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Positive impact investments

Pension funds must take active role

Marcel Jeucken, PGGM

'Negative' approaches, withdrawing investments from carbon-intensive industries, increase the 'green' credentials of a portfolio. But a growing range of asset options allow investors to pursue 'positive' allocations, putting large amounts of money into beneficial investments.

The long-term liabilities of pension funds mean they cannot ignore the wider impact of their investment choices on environmental, social or financial stability indicators. Actions which contribute to instability threaten the long-term return on investments.

The good news is that pension fund capital can lead financial markets in creating a more sustainable investment environment. Over the longer-term these investments offer better returns and lower risks than non-sustainable alternatives.

More sustainable investment environments offer better returns and lower risks than non-sustainable alternatives.

'Negative' approaches which withdraw investments from carbon-intensive industries are one way to increase the 'green' credentials of a portfolio. However there is also a growing range of asset options that allow investors to pursue 'positive' allocations, putting large amounts of money into investments that have a positive impact on social and environmental factors.

PGGM, the Dutch asset manager which administers the assets of public sector pension funds, pursues this latter policy, investing in clean technology and sustainable energy. In doing so we help contribute to a more stable and hospitable world.

Our investment decisions help determine the nature and course of economic development, and how sustainable that development is. In the longer term the increased demand for sustainable assets, combined with the growing financial and social costs of carbon-intensive investments, mean sustainable asset classes are likely to have a strong financial benefit as well as a social one.

Integrating good environmental, social and governance factors into all steps of the investing process

We allocate approximately €4bn to 'positive impact' investments. Our biggest client, Pensioenfonds Zorg en Welzijn, the Dutch public sector healthcare pension fund, has set the ambitious goal of quadrupling its investments in these areas by 2020. In time we hope to move beyond specific allocations to sustainable projects and to integrate good environmental, social and governance factors into all steps of the investing process in all investment categories.

The concepts of risk, sustainability and social responsibility do not just apply to environmental issues or working conditions but, since the global financial crisis of 2008-09, must also consider the sustainability of the financial system.

Investors must ask themselves how their investment decisions and financial market activities can help make this sector more stable and prevent the build-up of future shocks. The social and economic costs of not doing this are, as we have seen since the crisis, too large to be ignored.

Active shareholdership is another area where pension funds have been successful in raising awareness and taking a more active role in increasing the beneficial effects of investments on the environment and the real economy. However there are still difficulties to overcome.

Measuring the beneficial impact of investments and communicating them to participants is hindered by the long time frames involved. Establishing a clear risk-return metric faces challenges from low-carbon benchmarks which still remain in the developmental stage. Nonetheless, it is clear that chasing short-term profits can result in harmful social consequences and destabilisation of the environment which have negative impacts on the real economy.

If our investments contribute to these crises we will lose out. We have the opportunity and responsibility to contribute to a liveable world. Using our investments to contribute to solutions in areas from climate change, water scarcity and food security to improving health and promoting clean technologies, we will benefit financially and socially.

Separating financial returns from social, environmental and financial sustainability is no longer reasonable or defensible. Pension fund capital can and should lead the market in responsible investment. ■

Marcel Jeucken is Managing Director, Responsible Investment, at PGGM.