

**Letter to USS' US Portfolio Companies (where relevant) on  
Majority Voting & an Advisory Shareholder Vote on Pay**  
30 January 2008

Universities Superannuation Scheme Ltd (USS) is the second largest pension fund in the United Kingdom, with assets of over \$60 billion. As an institutional investor that takes seriously its fiduciary obligations to its beneficial and institutional members, USS aims to be an active and responsible long-term shareholder of companies in which it invests. The Fund has a commitment to encourage good corporate governance and responsible corporate behaviour which is based upon the view that the management of such issues is good for long-term corporate and stock price performance.

USS owns XXXX shares and would like to draw your attention to certain corporate governance practices that we see as undermining alignment of the board and management with shareholder interests. We would welcome the board's views on whether it shares these concerns and how it intends to address them.

Majority Vote Standard

The company currently utilizes a plurality vote standard for election of directors, which allows a candidate to be elected in a situation where more votes are withheld from than cast for the director. We note that recent amendments to the Delaware General Corporate Law and the Model Business Corporation Act authorize majority voting, which requires that a candidate receive a majority of votes cast in a non-contested election. In addition, 67 percent of companies in the S&P 500 and 57 percent of companies in the Fortune 500 now have majority voting policies. Shareholder resolutions asking that companies move to a majority vote standard received average support of more than 50 percent during the 2007 proxy season, with votes for the resolution as high as 85 percent at International Paper. Both of these developments illustrate the trend toward a majority voting standard at US companies.

In the UK, we have operated under a majority vote standard for election of directors for years and have not found it to be disruptive. To the contrary, there have only been a handful of situations in the UK where candidates failed to receive a majority vote in the last five years. USS believes the majority vote standard has encouraged better communications between shareholders and directors and helped to strengthen alignment of interests. Other democracies, including Australia, New Zealand, Germany and France, also use a majority vote standard for election of corporate directors, as did most companies in the United States prior to a previous law change in 1987.

USS sees the plurality standard as a potential indication of an unresponsive board and believes that adoption of a majority voting standard for director elections at the company would better serve shareholder interests over the long term. We believe the company should join the majority of its peers and consider adopting the majority vote standard

Advisory Shareholder Votes on Executive Compensation

As you may know, the UK has had an advisory shareholder vote on company executive compensation reports since 2003. Current research from Columbia University and the Harvard Business School on the effect of these votes in the UK determined that they have helped to align executive compensation with company operating performance. In addition, a study by Deloitte found several positive changes to be associated with advisory votes on remuneration at UK companies:

- Links between pay and performance have increased, with more meaningful performance conditions attached to incentive compensation;

- Highly dilutive stock option plans are being replaced by share grants with performance triggers;
- Payout levels for achieving only average performance have declined;
- The quality of reporting on compensation has improved.

We believe adoption of advisory shareholder votes would be well received by investors and could add value to US companies. USS has found that many compensation committee chairs in the UK now welcome advisory votes as an effective counterbalance to management pressures on compensation issues. Most importantly, the quality of interaction between compensation committees and large investors has improved dramatically since adoption of the advisory vote. The then, UK Department of Trade and Industry, even said it viewed the process as having a positive impact on strategic planning at companies by encouraging alignment of compensation incentive schemes with long-term goals.

The advisory shareholder vote leaves authority for compensation decisions solely in the hands of the board and its compensation committee. However, it gives a voice to all shareholders, which can serve as a counterbalance to vocal, short-term activists; foster a pay-for-performance company culture that ties compensation to building long-term value; and give shareholders an alternative to voting against director candidates in order to address compensation practices. It also provides the board with input on how the market evaluates their executive compensation decisions. As a matter of good governance, we believe directors should be held to a high standard of accountability for linking their compensation policies and decisions with the company's business strategy and performance.

There is a global trend toward use of shareholder votes on executive compensation. Practices similar to those in the UK have been implemented in Australia, the Netherlands, South Africa, Norway and Sweden in the last few years.

Shareholder resolutions seeking adoption of advisory shareholder votes on executive compensation received a majority vote at seven US companies during the 2007 proxy season. Policies adopting the process have been put in place by boards at Verizon and Aflac.

Given the demonstrated benefits of an advisory shareholder vote on executive compensation, we believe it would have a positive impact on alignment of management interests with long-term shareholders at the company. USS would like to see a policy requiring an advisory shareholder vote on executive compensation to be adopted by the board.

I hope that this letter provides an insight to USS's viewpoint on these issues. However if there are particular reasons why adoption would not be suitable for XXXXX or you would like to discuss this matter further, please contact my colleague Daniel Summerfield, our Co-Head of Responsible Investment, or myself as we would welcome your views.

Yours sincerely

**Jason Fletcher**

Head of Americas Equities

Universities Superannuation Scheme Ltd

99 Bishopsgate, London EC2M 3XD, United Kingdom

Tel +44 (0)20 7972 0300 (switchboard)