

## **RESPONSIBLE INVESTMENT**

### **1. Decisions required and recommendations for approval**

#### **Approval for USS to continue on the Board of PRI**

USS Ltd was a founder signatory to the Principles of Responsible Investment in April 2006. Since signing, USS Ltd has continued to play a significant role in the development of the Principles: Howard Jacobs is a member of this initiative's governing board, supported by the RI team.

The formal legal status of the PRI has still to be decided: applying English law principles it is, at present, simply a members' club and some form of incorporation to create a separate legal entity is likely.

However, one principle has already been agreed, namely that each member of the current governing board and any successor PRI board acts as a representative of the institution with which he or she is associated, and not in a personal capacity. This means that in any credible circumstances the USS representative, currently Howard Jacobs, will have the protection of an indemnity from USS whilst acting as a board member.

It is the view of both the RI team and Howard Jacobs that such an indemnity is appropriate and will not be to USS Ltd's disadvantage.

Other PRI board members in the same position include the following institutions:

- BTPS (UK)
- CalPERS (USA)
- CDC Quebec (Canada)
- FRR (France)
- New Zealand Super
- NY City (US)
- PGGM (Netherlands)

It is recommended that USS Ltd continue to play its role in supporting the development of the PRI and continues to have a position on the Board of the initiative.

#### **Notes for information**

USS were ranked the best pension fund at communicating its RI activities in a FairPensions survey entitled "*UK Pension Scheme Transparency on Social, Environmental and Ethical Issues*" in November 2006. This survey examined the RI disclosure by the 20 largest UK pension funds and was reported in the Guardian. For more information on the survey see the following [www site: http://www.fairpensions.org.uk/pdf/Pension%20Scheme%20Transparency%20Report%20Nov2006.pdf](http://www.fairpensions.org.uk/pdf/Pension%20Scheme%20Transparency%20Report%20Nov2006.pdf)

The RI team has recruited the new staff outlined in the RI Strategy and agreed by the IC in November. They are Helen Hopkins who joined the fund in January as the RI Project Coordinator, and Natasha Landell-Mills who joined the fund in February as the RI Analyst.

## 2. Activity Report

### 2.1 Enhanced Analytics Initiative

The EAI continues to go from strength to strength. On June 14<sup>th</sup> the Initiative announced its allocation group for H2 2006. This included the following research providers.

- Bernstein Research
- Citigroup •
- CLSA
- Deutsche Bank •
- Goldman Sachs
- JP Morgan
- Morgan Stanley
- Oddo Securities
- UBS Investment Research

Importantly, EAI has continued to attract new members, including its first large state pension fund CalSTRs. This is important as it is the first major member in the US and signals to others in the market that the initiative is mainstream rather than SRI oriented. USS played a significant role in encouraging CalSTRs to join the initiative over a two year period. Other new members this period include Robeco of the Netherlands, Batirente (Canada), Ceres (a supporting member), UniSuper (Australia), Governance for Owners (UK), and Metallrente (Germany 's largest industry-wide pension scheme). In Jan 2007, Axa also joined, bringing the total assets under management to €1.8 billion.

### 2.2 Enhanced Business (post OFR) Reporting

USS has continued to work with DTI officials, corporates, investors, audit firms and other interested parties in encouraging better reporting of strategic and forward looking risks and opportunities, as previously required by the Operating and Financial Review. USS has also participated in the development of two publications on the implementation of the Business Review Directive (the remnant of the OFR) by providing a perspective of investor expectations with regard to reporting.

### 2.3 Executive Remuneration

USS has spearheaded the launch of a global collaborative pension fund initiative to identify ways to achieve a better alignment between pay and performance in the setting of executive remuneration in investee companies. The International Roundtable on Executive Remuneration (IRER) meets bi-annually and the last meeting was held in September 2006. IRER has submitted several letters to the SEC on enhanced disclosure and was cited by the SEC in its recently published rules on this issue. Several working groups of IRER have been formed which are focusing on a) the introduction of advisory votes on executive remuneration at AGMs in the US b) collaboration on remuneration focused company dialogues c) collaboration between pension fund clients to encourage their external fund managers to better address remuneration risks of portfolio companies.

USS has met both Wellington and Capital, in conjunction with other clients, as part of working group C. Further meetings are being planned to meet with some of the fund managers' analysts.

USS was also a signatory to a joint letter sent to the 25 largest US corporations, by a coalition of mainly US investors, requesting information outlining how their

remuneration committees ensure the independence of consultants who assist in setting the pay packages of executive directors.

2.4. US corporate governance

In addition to the initiative outlined above, USS has continued to address the issue of election of directors in US companies and advocate for improved shareholders' rights in appointing and removing directors. USS drafted and submitted a letter, on behalf of 16 global investors, to the SEC to encourage more effective corporate accountability to shareholders through the reform of the director election process. The letter highlighted some of the benefits that can result through such reforms for both corporates and investors. The letter attracted considerable media interest in both the UK and US (Request Appendix A).

2.5 Pharma Futures 2

USS has continued its involvement with Pharma Futures, as one of the sponsors of this pension fund initiative and a participant in the workshops, as it embarks on the second phase of the project. *PharmaFutures: Prescription for Long-Term Value* is an ambitious investor-led dialogue between the pharmaceutical industry and its investors about how to manage a rapidly changing operating environment to deliver long-term value. The dialogue takes place in a working group comprised of asset owners, sell and buy side analysts and senior pharmaceutical executives, in addition to a number of interviews with a large number of external experts - <http://www.pharmafutures.org/>.

2.6 Climate Change

The IIGCC held its second Conference, this time in Paris as recognition of the European focus of the Group. The keynote speaker was Al Gore. A member of the RI team participated in a panel discussion on the role of pension funds in addressing climate change. The IIGCC also developed an Investor Statement on Climate Change, highlighting the role that Institutional Investors need to play in addressing the issue. Finally, the fund also participated, with other global investors, in the development of the Global Framework for Climate Risk Disclosure, which identifies the types of information that companies should disclose to investors. USS also participated in a project by the London Climate Change Partnership on the implications of climate change on the City, including a roundtable hosted by the Mayor of London. Request Appendix B for further information.

2.7 Other activities including public presentations and media coverage

(Request Appendix C).

David Russell  
Daniel Summerfield