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Sustainability Summit 2019: Sustainable investment can enhance returns

Industry members came from far and wide to discuss what stricter ESG regulations will mean for the pensions landscape, what more needs to be done to promote sustainable investment and how to achieve enhanced returns from those investments

As we move into the future, with the rest of the world focused on the chaos of Brexit and Donald Trump, experts from across the industry gathered to discuss what must surely be a much more important topic: sustainability.

On a wet and cold Tuesday in the Waldorf Hilton, the weather was the initial focus of discussion. Not, however, the weather outside that day, but rather climate change, which is becoming a more and more obvious issue as time goes on. To help tackle the rapidly changing climate, attendees talked about what the pensions industry could do. Sustainable investment was obviously a hot topic, and how to make it financially viable as well as environmentally friendly, while financial regulators' guidelines were examined as to whether they were doing enough.

More needs to be done

There was a mixture of commendation for the amount of progress that had been made and calls for further and faster improvement. Proceedings were kicked off by UK Sustainable Investment and Finance Association (UKSIF) chief executive and keynote speaker, Simon Howard, who began with a rousing cry for people to follow the new regulations and, if possible, take things further. Noting that the industry was at a turning point, he began: "If everyone in the pension value chain does what the new pension rules obliges them to and, ideally, if they go further, we should see significant change in how UK pensions invest.

"This is the outcome that we want, what society wants and what the government wants, and I'm sure what you all want as well. The outcome we want is that schemes plan properly to provide benefits in the future, radically transformed by climate change and society's response to it."

He warned, however, that the industry needed to go "much, much further and far, far quicker" in order to prepare businesses and people for the rapid environmental changes. He called for pension schemes and their trustees to ask their advisers about sustainability issues and insist on satisfactory answers.

Howard continued: "If the answers aren't good enough, you must change you adviser or your fund manager or whoever is the problem. If you are a service provider, make sure you can answer pension scheme questions."

Financial regulators' progress with ESG guidance was praised but, again, the need for further progress was highlighted. Howard detailed that a systems-wide problem needed a systems-wide approach to be overcome, calling for the government and regulators to work together and with the industry to bring together climate science and policy with financial regulation. Howard encouraged the establishment of a new sustainable finance committee.

He concluded: "We want this new committee to be powerful, to be able to commission enquiries into areas of finance that may not be managing climate related risk responsibly, and we want the committee to have the power to require regulators to take action.

"Pension funds exist to give people a secure retirement. We want and need pension schemes to be the best exponents of responsible investing. This need will fundamentally effect the license to operate of all pension providers and schemes. That license to operate comes

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initially from the likelihood of them funding retirement, but going forward it must depend on them not damaging the environment."

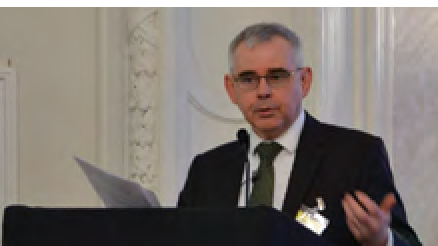
Strong sustainable returns

Howard was followed by an eye-opening and engaging presentation from Pictet Asset Management senior investment manager, Justine Vroman, discussing global sustainable credit and ways to ensure positive returns while following ESG regulations. She stressed the importance of selecting robust and sustainable companies that will be "successful in adapting to the challenges".

In keeping with the tone of the conference, Vroman detailed that ESG can be beneficial for credit performance. "ESG actually complements traditional credit analysis," she stated. "ESG can enhance credit performance, and ESG and traditional credit analysis are mutually reinforcing. As an asset manager we should be using their work as a starting point for our own analysis."

Audience engagement was particularly high at this year's summit, and once Vroman had fielded questions from the industry, the discussion turned to how equity investing can generate an income stream that complies with the sustainability framework. Newton Investment Management global equity portfolio manager, Raj Shant, explained that, if a pension scheme is reaching maturity or its decumulation phase, equity investing can provide a sustainable income.

The asset management industry was praised for the majority integrating ESG considerations into their investment



approach and decisions. Shant added: "That is a huge amount of progress and I think the largest proportion of the world's asset management industry now does do that to some degree, increasingly better and better."

It was also noted, however, that the final mandate for portfolio managers is delivering the best risk-adjusted returns, and therefore not always taking ESG into consideration when the going gets tough. However, Shant explained that this didn't have to be the case: "We are putting the ESG considerations right up there with a par with those financial considerations. You're not having to give up returns, you can actually help to generate better returns for your investors."

Trustee responsibility

Bringing a legal perspective to the summit was ClientEarth lawyer Joanne Etherton, who encouraged trustees to take a more proactive approach to sustainable investing, and to hold their investment managers to account.

She explained: "Pension trustees can't just leave it to chance how those investment managers are acting. Asset owners such as pension fund trustees are fiduciaries and therefore need to act prudently in carrying out their investment duties on behalf of the pension fund members.

"They need to think about who they are instructing to carry out their investment duties, as the legal responsibility for investment remains with trustees."

Three broad business strategies were examined: 'business as usual', 'manage decline' and the 'adapt and resolve approach'. Etherton argued that 'adapt and resolve' was the most appealing option, as it "involves an acknowledgement of the trend before decarbonisation".

She continued: "Most companies will need to change to some extent, but it will require time, money and willingness to

invest in innovation."

Trustees and other industry members were also encouraged to respond to and follow the new stewardship guidelines.

The conference was concluded with a call for more transparency in the industry, as more people are wanting to support sustainable investments, members need to know what they are investing in and how to invest in the areas they feel passionate about.

Speaking at the summit, Schroders ESG product manager, Belinda Gan, said: "There is growing member pressure. In our global investor study, which we've run over the past three years, we've seen strong and increasing interest in sustainable investing, across all age cohorts.

"So sustainability has become too important to ignore from an investment point of view, a regulatory point of view and a member point of view."

ShareAction senior campaigns officer, Lauren Peacock, added: "There's a lack of transparency, and this creates confusion around what a sustainable fund is, what it is trying to achieve, and how it intends to do that. If sustainable investing is done well, we believe it enhances long-term returns. But if it is done poorly, it can create problems."

Although we can't halt climate change entirely, this conference brought a sense of hope that, as people from so many different backgrounds were putting sustainable investment first, we can work together to protect the planet and future generations.

Written by Jack Gray