

**If We Build It Will They Come? How Does The Pension Fund Community Work With SRI?**

**Chair:** Tessa Tennant, ASRIA  
**Panel:** David Russell, Advisor, Responsible Investment, University Superannuation Scheme  
Patrick Doherty, Office of the Comptroller, New York Employees' Retirement System  
Frank Pegan, CEO, Catholic Superannuation Scheme, Australia

**Frank Pegan:**

In Australia, superfunds are regulated by three regulatory bodies.

The Catholic Superannuation Scheme ("CSS") is a defined contribution plan with 35,000 members. It looks at SRI principles as a form of investment governance, on the grounds that bad practices in any area of corporate operations are likely to lead to losses in investment performance as well as reputational risks, such as consumer boycotts and adverse publicity. CSS uses external SRI consultants to analyse environmental, social and corporate behaviour and workplace practices.

Its policy is to exercise its proxy voting rights to vote all its shares in listed companies. Pegan views potential governance problems associated with private equity investments as easier to solve because there are closer links between investor and management. Most superfunds in Australia allocate 8-10% of their assets to private equity.

**David Russell:**

The University Superannuation Scheme ("USS") is a pension fund scheme for staff at a large number of universities in Great Britain. Of its £20 billion in assets, half is managed in-house, 25% is managed by a small number of fund managers and 25% is allocated as a passive tracker.

The USS board formulated an SRI policy in 1999, again according to the theory that companies which apply SRI principles will perform better in the long term. The board does not recommend screening, as it believes is not practical to try to represent a consensus on the views of USS's members, who may disagree on a whole range of issues. Moreover, it can be argued that screening per se is not consistent with the board's fiduciary duty to members, as it limits the investment universe for the fund. USS prefers a policy of engagement with investee companies and also collaborates with other investors to win more influence. For example, USS participates in the Institutional Investors Group on Climate Change, the Pharmaceutical Shareholders Group (which looks at issues associated with AIDS) and the Carbon Disclosure Project.

Pension funds by their very nature have long-term time horizons. However, pension fund managers focus on short-term performance and are rewarded for that. One of the biggest challenges for pension funds today is how to persuade fund managers to take a long-term view during the investment process.

UK pension funds invest approximately 1% of their assets in private equity. USS has an allocation of up to 2.5% for private equity, but no investments in the sector currently, due to concerns about investment risk, the costs of investing in the sector and the long-term time horizon of such investments.

**Patrick Doherty:**

New York Employees' Retirement System ("NYCERS") oversees the pensions of New York City public employees and has approximately US\$84bn. in assets. The system has five boards of trustees, which have strong union representation among the directors. There is a political dimension to public pension funds and a high degree of visibility of their actions.

From Doherty's perspective, operating outside SRI principles is "bad business" and puts shareholders at risk.

The fund has a policy of active engagement with investee companies and, because it is a major shareholder in many cases and a very long-term shareholder, feels it has strong influence with many companies. Its policy is to promote labour and human rights issues and it engages in these areas with companies which have operations or supply chains outside the US. For example, it has recently engaged US retailers Nautica, Ann Taylor and Nordstrom in this area. It also worked to gain disclosure from Freeport McMoRan and Exxon on their security arrangements with the Indonesia Army which were seen to have implications for human rights in areas surrounding their facilities in Indonesia.

The fund also makes selected “economically targeted investments”, focused on mid- and low-price housing in New York City, which are usually guaranteed by the State or Federal Government. It has a target of 5% of assets to be invested in private equity, but currently invests less than 2% in the sector. Several of the other US state public pension funds are more active investors in private equity e.g. Oregon, Washington State, Florida, CALPERs (which allocates US\$200m for private equity investment into environmental technology) and CALSTRs (which allocates US\$250m to the same area). The pension funds of the States of New York and Connecticut are also relatively active with regard to SRI.

SRI issues are “*bottom line issues*” – Patrick Doherty

#### **Discussion:**

In discussion from the floor, it was pointed out that all the speakers represent public sector pension funds and that there is very little activity on SRI from the corporate pension funds. Speakers agreed that it can be valuable for fund trustees and managers to collaborate to discuss issues and engage with companies. There are initiatives around the world which aim to facilitate this e.g. the Local Authority Pension Fund Forum in the UK, whose aims include maximising pension fund influence as shareholders to promote CSR and high standards of corporate governance among their investee companies.

It was also made clear that actuaries and pension fund consultants play an extremely powerful role in the investment process, because they provide information and advice to trustees on asset allocation and investment decisions. If pension fund managers are to focus on the long-term and to pay attention to SRI issues, these consultants must also be focusing on the same issues. There has been some recognition of this e.g. in 2003, investment advisor Watson Wyatt published research under the title “Remapping our Investment World--Agenda for Change”. (See <http://www.watsonwyatt.com/research/resrender.asp?id=2003-0113&page=1>.) Similarly, pension fund consultants tend not to have expertise in private equity, which may be reflected in the low levels of activity by most pension funds in this sector.

#### **Closing**