

Sinead Donnelly and 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
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Dear Sinead Donnelly and Vicky Bird

Department for Work & Pensions: Consultation on clarifying and strengthening trustees' investment duties – response from First State Investments

First State Investments welcomes the opportunity to contribute to the Department for Work & Pensions' (DWP's) consultation on "clarifying and strengthening trustees' investment duties".

About First State Investments

First State Investments (FSI) are a global asset management business with expertise across a range of asset classes and specialist investment sectors. We are stewards of over £119 billion¹ in assets managed on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide. We are committed to providing the best possible outcomes over the long term for our investors and wider society.

We employ investment teams that are specialists in their respective fields and who set their own investment philosophies and processes. Our commitment to Responsible Investment (RI) and stewardship is a common thread which runs through these diverse investment teams, guides the broader management of our business and is integral to our culture. Collectively we continually strive to improve our understanding of Environmental, Social and Governance (ESG) factors as sources of long term risk and return. For more information, please click [here](#).

In the course of our duties, we engage with the trustees of our pension fund clients in the UK and overseas by sharing information on our approach to stewardship, climate risk and general ESG integration. We believe this consultation is timely and welcome the opportunity to contribute.

Our views on the questions posed are as follows.

1. **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?**
 - a) We believe that one year after the regulations are laid is sufficient time for pension schemes to make the relevant changes to their Statement of Investment Principles as required by the new legislation and to provide a statement on how members' views have been or intend to be taken into account. One year after implementation of the new SIP should also be sufficient time for trustees to produce an implementation report. Achieving this will however require the support and engagement of the scheme's investment advisers.

¹ Source: First State Investments 30th June 2018

b) We believe that the draft Regulations as crafted should meet the policy intent.

2. 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 you agree that the draft Regulations meet the policy intent?

a) We agree with the policy proposal. As Pension schemes are by nature long term investors, it is essential that pension schemes clearly provide direction and oversight to their delegated asset managers to effectively consider and manage all financially material factors that will impact on the long term outcomes of their investments. Various interpretations of what is and isn't appropriate have often caused trustees to default to a do nothing position, therefore it is appropriate for Government to clarify that pension schemes should consider all financially material factors in their investment principles. It is also appropriate for the government to specify that those considerations should include (but should not be limited to) Environmental, Social and Governance (ESG) considerations including climate change, especially in the face of evidence cited in the consultation that is not widely understood by trustees that these can constitute sources of long term risk and return.

b) We believe that as drafted the proposed regulations meet the policy intent.

3. 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 you agree that the draft Regulations meet the policy intent?

a) We agree with the principle as the beneficiaries of pension schemes (the scheme members) views are important. There is a challenge in effectively balancing the views of members and the operations of the scheme. Schemes should be encourage to provide non-technical jargon free information to raise the level of financial awareness amongst its members to promote trust and confidence in the pension system and encouraging people to save for their retirement. This becomes even more important as we consider how best to serve DC members engaged in the new generation of auto enrolment members.

b) We believe that the draft regulations should meet the policy intent.

4. 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 believe that this is the correct decision at this time. Although we have confidence that the social impact investment market will grow over time, there is as yet little, if any, agreement on standards or definitions to effectively capture and classify such investment options available to trustees. We are also of the view that this part of the market has yet to be thoroughly researched by investment consultants who provide comparative manager and investment strategy information to their trustee clients. We would recommend re-visiting the question requiring trustees to state a policy in 2021.

5. 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?

- a) We believe that stewardship is a critical component of effective asset management, therefore we strongly support the aim of this proposal as it is an important step in creating an enhanced competency relating to stewardship in the UK market. Stewardship enables asset managers to hold company management to account and to ensure that, to the best degree they can, company executives look beyond the short term to focus on sustainable long-term value creation. It is our view that well run companies that take a long-term approach are more likely to deliver long term value for their shareholders and support the trust and confidence in the UK's capital market.

Stewardship is also an area where the UK policy, via the UK Stewardship Code, is seen and respected as a global industry leader.

6. 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) We strongly support these proposals as they emphasise that the SIP does not constitute a compliance exercise. We have seen too many "boiler plate" statements in SIP's which undermine the relevance and importance of this document as an articulation of the scheme trustees principles and how they intent to execute them.

We would as an asset manager encourage trustees to seek specific feedback from us as to how we executing our stewardship responsibilities and how we are complying with the SIP. Today this is an exception as opposed to the norm.

We, and many other asset management houses, already embed ESG considerations into the investment process to better manage risk and generate sustainable, long term returns, which we see as aligning to the intent of this proposed regulation.

7. 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 our proposals?

- a) We believe that the industry needs to improve its levels of transparency and disclosures therefore we support these proposals. The visibility and accessibility of the SIP is important to promote transparency, accountability and trust from scheme members and other stakeholders. Guidance should state that summary should be included in the Annual Benefit Statement which is easy to understand by scheme members who will mostly not be highly financially literate.

In conclusion, it is the motivation to work with trustees in this area that has led us to reply. This motivation has recently been demonstrated by FSI being part of the steering committee and advisory team into the DCIF's 2018 research paper; "Navigating ESG: A Practical Guide²." The paper provides some practical recommendations for trustees in how to approach this topic and could be referenced by the DWP to help support any guidance.

The subject of this consultation is of particular interest to us and we would welcome further ongoing engagement with the DWP on this important topic.

Yours sincerely,



Will Oulton
Global Head, Responsible Investment
First State Investments

² DCIF: Navigating ESG: A Practical Guide <https://www.dcif.co.uk/research>