

The Ambachtsheer Letter

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PENSION FUNDS AND THE 'SRI' MOVEMENT:

STILL SHIPS PASSING IN THE NIGHT?

“The relationship between human civilization and the Earth has been utterly transformed by the population explosion, the technological revolution, and a willingness to ignore the future consequences of our present actions...but along with the dangers we face from global warming, this crisis also brings unprecedented opportunities...including not just new jobs and profits...but also clean engines, harnessing the Sun and the wind, halting the wasting of energy, and using the planet’s plentiful coal resources without heating the planet...”

From “An Inconvenient Truth”
by Al Gore, former Vice President
of the United States of America

Ships Passing or Converging?

In some closing remarks at a recent breakfast meeting organized for Mr. Gore and his Generation Investment Management colleagues, this writer recounted bits of a five-year old conversation with Mercer’s global ‘responsible investment’ consulting practice leader (she was the main organizer of the recent Gore breakfast, and her surname is also Ambachtsheer):

Q: *“So Dad, when are you going to do an Ambachtsheer Letter on socially responsible investing?”*

A: *“When the SRI movement stops being dominated by tree-huggers, and starts to acknowledge that it is illegal for pension fund fiduciaries to spend other people’s money on causes they happen to believe in.”*

Of course, that was not the end of it. A flow of research on the financial materiality of ESG (environmental-social-governance) factors in investing began to appear in our inbox. Contacts were initiated by persuasive people like Raj Thamotheram and Matthew Kiernan. All this eventually led to our February 2003 *Letter* titled “Is SRI Bunk?”

Fast forwarding to today, has anything changed? Is the question now worth revisiting? We think ‘yes’ for three reasons. The first is to see how the views we expressed in the “Is SRI Bunk?” *Letter* four years ago are holding up. A second reason is that the potential financial materiality of ESG factors is rapidly becoming a mainstream, rather than a peripheral, quixotic concept in the pension investments world. Mr. Gore can take some credit for this mainstreaming, as he has taken his ‘inconvenient truth’ message (including its implications for investing) to all corners of the globe through his movie, his book, and in person. The third ‘revisit’ reason is to remind readers that the effective integration of ESG factors into pension fund investment processes has important organizational implications. Unless those implications are understood and acted on, ESG will be just another annoying acronym in a world that already has too many.