

SOCIALLY RESPONSIBLE AND SUSTAINABLE INVESTMENT REPORT REPORT FOR PERIOD OCTOBER – DECEMBER 2002

1 Decisions required and recommendations for approval

- 1.1 The ABI and NAPF have recently published a joint statement on best practice for executive contracts and severance in order to make companies aware of the expectations of, and to inform voting decisions, by shareholders. It was recommended and agreed that USS Ltd should: endorse these guidelines and use them in USS Ltd's voting decisions (Appendix A attached).
- 1.2 USS Ltd has recently supported a position paper drafted by Schroders which proposes best practice guidelines for audit committees of UK quoted companies. These guidelines provide institutional investors with a benchmark against which they can assess the quality and nature of company disclosures and so help support informed dialogue with companies. It was recommended that USS Ltd should: strengthen its corporate governance policy on audit committees in line with the recommendations put forward in this document (Appendix B attached). This was agreed and will be reviewed in light of a formal evaluation of this and other recommendations.

2 Key External Developments

- 2.1 This briefing covers latest developments with regards to US corporate governance (where there has been very active rulemaking), and the negative market sentiment (which raises questions about how long-term market players should be responding), (request appendix C).

3 New Projects

- 3.1 Transatlantic corporate governance forum: In light of the discussions held at a USS Ltd seminar on US corporate governance (see section 4.1), USS Ltd has begun exploring the value and viability of an on-going channel of communication to facilitate dialogue between the UK and US investment communities on governance issues.
- 3.2 A competition to promote new thinking: USS Ltd has launched, in partnership with other respected organisations, a competition to simulate fresh thinking about how long term out-performance and responsible investing (ie, consideration of corporate governance and corporate social responsibility) can be integrated into the core business model of pension fund management (further information on the competition is available on the USS internet site at:
http://www.ushq.co.uk/special_interest_groups_index.php?name=SPECIAL_INTEREST_GROUPS)

4 Activity Report

- 4.1 US corporate governance: USS Ltd has: hosted a seminar in December for institutional shareholders to explore latest developments and concerns in the US (request appendix D); initiated a co-ordinated shareholder submission to the SEC on its proposals to require investment managers and advisers to disclose their proxy voting policies, records and conflicts of interest (request appendix E); and supported the decision by the NAPF and ABI to endorse the Conference Board's Commission with regards to their recommendations on separating the roles of CEO and Chairman (request appendix F).
- 4.2 Submission to FSA on independent research: USS commented on the FSA Consultation on Investment Research: Conflicts and Other Issues. The main focus of the consultation paper was on overcoming the conflicts of interest inherent in the current broker / analyst system (request appendix G).
- 4.3 HIV/Aids project: Co-sponsored by ISIS, the objectives of this project are: to understand and, where possible, quantify the potential impact of HIV/AIDS on profitability and long-term shareholder value; and understand what constitutes company good practice in relation to HIV/AIDS in the workplace (request appendix H).
- 4.4 Climate change: USS Ltd has been appointed Interim Chair of the IIGCC Steering Committee. Together with arranging secretariat support via the UK Social Investment Forum, steps are being taken to support a more active programme of work in 2003 (request appendix I).
- 4.5 Oil & gas sector: In collaboration with other fund managers, USS Ltd met with ExxonMobil to discuss the company's 2002 CSR report. In addition, the SRSI team also participated in discussions with BP regarding the Health & Safety and maintenance of the company's Alaskan operations (request appendix J).
- 4.6 Pharma project: In collaboration with ISIS, and after consultation with a wide range of organisations, USS Ltd has developed a framework of good practice for how pharmaceutical companies can best respond to the risks related to the public health crisis in emerging markets. This will be launched in March 2003 with the support of other investors.
- 4.7 Property portfolio: Environmental Governance (now renamed Upstream) submitted their report on SRSI within the property investment portfolio, and presented the key findings of the report to LIO staff (request appendix K).
- 4.8 Other activities: (request appendix L).
- 4.9 Public presentations and media coverage: (request appendix M).

Corporate Events 2002 (request appendix P)

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	44	0	44	865	0
Nov	66	0	66	931	0
Dec	54	0	54	985	0

* Any variances to policy are reported separately (request appendix P).