

IIPM March Webinar

10 March 2022



IIPM

Irish Institute of Pensions Management

SAVE THE DATE

Website: iipm.ie
Email: info@iipm.ie

Next IIPM Webinar
13 April 2022

If you would like to be included on our Event emailing list –
Please email info@iipm.ie or respond in follow-up survey

Webinar Housekeeping



A Q&A WILL BE
RUN AFTER THE
PRESENTATIONS



QUESTIONS
FOR THE
SPEAKERS?



PLEASE TYPE
THEM INTO THE
QUESTION/CHAT
AREA ON YOUR
RIGHT



YOU CAN DO
THIS AT ANY
TIME DURING
THE
PRESENTATION

Sound or video issues?
Log out and log back into the system
Try using an alternative device (phone or tablet)

Speaker



Oliver Kelly
Head of Investment Consulting
LCP Ireland

Oliver leads a team of investment consultants advising some of the largest DB and DC Schemes in Ireland.

They work closely with their UK research colleagues in bringing the latest responsible investment trends and solutions to the Irish market and in designing DC investment strategy solutions.

He is a CFP, MIIPM and QFA with over 20 years consulting experience in the Irish pensions and investment industry.

ESG in DC: The implications for trustees, advisors, and members'

Irish Institute of Pensions Management

10 March 2022

LCP INSIGHT
CLARITY
ADVICE



Overview

- The growing focus on ESG
- What are Trustee boards doing?
- Responsible Investment communication
- How are investment managers responding?



Oliver Kelly
Head of Investment
Consulting Ireland

+353 (0)1 588 3117
oliver.kelly@lcpireland.com

The growing focus on ESG

Latest developments

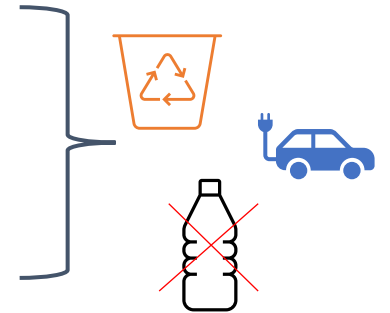


- ESG is constantly **evolving** with today's world rapidly changing both economically and socially.
- Businesses are making more efforts to engage with ESG factors with a big push towards **Net Zero Carbon Emissions** and more focus on **stewardship**.

- The world is adapting to a post-covid way of living. People want to make changes to their lifestyles with more **awareness** and **consideration** towards **ESG factors**.



- The recent Russian invasion of Ukraine is having massive implications for the global supply chain resulting in soaring energy prices. Acceleration of investment in renewable energy?



What are Trustee boards doing?

How are Trustees and Sponsors adapting to the legislative developments and focus on ESG?

- Recent developments in legislation (IORP II, SFDR and SRD II) have been a **catalyst** for Trustees to formally consider ESG within their Schemes portfolio and policies.
- **Greater engagement** from DC Trustees typically as follows:
 - Responsible Investment **Trustee training**
 - **RI beliefs sessions** to help establish RI views
 - Development of **RI policies** for Schemes
- **Sponsors** considering the issue as part of their appointment process for Mastertrust providers or sharing their views in the area with Trustee boards
- Now more accessible and cost-effective ways for Pension Schemes to incorporate ESG within their portfolios → **Carbon tilted and Screened Equity funds**. (More nuanced and mainstream than previous methods involving religious/ethical considerations etc.)
- Generally, seek to incorporate ESG funds within the DC Default Strategy.



What are Trustee boards doing?

Investment governance

- **Updating Statement of Investment Policy Principles (SIPP)**
- Establishing policies on ESG, climate, voting, etc
- Engaging with sponsor



Investment strategy

- **Considering how RI can be integrated consistently across asset classes**
- Considering overall investment strategy



Manager oversight

- **Reviewing RI reporting regularly eg ESG metrics, voting**
- Discussing RI when meeting managers
- Including ESG in risk management system

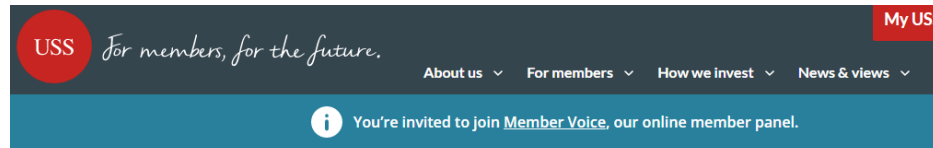
Manager selection

- Considering how to integrate stewardship with their managers
- **Including ESG and stewardship criteria in short-listing and fund selection**



Responsible Investment communication

Schemes and Sponsors are becoming more transparent around RI and their plans



[Home](#) > [News & views](#) > [Latest news](#) > USS announces Net Zero ambition

4 MAY 2021

USS announces Net Zero ambition

Universities Superannuation Scheme Limited – the trustee of the UK's largest pension scheme by way of assets – has reinforced its view of climate change as a financial risk by its assets by announcing its ambition to be Net Zero for carbon by 2050.

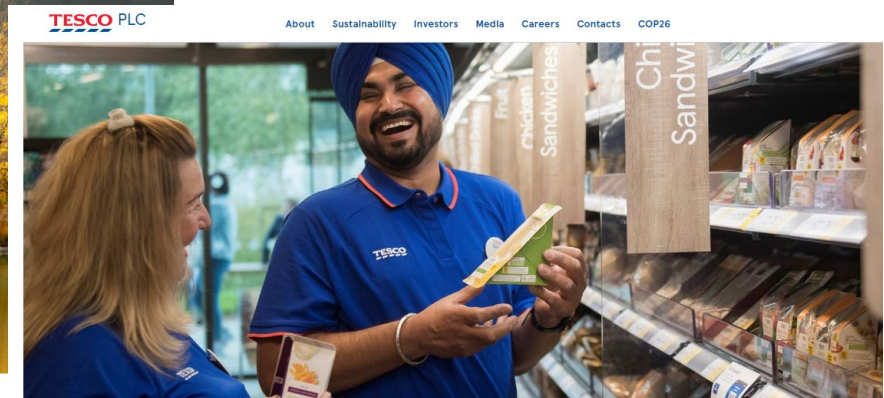
The ambition is in line with the Paris Agreement, to which the UK is a signatory, which aims to limit global warming below 2 degrees centigrade. In order to meet this target, the world will need to meet Net Zero by the middle of this century across all sources of greenhouse gas emissions and 3.

 **HSBC** | futurefocus

The Scheme



The HSBC Bank (UK) Pension Scheme (the "Scheme"), one of the largest corporate pension schemes in the UK, has today announced its commitment to achieve net zero greenhouse gas emissions across its £36bn Defined Benefit (DB) and open Defined Contribution (DC) assets by 2050 or sooner.



The Tesco PLC Pension Scheme and the Tesco Retirement Savings Plan commit to target Net Zero by 2050

8 November 2021

The Tesco Plc Pension Scheme and the Tesco Retirement Savings Plan will aim for the investments in both schemes to be net-zero by no later than 2050.

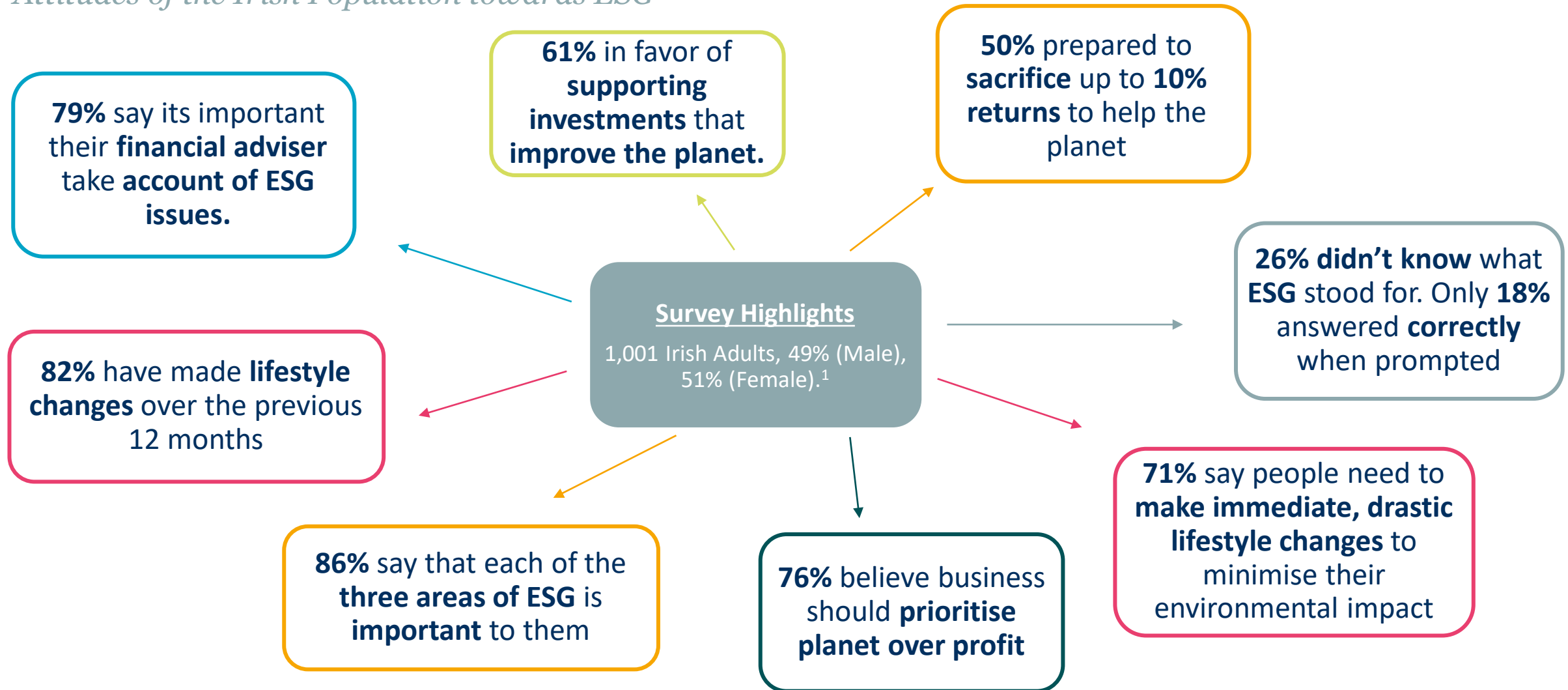
Combined, the two pensions schemes have over 345,000 members and assets of over £24bn.

Tesco and the trustees of their pension schemes regularly review these investments to make sure they meet their top priority of helping this money grow as much as possible, while keeping it safe. An important part of being able to do this is to invest responsibly.

Ruston Smith Chair of the Tesco Pension Fund said: "Evidence shows that environmentally responsible, well-run companies are likely to perform better in the long term, and better performing companies tend to be better investments. By

Amundi Ireland – Annual Report

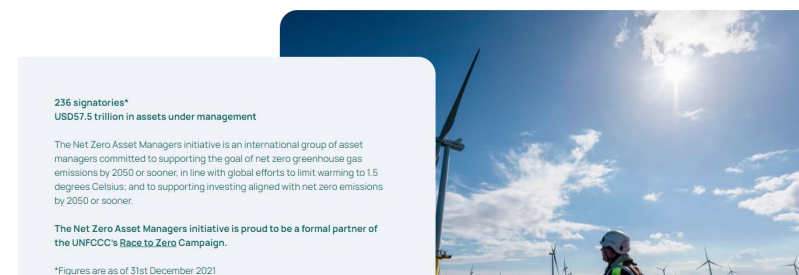
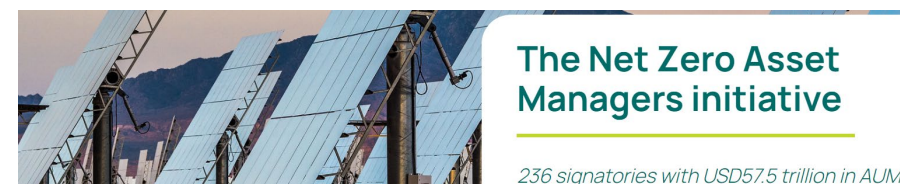
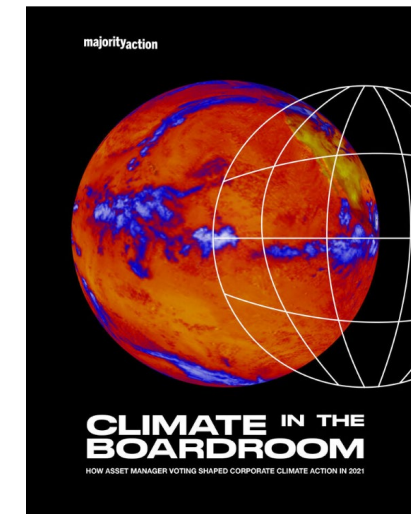
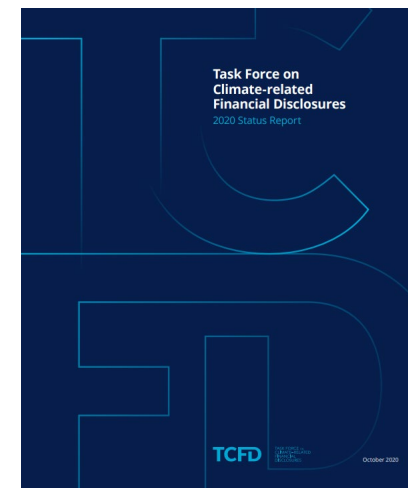
Attitudes of the Irish Population towards ESG



¹ Weighted across gender, age, region, social classification and education level to ensure a nationally representative sample based on latest Central Statistics Office projections.

How are investment managers responding?

- Investment Managers are embedding ESG more formally into their investment processes
- Improvement in ESG engagement by Managers with their investments
- Greater focus on supporting ESG customer demand, for example:
 - Responsible Investment Annual Reports
 - ESG Impact Reports
 - Offering a greater range of ESG funds and choice
- Commitments to Net Zero targets
- UK – Task Force Climate Related Financial Disclosures (TCFD)



LCP Responsible Investment survey - 2022

How Investment Managers are evolving in Responsible Investing

Managers are taking ESG issues and stewardship much more seriously, but more needs to be done

Significant progress has been made in monitoring and assessing climate-related risks

Voting practices remain strong and continue to improve, but the wider engagement agenda is still somewhat skewed

Key developments since our previous survey in 2020

Survey highlights

Systemic change is required to meet ambitious goals

90% of managers stated that they engage with policymakers or regulators on industry-wide topics



Net zero targets are gaining traction

42% of managers are working towards net zero for all assets under management, although their plans to achieve this are at an early stage



Climate change and board effectiveness dominate engagement agendas

66% and **71%** of managers frequently engaged on climate change and board effectiveness respectively

Mandatory RI training is lacking at board level



69% of managers have mandatory training for staff

23% of managers have mandatory training for board members

Being a PRI¹ signatory is now an expectation



66% in 2016 **78%** in 2018 **88%** in 2020 **96%** in 2022

LCP's Responsible Investment Survey 2022 can be found [here](#).



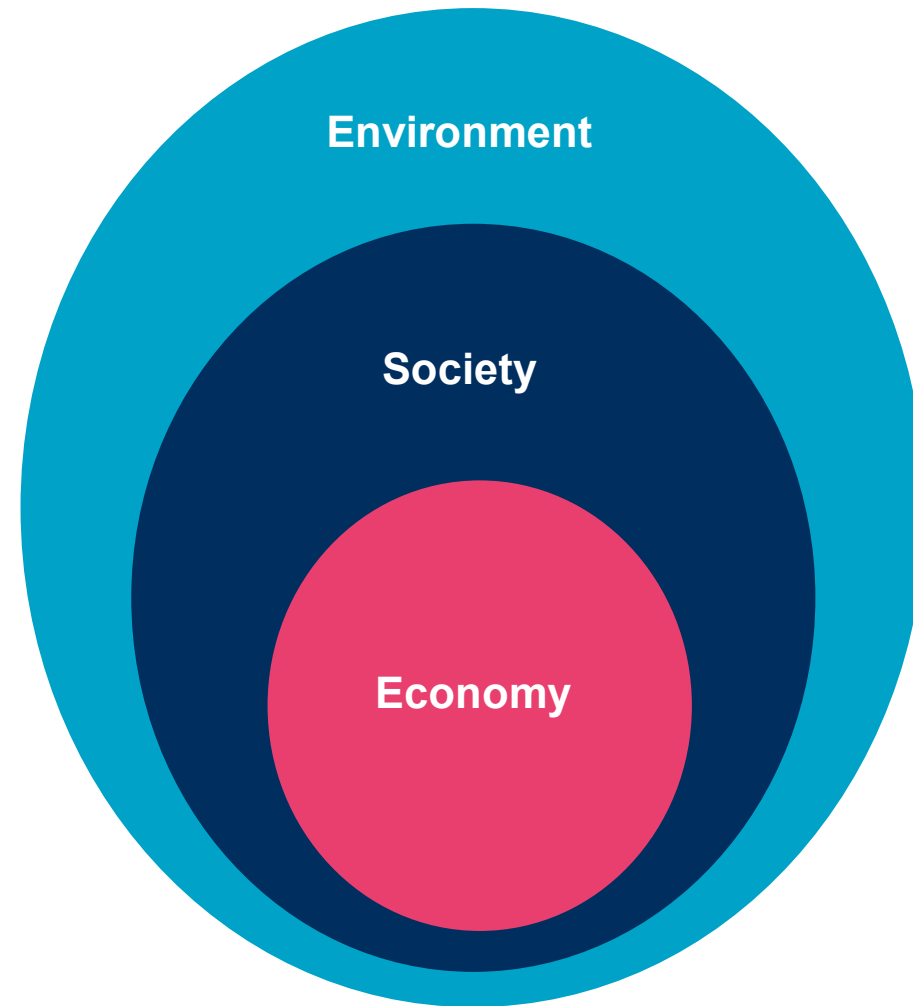
Appendix



How do we think RI will involve in Ireland?

In the long run, good **financial returns** rely on a well-functioning **financial system**, which needs a well-functioning **society** and a well-functioning **environment**.

Investment decisions can have **real world impacts** which help or hinder the long-term sustainability of the systems on which investment performance relies.



DB Trustees most concerned about funding risk.

DC Trustees about providing appropriate choices for members

Impacts of RI on the future

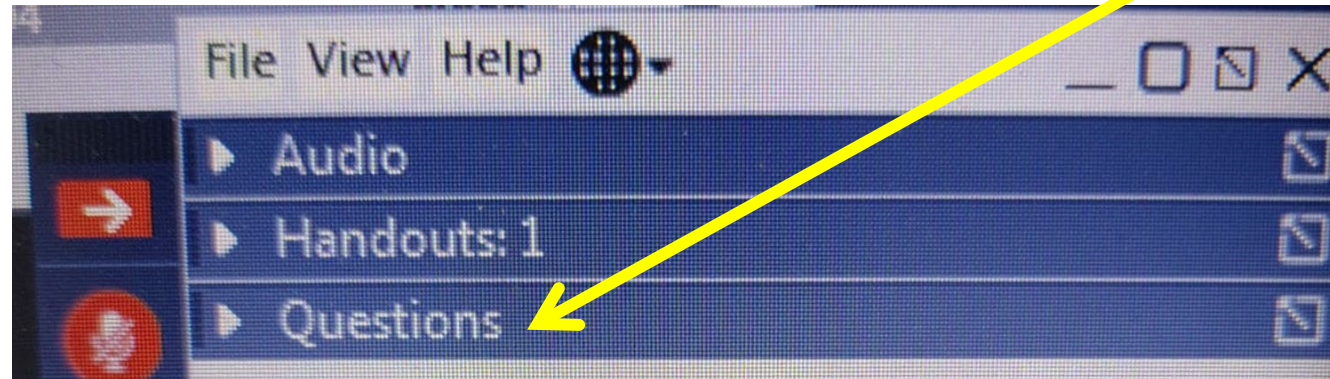
2°C world	3°C world	4°C world
International climate targets met	Current policy commitments honoured	Continuation of historic GHG trends
Moderate physical risks	High physical risks	Extremely high physical risks – catastrophic impacts by 2100
High transition risks – energy system transformed	Moderate transition risks	Low transition risks – high fossil fuel use continues

Increasing physical risks

Increasing transition risks

Questions?

**Please use the question
section in the drop downs**



Speaker



Joe Mottley

Clarus Investment Solutions

Having originally worked as an engineer and as a policy analyst in the Department of Finance, Joe joined *AIB Investment Managers* in 1985. He spent 13 years as an equity specialist with AIB, and led the International Equity team. In 1998 he joined *Setanta Asset Management* at start-up, where he was Chief Investment Officer; in that capacity he headed the investment team and had a key role in developing a distinctive and successful equity investment process.

He directly managed equity portfolios across a broad range of sectors and geographies, where he established a track record of consistent out-performance. He also served for a number of years as a Council Member of the *Society of Investment Analysts in Ireland*.

In 2007 Joe left Setanta to establish Clarus with Paul McCarville. At Clarus Joe has developed a range of innovative approaches to the analysis of portfolios and investment appraisal of funds. He has given expert evidence at hearings of the Commercial Court and the Financial Services and Pensions Ombudsman.

He is a director of *Verus Advisory Limited*, a consultancy which specialises in the oversight of fiduciary management of institutional funds. He was also a director of the *Diversification Strategy Fund*, a quantitative currency fund, between 2007 and 2020.

ESG and Personal Investment Advice

Joe Mottley

10th March 2022

Clarus Investment Solutions



Principals
Paul McCarville
Joe Mottley



- Independent boutique investment consultancy – CBI regulated
 - Advice on strategic and tactical asset allocation
 - Research/due diligence on investment products
 - Portfolio design & selection of components
 - Due diligence and oversight on investment managers & product providers
 - Training & consultancy services for professional bodies and industry associations
 - Expert witness reports in investment mis-selling disputes

- Client base includes pension schemes, charities, corporates and retail intermediaries

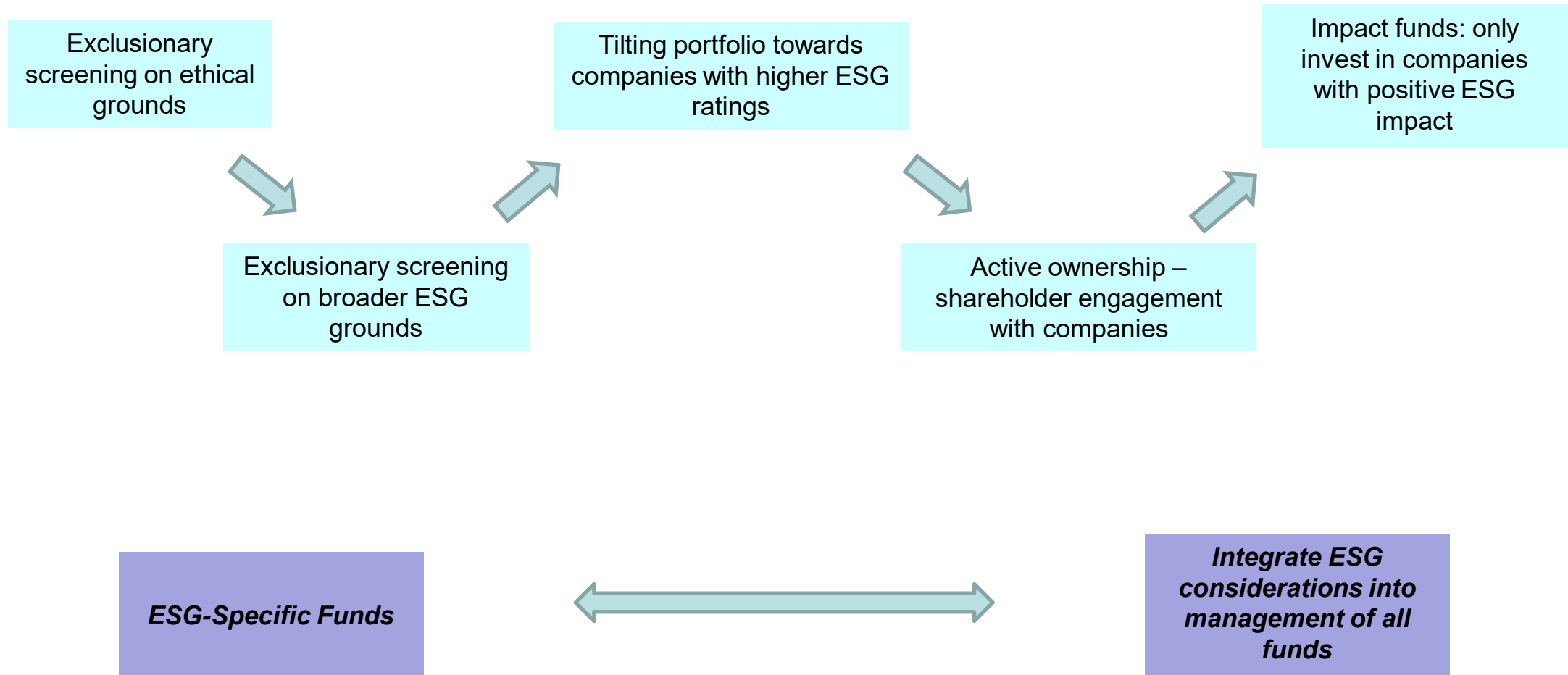
Topics

- Summary of regulatory developments
- The evolution of ESG investment approaches
- The key strands of client conversations
- Navigating the sustainable investment landscape
- Addressing the new suitability requirements
- Q & A

Some Key Regulatory Developments

Regulation/Directive	When?	Content?
Non-Financial Reporting Directive	Aug-17	Mandated Annual Report disclosures by large PLCs on ESG matters
Shareholder Rights Directive II	Mar-20	Mandatory shareholder engagement policies for institutional investors
EU Taxonomy Regulation	Jul-20	Framework for classification of economic activities with reference to their sustainability characteristics
IORP II	Apr-21	Wide-ranging provisions on organisation and governance of pension schemes, including mandatory policies and disclosures on ESG matters
SFDR – <i>Phase 1</i>	Mar-21	Mandatory disclosures on sustainability issues by asset managers and investment advisors
Changes to Suitability Assessment	Aug-22	Client's sustainability preferences to be incorporated into suitability assessment by investment advisor
SFDR – <i>Phase 2</i>	Jan-23	More detailed disclosures required from fund providers on basis for Article 8 / Article 9 classifications

The Evolution of ESG Investment Approaches



The Key Strands of Client Conversations

What does the client want from choosing ESG?

- *Enhance return?*
- *Reduce risk?*
- *Do good?*
- *Values and priorities?*

Will sustainable investments outperform?

Will sustainable investments be less risky?

Will choosing sustainable investments do good for the world?

Sustainable Investment = Higher Returns?

What is the experience up to now?

Abundant claims for outperformance of ESG funds – especially in the recent past – mostly coming from industry providers

Where does the truth lie?

“Honey I Shrunk the ESG Alpha”: Risk-Adjusting ESG Portfolio Returns – Bruno, Esakia & Goltz – Scientific Beta – Apr-21 :

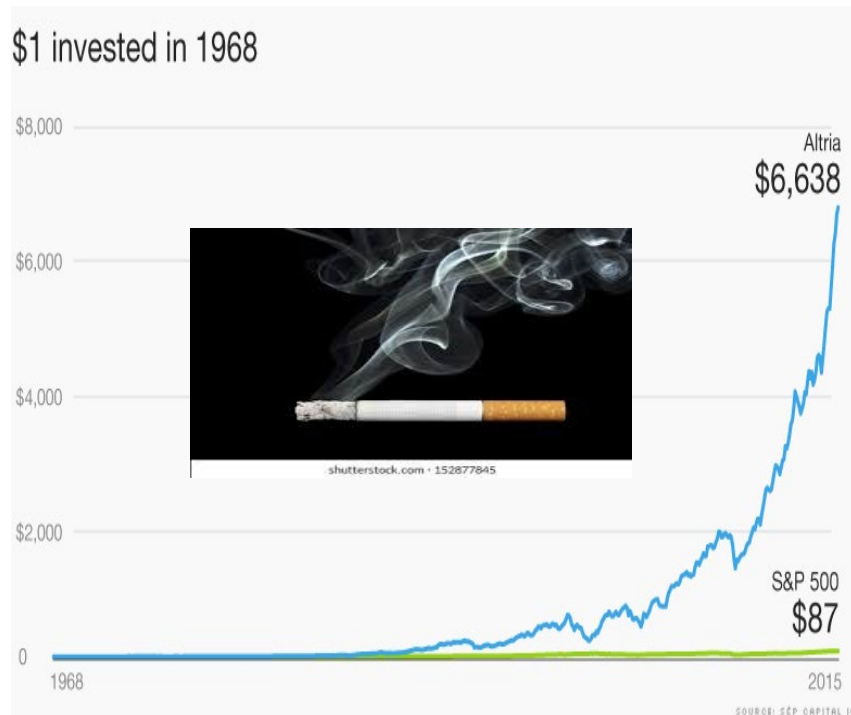
In this paper, we show that there is no solid evidence supporting recent claims that ESG strategies generate outperformance. We construct ESG strategies that have been shown to outperform in popular papers. We assess performance benefits to investors when accounting for sector and factor exposures, downside risk, and attention shifts.

=> Most of the apparent outperformance of ESG portfolios was a function of fortuitous coincidence with other favoured factors (growth, quality) and sectors (Technology, Healthcare etc), plus weight-of-money effects

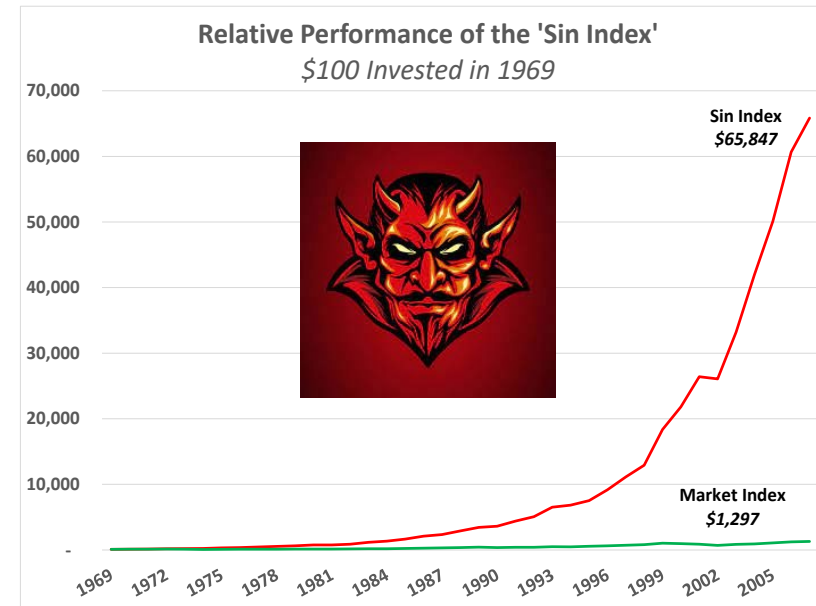
Sustainable Investment = Higher Returns?

The longer-term historical experience

Little evidence that the returns from 'dirty' sectors are hurt by investor unpopularity



Source: money.CNN.com



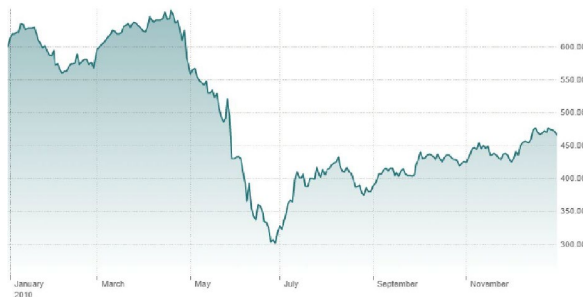
"Sin Stock Returns" – Fabozzi & Oliphant – *Journal of Portfolio Management* – Fall 2008

Sustainable Investment = Lower Risk?

Considerable evidence to suggest that sustainable investment reduces portfolio tail risk.....

Example 1

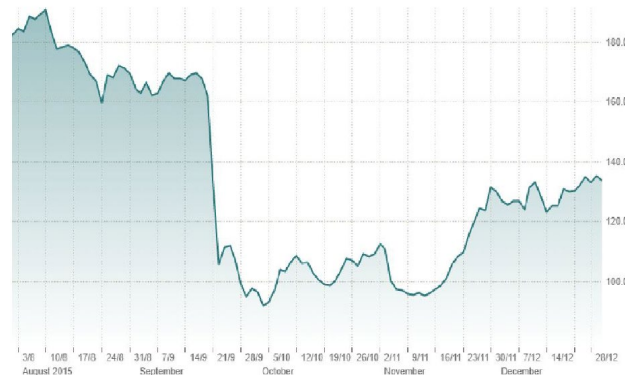
BP / Deepwater Horizon 2010



11 people killed
Share price down 54%
Total cost to BP \$65bn

Example 2

Volkswagen / Dieselgate 2015



Share price down 52%
Total cost to VW \$34bn

Example 3

Exxon Mobil / Stranded Assets



	\$bn	%
Oil & Gas Reserves & Related Equipment	182	55
Other Assets	151	45
Total Assets	333	100
Price/Book Value	1.95x	

Sustainable Investment = Lower Risk?

....But be aware of concentration risk and valuation risk in some ESG products

Example iShares Clean Energy ETF (INRG)



Source: iShares.co.uk

Doing Good with Sustainable Investment?

A tale of two companies

		Microsoft	ArcelorMittal
CO2 Emissions - Current	<i>tonnes x m</i>	12	179
CO2 Emissions - 2030 Target	<i>tonnes x m</i>	0	134
		-----	-----
Implied CO2 Reduction	<i>tonnes x m</i>	12	45
Weight in MCSI World		3.57%	0.04%
Weight in MCSI World ESG Enhanced		4.00%	0.01%
=> Relative Weight in ESG Index		1.12x	0.26x

Which company will make the greater contribution to decarbonising the world?

Is that reflected in the ESG Enhanced index?

Navigating the Landscape of ESG Fund Choices

- Active or passive approach?
- For an active fund, how much visibility on its process?
- Exclusion vs. engagement
- What sectors are subject to outright exclusion?
- What is the materiality threshold for exclusion?
- What rating system is applied?
- What is the degree of 'ESG skew' applied to the portfolio, and what does it imply for valuation and diversification metrics?

Understanding Rating Systems

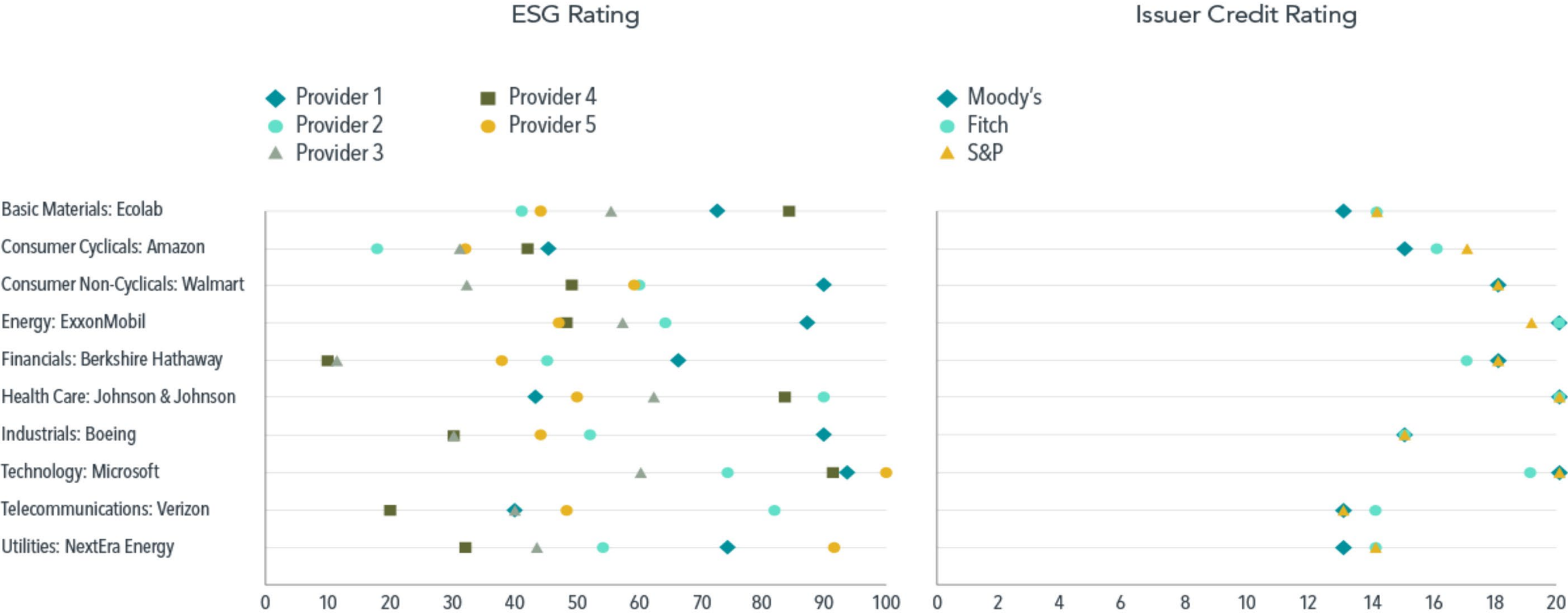
Assessment of many factors across three domains => Complexity!

MSCI ESG Score									
Environment Pillar				Social Pillar				Governance Pillar	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Consumer Financial Protection		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	

Source: MSCI.com

Understanding Rating Systems

Complexity + Subjectivity + Measurement Challenges = Inconsistency



Source: Dimensional Fund Advisors

Incorporation of Sustainability Preferences to Suitability Assessment

D-Day: 2nd August 2022

What does “sustainability preferences” mean?

How much does the client wish to invest in instruments which:

➤ Have a minimum proportion invested in environmentally sustainable investments as defined under the EU Taxonomy

and/or

➤ Have a minimum proportion invested in sustainable investments as defined under SFDR (i.e. Article 8 / Article 9 products)

and/or

➤ Consider principal adverse impacts in sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client

Development of Unit-Linked ESG Offerings

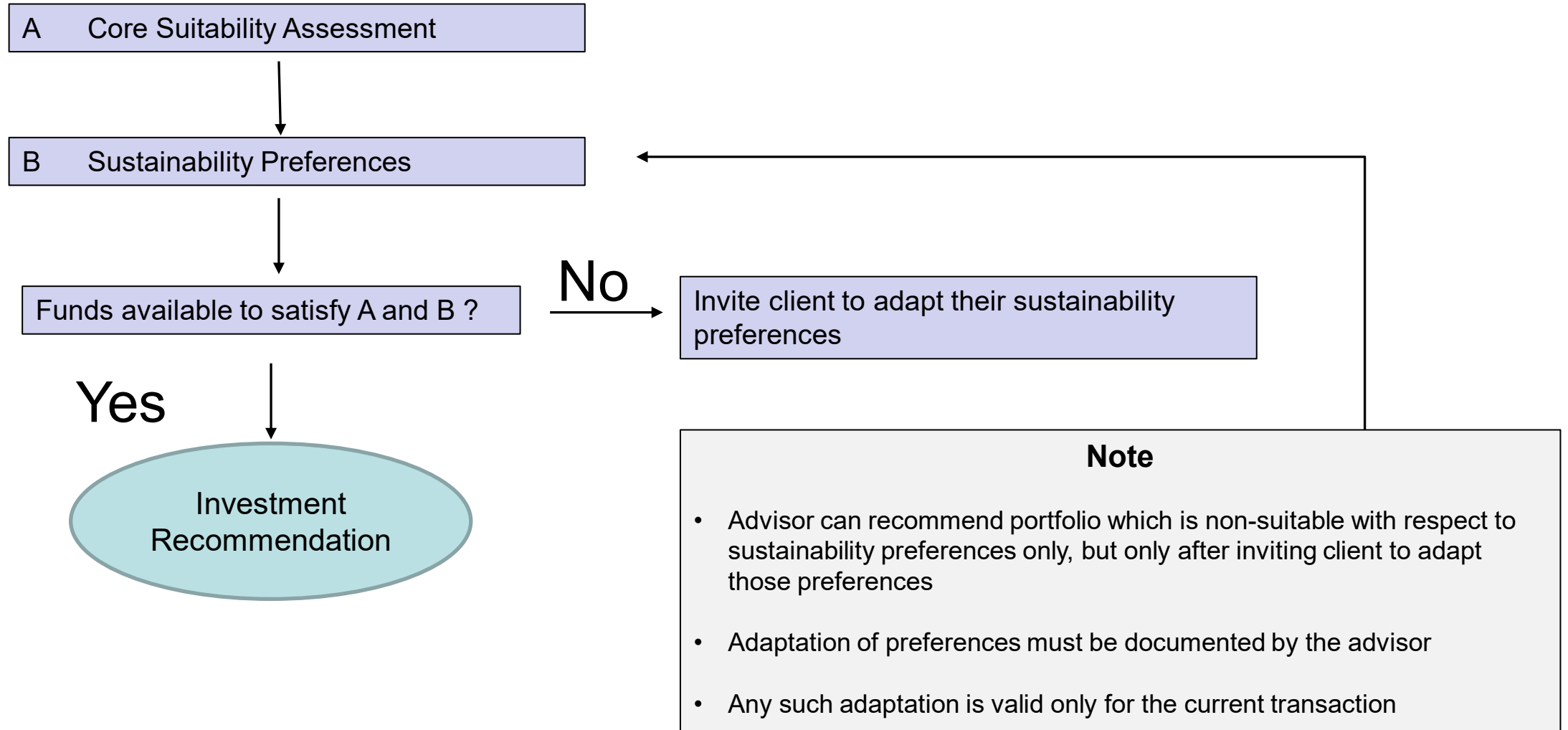
No. of unit-linked funds with Article 8 / Article 9 status is growing rapidly – currently 11% of the universe

Reasonable choice across the spectrum of risk levels

Quality of easily accessed back-up information: very good to non-existent

	Lifeco #1	Lifeco #2	Lifeco #3	Lifeco #4	Lifeco #5	Total	
						Number	%
Number of Funds	72	84	161	50	52	419	100%
<i>of which:</i>							
Article 8	8	17	10	2	3	40	10%
Article 9	0	2	0	2	0	4	1%
<i>Breakdown of Sustainable Funds:</i>							
Equity	4	5	9	2	1	21	48%
Fixed Income	1	0	0	1	2	4	9%
Multi-Asset	3	14	1	1	0	19	43%

The Suitability Assessment Process



Putting it into Practice

- ESMA Guidelines being drafted – due for release Q3 2022
- Consultation with industry bodies and other regulators under way

Some General Thoughts

- Have a clear and simple explanation of ‘sustainable investment’ ready for the client
- Avoid ‘framing’ the client’s choice
- Discourage false expectations!
- Align questions to the client with the menu available
- Be familiar with the fund choices

General Disclosures

Clarus Investment Solutions is authorised by the Central Bank of Ireland under the Investment Intermediaries Act, 1995

The value of your investment may go down as well as up

SUPPLEMENTARY MATERIAL

EU Taxonomy

A classification system which defines six overarching environmental objectives and sets out a detailed list of economic activities which can contribute to at least one of the objectives, without doing significant harm to any of the others.

For each activity, it sets performance hurdles for defining what constitutes a positive contribution.



Sustainable Finance Disclosure Regulations



Source: Morningstar Direct, Morningstar Research. Data as of December 2020.

IORP II - Provisions on ESG Issues

- All pension schemes to conduct a Risk Assessment of their activities
- Trustees encouraged but not obliged to take account of ESG factors in the risk assessment and in formulating investment policy
- Trustees must disclose whether and how ESG factors are taken into account
- Information on the above to be made available to all prospective members before they join

Risk Management – Why ‘S’ and ‘G’ Matter

Sports Direct's Mike Ashley apologises for poor Covid-19 actions

Mark Sweeney and Simon Goodley

Fri 27 Mar 2020 08.23 GMT

Sports Direct workers say they're being forced to work despite being on furlough



Sports Direct Shares Plunge – Here Is Everything You Need To Know

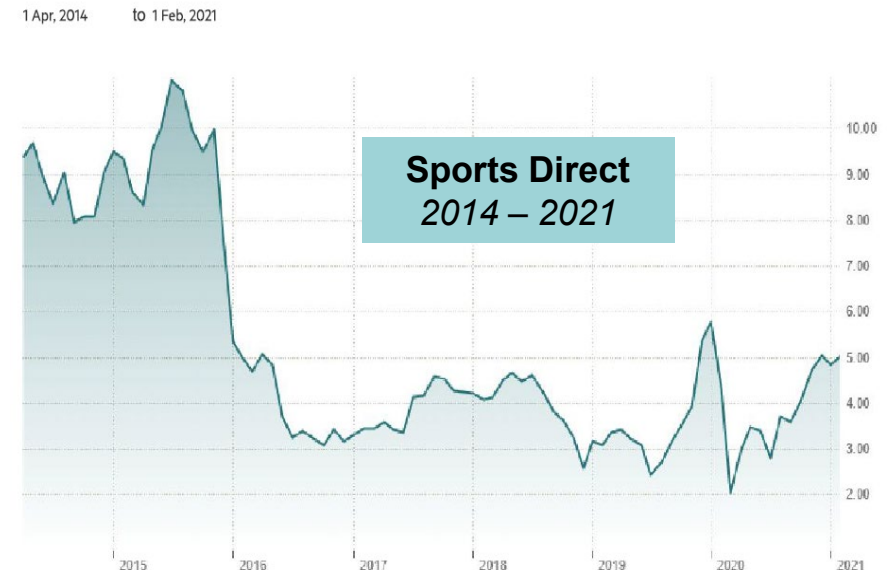
The embattled company was called “an embarrassment to UK corporate governance” after the chaotic way it announced its results on Friday.

Mike Ashley admits Sports Direct staff effectively paid below minimum wage

Question raised over Mike Ashley's brother's company used for Sports Direct deliveries
Posted 10th June
By Ben Stevens – August 23, 2016

Sports Direct staff 'not treated as humans', says MPs' report

22 July 2016



UN Framework

UNSDG

UN Sustainable Development Goals



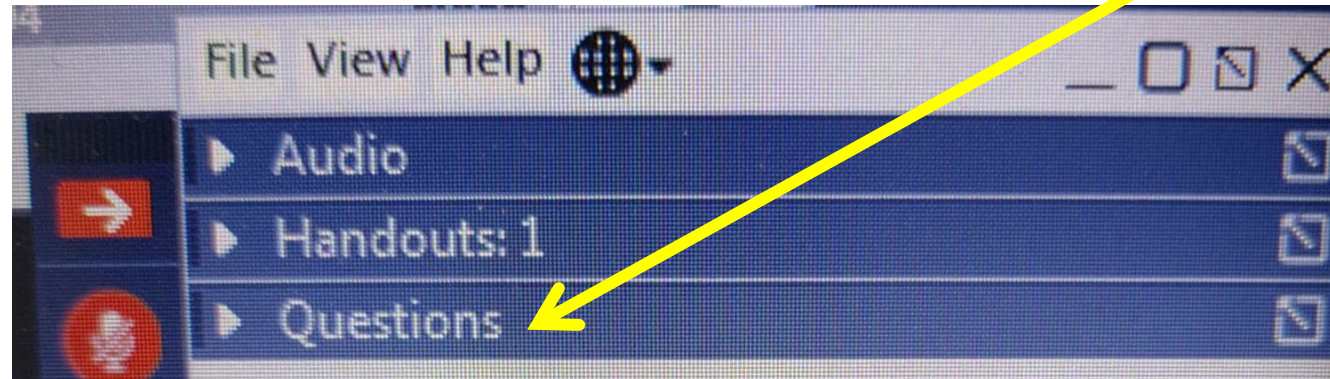
UNPRI

UN Principles for Responsible Investment

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

Questions?

Please use the question section in the drop downs



Thank you for joining us

Survey Feedback:

Please help the IIPM and complete the survey at the end of the webinar – or find the link in your follow up email

CPD DETAILS:

Attendees at the event may claim 2 hours of CPD in Savings & Investment (LIA) LIA13600_2022, IOB (TBC)

CPD Information for this webinar will also be included in confirmation email next week