Comments on:

ESG Impacts on Pension Governance, Investments, Structures, and Reporting

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Overview

- Four great papers, ten short minutes.
- Each paper covers a key subset of the issues needed for a comprehensive policy solution.
- My first goal is to reiterate those key questions and review the main conclusions.
- My second goal is to comment on how the four papers complement each other in terms of overall policy prescriptions.

Four Big Picture Questions

- Do beneficiaries have a voice in sustainable investments? Should they have a voice?
- Should global pensions become ESG-engaged? What transformational changes are needed?
- Would universal benchmarks for ESG improve dialogue and implementation of ESG?
- Do ESG objectives conflict with traditional fiduciary responsibilities? Possible to resolve?

Role of Beneficiaries in ESG

- Rob Bauer and Paul Smeets use Dutch surveys to argue for more beneficiary involvement.
- ESG decisions still at pension board level.
  - Europe ahead of U.S., fiduciary meaning evolving.
- 59% of ABP (civil servants) in favor *so long as financial returns not negatively affected*.
- PD example(s) also enlightening in terms of engagement *given* expected benefit impacts, but what are expectations about benefits?

Global pensions and ESG

- Luba Nikulina starts with the great potential for impact if we have a “voice from the top.”
- Concept of Universal Ownership: own a slice of system, need to be responsible to system.
- Key is culture: looking beyond immediate returns, focus on long-term impact.
- Need transformational change, strengthened governance, system-wide collaboration. But where/how do those start to happen?

Universal ESG Benchmarks

- Gerben de Zwart and Peter Korteweg focus on benchmarks for ESG implementation.
- Boards and participants need common frame to evaluate success and understand tradeoffs.
- Evidence of modest financial return effects.
  - Function of government support for ESG?
- Is call for universal benchmarks a sufficient solution to fiduciary problem?

ESG Versus Fiduciaries

- Susan Gary begins by reminding us what fiduciary responsibility means to a lawyer: loyally and prudently maximizing benefits.
- Why I could not make it as a lawyer: ***The DOL's 2021 rule accepted that ESG information has financial materiality and acknowledges that non-financial benefits can be considered in choosing funds or products for DIA plans, as long as the actual choice is made for financial reasons.***

So What Next?

- If two investments have same financial return but one has positive externalities, seems easy.
  - But we don’t always agree on what’s positive.
  - Screening for “sin” investments, fossil fuels/jobs.
- We should give participants a voice, but is simple majority rule the right answer?
  - Given disagreements, should 50%+1 be able to act as the “voice from the top” and impose their will?
  - Do participants really understand tradeoffs?
  - Are individual investor goals mutually exclusive?

So What Next?

- Can pension fund governance really operate separately from governance more generally?
  - No question that pension funds have potential to drive investment in certain directions.
  - No doubt that most of us agree about directions.
- But how to make this operational?
  - These are public goods/externalilty problems.
  - Solution 1: Government changes costs/benefits.
  - Solution 2: Government changes fiduciary rules.

Thanks!

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