Fidelity Workplace Consulting
International Benefits Newsletter

5 Trends in ESG Investing, and Its Role in Your Global Retirement Strategy

February 2021

Fidelity's international benefits newsletter focuses on key issues impacting employer-sponsored benefit plans. This edition highlights the global trends in Environmental, Social, and Governance ("ESG") investing, and the impact within global retirement plans.

In addition to our usual global legislative updates, we have included a new section: "COVID-19 Global Developments for Benefit Professionals" that will provide our clients brief highlights, developments, and/or links to resources related to COVID-19 that we believe would benefit our clients.

What's Inside

5 Trends in ESG investing, and Its Role In Your Global Retirement Strategy

The year 2020 proved to be a year of seismic challenges and change globally. In conjunction with an ongoing pandemic, 2020 saw a worldwide wave of renewed calls for measures to combat climate change, environmental protections, and social change, including gender and race equity. In this climate, customers and employees required and raised the bar for companies to review their practices and progress in these areas.

The developments in 2020 presented a microcosm of the kinds of environmental, social and governance (ESG) considerations that are not just in our news headlines, but increasingly taken into account in corporate governance, including asset management and investment.

This article looks at ESG investing, identifies the global trends we are seeing in the marketplace, and its relevance to multinational organizations through governance, strategy, and employee engagement perspectives.

What is ESG investing?

Environmental, Social, and Governance ("ESG") funds fall under the broader category of sustainable investing. ESG funds are generally evaluated on at least one of the following considerations:

Environmental

Environmental themes are broadly concerned with impacts of doing business called "externalities", that are not accounted for in the manufacturing process, like carbon emissions, waste, or other forms of pollution. Another key factor is contribution and exposure to climate change.

Social

Social issues can include the impact of demographics on a company, company culture, DE&I (Diversity, Equity & Inclusion) philosophy, labor rights, and relations with the local community. This could perhaps be the broadest category to define and potentially the hardest to measure, often gauged by relying on inputs rather than outcomes.

Governance

Governance encompasses an evaluation of how the company structures its board including diversity of members, disclosure, compensation, corporate oversight, and/or shareholder or societal friendly policies.

An ESG or sustainable investment strategy considers the risks, risk mitigation, inputs, management, outcomes and performance measures attributable to these factors.

ESG Investing continues to evolve and encompasses many different objectives and approaches, such as:

- Socially Responsible Investing (SRI) funds - traditionally by screening out certain social or environmental issues
- ESG Integration - enhancing holistic investment decision making by systematically incorporating financially material ESG considerations; this has gained most traction in the last few years and become the most common approach, and
- ESG thematic or impact investing (targets on more specific ESG issues).

As such, when talking about ESG, there is no single definition or standard implied. Each company, mutual fund, benchmark, individual investor, or retirement plan participant can differently emphasize any combination of the above factors into an ESG strategy. Investors should therefore review the fund characteristics and key documents to ensure the fund selected meet their specific values and objectives.

5 Global trends in the ESG investment landscape

ESG investing, evolved from its early form (SRI) in the early 1970s, has gained momentum in the last 5 years, and, by all accounts, is here to stay, as supported by trends like below:

1 Increased Volume in ESG Investments

The volume of money invested in ESG strategies by institutional and individual investors has increased over the past several years; new funds have been set up and existing funds repurposed to consider financially material ESG issues and/or to address societal challenges. The US SIF (The Forum for Sustainable and Responsible Investment) reports total US-domiciled assets under management using sustainable investing strategies grew from $12T to $17.1T between 2018 and 2020.[1] The 42% increase over the past two years resulted in approximately one-third of total professionally managed assets in the US falling under the ESG umbrella. The growth has been supported by year-after-year increases in the number of new mutual funds and ETFs (exchange-traded funds). Several other mature investment markets, including the UK, Canada, and Japan, also show increasing momentum. In Japan, in the occupational DC and individual market combined, the total assets in ESG funds more than doubled in 2020.[2]

2 Changing Demographics and Increasing Consumer Demand

Globally, there is increasing consumer demand for ESG products. In particular, young investors, who are expected to increase their wealth over the next 5—10 years, are driving the surge in interest and demand for ESG strategies and vehicles. More than three-quarters of high-net-worth millennial and Generation Z investors have their assets reviewed for ESG impact.[3]

3 Increased Supply

Driven by secular trends and materiality of ESG considerations, consumers are demanding more ESG solutions and vehicles; but, increasingly, asset managers are realizing the need and benefits of incorporating and addressing material ESG issues. For example, the 2020 Cerulli report showed that three-quarters of asset managers use ESG criteria for risk mitigation and over two-thirds incorporate ESG strategies to help align investment objectives with clients' values or missions. Similarly, Russell's 2020 annual ESG manager survey found that 78% of the 400 asset managers globally have explicitly incorporated ESG factors in their investment process.

[1] https://www.ussif.org/blog_home.asp?Display=155
[2] 2009sridata.pdf
[3] Swipe to invest: the story behind millennials and ESG investing

4 Increased Regulation

In some key markets, we are seeing trends with regulatory bodies moving to formalized requirements to consider ESG investments. Examples include:

- Under Canada's 2016 Pension Benefits Act (PBA), a plan's statement of investment policies and procedures (SIPP) is required to include information as to whether and how ESG factors are incorporated into the plan's investment policies and procedures.[4]
- UK regulations require that trust-based schemes consider ESG as part of their investment offering. In the UK market, ESG investing has penetrated significantly into the DC landscape. Like many markets, most scheme assets remain invested in default strategies, and as ESG investing grows, more and more schemes include default strategies with at least some focus on sustainability.
- As of March 10th, new disclosures that apply to all Pan-European pension schemes will require categorization of underlying funds on ESG metrics and scheme-level disclosures on overall scheme-level ESG impact.
- As of the writing of this article, there is pending legislation in the US House that would amend the Investment Advisers Act and ERISA to require investment fiduciaries to take into account ESG factors when making investment decisions and require advisers to file an ESG investment policy with the SEC or DOL.[5, 6]

5 Greater Standardization of ESG Reporting

Across the globe, we are expecting to see a move towards greater standardization of ESG factors and measurement, including consolidation or co-operation amongst the leading ESG framework and standard-setting organizations.[7] Examples include:

- Companies increasingly reporting on ESG metrics such as their carbon footprint or the share of women on boards. Today 58% of companies in America's S&P 500 index publish sustainability reports, up from 37% in 2011.[8]
- During 2020, Canada's eight largest pension funds issued a joint call to corporations to improve their ESG disclosures by reporting data in a standardized fashion.

[4] Environmental, Social and Governance (ESG) Factors
[5] Draft Sustainable Investment Policies Act of 2020 (HR 8960)
[6] Draft Retirees Sustainable Investment Policies Act of 2020 (HR 8959)
[7] https://www.sasb.org/wp-content/uploads/2020/12/IIRC-SASB-Press-Release-Web-Final.pdf
[8] https://www.economist.com/business/2020/10/03/the-proliferation-of-sustainability-accounting-standards-comes-with-costs

3 Critical ESG considerations for retirement plan governance, strategy, and employee engagement

1. Fiduciary Responsibility

Fulfilling fiduciary responsibility is top of mind for plan sponsors. Stewardship, performance, risk to members, fees, and diligent selection, while remaining locally compliant, are always to be carefully considered. Evaluating the investment performance and potential risks is important for both DB and DC investment strategies. When looking into any investments, fiduciaries should always work with their local investment professionals to understand the potential risks. Many ESG issues have long-term material financial implications, so incorporating those financially material ESG considerations in the selection process is prudent.

Fiduciary responsibility encompasses more than just investment performance. With regulatory developments across the globe, it is important that governance committees are in place to monitor for any formalized requirements, such as the aforementioned trust-scheme ESG requirements in the UK, and look to take advantage of emerging best practices while also complying with local regulations.

2. Employee Financial & Overall Well-being

In the spirit of retirement readiness, ESG strategies can provide a diversification alternative to traditional investment strategies, with the possibility of comparable returns. To exercise community responsibility and their value priorities, employees, as consumers may vote with their wallets—buying products or services from companies whose values align with their own, as investors via retail investment accounts, and engaging in or calling for ESG investment options in their retirement plans. We are seeing this becoming more common, especially amongst Millennial and younger generations; employers enabling this in retirement plans may therefore be well received.

3. Corporate Goals and Culture

As many companies have stated ESG values and goals, including ESG options in their retirement plan assets strategies is one way to consistently express this value, and an avenue for employees to also participate in upholding these values. This can be within the plan's core fund line up, or available from a broader range of funds or brokerage window.

Next Steps?

If you're considering including ESG investing in your global retirement strategy or implementing any other strategic change, the key to success is having the right retirement plan governance structure and regular reviews in place. This is critical to ensure compliance, alignment with best practices and positive, proactive employee engagement, whether or not there is reporting on global retirement plans to a benefits or investment committee. As such, possible next steps for your organization may be:

- Set up a formal framework to monitor trends and product developments to stay abreast of best practices across the globe.
- Evaluate the credentials of the funds available to your employees, where applicable.
- Engage with the global workforce to ensure the range of investment options meets the needs and values of your workforce while remaining locally compliant.

This section of our newsletter includes relevant key statistics, brief high-lights, and/or ongoing developments impacting the employee benefit universe. Our intention is to provide a general summary of information that we believe will provide additional insight for benefit professionals.

United Kingdom Pension Impact:

- The latest figures from the Office for National Statistics (ONS) show that contributions to occupational pension plans in the UK fell during the first half of 2020, during which a nationwide lockdown was in force.
- There was a £200M reduction in both employee and employer contributions between Q1 2020 and Q2 2020, representing reductions of 11.2% and 5%[9], respectively.
- The same dataset showed record numbers in occupational pension plan membership in 2019.
- In a study by Fidelity International, 38% of surveyed workers said they will have to push back their retirement by around two-and-a-half years.[10]

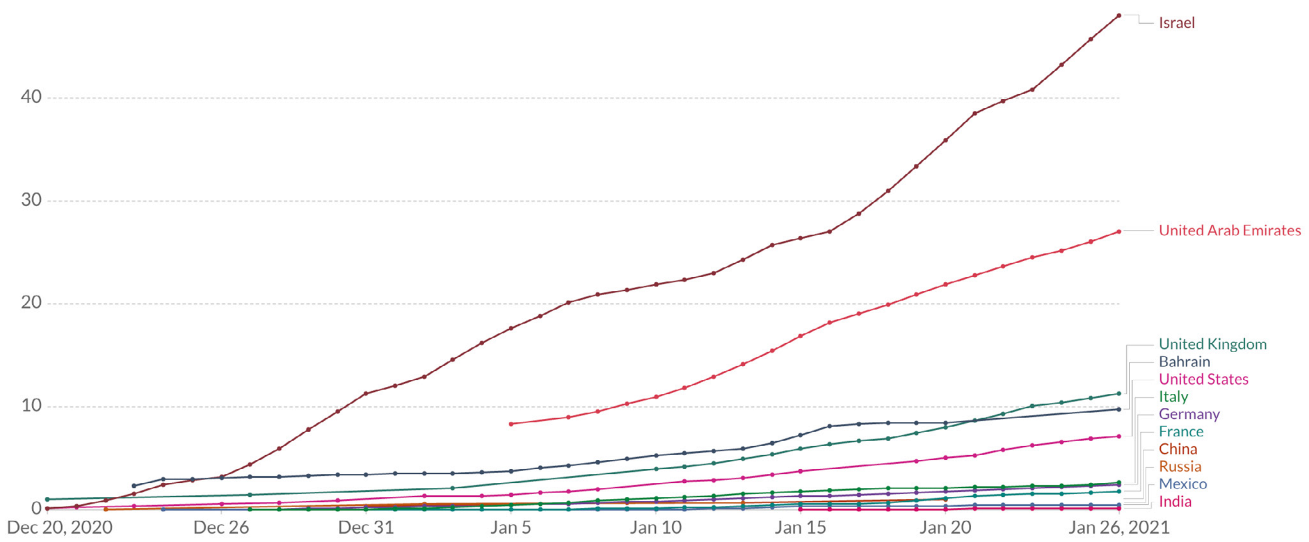
Global Pension Withdrawals:

- Similar to the US CARES Act, members in Australia were able to withdraw up to AUD 10,000 from their superannuation accounts for both the 19/20 and 20/21 tax years. According to the Australian Taxation Office (ATO), nearly 3M members withdrew a combined total of about AUD 36B in funds.[11]
- In Chile, lawmakers have approved a second withdrawal of up to 10% of attributed funds within the Chilean Retirement System (AFP).[12]

The issues presented by COVID-19 on financial wellness and the opportunity for early retirement withdrawals will increase the need for, and value of employers engaging with and educating with their employees on the impact of withdrawals from retirement savings and supporting their broader well-being.

[9] Funded occupational pension schemes in the UK - Office for National Statistics
[10] Furlough forces millions to delay retirement plans - Employee Benefits
[11] COVID-19 Early Release Scheme - Issue 35 | APRA
[12] https://www.gob.cl/noticias/congreso-aprueba-proyecto-del-gobierno-que-permite-el-retiro-unico-y-extraordinario-del-10-de-fondos-de-pensiones/

Cumulative COVID-19 vaccination doses administered per 100 people[13]



List of Approved Vaccines by Select Countries[13]

Location	Source	Latest Observation Date	Vaccines
Brazil	Regional governments via Coronavirus Brasil	January 26, 2021	Sinovac
Canada	COVID-19 Canada Open Data Working Group	January 26, 2021	Moderna, Pfizer/BioNTech
China	National Health Commission	January 20, 2021	CNBG, Sinovac
Denmark	Statens Serum Institut	January 25, 2021	Moderna, Pfizer/BioNTech
France	Ministry of Health	January 26, 2021	Pfizer/BioNTech
Germany	Robert Koch Institut	January 25, 2021	Moderna, Pfizer/BioNTech
India	Ministry of Health	January 26, 2021	Covaxin, Covishield
Netherlands	National Institute for Public Health and the Environment	January 26, 2021	Moderna, Pfizer/BioNTech
Poland	Ministry of Health	January 25, 2021	Pfizer/BioNTech
Singapore	Ministry of Health	January 22, 2021	Pfizer/BioNTech
United Arab Emirates	National Emergency Crisis and Disaster Management Authority	January 26, 2021	Pfizer/BioNTech, Sinopharm
United Kingdom	Government of the United Kingdom	January 25, 2021	Oxford/AstraZeneca, Pfizer/BioNTech
United States	Centers for Disease Control and Prevention	January 26, 2021	Moderna, Pfizer/BioNTech

[13] Coronavirus (COVID-19) Vaccinations - Statistics and Research - Our World in Data

Netherlands

Further developments in pension legislation reform in the Netherlands have been officially published for consultation, with a closing date of February 12, 2021. Parliament will begin debate, aiming to finalize the legislation to become effective January 1, 2022.

Key proposals for the future and transition:

- Pension accruals would no longer be age-dependent, and defined contribution ("DC") contributions would be on a flat-rate basis (although existing DC plans would be permitted to retain their existing design for current employees).
- Tax-favored defined benefit ("DB") accruals would cease, all future accruals would be on a DC basis (individual account or collective), and new DB plans will not be allowed.
- Accrued DB benefits would be transferred to DC contracts. Certain exceptions may be available, or certain member groups would receive compensation, if the transfer would be detrimental.
- Individuals would enjoy annual tax-advantaged contributions, capped at 30% of pensionable earnings.
- A new type of DC contract, required by 2026, would be available: a collective investment pool, with notional accounts, and fixed contribution rates. Benefits would not be guaranteed, and subject to investment and demographic experience.
- Employers must have a transition plan in place by 2024.
- Other pension reforms include early retirement provisions and taking a partial lump sum benefit at normal retirement.

Recommended Action

Legislation and associated regulations are expected to be finalized by the end of 2021.

Organizations can prepare for change in advance by reviewing transitional arrangements, including determining compensation payments for those adversely affected by changes in corporate plans.

Norway

DC occupational pension plan legislation approved in 2020 went into effect on January 1, 2021.

- DC pension accounts will now be automatically consolidated to the current employer plan unless members opt out.
- Employees now have the right to choose their own pension providers (other than the one chosen by their employer) and be reimbursed by their employer to cover administration fees.
- All employer contributions will be immediately vested.

Recommended Action

Organizations should confirm their local policies are compliant with the new legislation and ensure communications are issued informing their employees of the new rules and available options.

Gibraltar & Guernsey

Proposed legislation has been approved by the local governments of Gibraltar and Guernsey, requiring automatic enrollment of members into occupational retirement plans.

Each jurisdiction will have phased rollouts based on numbers of employees, with minimum employer and employee contributions each of 2% in Gibraltar and 1% in Guernsey, with employee opt-out provisions.

Recommended Action

The legislation has been approved but is not yet in effect; however, employers should work with their local teams to understand potential additional costs and administration involved.

About Fidelity Workplace Consulting Global

Fidelity's Workplace Consulting Global team is independent and focuses on supporting clients in meeting their business objectives through the provision of impartial, but tailored, advice reflecting market trends and best practice.

Global Benefits Governance	International Defined Contribution Governance	International Retirement & Financial Wellness	International Health Care & Wellbeing	International Mobility	International Miscellaneous
Design / implementation of a tailored global benefits governance structure International audit and compliance review of overseas plans Benchmarking and development of global policies and standards Independent ongoing support to global benefits committees Advice on global financing opportunities, including risk financing Training on best practices in international benefits management	Developing fiduciary and compliance oversight and policy for international DC plans Cross border implementation of best practice and group policy Development of preferred provider arrangements to drive operational and financial efficiency Support on enhancing employee experience through developing & implementing communication best practice Ongoing support to global benefits committees	***Retirement*** Benchmarking/ setting of globally consistent financing assumptions Advice on opportunities for de-risking in respect of retirement plans Consolidation of financial reporting & budgeting ***Financial Wellness*** Benchmarking/ implementation of global best practice Design/ implementation of programs to support financial well-being Vendor selection and oversight for globally consistent local implementation	***Health care*** Vendor selection for international health care policies Advice on strategies to improve employee behaviors and reduce health care costs Development of health care policies to improve financial/ operational efficiency ***Wellbeing*** Global wellbeing education strategies & programs Benchmarking and deployment of global wellbeing programs Vendor selection for International providers	***International Mobility Policy*** Overall assessment / design of mobility framework and policies Vendor assessment and selection Alignment with talent strategy and assignment goals ***International Benefits Programs*** Support with design and implementation Support with stakeholder engagement ***Ongoing Support*** Day-to-day plan management Support with budgeting Support with complex cases Vendor management	Development of global insurance programs to reduce costs / commissions and improve operational efficiency Advice on country benefits practice (both mandatory and typical practice) Support for benefit aspects on mergers, acquisitions and divestitures / splits Independent second opinions on local advice Strategy to respond to legislative changes Facilitation of global stock plan advice On-site support and benefits leadership

For more information

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