Principles for Responsible Investment (PRI)
25 Camperdown Street
London
E1 8DZ

nathan.fabian@unpri.org

22 March 2018

Dear Alison, Chris and team,

Thank you for the meeting of 7 March 2018. We are writing to comment on the first Working Paper of the CMA Investment Consultants Market Investigation: information on fees and quality, released on March 1, 2018.

We welcome the CMA's finding that: *The evidence reviewed so far indicates that competitive processes are not providing customers with the necessary information to judge the value for money of investment consultants and fiduciary managers. The potential competition concern with this is that customers are not well-equipped to choose, and subsequently monitor the performance of, their provider and in turn to drive competition between investment consultants, and between fiduciary managers.*

The PRI's particular focus is the incorporation of environmental, social and governance (ESG) issues in investment consultant service lines, including fiduciary management. **We believe that the competition and customer issues identified in the Working Paper are limiting the extent to which ESG issues are part of consulting advice and investment strategies.** The PRI's findings to this effect, including the barriers and potential solutions, are explained in our Investment Consultant Services Review. **We believe the Working Paper's remedies would help address these barriers.**

Despite progress by some investors, we find that most consultants and their asset owner clients are failing to consider ESG issues in investment processes – despite a growing evidence base that demonstrates the financial materiality of ESG issues to portfolio value and despite recent regulatory developments, for example, the European Commission Action Plan on Sustainable Finance and the UK Green Finance Taskforce.

In particular, we want to draw the CMA's attention to our findings on fees, which we believe relevant to this Working Paper: *ESG-related research and advice is often seen as an additional cost to be charged to clients. This reinforces the perception that it is additional, and not integral to the core advice provided by investment consultants. It also creates a real barrier to asset owner clients requesting or accessing this research and advice. This applies across the whole range of fee models that we see in the investment industry. For example, in fixed fee contracts, asset* *owners may not include ESG issues in their requests for tenders as the inclusion of these issues may increase the fees that consultants seek to charge. If these issues are not included in the service agreement, there can be limited incentive for the consultant to raise them later. Similarly, in "retainer" or "pay-as-you-go" fee contracts, asset owners have limited incentive to raise ESG issues, as this may reduce the level of advice and support that can be provided on other issues.*

This is a legitimate business issue. The development of ESG capabilities, research products, and the provision of ESG-related advice, can involve additional costs. While larger clients have often received high quality advice and support from investment consultants, it is often seen as a bespoke service offering, not necessarily as something that can be replicated for more resource-constrained asset owners. One of the points that has emerged from our research is that there has been limited discussion of what a core (or universal) ESG service might look like.

Potential remedies

We agree with all the CMA's potential remedies. In addition:

- To be consistent with regulatory requirements, guidance and off-the-shelf materials for running better tenders should include guidance on ESG issues.
- ESG issues should be included in core service provision as part of fee disclosures. We recognise that additional or bespoke ESG research requirements may incur additional costs.
- Client reporting should include ESG performance reporting as standard.

We also recommend the CMA consider:

- The way in which consultants publish and communicate their investment strategies and beliefs, and how these commitments are being implemented in the research and advice they provide to clients. This reporting should include discussion of how the firm is developing its competencies and capacities in responsible investment, and how it is taking account of these in its fee models.

Yours sincerely,

Nathan Fabian
Director of Policy and Research
Principles for Responsible Investment (PRI)