

Universities Superannuation Scheme

Governance Report

for the year ended 31 March 2019



Governance

Strong governance is essential for the effective management of the scheme and for optimising performance.

Universities Superannuation Scheme Limited (USSL) is the trustee company of the scheme. The trustee company is led by a board comprised entirely of non-executive directors. The Trustee Board's role is to provide overall leadership, strategy and oversight of the scheme, the trustee company and its subsidiary USS Investment Management Limited (USSIM). The Trustee Board is primarily responsible for exercising objective and independent judgment, in compliance with regulatory requirements, so as to safeguard the sustainability of the scheme.

Given the vital importance of good governance, steps have been taken to ensure that the directors of the trustee company collectively have the expertise, skills and competencies that are appropriate and proportionate to the oversight and governance of the scheme, the trustee company and the evolving regulatory environment within which the scheme operates. You can read about the skills and expertise of the board members on pages 2 to 4.

The Trustee Board has delegated responsibility for day-to-day management of the scheme to the Group Executive Committee, subject to ongoing Trustee Board oversight. The board is also supported by five specialist standing committees:

- Governance and Nominations Committee;
- Audit Committee;
- Remuneration Committee;
- Investment Committee; and
- Policy Committee.

The Trustee Board and committee structure is set out at the bottom of the page.

There are two other key committees:

- Joint Negotiating Committee (JNC);
- Advisory Committee.

The JNC and Advisory Committee are both formed under the scheme's rules and whilst entirely separate to, and distinct from, the Trustee Board, they play an important part in the governance of the scheme.

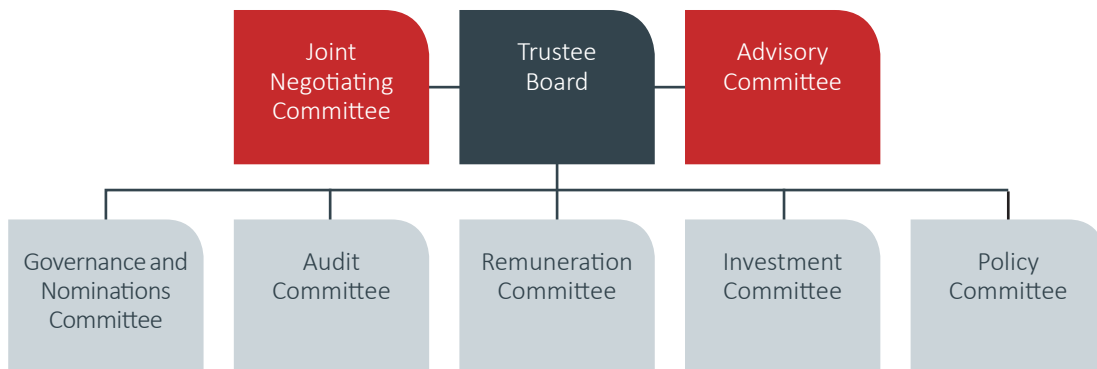
The JNC comprises representatives for the scheme's stakeholders, Universities UK and the University and College Union (UCU).

During the year, the JNC has played a key role in relation to both the 2017 and 2018 valuations. The role of the JNC in relation to the valuation is entirely distinct from that of the trustee company. Whilst the trustee has responsibility to undertake the valuation in accordance with all legal and regulatory requirements, the JNC's role is restricted to considering whether any benefit changes should be made and negotiating how any contribution changes should be shared between members and/or employers.

The Advisory Committee's primary role is to fulfil the member dispute resolution function for the scheme.

More information about the activities and membership of the Trustee Board, its committees, the JNC and the Advisory Committee is set out on the following pages.

Trustee Board and committee structure



Trustee Board composition

The Trustee Board consists of 12 non-executive directors comprising:

- four directors appointed by Universities UK;
- three directors appointed by the UCU (at least one of whom must be a pensioner member); and
- five independent directors.

The composition and diversity of experience of the directors promotes an effective and balanced Trustee Board and helps to ensure the directors collectively have all the key competencies and knowledge required. This includes competencies in, and knowledge of, pensions, investments, strategic management, the higher education sector, and scheme member views.

The Trustee Board works with Universities UK and UCU to ensure that the Trustee Board includes directors with a good understanding of the views of both members and employers. In addition, the Trustee Board is focused on improving the diversity of its board members.

As maintaining and improving key competencies, knowledge and diversity of the Trustee Board is vitally important, this year we enhanced our processes in relation to director appointments, reappointments, removals, comprehensive appraisals and succession planning. In addition, no director (including those appointed by Universities UK and UCU) may now be appointed or removed from the Trustee Board without the Trustee Board's consent, a change prompted by the USS application to become authorised as a Master Trust. This safeguard has been put in place to help ensure that Trustee Board members have the necessary balance of skills, knowledge and competencies and that they individually meet high standards of honesty, integrity, fitness and propriety. These changes also assist with our evidencing compliance with the Master Trust regulations.

Some key highlights in relation to the strength and depth of expertise of the Trustee Board are shown below and further details of each director appear on the following pages.

Division of responsibility between the Trustee Board and Executive

The Trustee Board has delegated day to day management of the group to the Group Executive Committee. While the Trustee Board has responsibility for the strategic direction of the group and makes key decisions (for example, it is required to approve the group's business plan, significant supplier contracts, the strategic aim and objectives of the scheme and the scheme's investment policy), a number of decisions about the commercial activities of the scheme are made by the Group Executive Committee (for example, it decides the scheme's strategic approach to delivering the required levels of service to employers and members and takes certain decisions in relation to the scheme's recruitment and retention strategy).

Trustee Board competency and accreditations

Strengths	Depth of experience
Board competencies	6 directors are or have been trustees of other pension schemes
	6 directors have extensive pensions industry expertise
	5 directors hold or have held senior governance, management, leadership or council roles in academia
	5 directors have held senior executive roles in significant financial services organisations
	6 directors have audit, accounting or financial management experience
	7 directors have extensive HR and/or remuneration experience
	Board qualifications and experience
	2 directors are Fellows of the ICAEW
	3 directors have MBAs
	1 director has an award in trusteeship from the PMI
	1 director is a Fellow of the Institute and Faculty of Actuaries
	2 directors hold PhDs (1 in Statistics and another in Finance)

Governance

Members of the Trustee Board



Professor Sir David Eastwood G I

- Universities UK appointee
- Chair of the Trustee Board
- Appointed as a director January 2007, Chair since 2015

Sir David became Vice-Chancellor of the University of Birmingham in April 2009. Former posts include Chief Executive of the Higher Education Funding Council for England (HEFCE), Vice-Chancellor of the University of East Anglia (UEA) and Chief Executive of the Arts and Humanities Research Board.



Dr Kevin Carter I P

- Independent appointee
- Senior Independent Director and Deputy Chair
- A director of USSIM
- Appointed September 2012

Kevin is Chair of Murray International Trust PLC and of JP Morgan American Investment Trust PLC, and a non-executive director of Aspect Capital Limited and Newton Investment Management Ltd. He is a Trustee Director of the BBC Pension Trust Limited, and Chair of its Investment Committee.



Mr Gary Dixon

- Universities UK appointee
- Appointed April 2019

Gary trained as a Chartered Accountant with PwC after graduating in 1987 from the University of Leicester in Physics with Astrophysics. In 1994 he joined the banking and pensions focused financial services group, Pointon York, where he was subsequently appointed Group CFO. He is a Fellow of the ICAEW and holds an MBA from Warwick Business School. He is Treasurer and Lay Member of Council at the University of Leicester.



Ms Kirsten English G A

- Independent appointee
- Appointed May 2014

Kirsten has over 25 years experience in FinTech and Financial Service institutions. She has held roles as CEO, General Manager and Non-Executive Director across FTSE 25, FTSE 350 and private equity backed business.



Mr Dave Guppy

- UCU appointee
- Appointed September 2017

Dave was appointed in October 2017. Now retired, he worked in the computing service at University College London from 1979 to 2009. Prior to that he worked in similar roles at the London Hospital Medical College, a software cooperative and IBM.



Professor Jane Hutton A

- UCU appointee
- Appointed November 2015

Jane was appointed in November 2015. She studied at the Universities of Edinburgh, Cambridge and London; her PhD is from Imperial College. She has been a professor of statistics at the University of Warwick since 2004. As detailed on page 7, on 21 June 2019 Professor Hutton was suspended from the board.



Detailed biographies of each board member appear on the USS website at www.uss.co.uk/people/the-board

Key to Committee membership

- Chair
- Ⓐ Audit Committee
- Ⓔ Governance and Nominations Committee
- Ⓘ Investment Committee
- Ⓟ Policy Committee
- Ⓡ Remuneration Committee

**Professor Sir Anton Muscatelli**

- Universities UK appointee
- Appointed April 2015

Sir Anton became Principal and Vice-Chancellor of the University of Glasgow on 1 October 2009. He studied at the University of Glasgow, where he graduated with an MA in Political Economy and with a PhD in Economics. Sir Anton is Chair of the Russell Group.

Ⓘ

**Dr Steve Wharton**

- UCU appointee
- Appointed September 2016

Steve is a Senior Lecturer in French and Communication at the University of Bath. The last national President of AUT and first (joint) President of UCU, he served as a member of the USS Advisory Committee for three years. In 2012, the French government made him Chevalier dans l'Ordre des Palmes Académiques for services to French culture.

Ⓔ Ⓟ Ⓡ

**Mr Ian Maybury**

- Independent appointee
- Appointed November 2013

Ian joined Schroders in 2012 as the Head of Solution Management and has previously worked for Redington, Citigroup and Royal London Insurance in various actuarial and management roles. He is a Trustee Director of the John Lewis Pension Scheme and the Mineworkers Pension Scheme and Chair of Trustees at the RNIB Retirement Benefits Scheme.

Ⓟ Ⓐ Ⓔ Ⓘ

**Mr Will Spinks**

- Universities UK appointee
- Appointed September 2018

Will has worked in higher education since 2007, initially as the first Chief Operating Officer at Loughborough University and subsequently as the Registrar, Secretary, Chief Operating Officer and Associate Vice President at the University of Manchester.

Ⓟ Ⓡ

**Mr Rene Poisson**

- Independent appointee
- Appointed November 2012

Rene became a trustee director in November 2012 having retired after a 30 year career with JP Morgan latterly as Managing Director and Senior Credit Officer for Europe, Middle East and Africa. He is Chair of the JP Morgan UK Pension Plan and a member of its Investment Sub-Committee and a Trustee Director of the Standard Life Master Trust.

Ⓡ Ⓟ

**Mr Michael Merton**

- Independent appointee
- Appointed February 2014

Michael is a Director and chair of the Audit Committee of BlackRock Energy and Resources Income Trust plc. He previously had a thirty year career at Rio Tinto, and was chair of the J Sainsbury Pension Scheme and a director at Cape plc.

Ⓐ Ⓡ

Governance

Trustee Board key activities 2018/19

2018/19 has been a very busy year for the scheme and consequently for the Trustee Board. During the year, the scheme successfully applied to become a Master Trust and closed the 2017 valuation. The Trustee Board played a pivotal role in both activities. More information is set out below.

Topic	Activity
Regulatory	<ul style="list-style-type: none">• Oversaw and approved the scheme's application to the Pensions Regulator for authorisation as a Master Trust• Reviewed and approved key documentation required in relation to the scheme's Master Trust application, including the scheme's continuity strategy, DC business plan and changes to the process around appointment of directors to enable compliance with Master Trust legislation• Oversaw executive engagement with the Pensions Regulator
2017 valuation	<ul style="list-style-type: none">• Concluded the 2017 valuation of the scheme, and as part of the valuation supported employers in undertaking a formal consultation with members and their representatives and formally consulted with Universities UK on behalf of employers in relation to the schedule of contributions and recovery plan• Oversaw the scheme's readiness to administer the contribution changes arising from the 2017 valuation
2018 valuation	<ul style="list-style-type: none">• Initiated a 2018 valuation• Undertook a formal consultation exercise with Universities UK in relation to the technical provisions for the 2018 valuation
Pensions Operations	<ul style="list-style-type: none">• Oversaw pensions administration during the year and improvements in key service levels and turnaround times• Oversaw engagement with members and employers, including a pilot of direct to member communications• Oversaw progress in relation to increasing member flexibilities, including the development of pre and post retirement uncrystallised pension fund lump sums (UFPLS) offerings
Strategy	<ul style="list-style-type: none">• Reviewed, considered and oversaw key strategic initiatives, including in relation to the scheme's digital strategy, proposed future enhancements to the support provided to members in relation to their pension planning• Considered the impact on the USS business of the evolving regulatory landscape (including the Financial Conduct Authority's, Senior Managers and Certification Regime (SMCR) and Master Trust legislation)
Investment	<ul style="list-style-type: none">• Oversaw the completion of a review by the Investment Committee of the DC fund range and default investment option for members, following an assessment of member requirements by the Policy Committee• Approved a revised DB Reference Portfolio• Oversaw succession planning for the Chief Investment Officer
Financial reporting and controls	<ul style="list-style-type: none">• Approved the financial statements for the scheme and the trustee company for the year ended 31 March 2018 on recommendation from the Audit Committee• Reviewed the scheme three year plan and approved the annual plan and budget
Risk management and internal controls	<ul style="list-style-type: none">• Regularly reviewed the enterprise risk report encompassing all key risks impacting upon the delivery of the scheme's strategic objectives• Oversaw the scheme's preparedness for Brexit• Considered the adequacy of the scheme's internal-control and risk management-framework, based on assurance provided by the Audit Committee on each of the three lines of defence• Approved a revised risk governance policy

Topic	Activity
Performance and general oversight	<ul style="list-style-type: none"> • Approved a range of key performance indicators, measures and targets against which performance across the group could be monitored and assessed • Reviewed performance reports from all key business areas on a quarterly basis • Received and discussed reports from all standing Trustee Board committees which had met in the reporting period • Discussed and reviewed performance of a key supplier and oversaw review and remediation of historic control issues in supplier management
Corporate governance	<ul style="list-style-type: none"> • Reviewed the group corporate governance framework and the terms of reference for the Trustee Board's standing committees • Approved a new policy in relation to director appointment, removal, evaluation and training to support and improve diversity and governance standards • Adopted a revised board code of conduct • Reviewed and approved two appointments and two reappointments to the Trustee Board • Evaluated the board's effectiveness and adopted proposals for increasing board efficiency
Leadership	<ul style="list-style-type: none"> • Discussed the outcomes of the USS employee engagement survey and the Group Executive Committee's proposed response to that survey • Received updates on initiatives being undertaken by the executive to increase diversity and inclusion
Stakeholders	<ul style="list-style-type: none"> • Engaged directly with Universities UK, UCU and the Joint Expert Panel and oversaw the executive's engagement with each of them • Received and discussed the outcomes of the member and employer perceptions surveys • Oversaw member and employer communications and consultation activity in the year, and the approach to corporate affairs more generally



Our primary purpose as trustee is to deliver securely the pension promises made to our members

The USS Policy Committee meets to:

- provide oversight of policy related issues;
- oversee the scheme rule amendment process; and
- provide support to the Trustee Board in relation to administration of the scheme and implementation of those rules that relate to policy issues.

Governance

Trustee Board meeting and committee attendance

In carrying out the activities outlined on the previous two pages, the Trustee Board met 14 times during the year. An overview of attendance at meetings of the Trustee Board and its standing committees is provided below:

	Trustee Board	Investment Committee	Policy Committee	Audit Committee	Remuneration Committee	Governance and Nominations Committee
Meetings held in the year	14	7	4	6	5	12
Trustee board members						
Professor Dame Glynis Breakwell ¹	5	–	2	–	–	–
Dr Kevin Carter	14	7	4	–	–	–
Mr Gary Dixon ²	–	–	–	–	–	–
Professor Sir David Eastwood	14	4	–	–	–	11
Ms Kirsten English	14	–	–	6	–	12
Mr Dave Guppy	14	–	–	–	–	–
Professor Jane Hutton ³	14	–	–	6	–	–
Mr Ian Maybury ⁴	13	7	4	5	–	11
Mr Michael Merton	13	–	–	6	2	–
Professor Sir Anton Muscatelli	12	6	–	–	–	–
Professor Stuart Palmer ⁵	13	–	3	–	5	–
Mr Rene Poisson	13	–	4	–	5	–
Mr Will Spinks ⁶	8	–	–	–	3	–
Dr Steve Wharton ⁷	14	–	4	–	5	11
Committee members						
Ms Sarah Bates	–	7	–	–	–	–
Mr Gordon Coull ⁸	–	–	–	3	–	–
Mr Mark Fawcett ⁹	–	6	–	–	–	–
Mrs Virginia Holmes	–	7	–	–	–	–
Mr Tony Owens	–	–	–	6	–	–

Notes

- 1 Professor Breakwell retired from the Trustee Board on 31 August 2018. She attended all of the Policy Committee meetings held in the year up to the date of her retirement but was unable to attend the last Trustee Board and Remuneration Committee meetings immediately prior to her retirement date.
- 2 Mr Dixon joined the Trustee Board on 1 April 2019 and consequently did not attend any meetings during the financial year.
- 3 On 21 June 2019, Professor Hutton was suspended from her position as a director pending the outcome of an independent investigation. Mr Dave Guppy is acting as an alternate UCU Director during Professor Hutton's suspension.
- 4 Mr Maybury was appointed to the Policy Committee with effect from 1 May 2018.
- 5 Professor Palmer retired from the Trustee Board on 31 March 2019. He was unable to attend the last scheduled Policy Committee meeting prior to his retirement.
- 6 Mr Spinks was appointed to the Trustee Board on 1 September 2018 and has attended all Trustee Board meetings in the period following his appointment. He joined the Remuneration Committee on 23 January 2019 and has attended all Remuneration Committee meetings since then.
- 7 Dr Wharton was appointed to each of the Policy and Remuneration Committees with effect from 1 May 2018.
- 8 Mr Coull retired from the Audit Committee on 31 July 2018.
- 9 One of the Investment Committee meetings spanned two days. Although Mr Fawcett was unable to attend on the first day, his attendance at the meeting is incorporated.



Further information regarding the work completed by USS specialist standing committees in 2018/19 can be found in our Governance supplement which is available online on our website at www.uss.co.uk/report-and-accounts

Governance

Annual reports for each of the Standing Board subcommittees in operation at USS

Governance and nominations committee	9
Audit Committee	11
Remuneration Committee	13
Investment Committee	14
Policy Committee	15
K V #	16
Advisory #	18

Governance & nominations committee

Introduction

The committee was established by the Trustee Board to:

- Provide assurance on matters relating to USS's corporate governance capability; and
- Ensure the effective design and operation of USS's governance arrangements in compliance with applicable legal and regulatory requirements.

The committee gives assurance to the Trustee Board by ensuring that USS's governance arrangements deliver a framework for strategic and operational considerations and decision making that is effective, efficient and demonstrates appropriate accountability.

The committee comprises five members, four of whom are also serving non-executive directors of the Trustee Board and Mr Bill Galvin, Group Chief Executive Officer. Ms Kirsten English, an independent director, has chaired the committee since 1 April 2016.

Role

The committee monitors membership of and succession planning for both the Trustee Board and USSIM board and their principal committees to ensure:

- Ongoing effectiveness;
- The efficient operation of USS's corporate governance framework; and
- That there is an appropriate balance of skills and experience.

The committee has performed a pivotal role in appointments and reappointments made to the Trustee Board and the USSIM board during the period and is currently focusing on succession planning for those director vacancies that are due to be filled throughout the remainder of 2019/20. During the year, the committee carried out a review of its own effectiveness and thereafter focused on implementing the suggestions for improvement, including ensuring that the majority of its time is devoted to strategic matters. As well as overseeing the completion of annual effectiveness reviews of the Trustee Board and USSIM board and biennial effectiveness reviews of each Board's standing committees, the committee has contributed to work being undertaken by the executive to improve the approach to future effectiveness reviews.

The committee offers its skills and expertise to support the wider business and as part of this has overseen actions to further improve diversity and inclusion across the organisation.

Key activity in 2018/19

The committee had an extremely busy year due to its contribution to the governance related work streams of USSSL's application for authorisation as a Master Trust. The committee closely monitored progress, and provided challenge and support to the project in the following areas:

- Interpretation of the Master Trust Regulations and their impact on Trustee Board director recruitment, competence, training, development, appraisal, resignation and removal, culminating in the production of a policy documenting revised processes in each of these areas.
- Engagement with UCU, Universities UK and the Pensions Regulator on the trustee's approach to interpretation and its proposed application of the Master Trust Regulations.
- Creation of a skills matrix and competency matrix for the Trustee Board. The skills matrix primarily supports the creation of training and development plans for the directors and their annual appraisals. The competency matrix is a fundamental part of the assessment of board and committee composition and succession planning.
- Creation of a new Trustee Board succession planning process and plan.
- Changes to the trustee's Articles of Association and the scheme's Corporate Governance Framework Policy to ensure compliance with the requirements of the Master Trust Regulations.

During the year, the committee was involved in two appointments and two reappointments to the Trustee Board. The committee has a key role to play in the process used in relation to Trustee Board appointments and reappointments. It considers the skills and competencies required on the Trustee Board having an eye to the skills and competency matrices and the succession plan. It approves the role profile for director vacancies. It runs the recruitment process for independent directors and oversees the recruitment process for directors appointed by Universities UK and UCU in order to ensure an open and transparent recruitment process is run with due regard to the importance of board diversity. The committee is also responsible for assessing the fitness and propriety of all proposed directors prior to appointment to the Trustee Board.

Throughout the year, the committee has also completed its usual responsibilities, including providing ongoing input into the design of the training plans for both boards and their committees as well feedback on ways in which the training could be delivered more effectively. The committee also approved a revised version of the Trustee Board code of conduct following the conclusion of the review it initiated in 2018, as well enhancements to the procedure for the induction of new directors.

Membership - Appointed by the Trustee Board

Ms Kirsten English (Chair), Professor Sir David Eastwood, Mr Bill Galvin, Mr Ian Maybury and Dr Steve Wharton.

Audit committee

Introduction

The committee was established by the Trustee Board to provide it with assurance:

- On matters relating to the adequacy and effectiveness of the USS group's risk management and internal control framework;
- That appropriate financial and business reporting processes and controls are in place and operating effectively; and
- On the effectiveness of the internal and external audit functions.

The committee comprises five members: four of whom are serving non-executive directors of the Trustee Board and one of whom is a non-executive director of USSIM. Mr Michael Merton, an independent director, has chaired the committee since February 2014. Mr Merton is a qualified chartered accountant with more than 30 years' experience in commercial roles.

Role

The committee continues to play a key role in ensuring that there is appropriate challenge of the USS group risk management and internal control frameworks and providing assurance to the Trustee Board on the robustness of these systems. The committee receives a quarterly update and report at the end of each financial year from the Group Chief Executive Officer (GCEO) on the effectiveness of the internal control environment of the USS group. The quarterly statement is based on the output of the risk committee and the operating committees of the pensions business and USSIM. The end of year report is supported by annual assurance statements from each of the three lines of defence. For more information on the three lines of defence approach to risk management operated by USS, please see the report and accounts for the USS scheme for the year ended 31 March 2018 www.uss.co.uk/how-uss-is-run/running-uss/annual-reports-and-accounts. In addition to receiving reports at each meeting from the GCEO, it also receives quarterly updates from the Chief Risk Officer, Chief Compliance Officer and the Head of Internal Audit.

The committee actively monitors the internal controls in place at USS and challenges their effectiveness. During the year, at the request of the Trustee Board, the committee commissioned a review of the control environment. The review concluded that the control framework is effective but a number of improvements were required. The implementation of the recommendations for improvement are ongoing.

The committee approves the external audit plan annually and oversees the integrity of the financial reporting process and production of the scheme's report and accounts and those of USSL before submission to the Trustee Board for approval. It provides assurance to the Trustee Board that the financial statements and accompanying information are fair, balanced and understandable and have been prepared properly in accordance with the applicable accounting framework.

Each year the committee reviews the effectiveness of the external audit process and the performance of the external auditor during the year. The committee is supported in this process by the output of a detailed assessment co-ordinated by the Finance team. In addition, at least once a year, and as required, the committee holds 'in camera' meetings with the external auditor. Ernst & Young LLP (EY) were appointed as external auditor for USSL and its subsidiaries in 2018 following a competitive tendering process. EY were appointed for a five year term subject to satisfactory completion of the annual performance review process. The committee concluded during the year that EY had performed effectively since appointment. To safeguard the external auditor's independence and objectivity, the committee has approved a policy for the provision of non-audit services by the external auditor and receives a regular update on compliance with the policy.

The committee also closely monitors the performance and effectiveness of the internal audit function. Discussions with the Head of Internal Audit are held 'in camera' at least once a year and as required. During the year the committee has focused on ensuring that internal audit findings are closed out without delay throughout the business and that the internal audit function is appropriately supported in this regard.

Key activity in 2018/19

During the year the committee has closely monitored substantial changes to the scheme's investment valuation process and associated governance framework. It also commissioned an internal audit of the adequacy of controls in relation to the scheme's triennial actuarial valuations on behalf of the Trustee Board. In addition, on behalf of the Trustee Board, the committee oversaw: (i) the enhancement of the scheme's key performance indicator for reporting on regulatory breaches; (ii) the appropriateness of revisions to the operational risk appetite statements to be included in the risk governance policy; and (iii) the executive's response to, and compliance of key suppliers with, the General Data Protection Regulations. The committee actively oversees the adequacy of the control environment through 'deep-dives' into the risk and control measures in place in the various teams across the USS group. During the year the committee focused on the contribution of the HR and IT teams to supporting the control environment.

Membership- Appointed by the Trustee Board

Mr Michael Merton (Chair), Ms Kirsten English, Professor Jane Hutton, Mr Ian Maybury and Mr Tony Owens.

Remuneration committee

Introduction

The Remuneration Committee ensures that remuneration arrangements for USS (both USSL and its subsidiary USSIM) promote the recruitment, motivation and retention of quality employees to support the delivery of the business and long-term strategic objectives of the USS Group. The Remuneration Committee is also responsible for reviewing and making recommendations to the Trustee Board on director remuneration within an overall cap set by the Joint Negotiating Committee. The Remuneration Committee comprises four members, each of whom are also serving non-executive employer nominated, UCU nominated or independent directors of the Trustee Board. Mr Rene Poisson, an independent director, has chaired the committee since April 2014. McLagan is the appointed remuneration consultant for the Remuneration Committee.

Role

The Remuneration Committee provides thorough review and robust challenge to executive remuneration proposals for staff (including senior management), in order to provide assurance to the Trustee Board that compensation complies with agreed remuneration principles.

The Remuneration Committee reviews total remuneration costs, including aggregate bonus awards and long-term incentive plans, to satisfy itself that they are aligned to industry trends and appropriate to balance stakeholder and member interests between:

- Cost effectiveness
- A long-term stable organisation; and
- An incentive structure to drive behaviours and performance aligned with stakeholder and member needs.

The Remuneration Committee challenges the executive and the proposals made by its subsidiary, USSIM, to demonstrate a clear and robust link between reward and performance, seeking assurance that a rigorous process of performance appraisal is in place, with appropriate controls to manage behaviour and manager discretion.

Key activity in 2018/19

In the year, the Remuneration Committee has reviewed and made recommendations regarding the level and structure of remuneration for staff (including senior management), compensation and benefits for employees, and in relation to the bonus scheme and long-term incentive plans.

Membership-Appointed by the Trustee Board

Mr Rene Poisson (Chair), Professor Dame Glynis Breakwell (until 31 August 2018), Mr Michael Merton (until 11 February 2019 and from 1 April 2019), Professor Stuart Palmer (until 31 March 2019), Mr Will Spinks (from 23 January 2019) and Dr Steve Wharton (from 1 May 2018).

Investment committee

Introduction

The Investment Committee advises the trustee company on all strategic matters relating to, and provides oversight of, the investment of the scheme's assets. The investment committee has seven members and comprises non-executive directors and special committee members appointed for their investment experience. It is chaired by Dr Kevin Carter, an independent non-executive director.

Role

The Investment Committee continues to provide oversight of the performance of the scheme's investment strategy and the delivery of services under the investment management and advisory agreement ('IMAA') with USS Investment Management Limited ('USSIM'). At each Investment Committee meeting, investment performance and risk reports are reviewed and challenged by the Investment Committee, in addition to regular investment manager presentations, in order to provide assurance to the Trustee Board that the management of scheme assets is in line with the agreed strategy and targets. On behalf of the Trustee Board, the Investment Committee undertakes regular reviews of key investment documents including the Statement of Investment Principles ('SIP') and the IMAA and accompanying investment instructions to USSIM.

Key activity in 2018/19

A key part of the Investment Committee's work during the year was to consider and advise the Trustee Board on the investment strategy implications of the 31 March 2017 actuarial valuation, which was finalised in February 2019. This culminated in the Investment Committee recommending to the Trustee Board a 2019 Reference Portfolio to be used as the risk and return benchmark against which USSIM manages the scheme's defined benefit ('DB') scheme assets. The 2019 Reference Portfolio takes into account that whilst the 31 March 2017 actuarial valuation has been completed, the trustee is in the process of agreeing a 31 March 2018 valuation. The 2019 Reference Portfolio was recommended by the Investment Committee to the Trustee Board based on detailed analysis and advice from USSIM and support from an independent investment consultant, Mercer. The aim of this strategy, along with the delegations to USSIM, is to enable the investment portfolio to be structured to meet the investment targets set, with appropriate diversification and risk controls.

In parallel with this work and following three years since its last review, the trustee completed a review of its SIP which is applicable to both USS Retirement Income Builder (DB) and USS Investment Builder (defined contribution 'DC') assets of the scheme. The review concluded that a number of updates to the SIP were required. However, with the March 2018 valuation likely to lead to further changes in investment strategy in 2019 and a number of matters yet to be finalised, the trustee plans to update and consult directly with employers on amendments to the SIP in the summer of 2019, and review the DC Default SIP at this time also. With regards to the DC investments of the scheme, the Investment Committee has continued to oversee the investment performance and management of these funds. In conjunction with the policy committee, it has considered how best to serve member requirements with the range of funds offered and potential future product developments

The Investment Committee has reviewed USSIM's approach to deriving long-term expected returns. It has also received regular updates and scenario analysis from USSIM on how Brexit and other external factors might affect markets and interest rates, how these might impact the scheme's investments and liabilities both in the near and longer term, and how the scheme's investment strategy and manager are positioned relative to these opportunities and risks.

The Investment Committee has continued its regular programme of activities to oversee the performance and procedures of its investment manager, USSIM, including review of and compliance with relevant policies that the trustee directs its investment manager to follow (for instance, Responsible Investment). The Investment Committee also monitors and has gained assurance on the cost-effectiveness of the investment solutions delivered for the DB and DC funds, including benchmarking against other large pension schemes.

During the year, the committee conducted an effectiveness review to evaluate where enhancements to areas of its performance and governance arrangements could be implemented over the coming year.

Membership - Appointed by the Trustee Board

Dr Kevin Carter (Chair), Professor Sir David Eastwood, Professor Sir Anton Muscatelli, Mrs Virginia Holmes, Mr Ian Maybury, Ms Sarah Bates and Mr Mark Fawcett.

Policy committee

Introduction

The Policy Committee was established to provide oversight of policy related issues; oversee the scheme rule amendment process; and provide support to the Trustee Board in relation to administration of the scheme and implementation of those rules that relate to policy issues. The Policy Committee comprises four members, each of whom are also serving non-executive directors of the Trustee Board. Mr Ian Maybury, an independent director, has chaired the committee since 1 September 2018.

Role

The Policy Committee undertakes, on behalf of the Trustee Board, detailed review of proposals for changes to the scheme rules. The Policy Committee also monitors those policy and regulatory developments that may impact on the scheme and its operating environment.

Key activity in 2018/19

A key part of the Policy Committee's work during the year was the consideration of new enhanced member facing flexibilities and other services for members with DC benefits in the scheme. In conjunction with the Investment Committee, the Policy Committee has considered how best to serve member requirements with the range of funds offered and potential future product developments.

The Policy Committee has also considered issues relating to the employer participation framework and a number of specific employer debt and participation cases during the year. In addition, the Policy Committee has reviewed proposed amendments to the scheme rules, including in relation to indemnity provisions for members of the Joint Negotiating Committee and the Advisory Committee (embodied in the seventh deed of amendment) and non-statutory transfers (in the eighth deed of amendment).

During the year, the Policy Committee conducted an effectiveness review to evaluate, and where appropriate consider enhancements to, areas of its performance and governance arrangements, which will be implemented over the coming year.

Membership- Appointed by the Trustee Board

Mr Ian Maybury (Chair – from 1 September 2018), Professor Dame Glynis Breakwell (until 31 August 2018), Dr Kevin Carter, Professor Stuart Palmer (until 31 March 2019), Mr Rene Poisson and Dr Steve Wharton (from 1 May 2018).

Joint Negotiating committee

Introduction

The Joint Negotiating Committee was established under the rules of the scheme. Its constitution, powers and responsibilities are set out in the scheme rules.

The Joint Negotiating Committee's purpose is to initiate amendments, and/or to consider and/or approve amendments proposed by the trustee to the scheme rules. If, following an actuarial valuation of the scheme, the trustee determines that the cost sharing provisions under rule 64.10 of the scheme rules are triggered, the Joint Negotiating Committee also has the power to decide how the cost of the contribution increases or decreases is to be addressed and/or the benefit changes in respect of the scheme. There are also certain other decisions under the scheme rules that require the Joint Negotiating Committee's approval (such as increases in fees for directors and certain other committee members, and whether payment of investment management costs from the fund and the cap on these costs remains appropriate).

The Joint Negotiating Committee comprises five representatives of Universities UK and five representatives of the UCU, together with an independent committee member who acts as Chair. Sir Andrew Cubie has chaired the committee since 1 September 2008.

The committee met 10 times during the year. Its funding and benefits sub-committee ('FBSC') met 4 times. The FBSC is a subcommittee of the Joint Negotiating Committee which was established to consider such matters as the Joint Negotiating Committee might require and, where appropriate, develop recommendations for it to consider. Such matters may include (without limitation) future changes to the scheme within the context of the scheme's sustainability and the funding position of the scheme and other similar items.

Key activity in 2018/19

The Joint Negotiating Committee (and FBSC) have devoted a substantial amount of time to discussing the 2017 and 2018 valuation processes and considering the work of the Joint Expert Panel (a panel set up by Universities UK and UCU to examine the valuation of USS). As part of this, the Joint Negotiating Committee has received and discussed the scheme's valuation at each of its formal meetings and considered analysis of important data, such as that relating to member affordability.

The Joint Negotiating Committee has also provided helpful feedback in relation to the trustee's communications and engagement plans with members and employers in relation to the 2017 and 2018 valuations. During the financial year, the Joint Negotiating Committee also:

- Reviewed (and consented to) two deeds of amendment to the scheme rules;
- Discussed issues of confidentiality and transparency and as a result approved a Joint Negotiating Committee Code of Conduct and agreed that reports of each committee meeting would be published;
- Provided input into the perceptions surveys issued by the trustee to members and employers and considered the results of such surveys; and
- Received and reviewed detailed 'insight' in relation to the scheme's membership.

In addition, during the year:

- Some members of the Joint Negotiating Committee attended an informal workshop at which matters of confidentiality and transparency were discussed
- The Chair of the Joint Expert Panel met twice with the members of the Joint Negotiating Committee
- Training sessions were run for Joint Negotiating Committee members in relation to the scheme's actuarial valuation and the role of the Joint Negotiating Committee.

Membership during the year

Independent committee member: Sir Andrew Cubie (Chair).

Universities UK appointees: Mr Phil Harding, Mr Cliff Vidgeon, Mr John Neilson, Mr Brendan Mulkern (appointed during the year) and Mr Anthony Odgers (appointed during the year). Mr Will Spinks and Ms Mary Lambe both retired from the committee during the year and Ms Emelda Nicholroy was appointed as a temporary member of the committee for part of the year.

UCU appointees: Dr Catherine Prendergast, Ms Christine Haswell, Dr Carlo Morelli, Dr Sam Marsh (appointed during the year) and Ms Amanda Williams (appointed during the year). Ms Pauline Collins and Dr Marion Hersh both retired from the committee during the year.

Advisory committee

Introduction

The Advisory Committee was established under the rules of the scheme. It exercises the dispute resolution function on behalf of the scheme under s50 of the Pensions Act 1995. Its role also extends to advising the trustee company on matters on which it requires advice, including those relating to:

- The exercise by the trustee company of its powers and discretions (other than those relating to investment matters)
- Implementation and application of the scheme rules
- Complaints received from members or participating employers

The committee met five times during the year.

Key activity in 2018/19

During the year, the committee considered 14 complaints. Of the complaints considered, none were upheld in full and four were upheld in part, with distress and inconvenience payments awarded in three of those cases. The cases covered a broad range of topics including additional voluntary contributions, incapacity retirement, late retirement factors, pre-scheme service, pension sharing orders and transfers.

The committee decided to refer one case relating to the application of the scheme's full commutation policy to the Trustee Board as it considered it involved a significant issue of policy. The Trustee Board, on the recommendation of the Policy Committee, decided to approve the full commutation application, although the member's application had not met the pre-condition set out under the policy. The Policy Committee, with support from the Advisory Committee, is currently reviewing the full commutation policy and procedures to determine whether they should be revised.

The Advisory Committee reviewed and approved the scheme's augmentation policy which was introduced to support the trustee's augmentation power which was inserted into the scheme rules in late 2017. The Committee considered and approved two separate augmentation requests.

The committee also exercised its oversight role in relation to full commutation cases. 28 full commutation applications were considered by the committee during the year.

The Advisory Committee also oversees USS's pension ombudsman cases and received regular updates on the progress and outcome of all applicable cases during the year.

The Advisory Committee also reviewed its terms of reference and satisfied itself that all activities required had been completed during the year.

Membership

Universities UK appointees: Mr Cliff Vidgeon (Chair), Dr Tony Bruce, Mr Denis Linfoot.

UCU appointees: Ms Pauline Collins, Dr Adam Ozanne, and Professor Dennis Leech (who replaced Ms Amanda Williams with effect from the July 2018 meeting of the committee).

Professor Stuart Palmer and Professor Jane Hutton acted as the Universities UK and UCU director, respectively, when the committee considered cases raised under the IDR procedure. Mr William Spinks replaced Professor Stuart Palmer as the Universities UK IDR director from 1 April 2019.

