

PRESS RELEASE

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An ethical approach will help Pension Fund Trustees make the right decisions says a new report from the Institute of Business Ethics

“Trustees need to have a clear understanding of where their obligations, both legal and moral, actually lie ,” says Peter Montagnon

29th October 2014: A new report published today by the Institute of Business Ethics looks at twelve key questions which pension fund trustees need to ask to help guide them in making sound decisions.

Pension fund trustees come under pressure from a range of different people and interests: the regulator; the sponsoring company; labour unions; investment firms; politicians and lobby groups. The result can be confusion and uncertainty, especially since many of the decisions they face involve choosing between competing interests.

The report looks at these ethical challenges - ranging from fiduciary duty, investment decisions and conflicts of interest to employing consultants. It offers answers that, by applying an ethical approach, aim to cut through the uncertainty and help trustees make the right decisions.

“The primary purpose of the fund is to deliver on its promise to provide pensions to those who rely on it, even into the distant future. Trustees have an over-arching obligation to scheme members to deliver on the pension promise,” says Peter Montagnon, the author and IBE’s Associate Director. *“The biggest threat to sound decision-making comes from conflicts of interest where the pressure on trustees is greatest.”*

On investment decisions, Peter Montagnon says *“Many suggest that pension funds should be promoting corporate responsibility because it is both ethical and in the broader interest of their beneficiaries. While the social benefits that flow from well-behaved corporations will improve their members’ quality of life, and trustees may have strong personal views about how companies should behave, their primary ethical responsibility remains to the beneficiaries.”*

Ethical Challenges Facing Pension Fund Trustees will help pension fund trustees understand the nature of the choices they face, and encourage them to approach decision making in ways that will serve their beneficiaries well. This report will also be of use to any organisation wishing to align its pension fund with its ethical values as well as those working with pension fund trustees: actuaries, investment managers, advisers and consultants. Philippa Foster Back CBE, IBE’s Director says: *“Ethical values such as fairness, respect and openness can guide trustees to make better quality choices. The twelve questions Peter Montagnon asks in this report will assist pension fund trustees exercise their judgement in an ethical, fair and impartial way to the benefit of those they serve.”*

Will Pomroy, Policy Lead: Stewardship and Corporate Governance, NAPF, commented: *“While the Law Commission’s recent report has brought welcome clarity and certainty to the legal concept of fiduciary duty, the concept of acting in scheme members’ best interests still requires trustees to make a broad range of judgements on a vast range of issues.*

“As with the nature of any subjective decision making there is plenty of scope for ethical quandaries and dilemmas; this report is a helpful illustration of some of the ethical challenges pension fund trustees must navigate. It is right that trustees are encouraged to approach their duties in a thoughtful and considered manner,

this guide should prove helpful in framing discussions and in turn fostering decision-making which is in the interests of all scheme members.”

Saker Nusseibeh, CEO of Hermes Investment Management said: *“Trustees should see no conflict on the one hand between an ethical approach to looking after the interests of the beneficiaries; the use of their advantage in having a long time horizon thus ignoring advisors’ and regulators’ obsession/fixation with short-term volatility; the moral obligation to stakeholders in the allocation of capital as well as the need to provide the pension promise as one of lifestyle, rather than a nominal sum; and on the other what is erroneously perceived by some as the narrow confines of Trustee authority.”*

To obtain an advanced press copy of the report, or to organise interviews, please contact k.bradshaw@ibe.org.uk

EDITOR’S NOTES

Ethical Challenges Facing Pension Fund Trustees: 12 key questions

By Peter Montagnon

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Launch event and information

The report will be launched on Wednesday 29 October 2014 17.00 to 19.00

At National Association of Pension Funds, 138 Cheapside, London EC2V 6AE

With Peter Montagnon, Associate Director, Institute of Business Ethics, Saker Nusseibeh, Chief Executive, Hermes Investment Management and Robin Ellison, Head of Strategic Development for Pensions, Pinsent Masons.

Please email events@ibe.org.uk if you would like to attend.

The Institute of Business Ethics is a registered charity which promotes high standards of business practice based on ethical values.

We help organisations to strengthen their ethics culture through the sharing of knowledge and good practice.

www.ibe.org.uk

The author: Peter Montagnon

Peter Montagnon joined the IBE as an Associate Director in September 2013. Prior to that he was Senior Investment Adviser at the Financial Reporting Council, which he joined after almost ten years as Director of Investment Affairs of the Association of British Insurers.

For two decades from 1980 Peter was a senior journalist on the Financial Times, including spells as Head of the Lex Column and in charge of coverage of the international capital markets. His last assignment, from 1994 to 2000, was as Asia Editor, responsible for the FT’s coverage of a region stretching from Pakistan to New Zealand.

After graduating in Modern Languages from Cambridge University in 1972, he joined Reuters news agency as a financial journalist. At Reuters he completed assignments in Hong Kong, Zurich and Washington before joining the Financial Times.

Peter served on the European Commission's Corporate Governance Forum from 2005 - 2011. He is past Chairman of the Board of the International Corporate Governance Network and is also a visiting Professor in Corporate Governance at the Cass Business School of the City University, London, a member of the Corporate Governance Advisory Board of the Norges Bank Investment Management and of the Board of the Hawkamah Institute for Corporate Governance, Dubai.

The IBE is grateful to the NAPF and Hermes for their generous support of this Report.

The NAPF is the voice of workplace pensions in the UK. We speak for over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. We also have 400 members from businesses supporting the pensions sector. We aim to help everyone get more out of their retirement savings. To do this we promote policies that add value for savers, challenge regulation where it adds more cost than benefit and spread best practice among our members.

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*Please note the total AuM figure includes £3.6bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 30 June 2014.