Our Partnership for Sustainable Capital Markets

As asset owners, our ultimate responsibility is to provide for the post-retirement financial security of millions of families across multiple generations. Since our commitment to providing financial stability spans decades, we do not have the luxury of limiting our efforts to maximizing investment returns merely over the next few years.

If we were to focus purely on short-term returns, we would be ignoring potentially catastrophic systemic risks to our portfolios. For instance, according to one estimate by Moody's Analytics, climate change alone has the potential to destroy US$69 trillion in global economic wealth through 2100.[1] As asset owners with the longest of long-term investment horizons, more inclusive, sustainable, dynamic, strong and trusted economies are critical for us to fulfill the responsibility we have to multiple generations of beneficiaries.

Within this multi-decade framework, companies that seek to maximize corporate revenue without considering their impacts on other stakeholders – including the environment, workers, and communities – put their long-term growth at risk and are not attractive investment targets for us. Similarly, asset managers that only focus on short-term, explicitly financial measures, and ignore longer-term sustainability-related risks and opportunities are not attractive partners for us.

Over recent years, we have seen more and more corporations and asset managers embrace the long-term approach to value creation that is required by asset owners. Individual firms and industry groups are rethinking their purpose, recognizing that considering impacts to employees, society and the environment in their corporate vision and strategy is good business. A growing number of companies are disclosing information in line with frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). And influential asset managers are committing to integrating systemic risk issues, including climate change, into their investment activities.

We welcome these efforts but recognize that we still have a long way to go. Entrenched interests remain strong and resistance to change is fierce. Meaningful and decision-useful ESG (environmental, social and governance)-related disclosure and analysis remains the exception rather than the rule. And in many regions, regulations that reflect a more long-term investment paradigm have been slow to evolve.

For our part, we are committed to those companies that create value for us over the long-term. We appreciate that many multinational firms often find themselves under excessive pressure from the market to deliver on short-term goals, making it difficult to protect their long-term corporate vision. As asset owners however, we strive to act as stewards of long-term capital, creating sustainable value by supporting companies with a clearly defined, long-term vision for growth.

Similarly, asset managers that integrate ESG factors throughout their entire investment process, vote according to the mandate to which they have pledged, and are transparent with us about their level of

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[1] Moody's Analytics (2019). The Economic Implications of Climate Change. https://www.moodysanalytics.com/-/media/article/2019/economic-implications-of-climate-change.pdf

corporate engagement, demonstrate to us that they are committed to long-term value creation in line with our interests. We prefer to build and maintain relationships with asset managers who fit this description over those who do not, and pledge to work with these partners to hold them accountable and ensure they deliver on the commitments they have made.

Skeptics that continue to question the growing role of sustainability within the global investment community should realize that they are quickly becoming the minority. With a large majority of research in a meta-analysis[2] of over 2200 studies showing a positive relationship between ESG investment and returns – and around 90% showing at least a non-negative effect – they should also be aware that the evidence is not on their side.

We live in a changing world; companies and asset managers who commit to sustainable value creation are not injecting politics into business, nor are they “virtue signaling.” They are fulfilling their duty to us, and by extension, to the millions of families depending on us. We therefore urge both our partners and the companies in which we invest to rethink their strategy and enhance their disclosures (using frameworks such as the TCFD) regarding their interactions with stakeholders, society, and the environment so that we can collaborate in generating and enhancing long term value.

With companies acting as long-term value creators and investors acting as long-term value accelerators, together we can keep short-termism at bay and drive sustainable economic growth for our customers, beneficiaries and society.

March, 2020

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[2] Friede, G., Busch, T. and Bassen, A. (2015), ‘ESG and Financial Performance: Aggregated Evidence from more than 2000 Empirical Studies’, Journal of Sustainable Finance & Investment, Vol. 5, Issue 4, pp. 210–233. Available at: https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917.

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Signatories Revised:

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