Making good – how institutional money will create positive impacts for society

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"It will become increasingly important for institutional investors to adopt a long-term mindset, from both an investment and culture perspective."

How institutional investors put money to "good use" is set to be transformed within the next decade, according to research from Canada Life Asset Management. Conducted in October 2021 with Savanta, *The Role of Institutional Money*[1] looks at investments that create positive impacts for society, such as new transport links, city centre regeneration and the building of hospitals. However, a number of barriers still need to be overcome for this transformation to take place. The survey also looked at how "good use"[2] would work in the context of the government's "Build Back Better" initiative to support economic growth through significant investment.

Over the next decade, we are set to see a significant change in the way institutional money is put to "good use": money invested in a way that creates positive impacts for society. For example, the construction of new roads, bridges and transport links, the regeneration of city centres and the building of hospitals.

These findings come from a wider Canada Life Asset Management survey looking at the role of institutional money. We talked to more than 200 investment professionals, including pension trustees and consultants, chief investment officers, senior portfolio managers, and heads of property and real estate, all of whom work for funds managing more than £50 million. With 99% of respondents claiming that "good use" is important to them personally, it is clear that institutional investors have a significant appetite to drive change and put money to "good use" in new areas.

Looking at the current picture, a majority (53%) believe that infrastructure projects receive the bulk of "good use" institutional money now, followed by housing (40%) and public buildings (35%). Meanwhile, looking forward, in terms of where institutional investors believe they are likely to have the greatest impact, time horizons make a difference. When considering the short term (between 1-3 years), respondents believe that infrastructure projects could see the most impact from institutional money (43%), followed by healthcare buildings (27%) and environmental and sustainability causes (19%). However, for longer time horizons (looking at the combination of more than 5 years and more than 10 years) overseas developments (96%) and the regeneration of cities and the high streets (90%) were cited as the key areas of focus.

Barriers to success

This potential transformation is, however, being hindered by a number of factors; the study also revealed specific areas where leveraging institutional money for "good use" is being underutilised. For our respondents, this was true both in the context of the pandemic and for the future, highlighting the importance of healthcare in investment. Healthcare buildings top this list for over two-fifths (45%) of respondents, reflecting how "pandemic consciousness" is impacting short-term investor thinking. It is followed by green or natural spaces (38%) and environmental causes (37%).

Despite their desire to drive change, institutional respondents also believe there are major bottlenecks to putting money to "good use". Two-fifths (39%) of respondents believe a lack of long-term planning is holding back institutional money being put to "good use", followed by a lack of capital(36%) and a lack of opportunities (35%).

Importantly, the emphasis on the lack of long-term planning is more keenly expressed by those in senior roles. This appetite from senior decision makers to adopt a new mindset around "good use" and planning for the long term is crucial, even though it will take time. To drive this significant change in the way that institutional money is put to "good use", it will become increasingly important for institutional investors to adopt a long-term mindset, from both an investment and culture perspective.

Build Back Better

The research also considered how "good use" would work in the context of the UK government's "Build Back Better" plan. Since the start of the Covid-19 pandemic the government has made many calls for institutional investors to support the country's efforts towards economic growth. Pension trustees and investment managers are familiar with the government's intentions, and many are showing an appetite to align their investment strategies with the key pillars of the Build Back Better plan: infrastructure, skills, innovation, levelling up, net zero, and opportunities for growth.

However, we also discovered that pension trustees and investment managers are facing significant barriers to align their investment strategies with the key pillars of the plan. These range from a lack of long-term planning to limited investment opportunities. Despite 31% of pension trustees and investment managers being very familiar with the government's plan, while a further 65% are moderately familiar, a lack of long-term planning (50%) and a lack of investment opportunities (44%) are holding back institutional money contributing to the government's Build Back Better strategy. Additional major barriers included a lack of capital (43%), regulatory challenges (41%), and limited will to align investment strategies with the plan.

There are also major differences in terms of areas of focus within investment strategies for the shorter term (1-3 years) versus the longer term (over 5 years). Two-fifths (41%) and a third (32%) of pension trustees and investment managers, respectively, have investment strategies focusing on the skills and infrastructure pillars of the Build Back Better plan in the short term. By contrast, net zero and opportunities for growth are built into longer-term strategies for 72% and 93%.

In my view, if the Build Back Better plan is to be a success, it is crucial that the industry overcomes the barriers identified. This can only happen if stakeholders across the asset management industry work together, supported by clarity of policy, to ensure institutional money can be put to "good use" and create a positive impact for society.

A need for collaboration

Despite some of the challenges that the survey has highlighted, I believe that the consensus around the underutilisation of institutional money for "good use" means we can expect to see these areas of investment have a major economic impact across the UK over the coming years. For these investments, in areas such as the regeneration of towns and cities, it will be vital for stakeholders across the asset management industry to work collaboratively to identify the best opportunities to create a positive impact for society.

1. The Role of Institutional Money': Qualitative and quantitative research conducted in October 2021 by Canada Life Asset Management and Savanta. The sample of 203 consisted of 54 pension trustees/pension investment managers/pensions investment consultants, 31 heads of property/real estate, 56 CIO/CFO/Finance Directors, 30 senior portfolio/fund managers, 32 financial controllers. All work for funds which manage over £50 million.

2. For this survey, 'good use' refers to the money invested in a way that creates positive impacts for society. For example, the construction of new roads, bridges and transport links, the regeneration of city centres, the building of hospitals etc.