



Investment Builder (DC) Ethical Guidelines

For use in the USS Ethical Lifestyle Option and USS Ethical Equity Fund

Introduction and approach

The USS Ethical Lifestyle Option and USS Ethical Equity Fund investment options within the Investment Builder, the defined contribution (DC) part of USS, are governed by a set of ethical investment guidelines. These guidelines are used in the portfolio construction and manager selection of the ethical investment options.

More information on the Investment Builder (DC) ethical options can be found in our [investment guide](#).

The guidelines have been developed to reflect our members views and market best practice and advice from investment consultants. Specifically, we have considered:

- Feedback from members through:
 - Our member engagement survey results
 - Further member comments in relation to the ethical investment options, including those via the Member Voice Panel
- A review of market practices and investment options
- Input from independent investment consultants

It's important to keep in mind that the definition of ethical investment is neither clear-cut nor universal. Many of the standard "ethical" investment funds available in the market today follow a less strict set of principles than the USS Ethical Guidelines. In developing these guidelines, we have aimed to reflect the beliefs of our members while still enabling us to offer quality investment options.

In applying the USS Ethical Guidelines, USS is only able to exercise control over the investments to a certain level. This is particularly important for the consideration of the inclusion of Property assets in the Ethical Lifestyle Option, where we may not have control over the tenants or end users of these assets. For example, it may be the case that our fund manager invests in a shopping centre which does not contravene the USS Ethical Guidelines, yet it could have shops within it that offer gambling services.

These guidelines are reviewed and updated from time to time, to ensure they continue to reflect the views of our members and take account of the latest developments in the market. Members should check our website for the latest version of the USS Ethical Guidelines.

The USS Ethical Guidelines are in addition to the exclusions from companies that have been deemed financially unsuitable for USS over the long-term and the information contained in the [USS Statement of Investment Principles](#) (SIP). The SIP sets out the expectation that investment managers of the Investment Builder funds and the Retirement Income Builder investments will act responsibly as stewards of the assets and actively engage with the companies they invest in.

USS scheme-wide investment exclusions

As noted previously, USS has scheme-wide investment exclusions and avoids investing in companies that have been deemed unsuitable over the long-term. These exclusions apply to the Investment Builder and Retirement Income Builder, so far as practicable, and are as follows:

- Companies deriving any revenue from the manufacture of cigarettes or tobacco products
- Mining companies that derive over 25% of their revenues from the extraction of thermal coal
- Arms companies that have some involvement in the production of Cluster Munitions, White Phosphorus Munitions, and Anti-personnel Mines
- Stocks and bonds incorporated in, listed in, or issued by Russia, or where Russia is deemed to be the country of risk.

USS Ethical Guidelines

Core

We have developed a set of core criteria, setting out the following areas which we will avoid investing in, so far as practicable, based on ethical, social and/ or environmental criteria:

- Arms and weapons production
- Companies involved in bribery and corruption
- Companies that violate human and labour rights
- Cosmetics, where animal welfare is not assured
- Gambling
- Nuclear Power
- Pornography
- Production of fossil fuels and resource extraction using controversial processes
- Tobacco

Additional

We have developed a set of additional criteria, which managers in the ethical investment options will be asked to consider not investing in, as far as practicable, companies involved in these activities:

- Companies associated with deforestation
- Pollution that is not actively minimised, or other similar environmental factors
- The use or trade of threatened species, or other activities harmful to animal welfare.

Details about the companies we avoid

In this section we've set out additional details about our approach to avoiding certain companies in the core criteria.

Some of these factors are subject to minimum thresholds for the percentage of revenue derived from a certain industry or activity. These thresholds have been set in order to strike a balance between avoiding revenues derived from unethical sources, while establishing a level of exclusion that is practical to implement. For example, it would be impractical to avoid a company that supplied small parts to many other companies, one of which then uses these in a product that is subsequently supplied to mining companies.

Arms and weapons production

In addition to the USS scheme-wide exclusions, we will exclude, as far as is practicable, any companies that:

- Derive any turnover from the manufacture or sale of weapons, weapons systems or platforms, including products or services specific to such systems
- Supply goods and services designed for strategic military use.

Companies involved in bribery and corruption

We expect companies in our portfolios to have strong policies and processes in place to ensure that they or their staff are not involved in bribery or corruption, and that they work to good international standards.

Companies that violate human and labour rights

We will exclude companies with poor labour practices or that fail to comply with international labour standards. This would include activities such as the use of child labour, forced labour, and poor health and safety standards. In addition, companies that breach or do not endorse appropriate human rights conventions will be excluded.

Cosmetics, where animal welfare is not assured

We will exclude cosmetics manufacturers that are currently conducting animal testing as well as those companies involved in significant or repeated controversies related to animal welfare.

Gambling

We will not hold companies who make more than 10% of their turnover from providing gambling services, including bookmakers, casinos or other gambling games (including online gambling) in our portfolio.

Nuclear power

We will exclude companies that own or operate nuclear power stations, including the construction of new nuclear power stations. We will also exclude companies who own or operate active uranium mines.

Pornography

We will exclude companies involved in the production or distribution of pornographic, harmful or violent materials.

Production of fossil fuels and resource extraction using controversial processes

We exclude, as far as is practicable:

- Oil and gas companies
- Companies involved in activities in areas of high environmental sensitivity, including the Arctic
- Mining companies that derive any revenues from the extraction of thermal coal.

Tobacco

In addition to the USS scheme-wide exclusion, we will exclude, as far as is practicable, companies that:

- Derive any turnover from the manufacture of tobacco products
- Derive 10% or more of turnover from the sale of tobacco products
- Derive 10% or more of turnover from the supply of machinery and packaging materials to companies in the tobacco industry.

Further to the stated USS Ethical Guidelines, investment managers may have additional exclusions or policies which are wider than those identified above and specified in detail below. These may be accepted, where judged to be in adherence with the spirit of the USS Ethical Guidelines.

These guidelines will be followed to the extent practicable in circumstances where the trustee must respond to market developments (either generally or on a temporary basis), subject to adherence (where practicable) with the spirit of the Ethical Guidelines.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits. For a glossary of our terms please see more information on our [important terms](#) page.