

Meeting Note: Responsible Investment and the Global Economic Crisis

Wednesday 19 November 2008

Attendees: Jo Allen (CIS); Seb Beloe (Henderson); Frank Curtiss (Railpen); Marianne Harper Gow (Baillie Gifford); Rick Stathers (Schroders); Steve Waygood (Morley); Clarence Yang (Barclays); Amanda Young (Newton); Rory Sullivan (Insight)

Apologies: Julie McDowell (Standard Life Investments); Jennifer Walmsley (Hermes); David Russell (USS); Karina Litvak (F&C)

The purpose of the meeting was to have an initial discussion on the implications of the global financial crisis for responsible investment (specifically, engagement, investment research, public policy dialogue, etc rather than SRI funds), and to canvass actions that the responsible investment community might take in response.

Reflections on the State of Play

- It will take some time for government interventions to take effect/bring some stability to the market. The reality is that we probably have not yet seen the worst, either in the asset management industry or across the economy as a whole.
- It was agreed that now is the time for the responsible investment community to think about the 'where to from here' question, in order to be proactive in helping shape policy going forward. While the specific details of 'what', 'how' and 'when' were not discussed in great detail, a number of common themes emerged from the discussion:
 - The debate is not one just for the 'responsible investment' community. It will require (a) working much more closely with the corporate governance community and across the wider investment industry as a whole, (b) revisiting the focus of responsible investment/corporate governance research and engagement, perhaps re-emphasising issues such as corporate strategy, short and long-term incentives, risk appetite and risk management systems, systemic risks.
 - Many of the issues/challenges relate to the structure and incentives within the investment community, in particular the focus on short-term performance. While there are signs of increased client interest (e.g. asset owners asking questions about PRI), this interest does not appear to be substantially altering investment mandates/objectives.
 - The role of government will be increasingly important. There are three dimensions: (a) government as *de facto* owner/controller of significant part of the stock market (e.g. banking), (b) government as a regulator of the asset management industry (and facing increased pressure to further regulate the investment industry), (c) government as a regulator of companies (e.g. through the incorporation of corporate responsibility issues into listing rules).
 - Internal challenges (fund performance, concerns about employment prospects) are significant obstacles to asset managers/asset owners taking a wider view on responsible investment. There are also questions about the role that responsible investment/corporate governance analysts have played. For example (a) have the right issues been identified, (b) have these issues been effectively communicated (i.e. have they meaningfully influenced investment decisions), (c) have responsible investment/corporate governance analysts paid proper attention to

business models and strategy in their engagement activities, (d) have environmental, social and governance issues been properly integrated into overall risk management systems. These questions open up the wider question around where there is a need for new skills in the responsible investment/corporate governance community.

Moving Forwards

While the meeting did not agree formal actions, it was agreed that there is a need for the investment industry as a whole to act together to formulate constructive and practical responses to the current crisis, that contributes to the objective of achieving a successful and sustainable economy an integral part of which is a healthy financial system.

Specific areas for further action:

1. Clarify/re-articulate the case for responsible investment, as an integral part of society's overall response to both the current financial crisis and the wider challenges of sustainable development.
2. Strengthen the linkages between the responsible investment, corporate governance and wider investment community.
3. Strengthen constructive engagement with government. Note: UKSIF has a project on influencing the UK operating environment for investment and finance in the aftermath of the current crisis.
4. Develop clear positions on the key areas of weakness within the investment community and proposals on how these may be addressed. Specific issues identified included: transparency, incentives and conflicts of interest within the investment industry, timeframes.

We agreed to schedule a further meeting in January 2009 and in the meantime to engage other relevant industry networks in discussions on potential actions.

Prepared by: Rory Sullivan
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