



CFA Society
United Kingdom



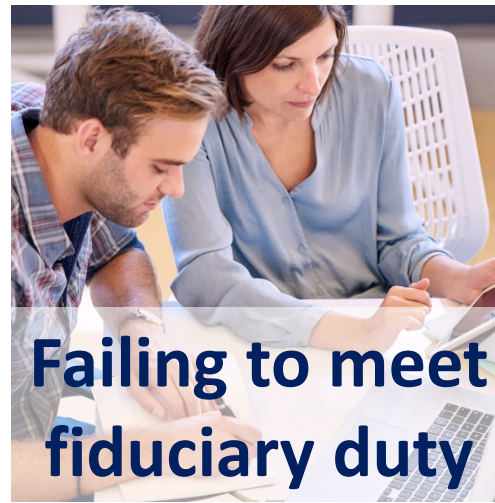
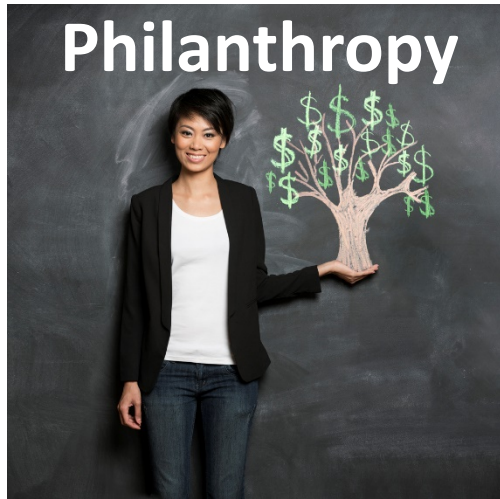
The potential for pension assets to deliver social impact

Karen Shackleton
Founder, Pensions for Purpose

11th June 2018

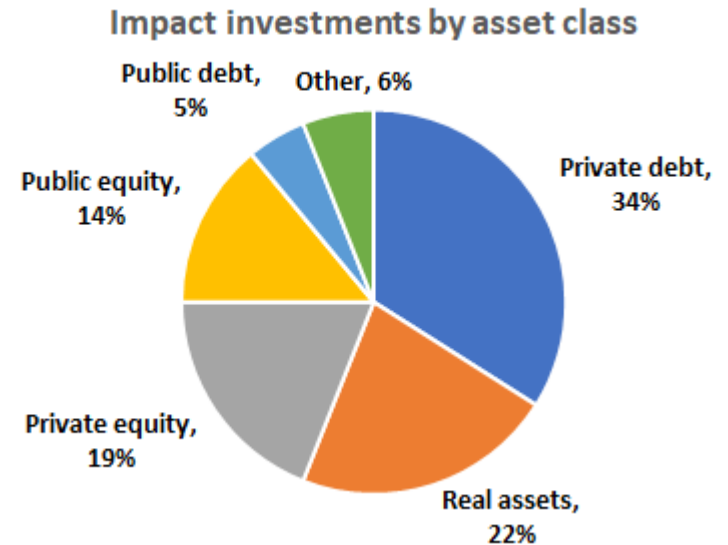
Mythbusters

Impact investment does not mean...



Impact investment

- Offers a financial return
- Intentionally generates a positive impact (social or environmental)
- Measures both the financial return and the social/environmental impact
- Covers the full range of different asset classes
- Already forms part of the investment strategy for many pension funds
- Constitutes at least £150bn of assets *(Source: FT)*



Source: GIIN 2017 Annual Impact Investor Survey

Impact investment trends around the world

Australia:

- 2016 Impact Investing Australia survey (impactinvestingaustralia.com)
 - 56% of institutional investors had impact investments
 - 57% of these had an allocation of less than 5%
 - A third allocated over 10%
 - Clean energy, health and housing/homelessness key impact concerns
 - First State Super, HESTA and Christian Super are trailblazers in impact investment



Case study: Christian Super

- **Pension fund:** 25,000 members AUM of around £900m
- Invest in impact investments globally
- Dedicated impact allocation of 10%, rising to 12% in 2018
- First investment was in renewable energy
- Also invest in sustainable agriculture, community infrastructure, venture capital and social benefit bonds (environmental ➡ social impact)
- Performance benchmark of inflation +4% per annum
- Impact portfolio returned 6.5% p.a. after fees - six years ending 31 December 2016

“We are often challenged with questions as to whether it’s actually possible as a fiduciary to build a viable impact portfolio, but I think that our track record is sufficient to dispel that myth.”



Impact investment trends around the world

USA:

- Global Steering Group on impact investment:
 - \$8.7 trillion of assets in the US that “feature impact investing considerations”
- US Sustainable, Responsible and Impact Investing Trends 2016
 - Gender lens investing gaining popularity \$397bn in assets
 - Community investing popular (\$122bn in assets)
- Case study for New York State currently being written up for the Pensions for Purpose website



Impact investment trends around the world

Europe

- A number of leading pension funds are moving allocations towards impact investment.
 - Unilever intending to move 5% over two years
 - Previously allocated 1% in green bonds and carbon-optimised listed equities
 - PGGM has invested \$11.7 billion - four SDGs themes: climate, food security, water scarcity and health
 - Targeting \$23bn by 2020
 - Involved in Bridges Impact Plus project to discuss measurement and management of impact



Impact investment trends around the world

UK

- Local authority pension funds have begun allocating to impact investments
 - E.g. Greater Manchester, Merseyside, EAPF, West Yorkshire
- Corporate DB pension fund take-up is still slow
 - Only 7.5% had allocated to impact in a survey by MJ Hudson Allenbridge
- DC funds are beginning to offer impact funds as optional investments - yet to embed in their default funds but...
 - 87% were in favour of an allocation of up to 5% in their default fund (MJ Hudson survey)
- Government and agency interest in promoting social impact investment. "Growing a culture of social impact investment in the UK"

Case study: Merseyside Pension Fund

- **Pension fund:** 131,000 members and assets under management of around £8.3bn
- Dedicated impact allocation of £50m, across seven investments (still only 0.6%)
- Mainly private equity, property and special opportunities, with an interest in local issues
- E.g. investment in a social impact bond preventing 14-19 year-olds in the Merseyside region from becoming NEET (not in education, employment or training)
- Impact investments have offered reasonable risk-adjusted returns to other holdings with good diversification

“Social impact or thematic investing may provide access to diverse opportunities, uncorrelated to other assets, and can deliver acceptable risk-adjusted returns.”



Barriers to entry: MJ Hudson Allenbridge

Market research for DCMS

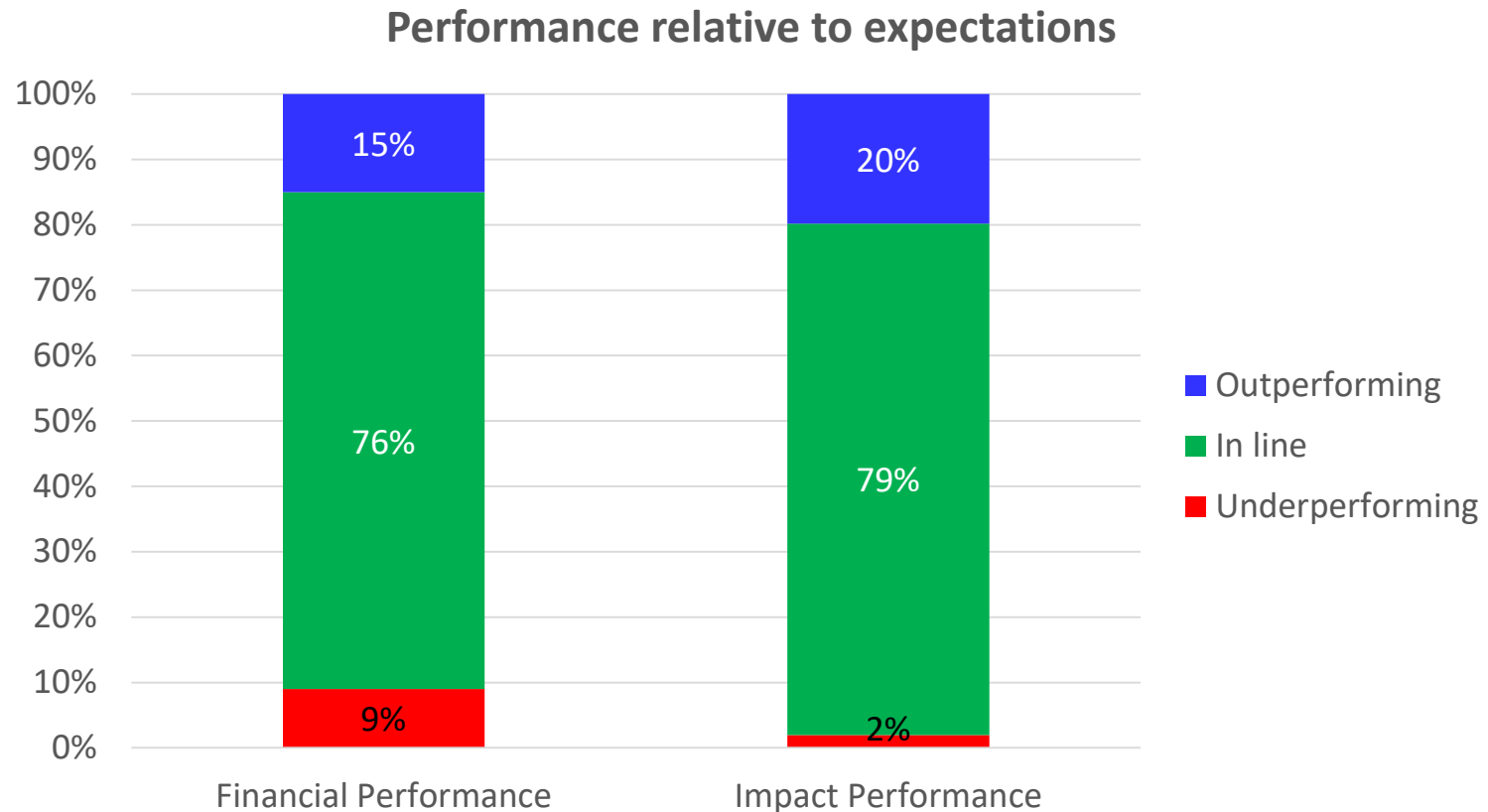
- **Knowledge:** 64% lacked knowledge
- **Data:** 82% lacked risk/return data
- **Consultants:** 68% relied on consultants... who had not mentioned impact investing
- **Regulatory change:** nervous about moving goal posts
- **Reputation risk:** e.g. social housing
- **Strategy uncertainty:** how to treat it?

The trustees feel nervous if they don't understand what they are investing in.

We looked at social housing but the reputational risk involved outweighed the advantages and we didn't invest. The blame can often fall on the investor rather than the manager in this sphere.

Fiduciary responsibility

The financials of impact investment



Source: GIIN



Too much focus on the headline return?

- Secure cashflows
- Inflation protection
- Genuine diversification with the traditional asset classes
- Addressing environmental, social and/or local issues with positive impact

GMPF

Through our property fund we have the twin aims of generating a commercial rate of return and supporting the area.

EAPF

We set ourselves the target to maintain at least 25% of our investments in clean technology and other sustainable opportunities.

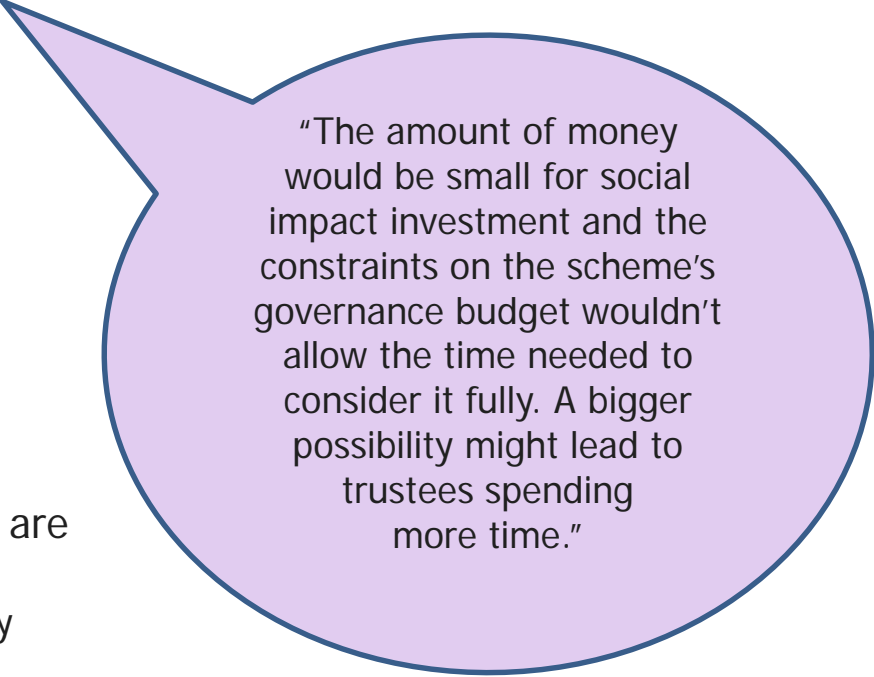
My home is probably the best privately rented home I've ever had...

**Resonance
beneficiary**



Are impact investments scaleable?

- A challenge for impact managers – how to scale their investments
- Listed markets – generally not a problem
- Investing with impact vs. investing for impact
- Harder to scale unlisted investments that are investing for impact but can be done
 - E.g. replicate in a different region/country
 - E.g. replicate in a different sector
 - E.g. include some less impactful (but scaleable) investments



“The amount of money would be small for social impact investment and the constraints on the scheme’s governance budget wouldn’t allow the time needed to consider it fully. A bigger possibility might lead to trustees spending more time.”

Impact measurement

- Many managers beginning to measure their impact against the Sustainable Development Goals (SDGs)
- Can lack granularity – these are strategic goals
- Important for impact managers to provide quantifiable evidence of impact success
 - E.g. number of homeless people housed
 - E.g. number of affordable housing units supplied
 - E.g. amount of renewable energy generated
 - E.g. number of people in developing countries given digital access
- Questions for a pension fund reviewing an impact manager:
 - Has my manager delivered to the financial objectives of the fund?
 - Can I quantitatively assess the impact my manager is having?
 - If yes, are they meeting expectations of achievable impact?
 - And are they improving over time?

A pension fund's path to impact investment

- Begins with a review of ESG
 - Policy agreed
 - Discussion with managers
 - Engagement approach
 - Voting policies
- Socially responsible investment discussion
 - Divest?
 - Lower carbon footprint?
- Consider impactful investment approach
 - Global or domestic impact?
 - Environmental or social or local impact?
 - Embedded in all asset classes or a focused sleeve?
- Appoint managers, implement... then monitor
 - Measure both financial and impact returns



A call to action – what can we do?

- Become informed – learn about impact investment across different asset classes
- Gather and share financial and impact performance data, if you run impact funds of your own
- Encourage your clients to keep an open mind – invite them to join Pensions for Purpose!
- Don't dismiss the smaller managers in this space – many have decades of experience in impact investment

For more information about impact investment...



A collaborative initiative between impact managers, pension funds, social enterprises and others involved or interested in impact investment



Risk warning

Pensions for Purpose (www.pensionsforpurpose.com) provides an online platform for our Influencer Members, who are professionals within the pensions sector, to upload features, case studies, blogs, research papers and other information relating to impact investment for use by the general public and Affiliates (asset owners, government bodies, independent advisers and journalists).

Information on the website will in part be available to all users, but some sections will be available to Affiliates only.

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