USS For members, for the future.

The Universities Superannuation Scheme (USS)

Stewardship Code Report 2024

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Universities Superannuation Scheme (USS) is the pension scheme itself. It is set up under a trust and governed by a trust deed and rules. Universities Superannuation Scheme Limited (USSL) is the trustee that runs and manages USS in line with the trust deed and rules and legal duties.

USS Investment Management Limited (USSIM) is a subsidiary of USSL. It is the principal investment manager and adviser to the scheme, looking 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

Our commitment to being a responsible long-term steward of the scheme's investments remains steadfast.

Welcome to the fourth Stewardship Report from the Universities Superannuation Scheme (USS). This report continues our principle-by-principle approach from 2023, combined with new case studies and initiatives we have undertaken over the past year. Active ownership and stewardship remains a key aspect of our investment approach.

USS is a long-term, responsible investor with a legal duty to manage investments in the best financial interests of the scheme's members and beneficiaries. We therefore think very carefully about the financial risks around all our investments, including those that might arise from ESG issues, and this Report is just one of the ways we disclose our approach and outcomes. We integrate financially material ESG factors into our investment decisions and, where possible, engage with the companies we invest in to encourage positive change or better inform our investment expectations. We also support our investments through the responsible exercise of ownership rights and engage at a policy level, globally, in an effort to influence regulators and standard setters. We do this across all our invested asset classes and for both the DB and DC parts of the scheme.

We introduced an integrated Investment Framework (IF) in 2022, which takes a holistic approach to both risk management and the assessment of USSIM's investment management performance, covering both the defined benefit (DB) and defined contribution (DC) parts of the scheme. It uses a suite of Key Risk Indicators (KRIs), which include qualitative KRIs for both climate and stewardship risks, focussing on the trustee's net zero ambition and USSIM's integration of financially material ESG factors into its investment decision making and stewardship. In this way, the IF provides an integrated governance framework for climate risk, linking the assessment of investment risk and performance back to Trustee Board strategy, objectives, and risk appetite.

We continue to make progress towards our ambition of achieving net zero for our investments by 2050, if not before. We published our second mandatory TCFD Report last July, which showed that we have reduced our emissions intensity by 21% since 2019 and are on track (based on 31 December 2022 data). However, to stay on track, we need to reduce our emissions intensity by between 4.7% and 6.1% a year from our 2019 start point. We recognise that this journey will not be linear, as small changes to our portfolio, or revisions to measurement, can have a big impact on our carbon footprint. We appreciate that portfolio outcomes do not necessarily equate to real-world outcomes, and our focus is very much on the latter. As a Universal Owner, we are exposed to certain market-wide or systemic issues which could impact the investment returns we seek.

We must act as an active and engaged long-term owner to address these systemic risks, together with other Universal Owners, when appropriate to minimise the financial impact such issues can have on the Scheme's investments.

Climate scenario analysis is a vital tool to help us assess the financial risks we face as investors under various future climate outcomes, and we are proud to have worked with the University of Exeter to develop four new climate scenarios that can inform our investment decision-making and analysis. We believe these new scenarios will enable us to address some of the questions we raised about climate analysis in our 2022 TCFD Report. Our ambition is to continue to work with the Exeter team to develop a long-term investment outlook informed by transition and physical climate scenarios and draw out investment implications for capital markets expectations, top-down portfolio construction and asset allocation as well as bottom-up security selection.

We have also been looking at other systemic risks that may have a financial impact, including nature-based risk and antimicrobial resistance, both individually and collectively with other asset owners as well as external asset managers.

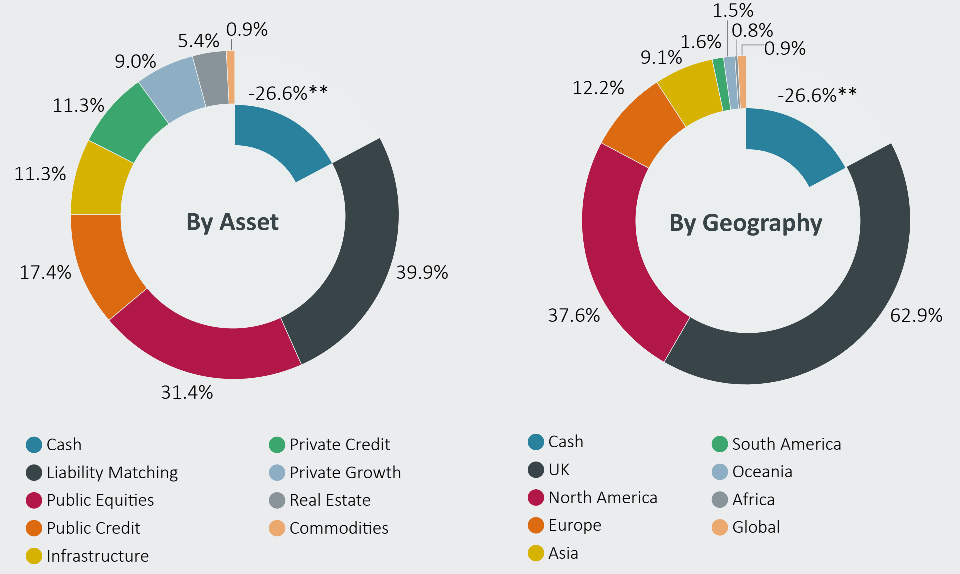
In February, our Group Chief Executive was invited to give evidence to the Work & Pensions Committee at a one-off session on fiduciary duty, including managing climate risks. The Committee explored trustees' fiduciary duties in relation to pension investment decisions, focusing on how climate change is considered and whether changes to fiduciary duties are needed. We firmly believe that USS, as a Universal Owner whose portfolio, by virtue of its large size is broadly representative of capital markets as a whole, is able to consider climate change as part of our fiduciary duty. We expressed a concern that any change to the fiduciary duty legal framework could confuse rather than clarify the situation. (Read more in Principle 4).

We are committed to developing our RI strategy and we seek to enhance our practices and policies in line with evolving industry standards, both in the UK and globally. The past year has been marked by heightened geopolitical tensions, of which the horrific events in the Middle East provide the most stark example. But our commitment to being a responsible long-term steward of the scheme's investments remains steadfast. We will continue to invest in the best financial interests of members and beneficiaries, so we can pay pensions now and long into the future.

Introduction

The focus of this report is the scheme's response to the 12 Stewardship Principles developed by the Financial Reporting Council (FRC) in its UK Stewardship Code. As in previous years, we describe principle-by-principle how we implement our commitment to being an active steward of the scheme's assets and summarise our RI activities and outcomes across all of our asset classes, with a particular focus on the financial year 2023-24.

Where we invest*



Source: USS, March 2023

*Figures shown may not sum to 100% due to rounding. These differences do not affect the conclusions shown or contained within the report.

Global assets includes commodities.

**Denotes leverage

Leverage measures the degree to which total investment exposure exceeds the value of scheme net assets. Leverage is created by repurchase agreements and derivatives, including futures and swaps.

Report oversight and approval

We have added new content, particularly case studies, to bring to life the scheme's approach to stewardship over the past year, and to report on progress made. We have also included information about the publication of our 2023 TCFD Report (in line with the globally-accepted framework of the Task Force on Climate-related Financial Disclosures and UK pension regulations), our collaboration with the University of Exeter to develop decision-useful climate scenarios and updates on the progress we are making towards achieving our net zero ambition.

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.
- Review by the scheme's Group Legal function.
- Review by the Investment Committee.
- Final review by the CEO of USSIM, Chair of the USSL Board and Chair of the Investment Committee.

About us

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for more than 500,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £75.5bn (at 31 March 2023).

The trustee of USS is Universities Superannuation Scheme Limited (USSL). It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The trustee is regulated by The Pensions Regulator and has a primary responsibility to ensure that benefits promised to members are paid in full and on time.

The trustee delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM manages around 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder.

2023-24: Activities and Highlights

We developed our stewardship activities in 2023-24. Key highlights include:

1 Progress on our journey to net zero

Progress on our journey to net zero and publication of our second mandatory TCFD Report in July 2023. The report sets out how we are assessing climate risk and reducing the emissions intensity of our portfolio.

2 Development of climate scenario analysis

Development of climate scenario analysis as a vital tool to help us assess the financial risks we face as investors under various future climate outcomes. We have been working with the University of Exeter to develop four new climate scenarios that can inform our investment decision-making and analysis. Read more in Principle 4.

3 Collaboration with other large asset owners

Collaboration with other large asset owners, including as part of the Cambridge Universal Ownership Initiative (CUOI) on antimicrobial resistance. Read more in Principle 4.

Our approach

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

Integration: we seek to integrate financially material ESG factors into investment decision-making. By doing so, we seek to identify mispriced assets and enable our portfolio managers to make better-informed investment decisions to improve risk-adjusted return. We believe additional returns are available to investors who take a long-term view and can identify where the market is overlooking the role of material ESG factors in asset performance. Systemic mishandling of ESG issues can also be an early indicator of wider mismanagement or financial problems.

Stewardship: as a long-term investor, we believe we have an obligation to act as active stewards of the assets in which we invest, using our influence to promote good practice and better inform our investment expectations. We believe that stewardship can help prevent or avoid value destruction as well as reduce the negative impacts companies can have on the environment and society which may in turn be financially detrimental.

Market transformation activities: Universal Owners are investors, like USS, who have diversified portfolios that, by virtue of their large size, are broadly representative of global capital markets. As a Universal Owner, we are exposed to certain market-wide or systemic issues which could impact the investment returns we seek. With risks that are systemic, it is unlikely that portfolio diversification alone will be enough to avoid all material risks in the same way as can be achieved with non-systemic risks. The trustee must act as an active and engaged long-term owner to address them, together with other Universal Owners, to minimise the financial impact such issues can have on the Scheme's investments. As a Universal Owner, we also have a role to play in promoting the proper functioning of markets and economies. This includes actively engaging with policymakers and regulators in markets in which we invest, to articulate the concerns of asset owners and long-term investors. We seek to ensure that externalities and systemic market failures do not affect market-wide long-term economic performance.

Looking ahead

We are committed to improving our approach to RI and seek to enhance our practices and policies. In 2024/25 we will focus on:

1. **Continuing to work toward achieving our ambition to be net zero by 2050 (see Principle 1).**
2. **Evolving RI due diligence and monitoring processes for our external fund managers (see Principle 8).**
3. **Addressing systemic risks by increasing the collaborative work undertaken with other investors (see Principle 4).**
4. **Supporting further our investment teams in their integration of ESG factors into their investment decisions and stewardship of the assets in which they invest (see Principle 7).**

USS Stewardship Report 2024: 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 best financial interests of all our members and beneficiaries.

Our beliefs

At the heart of our organisation is a long-held belief that acting as a responsible investor will improve risk-adjusted returns. We also believe it enhances our ability to meet the pension promises due to members from the scheme. That is why active ownership and the stewardship work undertaken are fundamental to our approach to managing the assets entrusted to us. This year we announced a new Responsible Investment Beliefs and Ambition Statement – read more in Principle 2.

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 make 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.

Purpose and Governance continued

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

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

Our RI approach means that we integrate the consideration of financially material ESG factors in our investment decisions. We analyse and assess these factors in our investments, across all asset classes, regardless of market or structure both before we invest, and during the life of our investment.

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

At USS, we put RI into practice by:

- Using our influence as a major institutional investor to promote good practices through active ownership and stewardship.
- Working with policy makers and regulators to ensure the concerns of long-term asset owners and investors are clearly understood.

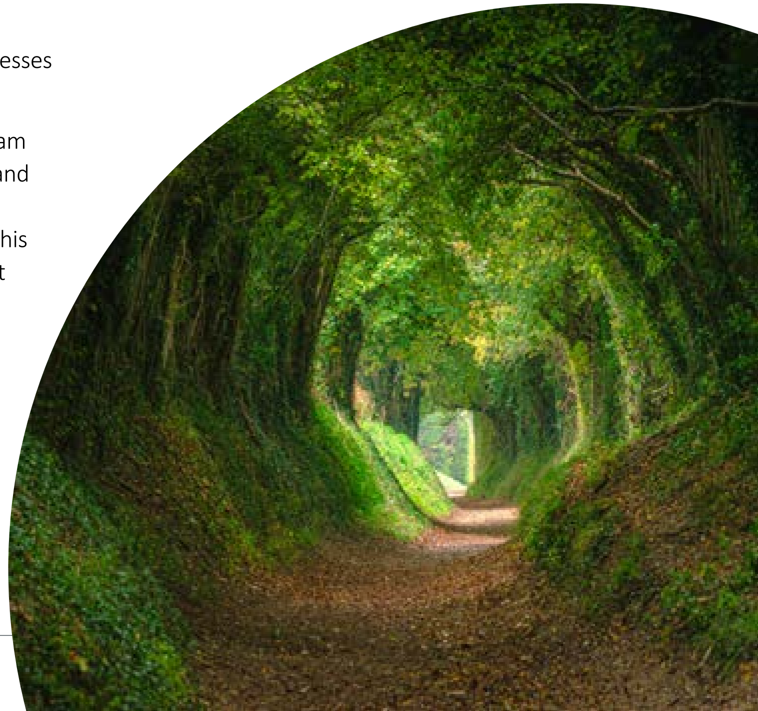
Net Zero Steering Committee and working groups

We believe climate change presents a significant financial risk and that a low carbon world will likely be a more financially stable one. That is why we have set an ambition for our investments to be net zero by 2050, if not before. To ensure that we manage the delivery of the scheme's net zero targets, USSIM has established a Net Zero Steering Committee and Net Zero Working Groups (NZWG) for each asset class, as well as for specific support functions. Each working group makes sure that investment teams across asset classes have a specific focus on the steps they will take to achieve the scheme's targets, and that support functions also play their role. The NZWGs are accountable to the Net Zero Steering Committee, consisting of senior investment executives, to make sure USSIM helps the scheme deliver on our net zero ambition.

We are developing ways of integrating climate considerations into investment decision-making processes in each asset class (read more in Principle 7):

- Global Emerging Market Equities (GEMs) – our team is working to quantify greenhouse gas emissions and intensity and integrate company responses to the challenges of transition into financial modelling. This includes assessing how carbon pricing could affect business models.
- Private Markets – this team invests in property and infrastructure alongside other assets. They have developed a physical/transition risk dashboard to assess the exposure of potential assets to climate change before we buy them.
- Fixed Income – our sovereign debt team has a process to integrate country-level climate commitments into their emerging market debt model.

This is all work in progress as building climate data into financial modelling is relatively new and we are learning all the time. We will publish our updated carbon data in our next TCFD Report in July 2024.



Purpose and Governance continued

Case study: Moto

As a majority shareholder in Moto, we work closely with the senior management team to support the goal of becoming the UK's number one en-route electric charging destination, enabling the UK's energy transition. Moto is the UK's largest motorway services provider and is focused on helping facilitate sustainable journeys by making ultra-rapid electric vehicle charging more accessible and convenient across the UK motorway network.

Moto continues to expand the number of ultra-rapid electric vehicle chargers (>250kW) across their sites and finished 2023 with 515 ultra-rapid electric vehicle chargers live across 35 sites, from Exeter to Kinross, and Swansea to Thurrock. The biggest is Exeter, with 56 ultra-rapid electric vehicle chargers, making it the UK's largest ultra-rapid electric vehicle charging hub.

More widely, we engage and input into Moto's ESG strategy which is focused on the three priority areas of People, Planet and Product. To date, some of the key achievements include achieving gender parity at all levels of leadership, a 70% reduction in Scope 1 and 2 emissions since 2019 and a second year of raising £1m for Moto Foundation. Moto plans to play a big part in the energy transition and decarbonisation of UK road transport and is therefore an important part of our own net zero journey.

Principle 2: Governance, resources and incentives

Principle 2

Signatories' governance, resources and incentives support stewardship.

"We believe that collaboration with other long-term investors is likely to improve the impact of our interventions."

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 RI, which includes stewardship. USSL is the trustee that runs and manages USS in line with the trust deed and rules and legal duties, with a Group Executive Committee that looks after day-to-day operations.

The Trustee Board of USS is responsible for the overall leadership, strategy and oversight of USS (the scheme), and USS's subsidiary, USSIM. USSIM is a subsidiary of Universities Superannuation Scheme Limited, looking after the investment and management of the scheme's assets and the appointment and monitoring of a number of other external investment managers.

The USS Trustee Board comprises:

- Four directors appointed by Universities UK (UUK), which represents the scheme's participating employers. For more information about UUK, click here.
- Three directors (one of whom is a pensioner member), appointed by the University and College Union (UCU). For more information about UCU, click here.
- Between three and five independent directors.

The Trustee Board agrees the RI 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 assets. The Trustee Board is supported in this assessment by both the scheme's Investment Committee, which reviews RI activities biannually, and by specialist external advisers. These external advisers review reports to the Investment Committee and Trustee Board, providing an additional level of assurance that the approach taken to RI is at least in line with peer funds.

The RI page on the USS website sets out detailed information on how we integrate ESG factors when we invest, and how this is communicated and managed with our internal and external managers. Having an in-house manager means that the trustee has greater visibility over the management of the scheme's assets and the implementation of the responsible strategy than is the case for the majority of UK pension funds.

RI beliefs and ambitions

We believe that by working with other long-term investors to drive change, and by embedding RI into all our investment activities, we can drive better outcomes for our members and beneficiaries. In 2023, we published our Responsible Investment Beliefs and Ambition Statement, which describes the RI beliefs that are most important to the scheme.

Our beliefs:

- As a Universal owner, we cannot diversify our way out of large systemic risks, nor can we stock pick our way around them. The overall risk to market returns (beta) is one of the biggest risks members face.
- We believe that collaboration with other long-term investors is likely to improve the impact of our interventions.
- We believe that RI integration and high-quality stewardship in all asset classes will contribute to better outcomes for the members.

Read more about our RI beliefs and ambitions here.

A holistic approach to risk management

Our Investment Framework takes a holistic approach to both risk management and the assessment of USSIM's investment management performance and covers both the Retirement Income Builder, the defined benefit (DB) part of the scheme, and the Investment Builder, the defined contribution (DC) part of the scheme.[2]

The assessment uses a suite of DB and DC Key Risk Indicators (KRIs), which include qualitative KRIs for both climate and stewardship risks. These support the assessment in the RI section of an investment balanced scorecard, produced for the Investment Committee. These qualitative DB and DC KRIs are focussed on the trustee's net zero ambition and USSIM's integration of financially material ESG factors into its investment decision-making and stewardship. Read more about our approach in Principle 5.

Our RI and stewardship resourcing

The scheme commits significant resources to stewardship and RI, including:

- The provision of ESG data to our internal investment 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.

We established a specialist in-house RI team over two decades ago, and a new Head of Responsible Investment joined in January 2024. This new senior hire further reflects the Trustee Board's commitment to investing in internal resources on RI. Our RI team works with internal investment teams in integrating ESG factors and helps the trustee take a leadership position on financially material ESG issues. Read more about how we do this in Principle 7. We have included case studies throughout this report to illustrate these points.

In addition to our RI team (see Principle 7), we also use external service providers to support our stewardship activities. Read more in Principles 8 and 12.

Our in-house team directly engages with companies in our portfolio to ensure engagement alignment with the investment analysis conducted by the internal portfolio managers. The RI team also provides subject matter expertise that enables our other investment teams to recognise and engage on material ESG matters with investee companies. However, we may also use external providers in specific circumstances where we believe there is benefit in using local experts to engage on our behalf due to language and cultural nuances in engagement. While we find these third-party insights valuable as an additional resource, we are clear that the final responsibility for investment and stewardship (including voting decisions) remains with us.

[2] The Retirement Income Builder, the DB part, gives a guaranteed income in retirement. The Investment Builder, the DC part, gives a flexible savings pot for the future. Together these make USS a hybrid pension. See more at https://www.uss.co.uk/for-members/your-pension-explained/how-your-pension-works

Case study: Ethical Funds 2024

To integrate USS's net zero ambitions into the DC Ethical Investment Options for our members, we have implemented two new allocations: Passive Climate Developed Market (DM) Equity, which systematically transitions along the net zero pathway; and Private Market Renewable assets.

Previously, we could not invest in these passive equity and private investment mandates due to USS's Ethical Guidelines, giving us a reduced set of investment options. We have now overcome these challenges by designing these new mandates to meet the Guidelines. The USS Ethical Guidelines which apply to these DC funds can be found here.

In doing so, we:

- Identified and agreed the appropriate approach to diversify active equity risk, helping us get closer to our net zero ambitions through investing in these mandates.
- Performed quantitative analysis to develop an appropriate benchmark for the passive allocation which achieves the net zero goals, incorporates the USS DC Ethical Guideline restrictions and aligns to the risk profile of standard DM equity benchmarks.
- Evaluated appropriate external portfolio managers with expertise in passive equity allocation to manage the Ethical Climate DM Equity fund.
- Created unitised, segregated funds bespoke to USS through which each of the DC Ethical Investment Options could invest independently into both the Ethical Climate DM Equity and Renewables assets.
- Developed Strategic Portfolio allocations which included the new assets.

Ethical Investment Option	Allocation	Allocation Weight	Amount Invested (£mn)*
Growth	Ethical Climate DM Equity	36.5%	38.7
	Renewables	2.0%	2.1
Moderate Growth	Ethical Climate DM Equity	24.0%	5.1
	Renewables	2.0%	0.4
Cautious Growth	Ethical Climate DM Equity	14.0%	1.5
	Renewables	2.0%	0.2
Ethical Equity (Self-Select)	Ethical Climate DM Equity	50.0%	40.3
		Total	**88.1**

Transitioning from the previous asset allocation to include the new assets *Values as of 2023-12-29

The DC Ethical Lifestyle Investment Options have less overall exposure to Growth assets (i.e. Equities) between Growth-Moderate Growth-Cautious Growth, in order to achieve the objectives of the funds and remain within expected risk tolerances. This leads to the lower allocation weights observed in the Moderate Growth and Cautious Growth Investment Options.

Including these funds enables:

- Cost reductions due to passive equity implementation.
- Diversification away from active equity manager risk.
- Passively reducing the carbon intensity of the portfolios into the future as the Climate Equity benchmark systematically aligns to our net zero targets.

We are finalising agreements to include additional equity funds that could more directly support the net zero ambition through sustainability-themed investing and we will report on progress in our next Stewardship Report.

Principle 3: Managing conflicts of interest

Principle 3

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

"We ensure legal and regulatory requirements are fully complied with, and we expect all employees to continually meet the high standards expected of them."

Our commitment

In line with our legal duties and stated value of integrity, our members' interests come first. This includes a pledge to meet high 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 high 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 the full extent of internal and external sanctions being applied 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 Register also records all conflicts in relation to external appointments and connected persons reported by individuals across USS Group, including details of the controls put in place to manage the conflicts.

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 conflicts of interest are avoided in any staff dealing in stocks held by the scheme. 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 we review 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 RI 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, our Stewardship Conflicts of Interest Policy builds on the Group-wide policy by including unique elements relating to stewardship. This policy aims to ensure that USS's interests are at the forefront of all stewardship activities, the ethical standards of USS are met, legal and regulatory requirements are complied with, and material risk posed by conflicts is minimised and eliminated where possible. 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 Trustee Board.

In this reporting period:

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

Being prepared for when a conflict may arise

As an in-house investment manager serving only one client, the scheme, USSIM does not face many of the potential conflicts of interest that commercial fund managers may need to address. However, potential conflicts of interest arise from time to time, and when then they do, our conflicts of interest policy and processes mitigate 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.

Our engagements with policymakers aim to improve how markets operate, address systemic risks and protect/enhance our investments across asset classes.

Fostering sustainable markets for a sustainable future

As a Universal Owner, and a pension fund with in-house investment expertise and liabilities extending decades into the future, we are unequivocal that an active approach to RI and stewardship is critical to well-functioning markets over the long term. With an investment horizon stretching many decades ahead, the scheme is not only exposed to current risks, but also to risks into the future. We recognise that certain issues, such as, but not limited to, climate change, pose macro, market-wide or systemic risks and these financial factors need to be addressed just as much as more immediate issues. We need strong markets that address systemic risks and will use both engagement and voting as tools to address these issues at a company level and, where applicable, at policy level.

The scheme assesses macro, market-wide or systemic risks in various 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 potential climate scenarios based on some of these issues. These scenarios are detailed below.

Real-world Climate Scenarios (to 2030) - 2x2 Matrix

Policy intervention / Market dynamism	Low market dynamism	High market dynamism
High policy intervention	**3. Boom and Bust (BB)** **policy steps up after fossil fuel surge bursts** **Politics:** Global co-operation is reinforced after the Boom and Bust bursts **Growth:** Policy tightening to squeeze inflation hits growth, followed by a 'green' recovery stimulus (carbon dividend) and support for sustainable finance **Investment:** Green investment is initially driven by cost advantages, then by recovery packages once the Boom and Bust bursts **Energy and asset prices:** Fossil fuel price surge is followed by a renewed collapse, accelerating asset stranding (cushioned by state support)	**1. Roaring 20s (R20)** **policy and markets align** **Politics:** Constructive global competition, US bipartisanship, COP breakthroughs, aggressive Net Zero implementation **Growth:** Robust and sustained, "Keynesian" world, active fiscal policy, with carbon pricing/dividends, productivity boosted by tech investment **Investment:** Strong, driven by public and private sectors, fast roll-out of green infrastructure and technology, accelerated innovation **Energy and asset prices:** Carbon pricing drives wedge between fossil/renewables, accelerating asset stranding (cushioned by state support), markets and consumers reward green companies
Low policy intervention	**4. Meltdown (M)** **policy failures compound weak growth** **Politics:** Nationalism and division, populism, geopolitical conflict **Growth:** L shaped (also because of climate physical shocks), pandemic recurs, energy trade war **Investment:** Weak. Nationalist governments support home fossil fuel industries and (in consuming nations) renewables to achieve 'energy security' **Energy and asset prices:** Energy trade war keeps fossil fuel prices volatile. Asset stranding hurts financial system	**2. Green Phoenix (GP)** **market-driven, while policy logs** **Politics:** Co-operation stymied by downturn-fuelled nationalism **Growth:** V shaped, a renewed dip in the initial 2 years, creative destruction scenario, governments fall behind on climate commitments, leaving businesses to take the lead **Investment:** Driven by business, not government, capitalising on new (cheapening) technologies and consumer pressure for 'greening' and digitalisation **Energy and asset prices:** Fossil fuel prices and asset prices slump. Activist ESG investors and consumer pressures drive 'greening", leading to leading to further 'stranding'

Snapshot: Our TCFD Report 2023

We published our second mandatory TCFD Report (and accompanying summary) in July 2023, once again providing a comprehensive overview of how we are assessing climate risk and reducing emissions as we work towards achieving our net zero ambition. We are working to reduce the emissions our investments generate, to protect those investments from the risks of climate change and to benefit from the opportunities.

Almost all the assets we invest in have emissions today – whether from their operational business models, manufacturing processes or supply chains. To achieve our ambition of net zero investments by 2050, we need to reduce the emissions intensity of our investments by between 4.7% and 6.1% a year.

Since 2019, we have reduced our emissions intensity by 21%, from 89.5 to 70.7 tonnes of CO_2 per £m invested (based on 31 December 2022 data). We are on track so far, but we know this journey will not be a linear one, as small changes to our portfolio can have a big impact on our carbon footprint.

Delivering net zero is important not only for our investments but also for the planet. Our annual TCFD Report remains an important part of our journey, providing an important baseline of information on our climate-related risks. We will be publishing an updated report in July 2024.

Engaging with policymakers

We are a long-term advocate of the need for an investor voice in policy development, as we believe engagement with policymakers and regulators improves how markets operate and addresses systemic risks. We also recognise that stronger markets lead to stronger economies, which can strengthen the fiscal position of governments. 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, market-level engagement has been a specific objective of USS's RI strategy. Our engagement with policymakers and governments internationally covers issues ranging from stewardship to listing rules, shareholder protections, corporate governance, transparency and disclosure and climate change.

We also engage alongside other investors through investor associations and networks such as the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN) and the Principles of Responsible Investment (PRI) (see Principle 10 for further details). Our approach to collaborative engagement is grounded in the need to address systemic risk.

Further examples of our policy engagement work on ESG issues in 2023-2024 include:

- As a founding member of the Occupational Pensions Stewardship Council (OPSC), USS and the University of Exeter co-presented the climate scenario narratives report 'No Time to Lose' and followed up with further calls with both our peers and the Department for Work and Pensions (DWP).
- We signed up to a joint letter to the Prime Minister, submitted by the PRI and supported by other investment associations, outlining our concerns about the Government's statements on rolling back climate policy which risks putting the UK out of step with the international consensus to drive economies towards net zero.
- Engaged with the FCA to express our concerns about their proposals to reform the UK's listings regime, which could dilute key investor protections and shareholder rights.
- As part of USS's ongoing participation in the Fair Reward Framework Initiative, a consultation on the framework was launched to gather views on pay structures and what factors lead to successful value creation and fair outcomes.
- Our chief executive, Carol Young, gave evidence to the Work & Pensions Committee on Fiduciary duty and climate change. See box below.

Fiduciary duty and climate change – USS at the Work & Pensions Committee

Our Group Chief Executive was invited to give evidence to the Work & Pensions Committee as part of a one-off session on fiduciary duty, including managing climate risks. The Committee explored trustees' fiduciary duties in relation to pension investment decisions, focusing particularly on how climate risk is considered and whether changes to fiduciary duties are needed.

Our Group Chief Executive set out that trustees with size and scale are better able to consider climate change as part of fiduciary duty, but expressed a concern that any changes to the framework could 'confuse rather than clarify'. It is important that fiduciary duty and the consideration of climate change doesn't become 'too prescriptive' or burdensome for trustees, given the differences between schemes with shorter- and longer-term scenario analyses.

Our collaboration with the University of Exeter on climate scenarios (see page 20) was referenced as an example of a positive contribution to the debate. Our Group Chief Executive stressed that there could be 'more direct' ways for governments to effect change than placing further duties on trustees, adding that pension schemes are 'part of the change' but can't achieve it in isolation. We also provided written evidence to the Committee which is available here, and a full recording of the session can be found here.

We also responded to a variety of consultations on climate and other sustainability issues, including:

- FRC's Consultation on the Corporate Governance Code, where we encouraged strengthening disclosure on workforce engagement mechanisms.
- The DWP's Taskforce on Social Factors guide Considering Social Factors in Pension Scheme Investments report, which we welcomed as a useful tool for asset owners navigating social risks and opportunities.
- UK Technical Advisory Committee's call for evidence to inform the proposed endorsement of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards in the UK, which we endorse, and the recommendation that the UK continues to use its influence to promote intergovernmental coordination towards harmonising sustainability reporting across jurisdictions.
- As part of the Cambridge Universal Ownership Initiative, we co-signed a response to the International Sustainability Standards Board's (ISSB) Request for Information Consultation on Agenda priorities, to prioritise biodiversity, ecosystems and ecosystem services over the ISSB's next two-year work plan.

Case study: No Time to Lose: collaborating with the University of Exeter on climate scenarios

The effects of climate change are highly uncertain. But identifying what these effects could be and integrating them into our investment decision-making processes can help us to prepare for the financial risks of climate change. That's why we have worked with the University of Exeter to develop four new climate scenarios that will inform our investment decision-making.

We completed our first climate scenario analysis in 2022 (you can read about this in our TCFD Report 2023) and we identified significant limitations with the available scenarios, including:

- Failure to capture the complex interrelated risks of climate change. For example, they do not model climate tipping points, when a small change in the climate triggers a larger and often unstoppable change elsewhere.
- Consideration of climate risks in isolation that fail to fully capture potential knock-on effects, like mass migration, war, and political and social instability.
- Very long-time horizons and smooth transitions that are not realistic representations of how economic and financial markets are likely to behave over the next five to ten years.

These limitations and the long-term outlook make it difficult to properly embed climate considerations into our more immediate transition planning and financial decision-making. Long-established views on macro and financial variables may no longer hold as we enter a new paradigm. In such a world, analysis using forward-looking scenarios is a powerful tool.

The climate scenarios developed in collaboration with the University of Exeter better reflect the real-world risks and opportunities that frame our investment decision-making over the short and medium term. They switch the focus away from climate pathways and towards the changes in politics, economics, asset prices and extreme weather events.

The No Time to Lose- New Scenario Narratives for Action on Climate Change report presents four new climate scenarios. They range from optimistic, with policy, market and technology drivers working in harmony and rapid decarbonisation, to pessimistic, where a toxic political climate compounded by dysfunctional markets frustrates progress. They aim to present a richer, broader, and more realistic range of possible scenarios on which we can base our investment decisions.

- Scenario 1. Roaring 20s – policy and markets align.
- Scenario 2. Green Phoenix – market-driven, while policy lags.
- Scenario 3. Boom and Bust – policy steps up after fossil fuel surge bursts.
- Scenario 4. Meltdown – policy failures compound weak growth.

We believe these new scenarios will enable us to address some of the questions we raised about climate analysis in our 2022 TCFD report. We intend to develop a long-term investment outlook informed by the scenarios and draw out investment implications for capital markets expectations, top-down portfolio construction and country/sector preferences.

We plan to:

- run a climate scenario analysis applied to both the DB and DC funds with the new framework for the 2025 TCFD Report.
- work with the University of Exeter to develop a financial heatmap, showing the impact of climate scenarios on key variables.

Participation in industry initiatives and conferences

Market engagement is not just about policymakers and regulators, it is also about engaging with other market participants. USS participates in various industry bodies including the Pensions and Lifetime Savings Association (PLSA) (the trade association for UK workplace pensions), the Investment Association (the trade body for UK-based investment managers), the Investor Forum (a stewardship-focussed collaboration group) and the UK Sustainable Investment Forum (UKSIF). We participate in events and conferences to learn, share experience and encourage other investors to be more involved in stewardship and RI activities. We believe this is in our members' best financial interests, as the more pension funds that are active on RI issues, the more effective stewardship can be. Examples include:

- We attended a summit convened by Cambridge Universal Ownership Initiative (CUOI) to discuss 'Prioritisation of systemic risks: climate change, biodiversity and anti-microbial resistance' in May 2023.
- Our Head of Equities attended RI Europe 2023 in June to discuss whether financial institutions are on track to meet 2025 net zero goals.
- We participated in a panel discussion on 'The rise of climate litigation as an engagement tool for responsible investors' at the UKSIF Breakfast Briefing in September 2023.
- Our Head of Manager Selection and Monitoring was interviewed by Asset TV in October 2023 about Stewardship in manager selection and management.
- Our Head of Investment Strategy and Advice attended the Official Monetary and Financial Institutions Forum (OMFIF) panel in November 2023 to speak about the impact of climate change on pension markers.
- Our Head of Responsible Investment joined a panel at the PLSA Investment Conference on 'Climate Action: Best Practice Strategy for a Net Zero Future' to discuss disclosure and the tools pension schemes have to reach net zero. She also recorded a podcast with LCP to discuss these topics.

Principle 5: Review and assurance

Principle 5

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

We are cautious in respect of climate change issues being detrimental to performance.

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

Our RI Beliefs and Ambition Statement is available on our public website (uss.co.uk), along with our Statement of Investment Principles, Investment Builder (DC) Ethical Guidelines and TCFD Reports.

We submit regular reporting and monitoring of the scheme's activities to the USSL board and its Investment Committee. Data that appear in our Report and Accounts, including, for example voting data, are also formally audited by the scheme's internal auditors.

The RI team reports formally to the Trustee Board on an annual basis, and biannually to the USSIM Board. The RI team also reports formally to the Investment Committee biannually. The Trustee Board agrees the scheme's RI approach and formally reviews the team's activities, signing off key focus areas and policies. In 2023, the Trustee Board discussed RI beliefs and worked with USSIM to help define the longer-term RI ambition for the scheme.

External assurance and reporting: TCFD

Data used for the calculation of our carbon footprint has been further integrated into USSIM's data infrastructure, ahead of validation for the 2024 TCFD reporting cycle. In addition to internal checks, we have appointed EY (USS's external auditors) to undertake limited assurance of the data and metrics which feature in our TCFD Report. The assurance will also consider the accuracy of the key messages contained in the report with respect to the underlying data. The results of the assurance will be provided to our Group Audit and Risk Committee, ahead of the Trustee Board being invited to approve the Report.

ESG and Climate risk governance, assessment and reporting

The Trustee Board has ultimate responsibility for risk management across USS, even where this is delegated to USSIM. The Trustee Board is responsible for setting risk appetites and satisfying itself that appropriate systems are in place across both USSL and USSIM to make sure the Risk Governance Policy is implemented.

The way we assess and manage climate risk is in alignment with our existing risk management framework.

Risks for which the Trustee Board has set risk appetites (see Figure 2) are assigned to an owner at Group Executive level. The USSIM CEO is the executive owner for climate risk, with the following responsibilities:

- Ongoing identification, monitoring and management of climate risks.
- Understanding the implications of the risk on USS strategy/operations and investments.
- Directing the appropriate risk response (mitigate, avoid, transfer, accept) and ensuring it is applied effectively.
- Implementing and enforcing risk management policy.
- Making sure frameworks for managing climate risk are available and applied across the organisation.
- Performing a regular risk assessment of risk exposure against risk appetite.

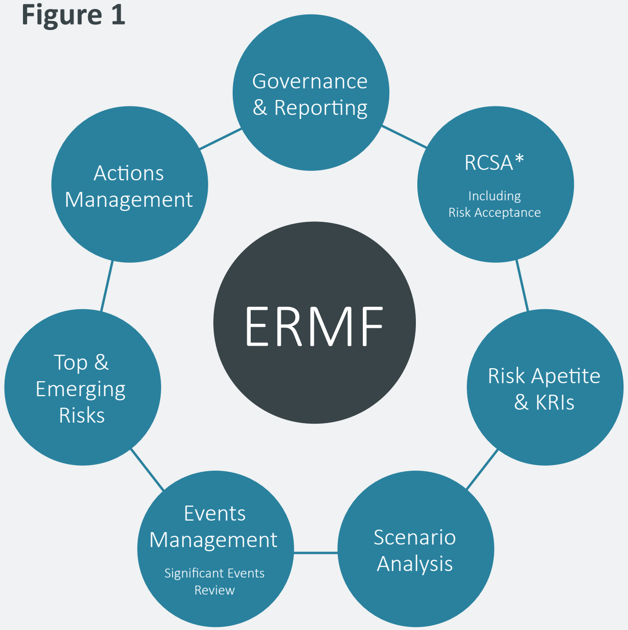
The USS Group Chief Risk Officer (CRO) oversees and challenges how relevant executives manage risk. The CRO supports business management in integrating climate risk into the Risk Management Framework and provides input to the Investment Committee's assessment of USSIM's performance in managing climate risk.

Purpose and Governance continued

Enterprise Risk Management Framework

Our Enterprise Risk Management Framework (ERMF) comprises a set of processes to identify, measure, manage and report enterprise and operational risks. This includes both forward- and backward-looking risk management disciplines, applied both top-down and bottom-up. Figure 1 shows the key activities included in the ERMF.

Figure 1



Areas of the Enterprise Risk Management Framework where these risks are specifically considered are summarised below.

We identify climate risk as a Top risk: a top-down approach

We take a top-down approach to identify and prioritise the high-level (enterprise-level) risks that pose significant potential for an adverse outcome, whether financial, non-financial or reputational. This allows a focused and robust approach to identifying and managing our strategic and operational risks.

Climate and ESG risks were identified within this set of risks for USS. The process of identifying these high-level risks is conducted annually and refreshed as necessary, unless triggered by events. Mitigating action plans are owned at the executive level and tracked and reported at the various governing bodies periodically.

Risk Appetite Framework and associated Key Risk Indicators

The Risk Appetite Framework is one of the key processes by which we manage and govern the risks associated with RI. Risk appetite is the maximum level of risk we are willing to accept in pursuit of our objectives. It includes the Risk Appetite Statements (RASs), recommended by the IC and set by the Trustee Board. It also includes a set of Key Risk Indicators (KRIs), setting the parameters within which USSIM is to manage the scheme's investments. The RASs and KRIs cover a range of risks, from short-term liquidity risk to long-term funding risk. This brings a multi-faceted view of risk applicable over multiple time horizons. Through this process a RAS for climate risk has been set at the highest level of governance in the organisation – the Trustee Board. See figure 2. These risks are monitored using the risk indicators and reported to appropriate governance bodies within the trustee.

We are **cautious** with respect to climate change issues being detrimental to performance.

Climate risk is in our day-to-day operating risk registers: a bottom-up approach

As part of the process for managing risk and ensuring we stay within appetite, business areas are required to maintain risk registers which document the risks and controls associated with their processes. These risk registers incorporate ESG and climate risks, and evidence that investment desks and supporting

Figure 2: DB and DC Risk Appetite Statements & Key Risk Indicators

Risk	Investment RAS	Investment KRI
DB and DC investment risk	**'Cautious'** for ESG risk (the potential for long-term detrimental impact on financial performance arising from ESG factors, except climate change) within the DB implemented portfolio	Qualitative assessment by the Risk team of how USSIM is integrating ESG factors (including reporting and stewardship)
Climate risk (applies to DB and DC)	**'Cautious'** appetite for climate issues causing detriment to performance	Qualitative assessment by the Risk team of how USSIM is delivering its net zero ambition

*RCSA – risk and control self-assessment

Purpose and Governance continued

functions are integrating financially material climate and ESG considerations into their everyday processes and decision-making, where appropriate.

The business risk registers are reviewed periodically with input from the RI team, and oversight and challenge from the Group Risk team. The results of these assessments are reported to relevant governance forums on a quarterly basis (e.g., Risk Committees).

How we assess our performance and risk management for RI

We introduced an integrated Investment Framework in 2022, which changed the way the Trustee Board sets the mandate for USSIM. The framework includes the investment RASs and KRIs, including those for climate risk, as detailed above. This makes clear the parameters within which USSIM is to manage the scheme's investments. The Investment Framework also includes an assessment of investment performance using an investment balanced scorecard for each of DB and DC.

Balanced scorecard: Assessing USSIM's risk management, investment performance and advice

The balanced scorecard is a mechanism for the IC to assess USSIM's investment performance and risk management. Both DB and DC scorecards include a section on RI, which comprises the integration of ESG, managing climate risks and progress towards our net zero ambition. The DB and DC investment balanced scorecards are produced twice a year primarily to enable the IC to carry out its annual assessment of USSIM's investment performance.

Category 5 (Responsible Investment) includes the qualitative DB and DC KRIs on the trustee's net zero ambition and USSIM's integration of ESG factors into its investment decision-making process. See Figure 4.

USSIM's performance in the RI category is qualitatively assessed annually by the USS Group Risk function. This assessment feeds into the overall scorecard assessment by the IC alongside USSIM's other RI achievements over the period. That overall scorecard assessment is used as an input by the remuneration committee in setting the overall compensation for USSIM.

The Investment Framework, of which the balanced scorecard is a part, therefore provides an integrated governance framework for climate risk, linking the assessment of investment risk and performance back to Trustee Board strategy, objectives and risk appetite.

Figure 3: Investment balanced scorecard categories

Figure 4: Responsible Investment - qualitative Key Risk Indicator measures for ESG and Net Zero

5. Responsible Investment

a. Net zero ambition (KRI)

i. An assessment by the Risk team of how USSIM is delivering vs its commitment

b. ESG integration (KRI)

i. An assessment by the Risk team of how USSIM is integrating ESG factors (including reporting and stewardship)

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 trustee since 1974 and employ more than 500 people in London and Liverpool, including those employed by USSIM. During the period to 31 March 2023, USS paid out approximately £1.8bn in benefits to 87,953 pensioner members. We also have 232,360 active members accruing benefits with us and 233,938 deferred members with preserved benefits. For details of our assets under management across asset classes and geographies, please see page 6.

We seek to engage directly with our members on many matters and RI themes are a key part of that. We also seek to speak more broadly about our approach with both our stakeholders and the industry, including via the media and conferences.

Helping our members stay engaged and informed

With such a large, unique, and engaged membership, appealing and effective communication is key in keeping our members informed. Our members are increasingly aware of RI factors and how these may affect the value of their investments.

As a result of the varying levels of engagement our insight shows, we are looking at ways we can better communicate this information to members to ensure we are engaging members at the right level. This allows us to layer the information so that members who require the detail, and those who want a brief overview, can appropriately self-serve on our website.

Our principal communications outlet for members is our website, www.uss.co.uk, which features dedicated sections on RI and our journey to net zero, providing details of the approach the scheme takes. This includes our reports and information on topics such as:

- Our TCFD Report 2023 and accompanying summary.
- Our Stewardship and Voting Policy. Read more in Principle 12.
- Our Responsible Investment Beliefs and Ambition Statement. Read more in Principle 2.

Addressing the effectiveness of our communications

We use several 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 these insights to improve and tailor our communications and have recently redesigned the retirement quote based on member feedback. We continue to see an increase in the communications quality scores that highlights the approach we are taking works and we have member understanding and awareness KPIs in place that underpin our annual campaign plans.

We recognise that effective communication is not a one-way process. While we must invest on the basis of financial factors, our members' views are critical as we invest for their long-term futures. To obtain their views, we regularly survey our members on a range of issues including RI.

The challenges presented by PECR

The Privacy and Electronic Communications Regulations (PECR) sit alongside the Data Protection Act and GDPR, restricting unsolicited marketing communications by commercial organisations via phone, fax, email, text, and other electronic means. As a hybrid and auto-enrolment scheme, we are not a commercial entity by any standard definition, and we rely on members to choose to opt-in before communicating value-add content to them. However, given this could jar with the regulatory expectation that trustees provide good member communications so that members can make informed choices, we have called for the soft opt-in to be extended to non-commercial organisations.

Government has agreed to implement this, however, we are concerned that the soft opt-in does not go far enough and should also specifically cover information gathered via auto-enrolment for pension schemes such as USS. The Department for Work and Pensions has been working with the ICO and TPR to produce updated guidance on this issue, which we await.

Investment Approach continued

Updating our Ethical Guidelines

People are increasingly interested in how their investments are influencing the world around them, and USS believes it is important to give members the opportunity to invest in line with their values.

While our investments for the Retirement Income Builder, the DB part, can only take non-financial factors (including certain ethical factors) into account where they do not pose a material risk of negative financial impact, and where we have good reason to believe that members share each other's views, legally there is more flexibility when members can choose their own investment strategy preferences. Members with Investment Builder (DC) savings can therefore choose to invest in ethically- screened strategies. We offer various screened options: the USS Ethical Lifestyle Option, for members who want us to manage their investments; the USS Ethical Equity Fund and the Sharia Fund for members who want to manage their investments themselves.

Over the past year, we continued to engage with member and employer groups including Divest USS, a USS member pressure group, via in-person meetings or written exchanges. We generally meet with Divest USS face-to-face at our office once a year, and last did so in October 2023. During this meeting, we discussed our member surveys and our investments in fossil fuels. These topics were also their key focus areas in our written exchanges.

During these engagements, we explain how we take member feedback and preferences on board when considering our fiduciary duty and investment options. We also explain our approach to engagement as a tool to enable the transition to a lower carbon future, and how we see divestment as a last resort once we have exhausted all other engagement and voting approaches. We highlight that society cannot divest its way to net zero and neither can we, and therefore believe that divestment makes no difference to the actual carbon emitted to the atmosphere and will not address the global climate challenge. Ultimately, we are looking to achieve the same end goal as Divest USS, even if we believe in a different approach to getting there.

We also continue to invite members to join our Member Voice panel. Member Voice is an online community just for USS members, where they can talk to their peers about how their pension is being managed and participate in surveys, discussions and previews of new initiatives.

We also meet regularly with University and College Union (UCU) a trade union and professional association that represents individuals working in further and higher education throughout the UK. UCU represents members of USS on the Joint Negotiating Committee (JNC) and appoints individuals to the Trustee Board and to the Advisory Committee. We meet for informal discussions on investment matters, including RI. Recent topics discussed include investment in the defence industry, the scheme's fiduciary duty and climate change.

Events in the Middle East

We have engaged extensively with stakeholders in relation to the horrific and hugely emotive events that unfolded in the Middle East from early October 2023 and the questions they had about our investments in the region.

As well as co-ordinating a series of meetings with USS Investment Management, we published correspondence and produced a blog setting out our approach to investing responsibly, in line with our legal duties. We also answered questions at the 2023 Institutions' Meeting and responded to media enquiries, setting out our position.

Institutions' Meeting 2023

USS held its annual Institutions' Meeting on 30 November 2023. The purpose of the meeting is to give the scheme's sponsoring employers the opportunity to hear about the Trustee's performance and priorities, and to ask questions. Presentations were given by Dame Kate Barker (Chair of the USS Board), Carol Young (Group Chief Executive), Russell Picot (Deputy Chair of the USS Board and Chair of the Investment Committee) and Simon Pilcher (CEO of USS Investment Management). Questions were taken from the audience. You can watch a recording of the full event here.

Following the success of the Trustee Engagement Events (formerly known as 'Member Days') at Durham University in March 2023, we have two events lined up for 2024- one at Nottingham University in May and one at Lancaster University in July. We will report on these next year.

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.

Our aim is to work with portfolio companies over the life of the investment.

In this section, we provide details of how the different asset class teams across USSIM integrate ESG factors into their investment decision-making process, and the stewardship activities they undertake, along with an update on our net zero strategy.

Our RI team

We established a specialist in-house RI team two decades ago, and we have one of the largest RI teams of any UK pension scheme, with a new Head of RI joining in January 2024. The team works with the internal investment teams and monitors external managers and assets to ensure that financially material ESG factors are integrated into investment decisions across asset classes, ensuring that both the internal investment teams and external managers act as good stewards of those assets. This activity is overseen by the Investment Committee, which provides assurance to the USSL board that its policies are being implemented.

USS's internal fund managers engage directly with our investee companies on ESG issues both individually and with the specialist team. For example, during this reporting period, we held joint engagements on the exposure of Chinese companies to human rights issues in their supply chains and with cement companies on how they are managing the transition to a low-carbon world (read more under Principle 9).

Our investments

As a Universal Owner with a broadly diversified portfolio, across asset classes and geographies, we cannot 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 stewardship and integration activities is based on the following criteria:

- The size of our holdings in the entity or the size of the asset portfolio company.
- Whether we hold the asset internally or externally, and actively or in a passive index tracking portfolio.
- Macro systemic issues such as climate or systemically important sectors.
- The home market of the asset or portfolio company.
- Financial materiality asset scores and or ranking in specific benchmarks or assessments.
- Availability of qualitative and quantitative public disclosure.

Potential ESG issues

Once we have prioritised investments for stewardship, we define our objectives for engagement and determine whether we will conduct the engagement individually, in collaboration with other investors or whether others will engage on our behalf (see Principle 2).

We consider controversies and potential or alleged violations of global norms and standards that could have a material impact on a company. Our Global Emerging Markets (GEMs) team, for example, has been engaging with our Chinese equity holdings to assess their compliance with the ILO Conventions on Forced Labour. See the case study below on page 28.

Further details on engagement and collaboration can be found in Principles 9 and 10.

Investment Approach continued

Compliance with the ILO Conventions on Forced Labour in China

In the past year, our GEMs Equities team has carried out engagement with our equity holdings to assess their compliance with the International Labour Organisation (ILO) Conventions on Forced Labour. From June 2023, the previously ratified ILO Conventions against forced labour (29 and 105) formed part of Chinese domestic law and we engaged with our holdings to understand how this had changed their behaviour. The purpose of our engagement was to engage systematically with all of our Chinese equity holdings to understand and assess the steps taken to eradicate forced labour from their business activities and supply chains. We were also interested in whether the new standards also formed part of our companies' contracts with their suppliers and whether there was effective auditing and action where suppliers had fallen below the legal standards.

We received detailed responses from 87% of our holdings. For the remainder, we carried out desk research into their published corporate policies. In addition, we held follow-up engagement calls with two companies: a large electronics assembler which is an important Apple supplier, and the largest e-commerce marketplace in China. All but one of our holdings has published policies prohibiting forced labour internally, and 81% also prohibit forced labour in their supply chain and reflect this in their supplier contracts. Many holdings explicitly reference the ILO Conventions in their statements on forced labour, demonstrating awareness of the change in the Chinese legal framework.

To judge the effectiveness of their statements, we assessed whether independent auditing took place and whether a supplier had ever been removed for a violation of the forced labour standards. Many companies carried out auditing for verification, but this was almost always done by employees rather than independent third parties. In addition, 59% told us that no supplier had ever been removed for a forced labour violation; the other 41% were unclear whether there had been violations requiring removal or not.

As a result of the engagement, we believe that our holdings are aware of the potential for forced labour in China and are happy to denounce it, but are less able to find violations or to take action. It was clear that firms which sold goods outside of China were much more likely to be subject to third-party auditing by their own clients and were receptive lest they lose valuable contracts.

The next steps are to focus on the auditing and verification aspects of applying corporate policies against forced labour in our holdings. We will also encourage our holdings to embed this into their supplier and sub-contractor relationships to bring more violations to light. Forced labour will continue to form part of our standard investment and engagement meetings.

Our approach to exclusions

In 2020, we first excluded certain sectors from our investment universe as they were deemed to be financially unsustainable over the long term (we routinely review these decisions). These included: tobacco manufacturing; thermal coal mining (coal to be burned for electricity generation), specifically where this activity made up more than 25% of revenues; banned weapons under the Convention on Cluster Munitions and the Mine Ban Treaty; and, more recently, investment in Russian assets.

For the small remaining holdings in Russian-related investments, we are looking for opportunities to sell as markets reopen and when liquidity returns. We have established internal processes to monitor and implement the exclusions list and restrict the ability of internal managers to trade in excluded assets. We have also worked with external managers to ensure that all funds are now aligned with the USSIM exclusions.

Prioritisation

To focus our resources on material ESG issues, we plan to establish priority issues, including a continued focus on climate change and net zero.

In addition, one of the outputs of our carbon footprinting across all our asset classes has been the identification of the individual assets which have the greatest footprint or make the greatest contribution to the scheme's footprint. You can read more about this in the Metrics and Targets section of our latest TCFD Report. We are using this data to prioritise our stewardship and integration. For example, the RI team is working with our GEMs Team to undertake research and focussed engagement with the small number of companies that contribute 75 to 80% of the emissions of their portfolio.

Investment Approach continued

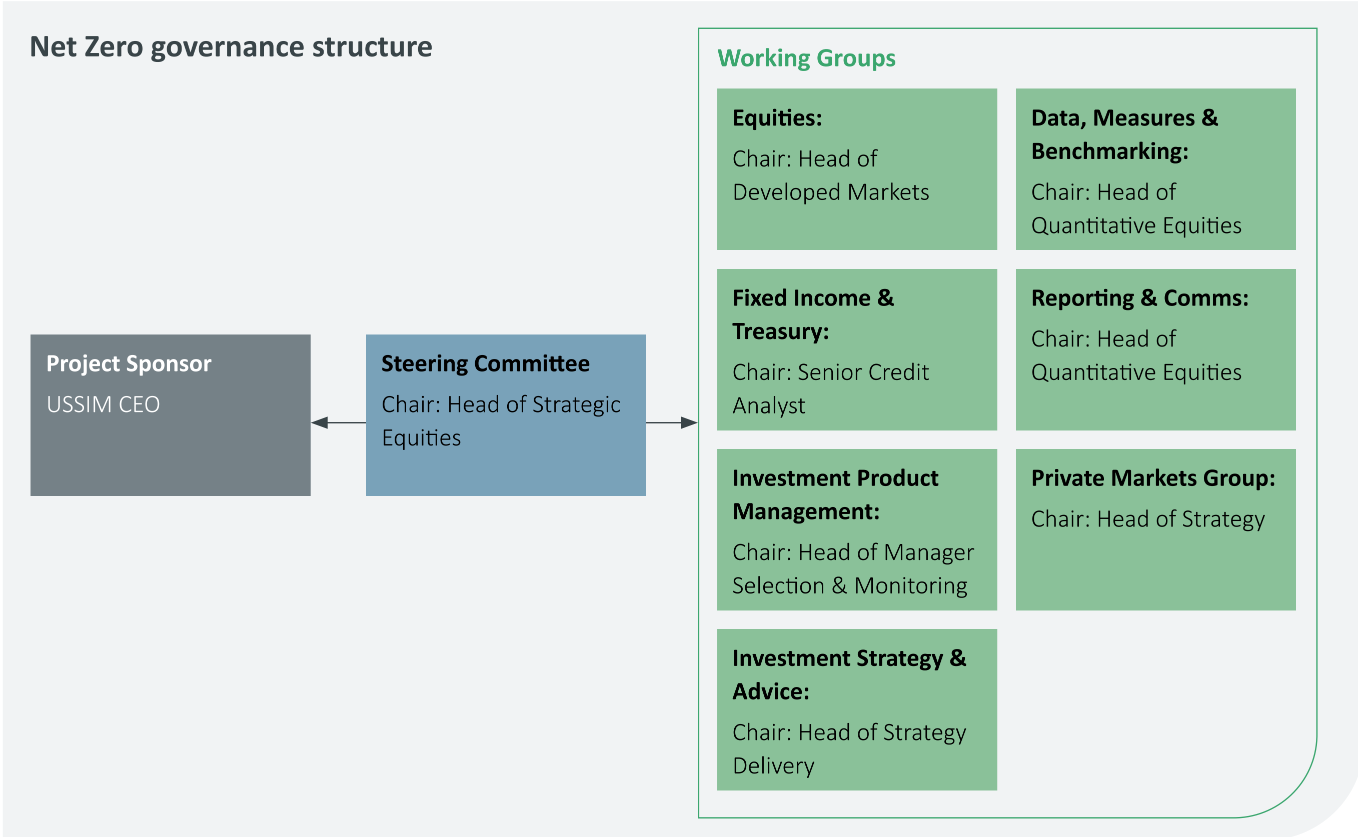
For our private markets funds, we have identified the top 100 contributors to the carbon footprint for our externally managed private markets investments. To obtain these data, emissions were estimated based on average emissions intensity for the sector and location using data provided by S&P Trucost. We then aggregated the data by General Partner (GP) to help prioritise our engagement strategy, enabling us to focus our engagements on those managers contributing the most to our carbon exposure. Additionally, we contacted all GPs within our Private Equity portfolio as part of the ESG Data Convergence Initiative, and plan to use the results and analysis to inform our private equity engagement programme and TCFD reporting in the future. See Principle 8 for further details.

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. Since then, to ensure that we better manage the delivery of our net zero targets, we have established a Net Zero Steering Committee and Net Zero Working Groups (NZWG) for each asset class as well as for specific support functions. Each Working Group makes sure that USSIM investment teams across asset classes are focused on the steps they will take to achieve the scheme's targets, and that support functions also play their role. The NZWGs are accountable to the Net Zero Steering Committee, consisting of senior investment executives, to make sure we deliver on our net zero ambition. The structure is set out below.

Our net zero strategy includes:

- Developing individual asset class transition plans, so that the different investment teams can plan how they are going to contribute to our targets. Individual investment teams also have their own targets.



- Continuing to the integration of climate data into investment decisions.
- Continuing to engage with our high emitting assets (see Cemex case study on page 41), as well as banks which play a crucial role in lending to the fossil fuel sector.
- Following engagement, if it becomes clear that a sector or company cannot transition to net zero, we may consider divesting on a case-by-case basis.
- Continued engagement with policymakers on climate change (see Principle 4) which we see as critical in enabling the transition to net zero.

The net zero transition will require continued focus by USSIM's internal investment teams in terms of where and how we invest, and involve collective and collaborative engagement with peers, including our external asset managers and others in the investment value chain in order to deliver against this ambition. 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 2023, USS had approximately £2bn of renewable energy and green technologies exposure.

Our approach to ESG integration by asset class

Listed equity: Global Emerging Markets

Over the course of 2023, we have updated our investment cases to reflect new ESG information and to track the progress of our holdings towards their carbon reduction goals. In addition, we have also researched the Scope 3 emissions of our holdings and better understood the issues involved in this complex area.

Our goals for 2023 and the progress in the last year are as follows:

- Working to develop a new version of the Carbon Model which will be fully integrated into the discounted cashflow valuation model which we use to inform our target prices for our investments. This will allow us to reach the next level of detail in terms of how the emissions outlook for a company affects its earnings and cashflow generation and thereby its intrinsic value.
    - In 2023 we worked to internalise the carbon data and switched from an external model provider (HOLT) to using Bloomberg and S&P Trucost data to feed our internal model. The Quant team has developed a carbon dashboard which will form the basis of our future assessment of carbon emissions for our holdings.
- Building on the work of engagement with the most carbon-intensive firms, using our new tools to track their progress to ensure they reach their stated goals, and to take further action if they do not.
    - We have continued to engage with the most carbon-intensive firms in our portfolio and continue to track their progress, whilst adjusting our targets to reflect recent developments. We have contributed case studies on our work with Samsung Electronics, Ultratech and Tripod Tech to this report, illustrating our efforts to integrate our work on carbon into our investment research process. We recognise that carbon emissions are a material financial factor for many firms in our investment universe.

Case study: Embedding ESG factors into ongoing asset management

The Private Markets Group (PMG) is committed to embedding financially material ESG factors into the ongoing asset management of privately held investments. Since 2022, PMG has requested ESG risk and performance data through an annual ESG survey of direct equity and debt investments in portfolio companies. The survey includes metrics across the following areas:

- Environmental (current emissions, reduction targets, percentage of energy from renewable sources).
- Social (attrition rate, work-related injuries, employee survey engagement).
- Governance (diversity and independence of board, compensation linked to non-financial metrics, clawback provisions).

This survey allows us to improve the availability, quality and consistency of ESG data across the portfolio and gives us an understanding of progress in each area so that we can make better-informed decisions on key actions going forward. A similar process was undertaken to collect ESG performance data from the indirect (funds) portfolio using the ESG Data Convergence Initiative template (See Principle 8 for further details). The emissions data from both surveys feeds through to the scheme's TCFD reporting on carbon intensity and net zero objectives. Further analysis of ESG performance across the portfolio is planned for 2024.

Investment Approach continued

- Identifying and engaging with at-risk companies in the Greater China region on forced labour.
  - The investment team carried out a research project into all of our 32 China holdings to confirm their adherence to the principles of outlawing forced labour in their businesses and in their supply chain. Of the 32 companies we held at the time of the project, 31 have published policies prohibiting forced labour and 26 also have policies to prohibit forced labour in their supply chains. We will continue to engage with our China holdings on this issue, led by the analysts and portfolio managers who regularly meet our holdings. The next step for this research is to encourage our holdings to improve their supplier assessment and auditing to avoid forced labour in their supply chains.
- Working closely with the RI team to develop engagement objectives with our holdings, including collective engagements.
  - In 2023 we worked with the RI team on a diverse range of ESG issues, including Scope 3 emissions, forced labour, voting, governance and on setting new stewardship goals, including the integration of biodiversity into our investment analysis.

Case study: Tripod Tech Corp improves the scope and speed of disclosure

Tripod Tech Corp, a Taiwanese printed circuit board (PCB) manufacturer with most of their production in mainland China, was one of our top ten GEMs portfolio emitters by intensity in 2023. When we first engaged with the company on carbon in 2022, there was only partial information on their emissions available in English; one of their three main plants was not included in the available emissions data. Their carbon emission reduction targets were also unclear. As a long-term shareholder, the company's ESG team was keen to engage with us and said that we were the first English-speaking ESG call held with the company. We highlighted our concerns, discussed global best practice and suggested ways they could apply it to their own disclosures.

Since our initial engagement, the company has:

- issued a comprehensive sustainability report in English and undertaken to publish this in both English and Chinese annually.
- disclosed the emissions from all three of their manufacturing sites (currently unaudited) and have set out very specific GHG emission reduction targets for their three main campuses in China.
- Pingzhen site targets a total decrease of 5% of GHG emissions in 2025 and 20% by 2030 (baseline 2021) and is targeting 2050 net zero.
- Wuxi/Hubei site targets a decrease of 4% of GHG emissions in 2023 and 22% in 2030 and is targeting 2060 net zero.
- committed to implementing Scope 3 verification.
- produced a plan to reach net zero by 2060 at a company level, in line with China's target date.
- disclosed its climate transition risks and opportunities and how it intends to manage them.

Now that baseline targets have been set, we will work with the company to encourage it to outperform these and further improve the scope and speed of disclosure. One of the company's key customers is Apple, who are also pushing for other companies in their supply chain to move to net zero by 2050. The benefits of engaging with Tripod and encouraging them to achieve their targets more rapidly should lead to positive economic benefits for the company, as they are more likely to win a greater share of contracts with key customers like Apple.

Listed equity: Developed Markets

Our new Developed Markets Equities team is now up and running with our Long-Term Real Return (LTRR) mandate. This mandate is designed to provide strong long-term returns at lower levels of risk than the wider equity market, an objective that's aligned with the overall scheme. We now have over £4bn invested in high-quality companies with strong competitive advantages. RI considerations have been built into every stage of the investment process for this mandate and a thorough assessment of climate and other ESG issues has been integrated to ensure appropriate consideration is given to relevant risks and opportunities. Alongside this, the extremely low Scope 1 and 2 carbon emissions of the companies we have invested in supports our wider ambition for our investments to be net zero by 2050 if not before. When it comes to engagement, the concentrated nature of the mandate means stewardship is a real focus. We can engage with all holdings to better understand the companies and their challenges, while also encouraging appropriate behaviour on long-term issues that could have a financial impact on our returns. Ultimately, we can focus on driving long-term, real-world change with these companies on several financially material matters.

Case study: Unilever updates its Climate Transition Action Plan (CTAP)

As one of the world's largest consumer goods companies, Unilever has a significant role to play in transitioning the sector towards net zero. Historically, it has been a leader on climate issues and was one of the first companies to set two degrees-aligned climate targets through the Science-based Targets Initiative (SBTi). With two degrees targets being retired this year and with their previous target expiring in 2025, Unilever has taken the opportunity to set new 1.5-aligned targets, in line with best practice.

USSIM was invited to provide feedback on Unilever's 2024 Climate Transition Action Plan (CTAP) at the end of last year. An increasing focus on Scope 3 emissions has brought new challenges, with an absence of reliable data and a concern around whether it was appropriate for commitments to be made by the company given how much of Scope 3 emissions are out of their control. More positively, we discussed the increasing use of supplier emission data rather than relying on estimation. Changes to data sources and methodologies inevitably make the job of comparing emissions to previous years more difficult and less meaningful but do build a more accurate, real-world picture.

We were supportive of their updated CTAP, the move from intensity-based assessment to an absolute framework and their elevation of plastic as a priority area alongside climate and nature as a driver of achieving Scope 3 targets. It seems clear that concerted policy engagement is needed to catalyse a system shift to address these global threats and to ensure that companies behaving in the right way do not put themselves at a competitive disadvantage. Additionally, we endorsed Unilever's response to requests from investors that the company disclose details of how its industry associations align with the Paris goal of 1.5 degrees. Unilever will publish its updated CTAP later this year. Discussions such as this with companies help to deepen our understanding of their approach to net zero – the challenges and opportunities – and to demonstrate support where positive action is being taken.

Case study: Samsung Electronics sets net zero targets

USS has been a long-term shareholder of Samsung Electronics and has seen the company grow from a manufacturer of home appliances and televisions to a world-class manufacturer of semiconductors, mobile phones and automotive components. We meet the company several times a year to discuss investment matters and this has broadened out to encompass regular meetings on broader topics of interest to shareholders. In recent years we have engaged with them on their materials sourcing policies, avoiding forced labour in the supply chain and on introducing plastic microfibre filters for domestic appliances. However, we felt they were slow to understand the impact of their carbon emissions and their responsibility to take leadership on this issue and fed this back to them in our engagement sessions.

Samsung Electronics has been publishing data on direct and indirect greenhouse gas (GHG) emissions since 2005, however, we felt that they needed to go further in implementing and acting upon the conclusions from these reports at a senior level, rather than just publishing data. In 2023 the firm committed to a target of net zero by 2050. The target is split by division, with the DX Division (Handsets, Display & Consumer Electronics) committed to peak carbon in 2027 and net zero in 2030. The DS Division (Semiconductors) does not have a peak carbon target but is committed to net zero by 2050.

The DS Division is more carbon intensive in terms of Scopes 1 and 2 emissions due to the nature of its business. Key points for future engagement on DS are that the firm uses certain gases in the semiconductor manufacturing process which are potent GHGs. Samsung Electronics is developing a gas capture and re-use system for their own plants which might be suitable for future commercialisation. Their Semiconductor division is also highly energy intensive, and Samsung Electronics is to some extent locked into decisions made by the South Korean Government about the carbon intensity of the national energy mix. We understand that discussions have taken place between the firm and the South Korean Government on this point and Samsung Electronics is lobbying for lower carbon sources of energy for the country. We will continue to push for progress.

Fixed Income: Credit

Given the breadth of issuers in the bond market (more than 3000 issuers in the main benchmark alone), the credit team adopts a screening-based approach using ESG risk scores from external rating providers, including the three major credit rating agencies. The screening for any ESG red flags is automated by the team and runs at the start of each month, so that it captures the latest available data. It considers each E, S and G issue separately and highlights any pockets of risk to the respective sector analysts.

Where ESG issues are financially relevant to investment cases, this is flagged as part of the research to aid subsequent reviews and to help prepare for meetings. When the company scores poorly on the environmental factors and climate risks, we undertake further analysis and assess implications for its creditworthiness. We also assess to what extent these risks are already priced in by investors.

This single-issuer ESG analysis is supported by the internally developed ESG credit template that aims to capture and map all available ESG data for our investment universe. The template also allows the team to compare portfolios' ESG scores to their benchmarks and quickly identify excessive exposures and unintended ESG risks by sectors.

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, we discuss ESG issues at both an industry and company level in a quarterly investment forum. ESG factors are also a standard topic of discussion during company meetings.

Whilst ESG issues have become a standard topic of discussion during investor calls with increasing disclosure expected as standard, compared to public equity investors, credit investors are somewhat limited in their ability to engage with issuers on ESG matters.

Case study: UK Power Networks – facilitating the energy transition

Last year, we invested £100m in our buy and maintain portfolio in privately placed 20-year bonds issued by the regulated operating subsidiaries of UK Power Networks (UKPONE). As a relatively large, long term and illiquid exposure that we expect to hold to maturity, we pay particular attention to the ESG and net zero credentials of the issuer.

UKPONE manages the distribution of electricity from the National Grid and locally connected generation to 8.4m homes and businesses in London, the South East and the East of England, distributing around 27% of the UK's electricity through its licensed operating subsidiaries. The Group is at the forefront of net zero transition due to the crucial role it plays in connecting renewable energy while maintaining reliable, safe and cost-effective operation of the networks.

The company launched the first independent Distribution System Operator (DSO) in the UK in May 2023 to help the expected increase in electricity demand as part of the net zero transition. Until recently, demand on the distribution networks has been stable and highly predictable. This is changing the increasing demand for low-carbon electricity to power transport and heating, and the rise of intermittent distributed renewable energy sources to generate this power.

UKPONE first introduced flexible connections to the UK in 2014 to enable renewable energy generators to connect to the network faster and more cheaply. The trade-off is that flexibility customers can sometimes see their exported energy curtailed, to keep the network within safe limits. After launching its DSO, UKPONE established new data and operations teams working to better understand and reduce the curtailment process. With a significant increase in renewable energy sources, having high-quality open data on curtailment is essential to keeping this as efficient as possible.

UKPONE is also the first UK distribution network operator to have its carbon reduction plan and targets externally verified by the Science Based Targets initiative (SBTi). In line with the Paris Agreement, UKPONE has set targets to reduce its emissions to limit the global temperature increase to below 2°C including its Scope 3 supply chain emissions, and has set tougher reduction targets on its own directly controllable emissions by establishing a pathway to achieving net zero by 2028. For its full carbon footprint, including losses and indirect Scope 3 emissions, UKPONE expects to exceed its current SBTi reduction target at Well Below 2°C and expects to commit to the Business Ambition for 1.5°C SBTi campaign and update its targets in line with SBTi protocols. UKPONE also works with suppliers to reduce its Scope 3 carbon emissions by 25% by 2028, compared to a 2018/19 baseline.

A large long-term exposure was approved, and we will monitor the performance of the company against its net zero commitments and targets, along with the role its DSO plays in improving the resilience of its networks and facilitating the energy transition.

Fixed Income: Sovereign debt

USS uses 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.

Improving ESG country scores are viewed as an indicator of an improving outlook for a country, whilst deteriorating ESG scores are viewed as being a reason to increase our caution towards a country. Our investment approach attempts to avoid countries where the risk of default is increasing, to improve the quality of the portfolio to better match the risk appetite 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 and local currency) decision-making processes.

We also build climate and carbon exposure into our modelling by allocating towards countries showing the best improvement and allocating away from countries with larger increases in coal production. We also use data on countries' percentage change in CO_2 emissions from Our World in Data and reduce our exposure to countries with the largest emissions increases.

Investment Approach continued

Fixed Income: Asset-Backed Securities

There is a lack of external ESG scoring data for Asset Backed Securities (ABS) and ESG factors frequently have limited direct financial impact on these transactions. However, where ESG factors are financially material to the assets, which can be directly or through a regulatory, second-order effect, (for example, the governance of embedded counterparties such as mortgage servicers or the impact of diesel bans on vehicle residual values) they are built into the fundamental investment analysis. The ABS and RI teams continue to review internal ESG scoring options, monitor the creation of relevant third-party data services and engage on regulatory developments. Partnership for Carbon Accounting Financials (PCAF) has securitisation as one of its focus areas for 2024 and the teams intend to feed into this work.

Private Markets: Direct assets

We have significant direct investments in a range of assets, and we factor climate-related issues into the ESG due diligence we undertake for all direct investments. This is asset-specific but can include assessments of both regulatory/transition and physical climate risks, and how the asset is managing them. USSIM's Private Markets Group (PMG) have developed a Climate Risk Framework (see Figure 5) to capture both physical and transition climate risks across new PMG deals and existing assets. The Framework is used in due diligence for new deals. These high-level assessments will inform additional due diligence to be conducted including the use of external environmental advisers/consultants. Please see details of the ESG survey to portfolio companies on page 30.

Figure 5: Climate Risk Framework

Physical Risk (Low Risk - 10/10)	Transition Risk (Medium - Low Risk - 8/10)
• Global warming, rising sea levels and extreme weather may pose a degree of flood, landslide and/or wildfire risk to Company XYZ • We would note that their sites are at lower risk of flooding/rising sea levels vs. other leisure opportunities we have reviewed, albeit we will diligence this further in the next round	**Direct Emissions:** • **Carbon emissions related to energy efficiency:** As a premium operator, we are not aware of any particular energy efficiency concerns within the Company XYZ estate, although we have to diligence this and any associated 'minimum standard' costs • **Carbon off-setting:** Company XYZ has planted over 25,000 tress and often develops new sites that have been otherwise allocated for tree felling thereby preserving forested land; sources of the company's power for operations are to be explored **Indirect Emissions:** • **Carbon emissions related to travel/risk of change in consumer preferences:** Staycation thematic and 'back to nature' focus of Company XYZ has inherent environmental positives versus international alternatives reliant on air travel

Physical Risk Assessment	**1-2 (High risk)** • High exposure to assets located in areas with high physical risk incidence • Limited mitigation and adaptation plans are in place	**3-5 (Medium – High Risk)** • High exposure to assets located in areas with high physical risk incidence • Some mitigation and adaptation plans are in place but require enhancements	**6-8 (Medium – Low Risk)** • Some exposure to assets sensitive to physical climate risk • Some mitigation and adaptation plans are in place but require enhancements	**9-10 (Low Risk)** • Low exposure to physical assets OR • The physical assets are located in areas where some physical risks from climate change can occur but do not impact the specific business under due diligence
Climate Risk Assessment	**1-2 (High risk)** • The company has significant direct and/or indirect exposure to the net zero transition, facing significant loss of revenue, increased costs and risk of stranded assets • The business lacks a robust decarbonisation plan and is reliant on status quo	**3-5 (Medium – High Risk)** • The company has some exposure to direct and indirect transition risks, facing some cost increase, loss of revenue • Mitigations plans are in place but require further development to ensure competitiveness	**6-8 (Medium – Low Risk)** • The company has some exposure to direct and indirect transition risks, however a robust decarbonisation plan is in place to ensure competitiveness	**9-10 (Low Risk)** • The company's direct and indirect exposure to the net zero transition is limited

Investment Approach continued

Case study: Direct Equity - BRUC (renewables and natural capital)

USS has continued to support the growth of BRUC Energy, the Spanish renewable platform it has invested in since 2021. As a material shareholder in BRUC, we work closely with their senior management team to achieve the ambition of making the company a leader in solar and wind renewable energy. Over the course of 2023, BRUC:

- reached approximately 1GW of solar PV installed operating capacity successfully adding 155 MW of assets.
- generated more than 1,842GWh of renewable energy, enough to power circa 500,000 homes for a year and avoid the emission of 408,000 tonnes of CO_2.
- contributed to the creation of 269 jobs and generated more than 800 training hours, due to the significant construction activity undertaken.

Stewardship of assets

During the acquisition process and once invested, we work on an asset management plan for each portfolio company. Where we have identified material ESG issues in our due diligence, these are integrated into the asset management plan. A USS appointee typically sits on the board of the company, which allows for regular oversight of material climate and other environmental and social issues. In addition, we undertake post-investment visits to the companies and infrastructure assets we own directly. Among other things, these visits look at how well these investments are managing environmental, social and governance factors.

For co-investments, the due diligence process is similar to our direct asset investments. However, once invested, our control is limited by the Limited Partner (LP) / General Partner (GP)[3] relationship. In this case, the GP (or fund manager) has complete responsibility for management and oversight of the investment, including climate issues. We will, however, challenge the manager on how they manage climate issues as part of our external manager monitoring programme.

Our aim is to work with portfolio companies over the life of the investment. This includes working with them to set long-term plans to improve environmental outcomes as well as appropriate future direct investment to support those outcomes.

[3] LP (limited partner) is the investor, for example, the pension fund. GP (General Partner) is the fund manager.

Case study: Direct Equity – Northvolt: Sustainable Growth mandate

In 2023, USS made its first direct investment into the Sustainable Growth mandate, providing growth capital to Northvolt in the form of a convertible loan note. Northvolt has an ambitious goal to become the global leader in eco-friendly battery production, which is underpinned by its commitment to using fossil-free energy, ensuring traceability in raw material sourcing, implementing robust material recycling practices, and minimising its environmental impact across the product life cycle.

Recognising the pivotal role of electric vehicles in decarbonisation, USS considers this investment to be the first of many in adjacent sectors that are enabling or benefiting from decarbonisation tailwinds. Before we invest, our investment team extensively reviewed the sustainability and ESG reports provided by the company, reinforcing our confidence in this new investment.

Private Markets: Property

The majority of our property assets are UK-based directly held assets, although we do have some exposure internationally via funds. For the directly held buildings, given the potential physical risks that a changing climate can pose (for example, flood risk, storm damage), we always assess these risks before we invest. In addition, regulation also requires that Energy Performance Certificates (EPCs) are available for UK properties. This helps us assess a building's energy efficiency and therefore its potential exposure to higher energy and/or carbon costs.

We have had an active Responsible Property Investment (RPI) programme in place for over a decade. The RPI programme has focused on reducing energy consumption, and therefore potential carbon exposure, in some of our major property assets.

Case study: Property: DPD's greenest distribution centre

Prologis Park is an urban logistics estate located half a mile from Canary Wharf and just 3.5 miles from the City of London. Unit A, a large distribution warehouse unit and yard, was previously leased to a major supermarket who vacated in March 2022. Prior to their lease expiry, a marketing strategy was implemented to identify new potential occupiers, specifically within e-commerce, data centres and last-mile delivery sectors requiring centrally located warehousing.

Terms were agreed with DPD, a leading European parcel delivery and e-commerce operator, to create their greenest UK distribution centre. This would include an all-electric fleet of 500 vehicles, together with all their HGVs powered by HVO renewable biofuel.

DPD undertook refurbishment and improvement works to the property to enhance the environmental credentials and energy efficiency, including:

- solar electric vehicle charging canopies.
- photo voltaic panels across the entire roof area to generate one million kWh of electricity a year.
- 56 cycle parking spaces.

These works would have improved the Energy Performance Certificate (EPC) rating of the building from a 'C' to a 'B'. However, collaborating with the tenant, USS agreed to pay for the installation of a variable refrigerant flow (VRF) heating/cooling system and LED lights throughout to achieve an 'A' EPC rating. In exchange, DPD has agreed to maintain an 'A' EPC rating for the duration of the 20-year lease term. They have also agreed to provide regular energy data to ensure that USS can track Scope 3 greenhouse gas emissions arising from their occupation. VRF systems utilise electricity only and thus reduce the requirement for gas thereby helping to better align this asset with our net zero ambitions.

Principle 8: Monitoring managers and service providers

Principle 8

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

"We consider our oversight of external managers as stewardship activities, as we are engaging with them to improve their ESG practices."

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. USSIM manages around 70% of investments in-house, and we have processes in place to assess and monitor how potential or existing external 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 their approach to 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' RI-related policies, processes, resources, reporting and stewardship activities. External managers are benchmarked against in-house assessment frameworks which take recent market practices, product, and regulatory developments into account.

As noted in Principle 2, the scheme allocates resources specifically to ESG-related external managers and asset assessments and oversight with dedicated teams undertaking these tasks. All new fund managers are subject to comprehensive due diligence to evaluate the managers' approach and commitment to RI and stewardship, and to ensure that they meet our needs and align with the scheme's Statement of Investment Principles.

Our due diligence questionnaires

We have developed RI due diligence and monitoring questionnaires to establish a baseline view of the manager's approach to RI which forms the basis for the scheme's monitoring programme. We also use data rooms, fund DDQs and published reports, such as a firm's Stewardship Reports, PRI submissions and Impact Reports to inform our views. Our private equity framework is available online.

In 2022, we introduced a set of Gateway RI Indicators for USSIM's manager selection teams to consider early in the shortlisting or due diligence process. The metrics reflect our experience of commonplace key performance indicators that illustrate manager adoption of RI and alignment to USS. The Gateway Indicators (outlined in Figure 6) are considered by manager selection teams to provide a high-level early indication of likely RI capabilities and alignment.

The exercise is undertaken ahead of the more comprehensive, work-intensive RI due diligence and rating process. The indicators do not constitute a minimum entry hurdle but are used to inform focus areas for RI due diligence and discussion, and to provide an initial view of RI maturity early in the shortlisting or selection process.

Figure 6: Gateway RI Indicators

Gateway RI Indicators

The indicators below should be applicable to the proposed mandate's strategy / assets (answer Yes / No):

1. RI / ESG Policy available
2. Annual ESG report available
3. ESG Lead named
4. Participation in RI Initiatives / Benchmarks e.g., PRI, GRESB, ESG Data Convergence initiative, UK Stewardship Code
5. Net Zero commitment
6. Low risk of USSIM Exclusions (for pooled and blind-pool funds)
7. Mercer score ESG 3 and under (for public markets, where covered)

In addition to our rating and due diligence process, we also reference RI and stewardship in our contractual terms with managers. For example, we cite our commitment to the TCFD and the 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 stewardship and RI issues to support USS analysis or reporting. In 2022, we strengthened our request for underlying-portfolio-company ESG and climate-related data within our private market funds' side letters, pointing to the ESG Data Convergence Initiative (see Principle 2) for suggested metrics, plus additional climate-related disclosure aligned with TCFD and our net zero ambition. We also encouraged the use of standardised data platforms and participation in industry initiatives. Furthermore, we added a clause requesting excuse rights in private market funds (see page 40). Whilst we have not always been successful in achieving the proposed template wording, our negotiations and starting position send a strong signal to managers, emphasising the importance placed on RI considerations by the scheme.

Tailoring due diligence to specific asset classes

Our due diligence varies across asset classes in line with the specific attributes of those asset classes or fund strategy.

In private markets (for example, private equity funds), we are 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 the manager's policy and processes and, where possible, case studies from previous funds. We 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 to meet our expectations.

We review Global Real Estate Sustainability Benchmark (GRESB) reports, where available, which provide detailed assessments and benchmarks for property or infrastructure funds (and assets). For new funds, or where GPs have yet to adopt GRESB benchmarks as standard, we have successfully encouraged participation in GRESB as part of our due diligence and on-boarding.

Ongoing monitoring and review

Our monitoring of external managers does not stop post-investment. 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 are tailored to the mandate, asset class and our RI rating for the fund. For example, for funds investing in public markets, we review stewardship and impact publications, voting records and stakeholder reviews, company engagement case studies or progress updates on ESG integration.

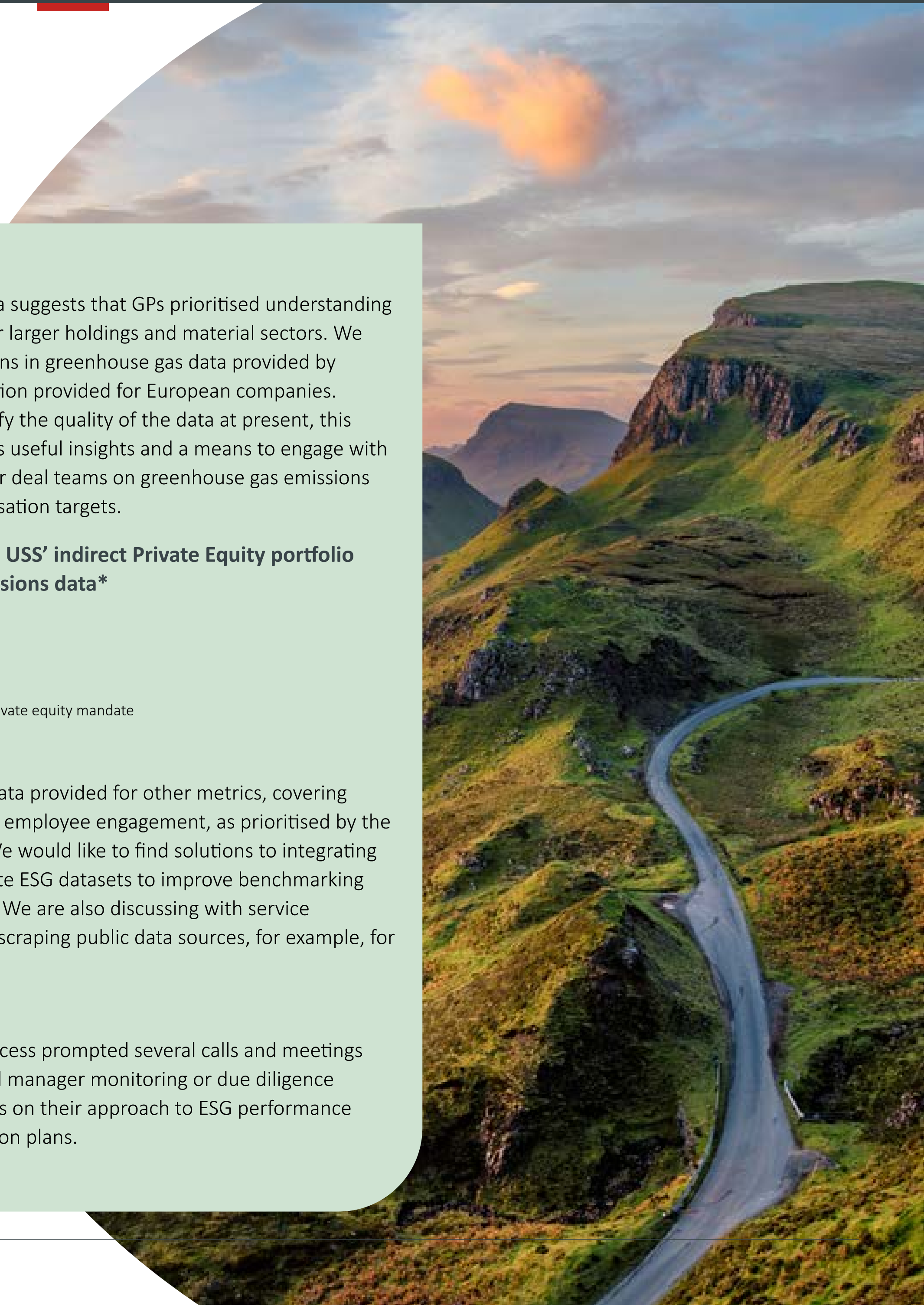
If a fund receives a weak rating, we will typically escalate our engagement, with additional research and meetings, often including senior management, to discuss our concerns and steps that might be taken to improve RI performance.

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

Co-investments with private equity GPs

We have sought to integrate co-investment due diligence into our private markets' manager monitoring, as such deals offer real-time case studies to evidence ESG policy implementation and ESG integration. We use the SASB standards to inform our due diligence and S&P Trucost data to estimate carbon intensity for proposed investments. We have developed checklists to consider physical and transition risks in our due diligence. See, for example, the Climate Risk Framework in Principle 7.

Whilst we will continue to place strong reliance on the General Partner to identify and manage ESG risks and opportunities for co-investments, alignment to net zero and ESG risk management form an important component of all our co-investments.



Case study: Establishing an ESG data collection process

Unlike in public markets, the collection of underlying portfolio company financial and ESG data in private markets is dependent on bespoke contractual arrangements. Throughout 2023 we worked with our private equity, private credit and corporate infrastructure fund manager to establish a process for sharing ESG data on underlying portfolio company holdings.

Several GPs have joined the ESG Data Convergence Initiative (EDCI), which is governed by a steering committee comprising representatives from both the GP and LP community, including several of our GP fund managers. USS has adopted the EDCI data collection template to streamline the selection of ESG metrics and ESG data collection for managers and service providers. The EDCI runs an annual process to agree priority key performance indicators for benchmarking private equity company ESG performance.

We trialled data collection in Q1 2023 and extended this to all core funds, requesting EDCI portfolio company data for year ending December 2022 in Q4. Whilst the data coverage from portfolio companies was very patchy, the majority of USS's managers were able to report on some ESG metrics within their corporate portfolios.

Greenhouse Gas Emissions Data

The priority use-case for EDCI data is to enhance the quality of our carbon footprint analysis for climate reporting and portfolio analysis- a commitment made in our 2023 TCFD Report.

The first year of EDCI data collection has provided promising results with over 46% of companies (by NAV) in our indirect Private Equity mandate, and 76% in our Sustainable Growth (by NAV) mandate reporting emissions data.

Analysis of the reported data suggests that GPs prioritised understanding the emission profiles of their larger holdings and material sectors. We note the geographic variations in greenhouse gas data provided by the GPs, with more information provided for European companies. Whilst we are unable to verify the quality of the data at present, this preliminary analysis provides useful insights and a means to engage with our managers and within our deal teams on greenhouse gas emissions performance and decarbonisation targets.

Geographical variations in USS' indirect Private Equity portfolio companies reporting emissions data*

48% Europe including UK
27% North America incl US
82% Asia PAC

*calculated using USS NAV; indirect private equity mandate

Other ESG Data

We have yet to review the data provided for other metrics, covering health and safety, ED&I, and employee engagement, as prioritised by the EDCI Steering Committee. We would like to find solutions to integrating the data with wider corporate ESG datasets to improve benchmarking and drive ESG performance. We are also discussing with service providers enhancements to scraping public data sources, for example, for emissions.

Engaging with our GPs

The EDCI data collection process prompted several calls and meetings with GPs (beyond the typical manager monitoring or due diligence processes) providing updates on their approach to ESG performance monitoring and data collection plans.

Principle 9: Engagement

Principle 9

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

We expect each board to monitor progress over time, including reducing its environmental impact, lowering its operational costs and improving its financial performance.

Taking an active approach to engagement

We believe that active engagement can help to prevent, or avoid, value destruction and reduce the negative impacts companies can have on the environment and society.

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.

Case study: Engaging with CEMEX

We are one of two co-lead investors engaging with CEMEX, a global cement producer, as part of CA100+. The cement sector is highly carbon intensive, with 60-70% of the sector's CO_2 emissions coming from the chemical processes associated with producing cement. To meet its 2050 target, CEMEX is dependent on alternative technologies such as carbon capture, utilisation and storage, and the use of hydrogen as a fuel source; it is looking at solar and wind for its kilns and biomass for waste. In addition, the company's headquarters are in Mexico, and it has faced the dual challenges of a lack of government commitment to the energy transition and renewable energy being costed at a premium.

CEMEX is reliant upon the concrete, a process that over time allows concrete to absorb up to approximately 20% of its production of CO_2 emissions.[4] USS has several concerns regarding this as recarbonation rates are greatest only on demolition and pulverising of the concrete to increase the surface area for reabsorption.

We met with CEMEX in Q1 2023 to discuss the progress made on its net zero goals, including reducing emissions by 9% in the last two years, increasing utilisation of alternative fuels to 35% of its needs (29% in 2021) and obtaining SBTi validation on their net-zero goals (2030 and 2050). The company expects to reach its 2030 interim target five years earlier than scheduled, investing about USD 150 million a year in capital expenditure to achieve these goals. There is an expectation that the group will need to embark on more significant capital projects to achieve its 2050 target given its dependence on the alternative technologies mentioned above to reach its 2050 target.

CEMEX has established a sustainability-linked financing framework and a proportion of their bank debt (c.US$4 billion) is linked to three climate KPIs:

- To reduce Scope 1 and Scope 2 CO_2 emissions to 564 kg by 2025, 513 kg by 2027, and below 454 kg by 2030 per ton of cementitious product (against a 1990 baselining of 869 kg and 615 kg at FY22).
- To reduce Cemex's clinker factor to 68.0% (from 73.7% at FY22).
- To achieve an alternative fuels rate of 55% by 2030 (from 35% at FY22).

[4] Cement recarbonation refers to the process where part of the CO_2 emitted during cement production is re-absorbed by concrete in use through carbonation. See Cement recarbonation | European Circular Economy Stakeholder Platform (europa.eu) for more information.

Investment Approach continued

Case study: Ultratech Cement Ltd

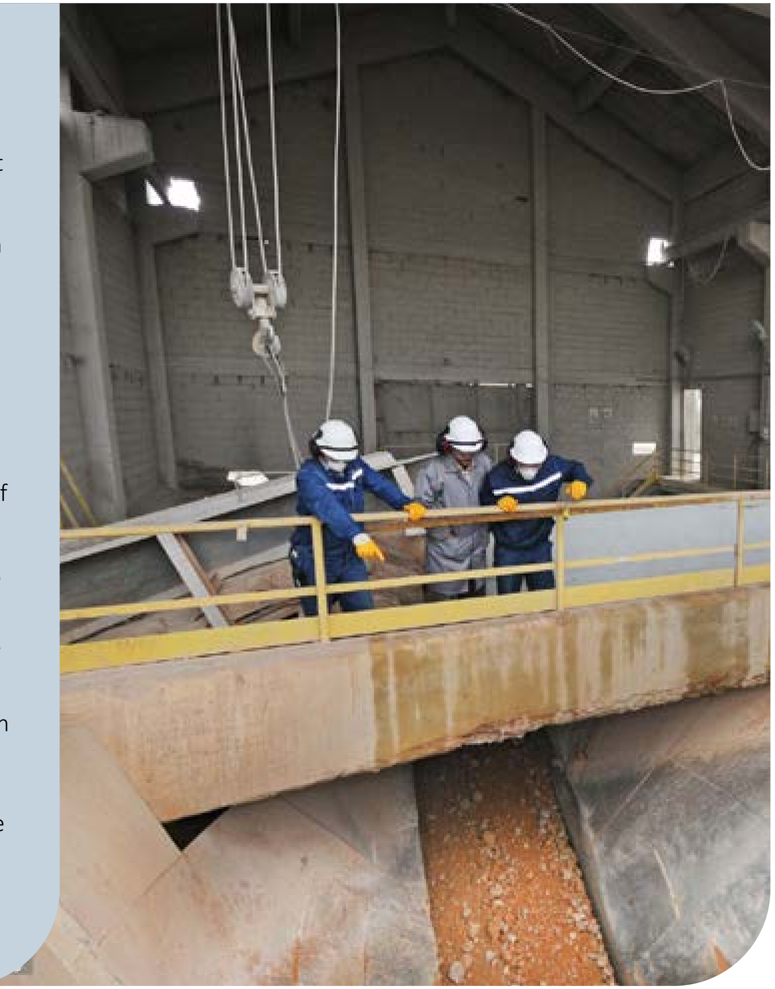
Ultratech is the largest cement company in India, with a current production capacity of 132MT, expected to expand to 181MT by 2028 and to over 200MT by 2031. We were keen to understand its decarbonisation strategy given the high greenhouse gas (GHG) emissions incurred through the cement manufacturing process and have engaged with them and monitored their progress since 2022.

Ultratech intends to reduce its Scope 1 GHG emissions intensity by 27% (from a 2017 baseline of 632kg to 461kg per tonne of cement produced), and Scope 2 GHG emissions by 69%, both by March 2032. The company has joined RE100[5] committing to 100% renewable energy usage by 2050 and targeting a green energy mix of 34% by March 2024 (not yet reported), but they were only at 24% by December 2023. Ultratech has defined additional targets for a green energy mix of 60% by March 2026 and 85% by March 2030.

Ultratech continues to demonstrate a positive emissions reduction trend, and at our recent engagement with them, highlighted the following:

- An increase in the share of green energy with solar capacity to now over 148 MW.
- Waste heat recovery (WHRS) power projects have reached an installed capacity of 210MW, with plans to further scale capacity aggressively. 45MW has been added in the current financial year, so there is evidence they can meet this.
- The company has improved its cement-to-clinker ratio from 1.3x in 2017 to 1.4x in 2024. A higher cement-to-clinker ratio leads to lower GHG emissions, and this ratio is a management KPI. The 462kg per tonne of cement intensity target will see this ratio increase to 1.5x.
- Management has stated that the 462kg/tonne GHG emission intensity target is based on a 2°C objective. In financial year 2025, Ultratech expects a further extension of its targets to a 1.5°C basis.
- From the 2017 baseline to date, the firm has achieved a 12% reduction in Scope 1 emissions since 2017, making progress on their target of a 27% reduction required to meet net zero.

As well as making progress on the above, Ultratech relies on plant design and construction efficiencies and the use of carbon capture utilisation storage (CCUS), both predominant drivers of decarbonisation after 2030. We continue to engage with management on new technology developments and encourage them to reach their longer-term net zero goals.



[5] A global corporate renewable energy initiative bringing together large and ambitious businesses committed to 100% renewable electricity.

Engagement tools

We use a variety of engagement tools, including one-on-one engagement, collaborative engagement (see Principle 10), filing, co-filing, or submitting shareholder resolutions or proposals, public engagement (e.g., open letters), voting, and divestment. USS may also utilise the filing, co-filing, or submitting of shareholder resolutions or proposals. The specific strategies we use, and engagement escalation (see further details in Principle 11) depends on the issues in question, the influence available to us, and the characteristics of the investment (e.g., lock-in periods, liquidity).

With our holdings in passive funds, which tend to have larger and therefore more diverse portfolios, we participate in a broad range of collaborative engagements (see Principle 10). This also supports our engagement on systemic risk issues.

Engagement meeting notes and voting letters for publicly listed companies are shared systematically internally with portfolio managers via the Research Management Notes (RMN) function on Bloomberg which offers greater functionality and improved access to data. RMN 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. Voting records and engagement notes are also included along with investment cases and decision notes. ESG has been integrated into the initial investment case, to enable material financial ESG factors to be considered, and any important questions are raised and addressed through engagement with the company.

While the discussion in this section has focused on listed equity and credit, we engage across all of our asset classes (see the examples throughout 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 also engage with policymakers on key issues (see Principle 4). Finally, and as noted earlier, our board seats at direct assets give us greater access to information on management issues including ESG risks and more direct influence of 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.

Case study: Co-investment in A-Gas with TPG Rise Climate

In early 2024, USS closed a co-investment with TPG Rise Climate for A-Gas, the global market leader in life cycle management for refrigerant gases, used in the heating, air conditioning, fire suppression and specialty chemicals industries. This is USS's fourth co-investment with TPG Rise Climate to date. A-Gas represents the first true "brown to green" transition investment in our Sustainable Growth Mandate to help enable a faster and more robust energy transition. TPG invested around $535m into the business for a 57% stake alongside existing owners KKR (37%) and management (6%) in December 2023. USS were approved for a $25m co-investment.

Refrigerants are heavily regulated due to their potential to be highly damaging to the environment and certain gases have been subjected to production quotas and bans on virgin production. A-Gas operates in the F-gas reclaiming market, whereby they recover and reclaim used refrigerant gases to either recycle and return to users or destroy (and generate voluntary carbon credits).

This reclamation and recycling model will gain greater importance given these quotas and restrictions alongside anticipated underlying market growth. The business reclaim technology is critical in green transition efforts, supporting greenhouse gas emissions reduction. A-Gas has committed to a 50% reduction in emissions by 2028 and to be net zero by 2035.

Investment Approach continued

Case study: Redexis navigates the energy transition

USS has been invested in Redexis, an integrated energy infrastructure company active in the transmission and distribution of natural and liquified petroleum gas, since 2010. Together with other shareholders, we have been engaging with and supporting the company in navigating the energy transition. Redexis has announced that it will boost its production of biomethane, a renewable natural gas produced from the breakdown of organic matter, to support its decarbonisation journey. Its new biomethane plants will produce 80 GWh of biomethane per year, enough to supply around 17,000 homes.

In 2023, Redexis completed its first biomethane injection point which will support Biolvegas, a biogas plant for waste recovery that, once upgraded, will produce 38GWh of biomethane per year, equivalent to the annual gas consumption of 8,100 households and contributing to a reduction of 11,500 t CO_2e. It also acquired two biogas production plants that, once upgraded and subject to the optimisation of feedstock, will be able to generate a total of over 60 GWh per year which could supply more than 10,000 homes.

By 2030, the company will produce 2 TWh of biomethane per year, which will save more than 260,000 tonnes of CO_2 equivalent annually. Our investment in Redexis is an important part of our own path to achieving net zero for our portfolio and driving real-world change.

Principle 10: Collaboration

Principle 10

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

"Collaboration adds weight to individual company engagements and to addressing market-wide systemic challenges."

Collaboration is key

We believe that meaningful investor collaborations are key to stewardship success. Our interests can be furthered by collaboration with like-minded investors and engagement with government, industry, and regulators (read more in Principle 4). Collaboration adds weight to individual company engagements and to addressing market-wide systemic challenges. 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 have been 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 RI initiatives, and to addressing systemic barriers to integrating ESG issues in investment. For example, we were co-founders of the IIGCC (2001) and GRESB (2009) and were founder signatories to the PRI in 2006 and the TPI in 2017. We remain active in a wide range of RI, and stewardship collaborations. See pages 46-47 for a list of our main collaborative memberships and engagements.

Case study: Mining as a systemic risk

To achieve net zero by 2050, a significant shift to cleaner technologies is needed. Many of these technologies depend upon the availability of metals in ever-increasing quantities. The exploration and extraction of existing and new mineral resources by mining companies is therefore critical.

The mining of metals and minerals involves material environmental risks. For example, extracting ore bodies, a natural rock that contains minerals or metals, with low amounts of metal contained per weight of rock results in more waste rock, or tailings, which are often stored in tailings storage facilities (TSF), which are meant to retain them indefinitely.

In 2022, we amended our voting guidance to vote against management where a mining company has not disclosed an inventory of its TSFs or an indigenous rights policy. An assessment of our mining holdings showed that all now disclose schedules of their TSFs and policies relating to indigenous rights.

USS continues to support the Mining 2030 initiative convened by the Church of England Pensions Board, which built upon the establishment of a Global Industry Standard for Tailings Management (GISTM).

Investment Approach continued

Examples of Memberships and Associations (illustrative)

ACGA	**Asian Corporate Governance Association (ACGA)**	Works with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.
CDP DISCLOSURE INSIGHT ACTION	**CDP**	To get companies to disclose their decarbonisation strategy and carbon data through the CDP framework.
CUOI	**Cambridge Universal Ownership Initiative**	Group of Universal Owners focused on addressing macrosystemic issues, including antimicrobial resistance (AMR).
THE INVESTMENT ASSOCIATION	**Investment Association (IA)**	Trade body representing investment managers and investors in the UK.
ICGN International Corporate Governance Network	**ICGN**	Advances corporate governance and investor stewardship standards worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment.
IIGCC The Institutional Investors Group on Climate Change	**IIGCC**	Focused on bringing the investment community together to make significant progress towards a net zero and climate-resilient future by 2030, in line with the goals of the Paris Agreement.
UKSIF UK Sustainable Investment and Finance Association	**UK Sustainable Investment and Finance Association (UKSIF)**	A UK membership organisation committed to the development of sustainable and responsible finance and investment.
PRI Principles for Responsible Investment	**PRI**	A UN-supported network of global investors working to promote a sustainable global financial system by encouraging the adoption of six RI principles.

Collaborative engagements:

Examples of collaborative engagements include:

Mining 2030 (with UNEP):

Global commission to oversee the mining industry that considers issues relating to systemic risks (for example artisanal mining, indigenous communities); supply (recover/circular economy, deep sea mining, impact on geographies); and drivers (finance, corporate and government). See the case study on page 45.

Emerging Markets Just Transition Investing Initiative:

Existing investor frameworks for the global climate transition do not cover a large part of the emerging market sovereign and corporate universe. This initiative was created to accelerate investment into net zero transition of Emerging Markets and Developing Economies (EMDEs) where the financing gap is widest.

FAIRR Initiative on Antimicrobial Resistance:

Raises awareness of the ESG risks and opportunities brought about by intensive livestock production. See box on next page.

Nature Action 100+:

Global investor engagement initiative focused on driving greater corporate ambition and action to reduce nature and biodiversity loss.

Rathbones:

Votes Against Slavery: Encourages UK-listed companies to comply with the Modern Slavery Act and to address slavery in their supply chains.

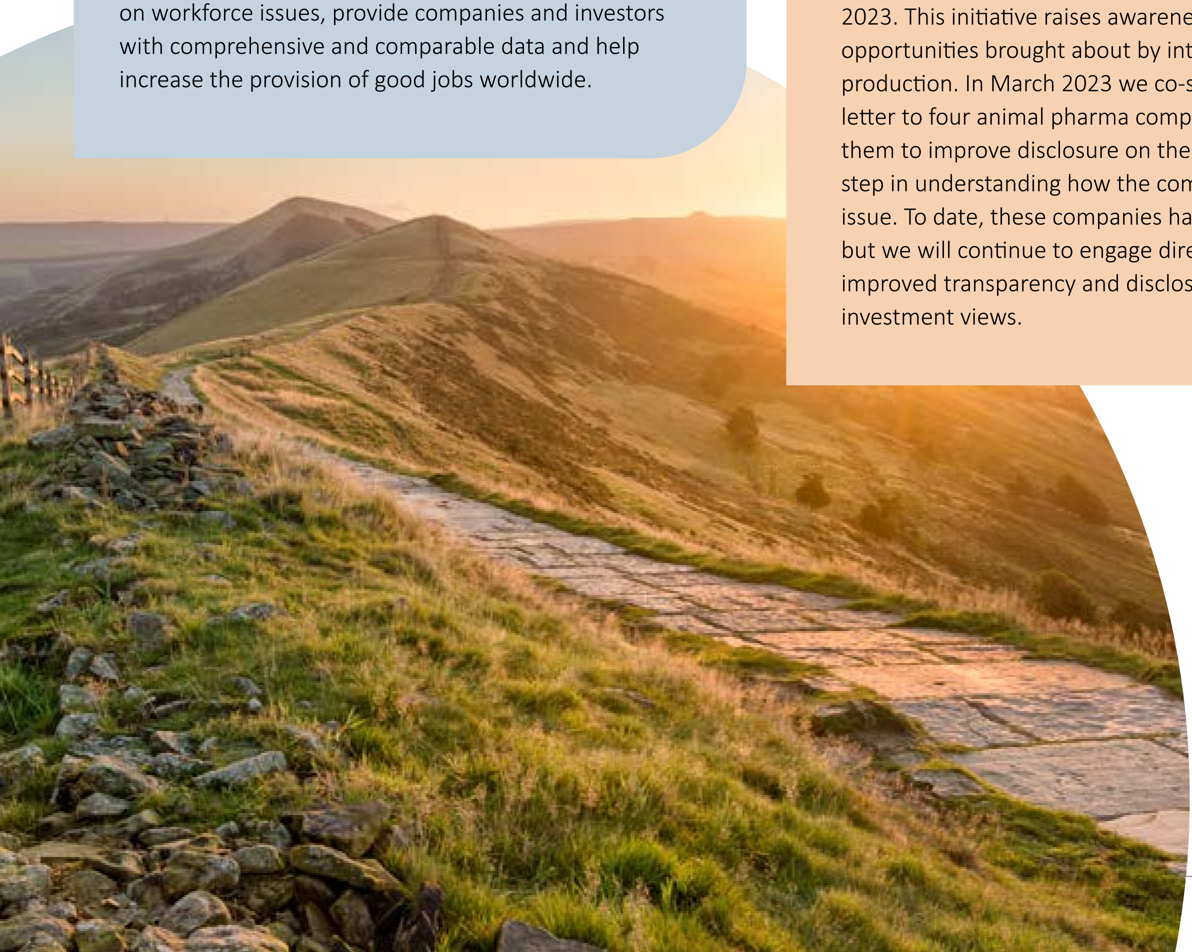
Sarasin Partners/ IIGCC:

Paris-aligned net zero accounting: Investor initiative to get companies to take climate change into account in their financial statements.

Swedish Council on Ethics:

Big Tech: Encourage companies to act responsibly regarding content moderation the protection of vulnerable people.

Investment Approach continued



Workforce 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.

FAIRR Initiative on Antimicrobial Resistance

USS has been supporting the FAIRR initiative since 2023. This initiative raises awareness of the risks and opportunities brought about by intensive livestock production. In March 2023 we co-signed a FAIRR-led letter to four animal pharma companies requesting them to improve disclosure on their AMR; the first step in understanding how the companies assess the issue. To date, these companies have not responded, but we will continue to engage directly to advocate for improved transparency and disclosure to inform our investment views.

Climate Action 100+

CA100+ is an investor-led collaborative initiative, working to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Following consultation with signatories, the initiative has been extended to 2030. A new phase of work started in June 2023 with the introduction of additional metrics including just transition and updated goals. USS used the launch of this new phase as an opportunity to join the lead group of investors in collaborative engagements with companies including Grupo Mexico, Petrobras, Nestle and Colgate-Palmolive. The purpose of the collective engagement is to work constructively with these companies to encourage them to develop and implement transition plans that support investor decision-making.

We hope to include further examples in our reporting of outcomes of collaborations in future years. 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 challenge managers if we feel that they are not delivering on their stewardship commitments.

A proactive and constructive approach

As active owners and stewards, our default position is to support the board and management of the assets we invest in. We engage in active dialogue with senior management, boards and operational specialists within businesses. The focus of our stewardship is twofold: to understand how the businesses we invest in manage their stakeholders and to drive change and positive outcomes where we identify business challenges. Where we identify material business challenges and see the need for stewardship escalation, we may use one or more of the investor tools at our disposal including face-to-face meetings, calls, written communication, collaboration with other investors and, in certain circumstances, filing or co-filing shareholder resolutions. We reserve the right to divest where engagement has been ineffective, has not achieved the desired outcome, and the investment continues to face significant ESG issues that remain unresolved.

One example of stewardship escalation in 2023 was our participation in an investor coalition led by Rathbones on modern slavery. Modern slavery is a crime and a violation of fundamental human rights. We are a long-term, responsible investor and we view the tackling of modern slavery and human trafficking as fundamentally important. We consider financially material environmental, social and governance (ESG) issues when we invest and are an active owner of our assets, using our influence as a major institutional investor to promote good ESG practices. We take our obligations under the Modern Slavery Act 2015 very seriously. Our Supplier Code of Conduct aims to hold our supply chain accountable.

Votes against Slavery: voting against management

The purpose of the engagement led by Rathbones was to ensure FTSE350 companies are compliant with Section 54 of the Modern Slavery Act. We met with management teams to discuss non-compliance with the aim of improving disclosures ahead of general meetings as well as to understand the broader challenges of identifying material human rights risks within operational businesses. Where we considered companies to be non-compliant, we exercised our shareholder voting rights and voted against management and followed up with a letter to the Chair outlining our vote rationale.

Meeting with the Chair, Senior Independent Director or Independent Directors

In December 2023, following our vote against management due to the roll-back on the company's climate commitments at the BP AGM (for further details see Significant Votes in Principle 12), USS, as part of a coalition of UK investors, met with the Chair of BP. Concerns were expressed about the company's climate commitments for 2030, and the recruitment of a new CEO. The Chair provided an assurance that it was a priority for the incoming CEO to support BP's commitment to the energy transition. We will continue to engage collectively, following the appointment of the new CEO, to ensure that BP continues to focus on achieving its Paris-aligned medium-term targets.

Engagement with market regulators

USS met with the National Stock Exchange of India (NSE) and the Securities and Exchange Board of India (SEBI, the capital markets regulator). This was part of a collective engagement effort with other investors, organised by the Asian Corporate Governance Association (ACGA), where we raised market-level corporate governance concerns. As part of this engagement, we discussed the composition of boards and their committees, the combining of CEO and Chair roles, related-party transactions and controlling shareholders' ability to vote on their own remuneration. The NSE and SEBI accepted that market practices could be improved and explained that they intend to make incremental improvements. It was also explained that market-wide improvements of ESG disclosures will be achieved via the implementation of the regulator's Business Responsibility and Sustainability Reporting (BSRS) regime. Finally, we learnt that SEBI is also investigating ways to better protect retail investors in India.

Filing shareholder resolutions

The filing of shareholder resolutions at UK-listed companies by institutional investors is recognised as an under-utilised escalation tool owing, largely, to technical hurdles that need to be overcome. USS was part of an Investment Association (IA) working group that developed UK investor guidance on how to effectively requisition shareholder resolutions. The guidance, which was published in June 2023, provides institutional investors with an overview of the key steps required to successfully file a shareholder resolution at a UK-listed company. The IA intends for this guidance to encourage institutional investors who have not succeeded in bringing about behavioural change from companies following standard engagement and escalation activities to consider and have more confidence in filing a requisitioned resolution at the company, where appropriate.

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 manager monitoring process. We challenge managers if we feel that they are not delivering on their stewardship commitments. We challenge them if they are not delivering on their commitments, and we can express our concerns in the following ways:

- Placing an external manager on a watch list.
- Engaging the external manager's board or investment committee.
- Reducing our exposure to the external manager.
- Terminating the contract and/or not reappointing the external manager if stewardship failings persist.

Principle 12: Exercising rights and responsibilities

Principle 12

Signatories actively exercise their rights and responsibilities.

When we vote against management at one of our priority holdings, we will write to the company to explain our concerns, provide feedback and encourage change.

Exercising our voting rights: A global perspective

We regard exercising our minority shareholder rights through the exercise of our votes as fundamental to our role as stewards and we aim to vote globally on all the companies in which we invest.

An updated voting policy

USS's Stewardship and Voting Policy is reviewed each year to ensure continued alignment with our beliefs about good practice in line with USS's fiduciary duties. The Stewardship and Voting Policy is supported by USS Voting Guidance. The Stewardship and Voting Policy and the Voting Guidance outline our position on a range of ESG issues and our expectations for investee companies.

The Voting Guidance is based on the UK Corporate Governance Code. We believe that these standards represent good practice for all markets and therefore the guidance applies to both our UK and international public equity holdings. We will exercise discretion when voting in emerging markets to allow for local codes of practice.

We 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. We have updated the scheme's Stewardship and Voting Policy and Voting Guidance to highlight that we will consider voting against individual directors where the company has not addressed specific systemic risks, including but not limited to climate change.

As a specific example, we integrate 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 their greenhouse gas emissions and risks and opportunities related to the low carbon transition. USS may vote against or abstain on the resolution for the (re)election of relevant board members where a company's management quality score fails to achieve a Level 3 score or higher in the TPI's assessment. Where climate change is identified as a material risk, USS expects clear identification of the principal director(s) assigned responsibility for the development and implementation of the company's climate change or net zero alignment strategy and corresponding disclosures.

Abstaining or voting against management

USS's default position is to be supportive of the board and management. However, we will vote against management where we believe that our minority shareholder rights are not being recognised: 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' shareholder meetings. For the 2023/2024 proxy season, we voted at least once against management at 81.5% of meetings.

We believe that the use of voting rights is an effective stewardship tool for achieving positive change. 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.

Our voting process

Prior to the commencement of the proxy voting season, we identify a priority list of companies based upon our active and high-profile holdings. These priority holdings[6] are given additional scrutiny and the vote recommendations are discussed with the relevant portfolio manager, in advance of submitting the vote, thereby taking into account information obtained through engagement and other activities. See more in Principle 7.

We use proxy advisory firms to help inform our voting decisions, as well as outcomes from engagement, discussions with peers, and the views of our in-house expertise within our RI team and wider investment teams. Our voting decisions are tailored to the individual circumstances of the company and focused on the overall improvement of its corporate governance and management of environmental and social issues. Individual vote decisions for priority holdings are reviewed and confirmed by the RI team, working closely with our portfolio managers.

Non-priority stocks, for example those held in our passive funds, are voted on by a dedicated voting analyst at our main proxy research provider in accordance with the USS Stewardship and Voting Policy. The RI team monitors the vote decisions of our external platform to ensure alignment with our policies; and reports voting outcomes to the Audit, Risk and Compliance Committee.

When we vote against management at one of our priority holdings, we will write to the company to explain our concerns, provide feedback and encourage change. For non-priority holdings, we write to the company after proxy season to inform the company that we have voted against it, and the reason for that decision. Voting rationale is explained on our dedicated Voting Disclosure tool on our website.

For our external investment managers, we have included voting in our RI Due Diligence Questionnaire (see Principle 8), and in the Investment Management Agreements (IMAs).

Climate resolutions

In 2023, we saw fewer management resolutions on climate change as compared to previous years. We supported management resolutions that met our key climate criteria and showed alignment with net zero pathways. Overall, we supported 15 of the 21 (ca. 71%) management climate resolutions.

Investors are increasingly focused on credible decarbonisation plans which go further than disclosure of emissions reduction targets. We supported 110 of 113 shareholder proposals related to climate issues, in line with our 2023 voting guidance. We also voted against eleven director re-elections where companies did not have a credible transition plan.

Board diversity

USS has also updated its Voting Guidance on diversity.

We have strengthened our gender diversity expectations for emerging markets by extending the existing gender requirement of at least two women (or those self-identifying as a woman) for large boards to all boards, irrespective of size.

To highlight future gender and racial diversity targets and to reflect an updated “comply or explain” section of the FCA’s listing rules, USS may vote against the Chair / a member of the nomination committee (we will escalate by voting against or abstaining on the Chair of the board) if there is less than 40% female representation (including those self-identifying as women) on the board and the company has not disclosed a timeframe / credible plan for improvement.

Furthermore, we are extending our diversity expectations for the UK initially, where fewer than one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is held by a woman (including those self-identifying as a woman) and the company has not disclosed a timeframe or credible plan for appointment, and where there is no member of the board from a non-white ethnic minority background (as referenced in categories recommended by the Office for National Statistics (ONS)) and the company has not disclosed a timeframe or credible plan for appointment.

[6] Prioritisation for voting and engagement activities is based on the following criteria. For further details see Principle 7:
- The size of our holdings in the entity or the size of the asset, portfolio company and/or property.
- Where we hold the asset internally and actively or in a passive index tracking portfolio.
- Specific ESG factors with systemic influence (e.g., climate or human rights) or systemically important sectors (mining, banking).
- 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.
- The adequacy of public disclosure on ESG factors/performance.
- Bribery and corruption-related issues.

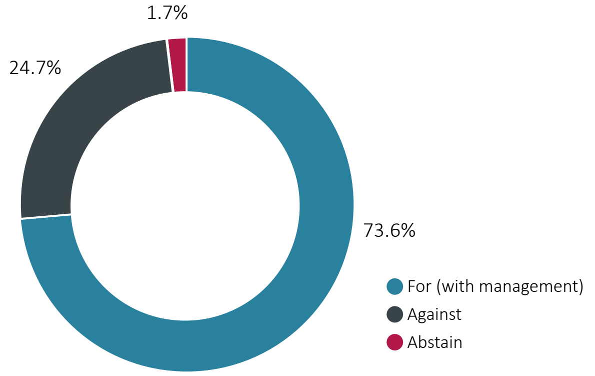
Investment Approach continued

Our voting activity 2023-24

Voting statistics April 2023 – March 2024	Response
How many meetings were USS eligible to vote at?	1,999
How many resolutions were USS eligible to vote on?	29,706
What percentage of resolutions did we vote on for which USS were eligible?	99.9%[7]
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 were eligible to vote, did we abstain from?	1.7%
What percentage of meetings, for which USS were eligible to attend, did we vote against the recommendations of the company's 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[8]

USS global votes on resolutions

April 2023 - March 2024



[7] We were unable to vote one company AGM due to an operational proxy voting issue outside of USS's control.
[8] Our proxy vote agent does not issue its own voting recommendations; it applies the Stewardship and Voting Policy directly on behalf of USS.

Significant votes – examples for period from April 2023 – March 2024

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
23/05/2023	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	Resolution 13 – Against Resolution 14 – Against Resolution 25 – Against Resolution 26 – For	After careful consideration and noting Shell's net carbon 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 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 proposal was in the best interests of shareholders and therefore supported it. While Shell already met some requests of the shareholder resolution, it underlined USS' wish the 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 carbon intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.	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%)	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 & 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 expects to continue engaging with Shell, with the backing of other investors, to seek constructive and positive change. 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 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 to be net zero by 2050. To achieve this, USS will require 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 is 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.

Investment Approach continued

Significant votes – examples for period from April 2023 – March 2024

BP 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
27/04/2023	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	Resolution 4 – Against Resolution 25 – For	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 carbon 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 carbon intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.	Resolution 4 passed – For 90.2%, Against 9.6% (Abstain 0.2%) Resolution 25 defeated – For 16.3%, Against 81.2% (Abstain 2.5%)	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 the re-election of directors where we have concerns with management of material issues, so we consider a 10% vote against Mr Lund to be significant. (Over the last three years, average votes against directors at BP have 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.	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, 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 would be washing our hands of our responsibilities as a global investor.

Significant votes – examples for period from April 2023 – March 2024

Electric Power Development Co.

Date of AGM	Summary of Resolution	Vote	Rationale for Vote	Vote Outcome	Implications of the outcome	Criteria selected for this vote to be significant
28/06/2023	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	Resolution 8 – For Resolution 9 – For Resolution 10 – For	Electric Power Development (known as J-Power) operates Japan's largest coal fleet and derives more than 40% of its operating revenue from coal. Whilst 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.	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	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.	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 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.

Significant votes – examples for period from April 2023 – March 2024

Glencore 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
26/05/2023	Resolution – 13 To approve the Company's 2022 Climate Progress Report Resolution – 19 To approve the Climate Action Transition Plan	Resolution 13 – Against Resolution 19 – For	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. We did not consider the transition strategy credible with regard to its projected thermal coal production exposure and capital expenditure.	Resolution 13 passed – For 68.2%, Against 29.6% (Abstain 2.2%) Resolution 19 failed – For 28.8%, Against 69.9% (Abstain 1.2%)	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 was 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, an increased opportunity for Glencore to understand investors' concerns, particularly on the coal strategy is welcome.	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

USS For members, for the future.

For further information on responsible investment and stewardship at USS, please contact:

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