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Purpose for asset owners: Climbing a taller mountain

In the wake of the pandemic, the world's long-term investors are reexamining their purpose.

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The world's pension funds, sovereign-wealth funds, and endowments are no strangers to purpose—they intentionally strive to create positive societal impact. After all, they have long been using purpose as a not-so-secret weapon to attract talent while competing with higher-paying private-sector investment managers. As one chief talent officer of a major asset owner put it, "We can't compete with Wall Street head-to-head on compensation, but we can emphasize the mission of the work we do: helping millions of our fellow citizens save for their retirements. That's pretty meaningful." Nevertheless, amid the pandemic, many institutions are redefining, or simply sharpening, their emphasis on purpose, with promising implications for their constituents and the societies in which they operate.

Experienced climbers

For asset owners, purpose begins with their *mandate*, one that many owners have taken great care to define. The mandate informs all strategic choices an asset owner makes, so many CEOs and chief investment officers (CIOs) are careful to align their top teams and board. For example, the website for the Ontario Teachers' Pension Plan states, "Our name captures our purpose: to secure the future for Ontario's teachers." The Abu Dhabi Investment Authority describes its purpose as ". . . to secure and maintain the future welfare of the Emirate." And the Yale Investments Office "seeks to provide high inflation-adjusted returns to support the current and future needs of the university."

These purpose statements typically share a common concept: asset owners commit to investing the capital they have been entrusted to preserve, by enhancing the long-term purchasing power of their beneficiaries. This purpose is noble; it is focused on *helping others*—and, in many cases, doing so on a large scale, for millions of beneficiaries or even an entire nation. It aims to help others by *enhancing their autonomy*. And it is typically cast as helping to orient institutions toward the *long term*—a horizon in which all stakeholders' interests tend to converge.

The power of these three dimensions of purpose has afforded asset owners comfort (and perhaps competitive advantage) in their distinctive purpose vis-à-vis other investment firms and financial institutions.

Many asset-owner executives may thus feel justifiably proud of their progress on organizational purpose. Yet increasingly, partly impelled by the global health crisis and partly by other societal forces, several asset owners are mulling an even taller mountain: using their capital, capabilities, and influence to contribute to the economic and social recovery of the communities in which they operate, so that they can deliver positive social impact beyond what they currently achieve.

Why do more?

Like many industries with a noble purpose, asset owners have a long history of harnessing some of the advantages that come from a strong shared sense of purpose—in talent (recruitment, retention, motivation, productivity), external engagement (policy and regulatory freedom), and risk management (in their own organizations and portfolios). Yet there are three reasons why asset owners are increasingly seeking to do more.

First, expectations for asset owners are evolving rapidly among stakeholders and society at large. In the face of the economic volatility wrought by the pandemic, for example, policy makers and citizens alike are searching for levers to kick-start economic activity. That involves asking more of those that are able, since the pandemic has exacerbated inequality. Asset owners, therefore—who collectively control more than $20 trillion in assets—are increasingly expected to provide positive societal impact, especially given their considerable (direct and indirect) influence on companies' conduct globally and their close relationship to governments and public stakeholders. During the pandemic, some institutions have begun receiving more requests along these lines, with speculation that asset owners may be asked to prop up companies of social or political significance through equity injections—hardly an appealing prospect for these institutions, which guard their decision-making independence fiercely. A proactive approach may be the surest way to navigate this fluid situation.

Second, engaging employees and other stakeholders on spirited discussions of purpose tend to increase feelings of organizational connectedness, engagement, and loyalty. Infusing purpose is essential for developing and maintaining an engaged workforce, as well as for providing a powerful motivator for those (especially millennials) who seek "more than a paycheck."[1] Across institutions, employees who feel that meaning is clearly articulated, aligned with top-management behaviors, and embedded into daily decision making are up to four times more engaged and three times more excited about work. This is particularly relevant for asset owners, many of whom are internalizing their investment programs by hiring and retaining top talent from a scarce pool—and more often than not competing against private-sector employers that are able to offer higher compensation.

Third, there is emerging evidence that investors can "do well by doing good." Rather than trading high returns for social impact, as is commonly assumed, strategies designed to deliver positive social impact may be performance-neutral or even deliver higher risk-adjusted returns. Asset owners' collective size affords them a built-in incentive to strive for broad-based improvements in the economies and societies in which they invest. As Hiromichi Mizuno, former CIO of Japan's Government Pension Investment Fund, noted: "Our portfolio performance, particularly long term, is actually the product of what happens in the global economy. So we just need to make sure that the global economy and global capital market remain sustainable." Asset owners' efforts to contribute to society can thereby support their ability to deliver returns.

Therefore, failing to set ambitious aspirations for their purpose carries a substantial risk for asset owners—the lost opportunity to help tackle some of our societies' greatest challenges, with attendant consequences for the fulfilment of their formal purpose.

How to decide what more to do

Purpose is a journey for all organizations, one in which the destination should not be predictable or generic. Positive societal impact can manifest in a multitude of ways, and asset owners enjoy great versatility and flexibility in their choice of where to channel their power. In our experience, there are several commonalities among institutions most satisfied with their progress to date.

First, they listen so that they can surface and explore expectations. They identify relevant stakeholders (exhibit) and seek out input on what positive societal impact the institution could and should create. This process is intimidating, precisely because many of these stakeholders have traditionally joined with the institutions themselves in framing purpose narrowly, and in variations on the theme of "delivering returns." Skillful moderation is important to draw out nuanced perspectives. For example, asking stakeholders what they think *others* expect—or what *society at large* expects—can sometimes be more fruitful than asking what they *themselves* expect.

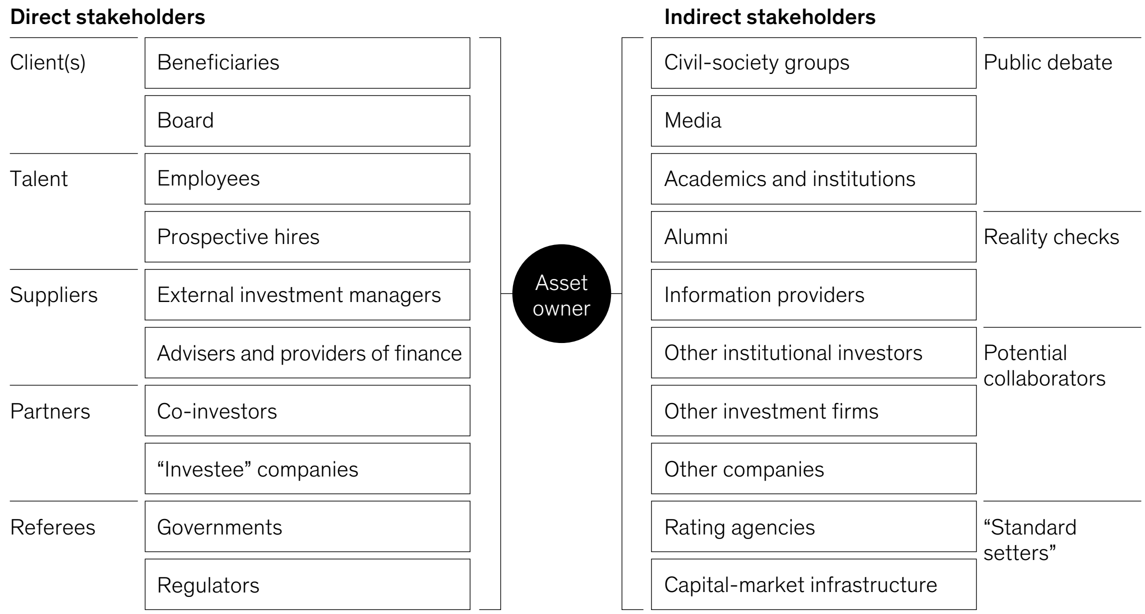
Second, satisfied institutions reflect on ways to use their strengths, particularly the subset that is unique or differentiating. Large asset owners can command billions of dollars in financial capital and an arsenal of talented human capital, and tap into

[1] Naina Dhingra, Jonathan Emmett, Andrew Samo, and Bill Schaninger, "Igniting individual purpose in times of crisis," *McKinsey Quarterly*, August 2020, McKinsey.com.

Exhibit

Analysis owners have many stakeholders.

Stakeholder map—both direct and indirect



Source: McKinsey analysis

a reservoir of social capital in the form of influence among the companies and societies in which they invest. Together, these hallmarks distinguish asset owners and can form the basis for collective action on important issues such as corporate governance, diversity and inclusion, and climate change. Witness the creation of FCLTGlobal to encourage long-term orientation among companies and, more recently, the Investor Leadership Network to pursue concrete sustainability initiatives.

The most potent capabilities are often the rarest. This may pertain to the specific source of an institution’s assets (for example, its beneficiaries). Asset owners should therefore ask, “What makes us different, and what does that mean for the societal contribution we can make?” Sovereign-wealth funds can naturally ask, “What more can we do for the country?” University endowments might ask, “How else can we contribute to learning—on our campus and beyond?” For example, the Yale Investments Office spurred a seismic shift in institutional investing, beyond its contribution to the university’s capital works and operating budget, by popularizing the use of illiquid asset classes among asset owners; in doing so, it changed the way asset owners undertake portfolio construction.[2] Pension funds, many of which have a membership base with a shared affinity (such as a profession or a place of residence), might ask, “How can we help our members beyond being good stewards of their capital?”

[2] David F. Swensen, *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, first edition, Glencoe, IL: Free Press, 2000.

For example, Cbus is Australia's primary superannuation fund for workers in the building and construction industries. Its wholly owned subsidiary, Cbus Property, is dedicated to making direct investments in Australian properties, which in turn create jobs and shape conditions in the building and construction industry. That helps members not only in the long term, by contributing to the portfolio's risk/return characteristics, but also more immediately, by mobilizing capital for tangible impact. Similarly, Aware Super, which has its origins as the superannuation fund for nurses in the Australian state of New South Wales, is active in investing in healthcare infrastructure, such as regional hospitals. In this way, these institutions fulfill their purpose of helping their members—not only in retirement but also during their working lives—by investing in the industries in which they work.

Third, institutions strong on purpose tend to synthesize expectations and strengths to craft a purpose statement that is specific, authentic, and consequential. In other words, they determine their "institutional genius." That involves integrating a cacophony of opinions, during a process that can (and should) feel contested and uncertain. Successful leaders neither settle for generic or vague articulations of purpose, nor do they allow debate about their organizational purpose to drift indefinitely. Instead, they lay out a structured process, build consensus, and drive toward a landing. More important, they embed the resulting purpose into the "5Ps" of the institution's DNA: portfolio strategy, people and culture, processes and systems, performance metrics, and positions in external engagement. For instance, on portfolio strategy, some institutions have elected not to invest in certain sectors deemed inconsistent with their purpose. Asset owners might amplify their impact further by challenging their investee companies to declare a corporate purpose, and to embed it with specific metrics and targets. The International Integrated Reporting Council (IIRC) seeks to help companies report a holistic view of their overall impact, beyond traditional financial statements. Its forthcoming merger with the Sustainability Accounting Standards Board (SASB) aims to simplify the challenges companies face in this regard.

Successful integration of purpose into the organizational DNA is ultimately what distinguishes institutional purpose from corporate social responsibility (CSR): it should be the "golden thread" that pervades the institution, not a sideshow—no matter how worthy.

Initiating a discussion about purpose can feel uncomfortable. It can elicit nervousness, cynicism, or even hostility, particularly among organizations with a well-honed sense of their mandate. As a result, many asset owners risk pigeonholing discussions of purpose as CSR or dismissing them outright. To do so may miss a great opportunity—to have transformational societal impact—which many would agree may be needed now more than ever.

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