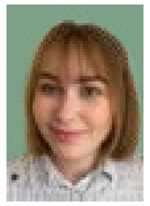
All-member event blog

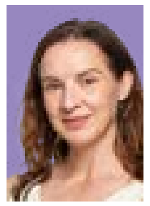
The updated Impact Investing Principles for Pensions will provide practical steps for pension funds to integrate impact investment into governance and strategy. This article outlines insights from industry experts at our all-member event, highlighting The Principles' flexibility and the growing need for education on impact investing

By Bruna Bauer and Constance Johnson

A refresher of the The Impact Investing Principles for Pensions: a practical guide

The Impact Investing Principles for Pensions are being refreshed to better support pension schemes in integrating impact considerations into their investment strategies. These updates reflect feedback from Adopters and aim to provide a practical, flexible framework for driving positive social and environmental outcomes alongside financial returns.



Charlotte O'Leary, CEO of *Pensions for Purpose*, invited the *Global Impact Investing Network (GIIN), the Impact Investing Institute (III), Aon DC Solutions, Cardano* and *now:pensions* to discuss the exciting update to The Impact Investing Principles for Pensions.

The Principles are designed to integrate impact investing into existing governance structures and align with how pension schemes manage their investments.

The renewed Impact Investing Principles for Pensions will be published soon and announced by *Pensions for Purpose*, who manage Adopters, Supporters and review Adopter progress. The Principles also form part of *Pensions for Purpose's* Ecosystem theme on Impact Integration, which is a pillar of our work.

The panel highlighted the collaborative efforts in updating the Principles, which received extensive feedback from Adopters, following the edits conducted by the *GIIN*, with comments from *III* and *Pensions for Purpose*. The refreshed Principles aim to provide a practical guide for pension funds to navigate the evolving landscape of impact investing. However, before we get to the new Principles, what are impact investments? This was a fundamental question asked by the audience and shows the need for a collective understanding.

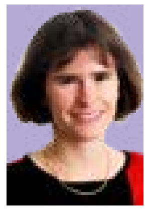
The *GIIN* defines impact investments as investments made with the intention of generating positive, measurable social and/or environmental impact alongside a financial return. However, it is important to recognise all investments have an impact, whether negative or positive. The key for an impact investor is to understand where their investments may have a negative impact and work to mitigate this, while also contributing to solutions through impact investments.

The revamped Principles still focus on four concrete steps towards best practice rather than setting strict criteria or minimum thresholds:

- Identify your impact priorities.
- Integrate impact across your mandates.
- Contribute towards your intended impact.
- Measure and manage that impact.

Christian Rosenholm, Institutional Engagement Director at the *GIIN*, stressed the importance of voluntary frameworks in signalling commitment to the market. The updated Principles are non-prescriptive and directional, offering a framework that enhances transparency and establishes a common language and understanding across the industry. This approach creates structure while fostering alignment, which is critical for mobilising capital for good integrity. The Principles provide clarity for beneficiaries and managers by defining expectations and aligning goals. Unlike compliance-driven initiatives, which can be rigid and reactive, the Principles emphasise voluntary collaboration, promoting a shared sense of purpose. This proactive and aspirational framework signals a unified commitment from the industry to drive meaningful impact while maintaining trust and integrity in the investment process. Lastly, Christian highlighted the importance of updating The Principles now, emphasising that the rapidly evolving impact investing market necessitates these changes.

Bella Landymore, Co-CEO at *III*, added that the growing impact investing market has seen a significant compound annual growth rate compared to traditional asset management. While the impact investing market is expanding, it still represents a small fraction of total assets under management. Pension schemes are critical in transforming their investment to strategies with real-world impact, contributing to a more sustainable future.



Joanna Sharples, Chief Investment Officer at the *Aon MasterTrust* and an Adopter of the Principles, shared her organisation's impact journey, working with The Principles framework. She emphasised how they have aligned their investment strategy with member engagement. Jo also pointed out The Principles are high-level and flexible, allowing schemes with different levels of impact investment knowledge to adopt them. However, she stressed the importance of addressing the need for education, as this is crucial for creating a shared understanding and implementing the Impact Investing Principles effectively. Jo also shared *Aon's* efforts to engage members through educational resources such as case studies and videos to enhance understanding of impact investing.

Keith Guthrie, Head of Sustainability, Cardano UK and now:pensions, highlighted key considerations for adopting frameworks like the Principles for Responsible Investment. now:pensions trustees prioritise themes like gender equality, living wage and climate change, aligning these with fiduciary duty by linking societal impact to long-term financial outcomes. Cardano integrates broader themes such as biodiversity, water, and social equity, with a strong focus on stewardship to influence companies toward sustainable practices like net-zero goals and deforestation reduction. However, challenges remain in measuring intentional, real-world impact, particularly in private markets. They seek a framework enabling practical implementation, measurable progress and alignment with sustainability objectives.

Need for education and training alongside The Principles

A greater push on training is required to support trustees, investment committees or teams within asset owners focused on impact investing, particularly with regard to creating an impact thesis. The speakers discussed how many trustees and asset owners may have insufficient impact investment knowledge, impeding their ability to adopt frameworks like The Impact Investing Principles for Pensions effectively. Educational initiatives can play a vital role in demystifying impact investing by addressing common misconceptions and providing practical guidance on key elements like impact metrics, reporting and strategy alignment. By equipping stakeholders with the necessary skills and confidence, training can empower them to make informed decisions that integrate financial returns with positive societal impacts.

Adopter case studies

Gain insights into Aon's Impact Investing Principles for Pensions' work, and the journey of our other Adopters through their case studies.

Pensions for Purpose recognises this need and offers asset owner workshops on developing impact investment beliefs, which includes The Principles, as well as masterclasses and events on each Principle.

Questions and answers

Q: What are the challenges of implementing impact investing and what are the first steps?

A: Bella Landymore and Christian Rosenholm: Establishing a shared understanding of the relevance of impact is crucial. They also emphasised how fiduciary responsibilities sit with impact and the importance of using tools to measure portfolio-level performance.

Q: Why don't more pension schemes sign up if The Principles are high-level and easy to adopt?

A: Charlotte O'Leary: Many people assume there must be hidden complexities due to their experiences with other sustainability frameworks. The Principles are esteemed and directional rather than prescriptive, aiming to demonstrate progressive goals rather than requiring reems of reporting.

Click here to watch the event video and synopsis.

● ***Bruna Bauer is Research Manager, and Constance Johnson is an Intern, at Pensions for Purpose***

AUDIENCE FEEDBACK – breakout rooms

Room 1 ASSET OWNERS

How do The Principles compare with other sustainable or impact frameworks?

- The Principles stand out compared to other sustainable or impact frameworks for indirect investments or for asset owners investing in other funds.
- While tools like the *TCFD* are valuable for climate-related alignment, they don't set impact goals.
- Strategies for progress focus on overcoming reluctance from some pension funds. If more funds prioritise impact investing, it could create momentum, encouraging hesitant funds to follow to stay competitive.
- Impact investing builds on responsible investing with the recognition of 'do no harm' and pushes for solutions to real-world problems that deliver competitive financial returns.

Room 2 INVESTMENT CONSULTANTS & FIDUCIARY MANAGERS

How do you integrate The Impact Investing Principles for Pensions into strategic advice to clients?

- Tailored solutions and training to echo clients' philosophy and objectives.
- Understanding the investment consultant or fiduciary manager's impact helps them to support their clients.
- Smaller schemes often delegate decision-making to fiduciary managers, which can make discussing investment beliefs challenging. This raises the question of how fiduciary managers can effectively deliver impact, with a clear desire expressed to expand efforts in this area.

Room 3 SUPPORTERS

How do you ensure reporting is transparent, comparable, and meaningful to stakeholders? What impact reporting improvements would you like to see across the industry?

- While transparency and comparability are important, they can dilute the quality of reporting. Impact investments are often clear but difficult to measure.
- Emphasis was placed on incorporating qualitative analysis alongside quantitative data, as hard numbers on impact reporting can be limited in some cases. This highlights the need for an industry-wide framework to standardise the qualitative aspects of impact reporting.

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Knowledge Partners

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