

The Importance of Investor Beliefs

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I recently attended an LGPS conference where delegates were given the task of prioritising their top three Environmental, Social and Governance (ESG) factors. From a choice of some 28 different issues, in first place was “Sustainability”, followed by “Alignment of interests between executives and shareholders”, followed by “Transparency and Disclosure”.

This was an interesting discussion and on a topic that I have been mulling over for a while. Over the past 18 months or so, many LGPS funds have been on the receiving end of successful campaigns by groups such as “Friends of the Earth”, urging their local LGPS investment committees to divest from fossil fuels. The arguments have been thoroughly researched and are clearly conveyed. The presenters are educated, polite and professional and, as an independent investment adviser, I have been impressed by their investment knowledge on this topic.



One of the great advantages of the LGPS, with its public meetings, is that most of the investment discussion is open and transparent, with minutes shared publicly on the local authority website. Yet, putting aside my own personal views on the topic of divestment, I have had a growing concern that the “fossil free” debate is resulting in a campaign-led investment strategy. In my view, this is not optimal. Instead, the investment strategy should be derived from the pension fund’s investor beliefs, so that any decisions on issues such as divestment flow through naturally from that policy statement. Ultimately, it leads to strengthened governance and improved decision-making.

Articulating investor beliefs in a concise list of ten or so bullet points takes time and effort. Most funds set out their views on financial considerations (for example, diversification, risk, active management). They may also set out governance considerations. Some even have a short paragraph setting out their views on ESG or responsible investment. Yet perhaps it is time to review this last topic, to discuss and agree a new set of beliefs for the pension fund, by asking questions such as:

- How do we believe that ESG impacts our investments?
- How do we align short- and long-term goals for the fund?
- How can we achieve a sustainable pension fund for future members?
- How concerned are we about reputation risk?
- Do we want to incorporate member views into our strategy?
- Do we want to become more intentional (impactful) in our investments?
- How do we plan to measure the impact of our responsible/impact investment?
- How do we want to incorporate climate change risk?
- Do we believe that gender diversity will improve returns?
- How might we incorporate the needs of those in emerging economies into our investments?



This list is far from comprehensive, but it gives a flavour of the sort of topics that might be discussed as part of a review of a pension fund's Responsible Investment Beliefs. They are not easy to articulate, even harder to agree. However, a pension fund committee that spends time writing a clear statement will then be able to defend its beliefs-led investment strategy more robustly, when challenged by campaign groups who come to the meeting with a call to action.