Bank of Ireland

Investment Markets

Where is my Pension invested and should I care?

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As a pension investor, your main objective is to provide for your future. You invest your money in a pension fund, and hope for the best that your fund delivers returns which can provide that future for you. Now that employer occupational pension schemes are becoming more a thing of the past, we, as pension investors on our own behalf, need to be more aware of how our money is being put to work as our 'pension pot' is no longer guaranteed.

It is in your interest therefore, to know that the investments made on your behalf by your pension fund, is into companies which are capable of generating long term returns and that those companies are also generating those returns in a way that is sustainable for the long term. In other words, you want your money to be managed responsibly.

So what do I mean when I say 'responsibly'? Over 20 years ago, the Principles of Responsible Investment were established by the United Nations. These principles state that a responsible investor should incorporate Environmental, Social and Governance (ESG) factors into account when making investment decisions.

SO WHAT ARE THEY AND DO THEY REALLY MATTER?

There have been a number of high profile cases over the past number of years which highlight the materiality of assessing these factors before making an investment.

A well-known example of where a company failed both environmentally and through its' governance, is the Deepwater Horizon oil spill which was suffered by BP plc in 2010. It was the single largest marine oil spill in the history of the petroleum industry and resulted in the deaths of 11 people, 17 serious injuries and the releasing of 4.9m barrels of oil into the environment with devastating results for marine and wild life. BP was found guilty in 2014 by a US federal judge of deliberate misconduct and gross negligence and fined billions of dollars. It took approximately six and a half years for the share price of BP to return to the level it had been at prior to the incident.

If BP had been assessed prior to the oil spill by an ESG analyst, they would most likely have noticed that BP had incurred 760 Egregious Wilful Citations, the most dangerous citations that can be issued by the US Occupational Safety and Health Administration, in the three years previously, demonstrating a very poor safety record. To put this in context, the combined total during the same time period of the remaining 145 refineries in the U.S., came to a grand total of one. In other words, the signs were there, but they weren't to be found by just performing a financial analysis of the company.

HOW SHOULD MY MONEY BE MANAGED TO PROTECT MY FUTURE WEALTH?

A company like Tesla, the electric vehicle car maker, looks at first glance almost the antithesis of BP, with the company's mission of being at the forefront of the transition from a fossil fuel economy to a solar electric economy, an environmentalists dream. Must be near the top of every responsible investment fund list then, right?

Not necessarily so. Issues such as its workplace safety record and the remuneration package of its iconic founder and CEO, Elon Musk, means it fails to make the grade for many responsible investors and they will not risk holding the stock as a result, regardless of how 'clean' or 'green' the company appears to be.

There are others that believe that Tesla is on the right track and that it's ground breaking innovation and technology are an opportunity worth investing in, whilst acknowledging that it has these other issues. These investors choose to actively engage as shareholders with the board, and encourage Tesla, through the use of their shareholder votes, to improve on these issues. Thus the investment opportunity is not lost and Tesla can improve on its safety and other risks to survive and thrive into the very future it envisages.

Different approaches therefore, invest or divest, each argument with merit and widely debated. If you have a strong opinion either way, it's important for you to know which approach your fund manager takes.

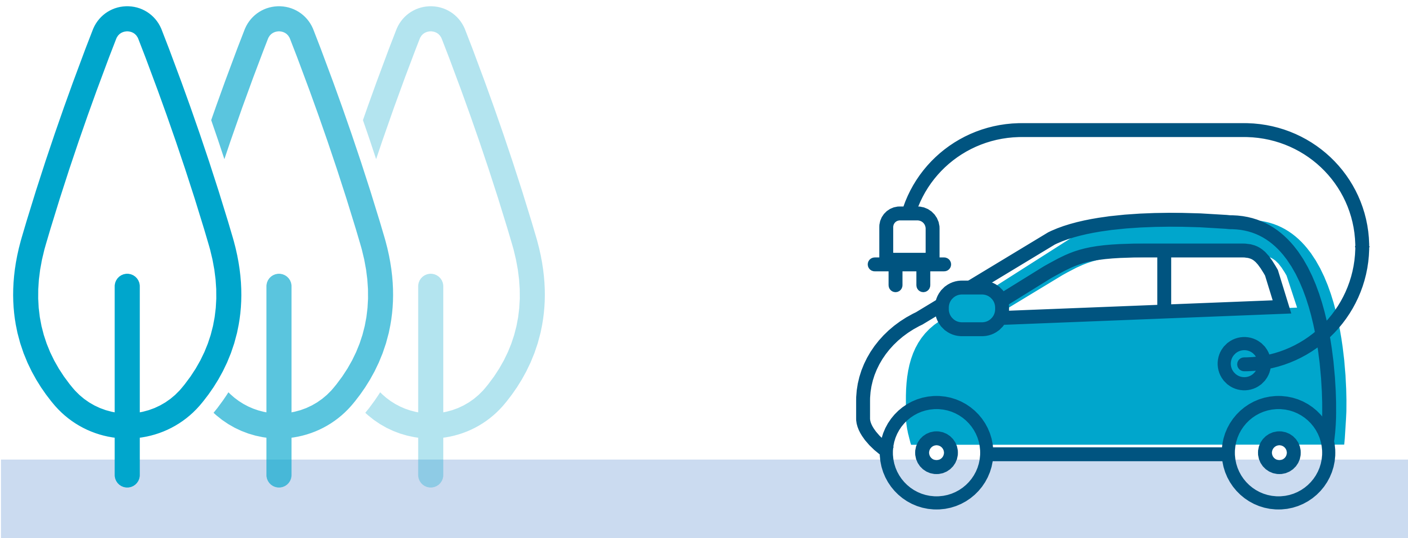
That is assuming that you are invested in 'actively' managed funds in the first place. The reality is that many investment advisors and trustees have moved towards recommending 'passive' investment for pension clients where there are no active decisions made and the funds replicate the performance of a stock index so will always achieve the same return as the market return.

The main reason for using such trackers, is cost, the less input into the investment decisions, the cheaper the fund. But that means that the chances of your fund experiencing a Deepwater Horizon type catastrophe is very high, as large companies, such as BP, tend to feature in these indices and in a passive fund, there is no one managing it to mitigate the potential risks of these disasters.

THE FUTURE IS HERE

Responsible investing is still in its infancy in Ireland in general, it is fair to say. But it is changing. Many governments around the world have adopted the 2015 Paris Agreement and the United Nations 2030 Agenda for Sustainable Development. Europe has traditionally been at the forefront of the adoption of sustainable practices globally and intends to remain in that position with the recent announcement of the EU Action Plan on Financing Sustainable Growth in March 2018, which aims to mobilise capital towards climate mitigation, amongst other initiatives.

A number of proposals in this plan will bring ESG gradually into the mainstream, including the incorporation of sustainability in the suitability assessments of financial instruments and products in the provision of investment advice. In other words, you, as an investor, will be asked to decide whether you want to invest sustainably, or not. We will all have a choice. How will you decide?



Warning: The value of your investment can go down as well as up.
Warning: These funds may be affected by changes in currency exchange rates.
Warning: If you invest in these funds you may lose some or all of the money you invest.