

Meeting Note: Responsible Investment and the Global Economic Crisis

Friday 6 February 2009

Attendees: Seb Beloe (Henderson); Frank Curtiss (Railpen); Amanda Young (Newton); David Russell (USS); Karina Litvak (F&C); Julie McDowell (Standard Life Investments); Helen Wildsmith (CCLA); Rory Sullivan (Insight)

Apologies: Jennifer Walmsley (Hermes); Jo Allen (CIS); Marianne Harper Gow (Baillie Gifford); Rick Stathers (Schroders); Steve Waygood (Morley); Clarence Yang (Barclays);

Background

The meeting was a follow up to a November 2008 meeting, which focused on the implications of the global financial crisis for responsible investment (engagement, investment research, public policy dialogue, etc rather than SRI funds specifically), and to canvass actions that the responsible investment community might take in response.

Reflections on the State of Play

- While the meeting participants had differing views on how their organisations are viewing/responding to the crisis, most commented that their analysts and fund managers are showing increased interest in corporate governance. This interest is primarily focused on board structures, remuneration and shareholder rights rather than wider sustainability questions.
- There are a whole series of initiatives/discussions underway focusing on different aspects of the financial crisis. Those highlighted (although by no means a complete list) included UKSIF's work focussing on the G20, various working groups under the auspices of the Network for Sustainable Financial Markets, and a forthcoming statement from the PRI on the financial crisis and the need for long-term active ownership. To date, most initiatives – or at least the public statements that have been made – have focused on corporate governance and appear to have paid less attention to environmental and social issues or wider systemic risks.
- While not discussed in detail, the Barclays vote was highlighted as a key litmus test of how institutional investors respond to the issues raised by the financial crisis. There was a general view that investors need to take a strong stand on the principles involved.
- There was a general consensus that the focus of many current debates on corporate governance obscures the wider importance of environmental and social issues. Particular concern was expressed about the potential hijacking of the debate by third party service providers seeking to influence the debate in a manner that simply advances their commercial interests. It was also agreed that improvements to corporate governance are just one part of a much more complex picture and that the solutions – both short and long-term – are multifaceted, requiring that attention be paid to the role of government, the management of systemic risks, incentives within the investment industry, etc.

- It was agreed that there needs to be much more coordination between 'environmental and social issues' specialists and corporate governance specialists, both within asset managers/asset owners and also externally. For example, one area of common interest is the competence of boards to effectively deal with/respond to systemic risks such as climate change.
- More generally, and reflecting a key point from the November 2008 meeting, it was agreed that 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.
- It was suggested that rather than another meeting, the next step is for the heads of corporate governance and corporate responsibility to get together for a discussion around "Systemic Risks: A Shared Agenda?".

Prepared by: Rory Sullivan
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