



Long-term and Sustainable Pension Investments

Recently, ASSET4 and the German Federal Environment Ministry sponsored a study of the leading European pension funds by Dr. Axel Hesse, a well-known consultant in the area of Sustainable Development Management. The objective of the study was to highlight how pension funds can contribute to more long-term and sustainable investments, as well as the requirements and best practices required to do so.

The study was based on ten large European pension funds with more than EUR 460 billion assets under management, who are pioneers in the consideration of sustainability criteria. It found that while leading pension funds are clearly long-term investors, most investors in the financial markets act in a too short-term manner.

The reasons for the short-term orientation of the financial markets are mainly due to:

- the short-term orientation of commissioned consultants and asset managers that is transferred to companies invested in, for example, three-year return objectives with continuous quarterly performance;
- consultant and asset manager remuneration that is oriented to the relative development of benchmarks that lead to a herd instinct in order to safeguard bonuses.

Respondents also agree that pension funds are currently making insufficient use of research with a long-term orientation. The best practice identified by the respondents to integrate long-term sustainable research is to focus on key performance indicators (KPIs) of an industry.

They also expect that focusing on industry-specific KPIs and integrating sustainability research into mainstream research will most likely lead to long-term, risk-adjusted outperformance, whereas approaches that are too broad are more likely to lead to underperformance.

Respondents accept that sustainability criteria could have an important material impact on the risk-adjusted performance of the investee companies.

Engagement (active dialogue, use of shareholder rights) with investee companies is particularly suited to contribute to the long-term success of the investment funds.

Regarding their fiduciary duty, respondents say pension funds should define that materially important sustainability criteria be taken into account in their goals. Even more important is clarification by legislators whether sustainability goals need to be taken into consideration by the pension fund, which would be desirable for the legal certainty with regard to fiduciary duty.

Below is a sampling of charts that were generated by this study. For a copy of the complete report in either English or German, please go to the www.asset4.com.

Figure 1: Short-term Orientation of Financial Markets and Companies

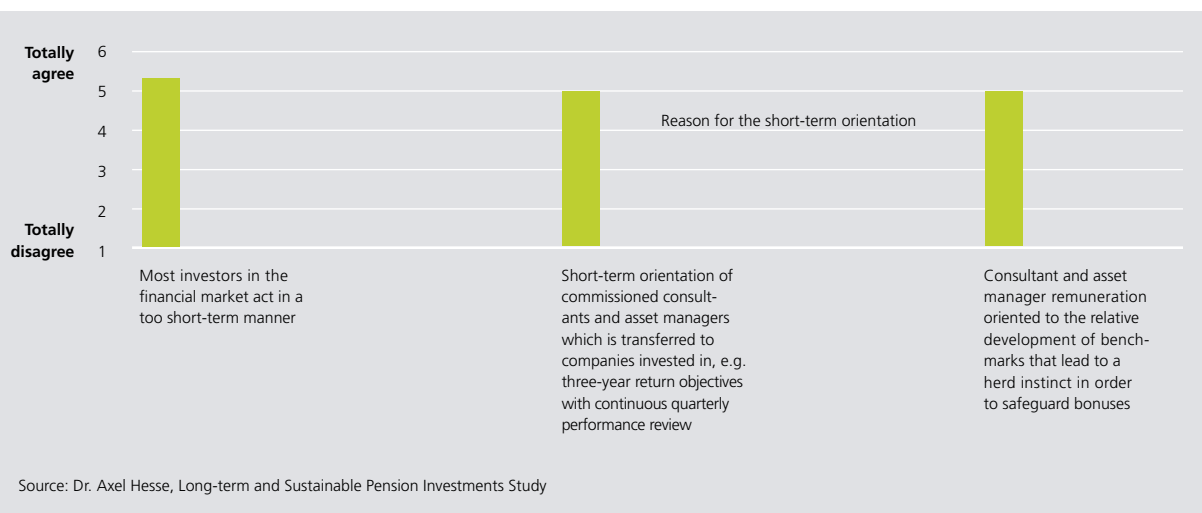


Figure 2: Long-term Research and Investment Strategies – Requirements of Research

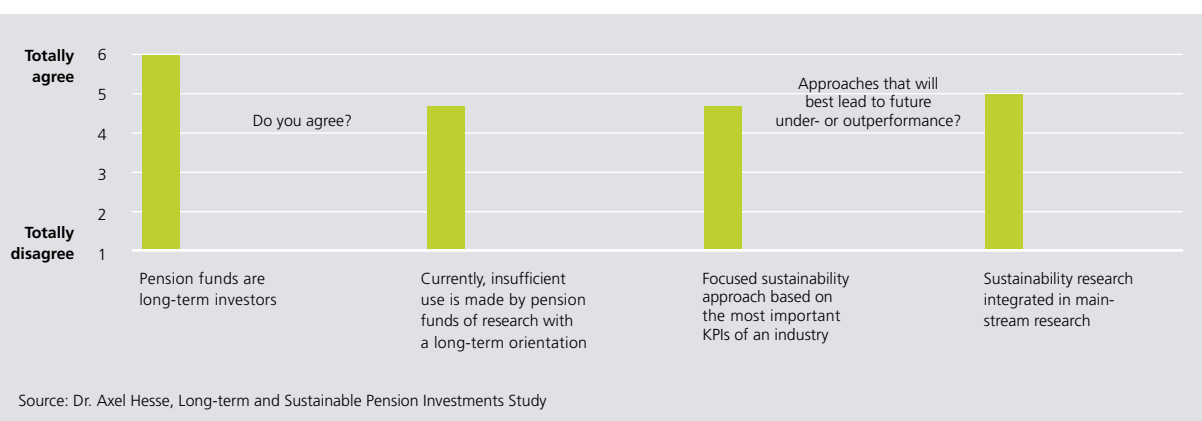


Figure 3: ESG Impact on Long-term Performance

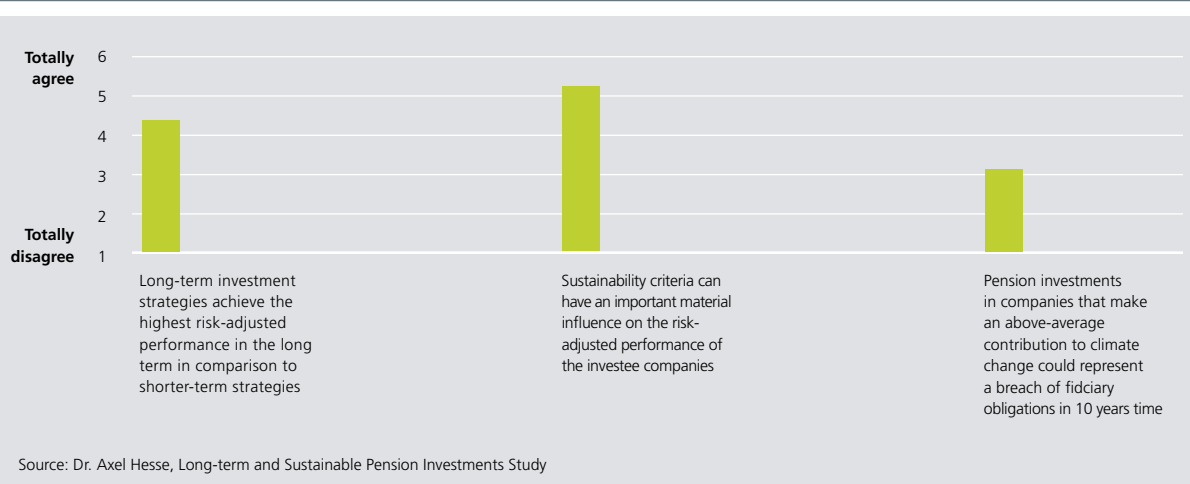


Figure 4: Integration of Long-term Orientation – Objectives within the Fiduciary Duty of Pension Funds

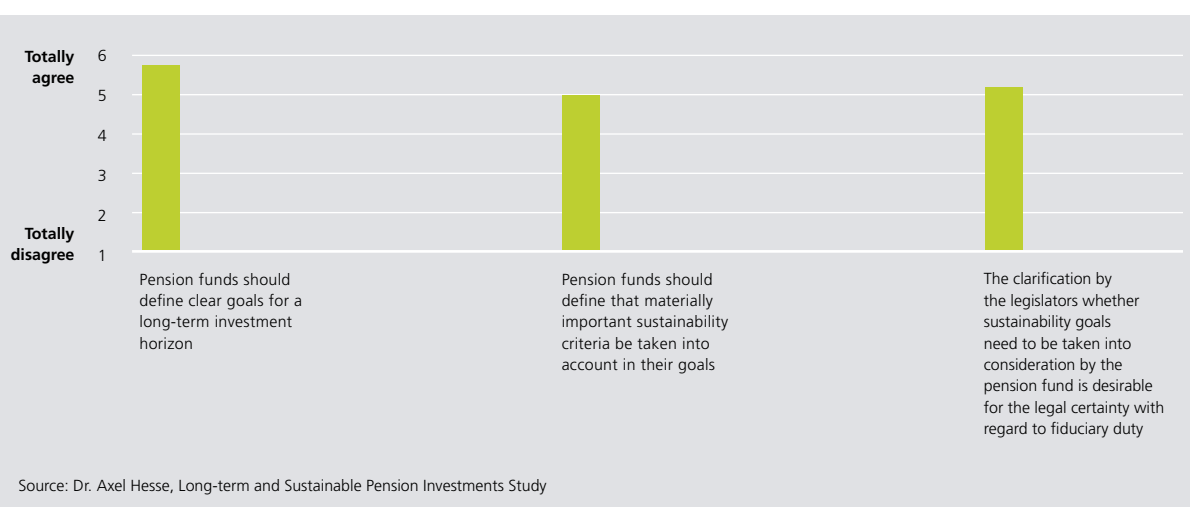


Figure 5: Form of Engagement for Long-term, Sustainable Investments – Part 1

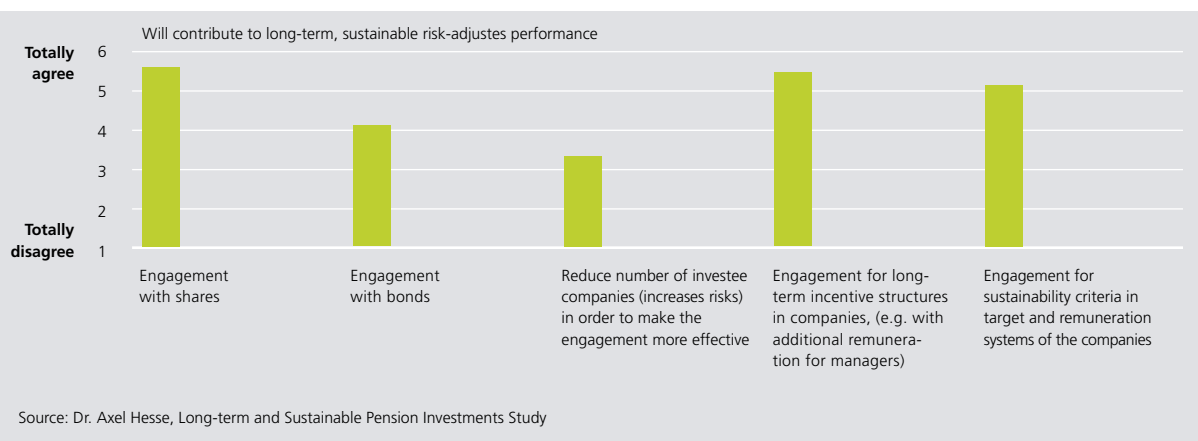


Figure 6: Form of Engagement for Long-term, Sustainable Investments – Part 2

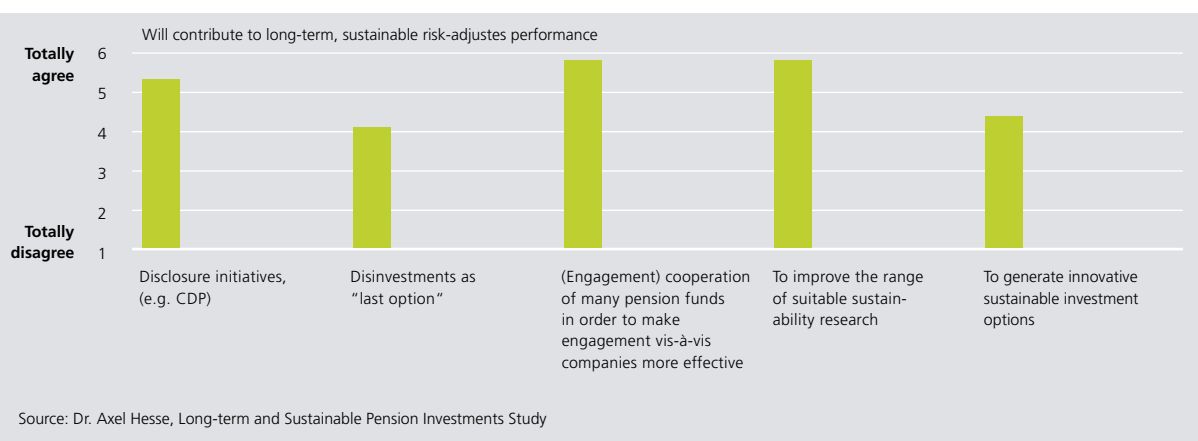


Figure 7: Incentive Structures for More Longer-term Investments

