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FTfm

Leader of the pack on responsible investment

Face to face

Engagement with companies makes a big difference, Karina Litvack tells Pauline Skypala

F&C Investments has been under pressure for a long time thanks to a string of mergers, ownership uncertainty and performance issues. Freed from its insurance company bonds last year, the newly independent quoted company splashed out on buying boutique manager Thames River Capital in April, but is now under attack from Sherborne Investors, an activist investor, which has built a 17.5 per cent stake and last week made a move to oust the company's chairman.

However, while the £108.2bn ($169bn) asset manager seeks to convince shareholders and investors it can forge ahead on a business and performance front, it should have no trouble convincing them of its responsible investment credentials.

The manager has won a string of awards in this field, and was hailed last week as a leader in terms of disclosure on voting and engagement by FairPensions, a campaigner for responsible investment, topping a survey of 29 asset managers.

F&C has been in the responsible investment business a long time. Its ethical fund range dates back 25 years and its responsible engagement overlay strategy recently celebrated its 10th anniversary. Explaining the genesis of the overlay strategy, Karina Litvack, head of responsible investment, says: "We took the view that any ESG [environmental, social or governance] issue that had the potential to hurt or enhance a company was something we should engage on.

"At the time 97 per cent of assets under management were run as non-ethical funds. We decided the issues we looked at for the ethical fund were just as valid for others, but we didn't have the licence to pick and choose on that basis, so we would use our influence as shareholders to engage on issues."

In 1999, PGGM, the Dutch pension fund, asked F&C to provide its engagement activities as an overlay service. It now has about 20 overlay clients, accounting for about €60bn ($79bn) of the €94bn the overlay service is applied to. The main focus is on equities, but the service has been extended to corporate debt in the past couple of years, and internally is also applied to property and private equity.

The financial crisis has been good for business. The overlay service is a counter cyclical business, a bit like lawyers, says Ms Litvack: "People come calling when things get really bad."

The crisis has driven home the fact that, "even if you look at how a business is run and what you should do to protect your commercial interests, you can end up with systemic risk if you don't take care of other factors", she says.

Initiatives such as the United Nations Principles for

Curriculum Vitae

Karina Litvack

Born: 1962

Education
1983: University of Toronto (BA Economics & Political Science)

1986: Columbia University Graduate School of Business (MBA)

Career
Foreign exchange analyst, ContiCurrency (unit of Continental Grain)

1986: Associate, capital markets, PaineWebber

1991: Project manager, New York City Economic Development Corporation, (City of New York property development arm)

1998: Analyst, director and head of governance and sustainable investment, Friends Provident Asset Management/Friends Ivory & Sime/ISIS Asset Management/F&C Asset Management

F&C Asset Management

Established: 1868

AUM: £108bn ($169bn) (as at 30/09/10)

Offices: London, Amsterdam, Boston, Dublin, Edinburgh, Frankfurt, Hong Kong, Lisbon, Paris, Geneva

Employees: 1000 globally (includes Thames River)

Total responsible engagement overlay assets: £82.7bn ($128.8bn) (as at 30/09/10)

Responsible Investment have also been a boost. Ms Litvack has been surprised by its impact. She acknowledges there is a risk of a tick-box culture developing, but believes "some things have changed for good".

The big question is, does engagement make enough of a difference, and is it possible to measure the effects?

Ms Litvack reports encountering a lot of cynicism at the outset, particularly from the traditional ethical investment people, who thought engaging rather than excluding companies was "having your cake and eating it". But she can quote a whole raft of examples of changes to company policy, and even to regulatory standards, as a result of engagement.

It is hard to measure the effect of engagement activities, she says, but F&C makes the attempt through its customised database. Any changes companies make are recorded as "milestones", and reported quarterly to clients. They are measured by their impact on shareholder value and the role played by F&C, says Ms Litvack.

Of course, all shareholders benefit from boosts to a company share price due to changes made in response to F&C engagements. Ms Litvack is phlegmatic about this so-called free rider issue: the company just has to live with it, she says. At least with an overlay service, F&C attracts revenue that helps fund the necessary investment in staff and systems, she adds. The team, now 18-strong, comprised just Ms Litvack and one other when she joined F&C in 1998.

'I hear a lot of CEOs and others who say investors are too focused on the near term'

Investors have been found wanting for their failure to prevent banks dialling up risk in the run-up to the financial crisis, and more generally to hold company management to account. Ms Litvack says the charge is "partly fair". "Few of us warned against pay unhinged from performance, for example."

But investor views on such matters will not carry much weight if only a minority are saying this.

"Even if you get a critical mass saying it, companies operate in a competitive global marketplace. So there is a need for investors to pull in the same direction as regulators, and for industry to come up with its own guidance."

Another charge against investors is their short-term outlook, which may lead them to push for change likely to raise profitability in the short term and to ignore longer term considerations.

Ms Litvack agrees this is a problem. "I hear a lot of CEOs and others who say investors are too focused on the near term." Technology companies, for example, complain that investors are not interested in innovation and put pressure on them to milk existing technology.

Does this mean asset managers are failing to allocate capital efficiently? On a three-year view no, says Ms Litvack. But on a 30-year view, definitely.

Corporate leaders are ahead of the investment community in addressing sustainability issues, she adds. When investors do speak up, companies pay attention. "Top management does care about what investors say. When they say it with sufficient force, [CEOs say] it makes a difference," says Ms Litvack.

She believes the Stewardship Code, which sets out good practice on engagement with investee companies for asset managers, has the potential to raise standards, "but whether it does depends on what [managers] do with it".