FOCUSED ON THE FUTURE

2000–2010

Celebrating ten years

of responsible investment disclosure by UK occupational pension funds

UKSIF

Foreword

Penny Shepherd MBE
Chief Executive
UKSIF
the sustainable investment and finance association

Ten years ago, on 3 July 2000, the world's first regulation requiring disclosure by occupational pension funds of their policies on environmental, social and governance issues came into force in the UK.

The introduction of this pioneering regulation followed an extensive consultation process started by the UK Pensions Minister at UKSIF's 1998 Annual Lecture. It attracted all-party support, particularly through the All-Party Parliamentary Group on Socially Responsible Investment, and backing from a range of leading UK pension funds and major City institutions.

This UK leadership triggered similar initiatives around the world and was the first step towards today's wide acceptance of the value of long-term responsible ownership and investment approaches. The field has now moved forward globally to a degree unimaginable in 2000.

We are grateful to Aviva Investors, Baillie Gifford & Co, F&C Asset Management, Henderson Global Investors, Hermes Equity Ownership Services, Hewitt Associates, Jupiter Asset Management, KBC Asset Management, Newton Investment Management, RCM (UK), Sarasin & Partners LLP and Standard Life Investments for their support for UKSIF's celebration of this historic anniversary.

The momentum continues. Indeed, the 2008-9 financial crisis and growing awareness of environmental risks have accelerated pressure for change. As a result, UKSIF believes that responsible ownership and investment will become the norm for major occupational pension funds, insurance companies and other significant investors worldwide by 2020. The direction of travel is now clear.

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global awareness

"Responsible ownership and investment are increasingly seen as being integral to the exercise of fiduciary duty by pension fund trustees. There is now greater awareness that environmental, social and governance (ESG) risks may impact long-term returns for investors.
Responsible Investment has come of age, and is no longer regarded as a minority concern, with the UN-backed Principles for Responsible Investment (PRI) having more than 750 signatories from 40+ countries, representing around US$21 trillion in assets.
The ground-breaking pensions disclosure regulation in the UK has helped raise global awareness."

—

Donald MacDonald
Chair of the Board
Principles for Responsible Investment (PRI)

trustee interest

"Trustees have an increasing level of awareness of responsible investment issues, according to UKSIF pension fund surveys. It is very encouraging, especially given all of the other challenges facing pension fund trustees, that we are seeing more UK pension funds adopting a responsible investment policy and a greater level of interest by trustees in engagement and voting as part of these RI policies."

—

Michael Deakin
Chair
UKSIF Sustainable Pensions Advisory Board

improving standards

"The NAPF congratulates UKSIF on its contribution to raising awareness of the importance of non-financial factors for pension funds. It is a happy coincidence that the tenth anniversary of the pensions disclosure regulations is marked by the publication of the new Stewardship Code which provides the framework for a further improvement in the standards of engagement and disclosure by institutional investors. The NAPF looks forward to working with UKSIF on its effective implementation."

—

Joanne Segars
Chief Executive
NAPF

low carbon economy

"In the ten years since the UK's responsible investment disclosure regulation was introduced, it has become clear that climate change and the shift to a low carbon economy create significant investment risks and opportunities. As we celebrate this anniversary, we expect that investor engagement with climate change will continue to deepen over the coming decade."

—

Ole Beier Sørensen
Chairman
Institutional Investors Group on Climate Change

The first 10 years: achievements

In 2010, responsible investment has moved forward globally to a degree unimaginable when the UK pensions disclosure regulation was implemented in 2000.

Key developments in the last ten years include:

Legality is accepted:
Prior to the regulation, it was common to hear pension funds claim that legal constraints prevented responsible investment. Now it is widely accepted that long-term responsible investment is integral to fiduciary duties.

Disclosure requirements introduced internationally:
The UK's disclosure regulation has been adopted across the world. *See diagram opposite.*

UK disclosure for further investors:
Since 2005, a similar disclosure requirement has been included in the Statement of Recommended Practice (SORP) for UK charity investors. Stakeholder pension providers are also required to disclosure their policies.

Investors collaborate successfully on environmental and social issues:
Influential, international investor initiatives launched by occupational pension funds and others over the last ten years include:

- Principles for Responsible Investment
- Institutional Investors Group on Climate Change
- Carbon Disclosure Project.

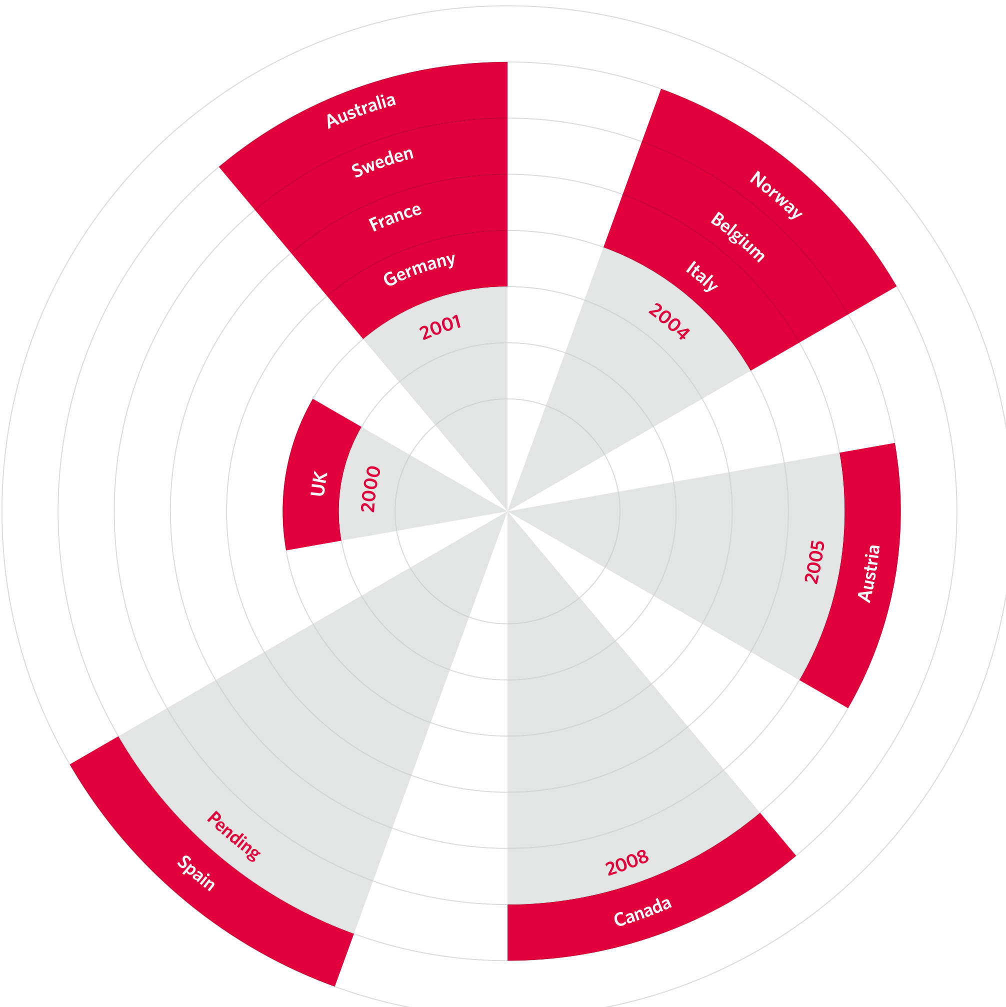
All three are headquartered in the UK.

Dramatic growth in responsible investment capacity:
Ten years ago, there were few UK investment professionals specialising in responsible investment. Today:

- Across the world, there are over 750 signatories to the UN-backed Principles for Responsible Investment, of which over 400 are asset managers and nearly 150 are professional service providers. They include 20 UK asset owners (10% of worldwide total), 54 UK asset managers (13%) and 22 UK professional service providers (15%).
- Leading investment consultants now employ responsible investment specialists.
- Major investment banks have responsible investment research teams; new UKSIF members in the last ten years include Citi Investment Research, CA Cheuvreux, Goldman Sachs, Morgan Stanley, Oddo Securities and UBS.
- Independent ESG research providers have moved from being national to global, and/or have been acquired by mainstream competitors.
- Bloomberg, MSCI and Thomson Reuters have entered the market for environmental, social and governance research through building internal capacity or acquisitions.
- A wider range of studies and reports have deepened knowledge. "A legal framework for the integration of environmental, social and governance issues into institutional investment" from Freshfields Bruckhaus Deringer (2005) is one example. Others are given in the UKSIF Sustainable Pensions Library at *www.uksif.org/sustainablepensions*.

Stewardship Codes introduced:
In 2010, Stewardship Codes are starting to be adopted across the globe to encourage responsible ownership. Again, the UK is leading the way.

UK Leadership: How responsible investment disclosure regulations have been adopted worldwide



building momentum

"The Government has started the SRI ball rolling with the new regulation, but we have no idea where the ball is now, how far it will go, nor of its speed. One thing we do know is that it will not stop rolling."

Pensions manager
quoted in "Response of UK Pensions Funds to the SRI Disclosure Regulation" by Eugenie Mathieu (October 2000)

The disclosure regulation

The responsible investment disclosure regulation for UK occupational pension funds:

Statutory Instrument 2005 No. 3378
The Occupational Pension Schemes (Investment) Regulations 2005

Statement of investment principles

2(3) A statement of investment principles must be in writing and must cover at least the following matters—

...

(b) their policies in relation to—

(vi) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and

(c) their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to the investments.

www.opsi.gov.uk/si/si2005/20053378.htm

The responsible investment disclosure regulation now forms part of Statutory Instrument 2005 No. 3378. This superceded the original Statutory Instrument 1999 No. 1849 "The Occupational Pension Schemes (Investment, and Assignment, Forfeiture, Bankruptcy etc.) Amendment Regulations 1999".

trustee obligations

"In the statement of investment principles, trustees of pension schemes must already state to what extent social, environmental or ethical considerations are taken into account. That is an obligation on trustees – not simply a right or an option. ... There is no reason in law why trustees cannot consider social and moral criteria in addition to their usual criteria of financial returns, security and diversification. This applies to the trustees of all pension schemes."

Labour government spokesperson Lord McKenzie of Luton
speaking during the passage of the 2008 Pensions Act

ownership responsibilities

"To what extent are pension funds acting responsibly with regard to their ownership responsibilities to companies? There have been improvements in that over the past decade, but the question that we need to consider is whether they have improved enough."

Coalition government spokesperson Lord Freud
in reply to a question in parliament, 10 June 2010

The next 10 years: predictions

UKSIF expects responsible ownership and investment to become the norm for major occupational pension funds and insurance companies worldwide by 2020. It is hard to predict exactly *when* in the next ten years this will occur – but the direction of travel is now clear. The tipping point will arrive.

We expect the following 10 key signals of change:

From major occupational pension funds and insurance companies

1. Sustainability Governance:
Pension fund trustees and insurance company boards will increase their skills in sustainability governance; it will become good practice to have at least one member with sustainability expertise

2. Transparency:
Major pension funds will implement web-based disclosure of how their responsible investment strategies are implemented

3. Leadership:
Major new pension providers, such as the UK's NEST Corporation, will sign and implement the UN-backed Principles for Responsible Investment, and seek to be beacons for responsible ownership and investment

4. Public Procurement:
Public sector asset owners, such as UK local government pension schemes, will be required by governments to sign and implement the UN-backed Principles for Responsible Investment

5. Responsible Procurement:
Pension funds will 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

From limited companies and other investments

6. Empowering shareholders as owners:
A forward-looking resilience and sustainability strategy will be published annually addressing opportunities, risks and economic and social impact; companies will put this to a shareholder vote; executive pay will be linked to key sustainability achievements

7. Responsible pension plan sponsorship:
Companies will encourage responsible investment by the occupational or personal pension funds they sponsor or provide access to; sustainability expertise will be made available as part of the employer's pension fund support

From civil society

8. Scrutiny from non-governmental organisations:
NGOs will build capacity and consumer support for understanding, scrutinising and challenging pension and insurance investment decisions

9. Support from the professions:
Professional associations will promote responsible investment skills development and encourage debate on the social and environmental impact of investment regulation, policies and decisions

From the investment industry

10. Integration into investment management:
Asset managers will build responsible ownership and investment into marketing and promotion, service development strategies and staff development. This will play a key role in rebuilding trust in financial services

Reflections from industry leaders

The UK Government set the global standard last decade with the reform to the Pensions Act. The time has come to go beyond merely ticking the SIP box.

Peter Michaelis
Head of Socially Responsible Investments
Aviva Investors

Henderson is pleased to support the anniversary celebrations for the Pensions Disclosure Act, which has helped expand interest in responsible investment at Henderson and across the wider market.

Andrew Formica,
CEO
Henderson Global Investors

As long-term investors we believe the increased focus on responsibility and sustainability as promoted by UKSIF adds value for our clients.

Alex Callander
Joint Senior Partner
Baillie Gifford

The simple disclosure required by the 2000 Pensions Act was hugely influential and is behind much of the progress we have made in responsible investment.

Colin Melvin
Chief Executive
Hermes Equity Ownership Services

Ten years on, the challenge is to move active share ownership from 'nice-to-have' to routine. Despite the shock of the financial crisis, we're not quite there yet.

Karina Litvack,
Head of Governance and Sustainability
F&C

Hewitt have been supporters of responsible investment since the formation of the Marathon Club in 2004 and see sustainability as increasingly important in future.

Tim Currell
Principal Investment Consultant
Hewitt Associates

Jupiter's green and sustainable investment specialists applaud the work of UKSIF who play a pivotal role in promoting the social and financial benefits of responsible investing to pension fund investors.

Edward Bonham Carter
CEO
Jupiter Asset Management

RCM are proud expert advisors to Pension Funds seeking sustainable investments and we are delighted to support UKSIF in celebrating 10 years of Responsible Investment.

Andreas Utermann
Global CIO
RCM

Pension fund investors have increasingly recognized the opportunities and risks related to sustainability issues such as climate change and water scarcity since this prescient regulation in 2000.

Steven A. Falci
Head of Sustainable Investments
KBC Asset Management

Increasing investor attention to ESG factors has brought wider appreciation of risk and recognition that what is good for your conscience is not always bad for your pocket.

Henry Boucher
Partner & Deputy CIO
Sarasin & Partners

Congratulations on the 10th anniversary. Newton believes the regulation has been instrumental in furthering the quality of debate on the importance of integrating ESG issues into a long-term investment strategy.

Helena Morrissey
CEO
Newton Investment Management

Responsible investment has become an integral part of the way pension funds and providers manage investments over the last decade and we expect this trend will continue.

Julie McDowell
Head of Sustainable & Responsible Investment
Standard Life Investments

UKSIF support for pension funds

UKSIF provides support and resources to corporate and local authority pension funds and their advisers through its Sustainable Pensions Project.

This includes a bi-annual survey (1) of how the occupation pension funds of the UK's Corporate Responsibility Leaders are approaching Responsible Investment, reports highlighting best practice across public sector pension funds, an overview of key resources through our on-line Library (2) and a free quarterly e-newsletter (3). The Project is overseen by an Advisory Board chaired by Michael Deakin.

1

2009 Corporate Pensions Report

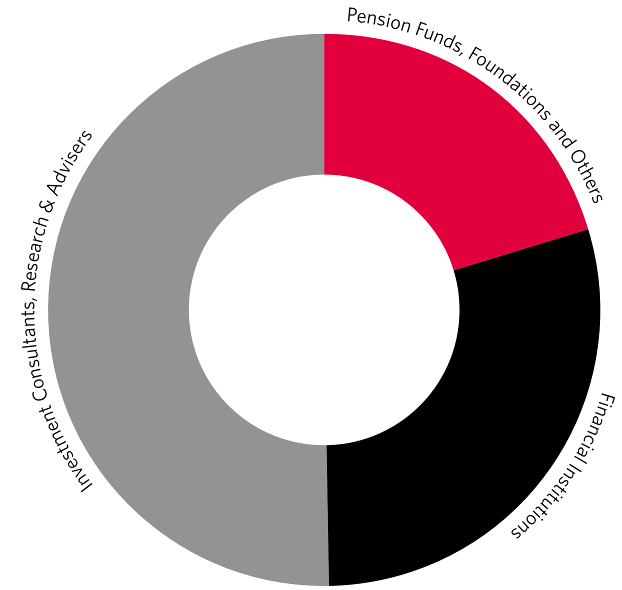
2

Sustainable Pensions Library

3

Sustainable Pensions e-newsletter

UKSIF membership



Membership:

45 **Pension Funds, Foundations and Others**
Includes occupational pension funds, charitable foundations, ngos and trade unions

64 **Financial Institutions**
Includes investment managers, banks and investment banks

110 **Investment Consultants, Research & Advisers**
Includes investment consultants, research providers, financial advisers and other providers of professional services

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