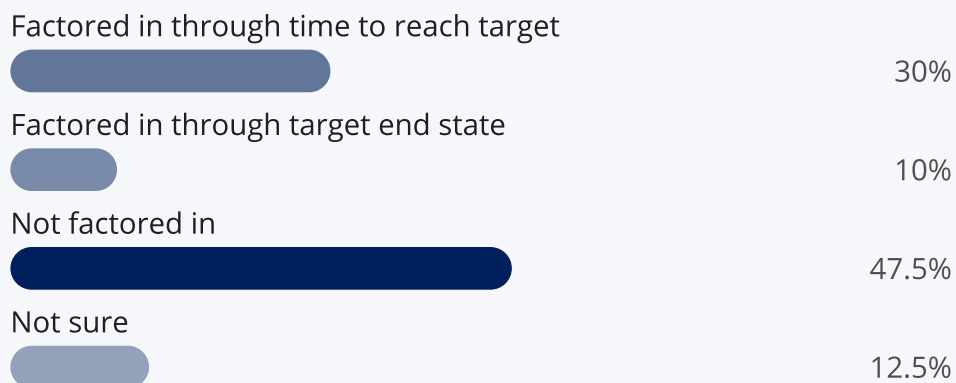


In May the Covenant Committee undertook a poll of SPP members to explore the perception that – whilst Environmental, Social and Governance (ESG) factors are widely considered to be important risks to how companies may perform over time – they are perhaps not yet consistently being brought into assessment of the sponsor covenant and related trustee decision-making.

SPP members show there is more to do on ESG risk in sponsor covenant

The results highlighted that there is still a lot to do in this area before it can truly be said to be fully incorporated into trustee decision-making. Whilst the Pensions Regulator expects trustees managing DB schemes to consider ESG risk, the survey revealed just how challenging some trustees are finding this to do in practice for the sponsor covenant.

To what extent is ESG/climate change risk of the sponsor factored into setting the Long term Funding Target for the scheme?



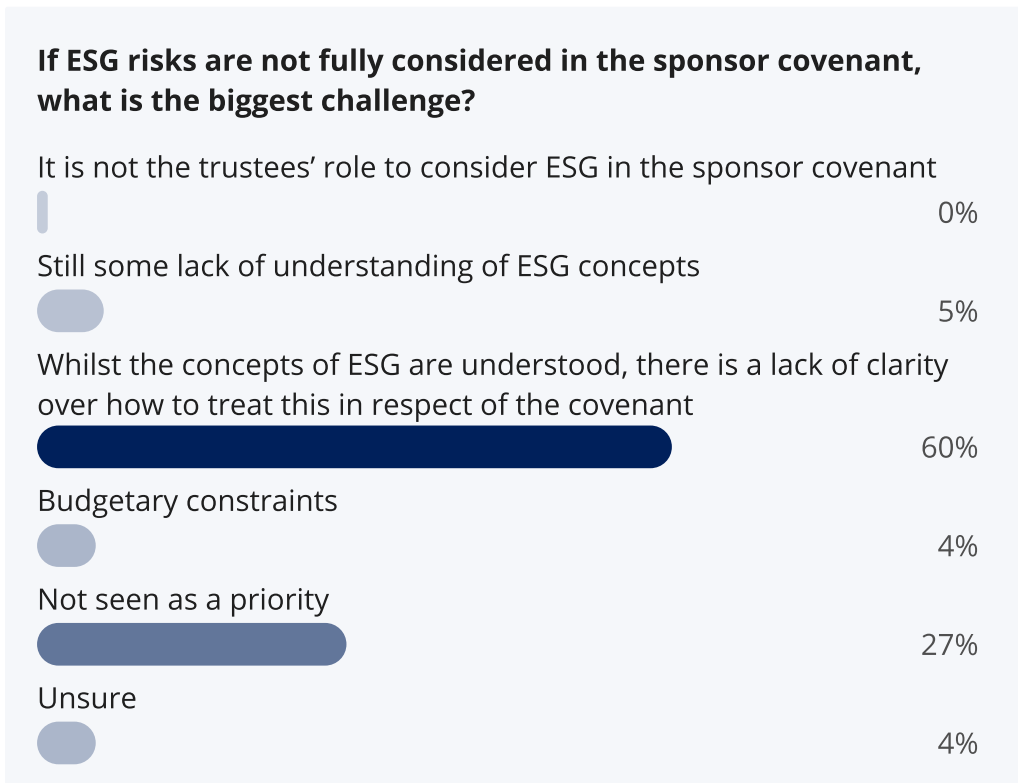
Lack of clarity hampering progress

The response rate to the survey was lower than typical SPP standards, which could indicate that some members felt ill-equipped to address the question. Only 10% of those who responded said that ESG risk was fully considered in the sponsor covenant, with another 37% saying that it was considered in part and the majority stating that ESG risks are not considered at all, or didn't know whether they were addressed.

Is ESG/climate change risk of the sponsor considered when assessing covenant?



When asked what the biggest challenge was to considering ESG risks in the covenant, by far the most popular answer was the **lack of clarity over how to treat ESG considerations** when it came to sponsor covenant, with a much smaller proportion citing that it was not seen as a priority.



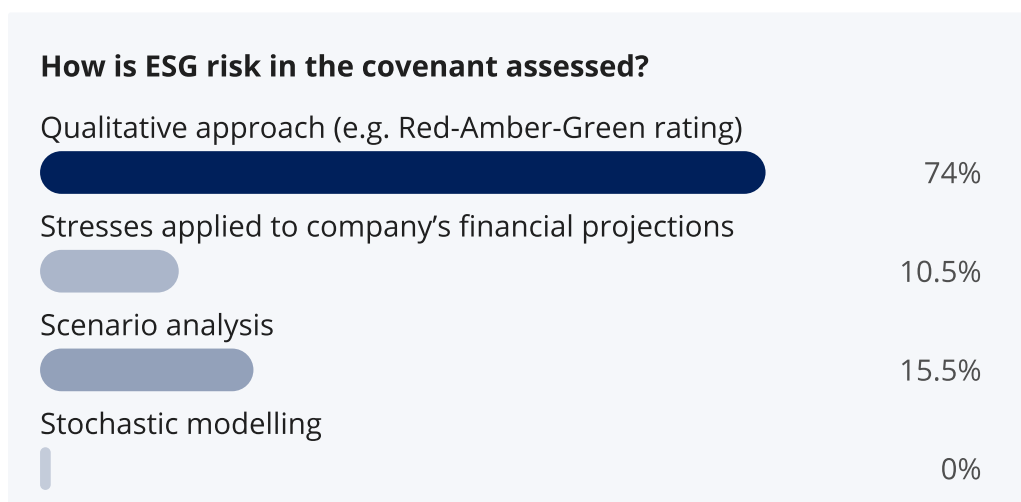
Range of different approaches

For those factoring it into the covenant, we asked which ESG risks are being taken into account, and how. Unsurprisingly, the most popular responses given by virtually all who factor ESG into the covenant were **climate change** and **sustainability of operations**. Half of the respondents cited **corporate governance standards**, but only around a quarter noted social factors like **diversity and inclusion in staffing** and **human rights in the supply chain**, echoing the concern behind DWP's recent information-gathering exercise that social factors may be the least developed of the ESG categories. In terms of how these risks were being assessed, it was mainly considered on a qualitative (e.g. red-amber-green) basis rather than quantitative.

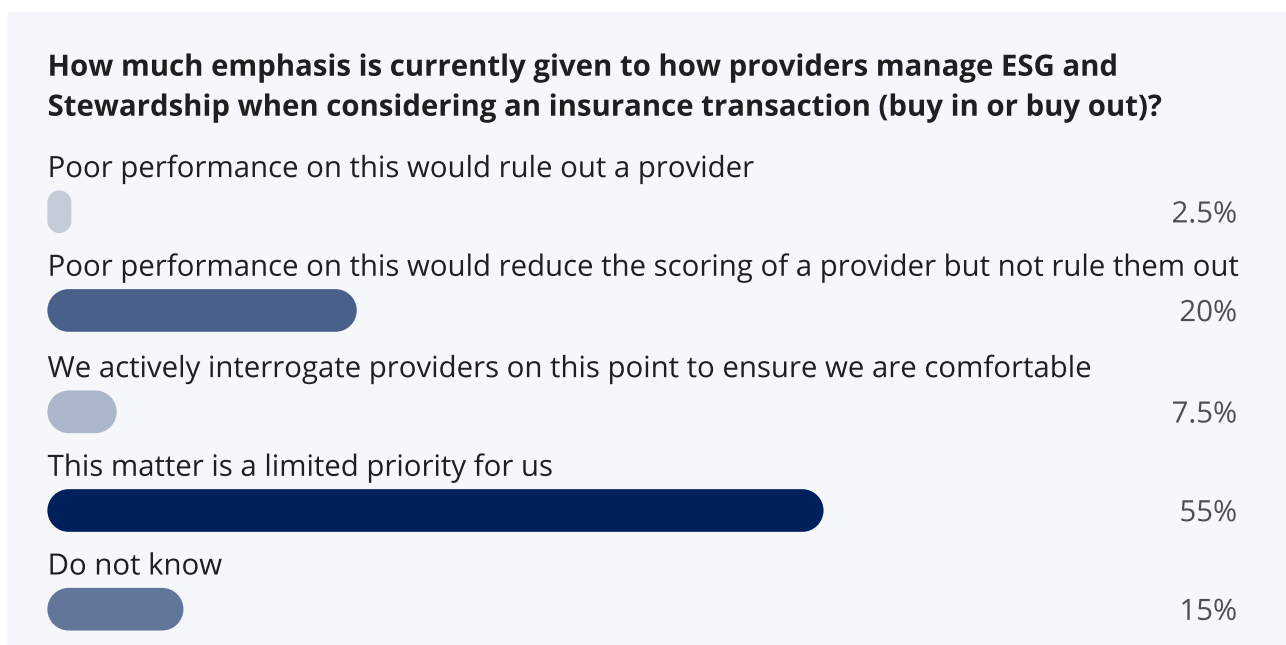


ESG and the long term funding target

We wanted to understand how ESG assessment was being used in thinking about setting the longer term scheme funding decision-making. Interestingly, for around a quarter of respondents it is being factored in through the time period over which the scheme was seeking to hit its long term objective. It is only influencing the level of prudence in the ultimate target for 10% of respondents, with the rest not reflecting ESG risk in the long term target at all.



Finally, we asked how much emphasis ESG and stewardship factors feature in choosing a buy-in or buy-out provider. More than half of respondents stated that this would be a limited priority, with only one respondent saying that a poor performance on this point would rule a provider out and just over a quarter stating it was a consideration – something that we think may start to shift over time.



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