

# UNDERSTANDING SUSTAINABILITY REGULATIONS FOR PENSION SCHEMES



# Irish Life

In recent years, more Irish pension schemes have begun to explore and implement Environmental, Social and Governance ("ESG") initiatives.

At Irish Life Investment Managers (ILIM), we believe in building a more sustainable future and that we have a responsibility to create long-term sustainable returns for our clients. Our first commitment to responsible investing came in 2010, when we were one of the first Irish signatories to the UN-supported Principles for Responsible Investing (UNPRI). The EU has positioned itself at the forefront of ESG policy endeavours and has committed to creating a policy framework that supports long-term and sustainable investment.

In the short term, there are three key pieces of legislation which are driving Trustees to focus on their sustainable investment strategy:

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EU (Shareholder Rights) Regulations 2020 (SRD II)	EU Sustainable Finance Disclosures Regulations (SFDR)	ESG requirements of IORP II

Here is what trustees need to know about the new regulations.

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## EU (SHAREHOLDER RIGHTS) REGULATIONS 2020 (SRD II)

The European Union (Shareholders' Rights) Regulations 2020 transposed the Second EU Shareholders' Rights Directive ("SRD II") into Irish law on 30 March 2020.

The SRDII is intended to increase corporate transparency and shareholder engagement over the longer term by large asset holders such as asset managers, pension schemes and insurance companies. The aim is to encourage listed companies to adopt sustainable business practices and to support long-term alignment between these shareholders and the listed companies.

### What are Trustees required to do and how can Irish Life support you?

At the outset, it is important to note that for the most part, our clients invest through Irish Life unit-linked policies and within this structure, Irish Life Assurance Company is deemed to be the relevant "Institutional Investor" and consequently will meet the Regulatory disclosure obligations for Trustees.

**Note:** While the regulation requires public disclosure of the below information, there is scope for the Irish regulatory authorities to include local discretion to this obligation. While we await further guidance from the regulatory authorities in terms of how this is to be interpreted from an Irish perspective, given most Irish Pension schemes will not have websites, we believe that a more practical approach for Trustees would be to amend their Statement of Investment Principles (SIPP) and Trustee Annual Report (TAR).



**Trustee Obligations**

**Voting & Engagement Policies and Annual Reporting:**

- Trustees must have a policy in place to cover both Voting and Engagement activity.
- Trustees must provide an annual review of how the voting and engagement policy has been implemented.
- Where an asset manager implements this on behalf of an institutional investor, the institutional investor shall make a reference as to where such information has been published by the asset manager.

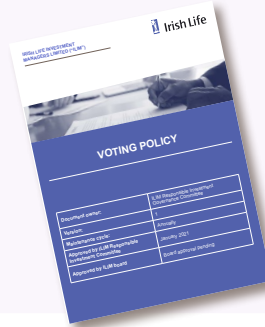
**Disclose their Arrangements with Asset Managers**

- Including but not limited to aspects such as alignment of arrangement and strategy with duration of liabilities. manager.

**Trustee Actions**

**Amend SIPP to include reference to the:**

- Voting and Engagement polices; and
- How Trustees delegate this activity to an asset manager/ life company



**Include details of their arrangements with asset managers/life company in their Trustee Annual report.**

**Irish Life Support**

Irish Life has draft SIPP wording which is available on request.

Our Voting & Engagement Policies are available on our website: <https://www.ilm.com/responsible-investing/active-ownership/>

**Annual Responsible Investment Review** which covers the reporting obligations under SRDII.

**Voting Dashboard** – on our website providing clients greater transparency over our voting records.

**SRDII Annual Client Disclosure** – overview of Shareholder Voting & Engagement, key material risks, conflicts of interest – form part of our Quarterly Investment report

**EU SUSTAINABLE FINANCE DISCLOSURES REGULATION (SFDR)**

The EU regulation on sustainability disclosures will apply generally from 10 March 2021 on a phased basis, with most disclosure requirements applying from that date.

This legislation is intended to give greater transparency and accountability for how institutional investors like life companies, asset managers and Trustees of Pension Schemes consider sustainability risks.

**What are Trustees required to do and how can Irish Life Support you?**

There is a requirement for Trustees to make available the following information to prospective members, current members and beneficiaries:

**Trustee Obligations**

**Sustainability Risk Policy:**

- Trustees must develop and disclose a Policy around the integration of sustainability risks into the investment decision making process.

**Trustee Actions**

**Amend SIPP to include reference to the Sustainability Risk polices and how they delegate this to an asset manager/life company.**

**Irish Life Support**

Irish Life has draft SIPP wording which is available on request.



## Trustee Obligations

### Remuneration Policy:

- To the extent Trustees are paid, they must disclose how these policies are consistent with the integration of sustainability risks.

### Principal Adverse Impact (PAI) Policy

- Where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts.

### Pre Contractual Member Disclosures

- **Sustainability Risk Disclosures:** Description of the manner in which Sustainability risks are integrated into investment decisions and the likely potential impact of same on the returns from the funds. Or an explanation of why sustainability risks are not relevant.
- **Additional Product Disclosures:** For Financial products which promote Environmental or Social characteristics, additional product disclosures are required around how the product meets its sustainability objectives.

## Trustee Actions

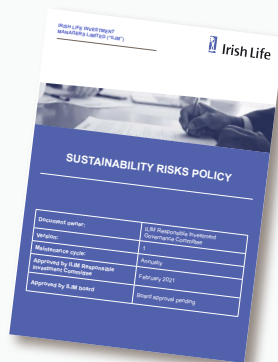
**As most trustees in the Irish market are not paid this will not be relevant.**

For paid professional trustees – they should consider updating their description of services to reference how sustainability is captured as part of their fiduciary duties.

**There is an exemption from this requirement for Entities (in this case the pension scheme) employing less than 500 employees.**

Provide prospective members with the following pre-contractual disclosures:

- **Sustainability Risk Disclosures**
- **Additional Product Disclosures**



## Irish Life Support

**Not relevant for most Irish Pension Trustees.**

**Not relevant for most Irish Pension Trustees.**

**For pension schemes where Irish Life provides administration services we will be enhancing our disclosures to members through our member booklets and fund factsheets.**

Support to external administrators/consultants who prepare these for mutual clients.

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## How are Irish Life Investment Managers (ILIM) classifying their funds?

SFDR is also intended to provide greater consistency and comparability to product disclosures to support consumers (including members of pension schemes) understanding of the sustainability aspects of their investments. In this regard, funds will need to be categorised according to the following criteria:

**Other:** no explicit consideration of sustainability aspects as part of the investment process

**Article 8:** Sustainability outcomes are considered alongside other factors.

**Article 9:** Sustainability outcomes are a key objective of the fund.

ILIM has a full range of sustainable funds, including our flagship multi-asset funds which are specifically designed to capture sustainability criteria as part of their design.

These include:

- Irish Life Multi Asset Portfolios (MAPS)
- Irish Life Empower Funds (Growth, Stability, Cautious and High Growth)
- Irish Life Retirement Portfolios (REPs)
- Irish Life Screened/Ethical Global Equity Fund
- Irish Life Sustainable Equity Fund
- Irish Property Fund

These funds aim to promote environmental and social characteristics including enhanced exposure to more sustainable companies and alignment with the transition to a low carbon economy.

Depending on the specific fund, ILIM will either invest in a range of asset classes and underlying strategies or a single strategy/asset class. In line with the specific overall fund objective, ILIM targets investment in strategies which help contribute to achieving the Fund's sustainability goals and different approaches will be used to manage sustainability risks based on the asset class and investment strategy.

For equity and credit exposures, this will involve excluding or reducing exposure to companies with weak sustainability characteristics and increasing exposure to companies with strong sustainability characteristics. Alternatively, it may involve ILIM managing a fund against a specified index which itself aims to promote environmental or social characteristics. ILIM also actively uses its voting authority and engages with investee companies to encourage improved governance and management of sustainability issues.

For direct property, sustainability characteristics are considered in the selection of the underlying properties and as part of the ongoing management of the portfolio.

For externally managed assets, sustainability criteria and risks are considered as part of the initial and ongoing due diligence process for manager and strategy selection.

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## EU Directive on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORP II)

From an ESG perspective, the Directive places a considerable onus on trustees to consider ESG factors as part of their investment decisions. Trustees will need to explicitly state how these factors are considered and how these decisions integrate into their risk-management process. We believe that the enhancements made to your SIPP as part of meeting the requirements for SRDII and SFDR will also meet the obligations under IORP II.

### SUMMARY

While there is some overlap in the three sets of EU ESG regulations, they are separate and distinct sets of regulation, with different regulators and differing timelines for implementation.

Irish Life is committed to supporting you, and we hope this information has been helpful. But more importantly, we hope that you take comfort that we have the processes and structures in place to help you meet those obligations.

Across the Irish Life Group, we have incorporated sustainability as a core pillar of our future business strategy and brand proposition. We now have €22 billion (or 25% of total AUM) in responsibly managed assets under management, which has increased from €15bn at the end of 2019. 50% of the assets we manage on behalf of our clients form part of our Active Ownership Programme.

Irish Life will continue to ensure that you have the supports to meet any regulatory requirements that arise in this evolving area.

## CONTACT US

If you would like further information on these regulatory changes or wish to discuss how we can help incorporate Sustainability into your portfolio, please contact your Relationship Manager.





# Irish Life

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