Association of Member Nominated Trustees

Alison Gold
Competition and Markets Authority
Victoria House, 37 Southampton Row
London WC1B 4AD

Dear Alison:

Thank you for the opportunity to meet up with you to discuss the CMA investment consultants market investigation. We look forward to working together regarding the workshop and soliciting AMNT member views on the quality of advice they receive from their advisors. The purpose of this letter is to delve further into the importance of the integration of environmental, social, and governance (ESG) issues into investment advice, and why AMNT feels that the CMA investigation needs to incorporate this into its review.

As we highlighted in the meeting, AMNT and the UK Sustainable Investment & Finance Association (UKSIF) secured public commitments from sixteen investment consultants to ensure that they bring the Pension Regulator's (TPR) ESG guidance to its client base. For AMNT's part, the impetus for this initiative was based on feedback from our membership, that their advisors were failing to consider ESG issues adequately in their advice. AMNT believes that this phenomenon can lead to asset owners not having a complete picture of the risks and opportunities facing their scheme. Effectively managing financially material ESG issues is an integral part of the fiduciary duties owed by asset owners, and their advisers, to beneficiaries, as highlighted by the Law Commission[1] and the Department of Work and Pensions[2]. This ultimately adversely effects the ability of pension funds to adhere to TPR expectations. Indeed, there are other key stakeholders who corroborate this viewpoint, most notably as follows:

- The UN-based Principles for Responsible Investment (PRI) as highlighted in their Investment Consultant Services Review. In this review and as an example, the PRI identified only one UK example of an investment consultant able to produce valuation assumptions which include climate-change impacts. We strongly encourage the CMA to review the PRI's review document.
- EU High Level Expert Group on Sustainable Finance (HLEG) who stated in their 2017 interim report to the EU Commission that "there is a question over the relevant competencies of investment consultants' field staff, which may be very separate and disconnected from 'responsible investment' specialists at the consultant. These governance arrangements often limit the ability of pension funds to deal with emerging risks, and especially long-term sustainability risks". We strongly encourage the CMA to review the recommendations provided by HLEG in their 2018 final report regarding the investment consultants industry, especially with regards to contractual arrangements between pension schemes and their advisors.

In addition, environmental lawyers Client Earth recently released new research highlighting the legal risks for pension scheme advisers who fail to address climate change in their advice to clients.

[1] www.lawcom.gov.uk/app/uploads/2015/03/lc350_fiduciary_duties.pdf
[2] https://www.gov.uk/government/publications/pension-funds-and-social-investment-interim-response

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Email: mail@amnt.org
@AmntOrg
www.amnt.org

As the above developments relate to your study, we understand that the investigation is focusing on "the potential detrimental effects on customers of investment consultancy services and/or fiduciary impacts service quality, product choice and product innovation management services resulting from any adverse effects on competition (AECs) <you> identify, considering both short and long term impacts. Such impacts could take the form of:

- higher prices to customers (in this case institutional investors and employers);
- reduced service quality;
- reduced choices of provider and/or products;
- less innovation.

It is AMNT's review that the failure to adequately consider ESG issues in investment advice impacts service quality, product choice and product innovation. For those that do offer ESG advice, it is usually commoditised and priced as an "extra service" as opposed to being offered as part of its core advice, thus resulting in higher prices to customers. We feel that this is not appropriate as ESG issues should not be considered any different from any other risk-reward factor that an advisor may discuss with its customers and thus should not be separated out and commoditised in this manner.

Overall, AMNT would recommend that you incorporate these issues into your market investigation so that appropriate industry solutions can be identified. We would welcome the opportunity to discuss this matter further with you at your convenience.

Sincerely,

Janice Turner
Co-Chair, AMNT

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