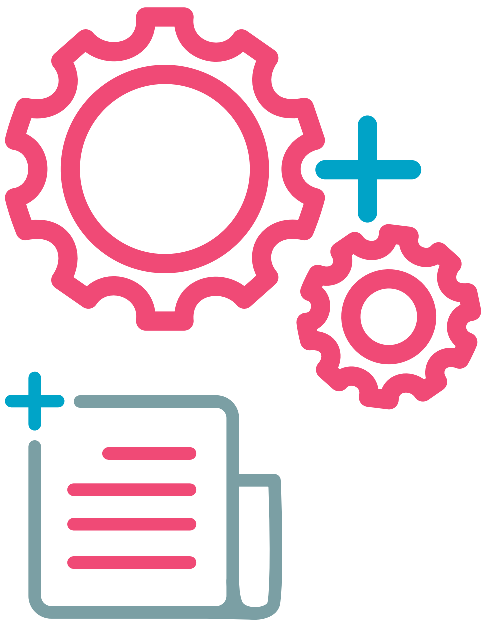
Responsible investment within pensions for corporate sponsors

Responsible investment, or RI for short, can help you manage pension costs, improve your employee satisfaction and protect your company against reputational risk.

We recommend that employers have active input into their pension schemes' RI policies and consider whether the pension scheme RI principles need to be more aligned with their corporate responsibility position.



Why responsible investment matters in helping the future success of your business

Ensuring consistency with your corporate strategy and values

As a business, you will already have a corporate responsibility programme and will increasingly be treating it as a business priority. You may now see topics like climate change, diversity and wellbeing as core business issues and will be integrating them into your corporate strategy and culture. But have you considered whether your pension schemes' investments are aligned?

If you have adopted a strong position on, say, the importance of tackling climate change, you may want your pension schemes to adopt a similar position. This can support your strategic objectives by reinforcing your company's values.

Managing pension costs and risks

RI has the potential to improve investment returns and/or reduce the volatility of returns. It can also support the long-term health of the financial system and hence its ability to deliver sustainable long-term investment returns.

Improving employee satisfaction

Pensions are likely to be a significant proportion of your employee benefit spend, so it is important that employees value them. RI can help with this. Recent evidence shows that many members, particularly younger ones, prefer their pension savings to be invested responsibly*.

Employers can help their pension schemes respond to this demand by:

- taking account of member views and environmental, social and governance factors in investment decisions and
- offering relevant self-select options to defined contribution members.

Maintaining or enhancing company reputation

If one of your schemes makes a controversial investment, or invests inconsistently with your company's stated position on corporate responsibility topics, you could find criticism is directed at you. Conversely, sponsoring a scheme that is a market leader in RI can reflect well on you and generate positive publicity.

*DCIF (2018), Navigating ESG: A Practical Guide

What is responsible investment (RI)?

RI aims to achieve long-term sustainable returns. It does this by incorporating environmental, social and governance (ESG) factors into investment decisions and adopting stewardship (active ownership) practices, such as exercising voting rights attaching to shares and engaging with investee companies.

At times, RI has been confused with ethical investing, which in the past sometimes meant accepting lower returns by screening out certain investments that failed to meet ethical considerations (eg avoiding tobacco shares). However, RI focuses on environmental, social and governance factors that are financially relevant and have the potential to improve risk management and generate sustainable, long-term returns.

What should companies be considering?

Four simple steps

1. Understand your pension schemes' current responsible investment policies and activities.
2. Form a view on your preferred RI approach for the schemes, given the company's own corporate responsibility values, policies and activities.
3. Engage with the trustees/providers responsible for your schemes to encourage them to move towards your preferred responsible investment approach.
4. Make sure your members and employees appreciate what you are doing – for example by telling them about RI and the link between real-world issues and their pension savings.

Note that trust-based pension schemes have had to include responsible investment policies in their Statement of Investment Principles (SIP) since 1 October 2019. RI is attracting significant regulatory and political attention, so we expect these policies to be scrutinised.

Learn more by visiting our responsible investment hub

Want to find out more?

Please visit our responsible investment hub, talk to your usual LCP adviser or contact one of our specialists below.

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