

SOCIALLY RESPONSIBLE AND SUSTAINABLE INVESTMENT REPORT **REPORT FOR PERIOD JULY – SEPTEMBER 2002**

This quarter's report is in a new format. The intention is to be brief whilst also allowing for meaningful accountability and strategic oversight.

This new format has four parts:

- Decisions required are the decisions that the investment committee is being asked to take, together with our recommendations.
- Key External Developments outlines significant corporate governance or corporate social responsibility issues/events.
- New Projects describes projects which are about to be or which have been recently initiated.
- Activity Report covers the work undertaken in the last quarter, in this case July to September 2002.

The main report is highly summarised to fit on to two pages and hence, there are also detailed appendices. Most of these will not be sent to Committee members but will be tabled and also available prior to the meeting on request. If appendices are included, this indicates that we think that they will be of general interest.

1 Decisions required and recommendations for approval

- 1.1.1 The Institutional Shareholders' Committee (ISC) has recently published a new statement of principles on shareholder activism. The principles aim to provide a comprehensive statement of best practice governing the responsibilities of institutional shareholders and managers in relation to the companies in which they invest. It was recommended and agreed that USS Ltd should: endorse the Institutional Shareholders Committee (ISC) guidelines for activism; ask existing fund managers to explain their position on the guidelines; indicate that it expects disclosure by its fund managers on voting and engagement; and include the ISC guidelines as part of the terms of any new contracts (see Appendix A).
- 1.1.2 The learning review with external fund managers has highlighted the need for USS Ltd to upgrade its guidance on social, environmental and ethical (SEE) issues in order to ensure that they are approached more systematically. It was recommended and agreed that USS Ltd should: review its corporate governance policy on SEE management to include reference to the OECD guidelines for multinationals (see Appendix B).

2 Key External Developments (Appendix C)

- 2.1.1 This briefing covers: the weak equity market and its link to corporate governance reforms in the US; the Hermes Principles; the World Summit on Sustainable Development; and asbestosis.

3 New Projects

- 3.1 US corporate governance practices: In collaboration with RailPen, USS has commissioned a comparison of corporate governance practices in the US and UK. The study will examine the differences in the history and impact of corporate governance developments in the two countries and will provide an action plan for UK institutional investors who seek to safeguard their assets in the US market (Appendix D).
- 3.2 Pharmaceuticals and responsible practice in emerging markets: In partnership with ISIS Asset Management, USS Ltd has started a project to understand what corporate responsibility by the pharmaceutical sector in emerging markets means in practice, and how companies can best be compared on this issue. The objectives are to develop a framework which defines what is acceptable and practicable and which helps pharmaceutical companies explain their actions to external audiences. This will be done taking into account the views of companies and other informed stakeholders (Appendix E).
- 3.3 The business and investor response to the HIV/AIDS pandemic: In partnership with Global Business Coalition on HIV/AIDS (GBC) and Innovest, USS Ltd has initiated a study into how multinational corporations are taking action on the HIV/AIDS pandemic. Starting with a targeted pilot project, this study will look at how well companies are identifying, managing and reporting the risks and opportunities associated with HIV/AIDS to their workforces, suppliers and markets. The intention is to stimulate more active board-level consideration of HIV/AIDS by companies and institutional investors as a result of determining the financial risks and benefits involved. The pilot project will allow the development of a methodology for the full study (Appendix F).

4 Activity Report

- 4.1 Learning review with external fund managers: The review has now been extended beyond LIO to include all USS Ltd's external fund managers (see Appendix G).
- 4.2 US corporate governance practices: Given a disappointing response from US investee companies to USS Ltd's letter, further effort has gone into raising awareness of neglected aspects of corporate governance reform (i.e. the risks associated with an over-dominant CEO-Chairman) through a submission to the NYSE, a letter to the FT (on succession planning) and other media coverage (Appendix H).
- 4.3 Climate change: The IIGCC has met with companies from the water and retail sectors, and developed links with US institutional investors. The IIGCC Steering Committee is establishing a secretariat to support a more active programme of work (Appendix I).
- 4.4 Oil & gas sector: In collaboration with other fund managers, USS Ltd commented on ExxonMobil's first CSR report (Appendix J).

4.5 Property portfolio: Environmental Governance have submitted a draft report on the SRI aspects of property investment and this is being considered by LIO. SRSI staff have reviewed progress on Health and Safety management issues with Jones Lang La Salle (Appendix K).

4.6.1 Other activities: (Appendix L).

4.7 Public presentations and media coverage: (Appendix M).

Corporate Events 2002

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	140	0	140	271	0
May	224	3	227	498	0
Jun	65	1	66	564	0
July	163	0	163	727	0
Aug	35	0	35	762	0
Sep	59	0	59	821	0
Oct					
Nov					
Dec					

* Any variances to policy are reported separately (Appendix N).