



Stewardship and Voting Policy

The following policy outlines USS's environmental, social and governance (ESG) position and approach to stewardship which includes both engagement with companies and voting on the agenda items that are frequently proposed at formal company meetings. This policy and its accompanying Voting Guidance should assist company directors, investment managers and service providers to understand our views on these issues.

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 is a Universal Owner

USS has an investment horizon stretching many decades, and we recognise that the scheme is exposed to certain market wide or systemic issues which could impact the investment returns we seek. These systemic risks include global issues such as climate change, antimicrobial resistance, biodiversity and bribery and corruption.

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 much as from any specific industries or companies. As such 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. 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. We need strong markets to address systemic risks and will use both engagement and voting as tools to address these issues at a company level and where applicable policy level.

Environmental issues and climate change

Poor management of environmental issues can have significant implications for companies, both financially and reputationally. Pollution incidents, poor management of natural resources, and deforestation are examples of the types of issue that could impact corporate value and reputation.



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. 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. USS has set an ambition to be net zero by 2050. To achieve this, we will require the assets and companies in which we invest to collectively achieve net zero. We therefore 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. We also require that companies provide the appropriate level of disclosure on their climate plans so that investors can track progress in achieving those plans.

Social issues

Companies do not operate separately from society, and there are potential financial and reputational risks if they do not recognise this. We therefore expect companies to be well run with topics such as labour rights, health and safety, modern slavery and a company's interactions with societal stakeholders all addressed by companies.

A key focus of the scheme is Diversity and Inclusion as USS believes that diversity within a board and broader organisation adds to the success of the company. As a result, we expect companies to have processes in place to ensure that they are appropriately diverse and disclose this to their shareholders. Our detailed voting guidelines outline our expectations for gender diversity in different markets, and where companies fall below our expectations, we use our votes to encourage change.

Governance issues

USS believes that the board plays a critical role in ensuring the success of companies, holding management to account and representing the interests of shareholders and other stakeholders. The guidelines within USS's detailed Voting Guidance are built around the UK Corporate Governance Code, which we believe outlines strong governance standards applicable to all companies irrespective of their market.

Our Approach to Engagement

USS believes that it has a responsibility to act as a steward of its assets and actively engage with boards and executives to ensure that ESG issues are managed to provide long term performance. 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. We therefore seek to be active and engaged stewards and encourage companies to make positive changes.

USS personnel will engage directly with companies. This may include individuals from both the Responsible Investment (RI) and portfolio management (where we have an active holding) teams



holding joint meetings with the company. Where we have an active position, engagement will frequently also be led by the relevant portfolio managers responsible for the holding. For the most significant issues, particularly for UK companies and policy makers, companies can expect engagement from USS's most senior personnel including Trustees and CEOs to press our point.

We also engage in collaboration with other pension funds and investors. 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.

Critically in all engagement we need to make clear that we want to see real world results and changes in activities, and we will establish processes to measure such change.

Our Approach to Voting

Whilst our approach to voting and our Voting Guidance is built around good practice for UK companies, we believe that these standards represent achievable good practice in all markets and as such this policy applies to both our UK and international public equity holdings. In the application of this policy, where appropriate we will consider local market conditions and norms. Discretion is exercised to ensure voting decisions are tailored to the circumstances of the company, the market in which it is based, and comply with the spirit of this policy, i.e. the overall improvement of the company's corporate governance and management of environmental and social issues.

USS may vote against or abstain on the reappointment of individual directors or the resolution to receive the report and accounts (or equivalent) if we believe the company is failing to appropriately manage or address an issue. There is increasing academic evidence that the most effective use of voting to generate change is to vote against individual directors so this will be the primary approach the scheme adopts.

USS will also use its voting rights to reinforce stewardship activities that we consider address material systemic risk. As policies are developed, USS will begin indicating in advance our intention to vote in a certain way, actively pre-announcing our voting intentions on specific company issues. We will also more proactively communicate our voting intentions prior to the start of the voting season.

Shareholder proposals, including those which relate to environmental and social issues such as climate change, human rights, labour relations and other ethical matters, will be considered on their individual merits. USS tends to support shareholder resolutions which encourage good corporate governance, environmental and social practice, and transparency.