“Will changing values today create value tomorrow?

Mark Walker
Prior to joining Univest, as chief investment officer, Mark was a Partner at Mercer and Head of the London Investment Consulting Unit. Mark has over 20 years’ experience in actuarial, pensions and investment consultancy.

Katherine Tweedie
Katherine is executive director at the Investment Institute. She is responsible for providing research and insight to financial institutions on geopolitical, economic and investment trends shaping portfolio strategy and asset allocation decisions.

5 Perspectives on corporate pensions

SUMMARY: Mark Walker is responsible for overseeing €24 billion of Unilever’s 75+ worldwide pension schemes. He talks here to Katherine Tweedie about how his advocacy for long-termism shapes Univest’s approach to sustainability and its overall philosophy as a corporate citizen, and how this influences investment decisions. Katherine and Mark discuss the definition of, and arguments for, long-term thinking, from a defined benefit and defined contribution perspective. They also consider the actions of industry leaders to integrate longer-term risk factors into investment strategies, while maintaining fiduciary responsibility to deliver the required returns and manage risk.

KT **As Global CIO of Univest with the responsibility of overseeing more than 75 pension schemes across 40 countries, what are the most urgent investment and leadership challenges facing you today? How unique are these issues to Univest or are they similar to other asset owners in the industry?**

MW At Unilever, pensions are part of the employee reward framework. It's an employee benefit and, while we have as many global standards as possible, there are local employment issues and requirements which we need to address. Today, we still have around 85% of our global pension assets in legacy defined benefit (DB) plans and we're clear on their targets and aims. We are de-risking over time and almost all of our DB pension funds are closed. However, as we de-risk, we still have the responsibility to deliver a certain level of return to improve funding levels. Given the strength of the company covenant, the chances of Unilever DB members not getting their benefits is very low. However, on the defined contribution side every investment decision made translates to a change in a member's ultimate benefit. In addition, we have a very long-term investment period: if a Unilever employee starts saving in their 20s, they may still want replacement income in their 90s. That's a 70-year investment period, but the market does not often operate with that perspective and this is a challenge.

Personally, my biggest leadership challenge is having so many stakeholders, particularly with multiple pension schemes. We are also a regulated asset manager in The Netherlands, so I have a Supervisory Board. We have regulators, service providers, over 100 fund managers globally, custodians, accountants, and lawyers. Managing the complexity of our global environment and all the service providers and stakeholders that sit in there is a challenge.

KT **Our discussion today is on the topic of 'long horizon investing'. How do you define long-termism at Univest?**

MW It's a state of mind. You need to be very clear in your objectives and those objectives occur over a multi-year period when it comes to growing and protecting wealth for hundreds of thousands of current and former Unilever employees. The investment industry often operates in a much shorter-term fashion. It's a state of mind that just makes you reflect constantly on whether you are taking decisions and providing advice based on an outcome which is 10-plus years in the future, rather than the next 2 or 3 years.

KT **Indeed, some view alternatives or specifically private equity as the way to tackle long-term investing. But many private equity investors still take a 'get-in-and-get-out' approach, turning a company around within three-to-five years. Is that long term in your view?**

MW Some say the long term is holding a series of successful short-term positions. However, this doesn't necessarily help the industry deliver better investment solutions to the underlying investors or pension members, because short-term behaviour affects the whole value chain.

Companies often think that their shareholders are focused exclusively on the short term, so they put their energy and planning into delivering short-term earnings results. This, in turn, affects the way they report to the market, as well as the behaviour of regulators. As an interrelated ecosystem, it's crucial to avoid short-termism and for each stakeholder to focus on creating more value through a longer term approach, at each stage of the value chain from the individual company level up.

KT **Despite this knowledge, it is surprising to see the**

continuation of behavioural biases towards short term, knee-jerk reactions occurring time and time again. For example, investors looking at past performance as an indication of future performance and then buying at the top of the market. When the market turns the short-term behaviour kicks in with 'school boy' errors of buying high and selling low. As investors trying to pursue a more long-term philosophy, what is needed to change these behaviours?

MW You need to look at governance structures, expertise, skillsets and incentives that affect decision making, as well as measurement periods and reporting. These things are challenges for us in creating investment strategies which deliver the required returns while appropriately managing risk. Comparing one short-term number to another and saying a fund manager is successful because this number is bigger than this number is easy to explain.

We live in a commercial world and to win business you take a certain view. The asset owner must understand the fund manager and that cannot come purely on the basis of short-term, or even long-term, past performance. Instead, you have to understand the underlying business, the philosophy, the management, the alignment of interests, the individual managers, how it operates and how changes could be made. The most important element is consistency of philosophy, people and process and if those are in place, it is easier to get through different market and performance cycles.

KT **Do you think that short-termism inhibits real value/ alpha creation? How do you, as an asset owner, shift from short-termism to long-termism to better capture this premium?**

MW I think interest in taking a longer-term view is growing. It's a mind-set issue about value creation, delivering long-term returns and managing risk. The world is changing, the population is growing and the climate is changing, which leads to other economic changes. How do we allocate capital in this environment and how do we think about delivering returns to our underlying beneficiaries while managing risk? What are the longer-term risks that are evolving or entering the system? How do we make money from them and how do we protect capital?

Some companies have adopted a more long-term perspective than others. They face challenges in sticking to that perspective when they need to report to many stakeholders and market participants including asset owners, fund managers, brokers and other service providers. But I do think there's a growing body of evidence that demonstrates the benefits of taking a longer-term view. Now we need practical solutions to things such as integrating longer-term risk factors into an investment strategy. We also need consultants to integrate longer-term risk factors into their capital markets assumptions and scenario planning.

KT **Do you mean factoring in the 'externalities' of our investment decisions?**

MW Externalities, yes, in environmental, social and big, world-changing senses. Perhaps there's a third angle for analysis here. If risk and return were equivalent between two investments but one is more aligned with, for example, the Sustainable Development Goals, then that investment will be preferred.

KT **When you try and reconcile ESG with the fiduciary responsibility to get the best returns, how do you explain that third dimension to your shareholders when it doesn't necessarily give you an immediate return today?**

MW In the past we've had the wrong narrative about fiduciary responsibility. When ESG comes up, people immediately ask, "What are you going to tell me that I can't invest in?" It often becomes an ethical issue. This is investing. Risk and return will always be the main fiduciary considerations, but ESG factors are financial, they can have an economic impact! Maybe the way to think about this is: you have got risk and return and then you have got the evolution of risk and return over time, 'future financial' if you will. That's the third element.

KT **Are you concerned that the rise of passive investing removes the impetus for asset owners to engage actively on ESG and stewardship with underlying portfolio companies?**

MW Unless you are managing the money yourself, you will appoint one of the large passive providers and then you have to be sure that they are going to be good stewards of your assets. We need to engage more with the passive providers as they are huge owners of assets. They have a significant role to play where there is poor corporate behaviour or a potential for misalignment of interests. The large passive providers have big stewardship, engagement and voting functions. We should challenge more whether they are voting appropriately or applying appropriate pressure onto company management.

KT **Have you done anything different within your investment teams or with your external partnerships to influence the way you tackle risk, return and externalities over the long term?**

MW We are evolving, but it's a challenge to incorporate longer-term risk factors into more traditional ways of thinking about risk and return. We used to have a strategic goal that focused on sustainability and ESG in itself. Now we feel that that's something to incorporate into everything that we do. At the team level all my staff recognise the importance of ESG and a long-term perspective.

We are also thinking about how we work with our external fund managers, the questions that we ask, the monitoring that we do and how those service providers are integrating long-term thoughts and ESG issues into investments. If we think that value creation occurs in the long term, then we want the industry to behave that way. So we have to try and help the industry move in that direction.

KT **And are you pioneering any new product development that allows you to take a more long-term approach?**

MW We have tilted portfolios towards better ESG or long-horizon integration. We will think about the balance of that between the money that we manage internally and the money we have externally. We are also thinking about how we could better structure longer-term partnerships with a number of service providers.

There is a further opportunity to make a conscious effort for our pension funds to invest in more sustainable investment opportunities: those with a degree of diversification, a clear financial rationale and aligned with the way the world is changing.

KT **Unilever CEO Paul Polman has been a champion of integrating sustainability into both the corporate culture and business strategy of the company which in turn has influenced many other multi-nationals. Do you see that same sense of 'change leadership' in our industry today?**

MW My peers and I, CIOs, CEOs of pension organisations, have a job to do, which is to deliver a level of return within a risk budget. It has got to be very clear why the issues we are talking about are going to benefit our beneficiaries. I have a strong view that they will, whether that's just purely from a long-termism perspective or the fact that these issues are, indeed, financial issues and not non-financial issues.

That being said, we need to become more passionate. I think trustee, investment decision-makers and those who provide advice, including consultants, have a big role to play. My worry is that there are too many stakeholders, NGOs, working groups and the like, so we will not be sufficiently coordinated to be able to effect the real change needed. How we can coordinate these groups into heading towards a single vision, a single goal of doing things better, avoiding perhaps some of the ethical stances and making them very investment-receptive. The things that will really appeal to fund managers, CIOs, CEOs of organisations and so on, and putting them in the context which says this is going to be a benefit for everybody and, if you will, it will help make the world a bit of a better place as well.

KT **Given this discussion is about the long term, looking out ten years, can you make one prediction about our industry?**

MW You have asked me for one thing and that's a challenge. I will give you my one hope for ten years. I would like to see our industry have a more obvious clarity of purpose. I think lots of corporates now are demonstrating the value from having a clear purpose. I don't think the investment industry has it yet. It's relatively clear that there is a purpose to create and protect wealth for the underlying savers whose money we manage or oversee, but I think there is a bit of a trust issue. With a high degree of clarity of purpose, the decisions that we make and the people that get hired are people who can live out that purpose and really create that value and wealth for millions of people around the world. It can sound quite grand when you put it like that but that is what we are here to do. We often inhabit this short-term world where we are just trying to beat a benchmark and we forget about what the money actually is there for.