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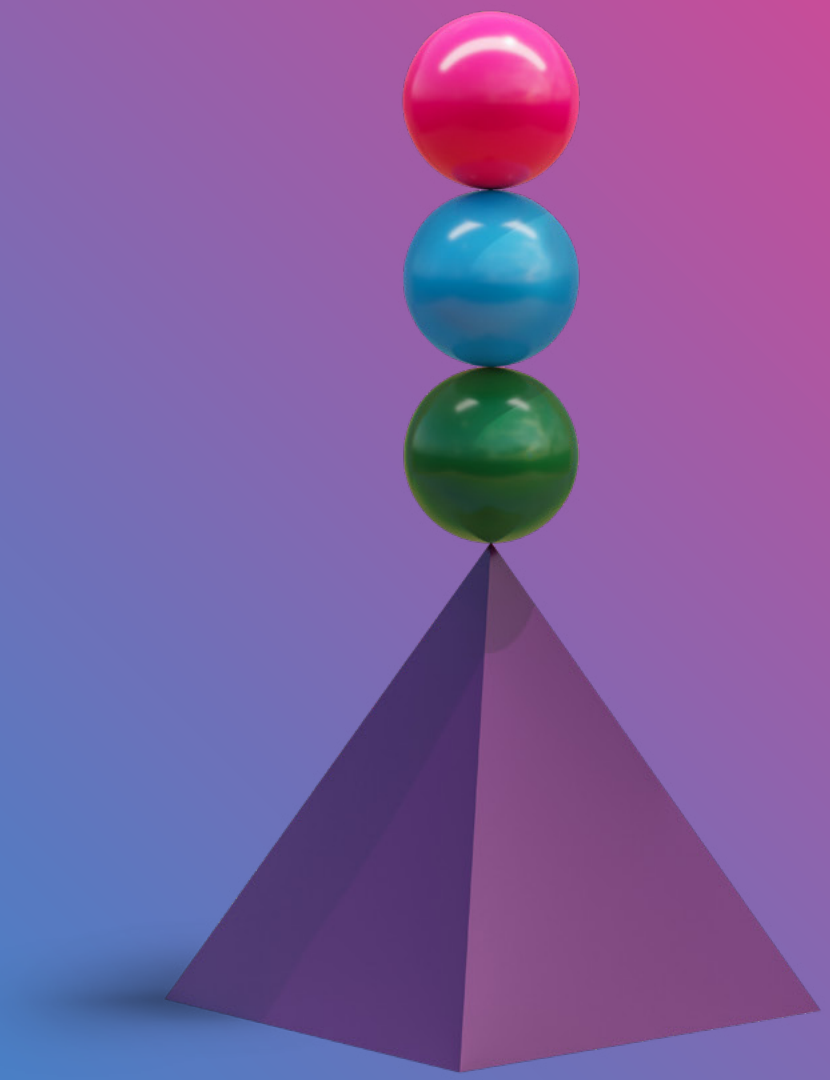
Investing in the future

UK Investment Insights: Sustainable Investment Survey 2022



Contents

Key findings

Integration of ESG (page 5)

Environmental, social and governance (ESG) is well integrated into the vast majority of UK investors' arrangements: 73% are incorporating ESG into their investment strategy decisions and 83% into their selection of investment managers. (See Figure 3.)

Dedicating resources to sustainable investment (page 6)

Ten percent of advisory schemes have dedicated resources focused on sustainable investment. Of those that don't, 16% say they are likely to dedicate resources to sustainable investment within the next year. (Our delegated solutions team has dedicated sustainable investment resources, so discretionary clients benefit from this.)

Considering climate-change risks (page 8)

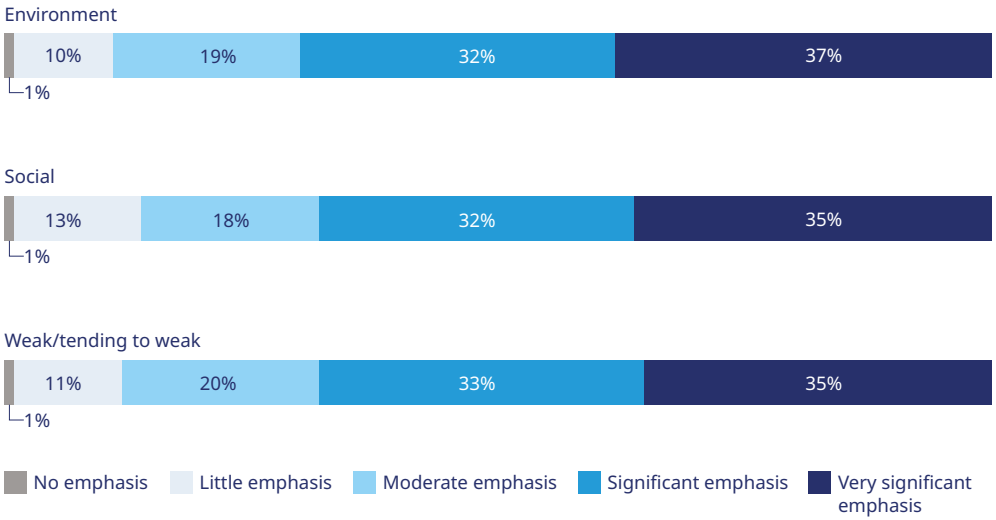
Half of the respondents that are advisory schemes have considered the investment risks posed by climate change (our delegated solutions team has done so for all clients). Over time, this will increase as the Task Force on Climate-Related Financial Disclosures (TCFD) regulations have an increasing impact across the board.

Transitioning to net zero (page 8)

Around one-eighth of advisory clients have set net-zero-carbon targets, and almost one-fifth are using a low-carbon or climate-related index. The number of schemes doing this will increase over time: 17% of those advisory schemes that aren't currently using a low-carbon or climate-related index plan to do so over the next year.

ESG risks

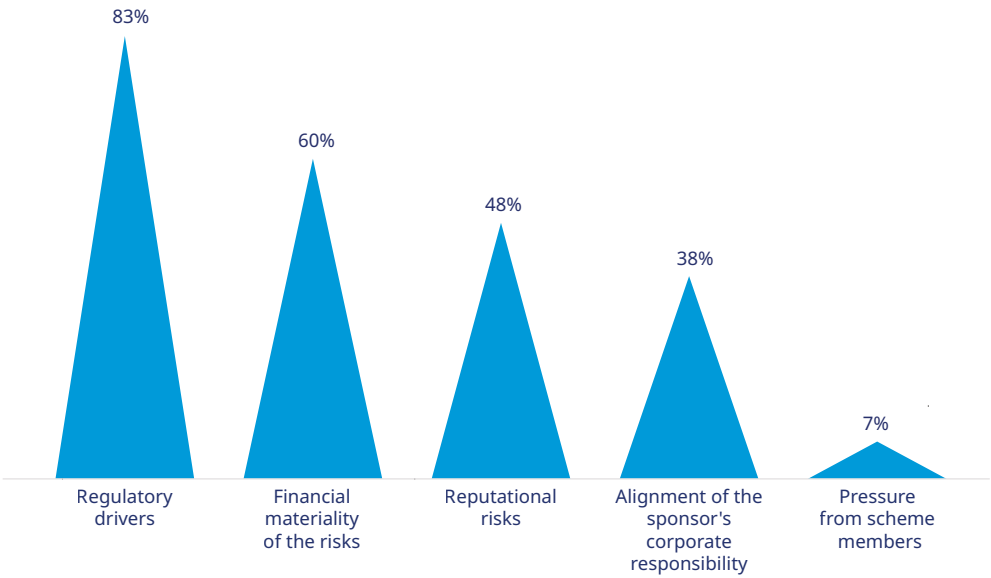
Figure 1. Emphasis of E, S and G



Note: Figures may not add up to 100% due to rounding.

We asked participants to rank the E, S and G elements in order of emphasis. Schemes are treating each of the E, S and G elements pretty much equally, with a minimum of 67% giving significant or very significant emphasis to every element.

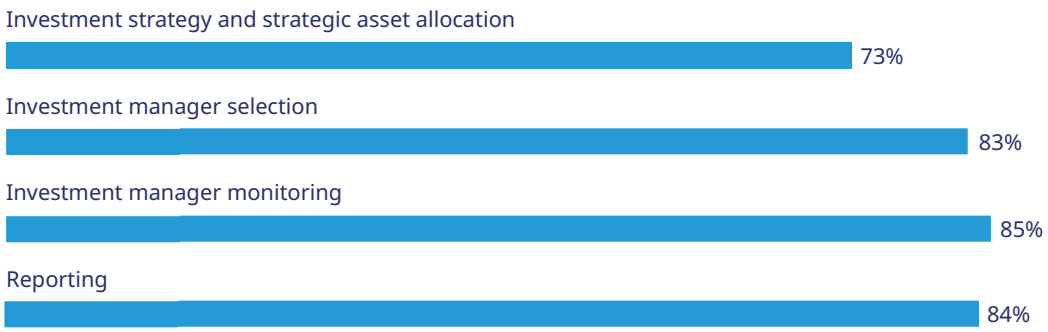
Figure 2. In your view, what/who is the key driver behind the consideration of ESG risks? (advisory clients)



Regulation is driving almost all advisory schemes to consider ESG risks, although other factors are also exerting a significant influence on schemes.

ESG integration and plans

Figure 3. For your scheme, are ESG issues integrated into ... ?

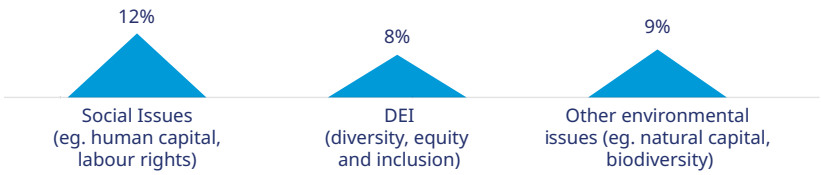


The majority of schemes are integrating ESG risks into the key pillars of their arrangements. Schemes are focusing most of their ESG effort when selecting managers and also when undertaking reporting.

Early areas of focus for sustainable investors have been climate change and engagement, but investors are starting to consider other important areas: social issues, other environmental issues, and diversity, equity and inclusion (DEI) will get more airtime over the coming year. (There are taskforces and initiatives to help investors monitor and measure their portfolio exposure to social and other environmental risks.)

Our delegated solutions team will be considering all these issues for its clients over the next year, and roughly one-tenth of advisory clients are planning to consider these issues.

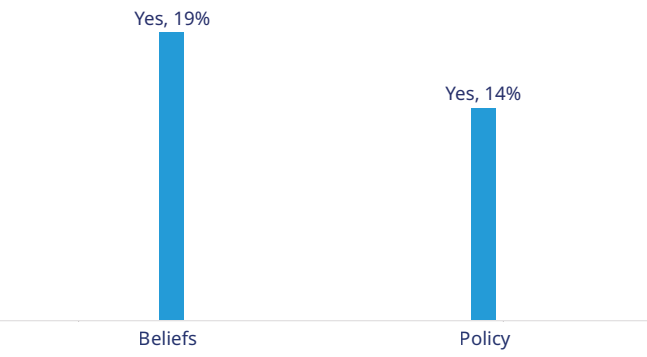
Figure 4. What other areas of ESG do you plan to focus on over the next year? (advisory clients)



Beliefs, policy and resources

Sixty-one percent of UK schemes have a standalone investment policy that includes details on how ESG risks are managed. The same percentage also have developed a set of ESG/sustainable investment beliefs.

Figure 5. Is the scheme likely to develop a set of ESG/ sustainable investment beliefs over the next year (for schemes that don't have them in place already)?



Both percentages are expected to rise as around one-sixth of schemes that haven't done so plan to within the next year.

Figure 6. Does the scheme have dedicated resources focused on sustainable investment?

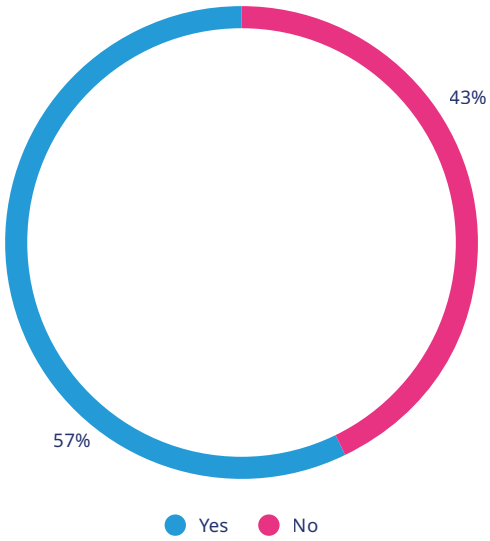
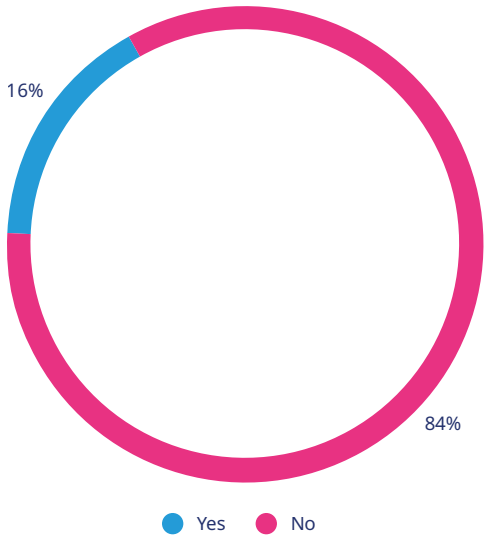


Figure 7. Is the scheme likely to dedicate resources to sustainable investment over the next year?



The majority of schemes we surveyed have dedicated sustainable investment resources. This is largely a result of our delegated solutions team having dedicated resources in this area, so all discretionary clients effectively have this resource. Of our advisory clients, just under 10% have dedicated resources focused on sustainable investment. Of those that don't, 16% say they are likely to dedicate resources to sustainable investment within the next year.

Stewardship

Figure 8. Does the scheme consider the voting and engagement activities when selecting an investment manager?

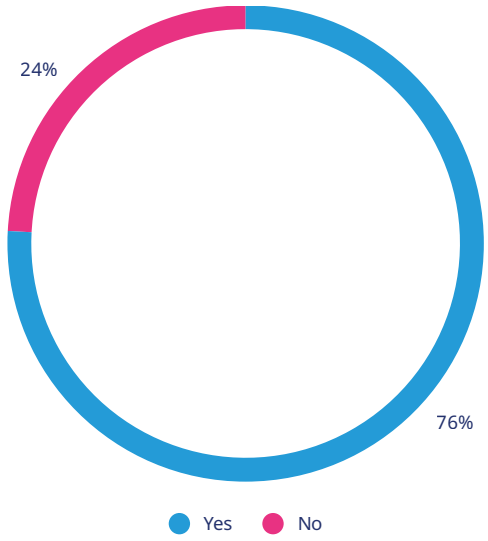
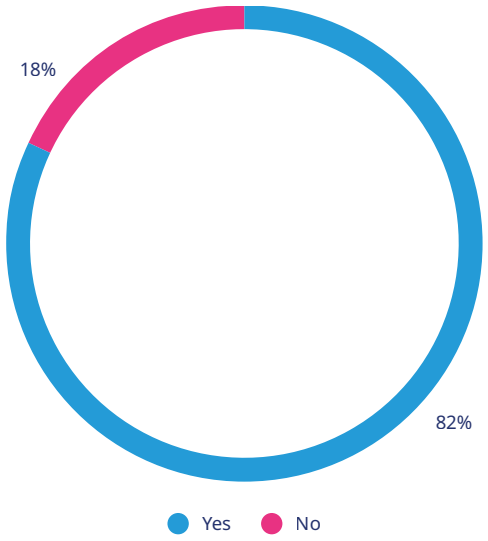


Figure 9. Does the scheme consider the voting and engagement activities when monitoring its investment managers?



Voting and engagement are high on the agenda for schemes when both selecting and monitoring an investment manager. All delegated clients consider voting and engagement; for advisory clients, 49% take these issues into account when selecting a manager and 61% when monitoring their investment managers.

Ninety-seven percent of the schemes we surveyed delegate voting and engagement activities to their investment managers. It is also worth noting that the majority of schemes (59%) expect to do more on voting and engagement over the next year — in other words, schemes' expectations of their investment managers are rising!

Transitioning to net zero and sustainability-themed investing

At the time of the survey, half of respondents that were advisory schemes had considered the investment risks posed by climate change (whereas our delegated solutions team has done so for all clients). Over time, this will increase as the TCFD regulations have an increasing impact across the board (29% of those that hadn't considered the investment risks of climate change are planning to do so over the next year).

Figure 10. Have you set a net-zero-carbon target? (advisory clients)

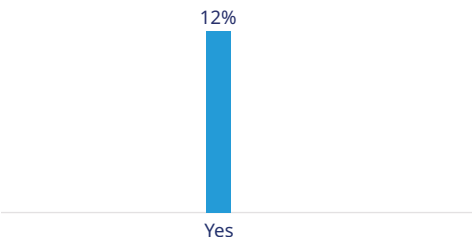


Figure 11. Is your scheme using a low-carbon/climate-related index? (advisory clients)

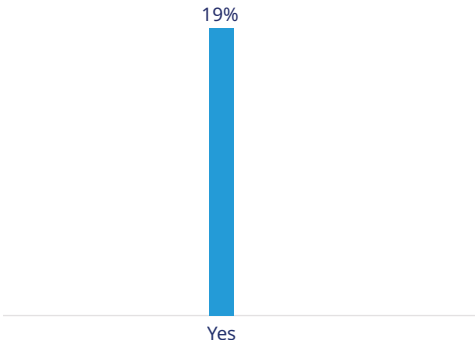
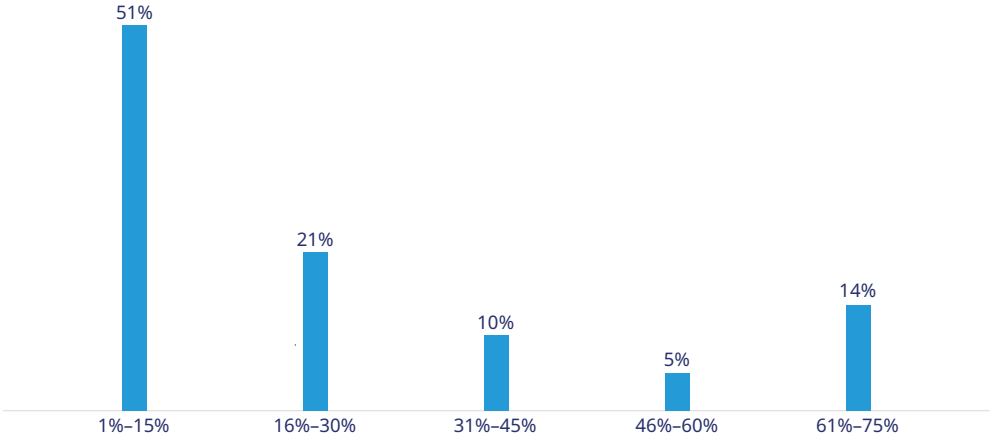


Figure 12. What percentage of the scheme's assets are aligned with the shift to a low-carbon economy (for example, sustainable equity, sustainable infrastructure and renewable energy)? (not including schemes with a zero allocation)



Note: Figures may not add up to 100% due to rounding.

In terms of advisory clients, around one-eighth have set net-zero-carbon targets, and almost one-fifth are using a low-carbon or climate-related index. The number of schemes doing this will increase over time: 17% of those advisory schemes that aren't currently using a low-carbon or climate-related index plan to do so over the next year.

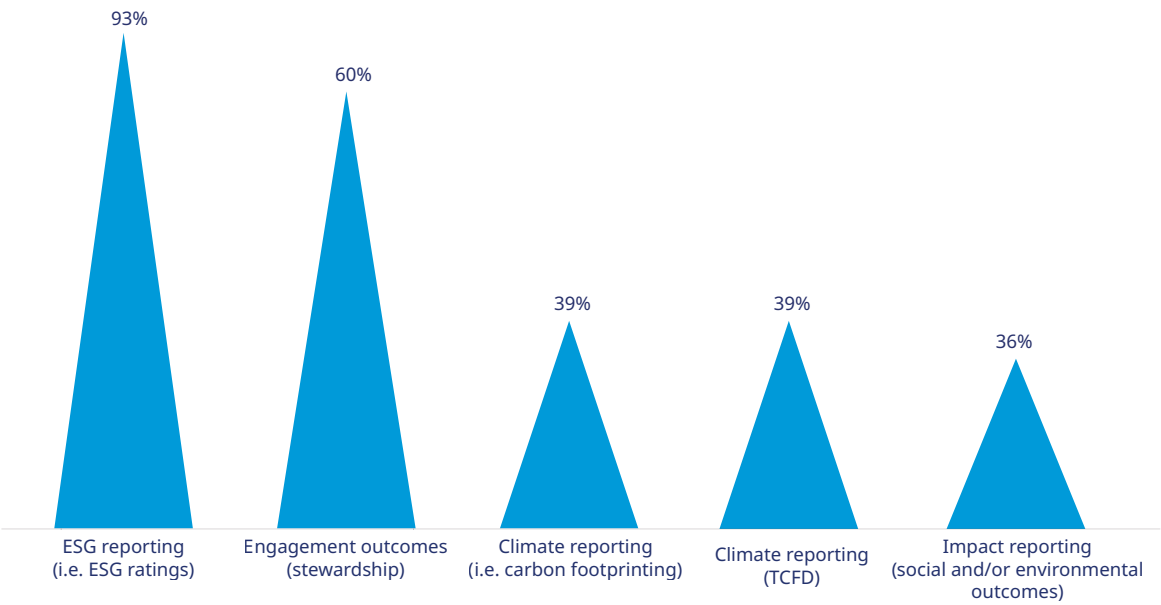
Of those advisory clients that have aligned assets with the shift to the low-carbon economy, a slim majority have aligned up to 15% of assets. However, it is noteworthy that almost 30% have aligned more than 30% of their scheme assets.

In terms of schemes that have delegated arrangements with Mercer, all defined benefit (DB) schemes have 20% of their assets aligned to a low-carbon economy, whereas all defined contribution (DC) schemes have all their assets aligned in this way.

Impact investing and reporting

Thirteen percent of advisory schemes have considered impact investing (investing in companies with the intention to generate a positive environmental and social impact alongside a financial return). The overwhelming majority of schemes (93%) that have allocated to impact investments have invested less than 5% of the scheme assets in this way, but 4% of schemes have allocated more than 10% of their assets. Clearly, this is relatively embryonic for most schemes, but we anticipate that an increasing number of schemes are likely to allocate to impact investing over the coming years.

Figure 13. Does the scheme report on any of the following investment outcomes?



ESG ratings and engagement outcome reporting are now mainstream, with more than four-fifths of schemes reporting on this. Schemes are increasingly undertaking climate reporting as a result of TCFD, but it is good to see that more than one-third of schemes are also undertaking impact reporting. We note, however, that the primary objective in impact investing — or sustainability — should not be on reporting alone.

Background

Mercer's *UK Investment Insights* 2022 reports provide a comprehensive overview of investment strategy and sustainable investing across the UK and identify emerging trends in the behaviour of 441 institutional investors, reflecting total assets of approximately £344 billion.

A sister report accompanies this *Sustainability Investment* report, entitled *UK DB Asset Allocation Report*.

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