PRI-FIR talk Rob Bauer (Paris, Sorbonne 1 October 2025)

Many financial institutions these days claim that socially responsible investing delivers higher risk-adjusted returns and real-world impact. These views are also communicated to clients (current and prospective) and beneficiaries of financial products.

Let's face it. This so-called "3-D investing" is simply too good to be true. In equilibrium, there will be trade-offs. I will not discuss this in this talk, but there is a growing literature of high-quality papers in finance showing this. Clients and beneficiaries are confronted with these trade-offs.

The past few years, I have been interested in eliciting the sustainability preferences and beliefs of pension participants. But what, actually, is the difference between preferences and beliefs?

- Preferences reflect what someone values or desires and are based on the expected utility that results from a particular outcome. [There may be a conflict of interest if pension fund board members have preferences that are different from those, they are managing the money for.]
- Beliefs, on the other hand, refer to a person's subjective expectations or perceptions, especially in situations involving uncertainty.

Take, for example, the Biblical parable of the Good Samaritan from the Gospel of Luke. Did the Samaritan have a strong intrinsic pro-social motivation to help the wounded stranger? Or did he help mainly because it made him feel good (he got a "warm glow", a more selfish motivation)? Or perhaps the Samaritan helped because it was the social norm to assist those in need (a sense of duty, just like paying taxes…)?

But maybe, because other people were watching, the Samaritan simply wanted to build a good reputation (signalling) — one that could benefit his own trade. This would have been especially relevant for Samaritans at the time, as they were viewed by the Jewish population as inferior and impure.

Or did the Good Samaritan help because he believed he would receive a future reward for his assistance (a financial incentive)?

In short, both preferences and beliefs could explain the behaviour of the Good Samaritan…

In 2017, the EU started working on legislation that requires (some) financial institutions to elicit sustainability preferences when they provide investment advice or portfolio management to retail clients.

Note that pension funds were not part of this legislation. But studying pension funds is relevant: let's take my example. I pay roughly 24% of my monthly salary in pensions to

ABP, the large Dutch pension fund. I have to contribute even if I may not agree with their investment policy. I also cannot join another pension fund. Many of the sustainability decisions are therefore made by boards who may have fully different preferences (in both directions)!

Especially in the Netherlands, pension funds started sending surveys to their beneficiaries to elicit sustainability preferences. After careful study, we can conclude that many of these surveys were found to suffer from the well-known biases in the survey literature.

Let me give you some examples:

- Selection bias
- Hypothetical bias
- Poor knowledge of surveyed people
- Ensuring Incentive compatibility
- Etc.

Our 2021 “Get Real” study took into account most of these biases, but the “lack of knowledge” issue remains. Moreover, the survey only marginally provided deep insights into participants’ true preference and belief structures.

Then, during a GRASFI conference in Zürich, I bumped into Dr. Emmeline Cooper. She is a political scientist who studied deliberative forums, or mini-publics, in the context of pension funds. After some brainstorming with the Dutch “Pension Fund Detailhandel”, we were able to organize the first-ever deliberative forum (mini-public) in a pension fund context in February and March 2024.

Slide 2

- Multi-day in-person event (three days)
- 50 participants were paid a fee (including child care, lodging)
- Representative of the population (including political preferences)
- Joint deliberation with neutral chairs and rapporteurs
- Independent expert involvement (including the choice to add new experts)
- The forum made recommendations at the end of the three days (49!)
- High-calibre advisory board

One of the recommendations put forward by the mini-public with, in relative terms, the least support was that the forum participants wanted the pension fund to increase its exposure to impact investing.

Our new paper, which will be made public in the coming months, focuses on two studies related to this mini-public:

1. A pre- and post-survey that we conducted among mini-public participants (50).

2. A survey sent to a large sample of participants in the fund (250k), from the mini-public to the population or maxi public.

The key research questions we have are:

- Does investment knowledge change decisions, preferences, beliefs, and expectations around sustainable investing?
- Do members choose (costly) impact investments when deciding democratically?
- Does the broader population in a maxi-public adopt mini-public recommendations?

How did these three days at the mini-public look like?

Slide 3

Remit of the mini-public:

What should PF Detailhandel focus on in its sustainable investment policy?

Day 1

Building the foundation: pension funds, investing, and sustainable investing. Participants choose experts for day 2 and day 3

Day 2

Deliberated on values relevant for investing
Pension funds' current sustainable investment strategies
Trade-offs were explicitly mentioned.

Day 3

Reflect on values and long-term investments
Make recommendations to the board

The first study (the pre- and post-survey) shows that mini-public participants perceived that their knowledge about investments in general, and sustainable investments in particular, increased significantly after the three days in the forum.

Preferences for sustainable investments also increased during the forum, despite the fact that it was explicitly explained by experts that sustainable investment comes with clear trade-offs.

Slide 4

Interestingly, preferences also changed during the three days, from so-called "deontological" to "consequentialist":

Deontological:

Based on social norms or moral reasons. I am determined not to invest in companies that negatively impact the environment or society. I don't mind whether this affects the impact of my investments or potentially lowers my pension payments at retirement.

Consequentialist (impact):

If sustainable investing has a direct positive impact on the environment or society. I don't mind if this potentially leads to a reduction in my pension payments at retirement.

The pension fund studied the mini-public's 49 recommendations, replied in detail to each, and formulated actions (you can find this on its website). Regarding one specific recommendation — to increase impact investments to 10% of the portfolio — the board felt that the full population should be consulted. At the time, the fund was already investing 1% in impact investments (under the narrow definition).

Again, as in the Get Real study, the board committed ex ante to the outcome.

The key binding referendum question that was asked is:

How much should Pensioenfonds Detailhandel invest in impact investing?

- Stop (0%), hence sell current impact investing mandates
- Keep unchanged (1%)
- Expand (2%-5%)
- I do not know / prefer not to say

Moreover, the board committed to the preferred location, and the preferred topic (environmental versus social).

This survey took place in June and July, and I share these results right now.

Slide 5

Discuss the three slides!

Interestingly, what explains choice for more impact investing:

- Higher pro-social preferences

- Higher expected returns (maybe fuelled by the marketing efforts of financial institutions)
- Median income (the higher and lower income groups are less interested in relative terms)
- Highly educated
- Female

Also interesting, we treated part of the sample with no information on the deliberative form, but part of the sample got the information that the mini public had proposed to increase. The latter group had a significantly higher (around 10%) of proponents of extending the allocation to impact investing.

Finally, last week, the pension fund board as promised formally decided to increase the allocation to impact investing. They execute this diligently, taking the time to select the right investments and the right governance structures around these investments.

Concluding:

1. After the mini-public, members report improved knowledge of investing and sustainable investing.
2. Preferences shift from deontological to consequentialist investing.
3. Pension members vote in favour of increasing impact investing.
4. Mini-public recommendations translate to maxi-public decisions.
5. Relayed power from intermediaries to ultimate beneficiaries.