Allenbridge
Part of MJ Hudson

Social Impact Investment and Pensions Survey

OCTOBER 2017

Foreword

Towards the end of 2016, the Government requested that an Advisory Group be formed to look at 'Growing a Culture of Social Impact Investing in the UK.' It was chaired by Elizabeth Corley, VC Allianz Global Investors, and made up of around 50 senior practitioners from within the financial industry.

An important area that the group considered was pensions – how could pension schemes allocate a small percentage of a pension fund towards investments that make a positive social impact plus an appropriate level of risk-adjusted return, and what were the key barriers preventing this?

With that in mind, Allenbridge was appointed by the Government to solicit feedback from key corporate UK pension fund investors. The aim of the analysis was to help identify pension trustees' current perceptions of social impact investment and what would be required for trustees to be more comfortable incorporating social impact investments into their pension fund investments. This report analyses the responses and presents the key conclusions arising from the research.

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Executive Summary

- This research reflects the views of a sample of 65 UK corporate pension fund representatives including Pensions Managers, Chairs of Trustees and Chief Investment Officers.
- Almost half of respondents (49%) indicated that they had only limited knowledge on social impact investment. 15% said they had no knowledge at all. Only a minority (12%) were well informed.
- A significant majority (88%) agreed with the working party's preferred primary definition of social impact investment (i.e. an investment that has both a financial return and a social return).
- There remains a lack of awareness around social impact investment. Of those who had not yet made an active decision about such investment, 22 funds felt they lacked an understanding and 16 felt they had insufficient information.
- The overwhelming barrier to entry is the lack of hard data on the risk/return characteristics of social impact investments. 53 funds (82%) mentioned this as a barrier.
- A greater range of (scalable) investment products is likely to encourage funds to allocate more to social impact investment. 55% were in favour of this.
- Nearly 68% rely heavily on their investment consultant when making investment decisions. Engaging positively with consultancy firms will be an important factor towards increasing interest in social impact investment.
- Surprisingly, more than half the respondents did not feel the need to engage with members on this issue.
- Most schemes (63%) were aware of the regulatory requirements regarding daily dealing. Approximately two-thirds of respondents involved in defined contribution schemes were in favour of moving away from daily dealing.
- 87% of funds were in favour, to a greater or lesser extent, of the default fund in a Defined Contribution scheme allocating up to 3% to social impact investments. Only 12% (8 funds) replied that they did not think there would be any support for this.
- Whilst this research gives positive indications of an interest in, and broad support for, social investment, we recommend some further, more in-depth research to expand on some of the themes identified in this report.

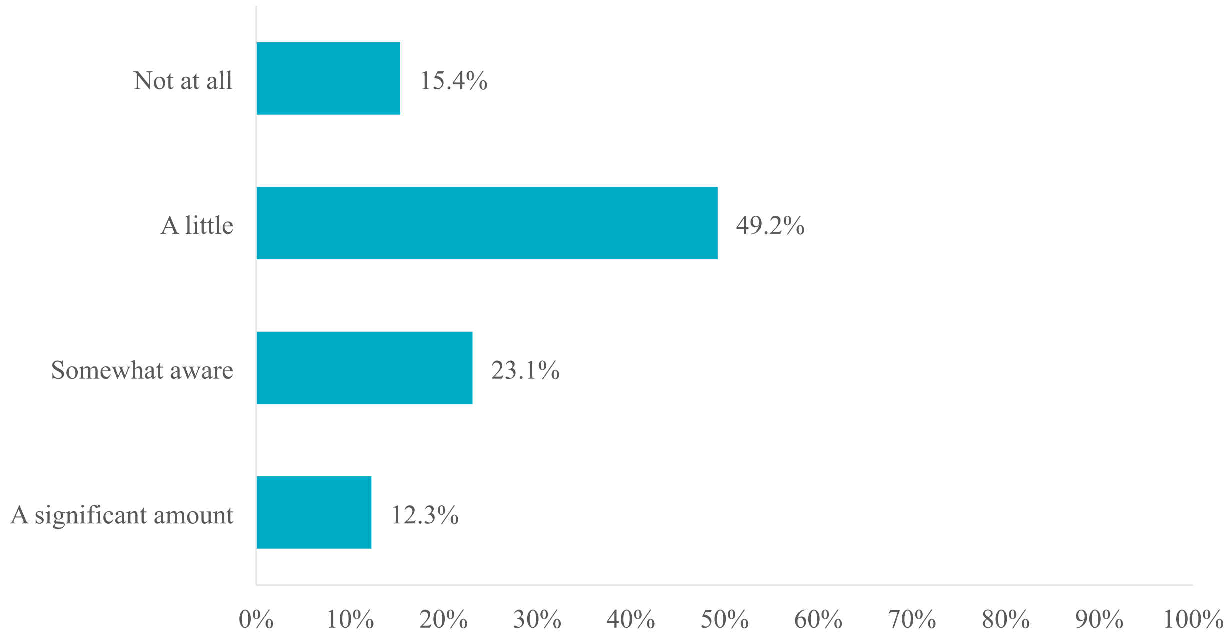
Introduction

This research reflects the views of a sample of 65 UK corporate pension funds. The aim of the research was for these insights to facilitate a more informed set of recommendations on social impact investment, in relation to pension funds. Both defined benefit and defined contribution schemes were included in the target list, and respondents with a variety of roles (e.g. Pensions Manager, Chair of Trustees, Chief Investment Officer) have submitted feedback via a mix of an online, quantitative survey and face-to-face or telephone qualitative discussions.

Awareness of Social Impact Investment (SII)

Almost half of respondents (49.2 %) indicated that they had a small amount of knowledge on social impact investment (Chart 1). 15.4% (10 pension funds) said they had no knowledge at all. A minority (12.3%) were well informed. There appeared to be a slight correlation of role with pensions managers being better informed than trustees, but there did not appear to be a clear trend related to size of fund.

CHART 1: HOW MUCH HAVE YOU HEARD OR READ ABOUT SOCIAL IMPACT INVESTMENT?



Some schemes were actively engaging with their trustees at present, others were focussing on this type of investment on behalf of the company:

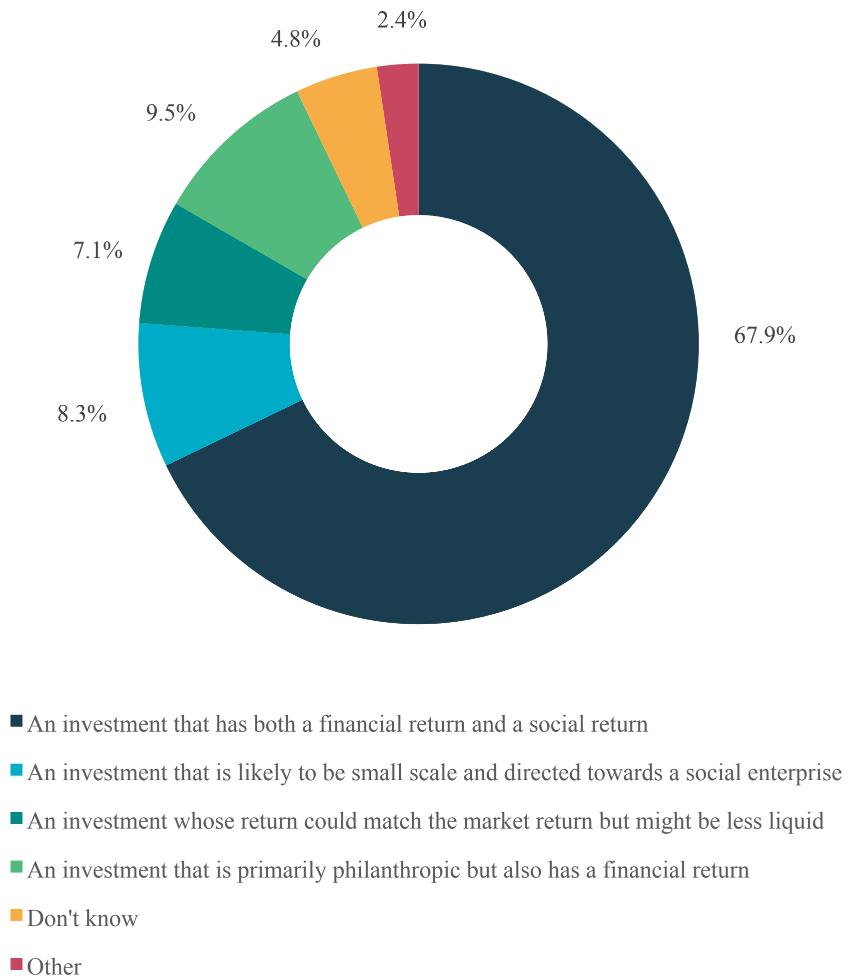
"We have had presentations from one of our managers and are discussing amongst the trustees."

"We [pensions management team] wear two hats: one for the pension scheme and one for the sponsor, we have mainly worked on the sponsor side on these [social impact investment] issues."

What is clear about the level of knowledge and understanding, from the analytics, is that more work is needed for the pensions industry to reach the point where trustees are regularly making informed decisions about allocating to social impact investments. We recommend targeting at least 25% of schemes having "significant knowledge" and at least 50% being "somewhat aware", over the next 3 years. This could be worked towards by the **government signposting relevant industry events, research, and case studies.**

Definitions of Social Impact Investment

CHART 2: HOW WOULD YOU DEFINE A SOCIAL IMPACT INVESTMENT?



It was encouraging to see from Chart 2 that a significant majority of UK corporate pension fund respondents selected the working party's preferred primary definition of social impact investment (an investment that has both a financial return and a social return). 57 out of 65 respondents chose this definition from the multiple-choice list shown in Chart 2. Respondents were invited to select more than one definition and there were, in total, 84 definitions selected by those 65 respondents. Encouragingly, only 12.3% considered that social impact investment was primarily a philanthropic investment, but most recognised that some financial return could be achieved. This represents an encouraging base from which to build knowledge on social impact investment: pension funds are, at least facing the right direction in their journey towards making informed decisions in this space. There may be a benefit in improving clarity over what specifically defines an impact investment and what falls under Environmental and Social Governance (ESG).

"You can take a broad view [of the definition] from climate change to how gender-balanced a company is."

"There needs to be more clarity about the definition and what's included and not included in social impact investment."

Some respondents were clearly well informed in terms of what constituted social impact investments:

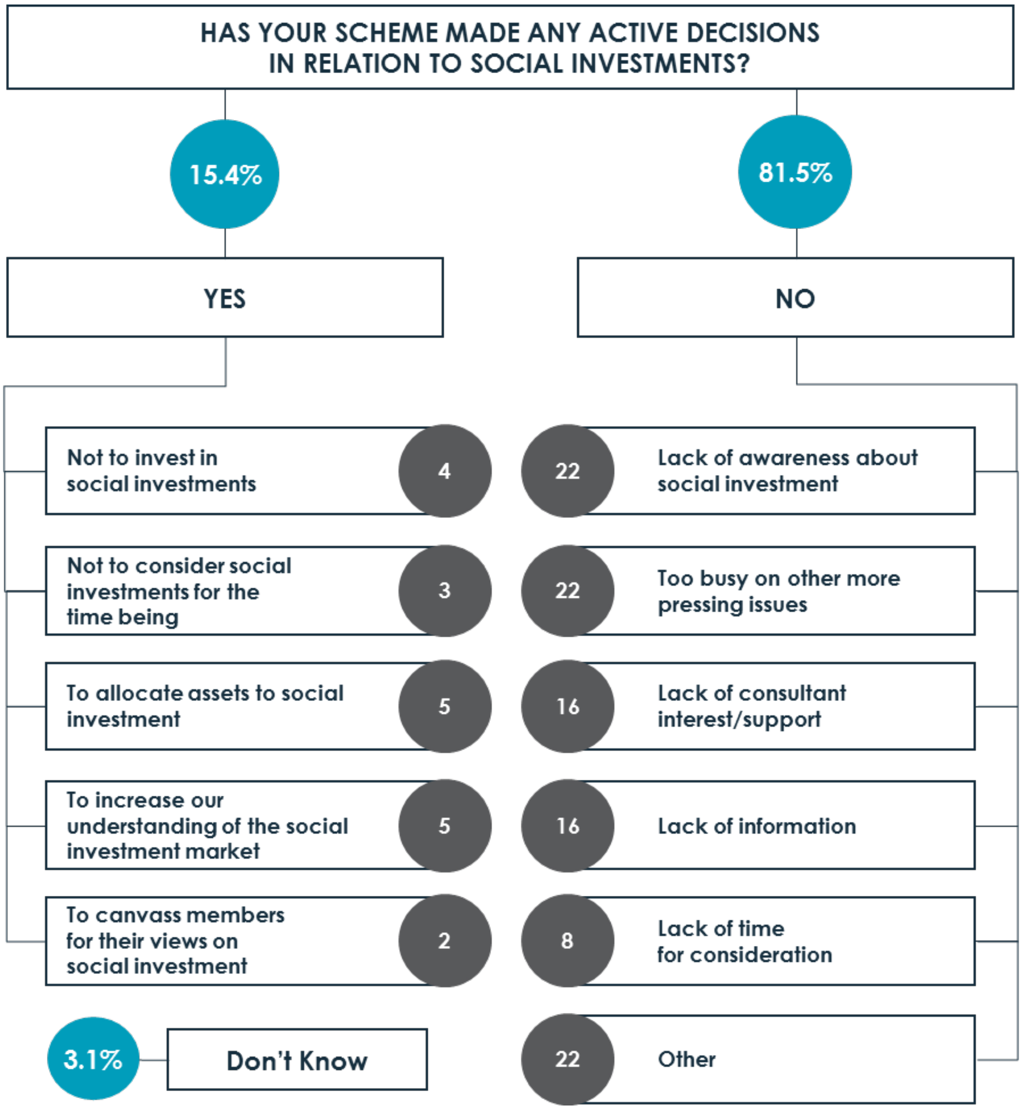
"Investments into various types of organisations and funds aimed at generating a positive social/environmental impact as well as a financial return."

Others' responses suggest that there may be some scepticism about the effectiveness of social impact investment:

"An investment that is expected to have both a financial return and a social return, but the outcome may be neither."

The conclusion is that **more clarity over definitions**, and the distinction between social impact investments and ESG, would be beneficial to UK pension funds, and this is an area where the government could have an influential role.

Schemes' Active Decisions Regarding Social Impact Investment



The decision tree compares pension funds' reasons for either investing, or not investing, in social impact investments. If interviewees had already discussed allocating a portion of their pension fund to social impact investments, they were then asked to elaborate on their decision. 14 out of 19 responses indicated that the discussion had led to a decision either not to invest, or to postpone the decision subject to receiving further information. Only 5 online respondents had, so far, decided to proceed with investment. There were concerns expressed over liquidity and reputational risk.

"We looked at social housing previously but didn't go for it as the trustees were concerned over liquidity and the timeline for exit. But they were comfortable with the asset class."

"We looked at social housing but the reputational risk involved outweighed the advantages and we didn't invest. The blame can often fall on the investor rather than the manager in this sphere."

The feedback from those who had not yet made an active decision regarding social impact investment was not inconsistent with these responses. 22 admitted that they lacked an awareness on such investment and a further 16 felt they did not have sufficient information. This suggests that efforts by the government to signpost data, events and research on social impact investment will be well received.

The lack of consultant support (16 responses) is worth noting. This was explored further and is covered in a later section. There was also a sense that this issue was not high on their list of priorities.

“Social impact investment has not been proposed to the trustees by the investment consultants.”

“I’m not sure that we as trustees would go out looking for social impact products in the market and social impact investment just doesn’t come up.”

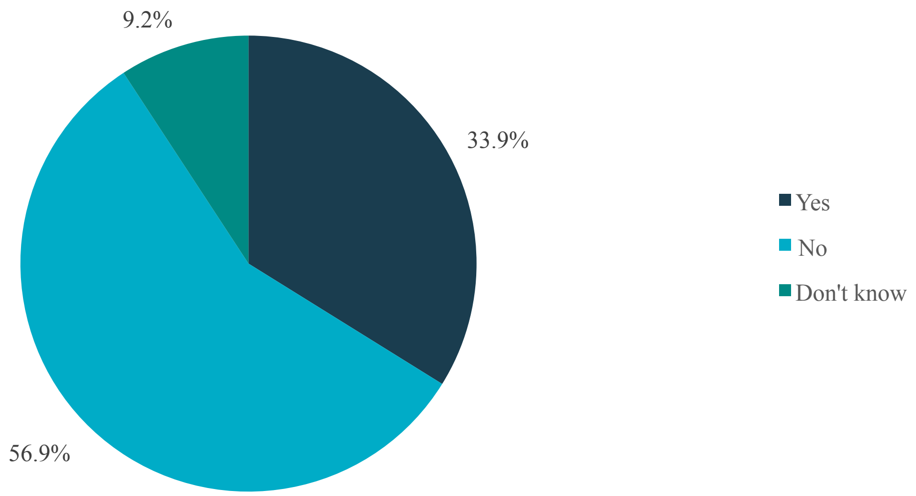
“When there is a deficit Trustees don’t want anything where the risk/return profile doesn’t fit their needs.”

“The amount of money would be small for social impact investment and the constraints on the scheme’s governance budget wouldn’t allow the time needed to consider it fully. A bigger possibility might lead to trustees spending more time.”

“We have tested the appetite of members for social impact investing. They preferred us to stick to our normal investments.”

Respondents’ Investments in Social Housing, Education, Health and Renewables

CHART 3: DOES YOUR SCHEME HOLD ANY INVESTMENTS IN SOCIAL HOUSING OR INFRASTRUCTURE RELATED TO EDUCATION, HEALTH OR RENEWABLE ENERGY?



Our survey moved on to ask some more specific questions around the type of investments being made in the impact space. Chart 3 shows that the majority (56.9%) of respondents had no investments in social housing, or in infrastructure related to education, health or renewable energy. Over a quarter of pension funds had made investments in this area, with the remainder (6 respondents) being unsure.

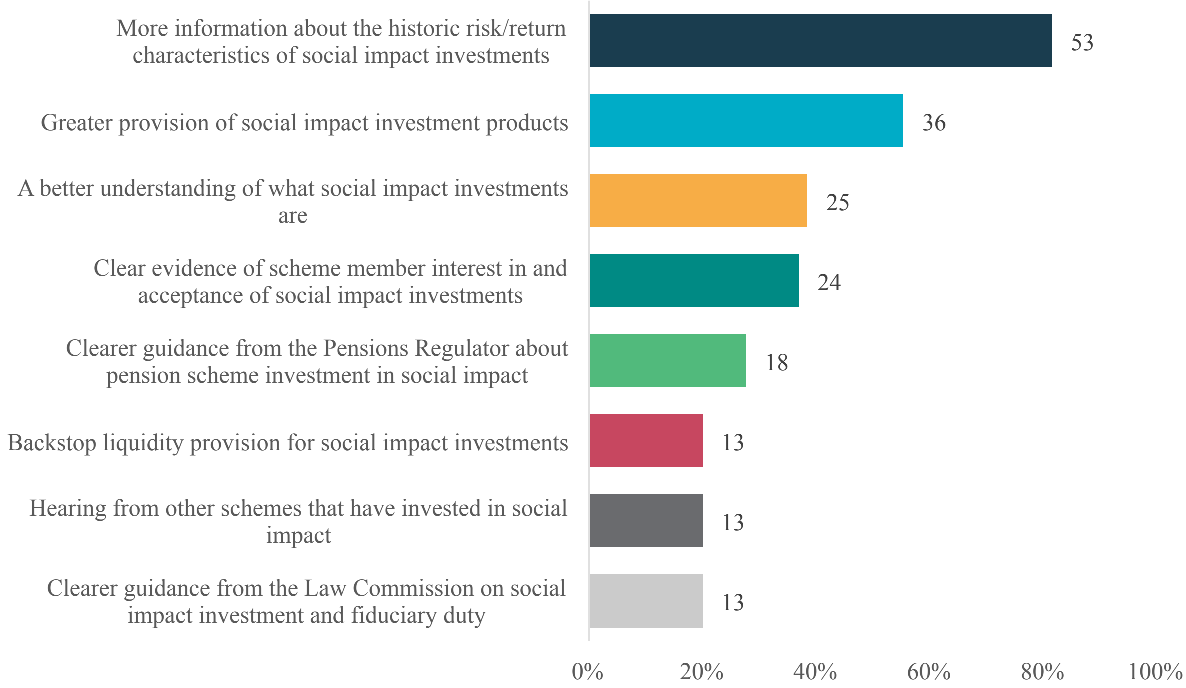
“The fund has invested in an infrastructure fund which targets these areas, excluding social housing.”

“The fund has made some investments in social housing debt but have been disappointed by returns. The Government have come in over the top and moved the goal posts to the funds detriment, consequently there is some scarring there.”

There was some aversion to social housing, being reported, as shown in the specific quotes above, and some implied criticism of the government’s role. This is worth noting and could have repercussions when future policies being introduced. **A commitment by the government, in relation to the future returns on social housing investments, may be required to kick-start further investment in this sector.**

Factors Which Might Encourage SII

CHART 4: WHICH FACTORS WOULD ENCOURAGE YOU TO MAKE AN ACTIVE DECISION TO INVEST MORE IN SOCIAL IMPACT?



The overwhelming barrier to entry is the lack of hard data on the risk/return characteristics of social impact investments. 53 funds chose this as a barrier. This suggests that the primary (fiduciary) decision will be based on financial considerations, with the investment's social impact following on, after the financials have been considered. The problem is that this is difficult area to address in a relatively new type of investment where the data history is simply not available.

Another challenge is that pension funds are unsure how to integrate social impact investment into their investment strategies. This is because, traditionally, funds have based their strategies around allocating to different asset classes.

"We focus on asset classes but we're unsure of where social impact investment fits into asset classes. It is difficult to identify any products and there is the issue of measurability."

"The Scheme takes an integrated approach to responsible investment and as such does not have a standalone mandate to social investments."

"One gets the impression that there is money looking for the investments. If anything there is a lack of supply of good ideas with proper structure around them and proper metrics to report on them."

Other things that would encourage funds to allocated more to social impact investment included a greater range of investment products (36 funds), and clear evidence of member interest (24 funds). Of course, some of this becomes circular (more products will become available as more money is allocated; evidence of member interest could be achieved following more active engagement by the pension fund).

“Social impact investment is too small for our level of assets. There is no point in a huge amount of effort for a hundred million of opportunity.”

However, some of the less popular suggestions could be more easily implemented. Clearer guidance from The Pensions Regular or the Law Commission was mentioned by 31 funds (although not if it adds to the red tape!) 25 suggested that a better knowledge and understanding would be helpful. There were also some references (a minority) to tax incentives:

“Trustees feel nervous if they don’t understand what they are investing in.”

“There is a need to come up with better products and then sell them to trustees.”

“There is so much red tape from the regulator already so we spend more time ticking boxes than doing the work. We wouldn’t want that to be added to.”

“Some sort of tariff or tax incentive from the government would help.”

“We could use more support from the government. There is inconsistency from political parties about the desirability of investment in infrastructure and social impact investment.”

“The guidance to the nature of these investments is not there, especially for trustees. All of these things are linked. More information leads to fiduciary duty being clear. The fact that the data is not there makes it difficult.”

This question probably provided the most helpful insights in terms of what initiatives the government might consider in future to promote social impact investment by pension funds. We would recommend further market research to investigate some of these headline results in more detail.

Influence of Investment Consultants on Investment Decisions

WHAT EMPHASIS DO YOU PLACE ON ADVICE GIVEN BY YOUR INVESTMENT CONSULTANT WHEN MAKING INVESTMENT DECISIONS?

It is perhaps unsurprising that a significant proportion of pension funds rely heavily on their consultants before taking investment decisions. However, this could present a potentially major barrier to entry, if those consultants were negative about social impact investment. We would recommend, as a priority, that the next step would be to undertake some further market research, in order to test this hypothesis, by directing a series of questions to consultants, investment advisers and the independent trustee firms. This would allow the government to embark on relevant initiatives focussed on those service providers who in turn have a direct influence on the investment decisions of the UK's pension schemes.

"It would be extremely difficult to go against anything that the investment consultant wasn't recommending."

"The way in is one of the trustees having a passion for social impact investment and this being met with an investment consultant who knows about it, and a scheme Sponsor with a mandate to connect with it. However, I have never heard a trustee suggest social impact investment, or be passionate about it."

That having been said, there was some indication of a trend away from complete reliance on consultant advice, amongst some funds:

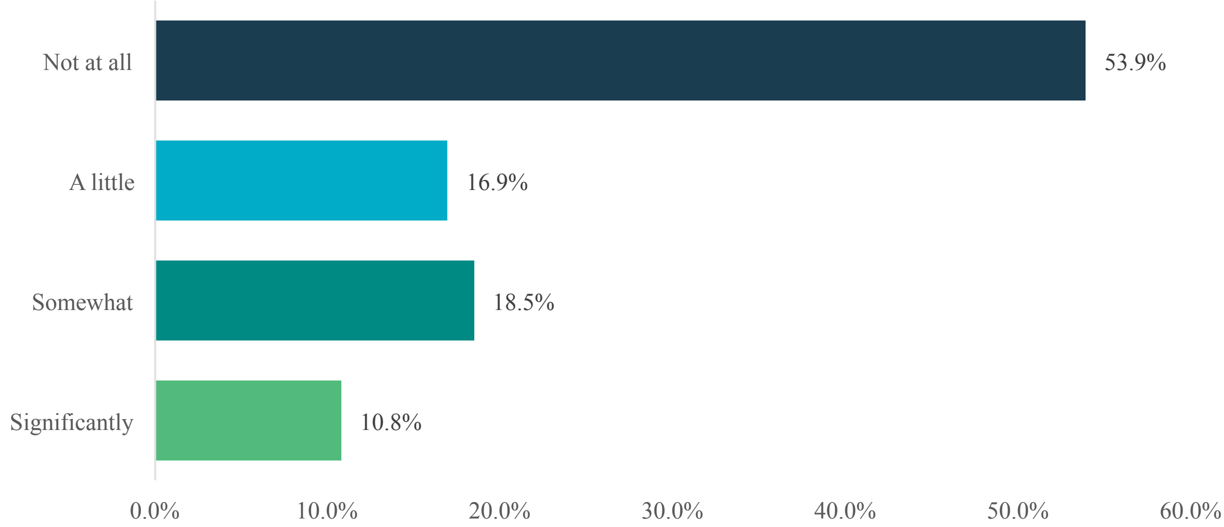
"We take advice but have our own strategy and see a danger in becoming too reliant on advisers."

"We rely on our consultant less than we used to. We have strong internal committees. The investment consultants act as gatekeepers but they don't lead the discussion."

Whether or not there is a heavy reliance on consultant advice, it is clear that they need to be committed to social impact investment, so that questions from pension funds, as and when they happen, are made in an informed way.

Importance of Members’ Views

CHART 5: IF YOU WERE TO MAKE SOCIAL IMPACT INVESTMENTS, TO WHAT EXTENT WOULD YOU FEEL THE NEED TO ACTIVELY SEEK MEMBERS' VIEWS?



The majority of respondents (53.9%) did not feel the need to engage with members before making an allocation to social impact investment. Only 7 funds indicated that they would engage significantly before investing.

“For defined benefit members social impact investment is fine, because any cost will be borne by the fund so they don’t worry about it. Defined contribution members could still be positive but it would be judged on an individual basis.”

“The difficulty is in capturing members’ views.”

“You can do things for not-simply-financial returns, provided the members support it.”

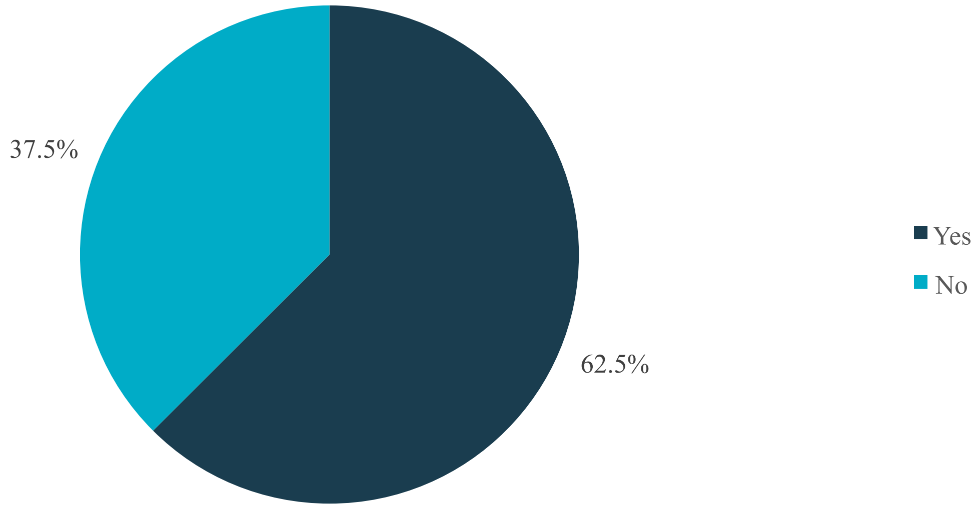
“I believe it is more appropriate for a self -select fund rather than a default fund because I don't know how you get around the issue of some members being very happy with say a 3% asset allocation while a majority of members are not happy if it means a sub-optimal financial return.”

“We see more engagement from members every year.”

The qualitative comments supporting the headline scores in Chart 5 suggest that funds’ attitudes towards member engagement vary, and perhaps some funds are unsure how best to capture and measure those views. This may be something to explore in greater detail.

Awareness of Law Commission Issues on Daily Dealing

CHART 6: OPTIONAL QUESTION IN RELATION TO THE LAW COMMISSION REPORT ON PENSION FUNDS AND SOCIAL INVESTMENT: ARE YOU AWARE THERE IS NO REGULATORY REQUIREMENT THAT DICTATES DC FUNDS MUST HAVE DAILY PRICING AND DAILY DEALING?



56 respondents (86% of the full universe) answered this question, and the majority of those were aware of the regulatory requirements over daily dealing, compared with those who were not.

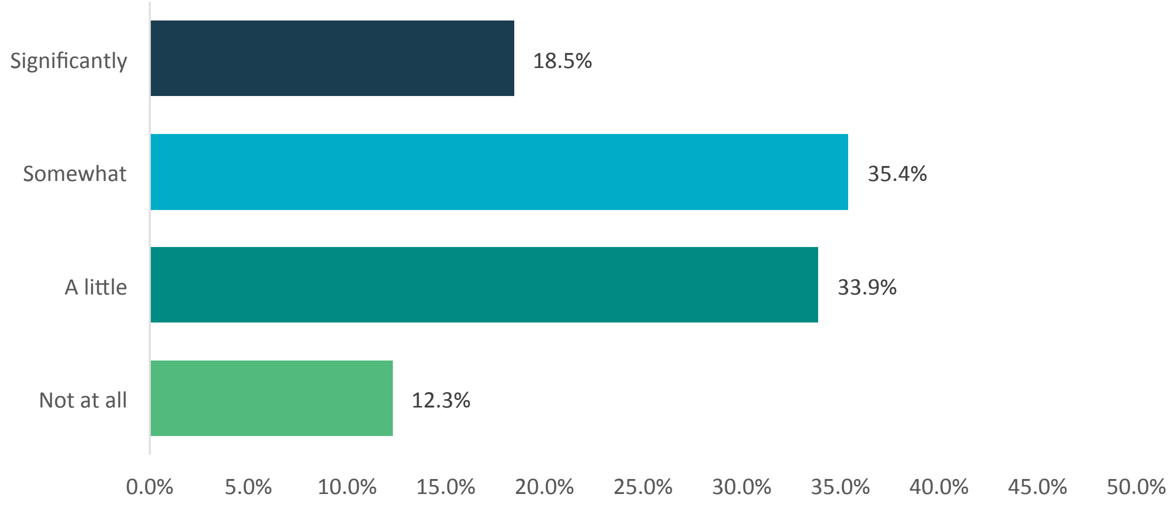
"Bigger schemes would be aware of this. The challenge here is the platforms themselves as they often require daily pricing. Some funds are starting to create daily priced funds for social impact investment."

To some extent, the comment above suggests that the tail may be wagging the dog. Social impact managers are beginning to launch funds with daily pricing (e.g. REITS) not because that suits the underlying investment structure, but because the platforms are requiring it. Some further education by the Law Commission on this point may be beneficial.

When asked whether funds would be interested in moving away from daily dealing for their DC funds, there was a mixed response but overall approximately two-thirds of respondents with DC schemes were in favour of this, to a greater or lesser extent.

Perception of Members’ Support for 3% Social Impact Investment Allocation

CHART 7: HOW SUPPORTIVE DO YOU THINK YOUR SCHEME MEMBERS WOULD BE IN SEEING THE SCHEME (OR DEFAULT FUND) INVEST UP TO 3% OF ITS ASSETS IN SOCIAL INVESTMENTS IF THOSE INVESTMENT DELIVERED A MARKET RETURN?



On the whole, respondents felt that members would be supportive of an initiative to allocate up to 3% of their pension fund (or default fund) to social impact investments, with only 12/3% (8 funds) replying that they did not think there would be any support for this at all. An interesting insight was that the appetite for allocating to social impact investments would increase, depending on the funding position of the pension scheme:

“How well funded the fund is to begin with, is the key consideration in how supportive members will be.”

“If long term interest rates increased and pension funds were better funded this would have a better chance of succeeding but it will always be a small portion of the whole.”

Others were less certain but thought some groups of members would be more interested than others:

“This depends on the different types of memberships.”

“It is hard to talk about the totality of the membership but I imagine Millennials are far more interested.”

“In reality scheme members are not engaged, apart from a few activists but if you asked them the question I’m sure that they would be supportive.”

“Trustees would say yes to this but members are just so silent. If you asked them I’m sure they would be all for it. They trust the governance so if trustees took the decisions they would be accepted.”

This lack of engagement between members and their pension fund may be something for the government to consider, possibly with help from the Pensions Regulator.

Sample & Methodology

The research was limited to UK corporate pension funds only. A sample of local authority pension funds' views had been solicited at a roundtable discussion at H.M. Treasury on 24th April 2017, but the working party felt that further insights into UK corporate pension funds' views on social impact investments would facilitate a more informed set of recommendations across the wider pensions' space. Both defined benefit and defined contribution schemes were included in the target list.

The research was undertaken through the month of September 2017, an ambitious timeframe for research of this type. The goal was to obtain approximately 50 online (quantitative) responses, 15 qualitative telephone responses, and to hold 10 face-to-face discussions.

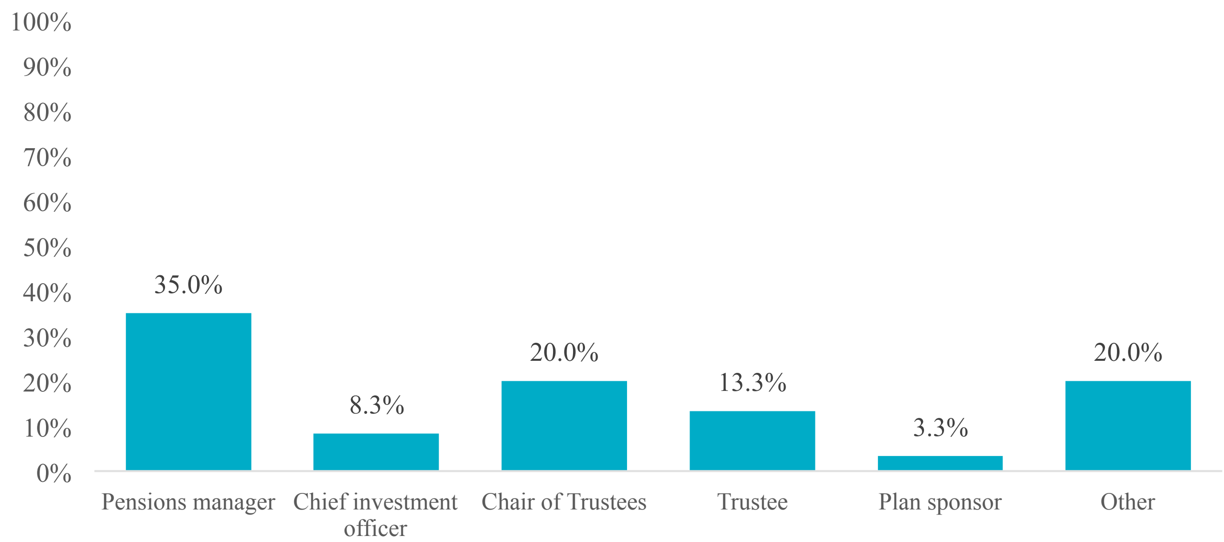
In total, around 370 pension fund managers and trustees were approached to submit views via the online survey. Around 50 invitations to submit views by telephone or face-to-face were sent out. Both invitations included a letter from the Department for Digital, Culture, Media and Sport outlining the research.

This report analyses the feedback from:

- 65 online responses (18% response rate)
- 8 telephone responses (27% response rate)
- 6 face-to-face responses (30% response rate)

Respondents had a range of roles with respect to the pension fund, but unsurprisingly, the largest group (35%) were pensions managers, fulfilling an executive role within their company and supporting the trustees of the pension fund (Chart 1).

CHART 1: YOUR ROLE ON THE FUND



The roles of those who submitted views (shown in Chart 1 and described below) included Chief Investment Officers, trustees, and plan sponsors.

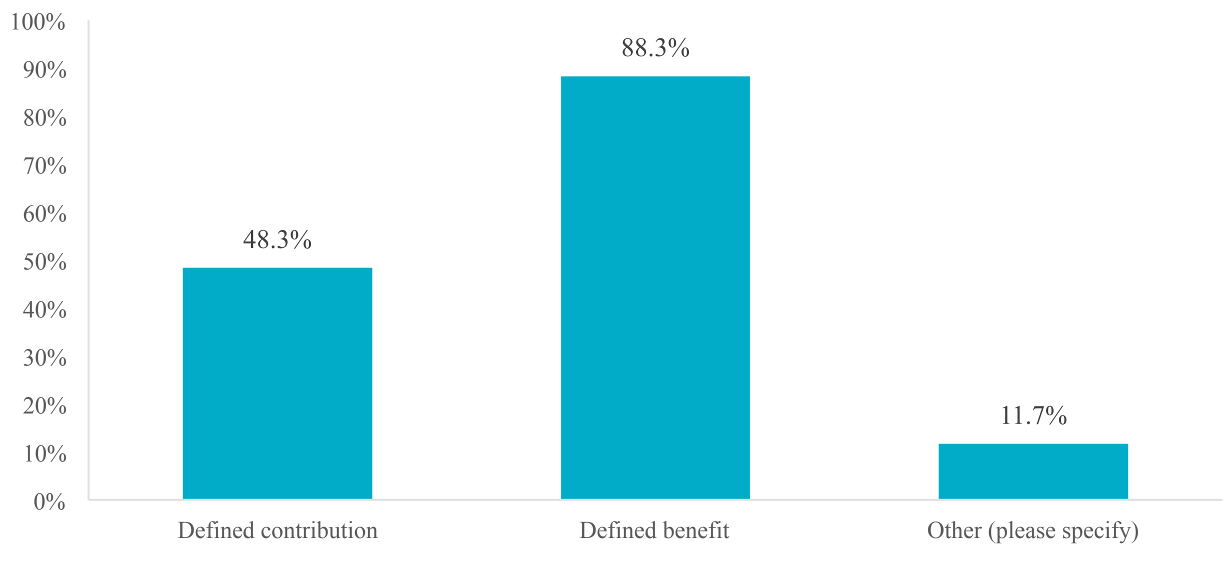
- **Pensions Manager** – the executive responsible for the day-to-day work on the pension fund, preparing for meetings, sharing papers, following through on any decisions made by the trustees. The Pensions Manager will usually have the closest ear to the ground across all aspects of the pension fund (not just investments) but they will be aware of the committee's views and would usually attend the trustee meetings. They often drive the agendas of committee meetings, working with the Chair of Trustees, and are normally influential in the decision-making process.

- **Chief Investment Officer (CIO)** – the CIO, unlike the Pensions Manager, will have delegated authority to act on the committee's behalf. Sometimes the CIO is responsible for internally managed portfolios (usually larger schemes) or they have delegated authority to invest in external funds. Like the Pensions Manager, they will have a very good understanding of the committee's thinking and their insights are valuable.

- **Chair of Trustees/Trustee** – although smaller in number in the response sample, the trustees have a decision-making role and the Chair drives the agenda. Typically, they work closely with the Pensions Manager/CIO. Independent trustees may be a paid role and as such they will bring specialist (e.g. investment) skills to the committee. It can be harder and more time-consuming to reach the underlying trustees of a pension fund for market research purposes and this probably accounts for the low percentage in the respondent universe (13.3%). Many companies screen e-mails to their trustees – often they are semi-retired and/or works from home. We had more responses from Chairs of Trustees who are more readily contacted. **Further research targeting this specific group of respondents may be worth considering before reaching more meaningful conclusions about this sub group.**

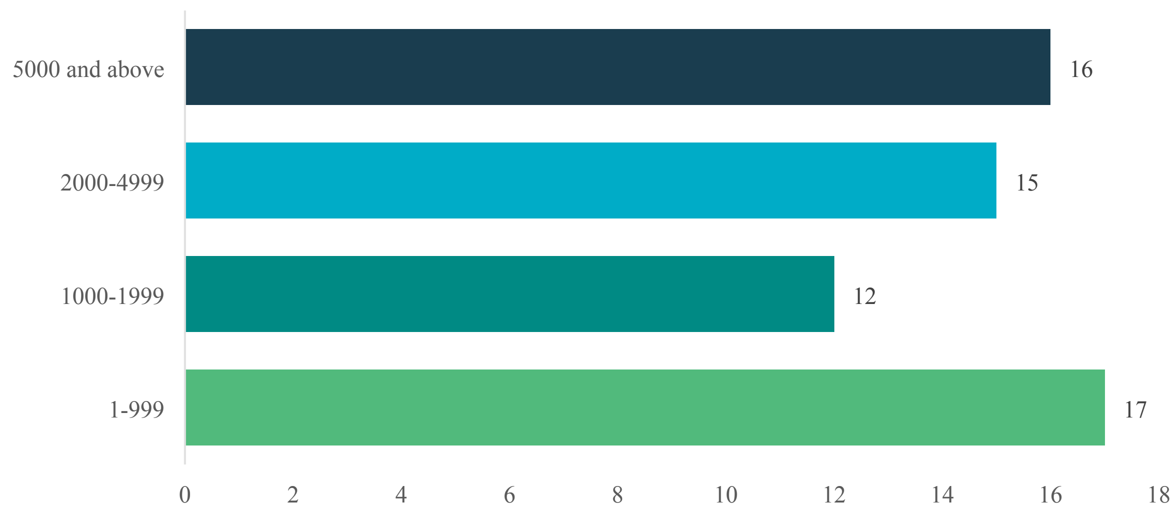
- **Plan Sponsor** – this is the company representative (e.g. Finance Director). Their views are worth soliciting because they are acting in the shareholders' interests, rather than the pension fund members' interests.

CHART 2: TYPE OF FUND



There was a good mix of scheme type in the respondent universe. 25 respondents (out of 60 that answered this question) had both a defined contribution and a (presumably closed) defined benefit schemes. "Other" tended to be companies with a mix of both defined contribution and defined benefit schemes or hybrid funds.

CHART 3: FUND SIZE IN £m



Pleasingly, we were able to compile responses from a fairly even spread of pension funds across the size spectrum (Chart 3).

The final sample size achieved in this research is sufficient to draw headline conclusions about the views of corporate pension funds on social impact investment, and was broadly in line with our target at the start of the research. However, we **recommend that some of the conclusions are followed up with more detailed research at a later stage** to verify that the views are representative of the wider pensions industry.

Potential Avenues for Future Research

Whilst there were some clear trends emerging from the headline research undertaken here, there are certain areas that would benefit from further research. These have been mentioned in the report above, but for ease of reference, these are summarised again here:

- Further research specifically targeting Chairs of Trustees, in order to gain more meaningful conclusions about this sub-group. Only 12 respondents were Chairs of Trustees.
- A more detailed market research exercise with corporate pension funds (both defined benefit and defined contribution schemes), to explore in more depth some of the perceived barriers to entry and to establish which incentives would be most effective.
- Additional market research with consultants, investment advisers and the independent trustee firms to gain insights on those service providers who have a direct influence on the investment decisions of the UK's pension schemes.

Conclusion

Whilst there has been a somewhat limited level of take-up by corporate pension funds, to date, most of the fund representatives who were interviewed, or who provided feedback online, were open-minded and willing to learn more about social impact investment opportunities. The key is to provide evidence that the pension fund's fiduciary responsibilities on risk/return criteria can still be met (perhaps with some liquidity sacrifice, for example) before a discussion over the impact benefits can take place. Perhaps this is best summed up by the fund representative below:

"I would be interested to learn more. If you could achieve a good return whilst helping to provide social benefits, this can only be a good thing."

Appendix 1 - Questionnaire

1. How much have you heard or read about social impact investment? (choose one)

   Answer Choices

   - A significant amount
   - Somewhat aware
   - A little
   - Not at all

2. To what extent do you contribute to decisions about the scheme's investments? (choose one)

   Answer Choices

   - A significant amount
   - Somewhat
   - A little
   - Not at all

3. How would you define a social impact investment? (select as many as you wish)

   Answer Choices

   - An investment that has both a financial return and a social return
   - An investment that is likely to be small scale and directed towards a social enterprise
   - An investment whose return could match the market return but might be less liquid
   - An investment that is primarily philanthropic but also has a financial return
   - Don't know
   - Other

4. Has your scheme made any active decisions in relation to social investments? (if 'YES' answer question 5, if 'NO' answer question 6)

   Answer Choices

   - Yes
   - No
   - Don't know

5. (If 'YES' to question 4, then) What active decisions have you made in relation to social investments? (select as many as you wish)

   Answer Choices

   - To canvass members for their views on social investment
   - To increase our understanding of the social investment market
   - To allocate assets to social investment
   - Not to consider social investments for the time being
   - Not to invest in social investments

6. (If 'NO' to question 4, then) What are the reasons for you not having made an active decision in relation to social investment? (select as many as you wish)

    Answer Choices

    - Other
    - Lack of time for consideration
    - Lack of information
    - Lack of consultant interest/support
    - Too busy on other more pressing issues

7. Does your scheme hold any investments in social housing or infrastructure related to education, health or renewable energy?

    Answer Choices

    - Yes
    - No
    - Don't know

8. How supportive do you think your scheme members would be in seeing the scheme (or default fund) invest up to 3% of its assets in social investments if those investment delivered a market return? (choose one)

    Answer Choices

    - Significantly
    - Somewhat
    - A little
    - Not at all

9. Which factors would encourage you to make an active decision to invest more in social impact? (select the three most important)

    Answer Choices

    - Clearer guidance from the Law Commission on social impact investment and fiduciary duty
    - Hearing from other schemes that have invested in social impact
    - Backstop liquidity provision for social impact investments
    - A better understanding of what social impact investments are
    - Clearer guidance from the Pensions Regulator about pension scheme investment in social impact
    - Clear evidence of scheme member interest in and acceptance of social impact investments
    - Greater provision of social impact investment products
    - More information about the historic risk/return characteristics of social impact investments

10. What emphasis do you place on advice given by your investment consultant when making investment decisions? (choose one)

    Answer Choices

    - A significant amount
    - Some
    - A little
    - Not at all

11. If you were to make social impact investments, to what extent would you feel the need to actively seek members' views?

    Answer Choices

    - Significantly
    - Somewhat
    - A little
    - Not at all

12. Optional question in relation to the Law Commission report on Pension Funds and Social Investment: Are you aware there is no regulatory requirement that dictates DC funds must have daily pricing and daily dealing?

    Answer Choices

    - Yes
    - No

13. Optional question in relation to the Law Commission report on Pension Funds and Social Investment: If your fund is a DC fund, to what extent would you be interested in moving away from the practice of daily pricing and daily dealing for a portion of your portfolio in order to invest in more illiquid assets, such as property and infrastructure?

    Answer Choices

    - Significantly
    - Somewhat
    - A little
    - Not at all
    - We are not a DC fund

14. Your name

15. Pension fund name

16. Type of fund (s) – tick all that apply:

    Answer Choices

    - Defined contribution
    - Defined benefit
    - Other (please specify)

17. Your role on the fund:

Answer Choices

- Pensions manager
- Chief investment officer
- Chair of Trustees
- Trustee
- Plan sponsor
- Other

18. Please enter the size of your fund in sterling (in millions).

19. Are there any other comments relating to this topic that you are willing to share with us?

20. While we will not be able to take up every offer of assistance, would you be prepared to be contacted for a more in-depth interview to be conducted either in person or on the telephone?

Appendix 2 – Further Comments Grouped by Subject

Active decisions relating to social investments:

"Prior to my chairmanship the scheme had discussed SII and made an active decision not to invest in them."

"SII is growing in awareness amongst the professional community and I think that will continue."

Reasons for not investing:

"When there is a deficit Trustees don't want anything where the risk/return profile doesn't fit their needs. There is a possible sacrifice when the return isn't simply financial."

"The amount of money would be small for social impact investment and the constraints on the scheme's governance budget wouldn't allow the time needed to consider it fully. A bigger possibility might lead to trustees spending more time."

"Pension funds generally have enough problems to deal with."

"Social impact investing is similar to the challenge of getting Pension Funds to invest in Infrastructure. There is a limited appetite for doing things differently."

"The low interest rate environment gives Funds significant headaches that are severe enough to prevent them from thinking about this sort of thing."

"The fund has been focused on deficits and valuations."

"Social impact investing has not been proposed to the trustees by the investment consultant."

"There is a common perception that by doing good you are not discharging your fiduciary duty to deliver pension returns."

"Deficits and longevity have been driving pension fund trustees for the last few years."

"Most pension funds don't have a view at all and don't meaningfully connect with social impact investing."

"In the long run the assets will be transferred to an insurance company and we're not sure if these assets will be attractive to them."

"We focus on asset classes but we're unsure of where SII fits into asset classes. It is difficult to identify any products and there is the issue of measurability."

"Social impact investment can include construction risk and political risk. There is a lack of management skill to assess SII."

"There needs to be more clarity about the definition and what's included and not included in SII"

"We looked at social housing previously but didn't go for it as the trustees were concerned over liquidity and timeline for exit on the aimed wind down of 2030. But they were comfortable with the asset class."

"There is a question about what asset classes to include in SII."

"We looked at social housing but the reputational risk involved outweighed the advantages and we didn't invest. The blame can often fall on the investor rather than the manager in this sphere."

"SII is too small for our level of assets. There is no point in a huge amount of effort for a hundred million of opportunity." ***(Large scheme response).***

"The guidance to the nature of these investments is not there, especially for trustees. All of these things are linked. More information leads to fiduciary duty being clear. The fact that the data is not there makes it difficult."

Existing social impact investments:

"The fund has invested in an infrastructure fund which targets these areas, excluding social housing."

"It is unthinkable that in 15 or 20 years social impact investment will not be embedded in everyone's lexicon."

"You have an ageing population and as such there are SII ramifications as interest (and need for) care homes and GP surgeries and things of that nature grows."

"On the DC side there are self-select funds including a Green Fund and a Sharia fund."

"We do hold investments in renewable energy and infrastructure."

"The fund has made some investments in social housing debt but have been disappointed by returns. The Government have come in over the top and moved the goal posts to the funds detriment, consequently there is some scarring there."

Support from members for allocating to social impact investment:

"How well funded the fund is to begin with, is the key consideration in how supportive members will be."

"In reality scheme members are not engaged, apart from a few activists, but if you asked them the question I'm sure that they would be supportive."

“You can do things for not simply financial returns if the members support it.”

“We have not directly canvassed members but occasionally we get members writing in.”

“Members are just so silent. If you asked them I’m sure they would be all for it. They trust the governance so if trustees took the decisions they would be accepted.”

“It is hard to talk about the totality of the membership but I imagine Millenials are far more interested.”

What factors would encourage allocations to social impact investment?

“Trustees feel nervous if they don’t understand what they are investing in.”

“What the sponsoring employer thinks is also key in arriving at the investment strategy.”

“If long term interest rates increased and pension funds were better funded this would have a better chance of succeeding but it will always be a small portion of the whole.”

“Most trustees would naturally be interested if returns were the same but proving that return is difficult.”

“Most Pension Funds are not that worried about liquidity.”

“The way in is where one of the trustees has a passion for social impact investment and this being met with an Investment Consultant who knows about it and a scheme Sponsor with a mandate to connect with it. However, I have never heard a trustee suggest social impact investment or be passionate about it.”

“Trustees are pre-occupied with other matter and need to be led by Investment Consultants. More education is also needed.”

“As things stand the law pays lip service to social impact and funds don’t need to do much.”

“Legislation and compulsion is required.”

“Money talks and incentivisation would help.”

“Tax breaks would help or government guarantees to decrease default, liquidity and construction risk.”

“Perhaps some sort of identifying kite mark or central guidance would help.”

“Whatever terminology is established needs to be tested on the man in the street (members) who need to understand it.”

"There is so much red tape from the regulator already so we spend more time ticking boxes than doing the work. We wouldn't want that to be added to."

"Some sort of tariff or tax incentive from the government would help."

"We could use more support from the government. There is inconsistency from political parties about the desirability of investment in Infrastructure and SII."

"95% of people in the fund are in the default option. We could make it available to choosers but SII would have to nail the financial returns and we would need to see long-term returns play out."

"Greater provision of SII products is the key factor."

"There is scope for what might be called green bonds which would tick two boxes of being a good investment and a public good."

"We have a statement on investment principles which says we have a duty to maximise returns. We have discussed whether to revise."

"We wouldn't want to be pushed into it but the Government can encourage comparative studies."

"Measuring and metrics are the bigger issue – we are less in the equity markets and more in the credit market but even large family offices and charities who want to invest in this sector find it difficult to get the money on the ground and measure its impact."

"One gets the impression that there is money looking for the investments. If anything there is a lack of supply of good ideas with proper structure around them and proper metrics to report on them."

Consultant input:

"We take advice but have our own strategy and see a danger in becoming too reliant on advisers."

"I wonder if there is enough money in it for Investment Consultants as it is not mainstream yet and too small?"

"It would be extremely difficult to go against anything that the investment consultant wasn't recommending."

"The problem is if the project isn't big enough it doesn't make sense for the investment consultant to spend time promoting it."

"We need consultants to push us to do it by providing products that can meet the hurdle/ return requirements."

"Large consulting firms are all very aware of this area. They are driven by the customers. They are important in helping the managers define the product."

Law commission questions:

"Bigger schemes would be aware of this. The challenge here is the platforms themselves as they often require daily pricing. Some funds are starting to create daily priced funds for SII."