"Is the 'S' in ESG still the poor relative?"

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PENSIONS FOR PURPOSE

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This blog by Karen Shackleton is part of a weekly series from the Pensions for Purpose team. This week, she reflects on social impact and the growing attention on the 'S' in ESG.

For the past 3½ years, I have been heavily involved as the Communications Adviser for a new build of a community centre as part of St. Thomas Church Lancaster. This is a £2.5 million project, to build a new centre from which the church can offer daily support to the local community, including debt counselling, parenting and marriage classes, mental health counselling, parent, baby and toddler groups and much more. What has been amazing is that the congregation have now raised all bar about £200,000 through their personal giving, grant applications and fundraising (on which subject, our next fundraising event is a "Cross Bay Walk" across the sands of Morecambe Bay on 5th June, shown above, with the Queen's Guide. This is something I wholly recommend if you haven't ever done it – find out more and sign up via the link here, if you are interested in joining me… and about 200 others. It is one of the most unique experiences - imagine walking on a bowl of blancmange for 2-3 hours… Morecambe Bay is quicksand, which is why you can only do this with an experienced guide). The phenomenal level of giving to the Heart of the City Project has been fuelled by a recognition that there will be even more social need as we emerge from the lockdown and tight restrictions on our daily life.

The Centre at St. Thomas, Lancaster, under construction.

This growing attention on social need is something I've observed in the institutional investment space, as well. At Pensions for Purpose, we work with pension funds to help them articulate a set of investment beliefs, and we do this using the Sustainable Development Goals as a framework for that discussion. Since the pandemic began, we have noticed that SDG 3 (Health and Wellbeing) has become more frequently identified by pension committees as something that could have a significant impact on risk/return over time. After all, if COVID-19 has not impressed that point, then perhaps nothing will.

Interestingly, I have also noticed a growing desire by pension funds to think about the 'S' in ESG in a more holistic manner, merging in more with the 'E' and the 'G'. Increasingly, pension funds want their managers to align to several different themes, some of which will be Environmental (E), some of which will be Social (S) and some of which will be Governance (G) related. What I anticipate is that investment managers will also begin to think more holistically about the impact of their investments – indeed, that is already beginning to happen. A property manager investing in housing for vulnerable women, will also think about the environmental impact of those houses. An impact fund investing in renewable energy, will also think about community projects that could sit alongside that investment.

When the general interest in ESG began to burn more brightly in investor's minds, it was driven by a desire to consider environmental issues in their investments. I no longer think that is the case. Over the past year, I believe that the 'S' in ESG has surfaced as an equally important driver of risk and returns. It is no longer the poor relative. As to the future, I anticipate that we will see more funds that are labelled "environmentally-led" investments, but highlighting their social/governance features, or "socially-led" but with environmental features. This will, I hope, allow investors to become more closely aligned across **all** their investment beliefs, whilst still achieving their financial goals in an efficient and purposeful manner.

Karen Shackleton

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