

“Building personal accounts: designing an investment approach; a discussion paper to support consultation, May 2009”

Response by FairPensions

Introduction

FairPensions is the operating name of Fairshare Educational Foundation, a registered charity¹ that aims to persuade UK pension funds and fund managers to adopt an effective responsible investment capability. Responsible investment (RI) involves monitoring and managing environmental, social and governance risks and opportunities, to help safeguard investments and promote better corporate governance, as well as securing other environmental and social benefits.

FairPensions is supported by a number of leading charities and trade unions, including ActionAid, CAFOD, Community, CWU, ECCR, EIRIS, GMB, NUJ, Oxfam, Traidcraft, Unison, Unite and WWF. We are also supported by almost 5,000 individuals.

Further information about FairPensions and about our approach to RI can be found on our website.²

General points

FairPensions commends the quality of the work that PADA has undertaken in the production of the discussion paper. We welcome the opportunity to respond to this paper and are pleased to note the chapters dealing with responsible investment and corporate governance.

In order to aid understanding, we are keen to point out that both “corporate governance” and “responsible investment” as discussed in Chapters 6 and 7 are issues which concern investment performance rather than being ethically driven. Some international examples of major public pension funds which use responsible investment as a performance enhancement tool are included in the appendix to this document.

We welcome the paper’s recognition of “*a strong indication that corporate governance leads to better performance*”³ and that there is a link between corporate responsibility and “*lower risk*”⁴.

We also welcome the recognition that engagement with investee companies is a valid means of lowering risk and enhancing shareholder value⁵. In support of an engagement approach we would

¹ Charity number 1117244

² www.fairpensions.org.uk

³ PADA (Personal Accounts Delivery Authority): “*Building personal accounts: designing an investment approach. A discussion paper to support consultation*”; May 2009. (Hereafter “PADA 2009”). paragraph 6.13, page 84.

⁴ PADA 2009. Paragraph 7.20, page 93.

⁵ For example: “*pension schemes as institutional shareholders have an important part to play in how corporate governance develops*”. and “*it is expected that corporate governance in some form will feature within the personal accounts scheme*” (PADA 2009, page 12 / page 82)

draw attention to an analysis by Mercer which reviews academic and industry studies of responsible investment approaches⁶: where engagement (as opposed to screening and integration approaches) is used, ¾ of studies found a positive relationship with financial performance and none found a negative relationship.

There is growing evidence of the materiality of particular environmental and social issues: the paper itself cites climate change as an example of an environmental issue likely to impact “*companies and the economy*”⁷, and further evidence is provided in research papers such as The United Nations Environment Programme (UNEP)’s “*Show Me The Money: Linking Environmental, Social And Governance Issues Into Institutional Investment*” which found that “*ESG [environmental, social and governance] issues are material – there is robust evidence that ESG issues affect shareholder value in both the short and long term.*” and that “*the impact of ESG issues on share price can be valued and quantified*”⁸ (the report provided a meta-analysis of 12 investment analyst reports examining various sectors – of these, 9 found ESG factors to be material and another found a partial link⁹). Additional evidence of materiality is signposted in the notes to this response.¹⁰

For this reason, FairPensions believes that there is a robust business case for the Personal Accounts scheme to adopt measures to monitor and manage the corporate governance issues covered in Chapter 6 and the environmental and social issues dealt with in Chapter 7, as these issues are potentially financially relevant. To be clear, FairPensions does not advocate that an ethically-driven and/or screened approach should be taken (outside of any optional “ethical fund” offered): we argue instead that the scheme should have the ability to effectively engage with companies on any issues which have the potential to affect investment performance.

FairPensions would like to point out that the role of responsible investment / corporate governance in promoting improved performance in general and *reduced risk in particular* would tend to improve persistency of contributions from members, most of who are assumed to be risk-averse. It is also likely that persistency would be encouraged by responsible investment’s role in reducing PR risks (one thinks of the national scandal in the Netherlands when the “Zembla” documentary programme exposed some of the investments of major Dutch pension schemes¹¹).

⁶ Mercer “*Demystifying Responsible Investment Performance*” 2007 UNEPFI, pages 13-14; available at <http://www.mercer.com/referencecontent.htm?idContent=1332560> (this paper refers to engagement approaches as “activism”).

⁷ PADA 2009. Paragraph 7, page 91. Social issues also carry potential financial risks: for example a company directly or indirectly associated with human rights abuses may experience legal action, government sanctions, consumer boycotts etc which adversely affect it and its investors.

⁸ UNEP Finance Initiative Asset Management Working Group: “*Show Me the Money: Linking Environmental, Social and Governance Issues into Institutional Investment*”; 2006, page 11. Available at http://www.unepfi.org/fileadmin/documents/show_me_the_money.pdf

⁹ It should be recognised that data on the materiality of ESG factors for *investee companies* is surrogate data as far as *investors* are concerned – which is why we also draw attention to the Mercer study, which actually studies the effect on *investment performance* of incorporating ESG considerations.

¹⁰ For obvious reasons of topicality, climate change has been the subject of much research in this area. Relevant documents include :

- Economist Intelligence Unit: “*Countdown to Copenhagen: Government, business and the battle against climate change*” 2009 (http://viewswire.eiu.com/report_dl.asp?mode=fi&fi=1704324755.PDF&rf=0)
- Carbon Trust, “*Climate change and Shareholder Value*” 2006 (http://www.carbontrust.co.uk/climatechange/investors/shareholder_value.htm);
- Association of British Insurers “*Financial risks of Climate Change*” 2005 (http://www.abi.org.uk/Display/File/Child/552/Financial_Risks_of_Climate_Change.pdf)
- Carbon Trust / IIGCC / Mercer, “*A Climate for Change – A trustee’s guide to understanding and addressing climate risk*” 2005. (<http://www.carbontrust.co.uk/publications/publicationdetail.htm?productid=CTC509>)

¹¹ See Investment and Pensions Europe: “*Consequences of a Dutch Affair*” 2007 (online at http://www.ipe.com/magazine/Consequences_of_a_Dutch_affair_26456.php)

In our response to question 7.3 (on RI, fees and fiduciary duty), we raise the issue of the wider responsibilities of the Personal Accounts scheme. As a shareholder, the Personal Accounts scheme's potential influence on corporate behaviour may impact upon the welfare of the scheme's beneficiaries and their employers, including – topically – its role in promoting a sustainable economy. In addressing “wider responsibilities” we do not advocate that Personal Accounts should go beyond its fiduciary duty, but ask whether fiduciary duty should be seen as encompassing the promotion of an economy and society in which the broader interests of beneficiaries should be addressed – for example, in working with investee companies to ensure greater stability of ‘UK plc’ and greater (environmental and financial) sustainability. Consideration of broader responsibilities and interests also leads FairPensions to welcome the paper's recognition of “universal ownership”¹².

Responses to specific questions

6.1 To what extent can the Personal Accounts scheme deliver high-quality corporate governance at a low cost?

It should be stated that there is business-case evidence to suggest that the Personal Accounts scheme *should* seek to deliver high-quality corporate governance: the paper itself reviews some of this in Chapter 6 and additional evidence is provided in papers cited above, and under “*impact of the focus list on CalPERS returns*” in the appendix to this document.

FairPensions recommends that the Personal Accounts scheme adopts a policy of assessing the capabilities of fund managers to monitor and manage risks and opportunities presented by environmental, social and corporate governance issues where these may become financially relevant. The policy should also require that the monitoring and management of such issues form part of fund managers' investment management agreements and that fund managers be asked to report regularly and formally to Personal Accounts trustees on their activity and progress in managing such issues. Leading fund managers are already meeting such requirements as part of their standard provision of services¹³; and such practices are now being adopted by a number of large UK pension funds, (as demonstrated by FairPensions' 2009 report “*Responsible Pensions?*”¹⁴, which also acts as a framework for good practice in this area.)

Integrating responsible investment into the selection, instruction and scrutiny of fund managers must, however, be supplemented by a more substantial approach to corporate governance, in view of the evidence for the cost-effectiveness of this approach as cited above. This ‘more substantial approach’ is dealt with in our response to question 6.1.

We also recommend that PADA consider the benefits of membership of collaborative investor initiatives (such as the UN Principles for Responsible Investment, the Institutional Investors Group on Climate Change, Carbon Disclosure Project) as a means of achieving leverage beyond the schemes' own assets.

¹² PADA 2009. Paragraph 7.12, page 91.

¹³ FairPensions: “Investor Responsibility? UK fund managers' performance and accountability on ‘extra-financial’ risks” 2008. Available at <http://www.fairpensions.org.uk/research/>

¹⁴ FairPensions: “Responsible Pensions? UK occupational pension schemes' responsible investment performance” 2009. Available at <http://www.fairpensions.org.uk/research/>

6.2 How will this evolve over time as the scheme's assets under management grow?

The paper states that “*corporate governance can be achieved in three ways: fund manager selection; corporate governance overlay; in-house capability*”¹⁵ and indicates that different approaches may be adopted as the scheme grows¹⁶.

Whilst we consider an in-house capability to be the most effective means of ensuring that the scheme's policies are put into effect; we recognise that the scheme may decide that such an approach “*is more likely to be a cost-effective option when the Personal Accounts scheme's assets under management have reached a significant size*”¹⁷ and therefore to use an overlay approach initially (in combination with incorporating ESG capability into fund manager selection, instruction and scrutiny). However, we believe that PADA should publicly state at what stage/size the scheme should change approach, in order to ensure that corporate governance/responsible investment practices do not “fall off the agenda”, and to ensure accountability to members.

We note that the London Pension Fund Authority, with assets under management of £3.597bn¹⁸ has a full-time RI officer. Similarly, the Pensions Protection Fund has a full-time dedicated RI officer. It would seem reasonable that the Personal Accounts scheme should, from day one, have at least 1 staff member who is dedicated to ensuring manager effectiveness, involved in collaborative initiatives on behalf of the scheme, and working on member communication around RI issues. Once the scheme gets above a certain size, the size of the dedicated team should grow accordingly.

6.3 How do we achieve high-quality corporate governance where assets are managed passively?

We are keen to make clear that selecting, instructing and requiring reports from fund managers is not restricted to active managers. The Institutional Shareholders' Committee's “*The Responsibilities of Institutional Shareholders and Agents – Statement of Principles*” explicitly provides that intervention in investee companies *should be considered... regardless of whether an active or passive investment policy is followed*”¹⁹. Indeed, there is a compelling argument that corporate engagement can be more important in passively-managed portfolios, because shareholdings which raise serious governance concerns cannot be sold (for example, engagement with banks about their lending and investment banking practices could have ameliorated the losses which passive managers recently suffered in this sector). Engagement with investees is one of the few ways that passive managers have to influence returns: Simon Wong, former Head of Corporate Governance at Barclays Global investors, has stated that: “*you can make a case that corporate governance is more important for index investors as they can't sell a stock. If you can't sell, you have to care.*”²⁰

Also, although “*typically active managers commit more resources to corporate governance than passive managers*”²¹ it is not necessarily the case that good corporate engagement is only practiced by active managers (or that all active managers practice good corporate engagement).

¹⁵ PADA 2009. Paragraph 6.16, page 85

¹⁶ E.g. by stating that “in-house capability is more likely to be a cost-effective option when the personal accounts scheme's assets under management have reached a significant size” (PADA 2009, paragraph 6.21, page 86), as well as in the wording of consultation question 6.2.

¹⁷ PADA 2009. Paragraph 6.21, page 86.

¹⁸ AP Information Services: “*Pension Funds and their Advisers*”, 2009. Page 408-9.

¹⁹ Institutional Shareholders' Committee; *The Responsibilities Of Institutional Shareholders And Agents – Statement of Principles*; updated June 2007; page 5. Available at <http://www.institutionalshareholderscommittee.org.uk/library.html>

²⁰ Wealth Bulletin, 16 June 2008.

²¹ PADA 2009, paragraph 6.17, page 85.

Passively-managed shareholders are also not without authority: they cannot sell, but still retain other sanctions, including voting.

FairPensions therefore recommends that the Personal Accounts scheme should require fund managers to have an active responsible investment strategy: passive fund managers should be required to focus on maximising value through the use of shareholder rights, not just on minimising tracking error.

6.4 What approach should the trustee corporation take to the voting of shares, both overseas and in the UK?

FairPensions recommends that the trustee corporation should actively vote its shares both overseas and in the UK. However, we see little benefit in voting behaviour which defaults to management recommendations or which passively follows proxy voting services' guidelines.

Active, considered voting is also in line with much mainstream industry thinking produced by organisations including the Association of British Insurers, the National Association of Pension Funds, the Financial Services Authority and the Institutional Shareholders' Committee²².

We would also draw attention to the voting strategies of international public pension funds shown in the appendix to this document, which include advising other investors of voting intentions ahead of shareholder meetings in order to be more influential.

7.1 How can the personal accounts scheme engage in responsible investment in a cost-effective way?

As evidence cited in this response shows, environmental and social issues can impact on investment returns just as corporate governance issues can. An increasing number of pension funds and other investors now attest to this²³. We are therefore encouraged that PADA's paper reviewed certain relevant examples in paragraphs 7.4 to 7.14. We also welcome the paper's recognition that "a significant body of academic evidence ...supports an underlying positive relationship between a company's social performance and its economic performance, which takes the form of higher return or lower risk for the company."²⁴ We would argue that such findings should be valued not just for their evidence with regard to performance but also with regard to the positive influence that reducing volatility would have on persistency.

A responsible investment approach (i.e. managing the risks and opportunities arising from environmental, social *and* governance issues) is particularly important for longer-term investors

²² These are available as follows:

- NAPF: "Corporate Governance Policy and Voting Guidelines" 2009; (<http://www.napf.co.uk/policy/governance.cfm>)
- "Institutional Shareholders' Committee framework on voting disclosure" 2007; (<http://institutionalshareholderscommittee.org.uk/sitebuildercontent/sitebuilderfiles/ISCframeworkvotingdisclosureJun07.pdf>)
- FSA: "The Combined Code on Corporate Governance" 2003; (http://www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf)
- "Responsible Voting – A Joint ABI – NAPF Statement" 1999; (<http://www.ivis.co.uk/ResponsibleVoting.aspx>).

²³ One measure of this would be the rising number of signatories to the UN Principles for Responsible Investment. We also cite ABP (a leading Dutch pension fund) which states a belief that companies which "place a high value on the environment, social factors and corporate governance will perform better in the long term" in the appendix to this document.

²⁴ PADA 2009. Paragraph 7.20 page p93.

such as pension funds, because environmental and social issues tend to have longer-term impacts. Short-term contracts and short-term targets of fund managers provide minimal incentive to address these longer range risks and opportunities although ESG concerns often require prompt action in order to forestall serious consequences in the future. Engaging with investee companies to ‘future-proof’ themselves against the effects of, and policy responses to, climate change is an obvious example, but there are other examples of corporate short-termism with regard to human rights and health-and-safety which have led to serious financial consequences²⁵.

The paper’s conclusion that “*the international evidence on the net-cost performance of ethical, socially responsible and responsible investment portfolios relative to conventional portfolios is inconclusive*”²⁶ deserves examination: we suspect that this is drawn from an examination of “responsible investment portfolios” including those which have ethics as a motivator and screening as method rather than those which have performance as a motivator and engagement as method. Different people have different understandings of what is meant by “responsible investment”, but if we consider engagement-based approaches to risk and opportunity management (across portfolios), there is a sound business case²⁷. Because of this, we argue that the paper’s point that “management costs erode the additional returns achieved by socially responsible firms” is answered by the point made in the same paragraph that “the least expensive approach [is] engagement”.²⁸

Environmental and social issues create legislative, regulatory, reputational and operating risks for investee companies (a manual for investors produced by the Chartered Financial Analysts Institute²⁹ gives a fuller explanation of such risks). The importance of social and environmental issues therefore goes well beyond the “*growing interest in sustainable lifestyles*”, “*evidence of climate change*” and “*universal ownership*” outlined in the paper³⁰. Furthermore the paper refers to the importance of “better social and environmental reporting” by companies³¹. FairPensions believes such reporting creates data that it would be perverse for investors to ignore. A robust RI policy would see this data incorporated into analysis and employed to inform engagement with investee companies.

If one therefore regards responsible investment as the monitoring and management of corporate governance plus environmental and social risk/opportunity factors, it is sensible to extend the approach recommended above under question 6.2 to cover environmental and social issues where these are likely to become financially relevant.

In our response to question 6.1 we refer to the increased leverage available through participation in collaborative initiatives; an argument which applies equally well here.

²⁵ A prominent example being BP, which underperformed following pipeline leaks and a refinery explosion. Owing to the capitalisation of the company, its shares represent a significant proportion of typical pension fund portfolios, and therefore its problems impacted returns. See <http://www.independent.co.uk/news/business/news/bp-investors-turn-on-browne-over-pay-package-444494.html>.

²⁶ PADA 2009. Paragraph 7.21, page 93.

²⁷ See Mercer and UNEP reports cited above.

²⁸ PADA 2009. Paragraph 7.22, page 93.

²⁹ CFA Institute, “*Environmental, Social and Governance Factors at Listed Companies*” 2008. Available at <http://www.cfapubs.org/toc/ccb/2008/2008/2>

³⁰ PADA 2009. Pages 90-91.

³¹ PADA 2009. Paragraph 7.9, page 90

7.2 Should responsible investment be a matter for the default fund alone, or for all fund choices, as far as it is practical and relevant?

As we have indicated above, responsible investment is a strategy for managing risks and opportunities across portfolios, rather than a tactic for specific fund choices. This being the case, we recommend that a responsible investment approach should be taken to all fund choices.

7.3 How should the trustee corporation interpret its fiduciary duty in relation to responsible investment while maintaining a commitment to low charges?

Fiduciary duty obliges pension schemes to act in the best interests of beneficiaries. There is evidence that responsible investment is cost effective in improving returns and reducing risks/volatility, and for this reason responsible investment should be seen as an integral part of fiduciary duty: According to Freshfields Bruckhaus Deringer's report "*A legal framework for the integration of environmental, social and governance issues into institutional investment*", "*It may be a breach of fiduciary duties to fail to take account of ESG considerations that are relevant and to give them appropriate weight, bearing in mind that some important economic analysts and leading financial institutions are satisfied that a strong link between good ESG performance and good financial performance exists*"³². An update to this report provides useful "*Recommendations to pension fund trustees*" regarding ESG considerations and fiduciary duty³³

We note that box 7.1³⁴ discusses what is meant by members' "*best interests*" and focuses on beneficiaries' *values*. However, we would argue that what is more closely related to the strictly financial case for responsible investment is the more general *welfare* of the beneficiaries. As paragraph 7.25 of the discussion paper observes, "*decisions on investments that take into account long-term issues of sustainability could also be considered as in the interests of members*". Conversely, if the scheme as a shareholder encourages or fails to discourage corporate activity that, for example, exacerbates climate change or is damaging to the wider economy; this would tend to have an adverse effect on beneficiaries and their employers.

(As we have already made clear, however, FairPensions' own focus in this response is not on ethically-driven investment or engagement.)

7.4 If responsible investment is pursued, will the members be best served by building in-house capability or outsourcing?

As stated in our response to question 7.1, we would argue that responsible investment involves monitoring and managing risks and opportunities presented by environmental and social as well as corporate governance factors, and it is therefore sensible to extend the approach recommended above under question 6.2 to cover environmental and social issues where these have potential to become financially relevant.

³² Freshfields Bruckhaus Deringer, "*A legal framework for the integration of environmental, social and governance issues into institutional investment*", 2005, pg 200. Available at http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf

³³ UNEP Finance Initiative Asset Management Working Group: "*Fiduciary responsibility; Legal and practical aspects of integrating environmental, social and governance issues into institutional investment*" 2009, Page 30. <http://www.unepfi.org/publications/investment/index.html>

³⁴ Personal Accounts Delivery Authority: "*Building personal accounts: designing an investment approach. A discussion paper to support consultation*"; May 2009. page 94

Additional points

The United Nations Principles for Responsible Investment (UNPRI):

FairPensions argues that it would be good practice for the scheme to become a signatory to the UNPRI:

- We concur with the “*arguments why this may be a suitable approach*”³⁵ outlined in the paper and would add to these that signatory status allows access to the UNPRI “engagement clearinghouse”³⁶, which facilitates collaborative action and therefore can increase the efficacy of schemes’ engagement.
- However, FairPensions is sceptical about the validity of the points “*which may mean UNPRI is not considered appropriate*”³⁷. The principles do not require that signatories restrict investment manager choice to those which are “*committed to the principles*”, and no argument has been made to show why “it may not be appropriate for all funds to be committed to UNPRI”: as the paper itself notes, “*the principles are aspirational and organisations can choose to implement them in whatever way is appropriate; the principles do not advocate screening of investments, which can be difficult for passive funds*”³⁸: the principles offer wide discretion to the individual requirements and judgements of signatories – the only *required* compliance is reporting.
- It should be stated that signing the UNPRI is not a substitute for rigorous scheme policy (nor should it be assumed that fund managers who are signatories will perform better on responsible investment).
- The Principles are also described as “a key element” of “a framework to support the integration of corporate responsibility into the investment process” by the National Association of Pension Funds.³⁹
- We understand that there is a common belief that the UNPRI’s Principle 1 (“*We will incorporate ESG issues into investment analysis and decision-making processes*”) precludes passively-managed funds from becoming signatories. We believe this to be a misconception: the principles were developed in co-operation with large public pension funds with large passively-managed portfolios, and therefore accommodate the needs of such funds (for example, UNPRI’s assessment of signatories does not apply principle 1 to passively managed investments).

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³⁵ PADA 2009. Paragraph 7.33, page 98.

³⁶ see <http://www.unpri.org/workstreams/#1>

³⁷ PADA 2009. Paragraph 7.34, page 98.

³⁸ PADA 2009. Paragraph 7.33, page 98.

³⁹ National Association of Pension Funds: “*Responsible Investment Guidance*” 2009.

(http://www.napf.co.uk/DocumentArchive/Policy/Corporate%20Governance/20090312_Responsible%20Investment%20Guide%20-%20March%2009.pdf)

Appendix: Some international examples of best practice

ABP (Netherlands)

“Stichting Pensioenfond ABP is the pension fund for employers and employees in service of the Dutch government and the educational sector”.

Extracts from ABP website⁴⁰

Environmental, Social and Corporate Governance Policy

“ABP views it as its obligation to achieve the highest possible return for clients. In doing so, it believes that companies with strategies which, in addition to financial return, place a high value on the environment, social factors and good corporate governance will perform better in the long term. In addition, we are aware of the far-reaching influence of our investments and the social responsibility that this implies. The reason for this is the large amount of capital that we invest and our substantial position in the capital market. For this reason, we have chosen to implement a strong ESG policy”⁴¹.

“Research and integration of ESG factors

In the Strategic Investment Plan for 2007-2009, we set our intention to incorporate environmental, social and corporate governance factors in all investments. We are currently applying this policy to domestic and global equities with a total value of approximately 22 billion Euros. We are also extending the policy to other types of investments, such as real estate and bonds. This trend is sure to continue in the future.

We believe that capital markets ultimately take account of environmental, social and corporate governance risks and that this is reflected in share prices. We are making progress in integrating ESG information into our processes. ESG analysis is already factored into the decision-making process of some of our largest funds. In addition, specialised ESG analysts advise the portfolio managers regularly on topics such as climate change, human rights and access to medicines in developing countries. In making decisions on investments, these topics carry a heavy weight, as they have consequences for companies' financial performance”⁴².

“Exercising voting rights

The exercise of voting rights is an essential part of an efficient corporate governance system. Both shareholders and directors have an interest in – and responsibility for – attracting the highest possible turnout at the AGM. A high turnout is beneficial for the stability of decision-making at the AGM and thus offers (good) executive directors the possibility of increasing the legitimacy and extending the basis of their actions. The reduction of absenteeism therefore strengthens the accountability mechanism. ABP fulfils its responsibility by – where practically possible – voting on all the shares which it holds in all the companies in its portfolio”

⁴⁰ http://www.abp.nl/abp/abp/english/about_abp/

⁴¹ http://www.abp.nl/abp/abp/english/about_abp/investments/esg/esg_in_practice/research_and_integration_esg_factors.asp

⁴² http://www.abp.nl/abp/abp/images/26.1064.07CodeCorporateGovernance_tcm108-51438.pdf

CalPERS (US)

“The California Public Employees' Retirement System”

CalPERS is a UNPRI signatory.

Extracts from CalPERS website:⁴³

Basis and approach:

“We believe good corporate governance leads to better performance. We seek corporate reform to protect our investments. The corporate governance team challenges companies and the status quo — we vote our proxies, we work closely with regulatory agencies to strengthen our financial markets, and we invest with partners that use corporate governance strategies to earn value for our fund by turning around ailing companies.”

“Proxy Voting

The execution of proxies and voting instructions is the primary means by which shareowners can influence a company's operations and corporate governance. It is, therefore, important for shareowners to exercise their right to participate in the voting process and make their decisions based on a full understanding of publicly available information.”

Responsible investment and improved returns:

“IMPACT OF THE FOCUS LIST ON CalPERS RETURNS

A Wilshire Associates study examined the performance of 134 companies targeted by CalPERS Focus List from beginning of 1987 through the fall of 2006. According to the study, “For the five years prior to the “initiative date”, the Focus List companies produced returns that averaged 82.2% below their respective industry benchmarks over the entire five year period, which is equivalent to a return shortfall of 12.7% per year on an annualized basis. For the first five years after the “initiative date,” the average targeted company produced excess returns of 15.7% above their respective benchmark return on a cumulative basis, or 3.14% per year on an annualized basis.” The “CalPERS Effect” on Targeted Company Shares Prices, by Andrew Junkin, CFA, CIMA, CALA, Managing Director and Thomas Toth, CFA, Vice President; Wilshire Associates Incorporated; July 31st, 2008”⁴⁴

Canada Pension Plan Investment Board

“The CPP Investment Board invests the funds not needed by the Canada Pension Plan (the “CPP”) to pay current benefits...its long-term goal is to contribute to the financial strength of the CPP and thereby assist in sustaining the future pensions of 17 million CPP contributors and beneficiaries”

Canada Pension Plan Investment Board is a UNPRI signatory.

Extracts for CPP “Policy on Responsible Investing”⁴⁵.

Responsible Investing Policy:

“Responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long term financial performance, recognizing that the importance of ESG factors varies across industries, geography and time; Disclosure is the key that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on a company's performance; Investment analysis should incorporate ESG factors to the extent that they affect risk and return”. (Page 1)

43 <http://www.calpers-governance.org/proxyvoting/home>

44 <http://www.calpers.ca.gov/eip-docs/about/facts/corpgov.pdf>

45 http://www.cppib.ca/files/PDF/Responsible_Investing_Policy_2009.pdf

Engagement but not screening

“In the context of our long-term investment horizon, the CPP Investment Board aspires to integrate ESG factors into investment management processes across the portfolio, including all asset classes, where relevant. As stated in our principles above, it is our belief that responsible corporate behaviour with respect to ESG factors can generally have a positive influence on long-term financial performance.

Consistent with the CPP Investment Board’s belief that constraints decrease returns and/or increase risk over time, we do not screen stocks. We encourage responsible behaviour in our public equity portfolio through engagement. We believe that engagement is a more effective approach through which shareholders can best effect positive change and enhance long-term financial performance. Moreover, we believe engagement is consistent with our mandate to maximize investment returns without undue risk of loss.” (Page 2)

Research

“In order to enhance our responsible investing strategy, the CPP Investment Board actively supports research into the long-term financial materiality of ESG factors, including the development of better tools for quantifying how these factors affect securities valuation.”(Page 3)

Collaborative initiatives

“Engaging collaboratively with other institutional investors leverages internal resources and is an effective way to encourage improved transparency and performance on ESG factors across the CPP Investment Board’s portfolio”. (Page 4)

“Direct Engagement

The CPP Investment Board contacts corporate boards or management teams directly to discuss concerns with transparency and/or performance on ESG factors”. (Page 4)

“Exercising Proxy Votes

Proxy voting is an important component of our engagement process. Our Proxy Voting Principles and Guidelines set out how the CPP Investment Board is likely to vote on a range of issues (available at www.cppib.ca)” (Page5)

“Responsibilities and Reporting

Responsible investing activities are reported quarterly to our Proxy and Engagement Committee and to the Board of Directors.

The Proxy and Engagement Committee comprised of senior management and chaired by the President and CEO, approves responsible investing strategies and activities.

The CPP Investment Board is committed to public transparency of our responsible investing activities, including timely disclosure of our proxy votes. We currently produce an annual Report on Responsible Investing, which provides a detailed review of our activities. Please refer to the Responsible Investing section of our website for a copy of this report and current information on our responsible investing activities (www.cppib.ca)”. (Page 5)

National Pensions Reserve Fund (Ireland)

“The National Pensions Reserve Fund was established in April 2001 to meet as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards”⁴⁶

NPRF is a UNPRI signatory.

Extracts from the NPRF website:⁴⁷

“Responsible Investment Policy

As an investor in over 2,000 companies worldwide, the National Pensions Reserve Fund Commission believes that environmental, social and governance (ESG) issues impact on long-term investment performance. With this in mind, the Commission is developing and implementing a Responsible Investment policy in a manner to be consistent with the Fund's statutory investment policy as set out in Section 19 of the National Pensions Reserve Fund Act 2000, which is to secure the optimal total financial return provided the level of risk to the moneys held or invested is acceptable to the Commission.

The Commission's policy will also be consistent with the United Nations Principles for Responsible Investment (UNPRI), to which it was a founding signatory in April 2006 along with some of the world's largest institutional investors. The aim of the Principles is to integrate consideration of ESG issues into investment decision-making and into active ownership practices. The Commission commits to being an active signatory by both contributing to and drawing on the resources available to it through the UNPRI.

The Commission believes that sustained and focused dialogue with company management can be an effective way for long-term shareholders to bring about positive change. As a responsible and active investor, the Fund will act primarily through engaging with companies and through exercising its voting rights across as many investee companies and markets as is practicable.

Active ownership is undertaken through a specialist engagement and voting overlay provider, Hermes Equity Ownership Services. International best practice, including that formulated in the Hermes Principles, forms the basis for the Fund's voting and engagement with companies and the Commission will monitor these with a view to continued customisation for its own specific needs. The Fund works closely with Hermes and oversees its activities through regular monitoring and reporting.

The Commission believes that it is consistent with prudent investment management to incorporate ESG factors into investment research, analysis and decision making. The Fund will encourage its active investment managers to incorporate material ESG factors into their investment process and will require information on these issues as part of its regular review process. The incorporation of ESG factors will become one of the criteria considered when evaluating bidders for new investment management contracts.

The Fund is also a signatory to the Carbon Disclosure Project (CDP), a global mechanism whereby investors encourage companies to disclose their greenhouse gas emissions to investors. In addition to the United Nations Principles for Responsible Investment and the CDP, the Fund will consider participating in other industry-wide collaborative initiatives on ESG issues.

The Commission will report regularly on its developing responsible investment policy and

⁴⁶ <http://www.nprf.ie/home.html>

⁴⁷ <http://www.nprf.ie/ResponsibleInvesting/responsibleInvesting.htm>

activities, including a quarterly summary of how it has exercised its voting rights. The Fund will also endeavour, wherever possible, to report on its engagement activities while taking into account the importance of confidentiality when trying to bring engagement with companies to a successful conclusion.

The Fund's Responsible Investment policy aspires to best practice and will be regularly reviewed by the Commission. However, active ownership and the incorporation of ESG issues into the Fund's investment and operating framework is a long-term project requiring further refinement and development. The Fund will be taking further actions as its capacity grows and as the wider investment industry develops its understanding and practices relation to ESG issues and opportunities.”

TIAA –CREF (US)

Pension scheme for “the academic, medical, cultural and research fields”

TIAA –CREF is a UN PRI signatory.

Extracts from “*Socially Responsible investing at TIAA –CREF, Integrated strategies for influencing positive change, 2008 Update*”⁴⁸

“Shareholder advocacy and corporate engagement

TIAA-CREF exercises its shareholder rights by seeking to influence the ESG policies of the companies in which we invest. We employ this strategy across TIAA-CREF’s entire portfolio, not just in our socially screened offerings.” (Page 1)

“TIAA-CREF views shareholder advocacy and corporate governance as essential parts of our fiduciary duty. Our Corporate Governance Department, along with the trustees of TIAA and CREF, works to advance high standards of corporate governance, strengthen shareholder rights and influence the ESG policies of the companies in which we invest.

TIAA-CREF engages with companies on issues that may pose economic risks or impact long-term shareholder value. Topics of engagement include shareholder rights, governance practices, and social and environmental issues.” (Page 4)

“Proxy voting: a right and a responsibility

As an equity investor in publicly traded companies, we exercise our rights as shareholders by voting on proxy proposals brought before portfolio companies.

We make independent voting decisions on a case-by-case basis, in keeping with policies approved by the TIAA and CREF Committees on Corporate Governance and Social Responsibility.

In addition, we exceed regulatory requirements and standard industry practice for disclosing proxy voting records. We post our proxy votes on the TIAA-CREF website on an ongoing basis throughout the year—typically within a few weeks after each shareholder meeting in which we vote—not just once per year in a summary filing. To view TIAA-CREF’s proxy voting records, visit <http://www.tiaa-cref.org/about/governance/>” (Page 6)

⁴⁸ Available at: http://www.tiaa-cref.org/about/press/about_us/releases/pdf/sri_brochure_2008.pdf