UKSIF
UK Sustainable Investment and Finance Association

19 November 2012

Work and Pensions Committee Inquiry
Governance and Best Practice in Workplace Pension Provision
Supplementary written evidence from the UK Sustainable Investment and Finance Association (UKSIF)

UKSIF's additional submission builds on our previous response in addressing responsible investment and ownership but further addresses your request for information on:

- Managing investment risk and security of returns
- Whether greater economies of scale within the sector could produce better value for money for members and if so, how this can be achieved

UKSIF would be pleased to provide oral evidence on any of the issues mentioned in either this or our previous submission.

Managing investment risk and security of returns

There is growing evidence of the importance to corporate success of competitive strengths importance of competitive strengths in addressing key, long-term mega-trends like climate change and other risks associated with environmental, social and governance (ESG) factors. Therefore integration of these concerns into the investment process by asset owners – like occupational pension schemes – and their asset managers could help them to better handle investment risk over the long-term, which could improve outcomes for workplace pension beneficiaries.

For instance, *The Impact of a Corporate Culture of Sustainability on Corporate Behaviour and Performance,* a 2011 working paper from academics at Harvard Business School and London Business School concluded that companies with a strategic focus on long-term, ESG issues show financial outperformance and a stock market and accounting value premium after three years[1]. This builds on earlier research supported by the UNEP Finance Initiative Asset Management Working Group which concluded that selected ESG issues are material and affect shareholder value in both the short and long-term[2]. A further report by Mercer in 2011, which focused on climate change policy, concluded that climate change factors could contribute by up to 10% to overall portfolio risk[3].

The 2011 UKSIF "*Responsible Business: Sustainable Pension"* report demonstrated some impressive examples of best practice amongst corporate pension funds in responding to the case for responsible investment[4]. It also showed that pension funds that started on the responsible investment journey tended to deepen their practices over time. Nonetheless, it found that a very

[1] www.hbs.edu/research/pdf/12-035.pdf Accessed 14th November 2012.
[2] www.unepfi.org/fileadmin/documents/show_me_the_money.pdf Accessed 14th November 2012.
[3] www.mercer.com/climatechange Accessed 14th November 2012.
[4] http://uksif.org/wp-content/uploads/2012/10/UKSIF-Responsible-Business-Sustainable-Pension-2011.pdf Accessed 14th November 2012.

large number of UK corporate pension funds are lagging behind the leading schemes in their approach to responsible ownership and investment. Measures to encourage others to follow these examples of best practice – could therefore improve member outcomes by better managing investment risk.

Ensuring better fiduciary standards throughout the pension fund chain

One recommendation that arose from the recent Kay Review into Equity Markets and Long-term Decision-making was the need to "restore relationships of trust and confidence in the investment chain, underpinned by the application of fiduciary standards of care by all those who manage or advise on the investments of others"[5].

UKSIF supports Professor Kay's analysis, including the need to clarify the concept of fiduciary duty. Embedding better fiduciary standards throughout the pension fund chain could help ensure better outcomes for savers and we hope that the Committee will examine this issue over the course of its enquiry.

We would also like to draw the Committee's attention to the recent FSA 'Dear CEO' letter on *"Conflicts of interest between asset managers and their customers: Identifying and mitigating the risks"*[6] which underlines the growing government and regulatory realisation that a greater focus is needed on what it means to be a fiduciary.

The role of economies of scale in boosting governance

The Committee's enquiry also asked "whether greater economies of scale within the sector could produce better value for money for members and, if so, how this can be achieved". Regarding responsible investment practices specifically, our 2007 Sustainable Pensions report found that the larger the fund, the more likely it was to have a responsible investment policy in place[7].

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[5] http://bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf Accessed 14th November 2012.
[6] www.fsa.gov.uk/static/pubs/other/conflicts-of-interest.pdf Accessed 20th November 2012.
[7] http://uksif.org/wp-content/uploads/2012/10/UKSIF_Responsible_Business_Sustainable_Pension_Report.pdf Accessed 14th Nov 2012.