

## GSG Summit 2020

# Pensions with purpose

## WORKSHOP TAKEAWAYS

At the GSG Virtual Impact Summit 2020, the GSG hosted an FMO sponsored workshop: ‘Pensions for Purpose’, where 10 leaders from the field shared their experiences, and gave advice to those pension funds looking to embark on investing pensions for impact. It was an inspiring and thought provoking discussion where many commonly held assumptions were broken down.

During this workshop, participants discussed the entire investment cycle, from articulating investment beliefs to allocations and impact measurement. This session was particularly important given that the SDG financing gap has increased due to Covid-19, especially in emerging markets. This report provides a concise summary of that rich discussion, structured according to the often-cited barriers for pension funds investing for impact.

### Trustees’ Fiduciary duty

It has been consistently evidenced, across various jurisdictions that fiduciary duty does not prevent pension funds trustees from doing impact investments. However, as this is still flagged as a concern, the [Impact Investment Institute](#) has developed [Impact Investing Principles for pension trustees](#) and a legal analysis confirming the compatibility between fiduciary duty and impact investing to dispel myths and provide further confidence to those looking to embark on this journey. Some also claim that not including ESG+ consideration is a breach of fiduciary duty and we heard of an [Australian pension fund member](#) taking their pension fund to court over this issue.

The [Make My Money Matter Campaign](#) is also demonstrating that in the UK, pension fund holders are concerned about the negative impact of their portfolios. Other demands on trustees such as pressure to align investments with [government priorities and historically low interest rates have also added pressure on trustees](#).

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### Deal sourcing

Managers have cited difficulties in allocating funds to emerging markets. It was agreed that this can be alleviated by pooling assets of various pension funds via DFI offerings. For example, FMO offered an SME finance fund which lends to banks in emerging markets (information [here](#)).

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## Metrics and reporting

It is widely acknowledged by the impact investment community that there is further need to standardize Impact reporting and Impact measurement. It has been cited in [this](#) survey as one of the barriers for pension funds. However, there has already been much progress on this issue and many of the tools created by the Impact Management Project (“IMP”) can be used for this. For example, PGGM have successfully [mapped their entire portfolio to the IMP framework](#), as well as creating an [SDI Asset Owner Platform](#) which is being made available to pension funds and the IFC has launched its [operating principles](#) (also in collaboration with the IMP). Participants agreed that harmonized metrics would help to speed up the progress, however for many pension funds the best way to learn is by starting the journey.

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## Language and terminology

Some of the language in the impact investment space is not understood or misunderstood by pension fund managers. The need for a common language is clear - and the [UN sustainable Development Goals](#) already provide the framework, which has been used for example by EDFI in their principles for responsible financing for sustainable development, [here](#).

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## Skills and expertise

Lack of skills and expertise is a commonly cited concern. In particular, the skills gap is widest in traditional investment consultants advising pension funds, who often lack deep understanding on ESG and Impact Investment themes. Pensions for Purpose (amongst others) is working to address this challenge. It has put together a research report of which consultants can map pension fund portfolios to specific SDG goals, and the headline conclusions are available [here](#)

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## Investment opportunities

- ▲ Scale: Often large scale opportunities at scale are deemed lacking for pension funds. However, many opportunities already exist in this space. For example renewable assets such as wind farms, and social impact opportunities such as [social housing](#) provide opportunities at scale
  - ▲ Returns: Some pension fund trustees still believe impact investment means sacrificing financial returns. There is a lot of information available which contradicts this, for example [this](#) report by the IFC which demonstrates that their impact investments have outperformed the S&P 500 by 15%. Additionally, the Impact Investing Institute is disproving this by building an [asset base across the UK](#).
  - ▲ Liquidity: In private markets, this issue is important to trustees - there are tightly defined mandates for this because the regulators focus on the risk of the impact investment rather than the opportunities. [This](#) report by Blackrock delves into liquidity risk in private markets, showing that illiquidity is not as much of a concern as commonly assumed.
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## Some leading edge examples

During this session we covered the most common concerns cited by pension funds, and have shown that although progress is underway, there are sufficient solutions and investment opportunities for pension funds to begin with impact investments. Some have already led the way:

- ▲ GEPF in South Africa talked about their [Isibaya Fund](#) which invests in high impact areas for socio-economic development that bring financial returns and social dividends to the country.
- ▲ HESTA in Australia has created a dedicated impact investment fund called the 'Social Impact Investment Trust', with [a total of USD \\$50.5m committed to impact investments](#) across its portfolio.
- ▲ Eskom Pension and Provident Fund in South Africa, set aside 3% of its USD 10bn portfolio to invest in Impact. With tightly defined risk parameters and a governance framework around the impact investments, the board gained the comfort needed for the initiative to be successful.

In the audience: Diane Griffioen, from [ABP](#), the largest pension fund in Europe, with €450 billion AUM, and 14% of that portfolio in Sustainable Development Investments asked - *how can we inspire others?* The panelists' advice was

“ Go on the journey and learn from each other! ”

The recommendation for pension funds wanting to embark on the journey towards impact investment, was to start with determining, then articulating their own investment beliefs and theory of change. Investment beliefs are driven by trustees' personal convictions and pension fund members are influenced by various other stakeholders including regulators, beneficiaries, asset managers and investment consultants. We saw that many pension funds have already successfully begun the journey by allocating a percentage of their portfolio to impact. Others have started the journey by mapping their entire portfolio to understand the current impact of their investments, or by sustainably investing their entire portfolio. In all examples in which this has been successfully done, there was buy in from the trustees and senior management.

Leaders in the space who took part in the FMO sponsored workshop:

- ▲ Yvonne Bakkum, [FMO](#), Netherlands (Session sponsor and moderator)
- ▲ Susan De Witt, Co-Lead Secretariat [Impact Investing South Africa](#), South Africa (moderator)
- ▲ Charity Chanda Lumpa, [Ecobank](#), Zambia
- ▲ Danae Kyriakopoulou, [OMFIF](#), UK
- ▲ Piet Klop, [PGGM](#), Netherlands
- ▲ Karen Shackleton, [Pensions for Purpose](#), UK
- ▲ Nanno Kleiterp, Chairman of [EDFI](#), Netherlands
- ▲ Nilesh Moodley, [GEPF](#), South Africa
- ▲ Sarah Gordon, [Impact Investing Institute](#), UK
- ▲ Neil Gregory, [IFC](#), USA

For those pension funds in Africa who are looking to learn more, Susan de Witt from the South African NAB is leading a learning series in collaboration with the South African Asset Owners Forum. You may contact Susan [here](#) to find out more.

Additionally, the GSG is leading a series of discussions with market builders *already* working with the pension funds industry. These discussions will unearth which initiatives are underway, where and how the successes and breakthroughs have occurred and where there are areas of overlap or gaps. This will create a global peer learning group of market builders to increase synergies, and understand where the GSG can further support to enable more capital to be allocated to impact.

You can contact Francesca at the GSG [here](#) for more information.