impact investing institute

Impact Investing

Impact Investing Principles for Pensions

What are the Principles for?

The **Impact Investing Institute** (Institute) has designed the *Impact Investing Principles for Pensions* to help pension schemes navigate and respond to the significant shift in understanding of environmental, social and governance (ESG) risks and opportunities.

Society as a whole is generating negative impacts which present systemic risks to the broader economy, in the form of carbon emissions, biodiversity loss, poor governance and inequality. Many pension schemes will want to consider what actions they can take to reduce negative impacts arising from, and impacting on, their portfolio, and to search for positive impacts which provide financial opportunity.

Thus, considering impact – or *changes in social, environmental, and economic outcomes caused by an organisation's activities* – as part of a pension scheme's portfolio investment and engagement activities will contribute to a prudent response to managing financial risk to pension portfolios.

The Principles draw on analysis of trust law and regulation in a legal paper commissioned by the Institute and produced by five City law firms.[1] The paper sheds light on the compatibility of pension scheme trustees' investment duties and impact investing – in other words, ***why and how trustees might invest with the intention to generate positive, measurable social and environmental impact alongside a financial return***.[2]

Who are the Principles for?

Although the underlying legal paper focuses on trustees, the Principles and their recommended actions can be used by any type of pension scheme, whether defined benefit (DB) or defined contribution (DC), contract-based or trust-based.

The Principles are for trustees, LGPS committee members, advisers and in-house investment teams across the full spectrum of pension schemes. However, we also recognise the significance of the role played by investment consultants, fiduciary managers and asset managers in enabling the implementation of these Principles.

How do the Principles work?

The Principles offer a good governance framework which tackles the investment process at every stage in the investment chain – from how pension schemes can put in place objectives and set an implementation framework, to how to hold investment consultants and managers to account, to how to report on what is being achieved through a balanced measurement framework. They have been written in consultation with the full breadth of representatives across the pensions landscape for whom they are designed.

This document provides an introduction, explanation of each Principle, recommended actions and resources. We have also produced a short form version containing just the Principles and actions, which is designed to aid discussion with advisers and at investment committee meetings.

1 The paper was written by Bates Wells and Sackers, with the assistance of Herbert Smith Freehills, Norton Rose Fulbright and Travers Smith; all firms are members of the Impact Investing Institute's Legal Panel.
2 Global Impact Investing Network

Impact Investing:

Impact Investing Principles for Pensions

1

Set impactful objectives:

establish and incorporate 'impact objectives' as part of your pension scheme's statement of investment principles (SIPs) or policies, which can be explained to your members and are designed to serve the scheme's purpose.

2

Appoint investment consultants and managers with impact integrity:

identify and appoint investment consultants who are aligned with your investment beliefs and objectives, and fiduciary and/or investment managers who can achieve your scheme's impact objectives through their investment and stewardship activities.

3

Use your voice to make change:

progress your impact objectives by formulating stewardship guidelines for your, or your investment manager's, voting and engagement activities.

4

Manage and review your impact:

monitor progress against your impact objectives by identifying relevant indicators and benchmarks, assisted by your investment managers.

Introduction

The Purpose of Pensions

The purpose of pension schemes is to provide retirement benefits for their members. They achieve this through contributions made by employers and members; a covenant from the sponsoring employer (in the case of DB schemes); as well as employing different investment management services and strategies, often via third parties, to provide a required financial return.

As pension schemes are subject to multiple sources of risk and opportunity it is crucial that all material risk factors are taken into account.

The risks faced are known, material and need to be addressed

Recent International Monetary Fund research has shown that current stock prices do not reflect future climate risk.[3] Most investment strategies operate within the risk/return paradigm, and systemic risks posed by factors such as climate change or social inequality are not fully integrated into investors' portfolio models. This creates a potential blind spot when it comes to financial risks and opportunities.

While these risks were originally 'unknown unknowns' within the economic system, we are fast becoming more knowledgeable about them and their financial materiality. We now have much more data around ESG practices, and this transparency means companies can be penalised or promoted depending on how they act, either by government or investors. There is increased regulation of companies that have negative impacts, which forces them to absorb costs they previously externalised, as well as encourages them to seek solutions which align with the environment and society.[4]

To manage these risks and improve investment evaluation, investment managers have introduced ESG criteria, to assess the negative impacts of investee companies' activities. Managers may also engage with companies to promote better practices to preserve shareholder value.

Adopting a 'transitional mindset'

Thus, pension schemes will want to adopt a 'transitional mindset'. Transitional thinking includes *mitigating financial risk* by identifying companies that are vulnerable to changes in societal attitudes, law, policy and practice as a result of their negative impacts. For example, companies that fail to adapt their activities to align with a future carbon neutral economy; fail to address concerns over equality, human rights and decent work conditions within their own activities or supply chains; or produce products or services that are detrimental to health or wellbeing.

Transitional thinking also includes *seeking financial opportunities* by identifying companies that may be more resilient, future-fit and able to benefit from the shift towards more sustainable economies as a result of their positive impacts. For example, companies developing renewable energy, tackling waste, advancing education, and improving health.

Environmental and social impacts can therefore be material to a company's ability to create financial value and also provide significant financial opportunities as we find more efficient and effective ways of living in a sustainable world.

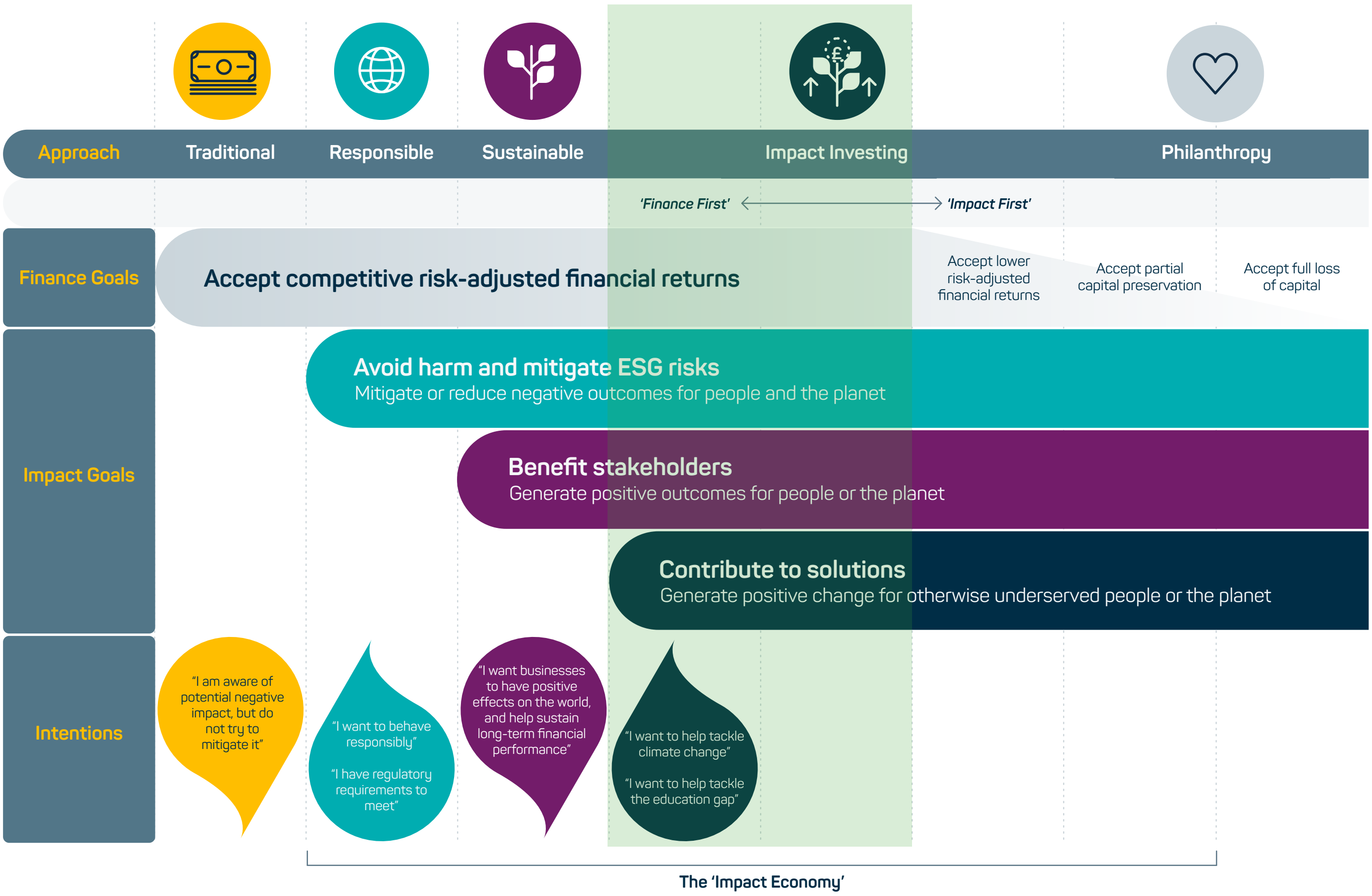
3 International Monetary Fund, Global Financial Stability Report, April 2020, chapter 5
4 https://www.lse.ac.uk/granthaminstitute/publication/the-impacts-of-environmental-regulations-on-competitiveness/

Why impact investing?

Impact investing is taking into consideration and managing potential ESG risks and, critically, deciding to invest specifically "with the intention to generate positive, measurable social and environmental impact alongside a financial return". The investor is aware of the impact their investment has and seeks to mitigate risks as well as generate specific positive outcomes through their allocations, such as achieving net zero carbon emissions, eliminating biodiversity loss or contributing to good pay practices.

The Spectrum of Capital (provided below) shows how impact investing sits alongside other well-known investment approaches. The difference between traditional and responsible investing is relatively well understood and has led to widespread ESG strategies to mitigate risks from negative impacts. However, it is the focus on intentionality to create a particular impact at the outset and the measurement of outcomes that differentiates the impact investment approach from responsible and sustainable investing.

The Spectrum of Capital



Source: Bridges Fund Management and Impact Management Project.

Pension schemes in the UK and throughout the world are finding competitive investments across a range of sectors and asset classes that provide capital growth, income or diversification as well as a positive impact. Hence, there can be sound financial reasons for making impact investments. They can both contribute to the sustainability and resilience of people and planet and increase prospects for long-term capital growth and performance of pension fund assets over time.

A scheme could look to mitigate the risk of climate change and contribute to affordable clean energy and climate action, by investing in renewable energy or waste treatment and recycling.

A scheme could look to mitigate the reputational risks of being invested in companies that pay and treat their workers poorly and contribute to decent work and economic growth and reduced inequalities, by investing in companies with leading ESG practices.

Why Now?

Wildfires in Australia and California, deforestation in the Amazon rainforest, flooding across Europe, the Coronavirus pandemic, microplastics in our oceans, social inequality leading to significant political change: these risks do not just exist in the future. Consider, for example, the researched links between biodiversity loss and the Coronavirus pandemic[5] demonstrating the significant economic consequences of ignoring these risks and carrying on as normal.

The key reasons for pension schemes to consider impact investing are:

- **Protect members' benefits:** impact investing by definition helps a pension scheme understand the extent of the negative and positive impacts it is having on people and the planet, giving pension schemes the opportunity to review and adjust their policies over time to protect their members' benefits.
- **DC consolidation:** consolidation provides an opportunity to do impact investing at scale. Pooling of assets provides DC schemes with the opportunity to operate in a more agile way within the fee cap as well as offering access to alternative investment options, such as green infrastructure, renewable energy or social housing.
- **DB systemic risk exposure:** although more mature, DB schemes have a responsibility to every member right down to the last member paid. This requires a long-term mindset, which means that these schemes are also susceptible to systemic risks which pose a threat to their financial stability. Impact investing provides an opportunity for better risk diversification and asset growth with clearer mapping onto internationally agreed goals for the transition to a sustainable economy.
- **New regulation and guidance:** trust-based and contract-based schemes are required to include policies in relation to financially material ESG considerations, stewardship engagement activities with investee companies, and arrangements with asset managers – including on ESG issues. They must also publish an implementation report, including how they have acted on their policies. The Financial Reporting Council's 2020 Stewardship Code requires asset owners to report on their stewardship activities and outcomes, including how they take account of material ESG factors. Moreover, the UK will become the first country in the world to make disclosure of the Task Force on Climate-related Financial Disclosures (TCFD) fully mandatory across the economy by 2025.
- **DC Member demand:** DC scheme members are becoming more engaged in the sustainability of their investments and want to understand how their money is being invested, e.g. the Make My Money Matter campaign, launched in 2020.

The Principles

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

5 OECD Policy Responses to Coronavirus (COVID-19) Biodiversity and the economic response to COVID-19: Ensuring a green and resilient recovery, 28 September 2020

Principle 1: Set impactful objectives

Establish and incorporate 'impact objectives' as part of your pension scheme's statement of investment principles (SIPs) or policies, which can be explained to your members and are designed to serve the scheme's purpose

Explanation

The purpose of a pension scheme is to provide benefits to the members of the scheme. It will then set objectives to achieve this purpose. *This is not synonymous with chasing the highest short-term investment returns.*

Pension schemes should set clear, measurable and timely objectives. This includes grounding investment theses in the context of a long-term, transitional mindset on return and risk. It is not possible to predict the future. However, it is possible to plan for foreseeable outcomes and to model for these scenarios. A 'transitional mindset' means identifying and managing the risks and opportunities presented by changes to specific assets or sectors and/or from macro or systemic developments – such as the move towards a net zero carbon economy and other societal transitions. These changes will be caused by and/ or identified through shifts in societal attitudes, law, policy and practice, and will have a significant impact on business and investment performance.

The below table shows how an impact investment thesis and actions can be developed. (Please note that this does not constitute investment advice and requires input from your investment consultant/adviser.)

Investment thesis	Example investments	SDG
Risk: Climate change and the response of policy makers has the potential to impact on the financial markets Opportunity: Changes in regulation on climate change and the market environment are providing an investment opportunity for clean energy	✓ Engage with existing companies to promote better practices, align with net zero goals and to limit impact on climate ✓ Invest in solutions such as renewable energy ✓ Consider disinvestment where there is a significant risk of the asset becoming stranded	13 CLIMATE ACTION Primary focus: ✓ SDG 13 - Climate Change 7 AFFORDABLE AND CLEAN ENERGY Creates opportunity to also impact: ✓ SDG 7 - Affordable and Clean Energy
Risk: Biodiversity loss is posing a risk to people's health and bringing us in closer contact with disease (e.g. COVID-19), significantly impacting the global economy Opportunity: Investment options emerging in timber and agriculture which employ sustainable practices and provide solutions to biodiversity loss	✓ Engage with existing companies to limit deforestation and promote activities which support biodiversity ✓ Invest in companies which provide solutions by planting trees, maintaining or developing animal habitats, and practising sustainable agriculture ✓ Consider reducing exposure or disinvesting where actions are not taken	15 LIFE ON LAND Primary focus: ✓ SDG 15 - Life on Land 2 ZERO HUNGER Creates opportunity to also Impact: ✓ SDG 2 - Zero Hunger

In the context of trust-based pension schemes, trustees may take account of any factor which is financially material to the objectives they have set. This clearly permits positive impact investments which meet relevant financial criteria and would permit an impact investment strategy which is geared to managing investment risk and exploiting investment opportunity. However, other factors may be considered too, such as diversification, avoiding volatility at inopportune moments for the member, and providing sufficient liquidity to meet member demands.

Pension schemes may also want to consider how investing with impact can improve member engagement. In many cases, pension schemes might have cause to believe that the scheme's members would have a specific preference for investments which have a positive impact on people and the planet. They may wish to consult members or use their already agreed impact investment beliefs as an engagement tool to draw comment from members (particularly in relation to DC schemes).

Importantly, in terms of portfolio benefits, pension schemes may also believe that certain impact investments have the potential to improve the diversification of the portfolio due to a low correlation with mainstream assets, and may wish to take advantage of this as part of a larger investment strategy. A pension scheme's investment objectives will lead to different asset allocations over time and the impact factors that are most relevant and financially material to the objectives and allocation may therefore change accordingly.

Recommended actions

- Consider and define the scheme's core beliefs with regards to sustainability, incorporating ESG and impact investing, and record them in the scheme's wider 'investment beliefs' document.
- Seek advice and question your investment consultant or fiduciary manager on how they include systemic risks linked to the transition to a sustainable economy as well as opportunities in their investment philosophy/strategy. Seek examples of how other pension scheme investors have set their approach and common objectives.
- Review, in partnership with your investment consultant or fiduciary manager, your investment portfolio using an impact framework to understand sources of risks and opportunities.
- Formulate appropriate impact policies and objectives consistent with the scheme's purpose and include these in its Statement of Investment Principles (SIP) or equivalent. Consider long-term objectives and interim targets to get to the objective and involve your investment consultant or fiduciary manager, or seek independent advice where this is required.
- In your risk register, identify and incorporate risks presented by the transition to a net zero carbon economy and other systemic changes relating to sustainability. Also identify mitigants to those risks.
- Consider the extent to which scheme members' impact preferences (particularly DC members) might be ascertained and reflected in line with the scheme's funding objectives and within legal parameters.

- In addition to your investment consultants, fiduciary managers and investment managers, seek the views (where relevant) of the sponsoring employer, professional advice, pensions industry groups, associations and thought leaders.
- Include in the induction of each new trustee/LGPS committee member/adviser or in-house investment team member an explanation of the scheme's core beliefs, policies and objectives as they relate to impact, how these relate to the scheme's funding objectives, and how they are interpreted and understood in practice.
- Periodically review and discuss the impact beliefs, policies and objectives and the extent to which they are consistent with the scheme's purpose, as well as the extent to which the scheme's purpose is aligned with the impact beliefs, policies and objectives. This could be done as part of the (new) annual requirement for contract- and trust-based schemes to publish an implementation report on how the scheme has acted on their policies.

> The purpose of pension schemes is to provide benefits to the members of the scheme. This is not synonymous with chasing the highest short-term investment returns. Pension schemes may take account of any factor which is financially material to the objectives they have set.

Selected resources

- **Pensions for Purpose (website).**
- **The Bridges Spectrum of Capital - How We Define the Sustainable and Impact Investment Market (Publication). Bridges Fund Management, 2015.**
- **The Good Citizen's Guide to ESG (Report). DCIF, 2020 (pdf).**
- **The United Nations Sustainable Development Goals (website).**
- **The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities (Website). The Taskforce for Climate-Related Financial Disclosures.**
- **Transition Pathway Initiative (Website and Online tool).**

2

Principle 2: Appoint investment consultants and managers with impact integrity

Identify and appoint investment consultants who are aligned with your investment beliefs and objectives, and investment managers who can achieve your scheme's impact objectives through their investment and stewardship activities

Explanation

When appointing investment consultants and managers, selection criteria should include an evaluation of their impact investing credentials, alignment with the scheme's impact beliefs, and capacity to deliver on the scheme's impact objectives.

Pension schemes should establish and maintain an ongoing dialogue with their investment consultants and managers about performance relative to scheme policies and objectives, and any changes in these. They should also set clear goals and expectations of their investment professionals in areas such as impact performance, implementation, and monitoring and reporting, potentially incorporating these into their contracts and using regular reviews of their providers to assess progress and any need for change.

Investment consultants and fiduciary managers

Pension schemes should expect their investment consultants or fiduciary managers to work collaboratively with them and develop a full understanding of the scheme's desired investment approach in relation to their impact beliefs. A good investment consultant or fiduciary manager will be able to support pension schemes to identify and incorporate appropriate impact objectives into the scheme's policies in an informed and intelligent way. They will be able to advise pension schemes about which strategies and approaches to adopt to achieve the scheme's impact objectives. This will require an understanding of the financial implications of the wider environmental and social impacts, positive and negative, of the portfolio and individual investments.

A good investment consultant or fiduciary manager will have a deep understanding of the impact investment universe and will understand how investments create positive and negative impacts across the range of relevant asset classes.

Investment managers

Pension schemes should consider whether any prospective managers have the right people and products to identify and manage impact risks and opportunities within the portfolio on an active basis.

They should also ensure that investment managers are equipped to measure and report on the impact of their portfolio in compliance with relevant regulations. The performance of the investment managers and investment portfolio against the pension scheme's impact objectives should be regularly monitored and reviewed against agreed indicators and benchmarks.

Pension schemes might also expect their investment managers to provide them with information and training on sustainability and impact issues.

Recommended actions

- Consider using an independent consultant or adviser that uses a set of measures on sustainability and impact investing when reviewing or selecting an investment consultant or manager.
- When identifying or reviewing an investment consultant or fiduciary manager, question the extent to which they embed ESG impacts in their quantitative assessments, e.g. forward-looking return and risk assumptions, correlation analysis and diversification (using sustainability as a third dimension to return and risk), as well as qualitative assessments.
- As part of your requirement to set objectives for your investment consultants, consider requiring them to bring impact investment ideas to the trustee board or committee.
- Seek advice from investment consultants and/or fiduciary managers on how to incorporate impact investment objectives in your policies. Work with investment consultants to establish a suitable impact investment strategy, including investment manager selection and selection of relevant indicators and benchmarks.
- Assess the investment managers' ability to achieve the scheme's impact objectives, including their investment philosophy, strategy, model, capacity, people and products, and ability to measure and report on impact. Assess performance of appointed investment managers and portfolio against agreed impact objectives by monitoring and reviewing them regularly against relevant indicators and benchmarks.

> A good third-party adviser will have a deep understanding of the impact investment universe and how investments create positive and negative impacts across the range of relevant asset classes.

Selected resources

- **ESG Integration: How Fiduciary Managers Stack Up (Special note). XPS, 2020.**
- **Holding Investment Consultants to Account: A guide for Trustees (Report). AMNT and UKSIF, 2018.**
- **Objectives for Investment Consultancy Services: Setting Adviser Objectives (Regulatory guidance). The Pensions Regulator.**

3

Principle 3: Use your voice to make change

Progress your impact objectives by formulating stewardship guidelines for your, or your investment manager's, voting and engagement activities

Explanation

Pension schemes operate large pools of assets and can use their voice – either directly or through their investment managers – to effect change. Stewardship and shareholder engagement are critical tools in meeting impact objectives. Through engagement, investors (directly or through delegated agents) can engage with investees to improve corporate performance on ESG issues. This extends impact investing beyond the financing of beneficial products and services, to the improvement of corporate behaviour and achievement of impact goals.

Stewardship includes 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 future prospects. Voting and engagement with companies can achieve impact – this is particularly true in relation to listed equities.

Pension schemes should consider whether their stewardship frameworks and guidelines are consistent with the impact objectives that they have set. Where schemes have the right to undertake voting or engagement activities directly and they decide it is appropriate to do so based on their guidelines, they will need systems in place to achieve this. More commonly, schemes may delegate many stewardship activities to consultants or managers. Schemes should work collaboratively with their investment consultants and managers to develop stewardship guidelines and expectations, taking into account impact beliefs and objectives.

Tools such as shareholder resolutions are beginning to change the landscape of shareholder stewardship. There are also opportunities to engage collectively on key impact issues with like-minded investors through organisations such as ShareAction and the Investor Forum.

Moreover, in addition to new reporting responsibilities in the SIP[6], there are significant new best practice and regulatory expectations on pension scheme stewardship in the Financial Reporting Council's 2020 Stewardship Code. For the first time, it requires signatories to take account of material ESG factors, including climate change, when fulfilling stewardship responsibilities.[7]

6 The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

7 "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." 2020 Stewardship Code definition

Recommended actions

- Sign the UK Stewardship Code as an asset owner and select investment managers that are signed up to it too.
- Set transparent annual objectives for stewardship which reinforce and are consistent with your scheme's impact objectives and include these objectives in guidelines for your scheme's investment managers.
- Ask third-party providers, particularly investment consultants and fiduciary managers, to keep you informed of key issues and developing asset owner views or positions on stewardship issues for particular sectors, assets or investments, especially where relevant to the scheme's stewardship guidelines.
- Undertake active, supportive monitoring of investment managers' stewardship activities through the year based on their detailed reporting. If, over a year of monitoring, you feel your investment manager is not delivering on your priorities, engage with them on how this can be addressed. Consider changing your manager if over time there has been no progress.
- Tell your members about your scheme's stewardship priorities – how your engagement with companies is designed to meet their interests and your impact objectives.
- Consider attending company Annual General Meetings rather than using a proxy voting manager, as well as collaborating with other asset owners and capital markets actors on issues of importance to your pension scheme's impact objectives.

> Voting and engagement with companies can achieve impact – this is particularly true in relation to listed equities.

Selected resources

- **AMNT Red Line Voting (Code). AMNT, n.d.**
- **Aon Trustee Checklist: Understanding Trustee Decision Making (Report). Aon, 2017.**
- **Climate Action 100+ (Investor initiative).**
- **Engaging the Engagers: A Practical Toolkit for Schemes to Achieve Effective Stewardship Through Their Managers (Toolkit). PLSA and the Investor Forum, 2020.**
- **Engaging-the-Engagers-stewardship-toolkit.pdf**
- **ESG And Stewardship – A Practical Guide to Trustee Duties (Guide). PLSA, 2019.**
- **Pensions for the Next Generation: Communicating What Matters (Report). ShareAction, 2018.**
- **Shareholder Priorities for 2020 and Executive Remuneration (Guidance). Institutional Voting Information Service, 2020.**
- **Social Investment Issues Red Lines (Guidance). AMNT Red Line Voting, n.d.**
- **UK Stewardship Code 2020 (Code). Financial Reporting Council, 2020.**

4

Principle 4: Manage and review your impact

Monitor progress against your impact objectives by identifying relevant indicators and benchmarks, assisted by your investment managers

Explanation

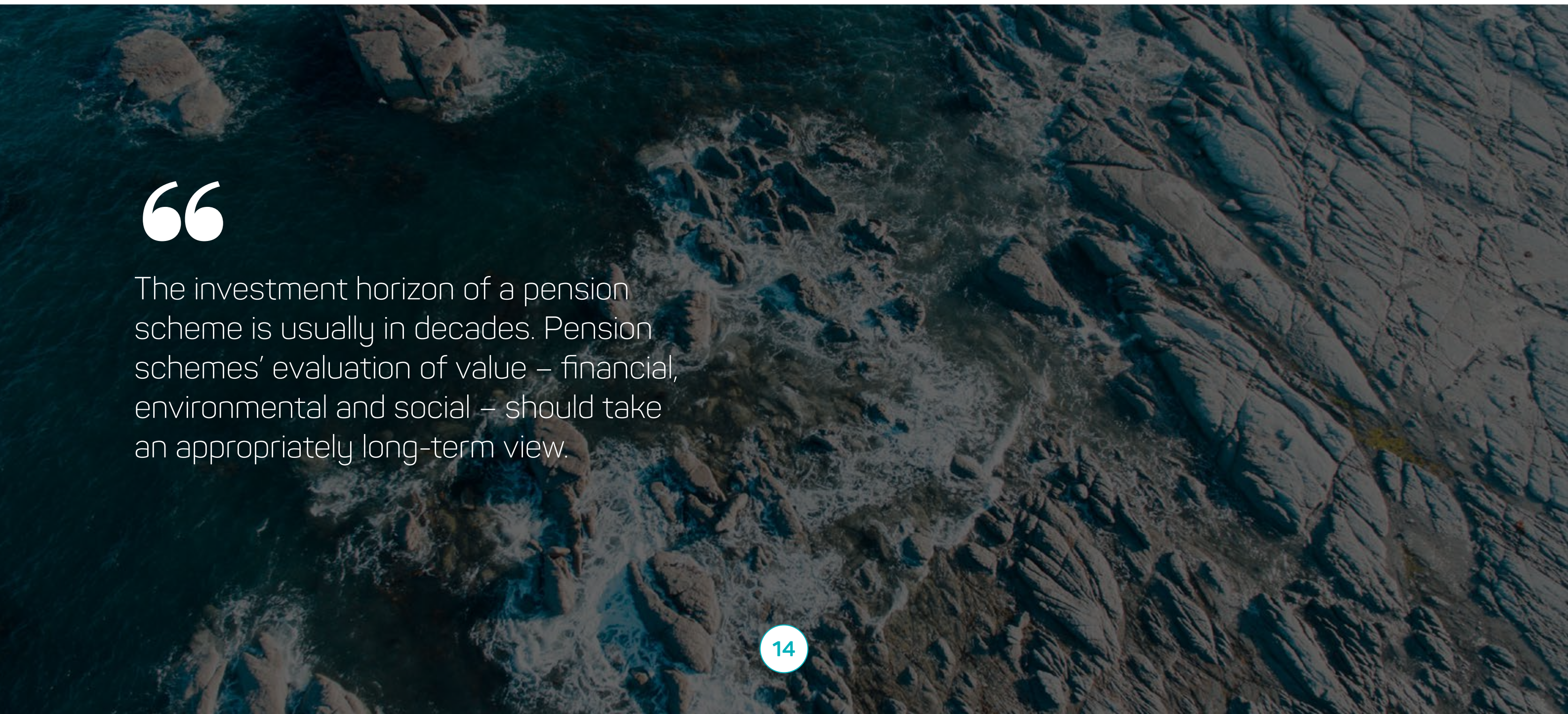
Pension schemes should expect relevant, robust and clear reporting from their investment consultants and managers that helps them understand the extent to which they are fulfilling the scheme's purpose and investment objectives, and to make decisions accordingly.

This includes metrics, indicators and benchmarks that help pension schemes monitor performance in relation to impact beliefs and impact investment objectives, and the cost-effectiveness of that performance.

The investment horizon of a pension scheme is usually in decades. Pension schemes' evaluation of value – financial, environmental and social – should take an appropriately long-term view. The reporting framework should be stable and consistent in order to enable a reliable run of data to be gathered over an appropriate period, such that progress can be monitored objectively.

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. For example, the Task Force on Climate related Financial Disclosures (TCFD), and the proposed requirements under the EU Non-Financial Reporting Directive (NFRD) and the EU Sustainable Finance Disclosure Regulation (SFDR).

As market practice develops, pension schemes and their advisers will need practical solutions. There are currently a number of frameworks that can be used to enhance the monitoring of impact. Pension schemes can ask their investment providers to keep them informed of developments or new data sources that might allow improved monitoring of the scheme's impact.



"The investment horizon of a pension scheme is usually in decades. Pension schemes' evaluation of value – financial, environmental and social – should take an appropriately long-term view.

Recommended actions

- Work with your investment consultants to establish consistent quantitative and qualitative assessment tools to allow you to review impact and financial reporting. Ask your investment consultant or manager about using a balanced scorecard and peer group analysis linked to particular impact goals.
- Conduct scenario analyses with your actuary, investment consultant and/or fiduciary manager at an economic level and consider an independent analysis to provide comparison. Stress test your current portfolio to understand the portfolio's ability to withstand different scenarios and stresses and use the output to inform choices about how to make the portfolio more resilient. Also consider if it is appropriate to have an independent analysis.
- Actively monitor and mitigate stranded asset risks, such as fossil fuels, within the portfolio.
- Require stewardship reports from your investment managers.
- Hold an annual discussion about the scheme's progress against impact goals and other mechanisms and consider measures depending on whether they are being met, e.g. engaging with or changing investment managers.
- Take opportunities to report on progress against your impact objectives to your members, for example in your annual newsletter, particularly showing progress and successes in achieving these goals.
- Consider an independent review of your investment consultant, fiduciary manager or in-house team on a regular basis, using peer analysis and best practice to determine their value in relation to your sustainable investing (including ESG and impact investing) objectives.

Selected resources

- **Climate Change Challenges: Climate Change Scenarios and their Impact on Funding Risk and Asset Allocation (Report). Aon, 2018.**
- **Climate Scenario Planning (Case study). SustainAbility, Trends 2020.**
- **Evaluating Impact Performance, 2019,** and **Understanding Impact Performance, 2020 (Guides). Global Impact Investment Network.**
- **From Policy to Practice: Testing the EU Taxonomy (Case studies). Principles for Responsible Investment, 2020 article**
- **In Search of Impact - Measuring the Full Value Of Capital: Update: The Investment Impact Framework (Cambridge Institute For Sustainability Leadership (Report), Cambridge Institute for Sustainability Leadership, 2019.**
- **IMP+ACT Classification System (ICS) (Free digital system).**
- **Paris Agreement Capital Transition Assessment (Online tool). 2° Investing Initiative, 2018.**
- **The Impact Management Project (Website)**

Case study:

Pensioenfonds voor het Slagersbedrijf (the Butchers' Pension Fund)

The foundations: adopt a transitional mindset

Until 2012, the Fund had signed up to the Environmental, Social and Governance (ESG) policy of their then investment manager and used this as the selection criteria to ensure alignment, recognising the significant financial risks posed by changes in the environment and society.

In 2015, the Fund decided to put together its own ESG policy. "We stressed in our investment principles that ESG factors are an important basic principle for the pension fund. This led to the triangle [risk, return and fees] suddenly becoming a square: we added ESG as an important factor. Our fiduciary manager showed us that we were in fact not restricting performance. After all, you run less risk in the long term with sustainable investment. This increases the chance of earning a higher return", noted Frans van de Veen, Board member.

Moreover, some stakeholders of the fund considered it increasingly important that the money was invested in companies that take social and climate factors into account. It was concluded that companies that have a major negative impact on society do not suddenly become sustainable. The Fund formulated a number of requirements for choosing investments. It introduced an exclusion policy for companies that have a negative impact, for example, those that have high CO2 emissions or treat their employees poorly. Furthermore, the Fund would also focus on having a positive impact on society, but always with the main principle being that sufficient returns are made. Finally, the new policy had to be cheaper to implement and less complicated!

> "When you are managing the retirement fund of members and pensioners, you also need to know exactly how you are doing it. Other people can advise you, but you are the ones who need to make the decisions. And that is only possible if there is sufficient clarity on the fund's mission and view".
>
> Frans van de Veen – Board Member

Principle 1: Set impactful objectives

Frans: "Gather all the facts, opinions and views on a topic until you are certain that everyone is talking about the same thing. I noticed that the discussions become more animated and the engagement greater when you talk about socially relevant topics. Make sure you include several views in the discussions. Opposing views are important to objectivity!"

Once consensus had been reached on how and what, it was time to select investments. Frans: "The priority here was that we wanted to use the investments to make a positive contribution to people and the world in which they live [i.e. to create a positive impact]. For each asset class we examined what progress we could make in relation to each factor – environmental, social and governance. Together with our fiduciary manager, we deliberately opted for the themes of **food, labour, climate and water** [because of their relevance to the butcher's industry]. This was of course always on condition that at least as much return is earned as before."

Principle 2: Appoint investment consultants and managers with impact integrity

The Fund had for a long time been looking for ESG, including impact, integrity when selecting an investment manager that was appropriately aligned. When the Fund decided to create their own ESG and impact policy, it worked in collaboration with its fiduciary manager, Kempen. Kempen helped the Fund to articulate, implement and monitor the investments. Kempen created a vehicle - the Global Impact Pool – to house the investments the Fund wanted to make to address food, labour, climate and water, and also in recognition of the lack of available appropriate investable opportunities in the market at that time.

Frans: "If a company we have invested in makes a mess of things, we ask our fiduciary manager to examine what is going on. Rather than panic, we first analyse the situation. Ultimately we are a long-term investor and cannot reverse our policy just like that."

Principle 3: Use your voice to make change

The Fund, via their fiduciary manager, strongly believes that active ownership and shareholder engagement contribute to universal positive change at the companies in which they invest. This includes shifting from avoiding harm, to benefitting stakeholders and making a positive contribution. Through these strategies the Fund is tackling global social and environmental challenges, while at the same time meeting the risk/return requirements.

The Fund subscribes to the active ownership framework of its fiduciary manager, which encompasses:

- Engagement: proactively opt for a dialogue with both the companies they invest in and external fund managers. This encourages companies to improve policies and practices in which specific ESG, including impact, issues have been identified.
- Collaboration: increase impact and stewardship effectiveness by directly engaging with the companies and fund managers invested. The fiduciary manager, through co-operation with other investors and fund managers, is also an active member and a lead investor in a number of collaborative engagements such as IIGCC Climate Action 100+, PRI and Platform Living Wage Financials.
- Governance and voting: exercising voting rights is an essential way to meet impact objectives. Voting activities include voting at shareholder meetings in person, as well as by proxy. Voting records are retained for all votes cast with accompanying explanations as appropriate.

Principle 4: Manage and review your impact

The Global Impact Pool, which the Fund seeded, reports in detail on the underlying portfolio on a quarterly and annual basis on key changes in people, employment, climate and circular economy impacts. See below:

Basic needs and wellbeing

397,000 people
underserved reached via healthcare services

420,000 people
underserved reached via financial services

SME growth and decent work

3,400 people
supported by employment

141,000
smallholder farmers supported producing on **119,000** ceritifed hectares receiving an average payment of **$3,000** USD

Climate and energy

12,000 tonnes
worth of CO2 emissions avoided
=
4,700 cars taken off the road for a year

19,300 MWh
renewable energy generated
=
6,300
Dutch households

Circular economy

221 tonnes
resource waste avoided
=
waste produced by **450 people** per year

1.5 million m3
estimated water savings over lifetime of solar and wind projects under development and construction
=
water used by **28,600 people** per year

One of the most significant points about the creation of the Global Impact Pool is that other investors can also participate, potentially creating a flywheel effect.

Pensioenfonds voor het Slagersbedrijf (the Butchers' Pension Fund)

Pensioenfonds voor het Slagersbedrijf is the pension fund for the Dutch butchers' industry and has current AUM of c. €2.5 billion of 2,400 affiliated employers. The Fund manages the contributions of 13,450 active members, 46,340 deferred member and 9,955 pensioners (per 2018). It has a funding ratio of 101.8% as at October 2020, and a policy funding ratio of 120%. Kempen Capital Management ("Kempen") acts as the fiduciary manager to the Fund.

Kempen Capital Management

Kempen Capital Management is a specialist fiduciary and asset manager providing services to a UK and European client base, including many of the largest institutional investors in its home markets. Sustainable investing is a key underpin to its investment offerings, including impact where it has been engaging with its clients and implementing specific capabilities since 2018.

The Impact Investing Institute is an independent, non-profit organisation which aims to accelerate the growth and improve the effectiveness of the impact investing market. Our vision is for lives to improve, as more people choose to use their savings and investments to help solve social and environmental challenges, as well as seeking a financial return.

We drive change through education and awareness raising, providing useful tools and resources, and advocating for supportive policies.

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Set up in 2017, Pensions for Purpose is a professional investment member network focused on directing capital towards sustainable and impact investments. We bring influencer members (consultants, legal firms and asset managers) and affiliate members (pension funds and other institutional asset owners) together to find investable solutions which align with the environment and society. This is facilitated through sharing of thought leadership and case studies, investor roundtables, events and training. We also partner with organisations and initiatives which help us to deliver on our goals as well as for the benefit of our members.

www.pensionsforpurpose.com