

RESPONSIBLE INVESTMENT REPORT FOR PERIOD APRIL – JUNE 2003

1 Decisions required and recommendations for approval

In light of the deterioration in the social, political and security situation in Burma, it is clear that the risks to corporations associated with operating in this country have increased substantially. It is therefore recommended that USS Ltd should: make clear to relevant investee companies our judgement that they are now exposed to substantially greater risks than before and make a formal request for a thorough risk re-assessment of the benefits of staying in Burma versus leaving (Appendix A attached).

2 Key External Developments

The G8 meeting in Évian in June acknowledged the importance of transparent corporate governance practices as one of the factors critical to achieving and maintaining economic growth, and also commented on the importance of corporate responsibility (request Appendix B).

3 New Projects

Priority Responsible Investment activities were agreed at the last IC meeting and no new projects have been initiated this quarter.

4 Activity Report

- 4.1 US corporate governance: Preparations are well underway for the organisation of the governance summit. To date, over 20 people have accepted the invitation with participants coming from US, UK and the Netherlands. The Nathan Cummings Foundation generously agreed to cover the costs of the event. A discussion paper will be circulated to delegates by the end of July which will include issues for considerations, feedback from which will be incorporated into a draft framework of best practice.
- 4.2 Executive remuneration: USS have been involved in the consultation process initiated by GSK, following their AGM at which the majority of shareholders voted against the remuneration report. Members of the RI team met with Deloitte & Touche, independent consultants to GSK, and the chairman of GSK and interim chairman of the remuneration committee. USS provided GSK with a paper highlighting how remuneration could be linked to long-term shareholder wealth creation. USS is currently evaluating this experience as a model for future engagement activities on pay.
- 4.3 Learning review of external fund managers: USS's Internal Auditor presented the methodology used for this review to specialists at a major European SRI conference. A manual is being created for other pension funds and investment consultants who want to evaluate fund manager performance.

- 4.4 Climate change: USS Ltd has maintained its leadership and management with two steering committee members in the IIGCC. The Group's membership has again increased, and the workstreams are becoming increasingly active, for example, holding a meeting with senior civil servants to discuss the investment implications of the Energy White Paper (request Appendix C).
- 4.5 Oil & gas sector: A key event of the period was the ExxonMobil AGM, which took place in May. There were twelve shareholder proposals on the proxy paper, covering a broad range of environment social and governance issues. On this occasion, USS Ltd chose to vote with the company on five of the proposals, whilst voting against management on seven. For further details, please request Appendix D.
- USS Ltd also participated in a group meeting with Frank Chapman, Chief Executive of BG group, on the group's management of CSR issues and corporate governance. This meeting enabled the exploration of the commitment of senior management to appropriate management of these issues. BG appears to have strong CSR management programmes in place, and is fortunate from a climate change perspective in that gas, which makes up 70% of its product mix, is lower carbon than either oil or coal.
- 4.6 Pharmaceutical companies and the public health crisis in emerging markets: USS was asked to present its thinking to a private meeting in June of pharmaceutical companies and others who are involved in global public health issues at INSEAD. Preparations for meetings with GSK and AstraZenaca (in July) are underway.
- 4.7 Property portfolio: USS participated in a Buildings Research Establishment (BRE) consultation to identify barriers and drivers for promoting low environmental impact and energy efficient buildings and building management in the investment property sector, and ways to achieve an increase in demand for such buildings. USS also hosted a final group consultation on this project, which enabled others from across the sector to have input into this research.
- 4.8 The Competition: Over 85 entries were received and these are now being evaluated by Hewitt Bacon & Woodrow. Judging will happen over July and August and the awards event will be on October 15th. Ruth Kelly, Financial Secretary to the Treasury, will be invited to make the keynote presentation and the FT has indicated its intention to give the event significant coverage if the entries warrant it.
- 4.9 Other activities: (request Appendix E).
- 4.10 Public presentations and media coverage: (request Appendix F).

5. Corporate Events 2003

No of events voted	UK Month	Overseas Month	Total Month	Total Year to date	No @ variance with policy *
Jan	53			53	
Feb	47			100	
Mar	43	1	44	144	
Apr	127			271	
May	201	1	202	472	
Jun	82			555	
July					
Aug					
Sep					
Oct					
Nov					
Dec					

* Any variances to policy are reported separately (request Appendix G)