ShareAction
the movement for Responsible Investment

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John Wooton
Chair, Investment Consultants Market Investigation
Competition and Markets Authority
Victoria House, 37 Southampton Row
London WC1B 4AD

16th February 2018

Dear Mr Wooton,

I am writing with reference to your investigation into the investment consultants market. ShareAction is a registered charity established to promote transparency and responsible investment ("RI") practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. We work closely with professionals across the UK investment industry to promote greater transparency and accountability. We welcome the CMA's scrutiny of the investment consultancy sector.

I understand the CMA's review focuses in part on how a dearth of competition in the market affects the quality of investment advice given. In light of this, we would urge that the investigation include a focus on the provision of advice (or lack thereof) relating to the impact of environmental, social and governance (ESG) factors on long-term portfolio performance. There is growing recognition within the industry that such factors are relevant to outcomes for pension savers and need to be addressed: a number of investment consultants have publicly backed new guidance published by The Pensions Regulator (TPR) to ensure pension schemes consider how ESG will affect their investments.[1] However, the PRI's recent Investment Consultant Services Review[2] finds that most investment consultants and their asset owner clients are still failing to consider such issues in practice.

The Government has announced it will this year review investment regulations for pension trustees. This follows reports from the Law Commission that found pension fund trustees should, in keeping with their fiduciary duties, incorporate financially material ESG factors into their investment decisions.[3] Regulators are also being proactive in this area, with TPR having revised its investment guidance to ensure consideration of ESG-related risk to portfolios.[4]

It is important that the investment consultant industry reflects this thinking when issuing investment advice. Surveys indicate that many pension trustees rely heavily on consultants' advice in their decision-making. A 2016 study[5] found that 59% of DB trustees do not frequently consider alternatives to their investment consultant's recommendations, and 42% have never personally challenged the advice of their investment consultant. It found that this may result in benchmarks

[1] UKSIF, AMNT (25 September 2017). *UK investment consultants publicly back UK Pensions Regulator guidance to consider environmental and social issues.* Available online at: http://uksif.org/wp-content/uploads/2017/09/Press-release-AMNT-UKSIF-250917-LR-003.pdf [accessed 14 February 2018].
[2] UNPRI (2018). Investment Consultant Services Review. Available online at: https://www.unpri.org/about/pri-teams/sustainable-financial-system/investment-consultant-services-review [accessed 14 February 2018].
[3] ShareAction (2017). *Government takes action for sustainable and ethical pensions.* Available online at: https://shareaction.org/press-release/gov-action-sustainable-pensions/ [accessed 14 February 2018].
[4] The Pensions Regulator. *Investment.* Available online at: http://www.thepensionsregulator.gov.uk/trustees/db-investment-strategy.aspx [accessed 14 February 2018].
[5] Clacher, Dr I. (2016). Governance and Groupthink in UK Defined Benefit Pension Schemes. Available online at: https://seic.com/sites/default/files/inline-files/SEI-Groupthink-Research-Study.pdf [accessed 14 February 2018].

not being aligned to schemes' objectives and ultimately may lead to increased demands on corporate sponsors and poor outcomes for DC pension savers. 2015 research from TPR[6] said "it was rare that the trustee board disagreed with its external advisors. Across all of the advisor types, the majority of schemes indicated that they rarely (58%) or never (24%) disagreed with this advisor (with 14% sometimes disagreeing and 1% always disagreeing)." These findings were supported in the FCA's review of the asset management industry that prompted its referral to the CMA.

The CMA's investigation could ensure these issues are highlighted and remedied, and that investment advice is enhanced to achieve a more efficient and competitive consultancy sector.

We hope the investigation gives due consideration to these important issues, and we look forward to the investigation's final report.

Yours sincerely,

Catherine Howarth
Chief Executive, ShareAction

[6] The Pensions Regulator. (October 2015). Trustee Landscape Quantitative Research: A report on the 2015 Trustee Landscape research. Available online at: http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf [accessed 14 February 2018].