

CONSULTATION RESPONSE

UK TASKFORCE ON SOCIAL FACTORS

1 December 2023

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for the United Kingdom. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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United Nations
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THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 5,300 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$120 trillion in assets under management.¹

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS CALL FOR EVIDENCE

In 2022, the Department for Work and Pensions (DWP) established the Taskforce on Social Factors ("the Taskforce") following a [call for evidence](#) on Consideration of social risks and opportunities by occupational pension schemes, aiming to support pension scheme trustees and the wider pensions industry with managing social factors. This Consultation is seeking feedback on the [Guidance](#) published by the Taskforce, intended to provide pension trustees with the tools to identify and monitor social risks and opportunities and develop consensus in approaching these across the pension investment landscape.

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¹ See <https://www.unpri.org/signatories/signatory-resources/signatory-directory>

KEY RECOMMENDATIONS

The PRI welcomes the Taskforce on Social Factors' (the Taskforce) guidance. This work will support pension fund trustees in approaching human rights and social issues, including in the context of the economic transition to a sustainable economy that supports people and the planet.

To strengthen the guidance, we make the following further recommendations to the Taskforce.

- Supplement the guidance with the information identified in the PRI's Investor data needs framework. This proposes a structure to identify decision-useful corporate sustainability data for responsible investors, while explicitly recognizing the diversity in investors data needs due to differing objectives, strategies, jurisdictions, etc.
- Clarify the language used within the guidance to highlight that investors are likely to have a legal duty to pursue sustainability outcomes when this would help achieve financial risk/return objectives.
- Improve the recommendations to regulators, government, and industry participants, highlighting the need to align action on human rights and social issues to relevant international standards, and to adopt human rights due diligence – including through regulation – in light with these standards.

CONSULTATION RESPONSE

1. Do you agree the report will be helpful for pension scheme trustees to better understand social issues and the impetus to act on them?

In its current state, we agree that the report will support pension scheme trustees in their work on social issues. However, the PRI considers that it could be further developed to ensure that pension trustees are provided with the tools needed to effectively integrate social issues in their operations, especially on the following topics:

- Definition of social factors and human rights.
- Investor data needs.
- Data sources.
- Fiduciary duties.
- Asset classes.

Definition of social factors and human rights

The definition of social and human rights provided should be strengthened, in line with that in the PRI paper on [Why and how investors should act on human rights](#). As highlighted in the paper, “People have a universal right to be treated with dignity. Every individual is entitled to enjoy human rights without discrimination – whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. Human rights are interrelated, interdependent, and indivisible.”

The World Social Science report 2013, published by the OECD, sets out that, alongside maintaining critical Earth’s systems, ‘human well-being also depends upon each person having access to the resources needed to meet their human rights, such as food, water, health, and energy’.² The well-understood concept of planetary boundaries³ set limits beyond which environmental degradation is dangerous for humanity. Similarly, human rights can help set social boundaries beyond which activities can cause harm to human well-being.⁴ This approach can also help link social issues to action on climate and the environment, further supporting the just transition to a net zero economy that supports people and the planet.

Investor data needs

The guidance sets out requirements for high-quality data that is decision-useful for trustees or their asset managers. Our engagement with investors has helped us identify additional considerations that should be included in the guidance.⁵

A first general observation is that investors differ significantly in their data needs due to differing objectives, strategies, jurisdictions, etc. Data must be relevant to meet the variety of investors’

² OECD (2013), World Social Science Report, chapter 6, Leach, M., Raworth, K. and Rockström, J. (2013) [Between social and planetary boundaries: Navigating pathways in the safe and just space for humanity](#).

³ UN General Assembly (2012) [Resilient people, resilient planet: a future worth choosing](#).

⁴ Rockström, J., Steffen, W., Noone, K. et al. (2009) [A safe operating space for humanity](#).

⁵ The PRI’s [Investor Data Needs Framework](#) offers a structure to identify decision-useful corporate sustainability data for responsible investors.

activities that inform their responsible investment process and to produce their disclosure. This diversity in data needs should be more explicitly recognised within the final guidance document.

In addition, trustees should also consider the following:

- **Comparability of data**, including across individual investees or business entities, asset classes, sectors, geographies, or timeframes.
- The need for **data to be a faithful representation** – i.e. the data should, to the extent possible: (i) include all material data necessary for the user to understand the risks, opportunities and impacts where relevant; (ii) be unbiased in the selection of this data; and (iii) be free from error.
- **Sources of verifiability underlying data**, including: (i) transparency of the underlying processes, metrics, and methodologies; and/or (ii) third party verification of the dataset or a specific data point.

Data sources

In order to support users in assessing their human rights and social risks and impacts, the guidance could point to additional data sources on sector- and country-level risks. The PRI's publication "[How to identify human rights risks: A practical guide in due diligence](#)" provides guidance on how investors can identify risks based on country, sector and company assessments, and recommend a set of potential sources. The publication "[Human rights in sovereign debt: the role of investors](#)" provides additional suggestions for human rights and social-related data sources that can support the assessment of sovereign fixed income investors.

Fiduciary Duty

With regards to considerations of fiduciary duty, we welcome the taskforce's use of the findings from the *Fiduciary Duty in the 21st Century* report highlighting the importance of incorporating ESG issues into investment processes and activities, as well as the need take a long-term view of investments, and to understand and consider incorporating the sustainability preferences of beneficiaries.

However, we invite the Taskforce to employ and directly reference the findings of the 2021 report [A Legal Framework for Impact](#), authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI, and The Generation Foundation. This more recent report builds on the findings of the *Fiduciary Duty in the 21st Century* report. *A Legal Framework for Impact* report identified across 11 jurisdictions, including the UK, that investors are generally permitted to consider pursuing sustainability impact goals where this would contribute to their financial return objectives.

Our subsequent UK-specific policy report, [A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry](#), found that **there remains a common misperception among UK investors that pursuing sustainability impact goals does not prioritise the investor's financial purpose.**

While financial return is generally regarded as the primary purpose and goal of investors, investors are likely to have **a legal obligation to consider pursuing sustainability impact goals, where doing so can contribute to achieving their investment objectives.** The Taskforce's guidance recognises that systemic risks cannot be mitigated simply by diversifying portfolio holdings. Instead, trustees should mitigate these risks in line with their fiduciary duties by taking action on sustainability outcomes as a way to directly address the drivers of these system-level risks and promote long-term value creation.

To this end, **we propose clarifying the language used within the guidance**, referencing the [Legal Framework for Impact](#) report, and the accompanying [UK report](#), **to highlight that investors are likely to have a legal duty to pursue sustainability outcomes** when this would help achieve financial risk/return objectives.

Asset classes

As highlighted above, different investors need different data and processes to integrate social factors into their investment decisions. This extends to investment strategies and asset classes. For this reason, the guidance could **provide advice on how trustees should tackle different asset classes such as sovereign debt and private equity**. This will allow pension funds to extend the risk mitigation and impact of their investment decisions beyond listed equity. The PRI has published reports on the role of investors in [human rights and sovereign debt](#) and [private markets due diligence](#) (including [case studies](#)).

2. For scheme trustees, does this report adequately address and provide a way forward for your scheme circumstances?

The PRI welcomes the suggested progression framework based on scheme resources and other circumstances. This could be improved by considering a number of additional areas.

- Increased focus on using influence with investment managers.
- Practical guidance on selection and monitoring processes.
- Increased collaboration on human rights and social issues.
- Better clarity on terminology.
- Signposting the need for engagement and provision of remedy.

Increased focus on using influence with investment managers

Asset owners are in a pivotal position within the investment chain to ensure that investment managers implement the UN Guiding Principles (UNGPs) on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. This can be achieved by requiring managers to have a human rights policy aligned with the UNGPs, conduct materiality assessment, align with the scheme's voting policy, and conduct engagements with investees and policymakers, with associated reporting for each. This could also be mandated in contracts, including using the example clauses included in the ICGN model mandate paper.⁶

Practical guidance on selection and monitoring processes

In order to support trustees in implementing the guidance, the Taskforce should provide practical guidance on what questions to use in the selection and monitoring process. To this end, the PRI has produced several documents that can support the work of the Taskforce, including: [Asset owner DDQs](#), [How to identify human rights risks: A practical guide in due diligence](#), [Practical approaches to human rights due diligence in private markets](#), and the DDQ and evaluation tool on [Evaluating managers' stewardship for sustainability](#). The latter provides a framework for assessing manager's stewardship commitments and activities and can be linked to the UNGPs.

Increased collaboration on human rights and social issues.

⁶ ICGN (2022) [ICGN – GISD Model Mandate](#), pp. 17, 22.

Collaboration between schemes will not only improve understanding of human rights and social issues, but also create space for engagement with investment managers to improve practice where necessary. Schemes should encourage their managers to join collective engagement initiatives such as [Advance](#).

Better clarity on terminology

The term ‘top portfolio companies’ under the “leading practice” section on page 11 should be clarified, as it can currently cause confusion for the users. In particular, the Taskforce should clarify whether this refers to the amount invested, or to potential risk as highlighted in materiality analysis and due diligence.

Signposting the need for engagement and provision of remedy

To fully implement the UNGPs, leading practice should also include engaging with potentially or actually affected stakeholders, and mitigating, then facilitating access to remedy through investees where relevant.

3. Do you see the proposed systematic materiality assessment framework for social factors as something you can practically implement in your portfolio?

The PRI is supportive of the approach adopted in the Guidance, as this can help achieve comparable results that can be clearly communicated to stakeholders. Some areas for further consideration for the Taskforce include:

- requiring a **comprehensive assessment of human rights and social issues**, based on international standards, as contributing to the materiality assessment: this will ensure that social risks and impacts are identified, and that the assessment is carried out in a manner that can be replicated over time;
- providing more clarity as to **how the materiality assessment may influence risks in different assess classes**: for example, a country-level risk assessment may directly influence view of default risk of a sovereign entity, whereas for a holding company, it will be key contextual information; and
- highlighting **improved data sources**, as mentioned in the response to Question 1.

4. Do you believe the three-level framework for addressing social factors in pension portfolios provides useful developmental guidance?

The three-level framework for addressing social factors does provide some useful developmental guidance. See our response to question 2 for further consideration.

For increased transparency towards all stakeholders, we suggest that the framework should also include clear and understandable communication to scheme members on the investment approach adopted, including how preferences are incorporated into the scheme’s investment approach (where possible, in comparative quantitative terms over set time periods).

5. Do you agree with the resulting recommendations for the pension’s ecosystem?

The recommendations proposed will help all stakeholders, including regulators, have a clearer perspective on how they can act on human rights and social issues. They could be further improved by implementing the specific proposals presented below.

- **Recommendation #7:** In setting its expectations on addressing social factors for pension funds, DWP should refer to the existing human rights frameworks (i.e. UNGPs and OECD Guidelines). This would allow for alignment with other jurisdictions – such as the EU, and Japan - that refer to this framework in their human-rights focused regulation and guidelines.
- **Recommendation #12:** The UK Government should take steps towards introducing human rights due diligence regulation aligned with international standards. This would move regulation beyond the existing UK Modern Slavery Act, whose effectiveness (especially with reference to section 54) has been questioned.⁷ It would also bring the UK to the forefront of the global policy efforts to advance the respect for human rights from corporates, in line with the commitment at the 2022 G7⁸ (reiterated at the 2023 summit⁹) to end forced labour in global supply chains, including through mandatory measures.
- **Recommendation #26:** The PRI [Investor Reporting Framework](#) has recently been updated to include more comprehensive human rights and social indicators. The results of the latest reporting cycle are published every year and can be further leveraged to develop the guidance.
- **Recommendation #35:** The data provided by companies (and required by regulators) should align with insights from PRI [Investor data needs project](#) and the paper on [What data do investors need to manage human rights risks](#). Our research shows that investors across regions and types of organisations generally need four categories of information on human rights to implement their responsible investment activities: (1) business model risks; (2) leadership and governance; (3) due diligence procedures; and (4) positive human rights outcomes.

With regards to **due diligence**, international human rights standards represent a fundamental tool for Trustees when engaging with social issues. These can be used at RFP stage and beyond, to judge the quality of Investment Consultants and Investment Managers. They can also help understanding the regulatory context the investments will take place in.

In order to provide more **in-depth and actionable information about how the due diligence process has been carried out**, and how its results have been taken into consideration, additional questions on due diligence should include the below list.

- Does the investment manager proactively and systematically identify and monitor human rights risks in the portfolio? If so, how?
- What are the key geographical and sector risks that the investment manager has identified?
- What companies does the investment manager focus on? How did the manager reach this conclusion?
- What are the key human rights issues that the investment manager will aim to address?

⁷ Modern Slavery PEC (2021) [Effectiveness of Section 54 of the Modern Slavery Act](#).

⁸ G7 (2022) [G7 Leaders' Communiqué](#).

⁹ G7 (2023) [G7 Hiroshima Leaders' Communiqué](#).

- How have the risks identified affected/will affect allocation decisions and stewardship activities? Give examples.
- How is progress monitored?
- How, and how often, will progress/updates be communicated to various stakeholders, including the asset owner?

Finally, with regards to the **section about Modern Slavery**, the information is generally well-structured and comprehensive. However, there is a risk, for trustees focusing exclusively or mainly on modern slavery risk, that they could miss other social risks (e.g. regulation in Europe focuses on all human rights and environmental impacts) – particularly as most pension portfolios are global in their exposure. Through proactive human rights due diligence, investors ought to be able to identify and prioritise the most salient risks to rights-holders across their value chains. Modern slavery exists amongst other risks that investors need to consider in their human rights due diligence processes. Investors should take a holistic approach towards dealing with decent work deficits – (defined by the ILO as expressed in the absence of sufficient employment opportunities, inadequate protection, the denial of rights at work and shortcoming in social dialogue)¹⁰ in order to comprehensively ensure the provision of decent work safeguards. As such, the taskforce should consider broadening the scope of guidance to ensure its applicability across a range of social issues.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the UK Taskforce on Social Factors further to raise awareness and develop a common understanding of social risks and opportunities which can be addressed by pensions scheme trustees, industry, and policymakers. Please send any questions or comments to policy@unpri.org. More information on www.unpri.org

¹⁰ ILO (2001) [Reducing the decent work deficit: A global challenge..](#)