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Pension trustee skills, capability, and culture: a call for evidence

Insight Investment response
August 2023



Introduction

Insight Investment is one of the UK's largest asset managers, with £671bn of assets under management, of which we manage £453bn for UK defined benefit (DB) pension funds.¹ The majority of Insight's assets under management are in risk management solutions (primarily liability-driven investment, or LDI) and fixed income.

Questions and answers

Fiduciary duties and long-term factors

Question 18: Is fiduciary duty a well-understood concept? Do current regulations and guidance support trustees to make investment decisions which seek higher returns for members? If not, what changes would be useful?

Pension scheme investment strategy is determined primarily by the funding position and the returns required to achieve full funding, and we believe current regulation and guidance is appropriate and focused on these concerns. The existing regulatory framework has led to pension schemes today establishing a strong funding position meaning they can largely secure their members' future retirement income.

As explained in our response to the consultation on 'Options for defined benefit schemes: a call for evidence', we believe changes can be made to the general regulatory, legislative and tax framework to incentivise trustees and sponsors to run on DB pensions schemes and deploy excess surplus to support members, corporates and the UK economy as a whole. This could include investments over the long term into equity and productive finance assets. However, these changes do not focus on fiduciary duty. Please see our response for further information.

We do however believe that some uncertainty exists in relation to applying fiduciary duty to environmental, social and governance (ESG) factors and investment decisions.

Despite extensive work on the topic in recent years and various guidance notes from industry bodies, we believe a lack of clarity remains as to what extent 'non-financial factors' can be taken into account as part of the investment process in relation to investments with climate or environmental goals. This is leading UK pension schemes to adopt a variety of approaches.

Our clients include pension schemes with trustees who believe tackling climate change is in the best interests of their members and have supported the inclusion of green gilts within their portfolios, with some schemes having publicly committed to the UN-convened Net-Zero Asset Owner Alliance. We also have pension scheme clients with trustees who consider that their fiduciary and/or legal duties may fetter their ability to enter into certain investments (including those that support environmental or climate-related goals, such as green gilts) because of a belief that non-financial factors should be subordinate to financial factors.

In our experience, the lack of clarity is leading some pension schemes to opt for a more cautious approach regarding non-financial objectives. Clarifying how pension scheme trustees' obligations apply regarding such goals and having clarity on the extent to which financial and non-financial factors can be incorporated within the investment decision-making process could remove this barrier, allowing for a larger proportion of UK schemes' assets under management to be invested in support of such targets.

¹ As at 31 March 2023. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. Figures shown in GBP. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIIL), Insight Investment Management (Europe) Limited (IIMEL) and Insight North America LLC (INA), each of which provides asset management services.

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