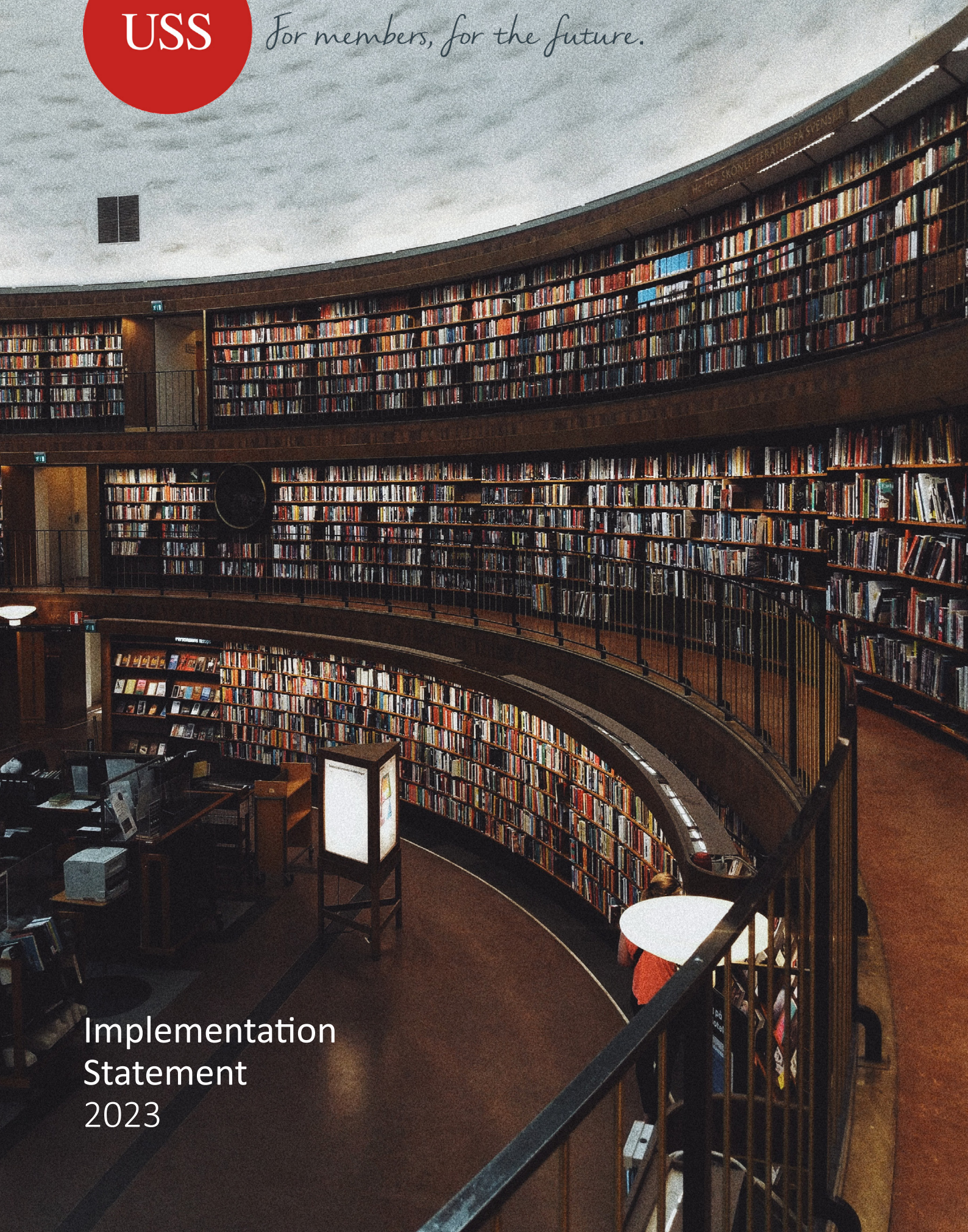




For members, for the future.



Implementation
Statement
2023

Implementation Statement

1.1 Introduction

USS's¹ Implementation Statement (the Statement), sets out how, and the extent to which, the trustee believes the Statement of Investment Principles (SIP) has been followed during the scheme year ending 31 March 2023.

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

The Statement outlines how key activities and decisions have followed the SIP and the Default SIP and, where they have not, what steps will be taken to remedy this. It also sets out how, and the extent to which, in the opinion of the trustee, the policies in relation to voting rights and our engagement activities have been followed during the year and gives a review of the voting behaviour carried out by investment managers on the trustee's behalf. The Statement should be read in conjunction with the SIP at uss.co.uk/how-we-invest/our-principles-and-approach.

1.2 Review of the SIP and Default SIP

USS reviewed and considered amendments to the SIP in March 2022. The main updates were as follows:

- Changes to the description of the investment strategy for the DB part to reflect the 2020 actuarial valuation. The Valuation Investment Strategy (VIS) replaced the Reference Portfolio as the theoretical, but investible, asset allocation developed for the purposes of the actuarial valuation. Like the Reference Portfolio, while the VIS is expected to broadly deliver appropriate long-term returns at an acceptable level of risk, it does not define the actual assets in which USSIM may invest. However, the VIS is a more high-level construct than the Reference Portfolio, with three broad components (or building blocks): an allocation to growth

assets, an allocation to liability-hedging assets, and an allocation to credit assets.

- While USS's objectives in relation to the DC part remained unchanged, references to the Reference Portfolio were removed from the DC part of the SIP as USS seeks to focus its monitoring more explicitly on longer-term member outcomes with reference to inflation, rather than on the performance of funds relative to a detailed composite benchmark. The USS Growth Fund and USS Moderate Growth Fund invest predominantly in growth assets and aim to provide long-term growth in excess of inflation. The USS Cautious Growth Fund invests predominantly in lower risk, income focussed assets, and aims to provide stable growth at least in line with inflation over the long-term.

Further, but less fundamental changes to the SIP included:

- Reference to USS's ambition to be Net Zero by 2050
- Better alignment of the trustee's ESG related policies with the most recent legal advice received
- More detail on USS's approach to leverage as this is an important component of USS's investment and risk management strategy

USS consulted on these proposed amendments with participating employers in April 2022 and finalised a new SIP on 24 May 2022. The Default SIP was reviewed, in line with the changes to the SIP and in order to improve consistency between the two documents and was also re-issued on 24 May 2022.

1.3 USS's Governance Structure

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

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

2. How the SIP has been followed during the year

Following review and analysis, USS believes that the SIP, Default SIP and the USS Stewardship and Voting Policy have been followed during the scheme year April 2022 – March 2023. This Statement explains how USS has reached this view.

2.1 The kinds of investments to be held by the scheme and the balance between different kinds of investments – and the expected return on investments

The SIP and Default SIP set out USS's investment objectives and USS's policy in relation to the type and balance of investments held and the expected return on investments.

The Retirement Income Builder – the DB part

For the DB part, USS's broad investment strategy is set out as a theoretical, but investible, asset allocation across equities, property, gilts and other fixed income assets, including liability driven investments (LDI) and corporate and emerging market bonds. This theoretical asset allocation is the VIS, which is the investment strategy developed for the most recent actuarial valuation. The VIS is adjusted from time to time to retain consistency with the Investment Risk Management Framework (IRMF) and risk appetite. There have been no changes to the VIS over the year to 31 March 2023.

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

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

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

The Investment Builder – the DC part

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

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

Although USS has discretion to invest in a wide range of assets, in practice the type of assets held in the Do It For Me and Let Me Do It options depends on the

objectives and strategy of each DC fund. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

Expected return on assets

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

2.2 Risks – including the ways these are measured and managed

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

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

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

Over the year, new Investment Frameworks were put in place for the DB part and DC part, which replaced the old Reference Portfolio Frameworks. The old Reference Portfolio Frameworks used the Reference Portfolios (the old theoretical, but investible, asset allocations) as the basis for both risk management in USSIM and for the assessment of USSIM's investment management performance. USSIM's objective was to outperform the Reference Portfolios, without taking more risk.

The new Investment Frameworks take a more holistic approach to both risk management and the assessment of USSIM's investment management performance and are tailored as appropriate for the DB and DC parts. For risk management they use a range of risk metrics across investment, liquidity, counterparty and climate risks. For the assessment of USSIM's investment management performance, they use a range of investment objectives on more comprehensive investment balanced scorecards (as shown in section 5). The scorecards include separate categories for investment return, investment risk, active management, portfolio resilience, responsible investment and investment advice.

USS assesses the definition of the risks throughout the year and more formally on an annual basis, when USSIM advises the trustee on the suitability of the risk metrics, thresholds, and limits in the Investment Framework. This Investment Framework was in place from 1 July 2022 for the DB part and from 1 January 2023 for the DC part.

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

The Retirement Income Builder – the DB part

USS's funding risks are monitored and managed by the trustee's Funding Strategy team, with advice from the Scheme Actuary. USS's operational risks are managed throughout the organisation by individual teams.

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

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

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

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

The Investment Builder – the DC part

In setting and reviewing the DC investment strategy, USS assesses the key investment-related risks relevant to the DC part.

These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on investments relative to the investment objectives, liquidity risk, operational risk and market risk including equity, interest rate and credit risk. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members and within the Investment Framework.

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

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

3. Stewardship, engagement and responsible investment

3.1. Introduction

USS is a long-term, responsible investor with a primary duty to invest in the best financial interests of our members and beneficiaries, so we can pay pensions long into the future. We believe that the way a company is run and overseen, and how it manages its environmental and social risks, such as its approach to climate change or health and safety, will impact the long-term financial returns it will make. USS's Responsible Investment (RI) strategy applies to all assets, whether managed internally or externally. As a result, USS has processes in place to assess and monitor how potential or current external managers are addressing Responsible Investment factors.

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

Details of USS's approach to RI can be found at uss.co.uk/how-we-invest/responsible-investment and in USS's Stewardship Code report uss.co.uk/-/media/project/ussmain/site/files/how-we-invest/uss-stewardship-code-report-2023.pdf. This report provides details of how USS considers environmental, social and governance (ESG) factors where financially material to the scheme and the extent to which it can take non-financial ESG factors into account (see Section 6.3).

The trustee agrees the RI strategy and formally reviews the RI team's activities annually, signing off key focus areas and policies. The trustee receives reports from USSIM on a regular basis so that it can ensure the strategy is being effectively implemented. USS's ESG related policies² have been reviewed regularly and updated as required to ensure that they are in line with good practice.

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

3.2. Oversight and monitoring external investment managers

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

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

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

USS's RI reviews are based on information provided by the investment managers and from face-to-face meetings. Standard processes are in place for due diligence and monitoring for public and private markets but are adapted to suit the asset class and investment strategy for each fund under review. The due diligence establishes a baseline view and rating which then informs USS's ongoing monitoring programme.

4. Voting behaviour and vote disclosure

4.1. Introduction

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

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

4.2. USS Stewardship and Voting Policy

In January 2023, USS introduced an updated Stewardship and Voting Policy which is supported by the USS Voting Guidance document. These documents can be found at uss.co.uk/how-we-invest/responsible-investment/how-we-vote. The Stewardship and Voting Policy outlines USS's position on a range of ESG issues and why USS believes ESG factors should be well managed by

companies. These are put in the context of universal ownership and systemic risk. The documents also outline USS's expectations for investee companies. USS's Stewardship and Voting Policy will be reviewed each year to ensure continued alignment to USS's beliefs about good practice in line with USS's fiduciary duties.

Key updates ahead of the 2023 AGM season, included an increasing expectation for board diversity and independence at Japanese companies (to align with other developed markets), an increased focus on climate change, highlighting an expectation for Say on Climate votes and how certain sectors (banks, oil and gas) are managing the issue, and a commitment to vote against directors rather than voting against the adoption of Annual Report and Accounts or equivalent.

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

USS integrates ESG factors into its voting decisions where such factors are financially relevant. USS promotes high quality disclosure and performance management of ESG issues through engagement with companies and its voting activities.

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

Typically, USS has voted against company management on issues such as excessive executive remuneration or lack of board member independence. Usually when USS votes against management in one of USS's priority³ holdings USS will write to the company to explain its concerns. USS sees this as an important way of providing feedback and encouraging change – that is, it is a form of engagement.

For non-priority holdings, USS will write to the company after voting seasons informing them that we voted against certain resolutions and that the reasons for that are available on our dedicated disclosure tool (uss.co.uk/how-we-invest/responsible-investment/how-we-vote).

USS has an active securities lending programme. To ensure that USS can vote all its shares at important meetings or where the scheme is a significant shareholder, USS has worked with service providers to establish procedures to restrict lending for certain stocks and to recall shares in advance of shareholder votes.

USS monitors upcoming company meetings and can restrict stock lending on a case-by-case basis, for example in the event of a contentious vote or in relation to engagement activities, further to discussion with the portfolio manager.

4.3. Voting and USS's equity holdings

For the DB part, USS's internally managed equities (circa £6.6bn) and main externally managed equity mandates (circa £6.4bn) are subject to the USS Stewardship and Voting Policy. USS also has circa £1.1bn of equities which are externally managed in a pooled account. USS has agreed a 'vote override' with the manager of the pooled account which means that USS can direct voting to ensure it is aligned with USS's policy. Due to the number of holdings, USS is unable to attend every company shareholder meeting to cast votes. Therefore, USS votes by proxy through the Minerva voting platform for the assets subject to the USS Stewardship and Voting Policy.

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

For the DC part, USS's main externally managed mandate (circa £834m) and internally managed emerging market equities (circa £84m) are also subject to the USS Stewardship and Voting Policy. The remaining equity holdings for the DC part are externally managed in pooled funds and votes are cast in accordance with the external manager's policy (circa £214m). While USS is not in a position to exercise voting rights directly, this does not mean that the way these voting rights are used is not important.

USS expects USSIM and its external managers, where appropriate, to use their voting rights as part of their engagement work, in a prioritised, value-adding, and informed manner. USS regularly monitors the voting and stewardship practices of the external equity managers as part of the RI manager oversight and monitoring processes. This includes reviewing updates to voting policies, sampling the managers' voting records and commentaries, and scrutinising their more detailed disclosures on significant votes. As part of USS's monitoring and engagement programme with external managers, USS engages to encourage greater alignment with international best practice and/or the Stewardship and Voting Policy where appropriate.

4.4. Disclosure and oversight

USS records, and publicly discloses, voting actions on its website at uss.co.uk/how-we-invest/responsible-investment/how-we-vote (USS's voting disclosures date back to 2010).

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

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

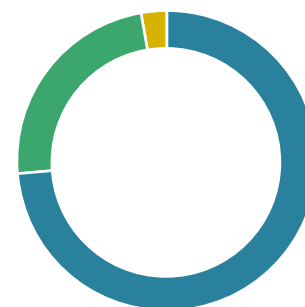
4.5. Scheme voting statistics

The statistics below are in respect of USS's internal equity assets and the large externally managed mandate (together representing c.90% of the scheme's equity holdings):

Voting statistics April 2022 – March 2023

	Response
How many meetings was USS eligible to vote at?	2,148
How many resolutions was USS eligible to vote on?	28,573
What percentage of resolutions did we vote on for which USS was eligible?	99.9%
Of the resolutions on which USS voted, what percentage did we vote with management?	73.7%
Of the resolutions on which USS voted, what percentage did we vote against management?	23.6%
What percentage of resolutions, for which USS was eligible to vote, did we abstain from?	2.7%
In what percentage of meetings, for which USS was eligible to attend, did we vote at least once against management?	73.4%
What percentage of resolutions, on which USS did vote, did we vote contrary to the recommendation of our proxy adviser?	N/A ⁴

USS global votes April 2022 – March 2023



● For (with management)	73.7%
● Against	23.6%
● Abstain	2.7%

4 N/A: Minerva (proxy vote agent) does not issue their own voting recommendations; Minerva applies the Stewardship and Voting Policy directly on behalf of USS.

4.6. Most significant votes – examples for period from 1 April 2022 – 31 March 2023

Below are details of the most significant votes on behalf of the trustee.

Company and date of AGM	Shell plc 24 May 2022
Summary of resolution	Resolution 20 – Approve the Shell Energy Transition Progress Update Resolution 21 – Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions
Vote	Resolution 20 – For Resolution 21 – For
Rationale for vote	<p>USS voted in favour of Shell’s Energy Transition progress update (Resolution 20) in light of the overall progress made against the company’s Energy Transition Strategy, the strengthening of targets, and the progress made through engagement with CA100+ investors on achieving alignment to the CA100+ Net Zero Company Benchmark. USS welcomed Shell’s decision to put a review of its Energy Transition Strategy up for an advisory vote every three years and to give shareholders an annual advisory vote on the progress made. We see this as an implicit recognition by management that the company’s Energy Transition Strategy is expected to continue to evolve as a result of the experience of implementing it, continued engagement with investor groups like CA100+, and evolving international regulations and policies.</p> <p>After careful consideration, USS decided to vote in favour of the Follow This proposal (Resolution 21), in the best interests of shareholders. While Shell already met some requests of the shareholder resolution, it underlined USS’s wish for adoption of quantifiable medium-term targets for the company’s Scope 3 emissions in line with peers and a review and strengthening of Shell’s 2030 net carbon intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.</p>
Vote outcome	Resolution 20 passed – For 77.4%, Against 19.4% (Abstain 3.2%) Resolution 21 defeated – For 19.9%, Against 78.1% (Abstain 2.0%)
Implications of the outcome	<p>In 2022, Follow This filed resolutions at nine 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 42% at Valero to 15% at BP.</p> <p>Over the next decades, Shell will aim to transition from an oil & gas producer to a diversified energy company. USS will continue to engage with Shell and monitor progress on its alignment to the CA100+ Net Zero Company Benchmark, which presents a key measure of corporate progress on climate transition.</p> <p>Each vote is taken on its own merit, and USS’s views on an issue will evolve as our own policies evolve or if a company changes its position. We will for example, take into account Shell’s 2023 comments on climate change and the energy transition in our 2023 voting.</p>
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	<p>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 requires the assets and companies in which USS invests to collectively achieve net zero. USS therefore expects the companies we invest in to establish processes to both manage their transition to a low carbon future while adapting to the physical risks of a changing climate.</p> <p>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.</p>

Company and date of AGM	Meta Platforms Inc. 25 May 2022
Summary of resolution	Resolution 1.02 to 1.09 – Re-elect board of directors
Vote	Withhold (Against)
Rationale for vote	USS has been concerned with Meta’s content management practices, and risk management oversight for a number of years. As part of a global investor coalition, led by the New Zealand Super Fund, USS sought to engage the board on improvements to strengthen controls to prevent the livestreaming and dissemination of objectionable content but without success. We note that in 2021 Meta did move to strengthen controls to prevent the live streaming and distribution of objectionable content. However, following the tragic events in Buffalo, New York, in 2022, it appears the controls were insufficient for the scale of the problem. In light of this, USS consider Meta’s management and the board to have failed to properly enforce its content management policies and provide the robust and continued oversight needed to mitigate the significant reputational, legal and financial risks and more importantly, retain its social licence to operate and ensure duty of care to its customers. For these reasons, USS withheld its support from the entire board and will support all shareholder proposals that drive further progress and accountability.
Vote outcome	All resolutions passed with between 92.75% – 99.97% support.
Implications of the outcome	USS followed up the vote with an engagement letter to the chairman outlining our vote rationale. This is an integral communication tool for USS, as a minority shareholder, to share governance priorities with directors. USS will continue to engage with Meta and other social media companies in 2023 through an investor collaboration.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	<p>USS believes that the board plays a critical role in ensuring the success of companies, holding management to account and representing the interests of shareholders and other stakeholders. The guidelines within USS’s detailed Voting Guidance are built around the UK Corporate Governance Code, which we believe outlines strong governance standards applicable to all companies irrespective of their market. Our new Stewardship and Voting Policy sets out that our primary approach will be to vote against individual directors if we believe the company is failing to appropriately manage or address an issue.</p> <p>This vote is considered significant for USS due to member interest in the company and is an example of how USS use its shareholder rights to reinforce, and where necessary, escalate its company engagements. It is also indicative of a rising voting trend in targeting the re-election of individual directors for mismanagement of material ESG risks.</p>

Company and date of AGM	Electric Power Development Co. 28 June 2022
Summary of resolution	Resolution 8 – Disclose Business Plan through 2050 Aligned with Goals of Paris Agreement Resolution 9 – Disclose Evaluation concerning Consistency between Capital Expenditures and Greenhouse Gas Emission Reduction Target Resolution 10 – Disclose How Executive Compensation Policy Contributes to Achievement of Greenhouse Gas Emission Reduction Target
Vote	Resolution 8 – For Resolution 9 – For Resolution 10 – For
Rationale for vote	Electric Power Development (known as J-Power) operates Japan’s largest coal fleet and derives more than 40% of its operating revenue from coal. While USS commended the company’s adoption of its Net Zero commitments, we voted in favour of all three shareholder resolutions, as we consider the proposed amendments to be aligned with the interests of the company and its stakeholders. We have concerns about 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 of the specific processes and strategies, including metrics and short-, medium- and long-term targets, to align the company’s decarbonisation strategy and future capital expenditure with the goals of the Paris Climate Agreement and the IEA’s Net Zero by 2050 emissions scenario.
Vote outcome	Resolution 8 defeated – 25.9% For; 74.1% Against Resolution 9 defeated – 18.2% For; 81.8% Against Resolution 10 defeated – 19.0% For; 81.0 Against
Implications of the outcome	The institutional shareholders Man Group, Amundi and HSBC Asset Management together co-filed the set of three climate related resolutions, which were the first investor group-led climate proposal in Japan. Under Japanese corporate law, shareholder proposals on climate change have to be filed as an amendment to the company’s articles of incorporation, thus requiring two-thirds majority support to pass. USS followed up the vote with a letter to the board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	Poor management of environmental issues can have significant implications for companies, both financially and reputationally. The most challenging environmental issue is climate change, both in terms of transitioning to a low carbon future, and in adapting to the physical risks that climate change poses. Our new Stewardship and Voting Policy sets out that USS expects the companies invested in to establish processes to manage their transition to a low carbon future while adapting to the physical risks of a changing climate. This vote is considered significant due to the high-profile nature of the first investor group-led climate proposals in a market that has traditionally been difficult for foreign investors to influence. If left unaddressed the scientific evidence points to a world where a changed climate will impact the scheme’s ability to achieve the returns it requires and will impact the quality of retirement for our members.

Company and date of AGM	Sainsbury's plc 7 July 2022
Summary of resolution	Resolution 21 – Shareholder proposal on paying a living wage to all workers and seeking accreditation as a Living Wage Employer by July 2023
Vote	For
Rationale for vote	Half of companies listed on the FTSE100 are accredited by the Living Wage Foundation however no supermarkets are yet accredited despite being among the largest UK employers. Before the vote, USS joined a collaborative investor meeting with the company's Chair and CEO to discuss the proposal in detail. USS welcomed the candour provided by the company during the engagement and the decision to support the shareholder proposal was not clear cut. USS was disappointed that only Sainsbury's was targeted by this proposal which may cause competitive disadvantage as fair pay is an issue for all companies in the sector. Furthermore, the board brought forward its annual pay review to January and increased workers' salaries to £10/hour (exceeding the real Living Wage of £9.90/hour) and matched the living wage rate for workers in inner London (£11.05/hour). However, on balance USS supported the proposal as contractors, who can be the most poorly paid and vulnerable, were not included in the wage rises and action by Sainsbury's can move the dial in the industry overall.
Vote outcome	Resolution 21 defeated – 16.3% For; 81.1% Against; 2.6% Abstain
Implications of the outcome	Prior to the AGM in April, and likely influenced by shareholder discussions, the company reviewed pay again in April and increased the rate for workers in outer London also to £11.05/hour. However, 16% of shareholders still supported the resolution. This is significant support and maintains pressure on the big supermarkets to continue to focus on fair pay.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	Companies do not operate separately from society, and there are potential financial and reputational risks if they do not recognise this. Our new Stewardship and Voting Policy sets out that USS therefore expects companies to be well run with topics such as employment rights, health and safety, modern slavery and a company's interactions with societal stakeholders all addressed by companies. This vote is considered significant for USS, as it was a high profile and contentious proposal among large asset owners and managers. There are clear reputational concerns regarding a supermarket's pay decisions during a cost-of-living crisis and following the pandemic where supermarket workers were put at risk as key workers.

5. Investment governance

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

5.1. Relationship with USSIM

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

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

Investment advice

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

Alignment of interests

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

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

USS is satisfied that its arrangements incentivise USSIM to:


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

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

USS undertakes a full value-for-money assessment of both the DB and DC parts of the scheme annually, including a review of investing internally via our in-house investment managers (USSIM) versus peer pension schemes’ investment arrangements and using benchmarking analysis. The latest independent analysis by CEM Benchmarking (for the calendar year 2021) shows that our annual


investment management costs were £137m less than the median global peer pension fund would have been (after adjusting for scale and investment strategy). This theme of being good value for money is consistent over the long-term trend – over the last five years, USS has been assessed as being 28% less expensive – equivalent to a total saving of £423m over this period.


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


1 Investment return 

2 Investment risk 

3 Active management 

4 Portfolio resilience 

5 Responsible Investment 

6 Investment advice 

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

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

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

5.2. Role of the Investment Committee

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

The Investment Committee meets regularly to review investment strategy proposals and to receive regular reporting from USSIM on its ongoing investment management activities. Regular reviews

of the existing investment strategy, including the overall and individual mandate investment performance, are also completed.

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

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

5.3. Relationship with external investment advisers

In addition to the advice from USSIM, USS has contracts in place with two external investment advisers. For the year ending 31 March 2023, USS's external investment advisers were Mercer (DB matters) and LCP (DC matters). Both attend all Investment Committee meetings and provide independent insight and challenge to the committee's consideration of USSIM's investment strategy proposals and on the reporting provided by USSIM. USS may also request formal investment advice from these advisers (in addition to or instead of that from USSIM), as it deems appropriate.

As required under the Occupational Pension Schemes (Scheme Administration) Regulations 1996, trustees of a 'relevant trust scheme' are required to: (1) set objectives for investment consultancy service providers and review their performance against those objectives at least every 12 months; and (2) review,

and if appropriate revise, the objectives at least every three years and without delay after any significant change in investment policy. In early 2023, USS reviewed the objectives and the performance of its external investment advisers against their respective objectives and made changes to ensure they remain appropriate.

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

5.4. External manager selection and monitoring

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

Manager selection

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

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

External managers are requested to provide USSIM with details of their internal remuneration arrangements, which allows USSIM, where ascertainable, to assess whether they are aligned with the long-term objectives.

For private market fund investments, due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, USSIM will consider how the key individuals involved in the fund's decision-making processes are aligned to fund performance, how performance fees are shared among the team and how the ownership of the fund management firm is shared among partners. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of USS's capital within that firm are well-aligned with USS's investment objectives over the long term.

Manager monitoring

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

USSIM also undertakes formal in-depth annual reviews of all external public market managers incorporating detailed assessments, including changes in the organisation, team, process, expenses, portfolio turnover, risk and diversity and inclusion initiatives. USSIM undertakes regular benchmarking exercises of the external managers' fees and looks to renegotiate accordingly to ensure the fees remain competitive.

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

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

5.5. Fees and transaction costs

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

To provide USS with a full view of the costs and charges, USSIM carried out an exercise to report total investment costs incurred over the calendar year 2022 (for both the DB and DC parts). USSIM appointed an external provider to help with the data collation and benchmarking purposes. Upon conclusion, USS was able to include the costs and charges for the DC funds within the DC Chair's Statement as at 31 March 2022 and comply with the Cost Transparency Initiative's guidance. The exercise also covered external portfolios, allowing USS to monitor target portfolio turnover⁵ and/or turnover ranges, which it does on an annual basis.

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

6. Financially material considerations

6.1. Introduction

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

- Integration into investment decision-making processes: USS requires active managers to seek to identify mispriced assets and make better investment decisions to enhance long-term performance by taking account of financially material considerations.

USS believes additional returns are available to investors who take a long-term view and can identify where the market is overlooking or misestimating the role played by these considerations in corporate and asset performance.

- Stewardship, engagement and voting rights: As a long-term investor USS expects its managers to behave as active owners on its behalf and use their influence to promote good practices concerning financially material considerations.
- Market transformation activities: USS and its agents engage with policymakers and regulators in markets in which it invests, and articulate concerns of asset owners and long-term investors, covering areas such as accounting standards and climate change policies.

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

The decision to appoint either internal or external managers and the decision regarding the preferred investment structure is made in the best interests of the members and beneficiaries considering several factors including investment capability, experience and value for money. This applies for both the DB and DC parts.

As it is financially material, USS believes that addressing climate change is in the best financial interests of its members and beneficiaries, and as such has set an ambition to be Net Zero for greenhouse gas emissions by 2050 if not before.

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

6.2. Investment manager oversight: alignment of interests

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

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

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

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

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

Setting the investment strategy with a long-term horizon, including the use of private market assets

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

Investing responsibly and engaging as long-term owners

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

Long-term relationship with USSIM and external managers

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

Using in-house investment management where beneficial to the scheme and members

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

6.3. Consideration of non-financial factors

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

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

In the Investment Builder (the DC part), where USS is able to offer members a choice of self-select funds, ethical options are made available. These are based on member research and allow members to reflect their views and preferences and take account of their own position on the risks of potentially lower returns.

There have been no circumstances over the past 12 months where non-financial factors could be taken into account for investment decision making.

6.4. Engagement with the members

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