

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval

USS has been participating in the development, by the United Nations, of a set of Principles for Responsible Investment (PRI) over the last year with Sir Graeme speaking at the event to launch the project in July 2004. These Principles have been drafted by senior investment professionals from around the world, with the support of a panel of experts. The Principles are designed to encourage asset owners to incorporate extra financial issues in their investment processes. As such, they are aligned with USS's investment philosophy as stated in the Statement of Investment Principles. More detail of the PRI are provided in Appendix A.

The Principles will be launched in Spring 2006 and other investors are now being invited to support the project.

It is recommended that:

- USS formally and publicly adopts the Principles for Responsible Investment and communicates this externally.
- A Director or Investment Adviser be nominated to follow the development of the project at a governance level, with the RI team taking executive responsibilities.

2 New Projects

There were no new projects for this quarter

3 Activity Report

News Corp: USS Ltd is participating in a law-suit against News Corporation in the US together with 11 other European, American and Australian institutional investors. The law-suit seeks to compel the company to abide by a commitment it made to shareholders, prior to its re-incorporation into Delaware, that it would not extend poison pill provisions beyond 12 months without express shareholder approval. News Corp have put forward a motion to dismiss the case on the basis that, *inter alia*, the board did not believe that it was "irrevocably bound by the board policy." The motion to dismiss will be heard in Delaware on 10 November. News Corp's actions have also led to significant opposition at BSKyB's AGM to the resolution to approve a waiver of Rule 9 of the City Code to effect a share buy-back due to concerns of creeping control of BSKyB by News Corp. A statement to this effect was read out at BSKyB's AGM by a representative of USS on behalf of UK, Dutch and Australian pension funds (Request Appendix B).

3.2. Marathon Club: The survey by the Marathon Club, highlighted in the previous IC report, has now been published. It shows that support amongst senior investment professionals for promoting good corporate responsibility (CR) and corporate governance (CG) in investee companies is very high (77% and 83% respectively). Significantly, it shows that this support is based on an assessment that better CG and CR will reduce risk and enhance value and is not simply a compliance-type response. However, the report also shows that there is considerable scope for improving how this intellectual support for CG and CR is actually put into action and highlights relative return benchmarks as a major obstacle. For more details, please request Appendix C, the summary report of this project.

3.3. Enhanced Analytics Initiative: EAI continues to be well supported both by members and others in the financial community. Over the past quarter, both EAI members and the external consultant associated with the independent evaluation, onValues, have noticed a significant increase in the volume and quality of research including evaluation of extra financial issues. The Initiative has been awarded the Gresham prize, further recognition of its importance in driving change in the investment research community. EAI has also just received the Triple Bottom Line Investing Awarded, a major RI award given to initiatives, companies, or individuals, “*whose efforts further the cause of “sustainable” investment ... with the intention of changing certain manners or habits into new and inspirational ones*”. Finally, the 2005 Thomson Extel/UKSIF survey highlighted EAI as an important factor in helping set that pace of change amongst sell side and other research providers and demonstrating client demand for more rounded assessments of corporate performance, a significant endorsement by the analysts and fund managers who responded to the survey.

3.4. Roundtable on Executive Remuneration: USS, in conjunction with the Pension Fund Alliance Consulting Group (PFAC), Ontario Teachers Pension Plan and the University of Wisconsin hosted a roundtable session on executive remuneration in the US attended by UK, Dutch, US and Canadian investors, analysts, consultants, academics and company representatives. The objective of the event was to develop a work-plan to help ensure better alignment of remuneration plans with long-term wealth creation. It is hoped that task forces will be set up undertake follow-up action specifically to: a) engage with policy makers such as the SEC on remuneration transparency b) ensure better analysis of compensation plans and proposals by analysts c) develop best practice principles for remuneration plans d) identify a focus list of companies for engagement purposes e) evaluate fund manager mandates and practices on this issue. (Request Appendix D)

3.5. Climate change trustee training materials developed by Mercer Investment Consulting in conjunction with the IIGCC and the Carbon Trust, were published in August 2005. USS personnel played a lead role in commissioning these materials, securing the funding and in the detailed drafting. As part of the Steering Group, USS has also helped in the recruitment of IIGCC's first Programme Director (request Appendix E).

3.6. Other activities including public presentations and media coverage (request Appendix F).

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
July	181	2	183	789
Aug	36	3	39	828
Sept	61	0	61	889