

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval

As agreed by the IC, of LIO has developed a policy for voting US proxies and appointed a consortium of service providers, led by Manifest, for the research provision and vote execution. It is recommended that USS Ltd note the appointment and approve the proposed voting policy (see Appendix A attached).

The IC requested an updated UK corporate governance policy to reflect the revised Combined Code, which will come into effect at the end of November 2004. USS's UK voting service provider is still in the process of preparing a revised voting template which will incorporate the revised Combined Code. This and USS's policy will be presented at the next IC meeting.

2 Key External Developments

The UK Government has made clear its assessment that the UK pension industry, as a whole, is not responding to the Myners recommendations as proactively as was hoped for. The areas of most concern are asset allocation, clarification of role of investment advisors, activism and trustee training. The Treasury convened a meeting of the five largest pension funds in the UK, which was attended by USS's Chairman, to identify ways forward. Follow-up meetings are planned which will be attended by the CEO and CIO.

3 New Projects

There have no new projects for this quarter.

4 Activity Report

4.1 Post Competition follow-up: The Competition has been a catalyst for several projects including a website discussion forum hosted by the UK Social Investment Forum (to focus in more depth on particular issues and proposals, see <http://www.uksif.org/Z/Z/Z/webx/main/index.shtml>) and a network of pension fund decision-makers (trustees and senior executives) who want to take forward the thinking in their own organisations (this network will called the Marathon Club and will be led by Hewitt Bacon & Woodrow). USS has been asked to present its thinking at several fora including the Alliance for Finance 2004 conference (for member nominated trustees and others from unions active in the financial sector) and Conference of Major Superannuation Funds (CMSF) in Australia (for presentation, request Appendix B). The theme of CMSF 2004 – "Sustainable Super: Running the Marathon" – was heavily influenced by the Competition and USS was as one of the two international organisations invited to speak. Watson Wyatt have also produced an in-depth paper on implications for pension funds who want to take a more long-term view (request Appendix C). These projects have already and will continue to contribute to USS's own thinking about the issues raised by the Competition.

- 4.2 International collaboration on Corporate Governance: USS co-convened two separate meetings with US, UK, Canadian and Australian investors to develop further the International Forum for Active Shareowners (IFAS) as a vehicle to coordinate international engagement activities. The meeting in the US with American, Canadian and UK Funds was co-hosted with the New York State Common Retirement Fund and funded by the Nathan Cummings Foundation. The Australian meeting was organised by the Australian Council of Superannuation Investors. The two meetings focussed on achievements to date (Appendix D) and considered an independent analysis of the proposed next stages in the development of IFAS (Appendix E). The US meeting also explored the value and practicability of joint action between US and non-US institutional investors on the problems related to the absence of independent Chairmen in most US corporations. Interested institutional investors will be invited to formalise their relationship with IFAS and external funding will be sought to pay for the coordination costs of this project (ie USS will not be the coordinator).
- 4.3 Climate change: IIGCC's 2003 conference, at which USS's Chairman was one of the speakers, was a considerable success (for conference report request Appendix F). The IIGCC continues to grow, and now has 22 members. The Steering Committee (on which USS has two places, one co-opted) has been busy with planning activities for the rest of 2004. The Company Engagement Workstream has decided to focus on sector affected by the European emissions trading scheme (the construction material, chemicals and metals and mining sectors). The Public Policy Workstream has continued meetings with government including No10 and the Australian Greenhouse Office. The Properties Workstream co-hosted an awareness raising seminar with the Investment Property Forum (IPF) for over 70 investment property professionals (request Appendix G). Closer links are being developed with the sister body in the US, the Investors Network on Climate Risk. USS has played an important role in stimulating discussion in Australia about the value and viability of a parallel project in that continent (request Appendix H).
- 4.4 Pharmaceutical companies and the public health crisis in emerging markets: USS and other members of the Pharmaceutical Shareowners Group have now met with senior representative from Astrazeneca, BMS, GSK, Merck, Pfizer, and Roche. This has been an extremely productive exercise in evaluating management in a comparative fashion and a report will shortly be available (see www.pharmaproject.org).
- 4.5 Pharma Futures: Foundation funding has been secured from the Rockefeller Foundation, the Nathan Cummings Foundation, and the UK Government's Department for International Development and this accounts for over 70% of the total budget of nearly US\$480,000. The remainder is coming from members of the working group and any shortfall will be met by reduced activity from the consultants. The first meeting will be on May 27th and hosted by Lehman Brothers. Interviewing of experts around the world, to feed into the scenario process, has begun.
- 4.6 Oil & gas sector: A member of the RI team met with BP staff and others to discuss continuing issues associated with the development of the BTC oil pipeline. In addition, in association with another member of the IIGCC, a meeting took place

with a senior advisor to BP on the company's views on climate change policy, Kyoto, and the European carbon emissions trading scheme. The RI team was also present in a meeting with a UBS senior oils analyst arranged with LIO's US team.

- 4.7** Property portfolio: Following meetings with the fund's main agents, the key areas for focus with respect to incorporating responsible investment and management of USS's property portfolio have been identified for 2004. These include provide information and training to building and facilities managers, integrating environmental and social considerations into the selection and ongoing management of contractors and suppliers, and reduce as far as is reasonably practicable the consumption of energy and water and minimise the production of waste and dispose of the rest according to good environmental practice (for more information, request Appendix I).
- 4.8** Supporting institutional capacity on RI: In line with USS's commitment to collaboration, the RI team have focused this quarter on supporting Canadian investor and policy efforts to mainstream responsible investing. This entailed a member of the RI team speaking at a conference on the investment implications of climate change for the Canadian Social Investment Organisation. USS also spoke at the GLOBE 04 conference in Vancouver on Sustainability Reporting for Investors on 'Corporate Reporting - Trends In Transparency', funded by the Canadian Government. Other speakers at this conference used USS and the Competition as a case study of how investors need to begin to address RI issues. The RI team have also contributed to the National Roundtable on the Environment and the Economy inquiry, set up at the request of the Canadian Prime Minister, into whether and how to implement an SRI disclosure regulation. Other presentations were to an ISIS / Corporation of London conference for trustees on RI and engagement issues, and to a corporate governance audience on the investment implications of climate change at a seminar organised by the IRRC.
- 4.9** Other activities including Public presentations and media coverage (request Appendix J).

5. Corporate Events 2004

No of events voted	UK Month	Overseas Month	Total Month	Total Year date to	No @ variance with policy *
Jan	57		57	57	
Feb	47		47	104	
Mar	57		57	161	
Apr					
May					
Jun					
July					
Aug					