10 steps to a sustainable investment sector

ShareAction promotes responsible investment practices by institutional investors. Our vision is of an investment system that serves savers, society and the environment.

The options below are drawn from ShareAction's extensive experience of the pensions and investment sectors. Where relevant, we have also developed draft legislation and further detail.

Give savers a voice

People care about the impact their money has: a recent poll found that 70% of people want to invest in things that give a good return and do not harm their future[1]. But the opaque investment system leaves people disconnected from their money. Giving savers a voice in the system would increase accountability, help to drive out bad practice, contribute to better returns for savers[2] and help make the investment system a more positive force.

1. Include saver representatives in the governance structures of all types of pension schemes.
2. Address the lack of diversity in pension scheme governing boards.
3. Require schemes to formally involve savers, e.g. through saver AGMs, surveys, roadshows and using clearer communications.
4. Give savers legal rights to know, on request, where their money is invested and how the rights attached to it to influence companies are being exercised.

Clarify fiduciary duties

For too long, pension trustees have interpreted their duties as requiring them to maximise financial return, often over the short-term. The Law Commission confirmed that this is incorrect: trustees do not need to chase short-term returns and there is no legal barrier to them taking account of wider factors. But the Commission's guidance is being ignored and the Government recently rejected its call to amend the relevant regulations.

5. Clarify in law that pension trustees' fiduciary duties do not prevent them from taking account of wider factors such as environmental and social risks and, in certain circumstances, savers' ethical and moral views.
6. Strengthen the FCA rules for non-trust based pension schemes so that savers' best interests are paramount.

Strengthen the UK Stewardship Code

The UK Stewardship Code aims to encourage high quality engagement with companies by institutional investors. Good engagement by investors can have a significant impact on how companies operate. But in ShareAction's extensive experience, the Stewardship Code is not encouraging best practice across the market. Despite this, the regulator does not intend to review the Code soon.

7. Revise the Code so that it promotes stewardship on environmental and social issues within companies.
8. Educate investors on best practice by providing guidance and template policies.
9. Enforce the Code so that there are consequences for poor compliance and good practice is rewarded, e.g. through creating a "gold" standard rating.
10. Exercise the Government's reserve powers to make voting disclosure mandatory for institutional investors.

If you are interested in the issues discussed above, please contact Bethan Livesey at ShareAction (bethan.livesey@shareaction.org)

[1] Polling by OnePoll between 1-4 May 2015 OnePoll
[2] As demonstrated by success in other jurisdictions, such as Denmark, the Netherlands, Australia and California.