

RESPONSIBLE INVESTMENT

1 Decisions required and recommendations for approval

To initiative voting and engagement activities in Europe

Further to USS's commitment to expand and implement its voting and engagement approach across its global portfolio, a feasibility study was commissioned and undertaken to determine the most effective way of rolling out voting and engagement activity across Continental Europe. In light of the size of LIO's European portfolio, recent positive EU corporate governance developments and collaborative alliances with European investors, it is recommended that:

- 1) USS initiates voting and engagement in USS's four largest markets in Europe: France, Switzerland, Netherlands and Germany
- 2) USS commissions the European Corporate Governance Service (an alliance of independent European service providers) to provide research services
- 3) USS applies its voting and engagement policy to European companies

2 New Projects

2.1. Operating and Financial Review - OFR

In November 2005, the Chancellor Gordon Brown announced that the Government was to withdraw the requirement of companies to produce an Operating and Financial Review (OFR). The OFR was designed to provide investors with better quality corporate information, providing both a forward looking view of the risks and opportunities facing the company, and the strategies to be employed to manage them. In addition, the OFR included a requirement to report on material extra financial factors (e.g. environmental and social issues) and without better reporting on such issues it is not possible to see how investors can factor these into our analysis to take a more balanced approach to company assessment.

In response to this withdrawal, USS, in conjunction with Sustainability (a well recognised strategy consultancy and independent think tank specialising in the business risks and market opportunities of corporate responsibility and sustainable development) hosted a meeting of investors, major companies, and other interested parties in mid December to decide on the best way to manage this issue. It was decided that a letter should be written to the government (in response to a call for comments) expressing our concerns and suggesting steps the government should take to rectify the loss of information we face. The letter has already found support from a wide range of players. What is conspicuous is the lack of support of corporates and institutional investors who have previously said they were in favour of OFR, although with a deadline of February 10th, we hope well management companies and long term investors will make their views clear. Request Appendices A and B for the letter and press release

3 Activity Report

3.1 . News Corp: update – court decision

The Court has now rejected the defendants' motion to dismiss the case and recently rejected their appeal. Unless the company agrees to the plaintiffs' demands, the case will now proceed to trial. These developments are an important victory for shareholder rights under Delaware law as the judge has also made several important statements including:

- the defendants have conceded that there was a contract with shareholders prior to re-incorporation as a Delaware corporation
- there are “many troubling implications of defendants’ arguments”
- if the lawsuit were to be dismissed, Delaware’s corporate future could suffer since it would “decrease the likelihood that a foreign company would gain shareholder approval to reincorporate into Delaware” as “shareholders in the foreign company would have no confidence that promises or representations regarding the foreign company’s corporate governance made to induce their favourable vote would be enforceable under Delaware law”
- “it would threaten widely held investor expectations if a Delaware court were to decide that shareholders are outsiders, merely residual claimants and not in some sense the ‘owners’ of the corporation with authority to exert themselves collectively via ‘voice’ and not only via ‘exit’. *Note the judge’s use of the word ‘collectively’ which describes USS’s approach towards engagement.*”

3.2. Enhanced Analytics Initiative:

The EAI has continued to grow, and in this quarter, the initiative had two new very significant members join: ABP, the largest European pension fund, and the BT pension scheme, the largest UK pension fund. The addition of these two huge funds lifts the assets management by members to over Euro 600 billion, sending a major signal to the market. In addition, the evaluation for the allocation group for the first half of 2006 was completed. This evaluation highlighted a significant increase in the volume of extra financial research being generated, and identified the following research providers as those providing the best: Bernstein, CLSA, CM CIC Securities, DrKW, Goldman Sachs, JP Morgan, UBS Investment Research, and WestLB. Request Appendix C for a copy of the report on the 3rd evaluation.

3.3. Executive Remuneration:

A key recent outcome from the executive remuneration roundtable held in September is a letter signed by ten investors from the US, Canada and Europe, including CalPERS and ABP, to the SEC in contemplation of an impending SEC rulemaking proposal regarding enhanced disclosures on executive compensation. It called on the SEC to consider a number of requirements when developing its rulemaking proposals. Request Appendix D for a copy of the letter

3.4. Climate change

In December 2005, the UK government (via the DTI) ran a conference on responsible investment as part of the UK’s presidency of the EU. The IIGCC and USS provided inputs into the development of the event, and the IIGCC also provided a key speaker in one of the sessions. In addition, the activities of the IIGCC were covered in the official government document to accompany the event. Request Appendix E for more details.

3.5. 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
Oct	42	1	43	932
Nov	74	2	76	1008
Dec	52	0	52	1060