

CALL FOR EVIDENCE RESPONSE

DEPARTMENT FOR WORK & PENSIONS: CONSIDERATION OF SOCIAL RISKS AND OPPORTUNITIES BY OCCUPATIONAL PENSION SCHEMES

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This response represents the view of the PRI Association and not necessarily the views of its individual members.

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United Nations
Global Compact

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 4,000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$100 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

This Call for Evidence is seeking views on whether occupational pension scheme trustees' policies and practices on social factors are sufficiently robust, and what the government could do to ensure that trustees are able to meet their legal obligations in this respect. This call for evidence is an information gathering exercise which may or may not lead to proposed changes in policy. Any changes in policy would be subject to public consultation.

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

THE PRI'S POSITION

The PRI welcomes the leadership shown by DWP in issuing this consultation and raising awareness of trustees' attention to social factors. Our evidence and overarching recommendations are formed on the basis of our work and insights as an organisation working with approximately 4,000 signatories globally, including 40 UK pensions fund signatories.

We recommend the DWP:

- **Work with The Pensions Regulator (TPR) to provide examples of decision-useful social indicators commonly used by investors, based on existing market practice and international developments**

Social factors are critical for trustees to consider for reasons of financial risk, opportunities and deliver to funding commitments. Preventing and mitigating actual and potential negative outcomes for people can lead to better financial risk management and so it is right that trustees should ensure their Statement of Investment Principles (SIPs) set out how they take account of social issues, per the 2018 Investment Regulations. Investors are taking action on social issues, and examples of factors that asset owners and managers take into consideration, as evidenced through PRI's work and publicly available reporting data, are provided in more detail below in response to each of the consultation questions for consideration by the DWP.

We note however, and as this consultation framing rightly points out, that ESG factors 'do not neatly divide between "financial" and "non-financial factors"'². Firstly, what trustees consider financially material or immaterial can vary per asset class, investment time horizon, and will diverge between investors and standards. Secondly, what respondents may indicate as financially material factors today may not sufficiently take into consideration social factors that will have financial impacts on assets in the future. Thirdly, there is both difference and interplay between the way in which social issues can expose investors to greater idiosyncratic risk of a particular company or sector, and systemic risks, that are particularly relevant for universal owners, which can undermine sustainable value creation. These observations on financial materiality and types of risk are especially important to take into consideration given the long-term liabilities of pension funds, and the role of trustees in setting investment frameworks, providing oversight for and instruction for (internal or external) managers to consider social issues across the investment time horizon of the fund.

Therefore, trustees need to be provided with a balance of supporting guidance on decision-useful information commonly used by investors which is aligned with the development international standards and best practice, and ability to exercise discretion on their chosen approach to social issues.

² [Open Consultation: Consideration of social risks and opportunities by occupational pension schemes](#), paragraph 13.

- **Engage with trustees to understand how they consider beneficiaries' future quality of life and social impacts of investments**

If the future state of the world is severely resource constrained, inequitable and insecure, beneficiaries are unlikely to receive or enjoy, with sufficient quality of life, the intended benefits of their savings, and UK pension funds have investment beliefs that recognise this. The UK Stewardship Code 2020 refers to the role of investors in delivering 'sustainable benefits for ...society'³ and updated TPR investment guidance for both DB and DC schemes acknowledges that trustees may consider quality of life considerations and social impact as relevant to investment returns and be treated accordingly.⁴ Following consultation on the 2018 Investment Regulations, the DWP included an 'optional policy on... social and environmental impact matters and quality of life considerations.'¹ As such, it is not a requirement for trustees to disclose whether or how they consider the social impact of their investments or beneficiaries' quality of life, which is central to their role. The DWP may choose to engage with pension fund trustees to understand how they consider beneficiaries' future quality of life and the impacts of their investments and revisit the formulation of the previous proposal to best provide clarity and support for trustees on social issues and in meeting their objectives.

With above observations in mind, we bring the following frameworks to the attention of the DWP:

- The UN Guiding Principles on Human Rights, the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights and the OECD Guidelines on Responsible Business Conduct (see response to question 3)
- The EU Environmental Taxonomy minimum safeguards and the development of the EU Social Taxonomy (see response to question 3)
- The PRI reporting framework, both in providing evidence of the work that signatories, including UK pension funds, are doing to consider of social factors as reported to the PRI during the 2020 reporting cycle and examples of indicators signatories report against⁵ (see responses to questions 1, 2 and 7)

³ [Feedback Statement Consulting on a revised UK Stewardship Code](#), FRC.

⁴ [Investment governance for DC schemes](#) and [investment governance for DB schemes](#), TPR.

⁵ [PRI Listed Equity snapshot 2017-2020](#)

RESPONSES TO SPECIFIC QUESTIONS

Q1. Does your pension scheme, or do schemes you advise, have a policy on financially material social factors? In this policy, are social factors discussed separately to ESG factors in general?

The UNGPs serve as the overarching framework for all PRI co-ordinated projects that signatories participate in relating to social issues. These are core to PRI's work on ESG factors. PRI signatories are active on social issues. We indicate the following to DWP as a reference points of significant investor momentum and work already underway from investors on human rights;

- In the past five years, approximately 115 institutional investors with more than US\$13 trillion of assets under management (AUM) have engaged with 100 companies through PRI-led collaborative engagements to improve human rights practices and disclosure⁶ based on the UNGPs
- More than 180 PRI signatories apply to their investment portfolios various forms of screening referencing the UNGPs and/or the OECD Guidelines on Responsible Business Conduct
- A growing number of companies (currently 152) are disclosing information through the UN Guiding Principles Reporting Framework – an initiative backed by 88 investors with US\$5.3 trillion in AUM
- The Corporate Human Rights Benchmark – an investor and civil society-led initiative – provides indicators to assess the human rights performance of more than 200 of the largest publicly traded companies and is currently under consultation with a revised methodology to due for release in August 2021⁷
- An investor call for governments to legislate on mandatory due diligence for companies led by the Investor Alliance for Human Rights is currently supported by 105 investors with US\$5 trillion in AUM

In the next 4 years PRI will:

- introduce questions on how investors consider human rights into the PRI Reporting Framework which will be mandatory for all signatories to increase accountability;
- facilitate investor collaboration to address industry challenges to implement respect for human rights;
- promote governmental policy measures, such as mandatory due diligence legislation and accountability mechanisms, that enable investors and investees to manage human rights issues;
- drive meaningful data by defining metrics, in line with the EU Social Taxonomy as noted above, to allow investors to manage both investment risk and risk to people;

⁶ See more on PRI's body of social work [here](#), and specific case studies from investors [here](#)

⁷ [Corporate Human Rights Benchmark Methodology Review 2020-21](#)

- support institutional investors with their implementation of the UNGPs through knowledge-sharing, examples and other practical materials.

Q2. Does your scheme, or do schemes you advise, have (a) a stewardship policy and/or (b) a voting policy that specify covering social factors?

Since 2018, all PRI signatories have been required to disclose a responsible investment policy setting out their overall approach to E, S or G issues that covers at least 50% of assets under management, which it is proposed will increase to over 90% of AUM and will require voting and engagement policy for listed equity assets. In the 'Listed Equity Active Ownership' module of the PRI's 2020 reporting framework indicates signatories' stewardship activities related to a diverse range of social issues including diversity, human rights as well as labour practices and supply chain management.

In the 2020 reporting cycle:

- 701 signatories reported on their active ownership policies. 20 UK pension schemes reported on their active ownership policies, 19 of which covered alignment with the UK Stewardship Code requirements
- 412 signatories provided examples of voting activities on social issues. UK pension schemes provided 10 examples of voting activities on social issues. These examples touched on a range of social themes, as indicated below.
 - **Human Rights** – UK pension schemes provided 2 examples of human rights considerations in voting. These concentrated on identifying and addressing adverse human rights impacts in operations and supply chains as well as raising concerns around sexual harassment.
 - **Diversity** – UK pension schemes provided 4 examples of how they vote on diversity issues, including but not limited to gender. These focused on board composition, gender pay gap disclosure and raising concerns around sexual harassment.
 - **Labour practices and supply chain management** – UK pension schemes provided 4 examples of labour practices and supply chain management considerations in voting. These addressed labour practices, employee representation on boards and raising concerns on sexual harassment.

Voting is a key tool for UK pension schemes to use their rights and positions of ownership to influence the activity or behaviour of investees to prevent and mitigate negative human rights outcomes.

Furthermore, where voting occurs on a shareholder resolution that is guided by the UNGPs, it can enable access to remedy when a scheme is linked to negative outcomes.

**Q3. On which social factors do your scheme's investment and stewardship policies focus?
What was the rationale for deciding to focus on these particular social factors? Do you refer to any international standards, such as those relating to human rights or labour rights?**

The PRI has prioritised human rights as the foundation for all work on social issues. Responsibility for businesses to respect human rights was first formalised by the UN and the OECD in 2011. As for businesses enterprises, institutional investors have a responsibility to respect human rights, with expectations from beneficiaries, government and society that institutional investors have a role to play in shaping outcomes on human rights across investment activities.⁸

The PRI recommend the DWP ensure alignment of guidance or any future proposals on social issues with tenets of the use the UN Guiding Principles on Business and Human Rights (UNGPs) that are unanimously endorsed by the Human Rights Council on which the UK presides. Further important points of reference on existing tools for the DWP's consideration include:

- 'Minimum safeguards' on human rights included the EU Environmental Taxonomy. To meet Taxonomy standards, investors are required to conduct due diligence to ensure underlying investments comply with the OECD Guidelines for Multinational Enterprises (MNEs) and the UNGPs, including the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights. The minimum safeguards reflect established international standards and therefore are afforded legitimacy at the global level and have significant potential to become the primary industry standard.
- The development of the EU Social Taxonomy. The Social Taxonomy sub-group of the EU Platform for Sustainable Finance is currently tasked with exploring the extension of the taxonomy beyond environmentally sustainable economic activities to also cover social objectives. Developed by cross-sector experts, a report on the Social Taxonomy and consultation is due to be released in Q3 2021. This includes a refining and building on the workings of the minimum safeguards provision described above. The social taxonomy is not limited in seeking to define what are financially material factors but aims to provide a framework for how users can contribute to social objectives. Most importantly, as with the minimum safeguards on human rights included in the environmental taxonomy, it seeks to align to recognised standards, for example the UN Guiding Principles on Business and Human Rights (UNGPs), which are fast gaining traction in business, rather than creating new standards and avoiding fragmentation of standards and reporting internationally.

Both already draw on key concepts from the OECD guidelines on responsible business conduct for institutional investors. It is therefore important that any hard law developments, particularly in the UK, build on these international standards to ensure alignment.

⁸ For more see PRI's ['Investing with SDG Outcomes'](#) report.

Q7. (a) Have the trustees of your scheme, or a scheme you advise, undertaken stewardship (engagement or voting) with an investee company on a social factor in the past 5 years, whether directly or through an asset manager?

(b) If yes, please provide details including why you felt this was necessary, what was done and the impact of your intervention.

(c) If no, then please provide details including what disincentives and barriers you faced in undertaking stewardship activities (engagement or voting) with an investee company?

The PRI works to provide guidance on best practice stewardship facilitating key collaborative stewardship initiatives, providing an online platform to host signatories' own collaborations, and working with signatories and other stakeholders to help overcome regulatory and structural barriers to effective stewardship.

In response to PRIs 'Listed Equity Active Ownership' in 2020 signatories reported:

- 960 examples of engagements on social issues, of which UK pension schemes provided 30 examples. The most prevalent social issues engagement topics by UK pension schemes were on human rights, labour practices and supply chain management.
- 412 examples of voting activities on social issues, of which UK pension schemes provided 10 examples, most commonly on diversity, labour practices and supply chain management.

Since 2015: PRI signatories have worked together engagement companies on social issues as follows:

- Between 2015-2017, 51 PRI signatories representing USD \$7.5 trillion in assets engaged with 32 companies in the extractives sector to enhance implementation of the UNGPs and disclosure with regards to human rights. As a result of the engagement, 100% of target companies disclosed a human rights policy commitment and 75% incorporated human rights considerations into their risk management processes.
- Between 2017-2019, 29 PRI signatories representing USD \$1.4 trillion in assets engaged with 33 companies in the beverages, food producer and retail sectors to work towards ensuring fair practices in agricultural supply chains. The engagement included identifying and assess existing corporate practices, encourage enhanced communication and reporting, and supporting improvement of performance and impact by target companies. Due to the engagement, 97% of target companies had a supplier code of conduct and more than 90% of these codes mentioned the ILO's Declaration on Fundamental Principles and Rights at Work and the eight core conventions.

As part of PRI's multi-year human rights agenda, the PRI will establish a collaborative engagement programme between a large group of institutional investors engaging with companies to respect human rights as defined by the UNGPs as well as other international human rights standards.