

Project Manager
Investment Consultancy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Sent by email to investmentconsultants@cma.gov.uk

22 August 2018

Dear Sir or Madam,

Investment Consultants Market Investigation: Provisional Decision report

I am writing to respond to the call for evidence on the Provisional Decision Report on behalf of ShareAction, a registered charity established to promote transparency and responsible investment 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 welcome the publication of the Provisional Decision Report. We agree that there is substantial variation in the bandwidth and capabilities of trustees to monitor and assess their investment advisors. We strongly support the following proposals from the CMA:

- A requirement on investment consultancy and fiduciary management firms to report investment performance to their customers using a set of common standards.
- Greater support from The Pensions Regulator (TPR) for investment consultancy and fiduciary management customers on running tenders and making use of investment reports.
- A requirement on pension trustees to set objectives when they hire an investment consultant, in order to be able to judge quality of the service.
- Extending the FCA's regulatory perimeter to include the main activities of investment consultant and fiduciary management providers.

However, as we said in our letter of 16 February 2018 to the Chair of the Investment Consultants Market Investigation, we would urge the CMA to also incorporate a focus on the provision of advice relating to the impact of environmental, social and governance (ESG) factors on clients' investment portfolios. There is growing recognition within the industry that these factors need to be addressed as part of pension schemes' investment strategies: ESG factors can have a material financial impact on shareholder returns, particularly over the longer term. This has significant implications for every part of the investment chain and for outcomes for pension members.

A number of investment consultants have now publicly backed guidance by TPR to ensure pension schemes consider how ESG will affect their investments.¹ However, the PRI's recent Investment Consultant Services Review finds that most investment consultants and their asset

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>

owner clients are still failing to consider such issues in investment practice.² Research³ indicates that many pension trustees rely heavily on consultants' advice, so the omission of ESG from consultants' advice is likely to have a significant impact on trustees' decision-making.

Furthermore, the Department for Work and Pensions' recent consultation on strengthening pension trustees' legal duties in respect of long-term investment recognises the need for greater clarity for pension trustees on their duties in respect of ESG factors⁴. The FCA has also committed to consulting on this issue in respect of contract-based schemes⁵. However, the missing part of the puzzle to improve pension schemes' understanding and practices in this area is the role of investment consultants. Without greater clarity in this area, the market will not operate efficiently in respect of addressing financially material ESG risks and opportunities.

We support the PRI in its call for the Provisional Report to directly respond to developments concerning the integration of ESG factors into the investment advisory process. We agree with the PRI that the CMA should:

- Incorporate ESG issues in its recommendation to TPR in providing enhanced guidance for trustees when choosing and assessing current and prospective investment consultant and fiduciary manager providers.
- Incorporate ESG issues into Remedy 7, by requiring pension trustees to consider ESG issues when setting and reviewing strategic objectives for their investment consultants.

Yours sincerely,

Rachel Haworth

Policy Manager, ShareAction

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 21 June 2018].

³ 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 21 June 2018]; and 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 21 June 2018].

⁴https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/716949/consultation-clarifying-and-strengthening-trustees-investment-duties.pdf

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717375/pension-funds-and-social-investment-final-response-to-law-commission-report.pdf