

Table 1
UK Pension Schemes' Responsible Investment Ranking 2009

Pension Scheme	Policy and Practice on RI (20 points max)	Transparency (10 points max)	Overall percentage	UNPRI	Rank
Universities Superannuation Scheme	20	10	100%	Yes	1 =
British Telecommunications plc Pension Scheme	20	10	100%	Yes	1 =
Strathclyde Pension Fund	17.5	9.5	90%	Yes	3
Merseyside Pension Fund	16.5	6	75%	Yes	4
British Airways Pension Scheme	13.5	8	72%	No	5
British Broadcasting Corporation Pension Scheme	13	8	70%	Yes	6
West Midlands Pension Fund	11.5	7.5	63%	No	7
Railways Pensions Trustee Company Pension Schemes	12.5	5.5	60%	No	8 =
West Yorkshire Pension Fund	11.5	6.5	60%	No	8 =
BP plc Pension Scheme	15	2.25	58%	Yes	10
Greater Manchester Pension Fund	12.5	4	55%	No	11
Royal Mail Pensions Trustees Ltd. Pension Plan	10	5	50%	No	12
National Grid plc UK Pension Scheme	9.5	2.75	41%	No	13
Co-operative Group Pension Scheme	10	1.5	38%	No	14
Barclays Bank plc UK Retirement Fund	9	2	37%	No	15
The Shell Contributory Pension Fund	6	4.5	35%	No	16
HBOS plc Pension Scheme	7.5	0.75	28%	No	17
Marks and Spencer Group Defined Benefit Scheme*	7.5	0	25%	No	18
Royal Bank of Scotland Group Pension Fund	7	0	23%	No	19 =
Transport for London TFL Pension Fund*	4.5	2.5	23%	No	19 =
HSBC Bank plc (UK) Pension Scheme	5	1.75	22.5%	No	21
AVIVA Staff Pension Scheme	6	0	20%	No	22
Corus UK Ltd. British Steel Pension Scheme*	3	2	17%	No	23
Prudential plc Defined Benefit Scheme*	1.5	3	15%	No	24
E.ON UK plc Group of the Electricity Supply Pension Scheme*	1	1	7%	No	25

We have separated the remaining 5 schemes below from the rest in our table. These schemes chose not to actively participate in our survey, nor were we able to discern any significant level of information on their schemes from their website (where available) or from other sources.

Coal Pension Trustees Pension Schemes*	0	1.5	5%	No	
IBM Pension Scheme*	0	1	3%	No	
Unilever UK Pension Fund*	0	1	3%	No	
BAe Systems Pension Scheme*	0	0	0%	No	
Lloyds TSB Group plc Group Pension Scheme*	0	0	0%	No	

* Did not actively participate in the survey.

Executive Summary

Occupational pension schemes' valuations may have been severely damaged over the last 12 months by the ongoing financial crisis, but they remain one of the largest and most influential asset owning groups in the UK and of fundamental importance to the economy. At a time when pension schemes and their fund managers face scrutiny over their apparent failure to exercise effective investor due diligence – in particular as owners of major banks and financial institutions at the centre of the current economic crisis – an examination of the responsible investment policy, practice and transparency of the UK's largest occupational schemes could not be more timely.

Responsible Investment focuses on those environmental, social and governance (“ESG”) issues that can be material to long term shareholder value, and requires these factors to be assessed and integrated into research and investment decisions. It sees active, carefully considered voting of shareholdings, and engagement with companies when issues of concern have been identified, as fundamental to fiduciary duty, rather than optional extras. These matters cannot be addressed effectively by pension schemes without detailed policies, implementation procedures, and performance monitoring, and the schemes can not be held accountable on these matters by their stakeholders without adequate transparency. Such an approach is integral to maximising long term shareholder value as well as addressing any underlying moral concerns regarding corporate behavior.

In response to the heightened public interest in investor accountability, as well as the growing international consensus on the importance

of responsible investment to long term shareholder value,¹ this report examines the depth of commitment to responsible investment amongst leading occupational schemes in the UK.

Key Findings:

Importance of ESG issues: “a truth universally acknowledged” but not universally acted upon:

All of the schemes surveyed (with the exception of five schemes for which no data was available), acknowledge in their Statement of Investment Principles the potential importance of ESG factors in the investment process. However, this is often not fully reflected in detailed policy, implementation and performance monitoring.

Leaders and laggards

There is a striking disparity between the observable “best” and “worst” schemes. Scores ranged from 100% to 0%, with 12 schemes scoring 50% or more. The British Telecommunications Pension Scheme, Universities Superannuation Scheme and Strathclyde Pension Fund continue to show strong commitment and action on responsible investment. A full “league table” is shown opposite.

Corporate CSR policies not apparently matched by schemes' Responsible Investment policies.

There are a number of pension funds which, given their sponsoring companies' public profile on corporate social responsibility, could be expected to have pension schemes that are responsible investment leaders, but in practice appear to fall short of expectations. This

¹ Illustrated by the ever growing number of signatories to the UN Principles of Responsible Investment, currently standing at 378, representing USD 14 trillion assets under management – see www.unpri.org

group includes the AVIVA Staff Pension Scheme, Marks and Spencer Group Defined Benefit Scheme and the Co-operative Group Pension Scheme.

Contrasting sectors – the benefits of regulation? Local authorities and banks:

There is a striking divergence between the performance of the 5 local authority schemes surveyed and the 5 schemes from the banking sector. The lowest scoring local authority scheme outperforms the highest scoring bank pension fund by a clear margin. Local authorities' pension schemes are required by law to provide a higher level of public disclosure, which we believe promotes enhanced attention to responsible investment policy, implementation and performance measurement. Local authorities are required to be transparent as major recipients of public funds, which raises the issue of how transparent the pension schemes of banks that are now effectively under public ownership should be. Banks' credibility as responsible institutions is certainly not enhanced by the relatively poor performance of their pension schemes on responsible investment.

Disappointing levels of transparency:

The research shows that investment transparency remains far from universal, despite present concerns about investor accountability. Our findings provide evidence of the link between transparency and effective responsible investment: there is a discernable correlation between pension schemes that are more transparent and those with well-defined policy and practice for managing ESG-related risks and opportunities.

Scrutiny of fund managers needs further improvement:

Fourteen schemes stated that they currently assess, (or intend to do so in future) a fund manager's responsible investment credentials as part of their manager-selection criteria. This is encouraging but should become standard practice for all schemes which rely on external fund managers to execute their responsible investment policy.

The UN Principles for Responsible Investment – a positive influence:

Although only 6 of the top 30 UK pension schemes were UN PRI signatories as at the date of our survey, these 6 were all among the top ten performers. This mirrors the findings of our recent fund manager survey, where 9 of the top 10 RI performers were also UNPRI signatories.²

Responsible Investment in action – climate change is being considered, but only by a minority:

Our survey this year added an “un-scored” question, in an effort to look at an illustration of responsible investment in action, and chose to focus on climate change, as there is no single ESG issue more likely to impact future shareholder value. We were surprised to find only 5 schemes which state that they will assess a fund manager's ability to manage climate change related risks and opportunities as part of the selection process, and 7 that require their fund managers to actively consider climate change related risks and opportunities as part of their ongoing investment mandate.

2 See http://www.fairpensions.org.uk/fairpensions_pdf/FundManagerRanking08.pdf

Main Report – Introduction

Occupational pension schemes' valuations may have been severely damaged over the last 12 months by the ongoing financial crisis, but they remain one of the largest and most influential asset owning groups in the UK and of fundamental importance to the economy. At a time when pension schemes and their fund managers are being questioned for their apparent failure to exercise effective investor due diligence, in particular as owners of major banks and financial institutions at the centre of the current economic crisis, an examination of the responsible investment ("RI") policy, practice and transparency of 30 of the UK's largest occupational schemes could not be more timely.

In response to this heightened public interest in pension fund accountability, and prompted by the growing consensus on the importance of responsible investment to long term shareholder value³, FairPensions' 2009 Pension Scheme Survey seeks to examine the real depth of commitment to responsible investment amongst leading UK occupational schemes.

We have significantly enhanced the scope of our survey since the 2007 report, maintaining a section on transparency, but also now analysing in detail the extent of RI policy and practice.

We have also enlarged the size of the survey,

from 20 to 30 of the UK's largest schemes, comprising £351bn assets under management, with an estimated 4.8 million membership⁴. The schemes' individual scorecards, together with FairPensions' recommendations, are detailed in appendix 1.

In an industry where the majority of schemes delegate investment of funds to external managers, it is vitally important that schemes provide their fund managers with detailed policies, define their expectations, and scrutinise performance – having assessed a fund manager's RI capabilities prior to appointment. Our survey's enhanced scope is also strongly informed by the findings of our recent (November 2008) report on the responsible investment performance of leading fund managers.⁵ The latter indicated that with notable exceptions, many of the largest and most influential asset managers operating in the UK cannot yet be judged satisfactory in terms of protecting and enhancing value for clients in relation to ESG factors – the responsibility is on their clients to ensure this happens. For pension schemes, with fiduciary duty lying ultimately with trustees, the onus is on them to ensure fund managers can and do deliver responsible investment.

Responsible Investment:

Responsible Investment focuses on those environmental, social and governance ("ESG") issues that can be material to long term shareholder value, and requires these factors to be assessed and integrated into research and investment decisions. It sees active, considered voting of shareholdings, and engagement with companies when issues of concern have been identified, as fundamental to fiduciary duty, rather than optional extras. These matters cannot be addressed effectively without detailed policy, implementation procedures, and performance monitoring, and the schemes can not be held accountable on these matters by their stakeholders without adequate transparency. Such an approach is integral to maximising long term shareholder value as well as addressing any underlying moral concerns regarding corporate behaviour.

³ Illustrated by the ever growing number of signatories to the UN Principles of Responsible Investment – see www.unpri.org

⁴ See appendix 2

⁵ 'Investor Responsibility? UK Fund Managers' Performance and Accountability on 'Extra-Financial' Risks' FairPensions, November 2008. http://www.fairpensions.org.uk/fairpensions_pdf/FundManagerRanking08.pdf