

## **RESPONSIBLE INVESTMENT**

### **1. RI Team Expansion**

USS expanded its responsible investment team to four staff with the addition of Natasha Landell-Mills and Helen Hopkins in Q1 2007. These appointments create the largest responsible investment team within any pension fund in the UK. Natasha Landell-Mills joined the team from OTP Fund Management, the largest fund manager in Hungary, as responsible investment analyst, with a focus on integrating extra financial issues into the internal investment processes. Helen Hopkins joined from the UK Social Investment Forum, with a remit to coordinate voting, communications and project management for the team.

### **2. UN Principles for Responsible Investment <http://www.unpri.org/>**

PRI aims to provide a framework and guidance for asset owners and asset managers to incorporate responsible investment into their operations. It also enables the sharing of experience and learning between funds, so that all those involved can improve their performance. The fund plays an active role in the growth and operation of this initiative and participates in both the engagement and governance sub-committees of the board. Indeed, a USS Trustee Director was recently re-elected to the board of PRI.

USS Ltd participated in PRI's voluntary self-assessment process and submitted a response to the PRI Secretariat. The responses are disclosed on the UN PRI website. Presentations were also made to the World Bank pension fund and the International Finance Corporation on the PRI.

### **3. Climate Change**

#### **• 3.1 Letter to CDP non-respondents**

In January, USS wrote to all the UK non-responders of CDP4 to encourage them to participate in CDP5 (Appendix A). USS posted a copy of the letter to PRI's clearing house and in the newsletter for the UK Social Investment Forum to encourage other investors to undertake a similar exercise. The CDP5 data request was signed by more than 280 institutional investors with assets of more than \$41 trillion and sent on 1st February 2007. The information request was sent to 2,400 companies. The responses will be made available from September 2007.

#### **• 3.2 London Accord <http://www.zyen.com/Activities/Events/The%20London%20Accord%20-%20Project%20Description.htm>**

USS participated in the launch conference for the London Accord, with the CIO and a member of the RI team attending. The London Accord is a cooperative research programme to assess investment opportunities in climate change initiatives.

#### **• 3.3 IIGCC <http://www.iigcc.org/>**

The IIGCC has begun to attract continental European funds – see members below. The IIGCC also staged its second conference, at which Al Gore was the keynote speaker. A member of the RI team continues to sit as a member of the steering committee.

IIGCC supported a series of Carbon Trust / PriceWaterhouseCoopers training sessions for equity analysts on climate change. These highlighted the risks and opportunities from climate change in low or medium carbon intensive sectors. Two USS personnel (an analyst and a fund manager) attended the programme.

IIGCC has continued to engage with policy makers on climate change and carbon policy. This has included both meetings with government officials, and writing letters to both the UK government and the EU. The IIGCC responded to the government's consultation on the Carbon Reduction Commitment (formerly Energy Performance Commitment) which proposes a cap-and-trade scheme to reduce carbon emissions in large non-energy intensive business and public sector organisations. The group expressed its support for the use of economic instruments as a key element of the public policy response to climate change, but questioned whether the target set for the EPC is sufficiently ambitious (see [www.defra.gov.uk/environment/climatechange/uk/business/crc/](http://www.defra.gov.uk/environment/climatechange/uk/business/crc/)). In addition, the IIGCC wrote a letter to the heads of state at the G8 Heiligendamm Summit and climate change negotiations which took place in May/June.

Peter Dunscombe of the BBC Pension Fund has taken over Chairman of the Steering Committee of the IIGCC from Peter Scales (ex-LPFA). USS remains a committed member.

• **3.4 Other**

In addition to USS' involvement in the above initiatives, the fund screened an internal showing the Al Gore film An Inconvenient Truth for staff in the office.

**4. Enhanced Analytics Initiative** <http://www.enhancedanalytics.com/>

The Initiative continues to be a success, and importantly is attracting increased numbers of members from outside Europe. The Initiative's assets under management now total approximately €1.85 trillion (circa US\$2.4 trillion). Over the past 6 months, two large US state pension funds have joined, CalSTRs and NYCERs, sending a very strong signal to the rest of the US market. In addition, in May, two new funds joined from Australia (VicSuper Fund, and HESTA Super Fund, Australia's health and community services industry superannuation fund). There has also been a dramatic increase in the volume of research, to the extent that the initiative has had to think about reassessing its own evaluation processes. The allocation list for H2 2007 (i.e. the most recent 6-monthly analysis of research providers) identified the following as the best at integrating extra financial research:

- CA Cheuvreux
- Citigroup
- JPMorgan
- Merrill Lynch
- Morgan Stanley
- Oddo Securities
- Société Générale

**5. Marathon Club**

The Marathon Club "*Guidance Note for Long-Term Investing*" was published in April 2007, the culmination of two years of pension fund collaboration on long-term investment. The note highlights six key components of an investment Mandate focused on Trustees' investment beliefs; clear objectives for risk and return; Selecting fund managers; Alignment of trustee and manager objectives relationship with a manager; and strong governance and leadership. USS responded to consultations on the document, and continues to participate in discussions with other club members at regular meetings. <http://www.marathonclub.co.uk/Docs/MarathonClubFINALDOC.pdf>

**6. US corporate governance**

The fund has continued its successful activities in the USA, and has hosted two meetings of the *International Roundtable on Executive Remuneration*, a forum which it has helped to set-up and manage. The focus of the forum and the meetings has been to encourage US based investors, including state pension funds, to work with non-US investors to address the continuing disconnect between executive remuneration and company performance. One of the key objectives of this initiative is to build relationships with investors in the US to facilitate further market and company specific activities in both the US and European markets.

The fund has also continued its engagement with the US market more broadly. For example, USS drafted and submitted a letter to the SEC on behalf of 16 global investors, to encourage more effective corporate accountability to shareholders through the reform of the director election process. In addition, a letter was sent to the SEC on behalf of a group of 13 investors to support the introduction of a shareholder advisory vote on a company's compensation policy at the AGMs of US companies. See Appendix B.

**7. Class Actions**

The fund has received a pay-out from the AOL Time Warner following a law-suit settlement. A number of governance changes were also implemented during the course of the proceedings.

USS is also currently party to a collaborative settlement proposal between European shareholders and Royal Dutch Shell in relation to the company's mis-reporting of 'proved' oil and gas reserves between 1997 and 2003. The agreed settlement provides, amongst other things, for approximately \$435 million in compensation to qualifying shareholders. The agreement is dependent on decisions by the Dutch Court of Appeals and a US court where the current US Class Action is taking place.

**8. Engagement with external fund managers**

The fund has also done some detailed work with its external managers to assess how they address executive remuneration and other extra financial issues and incorporate them into their investment processes and engagement with investee companies. The work was undertaken in collaboration with other investors who are also clients of the fund manager. This combined approach reinforced the signal to our external fund managers that pension fund clients are concerned how issues such as these are managed.

### **9. Pharma Futures 2**

USS was a co-sponsor (with Dutch and American pension funds ABP and OPERS) and active participant in Pharma Futures 2 which builds on the successful 2004 Pharma Futures scenario planning project. The year long collaboration facilitated a frank exchange between institutional investors and senior industry executives of views on the key value drivers for the sector and the current challenges, risks and opportunities that it is facing. The development of a deeper level of understanding paves the way for a more constructive and informed dialogue going forward, particularly in the areas of leadership and governance, trust and reputation management and communication.

The final report, *Pharma Futures: Prescription for Long-Term Value*, which is based on the series of pension-fund led dialogues between pharmaceutical industry and its investors, was published in June 2007 – see <http://www.pharmafutures.org/about/>.

In addition to co-convening Pharma Futures 2, work was undertaken internally, focusing on future value drivers in the sector that may currently be under-appreciated by mainstream analysts. The findings of this analysis, in combination with the Pharma Futures 2 report will form part of USS' RI research focus for 2007.

### **10. Extra-Financial Research Providers**

Specialist extra-financial research providers, namely, Trucost, Innovest and Boardex, have been appointed further to a beauty parade earlier this year. The research will supplement sell-side and proxy service providers to enable the RI team to better support the integration of extra-financial factors into USS' fund managers' investment processes.

### **11. Other activities including public presentations and media coverage**

(Request appendix C)