

## 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. Rather the fund discloses the number of company meetings at which USS voted each month and highlights where there is divergence from the voting Policy. Following a request last year from the Investment Committee to look into the feasibility of USS disclosing its voting actions, and given USS's commitment to operate at or near good-practice standards for RI, It is recommended that:

#### **USS discloses a more comprehensive record of its voting actions 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 in which the fund has been involved, it is logical that USS also discloses votes cast at company meetings.
3. USS informs companies ahead of AGMs on intended voting actions. Full public disclosure would therefore seem to be the next step.
4. 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 also recommended that:

**The report would be posted on the RI section of USS's website and updated on a monthly basis. The report would highlight the resolutions which USS did not support and a brief explanation provided for each abstention and vote against.**

### 2. Activity Report

#### 2.1 Enhanced Analytics Initiative

Over the past Quarter, EAI's membership has again increased with MetallRente (Germany) and Investec Asset Management (Anglo / South African). These new memberships take the Initiative's total assets under management to over \$1 trillion. USS also published a separate report. USS also launched a new report "*Enhanced Analytics For A New Generation of Investor*" which examines the reasons why investment professionals overlook extra financial issues in their investment decisions and highlights the investment case for taking a more proactive approach towards integration. The report is available at: <http://usshq.co.uk/enhancedanalytics.php>

#### 2.2 Enhanced Business (post OFR) reporting

Following the abolition of the OFR, and further to the formal submissions that have been made to the DTI and the IASB regarding enhanced business reporting, USS has continued to work with DTI officials, corporates, investors and other interested parties in encouraging the adoption of an alternative model framework. In light of the significant support for the IASB's Management Commentary, as reported in Q1, there are moves afoot to get further endorsement for this framework.

2.3 Executive Remuneration

In light of the expanding list of US companies that are suspected of back-dating executive stock option grants, USS has co-ordinated and submitted an additional joint letter to the SEC. The 14 signatories to the letter, which included investors from the US, Canada UK, Australia and the Netherlands, call on the SEC to incorporate requirements in the final executive compensation disclosure rule to ensure that investors are promptly informed of company policies and practices for the award of equity interests to executives. It was also emphasised that the apparent prevalence of manipulative remuneration practices currently being discovered underscores the importance of proposals for certification of executive compensation disclosures as outlined in previous submissions to the SEC. USS was also part of a delegation to an SEC Commissioner which highlighted growing concerns over these practices and has engaged with several US holdings on this issue. Request Appendix A for a copy of the letter.

2.4. Climate Change

Over the past quarter, the IIGCC has focussed on pulling together an international conference on the investor implications of climate change. The event will take place in October 2006 and will be hosted by BNP Paribas. Former Vice President Al Gore will give the keynote address. If you would like further details, or to attend the event, please let the RI team know. A member of the RI team spoke at two conferences on climate change: one was specifically on investment and climate change, the other was a broad pension and investment conference with a wide audience from across the sector.

2.5. RI Review

Following the commitment made in 2001 within the original RI strategy, a review has been undertaken of the implementation of the RI strategy over the past five-years. This review has been managed by the USS internal audit team in conjunction with an independent consultant who has experience of working with an asset manager. The review has analysed the approach to RI adopted by USS, the RI strategy as it evolved over time, and the views of a large range of stakeholders as to the success of that strategy. These stakeholders include USS Directors, internal LIO and Liverpool staff, and a wide range of external personnel from the RI and traditional investment fields. Based upon this review, a revised strategy for RI is being developed. It is proposed that this strategy is presented to the November 2006 IC meeting.