International Actuarial Association
Association Actuarielle Internationale

Pension Fund Environmental, Social and Governance Risk Disclosures: Developing Global Practice

Resource and Environment Working Group

December 2020

Discussion Paper

Pension Fund Environmental, Social and Governance Risk Disclosures: Developing Global Practice

This paper, on pension fund Environmental, Social and Governance (ESG) disclosures, is an initiative of the Resource and Environment Working Group (REWG) of the International Actuarial Association (IAA), with the valuable assistance of the IAA Pension and Employee Benefits Committee (PEBC).

This paper has been approved for publication by the REWG and the Scientific Committee of the IAA. The IAA is the worldwide association of professional actuarial associations, with several special interest sections and working groups for individual actuaries. The IAA exists to encourage the development of a global profession, acknowledged as technically competent and professionally reliable, which will ensure that the public interest is served.

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The authors are grateful to members of the REWG who commented on the paper, and for the survey carried out by the PEBC of pension scheme practice, and their helpful comments.

The role of the REWG is to identify issues related to resources and the environment of interest to actuaries and to which the actuarial profession, at an individual or national level, can make a useful contribution in the public interest.

The views expressed in this paper do not represent those of the IAA, nor those of the entire REWG.

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Table of Contents

Executive Summary 4

Introduction 5

Pension Fund Structures and Management 7

ESG Risk Disclosures 10

Stewardship of Investments 13

Impact Investment 15

Environmental Litigation 17

Review of Examples of Public Pension Fund Disclosures 18

Concluding Remarks 22

Appendix 24

Executive Summary

The paper summarizes the main features and trends in pension fund Environmental, Social and Governance (ESG) risk disclosures around the world available to regulators, members and the public. It includes reference to statutory requirements, general practice and voluntary disclosures in relation to pension fund accounts and other documents made available to members, such as benefit/fund statements.

We discuss the financial and reputational risks which ESG issues can present to pension fund investments and to long-term performance.

We refer to all types of pension fund, including defined benefit (DB) and defined contribution (DC), and multi-employer structures. The paper is based on a global survey of practices and legal requirements in various countries – including the main locations for employment-related pension funds – carried out during autumn 2019, and a review of best practice as illustrated by a selection of major pension funds.

Reference is made to disclosures relating to climate change and other ESG risks arising from the management of pension fund investments. There is particular reference to the take-up of the recommendations of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD).

Governance is considered in relation to corporations in which pension funds invest, and also in regard to the changing attitudes to stewardship policies adopted in managing investments, where the impact on all stakeholders may need consideration. We note the rapidly increasing environmental litigation which is starting to impact pension funds.

Our overall conclusion is that, apart from in many of the largest pension funds, ESG risk disclosure is limited in many parts of the world, but increasing rapidly as legislation is implemented, particularly in Europe. Pension fund investments are coming under increasing scrutiny.

For actuaries involved with pension funds, whether as trustees, investment managers, investment consultants or advisers on funding or governance, it is essential that they are aware of these trends so that they can ensure their clients or employers address the challenges on a timely basis.

In regard to the COVID-19 pandemic, much of the work on the paper was completed before it commenced, so there is only limited reference to it.

Introduction

Pension funds are major asset owners and global investors. According to recent Organisation for Economic Co-operation and Development (OECD) statistics, total global pension fund assets amount to USD 44 trillion, with the USA making up more than half that figure and Australia, Canada, Japan, the Netherlands, Switzerland and the UK being substantial players. Ownership of businesses providing the world's goods and services, at least in part, also implies some responsibility for how these activities are conducted.

After being viewed by some as mainly of interest to ethically driven investors, ESG issues have moved in recent years from being an ill-defined, under-researched area to a position where most investment managers now claim to integrate ESG into their investment processes in order to maximize long-term returns and identify potential reputational risks. Over 2,300 organizations representing more than USD 80 trillion in assets under management, including pension funds, insurers and investment managers, have signed the United Nations (UN) Principles for Responsible Investing. This seems to have been driven by a number of factors, including:

- high-profile ESG failures such as the BP Gulf oil spill, Vale dam disaster, Volkswagen emissions scandal, Westpac money laundering crisis and Bangladesh clothing factory disasters;
- increased public concern relating to ESG issues, which can rapidly escalate through global social media, as strikingly illustrated by recent concerns over plastic waste; and
- much academic research suggesting a positive effect on investment returns and/or volatility when ESG issues are reflected in investment processes – see, for example, Morgan Stanley, MSCI and Truvalue Labs.

ESG can be seen as a collection of business risks that companies and investors need to evaluate, but which may not have received the attention they deserved in the past, with short-term profit being prioritized at the expense of longer-term sustainability; for example, where:

- environmental risks have been termed "externalities" – someone else's problem, such as the despoiling of local agriculture or tourism by pollution. But litigation from other businesses or action by local government, even many years later, can bring costs back to the polluter;
- insufficient resources are devoted to risk management;
- companies are vulnerable to exposure of their business practices, including where they are working through third parties over which they may have limited control, as child labour and palm oil campaigns demonstrate;
- an insular, opaque and flawed business culture develops which allows or overlooks illegal activities, such as with money laundering, market manipulation and corruption; or
- there are governance problems related to an overly dominant chief executive or a lack of diversity, which may persist for many years if financial results seem acceptable and risks are not appreciated.

In addition, pension funds and society itself are now facing the global risks and challenges of climate change. There is strong evidence that climate change is already having an impact in terms of natural disasters and through changes in markets as a result of the increasing efforts to mitigate global greenhouse gas emissions. Pension funds' disclosures in this area will help to reveal the extent to which they are positioning themselves for the changes to come.

The objective of this paper is to examine the extent to which pension fund ESG risks are disclosed around the world, given their importance in terms of long-term fund performance and delivering members' benefits, as well as in relation to wider societal impacts. We are grateful to colleagues from the Pension and Employee Benefits Committee of the International Actuarial Association for their assistance in providing the survey of practice and legal requirements in key locations on which this paper is based, carried out mainly in autumn 2019. Such disclosures indicate the current and rapidly evolving approach to ESG risk by pension funds, and the extent to which this is available for scrutiny by members, regulators and the general public.

Pension Fund Structures and Management

How pension funds engage with ESG issues is affected by their governance, as determined by local legislation and practice, and their size and structure, in terms of the resources they can devote to ESG, including whether they have their own investment departments or have to rely on external investment managers. These factors are summarized in the following table for the 14 countries in our survey:

Overview of Pension Fund Assets and Structures

Country	Approximate total pension funds 2019 (USD billion*)	Structure
Australia	2,077	A few large multi-employer funds with corporate trustee, including equal employer/employee involvement, some independent trustees. Also retail funds.
Canada	1,924	Provinces vary; mostly employer-sponsored, managed by a committee (trustee) with some employee/outside involvement. Also industry and retail funds.
France	155	Mostly pensions are from unfunded industry-wide plans. The few funded are employer-sponsored. Also insured retail funds.
Germany	502	All plans employer-sponsored. Employee representation mandatory. Some large industry-wide schemes (e.g., construction, banking). Also insured and unfunded.
Ireland	184	Employer-sponsored, separate entity with trustees (including member-nominated and professional). Many small insured schemes.
Italy	210	Employer-sponsored with separate board including employee representation. Also insured and unfunded.
Japan	1,400	*(Excludes Japanese Government Pension Fund.)* Employer-sponsored, separate entity, 50% employee representation. Also retail funds.
Netherlands	1,690	Employer- or multi-employer-sponsored, separate entity with trustees and generally equal employee representation.
Poland	48	Employer-sponsored, subject to radical restriction in recent years.

Country	Approximate total pension funds 2019 (USD billion*)	Structure
South Africa	231	Employer- or multi-employer-sponsored, separate entity with trustees and generally equal employee representation.
Spain	43	Employer- or multi-employer-sponsored, separate entity with trustees and generally equal employee representation. Also insured retail funds.
Switzerland	1,047	Employer- or multi-employer-sponsored, separate entity with trustees and generally equal employee representation.
UK	3,451	Employer-sponsored, separate trustees, at least one-third employee-nominated. New multi-employer funds for minimum DC benefits. Also retail funds.
USA	29,196	Employer- or multi-employer-sponsored, separate entity with trustees but limited employee representation. State requirements vary. Also retail funds.
Total	42,158	

* Primarily taken from the Thinking Ahead Institute's Global Pension Assets Study 2020, except for Japan and Poland, which are from the OECD (which uses a different definition of pension funds). IRAs (Individual Retirement Accounts) are included for the USA.

Definition of a Pension Fund

For the purposes of this paper we have concentrated on funded employment-related pension funds (the so called "second pillar"), including private- and public-sector DB and DC retirement schemes that operate separately from government. We have not included the substantial funds invested by some governments, such as Japan and Norway, which serve to stabilize the finances of their state pension systems, or other state-run country-wide schemes, like Singapore's Central Provident Fund.

Structures

It will be seen from the above table that pension funds are typically established by employers through a separate legal entity, mainly with equal employer/employee trustee/board representation. In the UK local government and US public-sector-funded pension schemes, there are no trustees as such but managers acting in a trustee capacity. Many countries have facilities for employees to make additional provision through individual contracts managed by insurers or other providers. Hence pension fund disclosure is in the hands of trustees (or their equivalent), or insurance companies in the case of individual pension contracts.

In those countries which have a trustee structure, it tends to be a part-time, often unpaid activity, which company management and employees fit in around their main jobs, although there has been some growth in the use of professional (paid) trustees. Hence it is likely to be only the larger pension funds which have the resources to fully support trustees/managers in determining their approach to ESG issues, although these will generally make up the majority of total pension fund assets. Smaller funds will be reliant on external investment managers and advisers.

Size

In many countries the amount of total pension fund assets is relatively small (this is also the case for most countries not included in our survey). Apart from the size and development of each economy, this is explained by the fact that many countries, including most of Europe, make pension provision mainly through unfunded arrangements.

The encouragement given to multi-employer funds in Australia, the Netherlands and recently the UK means that they have fostered the development of some large independent pension funds. However, in most countries with substantial funds there are also a range of smaller funds. Consolidation is being encouraged in the UK.

Type

Apart from in Australia, most major pension funds are in respect of DB liabilities. To some extent this is an historical legacy, as the trend in most locations seems to be towards DC. In a DB scheme, investment strategy and ESG policies are clearly the responsibility of the scheme trustees in the first place. In a DC scheme, the members may have some involvement in these matters, where they have a choice of funds in which to invest. Also, in these schemes the trustees/managers may wish to be seen to be addressing members' concerns – for example, in relation to climate risk and other ESG issues – in order to promote growth in membership and contributions.

Regulation

In terms of the general regulation of pension fund investment, in most locations the overriding requirement is for the trustees or their equivalent to act in the long-term best interests of beneficiaries. This fiduciary duty also acts to drive the approach to investment, even where there are few specific requirements; for example, in relation to diversification, inflation risks and, latterly, climate change. Later in this paper we note some of the first indications that courts will test whether there is a fiduciary duty to consider climate change or other ESG factors.

In many locations there are limits on investment with the sponsoring employer: typically 5%. There are also more detailed restrictions in parts of continental Europe.

All of the European countries included in our survey, apart from Switzerland, are members of the European Union (EU) and are subject to the pensions directive known as IORP II (Directive 2016/2341 relating to Institutions for Occupational Retirement Provision) from January 2019. However, each EU member determines how such directives are implemented in its country. The UK formally left the EU on 31 January 2020 (although continuing to operate as a member during a transitional period) but had already implemented parts of this directive. IORP II contains requirements relating to a number of areas of pension fund management, including ESG, which is considered in the next section.

EU member states are also subject to the revised Shareholder Rights Directive known as SRD II (Directive 2017/828/EU), which, as far as pension funds are concerned, includes requirements regarding the public disclosure of policies relating to engagement with the management of the companies in which they invest, and shareholder voting.

Furthermore, EU Regulation 2019/2088, known as SFDR (Sustainable Finance Disclosure Regulation), will impose major new ESG disclosure requirements on financial market participants (including pension funds) and financial advisers, beginning in March 2021. For example, asset managers will be required to disclose on their websites and in marketing material how they allow for ESG risks in their investment processes (and, if they do not, why not). A consultation on these requirements is being carried out.

ESG Risk Disclosures

The results of our survey in relation to pension fund ESG risk disclosure requirements are summarized in the table below. As mentioned in the previous section, EU member countries are currently in the process of implementing the provisions of IORP II and SRD II. This is noted in the table, and further details of the requirements, as they relate to ESG disclosures, are set out on the following page.

Summary of ESG Risk Disclosure Requirements

Country (total funds, USD billion)	Law relating to ESG risk disclosures
Australia (2,077)	Disclosure on joining fund: extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realization of investments. The Australian Stock Exchange (ASX) has also issued guidelines on ESG disclosure for companies. Various voluntary initiatives.
Canada (1,924)	Varies by province. Only Ontario requires disclosure to members of extent to which ESG factors are incorporated in investment policies. National ESG guideline being developed.
France (155)	No specific ESG legislation for pension funds. Listed insurers and asset managers must disclose ESG policies in accounts, generally available on websites but not required in "key features" documents given to individual fund investors.
Germany (502)	SIP* must include extent to which ESG principles are incorporated into investment processes, on public website. Regulatory guidance awaited.
Ireland (184)	SRD II implemented but IORP II approach awaited. Some voluntary initiatives.

Country (total funds, USD billion)	**Law relating to ESG risk disclosures**
Italy (210)	Follows IORP II/SRD II: publish on public website investment policy and commitment to ESG in analysis of risks including climate. Accounts also on website.
Japan (1,398)	No specific legislation for pension funds. Disclosure relating to pension funds included in sponsoring-employer accounts.
Netherlands (1,690)	IORP II and SRD II not yet fully implemented, and guidance from regulator awaited. Pension fund accounts normally publicly available on a website.
Poland (42)	IORP II and SRD II implementation awaited. Some voluntary initiatives.
South Africa (231)	Funds are required to consider ESG when investing but no disclosure requirements.
Spain (43)	IORP II not yet implemented. SIPs* including reference to ESG made available to members.
Switzerland (1,047)	Asset allocation and shareholder voting disclosed to members. Many voluntary initiatives, including a "climate compatibility test" applied to pension fund assets (and other asset owners and managers) which may be followed by legislation if results inadequate.
UK (3,451)	SIP* must include, if trustees consider them material, ESG considerations, including climate. Pensions regulator provides guidance. Must state policy on share voting and engagement. Also required to state extent to which members' views taken into account. DC schemes must put SIP on a public website, DB schemes from 1 October 2020. Many voluntary initiatives.
USA (29,196)	No national ESG legislation. Many voluntary initiatives particularly supported by large public-sector pension funds and some investment managers.

** Statement of Investment Principles*

As shown in the above table, legislation requiring ESG risk disclosure by pension funds is presently limited, but is a work in progress in many locations:

- Australia, part of Canada, Germany, Ireland, Italy, Spain and the UK require some ESG disclosure.
- Such disclosure is basically limited to the production of a SIP for members, explaining how ESG issues are taken into account in investment processes. Such statements can be revealing, but not if they consist of bland generalities.
- Only Germany, Italy and the UK make the SIP available on a public website.

- There are presently no specific requirements relating to pensions funds' climate change risks, such as would be revealed by the recommended disclosures from the FSB TCFD. However, the UK government has consulted on voluntary TCFD guidance and intends to require large pension funds to comply (or explain why not).

Apart from legislation, many large pension funds around the world make extensive disclosures on a voluntary basis, and also participate in various initiatives to promote sustainable investment practices. These will be examined further later in this paper.

Also, most EU member countries have yet to fully implement IORP II and SRD II (or SFDR, currently being finalized). These directives will basically require the following in relation to ESG risks, typically for pension funds with at least 100 members:

IORP II

- produce a SIP, including the extent to which ESG risks are taken into account in investment processes, updated at least every three years;
- make the SIP publicly available;
- have a risk management system in place covering (inter alia) ESG risks relating to investments;
- assess and document new and emerging risks, including climate change, use of resources, environmental and social risks and risks related to the depreciation of assets due to regulatory change ("stranded assets"), at least every three years, together with any associated contingency plans (this is all part of an "own-risk assessment"); and
- make the scheme's audited report and accounts publicly available and ensure they include disclosure of "significant investment holdings".

SRD II

- develop and publicly disclose, on a comply-or-explain basis, a policy on how ESG policies of companies invested in are monitored, dialogues conducted and voting rights exercised, and co-operation with other shareholders is carried out;
- publicly disclose annually how the above engagement policy has been implemented, including disclosure of significant votes and any use of proxy advisers (those who provide advice on shareholder votes); and
- if the pension fund relies on asset managers rather than investing directly, point to disclosures made by them.

It will be seen that, once all this legislation has been fully implemented by EU member countries and the pension funds based therein, there should be a step change in public ESG risks disclosure. How effective that is will depend on how it is implemented by individual member countries and pension funds, and the scrutiny to which it is subject. As regards climate risks, the TCFD recommendations mentioned above were published in June 2017, and both IORP II and SRD II had already been issued by that date and are much less specific. SFDR should help to narrow this gap.

Stewardship of Investments

The following definition is taken from the new UK Stewardship Code (2020): "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." Although this UK code is voluntary and "best practice", this statement represents a significant change from the historical approach, not just in the UK but around the world, where the objective for fiduciaries was typically phrased as the maximization of investment returns for beneficiaries, commensurate with an acceptable degree of risk.

This acceptance of the context for investment, recognizing responsibilities to the environment and wider society, is also reflected in developments regarding the role of the corporation itself. For example: Unilever, an Anglo-Dutch global business, has long espoused sustainable growth and a positive impact on commercial partners and society at large; Microsoft states that it is committed to environmental sustainability, as is JP Morgan Chase. Although corporate actions do not necessarily follow their values, they do recognize their responsibilities to wider stakeholders. On the same lines, the "triple bottom line" concept – focusing on profit, people and the planet – continues to generate interest.

Long-term sustainability is also applied in relation to natural resources. For example, quoting President Theodore Roosevelt of the USA more than 100 years ago, "We have fallen heirs to the most glorious heritage a people ever received, and each one must do his part if we wish to show that the nation is worthy of its good fortune." According to its website, the US Department of the Interior continues to "fulfil this mission so that generations to come may enjoy the diversity of our lands that are uniquely American". The stewardship of investments is intimately concerned with the impact of business on the natural world.

The UN initiative Principles for Responsible Investment (PRI) was established on a voluntary basis only in 2006 but already includes the majority of investment managers and many pension funds, with over 3000 signatories representing more than USD 100 trillion in assets under management (including USD 23 trillion with asset owners like pension funds). Signatories commit to incorporating ESG principles into their investment practices, being active (share) owners, seeking ESG disclosure by companies they invest in and reporting on their own activities to the PRI.

There is some disquiet over "greenwashing" (over-inflating green activities) given that, whilst PRI signatories now represent a majority of the investment industry, their actions as shareholders can seem passive and reactive to events. A 2019 study found a lack of action relating to climate issues, although investment managers claim they can be influential through confidential discussions with company management.

To facilitate green investment (and make greenwashing more difficult) the EU has developed a "taxonomy" to define what can properly be included under this heading. This is a comprehensive framework designed to encourage sustainable investment by both retail and institutional investors, including pension funds.

In regard to legislation relating to stewardship, the EU directive SRD II mentioned in the previous section will increase disclosure of investment management activities. Apart from this, our survey reveals little in the way of actual legislation in this area, but voluntary stewardship codes have been developed in Australia, India, Japan, Switzerland and the UK which have received widespread support.

The Australian Asset Owner Stewardship Code is a comprehensive guide to the reporting requirements for those who sign up, including ESG integration into investment processes and engagement with management (although there appears to be no specific requirements relating to climate change). The code does not just apply to pension funds, but they appear to be the main drivers. Signatories are required to make annual reports publicly available.

Impact Investment

Various approaches to ESG in the investment process are helpfully contextualized by this diagram:

Screening	ESG integration	Thematic investing	Impact investing
Negative or exclusionary screening, positive or best-in class screening and norms-based screening	Explicit and systematic inclusion of material ESG issues in investment analysis and investment decisions	Selection of assets that contribute to addressing sustainability challenges such as climate change or water scarcity	Investment made with the intention of generating positive, measurable, social and/ or environmental impact alongside financial returns

Source: University of Cambridge Institute for Sustainability Leadership

In practice, in DC schemes where pension fund members are offered a choice of investment funds, a variety of characterizations may be used. For example, ESG integration may be a common factor but members may be offered funds with a lower carbon footprint, a “tilt” in asset allocations away from fossil-fuel-reliant sectors. This is common practice in Australia and the UK. A key issue is the extent to which ESG issues should be reflected in the “default fund”, given that in practice this may be the home of the majority of members.

The diagram above explains the purpose of impact investing but does not define it in terms of any trade-off between impact and return. Some investments may present no difficulty, if they provide a desirable impact without the need to accept any expected reduction in return. Also, it may just be a question of prioritizing investments with the required impacts; for example:

- in order to reduce the overall portfolio carbon footprint;
- as part of its investment strategy a fund may wish to allocate a certain percentage of funds to green investments satisfying the new EU taxonomy referred to above, providing market returns;
- subject to acceptable returns, a fund may wish to invest in residential housing in areas from which its members are drawn, without exposing itself to undue concentration of investments (having regard also to the sponsoring employer’s business risks); or
- as one criterion, a fund may wish to assess some potential investments according to the extent to which they contribute towards the achievement of the UN Sustainable Development Goals (SDGs).

An investment where a below-market rate of return is expected at the outset may not be consistent with pension fund trustees’ fiduciary responsibilities. In practice, the position may not be so clear. The PRI, the UN Environment Programme Finance Initiative (UNEP FI) and the Generation Foundation have recently set up a study of the Legal Framework for Impact covering 11 jurisdictions (Australia, Brazil, Canada, China, the EU, France, Japan, the Netherlands, South Africa, the UK and the USA) with the following brief:

- Are there legal impediments to investors adopting “impact targets”’; for example, that an investor’s investment activity is consistent with no more than 1.5 degrees of warming?
- Are investors legally required to integrate the sustainability impacts of their investment activity in their decision-making processes?

- On what positive legal grounds could or should investors integrate the realization of the SDGs in their investment decision-making?

The website for this study also shows legal developments in considering “responsible investment”.

Our survey did not reveal any other general developments regarding impact investing. We consider it further below when reviewing examples of pension fund disclosures.

Environmental Litigation

Environmental litigation is clearly a major potential risk for many businesses, relating to not just their activities but also how they are disclosed to investors (failure to properly disclose risks may itself generate litigation). For pension funds, a degree of protection from claims is provided if they take appropriate advice and follow it in terms of the adoption of a prudent investment policy. In this context, "prudence" involves realistic assessment of environmental risks and their implications for investments. Increased disclosure, as discussed earlier in this paper, will, however, provide more markers against which their actions can be tested.

Climate change is a systemic risk which presents a particular challenge for pension funds. Although the main impacts may be medium-term, which is of course by no means certain, investment market perceptions can change radically over a short period. So, a fund which has not adequately reviewed its climate exposures could suffer badly in relation to others better prepared, leaving it exposed to litigation on behalf of members and/or trade unions. Those advising pension funds (and their insurers) could also be the subject of litigation.

Our survey reveals that there is presently little environmental litigation targeting pension funds:

- Nevertheless, in Australia litigation against one major pension fund (the Retail Employees Superannuation Trust, or REST) has resulted in a radical change in its approach to climate change – now targeting a net zero carbon footprint by 2050 – with a settlement just prior to trial. This may not create a legal precedent as such, but potentially increases scrutiny and reputational risks for pension funds more generally.
- In the UK, the non-governmental organization ClientEarth has warned 14 of the country's largest pension funds that they face legal action if they fail to consider climate change in their portfolios.
- ClientEarth also helped a member of the Shell Contributory Pension Fund with an (unsuccessful) complaint to the Pensions Ombudsman in the UK regarding the information provided to him on climate risks.

A US website developed by Columbia University lists many hundreds of climate change cases involving corporations, government and activists, which illustrates the potential for such claims. It includes actions regarding ESG issues taken by pension funds themselves against corporations to protect investment values.

An article from the *Financial Times*, "Shareholder climate rebellions surge despite coronavirus crisis" (30 May 2020), shows that shareholders, including many pension funds, are increasingly pressing corporations on their climate change strategies and also their lobbying activities behind the scenes, which may be detrimental to the public interest and longer-term performance.

Although not involving pension funds, climate campaigners also had major recent successes in London, when the UK Court of Appeal blocked a government decision to allow a new runway at Heathrow Airport because climate commitments had not been properly taken into account, and Dublin, when the Irish Supreme Court determined that the government's mitigation plan failed to meet the requirements of its legislation.

Review of Examples of Public Pension Fund Disclosures

Our survey has shown that, in general, there is presently a limited level of compulsory ESG risk disclosure around the world by pension funds, although recent legislation is starting to significantly improve the position in Europe. However, our research shows that many major pension funds, from all parts of the world, do provide comprehensive ESG disclosures on a voluntary basis. We now examine a selection of these funds to assess their approach, summarize common features and bring out particular strengths and weaknesses.

The funds have been selected because they do provide more ESG disclosure. They are not necessarily the best examples and there are many other funds which could have been chosen. We believe they are indicative of current best practice. The ESG disclosures obtained from the websites of the following pension funds are briefly summarized below:

Country	**Pension scheme**	**Total funds USD billion**	**ESG documents publicly available**	**Climate data disclosed**	**Collaborations**
Australia	First State Super	52	ESG policy, voting activities, PRI Transparency Report, Stewardship Code, engagement by ACSI	Climate Adaption Plan 2016	ACSI, CDP, IGCC, PRI
Canada	Ontario Teachers	147	PRI Transparency Report, Governance Principles, Voting Guidelines 2019, Responsible Investing Report 2019	Carbon footprint and breakdown, includes Trucost data	Climate Action 100+, GRESB, SASB, TCFD
Denmark	ATP	130	Responsible Investment Report 2019 and further reports, including ESG, climate, SDG impacts, engagement	TCFD disclosures, detailed scenario analysis, PACTA scenario reports	Climate Action 100+, PRI, IIGCC, CDP, GRESB, ICGN

Country	Pension scheme	Total funds USD billion	ESG documents publicly available	Climate data disclosed	Collaborations
Netherlands	ABP	508	Responsible Investment Report 2019 with SDG investment targets, direct engagement examples, Stewardship Code, fact sheets, green bond data	Climate strategy, carbon footprint, scenario analysis briefing	Climate Action 100+, GRI, AODP, VBDO
Switzerland	Canton of Zurich Pension Fund BVK	36	Engagement Report 2019, shareholder voting, responsible investment principles		Climate Action 100+, PRI, SVVK-ASIR
UK	RPMI Railpen	39	Sustainable Ownership Reports 2019: ESG integration, voting policies, TCFD disclosures, voting record	TCFD disclosures, PACTA scenarios, energy targets for property assets	Climate Action 100+, PRI, ICGN, IIGCC, GIC, UK Stewardship Code
USA	New York State Common Retirement Fund	210	Comprehensive Stewardship Report 2019, ESG policies, shareholder resolutions, voting, asset list	Some TCFD disclosures	Ceres, CDP, Climate Action 100+

The total funds figures above should be seen only as indicative of the order of magnitude. Some further details of these funds, and their websites, are set out in the attached Appendix.

A common feature is that these funds prepare a separate report, under various names, detailing their ESG activities and approach to responsible or sustainable investment practices. Generally, details of their activities in engaging with corporations are included, and their voting record. These are all relatively large funds, so their views are more likely to be considered by company management, and particularly if operating in conjunction with other pension funds and institutions. In this connection the Collaborations column in the table above refers to the main associations and networks involved with ESG issues in which these funds participate (listed on the next page).

The key to the acronyms used under the Collaborations heading is shown below. It shows the extent to which such organizations and initiatives have developed over recent years:

Acronyms	
ACSI	Australian Council of Superannuation Investors
AODP	Asset Owners Disclosure Project
CDP	Carbon Disclosure Project
Ceres	Organisation promoting sustainability for investors, individuals and companies
Climate Action 100+	Institutional investors group focussing on top 100 greenhouse gas emitters
GIC	Global Investor Coalition on Climate Change
GRESB	ESG benchmark for real estate and infrastructure investments
GRI	Global Reporting Initiative
IIGCC	Institutional Investors Group on Climate Change
ICGN	International Corporate Governance Network
IGCC	Investor Group on Climate Change
PACTA	Paris Agreement Capital Transition Assessment
PRI	Principles for Responsible Investment of the UN Finance Initiative
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals of the UN
SVVK ASIR	Swiss Association for Responsible Investments
TCFD	Task Force for Climate-Related Financial Disclosures, established by the FSB
VBDO	Dutch Association of Investors for Sustainable Development

Further details of the activities of the above organizations can be obtained from their websites. Climate change risk is their main driver, but some of these groups cover other aspects of ESG. Their memberships generally include not only pension funds but also insurance companies, investment managers and other large investors. Taken together they represent a formidable weight of institutional funds, and in recent years have achieved some success in terms of, for example,

shareholder resolutions requiring fossil-fuel companies to produce strategies reflecting the aims of the Paris Agreement (see this IIGCC report).

Recent public campaigns have highlighted the debate over divestment versus engagement; that is, whether a problematic investment should just be sold or the company management engaged to try to get them to change strategy. Most large pension funds seem to favour engagement, although also perhaps reducing weightings of offending stocks, as the more responsible approach.

The ESG reports currently available from the pension funds included in our survey listed above were typically published in 2019/20 but refer mainly to events in 2019. Most of them provide details of their ESG policies, the issues on which they engaged with company management, the outcome of discussions and their voting record, which enables members and other stakeholders to raise questions with them. These ESG reports do not necessarily need to be audited, but some have been reviewed by auditors.

On climate change, there is general support for the TCFD recommendations, although some funds do not appear to have got that far in terms of incorporating them in their accounts. However, most of these funds have clearly undertaken extensive work on scenario analysis and extracting appropriate metrics, details of which are disclosed.

Some of these pension funds largely manage investments in-house, whilst others mostly use investment managers. For example, despite its size, the New York State Common Retirement Fund has all its investments managed externally. Clearly all of these funds want investment managers to operate in accordance with their ESG policies, and have the financial weight to ensure this happens. For smaller pension funds the following approaches are available to them:

- selecting investment managers who are able to implement the fund's ESG approach, including the fund retaining voting responsibility;
- for unitized pooled funds, ensuring that the fund prospectus is acceptable in ESG terms;
- in regard to engagement with companies on ESG issues, working through associations such as those listed above, as well as the investment manager; and
- using a website to provide ESG information to members and other stakeholders.

Concluding Remarks

Pension funds globally control substantial funds, more than USD 44 trillion, as part owners of companies which produce most of the world's goods and services. As owners, acting on behalf of their members expecting to draw pensions throughout this century, they arguably need to ensure that the management of the companies they invest in undertake their activities on a sustainable basis, not involving illegal activities and not directly or indirectly causing environmental damage, consistent with their long-term time horizon.

In 2019, the International Organisation of Pension Supervisors issued guidelines on the integration of ESG into investment. This stated that a "governing body or the asset managers of a pension fund disclose to members and stakeholders information about the pension fund's investment policies in relation to long-term sustainability, including ESG factors, stewardship and non-financial factors". Our survey has shown that this disclosure is already in progress in Europe and other parts of the world and should continue to improve, although more public ESG information is required. Many studies[1] show that integrating ESG issues into investment management produces better long-term investment returns through proper consideration of risk.

Many of the largest pension funds have accepted this responsibility, and voluntarily produce detailed accounts of their stewardship of investments.

In regard to climate risks, the TCFD recommendations have received widespread support[2] but their implementation is a complex exercise involving scenario analysis, and progress in published accounts is limited so far. Pension funds should themselves adopt the TCFD recommendations (and some countries may require this) but they are reliant to some extent on work being done within companies in which they invest. External pressure from pension funds and other investors should help to maintain momentum for TCFD adoption.

Actuaries working with pension funds are likely to be increasingly involved with ESG risks:

- if they are involved in investment management, in relation to the assessment and management of ESG risks to funds;
- for investment consultants, in evaluating the ESG stance and performance of investment managers, and in considering the implications for their pension fund clients' strategies;
- if they are involved with funding advice, in relation to the ESG risks for the pension fund sponsors and their ability to maintain contributions in the longer term, in regard to the risks to a pension fund's investments and in relation to the potential impact on members' mortality and morbidity rates arising from climate change and other environmental risks; and
- if they act as trustees, in relation to all the aspects listed above, ensuring that proper consideration is given, and advice received is assessed and challenged if appropriate.

Disclosures arising from the TCFD recommendations will be invaluable both for investment actuaries and for actuaries advising on funding, where they relate to pension fund sponsors. Such disclosures should include strategy in relation to climate change, risk management and the metrics being monitored, such as carbon intensity. The ESG disclosure requirements being introduced in Europe, summarized earlier in this paper, indicate the information which may be available to assess risks.

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[1] See PRI academic resources

[2] See TCFD progress report, June 2019

Actuaries therefore need to be familiar with all these measures. As one example, the Institute and Faculty of Actuaries has provided guidance for pension fund actuaries in dealing with ESG risks. This is primarily aimed at those UK-based, but much of it may be relevant to other jurisdictions.

As climate and other environmental issues receive increasing public attention, actuaries should ensure they can take the lead in advising their clients, and/or be fully involved with their employers, so that considered and appropriate policies can be adopted on a timely basis. Given the momentum that these issues are gathering, it seems clear that if actuaries are not able to integrate ESG risks into their thinking, other professionals will step in and take that place. According to the Global Risks Report issued by the World Economic Forum (WEF) in January 2020, the top five risks in terms of likelihood were all environmental, and climate action failure was the top risk in terms of its impact.

Although with hindsight we can now see that COVID-19 was the elephant in the room, as the world eventually recovers from its onslaught ESG risks will remain of crucial concern for pension funds and their advisers. And the unprecedented economic responses to COVID-19, and the flexibility demonstrated, help to show what can be done to combat climate change and other environmental risks, according to the WEF and other institutions.

Appendix

Examples of ESG disclosure around the world

Country	Pension scheme	Total funds (USD billion*)	Type of scheme	ESG documents publicly available	Climate data disclosed	Collabroations	Web link
Australia	First State Super	52	Mainly multi-employer DC	ESG policy, voting activities, PRi Transparency Report, Stewardship Code, engagement by ACSI	2016 climate adaption plan	ACSI, CDP, IIGCC, PRI	First State ESG
Canada	Ontario Teachers	147	DB	PRI Transparency Report, Governance Principles, Voting Guidelines 2019, Responsible Investing Report 2019	Carbon footprint and breakdown, includes Trucost data	Climate Action 100+, GRESB, SASB, TCFD	Ontario Teachers
Denmark	ATP	130	DB	Responsible Investment Report 2019 and seven more reports, including ESG, climate, SDG impacts, engagement	TCFD disclosures and detailed scenario analysis, PACTA scenario reports	Climate Action 100+, PRI, IIGCC, CDP, GRESB, ICGN	ATP ESG
Netherlands	ABP	508	Managed DB	Responsible Investment Report 2019 with SDG investment targets, direct engagement examples, Stewardship Code, factsheets, green bond data	Climate strategy, carbon footprint, scenario analysis briefing	Climate Action 100+, GRI, AODP, VBDO	ABP ESG
Switzerland	Canton of Zurich Pension Fund BVK	36	DB	Engagement Report 2019, shareholder voting, responsible investment principles		Climate Action 100+, PRI, SVVK ASIR	Swiss BVK
UK	RPMI Railpen	39	DB	Sustainable Ownership Report 2019: ESG integration, voting policies and record	TCFD disclosures, PACTA scenarios, energy reduction targets for property assets	Climate Action 100+, PRI, ICGN, IIGCC, GIC, UK Stewardship Code	Railpen ESG
USA	New York State Common Retirement Fund	210	DB	Comprehensive Stewardship Report 2019, ESG policies, shareholder resolutions, voting, asset list	Some TCFD disclosures, strong supporter	Ceres, CDP, Climate Action 100+	NYSCRF webpage

* Indicative figures