

REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 4 JUNE 2012

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 220-2012

1 PURPOSE OF REPORT

This report reviews the progress by the Fund Managers regarding the positive engagement Policy on Environmental, Social and Corporate Governance approved by the Sub-Committee on 17 November 2008.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained within this report with regard to the activities of the Fund Managers during the six month period ended 31 March 2012.

3 BACKGROUND

On 17 November 2008 the Sub-Committee approved a revised Policy on Environmental, Social Governance. This policy recognises the over-riding fiduciary duties but encourages the managers to engage with companies. They are requested to summarise this engagement activity quarterly. The key areas continue to be Employee Care, Human Rights, Sustainability and the Environment.

4 ALLIANCE BERNSTEIN

Alliance Bernstein's latest activity is shown at Appendix 1.

5 BAILLIE GIFFORD

A summary of recent engagement activity is shown at Appendix 2. This shows the wide range of topics covered and the diversity of companies approached.

6 FIDELITY

Appendix 3, shows various examples of issues Fidelity have considered in the last quarter.

7 OVERALL CONCLUSION

The managers have continued to develop their strategy in this area and link more closely with the long-term effect on share value.

The fund is still committed to following the United Nations Principles of Responsible Investment.

8 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The Fund's policy on Socially Responsible Investment requires its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

9 CONSULTATION

The Chief Executive and the Head of Democratic and Legal Services have been consulted in the preparation of this report.

10 BACKGROUND PAPERS

None

**MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES**

24 MAY 2012

May 2012

Tayside Superannuation Fund

Approach to ESG Issues

AB

ALLIANCEBERNSTEIN

This presentation is provided by AllianceBernstein Limited. This presentation booklet has been provided to you for use in a private and confidential meeting to discuss a potential or existing investment advisory relationship. This presentation is not an advertisement and is not intended for public use or distribution beyond our private meeting. This document is directed at Professional Clients (as defined in FSA rules) and the products and services described are only available to such clients. This document is not directed at Retail Clients and no reliance should be placed on its contents by Retail Clients. Issued by AllianceBernstein Limited, Devonshire House, One Mayfair Place, London W1J 8AJ. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Services Authority.

ESG Examples: Some May be Material to Investment Performance

Environmental

- Environmental practices
- Sustainability
- Climate change/carbon emissions
- Use of water/land/energy
- Food safety

Social

- Human rights
- Labour standards
- Corruption
- Involves social stakeholders
 - Consumers
 - Suppliers
 - Community
 - Investors
 - Employees
 - Society

Governance

- Shareholder rights (Board, audit, voting rights)
- Executive compensation
- Corporate accountability and transparency
- Board accountability
- Financial disclosure and internal controls
- Social issues (e.g. workplace diversity)
- Environmental issues (e.g. reports on climate change)
- Political issues (e.g. political contributions, Sudan)

Well-Established Proxy Voting Policy and Structures Enable Us to Address Governance Controversies

E

S

G

Summary Statement of Policies and Procedures

- Public statement of proxy voting procedures and policies on key issues
- Update annually to reflect new issues and changed circumstances

Proxy Voting Manual

- More detailed set of guidelines and policies on how to vote on common issues (for, against or case-by-case)
- Updated annually to reflect new issues and changed circumstances

Proxy Voting Committees

- Provide formal oversight, update proxy policies and procedures and make final decisions for particularly difficult votes
- Heads of Value and Growth are proxy committee members

Conflicts of Interest

- Clear procedures to avoid conflicts of interest

Taking an Active Role in Executive Compensation

Compensation Principles

- As much compensation as possible should be variable: certainly more than 50%
- Variable compensation should be linked to the multi-year performance of the business
- Payments to be linked to achievement of specific, quantifiable, stretching business objectives for which audited data are in the public domain
- Senior executives should hold company stock equivalent to a significant multiple of their annual compensation
- Remuneration committees must be demonstrably independent to ensure adequate oversight
- Automatic compensation increases linked to comparator analysis are inflationary and to be avoided

Our Approach

- We vote proxies actively on our clients' behalf following these policies
- We engage with companies to understand their approach to pay, and to make our concerns clear where appropriate

Examples in 2012

- We voted against the remuneration report of a UK bank because we did not believe that incentive compensation was properly aligned with shareholder interests. We also voted against re-election of the bank's Chairman and the Chair of the Remuneration Committee.
- We voted against the remuneration reports of a UK travel company and a UK mining company

Company	Engagement Report
Gazprom OAO	<p>Gazprom is the largest natural gas producer in the world. It owns and controls the gas pipeline infrastructure in Russia and enjoys a monopoly on Russian gas exports. The government owns over 49% of the company. We have been engaging with Gazprom over a number of years with the aim of gaining additional information and improved disclosure on governance, safety and environmental matters. We recently had the opportunity to discuss a range of issues with the only independent director on the board. Progress includes changes in directors' fees, replacement of government officials on the board with an independent director, and improvements in disclosure. We will continue to encourage improved disclosure and communicate the views of minority shareholders.</p>
International Game Technology	<p>International Game Technology (IGT) is a US-based global gaming company specialising in the design, development, manufacture, and marketing of electronic gaming equipment and systems products. We arranged a conference call with the company to discuss our concerns regarding its executive remuneration policy. These included the large retention awards granted during the year and the lack of performance conditions attached to the Long-Term Incentive Plan (LTIP) awards. Based on these concerns, we opposed the remuneration report at the company's AGM. IGT has subsequently become our first US holding to have its remuneration report voted down by shareholders since the introduction of the 'Say-on-Pay' proposal in January 2011. We will be engaging with the company in the future to help it to develop a remuneration policy that better aligns management and shareholders' interests.</p>
Samsung Electronics Co	<p>Samsung Electronics Co. is a Korea-based company, principally engaged in the provision of consumer electronic products. We had a conference call with investor relations to discuss two governance issues we have previously discussed with the company - executive compensation and 'bundling' of resolutions at the company's AGM. In the past, there was little disclosure about the remuneration structure, and all directors were approved or opposed in a single vote, rather than individually. Amendments to the executives' remuneration will see payment under a long-term scheme deferred for three years following each performance period. The removal of the previous single lump sum brings the plan more into line with best practice and serves to enhance management's responsibility and alignment with shareholders. It is common practice in Korea to bundle several meeting proposals into a single resolution. This generally applies to the election of directors. We are uncomfortable with this practice as it precludes us from voting on the election of directors individually, reducing our ability to hold directors to account. Therefore, following previous engagements where we expressed our view on this issue, we were pleased to hear that for future shareholder meetings the company will unbundle all resolutions outlined in its meeting agendas.</p>
Vistaprint N.V.	<p>Vistaprint is a US-based online provider of customised marketing products and services to small businesses worldwide. Following an internal review of US remuneration practices, we arranged a conference call and sent a letter to the company to outline concerns we had with its executive compensation policy. These included the lack of performance conditions attached to Long Term Incentive Plan (LTIP) awards, the increased Restricted Stock Unit (RSU) and stock option grants awarded to executives, and its policy of maintaining the monetary value of awards regardless of company performance. We subsequently opposed the remuneration report at the company's AGM, where a significant proportion of shareholders withheld support. Ahead of proposed amendments to its remuneration policy in 2012, we arranged a follow-up call to provide additional feedback and guidance as to how the company can improve its remuneration structure. We emphasised the need to increase transparency and simplicity of the plan, as well as the introduction of stringent performance targets linked to the company's long-term strategic aims. The dialogue is ongoing and we look forward to continuing our engagement with Vistaprint to establish an executive remuneration policy which provides effective alignment between management and shareholders' interests.</p>

Company	Engagement Report
Tesco PLC	<p>We have spoken to a number of Tesco company representatives over the past six or more years, discussing issues ranging from shareholder resolutions on labour rights in Bangladesh factories, to executive remuneration, developing country suppliers, its US operations, labelling, and environmental performance. The company has not been the most forthcoming in discussing some of these issues and we have mentioned in a previous note that we had encouraged the Chairman to improve board engagement on such issues in future. Within the past 12 months, there has been a change of CEO and a new Chairman has been appointed. This is likely to bring cultural and operational changes. We met the new Chairman. Our discussion covered board make-up and dynamics, as well as global challenges Tesco currently faces, including its operations in China and the US. The Chairman acknowledged our previous comments regarding the quality of some of our meetings. We should expect more open and transparent discussions, as well as changes to the board personnel. We will continue our engagement with the company.</p>
Travis Perkins	<p>Travis Perkins is a leading supplier of building materials in the UK. Last year, we opposed its remuneration report and the total vote against was 39.9% due to the CEO's salary increase and the unchallenging performance targets used in the Performance Share Plan. We informed the company of our concerns and agreed to follow up on this issue at the beginning of 2012. In addition, the board is keen to provide the new deputy CEO with an appropriate remuneration package to ensure that he remains with the company for the foreseeable future, although it has not yet made any significant changes to the remuneration structure. Following last year's large vote against the schemes, and the requirement to retain key employees, we have encouraged the Remuneration Committee to allow time for engagement with shareholders to minimise the risk of a second large oppose vote which would not be in the company's or shareholders' interests.</p>
Wood, John Group	<p>John Wood Group provides engineering and other services to the oil and gas industry. We met the Chairman and the senior independent director to discuss the integration of the newly acquired PSN business, succession planning and the subsequent board appraisal. The two businesses had different business cultures; Wood Group having a more entrepreneurial decentralised management and PSN being managed more centrally. The integration of the businesses is progressing and should be completed within two years. We will continue to engage with the company on the progress of this project. The acquisition has also introduced additional high calibre senior management who have remained within the new structure, enlarging the pool of potential board executives, important for succession planning. The board appraisal process identified areas where increased diversity among non-executives in terms of engineering experience and geographical knowledge could be beneficial. As described, there are a number of governance changes happening at this company and we will continue to ensure we remain up-to-date with developments.</p>

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT (ESG)

Health & Safety

A safe and healthy workplace contributes to a company's operational efficiency. Companies with poor health and safety policies & records may face prosecution, fines and potential withdrawal of their licence to operate in certain markets. As part of our ongoing assessment of health and safety practices, our oil and gas analysts continue to examine practices across the sector, inclusive of implications at Total SA in respect of the Elgin Franklin incident on 27th March. As of the time of this publication the exact cause of the incident are unknown although the company has communicated that there is no evidence of human error and that all workers have been removed with the Elgin installation.

Brand Equity & Reputational Risks

Negative perceptions of a Company's product supply chain can affect sales and brand equity; retailers are particularly exposed to such risks. First, companies that fail to screen suppliers adequately may unknowingly encourage dangerous and/or repressive working conditions. Second, if retailers lack appropriate controls over their supply chain (for example, due to lack of Company presence in the sourcing countries), they may be exposed to product safety risks, which could lead to product recalls, fines or lawsuits. Finally, as consumers become more sensitive to the overall sustainability and ethics of supply chains, companies that do not take account of these issues may face reputational risks.

Supply Chain

During the quarter Apple Inc. announced the launch of an in-depth supplier audit in collaboration with the US based Fair Labour Association concerning all aspects of working and living conditions at its suppliers. Following this announcement, Apple's supplier Foxconn Technology Group ("Foxconn"), announced a retrospective wage increase for its Chinese workers effective 1st February. This is the third wage increase of Foxconn since 2010. FIL analysts continue to assess the impact of increased supply chain costs within their respective sectors.

Human rights – sanctions

FIL analysts continue to monitor sovereign considerations in Burma. From 1962 to March 2011 Burma was ruled by a military junta. The first general election in 20 years was held in 2010. This election was hailed by the junta as an important step in the transition from military rule to a civilian democracy, although opposition groups alleged widespread fraud and condemned the elections. Many western countries maintain sanctions on Burma. In December 2011, the US Secretary of State officially visited Burma where she met with both the President and opposition leaders. During this visit Mrs Clinton said that the US would be willing to consider easing sanctions if further progress was made towards political reform. FIL analysts covering companies operating in this region continue to monitor this situation.