ESG

Hot or not?

While increased regulatory clarity and growing investor demand have driven progress, political pushback and inconsistent implementation continue to challenge the integration of environmental, social and governance (ESG) principles. *European Pensions* takes the temperature on a complex and evolving landscape. Written by Callum Conway

Dutch pension funds improve responsible investment strategies

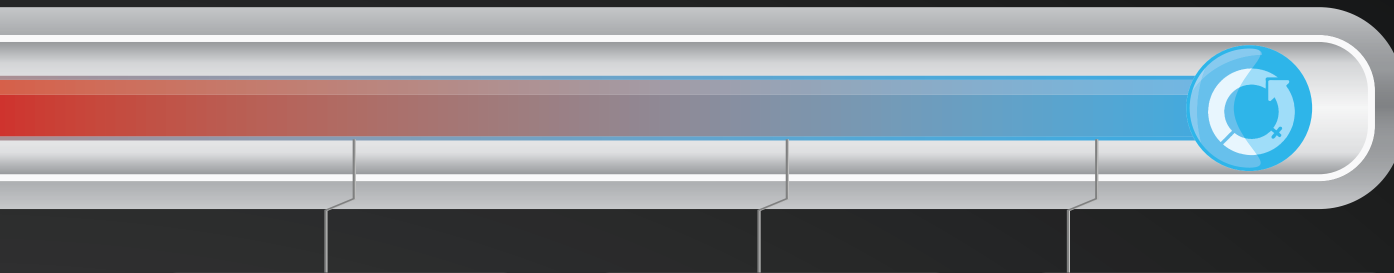
Dutch pension funds made significant strides towards more responsible investments in 2024, with 83 per cent of the 50 largest pension funds including biodiversity in their responsible investment policy a survey by the Dutch Association of Investors for Sustainable Development found. In another boost for ESG, all respondents say they now conduct corporate engagement on biodiversity and/or related topics such as deforestation. These figures highlight a narrowing performance gap among pension funds, with small and medium-sized funds increasingly competing with larger ones in adopting advanced ESG practices.

AkademikerPension raises ESG data requirements for real estate lawyers

Earlier this year, Denmark's AkademikerPension announced that any law firms wanting to be considered for future property-related cases must submit ESG data on working conditions, highlighting how ESG-alignment is moving beyond pension fund investments. The pension fund's data requirements are based on the construction and real estate industry's common reporting tool, *Real ESG's The Real Estate Reporting Framework,* which several law firms have already adopted. "As a responsible pension fund, we want to collaborate with skilled, ambitious and progressive law firms," AkademikerPension property manager, Søren Møller-Larsson, says.

European Parliament to adopt 'stop-the-clock' initiative, delaying CSRD compliance

On April 3, the European Parliament voted in favour of the 'stop the clock' directive. While this directive, which postpones Corporate Sustainability Reporting Directive (CSRD) compliance by two years, has been greeted with relief by many in the business community, it sits more central in our thermometer as it represents a delay in ESG progress. Nethertheless, it is a move that has been welcomed by Insurance and Pension Denmark (I&P Denmark). The association claims that although the EU's CSRD is well-intentioned, the extensive reporting requirements divert resources from the real transition to sustainability. I&P Denmark deputy director, Tom Vile Jensen, says the Danish pensions industry is "fully supportive" of the CSRD's intentions, but regulation had "gotten out of hand".



Institutional investors concerned about sustainability under Trump presidency

Nearly all (93 per cent) European institutional investors, including pension funds, have expressed significant unease over the future of sustainability practices during Donald Trump's second term as US president, according to Pensions for Purpose. Since returning to office in 2025, Trump's administration has taken significant steps to curtail ESG-related policies, with Trump signing an executive order directing the Department of Justice to challenge state and local climate laws, including those incorporating ESG principles. However, despite US push-back, the research shows there is a growing commitment among European institutional investors to sustainable investing, with more than half (58 per cent) of respondents saying they plan to increase their impact allocations over the next 12 months, boosting this news to a slightly cool place on our thermometer.

Biodiversity investment options 'limited' despite increasing importance

In a worrying admission, Sweden's KPA Pension says that although biodiversity is becoming an important focus in its pursuit of sustainable investment, options are limited at present. KPA Pension business developer for sustainable investments, Mark Johnsson, says the pension fund is in an "exploratory phase" when it comes to biodiversity. For example, external fund companies in unit-linked insurance are being surveyed based on their work on biodiversity. However, Johnsson, thinks Sweden's municipalities can play a crucial role in the context of biodiversity. "Many are struggling with invasive species and working to restore wetlands, and this is where opportunities exist for pension capital to contribute to biodiversity enhancement while generating returns - we'd like to see more of them take the initiative," he states.

Net Zero Asset Managers Initiative suspends work

In a troubling development, the Net Zero Asset Managers Initiative (NZAM) has suspended activities to track signatory implementation and reporting, as well as removing the commitment statement and list of signatories from its website, their targets, and related case studies, pending the outcome of a review of the initiative. This step backwards is a consequence of the recent political changes in the US, combined with different regulatory and client expectations in investors' respective jurisdictions. Several European pension funds say that withdrawals from climate change-focused coalitions are disappointing and signify a setback for the low-carbon transition. Over the past year or so, high-profile asset funds have decided to withdraw from the initiative, including BlackRock, State Street Global Advisors, and Northern Trust Asset Management.

ESG

ESG: Progress under pressure

WRITTEN BY **CALLUM CONWAY**

Our environmental, social and governance (ESG) thermometer *[pg44–45]* outlines key developments in the space over the past year.

It's fair to say that whilst the pensions industry has taken some important steps to improve ESG standards, the recent political climate has caused the term to become increasingly divisive, with some firms ditching the label altogether. Just a short time ago (before US President, Donald Trump, took up office again) ESG was broadly publicly supported across industries but, in recent months, ESG naysayers (arguably because of Trump's policies) have become more vocal about their views of ESG being woke, and progesss has taken a step backwards.

Faith remains, however, as despite political pressure, demand for ESG investments is here to stay. Nearly three-quarters (72 per cent) of UK employees say it's important that their employer offers a responsibly invested pension, research from Scottish Widows reveals, while nearly half (44 per cent) of pension professionals think they should consider environmental impacts when running a pension scheme, according to a poll from WTW.

The 'hot' developments on *European Pensions*' ESG thermometer highlight that pension funds are increasingly considering ESG factors in their long-term strategies. This includes Dutch pension funds, which have made significant strides towards more responsible investments over the past year, and Danish pension fund, AkademikerPension, which has raised its ESG data requirements for real estate lawyers. Clearly, it's not just savers who support responsible investment – pension funds are shifting toward more sustainable investment choices.

However, there's an undeniable sense that external factors are hindering ESG progress. As I alluded to, the impact of Trump's administration is significant, with ESG policies, funding and laws being rolled back or cut altogether. This was evident with the suspension of the Net Zero Asset Managers initiative (NZAM), which was preceded by leading signatories such as BlackRock resigning from the programme, citing "political pressure."

This anti-ESG sentiment is having a knock-on effect worldwide, with confidence waning in the future of sustainable practices. Meanwhile, while likely to save businesses money in the short term, the EU's 'stop the clock' initiative is set to slow the growth of sustainable practices across European companies.

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So, what can be done? Pension scheme trustees should not lose sight of the urgency of climate change, the Trustee Sustainability Working Group in the UK says, encouraging trustees not to use recent changes in international priorities as a reason to move climate issues off their agenda. Amid the political noise, investors must consider doubling down on their existing ESG commitments to continue supporting the initiative.

In addition, investment options must continue to grow. Several pension funds, including Sweden's KPA Pension, say that although biodiversity is becoming an important focus in their pursuit of sustainable investment, investment options are limited at present.

While global assets held in biodiversity-focused open-ended products and exchange-traded funds have more than doubled over the past three years to USD 3.7 billion, Morningstar data shows, there is still room for improvement.

In 2025, ESG is no longer a niche or a notion but a concrete factor for millions of savers and investors when selecting a portfolio or investment. Incorporating ESG into decision-making isn't philanthropy or charity but a necessity for pension funds. The data shows that investing according to ESG boosts risk-adjusted returns for long-term investors while playing a critical role in the fight against environmental and societal challenges. We're on the right track, but now is the time for the pensions industry to move faster and further on ESG despite political and economic challenges.