Responsible Business: Sustainable Pension

How the Pension Funds of the UK’s Corporate Responsibility Leaders are approaching responsible investment

UKSIF Sustainable Pensions Project
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Foreword

This report is a significant step in the programme of work of the UKSIF Sustainable Pensions project. For the first time we have data and commentary on the existence and application of responsible investment policies in the pension funds of the UK corporate sector.

In setting out to survey corporate pension funds, the Sustainable Pensions Advisory Board had two objectives. The first aim was to establish the extent to which responsible investment policies are being adopted, with the intention of carrying out further assessments in the future and thereby to measure change.

The second objective was to identify leading practice and to recognise it. I am pleased that this report illustrates the way in which three leading proponents of responsible investment apply their policies.

Pension fund trustees are facing many challenges in terms of funding, future contributions, investment strategies and regulation and not all will be able to implement the highest level of responsible investment policy in the near term. However I hope that by highlighting how the best in class are performing other funds will look to make progress in this regard.

I would like to thank the working party that developed the survey questions for all of the hard work that went in to the design. We are grateful for those that have completed the questionnaire.

It is clear from the report that there is still a lot of work for the Sustainable Pensions project and I am grateful for the contributions made by the advisory board and the UKSIF team over the last year. This report will help us to focus on the next phase of the project. I continue to believe that the two key issues are to increase the understanding of how responsible investment can impact investment returns and to help in the development and effective implementation of such policies.

Michael Deakin
Chair
UKSIF Sustainable Pensions Advisory Board
Responsibility Business: Sustainable Pension

Executive Summary

This survey identifies notable examples of achievement amongst corporate pension funds. It was undertaken to gain more information on the responsible investment practices of the corporate pension funds of the UK companies who are leading the way on corporate social responsibility and sustainable development.

The survey found that for participating funds:

- Nearly three quarters have a Responsible Investment (RI) policy. This rises to over four fifths for larger pension funds. It is two thirds for smaller funds.
- Where an RI policy had been adopted, it was almost always applied to equities. Where other asset classes were used, the RI policy was applied in about half of the cases.
- Two out of three corporate pension funds of CSR leaders have trustees who believe that ESG issues can have a material impact on the fund's investments in the long term.
- One fifth of funds with an RI policy give “great significance” to alignment with the plan sponsor’s CSR/Sustainability policies while twice as many gave “some significance” – and so nearly two thirds gave this at least “some significance”.
- Three quarters of funds said that they monitored whether their RI policy was being carried out, and two thirds said that RI featured in the assessment, appointment, evaluation or remuneration of fund managers.
- Less than half actively communicated their RI policy and how it is implemented to members and other stakeholders.

In our ranking of participating funds according to their implementation and communication of responsible investment, one third of participating funds scored in one of the higher ranking categories.

The British Telecom Pension Scheme, the Friends Provident Pension Scheme and the Stagecoach Group Pension Scheme demonstrated particularly strong leadership. Eight other pension funds were among the leaders.

Over half of the funds approached declined to participate in the survey. We do believe that the level of participation reflects both that it is the survey’s first year and that pension funds that have or have started to develop policies on responsible investment are likely to be more willing to share their experience. Nevertheless, this does raise questions about the collective commitment to transparency of these corporate pension funds and their willingness to be held to account for their approach to social and environmental issues, particularly compared with their plan sponsors.

We are particularly grateful to those pension funds that participated in the survey and scored less highly. We congratulate and thank them for their farsightedness in engaging with this process.

Based on this survey, we hope that further action will be taken by:

- Corporate Pension Fund Trustees and Staff
- Senior Management and Corporate Responsibility Staff in UK Listed Companies in the FTSE4Good Index and the CDP Climate Disclosure Leadership Index
- UKSIF and Non-Governmental Organisations campaigning on Capital Markets Issues

Recommendations to these groups are given under ‘Conclusions and Recommendations’ below.

We hope that the results of this survey will inspire many of the pension funds of UK listed companies in the FTSE4Good index and the Carbon Disclosure Project’s Climate Disclosure Leadership Index to follow the examples highlighted in this report. We would like to repeat this survey regularly and hope that this will enable pension funds to track their progress over time.
Commentaries from Industry Experts

**Reg Hinkley**
Formerly CEO, BP Pension Trustees Limited
Pension legislation has encouraged institutional investors to consider their responsibilities as owners of the assets they hold. Trustees typically view corporate social responsibility as one aspect of this – a means of ensuring that they optimise the value of their holdings in support of their members’ interests, rather than the pursuit of particular political agendas. And in the private sector particularly, there is a natural fit with the sponsoring company’s own policies.

Whilst the principles have been in play for some time, it is fair to say that most trustees have had to focus elsewhere. This survey demonstrates that many funds, especially the larger ones, do indeed have responsible investment policies; they include them in their mandates to fund managers; and their awareness of the underlying issues is growing. However, there remain practical challenges in giving real substance to such policies. Corporate funds will normally prefer engagement to proscription e.g. through the exercise of voting rights or dialogue with investee organisations. Designing effective terms of reference for investment managers; establishing monitoring procedures to ensure policy delivery; and appropriate communications to members are areas for further development.

Earlier this year, in BP, I initiated a review of these topics, as I was aware that there was more that might be done. In the work to date, it has been helpful to learn from others what they have been doing: hopefully this survey will provide a stimulus for similar dialogue among the pension fund community.

**Larry Stone**
Trustee, BT Pension Scheme
This report is important. It is also timely. Corporate governance, pensions and corporate social responsibility are increasingly key policy and operational areas for companies. They are also no longer discrete areas to address and cannot be assessed in isolation. This report helps draw together and analyse the issues and their interdependencies. There is a growing business imperative about sustainable development because (a) customers expect it of companies and those that do not pay attention to it may suffer, and (b) sustainability offers business opportunities - at cost and revenue levels - in most sectors. In parallel, investors are talking to companies more regularly about governance and CSR aspects as well as strategy and financials. This is because value is seen in good practices and significant downsides seen in bad practice. Pension schemes - and pensioners - are major beneficial owners of the Stock Markets and need in my view to play a full part in this virtuous circle.

The report suggests that pension schemes are increasingly convinced of, and engaged in, these trends. It also suggests that bigger schemes are more likely to have formal policies in place, and that members are unlikely to be aware of responsible investment policies, still less therefore to have been able in any way to shape or influence those policies. This ‘bottom-up’ view - the consumer view - is important to balance and challenge the important top-down views from representative bodies, Government and broader dialogues such as through the UN Global Compact.

**Will Oulton**
Head of Responsible Investment, FTSE Group
This inaugural survey by UKSIF of UK listed FTSE4Good company pension funds’ responsible investment practices is a valuable first step in beginning to identify best practice across funds. The survey is also effective in ascertaining the level of adoption of such practices across the UK corporate fund landscape.

Although the response rates were disappointing, I would hope that the next review has many more participants engaging with the process as confidence in the outputs and the benefits of sharing practice emerge. The results clearly indicate a disparity between the UK’s leading companies regarding the adoption of CSR/sustainability practices across their operations and supply chains and those of their own pension funds investment practices. As many of the companies surveyed are highly transparent in demonstrating and disclosing their CSR / sustainability credentials to their stakeholders, including employees past and present, this disparity may well become of increasing interest and concern to many of the scheme’s beneficiaries.

The next review will provide more information as to whether we are merely at the beginning of an upward trend. If the UK’s corporate pension funds follow the interest in responsible investment practices being shown by their global public fund colleagues then the next survey should be a highly informative and interesting read.

**Tim Currell**
Head of Corporate Governance and Sustainable Investment, Hewitt Associates
The tide is turning for Responsible Investment. Consumers, governments and corporations are all changing their policies and behaviours, and what was derided by many as a fund management ‘backwater’ just a few years ago is now firmly part of the mainstream. Against this backdrop, this survey is a timely attempt to identify what UK pension schemes are doing within their investment arrangements to take account of, and indeed exploit, this evolving trend.
The survey results throw up several valuable insights into current best practice, but perhaps the most striking statistic to me is that only 12 per cent of the pension funds invited to take part were able to respond - and this from a sample of companies that have already proved themselves to be interested in, and aligned with, responsible investment issues in their corporate life. This underlines a serious problem facing trustees today. The investment issues facing pension schemes - funding levels, derivatives and alternative assets to name but three - are complex and time consuming. In this context, Responsible Investment remains firmly in the ‘nice to have’ box.

Perhaps the greatest challenge following this survey is to create readily implementable tools that can help trustees to recognise the opportunities and then harness the rising tide of Responsible Investment to their scheme’s benefit.

Emma Hunt
European Head of Responsible Investment, Mercer

Environmental, social and corporate governance (ESG) factors are becoming increasingly important for long term investors. They can be sources of risk as well as tremendous opportunity.

To the detriment of many pension funds, we have seen how poor corporate governance can bring down some of the world’s largest corporations. At the same time, we are experiencing how environmental factors are driving the charge for new technologies, new products and services, and changing consumer preferences. ESG factors are shaping today’s business environment and look set to remain an influential component of tomorrow’s business environment.

As companies incorporate these factors into their businesses, it is a natural step to consider how they can best be integrated into their pension schemes. This study shows that, amongst some of the UK’s largest corporate pension funds, only a few have begun to do this in earnest. The good news is that a diverse range of best practice examples are now being shared by funds from around the world, and for funds wanting to take the next step, there is now plenty of experience to draw upon.

This study carried out by the Sustainable Pensions Project at the UK Social Investment Forum provides an excellent baseline of information from which progress in this area can be monitored. We welcome further monitoring, and would encourage pension funds to take the next step.

Survey and Analysis Process

Survey
UKSIF identified 285 corporate pension fund contacts for companies listed in the FTSE4Good UK Index and in the Carbon Disclosure Project’s Climate Disclosure Leadership Index as of July 2006. Following initial contact in Summer 2006 to gauge interest and confirm contact details, 278 were invited in Spring 2007 to complete the project questionnaire.

This asked about the fund’s responsible investment practices and their alignment with the corporate sponsor’s CSR and sustainability policies. It asked also if the fund had a Responsible Investment policy, and how it was implemented, monitored, assessed and communicated to fund members and stakeholders. Where a range of options was included, respondents were asked to indicate all that were applicable. The UKSIF Sustainable Pensions Advisory Board decided the content and style of both the questionnaire (see Appendix II) and its covering letter (see Appendix I).

Responses
Out of the 278 pension funds which were sent the questionnaire, 34 pension funds (12%) responded with a completed questionnaire, of which 33 were usable. The analysis in this report is based upon these 33 responses.

A further 146 pension fund contacts (53%) stated that they did not wish to participate, while 7 (3%) said that they had no pension scheme. Further details are given in Section 6.2 below about the reasons given by those choosing not to participate.

Analysis and Ranking
Where relevant for our analysis, we grouped the participating funds into two categories - larger funds (over £1bn in assets) and smaller funds (up to £1bn in assets).

In addition, we undertook a ‘ranking’ exercise to seek 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.

The results are given under ‘Ranking’ below.
Survey Results

1. Coverage

1.1 Responsible Investment Policy

Nearly three quarters of participating funds have a Responsible Investment (RI) policy (73%; 24 of 33 funds). Larger funds are more likely to have an RI policy than smaller funds (Larger funds: 86%; 12 of 14 funds. Smaller funds: 63%; 12 of 19 funds).

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

Equities were covered by the RI policy for almost all funds (92%; 22 of 24 funds).

The coverage of other asset classes was lower. Where Private Equity, Bonds, Property, Hedge Funds and Alternative Investments were held, they were covered by the RI policy in about half of the cases (Private Equity: 54%; 7 of 13 funds. Bonds: 57%; 13 of 23 funds. Property: 56%; 10 of 18 funds. Hedge Funds: 63%; 5 of 8 funds. Alternative Investments: 50%; 4 of 8 funds.). The lowest coverage was for “Other Investments”, which included Infrastructure and Commodities (33%; 2 of 6 funds).

2. Corporate Social Responsibility (CSR) Alignment

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

The trustees of about two thirds of the funds believe that ESG factors can have a material impact on the fund’s investments in the long term (67%; 22 of 33 funds). Trustees of larger funds (79%; 11 of 14 funds) are more likely to agree with this statement than trustees of smaller funds (58%; 11 of 19 funds).

2.2 Significance of Alignment with the Plan Sponsor’s CSR/Sustainability Policies

One fifth of funds with an RI policy (21%; 5 of 24 funds) said that “great significance” was given to alignment with the plan sponsor’s CSR/Sustainability policy. Twice as many (42%; 10 of 24 funds) gave this “some significance”, while a tenth of the total (13%; 3 of 24 funds) gave it “no significance”.

Figure 1. Does the Fund have an RI Policy/Strategy?

Figure 2. Asset Class Coverage

Figure 3. Alignment with the Plan Sponsor’s CSR/Sustainability Policies
3. Implementation

3.1 Implementation of the Responsible Investment Policy

Exercising shareholder voting rights is the most popular technique to implement the RI policy. It was practiced by three quarters of funds (75%; 18 of 24 funds). Engagement with investee companies is nearly as popular, being practiced by two thirds of funds (67%; 16 of 24 funds).

Larger funds are more likely to use shareholder voting rights than smaller funds (Larger funds: 92%; 11 of 12 funds. Smaller funds: 58%; 7 of 12 funds). Larger funds are also more likely to use engagement (Larger funds: 83%; 10 of 12 funds. Smaller funds: 50%; 6 of 12 funds).

Smaller funds are more likely to use positive screening than larger funds (Larger funds: 8%; 1 of 12 funds. Smaller funds: 33%; 4 of 12 funds). Smaller funds are also more likely to use negative screening than larger funds (Larger funds: 0%; 0 of 12 funds. Smaller funds: 25%; 3 of 12 funds).

Delegation to fund managers is the most popular way to manage implementation for all fund sizes (58%; 14 of 24 funds). Larger funds are more inclined to do this than smaller funds (Larger funds: 75%; 9 of 12 funds. Smaller funds: 42%; 5 of 12 funds).

Two thirds of funds said that RI featured in the assessment, appointment, evaluation or remuneration of fund managers (67%; 16 of 24 funds) and RI requirements were incorporated in the Investment Management Agreement (63%; 15 of 24 funds).

3.2 Monitoring the Responsible Investment (RI) Policy

Three quarters of funds said they monitored whether their RI policy was being carried out (75%; 18 of 24 funds).

Use of reports is the most popular form of monitoring (42%; 10 of 24 funds).

Larger funds also use assessment against standards (Larger funds: 25%; 3 of 12 funds. Smaller funds: 0%; 0 of 12 funds).
4. Communication

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

Most funds said that their RI policy was communicated in the Statement of Investment Principles (SIP) (88%; 21 of 24 funds). However, over two thirds of these funds made their SIP available to members “upon request only” (71%; 15 of 21 funds).

A fifth of funds referred to their RI policy in their Annual Report (21%; 5 of 24 funds). The same number posted details on web sites (21%; 5 of 24 funds), of which about half were accessible to non-member stakeholders i.e. without login details.

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

Less than half of funds communicate to fund members and stakeholders how their RI policy is implemented (38%; 9 of 24 funds).

A broad range of aspects are communicated by different funds (eg. Disclosure of fund’s annual voting records: 8%; 2 of 24 funds). Disclosure of integration of RI policies in investment mandates: 13%; 3 of 24 funds).

5. Training and Awareness

5.1 Trustees’ Training and Advice on Responsible Investment

The questionnaire identified four potential sources of training and advice on RI - Investment consultants, Fund managers, ESG research providers and In-house staff.

Two thirds of funds with a formal RI policy said that their trustees received specific investment training or advice on RI from at least one source (67%; 16 of 24 funds).

One sixth said their trustees received training or advice on RI from three sources (17%; 4 of 24 funds), and all of these funds listed investment consultants, fund managers and in-house staff as the training sources.

One third of funds provided a single source of training or advice on RI (33%; 8 of 24 funds), and in all bar one case this was from investment managers.

At the time of the survey, no fund offered its trustees training by ESG research providers although one said that it was planning to do this in future.

Over half of the funds with a formal RI policy said their trustees received specific RI training or advice from investment consultants (58%; 14 of 24 funds). This figure rose to three quarters for larger funds (75%; 9 of 124 funds).
5.2 Trustees' 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 Principles of Responsible Investment (UN PRI)
- The United Nations Environment Programme Finance Initiative (UNEP FI) and law firm Freshfield’s reports on trustees’ fiduciary duties in regards to ESG.

A fifth of participating funds (21%; 7 of 33 funds) said that their trustees were aware of all three initiatives. Nearly a third said that their trustees were aware of at least two of them (30%; 10 of 33 funds). Where trustees were aware of only one initiative, it was the Stern Review.

Nearly two thirds of funds with a formal RI policy said that their trustees were aware of the Stern Review (63%; 15 of 24 funds), compared with only a fifth of funds without such a policy (22%; 2 of 9 funds).

6. Participation

6.1 Participating Funds

Industry Sectors
The plan sponsors of the pension funds approached were drawn from 34 FTSE industry sectors. Responses were received from half of the industry sectors approached (50%; 17 of 34 sectors). The industry sector with the highest number of responses was Travel & Leisure (15%; 5 of 34 responding funds) followed by Banks (12%; 4 of 34 responding funds).

A fifth of the industry sectors had a response rate of at least 1 in 4 of the pension funds approached (21%; 7 of 34 sectors). Of these, one industry sector had a 100% response rate (1 of 1 funds). The sectors with the next highest response rates were:
- Electricity (50%; 2 of 4 funds)
- Oil & Gas Producers (40%; 2 of 5 funds)
- Household Goods (29%; 2 of 7 funds)

Assets under Management
Participating funds were divided nearly evenly between larger funds (with over £1bn in assets) and smaller funds (with under £1bn in assets) although there was a slight bias to smaller funds. (Larger funds: 42%; 14 of 33 funds. Smaller funds: 57%; 19 of 33 funds).

Number of Members
There was a good spread of fund membership sizes, with the most common size being under 5,000 members. One third of funds were of that size (33%; 11 of 33 funds).
Types of Scheme
Most funds administered either DB only pension schemes or both DB and DC schemes. Larger funds were divided evenly into those with DB only schemes and those with both DB and DC schemes. One smaller participating fund administered only a DC scheme.

Type of Asset Management
Over three quarters of funds have their assets managed externally (79%; 26 of 33 funds). Larger funds are more likely to have assets managed internally than smaller funds (Larger funds: 29%; 4 of 14 funds. Smaller funds: 5%; 1 of 19 funds).

6.2 Non-Participants
153 pension fund contacts stated that they did not wish to participate in the survey. Of these, 7 said that this was because the company had no pension scheme.

For the remaining 146 contacts (53% of those approached), the reasons given for non-participation are given in Figure 18.

<table>
<thead>
<tr>
<th>Reason for Non-Participation</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is company policy not to participate in surveys</td>
<td>42</td>
<td>29%</td>
</tr>
<tr>
<td>Lack of time to complete questionnaire</td>
<td>45</td>
<td>31%</td>
</tr>
<tr>
<td>The company’s pension plan is outsourced / The company only contributes to personal pensions</td>
<td>20</td>
<td>14%</td>
</tr>
<tr>
<td>Other reasons</td>
<td>39</td>
<td>27%</td>
</tr>
</tbody>
</table>

Examples of ‘other’ reasons for non-participation were:

“We cannot participate in this questionnaire as we are unable to ascertain the Trustees attitude towards responsible/sustainable investment practices.”

“It is company policy not to disclose details of our pension fund investment policy to external parties.”

“We are no longer a public company and would not want to disclose any information.”

“We cover these questions in other surveys, e.g. the annual NAPF questionnaire, so won’t participate in yours.”

“The questions aren’t appropriate for us.”

“I will not be completing and returning your questionnaire at this time, as much of it is not relevant to us at the moment. We are in the process of a full review of our investments and managers, and SRI will form part of this review, but at the moment we do not have any formal policy on this.”
Ranking

To rank funds, we used a subset of the questionnaire, selecting those questions which enabled us to classify participating funds according to their level of both implementation and communication of responsible investment practices.

Our ranking focused on:
- the degree to which a fund’s Responsible Investment policy is aligned with the corporate sponsor’s CSR policy;
- the percentage of asset classes covered by the Responsible Investment policy;
- how the Responsible Investment policy is monitored;
- how the Responsible Investment policy's effectiveness is measured;
- how the Responsible Investment policy and its implementation is communicated to members and stakeholders;
- whether trustees receive training and advice on Responsible Investment;
- whether trustees are aware of specific initiatives relevant to Responsible Investment.

The ranking criteria are outlined in more detail in Appendix III.

It is impressive that about one third of funds participating in this initial ranking exercise scored “Silver” or above, ie. over 40% of the total score:
- The British Telecom Pension Scheme was ranked as “Platinum” – the highest of our five levels.
- Friends Provident Pension Scheme and Stagecoach Group Pension Scheme were ranked as “Gold” – the next level.
- Eight further funds were ranked among the leaders by achieving “Silver”.

Nearly 40% achieved the rank of “Bronze” while about a quarter were ranked at the lowest level of “Copper”. Details are given in Figures 19 and 20.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Pension Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>81 - 100%</td>
<td>British Telecom Pension Scheme (1 of 33 participating funds)</td>
</tr>
<tr>
<td>Gold</td>
<td>61 - 80%</td>
<td>Friends Provident Pension Scheme, Stagecoach Group Pension Scheme (2 of 33 participating funds)</td>
</tr>
<tr>
<td>Silver</td>
<td>41 - 60%</td>
<td>Barclays UK Retirement Fund, BP Pension Fund, British Airways: Airways Pension Schemes &amp; New Airways Pension Scheme, Bovis Homes Pension Scheme, First Choice Holidays plc Pension Scheme, HBOS Final Salary Pension Scheme, The BAA Pension Scheme, One other fund, who did not wish to be identified (8 of 33 participating funds)</td>
</tr>
<tr>
<td>Bronze</td>
<td>21 - 40%</td>
<td>13 of 33 participating funds</td>
</tr>
<tr>
<td>Copper</td>
<td>0 - 20%</td>
<td>9 of 33 participating funds</td>
</tr>
</tbody>
</table>
Case Studies

The British Telecom Pension Scheme (BTPS)

“BTPS invests for the long-term and believes that monitoring and improving ESG issues is in the long-term interest of investors and society as a whole”.

Colin Hartridge-Price, Secretary, BT Pension Scheme Trustees Limited and Chief Pensions Officer for the BT Pension Scheme

The British Telecom Pension Scheme (BTPS) is the only scheme to be ranked as “Platinum”. It is a Defined Benefits Scheme with about 350,000 members and assets worth c. £40bn.

The BTPS's trustees believe that environmental, social and governance (ESG) factors can have a material impact on the fund's investment in the long term and see responsible investment (RI) practices as part of their fiduciary duty. The fund’s RI policy was developed by the Trustees in consultation with Hermes Pensions Management Ltd, is executed by Hermes Equity Ownership Services (EOS), and is publicly stated. The RI policy is reviewed bi-annually.

“Social, ethical, environmental and governance issues are key areas of corporate and policy engagement for BTPS and they are present in all of EOS' engagement analysis, which is based on the Hermes Principles. Principles 9 and 10 recognise the short-termism in companies' externalisation of costs and appeal for companies to work together towards a level playing field anticipating much of the current debate on universal ownership. Importantly, through EOS, BTPS acts on these Principles in its voting, engagement, policy and best practice work.”

CSR Alignment
When deciding on the appropriate RI policy/strategy for dealing with ESG issues, the BT Pension Scheme gives no significance to alignment with the plan sponsor's CSR/sustainability policies. However, great significance is given to trustees' recommendations.

Monitoring
The trustees see it as their fiduciary duty to invest responsibly because in doing so they can raise the value of the fund. They receive 6-monthly reports and presentations from Hermes on the operation of the policy, specifically in the context of the Institutional Shareholders’ Committee Principles and the UN Principles for Responsible Investment.

Asset Coverage and Implementation
The BTPS’s RI policy is implemented through exercising shareholder voting rights; engagement with investee companies to encourage better performance; integration; assets invested in specialist mandates and participation in collaborative initiatives, e.g. the Enhanced Analytics Initiative and the United Nations Principles for Responsible Investment, of which it is a founder member and provides the current chairman in Donald MacDonald, a BTPS Trustee. BTPS has delegated its RI policy's implementation to Hermes Equity Ownership Ltd, which is wholly owned by BTPS.

Responsible investment features in the assessment, appointment and evaluation of fund managers. It also features in Hermes' remuneration. The responsible investment policy requirements are incorporated in the Investment Management Agreement (IMA).

The BTPS's Statement of Investment Principles (SIP) instructs managers of segregated portfolios to consider the following when selecting investments: “A company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard for the environment and society as a whole.”

Communication
The BTPS’s RI policy is communicated to fund members and stakeholders in the annual report and in its SIP, both of which are publicly available on the BTPS's website. Its implementation is communicated by disclosing the fund’s annual voting records, engagement strategy and participation in collaborative initiatives.

Trustee Training and Awareness
BTPS's trustees receive specific investment training or advice on responsible investment from ESG research providers, investment consultants, fund managers and in-house staff.

1. www.btpensions.net/BTPS/scheme_details/responsible_investment.htm
2. www.btpensions.net/BTPS/scheme_details/responsible_investment.htm
4. www.btpensions.net
Friends Provident Pension Scheme

“Our Trust Deed makes it clear that the Trustee has the power to invest in such manner as the Trustee deems to be ethically or socially responsible provided that in exercising this power the Trustee shall at all times have regard to the interests of the beneficiaries and the employer.”

Andrew Neilan, Trustee and Scheme Secretary, Friends Provident Pension Scheme

The Friends Provident Pension Scheme (FPPS) is a Defined Benefits scheme with 15,000 beneficiaries. Assets under management are worth £890m.

The FPPS’s trustees believe that ESG factors can have a material impact on the fund’s investments in the long term. In line with the UN Principles for Responsible Investment (UN PRI), they see it as their duty as institutional investors to act in the best long-term interests of their beneficiaries. In F&C Asset Management (F&C), a European socially responsible investor through its reo® (responsible engagement overlay) service, they have appointed an Investment Manager who was one of the first signatories to the UN PRI. The trustees consider responsible/sustainable investment practices as part of their fiduciary duty. The RI policy is reviewed annually.

**CSR Alignment**

The FPPS’s Investment Manager takes account of social, ethical and environmental (SEE) considerations to the extent that these actions impact on financial performance. When deciding on the appropriate Responsible Investment (RI) policy/strategy for dealing with ESG issues for the fund, alignment with the plan sponsor’s CSR/sustainability policies is given great significance.

**Asset Coverage and Implementation**

The RI policy’s requirements are incorporated in the Investment Management Agreement and are documented in the Scheme’s Statement of Investment Principles (SIP). The policy’s implementation is delegated to F&C, who apply the responsible engagement overlay on equity assets. This is implemented through exercise of shareholder voting rights; engagement with investee companies to encourage better performance and integration (i.e. including material ESG risks and opportunities in traditional financial analysis). In addition, SRI option(s) are available to Additional Voluntary Contribution (AVC) members through the Stewardship investment fund.

**Monitoring**

The trustees receive the reo® report, confidential reo® report and voting records on a quarterly basis.

**Communication**

The Scheme’s RI policy is disclosed in the SIP, which is available to members upon request only and is also referred to in the annual Summary Funding Statement to members. The RI policy’s implementation is communicated to the fund members and stakeholders by F&C, who disclose the voting record.

**Trustee Training and Awareness**

Trustees receive specific investment training or advice on RI from investment consultants and fund managers.

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5. The Scheme closed to new entrants with effect from 1 July 2007
6. available from www.fandc.com
Stagecoach Group Pension Scheme

“Responsible Investment is not just common sense for pensions trustees, it is both good business sense and essential to the proper discharge of fiduciary responsibilities. Professor Benjamin Graham wrote that investment is most intelligent when it is most businesslike, a statement which Warren Buffett believes includes the most important words about investment ever written.” Derek Scott, Chairman of Trustees, Stagecoach Group Pension Scheme

The Stagecoach Group Pension Scheme is a Defined Benefits scheme with over 40,000 members. Its assets under management are worth over £580m.7

The trustees believe that environmental, social and governance (ESG) factors can have a material impact on the fund’s investments in the long term. They expect their investment managers to reflect this in their fundamental analysis of investment opportunities. The Stagecoach Group Pension Scheme’s RI policy is reviewed annually and is stated in the Annual Report and the Statement of Investment Principles (SIP).

“The Trustees have discussed with their Investment Managers their attitudes to SRI and are satisfied that the Managers are taking a responsible approach to their selection of investments. The Investment Managers have made it clear that their prime concern continues to be the long term financial interests of the Scheme. Nonetheless, when selecting investments, the Managers have assured the Trustees that they will take into account relationships with employees, suppliers and customers within an ethical environment.”8

CSR Alignment
When deciding on the appropriate RI policy for dealing with ESG issues for the fund, alignment with the plan sponsor’s CSR/sustainability policies is given some significance.

The independent chairman of trustees is a professional trustee who served as a fund member elected representative on the National Association of Pension Funds (NAPF) investment council. He is a past convenor of the NAPF shareholder affairs committee, and when vice-chairman of NAPF investment council attended meetings of the Institutional Shareholders’ Committee (ISC). He is an EIRIS supporter, business member of Co-operativesUK10 and member of Governance for Owners Group LLP’s advisory board and LLP board.11

Asset Coverage and Implementation
The Scheme’s RI policy is implemented by exercising shareholder voting rights; engagement with investee companies/issuers to encourage better performance; negative screening and exclusion; and integration.

The RI policy’s implementation is delegated to the Scheme’s fund managers and features in their assessment, appointment, monitoring and evaluation. The policy requirements are incorporated in the Investment Management Agreements, which require compliance with the ISC’s guidelines on shareholder activism and engagement or equivalent for non-UK managers.

Monitoring
The implementation of the Scheme’s RI policy is monitored through quarterly monitoring reports and manager monitoring meetings. Its effectiveness is assessed as part of overall evaluation and as part of the decision to retain or terminate an investment manager. The Scheme considers RI part of a fundamental, value-based approach to investment in all asset classes, not just equities.

Communication
The Scheme’s RI policy is available in the SIP, which is available to members upon request only. The policy’s implementation is disclosed to the fund members and stakeholders via

- Disclosure of the top 10 equity investments in the scheme (in the annual report)
- Disclosure of engagement strategy (in the annual report)
- Disclosure of the integration of RI policies in investment mandates, including fund managers’ reporting requirements and fund managers’ monitoring (in the annual report)

Trustee Training and Awareness
The trustees receive specific investment training or advice on responsible investment from fund managers and in-house staff.

Conclusions and Recommendations

This survey identifies notable examples of achievement amongst corporate pension funds. It found that participating funds were likely to have trustees who believe that ESG issues can have a material impact on the fund’s investments in the long-term and to give great significance or some significance to the plan sponsor’s CSR/Sustainability policies. There was a significant level of monitoring of the policy’s implementation, with RI featuring to a more moderate degree in other relationships with fund managers. However, active communication of the policy and its implementation to members and other stakeholders was noticeably rarer.

In our ranking of funds by their implementation and communication of responsible investment, one third of participating funds scored in one of the higher ranking categories. The British Telecom Pension Scheme, the Friends Provident Pension Scheme and the Stagecoach Group Pension Scheme demonstrated particularly strong leadership. Eight other pension funds were among the leaders.

Over half of the funds approached declined to participate in the survey. We believe that the level of participation reflects both that it is the survey’s first year and that pension funds that have or have started to develop policies on responsible investment may be more willing to share their experience. As such, we anticipate that our results are more likely to overstate than understatement responsible investment practices of the total group of corporate pension funds of the UK’s corporate responsibility leaders.

Nevertheless, given that transparency is a key component of corporate social responsibility, it is particularly notable that there was such a high level of non-participation from the pension funds of UK companies who are generally recognised as leaders in corporate social responsibility. Combined with the analysis of responses from participating funds, this raises questions about the collective commitment to transparency of these corporate pension funds and their willingness to be held to account for their approach to social and environmental issues, particularly compared with their plan sponsors. Clearly, this is a general comment and the survey highlights some admirable exceptions.

This survey is committed to a “name and fame” model of highlighting examples of good practice rather than criticising those who have done less. Within this context, we are particularly grateful to those pension funds that participated in the survey and scored “Bronze” or “Copper”. While not naming them, we congratulate and thank them for their farsightedness in engaging with this process.

The evidence from this survey leads to the following recommendations:

**Key Recommendations for Corporate Pension Fund Trustees and Staff**
- Draw on the plan sponsor’s expertise in corporate social responsibility and sustainable development, including encouraging the appointment of trustees employed by the plan sponsor who have these skills
- Draw on the experience of the leading corporate pension funds highlighted in this report
- When one is not yet in place, introduce a formal responsible investment policy
- Communicate the responsible investment policy and its implementation to fund members and stakeholders
- Include responsible investment requirements in the Investment Management Agreement and in the assessment, appointment, evaluation and remuneration of fund managers

**Key Recommendations for Senior Management and Corporate Responsibility Staff in UK Listed Companies in the FTSE4Good Index and the CDP Climate Disclosure Leadership Index**
- Provide corporate pension fund staff with access to the company’s sustainable development and corporate responsibility expertise and encourage them to use this
- Encourage the corporate pension fund to increase its transparency on responsible investment issues to fund members and other stakeholders
- Where appropriate, encourage and support directors and senior staff with corporate responsibility and sustainable development expertise to become trustees of the corporate pension fund

**Key Recommendations for UKSIF and for Non-Governmental Organisations campaigning on Capital Markets issues**
- Simplify and shorten questionnaires where possible and refine rankings as knowledge develops
- Recognise that pension fund decision making timescales are long and resources limited taking account of other priorities; allow sufficient elapsed time both for responses and for evidence of change

We hope that the results of this survey will inspire many of the pension funds of UK listed companies in the FTSE4Good index and the Carbon Disclosure Project’s Climate Disclosure Leadership Index to follow the examples highlighted in this report. We would like to repeat this survey regularly and hope that this will enable pension funds to track their progress over time.
27th February 2007

RE: Corporate Pension Funds Responsible Investment Practices
-Survey Questionnaire-

Dear

I am writing to seek your help with the attached survey on UK corporate pension funds Responsible Investment (RI) practices, which has been prepared by the UK Social Investment Forum (UKSIF) in collaboration with FTSE Group. I appreciate that you must receive other requests of this kind, but I trust that you will find that this one is somewhat different. We know that it is a topic of growing interest to trustees, and we are equally conscious that creating a dialogue around the board table which will lead to a practical outcome can be challenging. Our aim is not simply to gather information, therefore, but also to provide constructive feedback on our findings, which will contribute to your own deliberations on the subject.

Why consider Responsible Investment?

In light of the Stern Review and the launch of the UN Principles for Responsible Investment (UN PRI), Responsible Investment is increasingly being recognized as one issue amongst many that trustees can no longer ignore when making investment decisions. Indeed, there is a growing view among investment professionals that Environmental, Social and Corporate Governance (ESG) issues can affect the long-term performance of investment portfolios. Moreover, RI is progressively being perceived by legislators, the media, beneficiaries and stakeholders as simply being part of responsible share ownership.

The benefits of participating

Completing this brief survey should provide you with useful information about what constitutes Responsible Investment best practice. As a participant, you will be given confidential feedback on request about your scheme’s performance. This should allow you to benchmark your pension scheme’s RI practices against your peers.

The purpose of the survey is to identify and highlight best-practice examples of Responsible Investment among pension funds of UK companies so that others can learn from them. The survey results will be presented using a positive “Name and Fame” model. Specific funds will be identified only as exemplars and with their permission.

We hope that you will see this survey as a valuable opportunity to broaden your general understanding of RI as well as maybe attract some positive publicity!

Who we are surveying and why

This survey forms part of UKSIF’s Sustainable Pension Project, which, as we described in a letter sent to you last summer, encourages pension schemes of companies which are leading the way on corporate social responsibility (CSR) to consider environmental and social issues also in their pension funds investment decisions.

We are inviting you to take part because your corporate sponsor is a CSR leader listed in FTSE4Good and/or the Carbon Disclosure Project’s Climate Leadership Indices (CDP CLI).

FTSE Group has contacted your corporate sponsor’s CSR or Sustainability department and told them about this survey and our project.

You will find more information about Responsible Investment and the Sustainable Pensions Project on the attached Background Information sheet. If you would like more information about the project or to meet to discuss it further, please contact UKSIF’s Sustainable Pensions Adviser Andrea Krug at: 0207 749 9955 or andrea.krug@uksif.org.

I look forward to receiving your completed questionnaire. It should not take more than about 30 minutes to complete. Please note that an electronic version of the questionnaire is available from (...) should you prefer to fill it electronically. We would be very grateful if you could spare some time to answer it by 30th March 2007. We expect to release the survey results by mid June 2007. Do please advise us if you are not the right addressee for the survey.

Many thanks for your help.

With best wishes

Michael Deakin
Chair
UKSIF Sustainable Pensions Project
Appendix II – Questionnaire Topics

CORPORATE PENSION FUNDS RESPONSIBLE INVESTMENT PRACTICES
SUMMARY OF SURVEY QUESTIONNAIRE

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.

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 consider responsible/sustainable investment practices as part of their fiduciary duty or as a separate aspect of investing?

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? If not, can you please state why not or indicate if you intend to develop one in the next 12 months. If yes, please mention where it is stated and please describe or attach.

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 CSR/sustainability policies
- Members’ views (e.g. through consultation/survey or other. Please describe how.)
- Advice from investment consultants
- Advice from legal advisers
- Fund managers’ RI policies
- Trustees’ recommendations

Q6 How often do you review your Responsible Investment policy? And when doing so, do you have a process in place to keep abreast of industry developments in this area to ensure you stay in line with emerging good and best practice?

Q7 Please indicate 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.)
- SRI option(s) available to members for Defined Contribution (DC) and Additional Voluntary Contribution (AVC) schemes.
- Participation to collaborative initiatives such as CDP (Carbon Disclosure Project) or signatory of the UN Principles for Responsible Investment. Please list below.
- Others.

Q9 Please indicate how the implementation of your Responsible Investment policy takes place:
- Managed in-house
- Delegated to engagement overlay service providers
- Delegated to proxy voting agencies
- Delegated to your fund managers

Q10 If delegated to your fund managers: To what extent does RI feature in their assessment, appointment, evaluation and/or remuneration? 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, including how you hold your fund managers/service providers to account.
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
- ESG Research Providers
- Fund managers
- In-house staff

Q17 Please indicate if the trustees are aware of the following initiatives:
- The Stern Review on the Economics of Climate Change
- United Nations Principles of Responsible Investment (UN PRI)
- The UNEP FI and law firm Freshfield's report on trustees' fiduciaries duties in regards to ESG issues.

Appendix III - Ranking Criteria

Q5 - When deciding on the appropriate RI policy/strategy for dealing with ESG issues for your fund, how significant was its alignment with the Sponsor’s CSR Policy?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Great Significance</th>
<th>Some Significance</th>
<th>No Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
</tbody>
</table>

Q7 - Indicate which asset classes are covered by your RI policy (Criterion: How many of their asset classes are covered).

<table>
<thead>
<tr>
<th>Answer</th>
<th>81% - 100%</th>
<th>61% - 80%</th>
<th>41% - 60%</th>
<th>21% - 40%</th>
<th>0 - 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>E</td>
</tr>
</tbody>
</table>

Q11 - Do you monitor whether your RI policy is being carried out?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than two of the below with frequency and details</td>
<td>A</td>
</tr>
<tr>
<td>Annual or quarterly face to face meetings or reviews with fund managers</td>
<td>B</td>
</tr>
<tr>
<td>Six-monthly or quarterly reports; Annual or quarterly written fund mgr review (i.e. not face to face)</td>
<td>C</td>
</tr>
<tr>
<td>Monitoring and/or reports without frequency indicated</td>
<td>D</td>
</tr>
<tr>
<td>Nothing entered / “Not applicable”</td>
<td>E</td>
</tr>
</tbody>
</table>

Q12 - How do you assess the effectiveness of your RI policy and/or measure its impact on the value of your investments?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency / Reports / Assessment against any standards / Formal process</td>
<td>A = all four / B = three / C = two / D = one</td>
</tr>
<tr>
<td>Nothing entered or “Not applicable”</td>
<td>E</td>
</tr>
</tbody>
</table>

1 Note: If no RI policy, then percentage = 0%
### Q 14 - Please indicate how you communicate your RI policy to fund members and stakeholders

<table>
<thead>
<tr>
<th>Answer</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easily accessible in the public domain:</td>
<td>A = 2 or more / B = 1</td>
</tr>
<tr>
<td>On website / In annual report / In the SIP (all in the public domain)</td>
<td></td>
</tr>
<tr>
<td>Easily accessible to members; accessible to other stakeholders with difficulty:</td>
<td>C = At least 1</td>
</tr>
<tr>
<td>On website / In annual report / In SIP</td>
<td></td>
</tr>
<tr>
<td>SIP easily available to members, but not the general public</td>
<td>D</td>
</tr>
<tr>
<td>SIP available to members upon request only / No disclosure</td>
<td>E</td>
</tr>
</tbody>
</table>

### Q 15 - Please indicate how you communicate the implementation of your RI policy to fund members / stakeholders. Do you disclose:

- 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

<table>
<thead>
<tr>
<th>Answer</th>
<th>Five or more</th>
<th>Four</th>
<th>Three</th>
<th>One or two</th>
<th>No disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>E</td>
</tr>
</tbody>
</table>

### Q 16 - Please indicate if the trustees get specific investment training or advice on RI from...

<table>
<thead>
<tr>
<th>Answer</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment consultants / Fund managers / ESG research providers / In-house staff</td>
<td>A = At least two</td>
</tr>
<tr>
<td>Nothing selected</td>
<td>E</td>
</tr>
</tbody>
</table>

### Q 17 - Please indicate if the trustees are aware of the following initiatives: Stern Review / UN PRI / UNEP FI or Freshfield’s report

<table>
<thead>
<tr>
<th>Answer</th>
<th>Three initiatives</th>
<th>Two initiatives</th>
<th>One initiative</th>
<th>None or “N/A”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>E</td>
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</table>
Appendix IV – Responsible Investment: An Example of a Five Step Implementation Approach

Step 1: Build Knowledge and Understanding
The first step is to build the knowledge and understanding of trustees and pensions staff. It may make sense to identify a particular person or people to take responsibility for Responsible Investment issues. Draw on the expertise of the plan sponsor’s sustainable development or corporate responsibility staff. Encourage the employer’s Corporate Responsibility Director or similar to become a pension fund trustee.

UKSIF’s online Sustainable Pensions Library at www.uksif.org/splibrary provides a simple “one stop shop” for pension fund trustees and managers to learn more about responsible investment. Bringing together key documents and web links in one place, it gives an easy-to-use overview of key initiatives, legal and financial arguments and particularly relevant books and papers. UKSIF also provides a free quarterly two page pensions e-newsletter. Email sustainablepensions@uksif.org to register for it.

Step 2: Seek Informed Professional Advice
Seek advice from your investment consultant on how best to address Responsible Investment. The major investment consultancies have been building specialist support for this area in recent years and your usual investment consultant should have access to at least one colleague with specialist knowledge and experience.

Step 3: Consult, Collaborate and Disclose
Consult members and stakeholders and disclose your policies and their implementation so that beneficiaries and civil society can respond. For example, the £600m London Borough of Lewisham pension fund is sending a questionnaire to pensioners and active members to gauge their views on Responsible Investment issues.

Some pension funds may wish to join with others to explore the issues and take action. The UN Principles for Responsible Investment (UN PRI), the Institutional Investors Group on Climate Change (IIGCC) and the Carbon Disclosure Project (CDP) all offer means to collaborate.

Step 4: Define Policies and Implementation Strategies
Define your policies and the investment strategies to be used to implement them. Identify which asset classes should be subject to Responsible Investment strategies and which Responsible Investment techniques used.

Step 5: Implement and Assess Impact
Effective implementation is key. Your investment consultant should be able to work with you to select managers using sound research about their skills in addressing Responsible Investment and then to hold them to account for their performance.

Impact assessment should take two forms – financial impact and social and environmental impact. It is still early days in measuring both but models are starting to emerge.
Appendix V – About the Organisations Involved

**UK Social Investment Forum (UKSIF)**
The UK Social Investment Forum (UKSIF) is the UK’s membership network for sustainable and responsible financial services. It promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

Launched in 1991, UKSIF brings together the different strands of sustainable and responsible financial services within the UK and to act as a focus and a voice for the industry. Its 200+ members and affiliates include pension funds, investment consultants, retail and institutional fund managers, banks, investment banks, financial advisers, socially responsible investment (SRI) research providers, non-governmental organisations and interested individuals.

**UKSIF Sustainable Pensions Project and Sustainable Pensions Advisory Board**
The UKSIF Sustainable Pensions Project was launched in 2006 to assist UK occupational pension funds to adopt more sustainable and responsible investment strategies. It seeks to encourage the pension schemes of companies which are leading the way on corporate responsibility (CR) practices and local government pension funds to consider environmental and social issues also in their pension fund investment decisions. It believes that this should help to protect and enhance long-term shareholder value and financial returns for the scheme beneficiaries.

The project is core funded by Esmée Fairbairn Foundation and overseen by an independent Sustainable Pensions Advisory Board, chaired by Michael Deakin. Michael is a member of the board of the London Pension Fund Authority and of the Pension Protection Fund and a trustee of the HBOS Final Salary Pension Scheme.

The members of the Sustainable Pensions Advisory Board are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
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</thead>
<tbody>
<tr>
<td>Michael Deakin (Chair)</td>
<td>Michael Deakin Consultancy Ltd</td>
</tr>
<tr>
<td>Reg Hinkley</td>
<td>formerly BP Pension Trustees Limited</td>
</tr>
<tr>
<td>Shaun McCarthy</td>
<td>Action Sustainability</td>
</tr>
<tr>
<td>Will Oulton</td>
<td>FTSE Group</td>
</tr>
<tr>
<td>Mike Taylor</td>
<td>Local Authority Pension Fund Forum</td>
</tr>
<tr>
<td>Tim Currell</td>
<td>Hewitt Associates</td>
</tr>
<tr>
<td>Emma Hunt</td>
<td>Mercer</td>
</tr>
<tr>
<td>Peter Montagnon</td>
<td>Association of British Insurers (ABI)</td>
</tr>
<tr>
<td>Larry Stone</td>
<td>BT Pension Scheme</td>
</tr>
<tr>
<td>Alex Van der Velden</td>
<td>FairPensions</td>
</tr>
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</table>

The following were formerly members:

- Rob Lake then Henderson Global Investors
- Paul Moody Morley Fund Management

All members serve in a personal capacity.

**FTSE Group**
FTSE Group (“FTSE®”) is an independent company owned by The Financial Times and the London Stock Exchange. As a major global index provider, FTSE works closely with asset owners, fund managers and investment banks worldwide, and is committed to developing and maintaining responsible investment tools for these groups. The company is an inaugural signatory of the United Nations’ Principles for Responsible Investment (PRI).

One example of FTSE’s commitment to SRI is the prestigious FTSE4Good® Index Series which has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies. The creation of the FTSE4Good series in 2001 was in response to growing investor demand for Socially Responsible Investment (SRI) indices and products. This growth is fuelled by investors seeking to capitalise on the long-term benefits of good corporate social responsibility (CSR) and sustainability performance, recognising that good CSR practice mitigates risk and goes hand in hand with good company management. The FTSE4Good Series is designed to reflect the performance of socially responsible equities and facilitate investment in these companies. FTSE4Good excludes certain sectors including tobacco, arms and nuclear power. To qualify for inclusion in the FTSE4Good Index Series, companies must first be included in the FTSE All-Share Index (UK), or FTSE Developed Index (Global). They must then also meet specific criteria requirements in five areas:

- Working towards environmental sustainability
- Developing positive relationships with stakeholders
- Up-holding and supporting universal human rights
- Ensuring good supply chain labour standards
- Countering bribery
All profits from FTSE4Good licenses are contributed to UNICEF. FTSE Group has worked with the United Nations Children’s Fund, UNICEF, since 1997 to raise millions of dollars to support poverty reduction and basic healthcare for children.

Carbon Disclosure Project (CDP)
The Carbon Disclosure Project (CDP) provides a secretariat for the world’s largest institutional investor collaboration on the business implications of climate change. CDP represents a process whereby many institutional investors collectively sign a single global request to companies for disclosure of information on Greenhouse Gas Emissions and publish the results. The CDP web site (www.cdproject.net) is the largest registry of corporate greenhouse gas emissions in the world. In 2007, 315 signatory investors agreed to put their name on the CDP information request (CDP5) and the project received over 1300 responses to the CDP5 questions. The CDP has published the Climate Disclosure Leadership Index (CDLI) for four years. In CDP5, it consists of 68 FT500 companies that show distinction in their responses to the Carbon Disclosure Project survey, based on their reporting of greenhouse gas emissions and assessment of the company’s climate change strategy.

Appendix VI – List of Graphics

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<td>Asset Class Coverage.</td>
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<td>Figure 5</td>
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<td>Number of Members (%).</td>
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<td>Type of Scheme by Fund Size.</td>
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<tr>
<td>Figure 17</td>
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<td>Internal vs. External Asset Management by Fund Size.</td>
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<td>Reasons for Non-Participation.</td>
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<tr>
<td>Figure 19</td>
<td>12</td>
<td>Ranking (Number of Funds).</td>
</tr>
<tr>
<td>Figure 20</td>
<td>12</td>
<td>Ranking by Fund.</td>
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