Global Developments in Pension Fund ESG Disclosures
→ what pension actuaries need to know

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Abstract

The paper summarises the main features and trends in pension fund ESG risks disclosure around the world available to regulators, members and the public. It includes reference to statutory requirements, general practice and voluntary disclosures in relation to pension fund accounts and other documents made available to members such as benefit/fund statements.

It includes all types of pension fund including defined benefit and defined contribution, and multi-employer structures. It is based on a global survey of practices in countries including the main locations for occupational pension funds, carried out in Autumn 2019, and a review of best practice as illustrated by a selection of major pension funds

There is reference to disclosures relating to climate change and other environmental, social and governance risks arising from pension fund investments. There is particular reference to the take-up of the recommendations of the FSB Taskforce on Climate-Related Financial Disclosures. Governance is considered in relation to the stewardship policies adopted in managing investments and there is reference to environmental litigation affecting pension funds.

We also comment on the impact of these trends on the work of actuaries. Drafting of the paper was largely completed before the onset of the COVID-19 pandemic, so there is only brief reference to it.

Introduction

Pension funds are major asset owners and global investors, with the stewardship responsibilities this entails. According to recent OECD statistics, total global pension fund assets amount to USD 44 trillion, with the USA making up more than half that figure and Australia, Canada, Japan, Netherlands, Switzerland and the UK substantial players.

After being viewed by some as mainly of interest to ethically driven investors, Environmental, Social and Governance issues have moved in recent years from being an ill-defined, under researched area, to a position where most investment managers now claim to integrate ESG into their investment processes in order to maximise long term returns and identify potential reputational risks. Over 2,300 organisations representing more than USD 80 trillion in assets under management, including pension funds, insurers and investment managers, have signed the UN Principles for Responsible Investing. This seems to be driven by a number of factors including:

- high profile ESG failures such as the BP Gulf oil spill, Vale dam disaster, Volkswagen emissions scandal, Westpac money laundering crisis and Bangladesh clothing factory disasters
- increased public concern relating to ESG issues which can rapidly escalate through global social media, as strikingly illustrated by the recent concerns over plastic waste
- much academic research suggesting a positive effect on investment returns and/or volatility when ESG issues are reflected in investment processes, see for example Morgan Stanley, MSCI and Truvalue Labs.

ESG can be seen as a collection of business risks that companies and investors need to evaluate, but which may not have received the attention they deserved in the past, with short term profit being prioritised at the expense of longer term sustainability, for example where

- environmental risks have been termed "externalities" - someone else's problem - such as the despoiling of local agriculture or tourism by pollution. But litigation from other businesses or action by local government, even many years later, can bring it home to the polluter
- insufficient resource is devoted to risk management
- they are vulnerable to exposure of their business practices, including where they are working through third parties, over which they may have limited control, as child labour and palm oil campaigns demonstrate
- an insular and flawed business culture develops which allows or overlooks illegal activities such as with money laundering, market manipulation and corruption
- there are governance problems related to a dominant chief executive and/or lack of diversity, which may persist for many years if financial results seem acceptable and risks are not appreciated.

To all of this must now be added the global risks and challenges of climate change. Arguably the greatest risk that business, pension funds and society itself is now facing in the medium to long term, climate change is already having an impact in terms of natural disasters, and also through changes in markets as a result of the increasing efforts to mitigate global greenhouse gas emissions. Pensions fund disclosures in this area will help to reveal the extent to which they are positioning themselves for the changes to come.

The objective of this paper is to examine the extent to which pension fund ESG risks are disclosed around the world, given their importance in terms of long term fund performance and delivering members' benefits, but also in relation to wider societal impacts. We are grateful to colleagues in the International Actuarial Association for their assistance in providing the survey of practice in key locations on which our paper is based, carried out mainly in Autumn 2019. Such disclosures indicate the approach to ESG risks by pension funds and the extent to which their approach is available for scrutiny by members, regulators and the general public.

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Pension fund structures and management

How pension funds engage with ESG is affected by their own structure and governance, as determined by local legislation and practice, and their size, in terms of the resources they can devote to ESG issues, including whether they have their own investment departments or have to rely on external investment managers. These factors are summarised in the following table for the 14 countries in our survey:

Overview of pension fund assets and structures

Country	Approximate total pension funds 2019 US $ billion*	Structure
Australia	2,077	A few large multi-employer funds with corporate trustee, equal employer & employee representation, plus some independent trustees. Also retail funds
Canada	1,924	Varies by province, mostly employer sponsored, administered by a committee (trustee) with some employee/outside involvement. Also industry & retail funds
France	155	Mostly pensions are from unfunded industry wide plans. The few funded are employer sponsored. Also insured retail funds
Germany	502	All plans employer sponsored. Employee representation mandatory. Some large industry-wide schemes (eg construction, banking). Also insured and unfunded
Ireland	184	Employer sponsored, separate entity with trustees (including member nominated & professional). Many small insured schemes.
Italy	210	Employer sponsored with separate Board including employee representation. Also insured and unfunded
Japan	1,400	(Excludes Japanese Government Pension Fund) Employer sponsored, separate entity, 50% employee representation. Also retail funds
Netherlands	1,690	Employer or multi-employer sponsored, separate entity with trustees and generally equal employee representation
Poland	48	Employer sponsored, subject to radical restriction in recent years
South Africa	231	Employer or multi-employer sponsored, separate entity with trustees and generally equal employee representation
Spain	43	Employer or multi-employer sponsored, separate entity with trustees and generally equal employee representation. Also insured retail funds
Switzerland	1,047	Employer or multi-employer sponsored, separate entity with trustees and generally equal employee representation
UK	3,451	Employer sponsored, separate trustees, at least one third employee nominated. New multi-employer funds for minimum DC benefits. Also retail funds
USA	29,196	Employer or multi-employer sponsored, separate entity with trustees but limited employee representation. State requirements vary. Also retail funds
Total	42,158	

*Generally taken from The Thinking Ahead Institute's Global Pension Assets Study 2020, except Japan and Poland which are from the OECD (which uses a different definition of pension funds). IRAs are included for the USA.

Definition of a Pension Fund

For the purposes of this paper we have concentrated on funded occupational pension funds (the so called "second pillar"), including private and public sector defined benefit and defined contribution retirement schemes that operate separately from government. We have not included the substantial funds invested by some governments, such as Japan and Norway, which serve to stabilise the finances of their state pension systems or other state-run country-wide schemes like the Singapore Central Provident Fund.

Structures

It will be seen from the above table that pension funds are typically established by employers through a separate legal entity, mainly with equal employer/employee trustee/board representation. In UK local government, and US public sector funded pension schemes, there are no trustees as such but managers acting in a trustee capacity. Many countries have facilities for employees to make additional provision through individual contracts managed by insurers or other providers. Hence pension fund disclosure is in the hands of trustees (or their equivalent), or insurance companies in the case of individual pension contracts.

In those countries which have a trustee structure, it tends to be a part-time, often unpaid activity, which company management and employees fit in around their main jobs, although there is some growth in the use of professional (paid) trustees. Hence it is only likely to be the larger pension funds which have the resources to fully support trustees/managers in determining their approach to ESG issues, although these will generally make up the majority of total pension fund assets. Smaller funds will be reliant on external investment managers and advisers.

Size

In many countries the amount of total pension fund assets is relatively small (which is also the case for most countries not included in our survey). Apart from the size and development of each economy, this is explained by the fact that many countries, including most of Europe, make pension provision mainly through various forms of unfunded arrangement

The encouragement given to multi-employer funds in Australia, the Netherlands and recently the UK, means that they have fostered the development of some major independent pension funds. However, in most countries with substantial funds there are also a range of smaller funds. Consolidation is being encouraged in the UK.

Type

Apart from in Australia, most major pension funds are in respect of defined benefit ("DB") liabilities. To some extent this is an historical legacy as the trend in most locations seems to be towards defined contribution ("DC"). However, this does mean that investment strategy and ESG policies are clearly the responsibility of the scheme trustees in the first place. In a DC scheme the members may have some involvement in these matters, where they have a choice of funds in which to invest. Also, in these schemes the trustees/managers may wish to be seen to be addressing members' concerns, for example in relation to climate and other ESG issues, in order to promote growth in membership and contributions.

Regulation

In terms of the general regulation of pension fund investment, in most locations the overriding requirement is for the trustees or their equivalent to act in the long term best interests of beneficiaries. This fiduciary duty also acts to drive the approach to pension fund investment, even where there are few specific requirements, for example in relation to diversification, inflation risks and, latterly, climate change. Later in this paper we note some of the first indications that courts will test whether there is a fiduciary duty to consider climate change or other ESG factors.

In many locations there are limits on investment with the sponsoring employer: typically 5%. There are also more detailed restrictions in parts of continental Europe.

All of the European countries included in our survey, apart from Switzerland, were members of the European Union and are subject to the pensions directive known as IORP II from January 2019 (Directive 2016/2341 relating to Institutions for Occupational Retirement Provision). However, each EU member country determines how such directives are implemented nationally. The UK formally left the EU on 31 January 2020 (although continuing to operate as a member during a transitional period) but had largely already implemented this directive. IORP II contains requirements relating to a number of areas of pension fund management, including ESG, which is considered in the next section.

EU member states are also subject to the revised Shareholder Rights Directive known as SRD II (Directive 2017/828/EU) which, as far as pension funds are concerned, includes requirements on the public disclosure of policies relating to engagement and shareholder voting.

ESG risks disclosures

The results of our survey in relation to pension fund ESG risks disclosure requirements are summarised in the table below. As mentioned in the previous section, EU member countries are currently in the process of implementing the provisions of IORP II and SRD II. This is noted in the table and further details of the requirements, as they relate to ESG disclosures, are set out in the following page.

Summary of ESG risks disclosure requirements

Country (total funds US $ billion)	**Law relating to ESG risks disclosures**
Australia (2,077)	Disclosure on joining fund: extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of investments. Australian Stock Exchange (ASX) has also issued guidelines on ESG disclosure for companies. Various voluntary initiatives.
Canada (1,924)	Varies by province. Only Ontario requires disclosure to members of extent to which ESG factors incorporated in investment policies. National ESG guideline being developed.
France (155)	No specific ESG legislation for pension funds. Listed insurers and asset managers must disclose ESG policies in accounts, generally available on websites but not required in "key features" documents given to individual fund investors
Germany (502)	SIP* must include extent to which ESG principles are incorporated into investment processes, on public website. Regulatory guidance awaited.
Ireland (184)	SRD II implemented but IORP II approach awaited. Some voluntary initiatives.
Italy (210)	Follows IORP II/SRD II: publish on public website investment policy and commitment to ESG in analysis of risks including climate. Accounts also on websites.
Japan (1398)	No specific legislation for pension funds. Disclosure relating to pension funds included in sponsoring employer accounts.
Netherlands (1,690)	IORP II and SRD II not yet fully implemented, and guidance from regulator awaited. Pension fund accounts normally publically available on a website.
Poland (42)	IORP II and SRD II implementation awaited. Some voluntary initiatives.
South Africa (231)	Funds are required to consider ESG when investing but no disclosure requirements.
Spain (43)	IORP II not yet implemented. SIP*s including reference to ESG made available to members.
Switzerland (1,047)	Asset allocation and shareholder voting disclosed to members. Many voluntary initiatives including a "climate compatibility test" applied to pension fund assets (and other asset owners and managers) which may be followed by legislation if results inadequate.
UK (3,451)	SIP* must include, if trustees consider material, ESG considerations including climate. Pensions Regulator provides guidance. Must state policy on share voting and engagement. Also required to state extent to which members' views taken into account. DC schemes must put SIP on a public website, DB schemes from 1/10/20. Many voluntary initiatives.
USA (29,196)	No national ESG legislation. Many voluntary initiatives particularly supported by large public sector pension funds and some investment managers.

*Statement of Investment Principles

It will be seen that the above table is just work in progress for those interested in seeing the disclosure of ESG risks by pension funds:

- Australia, parts of Canada, Germany, Ireland, Italy, Spain and the UK require some ESG disclosure
- such disclosure is basically limited to the production of a SIP (Statement of Investment Principles) for members explaining how ESG issues are taken into account in investment processes. Such statements can be revealing but not if they consist of bland generalities
- only Germany, Italy and the UK make the SIP available on a public website (not until 1 October 2020 for UK DB schemes)
- there are presently no specific requirements relating to pensions funds' approach to climate change, such as would be encapsulated by the recommended disclosures from the FSB Taskforce on Climate-Related Financial Disclosures ("TCFD"), although the UK government is currently consulting on voluntary guidance.

Having made these points, many large pension funds around the world make extensive disclosures on a voluntary basis, and also participate in various initiatives to promote sustainable investment practices. These will be examined further later in this paper.

Also, most EU member countries have yet to fully implement IORP II and SRD II. These directives will basically require the following in relation to ESG risks, typically for pension funds with at least 100 members:

IORP II

- produce a Statement of Investment Principles ("SIP") including the extent to which ESG risks are taken into account in investment processes, updated at least every three years
- make the SIP publically available
- have a risk management system in place covering (inter alia) ESG risks relating to investments
- assess and document new and emerging risks, including climate change, use of resources, environmental, social risks and risks related to the depreciation of assets due to regulatory change ('stranded assets'); at least every three years together with any associated contingency plans (this is all part of an "Own-risk assessment")
- make the scheme's audited report and accounts publically available and ensure it includes disclosure of "significant investment holdings"

SRD II

- develop and publically disclose, on a comply or explain basis, a policy on how ESG policies of companies invested in are monitored, dialogues conducted, voting rights exercised and co-operate with other shareholders carried out
- publically disclose annually how the above engagement policy has been implemented, including disclosure of significant votes and any use of proxy advisers (those who provide advice on shareholder votes)
- if the pension fund relies on asset managers rather than investing directly, point to disclosures made by them.

It will be seen that, once these directives have been fully implemented by EU member countries and the pension funds based therein, there should be a step change in public ESG risks disclosure. How effective that will be will depend on how it is implemented by individual member countries and pension funds, and the scrutiny to which it is subject. However, there appear to be no specific requirements relating to climate risks. In this regard, although the TCFD recommendations mentioned above were finalised in June 2017, both IORP II and SRD II had already been issued by that date.

Stewardship of Investments

The following definition is taken from the new UK Stewardship Code (2020): "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." Although this UK code is voluntary and "best practice", this statement represents a significant change from the historical approach, not just in the UK but around the world, where the objective for fiduciaries was typically phrased as the maximisation of investment returns for beneficiaries, commensurate with an acceptable degree of risk.

This acceptance of the context for investment, recognising responsibilities to the environment and wider society, is also reflected in developments regarding the role of the corporation itself. For example: Unilever, an Anglo-Dutch global business, has long espoused sustainable growth and a positive impact on commercial partners and society at large; Microsoft states that it is committed to environmental sustainability, as is JP Morgan Chase. Although corporate actions do not necessarily follow their values, they do recognise their responsibilities to wider stakeholders. The "triple bottom line" concept : focussing on profit, people and the planet, continues to generate interest.

Long term sustainability is also applied in relation to natural resources. For example, quoting President Theodore Roosevelt of the USA, "We have fallen heirs to the most glorious heritage a people ever received, and each one must do his part if we wish to show that the nation is worthy of its good fortune." According to its website, the US Department of the Interior continues to "fulfil this mission so that generations to come may enjoy the diversity of our lands that are uniquely American." The stewardship of investments is clearly intimately concerned with the impact of business on the natural world.

The United Nations initiative, Principles of Responsible Investment, ("PRI") was established on a voluntarily basis only in 2006 but already includes the majority of investment managers and many pension funds, with over 2,300 signatories representing USD 86 trillion in assets under management (including USD 20 trillion with asset owners like pension funds). Signatories commit to incorporating ESG principles into their investment practices, being active (share) owners, seeking ESG disclosure by companies they invest in and reporting on their own activities to the PRI.

There is some disquiet over "greenwashing" (over inflating green activities) given that, whilst PRI signatories now represent the majority of the investment industry, their actions as shareholders can seem passive and reactive to events. This 2019 study found a lack of action relating to climate issues, although investment managers claim they can be influential through confidential discussions with company management.

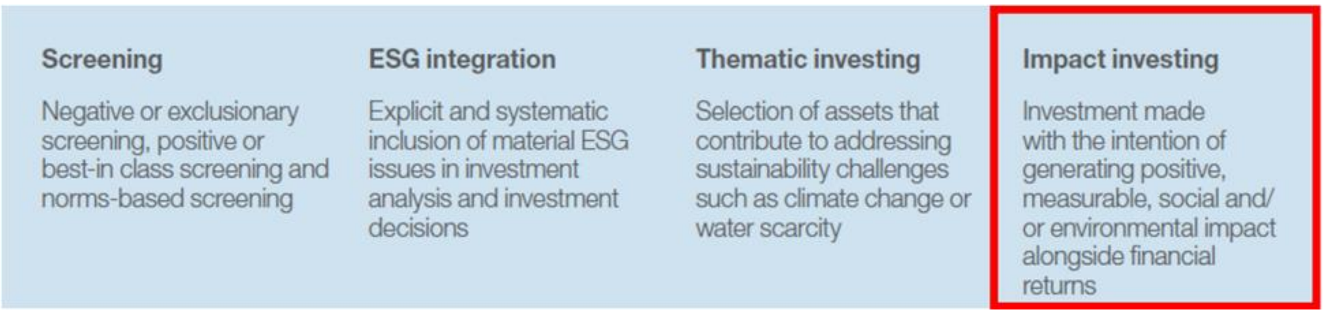
To facilitate green investment (and make greenwashing more difficult) the EU has developed a "taxonomy" to define what can properly be included under this heading. This is a complex document but it is designed to encourage sustainable investment by both retail and institutional investors, including pension funds.

In regard to legislation relating to stewardship, the EU directive SRD II mentioned in the previous section, will improve disclosure. Apart from this, our survey reveals little in the way of actual legislation in this area, but voluntary stewardship codes have been developed in Australia, India, Japan, Switzerland and the UK, which have received widespread support.

The Australian Asset Owners Stewardship Code is a comprehensive guide to the reporting requirements for those who sign up, including ESG integration into investment processes and engagement with management (although there appears to be no specific requirements relating to climate change). The code does not just apply to pension funds but they appear to be the main drivers. Signatories are required to make annual reports publically available.

Impact investment

Various approaches to ESG in the investment process are helpfully contextualised by this diagram:



Source: University of Cambridge Institute for Sustainability Leadership

In practice, in DC schemes where pension fund members are offered a choice of investment funds, a variety of characterisations may of course be used. For example, ESG integration may be a common factor but members may be offered funds with a lower carbon footprint, a "tilt" in asset allocations away from fossil fuel reliant sectors. This is common practice in Australia and the UK. A key issue is the extent to which ESG issues should be reflected in the "default fund", given that in practice this may be the home for the majority of members.

The wording above explains the purpose of impact investing but does not define it in terms of any trade-off between impact and return. Some investments may present no difficulty, if they provide a desirable impact without the need to accept any expected reduction in return. Also, it may just be a question of prioritising investments with the required impacts, for example:

- in order to reduce the overall portfolio "carbon footprint"
- as part of its investment strategy a fund may wish to allocate a certain percentage of funds to green investments satisfying the new EU taxonomy referred to above, providing market returns
- subject to acceptable returns, a fund may wish to invest in residential housing in areas from which its members are drawn, without exposing itself to undue concentration of investments (having regard also to the sponsoring employer's business risks)
- as one criterian, a fund may wish to assess some potential investments according to the extent to which they contribute towards the achievement of the UN Sustainable Development Goals ("SDGs").

A deliberate investment where a below market rate of return is expected may not be consistent with pension fund trustees' fiduciary responsibilities. In practice, the position may not be so clear. The PRI, UNEPFI and the Generation Foundation have recently set up a study of the Legal Framework for Impact covering eleven jurisdictions (Australia, Brazil, Canada, China, the EU, France, Japan, the Netherlands, South Africa, UK and USA) with the following brief:

- are there legal impediments to investors adopting "impact targets"—for example—that an investor's investment activity is consistent with no more than 1.5 degrees of warming?
- Are investors legally required to integrate the sustainability impacts of their investment activity in their decision-making processes?
- On what positive legal grounds could or should investors integrate the realisation of the SDGs in their investment decision-making?

The context for the study is also provided by this timeline, which shows legal developments in considering "responsible investment".

Our survey did not throw up any other general developments regarding impact investing. We consider it further when reviewing examples of pension fund disclosures.

Environmental litigation

Environmental litigation is clearly a major potential risk for many businesses, relating not just to their activities but also how they are disclosed to investors (failure to properly disclose risks may itself generate litigation). For pension funds, a degree of protection from claims is provided if they take appropriate advice and follow it in terms of the adoption of a prudent investment policy. In this context, "prudence" involves realistic assessment of environmental risks and their implications for investments. Increased disclosure, as discussed earlier in this paper, will however provide more markers against which their actions can be tested.

Climate change is a systemic risk which presents a particular challenge for pension funds. Although the main impacts may be medium term, and this is of course by no means certain, investment market perceptions can change radically over a short period. So a fund which has not adequately reviewed its climate exposures could suffer badly in relation to others better prepared, leaving it exposed to litigation on behalf of members and/or trade unions. Those advising pension funds could also be in the firing line (and their insurers).

Our survey reveals that there is presently little environmental litigation targeting pension funds:

- in Australia litigation against one major pension fund (the Retail Employees Superannuation Trust or REST) has commenced in relation to its approach to climate change
- in the UK, NGO ClientEarth has warned 14 of the UK's largest pension funds that they face legal action if they fail to consider climate change in their portfolios.

However, the following US website lists many hundreds of cases involving corporations, government and activists, which illustrates the potential for such claims: Climate litigation. Although not involving a pension fund, climate campaigners also had a major recent success in London when the Court blocked a government decision to allow a new runway at Heathrow airport because climate commitments had not been taken into account.

Review of examples of public pension fund disclosures

Our survey has shown that, in general, there is presently a disappointing level of compulsory ESG risks disclosure around the world by pension funds, although recent legislation is starting to significantly improve the position in Europe. However, it is clear that many major pension funds, from all parts of the world, do provide comprehensive ESG disclosures on a voluntary basis. We now examine a selection of these funds to assess their approach, summarise common features and bring out any particular strengths and weaknesses.

The funds have of course been selected because they do provide more ESG disclosure. They are not necessarily the best examples and there are many other funds which could have been chosen. We hope they are indicative of current best practice. The ESG disclosures obtained from the websites of the following pension funds have been reviewed and are briefly summarised below:

Country	Pension scheme	Total funds US $'billion	ESG Documents publically available	Climate data disclosed	Collaborations
Australia	First State Super	52	ESG policy, voting activities, PRI Transparency Report, Stewardship Code, engagement by ACSI	2016 climate adaption plan,	ACSI, CDP, IGCC, PRI
Canada	Ontario Teachers	147	PRI Transparency Report, Governance Principles and Voting Guidelines 2019, Responsible Investing Report 2018	Climate Change Report 2018: carbon footprint & breakdown, includes Trucost data	Climate Action 100+, GRESB, SASB, TCFD,
Denmark	ATP	130	Shareholder voting, Responsible Investment Report 2018, ESG policies, analysis of SDG impacts	TCFD disclosures+ detailed scenario analysis, PACTA scenario report for energy sector,	PRI, IIGCC, CDP, GRESB, ICGN, UN Global Compact
Netherlands	ABP	508	Responsible Investment Report 2018, SDG investment targets, engagement examples, stewardship code	climate strategy, carbon footprint, scenario analysis briefing	Climate Action 100+, GRI, AODP, VBDO
Switzerland	Canton of Zurich Pension Fund BVK	36	Engagement Report 2018 (in German), shareholder voting, its responsible investment principles		Climate Action 100+, PRI, SVVK-ASIR
UK	RPMI Railpen	39	Sustainable Ownership Report 2018: ESG integration, voting policies, TCFD disclosures. Voting record	TCFD disclosures, energy reduction targets for property assets	PRI, ICGN, IIGCC, UK Stewardship Code, GIC
USA	New York State Common Retirement Fund	210	comprehensive Stewardship Report 2018, ESG policies, shareholder resolutions, voting, asset list	Some TCFD disclosures, strong supporter	Ceres, CDP, Climate Action 100+

The total funds figures above should be seen only as indicative of the order of magnitude. Some further details of these funds, and their websites, are set out in the attached Appendix A.

A common feature is that these funds prepare a separate report, under various names, detailing their ESG activities and approach to responsible or sustainable investment practices. Generally, details of their activities in engaging with companies is included and their voting record. These are all relatively large funds so their views are more likely to be considered by company management, and particularly if operating in conjunction with other pension funds and institutions. In this connection the "collaborations" shown above refers to the main associations and networks involved with ESG issues in which these funds participate.

The key to the acronyms used under the Collaborations heading is shown below. It shows the extent to which such organisations have developed over recent years:

Acronyms	
ACSI	Australian Council of Superanuation Investors
AODP	Asset Owners Disclosure Project
CDP	Carbon Disclosure Project
GIC	Global Investor Coalition on Climate Change
GRESB	Global Real Estate Sustainability Benchmark
GRI	Global Reporting Initiative
IIGCC	Institutional Investors Group on Climate Change
ICGN	International Corporate Governance Network
IGCC	Investors Group on Climate Change
PACTA	Paris Agreement Capital Transition Assessment
PRI	Principles of Responsible Investment of the UN Finance Initiative
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals of the UN
SSA	Sovereigns, supranational and agencies - used for bonds
SVVK-ASIR	Swiss Association for Responsible Capital Investments
TCFD	Taskforce for Climate-Related Financial Disclosures, established by the FSB
VBDO	Dutch Association of Investors for Sustainable Development

Further details of the activities of the above organisations can be obtained from their websites. Climate change is the main driver but some of these groups cover other aspects of ESG. Their memberships generally include not only pension funds but also insurance companies, investment managers and other large investors. Taken together they represent a formidable weight of institutional funds, and in recent years have achieved some success in terms of, for example, shareholder resolutions requiring oil companies to produce strategies reflecting the aims of the Paris Agreement (see BP 2019).

Recent public campaigns have highlighted the debate over divestment versus engagement, that is whether a problematic investment should just be sold or the company management engaged to try to get them to change tack. Most large pension funds seem to favour engagement, although also perhaps reducing weightings, as the more responsible approach.

The ESG reports currently available from the pension funds included in our survey listed above were typically published in 2019 but refer mainly to events in 2018. Most of them provide details of their ESG policies, the issues on which they engaged with company management, the outcome and their voting record. This in itself enables members and other stakeholders to raise questions with them. These ESG reports do not necessarily need to be audited but some have been reviewed by auditors.

On climate change, whilst there is general support for the TCFD recommendations, most funds do not appear to have got that far, in terms of their 2018 accounts, in incorporating them. (The TCFD recommendations were published in June 2017.) However ATP and ABP in particular have clearly undertaken extensive work on scenario analysis and problems in extracting appropriate metrics.

Some of these pension funds largely manage investments themselves in house, whilst others mostly use investment managers. Despite its size, the New York State CRF has all its investments managed externally. Clearly all of these funds want investment managers to operate in accordance with their ESG policies, and they have the financial weight to ensure this happens. For smaller pension funds the following approaches are open to them:

- ensuring they select investment managers who are able to accept the fund's ESG approach, including the fund retaining voting responsibility;
- if using unitised pooled funds, ensuring again that the prospectus ESG approach is consistent;
- in regard to engagement with companies on ESG issues, work through associations such as those listed above, as well as the investment manager;
- using a website to provide ESG information to members and other stakeholders.

Concluding remarks

Pension funds globally control substantial funds, more than US $44 trillion, as part owners of companies which produce the world's goods and services. As owners, acting on behalf of their members expecting to draw pensions throughout this century, they arguably need to ensure that the management of the companies that they invest in undertake their activities on a sustainable basis, not involving illegal activities and not polluting the planet, consistent with their long-term time horizon.

In a timely recent publication, the International Organisation of Pension Supervisors issued Guidelines on the integration of ESG into investment including that a "governing body or the asset managers of a pension fund disclose to members and stakeholders information about the pension fund's investment policies in relation to long-term sustainability, including ESG factors, stewardship and non-financial factors". Our survey has shown that this had already started in Europe and other parts of the world and disclosure should continue to improve, although more public ESG information is required. Many studies[1] are showing that such an approach, properly integrating ESG issues into investment management, produces a better long term investment returns through proper consideration of risk.

Many of the largest pension funds have accepted this responsibility and voluntarily produce detailed accounts of their stewardship of investments.

In regard to climate, the TCFD recommendations have received widespread support[2] but their implementation is a complex exercise involving scenario analysis and progress in published accounts is limited so far. Pension funds are reliant to some extent on work being done within companies in which they invest, which again may require pressure from them to maintain progress.

Actuaries working with pension funds are likely to be increasingly involved with ESG risks:

- if they are involved in investment management or consulting, in relation to the assessment and management of ESG risks to funds and the implications for strategy;
- if they are involved with funding advice, in relation to the ESG risks for the pension fund sponsors, the risks to its investments and in relation to the potential impact on members' mortality and morbidity rates.

Disclosures arising from the TCFD recommendations will be invaluable for investment actuaries and also for actuaries advising on funding, where they relate to pension fund sponsors. Actuaries therefore need to be familiar with the output from these recommendations.

As climate and other environmental issues receive increasing public attention, actuaries should ensure they can take the lead with their clients, and/or be fully involved with their employers, so that considered and appropriate policies can be adopted on a timely basis. Given the momentum that these issues are gathering, it seems clear that if actuaries are not able to integrate ESG risks into their thinking other professionals will step in and take that place. According to the Global Risks Report issued by the World Economic Forum ("WEF") in January 2020, the five top risks in terms of likelihood were all environmental, and climate action failure was the top risk in terms of its impact.

With crystal clear hindsight we can now see that COVID-19 was the elephant in the room, with a short (and medium?) term impact far greater than most of the leading risks considered by the WEF. But as we start to recover from its onslaught, ESG risks will be just as relevant.

[1] See PRI academic resources

[2] See TCFD progress report June 2019

Appendix A

Examples of ESG disclosure around the world

Country	Pension scheme	Date of reports	Total funds US$ billion	Type of scheme	ESG Documents publically available	Climate data disclosed	Collaborations	Web link
Australia	First State Super	2019	52	Mainly multi-employer DC	ESG policy, voting activities, PRI Transparency Report, Stewardship Code, engagement by ACSI	2016 climate adaption plan,	ACSI, CDP, IGCC, PRI	First State ESG webpage
Canada	Ontario Teachers	2019	147	DB	PRI Transparency Report, Governance Principles and Voting Guidelines 2019, Responsible Investing Report 2018	Climate Change Report 2018: carbon footprint & breakdown, includes Trucost data	Climate Action 100+, GRESB, SASB, TCFD,	Ontario Teachers webpage
Denmark	ATP	2019	130	DB	Shareholder voting, Responsible Investment Report 2018, ESG policies, analysis of SDG impacts	TCFD disclosures+ detailed scenario analysis, PACTA scenario report for energy sector,	PRI, IIGCC, CDP, GRESB, ICGN, UN Global Compact	ATP website
Netherlands	ABP	2019	508	Managed DB	Responsible Investment Report 2018 with SDG investment targets, direct engagement examples, stewardship code, factsheets, green bond data	climate strategy, carbon footprint, scenario analysis briefing	Climate Action 100+, GRI, AODP, VBDO	ABP ESG webpage
Switzerland	Canton of Zurich Pension Fund BVK	2019	36	DB	Engagement Report 2018 (in German), shareholder voting, its responsible investment principles		Climate Action 100+, PRI, SVVK-ASIR	Zurich BVK webpage
UK	RPMI Railpen	2019	39	DB	Sustainable Ownership Report 2018: ESG integration, voting policies, TCFD disclosures. Voting record	TCFD disclosures, energy reduction targets for property assets	PRI, ICGN, IIGCC, GIC, UK Stewardship Code	Railpen ESG webpage
USA	New York State Common Retirement Fund	2019	210	DB	comprehensive Stewardship Report 2018, ESG policies, shareholder resolutions, voting, asset list	Some TCFD disclosures, strong supporter	Ceres, CDP, Climate Action 100+	NYSCRF website