INVESTMENT

Stepping stones

Young people want to know that their retirement savings are invested in an ethical manner and that their funds are making a difference. How can pension funds make their shareholder activism work effectively, and how can they promote these efforts to members?

WRITTEN BY PETER CARVILL, A FREELANCE JOURNALIST

Environmental, social and governance (ESG) considerations when investing have gathered pace in recent years, moving from a relatively-niche part of the market to occupy a more central part; a driver of this has been a changing view from stakeholders on the investments made on their behalf. A solid track record in ESG investing is also good for the funds themselves, even if only from a public relations viewpoint – a good public image may bring more value than investing solely for profit and returns.

The evidence for a sharpening focus on ESG investments can be seen in statistics gleaned from Schroders' *Global Investment Survey 2018*, which was released in September. That survey found that 64 per cent of investors had increased allocations to sustainable investing. It also found that over three-quarters of investors thought that investing sustainably over the past five years had increased in importance.

A key driver of this, Schroders found, was in the younger generation – the so-called 'millennials'. The company found that 71 per cent of 18-24 year olds had increased their exposure to sustainable investments over the past five years, rising to 75 per cent of those aged 25-34. In comparison, only 43 per cent of over-65s had done the same in this

time period. There was also a disparity between the two younger generational groups – the 18-24 year olds invested 43 per cent of their portfolios sustainably; this dropped to 33 per cent for the 25-34 cohorts.

Other numbers jump out; the East & Partners produced the *Sustainable Financing and ESG Investing* report, on behalf of HSBC, reported that the Global Sustainable Investment Association (GSIA) said that global assets under management incorporating ESG have risen 25 per cent over the previous two years. The GSIA also estimated that 30 per cent of investable assets globally – over $20 trillion – included sustainability in their investment analysis, according to their 2016 *Global Sustainable Investment Review*.

A political shift

This generational focus on ESG issues comes against a changing political background. Last March, the UK's Environmental Audit Committee wrote to the country's 25 largest schemes to enquire as to how they were factoring climate change into their investment strategies.

This followed a report from the EU's High-Level Expert Group on Sustainable Finance that recommended assets owners, including funds, examine the materiality of ESG risks within their obligations to beneficiaries and how these would impact on investment strategy.

Away from the UK and a step down from the EU, national governments on the continents also began to dip their toes into the same waters: the Berlin-based Handelsblatt Global Edition (HGE) reported that the German and French governments were teaming up with BlackRock for a new fund to tackle climate change. Initial funding for that was slated to be €85 million. As HGE reported, "BlackRock's own Global Renewable Power II fund could serve as a blueprint for the venture. Launched in 2017, it collected $1.65 billion from 67 institutional investors in Asia, Europe and North America and has so far invested in more than 250 wind and solar plants."

The road however is not a smooth one. As East & Partners wrote in *Sustainable Financing and ESG Investing*: "Even though reputation is a key driver, the level of disclosure about ESG policies varies from region to region. Globally, the majority of investors and issuers are not disclosing their policies – indicating there is still a long way to go where transparency in the industry is concerned."

Engagement is certainly an issue. In February, the charity ShareAction released *Pensions for the Next Generation: Communicating What Matters*, a report looking at how to "shift the attitudes of young British savers towards their pensions". The ShareAction authors wrote: "We find that other than a welcome pack and annual statement, most pension providers do not actively reach out to members until five or ten years before their retirement date."

ShareAction's communications

30 PER CENT OF INVESTABLE ASSETS GLOBALLY – OVER $20 TRILLION – INCLUDED SUSTAINABILITY IN THEIR INVESTMENT ANALYSIS

manager Beau O'Sullivan says that funds are doing more and more in the ESG space but are not communicating it well. "There's a real gap," he says, "between what they're doing and what they're telling their members."

O'Sullivan outlines where he thinks a vital point is often missed in engaging the younger generation. "I think", he says, "that when you come to a young crowd in their first jobs, that's a crucial moment when that education can come in. It's something that should be done by the benefits and HR teams in a company, but those departments are out of the loop in responsible investment and it's not part of their day job to talk to employees about these things."

Reaching out

Some approaches stand out. One has been Mercer's testing of personalised videos, which are sent via email to the stakeholders in a pension fund. The 90-second videos provide information on how much has been saved by the employer and the employee over the year, alongside what kind of benefits they should expect to receive, and finishes with a call to action to increase contribution levels. It is reported that 65 per cent of people swho received the video clicked on the link, with over two-thirds of those clicking through taking action.

Any lessons learned through Mercer's project may have wider lessons for the industry. As ShareAction reports in *Pensions for the Next Generation*: "Pension providers could invest in digital tools, including apps, to achieve greater engagement and two-way communication with their members. Pensions information could be more available and shareable via social media, allowing people to seek information from colleagues and friends, and to respond to social norms they perceive as relevant to them. Successful apps such as Instagram and Snapchat work through sharing of images. People's pensions are invested in the real world and there could be associated, shareable imagery for many of these investments."

There may be an opportunity here, given that only around one in 10 scheme members connect with their pension provider through their online platform. But there is some risk that too much information can be dangerous. Scottish Widow's senior manager for responsible investment and fund development Kaisie Rayner says: "I think there is an industry question as to whether pension investments should be looked at on a daily basis – this may drive the wrong type of behaviour if value fluctuates dramatically. People may get scared of investment risk and sell out at the bottom of the market, just at the time when they most need to be invested. The question is whether they will use it in a way that's beneficial to them."

The question remains as to whether, in a rush to prove themselves worthy by providing transparency, pension funds will ultimately let slip too much information.

ShareAction's investor engagement manager Anne-Marie Williams says that promoting responsible investment efforts to their membership base could lead to great savings. However, she acknowledges that they should be cautious and make sure that communications are tailored, digital, and provoke an emotional response. "This would improve engagement," she adds, "and allow savers to see the point of their pension in the here and now. For example, telling savers interested in green energy that their pension contributions are being invested in low-carbon projects could help them prepare for retirement and fund solutions to climate change. They are then more likely to up their contribution rate."

Ultimately, though, the key aim – as with all pension funds and industries across the continent – should be to improve the contribution rates of members, especially the young. It is this generation, looking at their parents and grandparents, that may have antiquated ideas of what retirement could look like. The best outcome from all this – say rising contribution rates to somewhere between the 12 and 15 per cent recommended – will be the safe and secure environment that many expect but may struggle to receive. ■