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Responsible Investing with Retirement Funds

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Do you like the idea of your scheme's retirement fund having a positive social impact while it earns returns? The article aims to introduce an investing practice; Responsible Investing, that seeks to achieve both social impact and financial gain.

Responsible investing is an investment strategy that integrates Environmental, Social and Governance (ESG) factors in your investment analysis and decisions.

ESGs are umbrella categories for the factors responsible investors/fund managers are taking into account when investing on behalf of pension savers. Examples of ESG issues include climate change, resource depletion, pollution, human rights, corruption, tax strategies, among others.

Among the items covered by the article are:

1. Why responsible investing?
2. Forms of responsible investing
3. Misconceptions about responsible investing
4. Successful responsible investing cases.
5. Call to action

Why Responsible Investing?

Responsible investing is an approach to investment that stands out as it not only offers the investor financial value, but also non-financial value. This section breaks down this value to the investor.

Materiality - Sustainable investing is growing in popularity today. With significant increases in social and environmental awareness across the world, shares from ESG companies in particular, look set to ride this wave of interest and grow exponentially as a result. If this occurs, then investors will benefit from gaining some sizable profits from green companies along the way.

Impact - Responsible Investing offers trustees and other scheme stakeholders a chance to take a stand for various causes. Fundamentally, investing in sustainable companies helps the investor to act against things like climate change, gender inequality and general malpractice by providing a boost for businesses that operate in a much more ethical manner.

Regulatory – Trustees' obligation to act in the best interests of beneficiaries has been understood by some as a reason not to incorporate ESG issues in investment decision making, due to the misconception that ESG factors are not financial factors. However, financially material ESG factors can be incorporated into investment decision making. Doing so would be acting within existing regulatory framework.

Forms of Responsible Investing

The responsible investing field is very expansive and multifaceted, it takes up different forms that share one common goal of having a positive social impact while earning financial returns. Forms of responsible investing include:

Ethical Investing - negative/exclusionary screening of companies engaged in activities deemed unethical by the investor. A historical example of this was the exclusions by investors of companies doing business with apartheid South Africa.

Social Responsible Investing - applying social and environmental impact criteria in evaluating companies. It includes investing in companies that are making a positive sustainable social impact like solar energy and excluding those making a negative impact.

Green Investing - seeking to invest capital in 'green' assets like low carbon power generation, recycling and waste management, process innovation, and other processes that contribute to solving particular environmental problems.

Thematic Investing - selecting companies that can be classified as falling under a particular investment theme e.g. water distribution, agriculture, climate change, and healthcare.

Impact Investing - seeking a particular social or environmental objective e.g. support minority-owned businesses or businesses that employ disabled people or people recovering from addiction.

Sustainable Investing – screening out assets considered to be harmful to long-term environmental and social sustainability. This may include most of the fossil energy-based industries,too-big-to-fail financial institutions, and major investment banks.

ESG Integration- analyzing the business model, product strategy, distribution system, R&D, and human resource policies of a company, attending to those issues the institutional investor and asset manager deem most relevant.

Misconceptions about Responsible Investing

The misconceptions that surround responsible investing are mainly because of a faulty understanding of what it entails. Some of the misconceptions around responsible investing include:

It involves investing in a particular product or strategy

Responsible investing simply means, including ESG information in decision-making and stewardship practices to ensure that all relevant factors are accounted for when assessing risk and return. Exactly how an investor practices responsible investment varies widely.

It leads to lower investment returns

Responsible investing does not require sacrificing returns; it should enhance risk and return characteristics. Investors apply a range of techniques to identify risks and opportunities that might remain undiscovered without the analysis of specific ESG data and broad ESG trends.

It is the same as sustainable, ethical, socially responsible and impact investing

A key to understanding how responsible investing is broader than these concepts is that, where many make moral or ethical goals a primary purpose, responsible investing can and should also be pursued by the investor whose sole focus is financial performance.

Successful Responsible Investing Case in Kenya

An example of a successful responsible investing case in Kenya is the Green Bond- The Green Bond proceeds were earmarked exclusively for projects with environmental benefits. October 2009 saw the close of Kenya's first Green Bond, a KES4.3bn issuance from property developer Acorn Holdings, with the proceeds used to finance green and environmentally friendly accommodation for 5,000 university students in Nairobi.

Call to Action

Kenya boasts of a youthful population, with about 75.1% of Kenyans being below 35 years (Kenya National Bureau of Statistics 2019 census). The uptake on retirement schemes among this population remains low yet the youth have the benefit of enjoying the power of compound interest for longer. Trustees should consider responsible investing as a way to bridge this gap. Responsible investing can help trustees create a culture of engaged pension savers where the youth can relate emotionally to the investments by their pension scheme. The youth have shown passion towards social causes such as mental wellness, women empowerment, financial independence and climate change. Through responsible investing, schemes would be able to show the youth how saving for their retirement is helping in tackling social issues now.

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