

## **RESPONSIBLE INVESTMENT**

### **1 Decisions required and recommendations for approval**

LIO has updated the UK USS Engagement and Voting Policy to reflect the revised Combined Code, which will come into effect at the end of November 2004, and other key developments. As this document will be continually revised to keep up to date with developments as they happen, it is proposed that this document will be entirely web-based and that USS writes to company secretaries of all investee companies to inform them that a new policy has been developed with a web-link to the document.

The Investment Committee provisionally approved the draft Engagement and Voting Policy and the dissemination strategy (see Appendix A), subject to feedback from external commentators who are active in the field. Depending on the nature of the feedback, the final version of the policy will be available on the USS internet site either at or before the next Investment Committee meeting.

### **2 Key External Developments**

USS has now participated in a total of three sessions with HM Treasury focussing on the key Myners recommendations. The areas of most concern are asset allocation, clarification of role of investment advisors, activism and trustee training. LIO undertook a review of the general response to date by pension funds to the key recommendations, focussing on why the current situation is problematic, USS's performance and some ideas for possible solutions (See Appendix B).

### **3 New Projects**

There have been no new projects for this quarter.

### **4 Activity Report**

**4.1. Post Competition follow-up:** The first meeting of the Marathon Club was chaired by Sir Graeme and attended by senior representatives of several UK pension funds. The Club, which is being run in conjunction with Hewitt Bacon & Woodrow has four key objectives: i) Publish a series of practical papers giving guidance on how pension funds can move towards a more long term and responsible investment approach; ii) Create model templates for long term & responsible investment mandates; iii) Support continuous professional development activity for trustees and investment consultants to this end; iv) Encourage pension funds to consider such mandates.

**4.2. International collaboration on Corporate Governance:** A Steering Committee has been set-up to develop the strategy and provide oversight for the activities of International Forum for Active Shareowners (IFAS). The Committee currently consists of representatives of pension funds from Australia, Canada, Netherlands, UK and the US.

Following a request by a US participant in IFAS, USS co-ordinated a global investor response to the US's Financial Accounting Standards Board (FASB) in support of their proposals on expensing stock options. The letter was co-signed by a group of 24

institutional investors from Australia, Canada, Netherlands, Norway, Sweden and the UK, representing approximately US\$3.5 trillion of assets. Members of the Steering Group have helped to generate press interest regarding this initiative in their respective countries (See Appendices C&D)

4.3. Climate change: The IIGCC has continued to be active over this period. Focus in the steering committee has been on longer-term strategies for the Group. The engagement workstream has both written to sell side brokers regarding inclusion of carbon risks in analyst reports, and began to engage with construction materials sector companies. The public policy workstream has also been involved in UK government led meetings with representatives from the US congress. For more information, see Appendix E.

4.4. Pharmaceutical companies and the public health crisis in emerging markets: The Pharmaceutical Shareowners Group has completed the engagement phase of this initiative following a video conference with Bristol Myers Squibb in April. Further to these meetings with seven global pharma companies, the group is now undertaking a learning review to identify the key conclusions from the engagement process. A report will be published in September. PSG also recently met with the DFID Access to Medicines Team and HM Treasury representatives to exchange thoughts on the issues raised in the PSG framework

4.5. Pharma Futures (www.pharmafutures.org): The first scenario planning workshop took place in late May and was attended by the Working Group (senior, influential industry and investment figures) together with USS and the other pension funds (ABP and OPERS) which convened this industry-level engagement project. The second workshop will take place in September and it is expected that the results of the scenario-planning process will be launched in a report this autumn.

4.6. Oil & gas sector: LIO has participated in a Case Committee meeting, facilitated by the NAPF, with the Chairman of Shell to raise some of the key concerns to investors, in light of the recent problems, and to explore possible solutions to the governance challenges faced by the company.

4.7. Property: The DTI-funded Kingston University project, in which USS is participating, on how sustainability issues could affect the worth of properties is nearing completion, with the model now developed and undergoing testing. The internal responsible property investment policy is undergoing final internal sign-off following discussions with the fund's main agents.

4.8. Supporting institutional capacity on RI:

At the request of the Chief Executive, the full RI team travelled to the Liverpool office to provide an in-depth briefing on the RI policies and activities. The aim of the meetings, which were attended by all staff, was to make sure that colleagues were aware of the fund's position on these issues in case they were asked by members, and to raise general awareness. Feedback from Liverpool colleagues was very positive.

4.9 Other activities including Public presentations and media coverage:

(See Appendix F).

**5 Corporate Events 2004**

<b>No of events voted</b>	<b>UK Month</b>	<b>Overseas Month</b>	<b>Total Month</b>	<b>Total Year to date</b>	<b>No @ variance with policy *</b>
Jan	57		57	57	
Feb	47		47	104	
Mar	57		57	161	
Apr	138	13	151	312	
May	203	21	224	536	
Jun	92		92	628	
July					
Aug					