USS

For members, for the future.

The Universities Superannuation Scheme (USS)

Stewardship Code Report 2022

This document may make reference to specific entities and other constructs within the USS Group. Set out below is a summary of what we mean:

- Universities Superannuation Scheme (the Scheme) – a trust-based workplace pension scheme governed by a trust deed and rules.
- Universities Superannuation Scheme Limited (the Trustee) – the trustee of the Scheme. The trustee makes sure the Scheme, which is set up for the benefit of our members and their dependants, is run in line with the trust deed and rules and legal duties.
- USS Investment Management Limited (USSIM) – a subsidiary of the Trustee. It looks after the investment and management of the Scheme's assets.

However, for simplicity and to aid readability, this document may also make use of terms such as Universities Superannuation Scheme, USS, we, us, our and similar, as a way of collectively referring to entities and/or other constructs within the USS Group – rather than referring to a specific entity and/or other construct. Whilst this document may make use of forms of collective reference, each entity or other construct has a distinct role within the USS Group, and the use of forms of collective reference and simplification within this document do not change this.

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Foreword

Dame Kate Barker
Chair

Welcome to the second Stewardship Code report from the Universities Superannuation Scheme (USS). This report combines an update of our Principle-by-Principle approach from 2021 along with details of new case studies and examples of other initiatives we've undertaken over the past year.

We believe in investing responsibly, by integrating material environmental, social and corporate governance (ESG) issues into investment decision making, and engaging as long term owners. The way a company is run and overseen, its culture and management ethos, and how it manages its environmental and social risks will impact the long term financial returns that it will make for its investors. As a pension fund with liabilities extending decades into the future, it is in USS's interests to encourage the companies, assets and markets in which we invest to focus on delivering sustainable investor value over the very long term.

The Trustee Board has both led and supported the Scheme's Responsible Investment (RI) activities for many years: our inaugural RI policy was launched in 1999, our first team members were appointed in 2000. We began working on climate change risk in 2001, when we assessed the implications of climate change for institutional investors. We were involved in the development of the United Nations-backed Principles for Responsible Investment (UNPRI) and were proud to be founder members of the Transition Pathway Initiative in 2017. We now have the largest RI team of any pension fund in the UK.

We can always improve our approach to RI, and continually look to progress our practices and policies. We believe that RI policies should be applied across the asset classes in which we invest as consistently as possible – both public and private – irrespective of whether the assets are internally or externally managed. USS's approach to responsible investment revolves around the effective stewardship of all our assets, focusing in particular on sustainability and good corporate governance.

In 2021 we announced our ambition to be Net Zero in terms of greenhouse gas emissions by 2050, if not before, and have already taken three important steps on this journey:

- We've set interim targets, asking our internal investment team to work with the companies in its investment portfolio to cut the emissions intensity by 25% by 2025 and by 50% by 2030.
- We've introduced a climate 'tilt' to a portion of the Global Developed Markets equity component of the defined benefit and defined contribution funds held by the Scheme – a change that will affect over £5bn of assets under management, and that will include all Scope 1, 2 and 3 emissions from day one.
- And we've announced a new £500m Sustainable Growth mandate, whereby we will invest globally — either directly or through funds — in high growth, privately-owned businesses that are developing technologies and services that will help companies and the broader economy to decarbonise.

We can't look back at the past year without referencing the shocking events in Ukraine. In terms of our own position, we felt there was a clear financial and moral case for divestment with respect to our Russian holdings. We placed a moratorium on new long positions taken in all Russian assets, which is over and above full compliance with UK Government sanctions. Where we are not in direct control, we encouraged managers to respect the moratorium, in line with our exclusions policy. Where we have existing investments, we will continue to consider our position carefully in the light of trading restrictions.

> *"As a universal owner of assets, USS is exposed to the economic performance of markets globally. It is therefore crucial that we continue to engage with policymakers and collaborate with global partners such as the IIGCC to signal the need for concerted action on issues such as climate change."*

Introduction

The focus of this report is the Scheme's response to the 12 Stewardship Principles developed by the Financial Reporting Council (FRC). Principle-by-principle, we describe how we implement our commitments to being an active steward of the Scheme's assets and summarise our responsible investment (RI) activities and outcomes across all of our asset classes, with a particular focus on the financial year 2021-22.

Report oversight and approval

As many of the investment, stewardship, and other responsible investment-related processes have been the same in 2021-22 as they were for our initial Stewardship Code Report, we have built on the previous report's structure and processes. New content has been added, particularly case studies, to bring to life the Scheme's approach to stewardship over the past year. This Report has been through the following review process:

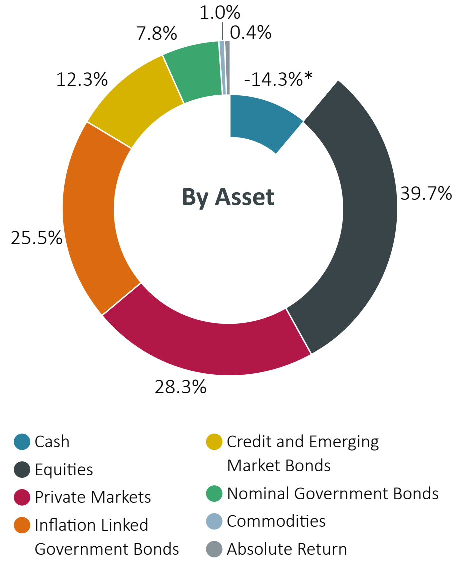
- Inputs from different investment and other teams across USSIM to cover asset class specific issues.
- Review by the Head of Responsible Investment.
- Final internal review by the CEO of USSIM.

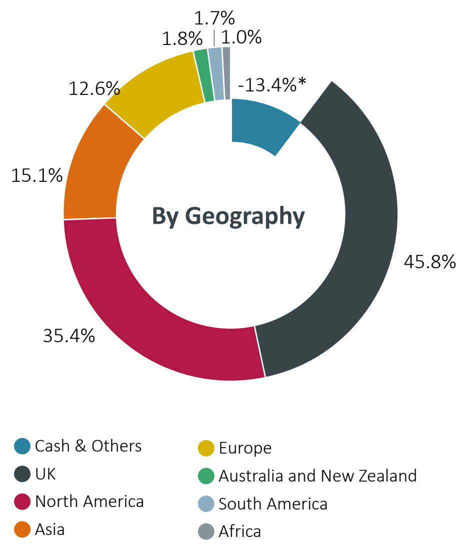
About us

USS is the principal pension scheme for universities and higher education institutions in the UK. We are the largest private pension scheme by assets in the UK, with some £95.1 billion in assets under management (as of 31 December 2021). USS's in-house manager, USS Investment Management (USSIM), acts as principal manager and advisor to the Trustee of the Scheme, including the appointment and monitoring of a number of other external investment managers. We manage almost 70% of our assets in-house.

> *We want to achieve a Net Zero world, not just a Net Zero pension fund.*

Where we invest*





Source: USS, March 2021
*Denotes leverage

2021: Activities and highlights

1 Making progress on our Net Zero ambition

In May 2021 we announced our ambition to achieve Net Zero by 2050 if not before. This is in line with the Paris Agreement, which USS has publicly supported. Since then, we have continued to make progress, including appointing S&P Trucost as our climate data provider and establishing internal asset class Net Zero Working Groups reporting to a Net Zero Steering Committee. In addition, we have announced interim targets: we will work with the companies in our investment portfolio to cut the intensity of the emissions they generate by 25% by 2025, and by 50% by 2030 (relative to the 2019 baseline). We have also announced a new £500m Sustainable Growth mandate, to invest - either directly or through funds – in high growth, privately-owned businesses that are developing technologies and services that will help companies and the broader economy to decarbonise.

2 Introducing a 'climate tilt' to our portfolio

We've introduced a 'tilt' to a portion of the Global Developed Markets Equity component of the defined benefit and defined contribution funds held by the Scheme. This change will affect over £5bn of our portfolio and will initially reduce emissions (compared to the broad equity market) by at least 30%, and further decrease its carbon intensity by 7% each year thereafter. It will include all Scope 1, 2 and 3 emissions from day one. Please see Principles 1 and 7 for further details.

3 Taking action on human rights

We joined two collaborative investor engagements (led by the International Association on Human Rights) with companies invested in Myanmar, to understand how they were protecting their workforce and contributing to the potential reintroduction of democracy to the country. In addition, our portfolio managers raised the issue of Uyghur Muslims in the supply chains of both their Chinese holdings and international companies with China-based suppliers. We will continue to engage companies on these issues. See Principle 9 for more information.

4 Working with real assets to create sustainable value

For example, we're working with motorway services provider Moto to create long term value for members by improving the sustainability of the company's assets. Watch our video at USS and Moto – working together for members

We have already invested or committed £1.91 billion to renewable energy and demand for this will only increase as more and more countries transition to lower carbon. We know that our members care very much about climate change and responsible investing and we are convinced that USS playing its part in supporting the transition to a low carbon economy makes good financial sense, too.

5 Sharing the load to improve reporting

Together with Brunel Pension Partnership, BTPS, the Church of England Pensions Board, RPMI Railpen and Chronos Sustainability, we developed a practical tool that would help us and other asset owners better manage our responsible investment and stewardship reporting requirements.

Our approach

Our activities as a responsible investor fall into three core areas:

1. **Integration:** we seek to include financially material ESG considerations within investment decision-making processes and, as a pension fund with an in-house investment manager (USSIM), we have more direct control of such integration. By integrating material ESG considerations with a financial bearing into our investment methodology, USS seeks to identify mispriced assets and enable our portfolio managers to make better investment decisions to enhance long term performance. We do this because we believe additional returns are available to investors who take a long term view and are able to identify where the market is overlooking the role played by material ESG factors in corporate and asset performance. Systemic mishandling of ESG issues can also be an early indicator of wider mismanagement or financial problems.
2. **Engagement, voting and stewardship:** as a long term investor, we believe we have an obligation to act as stewards of the assets in which we invest, and to behave as active owners, using our influence to promote good ESG practices. We believe that such stewardship can help prevent or avoid value destruction and reduce the negative impacts companies can have on the environment and society.
3. **Market transformation activities:** universal investors are those who, like USS, have holdings that are so diversified that their investment returns are impacted by the returns from the economy as a whole, as much as from any specific industries or companies. We believe that we have a role to play in promoting the proper functioning of markets and economies, which benefits us as a universal investor. This includes engaging with policymakers and regulators in markets in which we invest, in order to articulate the concerns of asset owners and long term investors. We seek to ensure that externalities and systemic market failures such as pollution, climate change or weak corporate governance standards do not affect market-wide long term economic performance.

Looking ahead

We can always improve our approach to responsible investment, and continually look for ways to do so. In 2022/2023 we will focus on four areas:

1. **Implementing our approach to achieving our ambition to be Net Zero by 2050.**
2. **Enhancing management information tools and evolving RI due diligence and monitoring processes for our external fund managers.**
3. **Improving our access to ESG data for private market assets.**
4. **Prioritising our stewardship and asset ownership by focusing on a small number of areas, including climate change.**

USS Stewardship Code Report 2022: a principle-by-principle account

Purpose and Governance

Principle 1: Purpose, strategy and culture

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our purpose

As the principal pension scheme for universities and other higher education institutions in the UK, our purpose is predicated on our unique position within the investment industry: working with employers to build a secure financial future for our members and their families. In pursuit of our purpose, it is our duty to invest in the financial interests of all our members and beneficiaries.

Our beliefs

At the heart of our organisation is a long-held belief that promoting high standards of ESG, and allocating responsibly to companies and other assets, will protect and enhance the value of our investments by reducing the risks associated with investing. We also believe it enhances our ability to meet the pension promises made to members by our sponsors. That is why active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to our approach to managing the assets entrusted to us.

Our culture and values

Our organisational values underpin our approach to investing responsibly. They are clearly defined and built on three pillars of **integrity**, **collaboration** and **excellence**. These values guide what we do, including how we invest, and how we act as stewards of the assets in our portfolio.

Integrity

- We always do the right thing.
- We put our members' interests first.
- We take decisions for the long term.

Collaboration

- We work towards a common goal.
- We take responsibility for our own actions.
- We are straight-talking and respectful in our dealings with each other .

Excellence

- We set high standards for ourselves and our colleagues for the benefit of our members.
- We adapt and innovate to achieve the best outcome .
- We bring our best selves to work, every day.

"Being challenged, measured and encouraged to keep moving forward is essential if responsible and sustainable investment is to drive the outcomes necessary to protect and enhance our environment, our societies and our economies."

Stewardship: Putting our purpose, beliefs, culture, and values into practice

We express our purpose and values through how we invest, how we manage our members' assets and how we meet our members' needs (we discuss how our approach meets our members' needs under Principle 6). As active owners, we focus on sustainability and good corporate governance. We also ensure the investment managers who are selected and appointed by our Trustees consider financially material considerations including ESG factors related to the selection, retention and realisation of investments.

In practice, our responsible investment approach means we consider the potential impact of ESG factors on our investment decisions. We analyse and assess the impact of these factors in our investments, across all asset classes, regardless of market or structure and both before we invest, and during the term of our investment.

Long term stewardship is central to our fiduciary duty to our members. In line with our sponsors' covenant and liability profiles, we invest for the long term and expect to own companies and investments for many years. This is particularly true of the direct investments the Scheme makes.

At USS, we put responsible investment into practice by:

- Integrating ESG factors into our investment decisions across asset classes.
- Using our influence as a major institutional investor to promote good ESG practices through engaging, voting and applying stewardship.
- Working with policy makers and regulators to ensure the concerns of long term asset owners and investors are clearly understood.

Our Net Zero strategy

In May 2021 we announced our ambition to be Net Zero for greenhouse gases by 2050, if not before. Since then, we have:

- Established a USSIM Net Zero Steering Committee and Working Groups for each asset class.
- Chosen a data provider, S&P Trucost, to work with us to measure our carbon footprint and other climate related metrics for reporting in our Task Force on Climate-Related Financial Disclosures (TCFD) Report 2022. This will enable the Scheme to baseline its position, track performance over time, and assess a range of other climate related metrics.
- Published metrics for the measurement and reporting of our carbon exposure and other climate related data. These are as follows:

Metric	Example
Absolute emissions	Total portfolio emissions
Emissions intensity	Carbon footprint – tCO2e/£ invested
Alignment	% portfolio emissions attributable to assets aligned with a well below-2 degree pathway

We have also:

- Chosen interim targets, seeking intensity reductions of:
  25% reduction by 2025
  50% reduction by 2030
- **Established a climate-tilted benchmark for Developed Market Equities.** To do this we undertook a detailed review of carbon / climate-tilted benchmarks for the developed markets equities allocation for both our Defined Contribution/ Investment Builder, and part of our Defined Benefit/Retirement Income Builder allocations. Having reviewed several major providers, we concluded that Solactive, a German based index provider, was best placed to work with the Scheme to develop an appropriate benchmark. We have appointed Legal & General Investment Management (LGIM) to manage this strategy. See Principle 7 for further details.
- **Committed £500m to a new Sustainable Growth mandate.** We will invest globally in high growth, privately-owned businesses that are developing technologies and services that will help companies and the broader economy to decarbonise. See more in Principle 7.

Case study: climate stewardship – Moto

One of our portfolio companies is Moto, a leading motorway services provider. Watch our video to find out more about Moto's new site in Rugby, which has a number of sustainable features including ultra-rapid electric vehicle chargers. USS and Moto – working together for members

Principle 2: Governance, resources and incentives

Principle 2

Signatories' governance, resources and incentives support stewardship.

Our governance structure

We believe a strong organisational governance structure, paired with a commitment to investing responsibly for the long term, provides the basis to deliver effective stewardship today, and to build on and develop our approach for the future.

We are structured and governed in a way that supports our commitment to responsible investment and stewardship of our members' assets. Universities Superannuation Scheme Limited (USS) is the Corporate Trustee that runs and manages the Scheme, with a Group Executive Committee that looks after day-to-day operations.

The Trustee Board is responsible for the overall leadership, strategy, and oversight of USS, the Scheme, and USS's subsidiary, USS Investment Management (USSIM). USSIM invests the Scheme's assets, including the appointment and monitoring of a number of other external investment managers. USSIM has its own governance structure, which means that key stewardship and reporting issues are reviewed at least twice.

The USS Board comprises:

- Four directors appointed by Universities UK (UUK), which represents the Scheme's participating employers. For more information about UUK, visit www.ussemployers.org.uk/background/why-are-we-here
- Three directors (one of whom is the pensioner member) appointed by the University and College Union, (UCU) which represents the Scheme's members. For more information about UCU, visit www.ucu.org.uk.
- Between three and five independent directors.

The Board agrees the responsible investment strategy and formally reviews the RI Team's activities annually, signing off key focus areas and policies. This includes reviewing the effectiveness of our stewardship processes and whether our resourcing, expertise and approach are appropriate to managing our members' assets and meeting their needs. The Board is supported in this assessment by both the Scheme's Investment Committee, which reviews RI activities biannually, and by specialist external advisors.

The Responsible Investment page on the USS website sets out detailed information on how we consider ESG factors when we invest, and how this is communicated and managed with our internal and external managers. Organising ourselves in this way enables the investment function to take the initiative in implementing the Scheme's ESG polices. The in-house nature of USSIM means the Board is closer to the assets than is the case for the majority of UK pension funds.

The Board has supported the Scheme's climate change activities since 2001, when the Scheme completed its first assessment of the implications of the issue for institutional investors. In addition to an annual responsible investment reporting and review cycle, the Board receives other inputs on ESG management as and when deemed necessary. It also receives regular updates on the climate change-related activities in which the Scheme's executive are involved.

> *We aim to maintain high standards of service and value for money both for members and for our sponsoring employers in the UK's higher education sector*

Our responsible investment and stewardship resourcing

We established a specialist in-house Responsible Investment Team two decades ago, and today, with seven specialists, we have the largest RI team of any UK pension scheme, comprising experienced ESG professionals. The team includes a CFA-qualified financial analyst to support our investment teams in their integration of ESG factors. Our RI Team biographies can be found on page 56 of this report.

The Team works with internal managers and monitors external managers and assets to ensure material ESG factors are integrated into investment decisions across asset classes where they are considered material, ensuring managers act as stewards of those assets. This activity is overseen by the USS Board's Investment Committee, which provides assurance to the Board that its policies are being implemented. The Scheme also commits significant resource to its stewardship and RI activities, including:

- the provisions of ESG data to our internal teams.
- specific data on climate change and carbon exposure for carbon footprinting and tracking our Net Zero progress.
- proxy voting data and platform access.
- sell side research to support integration.

The Team helps the Trustee take a leadership position on a spectrum of ESG issues. These include issues as diverse as climate change (USS helped to set up the IIGCC in 2001 and is a founding Board member of the Transition Pathway Initiative), encouraging manufacturers to add filters to washing machines to reduce microplastic escape into the environment and engaging with companies with potential supply exposure to Uyghur Muslim forced labour in China.

Clear responsibilities

Our RI Team is organised into three groups. One focuses on the integration of ESG factors into investment decisions, the second on stewardship (including voting and engagement), while the third is responsible for external managers (in both public and private markets) and direct asset due diligence and monitoring.

Whilst the team leads much of the stewardship activity that encourages both listed companies and other portfolio assets to manage better climate change-related and other ESG risks, USS's internal fund managers also frequently engage directly with companies and other portfolio assets on ESG issues both individually and in conjunction with the specialist team. For example, during this reporting period there have been joint engagements on the exposure of companies to Chinese supply chain issues, and with cement companies on how they are managing the transition to a low carbon world (read more under Principle 9). Formal and informal interactions promoted the collaboration and sharing of insights between our investment specialists and responsible investment team. Throughout the pandemic, well-established practices meant that whilst more challenging, these interactions have been able to continue remotely.

Engagement meeting notes and voting letters for publicly-listed companies are shared systematically with portfolio managers via an Internal Research Home (IRH) function on Bloomberg. This provides USS's Equities, Credit and RI Teams with a record of how we voted and our view of the specific company's ESG practices. RI notes,

Having an in-house RI team ensures that the implemented RI policy aligns with the policies and aims of the Trustee. It also means that Trustee, senior executive and the investment teams have direct access to expertise on the implications of ESG issues.

voting records and engagement notes are also included alongside investment cases and decision notes. ESG has been integrated into the initial investment case, to enable material ESG factors to be considered, and any burning questions are raised and addressed through engagement with the company. We are transferring from Bloomberg's IRH system to its Research Management System, so we can upload into the Research Management Notes (RMN) function. This will provide greater functionality and improved access to data.

To assist in the integration of ESG into the GEMs active portfolio, individual RI Team members have "buddied" with individual portfolio managers (PMs) based on geography. This approach reflects the USS's internal portfolio structure, making interaction between teams more straightforward. The aim is to provide the GEMs team with the appropriate questions for their meetings with portfolio companies. Whilst PMs have a strong understanding of the governance issues with companies (essential knowledge in emerging markets), they may lack detailed or specialist knowledge of more idiosyncratic environmental and social issues. The RI Stewardship Team can provide direct support to the PMs on climate transition engagement and other ESG issues, enabling them to raise pertinent issues at company meetings.

All votes against management in our active portfolio are reviewed with the relevant manager prior to the vote being cast, along with other points of contention. Read more under Principle 12.

Case study: Asian banks and climate transition

Climate change is recognised as being a material risk to multiple sectors either through the direct physical impacts or disruption elsewhere in their supply chains. Asian companies have generally been slower in adopting climate transition plans than companies in some other markets.

USSIM has, therefore, been part of an investor collaboration organised by Asia Research and Engagement (ARE) for at least three years which focuses on the approach to climate change a number of Asian banks in a range of markets including China, Japan and Singapore. By focussing on the banks, we can exert pressure on them to have policies and practices in place to incorporate climate factors in their loan agreements that will, in turn, encourage their client base (which includes companies across multiple sectors) to address the issue.

A recent call with the United Overseas Bank typifies the progress that some of the banks have made over the last few years. Amongst other changes, the company now has a board level committee and a non-executive director with oversight of sustainability. Their responsibilities specifically list climate change, and bank executive remuneration takes into account climate change. The bank also has a materiality matrix for ESG issues, which includes climate risk.

These engagements will continue to encourage them to either introduce formal climate transition plans and governance structures or to further improve their existing transition plans and levels of disclosure on ESG metrics. In addition, the engagement is also now being extended to additional banks in Thailand and Malaysia.

Additional resources

In addition to our RI Team, we also use external service providers to support our stewardship activities. For example, Minerva provides our proxy voting platform.

We do not usually engage via service providers, as we have an in-house team that directly engages with companies in our portfolio. This means the engagement remains aligned with the investment analysis conducted by the internal portfolio manager. Notwithstanding this point, we have chosen two external providers where language and cultural nuances in engagement would point to more local service providers engaging on our behalf:

- Governance for Owners Japan Engagement Coalition (JEC) who engage on our behalf with Japanese companies where disclosure and language can be a barrier.
- We also utilise the services of Asia Research and Engagement (ARE) as with their specialist Asia focus they add additional resources in what is an increasingly important market (see the case study on page 14).

Both of these organisations provide collaborative engagement services. In selecting these, we looked at both ESG and local knowledge, and engagement experience in delivering stewardship and other RI related services (including proxy voting support). While we find these third-party providers extremely valuable, we are clear that the final responsibility for investment, stewardship and voting decisions remains with us.

Performance management: Motivating our teams to achieve our responsible investment goals

Delivering RI outcomes, fulfilling our purpose and operating in line with our values is the responsibility of everyone in our organisation. We empower our teams to do their part, and consider how they are incentivised to meet RI-related goals as part of our performance management process.

As part of this, we ensure individual behaviours that incorporate ESG considerations are rewarded. This involves assigning a qualitative score that reflects individual performance and contribution to the achievement of objectives set. Colleague assessment reflects both what was achieved and the manner in which it was done, ensuring behaviours are fully reflected in how we reward.

For the USSIM investment team, the score may also reflect a qualitative assessment of investment activity. For non-investment employees, the score will reflect the achievement of objectives related to an individual's role and function. For the financial year 2021/2022 onwards, compensation assessments have also included environmental, social and governance ("ESG") factors in investment related activities where relevant.

In addition to specific ESG key performance indicators (KPIs) for relevant investment staff, the incorporation of ESG in investment-related activities could impact the remuneration of all members of staff, whether they are front-line investors or not. Individual personnel have ESG-related KPIs that are relevant to their roles. These may relate to topics such as:

- Their work with the RI Team to integrate RI/ESG metrics and stewardship into their investment practices and processes. In 2021, the focus was on how we integrate our Net Zero ambition and climate change into our investment processes, to support the Scheme in achieving its ESG goals.
- Their work on integrating specific ESG issues into investment models and tools. In 2021 the focus was on developing our carbon footprint methodology and scenario analysis. Our active internal equities teams built ESG factors and carbon pricing data into investment modelling.
- Upholding USS's commitment to being an active and responsible owner by engaging with the assets in their portfolios.

Incorporating climate considerations into objectives

As an example, some USSIM team members had as one of their objectives that they had to work to incorporate climate change considerations into capital markets assumptions and scenario analysis. The aim of this was to help the Portfolio Strategy team to improve its understanding of the long run economic and financial impacts of climate change and incorporate climate into long run macro scenario analysis alongside other factors such as inflation, geopolitics and productivity.

Principle 3: Managing conflicts of interest

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our commitment

In line with our stated value of integrity, our members' interests come first. This includes a pledge to meet the highest possible standards of openness and accountability, and ensure that we conduct our business with honesty and transparency. We ensure legal and regulatory requirements are fully complied with, and we expect all employees to continually meet the highest standards expected of them in their client and business activities. Any action in contradiction of this position is taken extremely seriously and we are committed to applying the full extent of internal and external sanctions as appropriate.

Ensuring robust practice

USS Group maintains a Register of Conflicts of Interest. This includes an assessment of the inherent and residual risks of each actual or potential conflict we identify, along with the controls in place to manage or mitigate them. Our Code of Conduct also provides a clear statement of ethical standards, including a duty to act with reasonable care, skill and diligence in the best interests of Scheme beneficiaries, and to avoid or manage conflicts of interest.

The USS Compliance Team maintains a list of securities and other assets in which USS Group staff members have holdings, and there are processes in place to ensure any dealing in stocks held by the fund avoid conflicts of interest. Our Compliance Team also maintains a restricted list and personal account dealing policies to mitigate trading related conflicts. This includes restricting stocks held by the Scheme if a potential conflict arises.

Group Conflicts of Interest Policy

USS has a Group Conflicts of Interest Policy and USS reviews its policies and processes on this aspect of our operations at least annually. This review involves an assessment of actual and potential conflicts, including in relation to responsible investment and stewardship activities. We monitor for potential conflicts of interest on an ongoing basis and conflicts in relation to stewardship will be treated in the same way as any other.

In addition, we have recently developed a Stewardship Conflicts of Interest Policy. This reflects the Group-wide policy but includes unique elements relating to Stewardship. See the box below for a summary of the key points.

Stewardship Conflicts of Interest Policy

We are a responsible, active and engaged steward of a diverse mix of investment assets both in the UK and internationally. As it is possible that conflicts of interest will arise from time to time in relation to these stewardship activities, we have created this policy, which:

- Builds on the existing USS Group Conflicts of Interest Policy.
- Provides examples of when conflicts may arise in relation to the stewardship of USS's assets.
- Sets out USS's policy on how conflicts of interest should be managed in relation to stewardship.

The policy outlines our approach to voting, including disclosure and summaries; whistleblowing; training; and registers and logs. It also sets out our expectations of external managers, suppliers and advisors in relation to stewardship. This and the USS Group Conflicts Policy are reviewed annually and any changes are approved by the USSL Board.

In this reporting period:

- USSIM has had no investment-related conflicts of interest.
- No actual conflicts of interest were recorded in relation to the firm's stewardship activities.

Being prepared for when a conflict may arise

As a beneficial owner with in-house investment management and responsible investment capabilities, and serving only one client, USS does not face many of the potential conflicts of interest that commercial fund managers may need to address. However, several potential conflicts of interest were noted in relation to stewardship activities. An example of this is a new joiner who declared connected person relationships at some of our stewardship-related service providers. In such instances, the individual would have followed our conflicts of interest policy and processes to mitigate the potential conflicts and this would be recorded in the conflicts of interest register.

Principle 4: Promoting well-functioning markets

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Fostering sustainable markets for a sustainable future

As a pension fund with in-house investment expertise and liabilities extending decades into the future, we are unequivocal that an active approach to responsible investment and stewardship is critical to cultivating well-functioning markets over the long term. With an investment horizon stretching many decades, the Scheme is not only exposed to current risks, but also to risks into the future. As such, we recognise that certain issues pose macro, market wide or systemic risks and these need to be addressed just as much as more immediate issues.

Market wide and systemic risks

The Scheme assesses these major macro, market wide or systemic risks in a number of ways. We recognise that certain issues could affect our asset allocation and to assess the implications of these, we have developed and investigated a set of plausible scenarios based on some of these issues. These scenarios are detailed on the right.

Identifying and responding to systemic risks

Baseline

- A stable recovery with moderate growth and inflation.
- Gradual increases in bond yields and modest reduction in equity valuations.
- CO2 emissions reduce but not in line with Paris Alignment.

Iron Curtain

- Globalisation in reverse as West and China/Russia blocs increase tensions and reduce trade.
- Persistently higher energy costs as West attempts to transition to other sources.
- Weak growth, high inflation, poor equity returns and lower yields.

Persistent Inflation

- Inflation and expectations rise but Central Banks do not tighten monetary policy sufficiently and fiscal policy remains loose.
- Inflation structurally higher and more volatile .
- Negligible impact on long term growth but equities hit by increased uncertainty.

Aggressive Tightening

- CBs tighten policy too abruptly to counteract inflationary pressures.
- Shock to financial conditions pushes economies into low growth, maybe a recession.
- Large equity correction and inverted yield curve but impact on real rates uncertain.

Fast Transition

- CO2 emissions in line with Paris Alignment, avoiding the worst of the climate physical risks.
- More carbon regulation and taxes could result in higher inflation.
- Additional investment increases real interest rates.

Redistribution

- Increased tax rates and redistributive fiscal spending.
- Economy allowed to “run hot” so strong growth and inflation.
- Supports labour vs capital share of income so sees a big hit to corporate profit margins.

Secular Stagnation

- As supply-side disruption subsides, fiscal tightening and shock to real wages could deliver persistent below-trend growth.
- Interest rates remain close to zero for many years.
- Profit margins and equity valuations remain elevated.

Strong Productivity

- Strong recovery followed by sustained productivity growth.
- Muted inflationary pressures as growth driven by innovation.
- Real yields edge higher while corporate earnings grow strongly.

Our next TCFD report, due to be published in Summer 2022, will provide details on the scenario analysis the Scheme has undertaken to assess how a changing climate and the policy response to it could affect us over the coming years. On broader ESG systemic risks, we are going through our own internal process to prioritise our RI and stewardship activities and this necessarily leads to a focus on systemic issues. Environmental and social areas we have identified as potential focus areas included amongst others:

- Biodiversity
- Water resources
- Deforestation
- Soil degradation
- Antimicrobial resistance
- Modern slavery

As noted in Principle 7, this prioritisation review is ongoing, but we will have a focus on climate change and achieving Net Zero as the highest priority systemic ESG risk facing the Scheme.

Engaging with policymakers

We are a long term advocate of the need for an investor voice in policy development because we believe engagement with policymakers and regulators on ESG and related factors improves how markets operate and addresses systemic risks. We also recognise that stronger markets lead to stronger economies, which strengthen the fiscal position of governments. Therefore, our engagements with policymakers also aim to protect or enhance our investments across asset classes, from public equities to sovereign debt.

For over 20 years, we have highlighted market-level engagement as a specific objective of USS's RI strategy. Our engagement with policymakers and governments internationally covers issues such as stewardship and accounting regulation. It also includes listing rules, shareholder protections, corporate governance, transparency and disclosure and climate change.

To strengthen our voice, we also engage on these matters alongside other investors through collaborations such as the Asian Corporate Governance Association, Institutional Investors Group on Climate Change (IIGCC), International Corporate Governance Network and the Australian Council of Superannuation Investors (see Principle 10 for further details). Our approach to collaborative engagement is frequently associated with addressing systemic risk. For example, our long association with the ACGA has enabled us to support improved corporate governance- and increasingly environmental and social issue- regulation and practice in Asian markets. In addition, our involvement in the IIGCC Policy Working Group supports engagement with policy makers in the UK, EU and member states on improving climate change regulation.

Over the years, we have met with government representatives, regulators and state-owned enterprises in markets as diverse as South Korea, Australia, Hong Kong, India, Canada, the US, South Africa, the Netherlands, Japan, Brazil and the European Commission. We also engage with the UK government and regulators as our home market.

Although the Covid pandemic has reduced direct engagement, we continued to meet key policymakers remotely, as well as submit responses to consultations and participate virtually in roundtables and discussions. Under Principle 7, we discuss how our approaches to stewardship – company engagement and policy engagement – and investment decision-making are integrated.

USS is a founding member of the Occupational Pensions Stewardship Council (OPSC), a group established and supported by the UK's Department for Work and Pensions to aid pension funds in their stewardship of assets. USS chairs the OPSC's Streamlining Reporting Working Group. Through the OPSC, we have engaged with the DWP, FCA and FRC on reporting issues including reducing the reporting burden, TCFD disclosure and how to approach the Stewardship Code report in 2022.

Examples of our policy engagement work on climate change in 2021-22 include:

- Supporting the international Investor Statement on the Climate Crisis- Global Investor Statement to Governments on the Climate Crisis – 2021 update – IIGCC.
- Responding to the Department for Work and Pensions' consultation on Climate Investment and Reporting, giving our views on their proposals for new metrics and draft guidance on the Implementation Statement.
- Engaging with Downing Street and the Department for Business, Energy and Industrial Strategy on their views on the role nuclear power could play in achieving Net Zero, and opportunities for investment.
- Joining a plenary session at the Responsible Investor UK conference alongside Pensions Minister Guy Opperman MP and ShareAction, exploring what best practice reporting on ESG and climate change looks like for pension schemes.
- Participating in the Net Zero Pension Summit at COP26 looking at the role of pension funds in the low carbon transition.

- USS supported the Asian Corporate Governance Association's response to the Hong Kong Exchanges and Clearing consultation on the Review of Corporate Governance Code and Related Listing Rules as we agreed that the proposals were often lacking in ambition and bolder steps are necessary to bring the governance of Hong Kong-listed companies up to international standards. See Principle 11 for further details.

Participation in industry initiatives

Market engagement isn't just about policy makers and regulators, it's also about engaging with other market participants. As such, USS participates in a number of industry bodies including the Pensions and Lifetimes Savings Association (the trade association for workplace pensions), the Investment Association (the trade body for the investment industry), and others where we have inputs into how ESG practices are progressing in the sector. We participate in events and conferences to learn, share experience and encourage other funds to be more involved in stewardship and RI activities. We believe this is in our members' interests, as the more pension funds that are active on ESG issues, the more effective stewardship can be. Examples include:

- We joined a 65-member coalition, writing to the Chairs and Remuneration Committees of Pfizer, Johnson & Johnson, Astra Zeneca and Moderna, calling on them to link executive pay to the World Health Organisation's vaccine roadmap. See letterexecutiveremunerationpharma-4-1-2022-def.pdf (achmea.nl).
- We have been members of the PRA-FCA Climate Financial Risk Forum since its inception in 2019. The objective of the Forum is to develop best practice for industry, by industry, to enable the financial sector to better manage climate-related financial risks and to support the transition to Net Zero.
- We continue to support the CDP and have done so since the organisation was launched in 2001.
- We are members of the PRI's Asset Owner Technical Advisory Committee.

The RI Team has also contributed to the content and launch of new ESG resources for the private equity industry including:

- The Institutional Limited Partner Association (ILPA) / PRI due diligence questionnaire: Due Diligence Questionnaire and Diversity Metrics Template – ILPA.
- The ILPA manager ESG Assessment tool: ILPA-ESG-Assessment-Framework.pdf.
- IIGCC Private Equity Working Group report for the Paris Aligned Investor Initiative supporting the development of new guidance on Net Zero for private equity portfolios.

In Focus: our action on climate change

Climate change – as a key market-wide or systemic risk – has been an enduring area of focus for USS. It is also an issue that exemplifies our approach to stewardship.

As a long term investor, we recognise that climate change presents critical issues for us now, and will do in the future. For instance: rising sea levels will impact property and infrastructure asset valuations, weather events will disrupt supply chains and corporate activity, and public policy changes and regulation to support the transition to a low carbon future will create winners and losers. We were one of the first pension funds in the world to recognise climate change as a risk to our investments and we believe collaboration is key to positive action. For example, in 2001 we founded the IIGCC and continue provide advice to its Board and to participate in its policy and other working groups. We have actively worked with our investor partners for over a decade to address the issue in different markets around the world. Read more in Principles 9 and 10.

> *We believe investment in more climate-friendly assets – those positioned to adapt or benefit as the world transitions to a low-carbon economy – offer upside return potential, while lower exposure to companies poorly positioned to adapt to such a world reduces our exposure to downside risk.*

Principle 5: Review and assurance

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

We have a proactive and transparent approach to internal and external review and assurance, and take appropriate action where and when necessary.

Our RI policies and statements are available on our public website (uss.co.uk) and we submit regular reporting and monitoring of the Scheme's activities to the Board and its Investment Committee. Data elements that appear in our annual report and accounts, for example on voting data, are also formally audited by the Scheme's external auditors.

The RI Team reports to the Board annually, where the Board agrees the Scheme's RI approach and formally reviews the team's activities, signing off key focus areas and policies. The Board also receives additional input on ESG management, where necessary, and undertakes training on RI-related issues. The RI Team also reports formally to the Investment Committee twice a year. In 2021 the Board also received specific climate change related training, which is now built into new Board Member inductions.

For additional monitoring and assurance, our Audit, Risk and Compliance and Managers and Mandates Committees also receive regular reporting on ESG due diligence and monitoring, and track voting process implementation and performance. The Scheme has also established detailed external manager monitoring programmes to assess and ensure its responsible investment policies are being implemented (see Principle 8).

We recognise the importance of external assurance processes and respond annually to the UNPRI's Reporting and Assessment survey. Based on our responses to this survey, in 2019, the UNPRI named us as leaders for our approach to selecting, appointing and monitoring external managers (see also Principle 8), and in 2020 for our approach to climate change. These leaders group represent the top 5%-10% of asset owners in the UNPRI membership.

We also have additional assurance processes in place for monitoring and reviewing our data models. For example, in the case of our climate data models, an external service provider has assessed the model's structure and flow, conceptual soundness, computational process and linkages. The process and models for generating our climate data, data for exclusions and data used for assessing ESG factors in sovereign debt go through this additional assurance process.

Results of the ESG Internal Audit 2020/21

The Scheme's RI activities are part of the USS internal audit programme. This is an independent appraisal function established by the Board, and in Q3 2020, Deloitte, working in partnership with our Internal Audit team, undertook an audit of the Scheme's approach to RI, the results of which were published in Q2 2021. The objective of the audit was to assess the design and operating effectiveness of the controls and governance of USSIM's adherence to its ESG policy, along with the internal and external reporting of ESG information.

The scope of the audit included:

- A review of USSIM's ESG policies, principles and controls to understand the process for developing them and how they account for ESG issues within investment decision making.
- Assess whether the controls relating to USSIM's ESG policies and principles are operating effectively, including how they are governed (e.g., reviewed and updated).
- Assess whether the controls in place for monitoring and adhering to USSIM's ESG policies and principles are designed and operating effectively. This included the impact on controls over ESG related activities of any changes in working practices as a result of COVID-19, and any new or interim key controls introduced into ESG related activities in response to COVID-19 (insofar as these controls remain within the scope of our review).

- A review of the controls relating to the validation of ESG information (such as external manager due diligence) and the internal and external reporting of ESG information to assess whether they are operating effectively. This included the controls the ESG team has in place to ensure the data provided to them is complete, accurate and valid.

Whilst the overall assessment was 'Adequate', there were three 'Medium Priority' and two 'Low Priority' findings. The three Medium Priority findings relate to the need to consider ESG risk at enterprise level and to assign an executive risk owner, to improve clarity in various RI policies, and to set up an ESG integrated framework for the GEMs and Credit teams. The first and the third issues had also been identified by management and have since been addressed with, for example, ESG being added to various risk registers and the GEMs and Credit investment teams integrating ESG factors into their investment processes (see more under Principle 7). The RI Team will work with appropriate USSIM and USS teams in 2022 to review and improve the wording of RI related polices and statements.

Climate risk governance and reporting

The USSIM CEO was appointed as the Executive owner for climate risk, with the following responsibilities for the risk at the group level:

- Identify, monitor and manage the risk on a day-to-day basis.
- Understand the implications of the risk on USS strategy / operations.
- Direct the appropriate risk response (avoid, mitigate, transfer, accept) and ensure it is applied effectively.
- Implement and enforce risk management policy.
- Ensure frameworks for managing the risk are available and applied across the organisation.
- Perform a quarterly risk assessment of risk exposure versus risk appetite.

The second line Risk Team are responsible for challenging these frameworks and assessments on the above, and for providing the framework(s) for assessing the risks in aggregate at the enterprise level. Metrics have been developed and will be used for quarterly reporting to the Group Executive Committee and Board using newly developed Investment Key Risk Indicators (KRIs) and Risk Appetite Statements (see ESG risks below). This process will be reviewed annually as part of the strategic planning and budgeting process.

Climate change risk

The risk of material financial impact from climate change, where asset values are impacted by economic climate change, and by physical risk of damage to assets from extreme climate and weather events.	Loss of value of assets low-carbon economy or physical damage, especially where we are long-term holders of those assets.	• Analysis of potential direct real asset investments for long-term climate risk • Monitoring of climate risk exposure to equity portfolios • Ongoing monitoring of changes in legislation and policy developments in order to position our investments for the transition to a low-carbon economy • Stewardship of high carbon exposed equity assets, engaging both directly and in collaboration to ensure climate risk in all forms is being appropriately managed • Engaging with policy makers to ensure a smooth transition to a low carbon future

ESG: Risk appetite and key risk indicators

ESG risks, and specifically climate risks, have been integrated into USS's wider risk governance, monitoring and management processes. This includes additional processes for identifying, assessing and managing this risk.

Climate risk has been added to both USS and USSIM risk taxonomies (risk classification structures). The risk identification process is maturing and continually reviewed, but this initial step allows risk appetite to be set and monitored with appropriate indicators and gives high level visibility of reporting to the Scheme's governing bodies. Climate risk has been added to the executive risk registers of USSIM investment teams.

USS senior executives each maintain a comprehensive register of the principal risks faced by the business as well as their potential impact and how we mitigate them. Climate Change Risk was identified as one of USS's Top Ten 'Principal Risks' during 2021 and included in the Principal Risks section of the latest annual report and accounts.

The Top Risks process, currently conducted for USSIM, is a key part of the Enterprise Risk Management Framework (ERMF) that allows the Scheme to identify and prioritise the risks which pose the most significant potential for an adverse outcome, whether financial, non-financial or reputational. Another part of the Framework is the Emerging Risk identification process. It is complementary to the Top Risks process and is the forward-looking and sector/industry surveillance process by which we try to identify risks that may not already be captured within our risk registers or Top Risks, including those risks that need a 'watch' as although not currently applicable, may be relevant in the near future. ESG and in particular climate risk has been identified by the USSIM Top Risks process, and this risk continues to be prioritised and addressed along with other top risks. A similar process is being considered for USS.

Risk appetite for climate risks has been set at the highest level in the organisation (Trustee Board) as advised by the Investment Committee, as shown in the Table below.

DB Risk Appetite Statements & Key Risk Indicators

Risk	Investment Risk Appetite Statement (RAS)	Proposed Investment Key Risk Indicators (KRIs)
DB Investment Risk	**Cautious** for ESG risk (from ESG factors, except climate change) within the DB implemented portfolio	An assessment by the Risk team of how USSIM is integrating ESG factors (including reporting and stewardship)
Climate	**Cautious** appetite for climate change issues causing detriment to performance	a) Transition risk: An assessment by the Risk team of how USSIM is delivering vs our commitment (longer term, carbon emissions intensity (tonnes of CO_2 per £m of Scheme investment)) b) A qualitative assessment by the Risk team of how USSIM is delivering on management of physical risk

Investment Approach

Principle 6: Client and beneficiary needs

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

We have proudly served as a not-for-profit Corporate Trustee since 1974, and employ more than 500 people in London and Liverpool. During the period to 31 March 2022, USS paid out approximately £2bn in benefits to 77,963 pensioner members. We also have 203,995 active and 194,044 deferred members who are accruing benefits with us and whose interests we seek to serve.

Helping our members stay engaged and informed

With such a large, unique and engaged membership, appealing and effective communication is key in keeping it informed. Our members are increasingly aware of and interested in the interconnected ESG factors that may impact their investments. Our communications professionals respond to this by regularly reviewing and enhancing our multichannel content, whether that be across our statutory communications, printed letters or our website, and by creating educational and editorial articles related to responsible investment, which are delivered to members by email where appropriate.

Our principal communications outlet for members is our website, www.uss.co.uk, which features a dedicated section on responsible investment which provides details of the approach the Scheme takes to addressing ESG issues, and includes our RI reports. Here we publish reports and information on topics such as:

- Our Responsible Investment Statement.
- Our approach to exclusions.
- Our voting policy.
- High level case-studies across asset classes in our responsible investment reporting, including our first Stewardship Code, TCFD and Responsible Investment reports.
- Video explainers such as USS & Thames Water: Working together to make a better future and Responsible Investment- hear from our experts.

We have made a concerted effort to develop more dynamic content for members including Facebook stories, website FAQs, videos and podcasts, to build engagement with investments in general. As part of our wider communications strategy, four investment campaigns were created, one of which was dedicated to responsible investment. Key deliverables included a video covering what responsible investment is and why we do it, a podcast on responsible and ethical investing and the subtle differences between the two, and a joint video with Moto service stations highlighting their sustainability initiatives. Engaging our members with responsible investment will continue to be central to our communications approach.

> *Our members' views are critical as we invest for their long term futures.*

Watch David Russell talking to Asset TV about the challenges facing investors moving to Net Zero, the need for better ESG data and the increasing demands of reporting.

Assessing the effectiveness of our communications

We use a number of different methods to assess the effectiveness of our communication. These include monitoring engagement rates across our email and digital channels, benchmarking against industry best practice, and obtaining member feedback from a variety of sources including operational channels, member surveys and our Member Voice Panel. We use all of these insights to improve our communications on an ongoing basis.

We recognise that effective communication is not a one-way process. Our members' views are critical as we invest for their long term futures. As well as using our Member Voice Panel to invite member discussion and feedback, in October 2020 through a large scale survey in collaboration with Maastricht University we invited active members to share their views on sustainable investment, including beliefs on their general importance and on particular sectors and activities. Almost 4,000 members shared their views on the importance of sustainable investing and their view on investment in key sectors.

Whilst members don't all hold the same views, the survey suggested particularly strong interest in areas such as labour rights, corruption, deforestation, weapons production and tobacco. This has helped us develop our communications approach, including a podcast which explained our approach in greater detail and highlighted the differences between responsible and ethical investing. It has also helped us ensure that the USS ethical options, where we can more directly reflect member views, remain aligned with our members' preferences. This is even more important with the expansion of the Scheme's DC section from April 2022, meaning more members have choice in their investment than ever before.

Investing ethically: hearing from our experts

Hear from our investment experts on how we invest ethically.

Investment Builder ethical investment microsite

In conjunction with BMO Global Asset Management, one of the external investment managers used in our Investment Builder (or Defined Contribution) self-select ethical investment options, we have created a microsite for members. This provides the most up-to-date information, including fund updates, impact reports, further detail on their screening criteria as well as the information contained in the Quarterly Investment Reports.

Additionally, in 2021 USS, including Board members and senior management, held several discussions with member and employer groups such as Ethics for USS/DivestUSS, a member group campaigning to ensure provision of an investment strategy that protects the environment and invests responsibly. USSIM's chief executive Simon Pilcher met with representatives of the Universities and Colleges Union (UCU) to discuss our work on climate change in April 2021, and minutes of the Scheme's meetings with DivestUSS are available on their website at https://divestuss.org/news/

In addition to the separate meeting with UCU, the Scheme also held a session with the JNC (consisting of UCU representing members, and Universities UK (UUK) representing universities) to update them on our Net Zero ambition and other climate change and broader ESG initiatives.

USS also held a series of briefings with large member institutions where, in addition to general pensions issues, the Scheme's approach to ESG and climate change were discussed. This enabled the university pension representatives to ask questions as to how we were approaching climate change and Net Zero.

USS is responsive to media engagement and also writes occasional thought leadership content and blogs covering ESG and responsible investment. Recent examples include:

- A case study for the PLSA policy document 'Towards a Greener Future', outlining our approach to responsible investment and our Net Zero ambition.
- The next steps in progressing our journey to Net Zero.
- Our Chair, the Chair of the Investment Committee, and the Head of Responsible Investment attended a Universal Owner Summit hosted by Cambridge University. The Summit, attended by pension funds from around the world focussed on how they address systemic risks and issues such as climate change, antimicrobial resistance and deforestation, and their implications for long term owners.

Principle 7: Stewardship, investment and ESG integration

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

As noted in the introduction to this report, integration and stewardship are two of the three focus areas of USS's RI strategy. We believe that taking ESG factors into account in our investment decisions, whether that's directly through investment or via fund managers (see Principle 9), will lead to both better and more sustainable investments. Similarly, by acting as stewards and engaging with our investments (however they are held) we believe that we can encourage improved management of ESG issues.

Our investments

Our asset class and geographic mix, along with the specific companies, entities and sectors in which we invest within these asset classes and geographies, requires that we can't have a one size fits all approach to prioritising the ESG issues upon which we focus our stewardship, voting and integration activities. Instead, our approach to prioritisation for our voting and engagement activities is based on the following criteria:

- The size of our holdings in the entity or the size of the asset, portfolio company and/or property.
- The home market of the asset or portfolio company.
- The materiality of ESG factors and their effect on financial and/or operational performance.
- Their ESG scores, and their rankings in specific benchmarks, in particular the Transition Pathway Initiative and the Workforce Disclosure Initiative.
- Specific ESG factors with systemic influence (e.g. climate or human rights).
- The adequacy of public disclosure on ESG factors/performance.
- Bribery and corruption-related issues.

Potential ESG issues

The USS Statement on Responsible Investment provides the following non-exhaustive list of ESG issues which can be used when assessing investments and deciding on priorities for voting and engagement:

- bribery & corruption risk management
- climate change
- consumer and public health
- corporate governance
- customer satisfaction
- cyber security
- environmental performance management
- executive remuneration
- health and safety
- capital practices
- human rights
- innovation; research and development (R&D)
- intellectual capital management reputational risk
- succession planning
- the social impacts of corporate activity
- stakeholder relations
- supply chain management
- transparency and disclosure

> *"As a long term investor, we think that we can help the companies in which we invest to build for the long term. This includes helping them get ready for the low carbon (and no carbon) world which is coming."*

Once we have prioritised assets, portfolio companies or other entities for voting and / or engagement, we define our objectives for engagement and determine whether we will conduct individual engagements, engage in collaboration with other investors or whether others will engage on our behalf (see Principle 2).

We also pay attention to controversies and incidents that could have a material impact on a company and have a specialist data provider to provide updates on such controversies. For example, the coup d'etat in Myanmar in February 2021 highlighted a number of companies with dealings in the country and, in particular, the commercial agents of the military. This included the Norwegian telecommunications company Telenor and two big global oil and gas companies (TotalEnergies and Chevron). See our case study later in this section.

Taking action on the long term sustainability of investments: excluding certain sectors

In 2020, USSIM undertook a detailed review of a selection of sectors in which the Scheme invests. It looked for differences between what industry financial models predicted on returns and what we could reasonably expect to happen over the long term. We concluded that, in several cases, the outcomes predicted by the market did not appropriately consider the potential financial impact of certain specific risks, including ESG.

> *We are actively looking to do more, investing as an owner and a lender, in all aspects of decarbonisation technology.*

As a result, we excluded certain sectors from our investment universe as they were deemed to be financially unsuitable over the long term. These included: tobacco manufacturing; thermal coal mining (coal to be burned for electricity generation), specifically where they made up more than 25% of revenues, certain controversial weapons and, most recently, investments in Russian assets.

When the first exclusions were announced in May 2020, USSIM gave itself two years to deliver them and has now completed divestment from these sectors. Internal processes were established via Bloomberg to implement the exclusions list (updated every four months, this restricts the ability for internal managers to trade excluded companies). We have also been working with external managers and have established new mandates (for example, the LGIM Solactive climate tilt for developed markets equities includes the USSIM exclusions) to ensure that all funds are now aligned.

This was a major development for us with the clear aim of keeping the financial promises made to hundreds of thousands of members in the higher education sector while fostering well-functioning markets for the long term. These exclusions will be kept under review and may be changed or added to (as we have most recently with Russia), and will be made across both the defined benefit and defined contribution sections of USS.

Prioritisation

Given the breadth of ESG issues, in order that we focus our limited resources on those that matter most, the Scheme is also discussing proposals that we should establish a small number of priority issues. We are still finalising this list but it will include climate change / Net Zero.

In addition, one of the outputs of our carbon footprinting across all our asset classes has been to enable us to identify which assets have the greatest individual footprint or the greatest contribution to the Scheme's footprint. As a result, we are using these data to prioritise our stewardship and integration activities. For example, the RI Team is working with our Global Emerging Markets Team to undertake research and focussed engagement with the small number of companies that contribute 75 to 80% of the emissions of their portfolio.

Russian divestment

Like many others, we were shocked by the Russian invasion of Ukraine in February 2022. In light of this, we believe there is a clear financial as well as a moral case for divestment with respect to our Russian holdings. In the weeks preceding the invasion, we had been selling some of our Russian assets. As of early March 2022, around 0.5% of the Scheme's c.£90bn portfolio was connected to Russia. As markets reopen and when liquidity returns, we will look for opportunities to sell. We have also placed a moratorium on new long positions taken in all Russian assets which is over and above full compliance with UK government sanctions restricting trading in sovereign debt and other Russian assets. Where we are not in direct control (for externally managed pooled funds, for example), we have encouraged managers to respect the moratorium, in line with our exclusions policy. Where we have existing investments, we will need to consider our position carefully in the light of trading restrictions.

How we're implementing our Net Zero strategy

As set out under Principle 1, in May 2021 we announced our ambition to be Net Zero for greenhouse gases by 2050, if not before.

We are now developing a comprehensive strategy in order to deliver on this ambition while remaining mindful of our fiduciary duties. The transition will require a fresh focus by USSIM's internal investment teams in terms of where and how we invest, along with requiring us to work with peer funds, our external asset managers, and others in the investment value chain in order to deliver against this ambition.

We have now taken steps to implement this strategy and have already established a USSIM Net Zero Steering Committee and Working Groups for each asset class. The asset class Working Groups are critical in delivering Net Zero, as the managers of these assets are best placed to assess where cuts in carbon exposures can made whilst with achieving financial returns.

Other steps taken include:

- After a detailed review, we have appointed S&P Trucost as the climate data provider to enable the Scheme to establish a baseline carbon footprint, track performance over time and assess a range of other climate related metrics. These data have been used to calculate and / or estimate the carbon footprint for as many of the Scheme's assets as possible for our TCFD reporting.
- In addition, we have established a climate-tilted benchmark managed by LGIM for Developed Market Equities, an important step in USS's path to achieving our ambition to be Net Zero. Following a detailed review of carbon / climate-tilted benchmarks, we concluded that Solactive, a German based index provider, would be best placed to work with the Scheme to develop an appropriate benchmark and accommodate other USSIM requirements such as our financially based exclusions. We chose to adopt a Climate Transition Benchmark (CTB) as, with a focus on transition rather than exclusions, the CTB has the potential to capture the financial benefits expected for companies that successfully transition to a low-carbon economy that some other approaches may miss. This approach will initially reduce emissions compared to the broad equity market by at least 30%, and further decrease its carbon intensity by 7% for Scope 1, 2 and 3 emissions each year thereafter.
- Another initiative that will support the Net Zero ambition is a new £500m Sustainable Growth mandate. This will be invested globally – either directly or through funds – in high growth, privately-owned businesses that are developing technologies and services that will help companies and the broader economy to decarbonise.

This will complement the Scheme's existing renewable energy strategy, which will continue to develop and invest in wind and solar generation capacity. As at 31 March 2022, USS had committed £1.91bn to renewable energy and green technologies. The Sustainable Growth mandate will be managed by the Private Markets Group within USSIM and benefit the defined benefit and, over time, the defined contribution segments of the Scheme. The first asset in the fund is our investment in TPG Rise Climate, whereby we joined a host of other large institutional investors in subscribing to the climate investing strategy of alternative asset firm TPG's private markets impact investing platform. The strategy will focus on five climate sub-sectors: clean energy, enabling solutions, decarbonised transport, greening industrials and agriculture and natural solutions.

Case study – Bruc Energy

In 2021 USS took a 50% stake in Bruc Energy, a Spain and Portugal renewables-focussed investment vehicle created by Canadian pension fund OPTrust and a Spanish businessman. We have invested €225M (c.£200m) in return for the stake in a major pipeline of 4000 MW of solar photovoltaic (PV) farms. Bruc Energy has an ambitious growth plan that goes beyond this to invest in other green energies, such as wind power. Spain's long days of sunshine and its national target to reach 100% renewable-based generation by 2050 make it an attractive place to invest in solar energy. In addition, the decades long lifespan of solar PV panels makes them well-suited to USS in helping pay members' pensions long into the future.

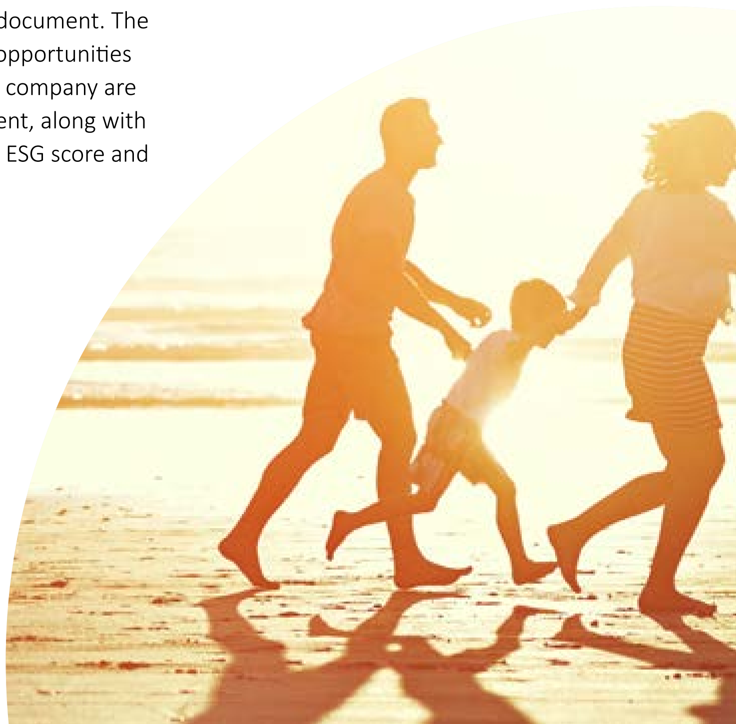
Listed equity and credit: integration of ESG into investment processes

As expressed in our core beliefs (Principle 1), we feel strongly that promoting high standards of ESG practice and allocating responsibly to companies and other assets will protect and enhance the value of our investments by reducing the risks associated with investing. It follows, therefore, that active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to our approach to managing the assets entrusted to us.

Our philosophy of integrating engagement and investment decision-making is central to the way in which we manage our listed equity and credit investments. In doing so, we ensure our views on a company's approach to managing ESG issues, together with its responsiveness to investor engagement is explicitly discussed and taken into account by our investment teams. We do this in a variety of ways, including the following for public markets:

- Environmental, social and governance issues are identified within the investment case for each investment, which identify ESG key issues or "burning questions" as a focus for company engagement.
- For public equities, voting records, engagement notes and reviews of a company's approach to various ESG issues are included alongside the investment cases and decision notes. In addition, various ESG data are also researched in preparation for company meetings.
- Third party scores, ratings and assessments of ESG risks are made available through the Internal Research Home (IRH) function on Bloomberg. We have access to MSCI ESG ratings and data reports and analytics through data and research provider, Bloomberg, which we take into account when assessing individual investment opportunities. When reviewing new credit investment opportunities or existing investments within the portfolio, the team reviews rating agencies reports, many of which now explicitly incorporate a review of ESG factors.
- RI Team members regularly attend GEMs, our active equity portfolio, meetings on climate integration, and the RI Team closely collaborates with Equities and Credit to discuss research and engagement as part of ongoing analysis.
- A research note outlining the investment case is completed by a portfolio manager for every active position in the USS Equity Portfolio. External corporate governance scores and the environmental and social scores are automatically embedded in the template of this document. The material ESG risks and opportunities that are relevant to the company are included in this document, along with an internally generated ESG score and the factors driving it.
- The RI Team also contributes to the investment process through specific research and analysis on key company specific issues. Company engagements will frequently involve both the internal Portfolio Manager (PM) and a member of the RI Team. Such engagements also normally involve an internal pre-meeting and depending on the outcome, a post-meeting discussion between the RI Team and the PM will also take place.

We are also establishing a more formal approach to tracking the progress and outcomes of ESG engagements. Engagements are tracked against specific goals, which may be based upon a thematic basis (for example, climate transition) where the same goal is set for a number of companies. It may also be issue or company specific (for example, conflict minerals in the supply chain – see Principle 10 for more details). Milestones are recorded so that we can gauge progress over time with specific companies. A lack of progress could lead to an escalation in our engagement activities, including votes against specific resolutions at the company's AGM. Read more about engagement in Principle 9.



GEMs – ESG integration and stewardship

Integration

Our GEMs team utilises a range of sources to identify and integrate ESG issues into their investment research. They use reported data, company meetings, third party reports and published reports to build up a picture of the ESG quality, risks and opportunities at a company.

The information gathered is analysed and used to produce a standardised ESG section of our investment cases along with an internal ESG score for a company. These scores take in a range from 0-100 and are built on a bottom-up basis, with a set of ESG factors individually scored.

This ESG research is fully integrated into its own section within investment notes, rather than appearing as a separate document, and helps to drive the agenda at meetings with companies and investment decisions.

Significant effort has been made by the GEMs and RI Teams to support the GEMs modelling of ESG data (including climate exposure) in their investment modelling processes. The GEMs team builds ESG data into its investment modelling and research to ensure that material issues are integrated into investment decisions. This includes taking appropriate data feeds on ESG data, carbon, and climate change (from Bloomberg and other providers), and ESG sector specific key issues guidance. Where appropriate, these data are incorporated into the investment decision making processes and are discussed with the RI Team and, if deemed necessary, further analysis is undertaken. The information gathered is analysed and is used to produce a standardised ESG section of our investment cases along with an internal ESG score for a company. The internal reports integrate SASB factors and include a financial analysis of a company's carbon emissions.

Engagement

Active engagement is also employed by the GEMs and RI Teams with the aim of both improving investment knowledge and changing ESG performance where it is felt that returns can be enhanced for the Fund at an individual corporate level, or where corporate behaviour falls below expected standards. This would include, for example, where corporate management incentive programmes are misaligned with those of shareholders, or where a company is failing to demonstrate its transition to a low carbon future.

Encouraging greater ESG disclosure and higher standards of governance and voting is an ongoing aim at a corporate and country level. Where appropriate, USS will collaborate with other investors or investor groups to enhance the efficiency of our engagements. See Principle 10 for more on collaboration.

Incorporating climate into investment decisions

The GEMs Team conducts carbon analysis using a range of different carbon price scenarios, such as the IEA's Net Zero by 2050 scenarios, market prices and public disclosures, such as the internal price of carbon used by a company and disclosed to the CDP (formerly the Carbon Disclosure Project). These carbon prices are then used as part of a discounted cash flow analysis to see how different carbon price scenarios change a company's valuation. Alongside the carbon price itself, the team build in analysis of whether a company will become more or less carbon intensive during the valuation period. This may be driven by a company changing its business mix, investing in research and development, spending more on green capital equipment or altering its energy supplies. The process also incorporates carbon allowances (although these are frequently temporary) and a judgement of a company's ability to "pass through" elements of any carbon tax or charges, as we have experienced companies doing so with carbon taxes specifically and taxes in general.

Sovereign debt

USS utilises a proprietary tool, first developed in 2008, which ranks countries based on ESG factors. For the Emerging Market Debt (local currencies) portfolio, the composite index ranking is one of the core tools used in portfolio construction. The results of the composite country score are combined with a fundamental credit assessment and integrated with two other factors to formulate the investment strategy. The data sets that form the basis of USS's country ranking are:

- Transparency International's Corruption Perceptions Index (CPI).
- The UNDP Human Development Index (HDI).
- The Yale / Columbia Universities' Environmental Performance Index (EPI).
- The Heritage Foundation/Wall Street Journal Index of Economic Freedom.

Positive ESG country scores are viewed as an indicator of lower future default risk and negative ESG scores are viewed as being an indicator of higher future default risk. Our investment approach attempts to avoid countries where the risk of default is increasing, to improve the quality of the portfolio and better match the risk appetite (in sovereign debt) to the Scheme. ESG country rankings contribute to this analysis but are not the only input. This ESG country analysis is also built into our emerging markets (hard currency) decision making processes where we allocate towards countries showing the best improvement on our composite series.

We also build climate and carbon exposure into our modelling. We allocate towards countries showing the best improvement on our composite series and allocate away from countries with larger increases in coal production. We also take data from Our World in Data regarding % change in CO2 emissions and we allocate away from countries with the largest increases in these. Finally, we reviewed the signatories to the Paris Agreement and allocate away from countries that conditionally signed up or didn't sign up.

Credit

Given the breadth of issuers in the bond market, the Credit Team adopts a screening-based approach using ESG risk scores from external rating providers, including the three major credit rating agencies. Where ESG issues are relevant to investment cases, this is flagged as part of the research to aid subsequent reviews and help prepare for meetings. When the company scores poorly on environmental factors and climate risks, we undertake further analysis and assess implications for the company's creditworthiness. We also assess to what extent these risks are already priced in by investors.

Additional fundamental ESG research is also undertaken for those companies with weak scores, those that lack ESG scores and companies where we have a large credit exposure (>£50m). For large exposures, an additional quarterly forum exists to discuss ESG issues at both an industry and company level. ESG factors are also a standard topic of discussion during company meetings.

Whilst ESG issues haves become a standard topic of discussion during investor calls with increasing disclosure expected as standard, credit investors are somewhat limited compared to equity investors in their ability to engage with the issuers on ESG matters. That said, our Credit Team engaged with water utility Severn Trent on how the company assesses its green investments given their leadership in environmental initiatives. Additionally, we always engage on ESG topics as part of any social housing investments made. As social housing is funded by charitable organisations rather than listed companies, this is an example where credit investors have a strong role to play on engagement and stewardship.

For example, the Credit Team reduced their position to a major oil company earlier this year on environmental grounds and their assessment how will impact the company's future creditworthiness and pricing.

Private markets - direct assets

In addition to investing in private markets funds, both in private equity and private debt (see Principle 8), USS also directly invests in companies and other assets. Examples of our direct investments include stakes in renewable energy assets (including onshore and offshore wind), G. Network (a fibre network company), Thames Water, Moto (motorway service stations), holdings in infrastructure assets like Heathrow and a significant property portfolio.

For direct assets, the processes for stewardship and investment decision-making are broadly similar.

ESG due diligence is undertaken for all direct deals and presented in a slide deck prepared for internal USSIM oversight committees. This due diligence process seeks to identify any material legal, ethical, governance, reputational, environmental and social risks that could potentially affect the value of the investment and explores whether there are appropriate processes in place to mitigate these factors. It is underpinned by site visits by the deal team, extensive commercial, legal and operational due diligence for the assets. If appropriate, the Scheme will also appoint specialist external advisors and consultants to assess ESG risks and performance if these are deemed material for the asset under investigation.

For direct private markets assets, USS will typically have board representation and material influence at the company to affect and oversee ESG performance. Additionally, the Responsible Investment team, working alongside the USS directors on the board, will occasionally undertake detailed ESG reviews of direct assets. Covid has interrupted this process for the last two years but we expect to resume these in the future.

Our Board membership of direct assets gives us greater access to information on management issues including ESG risks and more direct influence on a company's strategy and priorities. We expect each Board to monitor progress over time, including reducing its environmental impact, lowering its operational costs and improving its financial performance. For larger companies, it is already normal business practice to report such metrics both internally and externally. For example, Thames Water's sustainability reporting is available here.

Our process-driven approach to the integration of stewardship and investment means that any information gathered through stewardship feeds directly into our acquisition, monitoring and exit decisions. This information includes our assessment of the company or entity's approach to managing a specific ESG issue (see the "ESG Issues" list above for examples), of its performance on the specific issue in question, and of its openness or responsiveness to engagement.

It is infrequent for a specific insight or data point from engagement to fundamentally alter an investment view. In meetings and discussions, we tend to focus most attention on those insights that challenge or potentially challenge our view (for example, if it appears that a company is not managing ESG issues as well as we would have expected).

Case study: Thames Water

Responsible investment is an integral part of the selection and retention of directly held private assets. This is particularly important in our direct investments as we expect to own them for many years and we have the ability to directly influence board composition, strategy, corporate social responsibility activities, and remuneration. Our investment in Thames Water is just one example of this.

USS first became an investor in Thames Water in 2017, the country's largest water and wastewater company with 15 million customers in London and the South East, attracted by the opportunity to support the long term investment needs of the business. This matches well with the outlook for pension schemes which need to take a long term investment outlook in order to pay pensions for decades to come. While challenges remain, including ageing infrastructure and impact of climate change, Thames Water has performed well over the last year. With a strengthened board under CEO Sarah Bentley, and a new, experienced executive leadership team in place the company will target reducing leaks, investing in its infrastructure, improving customer service and working towards Net Zero. USS is on the shareholder Board of Thames and in this position supports the company's response to the ESG challenges it is facing, including climate change.

In November 2021, USS further demonstrated its commitment to UK infrastructure by increasing our stake in Thames Water. Our holding is nearly 20%, making it the largest single investment in USSIM's portfolio.

Case study: Net Zero flight to Glasgow

A collaboration between Heathrow, BA, Airbus, BP, Glasgow Airport and NATS led to a Net Zero flight powered by sustainable aviation fuel (SAF), from Heathrow to Glasgow Airport in September 2021 (USS has significant direct holdings in both Heathrow and NATs). The flight was powered by sustainable aviation fuel blended at 35 per cent with traditional jet fuel, and the remaining emissions were offset. The aim of the flight was to demonstrate how far the aviation industry has progressed in its efforts to decarbonise.

The most direct routing and optimal flight level were provided by NATS, and the aircraft was able to land without airborne holding; these techniques saved fuel and reduced emissions. The flight achieved a 62 per cent CO2 emissions reduction compared to a decade ago – 34 per cent from efficient aircraft and operations, 28 per cent from the use of sustainable aviation fuel and the remaining 38 per cent offset using high quality, verified carbon offsets.

This showcases how the industry can use sustainable fuels, reduce fuel consumption by using more efficient routes in the air and utilise electric plug-in power while on the ground to make flights more sustainable. Airports can also follow Heathrow's lead by offsetting remaining emissions, using natural solutions such as tree planting and peatland restoration to remove carbon.

Investing through an ESG lens: controlled environments agriculture fund

The Scheme made a commitment to a sustainable agriculture fund during the year. Equilibrium's Controlled Environment Food Fund II will invest primarily in high-tech greenhouses and adjacent businesses focussed on controlled environment agriculture. Whilst the Scheme has underwritten the Fund on the basis of attractive risk-adjusted investment returns, stewardship and sustainability considerations are embedded in the fund's proposition, strategy and management approach.

Controlled environment agriculture requires reduced resource inputs (e.g. water, fertiliser, pesticides) per unit of production, and minimises crop spoiling and wastage e.g. from poor weather. They can be positioned nearer to end-markets to reduce transportation costs (and emissions) and they enable farmers to offer year-round, higher quality produce and, importantly, highly skilled jobs with improved working conditions.

In addition to standard financial reporting, the manager will be providing USS with ESG performance data covering water savings, energy use, carbon emissions intensity and jobs created to enable a comparison of yields versus field-crops and the beneficial impact of the fund.

Equilibrium has also established a partnership with FutureProof in order to improve the assessment of physical climate risk in its portfolio. FutureProof utilises new tools to assess the physical impacts of climate risk on real assets (e.g., property, ports, agriculture).

The Fund manages large high-tech greenhouses where weather, temperature and climatic changes impacts crop yields and working conditions. Equilibrium therefore needed more granular and actionable data on climate impacts to support their business planning and risk management. Through their partnership with FutureProof, Equilibrium was able to get more accurate predictions on value at risk to drive better decisions about operations and maintenance programmes, insurance costs, investment/divestment decisions for site development, and construction resilience.

The insights have influenced the Fund's decision making on assumed operating lives for their assets, heating, ventilation and air conditioning (HVAC) optimisation, choices of construction materials, and assumptions on crops cycles. Ultimately, the goal is to ensure that climate risks and opportunities are being accurately priced to gain a competitive advantage, support farmers using their equipment and maximise long term returns as they invest capital on behalf of pension funds like USS.

A joint call with the Equilibrium and Futureproof teams brought USS further insights into the GP's approach to ESG integration and risk management, and levered the knowledge and expertise of FutureProof to build internal capacity on climate risk mapping and underwriting.

Case study: PECO Pallets' D&I journey

Supported by its Board, PECO (one of USS's direct logistics and transport assets) has been focussing on advancing their diversity and inclusion culture journey. The company previously provided annual D&I training to all employees. To further embed D&I principles in the culture of the company, management took a number of concrete steps in 2021 to influence change. These included:

- Establishing a D&I committee who developed a roadmap of initiatives to be progressed over the next three years. These cover a wide array of topics including recruitment processes, talent development, external marketing and branding and community outreach.
- Implementing women's Lean In circles.
- Introducing bilingual workplace signage and training.
- Organising a programme of D&I round table discussions to promote open dialogue for learning and understanding all perspectives.

These steps are aimed at progressing representation in the company of the communities where they live and work. By having a clear focus on D&I, the company hopes to attract, recruit, retain and develop high performing talented and engaged employees from diverse backgrounds. The Board will continue to oversee how these efforts impact the composition of employees in the organisation.

Other asset classes – Private Debt

The Private Markets Group participated in a private, inflation-linked bond issued by Affinity Water. The investment funded ESG initiatives in the company's Green Finance Framework including: energy efficiency, pollution prevention, biodiversity conservation and sustainable water management. Proceeds of the private placement are ringfenced to deliver ESG initiatives outlined in the Framework, and will be monitored during the bond term.

Principle 8: Monitoring managers and service providers

Principle 8

Signatories monitor and hold to account managers and/or service providers.

USS's RI strategy applies to all the assets in which the Scheme invests, whether this is via portfolios run by USSIM or by external managers. Approximately 40% of our assets are managed externally, and we have processes in place to assess and monitor how potential or existing managers are addressing ESG-related factors. We consider our oversight of external managers as stewardship activities as we are "engaging" with them to improve their ESG practices. We assess ESG issues prior to appointment and then on a regular and ongoing basis post investment. This involves both RI and other teams reviewing external managers' responsible investment-related policies, processes, resources, reporting and stewardship activities. External managers are ranked against in-house assessment frameworks, with a score of red, amber, green (RAG) status allocated to each external fund under review. The frequency and type of monitoring is tailored to the RAG status, mandate and asset class.

The Scheme has a Senior Responsible Investment Analyst and an RI Analyst dedicated to oversight of external managers. All new fund managers are subject to comprehensive due diligence to evaluate the managers' approach and commitment to responsible investment and stewardship, and to ensure that these external managers meet our needs.

Our due diligence questionnaires

In 2019, we updated our RI due diligence and monitoring processes for external managers and fund managers (for both public and private markets) into standardised questionnaires. These questionnaires are similar in content, with the due diligence version establishing a baseline set of data which then form the basis for the Scheme's monitoring programme. We also introduced the scoring system outlined above to enable the benchmarking of the ESG performance of the external managers and prioritise our engagement activities. Figure 1 presents an extract from our monitoring framework

Figure 1: Extract from USS PE Manager Monitoring Framework

Rating/ KPIs	RI Policy & Process	Capacity/Governance	ESG Due Diligence	Stewardship & portfolio management
3 - Outstanding, exemplary **USS likely to note & commend some aspect of RI practices**	• Comprehensive ESG and RI related Policies and statements- no gaps • Applicability to USS assets clearly defined • Accountabilities within the firm clearly articulated • Policy(ies) updated within last 24 months • Evidence and references to ESG included in fund DDQs and data rooms and LP communications – offered as core to GP proposition.	• Evidence of commitments to capacity building for market e.g. - Commitment to TCFD - Leadership role in diversity & inclusion • Material references to ESG in LP reporting and deal documentation • ESG KPIs for firm and/ or portfolio companies set by GP & reflecting materiality • Use of climate change scenario tools & ESG research providers • GP sustainability/ CSR/ ESG policies / reporting public on web • Candid detailed PRI report • Public profile, leadership on ESG shared at events	• Evidence via case studies of ESG considerations in due diligence. • Detailed disclosures in response to RI questioning • Likely use of expert consultants • Comfortable talking off-cuff, open and confident answers. • PMs involved in ESG discussions • Possible sharing of information from PMIC packs • Evidence that DD findings link to inclusion of ESG in value creation plans and valuations.	• Evidence that ESG is systemically included in portfolio reviews and monitoring processes. • Material information obtained / used by fund managers • ESG shortfalls addressed at portfolio companies/progress tracked by GP • Asset managers involved- often alongside ESG expertise. Clear governance processes in place (links to policy above) and record keeping. • Ability to identify- and share with LPs- awareness of key ESG risks within fund portfolios. • Processes in place to prioritise engagement/stewardship activities. • Firm and/or investee asset / KPIs identified /targets set. • Likely systems in place to evidence and track ESG performance data.

(which mirrors our due diligence questionnaire) showing the issues on which we assess managers and how they might then be scored. Our private equity framework is available online here.

In public markets our reviews rate the funds across the following key areas:

- RI policies and processes
- ESG integration
- stewardship (or asset management practices for private markets)
- voting (for listed equities)
- collaboration
- market wide / public policy activities
- reporting

In addition to our ratings and due diligence, we also reference our commitment to the TCFD, the UNPRI and UK Stewardship Code in our template Investment Management Agreements (IMAs) for public markets, and private equity fund side-letters. We request RI reporting and ask our managers to commit to responding to ad-hoc data requests on ESG or stewardship to support USS analysis or scheme reporting. Whilst we have not always been successful in achieving the proposed template wording, our negotiations and starting position sends a strong signal to managers, emphasising the importance placed on RI considerations by the Scheme.

> *“Our monitoring of external managers does not stop post-investment.”*

Tailoring due diligence to specific asset classes

Our due diligence questions vary across asset classes in line with the specific attributes of those asset classes or fund strategy. For example, in public equity mandates, we consider the consistency of the manager’s voting policy with USS’s approach and review voting records to gain insights into alignment with engagement activities, investment decisions or public position statements, and to ensure that they meet our needs and expectations on stewardship. Within this, we also consider the consistency of voting records between different markets and the manager’s public policy statements or review the handling of a specific vote compared to USS’s position on the same resolution where we have a corresponding in-house holding. We also consider the manager’s involvement in collaborative initiatives and how ESG-related activities are communicated to investors and other stakeholders.

In private markets (for example, private equity funds), we are often considering making a commitment to a fund where the assets have not yet been acquired – so-called blind pools. In these situations, our due diligence will focus on policy and processes and, where possible, case- studies from previous funds on which we base ESG-related questions. All new General Partners (GPs) and external fund managers are asked to complete a USS RI GP Due Diligence Questionnaire regarding their approach to ESG matters.

The questionnaire closely aligns to ESG matters raised in the PRI’s Limited Partner (LP) questionnaire which USS helped to develop. We ask for information on how ESG risks and opportunities are assessed in the due diligence process and how they are managed across the portfolio. We encourage the provision of case-studies to evidence the GP’s existing approach and where materials are available, will ask about ESG matters relating to previous or current investments. This focus on previous funds enables us to assess how well ESG factors have been incorporated in previous investments and whether we can expect that the new fund will meet our expectations. We also review GRESB reports if available for property or infrastructure funds.

During 2021 we worked again with the PRI and ILPA (the Institutional Limited Partners Association) to support the updating of their template Due Diligence Questionnaires to enhance disclosures on matters including climate change risk management, portfolio company ESG data and diversity and inclusion.

Case study – Our process for private equity

In private equity, we assess General Partners (GPs) on ESG issues on a regular and ongoing basis, irrespective of the type of investment (for example, special situations, debt funds or buy-outs) and provide feedback to USSIM's internal Private Markets Group (PMG) managers on our views. The assessments are conducted within the context of the Limited Partners (LP)/ General Partners (GP) relationship, where the GP has ultimate responsibility for investment decisions and portfolio assets. We monitor the GPs to ensure that ESG issues are being properly managed and to encourage improvements in ESG performance. Our monitoring assesses GP responsible investment-related policies, activities and resources.

The RI Team:

- undertakes research into the portfolio companies or other assets in which a GP has invested, including any co-investments, to identify ESG risks or opportunities that can be interrogated further with the GP.
- undertakes research to understand how GPs engage with portfolio companies on these issues.
- meets with representative members of the GP to discuss the processes, actions and outcomes associated with the management of ESG issues within the portfolio.

The information collected during monitoring feeds into the scores in our fund rating process (as outlined on page 34). It also helps inform USS's future allocations to a private equity manager, as information collected is used in the due diligence process for new funds.

To improve ESG data provision we have also supported the ESG Data Convergence Project, a novel GP / LP collaboration on the collection and provision of data (including carbon data) in private equity. We will be encouraging our managers to share their data with USS to improve our understanding of ESG risk management within the participating funds.

Ongoing monitoring and review

Our monitoring of external managers does not stop post-investment. Whilst the past two years of Covid restrictions have meant that our monitoring has been less than we would have anticipated, we regularly follow up to assess if a manager's approach has changed and whether they are delivering on commitments made in the initial due diligence. The frequency and type of monitoring is tailored to the mandate, asset class and our RI rating for the fund. For example, for funds investing in public markets, we review voting records, company engagement case-studies and ESG integration.

Where a fund receives a red-flag rating we will typically escalate our engagement, with additional research and meetings, often including senior management, to discuss our concerns and steps that might be taken to improve RI performance.

For public markets managers we also include RI-related questions within USS's quarterly monitoring questionnaires to ensure material changes to RI policies, activities or concerns arising with portfolio assets are tracked and managed.

Fund monitoring for both public and private asset managers and meetings with managers are coordinated with the relevant internal teams. In addition, the outcomes of the monitoring assessment are shared with our PMG and the Investment Product Management (IPM) teams (responsible for public markets manager appointment) as well as with the Managers and Mandates Committee.

While the RI Team plays a key role in monitoring our external managers on ESG, our colleagues in the IPM team and PMG, who manage these relationships day-to-day, are also heavily involved in the oversight. For example, PMG team members are typically also members of the Limited Partners' Advisory Committees (LPAC's) of the private market funds in which USS invests. These committees typically meet once or twice a year and will often include ESG topics and updates on the meeting agendas, providing an additional forum for USS to monitor and challenge our private markets fund managers on RI-related matters.

Our monitoring process also entails a more detailed, deep-dive review of funds and assets, and meetings with representatives from the investment management firm for a more thorough face-to-face discussion on ESG. Ahead of these meetings, we research the portfolio companies or other assets in which a fund has invested to identify relevant ESG risks or opportunities that can be interrogated further with the fund manager. This process, which we have adapted for both public and private market managers, is designed to identify areas of strength and weakness in RI, and divergence between their stated approach and actual implementation, and to allow comparisons to be made across USS's different external managers, especially when they are working within a similar asset class. The information and RI ratings can also help to inform USS's future allocations to a private equity manager (see *Case study - our process for private equity* on page 36) as the data and views collected feed into the due diligence process for assessing new commitments. In situations where we find that the manager has not met our expectations or is red rated, we may decide not to make future allocations or to reduce or remove existing allocations.

Carbon footprinting data for Private Equity

In 2021, as part of our Net Zero programme, we contacted key GPs regarding carbon data. Carbon footprinting data for private markets have to be estimated as private funds and their underlying portfolio companies rarely make these data available. As a result, we contacted our external managers in PMG to request carbon emissions data for our fund exposures and an update on their plans around climate risk management. The responses will feed into the Scheme's approach to Net Zero in private markets.

We will also be working towards the systematic collection of ESG key performance indicators from our directly held assets in order to improve management information, analysis and ESG risk management across the portfolio.

RI external managers process evolution

The Scheme continued to evolve its approach to and processes for RI due diligence and monitoring for external managers during the year. Increasingly, ESG considerations are discussed earlier in the proposal for new mandates. Furthermore, for funds we are also trialling a number of key performance indicators (KPIs) to flag either potential manager (mis)alignment with USS on ESG, capacity, or implementation issues earlier in the selection and appointment process. We believe that the KPIs will help to illustrate maturity of approach and leadership in RI at the funds. The criteria are aligned with indicators already considered and reported on within our existing rating frameworks. This approach allows us to discuss RI priorities and concerns both internally and with the manager before progressing to the more detailed RI rating and due diligence processes, and to consider potential requests on fund terms and contracts earlier in the negotiation process. The aim is also to simplify and speed-up RI due diligence and monitoring by identifying key indicators that illustrate a commitment to RI and alignment to the USS Statement of Investment Principles.

We are also working with our Legal team (both internal and external counsel) to ensure ESG provisions in the contracts we have with managers (Investment Management Agreements- IMAs- and side letters) consistently reflect USS and USSIM ESG policies and beliefs. These include the USSIM Exclusion Criteria, USS's Net Zero commitment and market evolution in the understanding of ESG materiality.

Case study: Due diligence identifies poor ESG performance

We decided not to proceed with a proposed equity fund investment during the year, in part due to concerns regarding the manager's capabilities and commitment to RI. Whilst the preferred manager was more advanced than some of their local peers, our due diligence identified that they lagged against international RI good practice and USS expectations on ESG risk management and integration, their approach to Net Zero, voting and engagement practices and stewardship reporting meaning that the fund's score against USS's RI rating framework was red flagged. The rating, alongside other investment considerations, contributed to the Scheme's decision not to proceed with the proposed mandate.

Service provider reviews

ESG data provider review

Commencing in November 2021 and running into early 2022, a review of ESG data service providers was undertaken to assess whether we are getting the most efficient ESG data provided at an appropriate cost. The review looked at the provision of general ESG data and ratings, controversies data, and artificial intelligence web-scraper services. The review also looked at the provision of each of the above for different asset classes including public equities, private markets and fixed income.

A Request for Proposals was sent out to 18 data providers selected (using the Substantive Research online facility) for their specialisation and breadth of coverage of companies and asset classes. We received replies from 12 of the service providers, and our analysis of the responses clearly showed that we are currently receiving a good quality and cost-effective service from our existing providers. Whilst some were slightly lower cost, the disruption associated with transferring between providers is likely to outweigh any benefits gained. It should be noted that the number of data service providers is constantly changing, and the products of existing services providers are being updated and improved. We will therefore continue to monitor this market.

Carbon and climate change data

To support our Net Zero and stewardship programmes, we also conducted a detailed review of carbon data providers using both qualitative and quantitative factors to score their capabilities. This was followed by extended trial periods with the highest scoring providers. We selected a provider that could meet the Scheme's needs in providing both carbon and broader climate data for a wide range of asset classes and geographies. Additionally, we needed a data provider that could supply the Scheme with emissions estimates where reported data was absent, and that could deliver the data in the right format for us to analyse. By comparing different data providers and then monitoring the selected provider's ability to deliver, we have ensured that carbon data service providers fulfil the Scheme's requirements for both TCFD reporting and investment analysis.

Proxy voting platform

USSIM uses Minerva's proxy research and voting services and also receives research reports on global companies from other voting data providers. USSIM uses this analysis to supplement its own research and ESG assessments as well as data from other sources. As part of its ongoing monitoring activities, USSIM conducts regular reviews of votes submitted for USS by Minerva (see Principle 12) in order to determine the quality and timeliness of services offered as well as ensure that the approach to key issues is aligned with USS voting policy. USSIM also periodically reviews any unvoted ballots (if they occur) including root cause analysis to minimise the risk of missed voting rights. In addition to regular dialogue and feedback, USSIM engages with an extended team at Minerva through an annual service review on a range of issues including the quality of research and vote execution, any issues experienced when voting during the year, personnel changes, business continuity, management of potential conflicts, and planned product or process improvements. These reviews are reported to our Operational Due Diligence Team as additional assurance.

Process oversight

Our RI oversight of external managers is reported to the internal USSIM Managers and Mandates Committee and the Audit Risk & Compliance Committee on a quarterly basis, to the Investment Committee semi-annually, and is included in an annual update for the Trustee Board. USSIM's approaches to external manager due diligence and monitoring are reported as case studies in our PRI Reporting and Assessment submissions. In 2019, USSIM were pleased to be showcased on the PRI's inaugural Global Leaders Group for our approach to RI for external managers.

Capacity building at external managers

2021 witnessed the strengthening of ESG teams at several managers where USS had been calling for better resourcing or strategy-focused support in RI following a monitoring review. Specifically:

- We welcomed the creation of new RI-Lead roles at two of the Scheme's long-standing managers where we had previously raised concerns regarding capacity and the pace of implementation of RI policies.
- We also welcomed the establishment of asset-class ESG leads at one of the Scheme's large US multi-asset managers where we felt the top-down approach to ESG lacked sensitivity to the firm's varied private markets investment strategies.
- We have also witnessed several leading RI teams grow throughout 2021 in response to the increased availability and integration of ESG data, client interest and the implementation of Net Zero strategies.

Whilst we recognise the appointments and policy updates reflect a growing interest in ESG from clients and regulators, and manager-led product developments, we believe that our engagements and discussions have played a role in catalysing such developments.

Case study: Private equity engagement – LPACs and ESG

Following the Scheme's Net Zero announcement in May 2021, our Head of Private Equity challenged the lack of discussion on climate change risk or transition at the Limited Partner Advisory Committee (LPAC) meetings for one of the Scheme's US energy funds. The comment was raised with the Head of ESG at the external manager, triggering a call from the Fund's Lead Partner and assurances around work in progress and transition of the manager's energy strategy. During the course of 2022, we will track progress and continue to engage on climate change and emissions management with the manager.

Case study: Aligning manager remuneration

We discussed the potential inclusion of RI objectives into the remuneration arrangements for portfolio managers with one of our public credit managers during a monitoring meeting in 2020. We typically raise this with managers (in both public and private markets) to improve accountability, drive alignment and RI strategy implementation. Several months after the meeting, we were pleased to be advised that all front office teams would have a specific RI goal within their performance measures for the forthcoming year.

Principle 9: Engagement

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

"We fundamentally believe that actively engaging with the management teams of the companies in which we invest is the best way to achieve Net Zero. We would far rather be in the room and able to effect positive change, than looking in from the outside with no real leverage."

Taking an active approach to engagement

We believe that appropriate engagement can help to prevent, or avoid, value destruction and reduce the negative impacts companies can have on the environment and society. This is why we seek to be active and engaged stewards and encourage companies to make positive changes.

As discussed under Principle 7, we select and prioritise engagement based on a variety of factors including: the size of our holdings in the entity or the size of the asset, portfolio company and/or property; the materiality of ESG factors on financial and/or operational performance; their ESG scores and rankings in specific benchmarks and the adequacy of public disclosure on ESG factors and performance.

We enter into engagements with companies in our portfolio for a variety of reasons. All engagement will have some purpose or goal, either to clarify a company's approach to managing an ESG-related issue or to get comfort that the company is allocating sufficient resources to managing an ESG risk. On some engagements there will be a specific objective; examples include our engagement with Mexican cement company Cemex, the country's second largest emitter, on carbon reduction and with a coalition of investors on a standard for mining tailings management. See the case studies on pages 41- 42.

We use a variety of engagement methods, including meeting individually with the company or entity (either just the RI team or with fund managers), collaboratively engaging alongside other investors (see Principle 10), filing, co-filing, or submitting shareholder resolutions or proposals (which we do very rarely), publicly engaging the entity (e.g. open letters), voting, and divesting or implementing an exit strategy. The specific strategies we use, and the sequence in which we use them (see further details in Principle 11) depend on the issues in question, the mechanisms of influence (formal and informal) available to us, and the characteristics of the investment made (e.g. lock-in periods, liquidity).

As noted in our 2021 Stewardship Code report, we have reviewed our approach to stewardship and engagement as a result of changes to our approach to investing in public equities. We concluded that, with a shift to larger and therefore more diverse portfolios, it made sense for us to participate in a broader range of collaborations and to support more collaborative engagements (see Principle 10 and the 'Engagement examples and outcomes' on page 41). This change to more diverse portfolios also led us to conclude that, over time, we need to move from a holdings-focused approach to prioritisation to a more issue / theme-based approach.

Historically, we have mainly engaged with those credit issuers who also issue shares, and it is fair to say that most of our engagement has emphasised those issues that are of concern to equity investors.

Finally, while the discussion in this section has focused on listed equity and credit, we engage across all of our asset classes (see the examples presented in other sections of this report). In addition, as noted in Principle 8, we have a detailed process for due diligence and monitoring of our external managers across asset classes (we view our monitoring programmes as engagements with our managers) and we engage with policymakers on key issues (see Principle 4).

Engagement examples and outcomes

Case study: Cemex – Net Zero and CA100+ collaborative engagement

USSIM has been one of the lead investors engaging with Cemex, one of the world's largest cement companies, as part of the CA100+ collaborative project. The cement sector is an often overlooked carbon intensive industry with some 60 to 70% of the sector's CO2 emissions coming from the chemical processes associated with the production of cement. For the cement sector to decarbonise it needs therefore to not just look at alternative fuel sources (responsible for the remaining 30 to 40% of emissions), but alternative technologies either through alternatives to carbonates or carbon sequestering and re-use. It has been estimated that the cement sector has to decarbonise by at least 5% per year every year to reach neutrality by 2050. Cemex itself is the second largest source of carbon emissions in Mexico.

Although there has been limited engagement in 2021, the company was encouraged to build on its carbon reduction ambitions from previous years and to submit its 2030 target and roadmap to the Science Based Target Initiative (SBTI) for verification. Cemex has also now stated that it expects to reach its 2030 emissions target five years early and has submitted its "well below 2-degree scenario" to the SBTI. In early 2022, the company joined the Race to Zero challenge and, signed on to the Business Ambition for 1.5 degree program led by the We Mean Business Coalition, in partnership with the UN Global Pact and SBTI.

Cemex published its Annual Integrated Report in March 2022. The report shows an improvement in its disclosure and an acceleration of its short term efforts to reach its stated Climate Goals. However, its strategy to "deliver Net Zero concrete" by 2050 is dependent upon a number of "breakthrough technologies" throughout its value chain. Over the course of 2022, we will seek to understand what happens if the breakthrough technologies fail to deliver the results hoped for, and what the company's alternative options may entail.

Case study: Asian utilities and climate change

A number of Asian countries (primarily China, India and Japan but also Indonesia, Taiwan and Thailand) are heavily reliant on the use of thermal coal to power their industrial development, with detrimental impacts on the environment and the climate.

USSIM has been participating in a collaborative engagement facilitated by Asia Research and Engagement which has targeted a number of Chinese and Japanese utilities, with the aim of encouraging the companies to disclose their climate transition plans and to transition away from thermal coal.

The engagement has been focusing initially on disclosure and, as disclosure improves, encouraging companies to set realistic targets for their transition strategies. It also highlights the strategies being developed by various companies and nations, with Japan seeking to renew their use of nuclear power following the Fukishima accident. Others see gas as a transition fuel whilst renewable sources are developed. The engagement will continue in 2022 whilst we encourage the poorer performing utilities to address the issue.

Case study: Mining Tailings Storage Facilities

Tailings are the waste product of the recovery of metal from its host rock. As grades (the amount of metal contained per weight of rock) of ore decrease, the amounts of tailings will inevitably increase. Tailings are often stored in tailings storage facilities (TSF), often with dams of various construction designed to retain the tailings forever.

The problem with TSFs is that certain constructions (upstream dams) have been proven to be at risk of failure with their being at least two major collapses in Brazil since November 2015: the first at the Fundao dam at Samarco, and the second in January 2019 at Dam 1 at Córrego do Feijão, Brumadinho. Collectively close to 300 people died and hundreds of km of river and associated habitats impacted.

USSIM joined a coalition of likeminded investors led by the Church of England Pensions Board and the Swedish Council on Ethics to initially get mining companies to disclose their dam inventories then to develop a globally accepted standard on the management of tailings storage facilities. After the initial disclosure phase, 44 of the top 50 mining companies had made disclosures with 86% of publicly listed mining companies having responded to the original letter.

Working together with the International Council on Mining and Metals (ICMM) and the UNEP, a Global Industry Standard for Tailings Management (GISTM) has now officially been launched with the ICMM members formally endorsing it. Engagement continues to encourage those companies who have not yet formally disclosed their tailings inventories and to adopt the GISTM.

Case study: Mining companies and First Nations Communities / Indigenous peoples

Mining companies require a social licence to operate, and an integral part of this is respecting and consulting with the local communities and indigenous peoples impacted by their work. In May 2020, Rio Tinto destroyed a 46,000 year-old Aboriginal site in the Juukan Gorge of Western Australia leading to national and international uproar.

The incident revealed an issue applicable to many companies across the mining sector. As a result, investors were keen to indicate both a serious concern as well as a desire to work with the industry to understand better how this can be addressed. Therefore, USSIM and a group of 66 investors (including ACSI, Church of England Pensions Board, Hesta, CBUS, and the Council of Ethics for the Swedish National Pension Funds) sent a letter to the top international mining companies and all other major companies that operate in Australia. The letter sought assurances on the issue of indigenous community rights and social license.

To date, 59 companies (76% of those approached), have responded. Analysis of responses has shown some clear gaps in disclosure and approach that warrant further exploration and engagement by investors seeking to understand the risk profile of these investments. In particular, issues around application of standards to joint ventures, reviewing of confidentiality clauses, and challenges in genuinely being able to gain confidence in site level adherence to best practice are all issues for consideration by investors. Investors will continue to engage with mining companies on this and other ESG issues.

Principle 10: Collaboration

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

We were early leaders in collaborative engagement, and involved in establishing several initiatives which support stewardship activities and collective engagement both in the UK and globally.”

Collaboration is key

We firmly believe that focussed engagement and meaningful investor collaborations are key to stewardship success. It is clear that our interests can be furthered by collaboration with like-minded investors and engagement with government, industry and regulators. This is because that, whilst USS is a relatively large pension fund, we are small compared to international financial markets, and our holdings in companies tend to be correspondingly small. Collaboration adds weight to individual company engagements and to addressing market wide systemic failures. The additional influence, the shared learning and the greater efficiency associated with collaboration means that it is a central and critical part of our approach to stewardship.

Our commitment to collaboration

We were early leaders in collaborative engagement and involved in establishing several initiatives which support stewardship activities and collective engagement both in the UK and globally. Since 2000, the Scheme has dedicated considerable effort to founding and ensuring the ongoing success of collaborative responsible investment initiatives, and to addressing systemic barriers to incorporating ESG issues in investment. This commitment to collaboration is reflected in the market-wide transformation work and collective initiatives that USS has been and is associated with. For example, we were founders of the IIGCC (2001) and GRESB (2009), and were founder signatories to the UNPRI in 2006, and the TPI in 2017. More generally, we are active in a wide range of responsible investment, stewardship and ESG-related collaborations. See page 45 for a list of our main collaborative partnerships and affiliations.

Our Statement of Investment Principles (SIP) notes: “Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Trustee expects its investment manager to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes”. The Scheme’s Investment Beliefs also highlight a commitment to collaboration, stating “the fund’s interests are further protected from adverse impacts by collaboration with like-minded investors and engagement with government, industry and regulators”.

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

Case-study: Collaborative engagement on Myanmar

Following the February 2021 military coup in Myanmar, USSIM joined an investors' collaboration organised by the Investor Alliance for Human Rights (IAHR) to identify and engage with companies with a reported link to the military junta.

Almost 100 companies were targeted of which some 25 were held by USSIM. We sent emails and requested meetings with the companies who had not already clearly stated their intentions in the country to understand how they were protecting their workforces whilst contributing to the potential re-introduction of democracy to Myanmar. A number of responses were received and calls were held with some of the respondees.

Many of the companies were assessing how the situation was evolving and seeking ways to provide support for their employees. A number, including Total Energies and Chevron, have announced that they are planning to exit the country.

The NGOs have expressed a wish for foreign companies to leave the country and withdraw all forms of support from the military authorities. We shall spend 2022 asking companies whether they will consider this option.

Collaboration in focus

As noted previously, in 2020, a shift in equity allocation led to a significant increase in the breadth of our portfolio, resulting in us becoming even more of a 'universal owner' with exposure to an extremely wide spectrum of assets. As a result, we have moved towards more collaboration based upon the prioritisation of material ESG issues, with a themes-based approach. This has led to participation in a broader range of collaborative engagements than we have previously undertaken. We have also placed more emphasis on collaboration as part of our questioning of investment managers in our monitoring and due diligence processes.

Specific examples of our company and issues-based collaborative engagements follow/are set out below. Other examples can be found elsewhere in this report, particularly under Principle 7.

Case-study: Paris aligned accounts

Last year, we reported that USS was amongst a group of investors writing to Europe's largest companies through the IIGCC to call on them to properly reflect the implications of global commitments to limit temperature rises in their financial statements. This year, again as part of a group of 34 investors collectively representing over $7.1 trillion in assets, we signed letters to 17 of Europe's largest companies asking why expectations over climate related accounting disclosures have failed to be met. Sent ahead of 2022 company AGMs, the letters' signatories warn of the possibility of increased voting against Audit Committee directors' appointments if expectations are not met.

Climate change is a financial risk to the returns generated by our assets. As such, we expect companies to reflect properly the implications of delivering the Paris Agreement in their financial statements and auditors to provide reassurance whether the accounts can be considered Paris-aligned.

Philipp Kloucek, Responsible Investment Analyst, USS

Collaborative engagement on the Uyghur Muslims

The Uyghur Muslims in China have been the subject of numerous alleged human rights violations including forced relocation and internment, "re-education" and forced sterilisation. The systemic nature of the abuse by the authorities has been labelled in some quarters as genocide.

Chinese companies are in numerous supply chains across sectors as diverse as solar panels, cotton and electronics. Our portfolio managers have been raising the issue of Uyghur Muslims in the supply chains of their Chinese holdings throughout 2021. We have also been raising the issue with multinational companies with supply chain exposure to China. In order to have more impact on the issue, USSIM also joined a collaborative investor engagement lead by the Investor Alliance for Human Rights (IAHR).

The situation is complicated by the issue being denied by the Chinese government. Many of the companies that we have engaged with have refuted allegations of Uyghur Muslims in their factories or supply chains, some stating that their workforces are highly skilled and so the work could not be undertaken by unskilled interned workers.

We shall continue to engage companies on the issue. There is also greater emphasis on companies to provide evidence to support claims following the US Administration's signing into law the Uyghur Forced Labor Prevention Act in December 2021, with 180 days before it comes into force. Our engagement will focus on the implications for companies where there are known or suspected links to Uyghur labour issues.

Collaborative engagements:

Examples of collaborative engagements include:

Microfibres engagement:

A collaborative engagement seeking companies to address ways of reducing microplastics in the environment. Organised by First Sentier Investors in collaboration with the Marine Conservation Society.

Conflict Minerals:

A Rathbones-led initiative to address conflict minerals (including gold, cobalt and tin) in the supply chain. A number of users state they have policies in place but, in reality, they source from smelters which allegedly do not differentiate between minerals sourced from conflict zones and those that are more conventionally sourced.

The Coalition United for a Responsible Exxon (CURE):

Over 145 institutional members focused on sustainability and committed to delivering long term returns that account for the realities of a changing climate and energy sector.

Cybersecurity:

An investor initiative led by Royal London AM, which started in 2019 and initially focussing on some 35 companies. Efforts are being re-directed on uncovering the leadership and resources that underpin the governance and risk management, corporate culture and systems, with an emphasis on supply chains and corporate action (M&A) as areas of enhanced risk.

Deep Sea Mining:

A Church of England Pensions Board-led initiative to look at the possible impacts of deep-sea mining and whether they are being addressed adequately by the companies proposing to do this and the authority who is reportedly overseeing the licences.

Global Industry Tailings Management Standards:

A Church of England Pensions Board-led initiative in cooperation with the International Council of Mining and Metals (ICMM) to establish a global standard for the safe management of tailings storage facilities.

ILPA ESG Data Convergence Project:

A collaboration between private equity fund managers (GPs) and their investors (LP) to improve ESG data disclosure.

Investor Alliance for Human Rights:

we are working with the IAHR on two collaborations:

- The Xinjiang Uyghur Autonomous Region collaboration – addressing the forced use of Uyghur labour in the Chinese supply chain.
- Myanmar – the emphasis has changed a year after the coup and it is very much about encouraging companies to exit the country and not provide any support whatsoever to the military authorities.

Votes against Slavery:

A Rathbones-led collaboration focussing on the FTSE 350 companies to ensure they are complying with the legislation to adopt a Modern Slavery Policy.

Workplace Disclosure Initiative (WDI):

A ShareAction-led initiative with investors that aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide.

Memberships:

Examples of our memberships include:

Australian Council of Superannuation Investors (ACSI): forum addressing corporate ESG and related government policy issues in Australia.

Asia Research and Engagement: currently involved in climate initiatives with selected Asian banks and utilities, and their Net Zero transition plans (or lack thereof).

Asia Corporate Governance Association (ACGA): a forum of investors and companies which provides background and engagement opportunities with companies and policy makers on corporate governance issues. USSIM has recently joined the China and Korean Working Groups.

Corporate Governance Forum: a UK-based forum for discussing corporate governance issues both broadly and at individual companies, bringing members up to date with individual company developments.

Climate Action 100+ (CA100+): a global investor collaboration focussing engagement on the 100+ highest emitting companies. USS are co-leads or supporters to a number of CA100+ engagements including Shell, BHP and Cemex and more recently SSE and EDF.

The Farm Animal Investment Risk and Return (FAIRR) Initiative: an investor initiative looking at issues in the global food supply chain, including sustainable protein, antibiotics stewardship and meat sourcing.

Global ESG Benchmark for Real Assets (GRESB): USSIM was a founder member of this mission-driven and investor-led organisation that provides actionable and transparent ESG data to financial markets. They collect, validate, score and benchmark ESG data to provide business intelligence, engagement tools, and regulatory reporting solutions.

Investor Forum: a community interest company set up by institutional investors in UK equities, that helps investors to work collectively to escalate material issues with the Boards of UK-listed companies.

International Corporate Governance Network (ICGN): a body of investors which seeks to advance the highest standards of corporate governance and investor stewardship worldwide.

The Institutional Investors Group on Climate Change (IIGCC): the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. USSIM was the founding member of the IIGCC in 2001.

The United Nations Principles of Responsible Investment (UNPRI or PRI): a United Nations-supported international network of investors that work together to implement 6 aspirational principles. USS were a founding signatory in 2006.

Transition Pathway Initiative (TPI): a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. USSIM is on the board of the TPI.

For more on collaboration, in our description of how we implement Principle 7 we explain how we select issues for engagement. In Principles 7 and 11 we discuss how we select strategies for engagement (including escalation strategies where appropriate).

Principle 11: Escalation

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

We frequently find that constructive, proactive dialogue enables most issues to be resolved and appropriate strategies or actions to be agreed.

A preference for proactivity and constructive discussion

We prefer to engage proactively and constructively with companies. This may be in writing, or in individual or collective meetings. We generally expect companies to advise shareholders when there are material changes and issues which impact long term shareholders, such as strategy, capital structure, sustainability and governance. We strongly encourage companies to inform us early about issues relevant to the business so that we maximise the time available to discuss and, if appropriate, resolve the issue.

USS's default position is to be supportive of the board and management. We assume discretionary changes will be applied to board and executive arrangements when necessary on the basis that the rationale will be disclosed to investors. When appropriate, and where we have concerns, we may put forward proposals to companies for the executive's and / or board's consideration. In order to establish, develop and maintain relationships we endeavour to have a regular and consistent process of engagement with companies.

Escalating should the need arise

We recognise, however, that this is not always the case. In certain situations, this may be because there are legitimate differences of opinion about the correct course of action. In such situations, and if we are satisfied that management has appropriately listened to and reflected on our concerns, we will support management although we may continue to engage with management on the issue or to monitor performance on the issue in question.

If boards do not respond constructively to our engagement, then the fund will consider whether to escalate its action, for example, by using the full range of stewardship tools available.

If we decide to escalate, we will use the strategies or approaches that are most likely to deliver the outcomes that we desire or, at least, clearly signal our views to management on the issue in question. In broad terms, we have a variety of escalation strategies that we can and have deployed. These – depending of course on the specific assets and asset class – include:

- Writing to the company to highlight our concerns
  - When we vote against management, we usually write to explain our concerns. This is an important way of providing feedback and encouraging change – it's a form of engagement.
- Voting against appropriate proposals at shareholder meetings
  - See Principle 12 for more information on voting.
- Meeting with management specifically to discuss concerns
  - After more than 31% of shareholders voted against the remuneration report, USSIM met with management at Intertek Group to discuss contentious compensation arrangements and how the Company addressed shareholders' concerns.
- Meeting with the Chairman, senior independent director, or independent directors
  - Before BHP's AGM, USSIM joined a collaborative investor meeting with the Chairman of the Board to discuss the proposed greenhouse gas reduction targets included in the company's Climate Transition Action Plan (CTAP) in detail. USSIM welcomed management's candour in discussions of BHP's climate strategy with investors and providing shareholders an advisory vote every three years on the CTAP. USSIM had concerns, however, on the ambition of reducing Scope 3 emissions: the CTAP does not extend to steelmaking, BHP's largest source of these (circa 75%), and their Scope 3 emissions comprise over 90% of all emissions combined.
  - Following more than 25% of shareholder dissent under the remuneration policy at Glencore's 2021 AGM, USSIM met with the new chairman, Mr. Madhavpeddi, to discuss contentious compensation arrangements as well as wider corporate governance issues.
- Expressing concern through the company's advisers
  - As an asset owner we tend to escalate engagements directly with the asset. However, where appropriate, we will engage with a company's advisers on matters such as executive remuneration, corporate governance and proxy matters, climate change strategy and environmental performance, typically in conjunction with the asset. Where formerly we held AIM listed investments we sometimes engaged with the company's NOMAD (or nominated advisory firm) to raise ESG concerns.

- Collaborating with other investors regarding our concerns, subject to applicable regulations
  - See Principle 10 for further details.
- Speaking to market regulators regarding our concerns
  - USS supported the Asian Corporate Governance Association's response to the HKEx consultation on the *Review of Corporate Governance Code and Related Listing Rule*, which addressed areas in the revised Code that take corporate governance in Hong Kong forward in a constructive way. The response highlighted reforms we would like to see included in the revised Code, and where Hong Kong needs to rise to the challenge to ensure its corporate standards are comparable to other markets in the region. We agreed with ACGA that the consultation's proposals lacked ambition and that bolder steps are necessary to bring the governance of Hong Kong-listed companies up to international standards, helping to reinforce Hong Kong's position as the international finance centre in China.
- Releasing a press statement, either singly or jointly with other investors relating to the issue
  - We joined a range of other large UK pension funds in writing to the *Financial Times*, setting out our view that businesses' commitments to pursue purpose, better manage carbon risks and engage constructively are the building blocks of stakeholder capitalism and long term value creation.
- Filing shareholder resolutions
  - We are part of the Investment Association (IA) working group developing a UK investor guidance document on how to requisition resolutions. The guidance will provide institutional investors with an overview of the key steps required to successfully file a resolution at a UK listed company. The IA hopes that the guidance will encourage institutional investors who have not succeeded in affecting behavioural change from companies following standard engagement and escalation activities to consider filing a requisitioned resolution with the Company. We have also in the past co-filed shareholder resolutions.
- Requisitioning a General Meeting: there were no instances in this reporting period
- Other legal remedies, for example, we were the lead plaintiff in the successful Petrobras class action following significant corruption at the company leading to loss of shareholder value:
  - In June 2021, the U.S. Securities and Exchange Commission released further information related to the creation of a "Fair Fund" – an investor protection formed from the Sarbanes-Oxley Act of 2002. USS submitted a claim for this settlement fund, which allows for further penalties to be distributed to harmed investors.
- When necessary, selling our shares in the company
  - As previously noted, we will also exclude from our investment universe those companies or sectors where we believe they face significant ESG issues that will affect their long term value.

Setting clear expectations for managers

For our investment managers, we define our expectations of stewardship in mandates. As noted in Principle 8, we monitor their stewardship performance as a standard part of our monitoring processes. We challenge them if we feel that they are not delivering on the stewardship commitments they have made to us (e.g. the issues they are active on, the resources they are devoting to stewardship or the intensity of their stewardship efforts). If we are concerned about an investment manager's performance, and if the investment manager has not improved following feedback from us, we have a range of options.

These can include:

- Notifying the external manager about their placement on a watch list.
- Engaging the external manager's board or investment committee.
- Reducing our exposure to the external manager until any non-conformances have been rectified.
- Terminating the contract with the external manager (or not reappointing them) if failings persist over a period of time.

Principle 12: Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

Exercising our voting rights: A global perspective

Having the right to vote on decisions made by the boards of the companies in which we invest is one of the most effective tools we have for holding them to account, encouraging good governance and driving improvements. We therefore regard exercising our right to vote as fundamental to our role as investment stewards. This means that as part of the Scheme's commitment to being a long-term, active and responsible shareowner, our base intention is to vote globally on all the companies in which we invest.

Given our commitment to voting our shares in all markets, we developed the Scheme's proprietary voting policy and principles in-house, to best reflect the its needs. Within them, we outline our expectations from investee companies, reflecting international best practice-including the UK Corporate Governance Code. We also set out these expectations in our Global Stewardship Principles (see link under 'What we follow'). We apply these expectations to companies listed outside the UK and to companies quoted off the main UK market, although we tailor them to take account of local market standards and best practice.

Abstaining or voting against management are not decisions we take lightly. As previously noted, USS's default position is to be supportive of the board and management. That said, we have a robust approach to applying our voting policy and do consistently vote against management where we feel it is not serving our best interests as a shareholder: we vote against management (either a direct vote against or an abstention) on at least one resolution at significantly greater than 50% of our holdings. For the 2021/2002 proxy season, we voted at least once against management at 74.9% of meetings.

Our voting process

USSIM uses a number of proxy advisory firms to provide a summary of the proxy information released to the market. We use the information provided by these proxy advisory firms alongside other sources, including outcomes from engagement meetings, discussions with our industry peers, and our portfolio managers' perspectives to reach a final voting decision. Individual votes and recommendations aim to improve the overall corporate governance of the company and through that their performance. Our voting decisions are, therefore, tailored to the circumstances of the company, and focused on the overall improvement of the company's corporate governance and management of environmental and social issues as we believe that this will protect or enhance the value of our investments. Individual vote decisions for priority holdings[1] (see Principle 7) are reviewed and confirmed by the in-house Responsible Investment team, working closely with USSIM's portfolio managers.

Our ten Global Stewardship Principles

The following Principles underpin the voting decisions that are taken in markets in which USS invests. Further information on how we apply these principles is available on our website (see 'What we follow' on this webpage).

1. Long term value creation
2. Environmental and social issues
3. Capital governance
4. Shareholder rights
5. Equal treatment of shareholders
6. Accountability to shareholders
7. Effective leadership and oversight
8. Alignment of interests
9. Checks and balances
10. Transparency

[1] Prioritisation for voting and engagement activities is based on the following criteria. For further detail see Principle 7:
- The size of our holdings in the entity or the size of the asset, portfolio company and/or property
- The home market of the asset, portfolio company and/or property
- The materiality of ESG factors and their effect on financial and/or operational performance
- Their ESG scores, and their rankings in specific benchmarks, in particular the Transition Pathway Initiative and the Workforce Disclosure Initiative
- Specific ESG factors with systemic influence (e.g. climate or human rights)
- The adequacy of public disclosure on ESG factors/performance
- Bribery and corruption-related issues

Non-priority stocks, for example stocks held in our passive or factor funds, are voted by a dedicated voting analyst at our main proxy research and platform provider in accordance with the USS voting policy. Internal USS staff closely monitor the voting of our external platform to ensure alignment with our policies; the outcomes of this monitoring are in turn reported to the Audit, Risk and Compliance Committee.

When we vote against management in one of our priority holdings, we will usually write to the company to explain our concerns. We see this as an important way of providing feedback and encouraging change – that is, it's a form of engagement. For non-priority holdings we will write to the company after voting season informing it that we voted against it, and that the reasons are available on the dedicated Voting Disclosure tool on our website.

We may escalate the vote by voting against additional relevant resolutions or against individual directors, who we identify to have responsibility for the area in question, if concerns raised in previous years have not been addressed in the current year. We believe using voting rights in this way is one of the most effective stewardship tools for achieving positive change as it allows us to effectively voice our concerns with the company's response to issues raised in a public way. For example, when voting against the remuneration report for a second consecutive year, USS will also vote against the chair of the remuneration committee and consider a vote against other members of the committee. When voting against the remuneration report for a third consecutive year, USS may vote against the chairman of the board.

In accordance with best practice, we publish a list of our global equity holdings and our voting records, and have done so for almost 20 years. Where we have voted against management or abstained on a resolution we include a brief comment to explain why. As with writing letters, we see this as an important way of providing feedback and encouraging change.

For our external investment managers, we have a section dedicated to voting in our responsible investment Due Diligence Questionnaire (see Principle 8). We seek to understand the voting chain and to document this within new IMAs to ensure clarity about each party's responsibilities. Reviewing managers' voting policy, voting records and decisions on specific cases is a standard part of our monitoring process, as is a review of the voting case studies. Where there are inconsistencies with our voting decisions, we seek to understand these inconsistencies as part of our discussions with the managers.

Stock lending

USS has an active stock lending programme. To ensure that the Scheme is able to vote all its shares at important meetings or where USS is a significant shareholder, USS has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes.

The RI Team routinely recall stock from loan and/or restrict stock to ensure shares are available in-house for voting at shareholder meetings. On occasion, the portfolio manager or RI Team may suspend a stock or market from the lending programme, for example in order to support engagement activities. For example, for the 2022-23 voting season we are planning to recall or restrict all stocks facing a climate change related resolution.

As the table below shows, where we hold 3% or more of the issued share capital of a company, stock is recalled systematically. In other circumstances we monitor the meetings and proportion of stock on loan and will restrict and/or recall lent stock on a case-by-case basis, for example in the event of a contentious vote or in relation to engagement activities, further to discussion with the portfolio manager. We will also always hold at least one share in a stock to ensure that we get notification of impending voting deadlines.

Lent stock recall criteria

Ownership/on loan thresholds	Meetings impacted	Recall and restriction from stock lending program
Over 3% ownership	All shareholder meetings	Automatic recall and restriction from stock lending program
Over 1% ownership	Extraordinary general meetings	RI Team will check with relevant PM
Over 0.5% of the issued share capital is on loan from USS	All shareholder meetings	RI Team will check with relevant PM

Strengthening our voting processes

It is important that the votes we cast are accurately and efficiently transmitted to issuers. USS seeks to ensure the voting chain in place for the fund's assets are well understood. We have worked with our service providers to reduce the number of intermediaries in the voting chain wherever possible. Furthermore, we have encouraged our service providers to review the opportunities to track USS's proxy votes and to work with their third parties to improve accountability in the vote chain. With reference to specific requests for vote confirmation, on occasion, we may contact the issuer, registrar, voting platform and / or USS's custodian for confirmation our proxy vote was sent / received through the various parties of a voting chain. This will generally be where we have a very important vote, or queries or concerns regarding USS's votes being reported at the meeting. The level of assurance we are able to obtain will be influenced by the specific vote chain in question.

Updating our Voting Policy

The USS Board reviews its Voting Policy annually. In 2020, the annual review of our UK voting policy resulted in the integration of data from the Transition Pathway Initiative (TPI), and the readiness for a transition to a low carbon economy, into voting decisions. The TPI ranks companies on management quality in relation to its greenhouse gas emissions and of risks and opportunities related to the low carbon transition. Following the voting policy review in 2021, USS will apply even more stringent criteria, and for the 2022 voting season may vote against or abstain on the resolution to receive the report and accounts where a company's management quality score fails to achieve a Level 2 score in the TPI's assessment (see graphic below). The aim of our voting is to encourage companies to provide climate related data to investors and ensures that we catch the high emitters who are providing the least disclosure of climate data.

Board diversity

USS also updated its diversity voting policy as follows:

- Diversity – we have strengthened our gender diversity for Emerging Markets & Japan by extending the existing minority gender requirement for large boards (11 directors and over) from one woman to at least two women (or those self-identifying as a woman) on the board.
- We have also amended our Voting Policy to highlight racial diversity with the inclusion of this sentence relating to the Parker Review: *USS expects companies to disclose their policies and procedures relating to diversity, including targets and progress on the recommendations of the UK's Parker and Hampton-Alexander Reviews.*

Management Quality

Level 0
Unaware

- Company does not recognise climate change as a significant issue for the business

Level 1
Awareness

- Company recognises climate change as a relevant risk/opportunity for the business
- Company has a policy (or equivalent) commitment to action on climate change

Level 2
Building capacity

- Company has set GHG emission reduction targets
- Company has published info. on its operational GHG emissions

Level 3
Integrating into operational decision making

- Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy
- Company has set quantitative targets for reducing its GHG emissions
- Company reports on its Scope 3 GHG emissions
- Company has had its operational GHG emissions data verified
- Company supports domestic & international efforts to mitigate climate change
- Company has a process to manage climate-related risks
- Company discloses Scope 3 GHG emissions from use of sold products (selected sectors only)

Level 4
Strategic assessment

- Company discloses membership and involvement in organisations or coalitions dedicated specifically to climate issues
- Company has set long term quantitative targets (>5 years) for reducing its GHG emissions
- Company has incorporated climate change performance into executive remuneration
- Company has incorporated climate change risks and opportunities in its strategy
- Company undertakes climate scenario planning
- Company discloses an internal carbon price
- Company ensures consistency between its climate change policy and position of trade associations of which it is a member

Strengthening our approach to voting on environmental and social issues

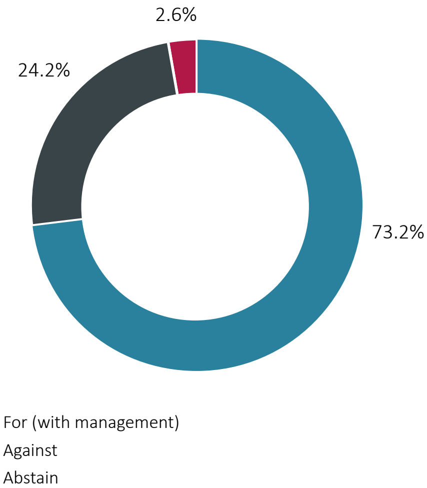
The Scheme also systematically integrates environmental and social issues into our voting process. This approach is based on company disclosure, the premise being that if investors are to integrate environmental and social considerations into their investment decision making and stewardship processes, it is essential that companies disclose the requisite information about their performance on these important issues.

We have identified the following as key indicators that we expect companies to report:

- Quality and Timeliness of reporting on corporate social responsibility (CSR) issues
- Carbon Emissions
- Fatalities
- Ethical Business Practices: human rights, child labour and modern slavery

USS global votes on resolutions

April 2021 - March 2022



Our voting activity 2021-22

In the table below, we present our voting statistics for the period April 2021 to March 2022.

Voting Statistics April 2021 – March 2022	Response
How many meetings were USS eligible to vote at?	1,711
How many resolutions were USS eligible to vote on?	22,739
What percentage of resolutions did we vote on for which USS were eligible?	99.2%
Of the resolutions on which USS voted, what percentage did we vote with management?	73.2%
Of the resolutions on which USS voted, what percentage did we vote against management?	24.2%
What percentage of resolutions, for which USS were eligible to vote, did we abstain from?	2.6%
In what percentage of meetings, for which USS were eligible to attend, did we vote at least once against management?	74.9%
What percentage of resolutions, on which USS did vote, did we vote contrary to the recommendation of your proxy adviser?	N/A

“*We hope that by making it clear these are important issues for investors, these actions will drive improved transparency on climate change and other ESG issues by companies. We also hope that this approach will facilitate a more integrated approach to corporate reporting, and the integration of environmental and social considerations into remuneration policies.*”

Significant votes - examples for period from April 2021 – March 2022

Shell plc

Date of AGM	Summary of Resolution	Vote	Rationale for Vote	Vote Outcome	Implications of the outcome	Criteria selected for this vote to be significant
18/05/2021	Resolution 20- Approve the Shell Energy Transition Strategy Resolution 21- Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions	Resolution 20 - For Resolution 21 - Against	USSIM voted in favour of Shell's Energy Transition Strategy and against the 2021 shareholder resolution in light of the commitments announced by the Company to address climate change, the progress made through engagement with CA100+ investors, and management's commitment to continue to engage on achieving alignment to the CA100+ Net Zero Company Benchmark. Shell's Net Zero target supports the more ambitious goal of the Paris Agreement to limit the increase in the average temperature to 1.5 degrees Celsius above pre-industrial levels, and it aligns with the findings of the Intergovernmental Panel on Climate Change (IPCC). USSIM welcomed the Company's decision to put a review of its Energy Transition Strategy up for an advisory vote every three years and to give shareholders an annual advisory vote on the progress made in relation to its Energy Transition Strategy from 2022. This made Shell one of the first CA100+ companies and the first in the oil & gas sector to give shareholders a vote on a strategy that sets out the Company's energy transition in line with the Paris Climate Agreement. We saw this as an implicit recognition by management that the Company's Energy Transition Strategy is expected to continue to evolve as a result of the experience of implementing it, continued engagement with investor groups like CA100+ and evolving international regulations and policies. After careful consideration, we did not believe resolution 21 was in the best interests of shareholders and therefore voted against it. However, we did support Follow This resolutions at other oil and gas companies where their progress in planning for the transition has not been as clear.	Resolution 20- For 83% Against 11% (Abstain 6%) Resolution 21- For 29.5% Against 67% (Abstain 3.5%)	Over the next decades, Shell will transition from an oil & gas producer to a diversified energy company. Following the ruling by the District Court in The Hague on 26th May 2021, Shell committed to rise to the challenge of the Court Ruling and accelerate its approach to transitioning to Net Zero (45% reductions by 2030 compared to 2019). In October 2021, Shell set a target to reduce absolute Scope 1 & 2 emissions by 50% by 2030 (compared to 2016 on a net basis). USSIM will continue to engage with Shell and monitor progress on its alignment to the CA100+ Net Zero Company Benchmark by 2023.	This is a significant vote for the trustee as Shell is a relatively large holding for the Scheme, and there was considerable member interest in how the trustee voted the shareholder resolution.

Significant votes - examples for period from April 2021 – March 2022

Toshiba Corp

Date of AGM	Summary of Resolution	Vote	Rationale for Vote	Vote Outcome	Implications of the outcome	Criteria selected for this vote to be significant
25/06/2021	Resolution 1.02 & 1.04 To re-elect as a director, Osamu Nagayama and Nobuyuki Kobayashi	Against	An independent special investigation report into the Toshiba's 2020 AGM concluded the AGM was not fairly conducted by the Company and confirmed claims that Toshiba was involved in a pressure campaign with the Japanese Ministry of Economy, Trade and Industries to try to influence the votes of large, foreign shareholders, who collectively held the majority of Toshiba shares. The investigation particularly condemned the Audit Committee for not functioning properly. USSIM voted against Mr. Nagayama, who as chairman of the Board had ultimate responsibility for its conduct, and Mr Kobayashi considering his membership of the Audit Committee at the time. USSIM had significant concerns regarding the governance failures in monitoring management and the allegations that improper pressure was placed on shareholders in relation to the exercise of voting rights, as highlighted in the special investigation report. The vote reflected the concerns USSIM had with the Chairman's inadequate response to shareholder concerns and the Audit Committees failure to function as an appropriate check and balance on management.	Resolution 1.02- For 43.75% Abstain 0.17%, Against 56.07% Resolution 1.04- For 25.32% Abstain 0.29%, Against 74.38%	Following the shareholder revolt, Mr. Nagayama resigned as Chairman of the Board and Nomination Committee in June 2021. The Audit Committee consists of three new independent outside directors, two of whom have an audit and accounting background and can provide fresh oversight to the audit function. As publicly stated by the new independent Chair of the Nomination Committee, the outcome of the vote has provided the Board with clarity on shareholder concerns and the necessity of regaining shareholder trust in the Boards' ability to provide effective governance oversight. USSIM continues to engage with the Company and monitor progress. Toshiba's newly established strategic review committee concluded a restructuring and split of the business was the Company's best option. In February 2022, Toshiba scrapped a contentious plan to split into three companies and offered an alternative proposal to break into two groups. This was followed in March by the sudden resignation of its chief executive Satoshi Tsunakawa, who had only returned to the position in 2020 after the ejection of his successor.	This vote is considered significant due to the high-profile nature of the series of corporate governance scandals at Toshiba, the subsequent defeat of the directors' re-elections and the rising trend in activist investor pressure in a market that has traditionally been difficult for foreign investors to influence.

Significant votes - examples for period from April 2021 – March 2022

BHP Group Ltd

Date of AGM	Summary of Resolution	Vote	Rationale for Vote	Vote Outcome	Implications of the outcome	Criteria selected for this vote to be significant
11/11/2021	Resolution 20 To approve the Company's Climate Transition Action Plan (CTAP)	Against	BHP Group Ltd were the first Australian company to put a 'Say on Climate' plan to their shareholders. Before the AGM, USSIM joined a collaborative investor meeting with the Chairman of the Board to discuss the proposed greenhouse gas reduction targets included in the CTAP in detail. USSIM welcomed management's candour in discussions of BHP's climate strategy with investors and providing shareholders an advisory vote every three years on the CTAP. USSIM had concerns, however, on the ambition of reducing Scope 3 emissions. The CTAP does not extend to steelmaking, BHP's largest source of Scope 3 emissions (circa 75%), which is significant as their Scope 3 emissions comprise over 90% of all Scope 1 & 2 & 3 emissions combined. Peer companies have set targets to include such Scope 3 emissions and there are increasing stakeholder expectations for more robust targets to be adopted by companies operating in material sectors. USSIM had further concerns on BHP's strategy to divest from certain assets rather than prioritise closure and remediation and the Company was unable to commit to not extending the Mt Arthur mine life licence. Therefore, despite it being the Company's first Say on Climate plan, USSIM voted against the CTAP recognising that at the time of voting the next opportunity to vote would be in 2025.	Resolution 20- For 82%, Against 15% (Abstain 3%)	USSIM followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging an annual advisory vote on the progress made in relation to BHP's Net Zero strategy from 2022. USSIM will continue to engage with BHP and monitor progress on its alignment to the CA100+ Net Zero Company Benchmark. We look forward to ongoing dialogue regarding the Company's management of climate change risks and opportunities and on the use of carbon offset, CAPEX alignment and effectiveness of BHP's Just Transition strategy. Following the 2021 AGM, BHP decided to put a Say on Climate progress report resolution up for shareholder vote at its 2022 AGM.	This is a significant vote for the trustee as BHP's resolution allowing shareholders a non-binding vote on their Climate Transition Action Plan was among only four other Australian companies to do so in 2021. This can be considered to set a precedent to permit non-binding 'Say on Climate' resolutions to be voted on going forward which is significant for a market where boards historically relied on legal precedent to deny a vote on non-binding ESG proposals.

Our responsible investment team

Robert Campbell

Robert is a Responsible Investment Senior Financial Analyst. He rejoined USS in 2020, having previously been an Investment Analyst on our Global Emerging Markets equities team in 2019-20. He has worked as a Senior Manager on PwC's Valuations team (2020) and as a Portfolio Manager/Analyst for Martin Currie Investment Management (2008-19). He started his career as a financial journalist for EuroWeek (now GlobalCapital), carrying out this role from 2007-08. He is a CFA charter holder and has an MA (Honours) in Economics from the University of Glasgow.

Vikki Hoare

Vikki is a Responsible Investment Analyst. She joined the RI Team at USS in March 2021 to focus on proxy voting, integration and stewardship in the Scheme's public market portfolios. Vikki has worked in Responsible Investment for over ten years. Firstly, as an ESG Officer at a boutique long-only equity asset manager where she set up and ran their ESG approach and more recently at GAM Holdings as a Responsible Investment Analyst in their Governance and RI Team. She focused on ESG integration and analysis, proxy voting and ESG engagement across asset classes with a particular focus on UK, Emerging Markets and Global equity funds.

Helen Hopkins

Helen is a Senior Responsible Investment Analyst, and her remit covers ESG due diligence and monitoring of the Scheme's externally managed investment strategies across both direct and fund holdings in public and private markets. This involves responsibility for RI ratings and monitoring of the Scheme's external fund managers and analysis of direct assets. Helen has worked in RI for over 20 years. She joined USS in 2007 to focus on stewardship and proxy voting for USS's internally managed global listed equity portfolios, developing a particular interest in custody and the vote chain. Helen commenced her career at UKSIF, the UK Sustainable Investment and Finance Association, where she helped to launch the Institutional Investors Group on Climate Change (IIGCC), Social Investment Taskforce and EuroSIF amongst other RI collaborative initiatives.

Bruce Jackson

Bruce is a Senior Responsible Investment Analyst, and Stewardship Team lead. He is a Chartered Geologist with over 25 years' experience in environmental consultancy and contracting, working on projects in the UK and overseas including pipelines in Georgia, new port development in Qatar and the investigation and remediation of ordnance factories in the UK and Israel. Most recently, Bruce spent six years with Sustainalytics, a major ESG service provider where he was involved in company and collaborative engagement on a range of critical sustainability issues, including tailings dams, human and labour rights. Bruce has also experience of proxy voting specific markets in accordance with a voting policy.

Philipp Kloucek

Philipp joined USS as a Responsible Investment Analyst in February 2019 to focus on the integration, stewardship and voting of ESG issues in the Scheme's public market portfolios. Prior to joining USS, he worked as an ESG Consultant for Institutional Shareholder Services (2016-2019) and as an ESG analyst for Vigeo Eiris (2010-2016). Philipp holds an MSc in Environmental Engineering from Imperial College London and the CFA UK Level 4 Diploma in Investment Management (ESG). He currently sits on the ICGN Natural Capital Committee, UKSIF Analyst Committee as well as Eumedion's Investment Committee.

David Russell

David is Head of Responsible Investment and leads our RI activities. With more than 20 years' experience in RI, David is a former Board member of the UNPRI Association, an advisor to the Board of the Institutional Investors Group on Climate Change, and he is also a founding Board member of the Transition Pathway Initiative. He is also on the Board of the International Centre for Pensions Management, the UK Investment Associations' Sustainability and RI Committee, the PLSA Sustainability Committee, and the FTSE Russell Sustainable Investment and ESG Advisory Committees. Prior to USS, David has previously worked as an Environmental Manager for a UK retail company, and was for five years a University lecturer in Environmental Management. He has an MSc in Environmental Impact Assessment.

Edward Salibi

Edward Salibi is a Responsible Investment Analyst. He joined USS in 2020 and primarily focuses on the ESG due diligence and monitoring of the Scheme's external fund managers, direct and coinvests assets. He also supports the teams' ESG integration and stewardship activities in public markets. Previously he worked for AXA IM as an Impact Research Analyst, where he assessed companies' positive impact and SDG alignment. He is a graduate of the University of Nottingham with a BA (Honours) in Politics and International Relations.

For members, for the future.

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