

# RESPONSIBLE BUSINESS:

## *Sustainable Pension*

### **2011**

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*The third UKSIF report on  
how the UK Pension Funds  
of Corporate Responsibility  
Leaders are approaching  
responsible investment*

**UKSIF**

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## Acknowledgements

UKSIF would like to thank the members of the Sustainable Pensions Advisory Board for their support.

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<b>Jocelyn Brown</b>	Financial Reporting Council
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*All members serve in a personal capacity.*

# Foreword

I am delighted to introduce this third report from the UKSIF Sustainable Pensions Project on the responsible investment approaches of UK corporate pension funds.

Today, the Kay Review, the Stewardship Code and other initiatives are shining a spotlight on the role of investors as stewards of the long-term health of UK companies. This will inevitably result in greater scrutiny of the responsible investment policies of corporate pension funds both across asset classes and where they influence equity ownership. This influence may be exercised directly in their investment decisions or indirectly by the options and education that they offer to their plan sponsor's workforce. Responsible investment is an issue that may also start to arise in discussions about the employer covenant or in risk transfer situations.

I am therefore glad that this report shows clear progress in a number of areas since our last report in 2009. In particular, I am pleased to see that a majority of pension funds responding have discussed the UK Stewardship Code over the last year and that many of these have formally expressed their support for it. I would also like to thank the significantly increased number of funds who responded to this year's survey. This is a very welcome demonstration of increased transparency by these funds.

It is also very positive that, as funds modify their asset allocation to respond to changing circumstances, they report that their responsible investment policies are covering a wider range of asset classes. There is particularly stronger coverage of private equity, bonds and property.

UKSIF's Sustainable Pensions project is now five years old. As Chair of the UKSIF Sustainable Pensions Advisory Board since 2006, I have seen heartening progress in the approach of leading corporate pension funds over our three corporate pension fund surveys.

Nevertheless, there is still a considerable way to go. A large number of corporate pension funds are still lagging behind leading schemes such as those 'named and famed' in this report in their approach to responsible ownership and investment. This is in spite of a clear understanding at executive level within plan sponsor companies of the importance of sustainability as a driver of wealth creation and to mitigate risk.

Now more than ever is the time for corporate pension funds to consider their approach to responsible investment.

I would like to thank the members of the UKSIF Sustainable Pensions Advisory board for their oversight of UKSIF's support for occupational pension funds since our last corporate pension fund survey was published in 2009. Bringing together responsible investment champions with practical and up to date experience at major pension funds, investment consultancies, trade bodies and other relevant organisations, they are uniquely well placed to offer insights into this evolving field. We look forward to continuing to assist UK occupational pension funds as they develop their responsible investment practices.



**Michael Deakin**

Chair

*UKSIF Sustainable Pensions  
Advisory Board*

# Commentaries

## trustee focus

“Investment Governance is an important part of the trustee role. Through the education and guidance we provide, the Regulator encourages trustees to take an active interest in the assets they invest on behalf of members, whether directly or via the mandate they give to investment managers. The growth in responsible investment activity reported by UKSIF in its Sustainable Pension Funds survey this year is an indicator of increased trustee focus on investment governance and we welcome increased disclosure by pension funds on this issue.”

**Bill Galvin**

Chief Executive

*The Pensions Regulator*

## good practice

“NAPF is pleased to support the launch of UKSIF’s 2011 Sustainable Pension Funds’ Survey. The survey findings are important because they indicate continuing improvement in pension funds’ approaches to Responsible Investment since 2009 with a higher number of trustee boards taking an interest in improving the implementation of RI policies by their managers. The NAPF welcomes these trends and encourages the sharing of good practice on RI strategies and implementation by leading funds. We note that a new question asked by the survey this year reports that a majority of funds with improving RI policies have discussed the Stewardship Code issued by the FRC last year and that more trustees are expecting to discuss whether their funds will publicly support the Codes’ principles which seek to improve engagement between institutional investors and companies.”

**David Paterson**

Head of Corporate Governance

*NAPF*

## active engagement

“NEST welcomes the UKSIF Sustainable Pension Report 2011. The survey provides valuable insight into the responsible investment (RI) policies and processes of UK pension funds and also reveals areas where further improvements are needed. NEST is encouraged by the increased interest in RI and is keen to learn from and work with other UK pension funds on developing RI practices. As part of our commitment to responsible investment, the National Employment Savings Trust (NEST) will exercise its voting rights via its fund managers and actively engage with its investee companies in order to meet standards of good practice as set out within the UK Stewardship Code. NEST is committed to the principles of responsible investment and believes factoring in environmental, social and governance issues across all asset classes and markets where possible is in the interests of our members. We believe that investing responsibly enhances long-term value, reduces risk and is what many of our members would expect us to do. NEST looks forward to working with UKSIF and other institutional investors to improve standards across all markets.”

**Mark Fawcett**

CIO

*NEST*

## **forward thinking**

“FTSE welcomes the progress identified in this year’s UKSIF Sustainable Pension survey. It is natural to expect that forward thinking companies in the FTSE4Good index who understand the materiality of environmental and social performance to their business should also be considering these issues within their pension schemes. The alignment between the plan sponsor’s sustainability policies is cited as a significant factor for trustees for a majority of funds that score well in this survey.”

—  
**David Harris**

Director of Responsible Investment

*FTSE Group*

## **improve disclosure**

“It is encouraging to see that this year’s Sustainable Pension survey reports a greater number of corporate pension funds than ever before embracing responsible investment and disclosing their practices in this area. The Carbon Disclosure Project’s work of analysing the climate change and water strategies of organisations indicates that there is more disclosure by companies of their policies and actions relating to their own environmental, social and governance impacts, compared to ESG disclosure from their pension funds. In a world with increasing resource scarcity and volatile markets, corporate pension funds need to do more to prioritise the adoption of responsible investment and improve disclosure and progress in this regard.”

—  
**Paul Simpson**

CEO

*Carbon Disclosure Project*

***“Everyone - the investment and finance industry, asset owners, government & regulators and civil society - must play their part to accelerate the drive to sustainable investment and finance. Together, we must ensure that investment and finance takes responsibility and delivers resilience both in the UK and around the world. ”***

—  
**Taking Responsibility: Achieving Resilience, UKSIF 20th Anniversary report**

# Summary

## Introduction

UK corporate pension funds hold significant assets to benefit the current and past employees of their plan sponsors. These include both long-established defined benefit (DB) funds and more recent defined contribution (DC) vehicles. Many of their plan sponsors are in the forefront of driving sustainable business behaviour, while a wide cross-section of the British public is covered amongst their members and beneficiaries in 2000.

Responsible ownership and investment has become a topic of increasing focus in the two years since this survey was last published. Key developments include the launch of:

- a) The UK Stewardship Code by the Financial Reporting Council in 2010
- b) The Kay Review, an independent review of the effect of UK equity markets on the competitiveness of UK business, commencing June 2011 for publication in 2012.
- c) A detailed responsible investment policy and strategy by the National Employment Savings Trust (NEST) in 2011. We believe this will provide a minimum standard for good practice in responsible investment for DC funds.

In the same period, major companies have been increasingly recognising the challenges and opportunities that sustainable development presents for their business models and hence for wealth creation more widely.

Sustainable finance is central to the transition to a resilient and resource efficient economy. UK-SIF's 20th anniversary report "Taking Responsibility: Achieving Resilience", published in July this year, highlighted both the imperative and the opportunities. It makes sense for both beneficiaries and plan sponsors that corporate pension funds play their part in driving this transition.

## Survey findings

This is the third biennial survey of the UK pension funds of Corporate Responsibility (CR) leaders. It shows early signs of a step change in the number of these corporate pension funds that are responding to the case for responsible ownership and investment. The findings demonstrate that funds that start on the responsible investment journey tend to deepen their practices over time. This trend was first identified in the 2009 report.

Key results include:

- **BT Pension Scheme, Co-operative Pension Scheme (PACE), and F&C Asset Management Ltd. Pension Plan** each achieved Platinum ranking, giving three funds at the highest grading available, up from only one in the two earlier surveys
- **Over one in four participating funds achieved one of the two highest rankings (Platinum and Gold)** up from one in eight in 2009 and one in eleven in 2007
- **Participation in the survey has increased overall to one in five** corporate pension funds surveyed, up from one in eight funds for the 2009 and 2007 surveys
- RI policies are regularly being applied to a broad range of asset classes. **Private equity, bonds and property** all showed strong **growth in the use of responsible investment policies** compared with 2009
- **Nearly one third of funds use specialist mandates to implement their responsible investment policy.** This proportion has doubled since 2009. There is little change in the proportion using collaborative initiatives, after a significant leap from 2007 to 2009 in the use of this approach

- Three fifths of participating funds give “some” or “great” significance to alignment with their plan sponsor’s CR/Sustainability policy as a factor behind the development and improvement of their RI policies, broadly the same as in 2009 and 2007. About one third of funds with a RI policy said that “great significance” was given to alignment with the plan sponsor’s CR/Sustainability policy, broadly the same as in 2009 and an increase from one fifth in 2007
- Three fifths of participating funds report that trustees have formally discussed the Stewardship Code and over a third said that they have publicly supported the Stewardship Code’s principles

However, in spite of these positive signs, this report does show that the majority of corporate pension funds still need to accelerate their progress in implementing responsible investment practices to respond effectively to the risks and opportunities posed by environmental, social and governance (ESG) issues.

### **Recommendations**

In 2010, UKSIF’s report “Focused on the Future: Celebrating ten years of responsible investment disclosure by UK occupational pension funds” identified ten key actions to ensure the protection and enhancement of pension fund assets through responsible ownership and investment. Five of these were addressed to pension funds or to companies in their role as plan sponsors.

In the light of the survey results, UKSIF recommends that corporate pension funds and their plan sponsors review and act on these five recommendations as a matter of urgency:

- Sustainability Governance:** Pension fund trustees should increase their skills in sustainability governance (ie. the governance of responsible ownership and investment); it should become good practice for major funds to have at least one member with sustainability expertise.
- Transparency:** Pension funds should implement web-based disclosure of how their responsible investment strategies are implemented.
- Leadership:** Major pension funds should sign and implement the UN-backed Principles for Responsible Investment, and seek to be beacons for responsible ownership and investment.
- Responsible Procurement:** Pension funds should demand responsible investment as part of risk transfer negotiations (e.g. pension fund buy-outs) and for both established investment services and emerging asset classes.
- Responsible Pension Plan Sponsorship:** Companies should encourage responsible investment by the occupational or personal pension funds they sponsor or provide access to; sustainability expertise should be made available as part of the employer’s pension fund support.

# Ranking

Our ranking focuses on both implementation and communication of Responsible Investment practices.

We rank funds using their responses to a subset of the questionnaire. The topics graded relate primarily to the development and disclosure of each fund's RI policy. We take into account factors such as alignment with the plan sponsor's corporate responsibility policy and the extent of monitoring, trustee training and RI communication disclosed and available in the public domain.

Details of the questions used for ranking funds are noted in Appendix II. The ranking approach is unchanged from 2009 and 2007 to enable comparison over time and transparency about our assessment method. It also allows participating funds to monitor and manage their progress. Some observations from new questions added this year together with comments from funds are noted alongside the relevant results.

This ranking aims to highlight exemplars and encourage improvement over time, using a "Name and Fame" model. We therefore identify specific pension funds only with their permission and if they are ranked in the top three of the five levels.

## **Ranking by Fund (in alphabetical order within category)**

<b>Rank</b>	<b>Score</b>	<b>Pension Fund</b>
<b>Platinum</b>	81-100%	BT Pension Scheme Co-operative Pension Scheme (PACE) F&C Asset Management Ltd. Pension Plan (3 of 47 participating funds)
<b>Gold</b>	61-80%	Barclays UK Retirement Fund BP Pension Fund British Airways: Airways Pensions Schemes & New Airways Pension Scheme Kingfisher Pension scheme Lloyds Banking Group pension scheme & six others (10 of 47 participating funds)
<b>Silver</b>	41-60%	Bovis Homes Pension Scheme HSBC Bank (UK Pension Scheme) MITIE Group PLC pension scheme National Grid UK Pension scheme Whitbread plc Group Pension Fund & five others (11 of 47 participating funds)
<b>Bronze</b>	21-40%	(9 out of 47 participating funds)
<b>Copper</b>	0-20%	(14 of 47 participating funds)



## Progress

There are now three funds ranked at the highest level of Platinum, up from just one (BT Pension Scheme) in previous years. The two new Platinum ranked funds, Co-operative Pension Scheme (PACE) and F&C Asset Management Ltd. Pension Plan, replied to the survey for the first time this year.

Over a quarter of funds now achieve a Platinum or Gold ranking, compared to an eighth in 2009. While the proportion scoring at Silver or above (just over half) has remained broadly similar to 2009 overall, the proportion scoring at Gold or above has doubled.

In addition to the two new Platinum ranked funds, this year has seen the tripling of funds ranked as Gold. Of the nine funds scoring at Gold this year, six attained this level for the first time. Four of these six Gold funds moved up from scoring Silver in 2009, one of the six moved up from Copper in 2009 and the final new Gold ranked fund is replying for the first time.

As a result, the proportion achieving Silver ranking fell back to one in four from two in five in 2009 matching that achieved in 2007.

Half of those responding achieved one of our lower two rankings in 2011, the same proportion as in 2009. One in five achieved the Bronze ranking, while three in ten achieved the lowest Copper ranking. Once again these proportions are unchanged from 2009. Whilst these proportions remain similar, the actual number of funds qualifying within each of these bands increased by about half because of the higher participant numbers overall.

As a consistent trend over the three surveys, we have found that funds that start on the responsible investment journey tend to deepen their practices over time. It is therefore very positive to have more pension funds choosing to participate in this survey at these early stages of development for their responsible investment approaches.

Rank	2011	2009	2007
Platinum	6% (3 of 47)	3% (1 of 32)	3% (1 of 33)
Gold	21% (10 of 47)	9% (3 of 32)	6% (2 of 33)
Silver	23% (11 of 47)	41% (13 of 32)	24% (8 of 33)
Bronze	19% (9 of 47)	19% (6 of 32)	39% (13 of 33)
Copper	30% (14 of 47)	28% (9 of 32)	27% (13 of 33)

# What the “Platinum” Schemes say

## *early sight of problems*

“We are pleased to continue to be ranked at Platinum in this year’s report. BT Pension Scheme believes Responsible Investment can help improve long term risk adjusted returns by improving returns and reducing risk. Additionally, we hope better transparency and governance improves early sight of problems and facilitates change.”

—  
**BT Pension Scheme**

## *long term interests of scheme*

“We’re delighted to have gained the highest possible recognition from UKSIF, coming as it does just 12 months after our Board of Trustees approved the introduction of our Responsible Investment Policy. The Board recognizes that consideration of environmental, social, and governance factors is appropriate when assessing an investment in the context of the long-term interest of the Scheme and its members, and will continue to work on responsible investment issues in partnership with the Co-operative Group.”

—  
**Michael Thorpe,  
PACE Scheme Investment Committee Secretary**

## *identify value rise at risk*

“The F&C Asset Management pension fund strongly welcomes the Sustainable Pensions Survey. Pension funds have the ability - we would argue an obligation - to exercise a positive influence in driving better awareness of ESG risk factors by the companies held in their portfolios. It is only by ensuring that our asset managers fulfill this responsibility on our behalf that we will affect the necessary change, both in the manner investment analysis is conducted and in the actions taken to engage constructively with companies. Integrating ESG issues into our investment approach enables us to identify value at risk and thereby protect the value of our investments and generate sustainable alpha.”

—  
**F&C Asset Management Ltd. Pension Plan**

# Survey and Analysis Process

## Survey

UKSIF surveyed the 298 UK corporate pension funds whose plan sponsors featured in the FTSE4Good Series or the UK Carbon Disclosure Leadership Index (CDLI) at the end of January 2011.

This is a slight increase over the 238 surveyed in 2009 and 278 in 2007. The sample was increased to include, for the first time, UK corporate pension funds whose plan sponsors are not UK listed but appear in FTSE4Good globally or in the CDLI in the UK. This resulted in the addition of 31 funds. Of these additional funds, The Co-operative Pension Scheme is the only fund whose plan sponsor is not a listed company.

As in 2009, pension fund contacts were sent a covering letter explaining the project's background and aims with the questionnaire. The UKSIF Sustainable Pensions Advisory Board supervised the development of the survey materials. While a few additional questions were added, all previous questions were retained to enable comparative analysis. At the same time, FTSE wrote to the CR managers (or equivalent) at FTSE4Good plan sponsors about the survey. UKSIF wrote to Chairs of sponsor companies as well as to pension fund contacts.

## Responses

Of the 298 pension funds which were sent the questionnaire, 58 pension funds (19%) responded. This was a significantly increased participation rate, up from 32 responses (13%) in 2009 and 34 responses (12%) in 2007. Only one of the 31 additional funds included in the 2011 survey responded.

Three funds (1%) stated that it was company policy not to participate in surveys and another seven (2%) declined to participate due to time pressures. The remaining 230 (77%) did not respond. 11 pension fund contacts (4%) said that they had no UK pension scheme. Of these, one operated a DB scheme outside the UK and another had a DB scheme which was wound up in 2009.

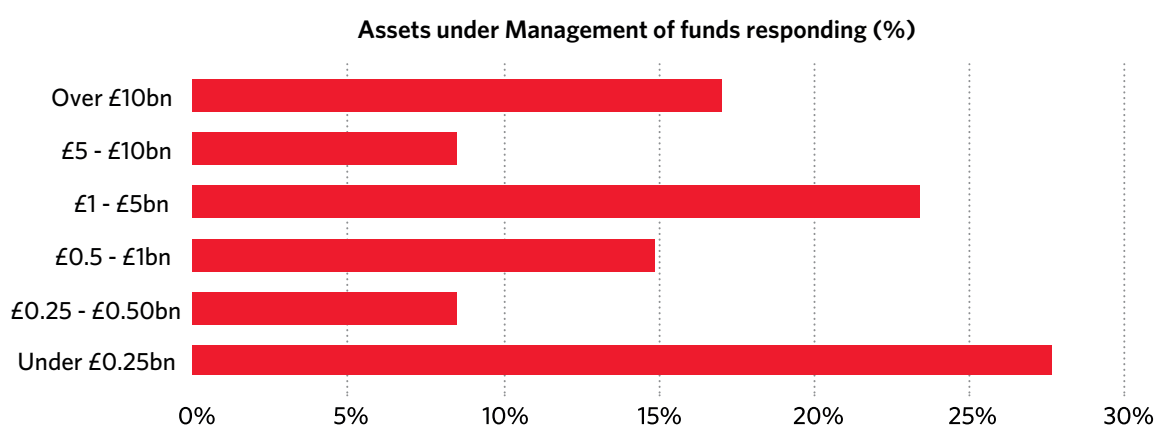
Of the 58 funds responding, 47 out of 58 replies (16% of all funds) were usable. This report is based on these 47 responses. In 2009, 32 responses (13% of all funds) were received of which 32 were usable. In 2007, 34 responses (12% of all funds) were received of which 33 were usable.

## Analysis and Ranking

We compared the 2011 results with those from the 2009 and 2007 surveys. Where relevant for our analysis, we grouped the participating funds into two categories:

- Larger funds (over £1bn in assets)
- Smaller funds (up to £1bn in assets)

Participating funds were divided evenly between larger and smaller funds.



In addition, we undertook a ranking exercise to identify both the leading corporate pension funds in their approach to Responsible Investment and the proportion of respondents falling into lower categories. The aim was twofold:

- to identify leaders from whom others can learn
- to provide a tool that corporate pension funds can use, both individually and collectively, over time to assess their progress in implementing Responsible Investment practices.

	2011		2009		2007	
<b>Larger Funds</b>	49%	<i>23 of 47</i>	56%	<i>18 of 32</i>	42%	<i>14 of 33</i>
<b>Smaller funds</b>	51%	<i>24 of 47</i>	44%	<i>14 of 32</i>	57%	<i>19 of 33</i>

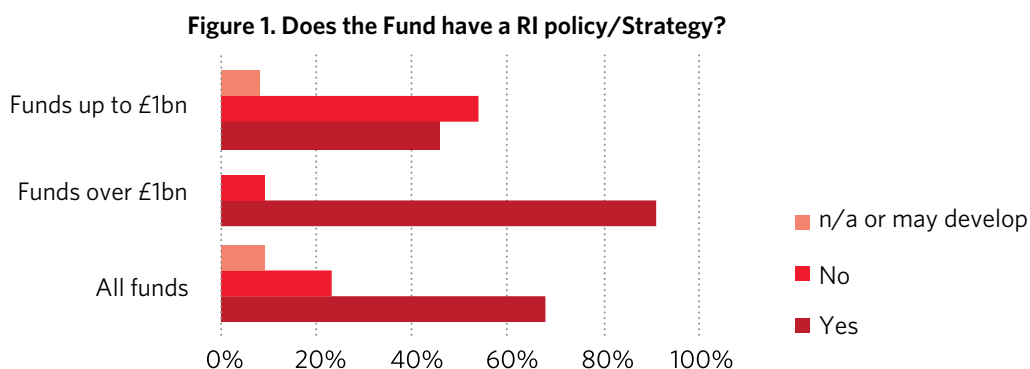
# 2011 Survey Results and 2007-2011 Comparisons

## 1. Coverage

### 1.1 Responsible Investment Policy

Two thirds of participating funds in this year's survey have a Responsible Investment (RI) policy. The overall proportion is lower than in previous years. This is because a lower proportion of smaller funds had an RI policy, and an increased proportion of participants were smaller funds.

The proportion of larger funds with a RI policy was broadly unchanged at nine tenths of larger funds.



*Table 1.1*

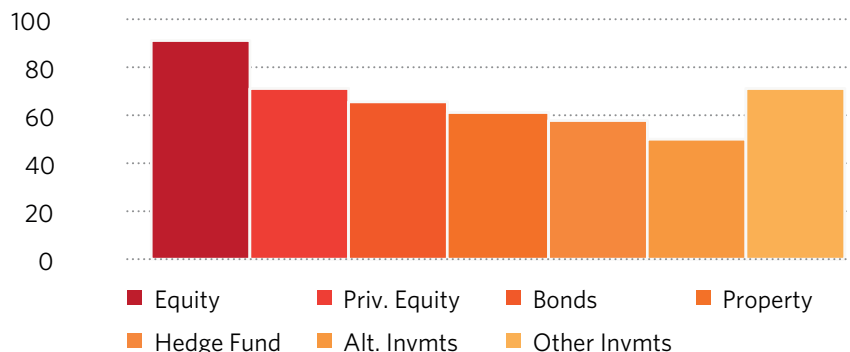
	2011	2009	2007
<b>All funds</b>	68% <i>32 of 47</i>	84% <i>27 of 32</i>	73% <i>24 of 33</i>
<b>Larger funds</b>	91% <i>21 of 23</i>	89% <i>16 of 18</i>	86% <i>12 of 14</i>
<b>Smaller funds</b>	46% <i>11 of 24</i>	79% <i>11 of 14</i>	63% <i>12 of 19</i>

### 1.2 Asset Class Coverage by the Responsible Investment (RI) Policy

Public Equities are covered by the RI policy for almost all participating funds.

There is a notable growth in the proportion of funds applying their RI policy to Private Equity, Property and Bonds. Where these asset classes are held, they are now covered by the RI policy in over three fifths of cases, up from around a half or less in 2009.

**Figure 2: Asset class coverage**



The coverage of “Other” asset classes more than doubled among the limited number of funds which invest in these. Infrastructure and commodities are included in this category.

*Table 1.2*

	2011	2009	2007
<b>All funds</b>	68% <b>32 of 47</b>	84% <b>27 of 32</b>	73% <b>24 of 33</b>
<b>Public Equities</b>	91% <b>29 of 32</b>	92% <b>24 of 26</b>	92% <b>22 of 24</b>
<b>Private Equity</b>	71% <b>10 of 14</b>	50% <b>7 of 14</b>	54% <b>7 of 13</b>
<b>Bonds</b>	66% <b>21 of 32</b>	50% <b>12 of 24</b>	57% <b>13 of 23</b>
<b>Property</b>	61% <b>17 of 28</b>	43% <b>9 of 21</b>	56% <b>10 of 18</b>
<b>Hedge Funds</b>	58% <b>6 of 12</b>	56% <b>5 of 9</b>	63% <b>5 of 8</b>
<b>Alternative Investments</b>	50% <b>6 of 12</b>	44% <b>4 of 9</b>	50% <b>4 of 8</b>
<b>Other Investments (including Infrastructure, Commodities)</b>	71% <b>5 of 7</b>	25% <b>2 of 8</b>	33% <b>2 of 6</b>

## 2. Corporate Responsibility (CR) Alignment

### 2.1 Importance of Environmental, Social and Governance (ESG) issues for trustees

Two thirds of all trustees believe that ESG factors can have a material impact on the fund's investments in the long term.

Over three quarters of trustees of larger funds believe that ESG issues are materially significant. Only around a fifth of smaller funds share this belief; comments from responding funds suggest that, in some cases, this is due to greater delegation to fund managers or it is still to be discussed.

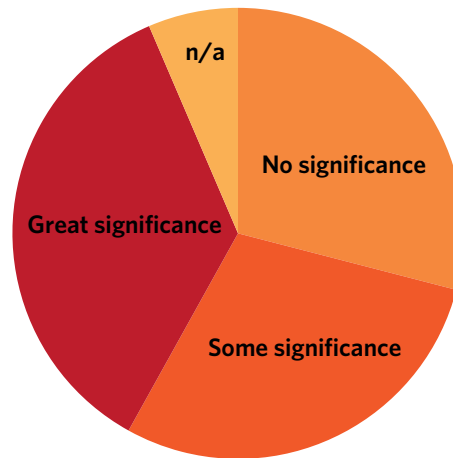
*Table 2.1*

	2011	2009	2007
<b>All funds</b>	68% <b>32 of 47</b>	75% <b>24 of 32</b>	67% <b>22 of 33</b>
<b>Larger funds</b>	78% <b>18 of 23</b>	94% <b>17 of 18</b>	79% <b>11 of 14</b>
<b>Smaller funds</b>	17% <b>4 of 24</b>	50% <b>7 of 14</b>	58% <b>11 of 19</b>

## 2.2 Significance of Alignment with the Plan Sponsor's CR/Sustainability Policies

Three fifths of funds with an RI policy give "some" or "great" significance to alignment with the plan sponsor's CR/Sustainability policy. A third of funds with an RI policy said that "great significance" was given to alignment. Both proportions were broadly unchanged from 2009.

**Figure 3: Alignment with Plan Sponsor's CR/Sustainability Policies**



## 2.3 Benefits of RI Policy

Participating funds cited a range of benefits from their RI policy including that trustees believed that it helped to provide a "broadly consistent approach with that of the sponsoring employer." Other comments included:

- An assessment of an Investment Manager's RI policy is an important factor in the Trustees selection of the Manager. In all selection processes undertaken by the scheme over the last two years, this policy has been evaluated as part of the selection process. A Manager without a stated policy is unlikely to be selected by the Trustees to advise the scheme.
- We have satisfaction that we are acting as responsible owners [and] ultimately hope to improve the allocation of capital and efficiency of markets by raising the accountability of companies to shareholders.
- The Trustee can be satisfied that the Scheme has a mechanism by which to respond to issues which it sees as material to the value of its investments, and which external managers may not. Reputation risks associated with the sponsor covenant are also mitigated (the sponsor is active in many of the ESG areas discussed by the Trustee). Member concerns over such issues can be more satisfactorily addressed.

## 2.4 Stewardship Code

The Stewardship Code published by the Financial Reporting Council (FRC) in 2010 seeks to improve engagement between institutional investors and companies to help enhance long-term returns for shareholders. As a new question this year, UKSIF sought to track trustee interest in the Code. Three fifths of participating funds (62%; 29 of 47 funds) report that trustees have formally discussed the Stewardship Code and over a third (36%; 17 of 47 funds) said that they have publicly supported the Code's principles. Nearly a tenth of funds (9%; 4 of 47 funds) either indicated that their trustees were going to discuss the Code further or that they would be actively looking to indicate public support in future.

## 3. Implementation

### 3.1 Implementation of the Responsible Investment (RI) Policy

**Exercising shareholder voting rights remains the most popular approach to implement the RI policy. Three quarters of all funds with an RI policy (75%; 24 of 32 funds) practise this approach** including nearly all larger funds (87%; 20 of 23 funds). Engagement with investee companies remains the second most popular option, being practised by over half of funds (53%; 17 of 32 funds).

Nearly **one third of funds use specialist mandates** to implement their responsible investment policy. This proportion has doubled since 2009. There is little change in the proportion using collaborative initiatives, after a significant leap from 2007 to 2009 in the use of this approach.

**Stock Lending (New Question):** Two fifths of funds (41%; 13 of 32 funds) have a policy to recall stock for voting either directly or delegated. A fifth (22%; 7 of 32 funds) either directly recall stock for voting or have a policy of not lending stock. In one case, the responding fund said that this policy is followed partly "to enable exercise of shareholder rights."

**Figure 4: Please indicate how your RI policy is implemented**

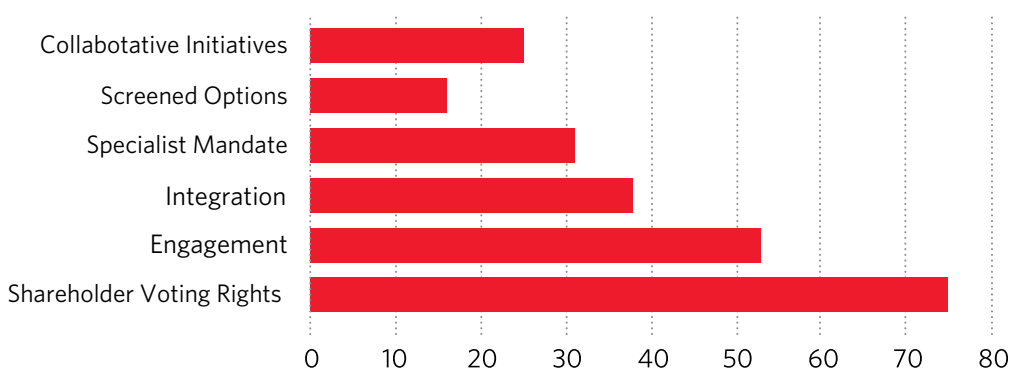


Table 3.1.1	2011	2009	2007
<b>Shareholder Voting Rights</b>	75% 24 of 32	89% 24 of 27	75% 18 of 24
<b>Engagement</b>	53% 17 of 32	70% 19 of 27	67% 16 of 24
<b>Integration</b>	38% 12 of 32	48% 13 of 27	38% 9 of 24
<b>Specialist mandates</b>	31% 10 of 32	15% 4 of 27	0% 0 of 24
<b>Collaborative initiatives</b>	25% 8 of 32	26% 7 of 27	8% 2 of 24



**Delegation to fund managers remains the most popular way to manage implementation.** Three quarters (75%; 24 of 32 funds) do this, broadly unchanged from 2009 (74%; 20 of 27 funds) and up from three fifths in 2007 (58%; 14 of 24 funds).

Nearly three quarters of funds (72%; 23 of 32 funds) said that RI featured in the assessment, appointment, evaluation or remuneration of fund managers and confirmed that RI requirements were incorporated in their Investment Management Agreements. This was an increase from three fifths (59%; 16 of 27 funds) in 2009.

### 3.2 Monitoring the Responsible Investment (RI) Policy

Nearly all funds with an RI policy (94%; 30 of 32 funds) said they monitored whether their RI policy was being carried out. This represents a continuing increase from both 2009 (85%; 23 of 27 funds) and 2007 (75%; 18 of 24 funds).

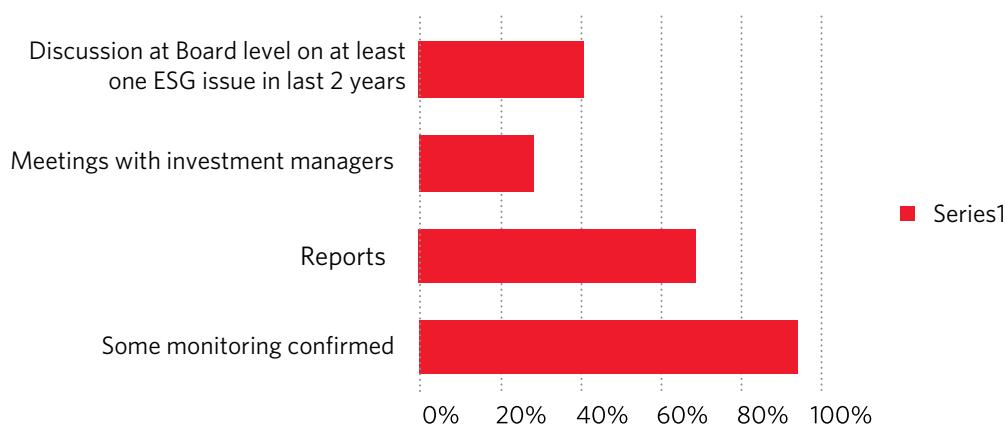
Use of reports remains the most popular form of monitoring. This approach is now used by two thirds of funds (69%; 22 of 32 funds), compared to three fifths in 2009 (59%; 16 of 27 funds) and up from two fifths (42%; 10 of 24 funds) in 2007.

Around a third of funds (32%; 9 of 32 funds) discuss RI monitoring issues in meetings with their investment managers, which is similar to 2009 (26%; 7 of 27 funds) and over two and half times as many as 2007 (13%; 3 of 24 funds).

### 3.3 Trustee discussion of ESG issues (New Question)

Two fifths of participating funds (41%; 13 of 32 funds) said that trustees had formally discussed their fund's approach to a major ESG topic or specific ESG issue in the last two years. Environmental and governance issues in the news such as tar sands were the most commonly cited examples.

**Figure 5: How the RI Policy's monitoring is carried out**



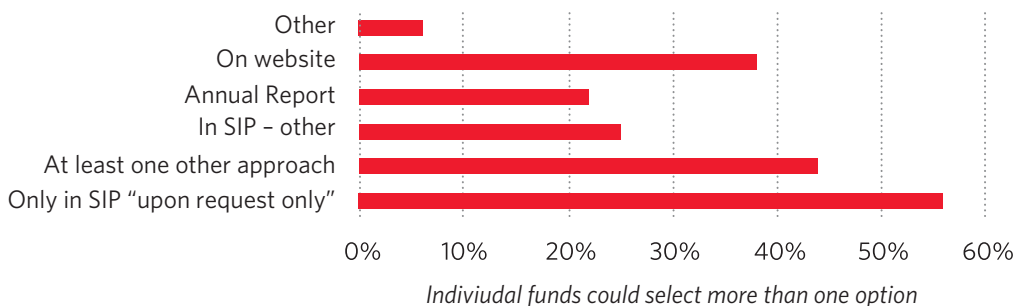
## 4. Communication

### 4.1 Communicating the Responsible Investment (RI) Policy to fund members and stakeholders

Funds are legally required to communicate their RI Policy by making the Statement of Investment Principles available to members on request. More funds are communicating their RI policies in multiple additional ways. In particular, the proportion of funds posting RI policies on public websites has increased to two fifths (38%; 13 of 32 funds) from around a fifth (22%; 6 of 27 funds) in 2009.

Table 4.1	2011		2009		2007	
Only in SIP "upon request only"	56%	18 of 32	59%	16 of 27	67%	16 of 24
At least one other approach	44%	14 of 32	41%	11 of 27	33%	8 of 24
In SIP - other	25%	8 of 32	19%	5 of 27	25%	6 of 24
In Annual Report	22%	7 of 32	22%	6 of 27	21%	5 of 24
On web site	38%	13 of 32	22%	6 of 27	21%	5 of 24
Other	6%	2 of 32	4%	1 of 27	4%	1 of 24

Figure 6: RI Policy - Disclosure to Members/Stakeholders



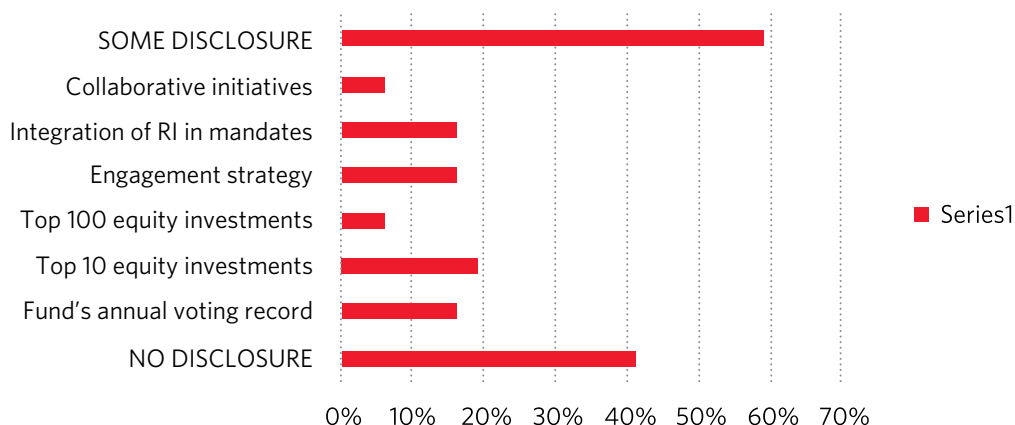
### 4.2 Communicating the Implementation of the Responsible Investment (RI) Policy

A majority of schemes with an active RI policy (59%; 19 of 32 funds) report that they communicate how their RI policy is implemented to fund members and stakeholders. This is substantially up from 2009 (41%; 11 of 27 funds)

One sixth (16%; 5 of 32) disclose their fund's annual voting record compared to one tenth (11%; 3 of 27 funds) in 2009. The same proportion disclose their fund's engagement strategy compared to one in twenty (6%; 2 of 32 funds) in 2009. Disclosure about participation in collaborative investor initiatives is also at this level (6%; 2 of 32 funds), which is broadly the same as in 2009 (7%; 2 of 27 funds).

One fifth (19%; 6 of 32 funds) disclose information about the integration of RI policies in investment mandates. This was unchanged from 2009 (19%; 5 of 27 funds). One sixth (16%; 5 of 32 funds) disclose at least part of the top 100 equity investments held. This was unchanged from 2009 (15%; 4 of 27 funds).

**Figure 7: Communicating the RI Policy's Implementation**



## 5. Training and Awareness

### 5.1 Trustee Training and Advice on Responsible Investment

As in previous surveys, investment consultants are the most popular source of RI training or advice for trustees. In-house staff continue to increase in popularity having overtaken fund managers as the second most popular source of RI training or advice in 2009.

**Figure 8: Range of training/Advice for Trustees**

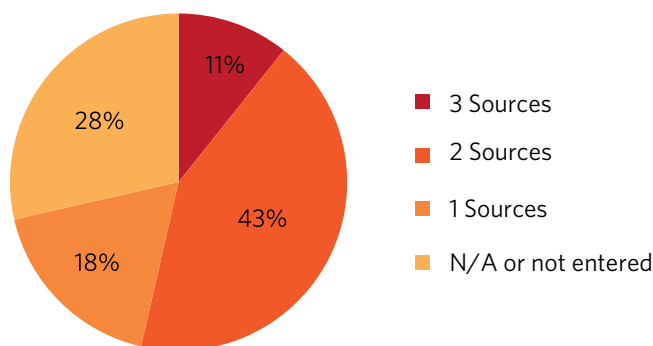


Table 5.1	2011	2009	2007
Received any training or advice	66% 21 of 32	81% 22 of 27	67% 16 of 24
Received training or advice from investment consultants	47% 15 of 32	48% 13 of 27	58% 14 of 24
Received in-house training or advice	47% 15 of 32	37% 10 of 27	25% 6 of 24
Received training or advice from fund managers	25% 8 of 32	33% 9 of 27	33% 8 of 24

## 5.2 Trustee Awareness of Climate Change and Collaborative Initiatives

Funds were asked whether their trustees were aware of the following initiatives:

- The Stern Review on the Economics of Climate Change
- The United Nations-backed Principles for Responsible Investment (PRI)
- The report on trustee fiduciary duties in regards to ESG issues from the United Nations Environment Programme Finance Initiative (UNEP FI) and law firm Freshfields (“Freshfields Report”)

In addition for 2011, we added the following initiatives to this list:

- Carbon Disclosure Project (CDP)
- Institutional Investors Group on Climate Change (IIGCC)
- Marathon Club

As in 2009, trustees confirming awareness of initiatives were more likely to be aware of more than one initiative at a time rather than just one. (The reported figures are only from participating funds which answered this question so may understate the total broader level of awareness of these initiatives.)

Table 5.2	2011	2009	2007
Aware of three or more	32% 15 of 47	31% 10 of 32	21% 7 of 33
Aware of two	28% 13 of 47	19% 6 of 32	30% 10 of 33
Aware of two or more	60% 28 of 47	50% 16 of 32	52% 17 of 33
Aware of one	2% 1 of 47	13% 4 of 32	21% 7 of 33

## 6. Participation

### Types of Scheme and Management

Most funds administered either DB only pension schemes or both DB and DC schemes. In the vast majority of cases, they all have some or most of their assets managed externally (89%; 40 of 47 funds). Around a tenth were predominantly internally managed.

As in 2009, there was a good spread of fund membership sizes among participating schemes. About a third of the funds replying have under 5000 members, while over a fifth have over 50000 beneficiaries in their schemes.

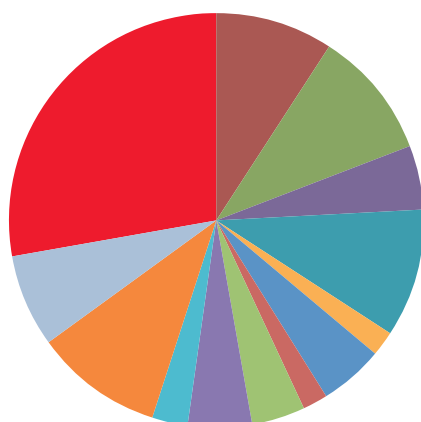
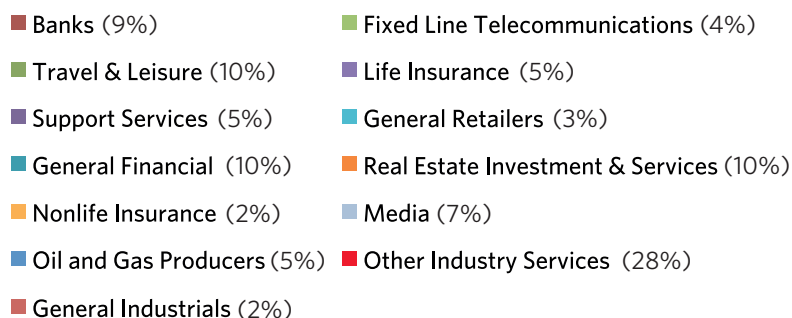
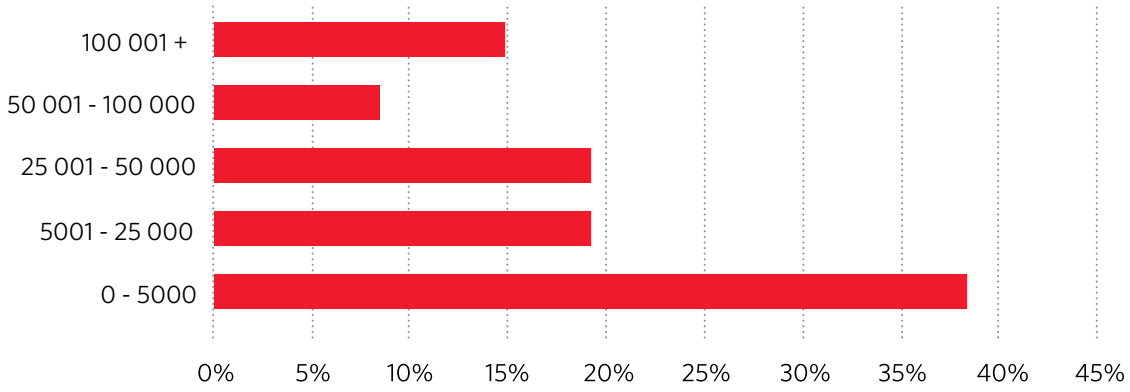


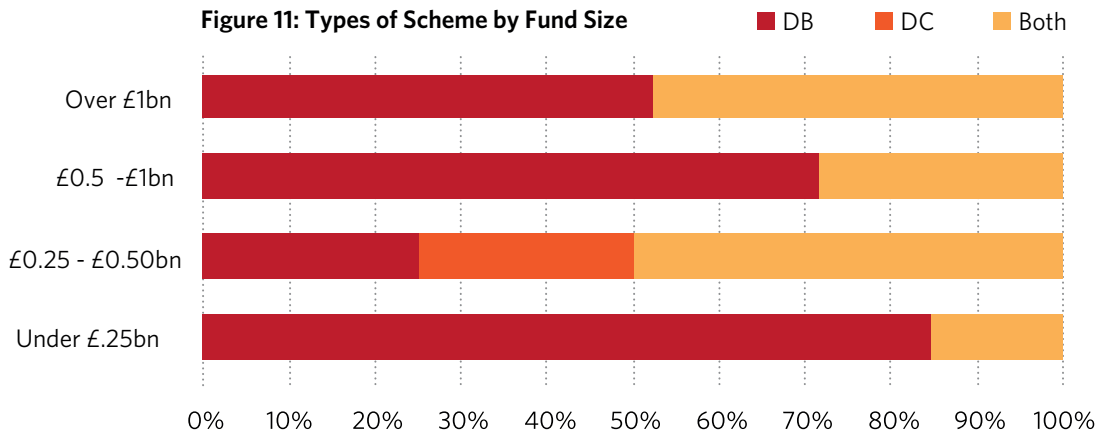
Figure 9: Industry Sectors of Funds Responding



**Figure 10: Number of Members (%)**



**Figure 11: Types of Scheme by Fund Size**



## Appendix I: Questionnaire Topics

### UK SUSTAINABLE INVESTMENT AND FINANCE CORPORATE PENSION FUND RESPONSIBLE INVESTMENT PRACTICES 2011 SURVEY

Responsible Investment (RI) refers to investment where environmental, social and corporate governance (ESG) considerations are taken into account in the selection, retention and realisation of investment and the responsible use of rights (such as voting rights) attached to investment. The questions asked included those in the 2007-2009 surveys together with a small number of additional ones.

- Q1** Do the trustees believe that environmental, social and governance (ESG) factors can have a material impact on the fund's investments in the long term?
- Q2** Do the trustees regard responsible/sustainable investment to be part of their fiduciary duty?
- In 2011, we added a question about discussion of the Stewardship Code.
- Q3** What do the trustees think are the biggest impediments to adopting and implementing a Responsible Investment strategy?
- Q4** Does the pension fund have a Responsible Investment policy or strategy?
- Q5** When deciding on the appropriate RI policy/strategy for dealing with environmental, social and governance issues for your fund, how significant was each of the following:
- Alignment with the plan sponsor's CR/Sustainability policies
  - Members' views (eg. through consultation/survey or other)
  - Advice from investment consultants
  - Advice from legal advisers
  - Fund managers' RI policies
  - Trustees' recommendations
- Q6** How often do you review your Responsible Investment policy?
- Q7** Please indicate, as applicable, which asset classes are covered by your Responsible Investment policy
- Q8** Please indicate how your Responsible Investment policy is implemented. Please distinguish between asset classes if appropriate:
- Exercise of shareholder voting rights
  - Engagement with investee companies to encourage better performance
  - Positive screening (i.e. selecting best performing companies or sectors for investing)
  - Negative screening/Exclusion (excluding certain sectors or companies)
  - Integration (i.e. including material ESG risks and opportunities in traditional financial analysis)
  - Assets invested in specialist mandates (clean technology/low carbon funds, micro-finance, social housing, etc.)
  - Screened ethical investment option(s) available to members for Defined Contribution (DC) and Additional Voluntary Contribution (AVC) schemes
  - Participation in collaborative initiatives such as CDP (Carbon Disclosure Project) or signatory of the UN-backed Principles for Responsible Investment. Please list below
  - Other
- In 2011, we added a question about stock lending.*

- Q9** Please indicate how the implementation of your Responsible Investment policy takes place:
- Managed in-house
  - Delegated to proxy voting agencies
  - Delegated to engagement overlay service providers
  - Delegated to fund managers
- Q10** If delegated to your fund managers: Does RI feature in your assessment/appointment/evaluation and/or remuneration of your fund managers? Are your RI policy requirements incorporated in your Investment Management Agreement?
- Q11** Do you monitor whether your RI policy is being carried out? If so, please describe how you do this.
- In 2011, we added a question about formal trustee discussion of ESG issues.
- Q12** How do you assess the effectiveness of your RI policy and / or measure its impact on the value of your investments?
- Q13** What benefits do you derive from doing RI? Please provide examples if available.
- Q14** Please indicate how you communicate your RI policy to the fund members and stakeholders.
- Q15** Please indicate how you communicate the implementation of your RI policy to the fund members and stakeholders.
- Q16** Please indicate if the trustees get specific investment training or advice on Responsible Investment from:
- Investment consultants
  - Fund managers
  - ESG Research Providers
  - In-house staff
- Q17** Please indicate if the trustees are aware of the following initiatives:
- The Stern Review on the Economics of Climate Change
  - UN-backed Principles for Responsible Investment (PRI)
  - The report on trustee fiduciary duties in regards to ESG issues from UNEP FI and law firm Freshfields ("Freshfields Report")

In 2011, we added the following initiatives to this list:

- Carbon Disclosure Project (CDP)
- Institutional Investors Group on Climate Change (IIGCC)
- Marathon Club

## Appendix II: Grading criteria used for ranking funds

Pension funds replying to the survey were assessed for a ranking if they expressly answered 'Yes' to question 4: "Does the pension fund have a Responsible Investment policy or strategy?" AND also provided answers to (most or all) of eight specific topics from the survey.

1. The survey questions relating to these 8 topics are noted in the tables below.
2. Each topic is graded on a scale running from A to E, where A scores 4 points, B=3, C=2, D=1 and E=0.
3. With eight possible A-E grades, the maximum score is 32 points. This is expressed as a percentage when giving the fund an overall ranking.

Q5 <i>When deciding on the appropriate 'Responsible Investment' policy / strategy for dealing with environmental, social and governance issues for your fund, how significant was its alignment with the corporate sponsor's CSR policy?</i>			
Significance	<b>GREAT</b>	<b>SOME</b>	<b>NO</b>
Grade	<b>A</b>	<b>C</b>	<b>E</b>

Q7 <i>Indicate which asset classes are covered by your RI policy:</i>					
% of asset classes actively covered by policy	<b>81-100%</b>	<b>61-80%</b>	<b>41-60%</b>	<b>21-40%</b>	<b>0-20%</b>
Grade	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>

Q11 <i>(How) Do you monitor whether your RI policy is carried out?</i>	
ANSWER	Grade
At least 2 of the below with frequency and significant details disclosed	<b>A</b>
Annual or quarterly face to face meetings or reviews with fund managers	<b>B</b>
Six-monthly or quarterly reports; Annual or quarterly written fund mgr review (i.e. not face to face)	<b>C</b>
Monitoring and / or reports without frequency indicated	<b>D</b>
Nothing entered / no details disclosed	<b>E</b>

Q12 <i>How do you assess the effectiveness of your RI policy and / or measure its impact on the value of your investments?</i>	
Answer discloses details for	
Frequency / Reports / Assessment against any standards / Formal process	
Grade	<b>A = all four / B = three / C = two / D = one Nothing entered or "Not applicable" E</b>



**Q14**  
Please indicate how you communicate your RI policy to members

ANSWER	Grade
Easily accessible in the public domain: On website / In annual report / In the SIP (all in the public domain)	<b>A= 2 or more</b> <b>B= one of these</b>
Easily accessible to members; accessible to other stakeholders with difficulty: On website / In annual report / In SIP	<b>C</b>
SIP easily available to members, but not the general public	<b>D</b>
SIP available to members upon request only / No disclosure	<b>E</b>

**Q15**  
Please indicate how you communicate the implementation of your RI policy to fund members / stakeholders. Do you disclose:

- Answer discloses details for
- integration of RI policies in investment mandates: Fund managers reporting requirements and / or fund managers' monitoring
  - engagement strategy: Engagement undertaken / Engagement results
  - participation in collaborative initiatives
  - the top 100 equity investments in the scheme
  - the fund's annual voting records

Five or more	Four	Three	One or two	No disclosure
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>

**Q16**  
Please indicate if the trustees get specific training or advice from:

Investment consultants / Fund managers	<b>A = at least one</b>
ESG research providers / In-house staff	<b>Nothing entered or "Not applicable" = E</b>

**Q17**  
Please indicate if the Trustees are aware of the following initiatives:

- Carbon Disclosure Project
- Institutional Investors Group on Climate Change
- Marathon Club
- The Stern Review on the Economics of Climate Change
- United Nations backed Principles of Responsible Investment (UN PRI)
- UNEP FI and law firm Freshfield's report on trustees' fiduciaries duties with regard to ESG issues

Three or more	Two	One	None	No disclosure
<b>A</b>	<b>B</b>	<b>C</b>	<b>E</b>	<b>E</b>

## **Appendix III: Further information**

### **About the UKSIF Sustainable Pensions Project**

The UKSIF Sustainable Pensions Project was launched in 2006. It is overseen by an independent Sustainable Pensions Advisory Board, chaired by Michael Deakin. Current Advisory Board members are listed at the front of this report. The Project encourages occupational pension funds to adopt more sustainable and responsible investment strategies, with the aim of enhancing long-term shareholder value and financial returns for fund members.

Under the supervision of the Advisory Board, UKSIF provides free resources for pension funds and their advisers. These include its Sustainable Pensions Library and a short quarterly e-newsletter. Occupational Pension funds which do not manage funds internally can also access further information and events by joining UKSIF as a Pension Fund Affiliate at no charge.

UK corporate pension funds were included in this UKSIF corporate pension fund survey if their plan sponsor was listed in January 2011 in the FTSE4Good Series and/or the UK Carbon Disclosure Leadership Index.

For more information on the UKSIF Sustainable Pensions Project, visit [www.uksif.org/projects/sustainable\\_pensions](http://www.uksif.org/projects/sustainable_pensions).

To register for our free quarterly e-newsletter, contact [sustainablepensions@uksif.org](mailto:sustainablepensions@uksif.org).

### **About other relevant reports and resources**

Local Government: Responsible Pension, published by UKSIF with CIPFA and LAPFF includes a self-assessment template which takes trustees of local authority pension funds through key responsible investment issues.

[www.uksif.org/projects/sustainable\\_pensions/publications](http://www.uksif.org/projects/sustainable_pensions/publications)

Stewardship made simple: Practical Steps for Pension Fund Trustees in applying the Stewardship Code, published by NAPF, aims to encourage pension funds to sign up to the Code: a ten-step framework to help pension fund trustees to develop and implement a stewardship policy.

[www.napf.org](http://www.napf.org)

Protecting Our Best Interests: Rediscovering Fiduciary Obligation, published by FairPensions, highlights ESG issues as an integral part of fiduciary duty. [www.fairpensions.org.uk](http://www.fairpensions.org.uk)

The UN-backed Principles for Responsible Investment (PRI) works to help investors implement a framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

[www.unpri.org](http://www.unpri.org)

Most leading investment consultancies now provide specialist support and services for responsible investment. Investment consultants will therefore often have access to colleagues with specialist knowledge and experience.

## **About UKSIF**

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. It also seeks to ensure that individual and institutional investors can reflect their values in their investments. It has over 250 members, including pension funds, banks, asset managers, investment consultants, research providers, financial advisers and non-governmental organisations. [www.uksif.org](http://www.uksif.org)

In the twenty years since 1991, responsible investment and other financial services that support sustainable development have moved from the margins to the mainstream. Today, over £6.5 trillion in responsibly managed assets is tracked by sustainable investment and finance associations around the world and the UK is widely recognized as a global hub for sustainable and responsible financial services with about 14% of that total managed by our world leading practitioners and firms. In 2011, UKSIF is supporting the UK finance sector to lead the world in advancing sustainable development through financial services by:

- Championing long-term responsible ownership and investment in response to the EU Green Paper on Corporate Governance, the Kay Review on UK Equity Markets, and other public policy debates
- Accelerating low carbon, resource efficient and socially beneficial investment and finance by supporting the UK Green Investment Bank, and encouraging regulators to understand and enable sustainable investment and finance
- Raising awareness about sustainable and responsible investment and associated financial services among private investors and institutional asset owners and improving the support they receive from financial and professional advisers, financial services marketing staff, service providers and distributors

## **About Carbon Disclosure Project (CDP) and the Carbon Disclosure Leadership Index (CDLI)**

CDP is an independent not-for-profit organisation which holds the largest database of corporate climate change information in the world. Companies with the top scores for disclosure qualify to be listed in the Carbon Disclosure Leadership Index (CDLI) [www.cdproject.net](http://www.cdproject.net)

## **About FTSE Group and the FTSE4Good Series**

FTSE Group (“FTSE”) is a global independent company, whose sole business is the creation and management of indices and associated data services on an international scale. It calculates and manages a comprehensive range of equity, fixed income, real estate and investment strategy indices, including a number of environmental and responsible investment indices, such as the FTSE4Good Series. Licensing revenues from the FTSE4Good Series are contributed to UNICEF, the global children’s charity. [www.ftse.com/Indices/](http://www.ftse.com/Indices/)

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