cio investment club

Roundtable #2 May 2024

Responsible Investment Roundtable: Scrutinising the sustainable investing landscape

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Contents

Responsible Investment Roundtable: Scrutinising the sustainable investing landscape

Responsible investment has gone from niche outlier to core pillar of mainstream strategies – with its own set of reporting standards, regulations and policies.

Environmental, social and governance (ESG) issues are so firmly entrenched in today's investment discourse, that most companies, a large proportion of the financial services industry and many investors consider integrating these factors in their daily and longer-term operations a top priority.

But as responsible investment has evolved, it has become subject to swathes of guidelines, codes, disclosure standards and regulations.

At the same time, an entire ecosystem has emerged with numerous interconnected objectives, goals and issues falling under the ESG or responsible investment banner.

This April, the cio investment club held a Responsible Investment Roundtable which scrutinised the sustainable investing landscape.

We have summarised the findings in the following Whitepaper, which we hope you find informative, and we also hear panellists' wish lists to help investors – and their service providers – deliver effective responsible investment strategies in the future.

Taking responsibility for responsible investment

With so many vested interests feeding into responsible investment, attempting to set clear roles that determine accountability and ensure the right decisions are made can be a challenge.

We asked who should drive the responsible investment agenda – policymakers, asset owners, investment managers, consultants, companies or individuals.

The panel agree that while all these stakeholders should have a say, asset owners themselves need a clear governance structure to stay in control of their strategies.

John Dockery, OCIO, Vesta Insurance Asset Management Solutions, says: “You need that governance in place because it gives you the structure and framework to collaborate with other organisations. The insurance sector has done a pretty good job in putting that governance in place. They have ESG committees to take ownership within their organisation, usually with a named individual responsible for delivering on that agenda.”

Speaking in a personal capacity, Peter Martin, Investment Officer at The Medical Defence Union, agrees that it is the asset owners’ responsibility to drive the responsible investing agenda, since consultants and asset managers respond to the demands of their clients and investors.

He adds that for governance to be successful, there must be an integrated strategy across the organisation.

“It's all about being integrated and you need the right people to drive change. All parts of the organisation should be included to make sure the investment or financial side is aligned with other decisions and with what you want to do as a business. We want to be authentic across the piece.”

Linda Zuberi, Head of Responsible Investment at insurance company Beazley, agreed that it is important to have a robust governance framework to support a responsible investment approach. However, she highlighted the resource challenges for smaller to medium size organisations when putting strong governance systems in place.

Lisa Stonestreet, Head of Communications and Charity Impact at the EIRIS Foundation, says the same is true for the charity sector where there is significant variance in the adequacy of governance across different organisations.

“We have of group of pioneers who are adopting innovative strategies, but then I might have a conversation with a charity that has extremely change-averse trustees who are reluctant to even have a conversation about responsible investment that extends beyond negative screening.”

Dockery says that smaller organisations often ask asset managers to provide ‘off-the shelf’ responsible investment strategies.

“The small to medium sized Lloyd’s syndicates, for example, tend to just try to take something off the shelf and ask the asset manager to do the heavy lifting, sometimes via a consultant. They just don't have resources in-house.”

But while asset owners hold ultimate responsibility, they are still reliant on consultants to guide the way in formulating a responsible investment strategy.

However, Stonestreet warns that investors may not always understand the information they receive from their advisers.

“I've had trustees, directors and charity staff send me the ESG reports they've had from their consultants or advisors and ask ‘what does this mean? Can you help me interpret?’”

Oliver MacArthur, Impact Research Lead at Aon, says it is incumbent on consultants to support investors on the journey.

“It's about being clear with the people you're advising so they don't get lost in amongst the data. I think for advisors, they need to be hyper clear about what exactly the funds are doing, and what they don’t do.”

What gets measured gets managed

Any responsible investment strategy is dependent on data to inform decision making, and to stay on the right side of legislation, but as MacArthur notes it is easy to get lost.

The panel discussed the deluge of ESG data through which investors must wade, and the importance of finding the right information.

Jordan Griffiths, Senior Sustainable Investment Consultant, Barnett Waddingham, welcomes the International Capital Market Association's voluntary code of conduct for ESG data and ratings product providers, but warns asset owners to look beyond quantitative information in isolation.

"We are cautious about just using quantitative data. We also look for qualitative data, such as case studies, to give a bigger picture. But more transparency around quantitative data and how that is collated will be welcome."

Dockery points out that investors need to be able to ask more questions and start challenging the data. He notes that this is happening as training and education gathers pace but has much further to go.

Contributors also acknowledge the relative ease with which investors can obtain emission related data – thanks largely to the Taskforce for Climate-related Financial Disclosures (TCFD) – compared to acquiring biodiversity figures and information to inform strategies with a social objective.

Martin says: "We are asking asset managers and our consultants to give us progress updates on how they are putting infrastructure in place to measure biodiversity and social factors because we are going to have to measure these things in the future."

The panel agreed that access to more comprehensive and varied data is especially important for impact investors who need to evidence that they have achieved positive change.

Zuberi says: "Impact funds need to be clear about the outcomes they are trying to achieve and have a mission and framework in place to do that from the very

beginning. Social outcomes are much harder to measure than environmental impact and it is important to be specific and avoid generic goals."

James Potter, Investment Director at social impact asset manager Big Issue Invest, explains how he identifies potential projects in which to invest.

"We let the borrowers explain to us the impact they generate and the metrics they use to measure that. If you turn up and say, 'these are the 10 things we want to achieve, and this is what you have to do', I'm not sure it would work. Applying a top-down approach is very challenging to apply to small assets."

Potter continues: "Whilst we focus on assessing aspects such as modern slavery policies, living wages and employees' wellbeing, which probably goes beyond a lot of what many funds focus on, we also assess the negative social impacts. We have a proprietary social impact investment framework and have a team of people explicitly working to assess social impact."

The panel agreed that it is important to assess both the negative and positive impacts from responsible investment, with a view to producing a balance sheet detailing overall outcomes.

“ *Impact funds need to be clear about the outcomes they are trying to achieve* ”

The regulatory landscape

The importance of accessing reliable, consistent data is essential in meeting the swathes of regulation that has come to punctuate the responsible investment landscape.

These include recent legislation such as mandatory reporting in line with TCFD in the UK and the EU's Sustainable Finance Disclosure Regulations (SFDR).

However, the panel expressed frustration with regulators who they believe may be running to catch up with the responsible investment sector.

Zuberi says: "the ESG landscape is evolving quickly and there is a sense that the regulators are trying to keep pace too. We have received an increasing number of disclosure requests in recent times and it would appear that the regulators are working out what information is available to help shape ongoing regulation."

Zuberi adds: "It can be very time-consuming responding to disclosure requests and potentially diverts resources from making progress with the underlying analysis."

MacArthur says there has been some recognition that the industry may have reached "peak reporting burden" and there has been an effort to integrate various questionnaires.

"We have seen PRI bringing in elements of the UK's stewardship code for signatories and direct reporting from the TCFD, for example. It is important to streamline reporting and recognise the competitive dynamics that are in play. If you are a boutique asset manager, it is much more challenging to meet reporting responsibilities compared with a large asset manager that has the in-house resources with large teams of people," MacArthur says.

When asked about the efficacy of recent ESG legislation, particularly that designed to eliminate greenwashing, some panellists expressed misgivings.

"*… bucketing strategies into broad categories can be very subjective*"

Talking about SFDR, Griffiths says: "Labelling under SFDR is a useful starting point but should be taken with a large pinch of salt. Given asset managers do things in different ways, bucketing strategies into broad categories can be very subjective, especially as we move into impact and social investing. Investors and investment consultants need to carry out thorough qualitative due diligence."

Stonestreet says the Financial Conduct Authority's decision to remove an 'unexpected holdings' category from the UK's Sustainable Disclosure Requirements (SDR) is further reason for investors to thoroughly scrutinise ESG labels.

"It is a pity that unexpected holdings disclosure has been all but eliminated. It is extremely useful to be able to know why a particular stock is in a portfolio/fund when it might be a surprise to investors who might not consider that company to align with a green, ethical or sustainable approach."

Martin agrees that full transparency across a responsible fund's investment allows for more opportunity to engage with companies and effect positive change.

"If we know the fund holds a contentious company then we can engage and bring about change, rather than simply disinvesting," Martin says.

Time for social investing

While acknowledging the challenges of the subjectivity associated with social investing, and the difficulties in measuring impact, the panel considered the escalating interest in the S of ESG.

Potter says: “There is a growing recognition that asset owners can make a difference in alleviating some of the key social issues in the UK. The rhetoric seems to be that five years ago, people weren't really thinking about the S in ESG, and today they are thinking about it and writing about it. However, I don’t think there has been a sea change in terms of hard investment.”

Zuberi says this may be because it can be difficult for institutional investors, especially larger organisations, to access social funds, first because of the very specific nature of the due diligence required and second because the funds are relatively small, restricting the amount that institutions can allocate.

However, she adds: “It would be fantastic if every large institution allocated just a very small part of their investment portfolio towards impact funds. That would be so powerful in moving social impact investment forward.”

But for social investment to truly move forward, MacArthur returns to the importance of furnishing investors with the requisite data on which to make decisions.

“Investors need to be empowered with information and insights that shows the current level and breakdown of social impact within companies. That might be whether they pay a living wage, or details about the gender pay gap. However, a guide to what data is needed for a foundation for social investing is missing at the moment. Once we get that in place, we are more likely to anchor the value chain towards solutions that can change the status quo.”

“*It would be fantastic if every large institution allocated just a very small part of their investment portfolio towards impact funds*”

Conclusion

Appetite for responsible investment continues to grow fuelled by a recognition of the financial risks from ignoring ESG issues, and a wider recognition that capital can deliver real returns while making a positive difference.

However, the panel is clear that a lack of integration both within organisations and in terms of the data that drives decision making, is hampering progress.

Further, the current ESG data sector is inconsistent and too heavily focused on quantitative information while failing to provide enough supporting qualitative evidence, particularly for impact investors.

Legislation is providing help with managing greenwashing and in creating a disclosure framework to aid investors and investees in meeting their obligations, but policymakers must be consistent and pragmatic in their approach.

Responsible investing remains a work in progress and all stakeholders will need to cooperate if the huge amount of available capital is to be channelled effectively to make a real difference.

Wish lists for more effective responsible investment

The panellists' provide their wish lists to help investors – and their service providers – deliver effective responsible investment strategies in the future.

“There should be greater recognition of the significant opportunity for many investors from responsible investment. Considering the vast opportunities may also be a positive way to engage, especially with slightly more sceptical stakeholders.”

“Responsible investment is a fast-moving area and sticking with the status quo can be a cost to investors. Investors should periodically be reviewing their policies and reviewing the market, because a static policy and strategy could become a significant risk.”

Jordan Griffiths

Senior Sustainable Investment Consultant, Barnett Waddingham

“There needs to be an adoption and acceptance of a very realistic intersectional and wholistic approach to thinking about responsible investment. We need a greater acceptance that the financial sector does not exist in isolation. We can't continue to think about making money and profit on the one hand and have everything else on the other.”

“I want to see charity asset owners feel empowered and motivated as clients, and that they move away from seeing financial providers and consultants as gods. We want to see charities pushing the boundaries forward and taking control.”

Lisa Stonestreet

Head of Communications and Charity Impact, EIRIS Foundation

“It would be positive if more large institutions see the value of social and environmental impact funds and are able to get buy-in to allocate a small portion of their AUM to a portfolio of truly impactful projects. It would be helpful if there is greater awareness of not only the potential to generate competitive investment returns and measurable outcomes but also bring additional benefit to stakeholders whether shareholders or employees.”

“I would hope that regulators are able to take a pragmatic, co-ordinated and patient approach with companies when it comes to setting a framework for responsible investment. For example, the timescale of some climate scenarios is so far into the future that they may not be relevant for short-tail portfolios.”

Linda Zuberi

Head of Responsible Investment, Beazley

“There must be more effective stewardship. The distance between the asset managers and asset owners is often significant, in particular with equity holdings. Investors have got to be ready to reduce that distance by hiring asset managers that are going to implement their views.”

“It is quite difficult for an investor to build a diversified portfolios in terms of sectors because the opportunity set can be dominated by early-stage companies. We need to find some way through regulation so that larger institutions are incentivised to direct capital to large scale projects that can make a difference.”

John Dockery

OCIO, Vesta Insurance Asset Management Solutions

“Asset owners need to look at products that are slightly outside the mainstream listed securities market if they want to generate impact; social impact isn't something you can just buy off the shelf.”

“Social impact investing should be part of everyone’s portfolio. In France, there is legislation that requires incorporating a social impact element to portfolios and there is room for that approach in the UK.”

James Potter

Investment Director, Big Issue Invest

“In 10 years’ time, I hope we don't need to discuss responsible investment because it is fully integrated into our strategies. That it has become part of the thinking, it's part of investing and it's natural to the entire structure of regulation.”

“Investment managers need to have fully transparent reports with all the data integrated. We need to see they are walking the walk and not just talking the talk.”

Peter Martin

Investment Officer, The Medical Defence Union

“We need to adopt systems that allow investors to see how everything fits together, which are powered by data analytics, as opposed to thinking about environmental social issues in isolation. These need to be built upon proper incentive structures that reward long term sustainable behaviour as opposed to short term corporate thinking.”

“It is important to think about the possibilities for democratisation of data analytics and how that can fire disruption. It can allow investors to go deeper into supply chain issues in a way that was not possible before, and we should move away from nebulous top down Blackbox ESG scores.”

Oliver MacArthur

Impact Research Lead at Aon

Responsible investing participants

James Potter

Investment Director, Big Issue Invest

James joined Big Issue Invest, an impact first fund manager and social investment firm, in 2019. He manages the £24m Big Issue Invest Social Enterprise Investment Fund II and the £75m Big Issue Invest Social Impact Debt Fund IV.

James has a background in corporate finance having spent 12 years at Rothschild Investment Bank where he was a Director within equity capital markets and debt advisory and also worked on European privatisations. He has 22 years of experience in investment and financing and has worked on over £10bn of capital markets transactions.

In 2015 he moved to the social investment sector at Numbers for Good, a social investment adviser and impact finance structuring firm where he advised social enterprise and charity boards for 4 years.

Linda Zuberi

Head of Responsible Investment, Beazley

Linda Zuberi is the Head of Responsible Investments at Beazley, a specialist insurance company operating in Europe, United States and the Pacific regions. Linda is responsible for overseeing and managing the integration of responsible investment practices into the investment decision making process at Beazley and management of the portfolio of impact investments.

She joined the Beazley Team in 2015 from QBE where she was manager of the global credit team and part of the team set up to establish the Premiums4Good program. Prior to that she spent 19 years at the Corporation of Lloyds where she was responsible for managing the investment team.

John Dockery

OCIO, Vesta Insurance Asset Management Solutions

25 years fixed income investment management experience in London and Dublin with New England Asset Management (NEAM) and Barclays Capital. Client base was insurance enterprises. Secondary exposure to multi asset classes.

Keen interest in financial markets and their impact on both strategic and tactical portfolio allocation and construction. Managed bond portfolios to benchmarks through many economic and credit cycles.

Recently established Vesta to support London-based insurance enterprises with the twin challenges of economic and governance uncertainty in their investment portfolios – namely through Outsourced Chief Investment Officer (OCIO) services for their investment committees.

ACA (KPMG) and Masters in Finance (Imperial College London) qualifications.

Oliver MacArthur

Impact Research Lead at Aon

Oliver serves as an Associate Partner, Impact Research Lead in Aon's Investment Manager Research (IMR) team. After joining Aon in 2018, Oliver is responsible for sourcing, evaluating, conducting due diligence, and monitoring sustainable and impact equity funds on a global basis. In addition, Oliver coordinates impact investing activities within IMR across the suite of Aon's asset class coverage.

Prior to Aon, Oliver worked at Church Commissioners for England, a charitable endowment to support the work for Church of England, and the Royal Bank of Canada. Oliver is a CFA Charterholder.

Jordan Griffiths

Senior Sustainable Investment Consultant, Barnett Waddingham

Jordan is a Sustainable Investment Consultant at Barnett Waddingham. He joined Barnett Waddingham in 2021, after previously working at an investment consultancy. Prior to this, Jordan has worked as a financial trader and also within the National Accounts team at the Office for National Statistics.

He is heavily involved in both undertaking sustainable research and helping clients formulate, develop and implement their sustainable investment aims. Sustainability means different things to different clients. Jordan focuses on developing pragmatic solutions that consider both risk and opportunity, to allow clients to best incorporate sustainability into their investment frameworks.

Jordan holds the CFA designation and has gained the Diploma in Investment Management (Environmental, Social and Governance (ESG)).

BARNETT WADDINGHAM
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Lisa Stonestreet

Head of Communications and Charity Impact, EIRIS Foundation

Lisa is the Head of Communications & Charity Impact at the EIRIS Foundation, a research, advice and advocacy charity working to pioneer the next steps in sustainable finance and increase the positive impact of sustainable and responsible investment. Her career to date has been focussed specifically on sustainable investment and finance. She was previously a Programme Director at the UK Sustainable Investment and Finance Association (UKSIF), supporting the growth of UK market demand for responsible investment and other financial services that advance sustainability through activities such as Good Money Week, the Ethical Investment Association and support for Pension Funds and Charity Investors.

She initially developed an interest in sustainable finance while studying Finance and Environmental Economics in South Africa. She is a proud Trustee of The Orchard Project, a member of the Castlefield External Advisory Committee and a member of the UKSIF Industry Development Committee.

EIRIS FOUNDATION

Peter Martin

Investment Officer, The Medical Defence Union

Peter is the Investment Officer for The Medical Defence Union and has been with the MDU since 2016. He has over 30 years' experience as a senior investment professional. Prior to joining the MDU, Peter was head of manager research at JLT Employee Benefits and before this at Aon Consulting. Peter's investment research specialisms have included bonds, LDI and property. He is currently a member of the Investor Committee of the Association of Real Estate Funds. Peter was also a member of the Society of Pension Professionals (SPP) Investment Committee for many years and in addition was a member of the Investment Committee to the Pensions Board of the Institute of Actuaries.

More recently, Peter was a member of the Management Committee for the Association of Member Nominated Trustees and a Trustee for the MDU Pension & Life Assurance Scheme. He is a Fellow of the Institute and Faculty of Actuaries and also holds the Investment Management Certificate (IMC).

Lars Hagelmann

Head of Investments, Big Issue Invest

Lars is Head of Investments at Big Issue Invest and joined BII in 2016. Lars has over 20 years' experience in direct investment and investment management and has launched three investment funds at Big Issue Invest and is overseeing a portfolio of over 150 social impact loans and investments.

Lars has a background in direct investments with over 25 years experience having started his career in Berlin with BDO in Corporate Finance before moving to London to work for SISU Capital, sourcing and managing direct Private Equity investments. He spent 6 years in the Middle East in Venture and Private Equity with a focus on education, healthcare and real estate.

Lars has been holding a number of directorships and non-exec director roles throughout his career and since joining Big Issue Invest is focusing more on social sector organisations.

Gill Wadsworth (Moderator)

Freelance financial journalist

Gill Wadsworth is a freelance financial journalist specialising in pensions and investments. She has more than 24 years' experience in personal finance, institutional investment, asset management and pensions, and has worked for the Financial Times editing several FT Business titles.

She has been freelancing since 2008 and has a wide range of clients, working for personal finance and institutional investment magazines and websites including:

The Financial Times, FTfm, The Economist Intelligence Unit, Evening Standard, Raconteur, Yahoo Finance, Financial News, Pensions Expert, ESG Investor, Pensions Age, Best Execution and Pensions Insight.

Sean Thompson

Founder & Director, cio investment club

Sean has 38 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.