REGENERATE

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PARTNERSHIP SINCE 1590

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S in ESG pensions roundtable

With keynote speaker the Minister For Pensions And Financial Inclusion, Guy Opperman MP

Supported by Berenberg and Joseph Rowntree Foundation

July 2021

Discussion summary

In July 2021, ReGenerate hosted a roundtable event with senior leaders from the Government, the investment industry and the 'responsible investing movement' community. It was an exploratory discussion on the topic of the S in ESG especially with regard to pensions. This report summarises the anonymised views relating to the main topics that emerged. Below is a summary of the topics, with more detailed descriptions of the topics included from page three onwards.

TRANSPARENCY. Transparency is a systemic issue and is acknowledged as one of the most important and core areas that all others depend upon. One of the main opportunities that could be created by greater transparency that was discussed, was that it could be a catalyst for 'democratising' pensions. The forthcoming Government pensions dashboard was raised as an opportune mechanism for providing transparency of impact, which could create greater vested interest from pension holders and therefore give them more agency to state preferences of where their money is invested. Discussion also covered the inherent complexities of social factors but also raised opportunities of current programmes such as the Workforce Disclosure Initiative to begin moving the needle. Read more...

PLACE-BASED IMPACT INVESTING. Participants discussed the opportunities created by place-based impact investing, as a subset of impact investing. Due to longer time horizons and geographic targeting, the opportunities to align Local Government Pension Schemes with the existing levelling up policy agenda were highlighted. It was raised that in order for such strategies to be successful, it is important that investments are done in collaboration with local communities. Successful urban regeneration projects across the UK were highlighted as a strong example of long-term investment paying off. This was seen as an area for fruitful future exploration. Read more...

THE SPECTRUM OF CAPITAL. The spectrum of capital is a diagram that helps to explain a theoretical relationship between financial and societal returns based on different investment strategies. Most participants agreed the spectrum is a useful tool for providing a narrative framework. There was some debate relating to the grey area between impact investing and philanthropy where some felt that certain impact investment vehicles should not be branded as an investment. Some participants expressed a wish for a social bond investment vehicle to make it easier for investors to direct funds to businesses having a positive social impact. Some participants also wished to reject the concept of the spectrum altogether, arguing that that all investments have an impact, and therefore all investments should be ESG by default and that there should be a move away from 'traditional asset allocation'. Read more...

THE ROLE OF CONSULTANTS. Some participants raised the role that pensions consultants play specifically because they have significant influence and yet are largely not pushing the ESG agenda sufficiently despite being well positioned to do so. Participants observed that consultants tended to lean towards 'traditional investment advice' leading to prioritisation of risk management and an underemphasis on the opportunities of ESG, and where they do incorporate ESG it is more commonly with a carbon reduction angle than with the social lens. Suggestions were tabled that more could be done to engage with consultants as part of wider stakeholder engagement initiatives. Read more...

EDUCATION AND AWARENESS. Participants observed that the availability of MBA programmes or modules relating to ESG and responsible business was lower than expected and needed. They highlighted an opportunity to expand ESG knowledge as part of continued professional development and one participant said that this could be funded through a levy on the financial services sector. Read more...

INCENTIVES. Participants raised the point that the current incentive structures are based on performance evaluation over a time period that is incongruent with the long time horizons relating to both pensions investment and social investment strategies. Some participants suggested that there is a fundamental requirement to reconfigure these structures. Read more...

CONSOLIDATION. Participants compared the UK pensions market with more consolidated markets in Australia, Canada and the Netherlands. The merits of consolidation related to being able to point vast sums of money at intractable issues. However, it was also noted that bigger is not always better as smaller funds can be pointed towards more specific impact opportunities, and that there are risks associated with scale such as barriers to entry, reduction in diversity and increased risk of group-think. Read more...

Conclusion and next steps

The themes discussed in the roundtable spanned a large range of topics and only scratched the surface of many of the opportunities. ReGenerate has shared these notes with participants of the meeting and are making them public with the view that they should encourage further debate and perhaps stimulate innovation exploration.

We welcome your thoughts and feedback on the ideas highlighted in the report, please email us at info@re-generate.org. We are a highly collaborative organisation and enjoy broadening our network, so please also get in touch with if you are interested in joining potential future roundtables or working groups trying to tackle the big issues of our time.

Disclaimer: The views contained in this document are a reflection of conversation held by the participants and do not necessarily reflect the views of any single person or organisation, including Regenerate.

Acknowledgements

ReGenerate would like to thank Berenberg and the Joseph Rowntree Foundation for their kind support in helping to enable this event. We would also like to thank all of the participants that gave their time and expertise.

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Introduction to the roundtable

ESG investing has been rising greatly in prominence in recent times, from growing awareness within the financial services workforce and from consumer demand meaning that ESG funds are now forecast to outnumber conventional funds by 2025.[1]

However, there is a notable imbalance in consideration between the 'E', 'S' and 'G' factors. When viewed in the context of climate change, it can be argued that social factors are getting left behind. This is a reflection of the recognised urgency brought about by climate change.[2] Our keynote speaker, the Minister For Pensions And Financial Inclusion, Guy Opperman MP, said, ***"I think, practically, [social factors] are always going to be secondary at the present stage. You cannot say that climate change is a defining issue with our generation, which it clearly is, and then say, 'Ah, but the social element of that is actually equal.' It just simply isn't, but at the same stage, the social element is clearly very, very important and we need to get it to a much higher level."***

However, the S is rising in prominence, the speaker continued ***"If we'd had this conversation two or three years ago, I don't think all of you would have shown up."***

Levelling up is one of the key policy agendas for the Government, which is intrinsically linked with creating a better and more equal society, improved quality of life and fair access to opportunities throughout the UK. A lack of focus on, and understanding of, social issues by investors denies those businesses that seek to tackle social issues a crucial pipeline of investment to innovate and scale. This, in turn, denies the levelling up agenda of a pipeline of innovation and resources.

Investors, Government and businesses themselves all have a role to play in identifying opportunities for social impact that go hand-in-hand with sustainable business models, creating clear mechanisms by which investors can identify and invest in them, and then following through with investment in those businesses.

We hosted this roundtable event, supported by Berenberg and the Joseph Rowntree Foundation, with the intention of conducting investigatory research into the topic of social factors within ESG and the pensions industry.

[1] Financial Times, 17/10/2020, ESG funds forecast to outnumber conventional funds by 2025
[2] Gov.uk, 24/03/2021, Closed consultation - Consideration of social risks and opportunities by occupational pension schemes

Structure of the roundtable

We convened a roundtable event, inviting a group of senior people from the Government, finance sector and the 'responsible investment' movement. The event was managed under the Chatham House rule.

The concise group size means the results of this summary should not be regarded as the views of the industry at large and instead should be regarded as areas of interest from a subset of a wider stakeholder group.

Representatives of the following organisations attended:

- Guy Opperman MP (Keynote)
- A member of parliament
- Berenberg
- Federated Hermes International
- Joseph Rowntree Foundation
- Legal and General
- Living Wage Foundation
- Make My Money Matter
- Pensions for Purpose
- The Five Foundation
- Virgin Money

We look forward to continuing this conversation in future roundtables with broader stakeholders, including, for example, pension trusts, consultants, ESG data providers and regulatory bodies.

DISCLAIMER: This summary report aims to describe the main topics that emerged and to create a narrative of the main discussion points. It identifies where there was general consensus on a topic and if there were different opinions, where they digress. The views contained in this document are a reflection of conversation held by the participants and do not necessarily reflect the views of any single person or organisation, including ReGenerate. Where we have highlighted ideas as opportunities for further exploration, these are a reflection of the discussion and no attempt has been made to validate their feasibility at this stage.

Transparency

BACKGROUND

There has been so much recent activity relating to global standardisation of reporting standards and requirements, that it is unsurprising transparency was one of the deepest topics explored.[3] Two main themes arose: the complexity of social measurement and the democratisation of pensions from transparency.

DISCUSSION: The complexity of social impact measurement

Improving the accuracy, availability and comparability of sustainability information is mission-critical to progress on environmental or social issues, let alone setting any targets against them. However, some participants cautioned that there now seems to be an over reliance on data. Reducing complex socio-economic domains to cells in databases can abstract the complexities of life, ***"Everything's about data, who cares about the people anymore?."*** However, the reality is that there is a current dearth of information and that the intention is ***"fundamentally about bringing humanity back into finance, where it's been stripped out."***

A common view relating to social factors in comparison to environmental factors, is that they are much harder to measure. While it is relatively easy to report indicators from within the business boundaries, such as fair pay, wage gaps, modern slavery and diversity, indirect impacts on society, on the boundaries of business that are harder to define, where multiple external factors can contribute. For example, addiction, digital discrimination, the impact of contaminated water and air quality on communities and in-work poverty. One participant said, ***"One of the reasons why S hasn't grown to the prominence perhaps of E in the past is two issues. One, is it not as easy to define, as we have demonstrated today and two, it's not as easy to measure, and there is an over-obsession with measurement."***

Positively, because of the large-scale focus on climate change, an example has been set whereby measurement frameworks and targets can be instituted. How long it will take for similar progress to be made on social factors is to be determined. ***"I think IFRS and their work on accounting for sustainability and disclosure around impact, I think will be very powerful but it's going to take a long time before we get that kind of data."*** Perhaps when greater focus on ESG is made, the interest and focus on metrics will soon follow. Much of the groundwork is being made by the coming together of the main global standard setters for impact measurement.

There could be opportunities to amplify initiatives that are already in place, such as ShareAction's Workforce Disclosure Initiative, or to find other pools of information that could be pulled together, such as the Social Metrics Commission.[4] ***"The Workforce Disclosure Initiative is something that's being underutilised. That is something that we can push a greater take-up of, to enhance development in this area of ESG."***

Democratisation of pensions from transparency

[3] For example, from the IFRS Foundation beginning to form a Sustainability Standards Board for accounting, to TCFD framework emerging as the de-facto reporting framework for emissions, to the coming together and consolidation of the world's largest standard setters, to the European Commission making hugely progressive steps with developing sustainability reporting taxonomies and proposals for a large European Single Access Point database to host this information.
[4]ShareAction, Workforce Disclosure Initiative and The Social Metrics Commission, The Social Metrics Commission

Another topic that emerged related to the downstream benefits of transparency. A repeated point was that if people contributing to their pensions had greater visibility of what and where their money was being invested in, then they would have greater agency to demand or request change. When asked 'what would have a huge impact if it could be implemented tomorrow?', one person said, ***"A pensions' dashboard could have a section on impact so that pension funds start routinely reporting on its impact with the data they have. That data will get better. That gives the members a chance to understand the impact their money's having."***

The Minister For Pensions And Financial Inclusion agreed, and there is a workstream to enable people to see all their lifetime pension savings in one place, but stressed the time frames involved to set expectations, ***"When the pensions dashboard is up and running, and when it is as sophisticated as we all hope it will be, clearly you can add to it. That will take us a while though."***

This transparency on the impacts of where people's pensions are being invested and what impact it is having then opens the huge possibility of unlocking the pent up consumer demand. However, given how pension pots accumulate over time, by seeing the size of their pension pots, and the impact they are having can unlock a feel-good factor from a sense of contribution. ***"Transparency just seems like an enormously powerful tool. Suddenly you really care about what's going out of your pay cheque and you actually have a greater vested interest."*** Having more visibility of where pensions are invested could lead to greater agency of people to have their say. Clearly some information is provided in the fund fact sheets and key investor information documents, but they are not very accessible for the lay-person.

One participant said, ***"Give people a vote. We vote our governments in, who controls our tax spend. We should also tell those who control our investments how we'd like them to invest our money. [...] If you want to democratise pensions, that's the way you've got to. You've got to get more people to know what they're actually investing in."***

Another said, ***"You can say it. You know that your votes create the country you live in. Your money creates the society you live in. It's as simple as that. Because that opens a door to all the conversations that you're having. When people realise that they are in power to change the government, they can also change how their money's used."*** This can also be tied to place-based impact investing. Especially if pensions are being invested in the pension owners' locale, ***"People need to be able to literally say, 'What good is my pension doing in my place?'"***

And another said, ***"Well, let's democratise pensioners' rights, because the pension schemes were built on a paternalistic model [...] and that is still there in the structure. If pensioners, individual pensioners, understand what their investments are doing, they can then have a voice with their pension, in the same way we elect our government and we ask our government to spend our tax money, we could also, in a sense, influence our money that's within the pension."***

In response, one participant considered what the role of government could be, ***"The issue around transparency is, I think, the central point that I would observe from what everybody's been saying today. If sunlight is the best disinfectant, the government can help in certain ways to encourage companies. Not just through legislation, but encourage companies to be more transparent. I think a lot of big investment companies in particular have very robust ESG practices, even if they don't necessarily call it that."*** One participant suggested that the Government could have some catching up to do, ***"I think the problem is the regulations have***

been lagging behind where investors and asset managers are. Asset managers are already reporting on the SDGs and talking about ESG washing."

In our recent paper, Helping purpose-driven business thrive, we suggested that the government could also make it a policy goal to make the UK a centre of excellence for impact measurement.[5] It is well placed to be a global leader. The UK is famous for its financial service industry, as already mentioned there are some of the world's leading academics tackling this topic at British universities, and many of the global standard setters are headquartered or have an office in London. There is a lot of adjacency. A government policy goal could really elevate and put energy into the momentum that is building at the moment.

A government participant replied, ***"The people who actually understand ESG and understand TCFD investing and who actually can do this on the ground are in London, and that's where we should have our money."***

OPPORTUNITIES TO EXPLORE

- Explore the UK as a centre of excellence for impact measurement to help strengthen the UK as the centre of financial services and to lead discussions on taxonomies.
- Explore how greater transparency on the social impact from businesses can be achieved, considering programmes such as the Workforce Disclosure Initiative.
- Further develop and consider accelerating the development of the pensions dashboard and consider adding impact into the project scope.

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[5] ReGenerate, June 2021, Helping purpose-driven business thrive

Place-based impact investing

The opportunity for more place-based impact investing was raised several times, and is pertinent given the government's levelling up agenda.

Place-based impact investing relates to the deployment of capital, targeted to a geographical area with the intent of delivering both financial and social and/or environmental returns, sometimes to address the needs of marginalized communities. A recent report from The Good Economy, Pensions for Purpose and the Impacting Investing Institute explains the opportunities of this strategy, delivered through Local Government Pension Schemes (LGPS).[6] It focuses on five key areas of investment, being: Housing, SME financing, clean energy, infrastructure, and regeneration. One of the largest challenges highlighted is the opportunity to scale, in part due to the highly involved, hands-on approach that is required. Another challenge is that the investments could have very long payback periods, which can be fine for an LGPS, but might not be okay for other investment vehicles, ***"It requires a much more patient capital."***

The conversation ranged from examples from participants where it has been a successful strategy to deliver social benefits, to discussing the practicalities of scaling the opportunity.

One participant that had experience in delivering place-based impact investing stressed the importance of collaboration and engagement with local communities, ***"Partnering with local places [is important] if you're going to get that democratisation event."*** Without local stakeholder engagement, and just simply building affordable housing for example, the risk of failure and not delivering social or financial returns is great. The implication is that there is no one size fits all approach and that collaboration and participation is essential.

Where the geographic targeting is outside of the UK, the discussion ranged between the requirement for risk management and the desire to reframe 'risk' from the perspective of the potential beneficiaries.

One participant highlighted that business owners in Africa don't want to be perceived as risks, they want to be empowered through capital and be seen as opportunities. That inbound investments could transform the continent, increasing the positive impacts of business. ***"The way you can bring the American dream to Africa is to be actually talking about young entrepreneurships on the continent, as opposed to seeing the constant migration. People are not leaving Africa because they don't want to be there. People are leaving Africa in order to fulfil their dreams."*** The belief was that this cannot be delivered through International Non-Government Organisations (INGOs) and international development, but through inbound investment into African businesses.

OPPORTUNITIES TO EXPLORE

- To continue to explore ways to make place-based impact investing scaleable, and understood as such.
- To highlight opportunities to join-up with the levelling up agenda to encourage a private investment in places.

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[6] The Good Economy, 26/05/2021, Scaling up institutional investment for place-based impact: White Paper

The spectrum of capital

BACKGROUND: The spectrum of capital and fiduciary duty

The "spectrum of capital" is the concept of different types of investment having different priorities, shown in Figure 1 below.[7] The spectrum ranges from maximising financial returns with no regard for ESG factors to the left of the diagram and potentially having negative outcomes towards people and the planet, to tolerating higher risk and in some cases below market returns in order to have a material positive effect for people and the planet, and then continuing all the way to addressing societal challenges in a way that cannot generate a financial return to the right of the diagram. The work of ReGenerate and others has increasingly shown that high impact and financial returns can often go hand-in-hand, creating a win-win for all stakeholders.[8]

In law, investors are bound to act in the best interests of another person or entity, which is known as fiduciary duty. In simplistic terms, in relation to pension investments, this is seen as ensuring the client or pensioner has the maximum funds available for retirement.

The discussion uncovered two distinct discourses. One related to drawing a distinct line between investment, philanthropy and the role of capital, and the other was the almost philosophical question of whether the spectrum exists, or should exist, at all.

Figure 1: The spectrum of capital

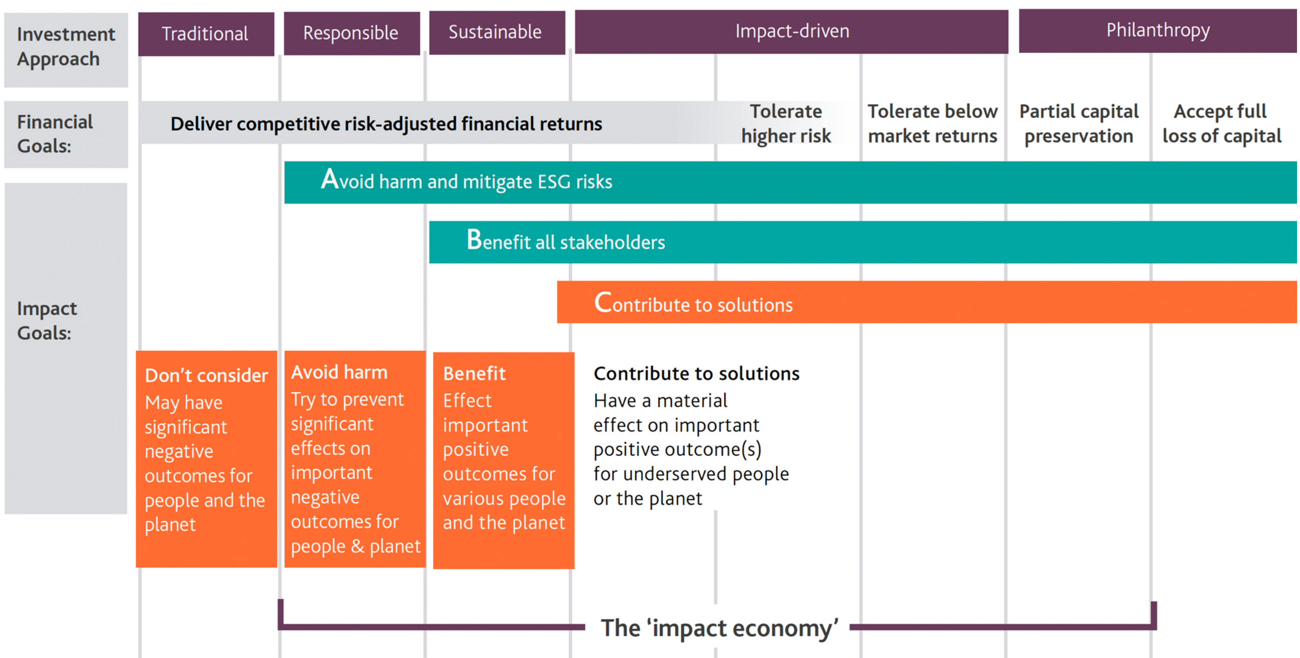

Image source: Resonance

DISCUSSION: From traditional capital allocation to philanthropy

Participants disagreed on the role of certain kinds of capital allocation that call themselves impact funds that are positioned on the borderline with philanthropy. The argument being that if they accept suboptimal returns in favour of a social or environmental return, from a fiduciary duty lens, these would be seen as high-risk investments. One participant said, ***"Well,***

[7] Bridges Fund Management, November 2015, Bridges Spectrum of Capital
[8] See ReGenerate, 2020, The case for purpose-driven business and Alex Edmans, 2020, Grow the pie

that's philanthropy, that's not investment, and that's fine, there is a place for that, but that is not investment, and that should be very clear." When they have been positioned and sold as social investment vehicles ***"It's been a total failure, because they have been pursuing a philanthropic agenda, not an investment agenda".***

How social investment vehicles, for example Social Investment Bonds, are structured, positioned and sold is clearly important, relating to the alignment of investment goals with investment options. For some customers, options that provide a market-based solution to a problem, perhaps with higher risk or lower than market returns, are acceptable if there is additional benefit to society. And from an issue-based lens, their positive contributions to society were seen as essential alongside philanthropy. In the words of one participant: ***"If investment pulled out of that area and left it to charity, I wonder if that issue would be under-served."*** However, it was generally accepted that there is a distinction between philanthropy and investment, and that the current social investment vehicles exist because some people (customers) are willing to provide capital where others aren't.

Towards the centre-right of the diagram is a form of investment called 'Impact Investing', where societal challenges are met at the same time as making competitive financial returns. Some have argued that impact investing produces lower financial returns than investments with no ESG considerations, meaning that these could be incompatible with fiduciary duty. Increasing evidence, however, such as from the Impact Investing Institute and signed off by a legal panel review, takes steps to debunk this myth and demonstrates the alignment of Impact Investing with fiduciary duty.[9] This point is particularly relevant with pensions investments that have a time horizon of 10, 20 or 30 years, when double materiality is taken into account.

Impact investment therefore does not mean compromising returns, since acceptable returns are determined by the client, not the investor. In relation to the incompatibility of fiduciary duty and impact, one participant commented ***"We completely reject this idea. We would say your fiduciary duty has to include your whole ESG, because without it, long-term returns are compromised."***

One participant said, ***"Their first duty is fiduciary duty, and although [name removed] very eloquently outlined that you can invest and get a perfectly good return, in such investments, it's just heavy lifting."*** To which another said ***"What is the product that you're actually going to use? How, as someone with fiduciary duty, and all the obligations I have as a pension scheme, going to make that investment? Finding a vehicle that actually allows that is, I think, the Holy Grail."***

The desire for investing in social outcomes led to the question whether one could create a Social Bond, or Social Gilt to make it easier for investors. Participants pointed to the sheer scale of effort needed, including the lack of social taxonomy, geographic variation in what social factors are material (more so than 'green' impacts), and the time it took to create a Green Gilt despite global precedents. Yet there is clearly growing demand for this, and where there is demand, eventually these wants will be met. How can they be accelerated? ***"This country, as have other countries, has accepted there is a massive desire to invest in ESG and green investment. It's patently clear that everybody can see that. So, create easy stuff for people to invest in, a green gilt is the obvious answer."***

[9] Impact Investing Institute, October 2020, [Impact investing by pension funds. Fiduciary duty - the legal context]()

The minimal detraction from a social bond was not against the concept, but rather that it was so critically important that each part of the financial ecosystem needs to play a role to really impact places.

DISCUSSION: Should the spectrum even exist?

The more philosophical discussion related to the left hand side of the diagram. Terminology like 'impact Investing' can frustrate people because, as one person said, ***"Every investment has an impact."***

It was raised that since ESG, Responsible and Impact Investing are now synonymous with investments designed to 'do good', does that mean that those labelled "traditional capital" are bad? This dichotomy was compared to the Financial Times Moral Money section. While it is clear what Moral Money is trying to achieve, does it's existence imply that everything else covered in The Financial Times is not moral? Clearly that is not the intention, nor true, but the tongue-in-cheek logic is clear. The implied goal is that ***"All investment should be impact and should be ESG. It's just logical."***

To demonstrate the point, one participant highlighted how one financial institution's mission is that ***"People should retire 'better'. This does not necessarily mean wealthier, but also within a better world."*** Another participant described how they had negotiated 'impact investment' out of their job title in order to avoid falling into the mindset that ***"This is a small, narrow threat where some bits of the business are going to do some good, whilst the rest of the portfolio runs amok."***

As demand for ESG investment grows, perhaps ESG will become the mainstream default funds and there are signs that this could happen without intervention ***"Then you've got ESG integration which is about integrating risk management and risk factors, and what are the non-financial factors that have an impact on financial statements. Every asset manager should be doing it, you've won a number of awards for it, and the best asset managers have been doing this for a long time, it's par for the course."*** With large institutional investors joining initiatives like The Glasgow Financial Alliance for Net Zero (GFANZ) declaring intent to decarbonise their portfolios, it is not a stretch to imagine that this could be broadened to the full gamut of ESG, including social factors, not just carbon.[10]

OPPORTUNITIES TO EXPLORE

- A social bond to make it easy for investors to invest with confidence.
- ESG by default to move away from 'traditional capital allocation'.
- Provide greater clarity on the purpose and role of impact investing.

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[10]UNFCCC, 21/04/2021, New Financial Alliance for Net Zero Emissions Launches

The role of consultants

Pension consultants were highlighted as a specific group within the ecosystem because they are recognised as being very important, with significant influence, and yet, some argued, could do more to proactively drive the ESG agenda. It was mentioned that because so many pension fund assets are advised by a relatively small number of consultants, they can have a large influence.

Consultants assess the funds marketplace, then provide investment strategy, advisory and planning services to clients such as pension providers, insurers and the employee pension pots of some large institutions, helping them to select the funds that will fulfill their financial goals. Crucially, much of the investment risk is essentially transferred to the investment consultant.

Relating to the spectrum of capital, several participants said that ***"Most consultants and most fiduciary managers are advising across traditional strategic asset allocation frameworks and they haven't moved away from that."***, which would imply that they should be part of the debate.

Where they have focused on ESG, the general feedback was that they have tended to follow the trends such as the recent focus on the net zero target. ***"I've, personally, previously worked with investment consultants. Typically, what we see is that they're looking at net zero targets. They're looking at TCFD alignment and they're looking, potentially, at SDGs, but the SDGs are usually largely focussed on climate action and clean tech."***

Risk aversion was seen as a reason that many stick to 'traditional investment advice'. If consultants are concerned with diminishing returns as you move from left to right of the spectrum, then the involvement from other risk averse actors means the needle never moves, ***"You get the pension lawyers in and straight away you're down back to, 'Let's not really do anything that rocks the boat' and that returns to the mediocre, static position."***

There was general agreement that more could be done to engage with consultants within wider stakeholder engagement initiatives, like those run by Pensions for Purpose. Education and ongoing in-work qualifications relating to ESG could also be powerful tools to help decouple the idea that ESG equates to lower returns or higher risk. ***"Creating a forum with all the stakeholders that we mentioned, so consultants, fiduciary managers, asset managers, and the pension funds themselves, to actually understand how you can unlock that, and then making sure that the objectives of the pension fund align with the product that you're putting together. And I think, to be honest, it's literally that simple. You just get everybody in the room together."***, said one participant.

OPPORTUNITIES TO EXPLORE

- More to be done to engage consultants as part of wider stakeholder initiatives.
- Explore how broader reforms within the investment consultancy community can help ensure they work effectively to support purpose-driven business.

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Education and awareness of ESG

It is only relatively recently that investors and business have actively leaned into and engaged with ESG, despite campaigning from civil society groups for a number of decades. In this context, the role of education and awareness was explored.

One participant, who had reviewed MBA courses in the UK, suggested that ***"The top ten MBA courses don't really have many options or modules for what we're talking about today."*** If that is the case then higher education institutions could make more courses available, to ensure that people entering the workforce come better informed.

Participants engaged with the idea of an educational campaign, which could be aimed at both those in the education system as well as continued professional development for existing practitioners. To reflect on how this could be paid for, while there are institutions that could provide the training, it is not expected that they would give their content away altruistically. A suggestion that a levy could be applied to the financial sector that would be nominal for individual businesses but could provide significant funds when pooled. ***"I think a kind of educational campaign, that's strong nationally and probably paid for by a levy of the financial sector as a whole, which would be very small and not not annoy anybody."***, said one participant. The CFA's voluntary ESG module is one example of a qualification in this field, and one where the UK has led the way internationally.

To further develop the business case for expanding ESG education or training requirements, it was noted that ***"[The UK] is the largest net exporter of financial services in the world. ESG is a huge opportunity. It should be something that the brightest graduates are coming out of university saying, 'I want to do this.' It goes back to what I was saying about [the availability of] MBA's before. But I also want to see people who don't go to university know what this is."***

Impacts of differing levels of awareness of ESG can extend to an organisation's pension scheme and to its beneficiaries. One participant said ***"On the climate side, 80% don't realise that their pension fund may be part of the cause of climate change. Even though two-thirds [of the public] want it to tackle it, and two-thirds want their pension to be sustainable, responsible and invested for impact."*** If this is true then some of this can be attributed to education, but transparency of the funds and the agency of beneficiaries are also important factors.

OPPORTUNITIES TO EXPLORE

- Expansion of ESG and responsible business courses and modules in higher education.
- An educational / continued professional development campaign, potentially financed through a levy on the sector.
- A regulatory intervention to require mandatory professional qualifications in ESG.
- Explore methods to maintain continued professional development of consultants, to ensure the the latest understanding of social and environmental materiality, and the often superior returns of impact investments, are considered.

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Incentives

A point that was raised a few times was the misalignment of the financial service industry's performance incentives, in relation to pension and impact investing goals and time horizons, which can sometimes be very long for returns on investment and the intended social impact to be realised.

Many impact or place-based investments, that have the goal of improving social factors, have long timescales attached to them. For example, a regeneration project that requires large-scale development and building new infrastructures such as schools, youth centers, business, shopping and leisure facilities can take decades to have the intended effect, with what can appear to be a slow gradient of change. However, with a decadal lens, the contrasts between before and after can be clear in terms of the impact on local communities.

Meanwhile, the performance of those working in investing is assessed on a much shorter timescale. According to the group, the current normative performance assessment window is three-years, ***"most people who hire as a fund manager will market over three years. That is the truth, and that goes for the consultants, that goes for the trustees. I'm sorry, you cannot play a fifteen-year game while playing a three-year thing."*** The alternative was posited by one, ***"[We] should have been looking at the linkage between ESG objectives and incentive structures for asset managers, and I don't think that's been done."***

The suggestion from the group was that changing the timeframe that performance is judged on, would change the behaviors of those being judged and to remove the incentive of focusing away from short time horizons to longer for pensions investments. ***"We see the returns … It says 'quarter to-date, year to-date, one year, three years, since inception'. So, psychologically, we're saying to them that's what matters. People get fired from running pension scheme portfolios for being behind for three years."***

There is a link between this point on time horizons and the earlier point on matching investments with suitable vehicles. There will always be a market for both short and long term returns. The discussion uncovered the need to align the time horizon, investment objectives and incentives, and make sure opportunities to achieve longer term social impact through investment pots suited to longer term time horizons are not missed purely due to short-termist incentive structures.

OPPORTUNITIES TO EXPLORE

- Re-alignment of timeframes for performance incentive and remuneration schemes.

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Consolidation

Participants compared the UK pensions market with more consolidated markets in Australia and Canada and the Netherlands. The opportunities that a super-fund might unlock could include the kind of large-scale, long-term capital required for big infrastructure or place-based impact projects.

In relation to the Australian super-funds, ***"We believe that the appropriate level of super-fund is approximately $35 to 45 billion. Now, that is so massively ahead of where we are right now."***, suggesting that in the UK we would have some catching up to do.[11]

In comparison to the Netherlands market, the suggestion was that a simpler market could simplify the integration of impact or ESG, ***"If you look at the Netherlands, they definitely do look at the impact. The reason why? Because they've got 300 pension funds and not 1,000. So, consolidation does obviously get you a bit further on that road, because the way that they use fiduciary management structuring is different."*** This was echoed by another participant, ***"Consolidation is, I think, absolutely vital. There are thousands of schemes and the trustees are rabbits in headlights, and it's just sad to watch."***

Another said that a benefit of consolidation would be that time and expertise-poor trustees would be less vulnerable to poor advice. ***"I think consolidation is absolutely paramount, because when you talk to the trustees of smaller pensions they're part-time, their capacity is low, their capability is low. [...] So, we've made a big effort recently to call on investment consultants to provide net zero advice as their base case for advice.***

While there are compelling arguments on the benefits of consolidation such as being able to point large amounts of capital at large-scale infrastructure-type investments, the views at the table were mixed. Consolidation was framed by some as critical, or vital, by some meanwhile others expressed opinions that bigger is not always better, that pensions investments shouldn't necessarily take on the role of government, and an over-reliance on super-funds included barriers to entry, reduction in diversity and increased risk of group-think. The reality is probably somewhere in between: a range of fund sizes are needed, but participants were highlighting a particular gap for super funds in the UK that can be directed towards social issues.

OPPORTUNITIES TO EXPLORE

- Further exploration of the advantages and disadvantages to consolidation and which actors would need to do what to prompt this shift.

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[11] For context, the UK's Social Impact Bond has raised $107m since 2010. The European Commission issued €17bn of social bonds in 2020, with demand reaching nearly 14 times that.

About ReGenerate

ReGenerate is making it easier to start, grow and lead a purpose-driven business.

Entrepreneurs and established businesses have a tremendous power to help tackle the great social and environmental issues of our age, from modern slavery and in-work poverty to climate change and racial injustice.

When their unique ability to innovate and scale is combined with a drive for positive impact it can transform society and the planet. We believe that the world would be a better place if there were more businesses operating like this. They are especially needed in light of Covid-19.

It is, however, harder than it should be to set up, grow or lead a business that is seeking to have a positive impact on society. The ecosystem that supports them is immature, and too many leaders are frustrated in their attempts to run a business with a purpose beyond profit.

ReGenerate is helping accelerate the growth of the ecosystem that supports purpose-driven businesses in order to make it easier for people to start, grow and lead companies that are doing good in the world.

We are a deeply collaborative organisation, and have gathered leading thinkers from across established business, government, academia, investment and entrepreneurship. Together, we are conducting research that identifies the barriers and shares the solutions necessary to make the UK, and wider world, a great place for purpose-driven entrepreneurs and businesses, and starting initiatives that help address them.