

## **RESPONSIBLE INVESTMENT REPORT FOR PERIOD JULY – SEPTEMBER 2003**

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

Private litigation and Class Action Suits: The RI team, together with the CIO and LIO US Fund Managers, have been involved in discussions regarding the possibility of joining a private litigation and class action suits in the US. There are currently two proposals, which are not mutually exclusive, that are being discussed.

### **2 Key External Developments**

The Cancun round of the world trade negotiations failed to reach agreement. Developing nation members took a strong and coordinated stand against developed country protection of their own markets, particularly agriculture. The failure of the talks could have implications for world trade and thus investment strategies (request Appendix A).

### **3 New Projects**

One lesson learnt, as a result of being in Pharmaceutical Shareowners Group, is that there are serious concerns about the viability of the business model underpinning “Big Pharma.” USS has, therefore, worked with sector specialists and pension funds to develop a follow-on project which will allow some forward-looking insiders to explore whether there are different models which would deliver more durable shareholder value which better meet society’s legitimate expectations of the sector. This will be a collaborative project with other pension funds, with the strong role for Pharma insiders and funding from external agencies (request Appendix B).

### **4 Activity Report**

4.1 The Competition: Undertaken with Hewitt Bacon & Woodrow, this project was originally conceived to generate new ideas for how USS could overcome the barriers to integrating responsible investment into day-to-day fund management activity. The project has been highly successful on many fronts. 88 entries were received, 8 were short-listed (3 corporate and 5 individual) and at a face-to-face meeting at LIO, the international panel of judges selected Henderson Global Investors as the winner of the corporate award and commended all 5 individuals. The entries can be viewed on the USS internet site (request Appendix C).

The awards event on October 15<sup>th</sup> was attended by 140 pension industry decision-makers. The Financial Secretary to the Treasury, Ruth Kelly MP, gave the keynote speech and announced that the Treasury would sponsor an independent review of this project to extract lessons for the sector as a whole. The project has resulted in extensive media coverage and significantly raised the profile of debate about how short-termism impacts negatively on the fundamental needs of beneficiaries both in terms of financial security and also quality of life, and more important, how these current weaknesses can be addressed. The solutions that have come from this

Competition are very encouraging but as “work in progress”, they will be further developed in the common months. LIO will be briefed on ideas which may be particular relevant to an in-house manager for a long-term pension fund and the learning will be fed into RI’s strategising.

- 4.2 US Corporate Governance: USS convened a meeting of 27 institutional investors (representing \$1.5 trillion of assets) from Europe and US in San Diego in early September. The meeting was for corporate governance activists who wanted to see better coordination between the two investment communities. The focus was on both traditional corporate governance issues as well as corporate responsibility issues. Participants were, in general, very positive about the meeting and there was particularly strong support for sharing information and working collaboratively on a few priority projects (see Appendix D). Since the September meeting, we have had further discussion with Australian and Canadian pension funds who are also keen to co-ordinate. In light of this development, this group will provisionally be called the 'International Forum for Active Shareowners'.
- 4.3 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 to 17. Most significantly, the company engagement workstream has met with a number of companies in the aviation and utilities sectors, and the properties workstream hosted a meeting which encouraged collaboration between property/RI researchers and service providers (request Appendix E).

The IIGCC is also holding a conference on the investment implications of climate change on 26<sup>th</sup> November 2003. This event is being organised with close involvement of the USS RI team. Keynote speakers include Secretary of State Margaret Beckett and Lord Browne, CEO of BP (request Appendix F).

- 4.4 Learning review of external fund managers: As previously agreed, USS has begun sharing its evaluation tool with other pension funds so that fund managers feel clearer client interest (i.e., both more clients but also better informed clients) on corporate governance and corporate responsibility issues. USS’s Internal Auditor presented the methodology used for this review to specialists at a major European pension fund conference and co-presented it with the RI team at an event for member nominated trustees organised by the TUC. A manual has been developed for use by pension funds who have in-house staff or who use investment consultants to evaluate fund manager performance and USS will use the media to raise awareness of this tool (request Appendix G).
- 4.5 Pharmaceutical companies and the public health crisis in emerging markets: USS and other members of the Pharmaceutical Shareowners Group met with senior staff from GSK and AstraZenaca, both of which were productive meetings. Meetings with Aventis and Roche are now being planned. 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.
- 4.6 Oil & gas sector: USS has participated in meetings with BP and other organisations to assess the potential risks to the company associated with the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. A member of the RI team also met (with other

institutional investors) with ExxonMobil to discuss the companies view on technology developments and the responses to the AGM votes. (request Appendix H).

4.7 Awards & Nominations

USS won the award for best corporate governance at the recent Professional Pensions Pension Scheme of the Year Awards. Others funds short-listed for this award were Nottinghamshire County Council Pension Fund and the West Midland Pension Fund. (request appendix I).

4.8 Property portfolio: USS continues to participate in projects where the value of managing and developing properties sustainably are evaluated. In addition, as indicated above, USS hosted a meeting for the IIGCC at which a number of different sustainable property projects met and exchanged ideas about how they could better collaborate and decrease overlap between their projects. The project was successful, which should mean that USS has earlier access to investment relevant analysis and information (more information is provided in Appendix J).

4.9 Other activities: (request Appendix K).

4.10 Public presentations and media coverage: (request Appendix L).

**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		144	
Apr	127			271	
May	201	1		472	
Jun	82			555	
July	162			717	
Aug	29			746	
Sep	45	1		792	
Oct					
Nov					
Dec					