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## UK Government Taskforce to Produce Guidance for Pensions Sector to Consider Social Factors in Investment Decisions

**December 12, 2023**

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On October 19, 2023, the UK government’s Taskforce on Social Factors (Taskforce) launched a consultation to produce guidance on how pension funds can consider social issues in their investment decisions. The guide is intended to help occupational pension schemes to identify and monitor the broader social impact and implications of their investment activities. Social factors subject to consideration in the guidance will include workforce conditions and supply chains, community engagement, consumer protection and modern slavery. The Taskforce was formed in February 2023 by the Department for Work and Pensions (DWP) and its members include representatives from pension schemes, asset managers, data providers, cross-industry collaboration groups and civil society.

The draft guidance that is the subject of the consultation contains 30 recommendations across three sections:

1. **Social factors and pension funds**, which sets out why material social factors are important from an investment perspective and how taking these into consideration aligns with trustees’ fiduciary duties.
2. **Social factor data**, which discusses the data that trustees can use to manage social factors in investment decision making, along with a materiality assessment framework to help prioritize areas for action.
3. **Addressing social factors in pension portfolios**, which “sets out a framework for addressing social factors in pension schemes, providing baseline, good and leading practice indicators, with a deep dive into the issue of modern slavery and how trustees can approach this social factor in their investments.”

The consultation closed for feedback on December 1. The Taskforce aims to issue an official guide in 2024 for UK pension scheme trustees.

**Taking the Temperature: This consultation highlights the fact that UK pension funds are under scrutiny for both the environmental and social impact of their activities. Earlier this year, the UK Pensions Regulator (TPR) conducted a review of the published annual climate reports of more than 71 UK pensions schemes. The review found several areas for improvement, as well as some emerging good practices. It is hoped that a sector-specific guide outlining how trustees can consider social factors in their investment decisions will be a helpful enhancement to such reporting, in addition to providing cohesion both within and across specific sectors.**

**We also reported on an article published by TPR's Executive Director, Mark Hill, in which he set out how pension fund trustees can improve the climate-scenario analyses they use in order to make them more "decision-useful." The UK pensions sector was in the spotlight earlier this year when Border to Coast Pension Partnership, a pension pool consisting of 11 UK local government pension schemes, announced that "[o]il majors and banks must make greater progress on climate pledges or risk losing the support of Border to Coast Pensions Partnership on key votes this" Annual General Meeting season. Similar pressure was also exerted by New York City pension funds.**

**In the U.S., the appropriateness of consideration of ESG issues in investment decision making remains subject to debate. In August, American Airlines asked a court to dismiss a class action lawsuit filed against it by a current employee, who alleged that the airline's ESG investment strategy jeopardized employees' retirement savings by investing in ESG funds managed by BlackRock and other asset managers. We also discussed that, at the end of last year, Vanguard withdrew from the Net Zero Asset Managers initiative following a report by the Minority Staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs regarding the influence of the "liberal views" toward ESG of the "Big Three" asset managers, BlackRock, State Street and Vanguard. That said, more than 1,400 individual investors signed a letter asserting that Vanguard is violating its fiduciary duty to mitigate climate-related investment risks by, among other things, not being more active in casting proxies consistent with its climate expectations and due to Vanguard's withdrawal from the NZAM.**