

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval

i. To approve, in principle, the proposal for a collaborative voting and engagement arrangement and the implementation of appropriate delivery mechanisms in conjunction with two other institutional investors

2 New Projects: **There have been no new projects for this quarter.**

3 Activity Report

3.1. Voting and Engagement Policy: Following the Investment Committee's decision to approve LIO's new voting and engagement policy, letters have been sent to every company secretary and chairman of the FTSE All-Share informing them of the new policy, together with a copy of the summary and URL address for the full document. Feedback to date has been positive.

3.2. Post Competition follow-up: The Marathon Club is now well established and has initiated projects on defining the barriers to long-termism, creating incentive structures to overcome these and defining what investment beliefs a long-term investor should have vis a vis corporate governance and corporate responsibility matters.

3.3. Enhanced Analytics Initiative: Since its launch in October, EAI has continued to grow with new members signing up to the initiative. In addition, the initiative has published the results of its first study into which brokers are the most effective in covering extra financial and intangible issues. The results of this analysis will help inform how LIO allocates the 5% of broker fees committed to this initiative. (Appendix A)

3.4. International collaboration on Corporate Governance: The Local Authority Pension Fund Forum has joined IFAS as a member and the CIS is currently being considered. It is being proposed to the Steering Group that for IFAS to function more effectively and efficiently, it will be necessary to set-up a secretariat function.

3.5. Climate change: The IIGCC has recruited a temporary executive director to provide leadership and direction for the Group from outside its membership base. This is an essential development for the Group in order to increase the levels of activity and effectiveness. IIGCC workstreams have continued to operate well, and the Group has received funding from the Carbon Trust to produce a climate change training package for trustees for which three investment consultancies tendered proposals. The Group also presented to the All Party Group on SRI at Westminster. (Appendix B)

3.6. Pharmaceutical companies – engagement activities: A member of the RI team met with senior management of Pfizer, in conjunction with other institutional investors, to discuss how the company is addressing the challenges and risks facing Pfizer and the sector as a whole.

3.7. Pharma Futures: Pharma Futures, which was sponsored by ABP (Netherlands), the Ohio Public Employees Retirement System (USA) and USS, published its report warning

that fundamental change in the pharmaceutical industry is inevitable and muddling through and fire-fighting is not an option. The working group argued that it is possible to manage this change and come out profitable and successful but requires investors and industry to change to achieve a better alignment of health and shareholder needs. The conclusions have been well received by many players and, based on this success, discussions about a follow-on project, Pharma Futures II, are ongoing. Once the scope is clear, USS will be invited to consider taking part.

3.8. Oil & gas sector: A member of the RI team participated in a consultation on remuneration with representatives of BP with the aim of developing a new scheme. The focus was on creating a scheme which is geared towards creating long-term incentives for executive directors.

3.9. Property: USS RI team has continued to play an active role in external projects designed to increase understanding of the implications of CSR related issues for the value of properties, and to encourage greater awareness of these issues. The preliminary results of the Kingston University, DTI funded project (on the implications of sustainability issues for the value and worth of investment properties) was presented to the audience at the IPD conference and received a good reception.

3.10. Linking executive remuneration to responsible long-term corporate success. A discussion paper has been published by USS and Henderson Global Investors which focuses on several case-studies of companies which have integrated extra-financial objectives into incentive schemes. The paper identifies some good practices in this area and issues which still need to be addressed. (Appendix C)

3.11. Other activities including public presentations and media coverage (Appendix D).

4. Corporate Events 2004

No of events voted	UK Month	Overseas Month	Total Month	Total Year to date
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
Oct	42			921
Nov	53			974
Dec	46			1020