Executive Summary

There is increasing UK public interest in the accountability of investors, as has been illustrated by recent controversy surrounding private equity and Parliament's decision to grant reserve power to the government to require disclosure of institutional investors' voting records[1]. The twenty occupational pension funds examined in this report are of particular public interest because they together own over £292 billion, or approximately one-third of all UK occupational pension fund capital, and have a membership of over 3.9 million people[2].

Transparency and accountability on environmental, social and governance (ESG) issues are particularly important, as there is a rapidly growing recognition that taking these issues into account is important for increasing returns and managing risks which have the potential to damage not only the environment and human rights, but also pension savings and the broader economy.

Significant improvement at the top

The average pension fund score in the survey increased by 58% since last year's survey, despite FairPensions extending the survey with new questions and an overall tightening of definitions. British Airways Pension Scheme (BAPS) and Strathclyde Pension Fund were the greatest improvers (see figure 1), and BAPS, British Telecommunications plc Pension Schemes (BTPS), and Universities' Superannuation Scheme (USS) are survey leaders in joint first place. BTPS and USS, the clear leaders in last year's survey, continue to display a strong commitment to transparency and responsible investment.

Many funds have set up websites, or expanded existing ones, to meet the demand for increased transparency. More funds' websites have sections dedicated to disclosing documents like their statement of investment principles (SIP) or responsible investment (RI) policies, thus moving toward clearer public commitments to RI and engagement responsibilities.

Cause for concern at the bottom – Guidelines often ignored

Despite the evidence of improvement by high-scoring pension funds, many funds at the bottom of the survey give cause for concern: BP plc Pension Fund, Coal Pension Trustees, Barclays Bank plc UK Retirement Fund, BAE Systems Pension Scheme, and National Grid plc Pension Scheme all ranked in the bottom five – at most scoring one point out of ten. Half of the pension funds in this survey did not disclose policies on ESG issues; for example they often did not disclose engagement strategies or voting records – and in doing so failed to meet industry best practice codes such as the Myners Principles,[3] the United Nations Principles of Responsible Investment (UNPRI)[4] or those put forward by the Institutional Shareholder's Committee (ISC).[5]

CSR Gap

The average score for the funds in the lowest half of the results table was only 14%. The report also finds that a number of companies which have well-developed corporate social responsibility (CSR) and transparency policies, such as Barclays, BP and National Grid have pension funds that performed very poorly on transparency and in demonstrating their engagement activities. This lack of accountability is in sharp contrast to the CSR policies of their sponsoring organisations.

Little evidence of engagement

Overall, despite improvements in transparency, we have not yet seen widespread evidence of funds' commitment to engagement on ESG issues. The survey asked two questions that measure how the funds disclose the records of the actual results of the funds' ESG activism – reporting the results of the fund's engagement strategies and the fund's recent voting patterns. These two questions were the

[1] Companies Act (2006).

[2] NAPF, *Pension Funds and Their Advisors 2007*, AP Information Services, 2007.

[3] HM Treasury, *Institutional Investment in the United Kingdom: A Review*, April 2000.

[4] United Nations Environment Programme Finance Initiative, *Principles for Responsible Investment*, April 2006.

[5] Institutional Shareholders Committee's (ISC), *Statement of Principles*, June 2007.

lowest scoring on the survey, with only four schemes providing evidence to FairPensions of any voting records at all, and only five funds publicly disclosing the results of engagement activity.

Trustees must provide clear policies in their mandates to fund managers to ensure that effective engagement takes place. The survey found a divergence occurring between the leadership of the top half of the survey and the signs of apathy among the bottom half. Nine funds could present specific policies for how responsible investment was integrated into their investment mandates, and of these funds, seven show comprehensive monitoring and audit regimes. Seven of the funds in the survey disclosed to FairPensions a complete engagement strategy that describes the fund's specific engagement initiatives.

Recent research has increasingly shown that engagement on ESG issues improves financial returns for funds as well as providing social and environmental benefits to society. Recent studies are confident[6] that the costs of managing engagement on ESG issues will more than cover themselves[7], and has a potentially significant influence on financial value of pension funds as well as their social and environmental impact[8]. Responsible investment and engagement can therefore be seen to be as much a financial imperative as they are a moral one, and are therefore integral to the overall fiduciary responsibilities of pension fund trustees – without transparency it is impossible to see whether pension funds are living up to these responsibilities.

Figure 1: Survey Results Table

	This Year's Rank	Last Year's Rank	Name	Estimated Size (£ billion)†	Estimated Membership (000)†		This Year's Score	Last Year's Score
Top 5	1	9	**British Airways Pension Scheme**	12.5	**103**		**90%**	21%
Top 5	1	1	**Universities Superannuation Scheme Ltd**	28.3	**226**		**90%**	79%
Top 5	1	2	**British Telecommunications plc Pension Scheme**	37.9	**349**		**90%**	71%
Top 5	4	6	**Strathclyde Pension Fund**	9.0	**176**		**85%**	29%
Top 5	5	n/a	**West Midlands Metropolitan Authorities**	7.3	**224**		**80%**	n/a
	6	9	**BBC Pension Scheme**	7.9	**57**		**60%**	21%
	7	3	**Greater Manchester Pension Fund**	8.9	**221**		**55%**	50%
	8	4	**West Yorkshire Pension Fund**	6.6	**197**		**50%**	43%
	9	12	**Railways Pension Scheme**	16.0	**349**		**40%**	14%
	10	6	**Shell Contributory Pension Fund**	10.7	**46**		**35%**	29%
	11	12	**Royal Mail Pension Scheme**	15.3	**437**		**30%**	14%
	11	17	**HSBC Bank plc Pension Scheme**	5.9	**110**		**30%**	0%
	13	15	**Lloyds TSB Group plc Pension Scheme**	13.4	**194**		**25%**	7%
	14	9	**Corus UK Ltd British Steel Pension Scheme***	9.2	**175**		**15%**	21%
	14	17	**Royal Bank of Scotland Group Pension Fund**	16.8	**228**		**15%**	0%
Bottom 5	16	6	**BP plc Pension Fund**	12.9	**61**		**10%**	29%
Bottom 5	17	5	**Coal Pension Trustees***	24.9	**367**		**5%**	36%
Bottom 5	17	15	**BAE Systems Pension Scheme***	6.2	**179**		**5%**	7%
Bottom 5	19	17	**Barclays Bank plc UK Retirement Fund ***	9.6	**189**		**0%**	0%
Bottom 5	19	12	**National Grid plc Pension Scheme**	12.8	**121**		**0%**	14%
			Totals	**£292**	**3,999**	**Average**	**41%**	**26%**

***Funds that did not actively participate**

† Source: NAPF Pension Funds and their Advisors 2007

[6] Barber, Brad, *Monitoring the Monitor: Evaluating CalPERS Activism*, November 2006.
[7] The Barber study found that CalPERS average annual short term gains resulting specifically from shareholder activism to be $1.12 million, resulting from the added costs of three full time employees.
[8] United Nations Environment Programme Finance Initiative and Mercer, *Demystifying Responsible Investment Performance*, October 2007.

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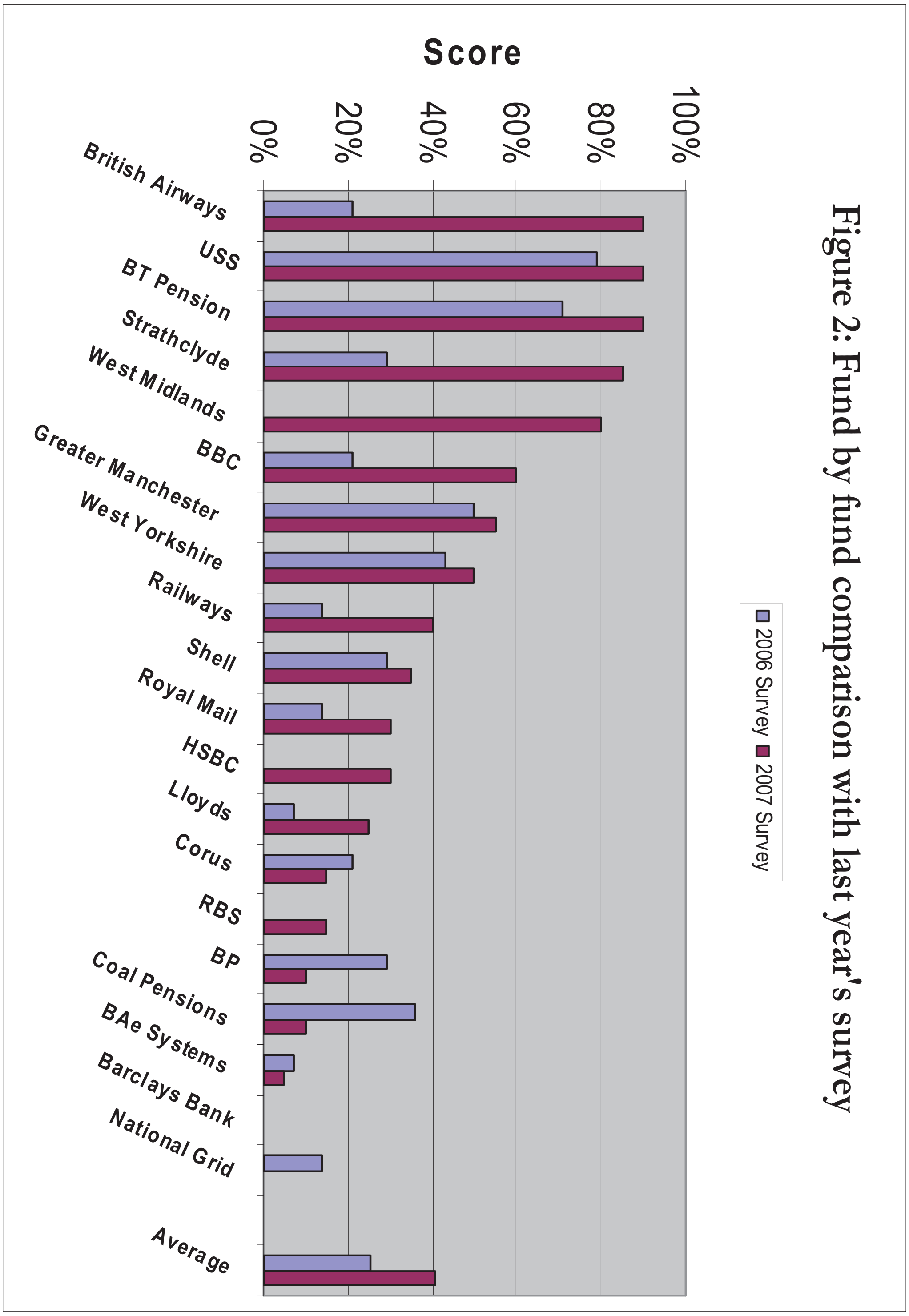

Figure 2: Fund by fund comparison with last year's survey