

“Principle 2 – Appoint investment consultants and managers with impact integrity”

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Discussion topics from Pensions for Purpose’s second Impact Investing Adopter Forum (IIAF) event, run in partnership with the Impact Investing Institute and hosted by Barnett Waddingham.



Introduction

We know that pension funds particularly, but also other institutional investors, rely heavily on third parties for investment advice and management, whether they are pursuing investments in pooled funds or segregated mandates. We also know that the mandates that asset owners have with investment managers are often “sticky”, e.g. the Competition and Market Authority’s 2018 review into investment consultants and fiduciary managers. This means that these third parties play a significant role in determining how and where capital is deployed, so if you want to achieve your impact objectives appointing an investment consultant and managers that align with and share your objectives is incredibly important.

So, how do you ensure that you appoint or align your investment consultants and managers with your impact objectives?

Alex Pocock and Amanda Latham from Barnett Waddingham explored the key questions and areas of expertise that you need to focus on as a pension fund or asset owner. Everything from their aims and investment beliefs in relation to impact and sustainability through to their track record, experience and reporting should be addressed. In addition, the type of business they are is incredibly important – are they a purpose-led organisation, were they set up to achieve a positive social and environmental impact or has this been built more recently?

Understanding your consultants and advisers

Consultants and advisers

- › Aims, beliefs and constraints
- › House view or bespoke advice?
- › Research capabilities
- › Experience
- › Values and alignment

Asset and fiduciary managers

- › Due diligence
- › Governance
- › Stewardship
- › Performance / track record
- › Values and alignment
- › Reporting

What are the key ingredients and questions to consider?

Impact integrity



Focus

Do a few things well.
Be clear on the outcomes you want to target.



Alignment

Understand the approach of your advisers.
How will they help you to have the impact you want to have?



Monitor / evaluate

Are your managers meeting your objectives?
How are they driving long-term value alongside positive impacts?

Q&A discussion with attendees

Understanding social and environmental impacts requires significant expertise and we are often seeing pension funds using multi-adviser models. Should we expect more of this going forward or should we expect our incumbent investment consultant to provide all of this advice themselves?

It is the case that consultants are often working with other advisers, even the big three investment consultants, in a number of different ways whether that's on setting objectives around sustainability and impact or on stewardship and voting, or indeed on independent selection and oversight services. The lines between asset management and consulting are blurring as a result of the shift to fiduciary management, so having independent oversight is an important tool in holding managers to account.

How do we ensure that our stewardship policies allow us to be as effective in implementing our impact objectives? How can our advisers help us to do this?

Effectively your stewardship needs to allow you to implement your objectives to ensure you can report on them transparently. You can work with a specific adviser on stewardship to allow you to access things like split voting on pooled funds and understanding which managers offer this service. If you have the resource and time, being part of collaborative groups like Climate Action 100+, ShareAction, etc. can be very powerful as an engagement tool to get companies to change practices.

It is also important to understand the nuances in what can be done from an impact and stewardship perspective in relation to different asset classes. One of the questions from the audience was on bonds and how change can be affected to avoid "rainbow washing". Often bond manager conversations on refinancing happen behind the scenes and that makes transparency on engagement more challenging. However, holding equity and debt in the same company can be more impactful as you are straddling the capital structure. Again, working collaboratively can make a significant difference by providing a framework to managers that allows for engagement at scale.

We're concerned about the bandwagon effect – managers suddenly marketing themselves as doing sustainable or impact investment for years. Should we be concerned? Does a manager start off with the Sustainable Development Goals they want to target and make investments or do they make investments and then tie them to relevant SDGs?

This highlights why being on the front foot as an asset owner is so important because you set the impact objectives and the implementation is then driven by that. It also means that you can focus on the types of measures and outputs you want to see in relation to those impacts rather than relying on managers' self-reporting.

One of the last significant discussion points was on the intention. If you end up with the same portfolio from an investment perspective, did the intention to have a certain environmental or social impact matter?

This comes down to investing with impact or for impact. What are you trying to achieve? For example, are you creating more social and affordable housing to improve people's quality of life, and are you achieving it? It's no good to review your existing portfolio in relation to the SDGs and say "great – 30% of my portfolio aligns" because there was no intention and no additionality. Furthermore, there is no commitment to increase that impact and it is incremental improvement that is required to create solutions to the environmental and social challenges we face.

Next steps

We will be taking this discussion forward into our next Impact Investing Adopter Forum event in September which will focus on Principle 3 – Using your voice to make change. If you would be interested in joining or participating in the event, please contact Charlotte O'Leary – charlotte.oleary@pensionsforpurpose.com.