Impact Investing Principles for Pensions

IMPACT INVESTING PRINCIPLES *for* PENSIONS

impact investing institute

GIIN

PENSIONS FOR PURPOSE

Impact Investing Principles for Pensions

Introduction

The Impact Investing Principles for Pensions provide an accessible, practical insight into the opportunity presented by impact investing and concrete steps pension scheme trustees (and others managing pension schemes) can take to embark upon impact investing

Definition

impact investments *n.* investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return[1]

Impact investment through these principles is aligned with fiduciary responsibilities. Investing in positive social and environmental solutions, aimed at improving pension members' standard of living,[2] fostering a sustainable living environment or aligning with their beliefs, adds a distinct extra value dimension alongside financial returns. Impact investments should be evaluated against the same portfolio-level financial criteria and expectations as any other investments within a pension scheme.

Each pension scheme will follow its own path for impact investing. The Impact Investing Principles for Pensions are not prescriptive to one approach but flexible for different starting points and circumstances. Some schemes may have more in-house resources to develop an impact thesis (otherwise known as a Theory of Change) and engage in impact-generating activities, or may seek to apply impact investing across the entirety of their asset mix. However, schemes with fewer resources can still contribute to positive outcomes and progress can be achieved incrementally. Continuous learning, monitoring and adaptation are essential for all schemes, regardless of their size.

The Principles were first developed following an analysis of trust law and regulation commissioned by the *Impact Investing Institute* and produced by five leading law firms[3] and were shaped through consultation with representatives from across the pensions landscape. Originally published in 2020, the Principles were updated in 2025 to reflect the changing landscape of impact investing, and the evolving legal and regulatory landscape pension schemes operate under. The update has been a collaboration between the *Impact Investing Institute, The Global Impact Investing Network* and *Pensions for Purpose*.

REFERENCES

1 **The Global Impact Investing Network**, *About Impact Investing*, viewed 29 April 2025, <https://ow.ly/Cqwk50VJOn8>.

2 **Pensions Age (2024)**, *'Groundbreaking' legal opinion provides further clarity on fiduciary duty rules*, viewed 29 April 2025, <https://ow.ly/J4io50VJOlw>. A legal opinion from **Eversheds Sutherland** for pension scheme **Natwest Cushon** confirms member interests extend beyond traditional financial factors to include broader aspects affecting retirement: living standards, health & social care, clean energy, infrastructure and a strong tax base.

3 Bates Wells & Sackers, **Impact Investing Institute, 2020**, assisted by **Herbert Smith Freehills**, **Norton Rose Fulbright** and **Travers Smith**, *The Impact Investing Principles for Pensions*, viewed 29 April 2025 , <https://ow.ly/GOAX50VJRHF>.

Who are the Impact Investing Principles for?

Impact investing is a rapidly evolving area and perfect should not be the enemy of good. The Principles are intended to provide a foundation on which stronger practices and methods can be built over time

The Principles can be used by any type of pension scheme, whether defined benefit (DB) or defined contribution (DC), contract-based or trust-based. The Principles may be adopted and applied by boards of trustees, local government pension scheme (LGPS) committees, independent governance committees, and pension scheme advisers and fiduciary managers across the full spectrum of pension schemes.

Recognising the significant work of asset managers in enabling impact investing, a complementary set of principles can be found within the *Operating Principles for Impact Management*.

How do the Impact Investing Principles work?

The Principles offer a good governance framework which places impact investing in the context of central stages of the investment process. If a pension scheme, adviser or fiduciary manager is interested in formally adopting the Principles, they can sign a statement of commitment through *Pensions for Purpose*.

What are the four Principles?

1 Identify your impact priorities

Identify the main impact priorities that are important to your end-beneficiaries' current and future standard of living, and/or aligned with their beliefs. Assess your current portfolio against these priorities and seek to establish ambitious but credible 'impact objectives' as part of your pension scheme's statement of investment principles (SIP) or policies. Seek to design these objectives to serve the scheme's purpose and communicate them to your beneficiaries.

2 Integrate impact across your mandates

Operationalise your impact objectives by developing an appropriate impact thesis (otherwise known as a Theory of Change) and seek to use this thesis to help appoint advisers, fiduciary managers and asset managers, who are aligned with your investment beliefs. Explore appropriate ways to integrate impact considerations aligned with your impact thesis across your mandates. Also explore ways to incentivise partners to help achieve your impact priorities through their investment strategies and stewardship activities.

3 Contribute to your intended impact

Contributing to your intended impact means using the levers available to you to enable or enhance your intended impact, per your impact priorities and impact thesis (Theory of Change). These levers include capital deployment and engagement, ie stewardship, as well as actions that seek to influence the wider market.

4 Measure, manage & report your impact

Monitor and report progress as best as possible against your impact priorities by identifying relevant impact indicators and benchmarks, with assistance from your advisers, fiduciary managers and asset managers. Be prepared to course correct if appropriate and, at reasonable intervals, review the validity and effectiveness of your impact thesis (Theory of Change), and adjust if required.

Principle 1
Identify your impact priorities

1

Identify the main impact priorities that are important to your end-beneficiaries' current and future standard of living, and/or aligned with their beliefs.

Assess your current portfolio against these priorities and seek to establish ambitious but credible 'impact objectives' as part of your pension scheme's statement of investment principles (SIP) or policies. Seek to design these objectives to serve the scheme's purpose and communicate them to your beneficiaries.

Supporting explanation

Adopting an impact lens helps broaden the view of what may be offered to the pension scheme's beneficiaries. It allows the pension scheme to be attentive and relevant to the needs of all members, young and old, while continuing to respond proactively to preserve and grow the value of the portfolio. Deploying capital using this approach across the portfolio demonstrates the scheme's intentionality in generating positive outcomes for its members alongside financial returns: pension schemes still need to balance and manage impact alongside returns, risks and liquidity to ensure long-term sustainability. It also enables the scheme to consider the world beneficiaries live in, opening up the investable universe and allowing the scheme to pursue investment opportunities that can contribute to improving beneficiaries' standard of living while continuing to deliver the expected financial returns.[1]

The following elements are important in defining and adopting impact priorities:

- **Understand beneficiaries' interests**
  Establish specific impact priorities that are important to the current and future standard of living and values of the pension scheme's end-beneficiaries.

Principle 1 continued
Identify your impact priorities

The scheme should, through evidence-based analysis and potentially appropriate engagement with beneficiaries, establish an understanding of shared social and environmental needs and aspirations. For example, beneficiaries may aspire to retire into a diverse and stable community with thriving local businesses and more open, green spaces; they may hope education will have improved; and they may wish to have contributed to mitigating climate change. The pension scheme can then work with advisers, managers and other professionals to map these needs and values against common frameworks like the sustainable development goals (SDGs) or other analysis of environmental and social trends.

Incorporate into investment philosophies and policies

Integrate these impact priorities into the investment philosophies and policies. These can then inform all aspects of portfolio management, including asset allocation, manager selection and investment measurement.

Define specific impact objectives

Build on the above points to set ambitious but credible impact objectives as part of the pension scheme's SIP. The objectives can initially be more qualitative and directional; however, seek to establish measurable, time-bound targets that reflect a long-term, transitional approach, considering foreseeable risks and opportunities.[2] The objectives can be powerful, particularly if they are clearly linked to the beneficiaries' needs and aspirations. The pension scheme can then communicate these objectives to beneficiaries to ensure transparency and help them understand alignment with the scheme's purpose.

REFERENCES

1 Hand, D & Gilbert, S, The Global Impact Investing Network (GIIN), 2023, *Holistic portfolio construction with an impact lens: a vital approach for institutional asset owners in a changing world*, viewed 29 April 2025 <https://thegiin.org/publication/research/holistic-portfolio-construction-with-an-impact-lens-a-vital-approach-for-institutional-asset-owners-in-a-changing-world/>.

2 Hand, D &; Sunderji, S & Kommineni, U, The Global Impact Investing Network (GIIN), 2021, *Institutional Asset Owners: approaches to setting social and environmental goals*, viewed 29 April 2025, <https://thegiin.org/publication/research/institutional-asset-owners-approaches-to-setting-social-and-environmental-goals/>.

Principle 2
Integrate impact across your mandates

2 Operationalise your impact objectives by developing an appropriate impact thesis (otherwise known as a Theory of Change[1]) and seek to use this thesis to help appoint advisers, fiduciary managers and asset managers who are aligned with your investment beliefs.

Explore appropriate ways to integrate impact considerations aligned with your impact thesis across your mandates. Also explore ways to incentivise partners to help achieve your impact priorities through their investment strategies and stewardship activities.

Supporting explanation

Each asset class within a scheme's portfolio offers different opportunities to contribute to the impact and financial objectives. Developing an impact thesis can help with prioritisation across the whole portfolio, by outlining the logical steps to delivering against the the scheme's impact objectives. This framework assists the scheme in determining its strategy to contributing to its impact objectives and identifying key investment opportunities to pursue within different parts of the portfolio. The impact thesis can help guide the scheme in integrating impact into its different mandates and provide the foundation for consistent instructions to multiple managers. This can ensure a unified approach to assessing, managing, and reporting on impact across a diverse portfolio.

The pension scheme can choose to focus on impact expectations to varying degrees within its portfolio: it can integrate impact broadly across mandates, establish dedicated ('carve out') impact mandates, or use a combination of both approaches. Either way, investments made with the intention to contribute to the impact strategy should align with the impact thesis and be actively managed accordingly. Applying an impact strategy across a portfolio does not imply every investment is an impact investment or every investment will contribute to the specific impact objectives.

Principle 2 continued

Integrate impact across your mandates

Instead, it allows for conscious decision-making about the scheme's contribution to its impact objectives, with a clear understanding of the implications for beneficiaries.

When appointing investment consultants and managers, the pension scheme can incorporate impact expectations into mandates, emphasising its desired contribution to specific impact objectives aligned with the impact thesis.

Investment consultants & fiduciary managers

The pension scheme can expect its investment consultants or fiduciary managers to understand the scheme's desired investment approach in relation to its impact beliefs. A good consultant or fiduciary manager will support the pension scheme to identify and incorporate appropriate impact objectives into its policies. They will advise on strategies and approaches to achieve the scheme's impact objectives, understanding the financial implications of the wider environmental and social impacts of the portfolio and individual investments.

Investment managers

The pension scheme can consider whether prospective managers have the right people, processes and products to manage impact risks and opportunities proactively. Ensuring managers have a robust, credible impact management system can equally be a core part of the due diligence process.[2] Managers should measure and report on the impact of their portfolio in compliance with relevant regulations, demonstrating their alignment and contribution to the scheme's impact thesis and impact objectives. The performance of the investment managers and the portfolio against the scheme's impact objectives should be regularly monitored and reviewed. The pension scheme may also expect its managers to provide information and training on sustainability and impact issues.

REFERENCES

1 **Center for Theory of Change**, *What is the Theory of Change?* Viewed 29 April 2025, <https://www.theoryofchange.org/what-is-theory-of-change>. *According to the Center for Theory of Change, a Theory of Change is a structured process where stakeholders collaboratively identify the necessary conditions for achieving long-term goals, mapping these as outcomes in a causal framework. It provides a clear illustration of how and why desired changes are expected to occur, bridging the gap between programme activities and the achievement of final objectives.*

2 **Operating Principles for Impact Management**, *The Impact Principles – The global standard for integrating impact throughout the investment lifecycle*, viewed 29 April 2025 <https://www.impactprinciples.org>. *These operating principles could be used as a reference point.*

Principle 3
Contribute to your intended impact

Contribute to your impact

3 Contributing to your intended impact means using the levers available to you to enable or enhance your intended impact, per your impact priorities and impact thesis (Theory of Change). These levers include capital deployment and engagement, ie stewardship, as well as actions that seek to influence the wider market.

Supporting explanation

To ensure integrity, it is important to understand how the scheme aims to enable or enhance its intended impact. It is essential to distinguish between the impact companies have through their processes, products and services, and how the pension scheme contributes to this. The scheme can benefit from clearly articulating a credible narrative on how it seeks to make a difference. The main types of investor contributions include:

Capital deployment

Capital provided can be a significant part of a credible investor contribution strategy. This can include both choice of asset class and the specific conditions attached to it. The pension scheme can also consider using a diversified asset classes approach, with a view to creating synergies and complementarity that may increase the overall contribution towards an impact priority. The timing and holding period can also be a factor. Entry strategies might involve counter-cyclical considerations or early-stage investments to catalyse innovation and growth, while exit strategies can consider the sustainability and scaling of the impact post-investment. A patient holding period may provide the stability and support needed for the investees to achieve and solidify the intended impact. Beyond asset class allocations and timing, the pension scheme can also consider including hard conditions in its terms, eg performance-linked terms or milestone-based disbursements, or soft conditions, eg explicit agreement on shared intention or simply regular impact data reporting and communication.

Active engagement

Pension schemes operate large pools of assets and can use their voice – either directly or through their investment managers – to effect change. Through engagement, investors (directly or through delegated agents) can engage with investees to improve corporate performance on environmental and social issues. This approach extends impact investing beyond the direct financing of beneficial products and services to include improving corporate behaviour and achieving impact goals. Stewardship encompasses voting on key resolutions and robust engagement with companies on impact objectives, which may raise risks or create opportunities relevant to their business model, practices and prospects. Various engagement methods are available, even for asset classes where voting rights are limited or the pension scheme does not have a sufficient holding to exert influence on its own.

Principle 3 continued

Contribute to your intended impact

The pension scheme should align its stewardship frameworks and guidelines with its impact objectives, including regular monitoring of consistency with the scheme's beliefs and priorities. If the scheme has the authority to vote or engage directly, it should have an effective system in place. If the scheme is delegating many stewardship activities to consultants or managers, it can collaborate to develop stewardship guidelines, expectations and reporting that reflect its impact beliefs and objectives. Simply delegating stewardship and engagement to managers may be inadequate and the pension scheme should prioritise stewardship and engagement areas when selecting or reviewing providers. The scheme can publicly disclose its stewardship activities, providing transparency around how these efforts align with its impact objectives and encouraging greater accountability.

Government guidance encourages trust-based schemes to include a statement in their SIP explaining how they communicate their stewardship approach and priorities to managers.[1] Moreover, alongside the legal reporting responsibilities in the SIP and Implementation Statement,[2] there are significant new best practice and regulatory expectations on pension scheme stewardship in the *Financial Reporting Council's* 2020 Stewardship code. The code requires signatories to consider material sustainability factors, including climate change and systemic and market-wide risks, when fulfilling stewardship responsibilities.[3] The 2020 update also extends these requirements to include asset classes beyond equities.

Wider market effects

Pension schemes can influence broader market behaviours and norms through their actions. By signalling preferences and setting examples, they can encourage other market participants to consider opportunity sets they may have neglected to review in the past or to recognise an additional dimension of value to consider within their investment strategies. This may involve advocacy for policy changes, industry-wide initiatives or collaborative efforts to create favourable market conditions (provided these are conducted through proper and lawful processes) – there are many examples of such actions creating tangible change.[4] Additionally, the choice to commit capital to an investment shows confidence in the prospects of a company. When a reputable pension scheme invests into a company, it validates the impact potential and financial viability, potentially attracting additional capital and interest. Reputational support, such as a cornerstone investment in a first-time fund manager, can enhance credibility. Actively assisting with crowding in capital, by serving as a lead lender for a syndicated debt transaction, demonstrates commitment and may help attract other investors. Also, pension schemes can actively engage in influencing or creating market standards to mitigate risks and bring systemic change, enabling scaling-up of investment in positive solutions.

REFERENCES

1 Department for Work and Pensions, 2022, *Reporting on stewardship and other topics through the Statement of Investment Principles & the Implementation Statement: statutory and non-statutory guidance, para. 43,* viewed 29 April 2025, <https://bit.ly/44fUtgK>.

2 The Pension Protection Fund (Pensionable Service) & Occupational Pension Schemes (Investment and Disclosure) (Amendment & Modification) Regulations 2018, *viewed 29 April 2025, <https://www.legislation.gov.uk/uksi/2018/988/contents>*

3 Financial Reporting Council, 2020, *The Stewardship Code, p4, 'What is stewardship?' viewed 29 April 2025, <https://ow.ly/V2th50VJGLO>*

4 UN Environmental Programme, 2024, *Legal Framework for Impact report, p83*, viewed 29 April 2025, <https://www.unpri.org/download?ac=21308>. *For more on collaborative action.*

Principle 4
Measure, manage & report your impact

4

Monitor and report progress as best as possible against your impact priorities by identifying relevant impact indicators and benchmarks, with assistance from your advisers, fiduciary managers and asset managers. Be prepared to course correct if appropriate and, at reasonable intervals, review the validity and effectiveness of your impact thesis (Theory of Change) and adjust if required.

Supporting explanation

Many schemes need to explain in detail how far their investment policies and objectives have been fulfilled in their annual Implementation Statement: measuring and reporting impact is a key part. Beyond compliance, credible, relevant impact measurement is critical to understand what real-world change the scheme has contributed to and thus avoid the risk of impact washing. Measuring and reporting actual progress can be considered against four comparison points, with support from the investment managers:

1 Own impact objectives.
2 Past impact performance.
3 Peer groups.
4 The social and/or environmental change needed to achieve global development goals (for example, SDG targets).[1]

The investment horizon of a pension scheme is usually in decades (although this time frame may be considerably shorter for corporate DB schemes, for example). The pension scheme's evaluation of value – financial, environmental and social – should take an appropriately long-term view. The reporting framework should be guided by the impact thesis and be stable and consistent enough for reliable data to be run and gathered over a meaningful period, such that progress can be monitored, managed and reported appropriately over time and reflect the extent to which capital is achieving the social and environmental outcomes it seeks.

Measure the relevant impact

The pension scheme can ask for relevant, robust and clear reporting from its investment consultants and managers to assess how it is achieving its social and/or environmental objectives and its performance relative to peers and thresholds.

Principle 4
Measure, manage & report your impact

This will also aid in assessing the extent to which the scheme is fulfilling its purpose and help guide decision-making. The pension scheme is encouraged to use existing standardised impact metrics as much as possible for data collection,[2] aligned with its impact thesis.

Manage and act upon the impact

To secure a good understanding of impact, it needs to be placed in the context of its priorities, impact thesis and external relevant goals/thresholds (for example SDGs, Paris Climate Accord, etc). The pension scheme can consider its performance along three angles of impact: the scale (point in time), pace (change over time) and efficiency (impact per capital invested). Using these three analytics will allow schemes to consider the magnitude, speed and resource efficiency of their impact results.[1] The basis for this analysis can be the impact data received from the consultants and managers, but might be supplemented as appropriate by third-party data providers. The aim of this analysis is to enable the scheme to manage its capital more effectively to achieve financial returns and the intended social and environmental outcomes. By leveraging tools within its control, such as capital deployment and engagement mechanisms, the scheme can manage toward greater impact.

Report the impact

Although global reporting standards for impact measurement, management and reporting do not yet exist, market infrastructure and practice are developing rapidly, supported by an evolving body of sustainability reporting regulation. Examples already in force or forthcoming include mandatory *Taskforce on Climate-related Financial Disclosures (TCFD)* for many pension schemes and other areas of the UK economy, the *EU Sustainable Finance Disclosure Regulation (SFDR)*, the *EU's Corporate Sustainability Reporting Directive (CSRD)*, plus UK *Sustainability Disclosure Requirements (SDR)*. As market practice continues to develop, pension schemes and their advisers will need practical solutions. The pension scheme can ask its investment providers to keep it informed of developments, eg, *Taskforce on Nature-related Financial Disclosures (TNFD)* or new data sources that may allow improved monitoring and reporting of the scheme's impact.

REFERENCES

1 Bass, R, et al, The Global Impact Investing Network (GIIN), 2019, *Compass: the methodology for comparing and assessing impact*, viewed 29 April 2025, <https://thegiin.org/publication/research/compass-the-methodology-for-comparing-and-assessing-impact>.

2 The Global Impact Investing Network (GIIN), IRIS, viewed 29 April 2025, <*https://iris.thegiin.org/*>. For example.

About the organisations

Impact Investing Institute

The *Impact Investing Institute* is an independent, non-profit organisation working to transform capital markets so we support a fairer, greener, more resilient future. We see impact investing as an effective way to achieve that transformation and so we work to accelerate the field, both in the UK and globally. We come up with innovative solutions that help private finance address societal challenges and we grow the field of impact investing by building expertise across financial markets. We work with investors and their advisers to move more effective capital for the benefit of people and the planet, and we advocate for regulatory and policy environments that allow the impact investing market to thrive.

Visit our website: www.impactinvest.org.uk
Follow us on LinkedIn: Impact Investing Institute
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The Global Impact Investing Network (GIIN)

The GIIN is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. *The GIIN* builds critical infrastructure and supports activities, education and research that accelerate the development of a coherent impact investing industry. Together with its network of members, *the GIIN* helps mobilise impact investing by convening impact investors to facilitate knowledge exchange, highlight innovative investment approaches, build the evidence base for the industry, and produce valuable tools and resources. *GIIN* membership provides exclusive access to a network of leading impact investors, including valuable expertise, resources and opportunities to shape the future of impact investing.

Visit our website: www.thegiin.org
Follow us on LinkedIn: The Global Impact Investing Network
Email us: info@thegiin.org

Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Our aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks. We guide pension funds and other institutional investors on their journey through the spectrum of capital towards embracing impact investing as a philosophy. We have been growing our Community of over 465 organisational members and 1,550 individuals since 2017 bringing together stakeholders to promote understanding of environmental, social and governance, sustainable and impact investment. The Impact Investing Principles sit within one of our curated Ecosystem Themes, Impact Integration.

Visit our website: www.pensionsforpurpose.com
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