



Andrea Tweedie
Financial Reporting Council (FRC)

By email to: stewardshipcode@frc.co.uk

11 February 2025

Dear Andrea Tweedie,

The Universities Superannuation Scheme welcomes the opportunity to respond to the *UK Stewardship Code (the Code) Consultation*.

About USS

By way of introduction, 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 554,251 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £77.9bn (as at 31 March 2024). 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.

USS has supported the UK Stewardship Code (the Code) from the date when the Code was first established in 2010, has been a signatory to the Code from the first opportunity in 2012 and has consistently met all reporting requirements.

Overall Thoughts / Key Points to Note

Since its inception, we believe that the Code has made significant progress in its purpose of improving effective stewardship between investors and companies. In part, this is owing to the Code supporting the recognition and the reputation of stewardship within the investment industry and encouraging investors to allocate dedicated resources.

Investors' approaches to stewardship have not become homogenised, which we believe is partly due to the FRC's signatory determination being "pass" or "fail" and not graded – this should remain as such. The Code has also provided regulatory support for collaborative initiatives and engagement, which may not have occurred otherwise.

We also recognise that the Code set in motion a global trend and is recognised as the global standard which other jurisdictions have used to establish their own stewardship regime and replicate the UK's successes. This is encouraging and helps to support the UK in its wider ambitions for sustainable long-term growth.

Universities Superannuation Scheme Ltd

"USS" and the USS logo are both trade marks of Universities Superannuation Scheme Limited. All rights reserved.

Head Office: Royal Liver Building, Liverpool L3 1PY Tel: +44 (0)151 227 4711 Local: 0845 068 1110 Fax: +44 (0)151 236 3173 Website: www.uss.co.uk

Registered in England & Wales No. 1167127 Registered Office: Royal Liver Building, Liverpool L3 1PY Regulated by The Pensions Regulator

We appreciate and are supportive of the FRC's approach to evolve rather than revolutionise the Code. The practice of investor stewardship is showing signs of maturing, demonstrating the long-term trend of becoming an established part of investment processes and a function of "traditional investment".

An area that this consultation does not address is how the FRC will oversee signatories and their respective stewardship reports. Historic reviews and feedback received by signatories from the FRC have been instrumental in improving investors' and the wider industry approach to stewardship. We would welcome a more consistent review cycle, at least every three years, from the FRC. In addition, we would appreciate further guidance from the FRC as to how it intends to identify and manage signatories that fail to meet the expected standard.

Furthermore, it has become apparent that signatories' general interpretation of stewardship is limited to activities as they relate to environmental and social issues (be they systemic or idiosyncratic). We believe that for stewardship to be effective it must be led by investment considerations, such that activities should be prioritised based on "the best financial interests of clients and beneficiaries"; this way effective stewardship should extend to all aspects of managing invested assets. We would encourage the FRC to address this point directly in its planned guidance for the Code.

Responses to Questions

1. Do you support the revised definition of stewardship?

USS is supportive of the proposed high-level definition. We believe that this summarises clearly the overarching purpose and objective of stewardship.

We would recommend that the explanation of the definition goes beyond citing systemic issues of "...the economy, the environment and society" and should also include idiosyncratic issues as cited throughout the Principles. As the investment industry matures and stewardship becomes more embedded into investment processes, it is important to recognise at the outset that stewardship extends beyond broad economy considerations and those relating to environmental and societal matters. It also includes wider corporate governance matters and "traditional investment" considerations, such as a company's allocation of capital, where fiduciary duty and materiality analysis have deemed the activity a priority.

We would also recommend that the FRC explicitly acknowledges that stewardship is aligned with investors' fiduciary duty; we note that the term "fiduciary duty" is absent throughout the Code. In addition, referencing s.172 of the UK Companies Act could help signatories understand what is expected of them.

2. Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?

We consider that this proposal offers a sensible option for signatories. However, it should be noted that this is unlikely to reduce the resources required to fulfil the reporting obligations and is likely to increase them. Editing controls will have to be enhanced and the process may be more complicated owing to multiple documents requiring design, sign-off and publication.

We would be keen for the FRC to present this as an option but also make clear that it will continue to accept the current format of reports, should signatories deem this the most appropriate delivery method.

Owing to the reality that individual engagements can span multiple years and that objectives can evolve over this timeframe, we would welcome the FRC considering how it could support dynamic evidencing for the Activities and Outcomes Report.

3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

We believe that this would help achieve clarity and consistency in reporting across the large number of signatories and enable them to understand not only what is required, but also how best to present stewardship activities and outcomes. We would caution the FRC against being overly prescriptive. As a user of signatories' reports our focus is on the quality of information and examples provided rather than the quantity. We are conscious that large asset managers are likely to have a significant number of individual investments and resources to aid the management of these investments, which means they will have more examples to evidence their approaches, whereas smaller asset managers may have fewer examples.

4. Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?

As an asset owner that both manages assets directly and employs external managers, we support this approach. It would provide clarity on the FRC's expectations as well as support stewardship practices that are based on specific objectives.

5. Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

We consider that the revised Code provides a helpful distinction in this area, particularly when coupled with additional guidance as noted above.

6. Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?

We believe that the FRC should reconsider if it remains appropriate for investment consultants and proxy advisors to be signatories to the Code. These service providers are subject to investor due diligence prior to appointment, are held to legal agreements following appointment and are subject to ongoing oversight by their clients. They can also be subject to market regulations and industry codes of conduct. We would argue that the aggregated additional information sought does not provide information to support the purpose of the Code in promoting more effective stewardship. Investors have a fiduciary duty to their clients and beneficiaries which, in our view, extends to use of the services employed to support stewardship activities.

This said, we understand the political, regulatory and corporate-led pressures faced by these service providers. As such, USS lends its support to the views provided by these service providers in their individual responses to this consultation and expects the FRC to account for this when determining the outcome.

7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

We believe that the streamlined Principles will support the alignment of stewardship practices with the evolving landscape of responsible investment, clarify expectations of all signatories and provide a more efficient reporting framework. Combining the Principles makes sense. In practice, the stewardship approach applied to an individual entity or subject is considered in isolation as to how best to achieve the desired objectives and outcomes. How a stewardship activity evolves can be based on variable factors such as timeframes, responses received, engagement methods undertaken, escalation tools deployed etc. It may also lead to more succinct reports as the amount of repetition may reduce.

8. Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?

We are comfortable with this proposal given the efficiencies that can be gained from receiving duplicate requests for the same or similar information. Being able to direct readers to a “golden source” or further information can lead to enhanced stewardship reporting. This said, it should be made clear that any failed or corrupt links will not be pursued by the FRC or users of the reports and any information therein is considered as not reported.

9. Do you agree with the proposed schedule for implementation of the updated Code?

Yes.

Thank you for the opportunity to provide comment on this very important area. We remain at your disposal should it be useful to provide clarity on any of the points raised in this consultation response, or on any other stewardship matter.

Yours sincerely

Simon Pilcher
USSIM Chief Executive Officer