

### **Responsible Investment** ESG Beliefs Survey

**Electrocomponents Group Pension Scheme** 

**April 2022** 

welcome to brighter



#### **Important Notices**

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2022 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

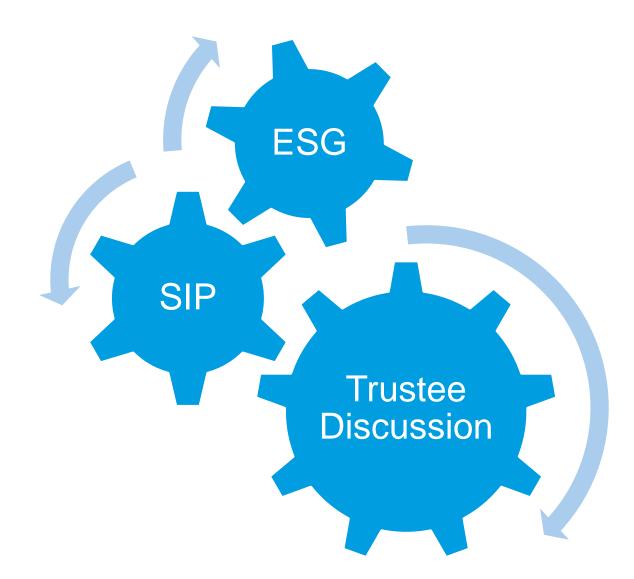
For Mercer's conflict of interest disclosures, contact your Mercer representative or see <u>www.mercer.com/conflictsofinterest</u>.

## Introduction

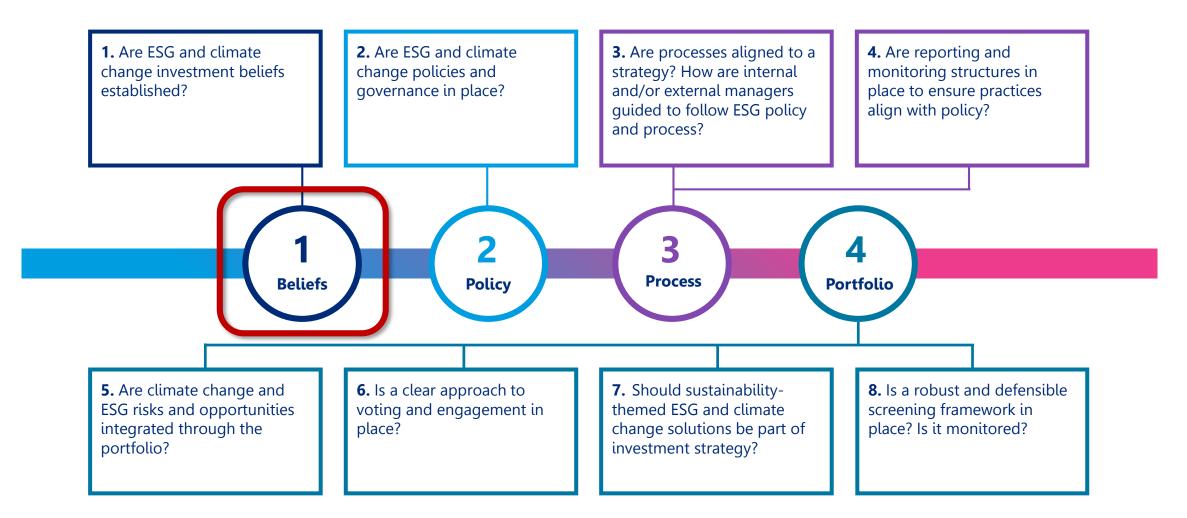
#### **Overview**

- We have conducted a survey of Environmental Social and Governance (ESG) investment beliefs for the Trustees of the Electrocomponents Group Pension Scheme. The survey was conducted in March/April 2022, with all 7 Trustees having taken part in the survey. The survey aims to update the previous ESG investment beliefs survey conducted in May 2019, and builds on the Responsible Investment Total Evaluation exercise reviewed at the November 2021 IRSC meeting.
- The survey focused on the following areas:
  - **Knowledge and understanding** baseline Trustee knowledge and understanding of ESG issues
  - **Setting beliefs** determine which beliefs are important to the Trustee
  - □ Sponsor alignment and member views
  - □ Implementation approaches identify preferred approaches to implementing beliefs.
- In the following slides, we provide a summary of the survey results and highlight areas of consensus agreement, as well as areas for further discussion.
- We then consider potential actions that the Trustee could consider taking forwards.





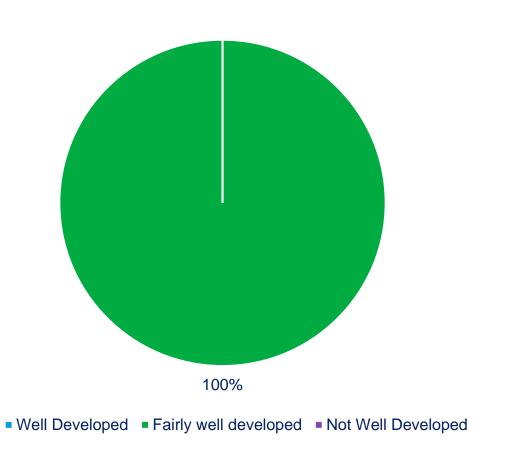
#### ESG Integration Mercer's Sustainable Investment Pathway



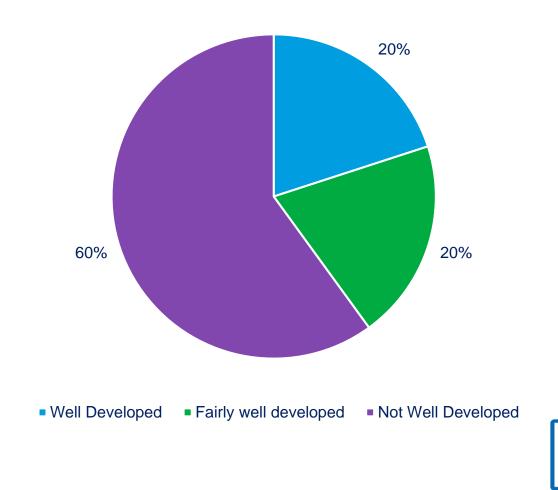
## ESG Beliefs Workshop

#### **Baseline understanding** Trustee understanding of ESG issues

ESG Beliefs Survey – April 2022:



ESG Beliefs Survey - May 2019:



**Snapshot of Key Survey Results** 

100% of Trustees support an above 'minimum compliance' approach to ESG (43% supporting a 'best-in-class' approach)

100% of Trustees believe that broad ESG risk management is the 1<sup>st</sup> or 2<sup>nd</sup> top governance priority 86% believe policies should align with the **Paris Agreement** 

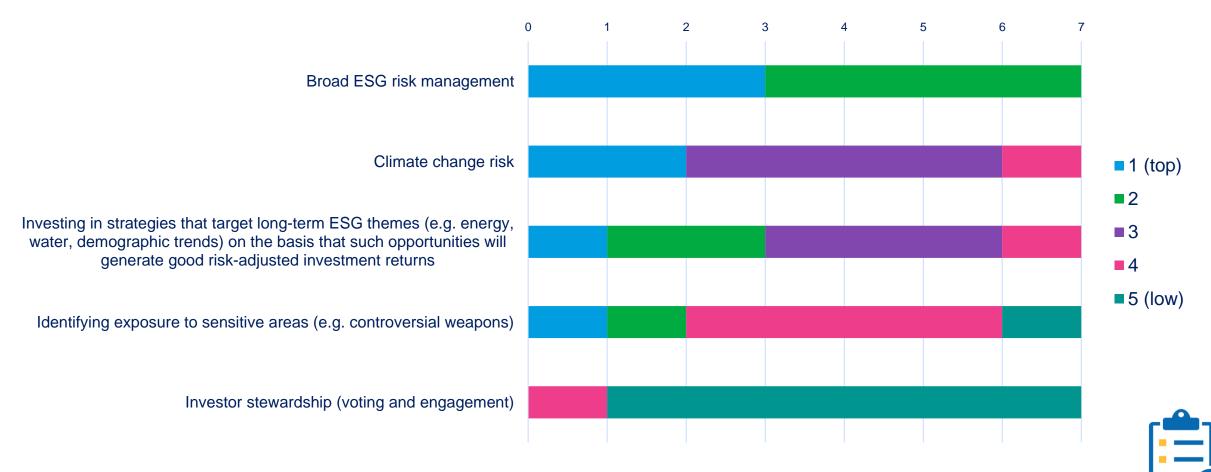
**Climate change** is the highest ranked key ESG theme 100% support a long term view to ESG risk management Reputation risk is the highest ranked risk to manage

# What should be our approach to Sustainable Investing?

#### My view is that ESG issues: What should be our approach to Sustainable investing: 100% 0% 25% 50% 75% Create neither material risk nor Best practice (i.e. exhibiting leadership) opportunity and should not be a 0% priority at this time 43% Create both risk and opportunity, 100% Good practice (or each of which should be reviewed "middle of the pack") 57% Drive new opportunities, which the 0% Scheme should explore Manage regulatory and reputational risk (i.e. minimum Create investment risk, which should compliance approach) be measured and managed 0% appropriately Totals may not sum due to rounding.

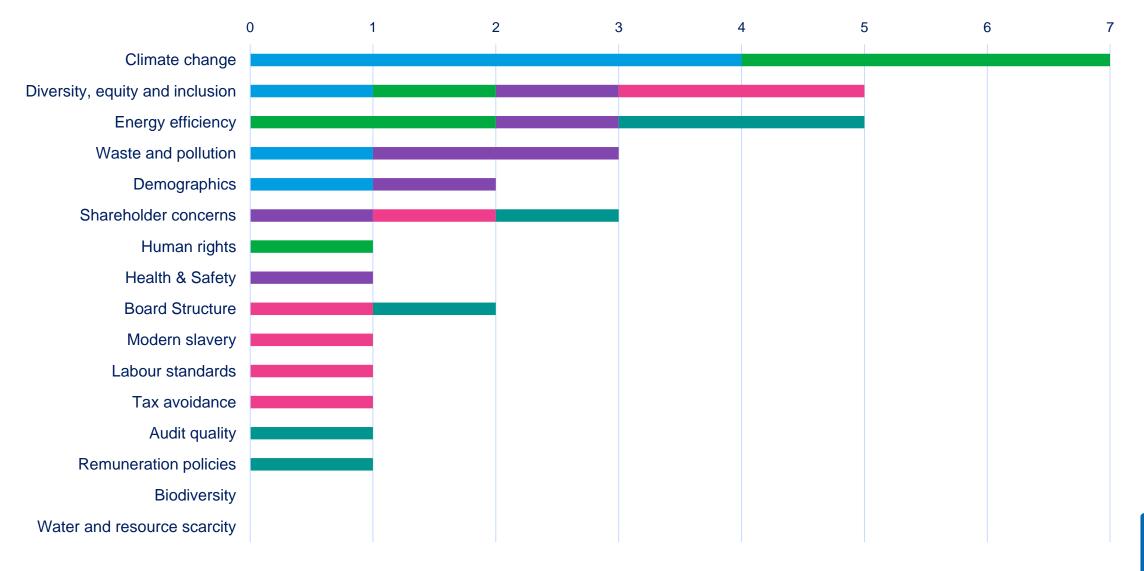
### **High Priority Areas**

From a prioritisation perspective, rank (from 1 to 5 with 1 being the highest priority) the following issues / approaches in terms of the ones you feel may be most important for the Scheme:



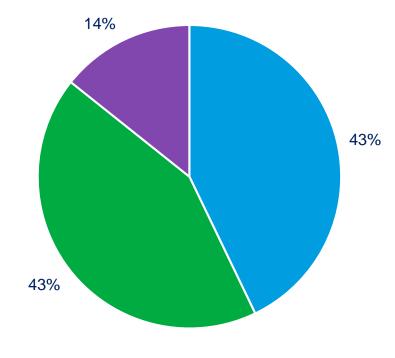
🧭 Mercer

#### **Key Themes**



# Sponsor policies on Sustainability and alignment with the Scheme

The Trustee's policy on sustainable investment is:



 Aligned with the Sponsor's policies on sustainability;

 Takes into account the Sponsor's sustainability policies, but does not mirror them

Don't know



#### **Supporting the Paris Agreement**

The Scheme's investments should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2° C or below above pre-industrial levels, and/or anet zero emissions/carbon neutrality by 2050 or earlier:



0 1 2 3 4 5 6 7

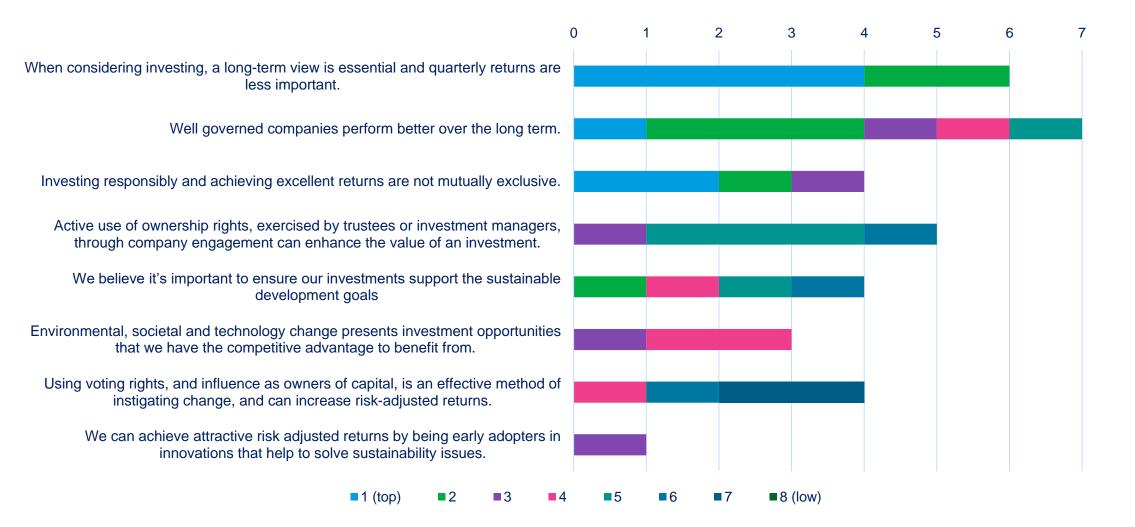
All our investment mandates should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2°C or below above pre-industrial levels, and/or net zero emissions/carbon neutrality by 2050 or earlier.

Somewhat Agree

Mercer

#### **Opportunities**

Rank the opportunities you feel may be most essential for you:



### Managing risks

Rank in terms of managing risks you feel may be most essential for you:

Reputation risk is a key consideration when thinking about ESG.

Monitoring ESG risks can provide an early warning for other issues relating to the management or financial performance of companies.

All our investment mandates should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2°C or below above pre-industrial levels, and/or net zero emissions/carbon neutrality by 2050 or earlier.

Climate related risks extend beyond carbon emissions and should also consider nature-related, biodiversity-related or natural capital-related issues

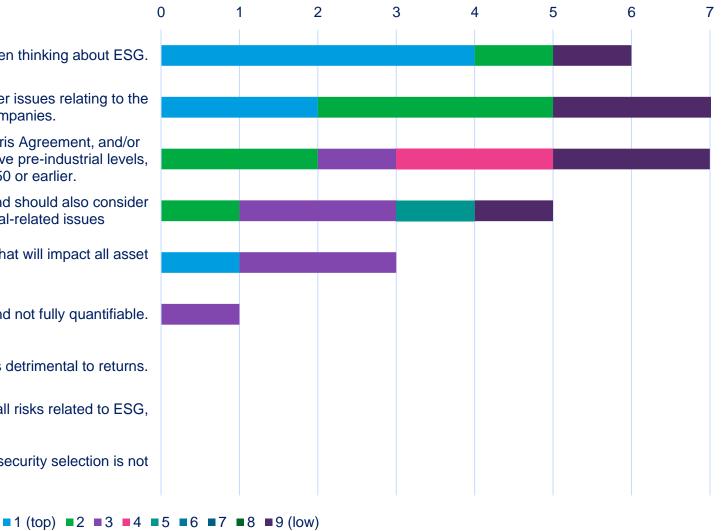
Certain ESG issues represent long-term systemic risks that will impact all asset classes in all geographies.

ESG risks are multifaceted and not fully quantifiable.

Incorporating ESG factors into investment decision is detrimental to returns.

We believe that asset managers are best placed to manage all risks related to ESG, on our behalf.

How an asset manager includes ESG factors in their stock or security selection is not important for maximising returns.



### Beliefs for further discussion (1/2)

Торіс	Beliefs	efs Current policy / process	
Understanding, themes and priorities	Our approach to sustainable investing should be <b>[best practice / good practice]</b>	Current investment processes categorised as 'good practice', as per Mercer's RITE assessment, however there is no formal statement on this by the Trustee	Agree a consensus view and build wording into the SIP
Members' sustainable investment views	Members believe the Scheme's investments [have a wider social responsibility / have a social responsibility but not at the expense of profits / I do not know]	No stated policies or process in the SIP	Could expand wording to provide more specific details on the Trustee's beliefs and agreed policies / processes
Members' ESG views	Members are more concerned with <b>[Environmental / Social / Governance]</b> issues	No stated policies or process in the SIP	Conduct member survey
Implementation of beliefs	Our beliefs are best implemented via [integration / stewardship / thematic investing / exclusions]	Delegated to underlying investment managers	Agree a consensus view and build wording into the SIP
Regulatory alignment	The Scheme's investment <b>[should /</b> <b>shouldn't]</b> aim to align with the Paris Agreement	Not currently aligned with Paris Agreement	Understand what alignment with the Paris Agreement looks like from a process and portfolio perspective

### Beliefs for further discussion (2/2)

Торіс	Beliefs	Current policy / process	Potential further policy / process	
Energy beliefs	Regarding fossil fuels, <b>[we should not invest / we should only invest where the company has committed to a low carbon transition / we will leave this decision to our managers]</b>	No stated policies or process in the SIP	Agree a consensus view and build wording into the SIP	
Portfolio exclusions	We should aim to meet exclusion criteria by <b>[full exclusion</b> / <b>tilting exposures]</b>	No stated policies or process in the SIP	Agree a consensus view and build wording into the SIP	
ESG opportunities	The most important consideration relating to ESG opportunities is <b>[taking a long-term view / investing in well</b> <b>governed companies / understanding high returns can</b> <b>still be achieved by investing sustainably]</b>	Long-term view taken when evaluating investment managers	Agree a consensus view and build wording into the SIP	
Stakeholder considerations	The most important consideration in meeting regulators and stakeholders expectations is <b>[our managers exhibiting</b> <b>good stewardship / alignment of interests / recognising</b> <b>long-term sustainable investment is part of our fiduciary</b> <b>duty]</b>	No stated policies or process in the SIP	Agree a consensus view and build wording into the SIP	
ESG risk management considerations	The most important consideration in managing ESG risk is [reputational risk / early monitoring of ESG risk warnings / aligning with the Paris Agreement or Net Zero targets]	No stated policies or process in the SIP	Agree a consensus view and build wording into the SIP	

The Trustee should consider the materiality of each belief as to whether policies and processes should be established

## Next Steps

#### **Proposed Next Steps**

Enhance wording in the SIP to reflect the ESG survey results and today's discussions



Establish processes that ensure investment decisions refer back to the relevant belief

Consider the potential impact of the updated beliefs, policies and processes on investment strategy



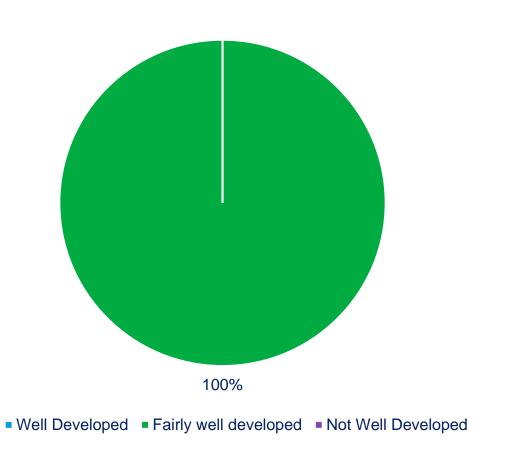
## Full Survey Results

## 1. Trustee knowledge, understanding and key approaches / themes

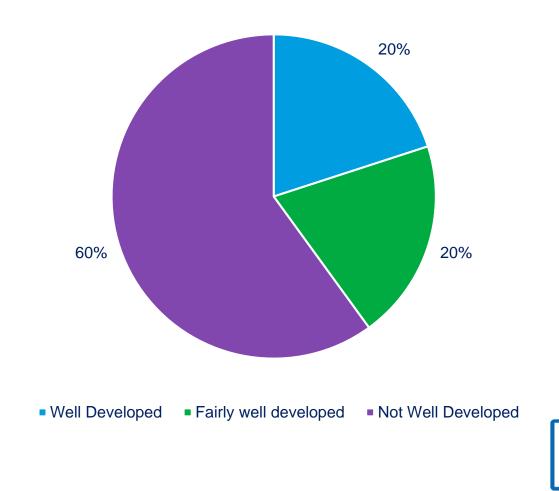


#### **Baseline understanding** Trustee understanding of ESG issues

ESG Beliefs Survey – April 2022:



ESG Beliefs Survey - May 2019:



# What should be our approach to Sustainable Investing?

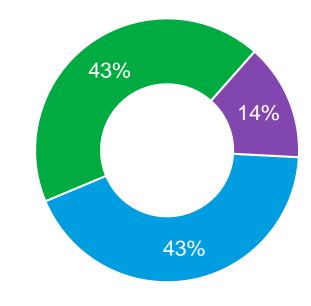
#### My view is that ESG issues: What should be our approach to Sustainable investing: 100% 0% 25% 50% 75% Create neither material risk nor Best practice (i.e. exhibiting leadership) opportunity and should not be a 0% priority at this time 43% Create both risk and opportunity, 100% Good practice (or each of which should be reviewed "middle of the pack") 57% Drive new opportunities, which the 0% Scheme should explore Manage regulatory and reputational risk (i.e. minimum Create investment risk, which should compliance approach) be measured and managed 0% appropriately Totals may not sum due to rounding.

#### **Trustee Approach To Risk Management**

Do you feel adequately informed about climate-related risks and their relationship to investment decision making, your fiduciary duty and management of the Scheme?

0% 25% 50% 75% 100% No – I don't feel adequately informed 0% 100% Maybe - I understand the risks but need more information about how they feed through into investment decision making, our fiduciary duty and management of the Scheme Yes – I understand the climate-related risks in the Scheme and how they are 0% being managed

#### Our approach to managing ESG related risks and opportunities is:



#### Is appropriate

- Could go further, and should be reviewed
- Don't know I need more information to develop a view as to whether ESG considerations deserve more focus

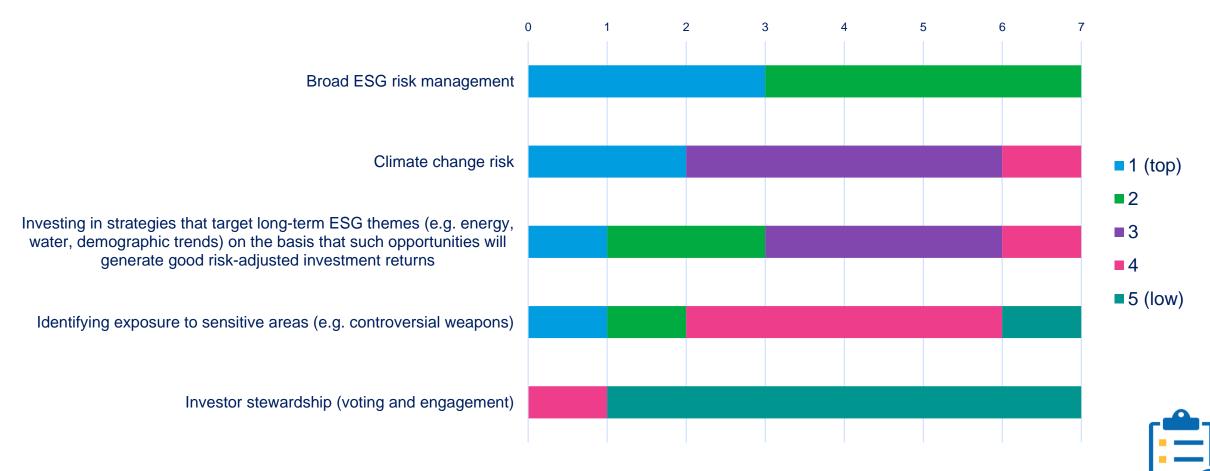


🧭 Mercer

Totals may not sum due to rounding.

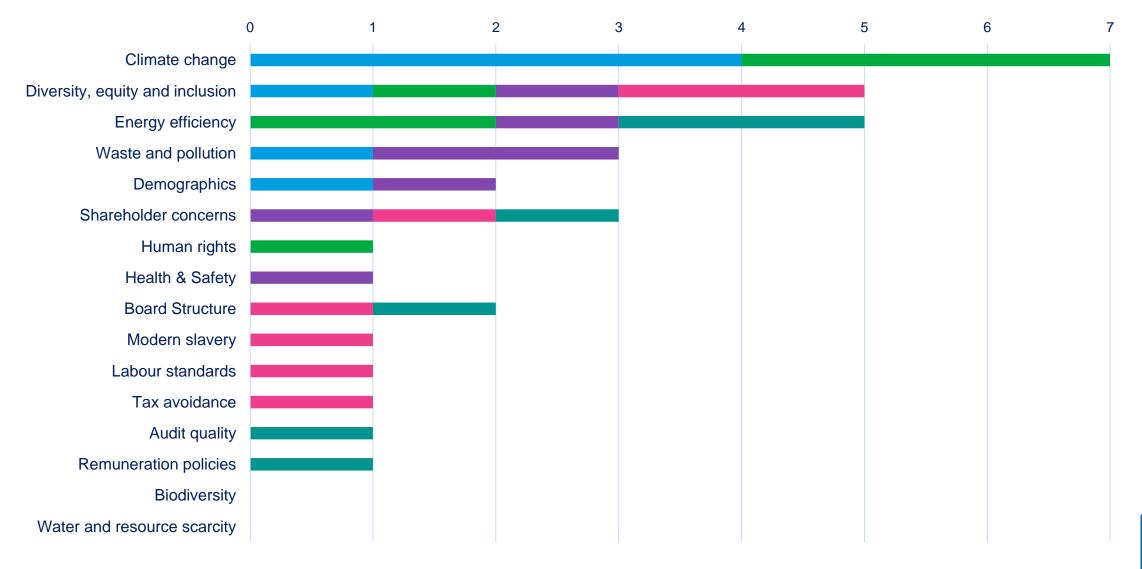
### **High Priority Areas**

From a prioritisation perspective, rank (from 1 to 5 with 1 being the highest priority) the following issues / approaches in terms of the ones you feel may be most important for the Scheme:



#### Mercer

#### **Key Themes**

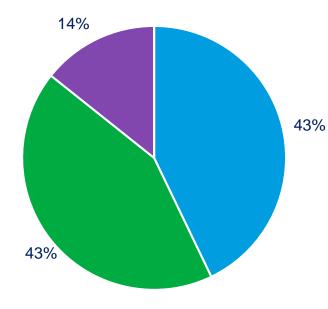


## 2. Sponsor Alignment and Member Views



# Sponsor policies on Sustainability and alignment with the Scheme

The Trustee's policy on sustainable investment is:



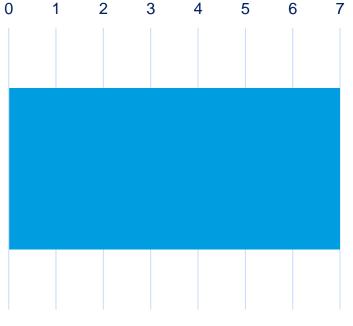
 Aligned with the Sponsor's policies on sustainability;

, 0

- Takes into account the Sponsor's sustainability policies, but does not mirror them
- Don't know

#### Responses

We seek to achieve alignment of interests between ourselves, our beneficiaries and our sponsor



Do not agree

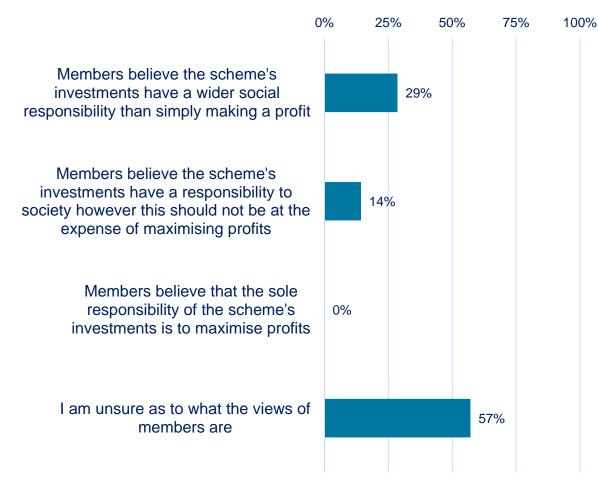
Somewhat Agree Agree



Totals may not sum due to rounding.

#### **Member Views**

Which statement do you believe captures your members' views more accurately?



#### Which areas do you believe are of more concern to members (number of responses)?



Please rank the following in terms of the areas you feel may be most important for members:

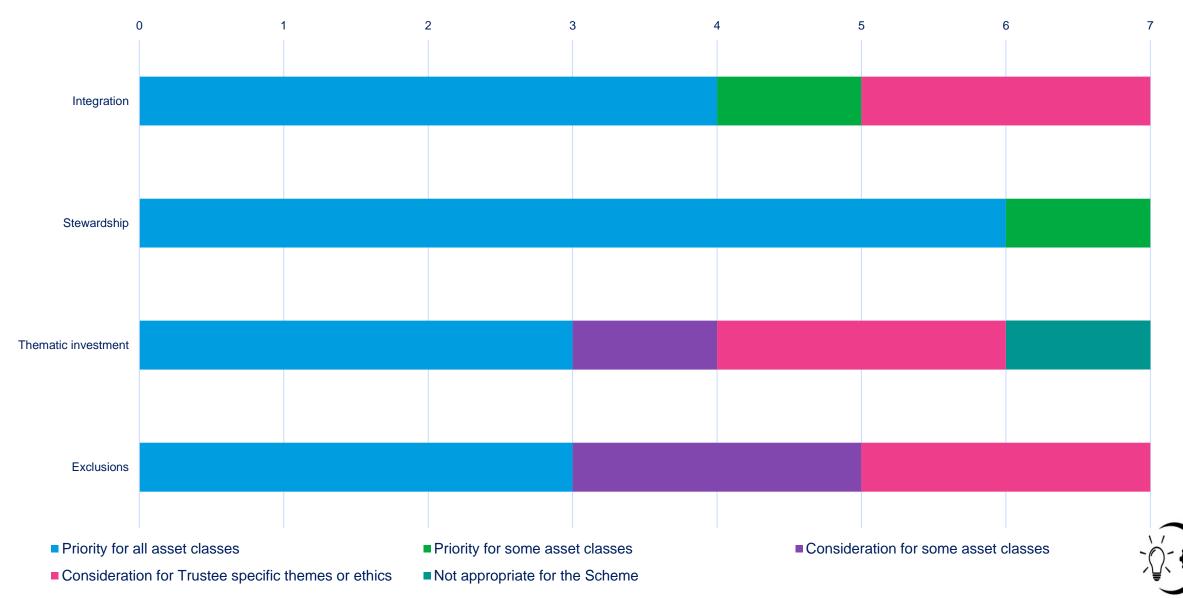
Number of respondents	1 <sup>st</sup>	2 <sup>nd</sup>	3rd
Environmental	3	0	0
Social	0	3	0
Governance	0	0	1

Totals may not sum due to rounding.

## 3. Implementation



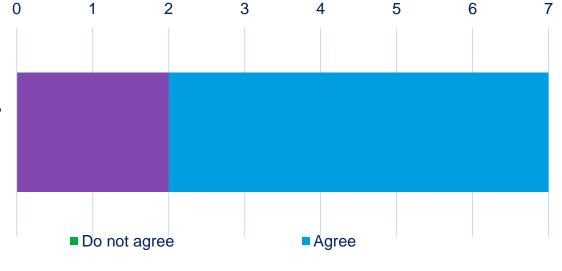
#### Investment beliefs should be implemented using:



#### **Supporting the Paris Agreement**

The Scheme's investments should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2° C or below above pre-industrial levels, and/or net zero emissions/carbon neutrality by 2050 or earlier:

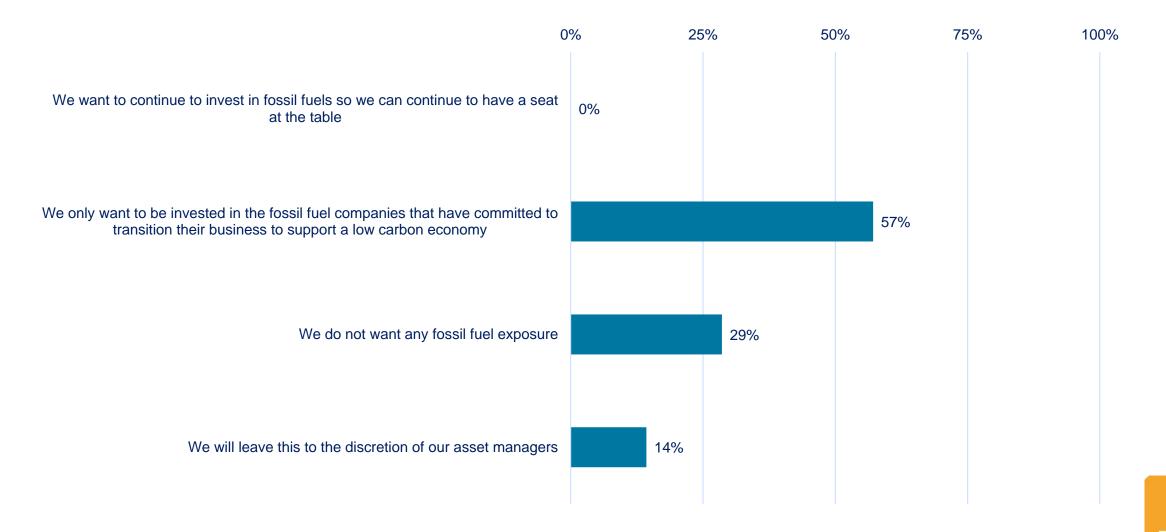




All our investment mandates should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2°C or below above pre-industrial levels, and/or net zero emissions/carbon neutrality by 2050 or earlier.

Somewhat Agree

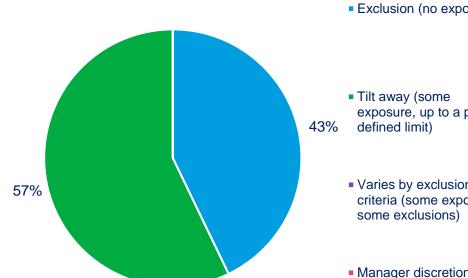
#### Views on fossil fuel exposures



Totals may not sum due to rounding.

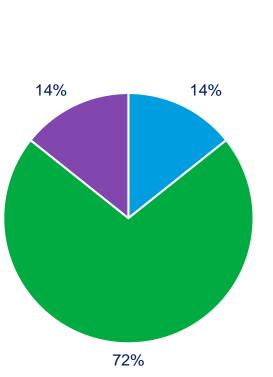
### **UN Global Compact Exclusions & ESG Manager Ratings:**

Management of exposure to companies meeting the exclusion criteria of the UN global compact, such as nuclear, tar sands, tobacco, palm oil, fossil fuels, controversial weapons and gambling should be by:



#### Exclusion (no exposure)

- exposure, up to a pre-
- Varies by exclusion criteria (some exposures;
- Manager discretion



ESG manager ratings:

We want best in class managers on ESG: manager appointments below the peer group average will be reviewed with a view to replace

- We would like to have best in class. managers on ESG: the manager's ESG rating will be a key factor in the selection and retention decisions for a manager appointment but will be considered alongside other factors
- Other factors around an asset manager's capability are more important to us than an ESG manager rating



#### Totals may not sum due to rounding.

### **Opportunities**

	Responses							
	0	1	2	3	4	5	6	7
When considering investing, a long-term view is essential and quarterly returns are less important.								
We can achieve attractive risk adjusted returns by being early adopters in innovations								
that help to solve sustainability issues.								4
Investing responsibly and achieving excellent returns are not mutually exclusive.								
								1
Well governed companies perform better over the long term.								
Active use of ownership rights, exercised by trustees or investment managers,								
through company engagement can enhance the value of an investment.								1
Using voting rights, and influence as owners of capital, is an effective method of instigating change, and can increase risk-adjusted returns.								
								1
Environmental, societal and technology change presents investment opportunities								
that we have the competitive advantage to benefit from.								
We believe it's important to ensure our investments support the sustainable								
development goals.								1
■ Agree ■ Sor	newhat Agree	e		Do not	agree	1		1

### Meeting regulatory and stakeholder expectations

## 0 2 3 5 6 Long-term, sustainable investment is consistent with fiduciary duty.

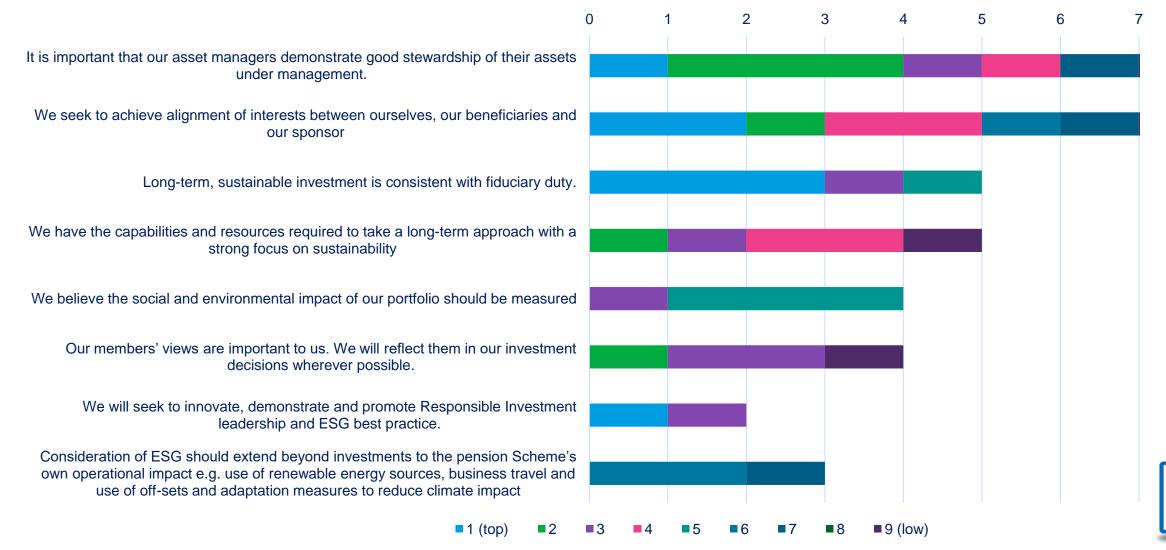
#### Responses

To be a sustainable investor requires adopting a 'whole of fund' approach, incorporating sustainability considerations across all asset classes and investment decisions We will seek to innovate, demonstrate and promote Responsible Investment leadership and ESG best practice. It is important that our asset managers demonstrate good stewardship of their assets under management. We have the capabilities and resources required to take a long-term approach with a strong focus on sustainability We believe the social and environmental impact of our portfolio should be measured Consideration of ESG should extend beyond investments to the pension Scheme's own operational impact e.g. use of renewable energy sources, business travel and use of off-sets... Our members' views are important to us. We will reflect them in our investment decisions wherever possible. We seek to achieve alignment of interests between ourselves, our beneficiaries and our sponsor

Somewhat Agree Do not agree Agree

### Meeting regulatory and stakeholder expectations

#### Rank the opportunities you feel may be most essential for you:



Mercer

### Managing risks



Agree Somewhat Agree Do not agree

### Managing risks

Rank in terms of managing risks you feel may be most essential for you:

Reputation risk is a key consideration when thinking about ESG.

Monitoring ESG risks can provide an early warning for other issues relating to the management or financial performance of companies.

All our investment mandates should aim to align with the Paris Agreement, and/or alignment with the temperature objective of 2°C or below above pre-industrial levels, and/or net zero emissions/carbon neutrality by 2050 or earlier.

Climate related risks extend beyond carbon emissions and should also consider nature-related, biodiversity-related or natural capital-related issues

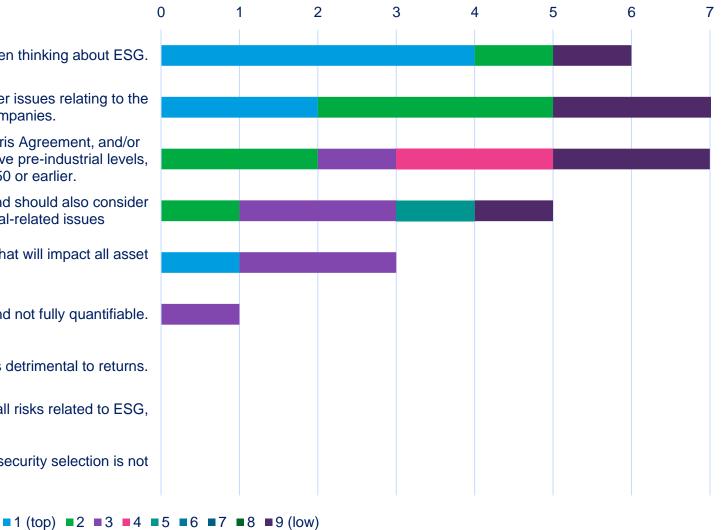
Certain ESG issues represent long-term systemic risks that will impact all asset classes in all geographies.

ESG risks are multifaceted and not fully quantifiable.

Incorporating ESG factors into investment decision is detrimental to returns.

We believe that asset managers are best placed to manage all risks related to ESG, on our behalf.

How an asset manager includes ESG factors in their stock or security selection is not important for maximising returns.



#### Comments from Survey (1/2)

I have interviewed Fund Managers and I'm impressed that companies are changing their structure and taking ESG seriously.

Two recent aspects have created significant turmoil and uncertainty re ESG.
1. The USA-China relations position
2. The Russia-Ukraine conflict and it's potential impact on global energy supplies/market

The pension scheme is entirely in credit and not equity. I think this gives less opportunity to influence the Board of Directors.

There is enough opportunity in the investment market to find the returns our scheme needs with very good ESG credentials. Insufficient ESG information available in credit markets.

Members are likely to have a different view for DB vs DC. The Trustee is no longer responsible for DC (transferred to Master Trust). ESG can and should take greatest importance for DB.

Greenwash is a real issue.

I am not sure many of our members are truly concerned or understand these areas and the link to their investments.

Climate change is THE concern based on climate change experience over the past 5 to 10 years and the extremes of weather creating damage, danger and risk. Believe we pay more than lip service but keen to explore more. Also keen to consider S and G elements.

> I am unclear what our members feel in respect of specific climate related investments.

> > The heart says it should be a matter of principle for the long term future of the planet, while the head might suggest that a greater priority is funding retirement until the uncertainty over HMG funding of social care is finally determined.

#### Comments from Survey (2/2)

We should survey our members.

Members would be very concerned in failure of any element of ESG.

Feel that a more in depth conversation with Sponsor is required.

ECL have developed a strong sustainability ethic and series of operating principles.

Limited only by the Fund Managers desire to engage with ESG measurement and management.

I believe that our ESG beliefs and strategies are well developed as are those of the Company. It would be beneficial to both to work together to achieve closer alignment. We are lucky that our sponsor takes ESG very seriously. It will be interesting to see how this affects the Master Trust through its interactions with the IGC. Again balance between aspirational aims and realistically what is currently feasible for scheme of our size and with resources available.

Need to understand more what aligning with Paris Agreement looks like.

It is the EC ethos to be a leader and not a follower.

Whilst good to be aspirational, need to balance with size of scheme and resources available. Also need to recognise that integration of ESG factors will be a journey. As Trustees we have a clear responsibility to be actively involved in these decisions and thinking. Not sure if question is around current priorities or general approaches.

The end goal should be exclusion but that is not practical in the short term, e.g. fossil fuels.

#### **Important Notices**

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2022 Mercer LLC. All rights reserved.

This report contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

RITE is a point in time evaluation and provides no guarantee of current or future compliance with prevailing regulations.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see <u>www.mercer.com/conflictsofinterest</u>.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.





Mercer Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU