

# Responsible investing: What's it all about?

✓ **PTL client director Dan Richards reflects on what ESG investing should really mean for pension scheme trustees today**



Each year brings new ideas and new regulations to the way we work with legacy (and a small handful of ongoing) defined benefit pension schemes. In recent times, these new additions have increasingly been focused on understanding our investments – be that setting and assessing objectives for our investment advisers, collating how our investment managers have been voting on our behalf, or making our investment principles available for all to see. Consistently rearing its head within this deluge of updates is responsible investment, covering difficult to assess topics such as the environmental, social and governance (ESG) aspects of investment opportunities.

The direction of travel that government thinking wants us to head in is clear – to invest directly or indirectly in environmentally-sound businesses with

strong governance processes. But the UK pensions industry is a flotilla of ships of all sizes, kayaks through to oil tankers. Regulations alone cannot force everyone in exactly the same direction, because each ship has its captain and crew, and can chart its own course. This can mean nimble decision making and seizing opportunities, but it can also lead to inertia, objections and dissent.

In particular, throughout the years a familiar refrain calls out – trustees are not ethical gatekeepers, they should only be interested in investment return. This may feel coherent

but, the longer you stay in the investing game, the more you realise that ignoring any piece of information is the real error.

This is not about diverting hard-earned money from our pensioners towards subsidising green initiatives – that is the realm of charity and government work. In defined benefit schemes, our assets are pooled, so it is impossible to accurately reflect the investment opinions of all of our members, and indeed many members may also believe ESG factors can be safely ignored when making investments. So this also cannot be about applying personal opinions to ethically grey areas.

What this should be about is making consistently good choices for the longevity of your investment portfolio, for making sure that you are not a forced seller when an industry becomes unviable. And I find it unsurprising that companies which think about and

support the planet, the environment in which all companies trade, are so often aligned with investment successes. As pension trustees we may plan to invest for 50 years or more, so we have to consider which businesses are still going to be operating in that environment. This is about making sure that our returns are sustainable in the very long term.

This is about making sure that health charities are not exposed to tobacco, making sure that animal charities aren't exposed to palm oil, making sure that no-one need be exposed to slavery in the supply chain or chemical weapons.

This is about investing in responsibly-designed assets, which do not lose value when new environmental regulations are announced. This is about avoiding assets that will struggle when carbon trading is banned or funds that are forced to sell off stocks due to slavery scandals.

This is foremost about giving pensioners their promised pay, and at the same time as maintaining a world for them to spend that money in.

Everything may taste a bit like responsible investing at the moment, certainly there are many positive and negative stories going around. Hopefully, though, that is not because ESG factors are simply the flavour of the month, easily discarded by consultants when the next talking point arrives. Instead, it is hopefully a sign that ESG factors are becoming such a vital component of our professional and personal lives that it cannot be ignored any longer. If we do focus on making improvements, then maybe the next time David Attenborough narrates the woes of the world, perhaps we can rest a little easier knowing our collective pension pots are doing some of the heavy lifting to help make the world a better place.

✎ **Written by PTL client director, Dan Richards**