Introduction

The CAAT Clean Investment Campaign aims to encourage investors in arms exporting companies to examine their shareholdings and consider disinvestment for ethical reasons.

The UK arms industry continues to export billions of pounds worth of weapons every year. Many of these exports go to regimes with poor human rights records, to both sides in areas of conflict or to countries with huge development needs. This often leaves an individual or local group opposed to the arms trade feeling there is little that can be done.

The arms trade is far from being a normal, legitimate business. It fuels war, undermines development and breeds corruption. Whilst the companies involved in the arms trade are very keen to be seen as just ordinary, everyday businesses, our task as campaigners is to highlight exactly what they are doing.

The Clean Investment Campaign is an ideal way to challenge the legitimacy – the ordinariness even – of the arms trade, as well as giving us a chance to raise public awareness of just what the arms trade does.

Will it make a difference?

The Clean Investment Campaign was launched in 1991 and has met with some notable successes. In terms of press coverage and results, it has possibly been one of CAAT’s biggest awareness-raising campaigns ever. Initially, the Campaign focussed on Local Authority pension funds, but was soon widened to include charities, religious organisations, health organisations and universities, and has recently been extended to include trade unions. A number of church bodies, charities and health organisations have disinvested from arms producing companies after being contacted and lobbied by campaigners. It was
How CAAT compiles the lists of shareholders

Locating the shareholders

While the Clean Investment Campaign is familiar to most of us, the process of collecting the essential information probably is not. All the major UK arms companies considered (see Appendix 1 for more information) are Public Limited Companies, which means they have to lodge an Annual Return at Companies House. Among other information, the Annual Return gives details of the shareholders of the company. These shareholder lists are scrutinised for the selected categories of organisations that are of concern to CAAT and provide the bulk of the information used in the campaign.

However, Company law says that shareholder lists must show who holds the shares but not who actually owns them.

Investing trustees usually nominate someone to be responsible for keeping a record of the shares they own. For administrative reasons the task is likely to be given to a nominee company. The name of the nominee company will then appear in the list of shareholders, rather than that of the actual owner. To add to the confusion, the shares may well be kept in a ‘pooled’ account along with the shares of several other investors, making it even harder to know who owns what shares!

It is also important to remember that these figures are only accurate to the date of the last company return, and that shares can be bought and sold at any time. Add to this the possibility of human error, and you will understand why we recommend a cautious approach when first writing to an organisation about their investments!

Before publishing its annual CIC Report, CAAT attempts to contact all shareholders inviting them to confirm or amend our figures. If investors fail to respond to a letter from CAAT there is no more that we can do. As a local campaigner with a personal interest in a particular organisation you may well succeed where CAAT has failed.

How to use this guide

We hope this Clean Investment Guide will inspire campaigners to take some practical steps towards achieving an ethical dimension to all institutional investments and challenging the UK’s role in arming the world. How you use it will depend on your area of interest as well as the usual constraints of time and energy. We are trying to give you information that will be useful whatever your level of interest. The arms trade is going to be around for some time yet and it is important that we take a long view, recognising that the changes we are working to achieve will not occur over night. But we can build on each other’s work and facts uncovered by one campaigner may give someone else the encouragement to take the campaign a step further.

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Campaigning for clean investment

Brief yourself and others

Read the short company notes in Appendix 1 and familiarise yourself with their activities. More information about the companies is available on our website. It is good to have one or two examples ready to quote at any time.

Write to the organisations that interest you

Help us to fill in the gaps in our figures or, if the information is already available, write or phone to confirm its accuracy and then begin the campaign to get a change of investment policy.

For information on Investments

Write to or phone the Director of Finance or in the case of a University or College, the Bursar:

• State what your inquiry is about (their investments in arms exporting companies).
• If you have information about their shareholdings from our lists, state what you believe to be their investments and ask whether they are correct.
• If nothing is known about their investments, ask whether they have investments in any of the major arms exporting companies.
• Ask for the name of the chair of the trustees or, in the case of a local authority, the councillors responsible for formulating investment policy.

The Director of Finance does not decide on the policy so do not raise questions about alternative investments.

Under the Freedom of Information Act, public bodies such as local authorities and universities have new responsibilities to provide information. If you are writing to one of these you probably have right to information on shareholdings. See the ‘Freedom of Information Act’ section below for more information on using the Act.

To raise questions about Investment policy

Write to the Chair of the policy making body. Your letter should include the following:

• Your understanding of the investments they have.
• A statement of your concern about these investments – keep it brief.
• A request that the committee should consider whether it is appropriate for this organisation to be making these investments.
• A question that requires a reply to your letter – e.g. what action do they intend to take?

Follow-up letter?

Most campaigners find that a series of letters, rather than a one-off, is more successful in lobbying for Clean Investment policies. However, not everyone has the time for a protracted correspondence, so don’t feel discouraged from taking part in the campaign if you can only write once. The work of individual campaigners is part of the national campaign and a number of individual letters will contribute to a cumulative effect.

DO...

• Keep copies of your letters and their responses
• Write follow up letters if you can
• Keep CAAT informed of your correspondence

DON’T...

• Assume that the person will be hostile to your message
• Try to cover too much in one letter – you can always follow it up in subsequent letters.

Countering some common responses

1. A letter correctly sent to the policy makers is answered by an administrator, with a dismissive statement clearly intended to discourage further correspondence.

Send a second letter to the original person, making it clear that as your letter refers to questions of investment policy it needs to be answered by him/her, and cannot be properly dealt with by someone whose job is to implement policy, not make it.

2. “We have a Socially Responsible Investment policy and insist that our fund managers actively ‘engage’ on SRI matters with the management of the companies in which we have investments.”

BACKGROUND NOTE

This response is more likely to be coming from those who are responsible for a pension fund rather than a charitable fund and could be written by trustees or an...
administrator. Since July 2000, all pension funds are
required to publish a Statement of Investment
Principles, which must indicate the extent (if at all) to
which social, environmental or ethical considerations
are taken into account when formulating their
investment policy. An investment policy that
incorporates these considerations is now often called a
Socially Responsible Investment (SRI) policy. This is a
woolly term, however, and one which covers a number
of different approaches, such as:

- Positive screening – where companies are selected
  because they fulfil certain criteria, often
  environmental, defined by the trustees
- Negative screening – where companies or sectors of
  the market are avoided because they are felt to be
  unacceptable in some way
- Engagement – ‘Positive engagement’ has been
  defined by the Ethical Investment Research Service
  as “a conscious process in which areas of
  improvement are identified for individual
  companies; the investor then seeks to persuade
  these companies to commit themselves to change
  and then monitors the implementation of any
  commitments made.” ‘Engagement’ has always
  been an integral part of any ethically managed
  fund, but fund managers are now promoting it as
  able to deliver improved financial returns as well as
  a socially responsible investment policy which
  avoids negative screening.

YOUR REPLY

In responding to this sort of letter, it is important to
recognise that trustees will be reluctant to hear that
their SRI policy is flawed. It may well take a
considerable time for them to realise the shortcomings
of a policy of ‘engagement’ that does not include the
possibility of disinvesting from companies who fail to
comply with agreed commitments. When investing in
arms companies, they must not be allowed to ignore
the social and environmental impact of the product
itself. Your aim would be to point out the shortcomings
of their policy and hope that trustees will eventually
realise the inappropriateness of including a company
like BAE Systems in a portfolio that supposedly has a
SRI policy.

(For more background information on the process of
‘engagement’ see Appendix 2)

3. “We do hold investments in arms-exporting
companies, but only a small proportion of
their production is military in character, so
we do not feel that there is a significant
ethical issue to be addressed.”

Point out that the companies on which CAAT is
focussing all rank in the top 100 of the world’s arms
producers. Over 75% of BAE Systems’ production is
military. It has a hand in nearly all types of weapons
systems and platforms and it will export to anyone the
government allows it to (which is almost anyone).
Rolls-Royce’s percentage may be lower, with 25% of
sales being military, but it is still the 18th largest arms
producer in the world and provides support ‘right up to
the front line to the 100 armed forces and 30 navies
who use our engines to power their aircraft,
helicopters, ships and submarines.’

4. “The production of arms is necessary for the
defence of the UK or national security”

Point out that your concern lies with arms exports, not
with the broader question of arms production.
Furthermore, arms exports themselves have the
potential to threaten national security, the arming of
Iraq being an obvious example. There is no way of
telling which recent or proposed arms exports will be
used against the UK or its interests in the future.

5. “Our investments are managed by the
Charities Aid Foundation (CAF) in one of its
common investment funds, so all investment
decisions are theirs.”

BACKGROUND NOTE

CAF offers Charities a number of investment products,
and of these the CAF Socially Responsible Fund
specifically excludes investment in companies engaged
in gambling pornography, tobacco, alcohol, arms and
nuclear power.

YOUR REPLY

Point out that although they have handed over the
management of their funds to CAF, they are still
trustees and are in a position to specify how they want
their fund invested. Ask whether they would consider
switching to CAF’s Socially Responsible Fund, if they
have not already done so.
The arguments

The following is information that may help you in your campaign, or in dealing with the responses you get from the organisations themselves. Adapt your arguments to your reader and consider whether you are writing a letter or a press release. Up to date information and advice is always available from CAAT, so don’t hesitate to contact the office for help.

There are compelling moral, political and economic reasons for believing that the UK should not be exporting arms.

The Moral/Political Case against the Arms Trade

MYTH: The UK does not export arms to repressive regimes

UK arms are often exported to countries with repressive regimes. In recent years, UK weapons have gone to, among other countries, Indonesia, Israel, Saudi Arabia, and Turkey. Not only can equipment be used directly in repression, all arms sales legitimise these regimes and demoralise and undermine rightful and democratic opposition.

MYTH: The UK does not export arms to countries in conflict

Many of the UK’s arms customers are situated in areas of conflict. Whilst the actual causes of any particular conflict are complex, the arms trade not only increases the likelihood of political or economic disputes breaking out into armed conflict in the first place, but also vastly increases the number of casualties once it does. Since 1997, when the Labour Government was elected, the UK has licensed arms and military equipment to 20 countries engaged in serious conflict. These countries are Algeria, Angola, Burundi, Colombia, India, Indonesia, Israel, Kenya, Nepal, Nigeria, Pakistan, Peru, Philippines, Russia, Senegal, Sierra Leone, Sri Lanka, Turkey, Uganda and Zimbabwe.

MYTH: The UK takes social needs into account when deciding on arms exports

Expenditure on arms by recipient countries diverts resources away from socially beneficial expenditure on areas such as education and health. Some countries with massive social needs, such as India and South Africa, are among the UK’s ‘best’ customers for military equipment.

The Economic Case Against the Arms Trade

MYTH: The Arms Trade is good for the economy

Arms exports are widely perceived as a vast money-earner for the UK. This is reinforced by the nature of media coverage of arms deals and the government’s assertions that exports make high-tech equipment for the UK military affordable. This is perhaps not surprising given the hole that would appear in the government’s arms export justifications if it were not true. But it is not true. The export of arms is highly subsidised and is, in reality, a net cost to the Treasury.

There are a host of ways in which the UK government assists the arms trade. The most obvious is through the Defence Export Services Organisation, a government agency of 600 people dedicated to exporting arms, and the most expensive is through the funding of military research and development. Royalty, ministers and the Prime Minister travel the world selling weapons at the expense of the taxpayer. And when deals look likely, generous financial arrangements are made through the Export Credits Guarantee Department.

CAAT estimates that UK arms exports receive a subsidy of around £900m per year.

MYTH: The Arms Trade is vital for UK jobs

‘Jobs’ is one of the main arguments put forward by those who support the arms trade, but it doesn’t add up. According to the government’s own figures, there are about 60,000 people employed by the arms trade, just 0.2% of the UK workforce. The massive and disproportionate assistance given to arms exports (around £900m a year, see above) means that each arms export job is subsidised by nearly £15,000 per year! This is an enormous amount of money which would create far more jobs in other, less capital intensive (and risky) sectors such as health, education, environmental technology or transport. A recent MoD/York University report stated that if subsidies were cut by 50 per cent, 49,000 job losses would be offset by 67,000 jobs created in the civil sector.

Economic and employment arguments are tangential to the government’s concerns but, as the only basis on which the general public will support arms exports, the government continues to use them as a justification. Individual jobs are important, but neither the number nor location (now mostly in areas with very low unemployment) of arms trade jobs justifies the hijacking of the debate over arms exports.
6. “We have a small percentage of our fund invested in an ethically managed portfolio.”

BACKGROUND NOTE

A number of local authority pension funds have placed a small percentage of their pension fund in a portfolio managed according to specified social, environmental or ethical criteria. Councillors do want to be popular and win votes as long as they do not risk falling foul of the law (see next section). So to find that there is a prudent way of comparing the performance of their main pension fund with an ethically managed portfolio must be very reassuring. Where the percentage invested in the ethical fund is small, about 1 or 2%, they presumably feel that the risk of jeopardising the overall financial return of the pension fund is minimal. (see Local Authority Pension Funds for examples known to CAAT).

YOUR REPLY

Ask how long the ethical fund has been running and if it is not one we know about, ask what ethical criteria are applied and when they will be reviewing its performance. Will they consider extending the percentage of the main fund to be managed ethically?

If the correspondence continues you could go on to ask about excluding one company, such as BAE Systems – the biggest UK arms exporter, from the main fund. If councillors are willing to invest 1 or 2% of their funds entirely ethically, they might be willing to consider excluding one company from their main portfolio. It would be an innovative decision but, as BAE Systems makes up only 0.5% of the value of the FTSE All-Share Index (figures taken at the end of 2004), not as adventurous as it might seem!

The London Borough of Croydon has excluded tobacco companies from its pension fund for several years. There has been no outcry about this, so such restrictions clearly can be made.

7. “We believe that we need a broad spread of investments in order to control risk.”

BACKGROUND NOTE

There are different strategies for achieving this. A portfolio that tracks the FTSE Index will invest in companies in proportion to their stock market value. Some companies are now so large that they account for 6-9% of the value of the FTSE Index, e.g. Glaxo, Vodafone and BP. But large companies, whatever their size, are not immune from risk and can be affected by a decline in their markets or by management failure. Because of these considerations, trustees may, quite reasonably, decide to limit their investment in these companies to, say, 5%. Trustees must weigh the risks of a portfolio that deviates slightly from the FTSE Index against the benefits of a portfolio that reduces the risk of holding shares in very large companies. A portfolio that avoided investment in BAE Systems would be only 0.5% short on an FTSE Index weighting and would therefore have a smaller risk of deviation from the performance of the FTSE Index than an adjustment to take account of the size of, say, BP. A portfolio that excluded all six companies would still be less than 1.4% short on the FTSE Index. (Figures taken at the end of December 2004.)

YOUR REPLY

Show that you understand the need for a wide spread of investments. State the case and suggest that, looked at like this, disinvestment from BAE Systems, or arms companies generally, does not seem a high-risk strategy.

8. “There are so many different interest groups in the county, and a wide range of opinion as to what is, or is not, ethical, that we could not possibly take notice of them all. We aim to manage our fund in a way that benefits society as a whole.”

Say that you understand that obtaining the best financial return on their investments has to be their priority, but remind trustees that in a ‘tie break’ situation where there is a choice of two equally good investments, ethical considerations are permissible. They could also consider a policy of long-term sustainability. For more on this see information on the UNISON staff pension fund in the Trade Union section.

Raise awareness

Write a letter to your local newspaper. Tell them what you have been doing and why. This may get others interested and can be especially effective if your letter writing has come to nothing. The local media, press, radio or TV, love a ‘local interest’ story. See the Local Media Guide for help with ideas.

If you are part of a group and can organise an event, then this is an alternative to simply writing to newspapers. If you would like help with ideas, do contact Beccie, CAAT’s Local Campaigns Co-ordinator.
Organise a street stall to inform people that a local organisation is investing in the arms trade. Produce a handout leaflet for those who are interested. CAAT has large posters and blank placards which can be ordered from the office.

Circulate a petition (don’t forget to make copies before you use it). Signed petitions can be sent directly to the policy-making committees of the shareholding organisations.

Link with other campaign groups – can you work together towards a common aim?

The Freedom of Information Act

The Freedom of Information Act 2000 (FoIA) came into force on the 1st January 2005, and it provides us with a key tool for retrieving information regarding the investments of public bodies, especially in cases where no useful responses to requests have been received. The Act covers universities, colleges, NHS trusts and local authorities, which are of particular relevance to the Clean Investment Campaign.

If a public body does not respond to your initial request, or sends a deliberately unhelpful reply, then the next step is to formally request the information under the terms of the FoIA. It is important to remember that under the Act public bodies:

- **Cannot** refuse to provide the information requested unless it is exempt – see below.
- **Must** indicate whether they possess the information requested.
- **Must** assist or advise where it is ‘reasonable’ to do so.
- **Must** respond within 20 working days (this may be extended if a body is considering the ‘public interest’ but this extension must be ‘reasonable’).
- **Cannot** charge you for retrieving the information unless the cost is calculated to come to more than £450. If the cost is lower than this then they can legitimately charge you for any photocopying or postage fees incurred by your request. The Act encourages charges of under £5-10 to be waived.
- **Must** inform you of the appeal process.

The FoIA request just needs to be in a standard letter or email format, should mention the FoIA and must state your request clearly and specifically. (Any request for information is actually an FoIA requests but it might avoid delays to state explicitly that your are asking under the FoIA.) If the public body finds your request unclear, or believes that the scope is too wide, they need to let you know and should advise you on making a new request.

The FoIA should have a positive impact on the accuracy and relevance of information received from public bodies, and will enable campaigners to follow up negative responses where previously a dead end would have been reached.

Some categories of information are exempt from disclosure. The one most likely to be cited in response to Clean Investment Campaign enquiries is Section 43. This covers ‘information which would, or would be likely to, prejudice the commercial interests of any person including the public authority holding it’.

Unfortunately, Section 84 of the Act, which defines the meaning of a number of words and phrases, does not include a definition of ‘commercial interests’ so interpretation will be subject to Case Law. However, it is outlined in the Act that it is in the public interest that public funds are accountable and transparent, and this is worth bearing in mind. A public body cannot just decide that something is commercially sensitive – all exemptions must be justified and supported with evidence.

Initial examples of the impact of the FoIA on the Clean Investment Campaign

- CAAT always sends letters to each investor prior to publishing the shareholdings and it was striking how many more responses there were this year, confirming shareholdings or providing new figures, compared to previous years. This was despite CAAT not quoting the FoIA.
- CAAT received a response from an Oxford college stating that a charge of £25 per hour would be levied for the retrieval of investment information. We replied that we would like to formally request the information under the terms of the FoIA, as this states that fees for retrieval can only be charged if it costs over £450 (based on the charge scheme in the Act this is 2.5 days of person hours). A week later we received a response with the details of investments as requested.
- Many public bodies do not have direct investments in companies, and instead they invest their money in pooled/managed/collective funds. This means that the institution’s money is invested along with that of other organisations, and this is then divided up to buy shares in many different companies, according to what their fund manager decides. Of course, the FoIA does not cover private companies, but if the public body holds any information about
their investments it is eligible for release under the Act. For example, one Cambridge college initially responded with the name of their fund management company suggesting we request further information from them. We responded to the college, under the FoIA, asking for details of their fund size and breakdown of investments – receiving a full response. Previously we could have found ourselves in a futile situation where neither the institution or the fund management company was willing to provide the information, each indicating we chase the other party.

The Freedom of Information Act can be found on www.dca.gov.uk. Follow the directions to get to the HMSO publication of the Act which is huge and in several Parts. The following extracts from the Act seem to be the most relevant:

**PART 1 – ACCESS TO INFORMATION HELD BY PUBLIC AUTHORITIES**

Section 1 – General right of access to information held by public authorities – states: -
(1) Any person making a request for information to a public authority is entitled: –
(a) To be informed in writing by the public authority whether it holds information of the description specified in the request, and
(b) If that is the case, to have that information communicated to him.

Section 17 – Refusal of request – states:
(1) A public authority which, in relation to any request for information, is to any extent relying on a claim that any provision of Part 2 relating to the duty to confirm or deny is relevant to the request, or on a claim that information is exempt information must, within the time for complying with section 1 (1), give the applicant a notice which –

(a) states that fact
(b) specifies the exemption in question, and
(c) states (if it would not otherwise be apparent) why the exemption applies.

**PART 2 – EXEMPT INFORMATION**

Section 43 – Commercial Interests – states:
(1) Information is exempt information if it constitutes a trade secret
(2) Information is exempt information if its disclosure under this act would, or would be likely to, prejudice the commercial interests of any person (including the public authority holding it).

Legal and financial implications of an ethical investment policy

Trustees of charitable trust funds and pension funds as well as local authority councillors, must address two basic questions:

1. Is an ethical investment policy legally possible?
2. Does it make financial sense?

Is an Ethical Investment Policy legally possible?

**Charitable Funds**

Charities may be structured as trusts or companies. All are subject to charity law and trust law, and companies also to company law. There are three main sources of law relating to their investments:

- Express provision of the Trust Deed or Memorandum and Articles
- Trustee Act 2000
- Case Law, important ones being:
  - Martin v City of Edinburgh District Council (1987). This case shows the importance of the manner in which decisions are made, and the need to ensure that financial implications are fully examined and decisions supported by proper professional investment advice.
  - Harries (Bishop of Oxford) v Church Commissioners (1991). This case led to the publication in 1996 of guidelines (leaflet no CC14) from the Charity Commissioners. These have been revised and re-issued February 2003.

The Charity Commission leaflet CC14 (February 2003) provides the current guidelines for “Investment of Charitable Funds”. A longer extract is provided in Appendix 3, but the most directly relevant section is:

“85. The next question is how far trustees can allow their investment strategy to be governed by considerations other than the level of investment return. The Bishop of Oxford case recognised three situations where they can properly do so. [The third situation being:] ... even if an investment does not come into either of the previous two categories, trustees can accommodate the views of those who consider it to be inappropriate on moral grounds, provided that they are satisfied that this would not involve “a risk of significant financial detriment”. In many cases, trustees may be able to conclude, after taking advice where appropriate, that a particular ethical policy is likely to perform as well as
an unrestricted policy. But trustees are not free to use their investment powers to make moral statements at the expense of their charity.”

**Pension Funds**

Since the Pensions Act of 1995, pension schemes established as trusts have been required by law to provide a Statement of Investment Principles. In 1999, the local Government Pension Scheme Regulations 1997 were amended to bring local authorities in line with the bulk of other pension funds. The new regulation 9A came into force in July 2000. It states:

“Statement of Investment Principles

1. An administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.
2. The statement must cover their policy on –
   a. the types of investment to be held,
   b. the balance between different types of investments
   c. risk
   d. the expected return on investments
   e. the realisation of investments
   f. the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
   g. the exercise of the rights (including voting rights) attaching to investments, if they have any such policy.
3. The first such statement must be published on or before 3rd July 2000
4. The written statement must be revised by the administering authority in accordance with any material change in their policy in the matters referred to in paragraph (2) and published.”

Socially Responsible Investment (SRI) is investment where the considerations outlined in paragraphs (f) and (g) above, for example regarding tobacco, arms or nuclear power, are taken into account. It covers a number of different approaches as discussed in the section on countering some common responses.

The courts have always interpreted the duties of local authority councillors by reference to Trust law which incorporates Case law. Councillors are therefore in a position comparable to trustees.

Recent Case law relevant to pension fund investment: Cowan v Scargill (1984) – Only excludes ethical investment decisions based on sound financial judgements. Furthermore, the judgement emphasises the importance of yielding the best return ‘judged in relation to the risks of investments being considered’.

**Does an Ethical Investment Policy make financial sense?**

Despite the impression we receive from the government and media, the UK arms industry is a small sector of the economy. Together, the six major arms companies we focus on account for less than 1.4% of the FTSE All-Share index (figures taken at the end of 2004). At least six local authorities presently hold no shares in any of the major arms companies. This is not for ethical reasons but purely because of financial considerations – hardly indicative of ‘must have’ investments.

BAE Systems is the UK’s largest producer of arms, by far, and one of the arms company shares that investors are most likely to hold. However, its shares have been far from a secure investment at times – over the three year period 2001-2003, BAE Systems shares fell by 39.8% relative to the FTSE All-Share Index.

The UK arms industry has been in decline since the end of the Cold War. Jobs dependent on arms exports have fallen from around 150,000 in the early-mid 1990s to 60,000 in 2003. The arms bazaar remains a buyers’ market, with more capacity than demand and buying countries able to demand generous finance arrangements and trade compensations.

What’s more, the above situation exists despite the subsidies provided by the UK government. If the government were to turn round and demand that the arms exporting companies exist without some or all of the range of subsidies they receive (i.e. as the civil sector does), it is likely that their stock would drop dramatically. Though the removal of subsidies may appear a campaign pipe-dream, changes in the structure of the arms industry make it increasingly possible and certainly harder to argue against. The major UK-based arms companies such as BAE Systems are less and less ‘UK’ in character. BAE Systems sells more to the US Department of Defense than to the MoD, and the majority of its shares are foreign-owned. Why should such companies receive a wide range of logistical and financial support courtesy of the UK taxpayer?

IMPORTANT: Because councillors are in a position analogous to trustees, they must act in the best
interests of the beneficiaries of the pension fund by ensuring the best possible financial return on the fund’s investments whilst minimising the risk of financial loss. This makes good financial sense, since the beneficiaries want to know that the money they have contributed is being invested sensibly and that their pension is secure.

This has implications for the Clean Investment Campaign. Put briefly, you will not get a local authority or other pension fund to disinvest from arms exporting companies simply because these investments are immoral. The important point is that disinvestment must make financial sense – i.e. the pension fund will experience the same, or better, return on its investments as a result. CAAT’s argument is that disinvestment from arms-exporting companies does make sense in financial terms as well as being morally imperative.

As campaigners our job is to:

• Challenge investment decisions that include support for arms exporting companies.
• Show that we are well informed as to the legal constraints under which trustees operate.
• Indicate our knowledge of the extent to which there is considerable scope for trustees and councillors to develop an ethical investment policy, provided they set about it in the right way.

Further notes specific to one type of organisation

Pick the ones that interest you.

Local authorities

Apart from our own, the only pension fund investments on which we all have a right to comment are those of our local authority. Its performance will be reflected in the levels of council tax we pay, and this gives us the status of beneficiaries. Not many people will be aware of this, as we tend to think of beneficiaries as only those who are employees or pensioners.

Local authority pension funds can be quite substantial. The largest, is Tameside, valued at £5.3 billion in March 2003. Even the smallest, Orkney, at £45 million is considerably greater than most of the charitable funds we come across. Almost all have shares in at least some of the arms companies that concern us.

Getting information

If a Local Authority is unwilling to give details of shareholdings and you do not progress even using the Freedom of Information Act, you can obtain the information by viewing their accounts. Local Authorities are required to have all their accounts on public display for a short period every year before they are audited. There is no fixed date for this to happen. The financial year ends on March 31st, so they are unlikely to be ready much before May at the earliest, and could be a lot later. As a council-tax payer you are entitled to scrutinise these accounts. You could phone the council offices and ask when the period of public display will be. Try the treasurer’s department for this information, and be prepared have to keep phoning if they cannot give you a date straight away. This information must also be published in local papers.

When the time comes, you need to ask to see the pension fund accounts. Hopefully the reports of the fund managers will be there and you will be able to read the list of investments. If the investments are in code, you should ask for a list of the codes, because you are entitled to be able to understand what you are reading.

CAAT supporters in West Sussex went to inspect their accounts when they were on display. They were not allowed to see the pension fund accounts because they were told that the information was commercially sensitive. The treasurer was unable to say on whose authority they were refusing access, but said that all queries from the public relating to the accounts must be referred to the auditors. The auditors evidently said that the supporters had a right to have the information they were seeking, and as a result of this, they received a letter giving details of the pension fund investments.

So the message seems to be – if you have difficulties in getting to see details of the pension fund investments:

• Ask to be given in writing, from where they think they get their authority to withhold this information
• Show that you know your request must be passed on to the auditor.

Campaigning for policy change

Remember that the councillors on the investment sub-committee may not be financially sophisticated, but will be very aware of their responsibilities and deeply anxious to avoid falling foul of the law. Send copies of any letters to the leader of the council as well as to your own councillor. If they are not sympathetic look
for some others; Liberal Democrats often seem to be a good bet here. Derbyshire CAAT supporters presented a petition of over 500 signatures, which was received by the deputy leader of the council. He promised that CAAT supporters would be consulted when the council reviews its pension investments. They also returned to put a question about arms trade investments to the full council. The reply was disappointing, but from it came considerable publicity and some councillors emerged who are sympathetic to CAAT’s cause.

Since then CAAT has produced a new briefing paper for local councillors. The aim of the briefing is to provide accurate information and initiate constructive discussion among all local councillors so that those who are on the investment committee will feel less isolated and better supported by their colleagues. It is available on the website and from the CAAT Office.

Where else can you get support?

Ask for a copy of the pension fund annual report. This will have a list of admitted bodies – organisations that are allowed to participate in the scheme even though they are not local authority employees. Some of these may be charities that would be happy to join you in campaigning for an ethically managed pension fund. It would be worthwhile telling them to whom they should write if they wish to do so – i.e. the Councillors who are responsible for formulating policy, not the paid officers in the Treasury Department.

Write to the local branch of UNISON. They may have a non-voting place on the pension fund investment committee and be able to speak up for an ethically managed fund.

Similarly try your local political parties. They can press their councillors to raise the issue and stimulate debate.

A decision to disinvest from a large arms company such as BAE Systems is unlikely to be taken without reference to the whole council where a majority of councillors would need to be in favour. Given the legal constraints on trustees, the council would certainly want to get legal advice. The Chief Executive and most senior legal officers will feel it is their responsibility to point out all the dangers of such a policy and may succeed in scaring the councillors! But if they persist, they will, at some point, need to take expert advice from outside their own staff resources.

This is where it is crucial that they go to someone who is an expert in the field. If you find that your local authority is getting near to this point, do contact CAAT. Someone with the necessary expertise can be recommended. Bad advice at this point would be worse than useless as it could give a wholly inaccurate and negative opinion, which would be accepted by the council and that would be that.

Note – a first step?

Some Local Authorities have made a positive first step of investing a small percentage of their pension fund in a portfolio managed according to specified social, environmental or ethical criteria. This is a prudent measure we can suggest for Local Authorities who have not yet taken it. For those that have, we can ask about their plans and criteria for expanding the ethically managed portion. The table overleaf gives examples known to CAAT, including two Local

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### Examples of Local Authorities with ethically managed portfolios

<table>
<thead>
<tr>
<th>Local authority</th>
<th>Percentage of Pension Fund which is ethically managed</th>
<th>Sectors excluded by the ethical policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avon Pension Fund</td>
<td>2</td>
<td>Arms +</td>
</tr>
<tr>
<td>Derbyshire County Council</td>
<td>0.5</td>
<td>Arms +</td>
</tr>
<tr>
<td>Hampshire County Council</td>
<td>0.5</td>
<td>Arms +</td>
</tr>
<tr>
<td>Lancashire County Council</td>
<td>2</td>
<td>Arms +</td>
</tr>
<tr>
<td>London Borough of Croydon</td>
<td>100</td>
<td>Tobacco</td>
</tr>
<tr>
<td>London Borough of Croydon</td>
<td>2</td>
<td>Arms +</td>
</tr>
<tr>
<td>Nottinghamshire County Council</td>
<td>0.4</td>
<td>Screens on environmental grounds, which excludes arms</td>
</tr>
</tbody>
</table>
Authorities that exclude tobacco from their entire portfolio.

Universities – Pension Funds

Most universities have a pension scheme for their non-academic staff while academic staff are in the Universities Superannuation Scheme (USS) or the Teachers’ Pension Scheme (the Teachers’ Pension Scheme is not invested in shares).

The USS has a SRI policy that is based on ‘engagement’ alone. To quote selectively from a letter sent to a CAAT supporter in April 2001:

“Given the particular circumstances in which USS operate, and as a defined benefit scheme where participating employers could be responsible for the consequences of any drop in performance as a result of ethical screening, the trustees have decided that we will not screen out or disinvest from companies for non-financial reasons. Instead we are focusing our efforts on ‘engagement’...

...Over the next three years, we intend to cover all sectors. The basis for our engagement with arms manufacturers will be the same as that for other sectors – encouraging companies to address the issues which could tarnish reputation and which define which companies are ‘best of class’. I know the SRI team have plans to consult with CAAT and other groups working on these issues when they undertake this work. I hope we will then be able to move on to a discussion about how we can engage the defence sector in a dialogue about corporate social responsibility. I understand there are several issues that might come into such a dialogue – not least bribery and corruption, the role of government in granting export licences in controversial situations and more. We and groups campaigning against the arms trade may then have more chance of finding common ground than on the question of disinvestment, which we understand is a moral issue for some of our members and an issue of fiduciary duty for USS.”

It was clear from discussions in 2002 that the USS continues to follow a policy of ‘engagement’ alone, but will not raise issues that could have a negative financial impact on the company. They need to be challenged as to how they propose to evaluate the process of ‘engagement’ and what they will do if they recognise that it has failed. (See Appendix 2 for more information on engagement.)

Universities – Charitable funds

You can see from our tables of investors that our knowledge of charitable funds held by universities and colleges is sketchy relative to other sectors. Letters have tended to be ignored and CAAT would be grateful for any help that students, staff, or alumni can provide. As we said in the introduction to this guide, it was the initiative of students backed by CAAT that eventually led to a decision on the part of the University of East Anglia to invest their charitable funds in two portfolios, both of which exclude investments in arms companies. Students at many other universities and colleges are running similar campaigns. If your university informs you that it has no investments in arms companies, it would be useful to know if this is based on ethical or financial considerations, or because they have no investments at all (we know this is the case for a number of universities).

We are aware of several universities and colleges with an ethical investment policy that excludes arms companies: Birmingham University (for their endowment funds); Christ Church, Oxford; Greyfriars, Oxford; Peterhouse, Cambridge; Ruskin, Oxford; Selwyn, Cambridge; and the University of East Anglia.

(Note: the Universities of Oxford, Cambridge and London have university endowment funds while individual colleges at Oxford and Cambridge also have their own endowments.)

Religious organisations

Of all organisations, the churches have been the most responsive to the campaign. Very many sold their shares once they had become aware of the implications of contributing to arms exporting companies. But you will see from the figures that there is still some work to be done.

Church of England – If a Diocesan Board of Finance has ‘(Custodian Trustee)’ written after its name, this shows that the Board is not the beneficial owner. Parochial Church Councils (PCCs) may own these shares, possibly left to them as legacies. They benefit financially from these investments, and can make decisions as to whether or not to keep them.

If you write to a religious body and they write back saying they are the Custodian Trustee and not the beneficial owner, ask who owns the shares because they will be able to decide whether or not to sell.
Health organisations

Charitable endowment funds are now held and administered by NHS Trusts. We all have a local NHS Trust and the trustees are more likely to take notice of the views of people who live in their area than a letter from CAAT’s office. If your NHS Trust is not listed, it would be well worth writing to the trustees of the endowment funds to ask whether they have any shares in arms producers. A few NHS Trusts have informed us that they have no arms company shares, so please bear this in mind when writing or contact the CAAT office to find out if yours is among them. If they do not have shares, it would be useful if you could establish whether it is for ethical or financial reasons. CAAT would be very grateful for more information.

Other health organisations may be private medical and health charities such as hospices, medical research bodies and health unions.

Charities

Many charities have recognised the inappropriateness of their investments and no longer invest in arms-exporting companies. Some charities receive legacies in the form of shares, often in arms companies. Some of these charities may sell the shares as soon as they can, but inevitably they will appear as beneficial owners for however long the shares are held.

Interestingly, about three years ago, OXFAM and Save the Children were asked by their employees to provide them with an ethically managed pension scheme. Because the request came from the beneficiaries themselves, who felt it to be in their best interests, it was much easier for the trustees to respond. The pension scheme screens out companies where 3% or more of their revenue is derived from tobacco, arms or nuclear power.

Trade unions

This section could be of interest to anyone who is a trade union member or trade union employee.

Mike Kavanagh is co-ordinating the Trade Union campaign. He has been following up an initial communication to 20 trade unions and would be very glad to hear from those who have any information to add to our database or want to get involved with this aspect of the clean investment campaign.

Mike can be contacted at:
32 Astor Road
Manchester M19 2LX

Tel: 0161 224 6042
Email: mkavanagh@astor.demon.co.uk

Employers’ Pension Schemes

Unions may well have representation among the trustees of an employer’s pension fund. This is certainly the case for local authorities, where the pension fund trustees include UNISON representatives. If this is the case for your pension scheme, you could ask your branch to mandate its pension fund trustee to campaign for the end of investments in arms exporting companies. Of course, individuals can also write directly to their pension fund to press for disinvestment from arms companies.

Union Pension Schemes

Union employees: Unions usually provide a staff pension scheme for their own employees. Its trustees will be responsible for investment policy and they may include employee representatives. If you are a union employee you could contact your representatives and ask them to raise the question of an ethical investment policy. If the union is one that has members in the arms industry, they may be reluctant to formulate a policy that ‘screens’ out investment in these companies. There are many unions, however, for which this would not be a consideration.

Union members: If your union has a defined benefit scheme in which any shortfall in the fund’s performance is made up by the employer (i.e. the union), members are in a theoretically influential position as any shortfall in the fund is likely to impact on their subscription. If lobbied for an ethical investment policy, trustees may thus feel justified in asking whether members would be prepared to pay higher subscriptions should the policy adversely affect the fund’s performance. The trustees would need to feel they have strong support from the membership and so the more support you can get from other union members, the more likely you are to be able to make this an effective challenge. Strong resolutions from branches, district and national gatherings could carry more weight, and persuade unions of the need to respond to demands for ethically managed pension funds. Even if progress cannot be made on the main fund, it may be possible to persuade them to adopt an ethical option for any Additional Voluntary Contribution scheme they have.
General Trade Union Funds

Trade unions also have general funds some of which may be held in the Trade Union British Trust. This is one of three unit trusts managed by a company called Trade Union Fund Managers Limited which invests in a wide range of British commercial and industrial companies. Trade Union Fund Managers Ltd was set up in 1961 to enable trade unions to invest their surplus funds in those companies in which their members worked. Since then there have been changes and, although trade unions still account for a substantial portion of the unit trust funds, they have for many years been open to other corporate bodies and individuals.

It was a CAAT supporter, who is also a unit trust holder, who noticed that the Trade Union British Trust holds shares in BAE Systems, Cobham and GKN, and lists well over 20 trade unions among its unit holders. He wanted CAAT supporters to challenge the investment policy of the Trade Union British Trust and urge trade unions to do the same.

BACKGROUND NOTE

Trade Union Fund Managers Ltd is managed by a board of directors who are in a position analogous to that of trustees. In the 1970s the directors did agree an investment policy that excluded companies investing in South Africa. This was in response to union pressure at that time. Since then, we understand that there have been no further requests for ethical considerations to be taken into account. Since 1969, instead of having shareholders, Trade Union Fund Managers Ltd has been owned by a Charitable Trust. Company profits are distributed to good causes supported by the trade union movement. All the trustees are trade unionists.

• If you are a TUBT unit trust holder:

To challenge the investment policy being applied to investments in the Trade Union British Trust, write to the Chair and any other member of the board of the Trade Union Fund Managers Ltd that seems appropriate. They are:

Chair, The Lord Christopher CBE, former general secretary of IRSF, (now PIS)

Vice-chair, Paul Blagbrough, former Finance Director, Labour Party

Vice-chair, Mark Cornwall-Jones, Ecclesiastical Insurance Group

Andrew Cunningham, former Accountant, AEEU
Rosalind Gilmore CB, Director, Allied Zurich plc
Paul Noon, Joint General Secretary, Prospect
Margaret Prosser, Deputy General Secretary, TGWU
David Sachon, Chief Executive Officer, Threadneedle Investment Services Ltd.
Alan Tuffin CBE, former General Secretary, UCW (now CWU)

They can be contacted at:

Trade Union Fund Managers Ltd
Congress House
Great Russell Street
London WC1B 3LQ
Tel. 0207 637 7116

• If you are a union member:

Ask your union whether they invest in the Trade Union British Trust. If they do, ask that they consider disinvesting or use their influence to request that the directors adopt an ethical investment policy. Remind them that the trade unions were able to influence investment decisions in the 1970s. Why not now?

Tell other union members at branch and regional level. Get a resolution passed that puts pressure on the general secretary of your union and cannot be ignored. Tell contacts in other unions about these investments and urge them to take the issue to their general secretary as well.

UNISON’s Ethical Investment

UNISON now has an ethically managed staff pension fund. Steve Tasker, UNISON’s Director of Finance and Scheme Secretary, said in a letter to a CAAT supporter who is also a UNISON member that following the merger of the main Staff Pension Schemes the Trustees had been reviewing their investment strategy.

They had taken advice from their investment and legal advisers and received presentations from investment managers. The investment managers were able to demonstrate to the Trustees’ satisfaction that an investment plan that aimed at long-term sustainability would be financially and legally sound. The Trustees selected a Fund Manager whom they felt had a well-structured investment process that analyses a
company’s social and environmental profile as well as its immediate and short-term financial performance. Briefly – this means that all companies are assessed against a number of criteria. Those selected for investment will have achieved an agreed ranking on a matrix that evaluates a company on the sustainability of its core business as well as its management vision and strategy and therefore comes into the investment universe.

In a subsequent phone conversation, Steve Tasker said that he thought it had been important not to get side-tracked into discussion about which were the “nastiest” companies as everyone has their pet hate but to have a clear policy on which companies offered the sustainable returns that pension schemes need. The policy they have in place does exclude major arms and tobacco companies as well as a number of other companies felt by the trustees not to fit into their policy on sustainability.

He also recognised that the UNISON Trustees were a well-informed group. They had recognised the potential shortcomings of “Positive Engagement” which does have a part in ethical investing and may persuade a company to change its stance but should always be viewed in the context of investing members’ monies to achieve long term returns.
Appendix 1: The major UK-based arms companies

Unless otherwise indicated, the basic company figures refer to 2003 and are sourced from either the company or Defense News (www.defensenews.com). ‘World ranking’ is by military sales.

BAE Systems

Military sales: $17,779m (includes BAE Systems’s acquisition of Alvis but not the proposed acquisition of United Defense Industries)
World ranking: 4
Military sales as % of total sales: 77%
Military products include: fighter and trainer aircraft, warships, submarines, torpedoes, radar, tactical communications systems, missiles, countermeasures, armoured vehicles and tanks.

www.baesystems.com

In their own words – “The company designs, manufactures, and supports military aircraft, surface ships, submarines, radar, avionics, communications, electronics, and guided weapon systems... BAE Systems has major operations across five continents and customers in some 130 countries. The company employs more than 90,000 people and generates annual sales of more than £12 billion through its wholly owned and joint-venture operations.” (www.baesystems.com/newsroom/2004/nov/151104news2.htm)

Cobham

Military sales: $743m
World ranking: 55
Military sales as % of total sales: 50%
Military products include: missile components, weapons carriage and release systems, communication systems, radar and electronic warfare products.

www.cobham.com

In their own words – “Cobham is a leading supplier of specialised equipment for the aerospace, defence, homeland security, communications and search and rescue markets. It also operates, modifies and maintains aircraft for military training, special mission operations and outsourced freight and passenger services.” (www.cobham.com/news.asp?pageID=11&menuID=2_4&articleID=87&type=)

GKN

Military sales: $1,534m*
World ranking: 28*
Military sales as % of total sales: 20%*
*Note: the above figures cover the period prior to the sale of GKN’s 50% AgustaWestland stake to Finmeccanica. Following this sale, military sales as % of total sales drop to around 10-14%.
Military products include: engine components, wing flaps, cockpit canopies, fuselage structures and rotor blades.

www.gknplc.com

In their own words – “Approximately 70% of the revenues of GKN Aerospace are derived from the defence sector where the business is a supplier of structures and components to a wide range of US military aircraft including the F/A – 18E/F, F/A-22, C-17, F-15 and F-35 as well as European aircraft such as the Eurofighter. It also supplies major structural assemblies for the EH 101, Lynx, NH90, UH-64 and Comanche helicopters.” (www.gknplc.com/GlobalBusinesses/GknAerospace.asp)

Rolls-Royce Group

Military sales: $2,490m
World ranking: 18
Military sales as % of total sales: 25%
Military products include: aero engines and marine propulsion systems.

www.rolls-royce.com

In their own words – “Rolls-Royce has a broad customer base comprising more than 500 airlines, 4,000 corporate and utility aircraft and helicopter operators, 160 armed forces and more than 2,000 marine customers, including 70 navies.” (www.rolls-royce.com/about/overview/default_flash.jsp)

Smiths Group

Military sales: $1,778m
World ranking: 26
Military sales as % of total sales: 42%
Military products include: canopies, cockpit control panels, data transfer equipment, gun pods, in-flight refuelling probes, and chemical and biological agent detectors.

www.smiths-group.com
In their own words – “Smiths Aerospace is the leading transatlantic aerospace equipment company, with more than 9,000 staff and $1.6 billion revenue split between Europe and North America. Smiths Aerospace holds key positions in the supply chains on all major military and civil aircraft and engine manufacturers supplying integrated solutions.” (www.smiths-aerospace.com/Business/)

**VT Group**

**Military sales:** $858m  
**World ranking:** 49  
**Military sales as % of total sales:** 70%  
**Military products include:** warships, logistics and training services.

www.vosperthornycroft.co.uk

In their own words – “VT Shipbuilding’s renowned experience combined with leading edge technology has ensured that a wide range of our naval vessels have been selected by Navies of the World for over a century. Indeed in the last thirty years alone, we have designed and built nearly three hundred ships for over thirty navies, including the Royal Navy.” (www.vosperthornycroft.co.uk/shipbuilding/) In addition, its support services business includes “technical services, logistics and training for all three armed services in the UK and for armed forces around the world”. (VT Group Annual Report and Accounts 2004)

**Appendix 2: Notes on ‘Engagement’**

1. **CAAT’s view on ‘engagement’ when presented as being a Socially Responsible Investment policy.**

‘Engagement’ is about negotiating better company practice and as such is to be welcomed. It has always been an integral part of an ethical investment policy. Having identified problem areas within a company, fund managers aim to persuade the company to commit itself to change and then monitor the implementation of any such commitments.

However, a Socially Responsible Investment (SRI) policy of ‘engagement’ alone is unacceptable to CAAT. Arms companies might well be challenged to clean up their act in relation to their behaviour as a company but the process of ‘engagement’ would not address the fundamental social and environmental problems that arise from the use of the product.

CAAT recognises that trustees may not appreciate that ‘engagement’ fails to deal with a company whose product is the problem. CAAT’s task is to inform trustees of the shortcomings of a policy of ‘engagement’ that does not have within it the possibility of disinvesting from companies who fail to comply with agreed commitments. CAAT would hope that trustees would eventually realise the inappropriateness of including a company like BAE Systems in a portfolio that is thought to be reflecting a SRI policy and that they will recognise the need for transparency on all aspects of the ‘engagement’ process.

**1a. Information and help for CAAT supporters who want to challenge and change the investment policy of an organisation with which they are associated, such as their local authority’s pension fund.**

Supporters need to know who decides on the investment policy of the institution and how it is implemented, so that they address their concerns to the right people. The CAAT Clean Investment Guide provides the necessary details.

The attraction of ‘engagement’ if presented by fund managers as a SRI policy, is considerable. It allows trustees to believe that they have a SRI policy and they may be reluctant to hear information that will destroy their comfortable illusions.

However, CAAT supporters can remind trustees that they do have a duty to monitor the performance of their fund managers, and that there are questions to which trustees should expect to be given satisfactory answers. These could be ‘fed’ to trustees/councillors by CAAT supporters, in the hope that Trustees would then address the questions to their fund managers.

Questions designed to clarify how a policy of ‘engagement’ is actually implemented:

• How are the fund managers’ resources allocated for effective engagement? (It is time consuming and therefore expensive).  
• How will the fund managers evaluate their engagement strategy?  
• What issues have fund managers engaged on and with which companies?  
• Are fund managers asking questions which will clarify company policy and practice especially on
the range of issues that are of particular concern to CAAT? (These are the questions listed in section 2 – exports, end-use, corruption, transparency, and diversification.) Trustees may not appreciate the importance of these questions and until they do, they are unlikely to press the point with their fund managers.

• If a company does not respond positively, is there a point at which fund managers would decide to disinvest?
• Are fund managers willing to engage with companies on issues that would be ‘value destroying’ (i.e. where a change in company practice would reduce profit/share value – such as eliminating corruption in the arms industry)?
• Do fund managers have answers to the above available on their website (and, if relevant, the company response)?
• Is the fund managers’ AGM voting record available on their website?

CAAT supporters could ask trustees whether they have consulted their beneficiaries to ascertain what level of investment and ‘engagement’ with controversial sectors such as arms and tobacco they would like. If a survey was carried out, are the results available to the beneficiaries?

In time, councillors and trustees may recognise the futility of trying to present investment in BAE Systems as part of a SRI policy. Then they may demand that ‘engagement’ should also include the possible sanction of disinvestment. Or better still, negative screening.

DIRECT ‘ENGAGEMENT’ BETWEEN TRUSTEES AND THE COMPANIES IN WHICH THEY INVEST.

As shareholders, trustees can engage with a company directly. Some local authorities operate as a group, e.g. the Local Authorities Pension Fund Forum (LAPFF) Councillors may attend AGMs themselves or instruct their staff to do so on their behalf.

Where councillors or trustees are keen to engage with companies themselves, CAAT supporters could encourage them to ask the questions designed to clarify company policy and practice on a range of issues of particular concern to CAAT as listed in section 2. (exports, end-use, corruption, transparency, diversification.)

1b. How CAAT responds to fund managers who approach it for advice or comments on the fund manager’s policy of ‘engagement’ and its application to arms companies.

CAAT is wholly opposed to investment in arms exporting companies and could never endorse as socially responsible an investment policy that fails to take into account the social and environmental impact of the company’s product. Fund managers know that an aim of ‘engagement’ is to improve financial returns. They need to know that CAAT will be doing its best to give trustees accurate information in order that they can decide for themselves whether they are happy with their ‘engagement’ policy as it stands or whether they feel that it should include the possibility of negative screening.

Recognising that ‘engagement’ is about negotiating better company practice and that fund managers will be investing in arms companies for some time yet, CAAT, like trustees, should be asking questions which focus on the ‘engagement’ process itself (section 1a), as well as ensuring that managers clarify with the companies themselves issues of company policy and practice of particular concern to CAAT (section 2).

2. Questions for direct engagement with arms companies

These are CAAT’s recommended questions for individuals or organisations who intend to engage with arms companies. They are intended to clarify company policy and practice. A decision to engage with a company, whether by attendance at its AGM or less formally through written correspondence, would always be conducted with the clear understanding that CAAT and its supporters are wholly opposed to the arms trade.

Export policy

• Does the company have any policy restricting its exports?
• Has the company turned down a sale on other than financial grounds?
• What is company policy on appealing against licensing decisions?

End-use

• What steps does the company take to ensure that their products are neither diverted en route to the stated recipient nor sold on at a later date in breach of the original export authorisation?
• Does the company monitor the end-use of equipment produced under licence outside the UK?

**Corruption**

• What is the company policy on bribery and corruption?
• Will the company identify a board member responsible for implementing the policy throughout the company?
• How does the company enforce its anti-bribery policy (assuming it has one)?
• How would it ensure that the policy is implemented by its agents in buyer countries where bribes are culturally acceptable?
• Is the company willing to commission an independent report on the activities of its agents?

**Transparency**

• Does the company produce a publicly-available report of company policy with regard to exports, end-use and corruption issues as above?
• Is the company willing to report all occasions when it receives assistance from a government department in promoting the sale of its products?

**Diversification**

• Does the company intend to increase the civil proportion of its business? A company commitment to diversify out of the military sector into civilian production, depending on the proportion of the company left in arms exports, could be seen as a decision to change its product and as such would be welcomed.

**Appendix 3: Charity Commission Guidelines for the Investment of Charitable Funds**

Extract from Charity Commission leaflet CC14 – “Investment of Charitable Funds” (February 2003) www.charity-commission.gov.uk

**Section F. Ethical and socially responsible investment**

80. “Ethical investment” is a wide phrase which is used to cover many different approaches to investment strategy. An ethical investment policy may involve looking for companies which demonstrate best practice in areas like environmental protection, employment and human rights, or for companies whose businesses contribute directly to a cleaner environment or healthier society. Or it may involve negative screening, to avoid investments in a particular business or sector. Many ethical investors and ethical investment funds adopt a combination of positive and negative criteria.

81. “Socially responsible investment” (SRI) is often used as a synonym for ethical investment, although it can also be used to describe a particular ethical approach. Ethical investment and SRI both need to be distinguished from social investment – see paragraph 13 above [not included]. Social investment is not investment in the ordinary financial sense at all. Ethical investment is investment in the financial sense, and the duties referred to in section E [not included] apply to it.

82. The governing document of a charity sometimes imposes ethical restrictions on the scope of the general power of investment. These restrictions cannot, consistently with the body being regarded as a charity, go beyond those which are compatible with the principles which are discussed in this section. Such restrictions must, of course, be observed by trustees.

83. More commonly, it will be the trustees themselves who decide to adopt an ethical investment policy. In doing so, they need to keep in mind the underlying principle that their power of investment has to be used to further the purposes of the trust, and that those purposes will normally be best served by seeking the maximum return consistent with commercial prudence. As the Judge put it in the case of Harries (Bishop of Oxford) v Church Commissioners [1992] 1 WLR 1241 (commonly known as the Bishop of Oxford case), “most charities need money; and the more of it there is available, the more the trustees can seek to accomplish”.

84. An ethical investment policy may be entirely consistent with this principle of seeking the best returns. For example, there is an increasingly held view that companies which act in a socially responsible way are more likely to flourish and to deliver the best long term balance between risk and return. Trustees are free to adopt any ethical investment policy which they reasonably believe will provide the best balance of risk and reward for their charity. As with any other investment strategy, they must be careful to discharge the duties referred to in section E. In particular, they must consider the need for diversification and must take advice where appropriate.

85. The next question is how far trustees can allow their investment strategy to be governed by considerations other than the level of investment.
return. The Bishop of Oxford case recognised three situations where they can properly do so.

86. First, there are cases where investment in a particular type of business would conflict with the aims of the charity. A charity with objects for the protection of the environment and wildlife may decide not to invest in businesses which pollute what the charity is trying to protect. But the point here is a practical conflict with the charity’s aims and activities; not just moral disapproval. Where the judgment is a moral one, the trustees’ room for manoeuvre is more limited, as explained below.

89. Secondly, a charity can avoid investments which might hamper its work, either by making potential beneficiaries unwilling to be helped because of the source of the charity’s money, or by alienating supporters. This requires a balancing exercise. On one side are the difficulties which the charity would encounter, or the likely cost of lost support, if it were to hold the investments. On the other side there may be a risk of financial underperformance if those investments are excluded from its portfolio. The greater the risk of underperformance, the more certain the trustees need to be of the countervailing disadvantages to the charity before they incur that risk.

90. Thirdly, even if an investment does not come into either of the previous two categories, trustees can accommodate the views of those who consider it to be inappropriate on moral grounds, provided that they are satisfied that this would not involve “a risk of significant financial detriment”. In many cases, trustees may be able to conclude, after taking advice where appropriate, that a particular ethical policy is likely to perform as well as an unrestricted policy. But trustees are not free to use their investment powers to make moral statements at the expense of their charity.

91. The key here is for charities to make a judgment in the light of their own circumstances, rather than trying to conform to a supposedly homogeneous “public opinion”. Here are some pointers for trustees:

- Trustees need to evaluate the effect which any proposed policy may have on potential investment returns, and this will usually require expert advice.
- If a proposed policy increases the risk of lower returns, this must be balanced against the risk of alienating support and damage to reputation. This cannot be an exact calculation. It is just one of many areas where trustees have to identify and manage risk.
- Trustees are unlikely to be criticised for adopting a particular policy if they have considered the correct issues, taken appropriate advice and reached a rational result.

92. Since July 2000 some pension fund trustees have been required by law to state in their statement of investment principles “the extent (if any) to which social environmental or ethical considerations are taken into account in the selection, retention and realisation of investments”, and “their policy (if any) in relation to the exercise of rights (including voting rights) attaching to investments”.

93. In its Report “Private Action: Public Benefit”, the Cabinet Office’s Strategy Unit has recommended that the trustees of larger charities should be required to make similar disclosures in their annual reports. They have also expressed the view that it would be good practice for all charities to make such disclosures even where not required to do so. Whilst there is, at present, no legal requirement on any charity trustees to do this, it would be good practice to include such information in the charity’s annual report.

Appendix 4: Relevant Organisations and Further Reading

The CAAT Clean Investment Guide is only an introduction to these issues. The movement in the UK towards socially responsible investment continues to grow. Some of the following may be useful:

Christian Ethical Investment Group (www.ceig.org.uk)

1 St. George’s Close
Leighton Buzzard
Bedfordshire LU7 1ZX
Tel. 01525 630097

The CEIG is an independent voluntary body formed in 1988 to promote ethical investment within the Church of England. It is now committed to serve all the
churches and to help individuals, both within and outside the churches, who wish to explore and put into practice ethical investment.

**Ecumenical Council for Corporate Responsibility (www.eccr.org.uk)**

PO Box 500  
Oxford OX1 1ZL  
Tel. 01865 245349

ECCR was set up by the main churches in the UK to campaign for social justice in British multi-national policy and behaviour. It seeks to achieve this through shareholder action leading to constructive dialogue with the company, backed up by research and work with partner organisations, including sister organisations in the USA and Canada.

**EIRIS (Ethical Investment Research Service) (www.eiris.co.uk)**

80-84 Bondway  
London SE8 1SF  
Tel. 020 7840 5700

EIRIS was set up in 1983 by a group of churches and charities. Its aims are to enable investors to apply their social, ethical and environmental concerns to investment and to promote wider understanding of, and debate on, corporate responsibility. EIRIS researches all companies included in the FTSE All-Share Index together with many overseas companies and others which are in the published portfolios of ethical funds. It screens investors’ portfolios and supplies them with a list of companies which fit their chosen ethical criteria. EIRIS also produces a range of publications including a newsletter.

**FairShares (www.fair-share.org.uk)**

Fair Share is a new non-profit advocacy organisation that campaigns for the responsible and ethical investment of UK pension funds.

**Institute of Business Ethics (www.ibe.org.uk)**

24 Greencoat Place  
London SW1P 1BE  
Tel. 0207 798 6040

Established in 1986 to encourage high standards of corporate and business behaviour and the sharing of best practice.

**Local Authority Pension Fund Forum (www.lapfforum.org)**

The forum comprises several local authorities who meet together to discuss issues arising out of their management of pension funds and, where appropriate, to take joint action.

**Pension Investment Research Consultants (PIRC) (www.pirc.co.uk)**

4th Floor  
Cityside  
40 Adler Street  
London E1 1EE  
Tel. 020 7247 2323

PIRC can provide advice to a local authority wishing to take investor action.

**UK Social Investment Forum (www.uksif.org)**

Unit 203  
Hatton Square Business Centre  
16 Baldwin Gardens  
London EC1N 7RJ  
Tel. 020 7405 0040.

The Forum’s primary purpose is to promote and encourage the development and positive impact of socially responsible investment throughout the UK. It runs events and prepares briefings for its members. Both organisations and private individuals may join.

**Further Reading**

*Investment of Charitable Funds* (leaflet CC14, February 2003)  
The Charity Commission, 13-15 Bouverie Street, London EC4Y 8DP. Tel 0870 333 0123, or download from www.charity-commission.gov.uk


*Local Authority Pension Fund Yearbook*, PIRC £205  
Claims to be the “official bible” of local authority pension funds. Useful articles as well as listings of local authorities, size of funds and details of their investment managers.
Just Pensions Guide for Trustees and Fund Managers  
(2001)  
‘Do UK Pension Funds Invest Responsibly?’ (2002)  
Just Pensions (a programme of the UK Social Investment Forum), www.justpensions.org


Ethical Investment – How Far Can Trustees Go?, Paul Brett, pub. Christian Ethical Investment Group, 1999. £2.00

The Joseph Rowntree Charitable Trust publishes a pamphlet on how they have tackled ethical investment in line with the principles of a Quaker charity.  
CAAT was set up in 1974 and is a broad coalition of groups and individuals working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.