UK Social Investment Forum

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Dear Jonathan Hoffman

Response of the UK Social Investment Forum (UKSIF) to 'Institutional Investment in the UK – 2007 Review'

Thank you for the opportunity to comment on this discussion paper.

UK Social Investment Forum (UKSIF) is the membership network for sustainable and responsible financial services. UKSIF promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. The Forum was launched in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry.

Our membership includes **leading pension funds, fund managers and investment consultants** concerned about long-term responsible investment. It also includes banks and building societies, financial advisers, research providers, consultants, trade unions, NGOs and individuals interested in sustainable and responsible finance. Information on UKSIF is available at www.uksif.org.

UKSIF currently runs the UKSIF Sustainable Pensions Project (SPP)[1] to encourage corporate and local authority pension funds to adopt and benefit from responsible investment (RI) practices in their investment decision process. This project seeks to encourage the **pension schemes of companies which are leading the way on corporate responsibility (CR) practices** and **local authority pension funds** to consider environmental and social issues in their pension fund investment decisions. We believe that this should help to protect and enhance long-term shareholder value and financial returns for the scheme beneficiaries. The project is supervised by our Sustainable Pensions Advisory Board which is chaired by Michael Deakin and includes representatives drawn from leading pension funds in the private and public sectors, investment consultancies and fund managers.

Our forthcoming report *Responsible Investment in Focus: How leading public pension funds are meeting the challenge* provides case studies on the responsible investment practices of leading public pension funds worldwide. It has been produced jointly with the UNEP Finance Initiative Asset Management Working Group. It describes some of the most advanced approaches currently being adopted and demonstrates how responsible investment has moved forward in recent years. It aims to inspire more pension funds to deepen their responsible investment practices and, building on this international experience, develop their own strategies and approaches.

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[1] http://www.uksif.org/pension-funds/sustainable

The Sustainable Pensions Project has also produced an online Responsible Investment Library for pension fund trustees, which is available at www.uksif.org/pension-funds/sustainable/RIL and a quarterly pensions newsletter which is available from sustainablepensions@uksif.org.

The Responsibilities of Asset Ownership and the Wider Public Interest

The UK's occupational pension schemes collectively, and in some cases individually, are globally significant institutional investors. They have power and hence responsibilities in relation to capital allocation and ownership of companies and other economic assets. In some cases, they are "universal investors" whose success is dependent not only on successful stock picking but also on the sustained performance of the underlying economies in which they invests.

We would therefore have liked to see a stronger emphasis in your discussion paper on responsible ownership, socially and environmentally effective allocation of capital and the wider public interest.

Additional Aspects of the Transformed World for Pensions

Your chapter on the changes to the pension fund environment since 2001 omits the following significant developments:

1. The launch of the UN Principles for Responsible Investment (UNPRI)[2] in April 2006, together with a range of other key investor initiatives on long-term responsible investment and environmental, social and governance (ESG) issues[3]. The UN Principles for Responsible Investment have been signed by over 50 major pension funds and asset managers worldwide representing over 4 trillion dollars in assets under management.
2. Advances in responsible investment by major pension funds worldwide, as highlighted for public pension funds in our forthcoming report *Responsible Investment in Focus* (see above).
3. *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* produced by leading law firm Freshfields Bruckhaus Deringer for the UNEP Financial Initiative and published in 2005. This concluded that 'integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions'.[4]
4. Increasing awareness of the financial impact of climate change and other ESG issues, including the Stern Review on the economics of climate change.[5]

Principle 6: Activism/Engagement

In the light of the points made above, we believe that Principle 6 on activism / engagement remains extremely important. The emphasis on Principle 6 should be retained and indeed further steps should be taken to support it.

Quoted equities remain a significant feature of the portfolio of occupational pension funds – a shift from over 70% in 1999 to under 60% in 2005[6] is not sufficient to justify a reduced emphasis on engagement.

In addition, it is inaccurate to assume that the need for engagement applies only or mainly to quoted equities. For example, engagement is also relevant to investment in bonds, private equity and infrastructure to select only some other asset classes.

[2] See www.unpri.org.
[3] See http://www.uksif.org/pension-funds/sustainable/RIL/271043.
[4] See http://www.uksif.org/pension-funds/sustainable/RIL/The_case_for_SRI?1=1&blockid=231828.
[5] See http://www.uksif.org/pension-funds/sustainable/RIL/done?1=1&blockid=232781.
[6] 'Institutional Investment in the UK Six Years on', Paragraph 20.

As you highlight, quality and effectiveness of engagement is an important aspect of Principle 6. Anecdotal evidence suggests that most pension funds are not yet managing effectively the delegation of engagement and properly holding fund managers to account for the quality of their engagement activities. The evidence in your discussion paper does not counter that view. A renewed emphasis is needed on this aspect of Principle 6.

In addition, effective support is needed for those pension funds that prefer to engage directly. For example, it has been suggested to us that NAPF should place greater emphasis on enabling and encouraging these pension funds to participate in NAPF Case Committees.

Future Involvement

UKSIF would welcome the opportunity to be further involved with your deliberations as you take this important consultation process forward.

With best wishes

Penny Shepherd

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Chief Executive