

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval and notifications

There are no decisions required by the Investment Committee this quarter.

Following a year of development and in collaboration with other pension funds and fund managers, USS has initiated a project to encourage sell side analysts to provide better research on extra financial and intangible issues. The Enhanced Analytics Initiative was announced in mid October with press coverage in the FT and formally launched on 2nd November with a briefing to brokers hosted by USS. The project is based upon a commitment by members to allocate 5% of broker fees to those brokers who excel at providing us with analysis of extra financial issues (such as corporate governance, M&A, impacts of climate change, etc) which is integrated into their mainstream research. The other founding members of this project are: BNP Paribas Asset Management (France), PGGM (Netherlands), RCM (UK), AGF Asset Management (France), Deutscher Investment Trust (dit) and dresdnerbank investment management (dbi) (Germany) & Generation Investment Management (UK). This group represents in excess of Euro 350 Billion in AUM, and we are expecting further members to join. A brief Q&A on the project is available (see appendix A).

2 Key External Developments

NewsCorp: A concerted effort by a global alliance of investors led the board of News Corporation to make a number of concessions. This was in light of the significant concerns expressed over the potential weakening of investor rights and corporate governance standards with the proposed re-incorporation of the company from Australia to Delaware (request Appendix B)

3 New Projects

There have been no new projects for this quarter.

4 Activity Report

4.1. Voting and Engagement Policy: Following the Investment Committee's decision to approve LIO's new voting and engagement policy, further consultation was undertaken with other institutional investors to avoid the dissemination of conflicting policies. The final version, which incorporated some minor amendments and had an executive summary, has been signed off by the Management Committee (request Appendix C).

4.2. Post Competition follow-up: USS has continued to play a leading role in the Marathon club: Sir Graeme Davies hosted a meeting of the club in September which was attended by senior representatives of funds including: Coal Pension Trustee Services; Electricity Supply Board; London Pensions Fund Authority; J Sainsbury plc; Shell Pensions Management; Transport for London; and Railways Pensions. Following a consultation with members and potential members, coordinated by Hewitt, Bacon and

Woodrow (who are the secretariat for the Club), it was decided that the priority projects would be as follows:

- What are the main barriers and impediments to long term thinking and approaches?
- What investment belief or world view should pension funds have about the value of good corporate governance and corporate responsibility over the long term?

4.3. International collaboration on Corporate Governance: Following discussions with the Steering Committee of the International Forum for Active Shareowners (IFAS), it was decided that IFAS would go forward as a pension fund network to allow more effective collaborative cross-border institutional investor activism. Fund managers who had shown themselves open to being involved would be invited to participate on a project by project basis. This has been reflected in its terms of reference (request appendix D).

4.4. Climate change: The IIGCC has undertaken the following activities in this period: submitted comments to the consultation on the Operating and Financial Review concerning the carbon risk management and reporting; the engagement workstream has continued its project with construction materials sector and engaged with three companies over the period; the public policy workstream has met with DEFRA to discuss potential activities on investments and climate change during the period when the UK holds the presidencies of both G8 and EU; the property workstream has held a number of meetings with senior personnel from investment property companies to both increase membership of the workstream and to encourage action (request Appendix E). The steering committee has also finalised a long-term strategy and obtained membership approval for this plan.

4.5. Pharmaceutical companies – engagement activities: The PSG released its report “The Public Health Crisis in Emerging Markets: An Institutional Investor Perspective on the Implications for the Pharmaceutical Industry” (available at www.pharmashareownersgroup.com), following engagement with seven companies: AstraZenica, BMS, GSK, Merck, Novartis, Pfizer and Roche. The report highlights the business case for addressing the public health crisis for addressing public health risk in emerging markets, providing a number of clear recommendations for sector.

USS was also a co-signatory of a letter to 17 pharmaceutical companies, coordinated by ISIS Asset Management, to encourage greater disclosure on clinical trials data. The letter highlighted the investor view that transparency regarding clinical trials was essential for accurate valuation and financial risk/reward assessments given the implications of new drug developments on share price, an issue which has become highly topical of late (request appendix F).

4.6. Pharma Futures: Pharma Futures undertook the second and final scenario planning workshop in New York in September 2004. It was attended by Working Group members, the three pension funds that convened the project (ABP Investments, Ohio Public Employees Retirement System and USS) and external experts. The aim of the meeting was to refine and finalise the three draft scenarios. Prior to the workshop, Pharma Futures held a private meeting in London to obtain feedback on the draft scenarios, which was attended by over 20 investment specialists and corporate executives and was chaired by Sir Christopher Hogg. The findings of the scenario planning process will be published in the early December. USS has played a very active role in this process, including

contributing a discussion paper about what might constitute an appropriate remuneration culture for the Pharmaceutical sector (request Appendix G).

4.6. Oil & gas sector: A member of the RI team participated in another Case Committee meeting on Shell facilitated by the NAPF. The aim of the meeting, which was attended by the Dutch and British directors responsible for the current review underway, was to discuss the review's remit and developments to date.

4.7. Property: A members of the RI team participated in a site visit to a development by Land Securities (Whitefriars in Canterbury) to discuss how the company integrate corporate responsibility and social demands into the redevelopment of a city centre retail site. A member of the RI team participated in a group meeting with British Land to discuss how the company manages CSR issues. USS is also participating in a project, lead by Upstream and involving Grosvenor, British Land, ISIS (now Foreign & Colonial) and Hermes to question key retail tenants as to their policies on corporate responsibility issues. The aim is to help guide USS's own policies in this area. USS's own responsible property investment policy is now at the stage of final sign-off following discussions with the fund's main agents.

4.8. Other activities including public presentations and media coverage (request Appendix H).

5. Corporate Events 2004

No of events voted	UK Month	Overseas Month	Total Month	Total Year to date	No @ variance with policy *
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	152	1	153	781	
Aug	37	2	39	820	
Sept	58	1	59	879	