

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval

Currently USS does not disclose its voting actions on a company-by-company or resolution-by-resolution basis but rather highlights the number of company meetings at which USS voted per month and where there is divergence from the Policy. Given USS's commitment to operate at or near good-practice standards for RI, this situation deserves attention for the following reasons:

1. It is increasingly seen as good practice that institutional investors disclose their voting actions and it is clear that the government are considering the possibility of requiring investors to do so.
2. As USS discloses the key engagement activities that USS has been involved in, it is logical that USS also discloses votes cast at company meetings.
3. As USS currently discloses voting actions publicly to individuals or organisations who enquire following a company meeting, it would be fairer - and indeed permissible from a policy perspective - if the information was publicly available.

It is recommended that:

- USS moves towards disclosing a more comprehensive record of its voting actions.
- The Investment Committee ask the RI team to propose how this should be done.

2 New Projects

For information, the NAPF is in the process of developing a policy on Responsible Investment. Although the consultation process was somewhat opaque, USS nevertheless submitted comments on the draft policy, which was made public only in the form of a speech to the UK Social Investment Forum. On the basis of several years of engagement with NAPF to no avail, USS's response was robust about their policy, which is weak and many years behind current thinking. A summary of this response is provided (request Appendix A).

3 Activity Report

3.1. Voting and Engagement Policy: USS, in collaboration with other investors, is drawing up a list of companies with which we will seek to jointly engage during the course of the year. The companies are being selected on the basis of i) prioritisation of the key concerns facing individual investee companies highlighted during the current proxy voting season and ii) influence as joint owners of the companies. USS continues to engage with companies which seek to address issues raised in correspondence from USS following proxy votes.

3.2. Marathon Club: The Club has completed its first RI project which looks at investment beliefs of trustees, investment consultants, portfolio managers and RI specialists who are associated with the Club. The results show broad support for a more proactive approach to encouraging corporate governance and corporate responsibility and some interesting differences relating to job functions (e.g., trustees are equivalently supportive of encouraging good CG and CR in investee companies but investment

professionals are less convinced about encouraging good CR than they are of good CG). Despite this positive intent, putting these investment beliefs into practice is, almost uniformly, at an early stage.

3.3. Enhanced Analytics Initiative: The second EAI evaluation took place in this quarter, and the following brokers were identified as the as leaders in the field of inclusion of extra financial issues in mainstream research (in alphabetical order): CM-CIC, Deutsche Bank, DrKW, Goldman Sachs, Sanford Bernstein, UBS. This detailed evaluation was based upon the quality and coverage of their research output between November 2004 and the end April 2005.

Membership continues to grow and notable additions have been Hermes (as a full member) and the TUC Superannuation Society (as an associate member). EAI has also continued to attract significant and positive media coverage, ensuring that the aims of the Initiative are becoming well known across the market.

3.4. International collaboration on Corporate Governance: USS is currently exploring the feasibility of integrating the work and members of the International Forum for Active Shareowners (IFAS) into a similar global group of investors – the Global Investors Governance Network - of which USS is also a member. USS is discussing the desirability of this option with members of IFAS, which should boost the joint impact of all parties concerned.

3.5. Climate change: In April 2005, the membership of IIGCC decided to form a partnership with the Climate Group to boost impact. The organisation is now implementing this decision and appointing a programme director. USS also participated in a UN Investor Summit on climate change. Howard Jacobs represented USS at the event and subsequent press conference (Appendices B and C).

3.6. Linking executive remuneration to responsible long-term corporate success: Discussions with companies and other investors continue on the findings of the joint Henderson-USS report and the feasibility of the integration of integrating extra financial objectives into incentive schemes. In addition, there has been some interest from remuneration and strategy consultants.

3.7. Other activities including public presentations and media coverage (Appendix D).

4. Corporate Events 2005

No of events voted	UK Month	Overseas Month	Total Month	Total Year to date
Jan	50	4	54	54
Feb	46	0	46	100
Mar	37	2	39	139
Apr	139	8	147	286
May	200	15	215	501
June	102	3	105	606