"Principle 1 – Set impactful objectives"

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PENSIONS FOR PURPOSE

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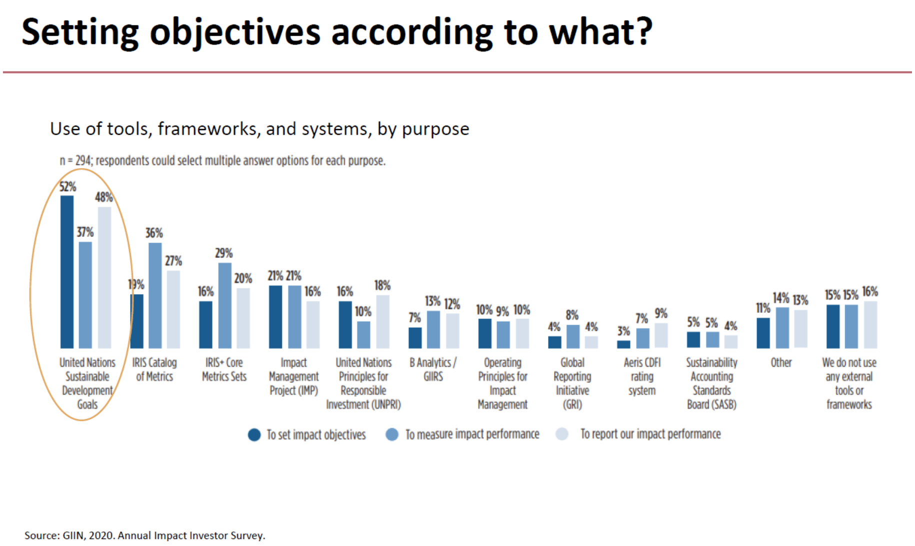
Discussion topics from Pensions for Purpose's first Impact Investing Adopter Forum (IIAF) event, run in partnership with the Impact Investing Institute and hosted by Kempen Capital Management

Introduction

This forum is about bringing together a community of pension funds, investment consultants and managers to encourage more capital to flow to impact investing. This is exactly what Pensions for Purpose was built to do - bringing the investment chain together and acting as a bridge. In our view, impact should be viewed alongside risk and return in order to ensure a well-diversified portfolio that is positioned for the transition to a sustainable economy. This is because companies with poor practices will face market and regulatory risk and companies with good practices will be favoured by investors and customers. The Impact Investing Institute's Impact Investing Principles for Pensions act as four good governance steps pension funds can take, starting with the first principle – set impactful objectives - which was the focus of this session.

So, how do you start on this journey of setting impactful objectives?

Objective setting can be challenging due to different frameworks, measures and tools; however, the UN Sustainable Development Goals do provide a set of internationally agreed targets that institutional investors can coalesce around. While SDGs are the predominant tool for setting high level objectives, when it comes to impact performance measurement other tools - such as GIIN's IRIS+, the Impact Management Project's five dimensions/ABC framework and the underlying SDG indicators - need to be overlaid to provide greater granularity. For impact you need to start with the end in mind and work backwards in terms of what you are trying to achieve.



Main presentation by Kempen: Setting Impactful Objectives

Narina Mnatsakanian and Marjoleine van der Peet from Kempen Capital Management, the first adopter of the Impact Investing Principles, walked through the journey that their Dutch pension fund client took in setting specific SDG targets and then structuring their investments across different asset classes to ensure broad capture of the potential opportunity set. While not always easy to do and requiring continued efforts to unearth data, the impact landscape is evolving to provide investors with more transparent data, which can provide more effective decision making. Kempen concluded that it is possible to find impact opportunities with excellent risk/return characteristics in many different asset classes. Please click here to read Kempen's presentation on setting impact objectives in a multi-asset framework.

Q&A discussion with attendees

Are discussions with pension funds becoming broader to encompass member views as well as financial returns?
These can be a good tool to get pension scheme members to increase contributions and engage with their pension. Given they are the end beneficiaries and their contributions make up a substantial capital pot, they are in all senses "invested". A number of pension fund attendees said they are planning to survey members on their views around environmental and social impact.

Data appears to be a problem, particularly in private markets where there can be fragmentation, how are you (Kempen) addressing this?
Kempen said they continually revisit the data and accept there are gaps but that, through engagement with the companies and due to their substantial investments in them, they can help drive the agenda and get more data. This will only increase as institutional clients push for companies to be more transparent. In the end we are talking about companies and their behaviour, which will continue to adapt to the sustainable transition. Investors working in collaboration can achieve significant change, just think about Climate Action 100+. When investors use one voice with significant buyer power it is possible to move the needle.

Is impact relative or absolute when thinking about developing versus developed markets or asset classes?
It is evolving and requires a dynamic framework to capture changing developments in regions around the world. For example, countries in Africa may have a smaller impact on SDG 13 - Responsible Consumption than developed countries but over time, as their economies grow, that impact will increase. That is why an impact strategy needs to be revisited and the learning outcomes as well as measurement outputs need to be built back into the strategy setting; it is an iterative exercise.

How are pension funds focusing on impact?
By joining up the dots on setting impact objectives. There is an increasing push from local authorities to work with the LGPS to find funding options and deploy impact capital, especially as we think about the levelling up agenda and place-based investing. There needs to be more of this joined-up thinking and collaborative work on investment solutions.
Pension funds across the public and corporate sector are using the SDGs and net-zero frameworks to create goals and interim targets; however, it is less clear how they are using the underlying indicators and other measurement frameworks. This is why we need more conversations and case studies from peers to understand what is going well and what is creating greater challenges.

How are investment consultants thinking about impact and finding opportunities for their clients?
It seems to be hard to find opportunities outside of the environmental – climate change and clean energy – and economic themes. We need to provide institutional investors with options in social impact, including social and affordable housing where there is a clear and immediate need. A comment was made about where the onus should lie in terms of doing due diligence on these investments – should investment consultants be investing in it because it is relevant to their clients or do investment consultants need their pension fund clients to invest in the due diligence? This will be a question we can dig into at the next session for the forum.

Is there a carbon output or carbon emissions avoided figure pension funds should be trying to attain?
Placing these sorts of targets would undermine the interconnection of the environmental, social and economic challenges. You cannot address climate change in isolation without also looking at social inequality. Ultimately there is a feedback loop between these factors.

Next steps

We will be taking this discussion forward into our next Impact Investing Adopter Forum event in June which will focus on Principle 2 – Selecting Investment Consultants and Managers with Impact Integrity. Given the significant reliance on investment advice from these professional advisers, this will be a must attend event. If you are interested in joining the Forum or participating in the event, please contact Charlotte Tyrwhitt-Drake.