

Impact Investing Principles for Pensions

Adopters' evidence 2022

By Mike Rogers

Over 2021 and 2022 we have been delighted to welcome investment consulting firms as Adopters of the Impact Investing Principles for Pensions. This note describes the progress these Adopters have made over the year



Pensions for Purpose and the Impact Investing Institute believe adopting the Impact Investing Principles is an essential first step in helping to engage with industry and ultimately to encourage the deployment of capital to areas which have an environmental or social impact alongside a market rate of return.

The firms that have adopted the Principles are showing true leadership by setting an example to the industry. Crucially they are helping their clients to achieve better outcomes by improving their risk management and by identifying new opportunities that may otherwise be overlooked.

In the past, many might have seen investment as a competitive activity. This mindset sees investment as a zero-sum game with winners and losers taking a bigger or smaller slice of the pie. Impact investing is not like that – all investors benefit from a rising tide, and people and planet do better. Extending the technical language of investment, by acting together, we make beta bigger. Our Adopters have embraced this mindset and shown a true willingness to not only develop their impact consulting but to share their experience and their intellectual capital for all.

We are keen to acknowledge their contribution and to encourage others to adopt the Impact Investing Principles for Pensions.

5 THEMES FROM THE ADOPTERS' EVIDENCE SUBMISSIONS

All Adopters provided comprehensive evidence submissions and we are publishing our full findings in our Adopters' evidence 2022 paper. This document highlights themes discussed at our all-stakeholder meeting on 13 October

1 Impact governance in investment consulting firms themselves is getting stronger

Leading firms take their governance of impact investing seriously and embed it throughout. Areas covered include:

- Deciding what to do – setting the firm's mission and beliefs.
- Making it happen – establishing impact committees with accountability to the Board, populated with impact specialists and key Board members, such as the CIO and CEO, who are empowered to set objectives for consulting and research teams, and set organisational beliefs, policies and preferences.
- Empowering employees – providing and encouraging training, including impact investing in role descriptions and objectives; rewarding delivery.
- Good management information – establishing processes around delivery of advice, setting targets for delivery and measuring progress versus targets.

use external frameworks such as the Impact Management Project ABC framework, others have developed proprietary frameworks.

- Advice – on beliefs, objectives and regulatory frameworks.
- Implementation – finding the right investment managers, engaging with the managers and de-selecting those which do not meet client objectives.
- Review and monitoring – using meaningful and actionable data.

3 Tools and reporting

Data remains a difficult issue for everyone. Investment consultants have evolved and developed their tools so they can hold investment managers to account.

- There has been a move to use external data providers rather than relying on underlying investment managers. This enables clients to validate managers' data efficiently and allows clients to identify engagement opportunities.
- Some organisations are developing in-house tools or partnering with external providers to develop bespoke tools.

2 Encouraging asset-owners to set impact beliefs, objectives and strategy

Investment consultants have a crucial role in industry and drive change by delivering training and giving sound advice using a clear process. This includes:

- Training and education – some

4 We still lack data

We need fewer anecdotes and more analysis. Good data will allow the industry to

demonstrate progress.

- We encourage Adopters to measure the number of clients passing through various stages of the advice process. Many already do this and some publish the data.
- We need more data around deployment of capital. We recognise this is challenging for clients with bespoke strategies.
- There remain challenges of definition and categorisation.

5 It is making a difference on the ground

The acid test is whether capital is deployed with impact objectives.

- All Adopters provided compelling examples where their advice resulted in changes to the investment portfolio.
- A number of Adopters cited examples where non-impact investments (for example, passive equities) had been replaced by impact driven strategies. Interestingly, no one characterised this as 'firing a manager on impact grounds'.
- Most Adopters articulated a clear manager rating framework and placed a heavy emphasis on engagement, with laggards being at risk of 'sell' rating. The strong preference seems to be to engage with managers but to set time limits. Several Adopters cited cases where this approach had been successful.

Impact Investing Principles Adopters

Thanks for the leadership provided by our Adopters

**Aon, Barnett Waddingham, bfinance, Cardano, Gordian Advice, ISIO
Kempen Capital Management, Redington, Schroder Solutions, XPS Investment**



PENSIONS FOR PURPOSE
Impact Investing Adopters Forum



Your feedback

“ We are looking at how to build on the progress made this year. There is still much to be done, we will continue to engage with investment consultants, asset managers, trustees and other specialists. We discussed our findings at the IIAF all-stakeholder meeting on 13 October, where we looked closely at these questions...” ”

this way, or should we acknowledge that firms are going further and faster?

? Would you like 'deep-dives' into specific areas?

For example, should we explore approaches to impact investing and theory of change, sourcing better data or highlight some of the case studies presented by the Adopters?

? How can you help in encouraging wider adoption of the Impact Investing Principles?

Open forum discussion on greater knowledge sharing and wider adoption of the Impact Investing Principles for Pensions

Further work

We will publish our Adopters evidence paper once we have discussed the findings with consulting firms and, based on your feedback, we will arrange further events or blogs covering specific topics.

Pensions for Purpose

Pensions for Purpose already offer access to general information and education through the Impact Investing Adopters Forum. We also run tailored events for individual pension funds.

Join us

If you would be interested in joining or participating in the Impact Investing Adopters Forum, please contact Charlotte O'Leary (use the get in touch button below).

- **Mike Rogers is an Investment Professional and qualified Actuary, who works as a Senior Consultant for Pensions for Purpose.**

? Should the Impact Investing Principles for Pensions evolve and, if so, how?

The Principles are intended to evolve as the industry develops. Are there areas that need to be clarified? Should anything be taken out or added?

? How should evidence gathering evolve?

For this, the first year of evidence gathering, we adopted a free format approach. Should we continue to do so, or should we ask specific questions and gather detailed data? What do investment consulting firms think? What would other stakeholders like to see? How can Pensions for Purpose help?

? Should we explicitly recognise leading firms?

This year we have adopted a collaborative approach seeking areas of best practice and communicating them more widely. Should we continue in

Please get in touch with your ideas



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