It's Not Just About The Money – The Role Of Investors In Society

David Russell, Head of Responsible Investment, **USS Investment Management Ltd & Daniel Summerfield,** Head of Corporate Affairs, **USS Investment Management Ltd**

We live in a time in which the financial impacts of poor environmental and social behaviours are becoming clear, and society's willingness to accept these practices has changed. This means that investors, both asset owners and asset managers, will need to accept and recognise this new reality in their stewardship and investment practices.

A key challenge is that the legal interpretation of fiduciary duty may not have evolved to keep up with these changing views of society. Taking into account issues which were traditionally called "non-financial factors" such as climate change, health and safety, or diversity are frequently viewed as detrimental to investment returns and therefore outwith of fiduciary duty. The predominant focus on financial factors has been impeding institutional investors' ability to take account of these other issues, and, as such may be viewed with scepticism in the future.

To be clear, USS Investment Management, the principal investment manager and advisor to the Universities Superannuation Scheme (USS) has, as its primary role the objective to make the returns required to pay USS's pensions. It is our principal responsibility, and one that we at USS Investment Management take very seriously. This does not mean that we cannot take ESG issues into account when they are material, and the legal advice has been consistent on this, and it has been published on our website in various forms since 2006.

But we are moving into a new post-COVID world, in which the expectations of society, regulators and governments are beginning to change. It is no longer enough just to make money; consideration should to be given to how that money is made. One could argue that this is being driven by regulation (for example, the sustainable finance initiatives or the green taxonomy from the EU), but we do not believe that the evidence would support that. Even before COVID, there had been a societal shift in which social and environmental issues are coming to the fore. People (i.e. ICGN members' clients and beneficiaries) are increasingly concerned about climate change, they care more about issues such as diversity and inclusion, and therefore there is an increased interest to understand how the money invested on their behalf impacts these issues.

So what does this mean for asset owners and asset managers?

First, the decision to invest based primarily on financial considerations is immutable. Investing in companies with strong management teams and a good track record should mean a better run business that will survive long into the future. But that does not mean we should ignore external factors as part of the financial due diligence. Thus, on financial grounds, we as asset owners and asset managers should be looking at how a changing climate will impact our ability to make the returns we expect – this is exactly what the TCFD asks for with its scenario analysis request. We should also be looking at diversity and inclusion as a financial factor, because research shows that more diverse companies generate better returns.

Secondly, the role of asset owners and asset managers in society is not to make laws – that is what policymakers and governments are there to do. ICGN members should, however, encourage and support the development of regulations that are in the long-term interest of our clients – for example to ensure that companies disclose relevant information which enables investors to assess their ability to address climate change transition. It also cannot be in our long-term interests for the companies in which we invest to use shareholder money to lobby against such climate regulation for their own short-term benefit and, therefore, we should support action to limit this.

Finally, in respect of ESG processes and reporting, both asset owners and asset managers should be moving away from measuring and reporting the processes that they have been through, the numbers of meetings held with management, or the number of shareholder resolutions supported. It may well seem like important information but ultimately it is meaningless in determining the actual impact of actions. Stewardship and investment decisions should be focussed on real world impacts and changes and therefore disclosures should be focussing on those, rather than the often-seen tick-box exercises of reporting on process.

Nobody thinks this is going to be easy. A financial services sector that has been traditionally focussed exclusively on delivering financial returns is hard to change, and will take time to refocus and redirect its activities in order to deliver sustainable returns in every sense of the word.

We believe this is where fiduciary responsibilities should be developed. After all, surely, we all want a world and society that is worth retiring into?

The views and opinions expressed in this article are those of the authors.

David heads the RI Team of USS Investment Management. David is a former Board member of the PRI Association and an advisor to the Board of the Institutional Investors Group on Climate Change. He is also on the Board of the International Centre for Pensions Management, the UK Investment Associations' Sustainability and RI Committee, the PLSA Sustainability Committee, and the FTSE Environmental Markets Advisory Committee.

Daniel is Head of Corporate Affairs at the Universities Superannuation Scheme (USS). He is responsible for USS's public affairs and public relations, including government engagement and corporate communications, for both the pension and investments businesses. He also oversees internal communications and USS's Corporate Responsibility programme.

Previously, Daniel co-headed the Responsible Investment Team at USS Investment Management .

Daniel serves as a member of a number of committees in the UK and overseas, including the Investment Association's Governance and Engagement Committee, and Co-Chairs the European Governance Council of the Conference Board.