

**REPORT TO: SUPERANNUATION INVESTMENT SUB COMMITTEE
OF THE FINANCE COMMITTEE - 18 AUGUST 2004**

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT UPDATE

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 583-2004

1 PURPOSE OF REPORT

This report updates the Committee on the Fund Manager's responses to issues raised following consideration of Report No 393-2004 on 19 May 2004.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the replies by the Fund Managers.

3 FINANCIAL IMPLICATIONS

None.

4 LOCAL AGENDA 21 IMPLICATIONS

As part of the Fund's policy on Socially Responsible Investment, its investment managers are required to engage with companies on matters of social responsibility including Sustainability and the Environment.

5 EQUAL OPPORTUNITIES IMPLICATIONS

The Fund's Socially Responsible Investment policy requires investment managers to engage with companies regarding their performance in relation to Employee Care and Human Rights.

6 BACKGROUND

When the last six monthly report on Socially Responsible Investment was considered on 19 May 2004 some concerns were raised over specific engagements by managers and more generally how they independently checked information supplied by companies.

All three replies are attached at Appendix 1.

**DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)**

10 AUGUST 2004



David K Dorward
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 28 May 2004

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Dear David

Socially Responsible Investment

Thank you for your letter dated 25th May 2004. In response I hope an explanation of our engagement process will allay any concerns the Sub-Committee might have.

Before meeting with a company a considerable amount of research is carried out on an issue, sector or company in order to ascertain significant SRI issues and to ensure that we, the manager, are fully informed. The result is that in an engagement meeting, if a company is repeating publicly available information or circling an issue, we have enough knowledge to ask questions which require a more detailed in-depth response.

Once we have engaged with a company, we do undertake to continue observing and researching them. This ensures that if their actions do differ from their stated position or if a report contradicts or casts doubt on previous information, we are in a position to respond accordingly.

The BTC Pipeline

The BTC pipeline project is considered to have been the first major test of the Equator Principles (a framework for investors to consider when financing projects in developing nations, see www.equator-principles.com for more details) having being categorised a 'Category A' project. As a result there has been a considerable number of environmental and social assessments carried out by private sector banks, the IFC, EBRD and OPIC, as well as by an independent consultant, Mott MacDonald. These are available on the internet.

Regarding the WWF allegations, BP's response has been verified by the Mott MacDonald's 'Pre-Financial Close Environmental & Social Construction Monitoring' Report and the IFC who took the unusual step to publish its response to the WWF in a nine page document as part of its 'Response to submissions received during the 120-day Public Comment Period'.

PARTNERS

A list of partners' names is available at the above address

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Both confirm that the appropriate assessments occurred and management practices are in place to ensure environmental and social compliance.

It is also worth noting that although a company might try and withhold information it is not in their long term interest to give anything but straightforward and honest answers to questions. A false answer would only increase our (and others) long term, continued interest in them and would immediately impact upon their reputation.

Please do contact us if you have any further questions. Kenny Bell (0131 275 3000) and Marianne Harper Gow (0131 275 3002) are best placed to answer more detailed questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tom Wright', with a stylized, wavy line extending to the right.

Tom Wright

Mr D Dorward
Depute Chief Executive (Finance)
Floor 4
28 Crichton Street
Dundee
DD1 3RF

- 3 JUN 2004

2nd June

Dear David

*David
copy to MS
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me*

Socially Responsible Investment

I am replying to your letter dated 25th May 2004.

As part of our SRI engagement approach with UK companies, we seek to have a dialogue, not only with company management, but also with interested parties who may be able to provide us with an alternative perspective on a company's environmental and social performance. Such groups would include Non-Governmental Organisations and trade associations, as well as brokers. This can often provide us with a degree of informal verification of the company's own statements.

We also encourage companies to seek external verification themselves for their Sustainability and Corporate Social Responsibility reports and to publish these verification statements. This verification process is similar to that carried out for financial reports and is something which we see as being of increasing importance as companies improve their disclosure on the material non-financial risks affecting their business.

BP is one example of a company that has adopted this practice of external verification. BP employs auditors to confirm every reported statement about its environmental, social and ethical performance and their observations are published within its Sustainability Report.

The company also takes steps to ensure that it has input from independent experts for the individual projects it is involved in. This is the case with the Tangguh Liquefied Natural Gas Project, where the company has set up an independent advisory panel to advice on best practice in terms of environmental and social policies. We also attended a meeting on this project where NGO groups were represented as well as the company itself. This allowed us to hear a range of different perspectives on BP's policies, helping us to form a more balanced view of the company's performance.

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I hope this provides you with the answer to the question posed in your letter, but please let me know if you need any more assistance.

With kind regards

Yours sincerely,



Peter Yarrow
Senior Investment Director
Direct Line 020 7961 4683



BERNSTEIN

Investment Research and Management

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17 JUN 2004

16 JUN 2004

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14 June 2004

Dear David

Thank you for your letter on the subject of engagement verification. Our verification approach is designed to allow us to monitor companies thoroughly, without being over-burdensome in terms of the time commitment required. It is made up of three main elements. Firstly, our analysts raise the topic of engagement at most of their meetings with companies. In the process, they frequently revisit issues which they have raised in the past, enquiring into the amount of progress which has been made in each area. Bernstein holds over 3,000 of these meetings per annum, so this is an important checking mechanism. Secondly, we stay up to date with external sources of information such as press reports, company web sites and stockbrokers' research, to monitor the progress that companies are making in carrying through their commitments. Thirdly, we make extensive use of the database provided by EIRIS, the Ethical Investment Research Service, which regularly flags up implementation issues.

In your letter you ask about the specific examples of engagement highlighted in our most recent quarterly presentation. One these examples relates to Barratt, the housebuilder. Here the issues we have been pursuing include safety standards and the environment. We have returned to these themes in two company meetings this year, and also in an exchange of emails. A recent press release suggests that Barrett is making progress in this area. Our quarterly presentation also highlighted Pearson, where we have been focusing mainly upon corporate governance issues. Our concerns were raised initially in a company meeting last November, and then revisited as part of a telephone conversation in February. Moving on to the Unilever example mentioned your letter, one of the issues we have been raising relates to child labour in the Indian cottonseed industry. The children concerned were employed by one of Unilever's subcontractors, and on this basis the company has disclaimed responsibility. In line with EIRIS, we tend to regard this response as unsatisfactory, and we have raised the topic with the company in a number of conference calls. Unilever has now left the cottonseed business, and argues that the concerns about child labour should no longer apply. Nevertheless we have enquiries outstanding with the company to ensure that it does not retain an exposure in this area, for example through indirect ownership structures.

Please let me know if you have any further queries on the above.

Kind regards



James Ross

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