

## **APPENDIX G: LEARNING REVIEW WITH EXTERNAL FUND MANAGERS**

### **1 Objectives of the review**

Following the review of how USS Ltd's London Investment Office (LIO) dealt with corporate governance and corporate social responsibility (CSR) issues, it was agreed that there should be a similar evaluation at the schemes' external managers. The objectives of this review were :-

- To gain assurance that the external managers are complying with the requirements set out in the statement of investment principles (SIP) and
- To arrive at an opinion as to current best practice in this area, so as to facilitate mutual learning by the managers.

### **2 Method**

All the Scheme's investment managers were covered in this review, given that the trustee's responsibility extends to all. Fund managers were sent a standard set of questions, and the majority provided substantive written feedback. These documents were reviewed prior to on-site visits by USS Ltd's internal audit manager and senior corporate governance and social responsibility adviser. Senior staff at each manager were interviewed in visits lasting up to one day each.

### **3 Summary of findings**

All USS Ltd's managers were taking some steps towards addressing material corporate governance and CSR issues into their investment process. However, there are variations in the approaches taken to address these issues including the:

- staffing levels and experience of the staff involved
- apparent levels of management support
- levels of integration with fund managers
- areas of focus, where some were more confident on corporate governance than CSR issues, whilst for others, the reverse was the case.

### **4 Next steps**

We have undertaken to provide detailed feedback to each manager on the strengths and weaknesses of their approach as we saw it and also to provide, in an anonymised format, comparison with the other managers. If the committee adopts the Institutional Shareholders' Committee (ISC) principles for its managers, this will re-inforce the value of the above feedback, not least as many of the fund managers will review their strategy and resourcing in light of the ISC recommendations.

From this comparative assessment, we consider there to be three dominant resistors to desirable progress and we believe that USS can play a small part in addressing this challenge:

- Lack of informed client demand: A consistent message from all interviewees was that this was the most searching evaluation exercise that they had been through, investment consultants included. Given that it is in USS's interests to see other players working in this field, we will share this evaluation methodology (but not the results) with peers and advisors.
- Lack of investment-relevant research: Interviewees agreed that broker research addresses these issues poorly. Whilst no one fund manager is important enough to warrant special servicing, we think that brokers could be motivated to respond to a joint articulation of need and we will therefore explore what role USS could play in such a project.
- Worldviews about and understanding of the investment implications of CSR: Some interviewees seemed confused about the difference between ethical investment done on moral grounds and USS Ltd's approach (which focuses on long-term risk management and objective standards of good practice). We will apply the expert and exploratory approach which has been used previously (e.g. the climate change event and the joint conference with RIIA) to address this factor.