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Published by:
Trades Union Congress
Congress House
Great Russell Street
London WC1B 3LS

Contact
Alice Hood
020 7467 1222
trusteenetwork@tuc.org.uk



Institutional investors and the financial crisis

The TUC, MPs and leading figures from the pensions and investment industry have launched a statement urging the Government, institutional investors and fund managers to back a series of proposals on responsible investment to help address the practices that contributed to the current financial crisis.

The signatories, who include TUC General Secretary Brendan Barber, Treasury Select Committee Chair John McFall MP and founder of Hermes, David Pitt-Watson, wrote to the Prime Minister with the statement, which says that "recent events have shown how the failure to hold corporate leaders to account for their decisions about risk can

Welcome to the New Year 2009 edition

After the turbulence of the last few months, 2009 has begun with announcements of insolvencies and rescue packages, interest rates down to 1.5 per cent, and a major jobs summit to look at ways of preventing job losses and supporting those faced with redundancy or long-term unemployment.

There has been much speculation about what the year will bring for pension funds and their members. Trustees and union reps will feel the pressure in trying to negotiate on behalf of members where companies are in difficulties. The Pension Protection Fund will also feel the impact of the growing number of insolvencies. Volatility on the markets will continue to affect investment portfolios, although some schemes actually started the year in surplus thanks to the AA corporate bond rate (at which future liabilities are discounted) rising more quickly than asset values have declined. The responsibilities of institutional investors in the financial crisis have also come under the microscope, and we can certainly expect a renewed focus on corporate governance, executive pay and transparency in the coming year.

This newsletter includes details of some of the TUC's work on responsible ownership in the face of the crisis, the Regulator's response to the downturn, training opportunities, new publications and the latest news.

Investors and the financial crisis

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have a catastrophic effect on the financial system, the economy, the corporations themselves and ultimately the wellbeing of members' pension schemes."

The statement encourages pension funds to consider inserting a 'do no harm' clause into their statement of investment principles. This would require fund managers and advisors to satisfy pension fund trustees that their investment decisions are not causing systemic harm to the financial system.

The statement also emphasises the importance of responsible ownership, urging investors to sign up to the United Nations-backed Principles of Responsible Investment (PRI). The principles, an investor initiative in partnership with the UN Environment programme Finance Initiative and the UN Global Compact, set out a series of commitments on engagement around corporate governance, and environmental and social performance.

The group of supporters are urging the Government to back the proposals in the statement and, if progress is not made, to consider making the 'do no harm' clause a statutory responsibility. The

group also calls for some kind of collective reporting and monitoring of engaged investment, which could be conducted by the new Investment Governance Group set up to oversee good practice in institutional investment.

TUC General Secretary Brendan Barber said: "In recent years some investors have taken their eye off the ball, leaving company executives to run riot with irresponsible business decisions and obscene bonus packages. At the same time, we have seen the damage done to the financial system by the unchecked use of complicated products and practices like derivatives and short-selling. Committing to responsible ownership will help to ensure that investment decisions work in the long term and help rebuild a more sustainable financial system."

We would be interested to hear your thoughts on the statement. Are you considering steps such as those included in the statement for your own scheme – or indeed, do you already have similar measures in place? A copy of the statement and supporter list is mailed with this newsletter and is also available on the TUC website.

TUC trustee conference 30 June 2009

The TUC trustee conference will take place on **Tuesday 30 June 2009**, at Congress House in London. Rosie Winterton, Minister for Pensions and the Ageing Society will give the keynote address.

Further programme, registration and payment details will be circulated soon, but in the meantime you can contact trusteenetwork@tuc.org.uk or call Jennifer on 020 7467 1222 to reserve your place.

Regulator urges calm over ‘toxic assets’



The Pensions Regulator has issued a statement to trustees on the financial crisis. It urges calm, noting that the Regulator’s contact with schemes shows that few are directly exposed to toxic assets. It does remind trustees to monitor investments regularly, and acknowledges that the real pressures for most schemes are likely to come from falling asset values and the danger of the employer covenant being weakened. Whilst the Regulator says that it is not planning to change its guidance on funding in the light of the crisis, the statement does commit to keeping this under review. Trustees can find some reassurance in the recognition that recovery plans may be longer in the current climate and that the Regulator will recognise this and stick to a risk-based approach.

The Regulator has said that over the coming year it expects to see trustees taking a number of steps to help manage the scheme in the face of financial turmoil:

- trustees keeping the employer covenant, and existing recovery plan, under review

- continued priority being given to the selection of technical provisions that are strong enough, relative to the employer covenant
- recognition that there should be less weight put on FRS17 as a measure, given that higher corporate bond yields have led it to diverge from other measures.

Following the statement to trustees, the Regulator published data in December that showed progress on steps to reduce deficits. Acknowledging the challenges ahead, David Norgrove, chair of the Regulator, said: “Trustees should not over-react in the face of the downturn, but should ensure they are active and alert to potential changes in the health of the sponsor, and to the funding level of the scheme. In responding to short-term cash flow difficulties trustees should first consider back-end loading recovery plans. Where valuations show a much larger deficit, then this may result in longer recovery plans being proposed. We will of course keep our approach under review as the situation develops.”

More information: www.thepensionsregulator.gov.uk

Engaged investment guide for trustees

With this newsletter you will find a new TUC trustee guide on engaged investment. The guidance is aimed at trustees who are interested in looking at how they can act as responsible owners through engaging with the companies in which they are invested. The guide sets out some of the background

on responsible investment and engagement and includes some steps that trustees can build into their statement of investment principles. The paper is available on the TUC website, or if you would like us to send you further copies for your colleagues please contact



trusteenetwork@tuc.org.uk or call 020 7467 1222

TUC Trustee training – change of date

The date of the pilot TUC trustee training course has been changed from the date first advertised. The course will now take place from 18–20 March 2009, not 1–3 April as previously advertised. All trustees who had registered to attend have been informed.

An updated form is mailed with this newsletter. There are still a limited number of places available so please complete and return it as soon as possible if you would like to take part.



Government right to reject pensions indexing ‘quick fix’

In December the Pensions Minister Rosie Winterton announced that the Government had decided to reject the call from some in the pensions industry for changes in the law that would allow conditional indexing of pensions. The Government has said that they are looking at a range of further options, however. TUC General Secretary Brendan Barber said: “The Government is absolutely right to have rejected the call to free pension schemes from their already limited obligation to index pensions to inflation up to a maximum of 2.5 per cent. The evidence is that strong union organisation is the best way to preserve defined benefit pensions, and that a legal quick fix on indexation will not deter employers who think they can get away with closing good schemes.”

The TUC had expressed concern that the proposals for conditional

indexation could have encouraged levelling down. We highlighted the existing ways that the law allows final salary schemes to change their risk structures without replacing them with money purchase schemes.

‘Strong union organisation is the best way to preserve defined benefit pensions’

Where employers have made a good case, unions have negotiated changes in pension schemes in both private and public sectors that recognise that people are living longer and that pensions are getting more expensive.

Report ranks fund manager performance on responsible investment



Responsible investment can mean asking questions of a company's record on green issues

FairPensions, the charity that campaigns on responsible investment, has published a report examining the track record of fund managers on environmental, social and corporate governance (ESG) issues. The report examines the responsible investment (RI) strategies and activities of 30 of the largest asset managers operating in the UK. Overall, the survey shows an improvement in performance, including some progress by those who were at the bottom of last year's league table. It also found that those investors who are signed up to the United Nations Principles of Responsible Investment (PRI) tended to be the better performers on engagement and transparency. But the report also uncovers a wide disparity between the leading fund managers in the field and those who are trailing behind. And it appears that although many have increased their focus on corporate governance, this masks a lack of attention to social and environmental issues.

Responding to the report, TUC General Secretary Brendan Barber said: "The report confirms the TUC's concern that the 'S' in ESG is often missing from investment activity. Despite the proven business benefits of good employment relationships, investors rarely discuss employment issues with company directors. By ignoring this in their engagement with company directors, investors are ignoring a significant driver of profitability and investor returns."

The report provides a useful resource for trustees in looking at how fund managers compare on responsible investment, holding their fund managers to account on ESG issues and demanding greater transparency.

Copies of the report, *Investor Responsibility? Performance and accountability on 'extra-financial' risks by UK Fund Managers* are available at www.fairpensions.org.uk

Government reviews employer debt regulations

The Department for Work and Pensions has conducted a short, informal review of the employer debt regulations – better known as ‘section 75’. The review proposed a series of options for amending the current regulations. The TUC was not convinced by the case for change made by Government, nor that the proposals would retain sufficient safeguards for members. But we have offered to meet with officials to explore whether there is any way forward. We would be interested to hear your thoughts and experiences on the way in which the regulations work – have you needed to call on an employer debt due to a restructuring of schemes by your employer?

Aviva moves to build RI into all contracts

Fund manager Aviva Investors has taken the unprecedented step of building a responsible investment (RI) clause into all of its investment management contracts, whether or not clients have requested such issues to be considered. The plan is part of a drive by Aviva to integrate RI issues into its overall global asset management. With external clients worth a total of around £250bn, Aviva’s move could have a significant influence and could drive other fund managers to consider similar action.



Campaigners in Westminster lobbying Parliament for better pensions

Government should mark state pension centenary by restoring earnings link

On 1 January 1909 more than half a million people aged over 70 collected their first ever means-tested pension of up to five shillings (25p) or up to seven shillings and sixpence (37.5p) for married couples.

The TUC began this New Year by calling on the Government to mark the centenary of the UK’s first state pension payments by restoring the link between pensions and earnings so that pensioners receive a reasonable increase in their pension, even if price inflation is close to zero.

The Government has pledged to restore the link to earnings, which was abolished in 1980, but not until 2012. At present, pensions are increased every April in line with the level of price inflation (RPI) the previous September. This means that pensioners will do better than in recent years next April, as pensions go up by five per cent to reflect last September’s relatively high inflation rate.

But with most people expecting inflation to fall rapidly throughout 2009, it is possible that RPI could be close to zero or even negative next September, leaving pensioners to face a tiny increase in April 2010.

While the recession may well depress earnings growth, most experts do not expect average wage increases to fall to anything like as low as RPI. Restoring the link to earnings or prices – whichever is higher – would ensure that pensioners get at least a modest increase in their pension at a time when many are suffering from very low rates of return on their savings.



Pension pioneer Charles Booth

Employers reminded of duty to consult on pension changes

The Government is consulting on proposals that would allow the Pensions Regulator to fine employers that breach consultation requirements when making changes to pension schemes. The TUC has urged the Government to introduce this measure as soon as possible and has also raised a number of concerns about the way in which consultations are sometimes carried out.

To coincide with the consultation, the Pensions Regulator has written to remind employers of their duty to consult members – or their representatives via a recognised trade union – before making changes to future pension arrangements.



John Harris / reportdigital.co.uk

Employers could face fines if they fail to consult on pension changes

to understand the implications for them, and why the proposal has been made.”

The employer duty to consult with members or their representatives applies where employers are considering certain specified changes to future pension arrangements.

Benefits already accrued cannot be changed without member consent.

The employer should allow an ‘appropriate’ period for carrying out the consultation, which in any event must not be fewer than 60 days, and must take into account member views prior to any changes being made.

‘The Regulator reminded employers there should be no coercion or inducement’

The Regulator reminded employers that there should be no coercion or inducement – employees should not be made to feel the proposals will be implemented irrespective of their responses and those who do not agree to the proposals should not be treated any differently. The TUC will continue to engage with Government on this issue.

‘Members have a right to voice their opinions on changes to their pension scheme’

Pensions Regulator strategic development director Bill Galvin said: “Members have a right to voice their opinions on changes to their pension scheme. The consultation process need not be onerous and we expect employers to carry this out, where practical, and to listen to member responses before any final decisions are made. This will enable members affected

Responsible investment and alternative assets

Many funds now build responsible investment strategies into their investments in equities. But far fewer apply these principles to other types of investment. UKSIF, the UK Social Investment Forum, has published a discussion paper on responsible investment and alternative assets. Sustainable Alternatives looks at the growth in sustainable opportunities in alternative asset classes available to pension funds, including private equity, property and infrastructure. The paper is available at www.uksif.org/sustainablepensions



Many pension funds are investing in property and infrastructure

Leading advisor discloses voting recommendations

PIRC, the pensions investment research consultancy, has begun to publish its voting recommendations for company AGMs. The recommendations, which have been previously available to paying clients only, are now made public online the day after the company meetings concerned, and are updated daily. The recommendations are displayed in a 'traffic light' colour-coded format, explaining whether the advice was to vote for, against or to abstain from a particular vote. Trustees can see the recommendations on PIRC's website: pirc.co.uk/pvd.html

Enter now for the Trustee Awards 2009

Entry for the Engaged Investor Trustee Awards 2009 is now open, and trustee boards have until February 26 to submit their entries

What is the Trustee Awards?
The annual Trustee Awards is the only awards ceremony designed to recognise and reward pension trustees for their dedicated and often voluntary contribution to occupational pensions. First launched in 2006, the Trustee Awards is the UK's recognised celebration of pension trusteeship, and the results will be announced at a glittering ceremony in London on 8th July 2009. The best entries will be published in Engaged Investor magazine as case studies for other trustees to read and learn from.

Who can enter?
The Trustee Awards are open to any UK-based occupational pension scheme. Applications can be filled out by a trustee, pension manager, secretary to the trustees, adviser or any other support to the trustee board.

How do I enter?
To enter a Trustee Board simply go to www.engagedinvestor.co.uk/awards and follow the instructions. From 2009 you can now complete the registration process online. The deadline is February 26, 2009.

For full information go to:
www.engagedinvestor.co.uk/awards