REPORT TO: **SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 15 NOVEMBER 2010**

REPORT ON: **SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT**

REPORT BY: **DIRECTOR OF FINANCE**

REPORT NO: **674-2010**

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 30 September 2010.

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 Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

10 BACKGROUND PAPERS

None

MARJORY STEWART
DIRECTOR OF FINANCE **4 NOVEMBER 2010**

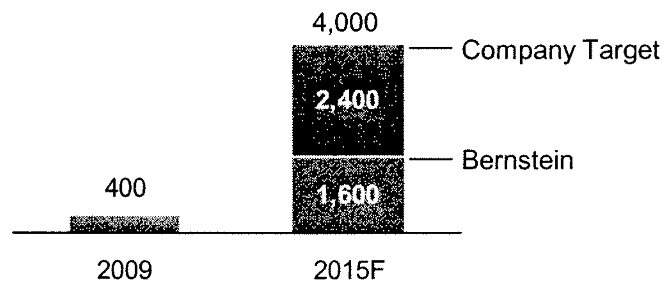
ESG Research: DuPont and Biofuels

- DuPont has three attractive business segments
- The company's investments in biofuels should augment revenues
- Biofuels provide promising additional upside for shares that are already attractively valued

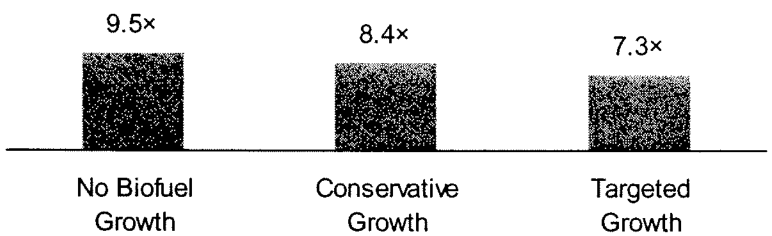
Opportunities

Segment	Opportunity
Specialty Chemicals	Recovery in autos and construction
Agriculture	Large, stable, growing business
Biofuels	Cellulosic ethanol and biobutanol

DuPont: Biofuel and Biomaterial Revenue (USD Millions)



DuPont: Price to Normalized Earnings (2015F)



As of March 31, 2010
Source: DuPont and Bernstein; see Disclosures and Important Information.

Appendix 1

Appendix 2

Company	Engagement Report
BG Group	BG Group is a leading player in the global energy market, with operations in more than 25 countries over five continents. We met the Chairman to discuss corporate governance including succession planning, the recent AGM, and strategic issues such as recent M&A activity. Both the Chairman and the CEO are due to retire in the next few years and the board is already considering suitable replacements. Several internal candidates are being considered for the CEO role but the nominations committee has also employed headhunters to consider external options. Finding suitable successors for the roles of Chairman and CEO are critical for shareholders, therefore we will continue to monitor progress in this area. Regarding the recent AGM, we discussed our vote against the proposal that gave the company the right to have a large rights issue without seeking shareholder approval. The Chairman acknowledged our concerns and said that future issues would cover only the amount needed. On strategic issues, we discussed the appropriateness of publishing short-term production targets. The chairman has received similar comments from other shareholders and plans to discuss this again with the board. We welcome this news.
Royal Dutch Shell	Shell had a shareholder resolution at their 2010 AGM that requested the company publish additional details of the environmental, social and financial risks associated with their tar sands projects in Canada. Tar sands are considered to be a particularly controversial source of hydrocarbon fuel because mining them requires significant amounts of energy, they are a relatively high carbon content hydrocarbon, and they cause environmental scars on the land in the form of opencast mines and tailing ponds. The company responded extremely proactively. Not only did it provide us with the opportunity to discuss the relevant ESG matters with the Head of the Canadian Operations, it also arranged a day in London for investors to discuss all aspects of its ESG performance including operations in Nigeria, research into alternative fuels, tar sands, carbon capture and storage, and emission reduction targets. In addition, the CEO, in his opening speech, disclosed the cost of carbon the company incorporates into every investment decision - $40 per tonne. For some time, investors have been asking the company to divulge this figure so we were pleased with this improved disclosure. As a result of the additional information the company disclosed prior to the AGM, we were able to support management and oppose the shareholder resolution. Ultimately the resolution received limited shareholder support (5.7% voted FOR the resolution), but it did initiate significant discussion, which prompted the company to consider its disclosure and increase its engagement with shareholders. We therefore consider the resolution to have been a success and were pleased the company responded in such a positive manner.

Company	Engagement Report
Cia Vale do Rio Doce	Vale, a Brazilian mining company, bought Canadian rival Inco in 2006. We last spoke to the company about its approach to environmental and social matters (including health & safety, labour and community relations) and the integration of the Inco assets in Q2 2008. The company informed us then that all environmental and social issues were of importance when integrating a new asset and that this was the case with Inco. Since then, however, there has been significant trouble with the Inco workforce, with employees striking over proposed changes to the remuneration terms and conditions. The company is trying to align the remuneration policy, including pay, incentives and pension contributions, with the policies it has in place at its other operational sites. We spoke to the company who confirmed that the strike affected a small part of its operations, but that for the time being it could afford to have the site operating significantly below optimum levels. We understand that this is a very sensitive matter for the negotiating parties, the company and the union, but have encouraged the company to be proactive in trying to bring the negotiation to a satisfactory conclusion. In addition, despite Vale's policies and the extensive reporting of its approach to ESG issues, we have encouraged the company to provide more detailed information about the issues that are of greatest concern to the board. We will continue to review the company's progress with this negotiation. Update, 4/7/2010: It appears that the labour dispute may come to an end after the union came to a tentative deal with the company's Brazilian owner, Vale. If the employees represented by the United Steel Workers approve the terms of a new five-year contract at votes scheduled for later this week, it will bring an end to a strike that has lasted for nearly a year. We welcome this news.
Deutsche Boerse	Deutsche Boerse (DB) is the German stock exchange operator providing financial institutions, companies and investors with access to global capital markets. An Act came into force in Germany last August, requiring shareholders to be provided with an advisory vote on executive remuneration at Annual General Meetings (AGM). DB put forward a resolution to give shareholders an advisory vote on executive remuneration at their own AGM this year. They offered us the opportunity to discuss corporate governance and executive remuneration issues with them in more detail prior to voting at the AGM. Discussions with DB around executive remuneration were invaluable in assisting us in our decision to support the Remuneration Report. The company explained in greater detail how the Remuneration Committee aligns executive pay with the long-term interests of the shareholders and the long-term performance goals of the company. We are pleased that the company has agreed with our view that it should provide fuller disclosure on executive remuneration in future.
Namco Bandai Holdings Inc.	Namco Bandai make toys, run amusement arcades, and develop computer games. We had a meeting with the president, Mr Shukuo Ishikawa, to discuss the statutory auditors on the company's board. Japanese companies are legally obliged to ensure that half of their statutory auditor board is independent. The statutory auditor's role is to approve the external audit of the company's financial accounts. We also take the view that they serve a supervisory function on behalf of shareholders, and provide the board of executives with external expertise and advice on key strategic issues. Four statutory auditors were elected at this year's Annual General Meeting, one of whom was considered to be affiliated to the company through his outside role as an attorney and a partner at a law firm. Namco Bandai wished to discuss the independence of this nominee, Mr Yanase. We were informed that Mr Yanase provides legal advice to the board of directors on general legal matters, mergers and acquisitions, and also in relation to specific lawsuits, although he does not receive fees for the legal advice he provides. Following our discussions with the president, we are satisfied that Mr Yanase is a suitable individual to be an independent statutory auditor and brings expertise to the board, both as a statutory auditor and through his in-depth legal knowledge. We will continue to monitor the independence of the board and the statutory auditors.

Company	Engagement Report
Petrobras	Petrobras is a Brazilian oil and gas company with an international presence covering 28 countries. We recently had a conference call with the head of investor relations (IR) to discuss a number of issues pertinent to this investment, including an upcoming Extraordinary General Meeting (EGM) and their views on the BP oil spill. This latter point is relevant because around 65% of Petrobras' offshore oil exploration occurs in deep water where operating conditions are similar to those in the Gulf of Mexico. Capital raising: The company recently called an EGM. It is seeking shareholder approval for a large capital raising to help fund its long term growth strategy. Simultaneously, it is planning to acquire oil reserves from the Brazilian government using some of the funds raised from shareholders. The price Petrobras pays for these exploration rights is of significant interest to minority shareholders because the Brazilian government is the controlling shareholder and also the owner of the reserves being acquired. This creates a situation where the transaction may not occur 'at arms length', so part of our discussion focused on the valuation of the assets. The company would not disclose this information to us, but did reassure us that minority shareholder rights would be protected by a strong oversight process. BP Oil Disaster: Around 65% of Petrobras' offshore oil exploration occurs in water depths of more than 400 metres, so the incident that occurred in the Gulf of Mexico is a learning opportunity for the company. It is important that all companies with operations similar to BP understand what has gone wrong and learn from the mistakes. We discussed the issue with IR and learned that Petrobras views safety and environmental performance as a cultural issue; if the tone is set correctly at the top of the organisation, this filters down through the company. This position is supported by the company's corporate strategy which is based upon three pillars; profitability, growth, and, importantly, sustainability. Petrobras itself had some safety and environmental incidents in 2001 and they feel that these events taught them important lessons regarding the operational performance of the company. We were also encouraged when we learned that external contractors must adhere to the same safety standards as Petrobras employees, even if there are additional associated costs. The company admitted that the main challenge it faces is to make sure that infrastructure growth, employee training and operational performance keep pace with reserve growth, and that no corners are cut. Management of environmental and safety performance for an oil and gas company will always be a challenge but, having discussed the issues with the company, we are confident that these matters are high on the board's agenda and considered an important component of its operational performance.

Company	Engagement Report
Gazprom OAO	We have held shares in Gazprom for several years and, at the last two AGMs, we voted in favour of over 100 resolutions that seek approval for related party transactions. We were interested to understand the need for so many resolutions. In addition, we asked Investor Relations for information about the work of the one truly independent non-executive director, for whom we vote each year, the company's activities in Iran; and the extent to which the health, safety and environmental (HSE) policies are implemented. The significant number of related party transactions we vote for are a function of Russian legislation that has a specific definition of 'related party transactions' which means many less significant business transactions are listed as separate resolutions. We were informed that the independent non-executive director does hold conference calls with investors and that the content of these calls is discussed at board meetings. We have requested a call with him. Gazprom confirmed that it has one project in Iran and is currently negotiating another. We will remain up to date with the company's Iranian activities. The company's HSE policy focuses on efficient resource ulitisation and cost reduction in the form of energy saving policies. This sophisticated way of considering and managing environmental risk, contrasts with limited Health and Safety disclosure, although the company does provide injury and accident statistics. Concerns about HSE performance in Russia are increasing although regulatory requirements are lower than those in developed economies. We will continue to monitor and engage with the company. And finally, the company confirmed that it closely monitored events in the Gulf of Mexico and has reviewed its own activities to ensure it doesn't suffer a BP-style disaster.
Inpex Corporation	Inpex is the largest Japanese oil and gas exploration and production company. It has major exploration projects in Japan, Asia, Oceania, Middle East, Caspian Sea District, Central and South America, as well as Africa. We like Inpex's exposure to Liquefied Natural Gas (LNG) and see the development of the Ichthys field off North West Australia as being particularly important to earnings and cash flow in the longer term. We met the company's President at its offices in Tokyo to discuss recent capital raising, board structure, and its approach to health, safety and environmental (HSE) issues. The President acknowledged that HSE is a high risk area for Inpex, and that it intends to review the risk management procedures in its joint ventures following the Gulf of Mexico disaster at BP. It is, however, awaiting the findings of the US regulatory investigation before it makes any changes. The President also highlighted the importance of other initiatives including how Inpex develops constructive relationships with the local communities in which it operates, and its increased focus on LNG, which has lower carbon emissions. We also discussed the role of the outside non-executive directors (NEDs). None of the NEDs is independent, since they currently serve as directors or advisers to other oil companies that are major shareholders of Inpex. However, the President said that they did raise questions about the recent capital raising which was dilutive to minority shareholders. It was not clear to what extent they actually challenged managements' decision, but the President emphasised the importance of the capital raising to the company's future growth plans in North West Australia and its Indonesian LNG project. We will continue to monitor any changes to the company's risk management procedures post the Gulf of Mexico disaster.
Samsung Electronics Co	Samsung Electronics is a global company headquartered in South Korea. It has over 190 subsidiaries around the world that are involved with production, sales, distribution and research. As such, there are a wide variety of health, safety & environmental (HSE) and broader sustainability issues to manage. One of the contributing factors to the investment rationale is that we believe the market is underestimating the company's long term growth prospects and improving brand recognition. Brand and reputation can be undermined by poor HSE performance and so having the systems in place to monitor and manage the issues is of material importance to the company. Currently there are allegations by former employees and their families that there have been an unusually high percentage of employees falling terminally ill. We spoke to the Director of the CSR Liaison Office who reports directly to the CEO. He confirmed that they have set up a Task Force to investigate the matter and would keep investors and other stakeholders informed. We believe this illustrates that the company is taking the matter seriously, but will continue to discuss the issue with them to ensure it does not impact the company's brand or reputation.

Company	Engagement Report
Sina Corp	Sina is a leading internet portal in China, and represents one of the best ways to access China's embryonic advertising market. Sina offered us a conference call with their Chief Financial Officer and their Investor Relations Manager to discuss the amendment being made to the 2007 Share Incentive Plan in which executives, key employees and management participate. They were seeking shareholder approval to increase the number of shares they could grant to through their share plan. We were concerned that the issuance of additional shares would dilute shareholders significantly. However, the company reassured us that the impact would be limited as the awards are granted bi-annually and are capped. As an internet business based in China, Sina considers its employees to be its most important resource. The amendments to the 2007 Share Incentive Plan are designed to retain, recruit and incentivise key employees through a competitive remuneration package which is closely aligned with shareholder interests. We were supportive of the amendment as we believe it has aligned management and shareholders' interests.

Appendix Environmental, Social & Gov ("ESG") Overview - Q3 2010

During the quarter, FIL announced the appointment of a new Head of ESG, a newly created role, to act as a focal point within FIL globally for environmental, social, and governance ("ESG") - related activities. The Head of ESG will work within the framework as outlined in our Principles of Ownership (as stated below):

> FIL believes that high standards of corporate responsibility will generally make good business sense and have the potential to protect and enhance investment returns. Consequently, our investment process takes environmental, social, and governance ("ESG") issues into account when, in our view, these have a material impact on either investment risk or return. ESG best practice should be encouraged provided they enhance long term financial return.
>
> We do not screen out companies from our investment universe purely on the grounds of poor ESG performance but rather adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest or consider investing on behalf of our clients. We use the information gathered during these meetings both to inform our investment decisions and also to encourage company management to improve procedures and policies. We strongly believe that this is the most effective way to improve the attitude of business towards corporate responsibility.

As stated above, FIL incorporates ESG into its investment process when ESG related issues may have a material impact on either investment risk or return. Examples of such risks could include the impact of regulation (the carbon market, energy efficiency alternatives etc...) or impacts to brand equity (reputational risks, supply chain concerns, etc...).

Below are highlights of potential issues, dialogue and company engagement noted by our investment teams in the last quarter.

The Impact of Regulation

1. The Carbon Market

(i) Carbon Emission Reductions

The EU Emissions Trading Scheme (ETS) was approved in 2008. The ETS limits the carbon dioxide (CO2) emissions of certain industries and requires companies seeking to emit above those limits to purchase the requisite amount of credits/allowances, creating a secondary market. We continue to monitor how EU limitations on emissions under the ETS affect companies in which we invest. In our view, companies that can reduce their direct and indirect CO2 emissions are potentially at a competitive advantage in markets where there are limits on carbon emissions.

As part of the future energy landscape of the UK, the Department of Energy & Climate Change is due to publish the Energy Market Review ("EMR"), first as a consultation document by late November, and then a White Paper in spring 2011. The EMR is looking at how to reduce the carbon emissions of (or "decarbonise") UK's energy supply and how to incentivise renewable energy generation in the UK. "Decarbonisation" of energy generation is part of the UK's EU commitment to reduce emissions of CO2/greenhouse gases by 20% by 2020 versus 1990 levels. Whilst the UK government is keen to increase the level of renewable energy generation and transmission capacity, the gas and electricity market regulator Ofgem estimates that the UK will need to spend approximately £200bn over the next 10 years on generation and transmission capacity, with an estimated £32bn of this amount targeted specifically at transmission capabilities.

The EMR is examining ways to incentivise renewable energy generation in the UK. This may involve a change to the current structure of the renewable obligation certificate ("ROC") scheme, which rewards producers of renewable energy are paid. In the future, the ROC scheme may be used to set a minimum carbon price, which would act alongside the EU ETS carbon price scheme. The plans will potentially aim to incentive to the construction of new nuclear power plants in the UK.

Fidelity's utilities analyst is examining how potential changes to the ROC scheme, and the introduction of a carbon floor price, could impact the sector and is having ongoing discussions with a number of power generation companies.

During the quarter, Fidelity's utilities analyst analysed the impact of increased power generation capacity, in conjunction with changes in the capacity mix (between coal, gas, solar, and wind power) in the German utilities market. These considerations are material due to the wide spectrum of customers serviced by the utilities industry.

(ii) Renewable Energy - Water & Wind Use

The EU Commission has established an objective to improve energy efficiency as part of its "20-20-20" goals. The purpose of the goals is to reduce the EU's greenhouse gas emissions by 20% compared to 1990 levels and to increase the use of renewable energy sources in overall energy consumption by 20% by 2020.

Fidelity's renewables analyst continues to examine the water consumption levels of different renewable power generation technologies. Power generation from solar thermal plants, such as those developed by **Acciona** and **Abengoa**, can be water-intensive. In comparison, wind turbine producers **Vestas Wind Systems**, **Gamesa** and **Clipper Windpower** have low water usage. These considerations are material in some regions because water usage may become subject to increasing regulatory constraints in the future.

During the quarter, the US Senate confirmed that it will not pass a full climate bill in its current session. Fidelity's renewables analyst continues to analyze the impact of the proposed legislation on the sector. During the quarter the impact of the Senate's decision was discussed with **Vestas Wind Systems, EDP Renovaveis** and **Iberdrola Renovables**.

2. Energy Efficiency

Recent figures estimate that a significant amount of the EU's total energy consumption and CO2 emissions results from daily activity in residential and commercial buildings. Current EU rules require Member States to reduce household emissions by 2020. According to commentators, these rules will provide the homebuilding sector with significant incentives to build energy-efficient homes. Also, the French Senate recently adopted a law to improve energy efficiency in residential and commercial buildings. Pursuant to this law, buildings in France will need to reduce average annual energy consumption from 2010 levels.

The UK government is currently consulting on ways to implement minimum standards for the energy performance of buildings. Fidelity's analyst continues to discuss the potential cost and opportunities resulting from future legislation with the homebuilders **Barratt Developments** and **Taylor Wimpey**.

3. Sustainable Transport

In December 2008, the European Parliament passed regulations limiting future emissions from automobiles. Therefore, companies that develop products reducing automobile emissions, as well as manufacturers developing cars with low emissions, are likely to benefit. Fidelity's analysts have examined different strategies companies may use to meet future emission targets. During the quarter, Fidelity's engineering analyst conducted a **Tognum** plant visit to assess development of its emission compliant diesel engine. In addition to this, the analyst also assessed electric vehicle development at **Tomkins PLC** and attended Innotrans, the world's largest trade fair focused on the rail transport industry to assess trends in the industry.

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.

Local Communities

Fidelity's mining analyst continues to discuss with **Vedanta** public concerns arising from the company's mining operations in Orissa, India. The company has been the subject of a number of highly critical reports with regard to environmental damage and dislocation of indigenous people. Additional scrutiny has been placed on the company following the publication of a report by Amnesty International in February 2010 urging investors to engage with the company on the risks and human rights concerns. Thus, the Amnesty report and those published by other organisa tions on this issue have resulted in significant negative publicity and consequently pose a reputational risk to the brand. Fidelity continues to monitor the situation at Vedanta.