

Statement on Socially Responsible Investment

The trustee company of USS believes that the willingness and ability of companies to adopt the highest standards of social responsibility is increasingly important to long-term growth in the value of their businesses.

It follows that in so far as the USS fund is actively managed by the trustee company's London Investment Office, the managers take into account ethical, social and environmental considerations when making their assessment of the merits of an investment in a given company, on the basis that they have, or could have, an impact on its financial value. The external managers with balanced mandates are expected to adopt a similar course.

However, the legal duty of the trustee company requires a scheme of the size and liability profile of USS, and with its breadth of membership, to have its fund invested in a wide range of equity market sectors so as to maximise the financial return. A significant proportion of the USS fund is invested in an index-tracking fund. Investments in that fund are evidently not selected with regard to their relative quality in terms of social, environmental or ethical practice.

It is therefore especially important in relation to such automatic investments that enhancement of shareholder value be sought for the fund through active engagement with the managements of the companies concerned on issues of social responsibility as on other strategic and governance issues. Indeed, the management committee believes that such engagement is the most effective and responsible way for a major institutional investor like USS Ltd to promote socially responsible behaviour by companies for the benefit of the scheme's participants and beneficiaries and, incidentally, for the community at large. Accordingly, where USS managers believe that a company's failure to meet best practice in relation to social, environmental or ethical aspects of its conduct is impairing its prospects, they will seek to bring influence to bear on that company to effect corporate change, by private suasion and by voting the fund's shares as appropriate.

The trustee company is expanding the staff of its London Investment Office, specifically to enable it to be better informed on issues of socially responsible investment, by recruiting people with particular expertise in the field. It will never be either possible or desirable for the fund's managers to become involved in day to day management of companies in which the fund is invested, and there may be occasions when engagement with a company may need to be limited so as to avoid USS Ltd becoming an "insider" and as such restricted in its dealing on the fund's behalf. Otherwise, though, it is the policy and practice of USS Ltd's managers to take a proactive approach to social responsibility, to maintain a regular dialogue with the fund's external managers on these issues, and to encourage them to adopt a similarly proactive approach.

It is foreseeable that the growth of the human and financial resources available to assess performance of companies in relation to environmental and ethical standards will lead the trustee company to develop and refine its practice in the field. This statement, which is not a part of the scheme's Statement of Investment Principles under Section 35

of the Pensions Act 1995, aims to explain the way in which USS' policy on socially responsible investment is intended to operate in practice and may be updated from time to time.