Principles for Responsible Investment (PRI)
25 Camperdown Street
London
E1 8DZ

nathan.fabian@unpri.org

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Dear Alison,

Briefing on PRI's Investment Consultant Services Review

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. Globally, the PRI has 1900 signatories with $70 trillion in assets under management. 250 of our signatories are in the UK. Our signatories comprise asset owners (mostly pension funds), investment managers and service providers – including investment consultants.

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors.

We understand that the CMA investment consultants market investigation is focusing on:

> *the potential detrimental effects on customers of investment consultancy services and/or fiduciary management services resulting from any adverse effects on competition (AECs) we identify, considering both short and long term impacts. Such impacts could take the form of:*
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> *(a) higher prices to customers (in this case institutional investors and employers);*
> *(b) reduced service quality;*
> *(c) reduced choices of provider and/or products;*
> *(d) less innovation.*

The PRI's recent Investment Consultant Services Review finds that most investment consultants and their asset owner clients are failing to consider ESG issues in investment practice – despite a growing evidence base that demonstrates the financial materiality of ESG issues to portfolio value.

Neglecting ESG issues can lead to asset owners mispricing risk and making poor investment decisions. This is why effectively managing ESG issues is a core part of the fiduciary duties owed by asset owners, and their advisers, to beneficiaries.

In our view, it is without doubt that failing to adequately consider ESG issues in investment advice impacts service quality, product choice and product innovation. This adversely effects the ability of pension funds to assess the impact of ESG considerations in investment strategy – as they are expected to do by The Pensions Regulator.

For example, few investment consultants have considered the relevance of ESG issues to funding assumptions and investment models. In the UK, we found just one example of an investment consultant able to produce valuation assumptions which include climate-change impacts.

In our response to FCA consultation (CP17/18) we recommended the FCA pay substantially more attention to ESG issues – as a requirement of the fiduciary duties owed to beneficiaries. We believe that for advice to be "proper", as set out in the UK pensions act, it requires advice on ESG issues.

Our research identifies the many barriers in market structure, industry practice, and policy and regulation that need to be overcome. Without addressing these barriers there will be little change in the advice provided by investment consultants.

We would welcome an opportunity to brief you on our Investment Consultant Services Review as part of your investigation, and can come to your offices at a time convenient for you. If, in the meantime, you have further questions on the PRI, responsible investment or our research, please don't hesitate to call or email.

Yours sincerely,

Nathan Fabian
Director of Policy and Research