



UK Social Investment Forum

**Response of UK Pension Funds  
to the SRI Disclosure Regulation**

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October 2000

# Preface

This study describes, for the first time, how the top 500 pension funds have responded to the new regulation requiring them to disclose how, if at all, they take account of ethical, social and environmental issues in their investment strategies. The regulation came into force on 3 July 2000.

Statements of Investment Principles were requested of 508 funds - the top 500 occupational pension funds by value, together with all local authority pension funds. The study analyses the 171 statements provided in response.

The results are impressive:

- Overall, 59% of funds, representing 78% of assets, incorporate socially responsible investment (SRI) into their investment strategies either by engagement or by specific request to the fund manager.
- Of these, 48% of funds, representing 69% of assets, want fund managers to consider the financial impact of ethical, social and environmental issues.
- 71% of local authority pension funds mention “engagement” in their statements of investment principles compared with only 23% of company pension funds.

The UK Social Investment Forum is grateful to those pension funds that have participated in this survey. The SRI disclosure regulation has brought a new level of scrutiny by civil society to the investment decisions of pension funds. The number of replies we received to this survey demonstrates an impressive transparency by the UK pensions industry in responding to this unfamiliar but inevitable interest.

We are very grateful also to Eugenie Mathieu of Imperial College, London who has undertaken the survey for us. The analysis in this report forms part of Eugenie’s MSc dissertation. Her professionalism, skill and dedication in producing this original research have impressed all of us that have worked with her.

Finally, we would like to thank the Ethical Investment Research Service (EIRIS) who have provided expert assistance and some financial support and Pensions Investment Research Consultants (PIRC) who have provided additional expert advice.

This survey demonstrates clearly that the UK’s major pension funds are concerned about the implications of social, ethical and environmental issues. They want their fund managers to understand them and take them into account. The challenge is now for the fund management industry to respond.

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# EXECUTIVE SUMMARY

On 3<sup>rd</sup> July 2000, a new amendment to the Pensions Act 1995 was enacted that requires the trustees of occupational pension schemes to disclose their policy on socially responsible investment (SRI) in their Statement of Investment Principles (SIP). This is a significant event not only because it is the first time that the concept of socially responsible action has been placed into UK law, but also because it has the potential to considerably affect the UK SRI market, as pension funds own around a third of the stock market. The new regulation has attracted significant press attention, both in national and trade papers, and speculation over the nature of the SRI Statements that would be produced. The aim of this research is to examine the SRI policies of a representative sample of pension funds and judge the extent to which SRI has been embraced by the pension fund industry. This survey is the first to examine the new SRI statements and provide data on the outcome of the new regulation.

A letter was sent to the 500 largest UK pension funds and 97 UK local authority pension funds, (a total of 597 funds) requesting a copy of the relevant part of their SIP. Although a survey of the largest 200 pension funds would have been enough to cover the majority (57%) of the market, the next 300 funds were included to get the widest and most representative sample possible. Funds were also asked whether they wished their SIP to go into a public archive, and whether or not they wanted to remain anonymous in this report.

A framework was developed for analysing the SIPs. A total of 171 SIPs were received and analysed, a response rate of 34%. The response rate of large funds and of local authority funds were higher than for smaller and company funds respectively. The funds participating in this survey have 6.4 million members and £302 billion in assets, making the survey satisfactorily representative. Half the funds surveyed wanted to remain anonymous in this report.

The main conclusions of the survey are –

- 59% of funds are incorporating SRI principles into their investment process, either via the fund manager, or through engagement, or both. These funds represent 78% of the assets surveyed.
- 48% of funds have requested that their fund manager takes account of the financial implications of environmental, social and ethical concerns when investing, and this represents 69% of the assets surveyed.
- Larger pension funds are more likely to take SRI considerations into account than smaller funds.
- Only 14% of funds clearly state that they will not take environmental, social and ethical concerns into account, and because these funds tend to be the smaller funds, they only represent 4% of the assets surveyed.
- 27% of funds delegate the decision over SRI to their fund manager.
- 39% of funds mentioned the approach of engagement in their Statement.

These results are clearly significant, and have considerable implications for the fund management industry as well as the companies it invests in.

There was a consistent and clear difference between company and local authority pension funds. Company pension funds tended either to delegate the decision over SRI to their fund manager, or request that their fund manager took environmental, social and ethical concerns into account if such concerns were seen as financially relevant. Local authority pension funds on the other hand, tended to retain ownership of their SRI policy and favoured the approach of engagement, not necessarily via the fund manager. 71% of local authorities mentioned engagement, compared to 23% of company pension funds.

There was a large variety of SRI statements, with lengths ranging from one sentence to two pages. Several statements stood out for their high level of detail, transparency, uniqueness, and approaches used to incorporate SRI. Other statements were notable because of the difficulty involved in categorising them. Having said that, it is clear that funds are still in an initial stage of setting out their intentions.

In conclusion, the new regulation has led to the majority of funds disclosing that they are incorporating SRI into their investment process in one way or another. There are several issues arising from this research which would benefit from further study –

- Why have pension funds made the SRI decision that they have?
- What is the potential for pension funds to carry out member consultation?
- What next steps should the Government take?
- What impact will the new regulation and the response of the pension funds have on the SRI market?

However, the fundamental question is - now that the Government and pension funds have shown this strong support for SRI, what will the discernible impact on the environmental, social and ethical behaviour of the companies themselves be? Will companies take up the SRI gauntlet thrown down by two such influential stakeholders?

# INTRODUCTION

## BACKGROUND

*“There is every reason for an institutional investor’s strategy to coincide with the common good. To think otherwise would be to deny pension funds’ role in the economy as major providers of capital.”*

A Guide to Institutional Investment, Frost & Hager 1988. Institute of Actuaries

From 3<sup>rd</sup> July 2000, a new amendment to the Pensions Act 1995 requires the trustees of occupational pension schemes to disclose their policy on socially responsible investment in their Statement of Investment Principles (SIP). Despite this amendment being less than 50 words in length, it has been widely tipped as having the potential to revolutionise corporate environmental and ethical behaviour (Birch, 2000). Before this amendment, pension fund trustees, who manage funds that own a third of the UK stock market, were under no obligation whatsoever to inform their members of their ethical stance. For the first time in history, trustees will be held accountable for their ethical stance, as well as for the performance of the fund. Moreover, it is the first time that the concept of socially responsible action is placed into UK law, a significant policy development.

The main reason that the new regulation has so much potential to affect the socially responsible investment (SRI) market is simply a matter of scale. To date, the UK SRI market is worth £3.3 billion (EIRIS, 2000), while estimates of the value of occupational pension funds in the UK vary between £800-850 billion (EIRIS, 2000 & AP Info, 2000). Twenty million people in the UK are members or beneficiaries of an occupational pension fund (Pensions World, 1998). Although it is difficult to be precise, it is widely accepted that pension funds control a third of the stock market, and form the largest pool of capital in the UK economy.

Moreover, on an individual basis, it is common for one single pension fund to hold around 2-5% of a particular company’s shares. As a result, companies hold regular meetings with their institutional investors, who therefore have a direct line of influence into the boardroom. As Tony Colman MP, Chair of UK All-Party Parliamentary Group on Socially Responsible Investment stated in 1998, “pension funds can influence what is going on at a very high level”. Put simply, in the financial world, money talks.

The new regulation has been introduced against a backdrop of increasing pressure on companies to improve their environmental performance and corporate social responsibility. There are three key sources of pressure:

- The Government. For example, on the environmental front, in 1998, 1999 and again in May this year, Michael Meacher wrote to the Chairmen of the FTSE 350 asking them to voluntarily produce an Environmental Report. Companies that resolutely refuse to make a commitment to environmental improvement will be named publicly by the Minister in a speech later this year. In terms of corporate social responsibility, the Department of Trade and Industry appointed Kim Howells as Minister for Corporate Social Responsibility early this year.

- The public. There have been increasingly frequent incidents of public disapproval affecting a company's share price or market share. For example, the CEO of Innovest, a SRI consultancy, claims that during Shell's Brent Spar crisis, the company lost 30% of its market share in Germany. Similarly, the Ethical Director of Rathbones, a UK stockbroker, argues that the supermarket Iceland's clear anti-GM line has been rewarded by its share price outperforming its competitors.
- NGOs. Business in the Environment produces an annual index that publicly ranks companies according to the quality of their environmental management. Similarly, Friends of the Earth published a league table in January this year naming and shaming UK insurance companies that ignored environmental and social issues, had no sustainable development policy and invested in environmentally and socially destructive companies.

### **IMPACT OF THE NEW REGULATION**

The combination of these existing pressures with the potentially huge pressure that pension funds could exert on the companies they invest in could result in a significant change in corporate behaviour. A director of Hill Samuel investment bank argues that "the new regulation is dynamite and will have massive implications for UK pension schemes as well as the companies they invest in" (1999). Perhaps as a result of this, the new regulation has attracted significant press interest, with extensive coverage in mainstream publications including the Financial Times, the Guardian, the Sunday Times, the Wall Street Journal and even the Mail on Sunday. In terms of the long run impacts, a shift towards corporate social and environmental responsibility has the potential not only to change the way business is viewed by the public, but also to make some substantial steps towards a more sustainable future. Indeed, Lovins, Hawken & Lovins (1999) argue that "socially responsible business practices will have an impact as big as the industrial revolution".

However, the power of the regulation has been viewed in some quarters as being somewhat curtailed by its very general and laissez-faire nature. A report by Friends Ivory Sime and the Ashridge Centre for Business & Society (2000) concluded that there is considerable scepticism that SRI would become much more prevalent, and that if the Government wishes to use investment practices to influence corporate behaviour, more robust action will almost certainly be required. This is because the Government only requires trustees to disclose the extent to which social, environmental and ethical considerations are taken into account in the investment process. It does not require any SRI action, give any definition or clarification of these terms, and critically, does not require any proof that the stated policy is in fact being carried out, or that the stated policy is not misleading pension members.

In late 1998, when the Government issued a consultation paper with its Green Paper 'Partnerships in Pensions', which covered several issues such as the stakeholder pension, a minimum income guarantee and corporate governance, by far the majority of responses were concerned with the issue of the new SRI disclosure requirement.

## **AIMS & SCOPE OF THE PROJECT**

The aims of this project are to

- examine the SRI policy as disclosed in the Statement of Investment Principles of a representative sample of UK pension funds and judge the extent to which SRI has been embraced by the pensions industry.
- identify trends and patterns in the levels of SRI-adoption among pension funds.
- consequently evaluate the success of the new regulation in encouraging SRI among pension funds.

*“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.”*

- Richard Withers-Green, Pensions Manager, Jupiter Asset Management,  
June 2000, Personal Communication

The aim of this project is to find out where the ‘ball’ is now, how fast it got there, and then be able to conclude how far it will go.

In terms of scope, the regulation applies only to occupational pensions, so state and private pensions are excluded. The regulation requires pension trustees to disclose their SRI policy in their SIP, and so while the actual management of the funds is generally undertaken by fund managers, this study looks only at the SRI stance of pension funds, and not of their fund managers, unless the pension fund has stated that they are one and the same. Finally, the project aims only at achieving a snapshot of *how* pension funds have reacted to the new regulation in terms of the level of SRI-adoption, and to identify any trends, and does not attempt to take the next step of finding out *why* pension funds have made the SRI decision that they have. This is an entirely separate question that merits its own research project.

## **PROJECT PARTNERS**

This project has been carried out for the UK Social Investment Forum with the support of the Ethical Investment Research Service (EIRIS), and Pensions Investment Research Consultants (PIRC Ltd).

# METHODOLOGY

As stated earlier, the primary aim of this project is to examine the SRI policy as disclosed in the SIPs of a representative sample of UK pension funds and judge the extent to which SRI has been embraced by the pensions industry. This section describes how this objective was accomplished.

## SAMPLE SIZE

This survey of SIPs was likely to be the first survey after the new amendment came into force on July 3<sup>rd</sup>. Discussions with UKSIF, EIRIS and PIRC concluded that the target audience of the investment community, pension fund industry and academia would be most interested in a large scale, comprehensive survey that covered the majority of pension funds. An examination of pension fund capital values showed that a survey of the largest 500 pension funds would cover around 66% of the total occupational pension fund market. This is based on an estimate of the total market size of £825 billion, an average of the £800-850 billion range given by EIRIS (2000) and AP Info (2000). Table 1 shows how the bulk of the assets are held by the largest 100 pension funds.

Table 1 Capital Value of the 500 Largest UK Occupational Pension Funds

	<u>Capital Value (m)</u>	<u>% Total Market</u>
100 Largest Pension Funds	£388,270	47%
Second 100 Largest Pension Funds	£79,771	10%
Third 100 Largest Pension Funds	£41,110	5%
Fourth 100 Largest Pension Funds	£22,419	3%
Fifth 100 Largest Pension Funds	£11,369	1%
<b>Total</b>	<b>£542,938</b>	<b>66%</b>

Total Pension Market	£825,000
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*Source: AP Info 2000, EIRIS 2000*

As Table 1 shows, a survey of the 200 largest pension funds would have been sufficient to cover a majority of the market (57%). However, it was decided to include the next 300 largest pension funds in order to achieve a wide spread of sizes of funds, and to provide a uniquely comprehensive survey. It was also decided to include the 97 local authorities, in order to provide a public / private comparison. Most of the local authorities were already included in the largest 500 pension funds, so this step took the total sample size up to 508.

A tailor-made database of information on the target funds was purchased from AP Info by UKSIF. The database gave the contact details of each fund, its capital size, industry code, and number of members, pensioners and deferred pensioners.

## **CONTACT WITH PENSION FUNDS**

The decision was taken to contact the pension funds by letter, rather than by telephone, due to the greater time efficiency and possible response rate of this approach. Each letter was individually addressed to the pension fund administrator. The letter (Appendix 1) requested a copy of the relevant part of their SIP. As UKSIF want to put the SIPs into a public archive at the end of the research, the addressee was also requested to tick two boxes to indicate whether they wanted their SIP to go into this public archive, and whether or not they wanted to remain anonymous in the final report. Background information on the new law and on UKSIF, EIRIS and PIRC was also included in the letter. A self-addressed envelope was enclosed in the mailing to facilitate the response.

The letters were sent on the 27<sup>th</sup> June, timed to coincide with the new regulation coming into force on the 3<sup>rd</sup> July. After a month, the initial response rate was around 25%, so a reminder letter was sent out on the 25<sup>th</sup> July to those who had not yet responded (Appendix 2).

## **ANALYSIS OF RESULTS**

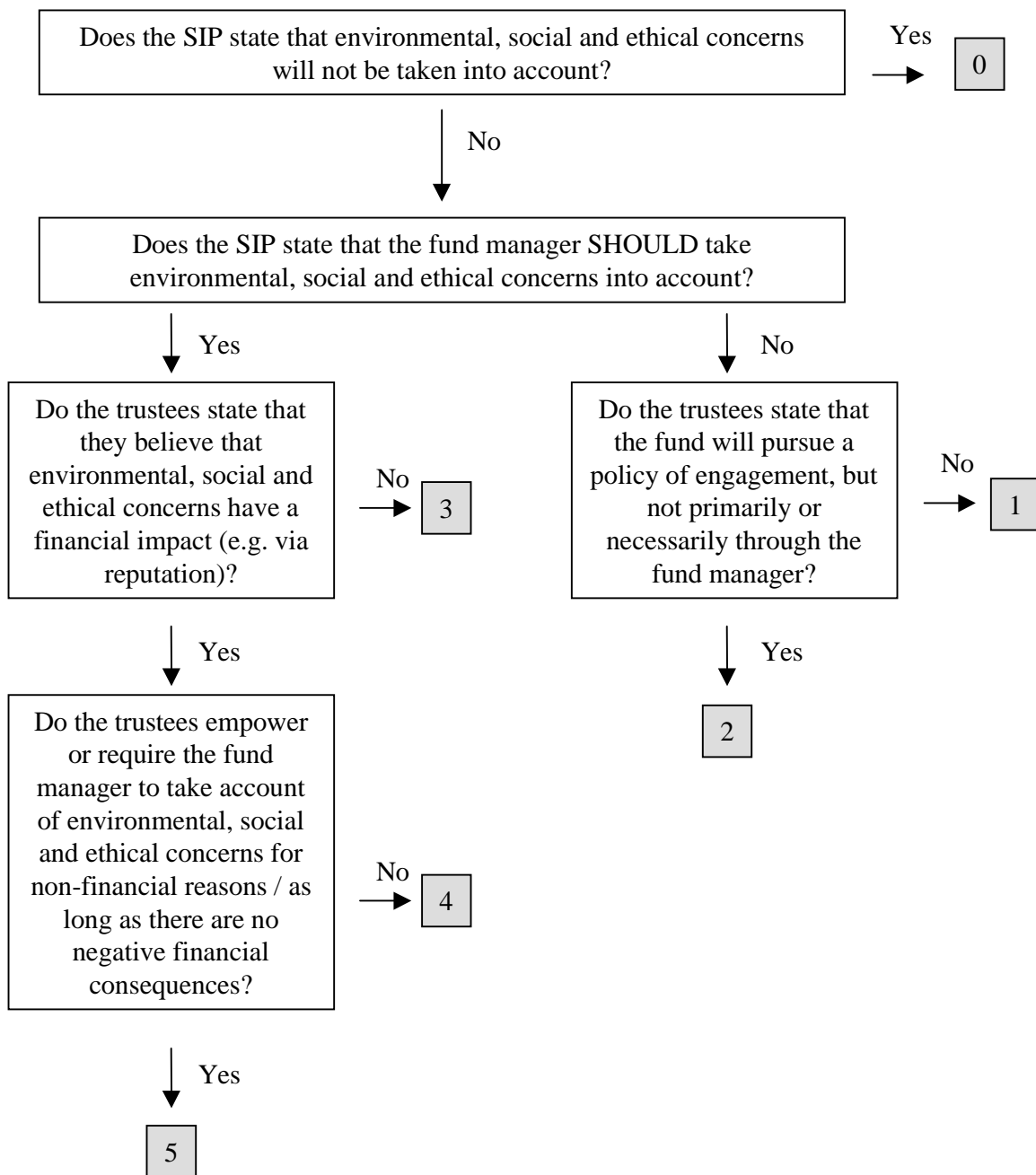
During July, the SIPs that had been received were analysed in order to formulate a framework with which they could be compared to one another. This was a difficult process, not only because there was a vast variety of types of statement on SRI, ranging from one sentence to two pages, but also because very few SRI statements had existed before July 2000, and therefore no analysis had been carried out before to use as a basis. The final framework for comparison is as follows:

1. Does the SIP clearly state that environmental, social and ethical considerations will not be taken into account?
  - Yes
  - No
  
2. What is the policy on the degree to which environmental, social and ethical considerations will be taken into account?
  - There is no statement saying environmental, social and ethical considerations will be taken into account. (0)
  - The fund will leave the decision to the discretion of the fund manager, with no guidance. (1)
  - The fund will pursue a policy of engagement, but not primarily or necessarily through the fund manager. This Category covers the funds who choose to pursue engagement either on their own, or using a corporate governance agency such as PIRC or Manifest, or via an alliance such as the Local Authorities Pension Fund Forum (LAPFF). (2)
  - The fund manager is requested to take account of financial implications of environmental, social and ethical considerations. (3)
  - The fund manager is requested to take account of financial implications, *and* trustees associate good environmental, social and ethical performance with positive financial implications. (4)
  - The fund manager is empowered / required to take account of environmental, social and ethical considerations as long as there are no negative financial consequences. (5)

3. Has the fund manager's policy on environmental, social and ethical considerations been reviewed by the trustees?
  - Yes
  - Review of fund manager policy not mentioned
  
4. Is engagement mentioned?
  - Yes
  - No

Each SIP was analysed on this basis, and the numerical results entered on an Excel spreadsheet. Question 2 was the most tricky, due to the fact that very minimal changes in wording could make it difficult to put a fund into one discrete Category or the other. For the purpose of the analysis, each Statement could fall into only one of the Categories. In order to make the process more rational, the following logic tree was used.

Figure 1 Logic Tree To Identify The Degree To Which Environmental, Social And Ethical Considerations Will Be Taken Into Account



It must be noted that the Statements are in many cases fairly ambiguous, and therefore categorisation cannot be a scientific and faultless process. The author is happy to discuss this issue with any pension fund who thinks they have been misclassified. However, the above framework was the best approach found. The next section examines the results of the survey.

# ANALYSIS

## RESPONSE RATE

The overall response rate was higher than expected, at 37%. However, this included 18 replies that did not include a SIP, which brought the usable response rate to 34%. This was a good response rate considering that the SIPs only have to be made available to the pension members, and not to the general public. Moreover, it is a particularly good response rate considering that the NAPF sent out a letter on the 18 July (Appendix 3) to its members reminding them of this fact. This letter may have reduced the response rate following the second UKSIF letter sent on the 25<sup>th</sup> July.

Table 2 Breakdown of Response Rates

	Number	Total	Percentage
<b>Overall Response Rate</b>	<b>189</b>	<b>508</b>	<b>37%</b>
<b>Usable Response Rate</b>	<b>171</b>	<b>508</b>	<b>34%</b>
<b>How Many Non-Usable and Why?</b>	<b>18</b>	<b>189</b>	<b>10%</b>
<i>Don't want to participate</i>	6		
<i>Waiting to ask trustees for permission to make public</i>	3		
<i>Sent wrong document</i>	3		
<i>Fund exempt from new SRI regulation</i>	2		
<i>Fund no longer in existence (e.g. merged with another, shut down)</i>	2		
<i>Other</i>	2		
<b>Usable Response Rate of Companies</b>	<b>115</b>	<b>411</b>	<b>28%</b>
<b>Usable Response Rate of Local Authorities</b>	<b>56</b>	<b>97</b>	<b>58%</b>
<b>Usable Response Rate of Top 30 Funds</b>	<b>20</b>	<b>30</b>	<b>67%</b>
<b>Capital Value of Funds Giving Usable Replies (£M)</b>	<b>302,004</b>	<b>543,034</b>	<b>56%</b>
<b>Capital Value of Funds Giving Usable Replies in Top 30 Funds (£M)</b>	<b>195,743</b>	<b>263,563</b>	<b>74%</b>
<b>Number of Members of Funds Giving Usable Replies</b>	<b>6,365,070</b>	<b>12,081,364</b>	<b>53%</b>

Table 2 shows that 18 of the 189 replies were deemed unusable, for a variety of reasons, the most common of which was that the fund did not want to participate in the survey. The usable response rate from company pension funds was 28%, compared to a very high 58% from the local authorities. ('Company pension funds' are defined as all funds except local authority funds, although the term does include non-corporate funds such as charities, education and museums). This difference in response rates is probably due to the requirement of the Local Government Pension Scheme Regulations 1999 that local authority pension funds 'publish a written statement of the principles governing their decisions about investments'. Alternatively, it may be due to the greater onus generally on local authorities to be open to public scrutiny, particularly on environmental issues, and the consequently more open culture. The greater response rate of local authorities means that the survey results will be slightly biased towards this group of pension funds, as 33% of the respondents were local authorities, even though they only made up 19% of the 508 funds in the survey.

The number of members of the funds participating in this survey constitute over half of the members of all the funds approached, at 53%. The response rate was also effectively higher in terms of capital value than in terms of number of replies alone. The value of the 171 funds who participated in the survey (with usable replies) represents 56% of the value

of all 508 funds in the sample. This was because the response rate of the top 30 pension funds (ranked by capital value) was higher than the response rate for the whole sample, at 67% compared to 34%. Therefore the survey has a good basis as the results represent 56% of the assets managed by the largest 508 pension funds in the UK, which is equivalent to 37% of the assets managed by *all* UK occupational funds. However, the higher than average response rates from the largest funds and the local authority funds means that the survey results will be slightly biased towards these two groups.

**ANONYMITY**

As mentioned in previously, respondents were asked whether they wanted to contribute their SIP to a public archive held by UKSIF, and / or remain anonymous in the final report.

Table 3 Proportion of Funds Requesting Anonymity

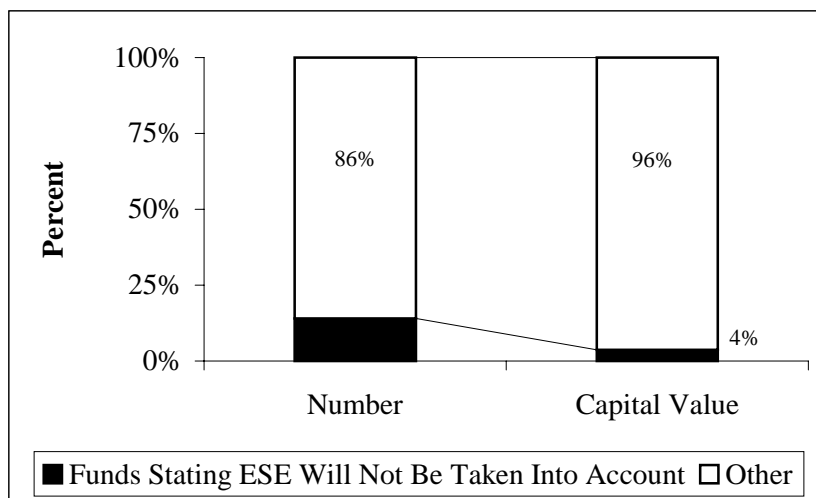
	In Archive	In Report
% All Funds Requesting Anonymity	48%	51%
% Companies Requesting Anonymity	60%	63%
% Local Authorities Requesting Anonymity	23%	25%

Table 3 shows that on the whole, around 50% of the respondents wanted to remain anonymous. The desire for anonymity was much higher among the company pension funds than the local authorities at 63% compared to 25% (for the report), which again reflects the greater degree of openness of local authorities.

**HOW MANY FUNDS CLEARLY STATE THAT ENVIRONMENTAL, SOCIAL AND ETHICAL CONCERNS WILL NOT BE TAKEN INTO ACCOUNT?**

Figure 2 shows that only 14% of the funds participating in the survey clearly state that they will not take environmental, social and ethical (ESE) concerns into account. In terms of capital value, it is an even smaller proportion, 4%, that reject ESE considerations.

Figure 2 Proportion of Funds Stating that ESE Will Not Be Taken Into Account



This relatively small percentage might reflect the fact that few pension funds are willing to make such a clear and bold statement that may be vulnerable to criticism from their members and other organisations such as NGOs. Moreover, it is also likely that the survey has an inherent and unavoidable bias, in that funds that have such statements are less likely to want to make them public, and so do not participate in the survey. Therefore it is may be the case that the proportion of the whole population of pension funds that clearly state that they do not take ESE concerns into account is higher than for this particular sample.

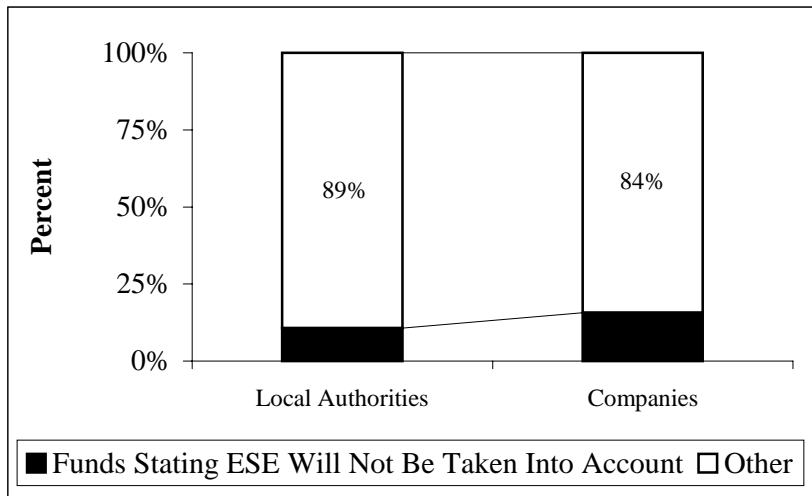
Overall, 24 funds stated that they did not take ESE concerns into account. This includes the following type of statements.

- ‘The trustees believe that their primary duty is to act in the best financial interests of the Scheme’s beneficiaries. Therefore, socially responsible investment considerations have been excluded when setting investment policy’ – e.g. Novartis.
- ‘The trustees do not restrict the choice of investments made by the investment manager by reference to social, environmental or ethical considerations’ – e.g. Brittanica, Scottish Borders Council, and Dorset, Suffolk and Essex County Councils. Although this type of statement does not rule out the fund manager using its own ESE policy, this type of statement has been interpreted as excluding ESE concerns, as fund managers are unlikely to take such factors into account unless explicitly requested to in their brief.
- ‘The fund has no ESE policy in place’ – e.g. Dunlop Tyres.
- ‘The trustees do not take ESE concerns into direct account’.
- ‘The fund’s assets are 100% pooled, and therefore the trustees have no control over the fund manager’s ESE policy’ – e.g. CSC Computer Sciences. Again, this does not strictly rule out the fund manager having its own ESE policy, but it is unlikely given the lack of pressure from the trustees.

### **Analysis by Function and Size**

Figure 3 shows that company pension funds are slightly more likely than local authorities to choose not to take ESE concerns into account.

Figure 3 Proportion of Local Authority and Company Pension Funds Not Taking ESE Concerns Into Account



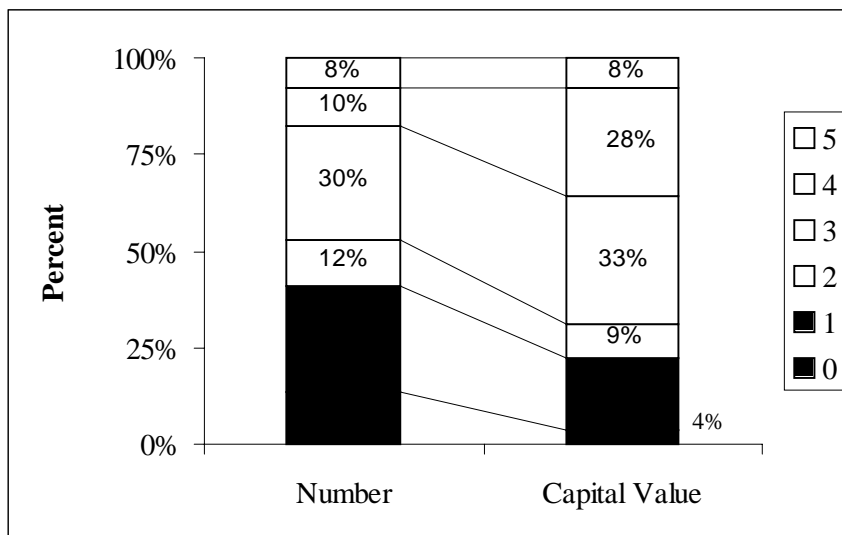
In terms of size, Figure 2 shows that while 14% of funds chose not to take ESE concerns into account, only 4% of the assets in the survey chose this option . This indicates that the pension funds choosing this option were the smaller ones. This is also suggested by the lower mean and median figures shown in Table 4.

Table 4 Mean and Median Capital Value Comparison

Capital Value (£M)	<b>Funds Stating ESE Will Not Be Taken Into Account</b>	<b>All Respondent Funds</b>
Mean	465	1,766
Median	303	573

**THE DEGREE TO WHICH ENVIRONMENTAL, SOCIAL AND ETHICAL CONCERNS ARE TAKEN INTO ACCOUNT**

Figure 4 Proportion of Funds Taking ESE Concerns Into Account To Different Degrees



Key to Figure 4

5	The fund manager is empowered / required to take account of environmental, social and ethical considerations as long as there are no negative financial consequences
4	The fund manager is requested to take account of financial implications, and trustees associate good environmental, social and ethical performance with positive financial implications
3	The fund manager is requested to take account of financial implications of environmental, social and ethical considerations
2	The fund will pursue a policy of engagement, but not primarily or necessarily through the fund manager
1	The fund delegates the decision to the discretion of the fund manager, with no guidance
0	There is no statement saying environmental, social and ethical considerations will be taken into account

Figure 4 shows that 48% of funds fall into Categories 3, 4 or 5, where the fund manager is requested to take ESE concerns into account. This effectively means that fund managers will need to understand the financial implications of ESE because 48% of their clients request them to take such concerns into account. Although it is more likely that pension funds with such statements are more willing to participate in this survey, therefore biasing the results towards this end of the spectrum, it is still an impressively high proportion. The proportion increases further when expressed as a percentage of the participating funds' capital value, at 69% i.e. the large majority of assets in this survey. This 69% is £207 billion, and assuming the size of the UK occupational pension market is £825 billion, this survey therefore shows that a *minimum* of 25% of these assets request that the fund manager takes ESE concerns into account.

Category 2 can be combined with Categories 3, 4 and 5 to form a group of funds who are taking action on SRI, either via the fund manager, or via engagement not necessarily through the fund manager. If these four Categories are combined, then 59% of funds are incorporating SRI into the management of their assets in some way or another, and this represents 78% of the assets surveyed. Again, this is a significant figure for the asset management industry and companies to consider.

## **ANALYSIS OF DEGREES TO WHICH ESE CONCERNS ARE TAKEN INTO ACCOUNT**

### **Category 0. No Statement Saying ESE Considerations Will Be Taken Into Account**

This Category covers the 24 company pension funds mentioned above who stated that ESE concerns would not be taken into account. See above for common types of statement.

### **Category 1. The Fund Delegates The Decision To The Discretion Of The Fund Manager, No Guidance**

Figure 4 shows that 27% of funds state that the *fund manager* should make the decision over whether or not to take ESE concerns into account, not the trustees. Two previous studies (Gribben & Wilson 2000, and Talbot 2000) predicted that delegation of the decision to the fund manager would be the dominant response of pension funds to the new legislation. This survey shows that while this is indeed a popular choice, *more* funds have decided not to delegate the decision, but to actually request that the fund manager takes ESE concerns into account (i.e. if Categories 3, 4 and 5 are combined). Again, this is even more significant in terms of capital value, as 19% of the assets are at the discretion of the fund manager, compared to 69% of assets whose fund manager has been requested to take ESE into account.

Typical statements in this category include the following.

- ‘The trustee’s policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the fund manager’.
- ‘The trustees have reviewed the policy of the fund manager and find it corresponds with our duties to our members’. At least twelve funds used this type of statement, including Scottish Power and Cornwall County Council. Although this is not clear delegation, it falls into the same category because the trustees are effectively allowing the fund manager to have its own policy.
- ‘The trustees have given permission to their fund managers to have regard to environmental, social and ethical considerations when assessing the financial potential, suitability and diversity of investments’.
- ‘The trustee has delegated to the fund managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments’ – e.g. Pitney Bowes. This falls in to Category 1 rather than 3 because the trustee does not clearly request that the fund manager takes ESE into account.

In all these cases the fund manager is effectively permitted to choose the extent to which it takes ESE concerns into account – the pension funds have passed the responsibility on.

## **Category 2. The Fund Will Pursue A Policy Of Engagement, But Not Primarily Or Necessarily Through The Fund Manager**

In this type of statement, ESE concerns are taken into account, but not necessarily via the fund manager relationship. The following is a typical statement.

- ‘As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all the companies in which it invests.....In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies, and will pursue constructive shareholder engagement with companies on these issues, consistent with the Fund’s fiduciary responsibilities. In accordance with this policy, the Fund will seek where necessary to use its own efforts, its fund managers and alliances with other investors to pursue these goals’.

This type of statement is a strong supporter of ESE principles, and puts them into practice through engagement. While the fund manager may or may not be mentioned, it is not explicitly requested to consider ESE concerns in the stock selection process. Twenty funds produced this type of statement, all but one of which are local authorities, including the Greater Manchester and City of Edinburgh pension funds.

The popularity of this type of statement among local authorities suggests that these funds are using the same model statement, either from a governance agency, pensions consultant, or association such as the Local Authority Pension Fund Forum, (LAPFF, an association of SRI-minded local authority pension funds). Indeed, PIRC states that many of the local authorities producing this type of statement are their clients, and this statement is close to the model SIP statement issued by PIRC on their website and to their clients.

## **Category 3. The Fund Manager Is Requested To Take Account Of The Financial Implications Of ESE Considerations**

Figure 4 shows that this category is the single most popular Category. 30% of funds request that their fund manager take ESE concerns and their financial implications into account. This proportion expressed as a percentage of assets is 33%, a similar level. As mentioned above, the survey is more likely to gather a higher proportion of Category 2, 3, 4, and 5 statements because funds with these statements are more likely to want to participate in the survey.

Common types of statements in this category include the following.

- ‘The trustee’s policy is that the extent to which social, environmental and ethical considerations are taken into account is left to the discretion of the investment managers. However, the trustee expects that the extent to which social, environmental and ethical issues may have a financial impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties’ – e.g. South Tyneside Metropolitan Borough Council.
- ‘The fund manager is required to take social, environmental and ethical concerns into account to the extent that they think this will reduce risk or benefit performance’ – e.g. Railways Pension Fund, University of Leeds.
- ‘The fund manager is required to take social, environmental and ethical concerns into account to the extent that they are financially relevant’.

In the last two quotes, while the fund manager is *required* to consider whether ESE concerns are financially relevant, it may then decide that ESE concerns are irrelevant to financial performance, and therefore not take them into account in the investment process. However, the fund manager will at least have had to give some basic level of consideration, and may have to justify this decision to the trustees.

#### **Category 4. The Fund Manager Is Requested To Take Account Of Financial Implications, And Trustees Associate Good ESE Performance With Positive Financial Implications**

Figure 4 shows that 10% of the funds chose this option, but these funds represent 28% of the value of the funds surveyed. This is because 4 of the 10 largest funds surveyed fall into this category. Here the trustees request their fund manager to take ESE concerns into account because the *trustees* associate this with positive financial implications, or an avoidance of negative financial implications. The latter was most often put in the context of avoiding the financial penalty that arises when a company's reputation has been damaged.

Typical statements in this category include the following.

- 'We believe that in addition to strong financial and investment criteria and sound management, companies that exhibit one or more of the following positive criteria are likely to be among the more successful companies in the future – conservation of resources, corporate giving, community involvement...women's issues. To this extent, we ask our fund managers to consider these criteria when making investment decisions for the fund' – e.g. London Borough of Sutton.
- 'The trustees recognise that social, environmental and ethical considerations are among the factors which can affect the financial return on investments. The trustees have requested that the fund manager continue to give due consideration to these factors, particularly in the areas of business sustainability and reputational risk' – e.g. London Borough of Barking and Dagenham, Scottish Homes, Oxfordshire County Council.
- 'The trustees request that the managers consider that companies must be run in the long term interests of their shareholders and will need to manage relationships with employees, suppliers and customers effectively. Companies will be expected to behave ethically and have regard for the environment and society as a whole in carrying out their business. These concerns should be taken into account when managers are assessing companies, with issues of material concern being raised in their meetings with management' – e.g. British Telecom, Northumberland County Council.

#### **Category 5. The Fund Manager Is Empowered / Required To Take Account Of Environmental, Social And Ethical Considerations As Long As There Are No Negative Financial Consequences**

Figure 4 shows that this was the least frequent choice, with only 8% of funds producing this type of statement, representing 8% of the value of the funds in the survey. This is about as strong a statement as can be made, considering the primary legal duty of trustees to act in the best interests of the beneficiaries, normally interpreted as their best financial interests. It should be noted however, that this type of statement is not seen as more pro-SRI than Category 4, but just looks at SRI from a different angle.

Typical statements in this category include the following.

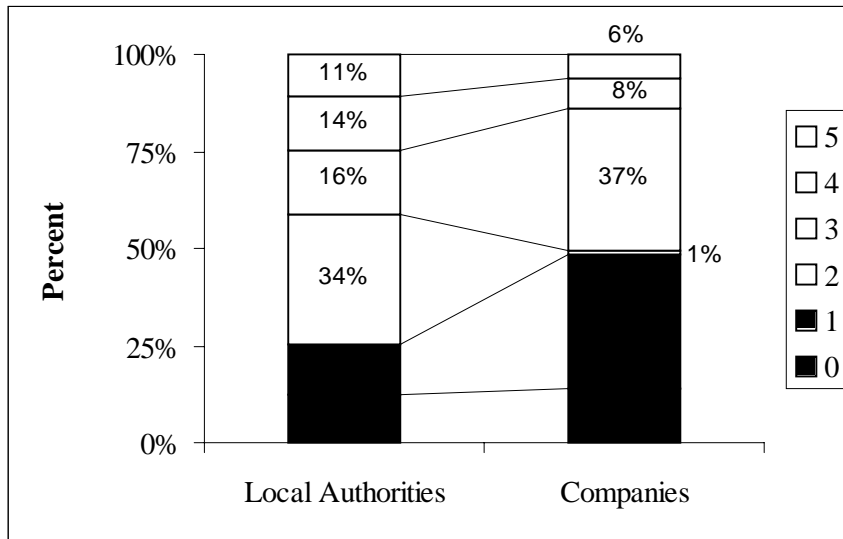
- ‘The trustee considers that it should in all circumstances act in the best interests of the beneficiaries. Where this primary consideration is not prejudiced, the trustee requires, where each investment manager considers it appropriate, that account should be taken of what the investment manager believes to be relevant social, environmental and ethical issues’ – e.g. Merchant Navy.
- ‘The trustees will consider excluding certain types of investment on grounds of social responsibility, following advice on the implications for performance and diversification’ – e.g. London Borough of Newham.
- ‘The trustees are conscious that they are at all times obliged to act in the best financial interests of the beneficiaries, but they are also mindful of their responsibilities as good corporate citizens. The trustees have therefore asked that, so long as it is consistent with their obligations to beneficiaries and where it is practicable to do so, their investment managers should have regard to relevant social, environmental and ethical considerations in their investment policy’. Here the stress on being good corporate citizens indicates that the fund is willing to take ESE into account for non-financial reasons.

### **Analysis by Function and Size**

Figure 5 shows that if Category 2, 3, 4 and 5 are combined to form a group of funds who are incorporating SRI into the management of their assets in one way or another, 75% of local authorities are in this group, compared to 51% of company pension funds. If this group is then reduced to those funds who take ESE concerns into account via their fund manager, then 41% of local authorities are in this group, compared to 50% of company pension funds (i.e. Categories 3, 4 and 5).

Figure 5 also shows that a significantly higher proportion of local authority pension funds fall into Category 2 compared to company pension funds – 34% compared to 1%, while more company pension funds fall into Categories 1 and 3. This may be a reflection of local authorities preferring to take a more active role in SRI than company trustees – local authorities prefer to retain ownership of their SRI policy than delegate it to their fund manager.

Figure 5 Proportion of Local Authority and Company Pension Funds Considering ESE at Each Level via Fund Manager Relationship



Looking at the differences by Category, interestingly, double the proportion of company pension funds request that their fund manager considers the financial implications of ESE concerns (Category 3), than of local authorities, at 37% compared to 16%. However, 25% of local authorities chose Categories 4 and 5 compared to 14% of company pension funds, which request that the fund manager considers the financial implications of ESE concerns because the trustees believe such concerns have a financial impact, or have non-financial benefits for the fund. This therefore suggests that company pension funds tend more to choose the relatively cautious option of Category 3 while local authorities tend to choose to commit to engagement as a minimum.

In terms of size, it was suspected that it would be the larger funds who would be more likely to request that their fund manager considers the implications of ESE concerns, perhaps because the larger funds are more vulnerable to the scrutiny of their members and the general public (hence some of the largest funds e.g. BT and USS announcing changes to their SIP before the 3<sup>rd</sup> July). This hypothesis was tested using the t-Test (see Appendix 4), and the result was that there is a significant difference between the capital values of funds that request that their fund manager takes ESE concerns into account (Categories 2, 3, 4, and 5) from those that do not (Categories 0 and 1).

Table 5 Results of t-Test

Alpha	0.05
Observations	171
Critical Value	-1.654
T Value	-3.855

Table 6 shows the direction of the difference: funds requesting that their fund manager takes ESE into account tend to be larger than those that do not. There is no clear reason for this – it may be due to the increased vulnerability discussed above, or may be due to larger companies having more developed environmental and social policies than small companies, which feeds through to the pension department. One contributing factor

would be that small funds tend more often to be 100% pooled, therefore having no control over the ESE policy of their fund manager (Category 0).

Table 6 Mean and Median Comparison of Capital Values (£M)

Capital Value (£M)	Categories 0 and 1	Categories 2, 3, 4 and 5
Mean	697	2,320
Median	365	679

**DO TRUSTEES REVIEW THEIR FUND MANAGER'S POLICY ON ENVIRONMENTAL, SOCIAL AND ETHICAL CONSIDERATIONS?**

Another important issue is whether or not the pension fund has reviewed the ESE policy of their fund managers, particularly in the case of the funds who delegate the ESE decision to their fund manager (Category 1). Many of the funds clearly stated that they had reviewed the policy of their fund managers. However, the data has the caveat that many funds may have reviewed their fund manager’s policy, but not *mentioned* this review in the SIP. Therefore from the SIPs alone it is not possible to definitively say that the fund manager’s policy has not been reviewed, only whether it has.

Figure 6 Proportion of Funds Mentioning A Review of their Fund Managers’ ESE Policy (by Number)

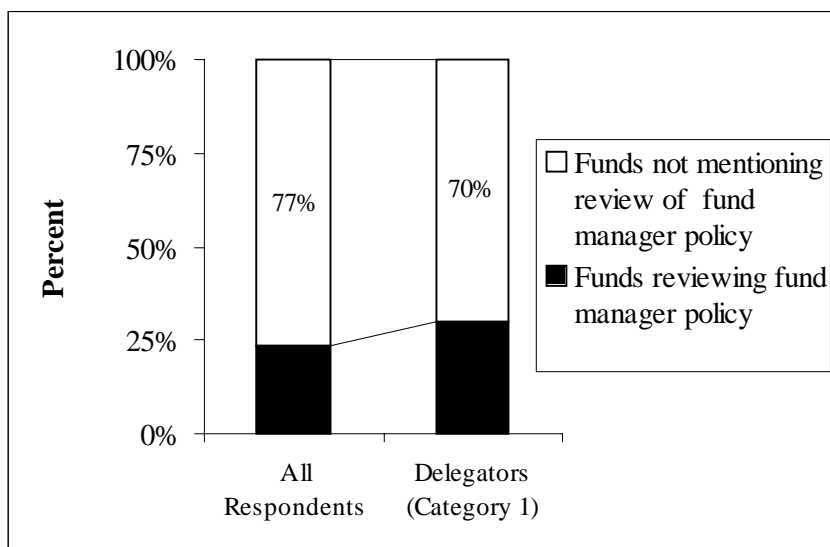


Figure 6 shows that only 23% of all funds stated that they had reviewed the ESE policy of their fund manager. Surprisingly, this proportion is only slightly higher for the 67 funds that chose to delegate responsibility to their fund manager. The response of passing the responsibility over ESE concerns to the fund manager with no clear indication that the fund has interest in the fund manager’s policy means that the ESE statement in the SIP is opaque: it is not possible to tell the extent to which ESE is taken into account.

Typical statements where a review of the fund manager’s ESE policy is mentioned include the following.

- ‘The trustees have reviewed and have accepted the managers’ policy on this issue (the extent to which environmental, social and ethical issues may have a financial impact), and will monitor this policy on a regular basis’.
- ‘The trustees have received a copy of the investment manager’s published corporate governance policy which explains the manager’s approach to SRI and investment rights, and the trustees are satisfied with the policy as described’ – e.g. Royal London Mutual Insurance Society.

**Analysis by Function and Size**

Figure 7 Proportion of Local Authority and Company Pension Funds Reviewing the ESE Policy of their Fund Manager

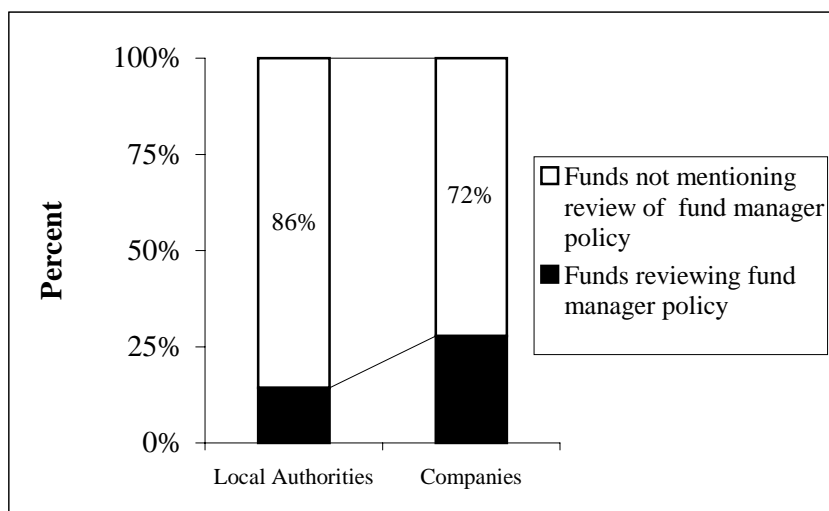


Figure 7 suggests that company pension funds are more likely than local authorities to state that they review the ESE policy of their fund manager. This may be because of the difference shown in Figure 5, where more local authorities are pursuing ESE by themselves or through agencies via engagement (Category 2), and so do not see the need to review the policy of their fund manager, as they do not want the core fund management process to be affected by ESE concerns.

Figure 8 Proportion of Funds Mentioning A Review of their Fund Managers' ESE Policy by Value

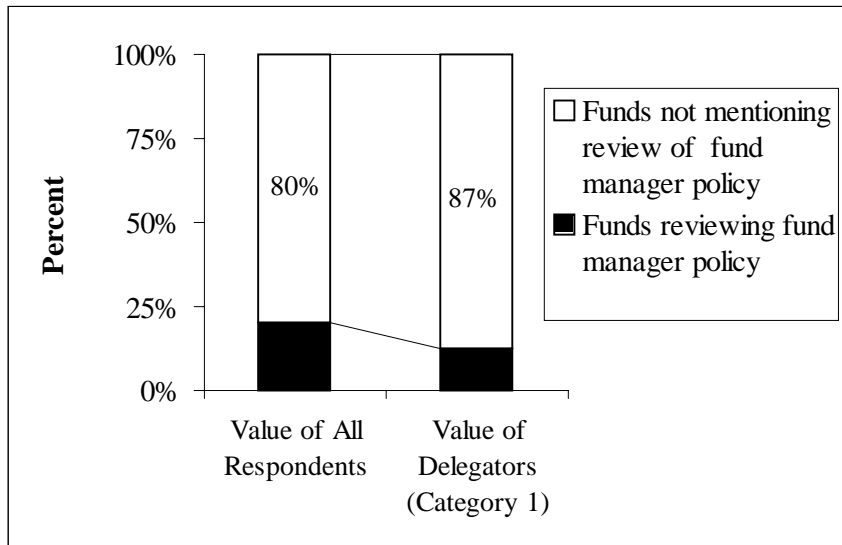


Figure 8 shows the proportion of funds in terms of capital value. The data suggests that it may be the larger funds who delegate responsibility to their fund manager without reviewing the fund manager's policy rather than the smaller funds. Table 7 supports this, although the similar median indicates that the larger mean is caused by the presence of one or two very large funds in the group of delegators who don't mention reviewing the policy of their fund manager.

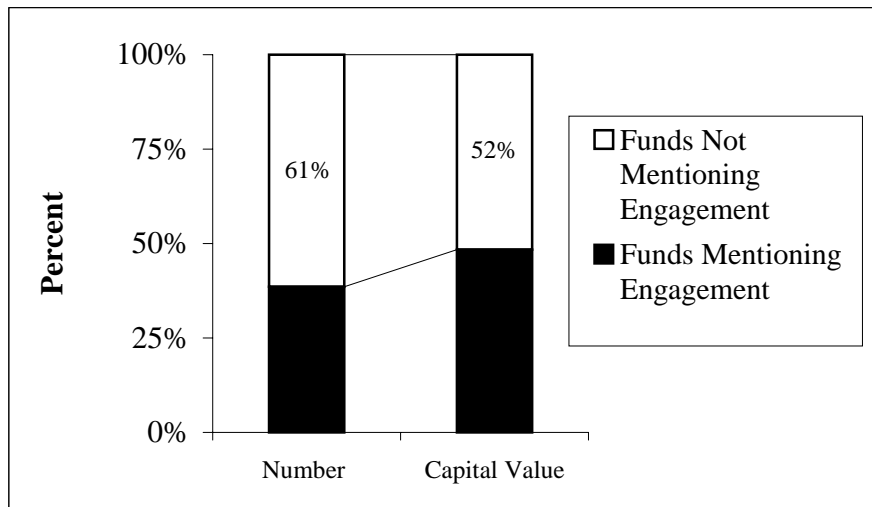
Table 7 Mean and Median Comparison of Capital Values (£M)

Capital Value (£M)	Delegators Who Do Review	Delegators Who Don't Mention Review
Mean	507	1,499
Median	332	469

## **ENGAGEMENT**

The fourth and final issue examined was engagement – how many of the SIPs mentioned this approach? Figure 9 shows that 39% of funds mentioned engagement, which represented nearly half of all assets. The total value of funds mentioning engagement was £146 billion, which means that at least 18% of the total UK occupational pension fund market (£825 billion) is using, or thinking about using, the approach of engagement, for all or part of the fund. This is a large number considering the concept of engagement has only recently become so prominent.

Figure 9 Proportion of Funds Mentioning Engagement



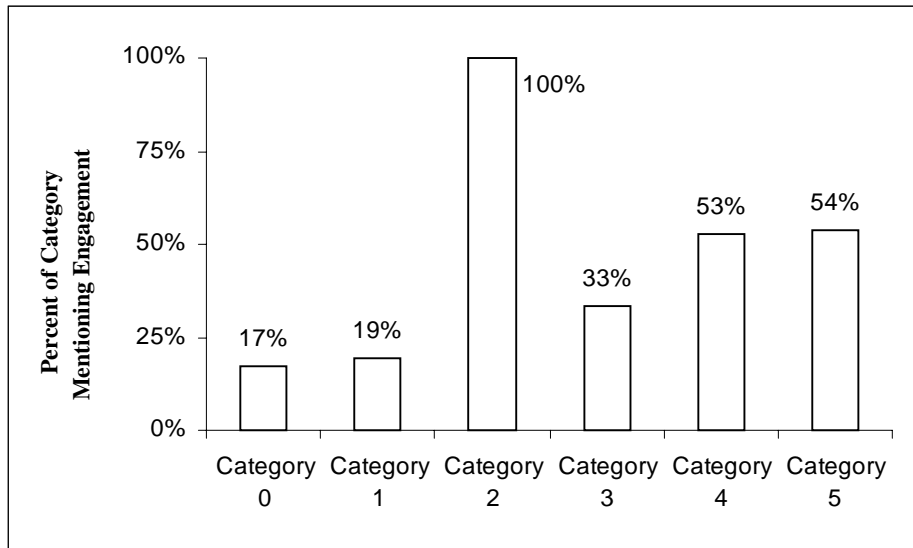
It is important to note that the definition of ‘engagement’ is wider than just the word alone. Funds who mentioned either dialogue with companies on ESE issues or voting on ESE issues at AGMs were also included as mentioning ‘engagement’. If part of the fund was managed by an ethical fund manager who practices engagement, or passively managed by a fund manager given permission to engage on SRI issues, the fund was included. It is also important to point out here that many fund managers (SRI and mainstream) claim to pursue engagement, but few can substantiate this claim to date (Anonymous 2000, personal communication).

Typical statements include the following.

- ‘The fund managers have adopted a policy with regard to Socially Responsible Investment whereby they will engage with the companies in which they invest to encourage them to pursue responsible business practices, especially regarding the environment’ – Tibbett & Britten Pension Trust.
- ‘Having consulted with participating employers, the trustee company has adopted a policy of active engagement with those companies in which the fund is invested concerning the ethical, environmental and social policies pursued by those companies. The trustee company will accordingly aim to use its influence as a major institutional investor to promote within those companies those policies which will meet best practice in those areas. The trustee company pursues this policy with a view to protecting and enhancing the value of the fund’s investments in those companies’ – Universities Superannuation Scheme.
- ‘The fund will encourage and support companies that demonstrate a positive response to environmental concerns.....The fund expects companies to....actively and openly engage in discussion on the environmental effects of their business’ – West Midlands Metropolitan Authority.
- ‘The fund actively votes on Socially Responsible Investment issues in respect of all its UK equity holdings’ – Lancashire County Council.
- ‘It is the trustee’s policy to give discretion to the passive investment manager to pursue a policy of engagement with companies’.

Another interesting angle is what proportion of each Category of strength of ESE statement mention engagement. Figure 10 shows that apart from Category 2 funds who, by definition, mention engagement, around half the funds with Category 4 and 5 statements mentioned engagement, compared to a fifth of funds with Category 0 and 1 statements. Therefore, not surprisingly, it is the funds who show more commitment to SRI who are more likely to mention engagement.

Figure 10 Proportion of Each Category of Strength of ESE Statement that Mentions Engagement

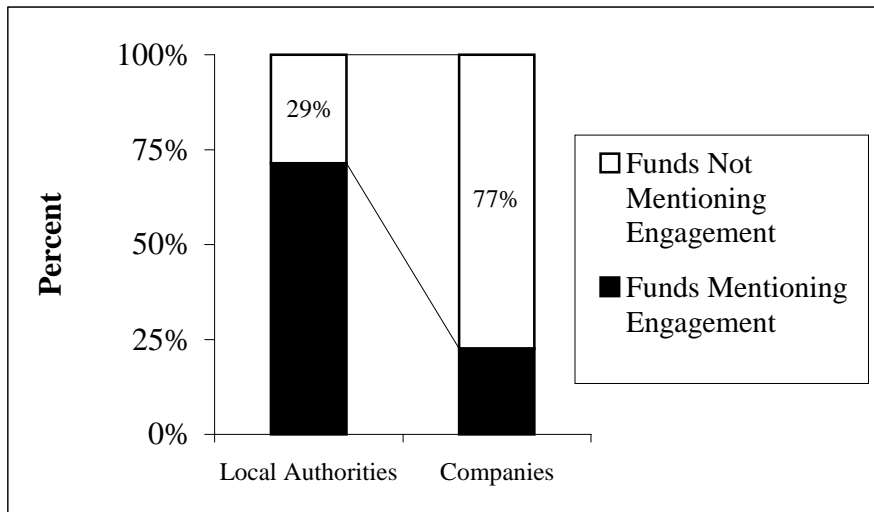


*(see Figure 4 for Key to Figure 9)*

### **Analysis by Function and Size**

Figure 11 shows that a significantly greater proportion of local authorities mentioned engagement than did company pension funds. A very large 71% of local authorities mentioned engagement, compared to 23% of company pension funds. This indicates that the impetus behind the concept of engagement comes firmly from the local authorities.

Figure 11 Proportion of Local Authority and Company Pension Funds Mentioning Engagement

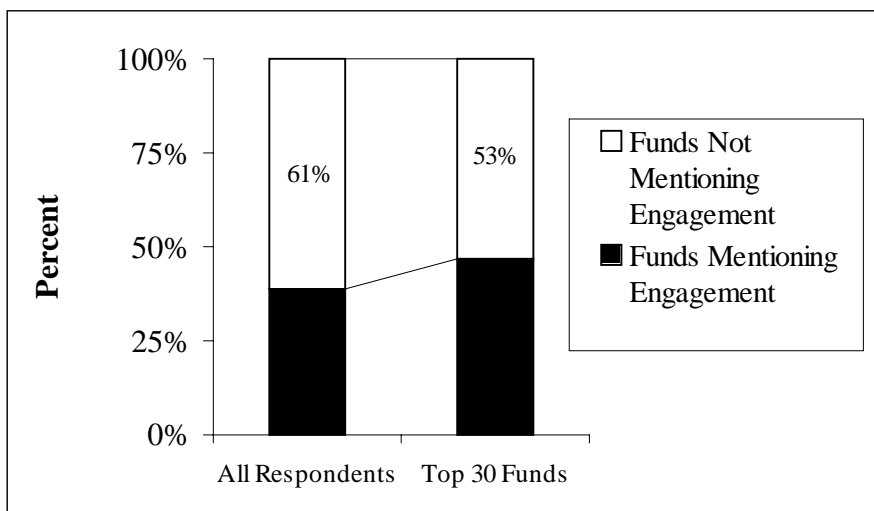


Finally, in terms of size, Figure 9 shows that while 39% of the number of funds mentioned engagement, these funds represented 48% of the assets in the survey. This suggests that the larger funds had a greater tendency to mention engagement. This is supported by both Table 8 and the Figure 12. Table 8 shows that funds mentioning engagement have a higher mean and median capital value, and Figure 12 shows that a higher proportion of Top 30 funds mentioned engagement than of all respondents.

Table 8 Mean and Median Comparison of Capital Values (£M)

Capital Value (£M)	All Respondent Funds	Funds Mentioning Engagement
Mean	1,766	2,214
Median	573	663

Figure 12 Proportion of Top 30 Funds Mentioning Engagement



# COMMON THEMES AND NOTEWORTHY STATEMENTS

This chapter discusses the common themes, noteworthy statements and the particularly difficult cases in the 171 SIPs analysed. These comments are additional to the differences of approach described in the previous section. First is an examination of the statements that stand out in terms of the level of commitment to SRI.

## STATEMENTS AT THE FOREFRONT OF SRI

There are five key ways in which funds stand out in this group – a high level of detail, transparency to members, uniqueness of statement, approaches used to incorporate SRI, and degree of consultation of stakeholders. Firstly, several funds have particularly detailed statements, or even separate statements on SRI, that indicate that a great deal of consideration has gone into the issue. Included in this group are the Nottinghamshire County Council and London Borough of Sutton local authority funds and the Universities Superannuation Scheme. Nottinghamshire County Council refers to the major research study it carried out in 1998 which found a ‘good prima facie link between environmental issues and investment returns’, and explains that it has committed 3% of its assets to a specifically environmental fund to test the success of this approach. The proportion of assets managed in this way will increase to 10% if the approach proves beneficial. The London Borough of Sutton has identified ten issues, ranging from conservation of resources to women’s issues, which they request their fund manager to consider when making investment decisions. In addition, the fund mentions that it will attempt to identify the means to demonstrate *measurable results* of its SRI policy. This is an interesting step that few other funds have made. The USS fund has a statement on SRI additional to its SIP that explains the mechanics of how it is going about incorporating ESE considerations into its investment process.

Secondly, some funds stand out because of the efforts they have made to make their SRI statement transparent and / or available to their members. For example Norfolk County Council has not only published its SIP on the internet, but also has attached the policy of the fund manager who manages 19% of its assets and will engage with investee companies on a set of explicit environmental issues. Another local authority, who wishes to remain anonymous, includes the SRI policies of all their fund managers with its SIP. A few other funds have published their SIP on the internet or produced a leaflet, e.g. Northumberland County Council. However, most of the funds who favour such transparency are local authorities, who are legally obliged to publish a statement of the principles governing their decisions about investments.

A third area of interest is a group of funds who have unique statements, either because they are carefully phrased, not obviously based a recommended model statement, or because they have a unique focus. Examples include the following.

- The BPB fund states that ‘The trustee acknowledges ... that there are long term risks to shareholders from companies which fail to conduct business in a socially responsible manner. It has asked each investment manager to take these issues into account, where possible, as long as the investment objective and the performance target of the fund are not compromised’.

- The Post Office pension fund states that ‘the active investment managers have been instructed by the trustee.....to use their best efforts to avoid investing in companies that in the investment manager’s opinion persistently behave without due regard for the environment or society as a whole’.
- The BBC pension fund states that ‘active managers have been asked to be vigilant against the effects on companies’ long term performance prospects which could arise from any practices which alienate civilised society – including socially irresponsible behaviour’.
- Two funds, Shropshire County Council and the London Borough of Waltham Forest, exclude all tobacco companies from their portfolio. One anonymous local authority has a specific focus on supporting the local economy, stating ‘Through Venture Capital, the Council also seeks to invest in the new technologies of the future with a bias to the local economy...’.

Fourthly, the issue of negative screening is significant. Many funds mention the approach of negative screening, but most dismiss it as an outdated approach that limits the pool of companies a fund can investing, therefore jeopardising returns. A few funds (discussed below) lay out their understanding of the legal principles, and state that negative screening is acceptable in theory as long as equally financially advantageous investments are made elsewhere. However, only a few funds state that they may use this approach in practice. These include the following -

- The London Borough of Newham states that ‘the Fund will consider excluding certain types of investment...on grounds of social responsibility following advice on the implications for performance and diversification’.
- The London Borough of Hammersmith and Fulham states that ‘where we are not satisfied that appropriate standards are being met we will.....in extreme cases disinvest’.
- As mentioned above, Shropshire County Council and the London Borough of Waltham Forest exclude tobacco companies.

A fifth issue is consultation of pension fund members. The London Borough of Hammersmith & Fulham is unique in that it is the only fund that clearly mentions a consultation exercise with stakeholders. It states that -

- ‘The Council intends that its stance on the particular issues identified under SRI reflects the views of the stakeholders in the pension fund (i.e. the members, the beneficiaries and the local taxpayers who underwrite the scheme). Accordingly the Council is engaging in consultation with representatives of these stakeholder groups with the intention that policy on existing and emerging SRI issues is informed by their views’.

Finally – a few funds stand out for providing a clear and specific explanation of why they have decided *not* to take ESE concerns into account. For example, one anonymous company fund states that –

- ‘The Directors believe that ESE considerations in relation to investment are important, but are impossible to define to everyone’s satisfaction, and that any attempt to reflect them in the mandates given to the investment managers may, from time to time, lead to a conflict with the trustee’s duty to act in the best financial interests of the members, and may result in a detrimental effect upon investment returns. Therefore, having consulted the Employer and the scheme’s investment managers, no specific provisions in this area have been incorporated into the investment strategy’.

## **FUNDS WHO HAVE PART OF THE FUND ETHICALLY MANAGED / ETHICAL AVCS**

The following eight funds mention in their SIP that a proportion of their fund is managed separately in an ethical / socially responsible fund –

- Norfolk County Council – 19%.
- Nottinghamshire County Council – 3%, will increase to 10% if successful.
- Lancashire County Council - £50 million (approximately 2%).
- Derbyshire County Council – proportion not mentioned.
- Royal Borough of Kingston upon Thames – proportion not mentioned.
- Anonymous company pension fund (not corporate) - £20 million (approximately 1%).
- Anonymous local authority – 1%.
- Anonymous local authority – £9.3 million (approximately 0.5%).

All these funds are local authorities with the exception of one anonymous ‘company’ pension fund, and even this exception is not a corporate pension fund. Clearly the practice of segregating a portion of assets into a separate SRI fund has not yet been picked up by company pension funds.

On the other hand, seven funds mention that they offer their members the option of investing an extra amount of money in an ethical fund each month. This vehicle is called an Additional Voluntary Contribution (AVC), and the attraction to a pension fund lies in the fact that it is each individual member’s choice whether or not to participate, and the fund is not liable for any underperformance of this separate fund. The following funds offer an ethical AVC- BBC, The Pensions Trust, Northumberland County Council, and four anonymous company pension funds. This data suggests that while local authorities favour segregating part of the assets into a SRI fund, company pension funds favour the lower risk alternative of offering an ethical AVC. However, this may be more a function of what funds think is relevant to mention in their SIP.

## **DIFFICULT STATEMENTS**

Many statements proved difficult to analyse and categorise, mostly because they were either ambiguous or contradictory. Examples of these statements include the following.

### **Ambiguous Statements**

- An anonymous company pension fund states that ‘The trustee feels that investment decisions should be taken for sound financial reasons and as such, socially responsible investment considerations are not predominantly or necessarily taken into account in setting investment policy’. This statement was put into Category 1 because although it appears that ESE concerns will not be taken into account, the wording of ‘predominantly and necessarily’ makes it impossible to tell for sure.
- The Stanton pension funds states that ‘Having considered the issues covered with investing in a socially responsible manner, the trustees believe at this stage that social considerations must be secondary to the objectives set out in 2.1 [financial objectives]. The trustees are satisfied that this corresponds with their responsibilities to the beneficiaries’. This is a hard statement to classify because while SRI considerations are clearly secondary to financial considerations, there is no indication as to whether

secondary considerations are still seen as important, or whether they will be taken into account or not. This statement was deemed Category 1.

### **Contradictory Statements**

- An anonymous company pension fund states ‘The trustee believes that SRI may conflict with its responsibilities to the beneficiaries. As such, SRI considerations (that is consideration relating to ESE factors) have been excluded when setting investment policy. Nonetheless, the trustee expects its fund managers to take such considerations into account in so far as the managers believe that this will impact on performance / risk’. This first part of the statement appears to say that ESE concerns will not be taken into account (Category 0), while the second part indicates that such concerns will be, if financially relevant (Category 3). It was decided to classify the statement as Category 3 as the second part of the statement appears to over-ride the first.
- The London Borough of Bromley’s statement is similarly dichotomous. It states ‘Having considered the difficulties involved in identifying companies meeting any ethical investment criteria; the possibility of judicial review in the case of any company included in error; the difficulty and cost of monitoring any policy; the unpredictable impact on investment performance; the complications that would arise in relation to performance measurement; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy. The authority therefore does not impose any obligation on the investment managers to take account of such considerations in making investments’. This appears to fall firmly into Category 0. But it then goes on to state ‘However...the managers seek to favour companies that pursue best practices provided it does not act to the detriment of the return or risk of the portfolio. They also take account of any ESE factors that they consider to be relevant to investment risk’. This phrase changes the direction of the statement, and puts the statement into Category 5.
- Leicestershire County Council is fairly unique among the respondents in that it states that ‘the Board recognises that involvement by individual companies in activities that may be considered unacceptable could lead to a poor share price performance’. Such a clear awareness of the potential effects of ESE concerns on share price puts it into Category 4, but then the fund states that ‘Having reviewed the investment managers’ policies, the Board has decided to delegate investment powers to the managers to act in accordance with their statements in pursuit of the investment strategy set by the Board’. While this delegation does not strictly contradict the first statement, it does change its direction, and the statement is therefore classified as Category 1.

### **FUNDS SUPPORTING ENGAGEMENT BUT NO CHANGE IN STOCK SELECTION PRACTICES BY THE FUND MANAGER**

This set of funds has already been described, but it is worth noting the group again here, and highlight an interesting case . While most of the local authorities choosing this option based their statement on the model statement suggested by PIRC, one anonymous local authority simply says that it has reviewed the policies of its fund managers, not describing the extent to which they take ESE concerns into account, but then states -

- ‘The Council has appointed a SRI Manager to actively engage with companies in order to encourage improvement in areas of Environmental Management, Climate Change, Deforestation, Labour Standards and Human Rights’.

Hiring a dedicated SRI member of staff and this focus on engagement on such a specific set of issues is unusual.

### **ISSUES MOST FREQUENTLY HIGHLIGHTED**

The issue that most funds chose to focus on was the potential damage or benefit ESE concerns can have for a company's reputation. A typical statement of this type is the following –

- 'The trustees ...expect the investment managers to give due consideration to these [ESE] factors, particularly in the area of business sustainability and reputational risk' e.g. Scottish Enterprise.
- Funds concerned about the reputation of the companies they invest in include Scottish Homes, Scottish Enterprise and one anonymous company pension fund, the London Boroughs of Barking, Newham and Bexley, Surrey and Oxfordshire County Councils and one anonymous local authority pension fund.

There were many other specific issues mentioned in the SIPs. Some funds chose to focus on environmental concerns – e.g. Tibbett & Britten, West Midlands Metropolitan Authorities. Of the three areas involved in SRI, environment, society and ethics, the environment was the area most often highlighted.

Other funds chose to focus on the legal situation, explaining clearly how they understand SRI fitting into trust law. This indicates that some funds want to lay out the principles to ensure their legal understanding is clear. The London Boroughs of Hammersmith and Fulham, Waltham Forest, the Cyngor Gwynedd Council, one anonymous local authority and the Corporation of London all lay out their understanding of the legal basis of SRI. The latter's statement is a good example –

- 'With regard to SRI, the Corporation is mindful of the following legal principles which are based on recent decisions in the courts and which apply to all pension schemes viz.:-
  - a) Administering authorities are free to adopt a policy of SRI provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
  - b) Administering authorities are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make 'ethical' investments provided these are otherwise justifiable on investment grounds.
  - c) Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the fund, consistent with proper diversification and prudence, is paramount'.

### **FUNDS WHO PASS RESPONSIBILITY ON**

Finally, there is an interesting group of pension funds who state that it is not their responsibility to ensure that companies are run to high ESE standards, but the Government's or the companies' themselves. For example –

- An anonymous company pension fund states ‘the trustees rely on the Government to set the appropriate framework for acceptable business activities which can be carried out by companies, and do not generally impose additional constraints’.
- Dorset County Council states ‘the Panel expects that the boards of companies in which the pension fund invests should pay due regard to environmental matters and thereby further the long-term financial interests of the shareholders. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The Investment Panel cannot become involved in those decisions and therefore looks to the directors of a company to manage that company’s affairs taking proper account of the shareholder’s long term interests’. Other funds passing the responsibility for ESE back to the individual company include Thames Water, Essex County Council, and Cyngor Gwynedd Council.

This chapter has highlighted the statements that stand out from the group by being noteworthy in some way, and has identified certain common themes. The next chapter draws the background and analysis together to summarise the research and draw conclusions.

# CONCLUSION

## **SUMMARY OF RESULTS**

The primary aim of this project was to examine the SRI policy as disclosed in the Statement of Investment Principles of a representative sample of UK pension funds and judge the extent to which SRI has been embraced by the pensions industry. With a sample of 171 pension funds with a cumulative value of £302 billion, representing 37% of the assets managed by all UK occupational funds, the survey results are more than satisfactorily representative.

The results show that 59% of funds are incorporating SRI into their investment policy in one form or another, and because these funds tend to be the larger funds, they represent 78% of the assets surveyed. Moreover, 48% of funds have directly requested their fund manager to consider the financial implications of ESE factors, which represents 69% of assets. Only 14% of the funds in the survey clearly state that ESE concerns will not be taken into account, (these funds tend to be the smaller ones and represented only 4% of the assets in the survey), and 27% of funds left the decision over ESE to the discretion of their fund manager. In addition, 39% of funds mentioned engagement in their Statement. These figures have significant implications for the fund management industry, who will need to rapidly develop their expertise in the SRI field.

## **COMPARISON WITH OTHER SURVEYS**

The results of this study are in line with the survey by ERM in June 2000, which found that 21 of the largest 25 pension funds intended to implement SRI principles in their SIP. While this survey covered a much larger number of funds and analysed their SIPs rather than their intentions, 15 of the 19 of the largest 25 pension funds that participated have at minimum asked their fund manager consider the financial implications of ESE factors. This study therefore agrees with the ERM conclusion that the voluntary step towards SRI is 'strong'. Moreover, the results of this study are also very similar to the findings of a survey of local authorities in June 2000 that found that 74% of the 31 councils that responded claimed they had an SRI policy in place (JP Morgan & Manifest, 2000) – 75% of the 56 local authorities that responded in this study have an SRI policy in place (Categories 2,3, 4 and 5). The JP Morgan & Manifest survey also found that 50% of local authorities have a distinct policy of positive engagement, compared to a figure of 71% of local authorities mentioning engagement in this study. These three studies together therefore point to SRI being embraced in a strong and convincing manner by the pension fund community, and in particular by the larger funds and the local authority funds.

## **TRENDS IN THE SIPS**

The survey discovered a much larger variety of statements than originally expected. Categorisation of the statements proved to be considerably the hardest part of the research, with the SRI part of the statements ranging from one sentence to two pages, using the full range of the English language to leave the pension funds and fund managers as much flexibility as possible. Funds focussed on different issues, with the environment being the most popular of the three principles, and a company's reputation the most frequently cited cause of financial concern.

The survey has shown that there are three main options available to pension funds who want to take ESE concerns into account. The latter two are currently the sole preserve of the local authorities.

- Ask the fund manager to consider the financial implications of ESE principles across the whole range of investments, and perhaps ask the fund manager to engage on your behalf.
- Give a small proportion of the assets to a specialist fund manager with SRI capabilities.
- Pursue a policy of engagement without necessarily involving the fund manager, leaving the process of selection, retention and realisation of investments untouched by ESE concerns.

The latter approach is different because of the route it uses – the pension fund sidesteps the fund manager route and instead pursues SRI through the approach of engagement either alone, or using a corporate governance agency such as PIRC or Manifest, or via an association of funds, such as the LAPFF. The group of funds that have chosen this option does not permit the fund manager to choose the extent to which it takes ESE concerns into account. No authority is delegated to the managers - the fund retains ownership of its SRI policy. This may be because these funds consider that their fund managers are unsuited to undertaking engagement activity either because of conflicts of interest, or a lack of capability in the SRI area.

### **INTERESTING OMISSIONS**

There are three areas of surprising omissions in the SIPs. Firstly, very few SIPs mentioned the impetus for developing the SRI policy (besides the financial considerations). For example, only a couple said that they wanted to reflect members' concerns, or to take on board company policies e.g. environmental policies, employment policies. Even the Universities Superannuation Scheme, who have been the subject of a significant campaign by members, did not mention this impetus. Only one fund mentions a large scale member consultation exercise.

Secondly, although all SIPs state that the trustees will monitor the performance of their fund managers in general, only one SIP clearly states in the SRI statement that it intends to monitor their fund managers' performance on SRI, and how it intends to take matters forward in the future. This indicates that the funds are still in an initial stage of setting out their intentions, but have not yet moved on to considering the ultimate results and how they can be quantified. Obviously, it will in most cases be hard to distinguish the effect of pressure from one particular pension fund from that of other pension funds, the Government, NGOs and consumers, but in certain cases it may be possible, and a framework could be put in place for these cases.

Thirdly, it is interesting how only 8 of the 171 funds have chosen the relatively clear cut and easy option of segregating part of the fund into an SRI fund. This option has the benefit of testing the water without significantly impacting the financial return of the fund. If all occupational pension funds in the UK allocated 3% of their assets to a SRI fund, this would add £25 billion to the existing £3.3 billion SRI fund market, while having minimal effect on the performance of the pension funds. This approach could therefore have great future potential for the SRI market.

## NEXT STEPS

This research has answered many questions, but recognises that there are many more issues that could be researched further. Firstly, the scope of this research was limited to creating a snapshot of *how* pension funds have reacted to the new regulation in terms of the level of SRI-adoption, and not *why* pension funds have made the SRI decision that they have. This would be the most obvious next step from this research .

Leading on from this issue of the motivation behind each of the SRI statements is the potential for member consultation – why have so few pension funds consulted (or mentioned that they have consulted) their members, and what would be the best way to go about this? If the main barrier to a consultation exercise is a low response rate, what can be done to improve communication between members and trustees? The data on whether or not the members and beneficiaries want their pension fund to incorporate SRI principles into the investment process is limited to studies by SRI organisations and not pension funds themselves– more research should be carried out to see whether the trustees of specific pension funds are adequately reflecting the wishes of their members and beneficiaries in the SIP.

Thirdly, what next steps should the Government take, if any, either to improve the regulation or introduce other measures to promote SRI? The report by Friends Ivory Sime and the Ashridge Centre for Business & Society (2000) concluded that there is considerable scepticism that SRI would become much more prevalent as a result of the regulation, and that if the Government wishes to use investment practices to influence corporate behaviour, more robust action would almost certainly be required. While this research has proved that SRI has become prevalent, it is clear that there is room for improvement. Many of the SRI statements in the SIPS leave much space for flexibility, and therefore it is likely to be difficult for the average member to actually discern for sure that his/her pension fund has changed its investment practices to take ESE concerns into account in any significant way.

Finally, on a larger scale, it would be interesting to identify how the SRI market has been effected by the new regulation – will the 48% of funds that require their fund manager to take the financial consequences of ESE concerns into account have any impact on the asset management industry? Will traditional fund managers feel the competitive pressure to open up to the SRI field, will there be a surge in recruitment of new staff, and will attitudes towards SRI change? Craig Mackenzie, director of the ethics unit at Friends Ivory & Sime, estimates that 20 institutions, other than those already with SRI staff, are currently seeking to recruit in London alone, and attributes this drive for expansion to ‘demand from government and the public for investors to use shareholder power to encourage change in companies such as clothing manufacturers guilty of using child labour, and oil companies accused of damaging the environment...and legislation enacted in July forcing pension funds to state whether or not they have an ethical policy’ (Financial Times, 2000).

However, the fundamental question that underlines those above is - now the Government and pension funds have shown this strong support for SRI, what will the discernible impact on the environmental, social and ethical behaviour of the companies themselves be? Will companies take up the SRI gauntlet thrown down by two such influential stakeholders?

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# **APPENDIX 1 FIRST LETTER TO PENSION FUNDS**

<UKSIF STATIONERY>

27 June 2000

Dear

**Re: New Pensions Disclosure Regulation – in effect from 3<sup>rd</sup> July**

I am writing to request a copy of the section of your Statement of Investment Principles which addresses the requirements of the new regulation on socially responsible investment and corporate governance.

This is for a survey being carried out by the UK Social Investment Forum, with the support of the Ethical Investment Research Service (EIRIS) and Pensions and Investment Research Consultants (PIRC). As you will know, the new legislation requires that from the 3<sup>rd</sup> July, occupational pension schemes must state the extent to which (if any) they take social, ethical and environmental considerations into account, and their policy on exercising their voting rights. Our survey will examine the SIPs of the largest 500 UK occupational pension funds to identify the effects of this new legislation on the social, ethical and environmental stance of the UK pension fund industry. Once we have received your SIP and carried out the analysis, we will send you a complimentary copy of our report.

In addition, with your agreement (see attached slip), we also plan to build a research archive giving a snapshot of the initial responses of major pension funds to the regulation. This aims to reduce any administrative burden on pension funds by providing an alternative source of this data for NGOs and other interested parties.

I would be very grateful if you could send us a copy of the relevant part of your SIP. A self-addressed envelope is attached for your convenience. Please also complete the attached slip and enclose it in the envelope.

If you have any queries, please do not hesitate to contact our researcher Eugenie Mathieu on 07909 916121, or [Eugenie.Mathieu@ic.ac.uk](mailto:Eugenie.Mathieu@ic.ac.uk).

Many thanks for your help.

Yours sincerely

**Penny Shepherd MBE**  
Executive Director

## Survey of UK Pension Industry

***Please correct if necessary***

Name of Pension Scheme:

Name of Correspondent:

Please tick this box if you do **not** wish your Statement of Investment Principles to be made available to a public archive

Please tick this box if you wish your pension scheme to remain anonymous in the UK Social Investment Forum report

***Please don't forget to include this slip with your reply!***

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### **Background**

The **UK Social Investment Forum** is a non-profit organisation with the primary purpose of promoting and encouraging the development and positive impact of socially responsible investment throughout the UK. The Forum was launched in 1991 to bring together different strands of SRI nationally and act as a focus and voice for the industry. Our members include over 40 fund management and other financial institutions. The UKSIF website can be found at [www.uksif.org](http://www.uksif.org).

**EIRIS** is dedicated to helping investors put their principles into practice. Set up in 1983 by a group of churches and charities, its aims are to enable investors to apply their social and ethical concerns to investment, and to promote wider understanding of, and debate on, corporate responsibility. EIRIS researches all the company groups listed on the FTSE All-Share Index and all those in the published portfolio of ethical funds. It also researches all European stocks in the FTSE World Index.

**PIRC Ltd** provides company research and policy advice on corporate responsibility and corporate governance issues to institutional investors with assets of over £150 billion. Clients include over 50 private and public sector funds, investment management companies in the UK and internationally, trade unions and religious investors. The PIRC website can be found at [www.pirc.co.uk](http://www.pirc.co.uk).

**Eugenie Mathieu** is currently undertaking a MSc in Environmental Technology at Imperial College, London. She graduated from Brasenose College, Oxford in 1997 and worked as a strategy consultant for two years before leaving to study at Imperial. This survey forms part of her MSc thesis.

## **APPENDIX 2 REMINDER LETTER TO PENSION FUNDS**

<UKSIF STATIONERY>

25 July 2000

Dear

**Re: New Pensions Disclosure Regulation – in effect from 3<sup>rd</sup> July**

Further to my letter dated 27 June, I am writing to remind you of my request for a copy of the section of your Statement of Investment Principles which addresses the new regulation on socially responsible investment and corporate governance. We have had a very positive response to date of 125 replies and would greatly appreciate your contribution to further improve our survey.

The survey is being carried out by the UK Social Investment Forum, with the support of the Ethical Investment Research Service (EIRIS) and Pensions and Investment Research Consultants (PIRC). As you will know, the new legislation required that from the 3<sup>rd</sup> July, occupational pension schemes must state the extent to which (if any) they take social, ethical and environmental considerations into account, and their policy on exercising their voting rights. Our survey will examine the SIPs of the largest 500 UK occupational pension funds to identify the effects of this new legislation on the social, ethical and environmental stance of the UK pension fund industry. A complimentary copy of our report will be sent to participants.

In addition, with your agreement (see attached slip), we also plan to build a research archive giving a snapshot of the initial responses of major pension funds to the regulation. This aims to reduce any administrative burden on pension funds by providing an alternative source of this data for NGOs and other interested parties.

I would be very grateful if you could send us a copy of the relevant part of your SIP. A self-addressed envelope is attached for your convenience. Please also complete the attached slip and enclose it in the envelope.

If you have any queries, please do not hesitate to contact our researcher Eugenie Mathieu on 07909 916121, or Eugenie.Mathieu@ic.ac.uk. Many thanks for your help.

Yours sincerely

**Penny Shepherd MBE**  
Executive Director

# **APPENDIX 3 LETTER FROM NAPF TO PENSION FUNDS**

18 July 2000



Dear Member

### **Socially Responsible Investment**

I wrote to you last July when the Government published the regulation which required trustees, from 3 July 2000, to include in their Statement of Investment Principles (SIP) the extent (if at all) to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments. I explained that Stephen Timms, then the Pensions Minister, had reassured the NAPF that the regulation was intended to be a disclosure measure and was not an attempt to direct the investment of pension schemes' assets. On this basis, we would play our part in helping our Members implement the regulation. I also asked you to let me know if, at any stage, your trustees felt they were being placed in an invidious position as a result of representations which they might have received.

The regulation has now come into effect and the NAPF is aware of a number of recent approaches made to Chairmen, company secretaries and trustees about their revised SIPs. In some cases, trustees have been asked to provide a copy of the SIP to a pressure group or to a fund manager with a commercial interest in socially responsible investment.

It is, of course, quite legitimate for scheme members, particularly those with a specific and genuine 'ethical' interest, to ask for a copy of the SIP. However, there is no legal duty on trustees to send their SIP to individuals or bodies other than those which fall within the disclosure requirements. If you do not wish to provide a copy to those who do not have a statutory right to receive one, you should feel under no obligation to comply with such requests.

If you find that a single interest group or other body is making unreasonable requests for information or is attempting to pressurise your trustees to take actions or make decisions in the area of socially responsible investment, the NAPF would like to know. We can then draw the present Minister's attention to the unintended effect of the new regulation without, of course, disclosing the source of the information unless we had your specific agreement.

If you are experiencing any difficulties please write to Rhoslyn Roberts at the NAPF Secretariat. We would, also, welcome any other observations you might have about the implementation of the regulation.

Yours sincerely

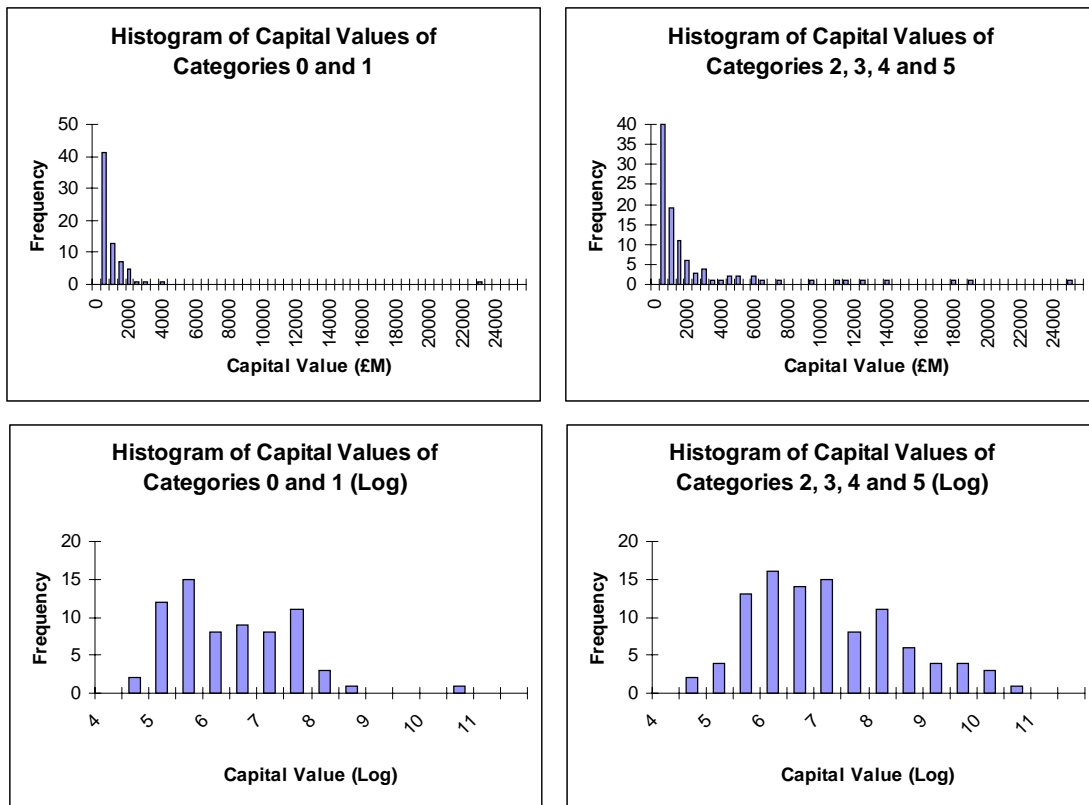
**Alan Pickering**  
**Chairman**

## APPENDIX 4 – T-TEST

*Null Hypothesis* – there is no difference between the capital values of funds that require their fund manager to take ESE concerns into account (categories 2,3 and 4) from those that do not (categories 0 and 1).

*Alternative Hypothesis* - there is a difference between the capital values of funds that require their fund manager to take ESE concerns into account (categories 2,3 and 4) from those that do not (categories 0 and 1).

Histograms showed that the distribution of capital values in both sets of categories was very skewed, and therefore not normal. Therefore the capital values were converted into log form and the log histograms have a more normal distribution.



An F test was carried out to assess whether there was a difference in the variances of the two variables. The p-value derived, shown in Table 1 below, shows that there is a difference in the variances of the two variables.

**Table 1 F-Test Two-Sample for Variances**

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	6.036	6.759
Variance	1.227	1.790
Observations	70	101
df	69	100
F	0.685	
P(F<=f) one-tail	0.048	
F Critical one-tail	0.688	

Therefore a one-tailed t-test was carried out. The results are shown in Table 2 below.

**Table 2 t-Test: Two-Sample Assuming Unequal Variances**

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	6.036	6.759
Variance	1.227	1.790
Observations	70	101
Hypothesized Mean Difference	0	
df	164	
t Stat	-3.855	
P(T<=t) one-tail	0.000	
t Critical one-tail	1.654	
P(T<=t) two-tail	0.000	
t Critical two-tail	1.975	

Because the t-value of  $-3.855$  is more extreme than the critical value of  $-1.654$ , the null hypothesis is rejected. There is a significant difference between the capital values of funds that require their fund manager to take ESE concerns into account (categories 2, 3, 4 and 5) from those that do not (categories 0 and 1).

## **APPENDIX 5 LIST OF PARTICIPANTS**

**Appendix 5 List of Participants**

Pension Fund	Capital	Industry	Qu 1. ESE statement?	Qu 2.	Qu 3. Fund	Qu 4.
	Value (£m)			Strength of ESE Statement	Manager ESE policy reviewed?	Engagement mentioned ?
British Telecommunications plc	24,906	Electrical Engineering	0	4	0	0
Universities Superannuation Scheme Ltd.	18,815	Education	0	4	1	1
Railways Pension Fund	13,957	Travel/Transport	0	3	0	0
British Broadcasting Corporation	6,294	Communications	0	3	0	1
Greater Manchester	5,667	Local Government	0	2	0	1
Strathclyde Pension Fund	5,591	Local Government	0	3	0	0
London Regional Transport	3,500	Travel/Transport	0	3	0	1
London Pensions Fund Authority	2,899	Local Government	0	4	1	0
Lancashire County Council	2,394	Local Government	0	1	0	1
Philips Electronics UK Ltd.	1,994	Electrical Engineering	0	1	0	0
South Tyneside Metropolitan District Council	1,976	Local Government	0	3	1	1
Bass plc	1,818	Food/Drink/Tobacco	0	3	0	0
Essex County Council	1,790	Local Government	1	0	0	0
City of Edinburgh Council	1,742	Local Government	0	2	0	1
The Pensions Trust	1,609	Banking/Finance	0	1	0	0
Carnaud MetalBox Group UK Ltd.	1,355	Timber/Paper/Packaging	0	1	1	0
Nottinghamshire County Council	1,317	Local Government	0	2	0	1
Hertfordshire County Council	1,193	Local Government	0	1	0	0
Derbyshire County Council	1,131	Local Government	0	1	0	1
East Riding of Yorkshire	1,125	Local Government	0	2	0	1
Leicestershire County Council	1,125	Local Government	0	1	1	1
Kelda Group plc	1,081	Water Companies	0	3	0	0
Norfolk County Council	1,045	Local Government	0	4	0	1
Middlesbrough Borough Council	1,010	Local Government	0	2	0	1
Thames Water plc	917	Water Companies	0	3	1	1
Cambridgeshire County Council	877	Local Government	0	4	0	0
Britannic plc	877	Banking/Finance	1	0	0	0
Surrey County Council	875	Local Government	0	4	0	1
Dorset County Council	802	Local Government	1	0	0	0
North Yorkshire County Council	677	Local Government	0	2	0	1
Suffolk County Council	629	Local Government	1	0	0	0
Somerset County Council	628	Local Government	1	0	0	0
Shropshire County Council	619	Local Government	0	3	0	1
Oxfordshire County Council	613	Local Government	0	4	0	1
BPB plc	605	Timber/Paper/Packaging	0	5	0	0
Wiltshire County Council	567	Local Government	0	2	0	1
Cornwall County Council	534	Local Government	0	1	1	1
The Highland Council	490	Local Government	0	3	0	1
Friend's Provident Life Office	477	Banking/Finance	0	3	0	1
Cyngor Gwynedd Council	442	Local Government	0	1	1	0
Northumberland County Council	393	Local Government	0	4	0	1
London Borough of Islington	390	Local Government	0	0	0	1
London Borough of Barking and Dagenham	383	Local Government	0	4	1	1
Corporation of London	364	Local Government	1	0	0	0
London Borough of Hammersmith & Fulham	346	Local Government	0	2	0	1
Novartis UK Ltd.	346	Pharmaceuticals	1	0	0	0
Marley plc	344	Building/Construction	0	3	0	0
London Borough of Newham	341	Local Government	0	5	0	1
London Borough of Brent	321	Local Government	0	2	0	1
London Borough of Bexley	315	Local Government	0	2	0	1
London Borough of Waltham Forest	308	Local Government	0	2	0	1
Dumfries & Galloway Council	270	Local Government	0	3	0	0
London Borough of Bromley	244	Local Government	0	5	0	1
Scottish Enterprise	217	Other Services	0	4	1	0
Tibbett & Britten Group plc	211	Other Services	0	2	0	1
Dunlop Tyres Ltd.	188	Motor Vehicles	1	0	1	1
News International plc	184	Communications	0	1	0	0
Scottish Borders Council	180	Local Government	1	0	0	0
United Norwest Co-operatives Ltd.	180	Commerce/ Trade/Retailing	0	1	1	0
Royal Borough of Kingston upon Thames	175	Local Government	0	3	0	0
GMB Trade Union	165	Charities/Museums	0	1	0	1
London Borough of Sutton	163	Local Government	0	4	0	1
University of Leeds	161	Education	0	3	0	0
Scottish Homes	160	Charities/Museums	0	4	0	1
Northern Rock plc	145	Banking/Finance	0	3	0	0
Stanton plc	132	Building/Construction	0	1	0	0
University of Oxford	114	Education	0	1	0	0
Graham Group plc	103	Building/Construction	0	1	0	0
Pitney Bowes Ltd.	103	Other Products	0	1	0	0
ESAB Group (UK) Ltd.	86	Mechanical Engineering	0	1	1	0

Source: AP Information, May 2000

Note: These funds are only those who did not wish to remain anonymous in the public archive or in the report

**Key to Table**

Question 1: 1= Yes, 2= No

Question 2: 0= There is no statement saying environmental, social and ethical considerations will be taken into account

1= The fund delegates the decision to the discretion of the fund manager, with no guidance

2= The fund will pursue a policy of engagement, but not primarily or necessarily through the fund manager

3= The fund manager is requested to take account of financial implications of environmental, social and ethical considerations

4= The fund manager is requested to take account of financial implications, and trustees associate good environmental, social and ethical performance with positive financial implications

5= The fund manager is empowered / required to take account of environmental, social and ethical considerations as long as there are no negative financial consequences

Question 3: 1= Review mentioned, 2= Review not mentioned

Question 4: 1= Yes, 2= No