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The UK Taskforce on Social Factors

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To the UK Taskforce on Social Factors committee,

Re: Consultation response: Considering Social Factors in Pension Scheme Investments: Guide from the Taskforce on Social Factors

About us

Founded in 2000, **Cardano** is a privately-owned, purpose-built pensions advisory and investment specialist with a leading-edge sustainability offering. We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands. Our 500 professionals strive to deliver better and more secure financial outcomes.

- Advisory: A pensions covenant, investment, sustainability, corporate finance and risk advisory business serving approximately 400 scheme and corporate clients. Our scheme clients have aggregated assets of over £370bn (€430bn)
- Investment Management: A purpose-built asset and fiduciary management provider, with a leading-edge sustainability offering, serving pension schemes, insurance companies, banks and distribution partners with £50bn (€60bn) of assets under management
- Defined Contribution (DC) Pension Provision: We manage over £15bn (€17.5bn) in DC assets across the UK and the Netherlands. In the UK, we operate NOW: Pensions, an award-winning UK workplace pension provider, serving 2 million members and tens of thousands of employers from a wide range of industry sectors

Our world deserves better financial solutions – that are more resilient and sustainable. At Cardano, we bring a distinct approach to advisory and investment management that challenges the status quo. By bringing together cognitively diverse teams with a mix of perspectives and skill sets, we reduce blind spots and open up new possibilities, delivering tailored solutions for our clients.

In January 2022, Cardano acquired ACTIAM, a sustainable investor, with 30 years' sustainability-related experience, and a dedicated team of sustainability professionals with expertise in sustainability issues, environmental, social and governance (ESG) data and research, and stewardship. ACTIAM was one of the first asset managers in the world to invest sustainably, considering concepts such as planetary boundaries and social foundations, which we have incorporated into a combined sustainability policy. Actiam has now been rebranded as Cardano Asset Management.

Cardano invests in different ways – directly as an asset and fiduciary manager and indirectly via third-party managers. Cardano's combined sustainability policy applies across the group.

Sustainability has always been at the core of both the Cardano and NOW: Pensions' culture and how we run our business. We are sustainable investors, quite simply because it is the right thing to do. We believe

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our clients, our members and their dependents should enjoy a quality of life similar to, or even better than, what's possible at present. This means building a sustainable and less-polluted environment within a fairer society where everyone can enjoy financial security in their later life.

Consistent with the objective of providing members with a pension, they should also be able to enjoy that pension. That's why we want to make sure that we're offering a sustainable pension to our members and to do that we commit, collaborate, engage and invest in order to reach our sustainability goals.

Approach to social factors

Our approach to social factors encompasses the following:

Integrating Social Issues: We integrate social issues in investment decision-making. This includes evaluating how companies manage relationships with employees, suppliers, customers, and communities. By prioritising investments in entities that demonstrate strong social responsibility, we aim to foster a more equitable and just society.

Social Foundations as a Guiding Framework: Our investment strategy is aligned with the concept of social foundations, which underscores the necessity of meeting basic human needs universally. Investments are classified ranging from those that have a direct positive social impact to those not aligned with international social norms. This classification informs our investment decisions and portfolio construction.

Stewardship: We actively engage with companies and governments on social issues, leveraging our influence to encourage improvements in practices such as labour rights, diversity, and community engagement. For example, in March 2022, as part of an investor coalition managed by ShareAction, we engaged with Sainsbury's PLC to encourage the company to commit to paying a Living Wage to all workers.

Impact Investments and Social Bonds: The ACTIAM Financial Inclusion Fund invests in emerging markets focusing on micro and SME companies financing, providing a range of social impacts, including employment in hard-to-reach communities. 74% of micro loans are to female entrepreneurs. We carefully select investments based on financial and social criteria, aligning with the United Nations SDGs. We also invest in social bonds, which are specifically aimed at funding projects with positive social outcomes.

Collaboration:
We participate in a number of industry groups and policy dialogues. Through these activities, we aim to raise awareness and drive broader adoption of sustainability issues across the investment industry.

Consultation questions

1. Do you agree the report will be helpful for pension scheme trustees to better understand social issues and the impetus to act on them?

2. For scheme trustees, does this report adequately address and provide a way forward for your scheme circumstances?

We agree that the report will be helpful for pension fund trustees to better understand social issues and provides a helpful way forward with many of its recommendations.

We would like to commend the report particularly in Section One on why material social factors are

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important from an investment perspective, and why taking these into consideration aligns with pension trustees' fiduciary duties.

In particular we note the linkage between systemic risks and the social factors for pension funds. We note that even pension funds that are not "universal owners" because of a more selective strategy will still be subject to such systemic risks.

We also welcome the distinction between Material and Salient risks and the emphasis that both are systemically important:

> To effectively analyse social factors, trustees should understand and consider both salience and materiality. Material risks are those that have the strong potential to effect tangible, negative impacts on an investee company. Salient risks take risks to people as the starting point.

And the emphasis on social impacts

> All investments have real world impacts that can be positive or negative on workers, communities, Indigenous people and other social impacts

We encourage even more clarity around a double materiality approach from the government and regulators. In particular explicit acknowledgement of the linkage between "salient risks" and "real world impact" and the systemic risks portfolios are exposed to should make clear that it is well within Trustees fiduciary duty to be adopting a double materiality perspective.

3. Do you see the proposed systematic materiality assessment framework for social factors as something you can practically implement in your portfolio?

No. While we think that the approach provides a sensible structure, the detailed analysis is not something most trustees would have the resources or bandwidth to implement practically on their own. Gathering data from such a wide range of sources (even if that data is freely available) and applying it systematically to entire portfolios is a substantial exercise that would need to rely on expertise from investment consultants or asset managers with substantial resources and potentially come at considerable cost. Different asset managers or consultants are likely to have their own specific approaches and data sources to applying this analysis

4. Do you believe the three-level framework for addressing social factors in pension portfolios provides useful developmental guidance?

Yes, we are particularly supportive of this approach to identifying baseline good and leading practice. This is a practical framework that trustees could easily apply.

5. Do you agree with the resulting recommendations for the pensions ecosystem?

Broadly yes. Please see responses below with respect to specific aspects of the recommendations

6. Do you find the information in appendices practical and informative?

Yes

7. Is there anything else that you would like to see covered?

We highlight several items below.

Recommendations from the Taskforce for Asset Managers

We have reviewed the recommendations put forward for both asset managers and investment consultants.

15. Asset managers to operate clearly articulated stewardship, engagement and voting policies covering social issues, resulting in considered, structured engagement activity. This includes appropriate escalation strategies, like co-filing relevant shareholder resolutions related to social factors.

We agree, and if useful to the Taskforce can provide examples of our approach for the Taskforce's review, including our participation in collaborative initiatives led by PRI and ShareAction.

16. Asset managers to be able to demonstrate that they have influenced social outcomes through transparent reporting on engagement, voting and investment outcomes, including any social investment metrics.

We agree, although we note that there is no industry definition of what constitutes 'social investment metrics', and as such, typically includes minimum social standards (we call this our 'social foundations', and, among other issues, includes compliance with the UN Global Compact) and narrative-based disclosures. We would welcome further industry consolidation on social metrics.

17. Asset managers to support clients with gap analysis on stewardship and voting policies and activity to help increase alignment and understanding between them.

We agree, and we encourage asset managers to disclose their approach to escalation, including collaboration, voting, use of shareholder resolutions and policy engagement.

18. Asset managers to actively participate in engagement collaborations, developing and inputting to public policy and best practice debates.

We agree, and we're a member of a range of collaborative stewardship initiatives, including ADVANCE, where we are a lead investor.

19. Asset managers to conduct due diligence on human rights and modern slavery in their investment portfolio and disclose the results.

We agree, and as well as due diligence, and disclosure, would also include remedy, as set out in the proposed Corporate Sustainability Due Diligence directive.

Recommendations from the Taskforce for Investment Consultants

25. Advice on social factors to be included in investment advice as standard, not as an additional expense.

We agree.

26. Investment consultants to support pension trustees to integrate social factors into asset manager selection and monitoring, both at strategy and at firm level, using tools like the Asset Owners Diversity Charter questionnaire.

We undertake a detailed assessment of our managers' approach to ESG issues on behalf of our clients, as well as their own diversity, using the Asset Owners Diversity Charter.

Our ESG assessment considers four pillars, including: polices (the manager's sustainability policies), integration (how the manager integrates their investment process), stewardship (how the asset manager implements engagement and stewardship including escalation, and reporting (how the manager reports on sustainability issues).

We believe our process is best-in-class, including attention to social issues.

In March 2023, we sent all our managers a letter, setting our latest thinking on sustainable investing, with a focus on biodiversity, diversity and inclusion, and collaborative engagement. In the interests of transparency, we have published our letter on our website[1].

27. Investment consultants to undertake continuous learning and upskilling to effectively deliver advice on social factors for their clients. It is particularly important that knowledge and skills are developed for use in the day-to-day work of all consultants to maximise adoption of responsible investment practices across the consulting firm's client base, rather than siloed in an 'ESG team' or similar.

We agree. While our sustainability team provides us with a centre-of-expertise, we embed sustainability expectations across our investment, manager research and client teams, with regular training.

Next steps

We welcome the work undertaken by the taskforce and welcome the consultation and guide.

We would encourage further attention to inequality and causes of inequality, including taxation, and the provision of education and access to healthcare.

We believe social issues to be financially material at both company level (unmanaged social risks, such as poor labour practices) and portfolio level (systemic issues, such as inequality). But we also realise that the link between social issues and financial performance is complex and will differ based on region, sector, salience and issue. We would encourage further attention to the use of stewardship and escalation as a driver for change.

We would encourage the UK DWP to consider alignment with other disclosure frameworks, notably Europe's CSRD and CSDDD, as well as its social taxonomy.

At Cardano, we are proponents of collaboration, and would welcome the chance to provide further feedback to the taskforce as part of its next steps.

Yours faithfully

Keith Guthrie
Head of Sustainability, Cardano UK

[1] https://www.cardano.co.uk/our-approach-to-sustainability/selecting-managers-based-on-sustainability/