

26th November 2008

Dear << Remuneration Committee Chair >>,

Re: Your request for feedback on remuneration arrangements

Thank you for taking the time to meet with us last week. We enjoyed the conversation and appreciate the valuable insights you gave us.

As promised we include our thoughts on executive remuneration at Company X in the attached document, which discusses the use of EPS growth as a sole performance metric in contrast to the use of a complementary blend of carefully chosen additional performance metrics.

Our objective is to take a partnership approach to working with the managers and directors of the companies in which we invest in order to improve business performance and shareholder returns. In regard to discussions on remuneration we use our perspective as a long-term shareholder to encourage companies to choose performance metrics that support their business strategy on a case by case basis.

In this light, we feel bound to comment that Company X's use of EPS as (essentially) a sole performance metric in long-term executive reward falls short of our expectations in respect of encouraging executive behaviours aligned to creating durable business performance. Company X is now in a distinct minority of FTSE X companies that use EPS in isolation of other performance metrics in its Performance Share Plan.

We should also note that our discussion of CFROI should be interpreted as reflecting our belief that companies should employ some measure of return on invested capital in the appraisal and reward of executive performance, rather than as a recommendation to use CFROI in performance measurement and remuneration.

In addition, some of your requests for information may be based on an assumption (to which we may have inadvertently contributed) that robust correlations exist between certain business performance metrics and associated stock price performance. The research findings are that some business performance variables exhibit higher correlations to stock price performance than others. Nevertheless, as you know, all such correlations are relatively weak because stock prices are set by expectations of

business performance and changes to these expectations, rather than by the fundamentals themselves. We are more interested in fundamental business performance and we wish to encourage managers to focus on this because we believe, in the long-term, this will be reflected in stock market valuations.

Finally, we approve of Company X's policy of requiring executives capable of influencing the valuation of the Company to hold a significant number of shares. Naturally, this creates alignment with the Company's shareholders.

We hope you find our observations useful in the forthcoming meeting of the Remuneration Committee. At this stage, we feel a discussion of the alternative of abandoning LTIPs altogether in favour of annual bonus plus deferrals may detract from our attached observations. Nevertheless, we look forward to continuing our dialogue on the subject of remuneration at Company X at your convenience.

Yours sincerely,



Ben Levenstein

Head of UK Equities

Universities Superannuation Scheme



Daniel Summerfield

Co-Head, Responsible Investment

Universities Superannuation Scheme



Frank Curtiss

Head of Corporate Governance

RAILPEN Investments