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advising pension funds on sustainability issues

Pension funds are increasingly seeking to reflect long term sustainability considerations in their investment strategies, Jane Goodland tells Mike Scott

The Watson Wyatt consultancy, which advises more than half of the pension funds of FTSE 100 companies, is finding an increased demand for information on sustainability matters, says Jane Goodland, its investment consultant.

The interests of pension funds are aligned with the sustainability agenda, she says. 'This is relevant for pension funds because of the long-term nature of their liabilities. Sustainability is going to be a significant driving force over the coming decades and our clients need to be aware of issues that might affect returns in future.'

She notes that 'the corporate responsibility agenda and what companies say as part of their marketing campaigns is becoming increasingly important. There are reputational issues if they fail to live up to their promises.'

However, there are also a number of big issues that pension funds need to be aware of, such as demographic changes, increasing urbanization, natural resource use and climate change - and they have to take into account the global impact of those factors. Goodland sees her job as helping pension funds to think about what the world is going to look like in the future, to understand the impacts of that change and implement strategies to ensure that they are prepared. 'If you are investing in carbon-intensive industries, for example, you need to look at how they will be operating in ten years time and factor that in to your investment decisions.'

Pension funds face pressure on two fronts - ageing populations and the fact that people are saving far too little for their retirement as a result of the switch to defined contribution (DC) pensions from defined benefit schemes. There is a growing recognition that current contribution rates will not be adequate to support people in their old age. 'We need better transparency about the savings levels required for DC schemes and we will see more regulation shaping the pensions industry's response to this challenge', says Goodland, who previously worked for HSBC Group Investment Businesses.

Watson Wyatt suggests that it may be time for a change in emphasis. Instead of trying to outperform a particular index, the focus should be on building assets for the future; in other words a move towards a philosophy of absolute rather than relative return.

From the individual's point of view, the switch to DC makes it more important than ever that pension fund assets perform well in the long term, and this is where sustainability comes to the fore. 'How do you manage performance when you are aware of potential challenges in the near future? Now is a very interesting time because many sustainability issues are crystallizing at the moment,' she adds.

This is partly because of high oil prices and partly because of the impending change of administration in the US. But one area where progress is really important is in emerging markets. 'China knows it has to deal with its emissions and there are signs that it is getting more serious about environmental protection'. One such indicator is that China is now one of the biggest producers of solar power products. 'Emerging markets could leapfrog the West by making smarter decisions on development,' she believes.

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