



Association of Member
Nominated Trustees

UKSIF
UK Sustainable Investment
and Finance Association

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Trustees should hold investment consultants to account on ESG issues, argue the AMNT and UKSIF

- **The AMNT and UKSIF surveyed 16 investment consultants that committed to following the regulator's ESG guidance**
- **Their findings have been set out in a new report, published today, which found that the majority are trying to respond to regulatory changes, but more work is needed**
- **Report includes trustee guidance to help them hold investment consultants to account**
- **It highlights the minimum level of advice pension funds should expect given UK regulatory expectations**
- **Consultants risk losing clients if they are not meeting minimum requirements for ESG advice**

London, December 14, 2018

Recent regulatory developments clarifying the requirement of pension funds to consider material environmental, social and governance (ESG) issues must be supported by quality investment consultant advice to their trustee clients. [1]

In recognition of this, the AMNT and UKSIF engaged with the UK investment consultant industry from June 2017 and secured public commitments from 16 major firms, representing about 85% of the market by market share, to bring the Pensions Regulator's guidance on ESG issues to their client base. [2]

Eighteen months on, today the AMNT and UKSIF have launched a new report, '[Insert link and name of report]', which looks at the progress made by the 16 firms in meeting their commitment. Based on the responses, it is clear that the majority are trying to respond to these important changes; the AMNT and UKSIF say the willingness of firms to respond to help trustees is very encouraging.

With respect to activities undertaken by the firms since signing the statement, the key findings are as follows:

- The majority of the consultants indicated that some type of training programme on ESG was provided to their clients, however the impact of training was generally not measured
- The majority of the consultants had either created new ESG training programmes for their employees or were updating their existing training programmes on ESG issues
- Several investment consultants noted the inclusion of ESG within board meeting packs or as agenda items
- Several investment consultants noted the expansion of their ESG advice across other service lines most notably into fiduciary management and actuarial services
- But in terms of client outreach, very few consultants provided numbers to substantiate the scale and impact of their responsible investment efforts

The AMNT and UKSIF believe that trustees should expect the following minimum services from their consultant (except those providing specialised advice), given regulatory expectations:

- Development of trustee ESG beliefs
- Development of ESG policies, including stewardship (or integration of ESG considerations into existing policies), with regard to Statement of Investment Principles revision/preparation
- Regular training programmes at board level on ESG issues
- Integration of ESG considerations across asset classes
- Helping trustees to embed ESG considerations into their internal governance mechanism, including non-investment areas (e.g. Risk Register)
- Manager selection, appointment and monitoring processes on ESG issues
- Support in internal or external reporting requirements on ESG issues
- Inclusion of ESG into regular trustee board communications

In order to strengthen the quality of ESG advice, the AMNT and UKSIF also suggest minimum requirements for investment consultants' internal governance arrangements, as follows:

- Evidence of demonstrable leadership from the top of the organisation which shows notable outputs at the field consultant level, and which includes public transparency and accountability for the firm's ESG approach.
- Compulsory regular training (for both new and existing personnel) in formats that demand feedback and engagement as opposed to inclining to passivity
- Regular evaluation of training effectiveness and senior management leadership on ESG

The AMNT and UKSIF urge trustees to conduct a skills analysis of their investment consultants to determine whether the advice that they provide falls below minimum services. Consultants should plan to meet minimum requirements as soon as possible or risk losing clients that wishing to meet new regulatory expectations.

Janice Turner, co-chair of AMNT, said:

The investment consultants are key to enabling trustees to fulfil the new requirements: in our view, the new regulations, in effect, oblige any consultant of integrity to ensure their clients have the information and guidance in this regard that they should be entitled to expect from their professional advisor. By working with UKSIF to create a coalition of consultants that will recognise this, our intention is ensure that our members are given the professional support that they need.

Simon Howard, Chief Executive of UKSIF, said:

It is essential that everyone in the pensions value chain reacts to support the thousands of trustees who must deal with these welcome regulatory changes. UKSIF is delighted to have been able to help the AMNT convene investment consultants in order to consider how that profession can play a leading role in offering support. We look forward to working closely with the firms named here and to welcoming others. As was the case last year, helping pension schemes protect the assets of their beneficiaries from clearly recognizable threats such as climate change remains core to the work of UKSIF members.

Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership Ltd, said:

"Essential reading. Being competent to advise on ESG, including climate change, is crucial for investment consultants and investors using consultants. We are seeing a growing differentiation in the investment consultant market between those who demonstrate they can support their clients on the integration of ESG and those who do not."

Honor Fell, Head of Responsible Investment, Redington, said:

"Advice on ESG is a key part of our core framework-based offering to pension clients. It is also an area where best practice and sophistication of advice is advancing rapidly - advances in data availability and the technology to make use of this data is underpinned by an increased regulatory emphasis. We welcome the review of investment consultants by UKSIF and AMNT and in particular the collaborative approach they have taken in aiming to improve the advice given to pension fund trustees in this area."

Notes

The Association of Member Nominated Trustees (AMNT) is a not-for-profit company limited by guarantee, set up by and for member-nominated trustees, member-nominated directors and employee representatives, of UK based occupational pension schemes in the private and public sector. Set up in 2010, the AMNT has included nearly 800 trustees in its membership, and together these have represented pension schemes with assets under management of around £750 billion, one third of the total UK occupational pensions sector.

The Association is dedicated to providing those Member Nominees (MNs) with support, which underpins their critical role in ensuring that their pension scheme is governed in the best interests of the scheme members in consultation with their sponsors. The AMNT will enable MNs to build their skills and knowledge, voice their opinions, share best practice, become part of a like-minded community and be better recognised for the good and important work they do.

The AMNT has introduced a new approach to responsible investing, Red Line Voting, which enables pension scheme trustees to play a proper stewardship role with regards to the companies in which they invest, including pension schemes investing via pooled funds meet their fiduciary duties in line with the recent guidance from The Pensions Regulator and the Law Commission, It does this by allowing pension schemes to set environmental, social and governance (ESG) voting policies at “best practice” level. For more details, please refer to: <http://redlinevoting.org/what-is-red-line-voting/>

UKSIF is a membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK. Our vision is a fair, inclusive and sustainable financial system that works for the benefit of society and the environment. We work to achieve this by supporting our circa 240 members with over £7,000bn under stewardship to grow sustainable and responsible finance in the UK.

[1] TPR guidance published in March 2017 states: “Most investments in pension schemes are exposed to long-term financial risks...These can relate to factors such as climate change, responsible business practices and corporate governance. We expect you to assess the financial materiality of these factors and to allow for them accordingly in the development and implementation of your investment strategy.” <http://tpr.gov.uk/trustees/db-investment-strategy.aspx>

[2] The sixteen firms which have publicly backed the TPR guidance and undertaken to flag it to clients are, in alphabetical order: MJ Hudson Allenbridge, Aon, Barnett Waddingham, bfinance, Cambridge Associates, Capita Employee Solutions, Cardano, Hymans Robertson, JLT Employee Benefits, Lane Clark & Peacock LLP, Mercer, River and Mercantile Solutions (formerly P-Solve), XPS Pensions Group (formerly Punter Southall), Quantum Advisory, Redington, Willis Towers Watson

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