

2002 quarter 1 voting reports

The SRSI team produce quarterly reports for the Investment Committee on which the following is based.

Socially Responsible and Sustainable Investment Activities

Quarter 1, 2002

1 Climate change

This has continued to be a major priority for the SRSI team with USS Ltd taking on an initial co-ordinating role for an emerging network called Institutional Investors Group on Climate Change (IIGCC). The full group met once in the period of this report, and the four workstreams (engagement with companies, properties, engagement with public policy and fund management issues) have met more frequently. USS Ltd is a member of three workstreams and has taken the co-ordinating role in one (the public policy workstream), arranging meetings with public policy experts. This has helped to define key areas of activity for the group.

USS Ltd also participated in a subgroup which has developed a draft management structure for the IIGCC, and a set of aims and objectives which was accepted in early April. USS Ltd will continue to play a significant role but has sought to share the leadership tasks with other funds. Despite the commercial difficulties of resourcing a collaborative initiative which does not generate short-term benefit for individual organisations, USS Ltd is pleased that several other institutions have already committed resources to making this initiative happen.

The SRSI team has also met with the following organisations with regard to climate change and or energy issues:

- **Ballard:** A joint meeting with the LIO Fund Manager was held to assess the position and likely progress on hydrogen fuel cells. Ballard develop, produce, and supply fuel cell technology to a number of sectors (auto, stationary power sources etc.), and the technology is expected to play a key role in a shift to a lower carbon future.
- **The Carbon Trust:** The team met with the chief executive and management of the Carbon Trust, a government funded body established to help business prepare for a low carbon future. The meeting covered the role of the Trust and the likely implications of its activities for shareholders.
- **AWG:** The team met with the Sustainability Manager of the Anglian Water Group (AWG) to discuss the implications of climate change for the company and the water sector. This sector is under particular pressures in its response to climate change, as changing climate affects both resource supply and infrastructure and the company is a recognised leader.

- Ethics for USS: The team met with Ethics for USS to outline developments vis a vis IIGCC and related company specific projects.

2 Institutional Investors Group on Burma (Myanmar)

USS Ltd hosted a joint meeting between one of the oil and gas companies operating in Burma and the other funds involved in this initiative. The company was represented by a senior member of staff. The two hour discussion focussed on the particular risks associated with working in this country. Further meetings with the other oil and gas companies who have operations in Burma are planned but our preliminary conclusion is that this company has scope for improvement. Follow up contact will be made once USS Ltd has a clearer idea of benchmark standards for this sector.

3 Investment related advice

The SRSI team has continued to respond to requests or suggestions made by LIO fund managers. In one case, a fund manager requested the teams' input in advance of a proposed purchase of a textile company. The fund manager and an SRSI adviser held a telephone conference with a senior manager of the company and the broker. An engagement strategy has been developed should USS Ltd purchase this or other related companies.

4 Learning review

USS Ltd have recently undertaken a learning review to evaluate its SRSI activities over the first year of its SRSI Strategy. This review was undertaken by an external consultant and USS Ltd's internal auditor. The SRSI team have been actively engaged in considering how best to respond to the findings and will be reporting on this work to USS Ltd's Directors and staff, its external fund managers and also to interested non-governmental organisations over May and June.

5 Oil & gas sector

In line with the priorities set in the SRSI Strategy, the team has continued to focus on this sector and on those issues that could have greatest significant shareholder or governance implications. These are:

5.1 Climate change

The team has drafted a risk assessment model for evaluating the exposure of the oil and gas sector to reputational risks associated with responding to climate change. This model will be circulated to peers and companies in the sector for comment in April, and then applied to individual companies on a rolling basis. The results of these assessments will be reported to the Investment Committee meeting in November.

5.2 BP

BP faced a shareholder resolution at its April AGM which requested the disclosure of risk assessment information associated with access to protected

areas. The SRSI team met with the sponsors of the resolution, and participated in three meetings with senior management. Whilst BP has yet to address some important risks, the company has taken significant steps to meet the requirements of the resolution. Based on engagement activities over the last 18 months which indicate that the company is an obvious CSR leader in its sector, these actions led USS Ltd to vote with management.

5.3 ExxonMobil

This company is facing eight shareholder resolutions at its May 2002 annual general meeting questioning its corporate social responsibility and its corporate governance. An additional resolution requesting a division of responsibilities between the CEO and chairman of the company was disallowed by the US Securities Exchange Commission. From this level of shareholder activism, it is clear that this company faces significant challenges to its reputation on CSR and corporate governance issues. In order to evaluate merits or otherwise, of these resolutions, USS Ltd is collaborating with a number of UK shareholders. Specifically, USS Ltd is hosting meetings with senior company executives and with the primary activist group. The outcome of these actions will be reported at the July meeting of the Investment Committee and subsequently on this website.

5.4 Total Fina Elf

The SRSI team met with senior management to evaluate the company's Environmental, Health and Safety performance, with particular focus on climate change and the Toulouse accident. USS Ltd and the company are in discussions about performance on several issues.

6 Pharmaceutical sector

In collaboration with Friends Ivory Sime, USS Ltd is developing a project which would allow CSR benchmarking process for pharmaceutical corporations. This project seeks both to engage the active collaboration of pharmaceutical companies and create a benchmark which has wider credibility.

7 Property portfolio

USS Ltd is undertaking an assessment of its SRSI policies and practices in relation to its property portfolio. This assessment includes an evaluation of key health and safety issues as well as environmental management. Specialist consultants in each area have been appointed and are working with USS Ltd staff and external agent.

8 Public presentations

USS Ltd has continued to accept speaking engagements where there is a likelihood of being able to share experience with other significant pension funds or with large fund managers who are seriously interested in developing their SRI capacity, or where we can efficiently influence corporate behaviour. Such meetings allow USS Ltd to contribute to the wider development of SRI and expand our networks for collaboration.

- Pensions Trustee Circle (13-14th January). This network consists of trustees of leading pension funds and USS Ltd spoke on its experience of doing SRSI engagement.
- A major annual conference at Chatham House, European Pensions 2002 (11-12th February). USS Ltd spoke on The Rise of SRI: a European perspective
- Business in the Environment's annual conference (26th February). USS Ltd chaired a panel discussion on Communicating the value of corporate responsibility to investors.
- Forum for the Future/Higher Education Partnership for Sustainability seminar (5th March) for HE Finance Directors. USS Ltd described how institutional members are and can further support SRI.
- A private meeting of senior staff from Wellington Fund (5th March). Wellington has client assets under management totalling over US\$320 billion and is considering developing an SRI function.
- An interview for BBC TV (Breakfast News on 25th February) which covered the decision by Calpers to exclude certain countries based in part on social risk factors.

9 Miscellaneous

9.1 Responsible Shareholder Network

USS Ltd has joined a network of more than 20 institutional investors who have agreed to co-ordinate in an informal manner and share learning on SRI issues and explore joint engagement activity. This parallels the work of a similar forum on corporate governance issues. The network will meet every two or three months and has been initiated by one of USS's external fund managers, Baillie Gifford.

10 Corporate governance related engagement and voting

10.1 General Issues

Company responses to USS Ltd's Governance Policy

A letter from the Chairman of USS Ltd was sent to the chairman and company secretary of all UK investee companies, around 900 in total, together with a copy of USS Ltd's new corporate governance policy. At the end of March nearly 80 responses had been received. This prompt and high-level response indicates the value of engagement activity. The primary area where corporate practice diverged from USS Ltd's policy is over the definition of independence and it will be possible to assess next year whether or not this improves.

Electronic voting system

USS Ltd has now incorporated a web-based voting system which will allow USS Ltd to focus its attention only on non-standard issues. It will also make voting, reporting and auditing easier and more reliable. It will also allow for the possibility to amend votes close to the AGM to take account of shifts in corporate positions as a result of engagement activity.

10.2 Company specific

Ericsson (Scandinavia) - AGM 27 March 2002

USS Ltd voted in favour of a shareholder resolution asking the company to provide all shares with equal voting rights by removing the distinction between 'A' and 'B' shares. It is good practice to have only one class of shares with all shares having equal voting rights.

Xaar plc AGM 26 March 2002

After discussions with senior management, USS Ltd voted for the re-election of a non executive director aged over 70. USS Ltd suggested some actions which would provide re-assurance and it will monitor developments at next years AGM.

easyjet plc AGM 15 March 2002

USS Ltd abstained from the re-election of 2 non-executive directors on independence issues, and the re-appointment of auditors because of the level of non-audit fees relative to the value of the audit and the lack of explanation for this. It also expressed concern about the lack of performance criteria in relation to bonuses and failure to put the remuneration report to the vote.

Gyrus Group PLC EGM 20 February 2002

USS Ltd voted against all the resolutions, which related to changes to the share option scheme and a proposal to adopt a new US stock plan. The former exceeded ABI guidelines on individual participation limits and the latter did not have sufficient performance criteria.

BHP-Billiton meeting following representations made before AGM on 19 October 2001.

USS Ltd met with a senior executive to discuss issues of transparency on areas of divergence from good practice standards on corporate governance. A further meeting is to be held later in the year with the Chairman.

April Events

The following engagements have also taken place but relate to events for April and will be reported fully in the next report:

French Connection EGM 4 April

Communis plc AGM 11 April

British American Tobacco AGM 16 April

No of events voted	UK Month	Overseas Month	Total Month	Total Year to date	No @ variance with policy *
Jan	48	0	48	48	0
Feb	46	0	46	94	0
Mar	36	1	37	131	0
Apr					
May					
Jun					
Jly					
Aug					

Sep					
Oct					
Nov					
Dec					

* Variances to policy are reported separately in the summary to the Investment Committee