



**BAILLIE GIFFORD  
DC FORUM**

# **ESG IN DC**

*2018*



# THE BAILLIE GIFFORD (DEFINED CONTRIBUTION) DC FORUM

Baillie Gifford hosted its 2nd annual DC Forum in London on the afternoon of Thursday 6 September 2018. The event took place at Glaziers Hall, next to London Bridge, and over 60 external attendees joined us.

In the audience we had UK-based clients, prospects, consultants, trustees and many other DC pension practitioners. The event, which takes place under Chatham House rules, is primarily designed to discuss and debate important topics and issues within the UK DC pension industry. By running this event, which brings together leading practitioners and thought-leaders, we aim to help improve UK DC pensions, whilst also raising the profile of the firm in the DC pension market.

This year's forum covered three main topics:

- The rising importance of Environmental, Social and Governance issues (ESG) in DC pensions
- How investment strategies that focus on both income and growth can help DC members overcome longevity risk, sequencing risk and volatility risk in retirement
- The different approaches to DC plan provision, looking at Master Trusts, single trust and the concept of 'collective DC' (or CDC).

Feedback was overwhelmingly positive and we intend to run another forum next year. Here is a brief summary of the ESG in DC section:

## ESG IN DC

ESG, sustainability, ethical investing, green funds, screened funds, responsible investing, impact products... All of these terms are becoming increasingly common in the DC pensions space. Guiding us through this highly topical subject we had a great range of expert speakers:

Chairing the session was **Lydia Fearn** (Head of DC and Financial Wellbeing at **Redington Consultants**) and we had presentations and a panel session with the following:

- **Jennifer Anderson** – Investment Manager at **TPT Retirement Solutions**, in charge of its responsible investment strategy
- **Diandra Soobiah** – Head of Responsible Investment at **NEST Corporation**
- **Kate Fox** – Investment Manager at **Baillie Gifford** and a member of the Positive Change Fund investment team
- **Karen Shackleton** – Founder of **Pensions for Purpose**, a collaborative not-for-profit information-sharing platform which aims to raise awareness of impact investments.







This broad and engaging session explored the spectrum of ESG investing in DC pensions (from negatively screened approaches through to impact investing). It also discussed the increasing importance placed on ESG by both the government and by plan members. Each speaker discussed how their respective organisations approach ESG; a number of presenters and audience members suggested that DC plans should incorporate ESG considerations alongside other risk factors, and that, although defining ESG can be complicated, it is now an embedded consideration in all that they do. Some questioned whether explicitly incorporating ESG in DC was a top-down direction from government and not in the best interest of members. This was countered with the argument that issues such as climate change are fundamental risk factors for members and therefore are just as important as more traditional risk factors trustees and consultants manage for plan members.

Several questions highlighted the need for consultants to play a greater role in helping trustees to understand and incorporate ESG into their DC plans; the DC charge cap and its limiting factor on accessing active ESG and impact strategies was highlighted as a hindrance to fully incorporating them in default funds. For passive investing, creating benchmarks that screen out or tilt

away from carbon-producing companies and towards sustainable and renewable energies, and subsequently creating ETFs that track this benchmark, was cited as a way of mitigating climate risks in a cost-effective way.

A number of speakers suggested ESG factors could be a useful tool for increasing member engagement, and there is some third party evidence to support this.

Some key challenges for ESG in DC investments were monitoring, measuring and reporting – Kate Fox described how she and the rest of the Positive Change Fund team had addressed each of these, highlighting the recently published impact report as part of the solution.

All agreed that an incremental approach to understanding ESG and incorporating it into DC pensions was the best (only) way to tackle such a broad and complex subject. All of us should be wary of ‘greenwashing’ or ‘impact-washing’ by those seeking to simply gain assets on the back of the increasing importance of ESG without actually changing investment practices.

The session could have gone on beyond the hour and ten minutes allocated, and there were plenty of ongoing discussions on the topic in the drinks reception at the end of the afternoon.

**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN**  
**Telephone +44 (0)131 275 2000 / [www.bailliegifford.com](http://www.bailliegifford.com)**