Please note: *The CWC has provided template answers - highlighted in yellow - to selected relevant questions from the European Commission Consultation Document Institutional Investors and Asset Managers' Duties Regarding Sustainability. Each organisation and/or association has to utilise the [online survey form](#) in order to submit a response to the consultation. Deadline: 22 January 2018*

2.1 Questions addressed to all respondents:

I. General overview

1) Do you think relevant investment entities should consider sustainability factors in their investment decision-making?

Yes
No
No opinion
Please explain the reasons:

Sustainability factors should be incorporated into investment decision-making because it will encourage the allocation of capital allocation towards investments and projects that reinforce the sustainability objectives pursued by the EU and members states under the Paris agreement on climate change and the UN 2030 Agenda for Sustainable Development. There is evidence that companies that demonstrate high standards in terms of environmental, social and governance practice deliver higher long-term returns. It is also important for sustainability factors to inform our engagement and voting strategies to ensure that the influence that we can have as an investor on corporate practice is used to raise standards of environmental, social and governance (ESG) practice.

2) What are the sustainability factors that the relevant investment entities should consider? (Please make a choice and indicate the importance of the different factors (1 is not important and 5 is very important). (Please refer to the definition in the Glossary).

	Yes	No	No opinion	Importance
Climate factors (these include climate mitigation factors as well as climate resilience factors	X			5
Other environmental factors	X			3
Social factors	X			5
Governance factors	X			4
Others				

Please specify, which specific factors within the above categories you are considering, if any:

As a pension fund, we invest the retirement savings of workers. The pension fund was created as a result of a collective bargaining process between employer and employee representatives. This is one of the ILO Fundamental Principles and Rights at Work. Thus, as a pension fund investing the retirement savings of workers, we strive to ensure that our investments promote strong decent work practices. Decent work practices include upholding workers' human rights and labour standards – as per the key performance indicators suggested by the Global Union Committee on Workers' Capital Guidelines for the Evaluation of Workers' Human Rights and Labour Standards. The CWC Guidelines include KPIs on 1) workforce composition, 2) Social Dialogue 3) Workforce participation 4) Supply chain 5) Occupational Health and Safety 6) Pay Levels 7) Grievance Mechanisms 8) Training and Development 9) Workplace diversity and 10) Pension fund contributions for employees

3) Based on which criteria should the relevant investment entities consider sustainability factors in their investment decision making?

Please explain:

For the trustee boards of pension plans, the duties of care, loyalty and prudence in the investment of beneficiaries' retirement savings are the backbone of decision making. Thus, legal clarifications at the national and international levels around the alignment between fiduciary duty and the incorporation of ESG issues has been an important enabling factor. Indeed, in 2016, a report by the UNPRI said that "Failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty".

The continued development in the body of evidence linking sustainability issues with materiality is also facilitating the consideration of sustainability factors into the investments of pension funds. As noted by the OECD in the publication Responsible Business Conduct for Institutional Investors (2017), "The materiality of responsible business conduct issues, with respect to investment, evolve over time, driven by changes in legislation and policy, changes in risk and understanding of risk, changes in the social, environmental and economic impacts of specific businesses or industries and changes in societal (and beneficiary) expectations and norms." The recognition of this evolving link between sustainability and materiality has been effectively acknowledged by the European Union, through the EC's Directive 2014/95/EU on non-financial reporting. Ensuring that large issuers are required to link and disclose material sustainability issues will help pension funds consider sustainability in investment decision making.

International norms, frameworks and conventions are one further criteria that help pension plans incorporate relevant sustainability factors into investment decision making. Two key impacts of companies as it relates to sustainability are their environmental and their employment footprints. The OECD Guidelines for Multinational Enterprises – which apply to institutional investors - the UN Guiding Principles for Business and Human Rights along with the ILO Fundamental Rights and Principles at Work help incorporate relevant "social" and decent work issues into investment decision making. International agreements, such as the Paris agreement on climate change has provided certainty around the global commitment to make a transition to a low carbon economy. This has turned climate risk into a priority as investors seek to diminish risk associated with high carbon emitters and identify opportunities relating to decarbonised economic systems.

The current challenge is to translate those high level "criteria" into practical ESG indicators that elicit disclosure by companies which can be utilised by trustee boards of pension funds in assessing investment risk and in approving investment products.

4) Which of the following entities should consider sustainability factors in their investment decision-making? (Possibility to select several answers). If so, please indicate the level of impact that this would have (1 is the smallest impact and 5 is the highest impact).

	Yes	No	No opinion	Level of impact (1-5)
Occupational pension providers				*4*
Personal pension providers				*3*
Life insurance providers				*4*
Non-life insurance providers				
Collective investment funds				*4*
Individual portfolio managers				

Please explain:

The chosen entities generally manage the collective savings of workforces. It is important to distinguish between the asset owning entity, often a pension plan which is composed of a trustee board, and the entity that is delegated with the management of assets. This typology is not clearly reflected in the above categories.

It is feasible to expect that the entities that govern collective retirement savings pools, i.e., trustee boards, have the capacity to take into account sustainability in investment decision making because they have the capacity to resort to advice and support from service providers, e.g.: a pension board can ask for consultants, sustainability rating agencies and asset managers to provide investment strategies that integrate ESG issues.

The average retail investors cannot resort to such services as easily. Personal pension providers and other retail-oriented service providers should thus have the responsibility to integrate sustainability issues in investments.

II. Problem

5) To your knowledge, what share of investment entities active in the EEA (European Economic Area) currently consider sustainability factors in their investment decisions?

	All or almost all	More than two thirds	More than half	More than a third	Non or almost none	No opinion
Occupational pension providers						

Personal pension providers						
Life insurance providers						
Non-life insurance providers						
Collective investment funds						
Individual portfolio managers						

6) To your knowledge, which is the level of integration of sustainability factors by the different investment entities (active in the EEA)?

	High integration	Medium integration	Low integration	No integration	No opinion
Occupational pension providers					
Personal pension providers					
Life insurance providers					
Non-life insurance providers					
Collective investment funds					
Individual portfolio managers					

7) Which constraints prevent relevant investment entities from integrating sustainability factors or facilitate their disregard. Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).

	1	**2**	**3**	**4**	**5**	**No opinion**
Lack of expertise and experience						
Lack of data/research						
Lack of impact on asset performance						

Inadequate methodologies for the calculation of sustainability risks						
Inadequate sustainable impact metrics						
Excessive costs for the scale of your company						
No interest from financial intermediaries						
No interest from beneficiaries/clients						
European regulatory barriers						
National regulatory barriers						
Lack of fiscal incentives						
Lack of eligible entities						
Others						

Please provide more details on what the constraints/reasons are and how they limit the integration of sustainability factors:

In their dealings with asset managers, pension boards are often told that the asset manager is integrating ESG issues in decision making. However, the integration of ESG issues presupposes that there is an expertise within the workforce of given asset managers. Financial analysts and portfolio managers trained in finance and business schools have often not been exposed to ESG issues. This means that unless asset managers or service providers have point persons on ESG issues, they are unlikely to effectively integrate ESG considerations if this is the sole remit of financial analysts. Thus, it is important for any additional duty to incorporate sustainability issues extend to asset managers.

In recent years, we have seen a proliferation of sustainability data-related initiatives and frameworks. Firstly, investors can rely on data that is disclosed directly by companies. One issue with sustainability reports has historically been the lack of standardisation for purposes of comparability; two companies in the same industry might issue a sustainability report that is guided by the GRI framework but they still have the ability to include or exclude elements of information. Secondly, investors can also rely on company-reported data that is reported through external frameworks (e.g.: CDP, Shareaction's Workforce Disclosure Initiative). Thirdly, investors can rely on benchmarks which rate, rank and compare companies based on company and public disclosures (e.g.: Corporate Human Rights Benchmark, Know the Chain). Finally, investors can also monitor controversies affecting companies through platforms such as the Business and Human Rights Resource Centre, where companies can comment on specific allegations.

Despite the development of all these initiatives, one crucial source of investment decision making remains the regulatory filings of companies, including annual reports. Environmental data – often related to climate risk – is now making its way into regulatory filings as per the recommendations of the TCFD. This will facilitate comparison between peers on the topic of climate risk. On the other hand, the quality of reporting in companies' annual reports on employment issues remains poor, which hampers the ability of investors to take this important element of sustainability into account in decision-making. The EC's Directive 2014/95/EU on non-financial reporting in annual reports should help provide added comparability, timeliness and understandability around sustainability disclosures and thereby facilitate that integration of those factors by asset managers.

Thus, a strong integration of sustainability issues within investment decision making presupposes there are agreed indicators against which companies are expected to disclose that can inform investment decision making.

In recent years, the improved offering of investment products that incorporate sustainability issues has helped pension plans consider products that incorporate sustainability alongside traditional products such as market capitalisation weighted index-replicating investment products. Thus, the cost to integrating sustainability within investments is not prohibitive from the perspective of pension plans.

8) How challenging is it for relevant investment entities to integrate the different sustainability factors? (1 is not challenging and 5 is very challenging) - Please refer to the definition in the Glossary).

	1	2	3	4	5	No opinion
Climate factors						
Other environment factors						
Social factors						
Governance factors						
Others						

In recent years, a number of investment products have begun incorporating climate risk. For instance, pension funds can perform carbon footprints of their portfolios and allocate funds into low-carbon public equity indices or renewable energy projects.

The offer of investment solutions that integrate social factors remain sparser. For instance, pension funds have limited options when it comes to passive investments that incorporate social factors on a standalone basis – most "sustainable" investment options will incorporate all three issues: E, S and G concerns. This is different from climate risk where, for example, there are indices that overweigh low-carbon emitters. Thus, to appraise the performance of asset managers on social issues, pension funds need to ask about the proxy voting records and specific engagement activities of asset managers. This leads to uneven and imperfect assessments around the integration of social issues for the relevant investment entities.

III. Policy options

9) In which area should relevant investment entities consider sustainability factors within their investment decision-making? Please make a choice and indicate the relevance of the different areas (1 is minor relevance and 5 is very high relevance).

	Yes	No	No opinion	1	2	3	4	5
Governance								
Investment Strategy								
Asset allocation								
Risk management								
Others								

10) Within the area of governance, which arrangements would be most appropriate to enable the integration of sustainability factors? (1 is the not appropriate and 5 is the very appropriate).

	1	2	3	4	5	No Opinion
Specific sustainable investment committee						
Specific sustainability member of the board						
Sustainability performance as part of remuneration criteria						
Integration of sustainability factors in the investment decision process						
Integration of sustainability checks in the control process						
Periodic reporting to senior management/board						
Others –						

11) Should insurance and pension providers consult their beneficiaries on an annual/periodic basis on their preference as regards sustainability factors?

- Yes
- No
- No opinion

Other: Integration must commence with board policy

Please explain: Consultation with beneficiaries is an important and complex task. The financial literacy level of beneficiaries varies and the level of awareness around the link between fiduciary duty and ESG issues is likely low. The trustee boards of occupational pension plans should consult with beneficiaries on a periodic basis to demonstrate the link between the investments of the fund - and by extension, its beneficiaries – financial markets and the ramifications of those investments on environmental and social sustainability. These consultations allow trustee board to assess changing values and priorities of beneficiaries.

Guidance and tools could be produced by regulatory authorities to facilitate consultation between trustee boards and beneficiaries around the topic of sustainability in investments.

12) Within the portfolio's asset allocation, should relevant investment entities consider sustainability factors even if the consideration of these factors would lead to lower returns to beneficiaries/clients in the medium/short term?

- Yes
- No
- No opinion

Please explain: As investors with a long-time horizon, it is acceptable for the returns generated from individual securities to be lower than they would be otherwise if the result is a long term gain. For instance, retail companies that increase the salaries of their workforces may see net income margins decrease during a quarter but these losses could be outweighed by subsequent productivity increases and improved customer service which results in improved revenue generation.

13) Within the area of risk management, does the current set of corporate disclosures provide the relevant investment entities with adequate information to perform sustainability risk assessments in respect of investee companies?

- Yes
- No
- No opinion

Please explain: The current reporting frameworks that relate to the workforce and the application of labour standards are insufficient. We do not regard current key performance indicators in use as adequate - to enable investors to assess if companies are complying with the ILO Fundamental Rights and Principles at Work, nor are there any standard materiality measures that can be consistently applied across companies in an asset class. For instance, in certain countries, employment-intensive industries, such as retail, rely heavily on subcontracted workforces. These workers may suffer from precarious working conditions which could damage the reputation and sales of a company when they come to light, yet companies generally only include information on their directly employed workforce in their annual reports. Uneven reporting on workforce-related matters prevents investors from doing effective due diligence on such issues. This will be partly improved in the EU when companies begin to report in line with Directive 2014/95/EU.

Importantly, the risk management of sustainability issues extends beyond corporate disclosures. For an instance, when a allegations of worker mistreatment or precarious work practices come in the public domain, investors are expected to use their leverage to avoid causing or contributing to adverse human rights impacts under the OECD Guidelines for MNEs. Generally, corporate disclosures will not be effective at informing investors about those types of sustainability issues.

14) Do the overall information or risk metrics available enable the relevant investment entities to adequately perform sustainability risk assessments?

- Yes
- No
- No opinion

Please explain where the possible gaps are, if any: One of the key gaps around social risks is that companies do not disclose sufficient metrics around the composition of their workforce and their decent work practices. For instance, in order to evaluate whether there are risks of precarious work within a company's workforce, it would be useful to be able to compare companies on the following metric from the CWC Guidelines for the Evaluation of Workers' Human Rights and labour standards: How many full-time and part-time positions (number) are held by permanent, contract, or temporary workers, disaggregated by region and gender?

15) Do you think that uniform criteria to perform sustainability risk assessments should be developed at EU level?

- Yes
- No
- No opinion

Please explain: Ideally, this process would also include the International Accounting Standards Board along with the US-based Financial Accounting Standards Board.

I think we should say that takes place at a global level, though we are happy to see the EU provide leadership. I think we should refer to the ITUC/CWC process in place with the PRI as the key vehicle for development of uniform criteria for human rights and labour standards, though we could refer to OECD and ILO as partners.

16) In case material exposure to sustainability factors is identified, what are the most appropriate actions to be performed by the relevant investment entity?

Utilising active ownership tools such as shareholder dialogues and/or proxy voting. Divestment is also an option depending on the severity of the issues.

17) Should relevant investment entities disclose how they consider sustainability factors within their investment decision-making?

- Yes
- No
- No opinion

Please explain: It would be useful for the national pension supervisory authorities to consult and provide guidance on reporting expectations as it relates to sustainability issues.

	Yes	No	No opinion	1	2	3	4	5
Governance	X					X		
Investment strategy	X					X		
Asset allocation	X						X	
Risk management	X							X
Other								

	Yes	No	No opinion
Pre-contractual disclosure	X		
Semi-annual/annual reports	X		
Periodic reports	X		
Website	X		
Newsletters	X		
Factsheets	X		
Marketing materials	X		

others			

IV. Impacts for stakeholders

18) Which stakeholder groups would incur costs and which would benefit from integrating sustainability factors within investment decision-making by relevant investment entities?

	Benefits	Costs
Occupational pension providers	X	
Personal pension providers		
Life insurance providers		
Non-life insurance providers		
Collective investment funds		
Individual portfolio managers		
General public	X	
Retail investors		
Financial advisors		
Service providers	X	
Other stakeholders		

Please explain: The beneficiaries of the occupational pension providers would benefit by knowing that their pension retirement savings are invested in a way that further aligns with the sustainable development agenda. The general public – as workers, community members and citizens – would benefit from improved consideration of social (e.g.: willingness to invest in the workforce for the long-term) and environmental issues (e.g.: willingness to invest into low-carbon technologies) by corporate issuers as a result of the integration of sustainability into investment decision making. The signal sent via the investment chain would align more closely with the sustainable development policy agenda.

2.2 Questions addressed to end-investors

1) Do you take into account sustainability factors when you choose your investment products or investment entity?

- Yes

- No

If you don't consider sustainability factors, please explain why and what would change your mind?

Please explain the reasons:

As a pension fund, we are an asset owner that invests the retirement savings of workers. We are a long-term investor with an investment horizon that stretches well into the future, when our members retire. We believe that our fiduciary duty to our beneficiaries includes the consideration of ESG factors. Indeed, in 2016, a report by the UNPRI said that “Failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty”.

a) If you consider sustainability factors, indicate the importance of the following sustainability factors for your investment decision (1 is the smallest impact and 5 is the highest impact).

	1	2	3	4	5	No opinion
Climate factors				X		
Other environmental factors			X			
Social factors				X		
Governance factors				X		
others						

b) If you consider sustainability factors, is there sufficient information on the different sustainability factors provided by asset managers and institutional investors to help you take informed investment decisions?

	Yes	No	No opinion	1	2	3	4	5
Climate factors		X				X		
Other environmental factors		X			X			
Social factors		X		X				
Governance factors	X						X	

others								

If you indicate that there is insufficient information, what kind of information would allow you to consider sustainability factors when you choose your investment products or investment entity? Please explain and indicate how you would like to receive it.

Importantly, some information on the integration of sustainability factors should be tied to the specific product that is being offered by an asset manager to the asset owner. The integration of sustainability factors varies across asset classes and types of products within an asset class (e.g.: active equity management vs. passive). When an asset manager presents an actively-managed public equity product, it should demonstrate how E,S and G issues are integrated in its fundamental model to carry out security selection. Furthermore, it should provide specific examples, on E, S and G issues where it has acted – either by reducing exposure to an asset, entering into a dialogue with the company and using proxy voting - because of a sustainability issues. Finally, it would be important to further tie the matter of turnover – in the portfolios of asset managers – with the concept of long-term investing. While pension funds are long term investors, in practice, some of their asset managers buy and sell securities frequently, thereby undermining the concept of long-term investing which is supposed to provide a stable base of capital to companies wishing to make long-term decisions that align with sustainability.

In the field of passively managed investment products, many products replicate indices. The majority of indices are still weighted according to market capitalisation. However, market capitalisation does not effectively capture sustainability performance. Thus, it would be valuable for asset owners to be presented with a range of passively managed investment products against a scale of sustainability integration. For instance, if an asset owner issues a request for proposal for a European equity mandate, an asset manager could be required to present a range of products that fit the criteria of European equity, including market capitalisation-weighted and ESG weighted products. On this note, a clear policy signal from the European Union would help tip the balance in favour of selecting more sustainable investment products – which may otherwise not be favoured in case there are marginal price differentials in the product offering.