



# Responsible Investment

Prepared for      The Association of Member Nominated Trustees (AMNT) and  
the UK Sustainable Investment Forum (UKSIF)

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# Introduction

Over the past year, we have noted a dramatic increase in the number of institutional clients who are exploring or implementing Responsible Investment (“RI”) initiatives. We are working with many clients in various stages of RI programme development, from educational initiatives for investment staff and boards to full-on deployment of RI policies, procedures and portfolios.

We firmly believe that environmental, social and governance (“ESG”) considerations are key to long-term value creation and risk management considerations. Our published [RI policy](#) attests to this.

We were proud to support the AMNT-UKSIF statement issued in September 2017, committing to ensure that clients are made aware of the Pensions Regulator’s (“tPR”) guidance requiring trustees to consider environmental, social and governance factors where financially material.

This document details some of the RI initiatives, developments and practices that we have carried out in conjunction with our clients and the outcomes of these.

## ***Initial Statement***




“Aon is happy to join with the Association of Member Nominated Trustees and the UK Sustainable Investment and Finance Association in recognising that the recent investment guidance from The Pensions Regulator marks a major development in tPR’s approach to how trust based DC and DB pension schemes need to address risks around long term sustainability, including environmental, social and governance issues.

We agree that this change, reflected in the tPR’s statement to trustees that ‘We expect you to assess the financial materiality of these factors and to allow for them accordingly in the development and implementation of your investment strategy’ puts trustees and their advisers under an obligation to react.

We believe that ESG is a fundamental part of success in long-term investing, therefore we are drawing the guidance to the attention of UK pension fund clients through a variety of routes such as putting consideration of ESG on trustee meeting agendas, issuing briefings and/or holding training sessions. We also recognise the significant role that client-facing consultants can play in ensuring that our clients are well informed on the issues.”

# Responsible Investment at Aon

We have expanded our RI resource and capabilities in order to provide the best support for our clients.

	<b>Global Team</b>	We have strong and growing resource in RI. The varying backgrounds of team members help us to bring our best solutions to clients.
<b>15</b>	<b>Specialist Team</b>	We have a core RI team of 15 individuals within client consulting, manager research and asset allocation.
	<b>RI Policy</b>	We have published an <a href="#">RI policy</a> , setting out our views and beliefs.
	<b>Climate Change Scenarios</b>	We have developed climate change deterministic scenarios. These new mega-trend scenarios look at how climate change could impact assets, liabilities and funding levels over different time horizons.
<b>1</b>	<b>ESG Manager Ratings</b>	We have developed an ESG rating system for buy-rated investment strategies.

# How have we worked with our clients

We have implemented a number of initiatives and expanded resources in order to help develop our clients' understanding and awareness surrounding RI so that we can provide solutions as well as assist them with integrating RI into their investment philosophies and processes.

## Investment manager ESG ratings

We have developed an ESG rating system for buy-rated investment strategies which is designed to assess whether and how well investment managers integrate RI, and more specifically ESG considerations, into their investment decision making process.

As highlighted in our recent Global RI survey, a common impediment to wider adoption of RI principles among institutional investors is the lack of a standardised framework for evaluating RI behaviours in fund managers. Our ESG ratings are designed to address this issue by assessing managers where applicable.

The ESG assessment process is consistent with the UN PRI's Investment Manager reporting framework.

## How it works

After a thorough review of the available materials, data and policies, as well as conversations with the fund manager, an ESG rating on a scale of 1-4 (with 4 being the highest) is awarded, using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's or strategy's level of ESG integration and developments across the broader RI landscape.

## Why this is important to our clients

ESG ratings help our clients to assess their managers relative to their peers, as well as form a basis for engagement with managers.

Applying this across the board has helped to increase the pressure on managers to have robust procedures in place with regards to ESG integration.

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## Global perspectives on responsible investing survey

Aon recognises the ongoing need for and importance of peer data. As such, we launched our first annual [global survey](#) on RI. The findings of this were released in June 2018.

We surveyed a large and diverse set of financial market participants (223 in total) across different geographies, investor types and size to uncover current initiatives and future plans for responsible investing.

## Why this is important to our clients

Our global survey has proved hugely insightful and helped our clients to understand where they stand relative to their peers. It has put a spotlight on areas for improvement, as well as the regional differences in RI practices and attitudes.

The survey has also enabled us to better understand our clients' attitudes and awareness surrounding RI and in turn provide our best solutions.

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## Training and education

The volume of RI training we are delivering through our specialist team has increased significantly in 2018. The purpose of these training sessions has been to raise interest and awareness amongst trustees.

Training sessions are often the first step in putting RI on the radar and agenda of trustees. We have also circulated client friendly technical notes, relating to the DWP consultation in June 2018 on clarifying and strengthening trustees' investment duties (in particular with respect to ESG matters).

## Why this is important to our clients

Trustees are better equipped to navigate the changing RI landscape and better able to take action.

We believe that this will translate into greater activity and action from trustees.

We have already seen trustees putting greater pressure on their investment managers and taking a more active role, whereas previously this was purely delegated to their managers.

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## RI beliefs, policies and SIPs

We have developed a process which assists trustees to identify their beliefs and objectives on this subject area. This then feeds into discussions around their policy and governance practices to develop and implement relevant changes.

We have helped clients to draft RI policies and update Statement of Investment Principles ("SIP") wording to reflect trustee views and incorporate guidance from tPR, as well as reviewing the policies of clients' investment managers.

## Why this is important to our clients

This has been a useful tool to gauge attitudes and beliefs, remove the influence of behavioural biases, and introduce new ideas to trustees to stimulate action regarding long-term sustainability.

This has also helped trustees to respond to guidance from tPR surrounding their obligation to consider long term financial risks.

In addition to preparing trustees to be compliant with guidance and regulation, it encourages best practice in RI.

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## Climate change scenario modelling

To assist with a better understanding of the impact of asset allocation and long-term thinking, we have developed climate change deterministic scenarios. These new mega-trend scenarios look at how climate change will impact assets and liabilities over different time horizons.

## Why this is important to our clients

These deterministic scenarios have helped trustees to better understand how their schemes could be affected by climate change.

We have brought these to clients to encourage greater consideration of how climate change will impact the long term sustainability of their scheme.

We have seen strong and growing interest in this from some of our largest clients, along with other influential organisations.

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### Consultant training

Since announcing our support for the AMNT-UKSIF statement, we have organised two internal webinars alongside co-ordinated investment manager training to educate consultants about RI. We are also planning further dedicated RI training for consultants globally.

### Why this is important to our clients

These sessions have helped to further educate our consultants and enable them to raise the importance of RI with their clients.

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### Thought leadership and content development

We have published a number of thought-leadership pieces such as An Investor's Guide to Responsible Investment, and a white paper on Green Bonds. These papers have been sent to clients to help raise awareness.

### Why this is important to our clients

Our Ideas Development Forum ("IDF") papers help to stimulate interest and discussion, as well as educate trustees and consultants alike. An Investor's Guide to Responsible Investment provides an easily digestible guide to educate readers about RI.

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### Client events

We have hosted an RI investment breakfast client roundtable event and a number of conferences with RI leading the agenda.

### Why this is important to our clients

These events have provided a forum for clients to discuss the topic in more detail, raise questions and thoughts, and develop further understand of RI and the changing landscape.

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### Industry initiatives

His Royal Highness, The Prince of Wales recently hosted a number of senior representatives from across the finance and regulatory community to identify actions to support achievement of the UN Sustainable Development Goals and put us on a pathway towards achieving the goals of the Paris Climate Agreement. We attended the summit and contributed to the report that was tabled for discussion. The final report and outcomes are expected to be published in September 2018.

We also responded to the DWP consultation in July, you can read our response [here](#).

### Why this is important to our clients

These reports help to push the RI agenda forward within the wider investment community and influence the requirements for pension schemes in the future.

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### Quarterly RI newsletter

The RI team publish a quarterly RI newsletter, which details the main developments relating to RI in the context of our clients. The latest Q2 2018 issue is published on our [website](#) and can be found [here](#).

### Why this is important to our clients

The quarterly RI newsletter sent to clients provides the latest updates on guidance and regulatory changes regarding ESG issues and sustainability, informs clients of our service offerings, and helps consultants highlight RI as an important trustee meeting agenda item.

# Client outreach

We have implemented a number of initiatives and expanded resources in order to help develop our clients' understanding and awareness surrounding RI so that we can provide solutions as well as assist them with integrating RI into their investment philosophies and processes.

Client 1	<p>An introductory training session took place in December 2017, following which we facilitated engagement with their investment managers including a meeting session with one of their fixed income managers on ESG. Subsequent sessions presented a number of follow-on actions, and the client has engaged us to undertake a Governance Review.</p> <p>The scope of this work includes an assessment of the scheme's existing governance arrangements, drafting of a revised SIP (of particular relevance to schemes in light of the DWP's consultation on trustee duties in this area), and development of an RI policy for the scheme, along with a review of the scheme sponsor's policies.</p>
Client 2	<p>We developed a bespoke RI policy for this scheme and advised the scheme on the considerations involved in signing up to the Task Force on Climate-related Disclosures (TCFD) Statement of Support.</p>
Client 3	<p>The client has engaged us to undertake an annual review of the scheme's existing investment managers from a RI perspective. The purpose of this is to assess their level of engagement with ESG to enable the trustees to make a judgement as to their level of comfort with this. This is of particular importance to the scheme as the scheme sponsor has recently announced its commitment to RI and its decision to divest from fossil fuels.</p> <p>As part of this review, our manager research team's ratings in relation to ESG are being taken into consideration and we will provide an annual summary to the trustees.</p>
Client 4	<p>The client had a requirement that a significant proportion of its investments were managed on an ex-tobacco and ex-cluster munitions basis. We have created a suitable fiduciary management solution for the client which met these criteria.</p>
Client 5	<p>We provided an ESG market update and review of the scheme's investment managers. This will enable the trustees to evaluate the extent to which they are exercising their responsibilities and taking ESG factors into account in their investments, as well as whether these are in line with the interests of the scheme.</p>
Client 6	<p>The trustees had an awareness of ESG and what it is. They had initially thought contacting managers would be a good first step, but wanted to explore all of their options for action, covering the range from minimum compliance through to best practice. The trustees wanted know more about what other clients have done in this area.</p> <p>The RI team delivered a training session and covering some of the basics along with providing examples of low, medium and high involvement policies. A follow on discussion has been scheduled for the coming meeting cycle to determine next steps.</p>

# Partnerships

Aon has a number of partnerships, demonstrating our commitment to RI, as well as developing & delivering thought-leadership to our clients.



We are a member of the University of Cambridge Institute for Sustainability Leadership ("CISL") Investment Leaders Group ("ILG").

The ILG is a global network of pension funds, insurers and asset managers committed to advancing the practice of RI.

The ILG is a voluntary initiative, driven by its members, facilitated by the CISL and supported by academics at the University of Cambridge.



We are a global signatory to the United Nations Principles for Responsible Investment ("UN PRI"). We were the first consultant to sign globally, as opposed to in a single region.

The UN PRI provides the framework of principles that we use to develop and gauge manager research practices, client education and reporting, and other RI initiatives. We have used the UN PRI as an internal 'yard stick' against which we evaluate our manager screening, consulting and investment activities.



ClimateWise is an insurance industry led member organisation. We have partnered with ClimateWise on all major projects as a member. Aon was recently involved with the Physical and Transition Climate Risk Projects, which are due to be released in late 2018.

We also chaired a European Bank for Reconstruction and Development ("EBRD") working group on physical climate risk, culminating in a major report released at the end of May 2018.



We have become a signatory to the UN's Principles for Sustainable Insurance ("PSI"), the first insurance broker to do so. The PSI was created to serve as a framework for the insurance industry to better understand ESG risks and apply its unique expertise and position to help mitigate and manage these risks.

# Affiliations



# Looking ahead

## From words to action

The RI practices of UK DB and DC pension schemes are still somewhat in their infancy, hence much of the work undertaken to date has been around raising awareness, educating trustees and reviewing, updating and drafting RI policies and SIPs.

Looking ahead, we hope to see greater implementation and action following on from increased awareness and policy guidance.

We will continue to develop solutions for our clients and are expanding our range of investment opportunities that can be presented to clients. We will also continue to educate our consultants around RI and long-term financial risks.

The size and breadth of Aon is an opportunity for us. We hope to benefit from synergies between investment and insurance and bringing ideas from both together for the mutual benefit of our clients.

As shown below, the growth in public policy on RI has been exponential and we expect this trend to continue. We welcome this.

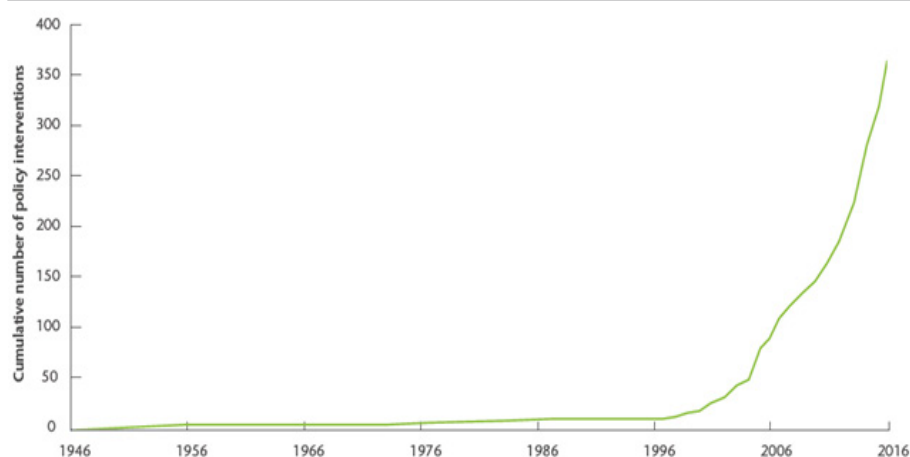
We also understand that trustees have a broad range of considerations and their time is finite. We look forward to helping our clients prepare for and react to the changing landscape along with providing them with solutions so that they can be assured that their scheme is robust in the face of long-term financial risks.

We hope to work with our clients to put into practice standalone RI policies, which increase activity and pressure on actors in the financial chain to consider long term financial risks and focus on sustainability.

Due to increased awareness from trustees and greater monitoring and measurement of investment managers' ESG practices, we believe that pressure on investment managers will increase. Not only will greater information be available to trustees to enable managers with stronger ESG practices to be recognised for this, trustees will be able to hold their managers to account. We believe this is a positive force.

Trustees are increasingly aware of long term risks, such as climate change, which will hopefully translate to pension schemes that are more resilient in the face of these risks.

**Figure 1 - Increasing public policy on responsible investing**



Source: PRI responsible investment regulation database



## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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