



Voting Guidance 2024

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1 General Principles

- The following guidance document outlines USS's environmental, social and governance position and approach to voting on the agenda items that are frequently proposed at UK shareholders' meetings. This policy should assist company directors, investment managers and service providers to understand our views on these issues.
- Whilst our voting policy is built around good practice for UK companies, we believe that these standards represent achievable good practice in all markets and as such this policy applies to both our UK and international public equity holdings. Some leniency may be used when voting emerging market issuers, to allow for local codes of practice and cultural differences.
- USS aims to take an informed and pragmatic approach to voting, giving due consideration to the specific circumstances and facts available before confirming the scheme's vote decisions.
- Individual votes and recommendations aim to improve the overall corporate governance of the company. This policy is therefore not applied rigidly, and discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, i.e. the overall improvement of the company's corporate governance, environmental and social practices. On most actively held positions, final vote decisions are made at USS Investment Management Limited by the Responsible Investment team, in consultation with the relevant portfolio manager, taking into account the company's position, third-party research and advice, as well as engagement with the company.
- USS will consider any engagement undertaken with the company, and, where the company has been non-receptive, may consider voting against any relevant agenda items pertaining to the reason for the engagement. In the majority this would be the members of the Sustainability Committee or its equivalent.
- USS may escalate the vote by voting against additional relevant resolutions or individual directors, if concerns raised in previous years, have not been addressed in the current year.
- As a universal owner of assets, with an investment horizon stretching many decades, we recognise that the scheme is exposed to certain market wide or systemic issues, such as climate change, a Just Transition, forced labour and workforce health and safety. We support engagements that aim to make improvements in areas contributing to these systemic risks, such as material human and natural capital disclosure, for example through the Workforce Disclosure Initiative (WDI) and the Carbon Disclosure Project (CDP) frameworks and tailings and dam management in the mining sector. USS may use our voting rights to reinforce stewardship activities that we consider address material systemic risk.



2 Support for the UK Corporate Governance Code

- USS supports the principles of the UK Corporate Governance Code (the Code) and expects UK listed companies to comply with the spirit of the Code.
- USS's UK Voting Policy focuses on issues either not covered by the Code, or areas in the Code that require greater emphasis or clarification of USS's position in relation to typical voting resolutions.
- USS supports companies using the flexibility provided within the UK Corporate Governance Code to highlight alternatives to complying with individual provisions and explain their rationale. In line with the European Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting, we consider an *appropriate explanation* should explain how the company has departed from a recommendation, describe the reasons for the departure, describe how the decision to depart from the recommendation was taken within the company, and explain when the company envisages complying with a particular recommendation.

3 Shareholders' meetings

USS expects companies to adhere to governance best practice and considers the following areas to be of particular importance at the Annual General Meeting (AGM):

- Companies should not impede physical shareholder attendance at general meetings. A "virtual" (online) AGM should not be held without offering a physical AGM where the company's board, executives and shareholders attend in person.
- As per the UK Companies Act, AGMs should be conducted using poll voting on all agenda items with the results appropriately disclosed.
- USS may not support resolutions where separate matters for consideration have been bundled under a single resolution.
- Companies listed on the main market of the London Stock Exchange, but incorporated outside of the UK, will be expected to adhere to the Code and the policy herein.
- Meeting materials (notice of meeting, proxy card and annual report) should be published sufficiently ahead of the meeting to enable shareholders to vote in an informed manner. USS may abstain or vote against where there is insufficient information available to make an informed voting decision.



4 Voting matters

4.1 Reception of the annual Report and Accounts

The Chair of the board and Chair of each committee are expected to prepare and sign a report to shareholders published within the annual Report and Accounts.

- A separate resolution proposing the reception of the annual Report and Accounts (or equivalent) should be tabled at all annual general meetings.
- USS may vote against or abstain on this resolution where we have persistent concerns about a company's governance, accounting policies, business strategy, audit quality, or actions of the board, or where the company has not been receptive to persistent efforts at engagement on matters USS considers material to the company.

4.1.1 Approval of dividends

- Companies are encouraged to put the final dividend to a shareholder vote at the annual general meeting.
- All distributions from company profits should be transparent and accountable to shareholders.
- Where USS has concerns regarding capital allocation decisions or the dividend policy of a company, it may be appropriate to register concerns when voting this resolution.

4.1.2 Political donations & corporate memberships

- USS may vote against or abstain on the resolution to receive the report and accounts (or equivalent) where the company makes political donations out of corporate funds.
- USS will support resolutions requesting to undertake EU political expenditure under the Political Parties, Elections and Referendums Act 2000.
 - EU political expenditure is widely defined in this regulation and might unintentionally capture organisations concerned with policy review or law reform.
 - It is expected the authority will be for a relatively minimal amount and be renewed on at least a triennial basis.
- Where a UK company operates a Political Action Committee (PAC) for a US subsidiary, we would expect to receive assurance of appropriate controls between the PAC and the corporate.
- USS may vote against or abstain on the resolution to receive the report and accounts (or equivalent) or individual directors if we believe the company is a member of any organisation whose objective we consider is counter to the long-term success of the company or promotes a position misaligned with the company's license to operate.



4.2 Boards of directors

USS expects companies to meet with the following requirements, non-compliance may result in a vote against management:

- The composition of the board of directors should be publicly disclosed.
- A majority of the board should be composed of independent non-executive directors.
- The Chair and the CEO have two different roles which require different skills. Therefore, they should be separated.
- The Chair should be independent on appointment. Where this is not the case, we expect the board to be 50% independent at a minimum.
- All directors should be able to allocate sufficient time to the company to discharge their duties alongside their other commitments. Whilst we review this on a case-by-case basis, we will further review cases where a director holds more than four mandates (where a Chair's role is generally considered as counting for two). The number of meetings attended by each director should be disclosed in the annual report. Instances of poor attendance should be explained. Unless we receive an appropriate explanation from the company, USS will be minded to vote against a director who failed to attend at least 75% of board and committee meetings or who has considerable work commitments that might prevent him/her from devoting sufficient time to the role at the company.
- USS does not support the appointment of substitute directors or corporates to the board.

4.3 Director (re-)elections

4.3.1 Environmental & social reporting and board oversight

USS considers the disclosure of a company's environmental and social policies, strategies, and performance permits investors to build a more complete picture of the quality of a company's board and management, and sustainability of the business. The reliability, comparability, materiality, and relevance of the environmental and social information disclosed by companies is fundamental to this process.

USS promotes board oversight and high-quality disclosure and performance management of environmental and social issues through engagement with companies and the scheme's voting activities. USS expects all companies to disclose information on their exposure to, and management of, key environmental and social risks. USS may vote against the resolution for the (re)election of relevant board or committee members where:

- The company's environmental or social performance and/or disclosure falls short of standards expected by USS.



4.3.1.1 Selected systemic risks

Climate change

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. We particularly expect companies in high-emitting sectors, or sectors exposed to climate risks, to have their own transition plans. When considering whether to support company 'Say on Climate' resolutions, climate-related shareholder resolutions or director elections, we have developed a set of expectations against which we assess climate plans, recognising that Net Zero pathways look different for different sectors¹. We use various investor-led benchmarking tools, including Transition Pathway Initiative (TPI) and the Climate Action 100+, to help with the assessment and we encourage companies to meet the CA100+ indicators. USS supplements TPI analysis with other external data sources, including the CA100+ benchmark, as well as internal carbon foot printing and Net Zero company assessments.

USS may vote against the resolution for the (re)election of relevant board or committee members where:

- There are concerns about a company's management quality (MQ) score, as assessed by the Transition Pathway Initiative² (TPI). This would equate to a MQ score of zero, one, two or three. Companies with a score of less than four are either unaware of their climate impact, not doing enough to address it or are still at an early stage of integrating climate considerations into their operational decision making.
- The company's MQ score is above three but there are concerns about the alignment of company targets with the UN Paris Agreement goals, as assessed by the Transition Pathway Initiative (TPI). This would equate to a MQ score of four or above and the carbon performance (CP) test not showing alignment with either the sector-specific 1.5 Degrees, Below 2 Degrees or 2 Degrees benchmark scenario.
- There are concerns whether a high-risk company's financial statements (including the notes thereto), and the auditor's report thereon, reflect consideration of the effects of climate risk and the global move onto a 2050 (or sooner) Net Zero GHG emissions pathway and the UN Paris Agreement goals.
- There are concerns about a high-risk company's disclosures on direct and indirect climate lobbying activities or the real-world alignment of company climate policy engagement actions (direct and indirect via their industry associations) with the UN Paris Agreement goals.

¹<https://www.uss.co.uk/-/media/project/ussmain/site/files/how-we-invest/tcf-report-2023.pdf>

²<http://www.lse.ac.uk/GranthamInstitute/tpi/the-toolkit/>



- No director or board committee Chair has been assigned clear oversight of the company’s climate change strategy and climate change has been identified as a material risk (irrespective of how the company performs on the above criteria).

Biodiversity and natural capital

Biodiversity ensures the resilience, productivity and stability of the natural capital that provides the ecosystem services necessary for the global economy and more broadly for life on Earth. The World Economic Forum estimates that more than half of the world's GDP is highly or moderately dependent on the proper functioning of nature and its web of ecosystems³. As changes in nature can affect enterprise value and generate financial risks and opportunities, it is increasingly important for an universal investor, like USS, to understand the extent to which the companies we invest in are managing the risks posed by the degradation of nature, including biodiversity loss, and what investee companies are doing to conserve the ecosystems they depend on. We will use both engagement and voting as tools to encourage companies to assess, report and act on their nature-related dependencies, impacts, risks and opportunities.

USS expects companies with land-based value chains, operating in high biodiversity impact sectors, to disclose deforestation policies for all material commodities they are exposed to with evidence of how they are implementing them throughout the supply chain.

USS may vote against the resolution for the (re)election of relevant board or committee members where:

- There are concerns about the management of a company’s deforestation risk, as assessed by the Global Canopy’ Forest 500 ranking⁴. This would equate to a forest risk commodity score of zero, one or two.

Antimicrobial Resistance

Antimicrobial resistance, or ‘AMR’ as it is commonly known, occurs when bacteria no longer respond to the antibiotics used to treat them. AMR occurs naturally but is accelerated by overuse and misuse of antibiotics in humans and in animal production systems. The World Health Organisation (WHO) has named AMR as one of the top 10 global health threats⁵. Today, over 1.2 million deaths per year are attributed to antibiotic-resistant infections⁶ and, if left unchecked, this is expected to rise to over 10 million by 2050 with an impact to the global economy of more than \$10 trillion⁷. USS believes that addressing AMR is necessary to ensure returns for members. As a result, we expect companies

³ <https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report>

⁴ <https://forest500.org/rankings/companies>

⁵ <https://www.who.int/news-room/fact-sheets/detail/antimicrobial-resistance>

⁶ [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(21\)02724-0/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)02724-0/fulltext)

⁷ <https://documents1.worldbank.org/curated/en/323311493396993758/pdf/final-report.pdf>



involved in the production, sale, and use of antibiotics to have in place adequate measures to prevent the unnecessary development and spread of AMR.

USS may vote against the resolution for the (re)election of relevant Board or committee members where the company's policies do not meet our sector-specific criteria on AMR. We may escalate by voting against the Chair of the relevant Board. This applies to the following four sectors:

- Food companies
- Protein producers
- Animal pharmaceuticals
- Human pharmaceuticals

4.3.2 Diversity

- USS expects companies to publish a board skills matrix in its annual report. This matrix should identify the diversity of skills required and held to support the purpose of the company and deliver better long-term returns for investors. This matrix should be informed by a board evaluation.
- An external board evaluation should be conducted every three years with a discussion of the weaknesses and action plan communicated to shareholders. If this is not the case, an appropriate explanation should be provided by the board.
- USS expects companies to disclose their policies and procedures relating to diversity, including targets and progress on the recommendations of the UK's Parker and the FTSE Women Leaders Review (formerly Hampton Alexander Review).
- USS will vote against the members of the nomination committee (we will escalate by voting against or abstaining on the Chair of the Board), where:
 - There is less than 40% minority gender representation (including those self-identifying as women) on the board and the company has not disclosed a timeframe / credible plan for appointment.
 - There is less than one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman (including those self-identifying as a woman) and the company has not disclosed a timeframe / credible plan for appointment.
 - There is less than one 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 / credible plan for appointment.



4.3.3 Voting mechanism

- The UK has a majority vote system, except for premium listed controlled companies as defined under the UK listing rules (LR 9.2.2 and disclosure requirements LR 13.8.17).
- For controlled companies, the election of an independent director must be approved separately by both the shareholders of the company (including the controlling shareholder) and the independent shareholders of the company. If the election or re-election of the independent director is not approved by both shareholder groups, then a separate resolution must be proposed to shareholders in the period of 90-120 days following the failed resolution (please see LR 9.2.2 for more information). The company has the ability to define who is or is not an independent director or shareholder.
- USS expects all controlled companies to embrace the spirit of the regulation released in 2014, which is designed to promote discussion with the controlling shareholder regarding board composition and providing minority shareholders with greater influence over board structure.
- Where a controlled company does not abide by the spirit of these regulations, USS will consider a vote against the Chair of the board.

4.3.4 Director independence

Non-Executive Directors (NEDs) considered by the board as independent should be clearly identified in the annual report. USS will normally use the Code's definition of an independent director.

According to the Code's definition, a director is assumed not independent if he or she:

- *is or has been an employee of the company or group within the last five years;*
- *has, or has had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;*
- *has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;*
- *has close family ties with any of the company's advisers, directors or senior employees;*
- *holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;*
- *has been employed by the external auditor;*
- *represents a significant shareholder; or*
- *has served on the board for more than nine years from the date of their first appointment.*

The UK Corporate Governance Code, July 2018



Outside of the UK typically USS will accept director tenure up to 12 years in length. However, USS may relax the tenure independence criteria, taking into consideration issues such as succession, age, and diversity. Long tenure does not necessarily mean a loss of independence however, boards must make a compelling case in the annual report for a NED's continuing independence in cases where tenure exceeds nine years or where several directors have a tenure greater than nine years (in the UK, 12 years elsewhere). All directors serving more than nine years on the board (in the UK, 12 years elsewhere) should be subject to annual re-election, including for small cap and AIM listed companies.

- Where there is a lack of refreshment on the board with many directors having served long terms together, USS will consider individual directors' tenures as impacting independence.
- If there has been a high turnover of directors, which requires explanation, there may be additional justification to retain corporate knowledge on the board.

USS will classify a non-executive director as non-independent if they receive performance-related fees or participate in incentive schemes. However, companies may remunerate their board members in shares without conditions attached.

4.3.5 Voting on individual directors

Unless we receive an appropriate explanation from the company, USS may vote against a director in the cases listed below. Exceptions may occur if the company has recently moved up to the FTSE 350 or is a smaller company.

- The Chair is non-independent at the time of appointment.
- The positions of Chair and CEO are held by the same individual.
- The position of Chair has been filled by the elevation of a CEO to the Chair's role.
 - Where the above occurs, USS expects to see a demonstrably independent Senior Independent Director to be clearly identified.
 - Where this arrangement occurs on a transitional basis, a clear succession plan and timetable not exceeding one year should be publicly disclosed.
- The director is a non-independent non-executive director (defined as above) and less than 50% of the board is independent.
- The director is a non-independent non-executive director and there are less than three independent directors on the board (two if the company is small).
- The below board positions are held by directors who are not demonstrably independent:
 - Senior Independent Director;
 - Chair / member of the audit committee;
 - Chair / member of the remuneration committee;



- Chair / member of the nomination committee (where the majority of the committee is not independent).
- The director has considerable work commitments that might prevent him/her from devoting sufficient time to the role at the company. Whilst we review this on a case-by-case basis, we will further review cases where a director holds more than four mandates (where a Chair's role is generally considered as counting for two). The decision on whether to support the election or not will be a judgment call based on:
 - The size and complexity of companies;
 - Membership of board committees;
 - Chairships and/or directorships of large companies;
 - Commitments to not-for-profit, community and other organisations.
- The director has failed to attend at least 75% of board and committee meetings and the company has failed to provide an appropriate explanation for their absence.
- The election term is longer than three years.
- It is unclear how an individual's skillset and expertise add value to and are complementary to the current board composition.
- There are concerns regarding an individual's competence. USS could be uncomfortable with the actions of the board or committee the nominee serves on; or the nominee has been involved in a failed company or lost significant value for shareholders; or the director is listed on the Investment Association's public register⁸.
- USS does not support plurality voting standards and encourages companies to adopt majority voting standards.
- Shareholders should be able to nominate directors.
- A director should not:
 - be either, a current company employee or, an employee of the company within the past five years;
 - have or have had within the last three years a material business relationship with the company;
 - Received or has received remuneration from the company other than director's fees;
 - Participates in the company's share option or performance-related pay schemes;
 - Have close family ties with any of the company's advisers, directors or senior employees;

⁸ The Public Register is an aggregated list of publicly available information regarding meetings of companies in the FTSE All-Share who have received significant shareholder opposition to proposed resolutions or have withdrawn a resolution prior to the shareholder vote. It can be consulted on the following website:
<https://www.theinvestmentassociation.org/publicregister.html>



- Holds cross-directorships;
- Represent a significant shareholder.

4.3.6 Disclosure

Complete biographical details, including other directorships and/or Chairships, should be disclosed. In the case of the re-election of a director, the Chair should confirm the on-going effectiveness of the director and his/her commitment to the role.

4.3.7 Board committees

4.3.7.1 Committee types

- There should be, at a minimum, audit, nomination, and remuneration committees on all but the smallest boards.
- Members of all the committees should be identified in the annual report.

4.3.7.2 Audit committee

USS may vote against or abstain on the Chair/members of the audit committee/the re-election of the auditors where:

- The director is not demonstrably independent (see 2.3 above).
- The audit committee has consisted of fewer than three non-executive directors for over a year.
- There is insufficient financial, audit and sector-relevant expertise on the audit committee. At large cap or more complex firms, we would encourage the appointment of at least two directors with audit/accounting experience onto the audit committee. All firms should have at least one member with recent and relevant financial experience, identified in the annual report.

Note on audit committee and external auditor independence

As per the EU Audit Regulation and Revised FRC Ethical Standard 2019, USS supports the rotation of the audit firm on regular basis. There may be occasions where the rotation results in the appointment of an audit firm that is connected, in some way, with a member of the audit committee. This should not necessarily result in either the external audit firm or the audit member being classified as non-independent. However, we would expect to see additional commentary and disclosure regarding the re-tendering process, and the identification and management of conflicts of interests. USS reserves the right to consider either the auditor or the director as non-independent based on prior relationships.



4.3.7.3 Remuneration committee

USS may vote against the Chair/members of the remuneration committee where:

- The director is not demonstrably independent (see 2.3 above).
- The remuneration committee consists of fewer than three non-executive directors.
- We do not have confidence in the individual's leadership on remuneration practices at the company.
- The company has not offered shareholders a vote on remuneration.
- The Chair of the board is the Chair of the remuneration committee.
- The company is listed on the Investment Association's Public Register.

4.3.7.4 Nomination committee

USS may vote against or abstain on Chair/members of the nomination committee where:

- The majority of committee members are not independent.
- The nomination committee consists of fewer than three non-executive directors.
- There is unsatisfactory evidence of a credible succession plan for non-executive and executive directors.
- The company has failed to meet diversity targets for the board and management per the Parker and FTSE Women Leaders Review (formerly the Hampton Parker Review).

4.4 Remuneration policy

USS will assess executive remuneration structures, awards, and pay-outs in the context of company strategy, sector, size, individual circumstances, and USS' engagement activities (as relevant).

USS is strongly supportive of the principles set out in 3.1 and favours remuneration designs which incorporate such principles even if the schemes do not follow a traditional structure of remuneration arrangements.

- UK incorporated companies must provide shareholders with an advisory vote on the remuneration report and a binding vote on the policy (at least every three years). Companies listed on the main market of the London Stock Exchange are expected to adhere to this best practice.
- USS expects all companies (including companies listed on the AIM market) to offer shareholders a vote on remuneration.
- When voting against the remuneration report for a second consecutive year, USS will also vote against the members of the remuneration committee. We consider the remuneration committee should be held accountable and take ownership of remuneration-related decision making.



- When voting against the remuneration report for a third consecutive year, USS may vote against the Chair of the board.
- Where remuneration does not adhere to the principles and policies below, USS may vote against on remuneration related resolutions.

4.4.1 Overriding philosophy

USS jointly produced the *Remuneration Principles for Building and Reinforcing Long-Term Business Success*⁹ with the National Association of Pension Funds (NAPF, the predecessor organisation to the Pensions and Lifetime Savings Association (PLSA)), Hermes EOS, and BT Pension Scheme. These principles stand today.

USS expects remuneration committees to abide by the following principles:

- Remuneration committees should expect executive management to make a material long-term investment in shares of the businesses they manage.
- Pay should be aligned to long-term success and the desired corporate culture throughout the organisation.
- Pay schemes should be clear, understandable for both investors and executives, and ensure that executive rewards reflect long-term returns to shareholders.
- Remuneration committees should use the discretion afforded to them by shareholders to ensure that awards properly reflect business performance.
- Companies and investors should have regular discussions on strategy and long-term performance.

USS will also consider the following principles:

- Companies should avoid paying more remuneration than is necessary.
- USS expects a minimum five-year period before long-term incentives become available to executives (this includes the vesting and holding period).
- The remuneration committee should be mindful of pay and employment conditions in the group when considering board and executive remuneration.
- We expect companies to include a link to environmental and social metrics in their incentive schemes, where financially material. Companies should disclose their ESG-related targets, and performance against these targets.

4.4.2 Fixed remuneration

4.4.2.1 Base

- Salaries should be payment for the completion of the job requirements to the expected standard.

⁹ <https://www.plsa.co.uk/Policy-and-Research/Document-library/Remuneration-principles-for-building-and-reinforcing-long-term-business-success>



- USS will scrutinise substantial increases, or decreases, in base salaries.
- When an executive is first appointed, we expect the company to disclose and explain the rationale for the base pay awarded.
- When an executive is first appointed, it is normally expected their salary would be lower than their predecessor – as they have yet to gain experience or evidence success.

4.4.2.2 Pensions

- Pension arrangements should be considered within the context of total remuneration.
- Remuneration committees should set out a credible action plan to reduce the pension contributions for incumbent directors over time to the contribution rate available to the majority of the workforce. USS may vote against on remuneration votes when an incumbent executive director receives a pension contribution or payment in lieu higher than those available to the wider workforce, in line with the IA's recommendations, and the remuneration committee has not set out a credible action plan to reduce the director's pension contribution.
- USS expects companies to set pension contribution rates for new executives that are aligned with those available to the wider workforce. USS may vote against on remuneration votes when a newly appointed executive director is set to receive a pension contribution or payment in lieu above the level of the majority of the workforce.

4.4.2.3 Fixed allowances (PRA-regulated companies)

- USS accepts that financial service companies that have their variable remuneration structures restricted by the Prudential Regulatory Authority (PRA) may need to grant fixed allowances to retain and attract talent.
- To abide by the regulation, fixed allowances cannot be subject to malus or clawback, or based on any review of performance. Fixed allowances should be:
 - Paid in shares.
 - Retained for an extended holding period (preferably over the lifetime of employment).
 - Not be paid automatically to all senior staff and risk takers.
 - Awarded at a significant discount to the previous variable pay opportunities to reflect the reduced risk of non-payment. USS considers a 25-30% discount is appropriate at a minimum.
 - Discretionary – and may be withdrawn at any time.

4.4.2.4 Benefits

- Additional benefits should be in line with other senior executives benefit arrangements unless there are exceptional reasons otherwise (e.g. requirement for personal security).
- Benefits should be clearly disclosed and broken down in the remuneration report.
- USS will not support a fixed benefit payment as a percentage of salary.
- The use of tax equalisation payments will be carefully reviewed.



- Details of the company's policies on tax equalisation should be disclosed.
- It should clearly explain what the tax payment refers to.
- The tax equalisation payment should not be a recurring item.
- Relocation packages should be granted on a transitional basis only, clearly explained and justified.

4.4.3 Variable remuneration

4.4.3.1 Favourable characteristics of variable remuneration

USS expects to find the following characteristics within variable remuneration structures:

- **Where appropriate, performance criteria are expected to:**
 - Be relevant and clearly aligned with business strategy. We expect the company to use more than one performance criterion.
 - Avoid rewarding executives for market or sector movements in stock price (e.g. performance conditions should not be solely based on Total Shareholder Return (TSR) or Earnings per Share (EPS) or other share price related metrics.
 - If there is a variation between the company's reported financial metrics and those used for remuneration outcomes, the adjustment should be appropriately explained.
 - Align increasing reward for the achievement of stretching performance targets.
 - Be disclosed for all variable remuneration in advance.
- **Performance period:** Variable remuneration should be subject to a total vesting and holding period of five years or a longer timeframe that is aligned with long-term investment and business economic cycles.
- **Malus and clawback** provisions are expected in all variable remuneration elements of the remuneration.
- **Service contracts are expected to:**
 - avoid reward for under-performance;
 - be no longer than one year rolling in all circumstances;
 - not provide for more than 12 months of fixed remuneration upon termination;
 - not provide for preferential treatment upon a change of control;
 - be subject to pro-rating and/or mitigation should the executive leave before the end of the performance or holding period.
- **Long-term share ownership requirements of over 100% of base salary** should be in place for the executives.
- **Hedging** of awards is not supported.



- **Additional payments outside companies' current incentive plans** are not supported (including golden hellos, termination payments, retention payments, extended re-location payments, transaction bonuses).
- **Alternative remuneration structures such as Restricted Share Plans and Value Creation Plans** are expected to be in line with current IA guidelines¹⁰, paying particular attention to ensuring a significant discount rate with no gradual increases to the award opportunity.

4.4.4 Pay for performance vote concerns

USS may vote against on remuneration votes due to pay for performance concerns where the following occur:

- Variable awards have been awarded which are not commensurate with corporate performance.
- Variable remuneration, including sign-on payments, is not subject to the achievement of performance criteria (exception of fixed allowances – see below).
- Performance conditions are solely linked to share price.
- Performance conditions (at maximum) are neither stretching nor set relative to corporate objectives.
- Performance criteria and conditions are not related to the business strategy or long-term goals.
- Only one performance condition is used.
- Performance criteria are not linked to ESG performance.
- Long-term awards have performance periods of less than three years.
- Structure allows for re-testing (extension of the performance period to a following year).
- No clawback or malus provisions in place.
- The remuneration committee fails to set an adequate shareholding requirement and time period in which executive directors must achieve the requirement. USS also expects companies to set post-employment shareholding requirements for executives.
- Executive directors do not hold 200% of base salary in shares after three years of service in case there is no shareholding requirement in place.
- Unexplained large sale of shares by an executive during the year.
- Multiple schemes vest on the same performance criteria.
- The remuneration report lacks transparency and does not adequately demonstrate the alignment of pay with performance.

¹⁰<https://www.ivis.co.uk/media/13907/principles-of-remuneration-2023-nov-2022.pdf>



4.4.5 Non-executive fees and benefits

- Non-executive fees should be fixed in advance. Non-executive directors should not receive any variable remuneration, or payments that could be considered as linked to performance.
- USS has a preference for cash payment for non-executive fees. However, USS may accept part-payment of NED fees in shares if this policy is applied in a consistent way year on year and applies to all non-executive directors, and the rationale is explained. There should be no conditions placed on the shares granted that could impede a director's independence.
- USS will scrutinise fee increases and will not support excessive increases.
- Additional benefits will be reviewed to ensure they are to carry out business duties only (e.g. reimbursement for travel) and do not impede independence.

4.5 Remuneration report

The remuneration report should include a discussion of the deliberations of the remuneration committee during the reporting year and details of the remuneration for prior years and the future period (in the case of a policy review year). USS expects the remuneration report to include:

- A clear explanation and justification for the decisions and actions taken by the remuneration committee linking pay with the delivery of strategic objectives.
- Remuneration potential for the following year, including details of proposed performance metrics for the short and long-term variable remuneration.
- Details of the performance targets met during the year and proposed for the forthcoming year should be disclosed to shareholders. Where the disclosure is commercially sensitive the conditions should be disclosed retrospectively at the end of the performance period. Companies should commit to this in their reporting.
- The remuneration report should include additional disclosures where a remuneration scheme is based on EPS and the company has a share buyback scheme in place, and we expect the remuneration committee to adjust the EPS for any impact on price or earnings from the buyback.
- Disclosure should be sufficient to allow shareholders to calculate total awarded and received (taken home) remuneration and understand the rationale for the payment.
- Where a significant event has occurred during the year, additional disclosure is expected from the company to justify decisions made by the remuneration committee.

4.6 Statutory auditors

4.6.1 Auditor re-election

Our policy is aligned with the 2014 EU audit reforms, as follows:

- The external auditor must be independent and free from major conflicts with the company, the Chair and the audit committee members.



- The external auditor should be rotated at a minimum every 20 years, and the contract competitively tendered at least every 10 years.
 - USS will support more frequent rotation and encourages companies to set a maximum tenure of less than 20 years for their external auditor.
 - USS believes that regular rotation of auditors can bolster auditors' independence, strengthens auditors' accountability to shareholders and can promote innovation and improved transparency.
 - The tendering timetable and process must be explained to shareholders in the audit committee's report.
 - There should be a clear water period of at least 4 years before an audit firm can be re-appointed.
 - There should be no Big 4 only restrictions implemented in audit firm tenders and companies should resist the imposition of such requirements by lenders or others.
 - When voting against the re-appointment of auditors due to extended tenure for a second consecutive year, USS will consider a vote against the members of the audit committee Chair.
- The audit partner should be named in the annual report.

4.6.2 Audit fees

- Audit and non-audit fees must be disclosed in the annual report and non-audit fees must be broken down into separate activities.
- Non-audit fees must not exceed 70% of the audit fees of the average of group statutory audit fees over the previous three years.
- Where non-audit fees exceed 70% of the audit fees, an appropriate explanation should be provided to shareholders and immediate steps must be taken to reduce them within the following twelve months.

4.6.3 Voting on the appointment and remuneration of the external auditors

USS will seek to vote in a consistent manner where a company has more than one resolution on the external auditors.

Unless we receive an appropriate explanation from the company, USS will vote against or abstain where:

- The external auditor has been in place for more than 20 years.
- The external auditor has been in place for more than 18 years, and the audit committee has not specified its plans and processes for rotation.
- The external auditor has been in place for over 10 years and without a competitive tender being undertaken.



- Non-audit fees are not disclosed.
- Non-audit fees exceed the 70% threshold.
- There has been a failure to detect a material accounting or reporting issue or there has been a material omission in the auditor's reporting.
- There are concerns whether a high-risk company's financial statements (including the notes thereto), and the auditor's report thereon, reflect consideration of the effects of climate risk and the global move onto a 2050 (or sooner) Net Zero GHG emissions pathway and the UN Paris Agreement goals.
- USS has concerns regarding the auditor's conflicts of interests, independence, or objectivity.

4.7 Capital authorities

4.7.1 General authority to issue shares WITH pre-emption rights

USS considers pre-emption as a basic shareholder right.

- USS has reviewed its approach to pre-emptive rights and aligned itself with market practices outlined by the Rights Issues Review Group to support general authorities to raise up to two-thirds of share capital where pre-emption rights were preserved.

4.7.1.1 USS voting on general authorities to issue shares WITH pre-emption rights

USS will vote against or abstain on general authorities with pre-emption rights where:

- The level of authority sought is greater than two-thirds of the issued share capital.
- The time period of the authority is longer than 15 months or extends beyond the next AGM.
- USS does not consider the company requires the flexibility to raise capital for the time period specified in the resolution without first coming back to shareholders for authorisation.

4.7.2 General authority to issue shares WITHOUT pre-emption rights

In line with the UK's Pre-Emption Group revised Statement of Principles 2022 for the disapplication of Pre-Emption Rights, where UK companies wish to request a general authority to issue shares without pre-emption rights of more than 10% of share capital, they should:

- Propose two resolutions for the two separate 10% disapplication authorities.
- Use the resolution to disapply pre-emption rights in relation to an additional 10% only in connection with an acquisition or specified capital investment and disclose, in the announcement regarding the issue, the circumstances that have led to its use and the consultation process undertaken.
- Request this authority on an annual basis with the period of the authority being no longer than 15 months or post the next AGM.



- Limit the authority for issuing shares without pre-emption rights to no more than 20% of share capital per annum. For the general and additional authorities, a further disapplication of no more than 2 % may be used for each authority for the purposes of a follow-on offer.
- Where the company needs to raise equity on a non-pre-emptive basis above this level, we consider the reduced 14-day notice period for (Extraordinary) General Meeting provides adequate flexibility.
- USS does not support the use of the cash box system to raise capital due to the opaque nature of such capital raising and dilution of existing shareholders.

4.7.2.1 USS voting on general authorities WITHOUT pre-emption rights

USS may vote against or abstain on general authorities to dis-apply pre-emption rights where:

- The resolution is not proposed as a special resolution.
- The level of authority sought is greater than 20% of the issued share capital.
- The time period of the authority is longer than 15 months and should not extend beyond the next AGM.
- The maximum discount to NAV / VWAP is not specified
- A cash-box capital raising has been conducted during the year which USS considers as overly dilutive or has concerns regarding the transparency.
- USS does not consider the company requires the flexibility to raise capital for the time period specified in the resolution without first coming back to shareholders for authorisation.

USS acknowledges that it may be necessary for companies to request a larger authority, depending on the business needs and strategy. USS will consider such requests on a case-by-case basis.

4.7.3 General authority to buy back shares

- USS supports share buyback resolutions where the authority sought represents less than 15% of the issued share capital.
- The company should state that buyback authorities will only be exercised where it is in the best interests of all shareholders.
- Where remuneration schemes are based on EPS performance, we would encourage companies to provide additional assurance to demonstrate the alignment of pay with performance.

4.8 Other issues

4.8.1 Shareholder resolutions

Shareholder proposals, including those which relate to environmental and social issues such as climate change, human rights, labour relations and other ethical matters, will be considered on their



individual merits. We will support those resolutions considered in the long-term interests of shareholders. However, if we consider the resolution as overly burdensome or better addressed through another route, we will not support it.

4.8.2 Application of policy

Omission of an issue in the UK Voting Policy does not preclude a vote against a particular resolution.

4.8.3 Investment trust companies

- The board is expected to be fully independent, including the Chair.
- The contract with the fund manager should be no longer than one year.

5 Related documents

- [Stewardship Code Report 2023](#)
- [Remuneration Principles for building and reinforcing long-term business success \(2013\)](#)

About USS

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 528,000 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. 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 legal duty to ensure that benefits promised to members are paid in full on a timely basis.

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 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.

For more information please [visit our website](#).