the more applied techniques and considerations for more sustainable investment practices. Readers can jump to the article most relevant to their next step in their ESG 'to do list'.

For pension funds new to sustainability, or perhaps just refreshing their approach, we start with training, beliefs and governance as we think that getting this right is a necessary starting point.

> Our equity investment process applies planetary boundaries and social foundations to how we categorise and appraise the companies in our equity and credit portfolios

Of particular relevance for defined benefit schemes we then look at the importance of embedding sustainability into the assessment of the relationship with their corporate sponsor.

Next, we look at the relationship between financial performance, ESG issues, and real-world sustainability impact, as well as how to incorporate sustainability into asset allocation and the importance of scenarios in understanding sustainability-related risks.

Drawing on 30 years of experience in the field, our colleagues at Actiam are recognised as industry leaders. We have included contributions from them on equity investments and stewardship.

Our equity investment process applies planetary boundaries and social foundations to how we categorise and appraise the companies in our equity and credit portfolios.

We also set out the characteristics of good stewardship practice. We believe there will be increasing attention upon stewardship in the future.

Recognising that most schemes delegate the implementation of their investment strategy to third-party managers, we discuss how to incorporate sustainability in manager research.

We finish with articles on sustainability as it applies to defined contribution funds, and on bringing purpose to portfolios; explaining why we think trustees should bring more impact strategies into portfolios. The knowledge base that trustees now require is vast; there are areas that we have not covered here.

In our 2021 partnership with Pensions Expert, we shared our views on TCFD reporting and the UN's climate conference, COP 26, hosted in Glasgow.

Pension funds that would like to hear more about our work on TCFD reporting, alignment metrics, and net zero target setting, as well as upcoming requirements for pension funds to disclose and take action on significant votes, please get in touch. ●

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A trustee's journey to ESG excellence

By Alex Janiaud, deputy editor at Pensions Expert

Pensions Expert is pleased to introduce Cardano's guide to incorporating ESG into journey-planning – a comprehensive overview of everything a trustee needs to know on ESG, covering areas including trustee training, investments and engagement

For some time now, sustainability has been moving to the heart of pension scheme trusteeship.

No longer a competing interest, environmental, social and governance duties are now essential to the decisions taken by those responsible for managing a scheme's journey. We are therefore pleased to introduce Cardano's guide to incorporating ESG into journey-planning.

Cardano experts have put together a comprehensive overview of everything a trustee needs to know on ESG, covering areas including trustee training, investments and engagement.

ESG cannot get off the ground at a scheme without the proper training of its trustees. Cardano recommends guidance from the Pensions Regulator, and insights from the Institutional Investors Group on Climate Change's Paris Aligned Investment Initiative.

There's no right or wrong way to develop ESG beliefs, Cardano Advisory director Lara Rutty writes, however. It is worth considering which ESG factors could have the most impact for members and setting practical goals that can be applied across investments and with sponsoring employers.

Training up trustees and setting your targets is important. But to ensure that schemes meet their regulatory requirements on ESG, it is paramount that trustees build a robust governance framework. Incorporating sustainability risks into covenant assessment is also vital, defined benefit pension schemes being unique stakeholders in companies, Cardano Advisory managing director Michael Bushnell observes.

Looking beyond the simple risk and return profiles of an investment, for seemingly virtuous characteristics, appears inconsistent with trustee's commitments to maximise returns for their members

Perhaps of most concern to many trustees will be the tension between ESG and their fiduciary responsibilities. After all, looking beyond the simple risk and return profiles of an investment, for seemingly virtuous characteristics, appears inconsistent with trustee's commitments to maximise returns for their members.

Cardano deputy chief investment officer Keith Guthrie, sets out two simultaneous objectives for sustainable investors: maximising financial risk-adjusted returns and having the largest possible positive influence and impact on the real economy. If done properly, these goals can be mutually beneficial, he writes.

Getting this right across asset classes is no simple task. Equities provide the greatest scope for voting and engagement, Cardano senior client manager Magdalena Kennedy writes, while fixed income also offers investors the opportunity to engage, even if they do not carry the voting rights enjoyed by equity investors.

Internal scenario planning is essential to capitalising on opportunities and preparing for risks, Cardano Advisory director Ben Wilmot argues. Task Force on Climate-related Financial Disclosures requirements were expanded in October 2022 to schemes with assets exceeding £1bn. Scenario analysis is therefore compulsory for many schemes, but to be encouraged for many more. This includes the consideration of a sponsoring employer's entire value chain and the company's interactions with the wider economy.

Schemes will be more heavily judged, however, on their external actions. Good stewardship matters for pension schemes, Actiam senior responsible investment officer Greta Fearman argued.

If done well, stewardship can have a demonstrable impact on addressing system portfolio risks and helping to drive positive change in the real world. Assessing asset managers on ESG is also vital, Cardano manager Geordie Cox writes, setting out a list of criteria that they will need to satisfy on ESG.

Defined contribution schemes can be overlooked in discussions over sustainability, perhaps owing to their more limited investment universe.

NOW: Pensions head of investment Emma Matthews concludes this guide with an overview on how to integrate sustainability in DC, explaining how to turn beliefs and goals into action. ●

Upcycling sustainability knowledge: our training guide for trustees

By Georgia Harsham, senior client solutions analyst at Cardano

As ESG issues move to the top of the agenda, trustees have to upskill quickly to meet the requirements of increasing regulatory demands and societal pressure

We are, as an industry, on a sustainability journey. For many trustees, sustainability is new, and fast evolving. Even the terminology used is evolving, with terms such as responsible, sustainable and ESG used interchangeably; it can be hard to keep up.

You, as trustees, are under pressure to upskill, to hold your advisors to account, and to keep up with the forefront of thinking on sustainability topics — from the climate crisis, to biodiversity and nature, to a range of social issues such as gender inequality, living wages and human rights.

Tie into that the regulatory push and changing attitudes of society, it is no wonder we are seeing environmental, social and governance issues moving up to the top of the agenda.

As these increasingly complex layers reach ever-greater heights, so too has the need for support from advisers, managers and the wider pensions and investment industry.

A more varied sector

For trustees new to sustainability, a starting point would be making sure you are aware of and understand your obligations with regards to regulation, governance and disclosure, particularly under rules aligned with the Task Force on Climate-related Financial Disclosures.

> **Sustainability is a core consideration when undertaking journey planning and assessing the covenant**
> Georgia Harsham

There is so much out there on the climate crisis that it might be overwhelming to begin with, but knowing where to find the right information that will help with your job will make the task more manageable.

For example, the Pensions Regulator's guidance on climate change-related risks and opportunities is well written; we would recommend the Institutional Investors Group on Climate Change's Paris Aligned Investment Initiative for explanations of metrics and target setting, and; for an easy-to-read book, one I enjoyed recently is by Bill Gates, 'How to avoid a climate disaster', which explains the causes of climate change, and steps we can take to address it.

That being said, in our experience, trustees require more than a reading list. Getting to grips with sustainability risks requires discussion, direction and debate. For training to be successful and provide the best results, it is important to capture the beliefs of trustees and pension scheme members - to really assess core beliefs about risk, reward, and real-world sustainability impact. This insight can then be used to tailor training content in the most engaging way. We have found that running a series of tailored training sessions or "big picture" sustainability days has been really impactful and provides the best results for trustees and investment committees.

Also for consideration are the professional qualifications and courses run by the UN Principles for Responsible Investment and CFA Institute. Over time, these are going to become more valuable.

Training should not be a one-off

The Department for Work and Pensions continues to consult on sustainability topics, suggesting further regulation is inevitable. Regulation, and therefore trustee requirements, is expected to increase. Biodiversity and social issues, for example, will start to require more time, knowledge and understanding. The Taskforce for Nature-related Financial Disclosures is, this year, publishing its draft disclosure framework.

Filling the knowledge gap

With the increase in complexity, trustees need to have the right support and have tended to delegate sustainability-related decision-making to investment committees or even trustee working groups, which in turn, make recommendations to trustee boards for approval.

But for all the recent attention to climate change, this is just the start. The Intergovernmental Panel on Climate Change report tells us that at current rates of greenhouse gas emissions, we'll pass a rise of 1.5C in a decade, with widespread species extinction, by the end of the century. In the years ahead, trustees can expect more attention to sustainability, not less. ●

Will your sustainability beliefs benefit your schemes members?

By Lara Rutty, director at Cardano Advisory

There is no right or wrong approach to developing beliefs on ESG topics. In this article, Lara Rutty outlines how to identify beliefs that are considered to be most impactful for the scheme and its membership

> It is imperative that trustees remain informed on sustainability and establish sustainability beliefs that can be integrated across scheme strategy for the long term
>
> Lara Rutty

Trustees are faced with the complex challenge of determining how to participate in the move to a more sustainable world. The choice of whether to engage has already gone as the Department for Work and Pensions and the Pensions Regulator are increasingly focused on trustees understanding the scheme's exposure to sustainability risks and incorporation of sustainability into day-to-day scheme management; but how exactly to approach sustainability remains a significant open question.

The process of selecting beliefs

Selecting beliefs to support a sustainability agenda can be complex and fraught, balancing fiduciary duties with ethical judgment. While there is no one right answer to this problem, we believe there are guiding principles that trustees should consider.

1) Consider what environmental, social and governance factors could result in the most significant impact for your members

A helpful starting point can be considering which ESG factors could result in the most significant impact for your members; first in relation to scheme security, and second in respect of wider social or environmental impacts. Climate change and the global response to it is a key example. The consensus forecasts of the impact of unconstrained climate change over the mid and long term are negative for asset returns and corporate performance. In the face of investment risks and covenant strains, it seems impossible to conclude that unconstrained climate change is in the best interest of any pension scheme or its members.

2) Set out your beliefs, even if that belief is no further action

Sustainability beliefs can be much broader than climate change and could encompass biodiversity, the living wage, labour rights, diversity and inclusion, the social impact of products, waste, resource use, taxation policies, corporate governance, and more. You should consider having a belief on all these factors, even if that belief is no further action is required.

There is no right or wrong approach to developing beliefs; the key is to identify beliefs and associated sustainability factors that are considered to be most impactful for the scheme and its membership.

We have found the best way to accomplish the above steps is to ensure you have an adequate understanding of the factors to be considered and are able to discuss these as both a trustee board, and ideally with your sponsor. This will likely require support from advisors who can provide a framework for discussion and could be run through a workshop-style forum. Trustees may also want to capture member beliefs, to inform their choices, using questionnaires.

3) Identify practical goals that can be applied across investments and with the sponsoring employer

Beliefs can be translated into end-game planning. Where a sponsor is exposed compared to the trustees' beliefs, trustees should consider if this risk is undermining the covenant, thereby suggesting a buy-in or buyout might be an appropriate aim; and, crucially, when undertaking risk transfer trustees should consider whether the possible counterparties will also operate within the trustees' belief framework.

4) Remain informed on sustainability and integrate beliefs across the scheme's strategy

This is not a static practice. It is imperative that, just as with member experience, investment covenant and funding, trustees remain informed on sustainability and establish sustainability beliefs that can be integrated across scheme strategy for the long term.

So I urge you to reflect on what really matters to your members. And once you have established the beliefs on sustainability topics, let that be what guides you through your investment and covenant decision making processes. ●

From beliefs to implementation: Get on your sustainability governance A-game

By Helen Prior, client director at Cardano

Regulation and new reporting requirements provide impetus, but it's become increasingly important for trustees to ensure sustainability governance is at its A-game

Beliefs are an important starting point for trustees to articulate – in fact we wrote about this in an earlier article. It's important for reaching a common understanding of how all stakeholders' views and responsibilities come together, to articulate a set of guiding principles.

There is then work to be done to translate beliefs into actionable policies. This can largely be done through existing documents, like the statement of investment principles, or through preparing for new requirements, such as Task Force on Climate-related Financial Disclosures compliant climate reporting. If you have a defined contribution scheme or section, you'll likely be used to doing your chair's statement. This can be a useful medium for explaining to members all the good work being done on sustainability, as well as providing data on costs and charges.

Organisation is key

Organisation benefits from taking a bird's eye view of what needs to be achieved, what gets covered, when, and where, before diving into detail.

We have found use of sub committees to be effective, through either formal or informal working groups, particularly when combined with delegation to in-house specialists, advisers, or investment managers to project manage or source data.

Establish upfront who should get involved, and how requirements are divided up between groups (eg, external-facing versus internal documents), while still ensuring overall consistency is time well spent, especially in the long run.

> Oversight is usually the most involved. For many schemes, it's the first time trustees will consider how to set and measure progress against climate-related targets
>
> Helen Prior

Importance of a robust monitoring and oversight process

In most cases, final recommendations for policy updates and scheme targets will be overseen by the full trustee board, who retain ultimate responsibility. It's vital to allow plenty of time for training, discussion, and feedback.

Use your advisers and managers to help you design efficient ways to incorporate training, keep up to speed on developments and agree a monitoring and review cycle that fits your existing business plan. Start with key reporting dates and work back. Chances are you'll need to start earlier than you might think or allow for extra working group discussions between meetings.

Oversight is usually the most involved. For many schemes, it's the first time trustees will consider how to set and measure progress against climate-related targets—which can be daunting. Available information is far from perfect, don't let that put you off.

Your advisers or in-house experts should have expertise to help you. It's likely you'll need to lean on this heavily early on. Data collection and analysis can be time consuming and investment managers often have different approaches as to how data is recorded. This is improving quickly, as industry understanding grows.

With focus and pressure from trustees, advisers, and regulators, we expect shared learning and quick evolution in this field in the coming years.

The lessons we learn from current climate reporting will feed in to other likely future requirements, such as measuring biodiversity or social impact.

Update and streamline regularly

While there are set dates for reporting, don't forget to review your sustainability principles regularly to ensure you share your latest thinking. We've been working with clients to provide more up-to-date descriptions of objectives and requirements on how sustainability affects risk and returns.

As well as prioritisation of real-world sustainability impact, such as decarbonisation, net zero, and stewardship objectives, including detailed expectations of managers for stewardship and voting activities.

Over the last couple of years, we've seen moves towards streamlining the data collection process with the help of industry

initiatives (eg, more standardised data requests for managers). This should help trustees spend more time considering their approaches to and the impact of stewardship. Are managers conducting these activities in line with your investment beliefs?

In turn, this will inform views on whether trustees want to engage directly or via managers, and what issues they and members feel most strongly about.

> To help with sustainability governance, in some instances it makes sense to delegate tasks to third parties and advisers
>
> Helen Prior

Delegate where required

Lastly, to help with sustainability governance, in some instances it makes sense to delegate tasks to third parties and advisers. Make sure to hold them to account and that you are comfortable with their competency.

You can use the competency framework proposed by the Investment Consultants Sustainability Working Group.

The five themes within the framework are as follows:

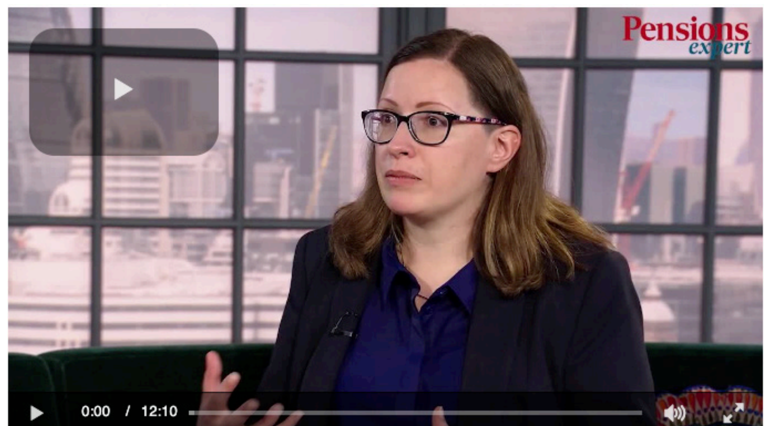
- Firm-wide climate expertise and commitment
- Individual consultant climate expertise
- Tools and software (to support climate-related risk assessment and monitoring)
- Thought leadership and policy advocacy
- Assessment of and engagement with investment managers

Good governance in sustainability is much like in any other area, but because it is a newer topic for many it may not seem that way. The most important takeaway Is to develop a robust framework that works for you and helps you manage the uncertainty. ●

How should trustees build sustainability into governance?

By Alex Janiaud, deputy editor at Pensions Expert

Video: Expectations are rising over trustees' abilities to incorporate sustainability into their scheme governance and journey planning. Cardano client director Helen Prior explains how to articulate sustainability beliefs in polices, how to organise trustee committees, and how to balance risk and reward.



The importance of incorporating sustainability risks into covenant assessment

By Michael Bushnell, managing director at Cardano Advisory

In this article, Michael Bushnell explains why trustees should assess sustainability risks and how to do that in practice

Defined Benefit pension schemes are unique stakeholders in any employing business, with the longest period of reliance and the highest barriers to transferring that reliance.

Shareholders, managers, lenders are all likely to have shorter durations, be less reliant on the business in the first place, or be able to move to another company when the time comes. A DB pension scheme, unless ready to buy-out, does not typically have that luxury.

To ensure they meet their fiduciary duties to secure member benefits, trustees of DB pension schemes will therefore always have to consider both short-term and long-term risks that could impact the sponsoring employer over the course of the scheme's life.

Until fairly recently, the broader market has focused on more obvious financial risks when assessing covenant strength, such as debt levels, M&A activity, cost of sales or industry trends. These risks are generally easy to contextualise, understand and plan for. Some trustees may have extended their reviews to consider areas with less data or consensus, such as the potential impact of industrial accidents, litigation or insolvency.

However, very few trustees have considered sustainability risks in any great detail. This is typically because the understanding of these risks continues to develop and, with less consensus on their impact, it is easier to believe either "our employer doesn't operate in an industry that is typically considered particularly exposed to climate risks", or "the scheme is fairly advanced along its journey plan and the exposure to the long term covenant is minimal, so sustainability risks are not relevant".

> **A clear assessment of sustainability risks is a relevant tool for almost all schemes, regardless of their employer's industry or the scheme's funding levels**
>
> Michael Bushnell

At Cardano, we believe that trustees should have the tools they need to respond to changing circumstances and ensure members benefits are secure; and that a clear assessment of sustainability risks is a relevant tool for almost all schemes, regardless of their employer's industry or the scheme's funding levels. While the range of sustainability risks to be considered is increasingly growing, for now climate change remains at the top of the sustainability agenda and is the primary focus for most trustees.

Why assess climate risk when it doesn't seem relevant to the employer's industry?

Climate risks are not limited to physical impacts, like flooding, or near-term reductions in directly affected industries, like coal power. The potential disruption from climate risks and the world's response to it spreads across the economy: intermittent or expensive power (particularly renewable sources), increased border restrictions or carbon tariffs, localisation of supply or manufacture, increased financing costs and grass-roots social change are all possible.

An assessment of the potential impact of climate change on an employer considers exposure to transition and physical risks across the entire value chain; supply chain and operations, competitors, end-markets and macro-economic conditions. At least some of these elements are likely to be impacted by climate change for every employer.

Similarly, as employers become accountable for their greenhouse gas emissions, the cost of carbon offsetting is expected to rise significantly and this will impact all employers which haven't reached net zero emissions through structural reductions, and is often not fully priced into forecasts and strategy.

Why assess climate risk when the scheme is well-funded?

A reasonable question for trustees is whether it is necessary to consider the potential impact of climate risk where schemes are well-funded and potentially close to buying out with an insurer.

There are three reasons why an assessment of climate risk remains relevant for the majority of schemes in these circumstances:

- While well-funded schemes may no longer rely on the employer for ongoing contributions, until a scheme is actually bought-out, some exposure to the employer remains and this could increase materially

in various downside scenarios. Even at the point of buying-out, the climate risk exposure and policies of the insurers will be a relevant consideration for the trustees.

- There may be a correlated impact of climate risks across the employer covenant and a scheme's investment strategy. In this scenario, the scheme could end up further away from buy-out at a time that the employer covenant has also deteriorated.
- Whilst climate risks are often considered to be long-term, transition risks such as changes in regulations, carbon pricing and changing consumer sentiment could all impact an employer over a short time horizon (eg, within the next three to five years).

It therefore remains vital that trustees assess and understand climate risks as they would other downside scenarios. This is not just a theoretical exercise, as we have seen a number of clients alter the near-term course of their journey planning and develop new contingency plans as a result of this analysis.

How can you assess climate risk in practice?

With rapidly changing policies and corporate responses being implemented across the world, the impact of climate-associated risks is constantly evolving, while reporting and information provision continues to fluctuate.

Given this uncertainty, the easiest way to consider potential risks is to use a range of climate change scenarios. Not only is this best practice, but the Pensions Regulator now expects the largest schemes to report under the Task Force on Climate-related Financial Disclosures framework, including considering the covenant, investment and funding impact of at least two scenarios, one of which must be 'low warming'.

Scenario analysis, which tests the employer's value chain against the possible financial, social and physical change, can give a nuanced view of where and when risks might crystallise and how much of an impact they might have. This in turn can inform the trustees' approach to investment risk, recovery plan shape, monitoring and more. Such analysis, while involving a little set-up time initially can then form the base of future reviews, whether an annual update or a less regular approach if risks are found to be limited or can be monitored as part of standard integrated risk management.

Climate change and the world's response to it will ultimately impact all areas of the economy. Although the form of that impact is as yet uncertain, that should not stop trustees developing an understanding of key risk scenarios and ensuring that they are well placed to protect members' benefits.

Watch the latest video in this series where Helen Prior from Cardano explains how trustees should build sustainability into governance. ●

Social aspects task force should bring more clarity for schemes

By Maria Espadinha, editor of Pensions Expert

Video: Cardano group head of sustainability Will Martindale hopes the new task force on social aspects, announced on July 15, will bring more clarity on the types of disclosures that pension schemes can make in regards to environmental, social and governance risks.

Sustainability is consistent with superior risk-adjusted returns – here's why

By Keith Guthrie, deputy chief investment officer at Cardano

The opportunities of investing sustainably have never been more important. In this article, Keith Guthrie explains the nuanced and thoughtful approach to doing sustainable investing well

Getting sustainable investing right requires a nuanced and thoughtful approach to avoid the pitfalls of simple narratives and short-term thinking.

Many investors are recognising that for companies to be successful in the long term, they can't rely on doing the basic level of what's required of them; they have to start considering their impact on society and the environment.

We believe sustainable investors should aspire to two simultaneous objectives: maximising financial risk-adjusted returns and maximising positive influence and real economy impact. There is an increasing emphasis on this double materiality – it doesn't mean that investment returns are sacrificed.

If executed correctly, these two objectives can be mutually beneficial and over the longer term, real economy impact should reduce risk and improve the financial returns of investments. Individuals, societies and governments are going to demand change over time to address the challenges the world faces.

Companies and countries that anticipate these changes and contribute to the solutions are likely to be better quality investments compared to those who lag or ignore these problems. The more sustainable businesses will benefit from rising demand, more competitive access to capital and will manage their risks better.

> **Incorporating ESG issues into investment decision-making, and excluding certain stocks with unmanaged ESG risks, at worst leads to comparable results but at best, leads to superior risk-adjusted return**
>
> Keith Guthrie

The evidence on ESG integration and financial performance, the first of our two objectives, is clear. Academic evidence shows that incorporating environmental, social and governance issues into investment decision-making, and excluding certain stocks with unmanaged ESG risks, at worst leads to comparable results but at best, leads to superior risk-adjusted return. The evidence on real-world impact and financial performance is less well-established. In our view, navigating this complex environment requires a shift from traditional efficient market assumptions and market cap benchmarking. There is now a need to build an assessment of ESG risks into each investment decision and for pension schemes, a "portfolio" or "systemic" risks approach should be included – understanding the sustainability risks and opportunities across the portfolio as a whole is required.

As trustees incorporating sustainability, you need to be satisfied that real-world impact is consistent with your fiduciary responsibilities. At the end of the day no dependent of a pension fund is going to thank us if in the process of providing a pension, an unliveable world was created. Fiduciary duty needs to move away from being purely a financial duty to beneficiaries. In a recent article, my colleague Helen Prior brought to light why sustainability governance should be high on trustee agendas and an important part of this is evidence of financial performance and views of real-world impact.

Aiming to achieve real-world impact helps with four things:

1) It helps us manage systemic risks such as climate change or inequality.

2) It helps us to identify new investment opportunities – for example, we invest in climate change baskets that capture the thematic opportunities that will arise from the green deal and the energy transition.

3) There is a portfolio diversification benefit.

4) It anticipates policy and regulation.

While we don't have all the answers, we are continually adapting to evolving realities. We developed our own 'model of influence' since there is currently little clarity about what is meant by influence and real-world sustainability impact and how we measure it. We believe, if effectively implemented in investor portfolios, this can have an impact in tackling climate, environmental and social challenges and is an easy to follow framework. Everyone has to start somewhere and maximise where you can; this goes hand-in-hand with long-term financial performance. ●

How sustainability should be included across asset classes

By Magdalena Kennedy, senior client manager at Cardano

Not all asset classes provide the same opportunity for addressing ESG issues, but it does not mean they can be ignored. Here, Magdalena Kennedy summarises why trustees should focus to maximise their sustainability influence and impact at the same time as making asset allocation decisions

> Not all asset classes will provide us with the same opportunities for addressing ESG issues and can be at various stages of sustainability development
>
> Magdalena Kennedy

Strategic asset allocation is one of the most important decisions trustees have to make for their long-term investment plans.

Deciding on how to achieve sufficient growth from a scheme's assets, while maintaining a reasonable level of risk is no longer purely a financial consideration. The growing public interest on environmental, social and governance issues and the pension regulations requiring and expecting trustees to take their stewardship duties seriously, means that sustainability needs to be considered when allocating assets.

As we have mentioned in previous articles, once sustainability beliefs have been defined, and trustees are aligned on their approach to implementing sustainability into their investment strategies, the next step is to decide on how to allocate capital to the different asset classes.

Defining responsible allocation, management, and oversight of capital will help to create long-term value for pension schemes' beneficiaries and will benefit the economy, the environment and society. Capital allocation decisions made now can impact social and economic outcomes of the future.

It is important to recognise that not all asset classes will provide us with the same opportunities for addressing ESG issues and can be at various stages of sustainability development.

From our perspective, equities offer very good opportunities for expressing sustainability views. They provide the greatest scope for voting and engagement, allowing more steer on prioritising sustainability issues. Since information and financial statements are publicly available, analysis can be made that will aid more selective screening on specific ESG criteria allowing stocks to be allocated to the ESG-focused strategies you want to encourage.

Although fixed income investments do not offer the voting rights to influence the sustainability agenda, investors can still engage and encourage on ESG factors as key providers of financing, in particular prior to issuance.

Green, social and sustainability bonds, and green gilts should be considered as well as thematic bonds. These continue to develop and play an increasingly significant role in investment strategies. We have seen an increased interest in sustainability linked and social bonds post-pandemic.

Trustees should not ignore sustainability when discussing the exposure to derivatives. Derivatives can help match a pension fund's assets with liabilities in a cost effective and capital efficient way; that alone is a good thing from a sustainability perspective.

There are also benefits from counterparty engagement on sustainability issues, and these should not be underestimated. The ability of counterparties to engage with banks on sustainability issues and escalate concerns, is akin to the influence that a shareholder would have.

In summary, there are a lot of variables to consider, and this may not be an easy task. Sustainability factors will vary by asset class, investment style, sector, market trends but also from the constraints of your own pension scheme governance and funding needs.

But since ESG issues will affect our long-term risk and return outcomes – read our last article about how sustainability is consistent with superior risk-adjusted returns – it is necessary to make these strategic sustainable allocations.

Conscious actions by trustees now, will inevitably enhance the long-term outcomes for members and beneficiaries. ●

The importance of using scenarios in decision-making

By Ben Wilmot, director at Cardano Advisory

There is inherent financial uncertainty in the face of climate change. Here, Ben Wilmot explains that scenarios are trustees' best bet at tackling opportunities and preparing for risks

Scenario analysis assesses the financial loss to a pension scheme's portfolio - and to their sponsor - based on a degree of warming. It's the best tool we have - but in our experience, the power of scenarios is not fully understood. Here we set out what scenario analysis is, and how to best use it.

For a start, it is mandatory for larger schemes. From October 2021, the Department for Work and Pensions mandated that pension schemes with more than £5bn of assets are to carry out thorough scenario analysis aligned with the Task Force on Climate-Related Financial Disclosures framework once every three years. This requirement will extend to schemes with assets of more than £1bn in October 2022.

Regulations aside, the use of scenarios are in trustees' best interest. Without a sense for the potential state of the future, trustees would be unprepared to adapt to the risks and opportunities that may arise. So what are scenarios and why then are they better suited for decision-making?

Climate scenarios are a set of deterministic models that book-end the range of future possibilities. The scenarios are several different tangible situations that trustees may engage with. Through encompassing a range of key variables, scenario analysis offers trustees the best opportunity to prepare for the realistic worst and to strengthen their covenant through the incorporation of scenario-specific risk management and goal-setting into their plans.

> **Regulations aside, the use of scenarios are in trustees' best interest**
>
> Ben Wilmot

When we consider an investment portfolio we understand transition risks and physical risks - transition risk is the pace and preparedness of the company for policy change - higher carbon price, change in energy use, change in material use and so forth. Physical risk is the likelihood and severity of increased weather events.

When we consider a sponsor, this requires additional care - given the importance of the sponsor to the pension scheme. At Cardano, we consider a company's entire value chain, looking at the geographical location and governance of its supply chains, the behaviour of its competitors, how its end-markets will change and how it interacts with the broader economy.

Adopting this approach, we believe that schemes that use scenarios to anticipate potential changes are likely to be in a better position to adapt to and change with new challenges (as previously highlighted, anticipation of change often leads to better investments). Many of our clients have used scenarios today to identify the potential risks of the future so that these risks may be monitored and acted on accordingly.

Creating scenarios is a complex process that involves making calculated assumptions to obtain contrasting scenarios. Although some companies rely upon certain reference models and then perform in-house analysis, the esoteric nature of climate-modelling means that other companies outsource their professionals in order to fully understand their financial risks and opportunities. ●

Deterministic and stochastic models

A deterministic model sets forward one set of assumptions based upon historical averages in order to obtain one fixed outcome, with no sense of volatility. On the other hand, a stochastic model creates a distribution based upon random historic variables and projects the probability of many different outcomes, with one most likely outcome. In this way, a stochastic model is more advanced than a deterministic in that it provides confidence levels, reflects underlying variability and shows all potential, albeit unlikely, outcomes.

However, even though a stochastic model may seem preferable when addressing the many variables that influence climate change, the caveat is the same.

An overwhelming emphasis is placed upon the one most likely outcome of the model, a model that may not even have the correct assumptions. This may be problematic in risk management in that it could create a false sense of security and lead to an oversight of key risks.

Even though the future with climate change is uncertain, it still requires a plan and action. There is a need to fully incorporate events that may occur with different levels of climate change, not events that have occurred, into financial decisions.

The evolution of sustainability in equity investing

By Hilde Veelaert, chief investment officer at Actiam

Are planetary boundaries the next frontier of sustainable equity investing?

> A future-proof equity portfolio should avoid financial risk from holding companies that do not adapt to the sustainable transition or that could harm their surroundings
>
> Hilde Veelaert

Equity as an asset class has a long history rooted in sustainability and shareholder engagement. Even in the 19th century, equity investors used voting and engagement to influence how companies behave. Efficient use of capital, dividend policy, and strategy were typically on the agenda.

In the 1970s, equity investors started considering ethical values, triggered by global abhorrence of South Africa's apartheid regime. In the nineties, initial ethical screenings expanded to embed environmental, social and governance factors in capital market decisions. Through the years, sustainable investing through equities has continuously evolved and increased in complexity.

In the last decade, sustainable investors have increasingly started to focus on companies' real-world sustainability impact. Sustainable investors want to know how companies treat their employees, manage their supply chain, and lower their carbon emissions. Sustainable investing in equities now encompasses a forward-looking assessment of companies, and the real-world impact of their economic activities.

The transition towards a low-carbon and water-neutral society will alter market conditions, government policies, and demand patterns. Companies able to follow this transition can reap benefits, through increased demand for their products or services. While companies that lag or cannot adapt will run an increased risk of stranded assets, fines, cost increases, and falling demand. Such a forward-looking assessment requires the combination of smart use of ESG data as well as a thorough, qualitative review.

A future-proof equity portfolio should avoid financial risk from holding companies that do not adapt to the sustainable transition or that could harm their surroundings. Instead, the portfolio should focus on capturing opportunities linked to this transition. This can be done by selecting companies that operate within the planetary boundaries and social foundations.

Rockström et al identify nine planetary boundaries, reflecting the earth's capacity to maintain the planetary life support systems essential for human survival and to maintain resilient production and livelihoods. Through human behaviour, some of the boundaries are breached or likely to be breached, endangering future growth and prosperity. By operating within the safe and just zone we will make progress necessary to achieve the Sustainable Development Goals, adopted by all United Nations Member states in 2015.

Selecting the right companies is the first step in creating a future-proof portfolio. The second is portfolio construction.

Typically, sustainable equity portfolios tilt towards growth and quality. They also tend to underweight the energy sector. Due to rising interest rates and higher oil prices, these style tilts and sector deviations explain the weaker performance of sustainable equity strategies compared with generic benchmarks over the last year.

Investors can protect their portfolios from these effects by introducing proper risk and factor management. By minimising factor and sector exposure, the relative performance of the sustainable equity strategy will be driven by idiosyncratic ESG-related risks and opportunities.

The social responsibility or impact of an equity investor does not end with selecting the right companies. Through voting and engagement, shareholders can encourage companies to prepare for new sustainability challenges.

Engagement can be done in several ways, including collaboration with other investors using initiatives like the Climate Action 100+, collective engagement through providers such as Sustainalytics, or individual engagement.

If a company does not adhere to your policy or respond to your engagement objectives, your investment process should allow for divestment of this company.

Having been a sustainable equity investor for more than 20 years, I have witnessed spectacular growth in the sector. It is constantly evolving. New scientific information, combined with changing norms and values, require you to continuously adapt your investment processes to keep your equity portfolio future-proof.

While data itself is not enough to assess the sustainability of a company, it plays a crucial role in reporting and evidencing your impact and efforts. Combining available data with a framework for understanding sustainable investing, such as planetary boundaries, is a starting point, but unlikely to be the end. ●

The importance of stewardship

By Greta Fearman, senior responsible investment officer at Actiam

Collaborative relationships with investee entities are important for pension schemes for multiple reasons. If done well, stewardship can have a demonstrable impact on addressing both systemic portfolio risks, and on contributing to real world change

Earlier this month The Economist published a feature calling out ESG for its perceived flaws. One claim was that investors' activities are too focused on the risks that sustainability issues present to companies and not enough on the impact that investee companies have on the world.

We agree with this concern and support investors adopting a "double materiality" standard when addressing sustainability issues. However, what was missing was an acknowledgement of the impacts that stewardship, if done well, can have on addressing both systemic portfolio risks, and on contributing to real world change.

For pension schemes, relationships with investee entities are important for multiple reasons. Firstly, more collaborative relationships can reduce portfolio risk by improving corporate resilience.

Furthermore, collaboration also encourages more positive real-world impact from businesses. Both together can secure long term financial returns, this is essential as a scheme's obligations to its beneficiaries will go well into the future.

What is good practice stewardship?

Stewardship activities will naturally vary; investors' goals can differ but, there are common characteristics broadly applicable to high-quality approaches.

> A recent Financial Reporting Council study found that the UK Code has led to better quality engagement (61 per cent of respondents said 'moderately better', while 16 per cent said 'much better')
>
> Greta Fearman

But what does high quality stewardship look like?

Prominent organisations have found common ground. The principles for responsible investment refers to it as Active Ownership 2.0 sharing a similar view to the UN convened Net-Zero Asset Owner Alliance. The revised UK Stewardship Code also lays out a high standard with similar elements.

Common points include:

- A preference for corporate engagement to be 'sector-wide' with issues raised widely, rather than ad-hoc with individual companies
- The encouragement of collaborative action and goals to share costs and benefits and increase chance of tangible impacts
- The co-ordination of multiple active ownership tools and escalation points: combined dialogues, clear voting recommendations, and the co-filing of shareholder resolutions
- Extending corporate engagement to provide input on relevant policy developments
- The importance of establishing clear objectives and a focus on outcomes; ie, not just numbers of engagements

What's promising is that a recent Financial Reporting Council study found that the UK Code has led to better quality engagement (61 per cent of respondents said 'moderately better', while 16 per cent said 'much better'). Organisations are also increasing the resources that they devote to stewardship activity.

Using voting as a stewardship tool

An essential component of stewardship is proxy voting.

After significant progress in 2021, the 2022 proxy season has unfortunately shown some reversal as large asset managers have come under political pressure to tame their positions on climate change. The climate proposals that have been filed have focused on requiring increased specificity on climate transition plans from companies but have been less widely supported. Previous climate resolutions were related generally to emission reduction targets, but are increasingly now seeking targets explicitly covering Scope 1, 2 and 3. Proposals that request Scope 3 alignment with the International Energy Agency's scenarios, and the phasing-out of fossil fuel financing are increasing[1].

There was a growing focus on social issues like; diversity, inclusion and pay equity. The number of environmental and social proposals being filed is still increasing, with 2022 overtaking 2021.

Pension schemes should ensure that their voting policies are clear. They should track their own voting behaviour carefully and challenge that of their appointed managers.

Assessing asset manager practices

As part of a checklist for robust stewardship, pension schemes should also assess the investment managers acting on their behalf. This means assessing the quality, not the quantity, of engagements. Managers should be required to provide details about cases, including milestones they have set for companies, progress updates and dialogue outcomes.

Pension schemes should require that their managers fully exercise their shareholder rights to vote. They should ask for voting policies that outline how ESG factors are considered when voting, and more importantly, evidence of them being implemented.

For example, if a scheme has a defined climate policy that is aligned with 1.5C warming, all proxies should be assessed as to whether or not their proposals are similarly aligned. This may entail casting votes against boards of companies that continue to perform poorly on Transition Pathway Initiative assessments or on the Climate Action 100+ benchmarks.

Cardano's approach

At Cardano, active ownership is undertaken across all investment activities and takes advantage of all the above noted tools.

In the UK, Cardano has enhanced its stewardship approach for fiduciary management portfolios via a partnership with Sustainalytics. And now, with Actiam's capabilities integrated within the investment team, we're able to significantly extend our stewardship activities even further. Some examples of current initiatives and engagements include:

- Leading a collaborative initiative to reach zero deforestation bringing together over ten global institutional investor organisations. We use satellite-based data to get on-the-ground insights of company impacts. We involve other stakeholders like IDH and AidEnvironment with topical expertise which helps deepen our corporate engagements.
- Engagement with HSBC and the co-filing of a resolution on phasing out fossil fuel financing. The resolution was withdrawn when the company made commitments to us to strengthen its lending policies on fossil fuels including coal, and come with a solid implementation plan.
- Engagement with Sainsbury's and the co-filing of a resolution on living wage which contributed to the company making commitments to pay a living wage to its staff.

These are just a few examples of many other initiatives we are involved in. We are continuously working to maintain our leadership position in this space. ●

[1] *https://corpgov.law.harvard.edu/2022/06/07/an-early-look-at-the-2022-proxy-season/*

Why good stewardship matters for pension schemes

By Alex Janiaud, deputy editor at Pensions Expert

Video: Actiam senior responsible investment officer Greta Fearman explains the importance of stewardship for pension scheme trustees, as well as what policy areas to keep an eye on, and how the field is innovating.

Assessing managers on ESG: Where beliefs become practice

By Geordie Cox, investment manager at Cardano

How are managers integrating ESG issues into their investment decisions and how to tell if they are genuine

The asset management industry's approach to ESG integration, stewardship and reporting is changing.

It is important that you ensure the asset manager's approach to environmental, social and governance issues aligns with your own investment beliefs and is a core part of the investment decision. The people, policies and processes informing the asset manager's investment decisions should be scrutinised.

Earlier in 2022, we assessed over 180 asset managers' investment strategies, specifically focusing upon ESG issues, to augment our manager research programme. This information is used to drive engagement efforts and to help improve managers' processes. This year, we found that 70 per cent of those strategies are rated as having "positive momentum" on ESG topics; managers are actively improving their ESG integration, stewardship and reporting.

More than 65 per cent are signatories to industry initiatives, such as the UN Principles for Responsible Investment. Some 70 per cent have an exclusion policy on sustainability issues that goes beyond legal requirements. 53 per cent publicly support the Task Force on Climate-related Financial Disclosures, which, given many of our managers are overseas, is a reassuring statistic. As of October 2022, TCFD reporting is a requirement for all pension schemes with more than £1bn in assets; for master trusts or schemes with more than £5bn, it is already a requirement. However, with 30 per cent of strategies not having "positive momentum", we also found that there is still room for improvement.

> **Integration of ESG into decision-making should be seen as a prerequisite in any private market strategy**
>
> Geordie Cox

One area of focus for us is private markets. Only 45 per cent of private equity or debt managers we researched are UN PRI signatories and many managers still see ESG integration as a tick-box exercise. Many invest over the long term and often have controlling positions in their investments. Integration of ESG into decision-making should be seen as a prerequisite in any private market strategy.

Each manager is rated based on their ESG policy, process integration, monitoring, engagement and reporting. This provides the opportunity to challenge where managers are not considering ESG issues as expected, or where their processes fall short of industry best practice. For a manager to score highly, they will need to demonstrate evidence of effective activity in the following areas:

1) Demonstration of intent
Having clear statements of how ESG considerations are integrated into decision-making and publicly signing up to globally recognised standards are clear indicators of how committed managers are on sustainability topics.

2) Sustainability should be entrenched and evident within the investment process
There should be multiple examples of clear and structured integration of ESG factors into the investment due diligence and monitoring process. Supporting external initiatives and using ESG data would also help increase a manager's rating.

3) A clear focus on engagement and positive change
Stewardship outcomes that help achieve positive real-world impact are rated highly.

4) Progress towards improved reporting
Reporting is an important consideration. How managers communicate; how policies are applied in practice; and how voting and engagement records are disclosed, if done well, can showcase how embedded ESG factors are in decision-making.

Today, investment consultants also have access to ESG data sets and greenhouse gas emissions data. This enhances the quality of oversight and allows the following questions to be asked: is the asset manager aware of the ESG risks across their portfolio? How does that affect the asset manager's view on fair value? How does the asset manager incorporate ESG risks in their stewardship programmes?

The asset manager can be a source of insight across a range of topics – from forecasting economic outlooks to understanding how to measure climate change – often across a range of asset classes, investment strategies and even geographies – delivering on Trustees' investment beliefs. ●

Bringing purpose to pension portfolios

By Geordie Cox, investment manager at Cardano

Investing in solutions to some of the world's biggest challenges can also present an attractive investment opportunity. Geordie Cox explains why you should be focused on bringing more impact strategies to your private market portfolios

If ESG integration is focused narrowly on managing risk and avoiding harm caused by environmental, social or governance-related factors, impact investing is focused on investing to create positive environmental or societal outcomes. Impact investing is growing in prominence and pension stakeholders should begin to consider how it can be introduced to their portfolios.

Historically, much of the market has associated this form of investing with accepting higher risk or lower return in exchange for the impact outcomes sought. The market has evolved. It is no longer just about philanthropic investing strategies but increasingly about institutional, scaled strategies, that invest "with the intention to generate positive, measurable social and/or environmental impact alongside a financial return"[1] — where the impact is delivered alongside a neutral effect upon risk-return and, at best, is a critical factor in generating attractive risk-return.

This ability to generate competitive risk-adjusted returns is always important when considering the fiduciary duties of any pension trustee. Instead of being a barrier to generating these returns, impact investing can arguably be a driver. Investing in solutions to some of the world's biggest challenges is likely to present ever more attractive investment opportunities. According to a recent paper on trustee's fiduciary duties co-produced by leading law firms, "where there are sound financial reasons for making impact investments as part of a wider investment strategy, trustees should have the power to do so"[2].

Social rents demonstrate a lower correlation to short-term economic conditions than rents in other real estate segments

Geordie Cox

We believe the opportunity set for impact investing is compelling and, increasingly, scalable; particularly so in private markets where governance models allow for greater investor influence, control and ability to fully engage with businesses. It's why we're focused on bringing more impact strategies into clients' private market portfolios.

Social and affordable housing is one area UK pension scheme clients are increasingly interested in, a space that perhaps neatly portrays the opportunities within impact investment — a sector where investments can improve lives but also offer attractive investment characteristics. There are over 1mn families on social housing waiting lists in the UK[3] and only a fraction of the estimated 145,000 needed new homes are being built each year.

The supply demand imbalance that makes for an attractive impact investment case, also provides the basis for an attractive risk-return, supporting valuations and rents. Investors benefit from estimated returns between 5 per cent and 7 per cent (on an annual basis net of fees) with the benefit of the underlying cash flows being partially backed by local government through housing benefit. Social rents demonstrate a lower correlation to short-term economic conditions than rents in other real estate segments.

For these reasons, earlier this year, we chose to partner with Big Society Capital, the UK's leading social impact investor. We are working together to direct up to £195mn of new investment toward real estate fund strategies addressing the UK housing crisis.[4] Working together has not only allowed us to benefit from each other's expertise but should act as a catalyst for other institutional capital to invest too, leveraging the impact we are able to generate on the housing challenges we face in the UK.

Product proliferation within the impact space has driven tangible interest and asset growth. In the UK, the social impact sector is estimated to be worth circa £7.9bn, with investing into social housing funds rising 10-fold in five years. With greater opportunity comes challenges and greater responsibility. It is paramount impact is assessed properly in order to avoid 'impact-washing', which is where asset managers are operating superficial impact strategies to attract investors. Regulation will help but understanding a strategy's impact operating model and assessing the quality and quantum of impact are key.

Bringing purpose to pension portfolios through select, well-researched impact investments need not come at the expense of risk-return. Far from it, impact investing has the ability to enhance an overall portfolio's risk-return. ●

[1] GIIN (Global Impact Investing Network)
[2] Impact investing by pension funds. Fiduciary duty – the legal context (October, 2020)
[3] https://www.housing.org.uk/globalassets/files/people-in-housing-need/people-in-housing-need-2021_summary.pdf
[4] https://www.cardano.co.uk/industry-insights/cardano-and-big-society-capital-launch-joint-rfp/

Integrating sustainability in DC pensions

By Emma Matthews, head of investment at NOW: Pensions

How to invest with impact to deliver financial well-being later in life

Workplace pensions are an integral part of the social infrastructure in our society, and most workplace pensions are now defined contribution schemes. In contrast to the defined benefit world, there is no sponsor underwriting scheme risks and no Pension Protection Fund to fall back upon; massive responsibilities rest upon the shoulders of trustees.

A further important differentiating factor is the relative maturity of the two markets. Today's active contributors to DC schemes are likely to be still drawing down their savings towards the end of this century, long after the DB world has seen its twilight years come and go.

So, whilst the integration of ESG factor analysis and sustainable investment are not new for the pensions industry, it could be argued that these issues are more important for DC than they are for DB schemes – society will be living with the investment decisions made now, longer into the future.

Do you question whether your scheme could be doing more?

First come beliefs, then comes goals...

Trustees need to think long and hard about how to deliver sustainability within DC schemes.

To prepare for all scenarios, DC schemes need a robust design and a coherent investment strategy. Investments are required to deliver growth over time and exhibit tolerably low volatility through the ups and downs of financial market cycles. On top of that, there is the decumulation challenge to deliver financial wellness to members in later life.

> **Sustainability should be an integral part of trustees' thinking for all stages of members' life cycles**
> Emma Matthews

Sustainability should be an integral part of trustees' thinking for all stages of members' life-cycles. Trustees are helped by the evolving regulatory framework but they should be constantly asking themselves:

- Does the statement of investment principles properly incorporate the scheme's sustainability beliefs and goals?
- Are these goals appropriately focused? Are they actionable in terms of definitive engagement activity?
- Do these goals accord with members' own views?
- Have members' views been tested in dialogue and in focus groups?
- How do the scheme's policies measure up against industry best practice?

...then we must turn beliefs and goals into action

The global economy, and the businesses that operate within it, will be different in the future due to the impact of climate change, societal development and bio-diversity loss. A more sustainable world lies ahead but we are not there yet. Trustees can prepare their schemes so that they are well placed to participate in a successful transition.

Thinking within a framework of risk, return and impact will help.

Let's take a simple example from the world of equity investing. Companies that each have very low carbon-footprints may indeed make a current investment portfolio look like it is sustainable. But, how much better could that portfolio's impact be if it were invested in companies that were reducing their carbon intensity, improving their sustainability and contributing to the successful transition to a sustainable future?

This is what is meant by a framework of risk, return and impact.

Of course, DC schemes most likely delegate day-to-day investment decision making to external asset managers. It is critical that trustees ensure that their scheme's own investment beliefs are not diluted by this process of delegation:

- Is sustainability a key consideration in manager selection decisions? Are managers focussed upon successful transition or, more narrowly, upon the current ESG characteristics of their investments?
- Do external managers have the right tools to deliver risk, return and impact?
- Do external managers transparently report their engagement activities? Are these activities aligned with the scheme's engagement priorities?
- Does the scheme strategically have the right mix of assets?
- Have trustees thought about how to use the increased flexibility that they will have to invest in illiquid assets?

There are new and growing challenges to be met. Having the right framework in place will bring focus and help trustees best serve their members' interests as we all transition to a more sustainable future. ●

Appendix of Cardano articles, 2021

Advertising features

July 1 2021
Trustees embrace the spirit of TCFD – not just the letter
The climate crisis is the most fundamental challenge the global economy faces. TCFD reporting is an important step forward. This is a view increasingly shared by pension fund trustees. A shift that we welcome.

July 23 2021
Green with envy? Why pensions funds must not miss out on green bonds
Sustainable bonds provide an efficient solution for pension funds looking to hedge interest rate risks across their liabilities, while investing sustainably. In this article, Cardano partner, Karin Pasha, takes a look at the sustainable bond market, why sustainable bonds are attractive for UK pension funds, how to avoid greenwashing, and how to interpret the sustainability premium.

August 10 2021
Understanding your sponsor's exposure to climate change – before it's too late
Despite the clear and obvious threat of climate change, the impact on employer covenant is often overlooked due to complexity and information barriers. This needs to change.

August 26 2021
Nuclear, Lorenza and I
The need to decarbonise is a priority, and nuclear energy offers a solution, but the public must be reassured that it is a safe option.

September 21 2021
We still don't believe stewardship is valued as highly as it should be – this needs to change
The revised stewardship code represents a higher standard of stewardship which aligns with the attention to sustainability we see across investment markets. Stewardship is one of the most important tools in the investor toolbox.

October 15 2021
Fund managers are upping their game on ESG issues – but there is more to be done
Throughout the year, we assess all our fund managers on how they integrate ESG issues into their investment processes. In this article, we set out our findings.

November 4 2021
COP 26 – a trustee's guide
Cardano's Darren Redmayne takes us through a Trustee's guide to COP 26.

December 9 2021
Driving Sustainable Change
Following the COP 26 conference, which was a small step in the right direction, governments, policymakers, and companies now must fulfil their new commitments and implement the agreed decarbonisation targets. With climate change at the top of the global policy agenda, we're expecting to see even more sustainability-related regulation in the coming years.

December 15 2021
The energy (r)evolution
For the next 30 years, we need to decarbonise most of our society. Cardano explores how to look at both risk and return to capture the financial upsides, while at the same time having a positive impact on the climate.

December 20 2021
Looking sharp, in a sustainable way
Sustainability is often associated with carbon emissions from transportation and construction, but how about the soft presents under the Christmas tree? Stefan Lundbergh from Cardano, takes a look at the softer side of sustainability.

Podcasts

July 27 2021
TCFD helps schemes to understand financial risks
Podcast: Will Martindale, group head of sustainability at Cardano, and Joanne Segars, chair of the board of directors of LGPS Central and chair of NOW: Pensions, discuss how schemes can best implement the Task Force on Climate-related Financial Disclosures requirements.

September 28 2021
Understanding green and sustainable bonds
Podcast: Arthur Leijgraaff, senior treasury officer at the Dutch development bank FMO, and Rik Klerkx, senior portfolio manager at Cardano, explain what goes into a green bond issuance, and what trustees need to ask of their asset managers and issuers.

October 14 2021
Schemes' trustees cannot ignore social factors risks
Podcast: Stefan Lundbergh, director at Cardano, and John Howchin, secretary-general of the Council on Ethics for Sweden's national pension funds, discuss why socially aware investing is so important for pension funds of all sizes — and how trustees can go about taking action.

December 21 2021
Solving the UK's 'underpensioned' problem
Podcast: NOW: Pensions' Samantha Gould and Pensions Policy Institute's Lauren Wilkinson talk us through the findings of a recent research report into the UK's 'underpensioned' problem, and the policy initiatives that could help bridge the gaps.

Videos

July 28 2021
Pensions industry needs an 'investment rethink' to grapple ESG
Video: Keith Guthrie, deputy chief investment officer at Cardano, discusses how schemes can be ready to invest in a world where climate change and sustainability are now among the top priorities.

August 27 2021
Making ESG work for your scheme
Video: With ESG and climate change now required by law to be part of schemes' investment principles, how can trustees make sure they are implementing these principles effectively? Cardano client director Helen Prior discusses implementation, integration and impact with regard to ESG and sustainability.

September 30 2021
How to incorporate ESG into manager research
Video: Ben Cooper, head of manager research at Cardano, explains how to make sure external managers meet sustainability requirements, how easy it is to get information from third parties, and what questions trustees should be asking during the manager appointment process.

November 17 2021
COP26: Key messages for trustees
Video: As the ink dries on a landmark climate change deal struck between world leaders at COP26, Cardano's group head of sustainability Will Martindale talks through the key events and outcomes of the conference that pension scheme trustees should be aware of.

December 23 2021
How to bridge the pensions gap
Video: Joanne Segars, chair of NOW: Pensions' trustee board, discusses the conclusions of a new report into the UK's 'underpensioned' populations produced by the master trust and the Pensions Policy Institute, potential policy changes, and what trustees can do to help their members. ●