

**How a bold responsible  
investing policy is helping  
The People's Pension align  
with its net-zero targets and  
elevate stewardship**



# About The People's Pension (TPP)

TPP is the UK's largest independent master trust, with GBP 30 billion in assets.<sup>1</sup> People's Partnership (formerly B&CE), provider of TPP, was established in 1942 with roots in the construction industry. Today, TPP serves more than six million members from over 100,000 small- to medium-sized employers from all economic sectors. The fast-growing scheme invests nearly GBP 4 billion in new contributions every year.<sup>1</sup>

As one of the UK's only profit-for-member organisations, TPP's structure is similar to that of Australian Super Funds and Canadian pension schemes. As such, profits are channelled back into the organisation to support its members, not distributed to shareholders.

In 2024, TPP collaborated with MSCI to construct an ambitious emission-reduction roadmap by capitalizing on our climate research, indexes, data and analytical tools. TPP moved approximately GBP 15 billion—60% of its total investments—into climate-change index funds that offer exposure to companies transitioning to a low carbon and climate-resilient economy.

**Its goal was to reduce the carbon intensity of these assets by at least 30%, with an annual reduction target of 7% going forward.**

This case study reviews how TPP approached the development of its responsible investment (RI) strategy, its impact on their portfolio construction and the role that MSCI's data and research played in its implementation.

**"TPP has been on a journey over the last few years as an asset owner, managing a large pool of assets that invests more in companies that are transitioning to net-zero and reducing exposure to those that are not."**

**Dan Mikulskis**

Chief Investment Officer for People's Partnership, provider of The People's Pension

<sup>1</sup>The Ethical Fund was updated in October 2024 to track the MSCI ACWI Climate Paris Aligned ex Fossil Fuels and the MSCI Business Involvement Screening Research (BISR) custom index.

# Building a responsible investment framework

TPP first developed a strategic framework to guide its responsible investment (RI) strategy. By focusing on portfolio construction and stewardship, the scheme aims to enhance the financial value and resilience of its members' savings. Its climate change policy is aligned with the scientific consensus that keeping warming below 1.5°C compared to pre-industrial levels is essential to avoid the most damaging impacts of climate change.

TPP's updated policy aims to bolster fund manager expectations, align its climate change strategy with industry trends, and integrate climate considerations across markets to achieve its net-zero goals. TPP also intends to consider nature and human rights in the portfolio construction process, recognising the interconnectedness of these factors with climate change.

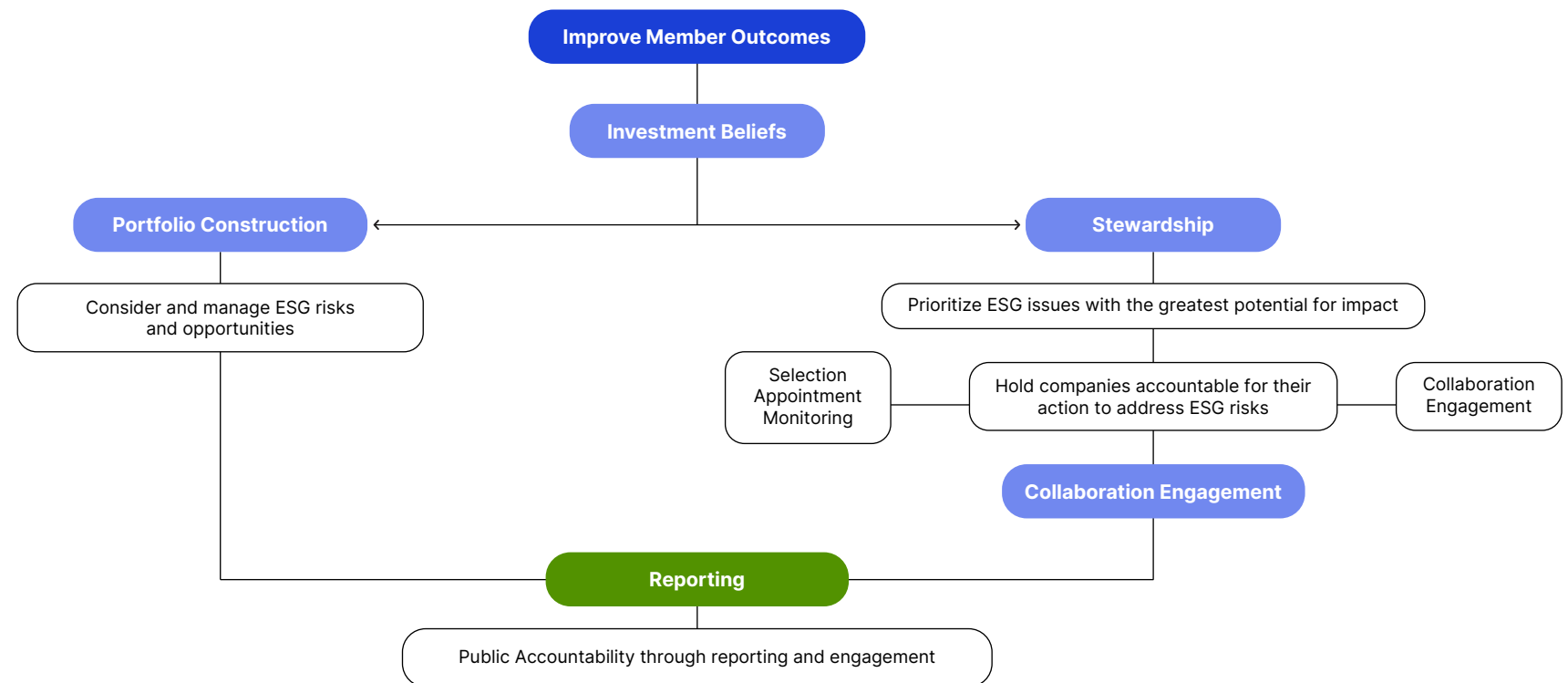
The TPP RI framework comprises three pillars: portfolio construction, stewardship, and reporting.

**1. Portfolio construction**—Consider and manage environmental, social and governance (ESG) risks and opportunities as part of the scheme's portfolio construction.

**2. Stewardship**—Prioritise sustainability issues with the greatest potential for impact, in terms of:

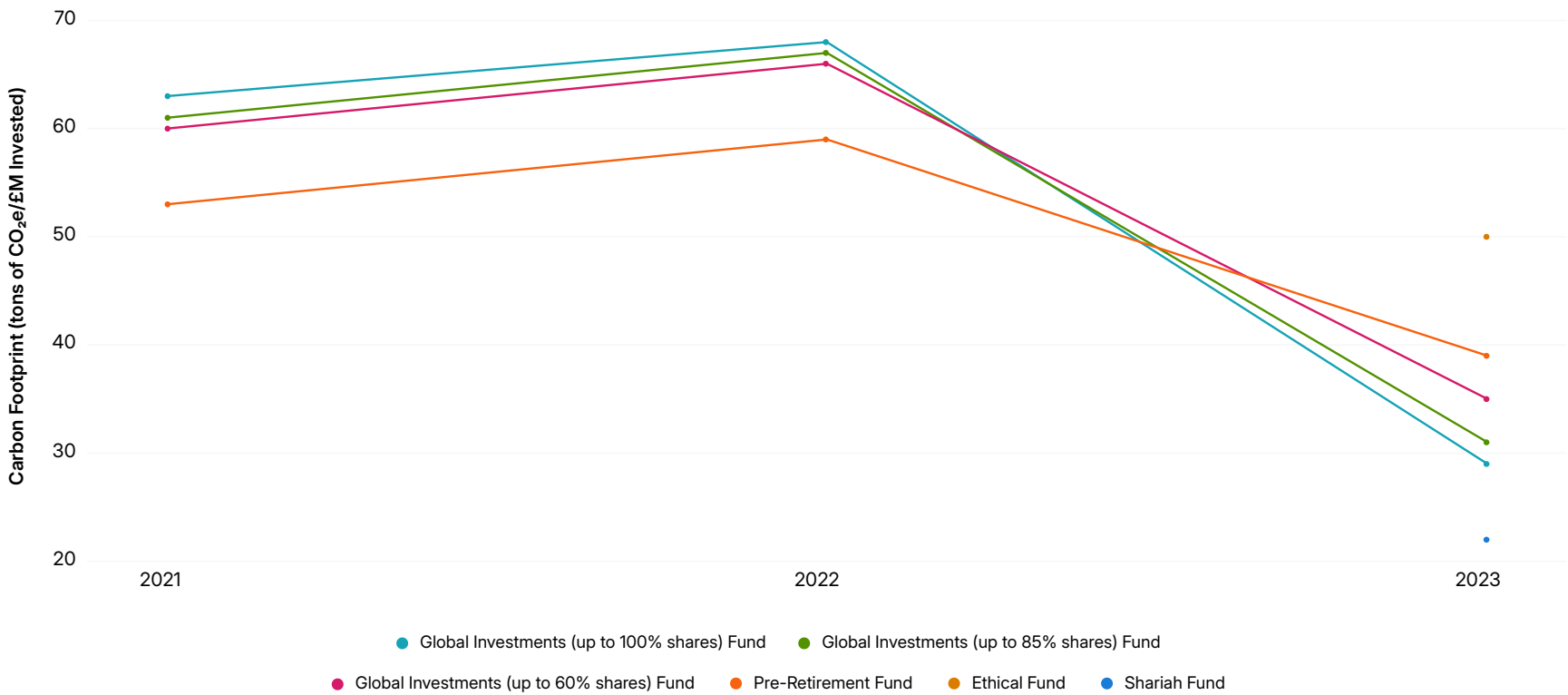
- How the scheme selects, appoints, and monitors its asset managers and other service providers.
- Holding portfolio companies, key industry players and policymakers to account for the actions they are taking to address business-material ESG risks and opportunities to help the scheme achieve its RI objectives.
- Collaborating with other like-minded investors and stakeholders to increase influence.

**3. Reporting**—Annually report on the scheme's progress while making improved member communications a priority.





Carbon Footprinting by Fund (Scope 1 + 2)



“We believe these changes make TPP one of the greenest master trusts in the UK, which is great news for our members. With MSCI’s support, TPP is uniquely positioned to use its size and influence to ensure our members’ savings are allocated and managed responsibly, and that the companies in which we invest are acting in responsible and sustainable ways.”

**Dan Mikulskis**, Chief Investment Officer for People’s Partnership, provider of The People’s Pension

<sup>1</sup> The Ethical Fund was updated in October 2024 to track the MSCI ACWI Climate Paris Aligned ex Fossil Fuels and the MSCI Business Involvement Screening Research (BISR) custom index.

The chart above shows the evolving carbon footprint of the scheme’s most popular funds using MSCI data. The default option comprises the Global Investments (up to 85% shares) Fund and the Pre-Retirement Fund. The Ethical Fund and Shariah Fund are reported for the first time this year. The values provided above are for the scheme year 1 April 2023 to 31 March 2024 and are not a reflection of the current metrics for the Ethical Fund.<sup>1</sup>

Source: The People’s Pension Task Force on Climate-related Financial Disclosures report 2023-2024





Challenges on the Path to Net Zero

# Tradeoffs and materiality

Many asset owners are seeking to balance the need for greater transparency and accountability, with a stronger alignment with climate and core sustainability values.

Trade-offs are a fundamental tenet of any kind of investing but are especially complex when considering responsible investing decision-making. One of the biggest challenges TPP faced was the need to be more explicit about its pursuit of social value in addition to financial value in both company engagement and voting activities. With a lingering anti-greenwashing sentiment as a backdrop, TPP felt compelled to consider, and be transparent in the public domain about how they would treat that materiality spectrum in their RI approach.

In addition, and like many other asset owners, TPP also grappled with questions related to data. From an implementation standpoint, they recognised the delicate balance between waiting for perfect data while acknowledging that a lot of risks are being left off the table because of data constraints. Access to the right data and analysis is a key strategic factor for the TPP program. They caution others to think carefully about the source of their data and the consistency and overall accuracy of that data.

**“For us, it made sense to choose MSCI’s climate and sustainability resources as our primary source of data and analytical tools as they are our main index provider.”**

**Leanne Clements**, Head of Responsible Investment for People’s Partnership, provider of The People’s Pension

Finally, TPP continues to address—as do many asset owners—how to reassess their strategy with respect to industry and policy engagement. TPP admits there is plenty of room for improvement in this area. They believe systemic risks like climate change cannot be addressed through diversification and company engagement alone.





# Choosing the right indexes—and the right index provider to grow with

TPP acknowledges that it benefited greatly from the early mover experiences of other asset owners. They sought input from many others on implementation challenges and learned a lot from their experiences. TPP took the time they needed to translate their beliefs into practice and were able to implement their plan across the entire developed equities portfolio, as opposed to just carving out a section of it.

The scheme's transition from market cap index-tracking funds to climate-tilted index-tracking funds for its developed equities growth portfolio precipitated a search for a new index provider. TPP needed a partner with a solid internal governance structure and robust operational resilience, whose products and services would keep pace with evolving industry practices.

The transparent, rules-based MSCI Climate Change Indexes consider both the opportunities and risks associated with the transition to a low carbon economy, enabling institutional investors to integrate

climate risk considerations in their equity investment process. The primary mechanism of the TPP strategy is an investment tilt, that invests more in companies with the potential to benefit from the growth of low-carbon products and services and less in companies that will see potential asset stranding, reduced demand for products, and increased costs. The climate-change indexes are constructed to align with the EU's Climate Transition Benchmark requirements.

TPP chose MSCI, recognising the depth and scope of our expertise and proven capacity for ongoing innovation. Besides the MSCI Climate Change Indexes, TPP also leverages MSCI's reporting capabilities, enabling them to align with evolving regulatory and growing internal reporting requirements, and access to our vast data and analytics repositories associated with MSCI's ESG Manager.

**"With the help of MSCI's data and research, TPP was able to develop an innovative solution to integrate climate considerations and stewardship activities to achieve its net-zero goals. It has been so rewarding to engage with a truly committed partner and to help them bring to fruition a plan designed to mitigate climate and sustainability risks."**

**Mark Guirey**

Executive Director, Head of UK & Ireland Asset Owner and Consultant Coverage for MSCI

## How MSCI Indexes support a net-zero investment strategy

Institutional investors often have different objectives based on their investment strategy and time horizon. MSCI research has observed three main objectives that investors commonly pursue as part of their climate strategy.

- **Mitigate transition risk**, by reducing exposure to carbon-intensive companies or industries.
- **Capture potential** economic disruption and positive exposure, including how exposure to lower-carbon technologies and transition-solution stocks can be expressed while respecting other constraints.
- **Promote stewardship** by engaging with companies to encourage behavioural changes to improve operations and develop long-term strategies and incentives for climate risk management.

MSCI indexes, such as the MSCI Climate Paris Aligned Indexes, MSCI Low Carbon Indexes or MSCI Global Environment Indexes or a combination of these with MSCI Climate Change Indexes enables institutional investors to address these objectives.

**“Whilst we were impressed with the range of off the shelf climate indexes that MSCI offered, one of the clear differentiators for us in choosing them was the strength of its operational resilience and robustness of their data/ analytics that underpin them. You can have a truly leading climate index product, but if its operationalisation lacks robustness, it introduces undue risks into the process.”**

**Dan Mikulskis**, Chief Investment Officer for People’s Partnership, provider of The People’s Pension



## Action

TPP chose Climate Transition Benchmark (CTB) indexes, rather than Paris Aligned Benchmark (PAB) indexes, because they believe that they are better aligned with the scheme’s climate change investment principles, and the role they believe fossil fuel sectors will play in the energy transition over the medium term. “TPP also wanted the flexibility to control the regional allocations of the portfolio, rather than choose a conventional global market cap index,” Dan Mikulskis said. “As an asset owner, we believe that enables us to add more value over time.”







## Stewardship

# Navigating the interplay of corporate engagement and index investing

TPP favours being well-diversified in developed equity markets because they believe it offers the greatest value for its members. As an externally managed asset owner, TPP's primary engagement target is its fund managers who are responsible for implementing the corporate engagement strategy on their behalf and ensuring alignment with its responsible investment policies. There is a tension, they acknowledge, of being an index investor but genuinely wanting to enforce meaningful policies on stewardship and engagement.

"It's difficult as an asset owner when you own a share in 10,000 or more companies around the world via the indexes," says Dan Mikulskis. "It is just not possible to develop a nuanced understanding of the companies' business models or even to speak with all of them. You need a well-crafted policy that ideally sets out what you want to happen, and aligned partners who are investing on your behalf that can demonstrate how these companies are contributing to the objective." MSCI data and research resources helped inform TPP engagement policy, including its net zero voting policy.



# Elevating the scheme's internal and external communications

TPP has produced an annual TCFD reports since 2022. They credit the reports with helping them formalise climate and risk management considerations and for supporting their investment decision-making process and to create these they leverage MSCI's data and reporting solutions.

However, Leanne Clements advocates better reporting, not more reporting for its own sake. "We would like to see more holistic narratives from asset managers on the companies they are engaged with—from the full list of engaged companies, the milestones that they are tracking and progress towards them, if engagement fails, the escalation route taken, and if engagement is successful, what real world impact it has had on the company over time. It is only with this type of holistic narrative that we can truly understand and appreciate the stewardship value proposition."

## Get a clear view of the climate transition at every stage of your process

Clients from across the capital ecosystem use MSCI's integrated data, analytical tools, indexes and insights for a clear view of the climate transition. We're proud to work with over 3,000<sup>2</sup> clients worldwide, including leading pension funds, asset managers, consultants, advisers, banks and insurers. MSCI is a leading global index provider with USD 933 billion benchmarked to our Sustainability and Climate equity indexes as of June 2024.

We approach sustainability with a dedicated focus on research, quality, and collaboration. We integrate over 50 years of sustainability ratings expertise and climate metrics, offering customisable options for screening, integration, and thematic focus. Our indexes cater to diverse strategies, from exclusionary to thematic exposure, allowing investors to align with specific sustainability goals.

**If you'd like to learn more about integrating sustainability and climate considerations into your investment processes and how MSCI can help, please contact us.**

**"MSCI is proud to support the People's Pension in advancing their Responsible Investment strategy and commitment to carbon emissions reduction. MSCI Climate Change Indexes are designed to help institutional investors fund decarbonization by backing companies that are actively lowering their carbon footprint. Realizing these environmental objectives is more critical than ever, and we remain dedicated to providing investors with the solutions needed to drive meaningful impact."**

**Sebastien Lieblich**

Managing Director, Head of EMEA and APAC Index Product for MSCI





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