

Responsible Investment Activity Report (July-December 2009)

The fund's responsible investment activities over the past six month continue to be informed by [USS' Responsible Investment Strategy, 2007](#). The fund aims to integrate material corporate governance, environmental and social factors into investment decision making where relevant, across all markets and asset classes.

1. Integration Engagement and Voting

The fund has made progress towards the integration of responsible investment (RI) in asset classes beyond equities and has documented key developments in recent Activity Reports. Noteworthy developments for the second half of 2009 include:

1.1 Hedge Funds

USS has initiated a process to integrate RI into the due diligence for potential hedge fund investments through assessing the governance structure of the fund, the composition of directors and the funds' approach and management of material environmental social and governance (ESG) issues. In addition, USS is working on a broader project to improve corporate governance standards across the hedge fund sector in conjunction with other investors.

1.2 Private Equity

Following the publication of the [ILPA Private Equity Principles](#), a member of the RI team co-wrote an article [Trends in Responsible Investment in Private Equity](#) for the December newsletter of the Institutional Limited Partners Association (ILPA), a key trade body for investors in private equity funds. The paper highlights the potential impacts of ESG in the asset class, outlines possible actions for investors and provides links to further resources, including the private equity work-stream of the UN PRI.

1.3 Listed Equities

The fund continues to pursue an integration and engagement strategy with the RI team working closely with USS' internal portfolio managers. During the period under the review the fund engaged with companies on many ESG issues including:

- Oil sands
- Independent representation on the board
- Poor governance and leadership
- The separation of Chairman and CEO
- Succession planning
- The impacts of extractives projects in India
- Minority shareholder rights
- Investments in oppressive regimes
- Legal investigations
- Health and safety concerns
- Political donations in the US
- Climate change, specifically adaptation
- Remuneration

Further examples of the funds' more in-depth company engagements, voting and sector related projects are provided below.

1.3.1 Eckoh

Eckoh is quoted on the UK's Alternative Investment Market (AIM) and provides speech recognition technology. Earlier this year USS worked with Eckoh to improve its corporate governance and appoint independent non-executive directors which helped in the defense of a hostile takeover bid. In addition, the company sought USS' input on their remuneration practices.

1.3.2 New World Resources

USS met with New World Resources, a mining company operating in Eastern Europe, to discuss the company's health and safety record and highlight support for training and investment from the company in this area. The fund also raised concerns regarding poor disclosure, minority shareholder protection and the potential impact of EU carbon trading.

1.3.3 UTi Worldwide

USS has engaged with UTi Worldwide, a US holding company for supply chain services, on governance issues. The fund sent a representative to read a statement at the company's 2009 AGM regarding the need for independent board leadership and improved communication with shareholders. Later in the year the fund welcomed the appointment of an additional independent director to serve as Chair of the Nominations and Governance Committee which was seen as a move in the direction advocated by USS.

1.3.4 Veolia Environnement

USS, in conjunction with other European institutional investors has raised governance concerns with Veolia, the utilities and public transportation company, regarding the proposed restructuring of the board, the changing roles for the head of the company and succession planning.

1.3.5 Royal Dutch Shell & Oil Sands

During the year USS and another European pension fund coordinated a fact finding visit for investors to an oil sands site operated by Shell in Canada. The fund met with companies operating in the area, an NGO, and the Government of Alberta (including the Premier of Alberta). The issues associated with the extraction and use of oil sands are complex, encompassing global energy requirements, local environmental and social impacts, and global climate policy. The visit helped to improve the funds' understanding of the interplay of operational / site management, climate policy and energy policy - all of which are of interest to long term investors like USS.

The trip followed the funds' participation in a letter to companies involved in oil sands extraction or prospecting convened by CERES and UKSIF in July – see below.

1.4 Pharmaceuticals and Emerging Markets

Building on the knowledge and understanding gained from the fund's involvement in Pharma Futures 3, and the publication of [*Pharma Futures 3: Emerging Opportunities*](#) earlier in the year, the RI team has undertaken additional in-depth financial analysis to assess pharmaceutical companies' positioning for growth in emerging markets. The RI team has also developed some of the key conclusions of the report to enable USS' portfolio managers to better integrate the findings into their valuation models and progress their understanding in this area.

1.5 Cleantech in Asia

Working with the Asia and Japan desks at the funds' London Investment Office, (LIO), the RI team undertook analysis on cleantech in Asia to identify potential investment opportunities with a long-term investment horizon. The report focused in particular on energy generation (specifically solar and wind), energy efficiency (specifically power grids) and water infrastructure and technology companies.

1.6 Voting

The fund has improved its accountability on voting activities during the year for both the internal and external equity portfolios. USS discloses its voting record for all votes against management for the UK and more recently the funds' global portfolios. The in-house voting disclosure reports provide a short comment outlining the funds' main concerns linked to the agenda item. Additionally, the fund has initiated disclosure of voting records for assets managed by USS' external fund manager, Capital International, who have a global mandate for the fund. All reports – as well as links to the funds' voting policies - are available under the voting disclosure section of the [USS website](#).

2. Market Wide Activities

2.1 Public Policy Consultations

During the year, in response to the financial crisis, the UK government and regulators sought to introduce measures to encourage shareholders of the financial services industry to be more active owners of the companies in which they invest and to improve the effectiveness of shareholder engagement. USS has played (and continues to play) an active role in the various consultation exercises that are being undertaken. USS has provided insight from its unique position as a long-term and universal investor that is not conflicted by links to commercial financial institutions. The fund has been broadly supportive of most of the reviews and believes it is well positioned to meet any new requirements on active stewardship if they are implemented.

2.1.1 Walker Review of Corporate Governance of UK Banking Industry

Following the release of the second consultation document of the Walker Review in July, the fund submitted its proposals for implementation of the Principles of Stewardship, remuneration structure, board independence and expertise. The response built upon USS' original submission earlier in the year and the fund's meetings with Sir David Walker and Lord Myners. It highlighted difficulties around implementation of the proposals and called for greater clarity from the FSA and Takeover Panel over regulations pertaining to "acting in concert" (see below). The fund also reiterated concern over the accounting standards framework. The [final recommendations of the Walker Review](#) released by Sir David on 26 November 2009 reflect a number of USS's proposals.

2.1.2 Acting in Concert

In August, the Takeover Panel and FSA responded to Sir David Walker's call for greater clarity on "acting on concert" regulation. The fund had a number of queries with the FSA's clarification and with support from other investors, wrote a [letter to the FSA](#) highlighting the areas of ambiguity. In response, the FSA has outlined plans to conduct a consultation with institutional investors regarding concert party rules in early 2010.

2.1.3 Personal Accounts Delivery Authority (PADA)

The [fund responded](#) to the UK's Personal Accounts Delivery Authority (PADA) Discussion Paper Building Personal Accounts: 'Designing an Investment Approach' in August 2009. The response highlighted the legal advice USS has received about fiduciary duty and RI, the role of collaboration, and advocated that the authority allocate internal resources for the implementation of an RI strategy and that they consider signing up to the Principles for Responsible Investment.

2.2 Regional Corporate Governance

2.2.1 USA

The fund has spearheaded the development of a model [Director Candidate Information Request \(DCIR\)](#), which provides a template for enhancing disclosure around director nominations. The DCIR calls for companies to disclose more information in their proxies about a candidate's experience, qualifications, attributes and skills in support of their becoming a board member.

USS has raised concern around the lack of transparency on director candidates with the regulatory authorities in the US over several years, most recently through a [letter on governance reform to President Obama](#) and through a meeting with congressional leaders in February 2009. Recent progress has been witnessed through the inclusion of elements of the DCIR in the Securities and Exchange Commission's (SEC) [Consultation on Proxy Disclosure and Solicitation Enhancements](#) to which the fund has responded. It is anticipated that a new ruling in this area will be adopted by the SEC in 2010.

In conjunction with five other global investors, representing \$350 billion in total assets under management, the DCIR was sent to four US companies in advance of the 2010 proxy season. The DCIR was also cited by the US [Council of Institutional Investors](#) when amending their corporate governance policies on disclosure during the year.

2.2.2 Brazil

The fund participated in an investor letter to BM&F Bovespa regarding the progress of the Brazilian Listing Rules Review. The letter, coordinated by F&C, encouraged the exchange's Novo Mercado Advisory Committee to better address the protection of minority shareholder rights, independent representation on the board and the promotion of global best practice corporate governance standards.

2.2.3 Israel

In the lead up to Israel being awarded developed market status by MSCI, USS and other investors including representatives of UN PRI, were invited to present at the Israeli stock exchange to highlight best practice on ESG issues and outline overseas shareholder expectations. The event was [reported to be the first RI conference](#) ever held in Israel.

2.2.4 Japan

Since the publication of the [ACGA White Paper on Japan in 2008](#) a number of business and government agencies in Japan have published statements outlining their vision for corporate governance reform in Japan. These included Nippon Keidanren, the Advisory Group to the TSE Listing System; the Ministry of Economy, Trade and Industry and the Financial System Council's Study Group on the Internationalization of Japanese Financial and Capital Markets. To add to momentum, the ACGA issued an [Investor Statement](#) in December, backed by USS, to broadly support progress made and clarify key areas of concern from overseas investors.

2.2.5 Sweden

Following sustained engagement from global institutional investors (including USS) since 2007, the Fund welcomed the Swedish Industry and Commerce Stock Exchange (NBK) [new rules](#) on the pricing of shares with different voting rights in Swedish takeover situations. The broad support from overseas investors was a significant influence to raising minority shareholder protection in Sweden and demonstrates the importance of global investor collaboration on such issues.

2.3 Climate Change

2.3.1 Adaptation

Since the publication of [Managing the Unavoidable: Understanding the Investment Implications of adapting to Climate Change](#) in 2008, the Fund has continued to consider the investment aspects of adaptation and inevitable climate change.

In November, in conjunction with Insight, Henderson and Railpen, USS published [Managing the Unavoidable: investment implications of a changing climate](#). The report highlights that most attention has been paid to extreme weather effects (flood risk, increased ferocity of storms), but that much less attention has been paid to the incremental change in weather patterns such as the effects of incremental rise in ambient temperatures on building performance and energy efficiency.

The report was released alongside a series of [four sector based frameworks](#) for assessing the risks and opportunities of climate change adaptation at companies within the oil and gas, property, energy and water industries. These reports provide a high-level review of the risks and opportunities for businesses created by inevitable climate change, identify the specific investment drivers at risk and give guidance on the questions investors and their analysts should ask of companies.

2.3.2 Institutional Investor Group on Climate Change

Ahead of the UN Climate Change Conference, [COP15](#), the [IIGCC](#) with other global investor collaborations representing \$13trillion under management released an [Investor Statement](#) calling on governments to move quickly to adopt strong national climate policies that will spur low-carbon investments to reduce emissions causing climate change. The investor statement was announced at the Investor Summit on Climate Risk, a meeting of 450 global investors at the United Nations in New York in September. A member of USS's RI team presented at the launch/ conference.

USS was invited to participate in a meeting with the Danish Government on climate change, organised by Danish public pension fund, ATP. The meeting was scheduled ahead of the Danish Government's hosting of COP15, which took place in Copenhagen in December 2009.

In August the IIGCC policy working group submitted a response to the [Defra / DECC consultation](#) on measuring and reporting greenhouse gas emissions which aimed to improve the quality and consistency of corporate reporting in this area.

A member of the USS RI team contributed to the 2009 annual progress review of the [IIGCC Investor Statement on Climate Change](#). The statement encourages signatory investors to take a pro-active stance on climate change. It sets out the actions that investors can take in their investment processes and engagement with companies, policymakers, the investment community and wider stakeholders. Signatories to the Statement commit to reporting annually on the actions they have taken on climate change, with survey results and best practice examples published in an annual progress report.

2.3.3 Oil Sands

The fund was co-signatory in a [letter](#) to the chief executives of 19 companies involved in oil sands extraction or prospecting in Canada. The letter was convened by the [UKSIF](#) and US based [CERES](#) and referred to the environmental, social, regulatory and political risks around oil sands. It argues that better standards and regulation will have to be implemented industry-wide in order to protect oil sands' 'licence to operate'. The letter made specific recommendations on carbon intensity, consultation standards, local environmental impacts and transparency/disclosure and asked companies to disclose the long-term factors affecting investment strategy in the oil sands.

2.4 Principles for Responsible Investment

The fund continues to be active participants in the [UN Principles for Responsible Investment](#) with a USS trustee director sitting on the board and USS is represented on several work-streams.

Through its [private equity workstream](#), PRI published [Responsible Investment in Private Equity: A Guide for Limited Partners](#) which provides guidance for pre and post investment decision making. The guide encourages limited partners (LPs) to develop and implement policies on RI and ensure that their due diligence and fund selection processes give due regard to ESG factors. USS presented at the launch event which took place in Sydney.

2.5 Other Activities

2.5.1 RICS Valuation Information Paper on Sustainability

The Fund contributed towards the Royal Institute of Chartered Surveyors (RICS) September publication [Value Information Paper 13: Sustainability and Commercial Property Valuation](#) which provided guidance on how property valuers should calculate the impact of extra-financial issues on asset values. The paper provides a critical first step towards the inclusion of ESG factors in the valuation of real estate.

2.5.2 Aspen Institute Business & Society Program

The fund welcomed the report [Overcoming Short-termism: A Call for a More Responsible Approach to Investment and Business Management](#), published by the Aspen Institute Business & Society Program's Corporate Values Strategy Group (CVSG) in the US. The statement identifies three leverage points for US public policy makers toward long-term value creation for investors and the public good. It suggests stimulating 'patient capital' through tax policy, improving the alignment of interests between intermediaries and beneficial owners, and improving transparency measures to strengthen investor accountability and disclosure. USS was a signatory to the original Aspen Principles for Long-Term Value Creation in June 2007.

3. Awards, Accolades and Appointments

For the third year running USS won Best Use of SRI at the [Professional Pensions Pension Scheme of the Year awards](#) 2009.

Natasha Landell-Mills passed the CFA Level 3 examinations and was promoted to Senior Analyst, Responsible Investment. Jeannette Andrews was appointed as Analyst, Responsible Investment.

4. Articles & Interviews

A selection of articles is provided below. Please note, some links may be accessible by subscribers only.

- BVCA; [You're No Different: Responsible Investment and Private Equity](#), 2009
- Global Pensions; USS joins GO Japan's Engagement Consortium, 7 July 2009
- Global Investor; [USS joins GO Japan's Engagement Consortium](#), 8 July 2009
- Professional Pensions; [USS joins GO Japan's Engagement Consortium](#), 8 July 2009
- Financial Times; [Call for Government Action on Climate Change](#), 12 July 2009
- Professional Pensions; Schemes press consultants to consider climate change in recommendations, 13 July 2009
- Financial News; Investors Given tips to ensure managers abide by PRI, 16 July 2009
- Financial Times; [Emerging market for medicines](#), 4 August 2009
- Financial Times; [Eckoh in battle for control of the company](#), 9 August 2009
- Ted Allen Blog; [Investors and Companies Debate Access](#), 25 August 2009
- Ethicalcorp.com; Responsible Investment and Climate Change: Addressing the limits to engagement, 7 September 2009
- Jerusalem Post; Is Israel ready for responsible investment?, 9 September 2009
- Jerusalem Post; [Might motivated investors bring a more responsible corporate environment to Israel?](#), 14 September 2009
- Wall Street Journal; US Pensions Giant backs new SRI principles; 16 September 2009
- Reuters; [Global investors call for binding climate policy](#), 16 September 2009
- Professional Pensions; Investors call for strong and binding global climate change treaty, 16 September 2009
- Financial Times; [Finance groups demand tough climate targets](#), 17 September 2009
- Breaking Views, Global Edition, Spain; UK sticks head above parapet on Bonuses, 5 October 2009
- Financial Times; FTfm [Industry falls short on engagement](#), 18 October 2009
- CFA webcasts; [Perspective of Signatories to the Principles for Responsible Investment](#), October 2009
- Responsible Investor; [Investors failing to see incremental climate change costs because of 'extreme' event focus](#), 23 November 2009
- Reuters; [UK firms fail to take climate change risk seriously](#), 23 November 2009
- BusinessGreen.com; UK firms guilty of ignoring climate risk, 24 November 2009
- IPE; [Walker Review calls for Investors' stewardship code](#), 26 November 2009
- Financial News; Walker response roundup, 26 November 2009
- Responsible Investor; [UK investors split on key Walker recommendations](#), 26 November 2009
- Greenbiz.com; [Four studies that ponder the road from here](#), 30 November 2009
- Financial Times; [FT interview with Roger Gray](#), USS CIO, November 2009
- Ethical Corporation; [The climate change adaptation imperative: the investor perspective](#), November 2009