



# THE ONLY WAY IS ETHICS

## Argues Tom Levitt, Labour MP for High Peak 1997–2010

**I**n the year to June 2015 the American stock market rose by over 7%. That's good if you invested in the right stocks. An American teachers' pension fund recently discovered

that over that year it had lost \$135 million on investments in a basket of oil and gas shares. The market has finally discovered climate change and it's punishing those who contribute most to it.

The Parliamentary Contributory Pension Fund (PCPF) invests the money that we put aside for our retirement when we were MPs. Its members know that it is not an insignificant sum and we trust its trustees, mostly former colleagues, to look after our investments. One of those is Shell, whose normally stable share price has fallen by over a third in two years and is now at its lowest since 2010. This raises the question "is this a good long term investment?" But also in light of the COP21 consensus on global warming, are we happy to invest in hydrocarbons?

'Ethical' and 'responsible' investing is growing. The UN's 'Principles of Responsible Investment' agency operates out of London. Encouraging guidelines abound too, though implementation by pension funds generally has been slow, despite strong evidence that ethical investment can actually produce higher returns. The bulk of institutional investment continues to focus on short term gains, suggesting that the interests of 'independent' fund managers are at least as important as the long term benefit of members.

The Church of England's pension fund has an ethical perspective. It doesn't invest its £8 billion assets in companies where more than 10% of activity is military, or more than 25% relates to tobacco, alcohol, high cost lending, or human embryonic cloning; or more than 3% is pornography. Other funds rule out companies with child labour in their supply chain and low carbon investment is increasingly favoured.

In 2015 I asked PCPF what ethical guidelines govern investments made on our behalf. Their reply was slightly reassuring: "Fund managers are instructed to act *'consistent with (environment, social, governance) principles and in compliance with the (Financial Reporting Council) Stewardship Code'*. Although the FRC code is notoriously weak, it does require funds to report on the extent of compliance. As a fund member I have never seen any such report.

When I asked about PCPF policy I was told that *"the Trustees do not currently exclude on ethical grounds any particular companies or sectors which their managers are*

*permitted to invest in"*. Why not? Because it would be "extremely difficult" to achieve consensus on moral issues. Is this still their position?

Investors are increasingly demonstrating that they can be morally sound while maintaining, even enhancing, their fiduciary duty to those whose funds are being invested. Institutional investors are particularly powerful. I would hope that by choosing to demonstrate both social and fiscal responsibility PCPF can optimise both our funds and our futures.

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### The PCPF has responded to Tom's article as below:

**The PCPF Trustees recognise that Ethical Social and Governance factors are potentially financially material risks and this is reflected in the investment beliefs and statement of responsible investing below which reflect the Trustees' latest position and their increased focus in this area:**

The Trustees of the PCPF have delegated the issue of investments to their fund managers. This is because the Trustees believe it is their fund managers, rather than the Trustees themselves who are best placed to assess the financial risk posed by all environmental, social and governance issues, given their knowledge of the company and the level of access they have to company management.

### The Trustees expect their managers to:

- ➔ Engage on environmental, social and/or governance matters where they are considered material and relevant to the investment case;
- ➔ Respond to specific requests the Trustees might have
- ➔ Incorporate analysis of ESG issues into their investment analysis and exercise voting rights
- ➔ Provide regular reports and performance analysis which include analysis of ESG matters on a regular basis.

The Trustees speak to their investment managers on a regular basis, most recently in March 2016, and are satisfied that their managers integrate ESG factors into their decision making processes and engage with the companies in which they invest in on a broad range of environmental and social risk factors.

All the fund's managers are signatories to the Stewardship Code and UN supported Principles of Responsible Investment. The Trustees are confident that all their managers are fully aware of the risks and impact of ESG issues on the long term performance of the fund's investments and will continue to monitor them in this regard.