ESG INVESTING

Ask the industry

Research from Pensions for Purpose has revealed that nearly all (93 per cent) UK and European institutional investors, including pension funds, have expressed significant unease over the future of sustainability practices under a Trump presidency.

The inaugural *Impact Lens Survey Shorts* found that while no respondents indicated that US sustainability practices "critically" shape their strategies, 83 per cent reported some level of influence, 22 per cent cited a significant impact and 39 per cent noted a moderate impact.

This impact has already been seen, as the Net Zero Asset Managers Initiative (NZAM) recently announced that it was suspending activities to track signatory implementation and reporting. NZAM also removed the commitment statement and list of NZAM signatories from its website, as well as their targets and related case studies, pending the outcome of the review of the initiative.

Recent developments in the US and different regulatory and client expectations in investors' respective jurisdictions led to NZAM launching a review of the initiative to ensure NZAM remains fit for purpose.

NZAM noted that it "has successfully supported investors globally as they have sought to navigate their own individual paths in the energy transition in line with their fiduciary duties and clients' long-term financial objectives".

"NZAM looks forward to continuing to play this constructive role with investors around the world," it added.

However, the survey from Pensions for Purpose found that, despite these concerns arising from across the Atlantic, there is a growing commitment among UK and European institutional investors and asset managers to sustainable investing.

Indeed, 58 per cent of respondents plan to increase their impact allocations over the next 12 months reflecting a positive commitment and optimism for the returns of these assets. Forty-two per cent expect to maintain current levels, while notably, no respondents intend to decrease allocations.

With many European pension schemes also facing growing ESG requirements, *European Pensions* asks whether the industry actually expects to see any changes in how pension schemes are considering climate considerations as a result of changing international priorities, and if so, how?

Climate change remains a financially material risk for pension schemes and collaborating with companies and policymakers on their behalf remains key to mitigating this risk and improving the sustainable investing landscape. While Trump's re-election is a potential setback for climate change mitigation policy, which may see the US pull back from its commitments in the short-term, global warming will continue to pose a threat for investors far beyond the next four years. The same research revealed that no respondents indicated US sustainability practices critically shaped their strategies and there remain powerful long-term trends towards decarbonisation by countries and companies all over the world, for example in emerging markets, due to the economic forces at play.

The UK Financial Markets Law Commission (FMLC) highlighted the need for longer-term thinking in its paper to help pension fund trustees integrate climate and sustainability issues into their investment decision making processes from the perspective of fiduciary duty, published last year. This view is shared among the many UK and European pension schemes invested in climate aware equity strategies that seek to align financial exposures with the goals of the Paris agreement, regardless of shorter-term market moves or sentiment.

LAUREN JULIFF
Storebrand Asset Management head of UK institutional, climate and sustainability product lead

Sustainability in investments is a just and reasonable cause. However, the EU's reporting framework has become overly complex, costly, and unclear for institutional investors like pension funds. CBBA-Europe has repeatedly raised this issue, calling for greater simplification and clarity in EU consultations and in its public events. Encouragingly, the new European Commission appears to be addressing the problem, and the Omnibus initiative might serve as potential proof of this intent, even though its impact on Sustainable Finance Disclosure Regulation (SFDR) legislation remains uncertain.

Even if the new US administration may partially foster a "free-for-all" mentality, we believe that European pension funds, along with their trustees and members, remain genuinely committed to sustainability. Rather than reversing course, we at CBBA-Europe hope that the Trump administration will instead serve as an additional impetus for the EU to accelerate efforts in simplifying ESG reporting requirements, ensuring that sustainability remains a practical and achievable investment goal.

FRANCESCO BRIGANTI
Cross Border Benefits Alliance-Europe secretary general

Recent collaborative engagement exits are admittedly disappointing outcomes – asset owners should monitor these developments closely. There is an opportunity to learn lessons from them as a responsible investment industry, more broadly. However, it is important that asset owners maintain their course throughout this difficult period and support their fund managers in delivering a robust climate stewardship strategy that will deliver value for its members. Ultimately, as long-term investors, the financial materiality arguments for climate change rise above short term political challenges.

LEANNE CLEMENTS
People's Partnership, provider of The People's Pension, head of responsible investment

Climate change is progressing faster than expected, making adaptation more crucial than mitigation alone. The Omnibus initiative aims to integrate sustainability regulations like the Corporate Sustainability Reporting Directive (CSRD) and taxonomy while supporting competitiveness. If sustainability becomes a reputational risk in the EU, focusing on risk management rather than proactive sustainability communications may be the best approach.

European pension funds may adopt a more pragmatic approach, shifting from explicit net-zero commitments to broader risk management, where climate risks are integrated into overall investment strategies without strong political or public commitments. ESG requirements may also be prioritised based on financial performance rather than competitiveness concerns.

HANNA KASKELA
Finnish Centre for Pensions liaison manager

We believe the impacts of climate change are wide-ranging and pose material long-term financial risks for investors. Therefore as we continue to deliver on our fiduciary duty to our members, we will continue to engage across the investment chain and with policymakers to pursue the meaningful action that is needed to drive real-world change.

SANDRA CARLISLE
USS Investment Management head of responsible investment