Implementation statement

1.1. Introduction
USS's[1] Implementation Statement (the Statement), sets out how, and the extent to which, the trustee believes the Statement of Investment Principles (SIP) has been followed during the scheme year ending 31 March 2024.

This Statement, as with the SIP, applies to both the DB and DC parts of USS. USS also has a supplementary Statement of Investment Principles specifically for the USS Default Lifestyle Option in the Investment Builder (the DC part). This is called the Default SIP (see uss.co.uk/how-we-invest/our-principles-and-approach).

The purpose of this statement is to:

- Describe any formal review of the SIP and the Default SIP undertaken during the year
- Outline how key activities and decisions have followed the SIP and the Default SIP and, where they have not, what steps will be taken to remedy this
- Detail how, and the extent to which, in the opinion of the trustee, the policies in relation to voting rights and our engagement activities have been followed
- Describe the voting behaviour carried out by investment managers on the trustee's behalf, over the year

1 To keep things simple, we have used USS as a catch-all reference for different parts of the USS Group. So, depending on where it appears, USS means either the scheme (Universities Superannuation Scheme), the trustee (Universities Superannuation Scheme Limited) or the trustee's principal investment manager (USS Investment Management Limited or USSIM). We may refer specifically to one of these three elements, where it is helpful to do so.

The Statement has been included in the scheme's Report and Accounts and made public online. It should be read in conjunction with the SIP at our principles and approach.

The Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the associated guidance published by the Pensions Regulator.

1.2. Review of the SIP and Default SIP
Following the completion of the 2023 valuation, USS reviewed and considered amendments to its SIP in March 2024. USS consulted on these proposed amendments with its participating employers during April 2024, and finalised a new SIP on 21 May 2024. This Implementation Statement is based on the previous SIP (dated 24 May 2022) that was in force for the financial year 2023/24.

1.3. USS's governance structure
Further details of USS's governance structure, including the Terms of Reference for the Trustee Board and the Investment Committee can be found at how were governed. The allocation of responsibilities between the Trustee Board and its committees is clearly set out in their Terms of Reference. These Terms of Reference are reviewed at least annually, and updated to reflect any changes in regulations, best practice guidance and/or working practices.

The SIP is required to include USS's policy for arrangements with asset managers, and this includes USSIM. USSIM is a subsidiary of Universities Superannuation Scheme Limited. It's the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. USSIM is required to act in accordance with the SIP in performing its duties. USSIM manages assets directly on behalf of the trustee as well as having the delegated authority to appoint, monitor and change external asset managers.

2. How the SIP has been followed during the year
Following review and analysis, USS believes that the SIP, Default SIP and the USS Stewardship and Voting Policy have been followed during the scheme year 1 April 2023 to 31 March 2024. This Statement explains how USS has reached this view.

2.1. The kinds of investments to be held by the scheme and the balance between different kinds of investments – and the expected return on investments
The SIP and Default SIP set out USS's investment objectives and USS's policy in relation to the type and balance of investments held and the expected return on investments.

The Retirement Income Builder – the DB part
For the DB part, USS's broad investment strategy is set out as a theoretical, but investible, asset allocation across equities, property, gilts and other fixed income assets, including liability driven investments (LDI) and corporate and emerging market bonds. This theoretical asset allocation is the Valuation Investment Strategy (VIS), which is the investment strategy developed for the most recent actuarial valuation. The VIS is adjusted from time to time to retain consistency with the Investment Risk Management Framework (IRMF), the risk appetite of the trustee and trustee investment beliefs. There have been no changes to the VIS over the year to 31 March 2024.

The implemented portfolio corresponds to the actual investments held in the DB part. As described in the SIP, the implemented portfolio can differ from the VIS as USS identifies opportunities to add value in its implementation of the strategy. The implemented portfolio invests in a range of asset classes, including quoted equity, government and non-government debt (including inflation-linked), currencies, money market instruments, commodities, derivatives or other financial instruments, as well as alternative strategies and private market assets including equity and debt, infrastructure and property. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

To better manage asset-liability risk, over recent years USS has taken on additional exposure to liability-hedging assets. This exposure is made possible by the prudent use of leverage, risk controls around the use of cash and collateral, as well as monitoring around counterparty risk.

The Investment Builder – the DC part
In the DC part, members have the option to manage their own investments (the Let Me Do It option) or have their investments managed for them (the Do It For Me option). USS regularly reviews its DC investment options against member requirements and makes enhancements as required.

The USS Default Lifestyle Option manages investment risks as members approach their Target Retirement

Age by investing in four underlying funds: USS Growth Fund, USS Moderate Growth Fund, USS Cautious Growth Fund and USS Liquidity Fund. The investment objectives for these funds are set by USS to reflect member requirements and are collectively designed to deliver long-term returns above inflation, while providing some protection against market drawdowns in the years before retirement.

Although USS has discretion to invest in a wide range of assets, in practice the type of assets held in the Do It For Me and Let Me Do It options depends on the objectives and strategy of each DC fund. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

Expected return on assets

The SIP covers USS's policy in relation to the expected return on assets. The achieved investment returns are monitored regularly by the Investment Committee through reporting provided by USSIM. To ensure the DB implemented portfolio and DC funds remain appropriate (and are expected to deliver the appropriate long-term returns at the desired level of risk), USS monitors changes to asset class expected returns, the DB implemented portfolio and DC fund returns regularly.

2.2. Risks – including the ways these are measured and managed

USS regards 'risk' as the likelihood of failing to achieve the objectives included in the SIP. USS seeks to measure and manage these risks as described below.

The SIP and the Default SIP cover USS's policy in relation to risks, including the ways in which risks are to be measured and managed. USS believes that risk is best understood and managed using multiple approaches and has a structure in place to monitor the risks relevant to both the DB and DC parts. USS will take action to mitigate risk when appropriate. The key investment risks are managed through a range of thresholds and limits as detailed in the Investment Management and Advisory Agreement (IMAA) and corresponding DB and DC Instruction Letters.

The SIP recognises USS's exposure to investment, funding, and operational risks. USS integrates the management of those risks throughout its organisation. USS considers these risks when advising on investment policy, strategic asset allocation and portfolio management, and manager and fund selection when applicable.

USSIM provides regular quantitative and qualitative assessments of investment-related risks and implements appropriate mitigation strategies within its delegated mandate. USS's overall investment risk is diversified across a range of different investment opportunities.

USS's Investment Framework for the DB and DC parts takes a holistic approach to both risk management and the assessment of USSIM's investment management performance. For risk management, USSIM uses a range of risk metrics across investment, liquidity, counterparty and climate risks. For the assessment of UUSIM's investment management performance, the Investment Committee uses a range of investment objectives on more comprehensive investment balanced scorecards (as shown in section 5). The scorecards include separate categories for investment return, investment risk, active management, portfolio resilience, responsible investment, and advice and support.

USS assesses the definition of the risks, and the trustee's disposition to those risks throughout the year and more formally on an annual basis, when USSIM advises the trustee on the suitability of the risk metrics, thresholds, and limits in the Investment Framework.

USS is satisfied with the operation of its risk management and measurement processes. Further details on the elements relevant to the DB and DC parts are provided below.

The Retirement Income Builder – the DB part

USS's funding risks are monitored and managed by the trustee's Funding Strategy team, with advice from the Scheme Actuary. The key funding risks include sector reliance and affordability of contribution rates. USS's operational risks are managed throughout the organisation by individual teams.

Investment-related risks are a subset of USS's funding risks. These risks are assessed and monitored within the Investment Framework:

- USS assesses and manages the integration of investment-related risks, particularly as they relate to strategic asset allocation and investment strategy
- The key risks include asset-liability (including inflation and interest rate risk), market, credit, currency, liquidity, collateral, responsible investment, climate and operational risks
- USS oversees the scheme's liquidity and collateral risks to ensure there is a sufficiently low probability of USS being forced to sell assets for liquidity and/or collateral purposes. Investments in illiquid assets are also subject to an upper limit and are periodically reviewed by USS
- An appropriate allocation to foreign currency is made on the basis of risk/return considerations and, where appropriate, a proportion of the foreign currency exposure is hedged back to Sterling

USS also assesses the returns of the scheme's investments relative to a range of comparators (including the VIS) and the strength of the employer covenant.

The SIP covers USS's policy in relation to the realisation of investments. USSIM ensures that the scheme maintains sufficient cash and other liquid instruments to pay benefits and other commitments as they fall due. This is supported by robust and timely disinvestment and financing procedures, which operate without either disrupting the asset allocation or incurring excessive transaction costs. These processes are overseen by an internal USSIM committee.

The Investment Builder – the DC part

In setting and reviewing the DC investment strategy, USS assesses the key investment-related risks relevant to the DC part. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on investments relative to the investment objectives, liquidity risk, operational risk and market risk including equity, interest rate and credit risk. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members and within the Investment Framework.

USS reports periodically on the return of the DC funds relative to their targets and reviews its policies on managing currency risk and liquidity on an annual basis. USS also reviews performance versus expectations, benchmarks, and peers on a regular basis.

The funds made available to members by the scheme are daily dealing notional funds. USS has put in place several measures to ensure that the introduction of illiquid assets (including private market assets) will not affect a member's ability to switch or access their DC savings, unless in extreme market circumstances.

3. Stewardship, engagement and responsible investment

3.1. Introduction

USS's Responsible Investment (RI) Policy was approved on 21 March 2024 by the Trustee Board. The RI Policy sets out clearly and in one place USS's stated investment beliefs about RI and its commitment to the principles (including relevant legal principles) which will guide its implementation of these beliefs.

The RI Policy and the SIP sets out the RI Investment Belief that USS is a Universal Owner. Universal Ownership involves having highly diversified and long-term portfolios that, by virtue of their large size, are broadly representative of global capital markets.

Both USSIM and the external managers use their influence as major institutional investors and long-term stewards to promote good practice in the investee companies and markets to which the scheme's investments are exposed.

Details of USS's approach to RI can be found at **responsible investment** and in **USS's stewardship report**. This report provides details of how USS considers RI factors where financially material to the scheme and the extent to which it can take non-financial RI factors into account (see Section 6.3).

The trustee agrees the RI strategy and formally reviews the RI team's activities on a semi-annual basis, signing off key focus areas and policies. The trustee receives reports from USSIM on a regular basis so that it can ensure the strategy is being effectively implemented. USS's RI related policies[2] have been reviewed regularly and updated as required to ensure that they are in line with good practice.

The trustee believes USS's RI related policies and procedures in relation to engagement activities have been materially followed during the year.

3.2. Oversight and monitoring external investment managers

USS expects its investment managers to undertake appropriate monitoring and oversight of current investments. This oversight is to enable the identification of issues and to facilitate early engagement with the boards, management and other stakeholders of investment companies. USS oversees USSIM's policies and practices on RI, with a focus on stewardship and ESG integration. This includes how USSIM, in turn, monitors external managers in this regard.

USS has processes in place to assess and monitor how its external managers are addressing RI considerations in the selection and retention of assets. This applies to managers of both public market and private market funds, and managers within the DB and DC parts. USS ensures the external managers are aware that the scheme is a signatory to the UN Principles for Responsible Investment (UNPRI) and a supporter of the Task force on Climate-Related Financial Disclosures (TCFD). The external managers also confirm that they will reflect RI considerations in portfolio management, in accordance with the USS policy.

USSIM's assessment of external managers' RI capabilities and processes is now fully integrated into the manager selection and monitoring framework. Standard processes are in place for due diligence and monitoring for public and private markets but are adapted to suit the asset class and investment strategy for each fund under review. The due diligence establishes a baseline view and rating which then informs USSIM's ongoing monitoring programme.

4. Voting behaviour and vote disclosure

4.1. Introduction

USS believes that there have not been any material divergences from its voting policies during the scheme year.

As an active, long-term owner of the companies USS invests in, exercising the right to vote is one of the cornerstones of USS's stewardship approach. Further information on USS's approach and examples of USS's voting activities are in our Stewardship Report.

4.2. USS Stewardship and Voting Policy

In January 2024, USS introduced an updated Voting Guidance document which supports the USS Stewardship and Voting Policy. These documents can be found at **how we vote**. The Stewardship and Voting Policy outlines USS's position on a range of RI issues and why USS believes RI factors should be well managed by companies. These are put in the context of Universal Ownership and systemic risk. The documents also outline USS's expectations for investee companies. USS's Stewardship and Voting Policy will be reviewed each year to ensure continued alignment to USS's beliefs about good practice in line with USS's fiduciary duties.

Key updates ahead of the 2024 AGM season include an increasing expectation for board diversity, an increased focus on climate change and new sector specific criteria for antimicrobial resistance.

USS forms an independent decision on voting on a case-by-case basis, considering both international and local market standards and best practice, proxy research, outcomes from engagement meetings, discussions with peers, and USS's investment managers' perspectives. The USS Stewardship and Voting Policy is not applied rigidly. Discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, in other words the overall improvement of the company's corporate governance.

USS integrates RI factors into its voting decisions where such factors are financially relevant. We promote high-quality disclosure and performance management of RI issues through both engagement with companies and our voting activities.

Shareholder proposals, including those which relate to RI issues such as climate change, human rights, labour relations and other matters, are considered on their individual merits. It is USS's intention to support those resolutions which it considers to be in the long-term financial interests of shareholders. However, USS will not support a resolution which it considers overly burdensome or better addressed by another route.

Typically, USS has voted against company management on issues such as excessive executive remuneration or lack of board member independence. Usually when USS votes against management in one of USS's priority[3] holdings USS will write to the company to explain its concerns. For non-priority holdings, USS will write to the company after voting seasons informing them that we voted against certain resolutions and that the reasons for that are available on our dedicated disclosure tool (**how we vote**).

2 By RI related policies we mean the following items: the RI Policy, USS Stewardship and Voting Policy and its associated Voting Guidance document, the USSIM scheme-wide investment exclusion policy and the Investment Builder (DC) Ethical Guidelines.

3 Prioritisation for voting and engagement activities is based on criteria set out in our Stewardship Report, including the size of our holding, the home market, the materiality of RI factors and the adequacy of public disclosure on RI factors.

USS has an active securities lending programme. To ensure that USS can vote all its shares at important meetings or where the scheme is a significant shareholder, USS has worked with service providers to establish procedures to restrict lending for certain stocks (for example, in the event of a contentious vote or in relation to engagement activities, after discussion with the portfolio manager) and to recall shares in advance of shareholder votes.

4.3. Voting and USS's equity holdings

For the DB part, USS's internally managed equities (circa £10.3bn) and main externally managed equity mandate (circa £6.4bn) are subject to the USS Stewardship and Voting Policy. All DB external accounts are voted on by USS. Due to the number of holdings, USS is unable to attend every company shareholder meeting to cast votes. Therefore, USS votes by proxy through an external voting platform for the assets subject to the USS Stewardship and Voting Policy.

For the DC part, USS's largest externally managed equity mandate (circa £1.3bn), its externally managed ethical equity mandate (circa £100m), and the internally managed emerging market equity mandate (circa £140m) are also subject to the USS Stewardship and Voting Policy. The remaining equity holdings for the DC part are externally managed in pooled funds. For one of these funds, a UK equity index fund, voting is now undertaken in line with the USS Stewardship and Voting Policy (circa £30m). For the other holdings, votes are cast in accordance with the external manager's policy (circa £170m).

USS expects USSIM and its external managers, where appropriate, to use their voting rights as part of their engagement work, in a prioritised, value-adding, and informed manner. USS monitors the voting and stewardship practices of the external equity managers as part of the external manager oversight and monitoring process. As part of USS's monitoring and engagement programme with external managers, USS engages to encourage greater alignment with international best practice and/or the USS Stewardship and Voting Policy where appropriate.

4.4. Disclosure and oversight

USS records, and publicly discloses, voting actions on its website at how we vote (USS's voting disclosures date back to 2010).

USS monitors and reviews voting decisions twice a year through the Investment Committee and once a year through the Trustee Board. Regular proxy voting activity reports are also included in the standard quarterly reporting suite from our external equity managers and are typically covered in the manager's annual RI/stewardship publications.

USS has not had, and does not expect to have, any difficulty obtaining voting data from the external managers. However, USS has engaged with the external managers to improve their reporting at fund level (as opposed to market or regional level).

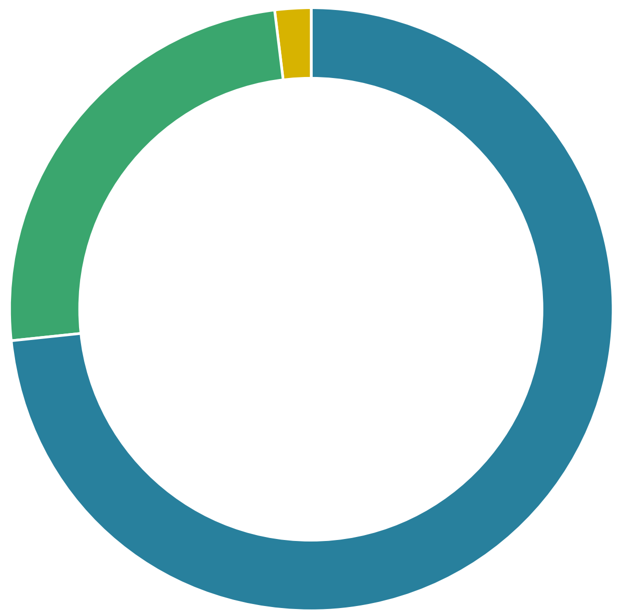
4.5. Scheme voting statistics

The statistics below are in respect of USS's internal equity assets and the large externally managed mandate (together representing over 98% of the scheme's equity holdings):

Voting statistics April 2023 to March 2024	Response
How many meetings was USS eligible to vote at?	1,999
How many resolutions was USS eligible to vote on?	29,706
What percentage of resolutions did we vote on for which USS was eligible?	99.9%
Of the resolutions on which USS voted, what percentage did we vote with management?	73.6%
Of the resolutions on which USS voted, what percentage did we vote against management?	24.7%
What percentage of resolutions, for which USS was eligible to vote, did we abstain from?	1.7%
In what percentage of meetings, for which USS was eligible to attend, did we vote at least once against management?	81.5%
What percentage of resolutions, on which USS did vote, did we vote contrary to the recommendation of our proxy adviser?	N/A[4]

4 N/A: Our proxy vote agent does not issue its own voting recommendations; it applies the USS Stewardship and Voting Policy directly on behalf of USS.

USS global votes
April 2023 to March 2024



For (with management)	**73.6%**
Against	**24.7%**
Abstain	**1.7%**

4.6. Most significant votes – examples from 1 April 2023 to 31 March 2024

Below are details of the most significant votes on behalf of the trustee. The trustee has set out that one of its key priorities is climate and that is the theme that brings together the following votes.

Company and date of AGM	Shell plc 23 May 2023
Summary of resolution	Resolution 13 – Re-elect Catherine Hughes as Director Resolution 14 – Re-elect Sir Andrew Mackenzie as Director Resolution 25 – Approve the Shell Energy Transition Progress Update Resolution 26 – Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement
Size of holding at date of vote (% scheme assets)	0.2%
Vote	Resolution 13 – Against Resolution 14 – Against Resolution 25 – Against Resolution 26 – For
Rationale for vote	After careful consideration and noting Shell's net emissions intensity targets and progress made, USS decided to vote against the re-election of Shell's Chairman Sir Andrew Mackenzie and Catherine J. Hughes, Chair of the Safety, Environment and Sustainability Committee due to concerns that the company's plans to decarbonise fell short of our expectations. USS also voted against Shell's Energy Transition Progress Update report. USS no longer had confidence that Shell was making the overall progress that it would expect and was concerned that the company's decarbonisation plans fell short of limiting global warming to 1.5°C in a Paris-aligned manner. Whilst Shell's 2035 target appeared to be aligned with a well-below 2°C pathway, USS was concerned about the validity of the target since Shell's operating plans did not cover it. There was also no independent third-party source to confirm that Shell's plans aligned with the Paris Agreement and a 1.5°C global warming pathway. Furthermore, the company's investment in oil production and oil products increased by 30% in 2022, and a total of $8.1bn was invested in its upstream business, outstripping investments in renewable energy. New oil and gas projects lock in future emissions and pose risks to investors and wider society. According to the IEA Net Zero Emissions by 2050 scenario, to limit warming to 1.5°C there can be no new oil and gas fields approved for development after 2021. Communications from Shell at the time also appeared to prioritise the short term over the long term by potentially prolonging Shell's conventional oil and gas business and refraining from accelerating ambitions in clean energy. USS decided a vote in favour of the Follow This group's proposal (resolution to Align its Existing 2030 Reduction Target) was in the best interests of shareholders and therefore supported it. While Shell already met some requests of the shareholder resolution, it underlined USS's wish for adoption of quantifiable medium-term targets for the company's Scope 3 emissions in line with peers and a review and strengthening of Shell's 2030 net emissions intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.
Vote outcome	Resolution 13 passed – For 97.8%, Against 1.7% (Abstain 0.5%) Resolution 14 passed – For 92.4%, Against 6.9% (Abstain 0.7%) Resolution 25 passed – For 76.6%, Against 19.1% (Abstain 4.3%) Resolution 26 defeated – For 19.3%, Against 76.2% (Abstain 4.5%)

Implications of the outcome	In 2023, Follow This filed resolutions at five companies in the oil and gas industry asking them to draw up carbon reduction plans in line with the Paris Agreement. Shareholder support ranged from 30% at Total Energies Valero to 10% at Chevron. Over the next decades, Shell will transition from an oil and gas producer to a diversified energy company. As a long-term, responsible investor, we believe in being active owners of the companies we invest in. USS informed the company of our voting decision ahead of the AGM by sending a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	As part of the scheme's commitment to being a long-term, active, and responsible shareowner, USS believes in active stewardship through company engagement and views voting as a valuable tool for engaging with companies to encourage better standards of corporate governance and management of environmental and social issues. USS has set an ambition for its investments to be net zero by 2050. To achieve this, USS requires the assets and companies in which USS invests to collectively achieve net zero. USS therefore expects the companies we invest in to establish processes to both manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. This is a significant vote for USS as Shell was a relatively large holding for USS, and if left unaddressed, the scientific evidence points to a world where a changed climate will impact the scheme's ability to achieve the returns it requires and will impact the quality of retirement for our members.

Company and date of AGM	BP plc 27 April 2023
Summary of resolution	Resolution 4 – To re-elect as a director, H Lund Resolution 25 – To request that the Board align climate change targets with the goal of the Paris Climate Agreement
Size of holding at date of vote (% scheme assets)	0.1%
Vote	Resolution 4 – Against Resolution 25 – For
Rationale for vote	Our 2023 Stewardship and Voting Policy set out that our primary approach would be to vote against individual directors if we believe the company is failing to appropriately manage or address a material issue. Therefore, we voted against the re-election of Mr Lund due to the absence of meaningful engagement with shareholders following strategic changes to BP's net zero strategy, and the lack of opportunity to vote on the changes. As we notified the Board in 2022, we encourage companies to put a review of their climate strategy up for a shareholder vote every three years, or sooner if significant changes are made to the strategy. We view the paring back of BP's 2030 targets as a significant negative development, one that we would expect to have been put to an investor vote. We would have seen this as implicit recognition by management and the Board, that the company's net zero strategy is expected to continue to evolve as a result of the experience of implementing it, continued engagement with shareholders and investor groups like CA100+ and evolving international regulations and policies. We also supported the Follow This shareholder resolution (25). Voting for the resolution reinforced our 2022 Board engagement to request further development of the company's Scope 3 commitments. Whilst we noted BP's emissions intensity target under Aim 3 of the net zero strategy, we would like BP to adopt quantifiable medium-term targets for its Scope 3 emissions in line with peers. We also encourage a review and strengthening of the company's 2030 emissions intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.
Vote outcome	Resolution 4 passed – For 90.2%, Against 9.6% (Abstain 0.2%) Resolution 25 defeated – For 16.3%, Against 81.2% (Abstain 2.5%)

Implications of the outcome	USS informed the company of our voting decision ahead of the AGM by sending a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change. As noted above, it is our first year of targeting re-election of directors where we have concerns with management of material issues so we consider 10% vote against Mr Lund to be significant. (Over the past three years, average votes against directors at BP has hovered around 3%). In light of this, we continued to engage with BP and in Q4, with other concerned investors, spoke with the Chair of the Board on climate commitments for 2030. The Chair provided assurance that the incoming CEO supports BP's transition to an energy company with a forward-looking strategy, however, continued engagement by investors will be needed to support BP in reaching Paris aligned medium-term targets.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	As part of the scheme's commitment to being a long-term, active, and responsible shareowner, USS believes in active stewardship through company engagement, and views voting as a valuable tool for engaging with companies to encourage better standards of corporate governance and management of environmental and social issues. Therefore, we consider this a significant vote for USS. Not only does BP's net zero strategy impact USS's own net zero ambitions (it is held across asset classes), we do not want BP to set an example to the market that it is acceptable to investors to make a significant change to its climate transition without a shareholder vote. We will therefore continue to engage with BP where relevant, with the backing of other investors, to seek constructive and positive change. We believe that engagement over divestment is the most effective way of driving this change. If we were to simply sell the asset, we could be seen to be absolving the scheme of its responsibilities as a universal owner.

Company and date of AGM	Electric Power Development Co. 28 June 2023
Summary of resolution	Resolution 8 – Disclose Business Plan through 2050 Aligned with Goals of Paris Agreement Resolution 9 – Disclose Evaluation concerning Consistency between Capital Expenditures and Greenhouse Gas Emission Reduction Target Resolution 10 – Disclose How Executive Compensation Policy Contributes to Achievement of Greenhouse Gas Emission Reduction Target
Size of holding at date of vote (% scheme assets)	0.0% (due to rounding)
Vote	Resolution 8 – For Resolution 9 – For Resolution 10 – For
Rationale for vote	Electric Power Development (known as J-Power) operates Japan's largest coal fleet and derives more than 40% of its operating revenue from coal. While USS commended the company's adoption of its net zero commitments, we voted in favour of all three shareholder resolutions, as we consider the proposed amendments to be aligned with the interests of the company and its stakeholders. We have concerns with how the company's plans to manage the responsible decline of the coal portfolio align with its decarbonisation strategy and how its compensation policy incentivises executives to work towards set climate goals. USS also requires companies to provide the appropriate level of disclosure on their climate plans so that investors can track progress in achieving those plans. We would welcome enhanced transparency and disclosure on the specific processes and strategies, including metrics and short-, medium- and long-term targets, to align the company's decarbonisation strategy and future capital expenditure with the goals of the Paris Climate Agreement and the IEA's net zero by 2050 emissions scenario.
Vote outcome	Resolution 8 defeated – 25.9% For; 74.1% Against Resolution 9 defeated – 18.2% For; 81.8% Against Resolution 10 defeated – 19.0% For; 81.0 Against

Implications of the outcome	In 2022, HSBC Asset Management, Amundi, Man Group, and Australian Center for Corporate Responsibility (ACCR) co-filed a set of climate-related resolutions, which were the first investor group-led climate proposal in Japan. The proponents have argued that the Board has not been responsive to the shareholder votes at last year's AGM. We expect the companies we invest in to establish processes to both manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. Under Japanese corporate law, shareholder proposals on climate change have to be filed as an amendment to the company's articles of incorporation, thus requiring two-thirds majority support to pass. USS followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	Poor management of environmental issues can have significant implications for companies, both financially and reputationally. The most challenging environmental issue is climate change, both in terms of transitioning to a low-carbon future, and in adapting to the physical risks that climate change poses. Our Stewardship and Voting Policy sets out that USS expects the companies it is invested in to establish processes to manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. This vote is considered significant due to the high-profile nature of the investor group-led climate proposals in a market that has traditionally been difficult for foreign investors to influence. If left unaddressed the scientific evidence points to a world where a changed climate will impact the scheme's ability to achieve the returns it requires and will impact the quality of retirement for our members.

Company and date of AGM	Glencore plc 26 May 2023
Summary of resolution	Resolution 13- To approve the Company's 2022 Climate Progress Report Resolution 19- Shareholder Resolution in respect of the Next Climate Action Transition Plan
Size of holding at date of vote (% scheme assets)	0.1%
Vote	Resolution 13 – Against Resolution 19 – For
Rationale for vote	We commended the Board for putting its climate progress report to shareholders again for approval (following high dissent of 25% against its 2021 Climate Strategy) and noted the enhanced discussions provided by Glencore in response to shareholder feedback. However, we withheld our support from this item and voted in favour of the shareholder proposal, which sought clarification and further information to be included in the next climate report that the company will present, which is due in 2024. We did not consider the transition strategy credible with regard to its projected thermal coal production exposure and capital expenditure.
Vote outcome	Resolution 13 passed – For 68.2%, Against 29.6% (Abstain 2.2%) Resolution 19 defeated – For 28.8%, Against 69.9% (Abstain 1.2%)
Implications of the outcome	USS followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change. As with the 2021 vote, with over 20% dissent on Resolution 13, Glencore were required, under the UK Corporate Governance Code, to formally consult with shareholders about the reasons for the result. With another opportunity for investors to vote on Glencore's climate progress due in 2024, increased opportunity for Glencore to understand investors' concerns, particularly on the coal strategy, is welcome.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We consider this vote to be significant in line with USS's climate priorities. Resolution 19 received 29% support. This is the second highest vote ever recorded in favour of a climate-related shareholder resolution*, not supported by management, on the London Stock Exchange. (*Source: Voting Matters report, Shareaction 2024)

5. Investment governance

The trustee believes USS's policies in relation to the arrangement with USSIM and any asset managers have been materially followed during the year.

5.1. Relationship with USSIM

USSIM is a subsidiary of Universities Superannuation Scheme Limited. It is the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. USS has various methods for overseeing USSIM and it is the Investment Committee that is responsible for overseeing the delivery of these services. USSIM also provides regular reporting on its performance.

In addition to the oversight provided by the Investment Committee, USSIM's remuneration structures and risk and control environment are overseen through the Remuneration Committee and Group Audit and Risk Committee respectively.

Investment advice

USS must obtain written investment advice before exercising its power of investment under the Scheme Rules. These requirements are included in the IMAA with USSIM as the principal investment manager and adviser to the trustee. USS may also engage external advisers and other specialist advisers as it considers appropriate. Any investment advice required by USS is provided in accordance with legislation and primarily to the Investment Committee.

Alignment of interests

The SIP covers USS's policy on how the arrangements with USSIM incentivise USSIM to make decisions in the long-term interests of USS.

USSIM is a non-profit entity, which is wholly owned by USS. The duration of USSIM's appointment is indefinite. It is intended that USSIM will continue to manage investments and external managers on behalf of USS on a continuous basis.

USS is satisfied that its arrangements incentivise USSIM to:

- Align its investment strategy and decisions with USS's policies, including whether to manage certain investments itself or to appoint external managers
- Make decisions based on assessments of the medium- to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their, and thereby USS's, performance in the medium to long term

USS has reached this conclusion on the basis that USSIM does not provide services to other clients and has no conflicting arrangements in place. USS does not have any fee arrangements in place with USSIM which would incentivise it to deviate from USS's policies.

USS undertakes a full value-for-money assessment of both the DB and DC parts of the scheme annually, including a review of investing internally via our in-house investment managers (USSIM) versus peer pension schemes' investment arrangements and using benchmarking analysis. In the latest CEM Benchmarking survey (calendar year 2022), our investment management costs as a proportion of scheme assets remained materially below the peer cost benchmark, with USS 0.15% below peers, equivalent to £121m a year.

As part of the investment balanced scorecards, USS considers a wide range of metrics to assess the investment management performance of USSIM over time and to ensure alignment of interests. Some of these metrics include USSIM's realised investment returns versus a measure of USS's liabilities, USSIM's progress in reducing USS's interest rate and inflation risks within the DB part, and an assessment of USSIM's progress in integrating RI factors into its investment decision making. These metrics are included in the investment balanced scorecards below, which span six important categories. The scorecards are considered separately for both DB and DC. These categories have been designed to be consistent with the best interests of the scheme's members and employers.

1. Investment return
2. Investment risk
3. Active management
4. Portfolio resilience
5. Responsible Investment
6. Advice and support

USSIM uses a remuneration framework involving both quantitative (in other words based on investment performance) and qualitative assessments. This framework ensures that USSIM's incentives are aligned to the needs of the scheme and USS's policies in relation to the selection and balance of investments, the management of risk, return on and realisation of investments, and responsible investment and engagement activities. To encourage alignment and retention of key personnel, this framework includes a base salary, annual incentives and, where applicable, long-term incentive plans (vesting over multiple years). From January 2023, every USSIM employee (with two years or more service) has had an element of their annual bonus linked to overall long-term scheme performance (using the balanced scorecard above).

USSIM is thereby incentivised and aligned with the medium- to long-term performance of the scheme (including through making decisions informed by both financial and non-financial considerations, on issuers of debt and equity in which USS invests and engaging with such issuers to improve their performance).

The trustee is satisfied that USSIM is aligned with its policies because of the relationship between the trustee and USSIM, and the non-profit arrangements in place.

5.2. Role of the Investment Committee
The purpose of the Investment Committee is to oversee the investment of USS's assets. It will, based primarily on investment advice from USSIM, make strategic recommendations to the Trustee Board. Where authority has been delegated to the Investment Committee, it will approve on USS's behalf strategic matters relating to the investment of the assets and development of the investment strategy, having regard to any legislative and regulatory requirements. All day-to-day investment decision making is made by USSIM.

The Investment Committee meets regularly to review investment strategy proposals and to receive regular reporting from USSIM on its ongoing investment management activities. Regular reviews of the existing investment strategy, including the overall and individual mandate investment performance, are also completed.

The Investment Committee is responsible for overseeing the delivery of services provided by USSIM under the IMAA. As part of this oversight, the Investment Committee reviews USSIM's business plan, budget and other investment costs prior to final approval by the Trustee Board. It includes consideration of the strategic projects that USS has asked USSIM to complete, as well as comparing USSIM's investment management costs to peers. The Investment Committee receives an annual attestation from USSIM confirming compliance with the responsibilities and guidelines given to it by the trustee under the IMAA.

The activities, decisions made, and recommendations of the Investment Committee are reported to the Trustee Board after each meeting. The Investment Committee also reviews the provision of investment advice from USSIM on an annual basis.

5.3. Relationship with external investment advisers
In addition to the advice from USSIM, USS has contracts in place with two external investment advisers. For the year ended 31 March 2024, USS's external investment advisers were Mercer (for DB matters) and LCP (for DC matters). Both attend all Investment Committee meetings and provide independent insight and challenge to the committee's consideration of USSIM's investment strategy proposals and on the reporting provided by USSIM. USS may also request formal investment advice from these advisers or other external advisers (in addition to or instead of that from USSIM), as it deems appropriate.

As required under the Occupational Pension Schemes (Scheme Administration) Regulations 1996, trustees of a 'relevant trust scheme' are required to: (1) set objectives for investment consultancy service providers and review their performance against those objectives at least every 12 months; and (2) review, and if appropriate revise, the objectives at least every three years and without delay after any significant change in investment policy. In early 2024, USS reviewed the objectives and the performance of its external investment advisers against their respective objectives and made changes to ensure they remain appropriate.

The trustee is not required to do this in respect of USSIM as it is a wholly owned subsidiary of the trustee. However, the trustee rates the performance of USSIM in the same survey. The main mechanism for rating advisers is set out in the respective Investment Frameworks.

5.4. External manager selection and monitoring
USSIM is the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. As part of this role, USSIM can allocate investment mandates to external managers.

Any decisions made by USSIM to appoint either internal or external managers and any decisions regarding the preferred investment structure to be used for any mandate are made in the best interests of the members and beneficiaries considering several factors including investment capability, experience and value for money. This applies for both DB and DC parts.

Manager selection
When appointing a new public markets manager, USSIM sets out mandate requirements which detail the investment and operational requirements for the mandate. These underpin the selection process which will usually consist of a long-list of managers that is then filtered based on assessed skill, quality and fit with scheme requirements.

At the short-list stage, further due diligence is carried out on the external manager's investment team, process, risk management, responsible investment practices and business structure. Initial fee negotiations will also be undertaken at this stage. During the new manager selection process, USSIM compares fund expenses where relevant and possible. After this work, a final candidate will be proposed for further due diligence including an Operational Due Diligence assessment.

Over the course of the year, the manager selection team took over responsibility for assessing the responsible investment capabilities of new investment managers, as opposed to this being undertaken by the responsible investment team. This should allow for an integrated and more rounded assessment of managers, with RI factors being assessed alongside broader investment process and risk management considerations.

External manager due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, USSIM will consider how the key decision makers are aligned to fund performance, how performance fees (where applicable) are shared among the team and how the ownership of the business is shared. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of USS's capital are well-aligned with USS's long-term investment objectives.

Manager monitoring

Oversight of the external and internal public market mandates is carried out by USSIM. The method and time horizon for evaluating and remunerating external managers is determined by policies set by USSIM. USSIM engages via questionnaires and regular meetings, covering performance, emerging risks and changes to the portfolio and process.

USSIM also undertakes formal in-depth annual reviews of all external public market managers covering changes in the organisation, team, process, portfolio turnover, risk, responsible investment considerations and equity, diversity, and inclusion initiatives. USSIM undertakes periodic benchmarking exercises of the external managers' fees and looks to renegotiate accordingly to ensure the fees remain competitive.

For private markets fund investments, USS's policy is complied with at the time of the investment and oversight is undertaken by USSIM on at least a semi-annual basis.

USSIM has processes in place to assess and monitor how its external managers are addressing financially material considerations in the selection and retention of investments. This assessment takes place before appointment and is monitored on an ongoing basis. This applies to managers of both public market and private market funds, and managers within both the DB and DC parts.

5.5. Fees and transaction costs

There are different types of investment costs and charges, some of which are explicit (for example, an investment management charge) and some of which are implicit (for example, transaction costs).

To provide USS with a full view of the costs and charges, USSIM carried out an exercise to report total investment costs incurred over the calendar year 2023 (for both the DB and DC parts). USSIM appointed an external provider to help with the data collation and benchmarking purposes. Upon conclusion, USS was able to include the costs and charges for the DC funds within the Chair's defined contribution statement at 31 March 2024 and comply with the Cost Transparency Initiative's guidance. The exercise also covered external portfolios, allowing USS to monitor target portfolio turnover[5] and/or turnover ranges, which it does on an annual basis.

Best execution is overseen by an internal USSIM committee. The committee's responsibilities include oversight and challenge of USSIM and the external managers' Cost and Quality of Execution.

6. Financially material considerations

6.1. Introduction

USS's legal duty in relation to investment strategy is to invest in the best financial interests of members and beneficiaries, with an appropriate level of risk. In carrying out this duty, USS expects its investment managers (USSIM and the external managers appointed by USSIM) to take into account all financially material considerations in the selection, retention and realisation of investments. This includes RI considerations (such as, but not limited to, climate change) where these are considered relevant financial factors. This approach is implemented in three ways:

- Integration into investment decision-making processes: USS requires active managers to seek to identify mispriced assets and make better investment decisions to enhance long-term performance by taking account of financially material considerations. USS believes additional returns are available to investors who take a long-term view and can identify where the market is overlooking or misestimating the role played by these considerations in corporate and asset performance.
- Stewardship, engagement and voting rights: As a long-term investor USS expects its managers to behave as active owners on its behalf and use their influence to promote good practices concerning financially material considerations.
- Market transformation activities: USS and its agents engage with policymakers and regulators in markets in which it invests, and articulate concerns of asset owners and long-term investors, covering areas such as accounting standards and climate change policies.

USS has processes in place to ensure the investment strategy and management of the assets are in the best financial interests of the members and beneficiaries. These processes are overseen by USSIM and the Investment Committee. USS is satisfied that USSIM is informed about the matters that the investment managers are taking into consideration and that these are aligned with USS's policies, as expressed in the SIP and the Default SIP.

As it is financially material, USS believes that addressing climate change is in the best financial interests of its members and beneficiaries, and as such has set an ambition for its investments to be net zero by 2050 if not before. Further details on our progress towards this target is included in our TCFD reporting.

6.2. Investment manager oversight: alignment of interests

The SIP sets out USS's policies in relation to arrangements with internal (USSIM) and external asset managers, which is set out in Section 5, of this Statement.

USS has put in place several processes with its investment managers (internal and external) to ensure alignment of interests with USS's policies and objectives, and a long-term focus. These are considered in the selection, retention, and realisation of investments.

5 Turnover has been defined as Sales + Purchases/Average Asset Value. Purchases (sales) are total consideration paid (received) for the purchase (from the sale) of assets during the reporting period. Average Asset Value is the average value of assets at month end during the reporting period.

When appointing an investment manager, USS requires managers, including USSIM, to consider these investment policies which cover such things as:

- The kinds of investments to be held
- The balance between different kinds of investments
- Financially material considerations to be looked at over the appropriate time horizon of the scheme, including how those considerations are weighed in the selection, retention and realisation of investments

USS considers that the following processes create alignment with USS's investment policies:

Setting the investment strategy with a long-term horizon, including the use of private market assets
USS recognises that while underperformance may occur over periods of time, the probability of return-seeking assets outperforming lower-risk investments increases as the investment horizon lengthens, though it does not become a certainty. USS, as a long-term investor, is likely to hold some investments over many years, including the use of private market assets that provide opportunities for additional returns over the long term.

Investing responsibly and engaging as long-term owners
USS expects its investment managers, including USSIM, to engage as active owners of assets, focused on sustainability, good corporate governance and to consider all financially material considerations, including material RI factors, in relation to the selection, retention and realisation of investments. Members' interests are further protected from adverse impacts by collaboration with like-minded investors and engagement with government, industry and regulators.

Long-term relationship with USSIM and external managers
USSIM and external managers are appointed as long-term investment managers, in line with the long-term focus and horizon of the scheme. USS monitors the performance of USSIM over rolling five-year periods and USSIM monitors external managers in the same way.

Using in-house investment management where beneficial to the scheme and members
USSIM's compensation approach for in-house investment managers is designed to incentivise the delivery of performance over the long term and to encourage the retention of key personnel.

6.3. Consideration of non-financial factors
Investing in the best financial interests of members and beneficiaries is USS's legal duty. However, to the extent permitted by its fiduciary duties, there are some circumstances where USS may consider non-financial factors and take account of members' views in relation to the selection, retention and realisation of investments. These circumstances may include where:

i) Taking those non-financial factors into account would not pose a risk of significant financial detriment to the scheme, for example, where the choice is between two investments which are broadly equivalent from a financial perspective
ii) USS has good reason to believe that all members would share each other's concerns about the non-financial factors

In the Investment Builder (the DC part), where USS is able to offer members a choice of self-select funds, alternative options are made available. These are based on member research and allow members to reflect their views and preferences and take account of their own position on the risks of potentially lower returns. There have been no circumstances over the past 12 months outside of these alternative options where non-financial factors could be taken into account for investment decision making.

6.4. Engagement with the members
USS offers members several ways to provide feedback on investment issues, including via a contact form on the website, post and member surveys. As part of USS's survey engagement, USS invites views from members and beneficiaries on non-financial matters. These include (but are not limited to) RI issues.