

---

# Responsible Investment and Increased Responsibilities for Trustees

Member Nominated Trustees continue to show the way

## AMNT AUTUMN CONFERENCE 2019

31st October 2019

---



*Guy Opperman, AMNT Autumn Conference - 31/10/2019*

---

## **INTRODUCTION: David Weeks: Co-Chair, Association of Member Nominated Trustees**

*The Association of Member Nominated Trustees is the leading representative body for pension scheme members and their nominees on boards of governance. Established in 2010, we are a not for profit organisation aspiring to be a positive force and a prominent voice in the UK pensions industry. We currently have around 700 members. Together we represent pension schemes with assets under management of around £850 billion. That is around one third of the UK occupational pensions sector. Our members make a valuable contribution to increasing diversity among boards of trustees.*

*Membership of the association is free to individual members. We do not charge a subscription because a majority of our members undertake their responsibilities on a pro bono basis or for a small honorarium. We rely instead for support for our activities from commercial and professional organisations in the field.*

*We hold a number of major conferences each year. The conference of 31 October 2019 was on the theme: “Responsible investment and increased responsibilities for trustees”. It was made possible by the generous support of our sponsor the leading consultancy firm Aon. It was attended by nearly 100 trustees and representatives of sponsors. We welcomed the endorsement of the Minister for Pensions and Financial Inclusion in what was one of the last major policy speeches before the Prime Minister called a general election.*

*The agenda for the conference shows how member nominated trustees keep abreast of changing developments. This excellent report of the proceedings was written by Louise Farrand and designed by Shelley Ismail. It is a first rate guide for trustees in their practical tasks ahead.*

*David Weeks*

---

## Content Page

<b>Guy Opperman MP:</b> Minister for Pensions and Financial Inclusion: Keynote address	4
<b>Angus Peters:</b> Pensions Expert: Editor: The changing nature of trusteeship	6
<b>Tapan Datta:</b> Aon: head of global asset allocation: The three tripwires to avoid in global markets	7
<b>Jennifer O'Neill:</b> Aon: responsible investment specialist: How trustees can become more responsible investors	9
<b>Simeon Willis:</b> XPS: chief investment officer: Striking the right cost balance in your investments	10
<b>Shani McKenzie:</b> Hymans Robertson: consulting actuary: Which funding route should trustees take under a more interventionist regulator?	12
<b>Mel Duffield,</b> Universities Superannuation Scheme, and <b>Chris Sier,</b> ClearGlass: The Cost Transparency Initiative	13
<b>Stephen Lewis, Law Commissioner, and Laura Burgoyne, Law Commission:</b> Protecting trustees' ability to exercise their voting rights: the Law Commission's call for evidence	15
<b>Panel:</b> <b>David Weeks,</b> AMNT co-chair; <b>Jennifer O'Neill,</b> Aon responsible investment specialist; <b>Ben Yeoh,</b> RBC Global Asset Management senior portfolio manager; <b>Maggie Rodger,</b> Church of England Pension Scheme MNT: From workload to ethics	16
<b>Ben Yeoh:</b> RBC Global Asset Management and Senior Portfolio Manager: Five reasons why responsible investment should matter to you – and what to do about it	18

---

## ***Pensions minister: Trustees should fire investment managers who fail to act on climate change***

***Minister “shocked” by AMNT report which found that over half of fund managers do not have climate change-related voting policy***

*Guy Opperman MP, the Minister for Pensions and Financial Inclusion opened the Association of Member Nominated Trustees’ Autumn Conference 2019 on the 31<sup>st</sup> October with a stinging attack on pension schemes and investment managers alike who are not making meaningful change on environmental, social and governance issues.*

*Opperman criticised the lack of action some investment managers have taken on issues like climate change. He backed the AMNT’s campaign for pension funds to act on ESG issues.*

*The AMNT has complained to the Financial Conduct Authority that it is impossible for schemes to develop robust ESG policies and take savers’ views into account, when fund managers are not always prepared to listen. In the last few days, the Chair of the Treasury Select Committee has written to the head of the FCA asking for a report on how they have responded to the complaint.*

*Opperman said: “Our market is afflicted with some asset managers – they are certainly not the small ones – who are struggling to have an impact. I have in mind asset managers who tell you how many people are in their stewardship team, and the unspecified long term engagement they have carried out with firms – which on further examination has achieved no substantive change in policy from those firms for 20 years or more.*

*“Some asset managers won’t support climate resolutions, or vote through pay awards for poor performance, and won’t vote out managers who show conflicts of interest or lack of independence in the boardroom. If you use these people – well, then you as trustees are far from limited in what you can do. Put simply, you can fire them. You have a great deal of power.”*

*It is in the power of trustees to change the world, he added. “You are responsible for your own destiny ... While the government is doing our bit, it has to be asked: what are you doing? Only the pension schemes – and other institutional investors – can direct financial flows. You might say, what about asset managers? To which, I would say, remind me, who hired the asset manager? I am looking at all of you. It’s your choice.”*

*Opperman has written to the 40 largest defined benefit schemes and the largest 10 defined contribution schemes, which are responsible for around 50% of the assets in their respective sectors, to find out what they are doing around ESG.*

*The majority of responses are now back. “To put it politely, some are better than others,” said Opperman. The minister and his team will be closely scrutinising their responses. Op-*

---

*perman will also be supporting the UK Sustainable Investment and Financial Association (UKSIF's) review of the quality of schemes' public disclosures.*

### ***The Taskforce on Climate-related Financial Disclosures***

*Opperman supported the work done by Mark Carney and Michael Bloomberg in establishing the Taskforce on Climate-related Financial Disclosures and questioned why schemes should not meet its requirements before the 2022 deadline.*

*The minister said: "I don't see why schemes shouldn't consider going earlier. Many of the items which make up the TCFD framework are things which schemes need to do already under two sets of regulations I laid last year."*

*Opperman welcomed the work of an industry group of volunteers who are delivering guidance for pension schemes getting ready for the TCFD. "I'm really eager to put this guidance on a statutory footing as soon as possible to empower trustees to challenge their investment managers and ultimately, the firms in whom they invest."*

*He added: "I can imagine smaller schemes gulping at what this might include. But let me ask this question back at you. Why shouldn't you realistically expect a TCFD-aligned disclosure specific to the funds in which you are invested, from your asset manager? They chose the individual assets – wouldn't they want to know how their stock selections would bear up in the face of concerted international action to limit temperature rises to 2 degrees? Wouldn't you want to know?"*

### ***Voting rights and engagement***

*Opperman was "shocked" to read the AMNT's report earlier this year, which found that over half of the fund managers surveyed did not have a climate change-related voting policy or guideline in their overall voting policy.*

*The minister said: "I welcome recent [FCA] changes ... but I don't think we can wait for managers with weak policies to be found out or get their act together. I think we need trustees to be able to set their own voting policies and guidelines now."*

*Different trustee boards will want to do this to varying levels of detail, said Opperman. Some will make their views heard via the asset manager appointment process. But they should be able to set their voting policies and have them listened to.*

*He called the Financial Reporting Council's new Stewardship Code "a great leap forward. It now explicitly covers ESG, it's written in a way that pension schemes can now meaningfully sign up to, and it creates an expectation in Principle 6 that investment managers will comply in aligning their stewardship and investment approaches with the trustees that hired them, or explain where they have not.*

*"If we have a system where asset managers not only monopolise voting but also offer poor disclosures, it will have a stultifying effect on engagement by trustees. It's very easy to argue that someone isn't interested in something when we've spent the last few years repeatedly*



---

telling them it isn't important and refusing to discuss it with them. I want to see change – urgent change – in this area, and I thank the AMNT for their tireless campaigning here.”

### ***The Pension Schemes Bill***

Opperman emphasised that the Pension Schemes Bill has cross-party support and that he has worked closely with the shadow pensions minister, Jack Dromey, to achieve this. Whatever the government looks like after December's General Election, he is confident it will continue to progress.

He said: “It is regrettable that the General Election has got in the way of this bill. But I do not believe any political party will have any problem with taking it forward in future. Legislation is a bit like one of those travellers at the airport – you get on, it moves very slowly, but you get there in the end. Whichever government is in power after December the 12<sup>th</sup> can and will bring forward this bill. Whilst there has been a pause, it does not mean that this bill will not continue. It will genuinely be transformational.”

Welcoming the minister's speech, AMNT co-chair Janice Turner told the conference that trustees need to seize the opportunity presented by the new UK Stewardship Code which commits fund managers to explain how assets have been managed in alignment with clients' stewardship and investment policies. She urged members whose voting policies had been rejected by fund managers to send them again and ask how their fund managers will align their policies with them.

### ***The changing nature of trusteeship***

#### ***Member-nominated trusteeship is under threat, warns journalist***

It is increasingly difficult to recruit member-nominated trustees, said Angus Peters, Editor of Pensions Expert magazine. No wonder, when there is also a concerted effort from government and regulators to increase the pressure on trustees.

“Pensions regulation and legislation is still being influenced by the high-profile cases of BHS and Carillion. The Pensions Regulator is fed up of being hauled in front of Frank Field and is still wearing those scars. Even the traditionally pro-business Conservative party sees going after DB schemes as a vote-winner,” observed Peters.

However, the “nuclear” powers in the Pensions Bill could go unused, he predicted. “Will the new criminal sanctions for wilful recklessness towards a DB scheme actually be used? Could they have been used in BHS and Carillion – if not, then what's really the point?”

Instead, the regulator is more likely to pose a more serious threat to the future of member-nominated trusteeship. As Peters put it: “If you were given the choice between regulating 100 professionally run pension schemes and tens of thousands of schemes with varying levels of governance quality, what would you choose?”

---

*Trustees must face up to the varying standards of practice that exist on scheme boards, Peters continued. For instance, half of public sector pension boards meet less than once a quarter. Sometimes, leaving governance to the experts has better results: fiduciary management relationships typically outperform traditional advisory ones.*

*Peters caveated: “That said, fiduciary management business hasn’t covered itself in glory over the last few years and the financial services industry doesn’t have a great record of looking after members’ best interests.”*

*The regulatory direction of travel seems to be towards DB consolidation, through master trust vehicles. One way of pushing this is the proposed requirement to have a professional trustee on every trustee board, which could pose capacity challenges to the pensions industry.*

### ***Playing a role***

*Trusteeship may be changing, but it doesn’t have to render member-nominated trustees redundant. Even if master trusts are the future, the AMNT could hold these providers to account, challenging them to do better in terms of member representation, suggested Peters.*

*ESG is another important way for trustees to make their voices heard. That said, it is not always straightforward. “I do have sympathy for trustees of smaller schemes who say, ‘I would like my money to be managed in this way,’ but it’s in a pooled fund and asset managers push back,” said Peters.*

*Another ESG challenge is translating beliefs into hard investment strategies. This is more straightforward in active management, where taking ESG into consideration is a natural part of prudent risk management. “When we turn to passive, it gets more interesting,” said Peters.*

*The cost of passive tracker funds with ESG tilts is a significant factor holding pension schemes back. But the problem isn’t insurmountable. “If there is enough of an effort from trustees and industry, we probably will see change,” concluded Peters.*

### **The three tripwires to avoid in global markets**

*In a contradictory and confusing market environment, what signals should trustees pay attention to and what should they ignore?*

*Today’s markets have a number of tripwires for investors to avoid, said Tapan Datta, Aon’s head of global asset allocation. First, the bad news. Over the summer, we have seen the lowest ever long duration bond yields in the US and the UK. Almost a quarter of global GDP is represented by countries with negative policy interest rates. The UK is not far from a zero interest rate policy, with a rate cut expected in 2020, said Datta.*

Central banks are running out of tools. “You can only cut rates to zero once. You cannot cut rates into negative territory very much, or people will start hoarding cash, as we are seeing in Switzerland,” observed Datta.

What happens when the long bull market comes to an end? It’s a tripwire that is difficult to avoid. “My sense is what will give is the fiscal side,” said Datta. He predicted we will see a big increase in budget deficits and fiscal spending in a downturn, because there are no other fiscal or monetary instruments left for policymakers to use.

Economic policy uncertainty has never been quite so high. The post-war rulebook of international engagement is slowly being torn apart, which carries risk, explained Datta.

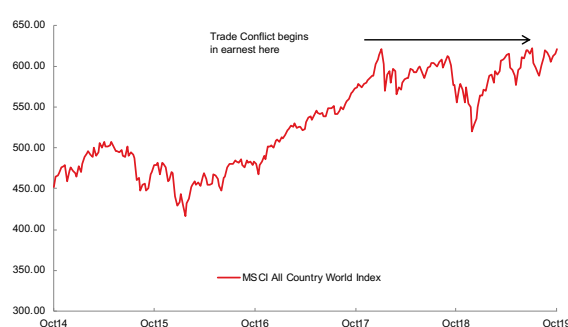
### **The three tripwires**

Datta outlined three tripwires for investors to avoid. The first is the rapidly escalating trade war between the US and China. “These two countries represent close to half of global GDP, and this is nothing short of an earthquake,” said Datta. Tariffs will hit countries’ spending power; meaning they are able to buy less from each other. Global trade is now shrinking as a result of the trade war and is a key reason why the global economy has slowed so much in the last couple of years.

President Trump is talking about a trade deal with China, but it will be a détente rather than a proper peace. “I suspect this is more about slowing the escalation than reversing the trade barriers that are in place,” said Datta. It also seems very likely that the US will impose higher duties on goods from the UK. The trade conflict remains one of the biggest risks to growth portfolios, concluded Datta.

## **Market risk from escalating trade conflict**

**Trade conflict flattens global equities**



31 October 2019  
Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority

9

**AON**  
Empower Results®

Brexit is the second tripwire. “For me this is a slightly lesser worry because the risk of a disorderly Brexit remains relatively contained,” said Datta, who, along with his colleagues at Aon, expected the 31 October deadline not to be met. At present, he rates the probability of a



no deal Brexit at 10%. But if there is still no deal but the end of 2020, the probability would go up to more like 20%, increasing risk.

### **What can trustees do about the trade war?**

Trustees can take action to insulate their portfolios from the trade war, explained Datta. They can consider an asset mix which is more protective, by focusing on asset classes which tend to be less dependent on rising equity markets.

For example, sovereign bonds, macro hedge funds, direct real estate and infrastructure can provide some protection for investors. Even gold, an asset class which Datta would never normally recommend to pension fund trustees, looks attractive as a hedge in this highly uncertain and unusual environment.

Sterling and UK commercial property are the asset classes which will be hardest hit by a poor Brexit outcome. Datta said: “There is a risk that gilt yields would fall further with a bad Brexit, but looking at their performance this year, they have been more affected by the trade war than by Brexit.”

Datta’s third and final tripwire is ESG risk. Regulation is coming thick and fast on companies, and while ESG funds are likely to outperform others, their returns are still likely to be affected by regulations which are still being drafted. However, standing still on this issue is not a workable proposition, given the government’s determination to act.

## **How trustees can become more responsible investors**

### **A consultant’s perspective on the first steps to take on the journey**

From impact investing to divesting themselves of tobacco, pension fund trustees are becoming more responsible investors than ever before, said Jennifer O’Neill, a responsible investment specialist at

Aon. Like it or not, it’s clear that regulation will force them even further down this path. But how can trustees who haven’t taken their first step yet make a meaningful start?

### **Practical actions for trustees**



31 October 2019  
Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority

23

**AON**  
Empower Results®

---

*Trustees can start to act on responsible investment by having conversations about their beliefs in relation to responsible investment. To avoid one or two people dominating the discussion, one practical way to start is by running an anonymous survey of the trustee board. That way, all trustees' voices and beliefs can be represented in the discussion.*

*Next, trustees should consider how this conversation might affect their relationships with their existing investment managers. "Are there any gaps between your beliefs and what they do? Is there anything else you would like to focus on? Identify your priorities and then ask more of your managers," suggested O'Neill.*

*After that, trustees can think about policy. Do you want to simply be compliant with regulation, or to go further in order to develop a more bespoke policy for your pension scheme membership? Think about practicalities: how will you implement these policies, through the whole trustee board or a sub-committee?*

*Risk management is another key aspect of responsible investment. "Model what your portfolio might look like and consider how it might change if various risks come into play. This could then be incorporated as an ongoing risk monitoring tool," suggested O'Neill.*

*Next, trustees should think about their governance arrangements. "Does your risk register reflect ESG risks? How do you monitor and review manager arrangements?" asked O'Neill.*

*Finally, consider how to talk to members. Communicating on this subject could be a great hook to encourage members to take more of an interest in their pension scheme.*

*There is no single approach to this issue; it will depend on the needs of a particular scheme. Start by understanding your objective, suggested O'Neill. "Do you want to simply comply with legislation, or do more?"*

*Don't be afraid to look under the bonnet of your investment managers. Many have elaborate policies, but don't be afraid to challenge them and ask them questions which are specific to the needs of your scheme.*

## ***Striking the right cost balance in your investments***

### *How to get a handle on your costs*

*Do pension schemes take price competition seriously enough? Evidence suggests that trustees could do more to negotiate on price, said Simeon Willis, chief investment officer of pensions consultancy XPS.*

*The Financial Conduct Authority (FCA)'s Market Study made it clear that pension schemes do not have enough of a handle on the costs they are incurring and are not sufficiently focused on getting a good deal. This was echoed in the Competition and Markets Authority's study of the fiduciary management and investment consultant market.*

**Question: If a pension scheme has a younger membership which is interested in environmental issues, would you as trustees have to reflect that going forward?**

You are free to do so, but regulation doesn't change the primacy of trustees. Trustees can, if they wish to do so, make a statement about a belief they reasonably believe their membership holds, but they are not required to if they don't believe that is in the best interests of their members.

*What's the problem? Historically, asset management fees were a reality of life for trustees. But what has emerged is that high management fees have a substantial impact on the outcome for members, especially considering the effect of compounding over time, explained Willis. He added: "This has a real impact on outcomes, whether it's members having less money at the end of the day, or companies having to put more money into the pension scheme."*

### **Making informed choices**

*The FCA found that a lot of actively managed funds were charging very high fees and failing to outperform. There are lots of funds which are charging far too much, said Willis.*

## How do we make buying decisions?

1. Identify needs & wants



2. Price vs Value vs Budget



3. Alternatives?



4. Negotiate



5. Buy/walk away



*What represents good and bad value will depend on the needs of an individual pension scheme. Trustees should consider the needs of their scheme in the full context. A relatively expensive fund might be worth the price, if it is the best way to achieve diversification or mitigate risk, for instance.*

*As Willis explained: "Sometimes, you have to pay money in order to achieve your goals. Is – for example – the added governance support essential to manage the scheme effectively, and is it worth the time that it saves the trustees?"*

*Getting a handle on costs is important, added Willis. Pension schemes face a plethora of costs as investors, including annual management fees, custodian fees, buying and selling costs and associated investment consultancy costs, time out of the market, performance fees, churn costs and administration fees.*

## Simeon Willis' five ways for trustees to improve a fee structure

### Q&A: What's a churn cost?

If a scheme buys a fund which then buys and sells underlying investments over the course of the year, this will incur churn costs. Because they are implicit in management costs rather than included in a fund's annual management charge, these charges can slip under the radar.

“Negotiating a performance fee which is measured versus an index benchmark, rather than LIBOR, is one way to bring down costs.

Adding a high water mark, where a scheme pays nothing until an asset manager achieves considerable outperformance, is another.

Apply pressure at the right time. If a manager has underperformed, that's a good time to negotiate a fee reduction.

Use your consultant's buying power. At XPS, we use buying power early in the process. When recommending managers to clients we have already asked for their best price and said we will not recommend those managers to any clients unless they offer a competitive price. This encourages investment managers to offer their best price early and is fairer for clients. Finally, be prepared to walk away if the price isn't right.”

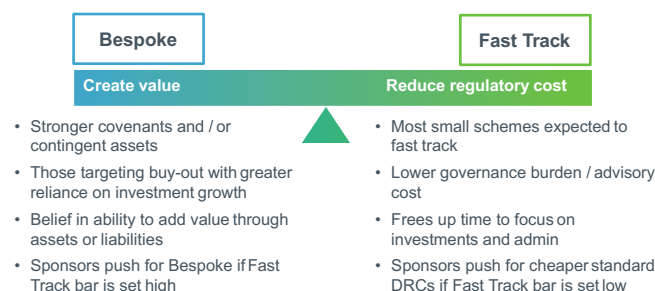
### Which funding route should trustees take?

**Under a more interventionist regulator, trustees will need to choose between fast track and bespoke**

In the aftermath of high-profile scheme collapses like BHS and Carillion, the Pensions Regulator (TPR) is getting prescriptive about scheme funding. It is planning to introduce more rigorous principles in the DB Code of Practice. It will also intervene where schemes are struggling to meet their funding targets.

Under the proposals, schemes will also have to choose which funding route to take. Shani McKenzie, a consulting actuary at Hymans Robertson, explained the difference between the fast track and bespoke routes.

## Fast Track vs Bespoke



What's the best balance for your scheme and members?

HYMANS ROBERTSON

---

### **Fast track**

*Via the fast-track route, the idea is that schemes will be able to comply quite quickly by meeting certain metrics set out by TPR. The expectation is most schemes will go down the fast track route. The challenge for the regulator will be to avoid setting the bar too high, so that more schemes have to go down the bespoke route.*

*TPR will also be looking at the parameters around acceptable journey plans for schemes completing the fast track route.*

### **Bespoke**

*There is an alternative to the fast track route. For example, if you are a scheme with a longer-term time horizon, you might be able to negotiate a bespoke arrangement with the regulator. However, you will need to be able to articulate your rationale for doing so.*

*The bespoke route is likely to be slower but worthwhile where trustees believe it will result in better value for members.*

### **Uncertainty remains**

*While the new rules remain under consultation, some uncertainty remains. However, trustees can still prepare.*

*Start by reviewing where you are now. Think about how you would be perceived by TPR, looking at Hymans Robertson's tool to find out which segment you would be likely to sit within. This will guide the actions you should be taking in response on covenant, investment and funding.*

### **Join the transparency revolution**

*Many of the largest institutional investors in the country are encouraging trustees to take up the Cost Transparency Initiative.*

*The Cost Transparency Initiative is a new, standardised way for investment managers to report cost data to pension schemes. It has been founded by the Pensions and Lifetime Savings Association, the Investment Association and the Local Schemes Advisory Board.*

*"We are aiming for better cost understanding among trustees and other asset owners, ultimately driving better value for money and outcomes for members," explained Mel Duffield, pensions strategy executive for the Universities Superannuation Scheme.*

*The group has published three templates, which are hosted on the PLSA's website. There is a user summary, which gives a high-level overview of the types of costs and charges information you will receive from your investment manager. The main account template gives a more specific explanation of asset classes and product types. Finally, there is a sub-templated for private equity investment reporting.*



---

*The templates are under constant review to make sure they are current and user-friendly, and the group is looking at how to increase the number of templates available. They have been widely adopted by the Local Government Pension Schemes, explained Duffield, and she is keen for other pension schemes to join them.*

### ***Information is power***

***ClearGlass is an organisation which was recently set up to help pension schemes see all their investment costs in one place, explained Chris Sier, the company's chairman and founder.***

*The information platform is growing fast. It has over 300 pension scheme clients, with around £250bn assets under management and data from over 250 investment managers. At present, most of its pension schemes are defined benefit, but it also has some defined contribution schemes, master trusts and fiduciary managers.*

*Sier has also had a warm reception from consultants. "All the large consultants have asked us to collect data on all their advised clients – around 3,000 of them," he explained. The plan is to bring these clients on board over the next year.*

*Building this large pool of data means that Sier has been able to draw out some interesting trends. ClearGlass has been able to cross-reference data with Insticube, a platform which allows asset owners to share intelligence about the value and service received from the asset managers they employ.*

*The findings are stark. "Managers who are luddites about giving data are often the expensive ones with poor performance," said Sier. "Meanwhile, the outstanding managers also offer great service and data transparency at an affordable cost."*

*What's more, the managers who have the worst gender pay gap – and, in fact, the asset managers with no women on their board – are the worst performers. The most diverse are the best.*

*ClearGlass has also made many interesting discoveries about cost. Scale curves exist, said Sier. "The bigger the mandate, the lower the unit cost."*

*Those who ask, get. "You have to negotiate," said Sier. "Those who do nearly always get a good deal."*

*Stock lending is an area that needs closer attention, as it is often adding a hidden layer of cost. "Trustees are often unaware that stock lending is taking place," said Sier. "Typically, the less equitable operation is the one run by the fund manager; the more equitable is custodian operated."*

*Receiving more data through the Cost Transparency Initiative has also encouraged some clients to renegotiate fees. The templates can also help clients to identify errors in the charges they have paid, which are remarkably, common, said Sier.*

---

*A new age of transparency should put trustee boards in a much stronger position when it comes to monitoring their existing investment managers and negotiating fees, concluded Sier. He is founding a research institute to look into the data trends in more detail, especially the finding that fund managers with better service and performance tend to be more diverse.*

## ***Protecting trustees' ability to exercise their voting rights***

### ***Trustees urged to respond to the Law Commission's call for evidence***

*The Law Commission has issued a call for evidence about how the changing nature of securities is increasingly curtailing their rights as shareholders. The commission is keen to hear from trustees about their experiences of this issue.*

*Shares are increasingly being held electronically, rather than as paper certificates. The change has important ramifications for trustees, explained Stephen Lewis, the Law Commissioner in charge of the call for evidence on this issue.*

*Lewis explained: "The key difference between the traditional paper model and the intermediated model is that in the latter, the pension scheme is not the legal owner of the shares. The bank has the legal ownership of the shares and holds them on trust for the pension fund. The relationship between all the parties in this chain are regulated by individual contracts between them."*

*He added: "There are benefits to the intermediated model, such as speed and efficiency. However, investors' rights are restricted because they are not the legal owner of the shares and there is an impact on corporate governance, as well as a lack of transparency."*

*Voting rights are a key issue the report will address, Lewis' colleague Laura Burgoyne added. She explained: "The government wants to give pension schemes and retail investors a voice. From a common sense perspective, having a say in how the company you invest in is run is a key component of being an investor."*

*Current law has not kept up with the move to electronic securities. The Law Commission is trying to find out whether the law needs to change, or whether reform within the industry would be sufficient.*

*The government's Department for Business, Enterprise, Industry & Industrial Strategy asked the Law Commission to conduct a one-year scoping study. The study will be published next autumn, and will explain how the system is working, the issues with the current model, and the potential options for reform.*

*Trustees who are interested in responding with evidence of these problems in practice, anecdotally or systemically, can contact the Law Commission at [Int-sec@lawcomission.gov.uk](mailto:Int-sec@lawcomission.gov.uk).*

---

## ***From workload to ethics: in conversation with the AMNT***

*A wide-ranging panel joined AMNT co-chair David Weeks to discuss the big issues facing trustees today*

### ***The panel***

*David Weeks, AMNT co-chair (Chair)*

*Jennifer O'Neill, responsible investment specialist, Aon,*

*Ben Yeoh, senior portfolio manager, RBC Global Asset Management,*

*Maggie Rodger, member-nominated trustee, Church of England Pension Scheme*

***David Weeks (DW): How are fund managers evaluated?***

***Ben Yeoh (BY):*** *Despite the fact we say we are looking at the long term and we understand we are matching liabilities for the long term, there is a lot of scrutiny on quarterly reporting. This produces interesting pressures.*

*Aside from the performance aspect, there are two interesting issues being talked about now. Are you able to demonstrate what people are calling real world impact – rather than just thinking about returning seven percent this year, what about carbon footprint, jobs created? The other aspect that's interesting is what can you show us in terms of your stewardship work. Can you demonstrate what you did, is that aligned with our investment beliefs and values?*

*An aspect on which I am not sure we are being challenged enough is to give specific examples of stewardship, how we vote. Emerging topics are the systemic issues around climate change and an increasing interest in culture and diversity.*

***Maggie Rodger (MR):*** *The Church has a very strong list of ethical views on what it will and won't invest in and what it will invest in we but employ a team of people to engage very heavily with management. If you come back to how you manage your fund managers, what we are there to do is to find the asset allocation which fits what we are trying to do in terms of our long-term plans. We are looking at how the assets perform and whether we have put our money in the right places, and whether our fund managers have performed in line with the market, and whether they have adhered to our guidelines on ESG.*

***Jennifer O'Neill (JO'N):*** *We need to first establish what the purpose is of the allocation, before building up a list of the most suitable candidates. We use a number of criteria to ensure managers are competent, rigorous and robust. For example, we assess managers from an operational perspective and if they do not have the capabilities, that is a pass or fail. But it becomes more nuanced in other areas, such as the portfolio management team in place: are they capable, are they a long-standing team, do they work well together and have the appropriate skill set? From there, we move into long term performance evaluation. It is very easy to look at quarter-on-quarter returns but if we believe on a long-term basis, a manager is capable of meeting its objectives, that is the key criteria. Our ESG analysis is many and varied, there is a very long process through which we assess managers.*

---

**DW:** *Does scheme size matter?*

**MR:** *Our size means we can go for disaggregated mandates, which makes life easier. Hopefully we also negotiate heavily on fees. But I don't think it makes a difference other than that, although it does mean you are in control of your own destiny a little more. When it comes to engagement, not only do we talk about our size, but we play our influence very hard. If the church talks about disinvesting from something, it goes in the papers, so we have power beyond our size in that sense.*

**BY:** *Via the corporate governance code and now the Stewardship Code, asset managers are required to monitor culture and purpose. That is going to be an interesting point – can you assess it and manage it? We know poor culture is a common cause of failure. When you are talking about corporate ownership and where you are in the chain, the larger you are, the more influence you have with that corporate. In terms of how we treat our own asset owners, if you are large enough to be segregated, you have more control in terms of what you want to do in a segregated account. Then when you go into private debt, private equity, venture capital – unless you are of a particular size, it can be challenging.*

**DW:** *Are trustees becoming more aggressive in putting their views forward, or are some resenting the fact that more is being demanded of them?*

**JO'N:** *We have a checklist of different things you might consider asking. The guiding principle behind it is, with a blank sheet of paper, what would you do? It is easy to get into path dependency – “I have made that decision therefore I must make that decision” – but it is important to take a step back and look at whether the wider approach is working.*

**MR:** *As an MNT, you have a feeling of “Should I be here? I don't know enough about this.” Checklists are helpful to remind you why you should be at the table. Unlike all the professionals who don't want to lose face by saying, “Sorry, can you explain that again,” you can ask again and again. I ask someone to explain something in two lines in a way that would be comprehensible to members. It forces people to explain why it matters.*

**BY:** *Most trustees I've met are saying the workload is higher. Most are okay with that. There is a cohort I meet who are particularly concerned about the pressure being put on them via the divestment movement. Those are very interesting conversations to have.*

---

## *Five reasons why responsible investment should matter to you – and what to do about it*

### *An investment manager's perspective on how trustees can make a positive change*

Responsible investment was a key theme of our 2019 conference. Taking a step back, why should it matter so much to pension schemes? And what can they do to make a positive change. Ben Yeoh, senior portfolio manager at RBC Global Asset Management asked these fundamental questions, rounding off a thought-provoking day.

#### **Key questions to ask your investment manager**

- In simple terms, what is the company in business to deliver and for whom? How does that differentiate you?
- What does success look like and how do you measure and review it?
- How does your pay policy link to long-term success?
- How are your board discussions and agenda anchored to your purpose? Can you give some examples of how your purpose has changed your decisions?
- What positive and negative impacts does your company have on society? How are you maintaining your 'licence to operate'?
- How are your people? Can you give examples of how you have responded to specific concerns?
- Which external relationships are most important to achieving your purpose (e.g customer, supplier, regulatory)? What key measures do you use to assess the strength of these?
- [For chairs] How do you as a board know you are doing a good job?

#### **Trustees are custodians, safeguarding money for tomorrow's investors**

As pension scheme investors, we are thinking about long-term value creation. Trustees should be thinking about how they can make things better for stakeholders ten, twenty or thirty years down the line, said Yeoh.

#### **Tomorrow's investors care**

Why is responsible investment becoming such a big issue? Because demographics are changing, too. The younger generation cares far more about what their money does, not just getting good returns. Pension fund trustees and people on the street are taking up the rallying cry, and big companies are hearing them. For example, Amazon have pivoted this year to have a sustainability strategy.

#### **Perceptions are maturing**

ESG has moved beyond the perception of "tree hugging". It can be used to mitigate risk and can increase investment returns.

#### **Regulatory pressure is building**

"Even if you don't believe in [ESG], regulatory pressure is putting more pressure on trustees to act in this area," said Yeoh.

#### **Extra-financial factors add up**

Many of the drivers of business performance, which dictate whether your shares are going up or down, are extra-financial factors. A lot of these drivers fall under what we would call ESG today. As Yeoh put it: "Not everything that can be counted, counts. Not everything that counts, can be counted. It is very hard to measure culture, for example."



---

### ***First steps for trustees***

*What should trustees do? Part of the answer will depend on their scheme size. Large schemes can have segregated accounts; smaller ones will have to rely on their consultants and asset managers more to act on their behalves, said Yeoh.*

*Avoid greenwashing, he advised. Instead, start by writing a Statement of Investment Principles. As a trustee board, consider, what is it we really believe? Yeoh added: “Argue about it and flesh it out. Try to come up with two or three paragraphs about what these things mean to you. You could use exemplars – [two Local Government Pension Schemes] Brunel and Central have them on their websites.”*

*Trustees could also present ideas around your investment beliefs to your investment managers and ask if they can incorporate them into your mandate, suggested Yeoh. “If your fund manager is not prepared to go along with that, ask, should we be swapping? The new Stewardship Code could be another piece of leverage.”*



Written by Louise Farrand  
Design by Shelley Ismail, AMNT