

## Key Findings

November 25, 2006

<p><b>UK Pension Scheme Transparency on Social, Environmental and Ethical issues</b></p> <p><i>“Members in the dark”</i></p>	<p><b>What is responsible investment?</b></p> <p>Responsible investment requires pension schemes to be active shareholders in the companies they own and hold these companies to account for poor environmental and human rights behaviour.</p>
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A ranking of the largest UK pension schemes (comprising over £250 billion in assets) by level of transparency, benchmarked against industry best practice.

### Huge divergence of practice between schemes

Only a handful of pension schemes show evidence of serious attempts to develop and disclose robust policies to tackle specific environmental, human rights, or governance problems within their investments.

### Members kept in the dark on human rights & environmental behaviour of their schemes

- None of the schemes surveyed disclosed material which mentioned **human rights** as having any impact on whether or not a scheme was willing to be an investor in a company. This was of concern given that many UK pension schemes disclosed investments in companies that have been widely criticised for their human rights behaviour.
- Most pension schemes did not disclose any evidence of a clear policy to tackle the financial risk to their investments from well known issues such as **climate change**.
- Only one scheme (**BT**) has committed to disclosing its full voting record, thereby allowing members to see how their scheme uses its shareholder power to promote good **corporate social responsibility**.
- Only one scheme (**USS**) publicly disclosed their Top 100 investments.

### “National institutions” surprisingly secretive on environmental & human rights issues

Schemes provided by the **BBC** and **Royal Mail** showed little transparency on responsible investment; this is noteworthy as these pension schemes have investments in companies that face allegations of serious **environmental and human rights abuses**.

### Most financially sophisticated companies have least transparent pension schemes

**HSBC** and **Barclays** are amongst the few schemes that declined to make their pension scheme documents publicly available. **Lloyds TSB** and **Royal Bank of Scotland** disclosed scheme documents, but showed little evidence of responsible investment, despite overwhelming research showing investing responsibly can enhance returns and lower risk.

### Local government shows some commitment, not enough action

The best local authority, **West Yorkshire** (controlling more than £6 billion), achieved only 50% of industry best practice on transparency; other local authorities disclosed little evidence of engagement with companies facing serious environmental and human rights allegations.

### Window dressing

Despite a statutory requirement for pension schemes to state whether they take account of social, environmental, or ethical factors, it was noteworthy that only 12 out of 20 schemes publicly disclosed this information.

## 1. Introduction

This report is the result of research carried out into the top twenty pension schemes<sup>1</sup>, based on capital value, and the quality of their disclosure and transparency on Responsible Investment (RI). RI refers to investment where social, environmental, and ethical (SEE) factors are taken into account in the selection, retention and realisation of investments and the responsible use of rights (such as voting rights) attached to investments. We invited schemes to send us their scheme documents (annual report and statement of investment principles (SIP)), as well as any supplementary RI policies they might have, and audited these to benchmark how well they were doing on disclosure and transparency. The results would provide us with a snapshot of evidence into the RI environment of pension schemes in the UK.

### 1.2 *Background*

The Occupational Pension Schemes Amendment Regulations 1999 introduced a statutory framework, to complement the Pensions Act 1995, which required pension schemes to disclose the extent to which SEE factors were integrated into investment decisions and the policy and execution of rights, including voting rights, attached to investments<sup>2</sup>. The amendments constitute the basis of RI; that is, the consideration of SEE issues in the interest of the scheme value and investor responsibility.

The amendments came in response to growing concern regarding company SEE behaviour, which had not previously been an obvious aspect to integrate into investment decisions. One of the purposes of the amendment was therefore to ensure that adequate information was produced so all persons (members, trustees, and the public) understood the position of the pension schemes in relation to specific SEE factors and voting rights. In practice this would mean if a trustee or member wished to retrieve information on dealings with a company which exhibited questionable corporate behaviour - possibly compromising the value of the investment return - a defined and actionable policy would be accessible.

Prior to Paul Myners' review of institutional investment decision-making in 2000, there was little focus on exactly how policies could be formed to incorporate RI into the investment process. The principles recommended by the Myners review also fell short of providing details on exactly how RI can be used to govern each aspect of a scheme. For this reason, FairPensions began a comprehensive assessment of pension scheme industry best practice on RI in early 2006 to develop a clear usable guide for pension schemes. The assessment took account of existing practices in evidence by UK pension funds, and input was obtained from a number of leading fund managers. The assessment also incorporated the legal opinion on RI from Freshfields Bruckhaus Deringer as well as a guide on RI edited by Charles Scanlan, the former Head of Pensions at Simmons & Simmons. The result of the assessment was the publication of the FairPensions Responsible Investment Trustee Best Practice Guide, a copy of which is available from the FairPensions website ([www.fairpensions.org.uk](http://www.fairpensions.org.uk)). For purposes of this survey report, pension schemes were assessed against the seven best practice guidelines on disclosure and transparency that are listed in the FairPensions guide.

### 1.3 *General commentary on the state of the UK pensions industry*

It is apparent from the lack of substantive references to RI in many of the scheme documents that we audited, that many schemes are unaware that RI has rapidly evolved in recent years from being an extra-financial issue to being a factor that has the potential to impose both financial and

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<sup>1</sup> Imperial Chemical Industries, the 17<sup>th</sup> largest scheme by capital value, was omitted from the study as ICI Pension Fund holdings are mainly in bonds

<sup>2</sup> <http://www.opsi.gov.uk/si/si1999/19991849.htm> (last accessed 25/10/06)