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Pension funds send wake up call to companies and government on social and environmental issues

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Increasing numbers of pension funds are building social and environmental issues into their investment practice, with the trend set to continue strongly in the next few years, according to new research from Ashridge, one of the world's leading business schools and *Just Pensions*, part of the UK Social Investment Forum.

Social and environmental issues set to hit bottom line

The research based on a survey of 130 trustees of UK pension funds highlights the increasing importance of these issues and their potential impact on financial companies' performance. Over the next five to ten years, the majority of trustees believe that effective environmental management (82%), good employment practice (81%), customer relations (90%) and increasing transparency on social and environmental performance (79%) will make a positive impact on the market value of companies.

According to Peter Montagnon, Head of Investment Affairs at the Association of British Insurers and a commentator on the survey findings: "There is a growing recognition that social, environmental and ethical matters have an impact on the financial health of companies. Mismanaged, they can lead to reputational damage, which undermines business prospects. Handled well, they can enhance both reputation and the quality of earnings."

Further public policy required

Respondents believe that the government could do more to help with the integration of social, environmental and ethical issues into investment practice. Over half the respondents believed that the UK government should promote a formal code of best practice, that additional legislation or regulation is required to ensure pension fund reporting on these issues, that defined contribution schemes have an ethical option and to encourage a longer term perspective in equity investment.

Companies need to improve reporting and communication

Despite improvements, companies still have a long way to go in providing pension funds with the information needed to assess them effectively. Less than one in five trustees believe that companies are providing sufficient information.

Chris Gribben, one of the Ashridge research team said: "Despite the number of companies that report on these issues and the enormous size of many reports, they are failing to meet investor needs. Increasingly companies will have to be better at demonstrating how their approach to these issues relates to the success of the company and the reduction of its business risks."

Pension Fund activism will transform investment practices



Trustees identified a host of other barriers to greater incorporation of social, ethical and environmental issues into investment practice. Most of these clustered around two contentious issues – cost versus benefit and the varied quality of evaluation tools.

Positively, trustees do not ultimately believe that these barriers are insurmountable, but that pension fund activism will lead to major improvements in how companies manage their social and environmental impacts within the next five to ten years. Within ten years 42% of respondents thought pension fund activism would lead to substantial improvements, with less than one in ten (9%) thinking it would cause no improvement.

The survey also asked about current and future investment practice. The survey found that pension funds were using a range of mechanisms. Engaging with investee companies and exercising voting rights are much more prevalent than either positive or negative screening*. This trend is set to continue for at least the next three years. Over half of trustees reported that their fund would be engaging more with companies on these issues (56%) and exercising their voting rights (54%). In comparison less than a third reported that their fund would be making greater use of positive or negative screening (30% and 23% respectively).

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* For this study positive screening was defined as selecting best performance companies in which to invest or favouring specific sectors. Negative screening means excluding companies or specific sectors.

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Notes to editors

Just Pensions (www.justpensions.org)

Just Pensions was established in Autumn 2000 to educate and influence UK pension funds about the importance of international development issues in their practice of Socially Responsible Investment (SRI). The ultimate aim of *Just Pensions* is to contribute to the achievement of the Millennium Development Goals by improving the social and environmental impact of foreign trade and investment in developing countries.

Just Pensions was initiated and originally managed by Traidcraft and War on Want with Community Fund backing. It is now managed by the UK Social Investment Forum (UKSIF) with core funding provided by the Department of International Development (DFID).

UK Social Investment Forum (www.uksif.org)

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The UK Social Investment Forum (UKSIF) is the UK's multi-stakeholder membership organisation responsible for the promotion of Socially Responsible Investment (SRI) amongst UK investors. UKSIF members include SRI pioneers and the majority of the top 20 UK occupational pension fund managers.

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Ashridge (www.ashridge.com)

Ashridge, one of the world's leading business schools, is an independent, not for profit organisation, working with individuals and organisations in personal and corporate development (open & tailored programmes, online learning, MBA, MSc and Diploma qualifications). In the latest Financial Times rankings for executive education providers, Ashridge was ranked in the global top 30 (Open and Tailored Programmes combined).

Ashridge also undertakes consulting, through Ashridge Consulting Limited and management research. Research is carried out by the Ashridge Centre for Business and Society, the Ashridge Leadership Centre and the Ashridge Strategic Management Centre, the latter based in London. Ashridge is also an international conference centre, hosting meetings, seminars, workshops and conferences for a range of organisations.

Ashridge is accredited by the Association to Advance Collegiate Schools of Business (AACSB); the European Quality Improvement System (EQUIS) and the Association of MBAs (AMBA).

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