

RESPONSIBLE INVESTMENT REPORT OCTOBER-DECEMBER 2003

1 **Decisions required and recommendations for approval**

The RI team have undertaken a review of its activities in 2003 in order to determine the strategy and projects for 2004 (Appendix A attached). It is recommended that USS Ltd should: approve the proposed strategy and projects.

2 **Key External Developments**

BSkyB – A Learning review: USS took the unusual step of going public about the corporate governance issues at this investee company. The attached paper provides an analysis of our concerns with the company, the background to USS's decision to go public and an appraisal of the lessons learnt and possible implications for future company engagements (request Appendix B).

3 **New Projects**

There have been no new projects for this quarter.

4 **Activity Report**

4.1 **Post-Competition Follow Up -**

As planned follow-up to the Competition, EPFIF organised an event in Amsterdam on 28th October to focus on the issues in more depth. An honest and creative discussion took place about the ideas and how other fund managers had responded. One fund manager acknowledged that even though their company had a Corporate Governance / SRI unit, this unit had not been heavily involved in the competition entry for no good reason! Barriers to both innovation and the provision of what pension funds need were also discussed. HB&W have also produced a report analysing all the interesting ideas from the competition to which USS's Chairman was invited to give an introduction (request Appendix C).

The Management Committee have asked the CIO to propose how USS should respond to the Competition. This will be a two-stage process. First, a working team constituting members of the LIO (project manager: Thomas Philip) will consider the credibility, practicality, and application to USS of the ideas generated through the Competition and report back to the Investment Committee. This will be followed by a discussion of the interim report at the March 2004 MC meeting. With this project in mind, LIO personnel have also been briefed on the results of the competition by a lead consultant from HB&W and on ideas that may be particularly relevant to an in-house manager for a long-term pension fund, with a constructive discussion afterward on the possible opportunities for LIO to better align itself with USS's long-term investment objectives.

4.2 **US Corporate Governance:**

A submission was presented to the SEC calling on the Commission to consider the processes for the appointment and removal of directors in place in other markets in their deliberations over shareholder access to the proxy. This letter was co-signed by a group of 12 institutional investors – led by USS - from Australia, Netherlands and the UK, representing approximately US\$722 billion of assets (request Appendix D).

USS, in conjunction with RAILPEN Investments, launched a report focusing on the extent to which UK institutional investors are active on corporate governance issues with their US investee companies. The report, “*Minding the Gap*”, was written by a US corporate lawyer and was launched at an event at the ABI. The speakers included Chairman of USS, CEO of Railways Pension Trustee Co. Ltd, the New York State Comptroller, and Bob Monks, a US corporate governance activist. The event was chaired by the FT’s John Plender (request Appendix E).

Following the meeting in San Diego in September, USS commissioned Manifest to set up a website which would enable international investors to communicate with one another more effectively.

Following a strategic decision to engage with our US investee companies on governance and material SRI issues, USS intends to initiate voting all its internally managed US securities from the 2004 proxy season. To this end, USS undertook a tender process for the provision of a research and voting service for US securities which will provide appropriate scope, information and technical resources to enable USS to undertake voting in a competent and effective manner (request Appendix F).

Following our approaches to US investors regarding our concerns with BSKyB, USS was able to galvanise support from the largest and second largest US public pension funds who subsequently changed their votes in accordance with our recommendations. CalPERS also agreed to support USS’s public statement that was read out at the AGM (request Appendix G).

4.3 Climate change: (request Appendix H).

The IIGCC held its first conference on the investment implications of climate change on 26th November 2003. The USS RI team, supported by the IIGCC secretariat, took the lead in the organisation the event. Keynote speakers included Secretary of State Margaret Beckett and Lord Browne, CEO of BP. Over 200 people attended the event, and feedback was positive.

This quarter, USS Ltd has also continued its roles within the Group, with two steering committee members in the IIGCC. This will change in 2004, when Peter Scales, Chief Executive Officer of the London Pension Fund Authority takes over as chair, permitting Raj Thamotheram, current interim chair, to make a planned exit from the leadership of the group. Notwithstanding this, the RI team will continue to play an active role in the group.

In addition, the Company Engagement Workstream has met with a number of companies in the aviation and utilities sectors. The Workstream has also produced reports on the implications of climate change for the sectors (request Appendices J and K). The Property Workstream has also coordinated a meeting (in collaboration with the IPF) to consider how CSR issues can best be imbedded in investment property management: this meeting was chaired by a member of the RI team.

4.4 Learning review of external fund managers: USS has continued to share 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. The manual has now been made available over the fund's Internet site, presented to the TUC's Trustee network, and following the press release received good coverage in the trade press and the FT. In addition, another pension fund has requested that USS Ltd undertake an audit of their governance and RI capabilities.

- 4.5 Pharmaceutical sector: USS and other members of the Pharmaceutical Shareowners Group met with senior staff from Aventis and Roche, and other meetings are now arranged with Pfizer and hopefully Merck and BMS for Q1 2004. In addition, the Pharma Futures project continues to gain momentum and has now got the support of a number of other large pension funds..
- 4.6 Oil & gas sector: A member of the RI team met with representatives of those planning to submit a shareholder resolution against BP for the company's 2004 AGM. The proposed resolution, led by US PIRG, is being designed to request that the company report on its policies and practises *vis à vis* protected areas. The key concern area for the submitters is ANWR in Alaska. Members of the RI team also met with the new VP for corporate social responsibility.
- 4.7 Property portfolio: Following meetings with the fund's main agents, the key areas for focus with respect to incorporating responsible investment and management of USS's property portfolio have been identified for 2004.

As indicated above, a member of the RI team chaired joint IIGCC / IPF meeting to share good practice on internalising CSR activates into investment property management. A member of the RI team also participated in the UK governments Better Building Summit, which was designed to encourage all those involved in the property sector to focus on delivering sustainable properties (request Appendix L).

- 4.8 Other activities: (request Appendix M).
- 4.9 Public presentations and media coverage: (request Appendix N).

5. Corporate Events 2003

No of events voted	UK Month	Overseas Month	Total Month	Total Year date to	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	48			840	
Nov	59			899	
Dec	58			957	