THE CHURCH OF ENGLAND

Ms. Sinead Donnelly and Ms. Vicky Bird
Department for Work and Pensions
Strategy Policy and Analysis Group
Private Pensions and Arm's Length Bodies Directorate
Ground Floor North
Quarry House
Leeds
LS2 7UA

20th July 2018

Dear Ms. Donnelly and Ms. Bird,

RE: DWP consultation on clarifying and strengthening trustees' investment duties

Please find attached a formal response on behalf of the Church of England Pensions Board (a fund of £2.5 billion assets under management that provides pensions to retired Clergy and Church workers) to the Department for Work and Pensions (DWP) consultation on clarifying and strengthening trustees' investment duties.

We wish to preface our responses to the specific questions by noting that we are strongly supportive of the DWP's proposals to regulate in this area and, subject to the notes and comments in the attached response, we are strongly supportive of the approach proposed.

We also note that we see fiduciary duty (specifically the duties of care and loyalty) as an essential guide for the actions and duties of trustees. However, we see that the definition of fiduciary duty has evolved and is evolving to require investors to take account of environmental, social and governance issues in their investment and in their stewardship practices, processes and decision-making. This evolution is likely to see greater emphasis on investors' impact on society and on the environment. We therefore encourage the DWP to ensure that the proposed regulations align with and support this direction of travel, and our comments on Q.6 are particularly important in this regard.

We would also note that climate change in particular poses a systemic, medium-to-long term risk that has clearly been highlighted by the Governor of the Bank of England and it is right to have highlighted the additional importance of having a clear approach to this issue.

If you would like any further information about our response please do not hesitate to contact me on 020 7898 1096 or at adam.matthews@churchofengland.org.

Yours sincerely,

Adam C.T. Matthews
Director of Ethics & Engagement
The Church of England Pensions Board

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Consultation Submission from the Church of England Pensions Board on Clarifying and strengthening trustees' investment duties

We wish to preface our responses to the specific questions below by noting that we are strongly supportive of the DWP's proposals to regulate in this area and, subject to the notes and comments below, we are strongly supportive of the approach proposed.

We also note that we see fiduciary duty (specifically the duties of care and loyalty) as an essential guide for the actions and duties of trustees. However, we see that the definition of fiduciary duty has evolved and is evolving to require investors to take account of environmental, social and governance issues in their investment and in their stewardship practices, processes and decision-making. This evolution is likely to see greater emphasis on investors' impact on society and on the environment. We therefore encourage the DWP to ensure that the proposed regulations align with and support this direction of travel, and our comments on Q.6 are particularly important in this regard.

Q1. We propose that the draft Regulations come into force approximately 1 year after laying, with the exception of the implementation report, which would come into force approximately 2 years after laying. a) Do you agree with our proposals? b) Do you agree that the draft Regulations meet the policy intent?

We agree with the timeline and content of the proposed regulations. The timeline will give trustees ample time to update SIPs in line with the guidance, to reflect on members' views on ESG considerations and to assess the implementation of the trustees' understanding of members' views.

Q2: We propose to require all trustees of all schemes which are obliged to produce a SIP to state their policy in relation to financially material considerations including, but not limited to, those resulting from environmental, social and governance considerations, including climate change. a) Do you agree with the policy proposal? b) Do the draft Regulations meet the policy intent?

We agree with the approach proposed and specifically that it is appropriate to explicitly identify environmental, social and governance considerations, including climate change, as items to be considered within the scope of the SIP. Environmental, social and governance issues will affect all funds, therefore it is incumbent on trustees to articulate a policy which can potentially inform the risk profile of investments. We also note and support the findings of the Bank of England that climate change in particular poses a systemic risk to investments, and indeed to the integrity of the financial system.

Q3: When trustees prepare or revise a SIP, we propose that they should be required to prepare a statement, setting out how they will take account of scheme members' views. a) Do you agree with the policy proposal? b) Do the draft Regulations meet the policy intent?

We agree with the need to engage with stakeholders appropriately, particularly with scheme beneficiaries.

Q4. Do you agree with our proposal not to require trustees to state a policy in relation to social impact investment? If not, what change in legislation would you propose, and how would you address this risk of trustee confusion on this point?

We agree with the proposal not to require trustees to state a policy in relation to social investments at this time. Our reason is that we think that this area of investment is nascent and it is perhaps early to regulate. We encourage the DWP to ensure that the regulations adopted do not preclude such investments and we recommend that the DWP revisit this specific approach to investment in 2020, at which point we should have greater clarity on the financial and societal implications of social impact.

Q5: We propose that trustees should be required to include their policy in relation to stewardship of the investments, (including monitoring, engagement and voting) in the SIP. a. Do you agree with the policy proposal? b. Do the draft Regulations meet the policy intent?

We welcome the proposal and feel that it encourages schemes to align themselves closer to the UK Stewardship Code. High quality stewardship can help schemes manage specific and more general risks within a portfolio. Investor initiatives such as the PRI and IIGCC can provide a forum for schemes to partner with other funds with well-established stewardship resources – and so it is advised that funds are signposted to such investor initiatives in the policy.

Q6: When trustees of relevant schemes produce their annual report, we propose that they should be required to: - prepare a statement setting out how they have implemented the policies in the SIP, and explaining and giving reasons for any change made to the SIP, and - include this implementation statement and the latest statement outlining how trustees will take account of members' views in the annual report. a) Do you agree with the policy proposal? b) Do the draft Regulations meet the policy intent?

This is perhaps the most important aspect of the policy, as it enshrines the rest of the Regulations in schemes' reporting to members and other stakeholders. It would be very easy for schemes to produce boiler plate SIPs in accordance to the policy were it not for this specific proposal. Furthermore, this could help drive important transparency along the investment chain, as implementation of policies is often left to investment managers. By strengthening schemes' reporting requirements and making SIPs more robust, investment managers and other intermediaries will be obliged to provide more transparency to their clients. We therefore recommend that the DWP reword the proposal so that trustees are required to prepare a statement that (a) sets out how they have implemented the policies in the SIP, (b) explains and gives reasons for any change made to the SIP, (c) discusses the investment implications of how they have implemented their SIP, (d) discusses the environmental, social and governance impacts of their investments and how the policies in the SIP have affected these impacts.

We support the proposal that this information, including the latest statement outlining how trustees take account of members' views be included in the annual report.

Q7: We propose that trustees of relevant schemes should be required to publish the SIP, the implementation report and the statement setting out how they will take account of members' views online and inform members of this in the annual benefits statement. a) Do you agree with the policy proposal? b) Do the draft Regulations meet the policy intent?

As an extension to the previous proposal, it is important that the transparency of how schemes' policies, especially in reference to scheme members' views, are provided to members. This will help scheme members have faith in the investment process, and understand why specific decisions are made by trustees, even if they are contrary to individual views.

Q8: Do you have any comments on the business burdens and benefits, and wider non-monetised impacts we have estimated in the draft impact assessment?

As a long-term investor we are keen to mitigate risks that are, for now, seemingly non-material, but have the potential to cause a systemic downgrading of the quality of investments, a very clear example is climate change. Therefore, the benefits for trustees in supporting and adhering to the policy are likely to far outweighs the costs outlined in the impact assessment. We appreciate that this may prove a challenge for smaller schemes, but we stress that long-term ESG risks are proving to be intrinsic risks to any investment portfolio, and as such the policy is reasonable.

Q9: Do you have any other comments on our policy proposals, or on the draft Regulations which seek to achieve them?

Q10: Do you agree that the revised Statutory Guidance clearly explains what is expected of trustees in meeting their duty to publish the SIP, implementation statement, and statement of members' views?

We would encourage the DWP to produce an implementation guide to support implementing the regulation. This guide could be updated periodically pointing to relevant references such as the TCFD and UK Stewardship Code. Additionally, case studies of how funds have practically applied the regulation would help inform and share best practice.

Q11: What evidence or views do you have of how well the other requirements in the SIP are working? What areas for further consideration and possible future change would you suggest?