



USS

*For members, for the future.*

# Universities Superannuation Scheme

Governance  
Supplement 2022



# Introduction

The governance arrangements of Universities Superannuation Scheme (USS or the scheme) are summarised in the Governance section of the scheme's Annual Report and Accounts for the year ended 31 March 2022 (the Annual Report and Accounts). The Annual Report and Accounts can be viewed online at [uss.co.uk/about-us/report-and-accounts](https://uss.co.uk/about-us/report-and-accounts).

This supplement is to be read in conjunction with the scheme's Annual Report and Accounts and USSL's Annual Report and Accounts for the year ended 31 March 2022 [uss.co.uk/about-us/report-and-accounts](https://uss.co.uk/about-us/report-and-accounts). It provides additional information about how the Trustee Board of Universities Superannuation Scheme Limited (USSL or the trustee), the corporate trustee of the scheme, delivers effective leadership, strategy and oversight of USS. It also provides information about USS's wider governance.

This supplement contains, in respect of financial year 2021/22:

- A summary of the trustee's compliance with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles)
- Reports from each of the Trustee Board's standing committees about the activities they have undertaken during the year
- An overview of the scheme's Joint Negotiating Committee (JNC) and a report from the scheme's Advisory Committee. The JNC and Advisory Committee are stakeholder committees constituted under the scheme rules. They are distinct from, and separate to, the trustee, and play an important part in the governance of the scheme. For more information, please see the overview of the JNC and the Advisory Committee report on pages 16 and 17 of this supplement.
- Reports from each of the meetings of the JNC held during the year can be accessed at [uss.co.uk/about-us/how-were-governed/joint-negotiating-committee](https://uss.co.uk/about-us/how-were-governed/joint-negotiating-committee)
- Signposting to help readers locate additional information in relation to USS's corporate governance in the scheme's Annual Report and Accounts and on [uss.co.uk](https://uss.co.uk)

# Corporate governance statement for the financial year 1 April 2021 to 31 March 2022

USS's governance arrangements are designed to comply with applicable law and regulation, codes of practice and guidance issued by The Pensions Regulator (TPR) and by corporate governance bodies (in so far as applicable to a pension trustee), the scheme rules and other constitutional documents.

Good governance is of vital importance and a cornerstone of our approach. USS's governance framework, which sets out the key responsibilities of the Trustee Board and the board's powers of delegation, supports the trustee's decision making and accountability as it discharges its duties as trustee of the scheme and the fostering of effective relationships with stakeholders.

As trustee of the scheme, USSL is responsible for ensuring that the pension scheme is run properly, the scheme's assets are invested in accordance with the terms of the scheme rules, and prudently, that contributions are collected and members' benefits are secure and paid in accordance with the scheme rules. Having high standards of corporate governance supports the trustee in fulfilling this critical responsibility, and ensures the Trustee Board engages with, and considers the interests of, its stakeholders as part of the board's decision-making process.

Although the trustee is not required to comply with the reporting requirements set out by the Wates Principles, the trustee has adopted the Wates Principles to provide a framework for disclosure of its corporate governance arrangements where practicable, taking into consideration its status as a trustee of a pension scheme and a not-for-profit entity.

The Wates Principles offer companies an opportunity to demonstrate good practice and provide a tool to help large private companies analyse their purpose, and how they deliver on that purpose. They also provide a framework against which to report how they have implemented the principles, promoting transparency and supporting the building of trust and confidence among stakeholders.

Below is a summary of the six Wates Principles and an explanation of how the Wates Principles apply to, and have been implemented by, the trustee. Given USSL's role as the trustee of a pension scheme, and the importance of the scheme's stakeholders to its core purpose, Principle Six (Stakeholder Relationships and Engagement), however, is of particular importance to the trustee.

In recognition of this, the below summary of the Wates Principles and explanation of how they have been implemented by the trustee starts with Principle Six before turning to explain how the trustee has implemented the other Wates Principles. Further information about how the Wates Principles have been applied during the financial year can be found in the scheme's Annual Report and Accounts.

The Wates Principles also serve as the framework to demonstrate how the trustee's directors have had regard for the matters set out in section 172(1)(a) to (f) of the Companies Act (which sets out the duty of the directors to promote the success of the company) when performing their duties. This includes how the Trustee Board has engaged with and considered the interests of stakeholders including USS members, higher education employers, Universities UK (UUK), the University and College Union (UCU), the group's employees, regulators and those in a principal business relationship with the trustee.

Further details in relation to how the directors have discharged their duties under section 172 of the Companies Act 2006 are set out in USSL's Annual Report and Accounts which can be accessed at [uss.co.uk/about-us/report-and-accounts](https://uss.co.uk/about-us/report-and-accounts).

Additional information about how USS is governed and run can also be accessed at [uss.co.uk/about-us/how-were-governed](https://uss.co.uk/about-us/how-were-governed).

**Principle 6 – Stakeholder Relationships and Engagement**  
***“Directors should foster effective stakeholder relationships aligned to the Company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.”***

The trustee seeks to foster effective relationships with all of its stakeholders. As recognised in the Chair's introduction to the scheme's Annual Report and Accounts, the last year has seen the scheme wrestle with significant issues and difficult decisions. This has resulted in some robust exchanges with UUK and UCU, as well as TPR, the trustee's principal regulator. Throughout this period the trustee has engaged extensively with its stakeholders, across different levels of the organisation, both formally and informally.

The Trustee Board recognises the need to be accountable to its key stakeholders and has focused on increasing direct engagement with them over the year and making available information to assist them in their understanding of the scheme.

In order to ensure that the members of the Trustee Board are visible to the JNC and understand the JNC's views, at least two trustee directors attend each JNC meeting. The scheme actuary also attends JNC meetings from time to time. A formal report of each JNC meeting (approved by the JNC chair) is submitted to the Trustee Board which also facilitates the Board in having a good understanding of the JNC's perspective.

During the financial year, joint meetings between the Trustee Board and JNC were introduced to provide a forum to foster deeper engagement and understanding between the two bodies. Two such meetings were held during the year at which a range of topics were discussed including ESG and climate change.

During the year, the JNC chair (and the lead representatives appointed by UUK and UCU to the JNC) were invited to attend a Trustee Board meeting to present to the Board. Representatives of UUK also attended two further board meetings to present UUK's views to the board. Regular engagement meetings are also held by the Group Chief Executive Officer with the leadership teams of each of UUK and UCU, and by the Trustee Board Chair and Group Chief Executive Officer with the JNC Chair.

During 2021/22, the trustee formally consulted with UUK in relation to the Schedule of Contributions, Recovery Plan and Statement of Funding Principles for the 2020 valuation and carefully considered the responses provided by UUK before finalising these documents. As part of the 2020 valuation, the Trustee Board also received and considered a summary of the consultation responses received in relation to the statutory employer consultation with affected members in relation to proposed benefit changes. The summary was also shared with the JNC.

The trustee engages with a range of other higher education sector bodies including UUK's Employers Pension Forum (EPF), the British Universities Finance Directors Group (BUFDG), the Russell Group and University Alliance. For example, during the financial year 2021/22 the USS executive presented at several meetings of the EPF.

In addition to engaging with sector bodies, the trustee also engages with individual employers, both collectively and individually. For example, the trustee hosts regular Institution Advisory Panels (IAP) with pensions and payroll managers on operational matters attended by around 30 employer representatives. In February, two webinar briefings were held for all employers on the valuation investment strategy (VIS). Between November and February 18 one to one meetings on the VIS were held with individual employer representatives, who in total represent around 30% of the active scheme membership. The views shared by employers were summarised and shared with the whole Trustee Board before the board took any decision in relation to investment strategy. A summary of the feedback received, and a Q&A document prepared by the trustee was then published on [uss.co.uk](https://uss.co.uk).

The trustee holds an annual institutions meeting, to which representatives from individual employers and members of the JNC are invited and which the Trustee Board directors attend. This enables the trustee to provide updates, respond to questions, meet with employers in person and listen to the views of those present.

The trustee is very interested in the views of the scheme's members and the Trustee Board receives regular member insight updates from the executive team. In order to ensure that the Trustee Board has a deep understanding of members' views, it undertakes regular surveys of active members (which are reported to the Trustee Board) and uses a range of other approaches to capture member views. These include asking for feedback at key interactions such as joining and retirement, and engagement with members via an online 'Member Voice' panel to seek direct member input on topical issues around member service, experience and perceptions.

The trustee actively communicates with members and employers so that they are well informed about the scheme. In addition to the scheme's Annual Report and Accounts and extensive information provided on [uss.co.uk](https://uss.co.uk), the trustee also issues regular email updates to members and employers on topical issues. During the 2020 valuation, a number of additional member and employer updates were provided which included the publication of FAQs, sharing of key correspondence with TPR and several member and employer webinars.

The trustee also engages with wider stakeholders including the Department for Work and Pensions (DWP), the Department for Education (DfE), the Information Commissioner's Office (ICO) in addition to engaging extensively with TPR.

The trustee is also focused on ensuring that investee companies have a responsible investor who fosters long-term growth. USS is a long-term, active and responsible major institutional investor with one of the largest Responsible Investments teams in the UK pension sector, using its influence to encourage positive change.

As an employer, the trustee is committed to attracting, growing and engaging with talented people from diverse backgrounds, at all levels. USS employees are key to the group's success and USS's people approach aims to foster a culture that supports diversity and inclusion, recruits, retains and develops talent and is responsive to employee needs.

A summary of employee engagement during the financial year, including details of our D&I programme is included on page 19 within the scheme's Annual Report and Accounts.

USS is committed to being an open, inclusive and fair employer. It has created a number of channels to give employees the opportunity both to share views, and to obtain all the information and resources they need about USS's corporate purpose and values, strategy and objectives, and day to day activities. Regular town halls are held live (and recorded for all employees), to provide the opportunity for meaningful engagement with the executive.

Regular engagement surveys are issued and include questions on engagement, diversity and inclusion, health and wellbeing and the scheme's values. The collated responses are used to prioritise the areas for action at group level as well as within business functions based on individual teams' scores and comments. To inform its decision making, the Trustee Board receives regular updates about employee engagement.

The Trustee Board has appointed a designated non-executive director (NED) to support its continuing pledge to improve engagement with its workforce. The designated NED aims to ensure that its employee's perspectives are factored into Trustee Board decisions when appropriate.

Further details about engagement with stakeholders can be found on pages 12 to 19 of the scheme's Annual Report and Accounts.

**Principle 1 – Purpose and leadership**  
***“An effective board develops and promotes the purpose of the Company, and ensures that its values, strategy and culture align with that purpose.”***

In 2019, the Trustee Board adopted the following corporate purpose statement *“Working with Higher Education employers to build a secure financial future for our members and their families”*. This purpose highlights the importance of the scheme’s beneficiaries and puts them front and centre of what the trustee does. The trustee’s overall strategy is aligned with this purpose and is supported by three strategic priorities which are:

- Members feel financially more secure
- A sustainable scheme, for the long term
- USS is recognised as a competent scheme manager

Further information about the strategic priorities is provided on pages 10 and 11 of the scheme’s Annual Report and Accounts.

At the same time as it approved the corporate purpose statement, the Trustee Board approved three core corporate values; Integrity, Collaboration and Excellence. Those values support the overall corporate purpose, shape the group’s culture and reflect what is important about how the group operates. The Trustee Board also aims to ensure that there is ongoing dialogue with stakeholders to understand their needs when it is considering USS’s values and strategic priorities.

To enable the Trustee Board to monitor the group’s culture, it receives bi-annual reporting from the Chief HR Officer covering a range of employee related themes, including culture, and whether employees are motivated by USS’s corporate purpose and are demonstrating USS’s values. This information is compiled from proactive engagement with employees and managers and responses to regular employee engagement surveys.

During the financial year, the executive also commenced the design of a USS Culture Framework to ensure robust and ongoing measurement of USS’s culture and values. The results will be reported annually to the Trustee Board.

**Principle 2 – Board Composition**  
***“Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the Company.”***

To achieve effective leadership and discharge their duties successfully, the Trustee Board seeks to ensure that it has, and maintains, an appropriate balance of knowledge, skills and experience.

The Trustee Board, which is led by an independent chair, comprises skilled and competent directors from a broad range of backgrounds. The Trustee Board is currently comprised of 12 non-executive directors:

- 4 nominated by UUK
- 3 nominated by UCU
- 5 nominated by the Trustee Board (who are referred to as “independent directors”)

Collectively the members of the Trustee Board have significant experience and understanding of the Higher Education sector, in addition to the many other skills and competencies required to lead and oversee the largest private pension fund in the UK (by reference to assets under management). Please see further pages 44 to 45 of the scheme’s Annual Report and Accounts for a biography of each director and a summary of the directors’ collective competencies.

USSL has developed a competency matrix which is maintained and regularly reviewed by the Governance and Nomination Committee (GNC) to inform succession planning, identify any skills gaps/training needs and inform and shape recruitment priorities. The competency matrix also provides assurance about the collective competency of the Trustee Board.

During the financial year, the Trustee Board approved the appointment of three new trustee directors. It also approved a number of changes to the composition of its standing committees as part of its ongoing review of board and committee succession planning.

On an annual basis, each trustee director completes the USS-Board Skills Matrix, creates a personal development plan, participates in an appraisal process and receives ongoing training. This provides assurance as to their individual competency and capacity.

In addition, an internal effectiveness review of the Trustee Board is usually carried out periodically. Similar reviews are conducted every two years in respect of the board’s standing sub-committees. These internal reviews are supplemented every two to three years by an externally facilitated review. Further details of the trustee’s approach to ensuring the effectiveness of the Trustee Board are provided on pages 97 to 99 of the scheme’s Annual Report and Accounts.

A key role of the Trustee Board Chair is to develop working relationships with the Group Chief Executive Officer and the executive team, whilst looking to provide an appropriate level of challenge, support and advice. The Chair facilitates the Trustee Board in making effective decisions and ensures that the Trustee Board (as a whole) offers sufficient challenge to material proposals and considers the nature and extent of significant risks faced by the organisation.

The Trustee Board continues to work to create a more diverse board of directors and recognises this as a continuing challenge. Over the financial year, the Trustee Board has continued to review its Diversity and Inclusion (D&I) strategy and overall succession planning with a focus on improving board diversity. More information about the balance and diversity of the current Trustee Board and its D&I targets can be found on page 43 of the scheme’s Annual Report and Accounts.

Further details of how the balance of responsibilities and accountability and decision making is maintained are provided on page 42 of the scheme’s Annual Report and Accounts.

### Principle 3 – Director Responsibilities

***“The board and individual directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision-making and independent challenge.”***

Before appointment to the Trustee Board each director is required to complete TPR’s Trustee Toolkit to ensure that they have a good base level of understanding of the accountabilities and responsibilities that apply to pension trustees in general.

This knowledge is supplemented by a thorough induction programme and ongoing training in order to ensure that the Board as a whole, and each individual director, has a comprehensive understanding of the specific responsibilities and accountabilities of the Trustee Board and its directors. These responsibilities and accountabilities flow from a range of sources including pensions, financial regulatory, company, employment and data protection law, TPR’s codes of practice and guidance and the scheme’s constitutional documents.

In addition, the Board also has access to specialist legal advice (from the group’s in-house legal team and/or external advisers as required) and additional training sessions as required to assist directors further in understanding their responsibilities within the specific context of the scheme.

The trustee has also developed a Corporate Governance Framework Policy (which includes terms of reference for the board, its standing committees and the Group Executive Committee). This confirms that all significant strategic decisions are made by the board or one of its committees and provides clarity on whether the board, or one of its committees, has authority to take a particular decision. In addition, the Trustee Board has adopted a code of conduct which sets out the standards expected of those who serve on the board. The Corporate Governance Framework Policy can be accessed at [uss.co.uk/about-us/how-were-governed](https://uss.co.uk/about-us/how-were-governed).

During the financial year, as part of the actions agreed following an effectiveness review undertaken in 2020/21, the Trustee Board reviewed the Corporate Governance Framework Policy and approved changes to expand the remit of the Group Audit Committee (renamed the Group Audit & Risk Committee) to encompass oversight of risk related issues. This review included a review of all risk areas to ensure there remained appropriate risk oversight across the group.

All committees that act on the direct delegated authority from the Trustee Board provide a report to it following each meeting. These reports cover: (i) key matters discussed and approved; (ii) decisions taken, and (iii) items recommended for approval by the Trustee Board. The Trustee Board also receives quarterly reports on financial and operational performance, key risks and opportunities, strategic and operational matters, market conditions, stakeholder engagement and legal, compliance, and regulatory issues.

The work of the Group executive committee complements, enhances and supports the work of the Trustee Board. The Group executive committee operates under the direction and authority of the Group Chief Executive Officer. The Trustee Board delegates to the Group Chief Executive Officer the execution of the group’s strategy and day-to-day management and operation of the group’s business in accordance with its approved business plan and budget.

Whilst the Trustee Board retains overall responsibility for strategic oversight for the scheme, it delegates certain roles and responsibilities to its specialist standing committees. Each of these committees currently comprises directors nominated by UUK and UCU in addition to independent directors. The Group Chief Executive Officer is a member of the GNC to ensure that there is appropriate integration of executive and non-executive succession planning. The Group Chief Executive Officer and Chief Pensions Officer are both members of the Pensions Committee, bringing additional experience in the pensions field.

The significant depth of experience and broad range of backgrounds, skills and competencies on the Trustee Board and each of its committees promotes independent challenge and supports effective decision making.

Details of key activities undertaken by the Trustee Board and its committees in the financial year are set out on pages 46 to 47 of the Annual Report and Accounts for the scheme for the year ended 31 March 2022 and in the committee reports on pages 7 to 18 of this supplement.

### Principle 4 - Opportunity and Risk

***“The board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value and establish oversight for identification and mitigation of risks.”***

The trustee’s corporate purpose, and its strategy, reflect its role as the trustee of a pension scheme, and as a not-for-profit entity. Central to USS’s role as trustee is the group’s focus on delivering and demonstrating value for money for members.

Each year the Trustee Board reviews the group’s strategy and approves the strategic objectives and business plan and budget for the coming year. The Board also approves the key performance indicators that will be reported against. The group’s strategic objectives are constructed in line with the trustee’s agreed risk appetite statements.

There is a focus on the risks and opportunities inherent within the plan and on related costs and value for money for the scheme to ensure that the group delivers the trustee’s long-term priorities and value for money for members. For example, the trustee’s investment approach of using mainly internal resource to manage scheme assets is informed by the group’s ability to deliver better value for money for members compared to a more outsourced approach.

The Trustee Board is the sponsor of the USS risk management framework. The Chief Risk Officer and the group executive risk committee are responsible for the implementation of the risk management framework which directs the development of the rules, frameworks and processes the group needs to implement effective risk governance over its activities. For more details of USS's approach to risk management see page 34 of the scheme's Annual Report and Accounts.

The Trustee Board sets the group strategy and delegates the execution of this to executive management who must ensure that the strategy is achieved within the trustee's risk appetite. All directors are expected to familiarise themselves with key challenges and areas of risk facing the UK higher education sector and changes in the pensions landscape. The role of the group risk team, as a second line of defence function, is to provide review, oversight and challenge of the business in order to help ensure that the scheme's strategic risks are managed within the board's stated risk appetite.

During the financial year, the executive undertook an extensive review of the scheme's Risk Governance Policy and simplification of the risk process. This included revising and rationalising the trustee's risk appetite statements, which were approved by the Trustee Board, setting out the board's expectations for risk management. Full details of all high rated events (in relation to errors, breaches, near-misses, and operational losses) identified by the risk function are provided to the Trustee Board as part of the standard quarterly risk reports prepared by the executive.

As noted above, during the financial year the remit of the Group Audit Committee was expanded to encompass oversight of risk related issues, with the renamed Group Audit & Risk Committee also receiving regular risk reporting from the executive.

In addition to the matters referred to throughout this supplement on risk management, please also refer to pages 35 to 39 of the scheme's Annual Report and Accounts which include a list of all principal risks, including mitigations, relevant to the group.

#### **Principle 5 – Remuneration** ***“A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the Company.”***

The trustee's remuneration framework is designed to ensure that the scheme has access to the right mix of skills and expertise to deliver the scheme's long-term priorities and value for money for members.

Paying for performance is key to the trustee's remuneration and incentive policy, which means to reward contribution that is aligned to the needs of employers and members in a cost-effective manner. The trustee's remuneration policies dovetail with the group's D&I programme, which has a strong focus on gender (along with ability, social mobility, multi-cultural and identity characteristics), as part of our D&I mission to create a diverse and inclusive workplace.

Following the introduction of a revised approach to monitoring USSIM's investment performance, the trustee has reviewed its approach to compensation of its investment management professionals to ensure alignment with the scheme's interests and compliance with USS's remuneration principles. More information about the scheme's 'investment balanced scorecard' approach to remuneration, which will be further developed over the next 12 months, and USS's remuneration principles is included on page 50 and 51 of the scheme's Annual Report and Accounts.

Given the importance of attracting and retaining high-calibre employees in a competitive talent pool, the group seeks to pay staff at market rates commensurate with the skills and experience they bring to the scheme. Further details about the scheme's approach to remuneration can be found on pages 49 to 53 of the scheme's Annual Report and Accounts.

Annual benchmarking is also performed on salaries and total compensation levels to minimise the disruption caused by employee turnover and the potential negative impact on employee engagement.

Two external benchmarking agencies are used: Aon for investment management and central group functions and Willis Towers Watson for pensions services roles and their support functions.

The Trustee Board's Remuneration Committee is responsible for reviewing the approach to and all elements of remuneration for the group, in conjunction with the USSIM Board in relation to the remuneration of USSIM employees. More information about the Remuneration Committee's activities during the financial year is contained within this supplement.

# Group Audit & Risk Committee report

## Introduction

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

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

In February 2022, the committee's remit was expanded to more fully encompass risk and the committee was renamed the Group Audit & Risk Committee. This change was the result of the observation in the Trustee Board's 2021 effectiveness review that although the committee considered risk related matters there was not a formal Trustee Board level risk committee. The committee will transition to consider its expanded remit during 2022/23.

The committee comprises four members all of whom are non-executive directors. Three of the members are non-executive directors of the Trustee Board and one is a non-executive director of the trustee's in-house investment manager USSIM. Gary Dixon, a Universities UK (UUK) nominated trustee director, has chaired the committee since 1 February 2021. Gary Dixon is a qualified Chartered Accountant and a Fellow of the ICAEW with over 35 years' financial experience.

## Role

The committee plays a key role in ensuring that there is appropriate challenge of the group's internal control and risk management framework and provides 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 at the group. The quarterly statement is based on the output of the executive risk committees and the operating committees of the pensions business and of USSIM. The end of year report is supported by assurance statements from each of the heads of the teams that form the three lines of defence of USS's control framework.

In addition to receiving reports at each meeting from the GCEO, the committee also receives regular updates from the Chief Financial Officer, the Chief Risk Officer, the Group General Counsel, the USSL and USSIM Compliance heads, the Head of Internal Audit, the Head of Information Technology and, the external auditor, Ernst & Young LLP (EY).

Regular reports are also received from the USSIM Audit, Risk and Compliance Committee and the USSL Fair Value Committee, an executive committee supported by an external valuation specialist to review the valuation of the scheme's private market investments. The committee chair, and committee as necessary, are kept updated outside of the formal meeting schedule of high materiality risk events and breaches that may require notification to The Pensions Regulator (TPR) or Financial Conduct Authority (FCA).

EY was appointed as external auditor for USS and its companies in late 2017, following a competitive tendering process. The appointment was made for an initial five-year term (and for a maximum ten-year tenure) subject to satisfactory completion of the annual performance review process. Each year the committee reviews the performance and effectiveness of the external auditor and the appropriateness of the external audit partner. The committee concluded during the year that EY had performed effectively since the last annual performance review and that the quality of audit service continued to improve. The committee is keen to continue to explore the relevant control observations that EY might have through the appropriate observation of its audit lens across the control environment and the conduct of its audit.

In line with best practice, at least once a year, and as required, the committee holds a meeting with the external auditor and without the executive present to discuss the auditor's remit, the quality of audit information it receives and any issues arising from the audit. EY had no material issues to raise with the committee and highlighted improvements in governance around the scheme's investment holding vehicles.

The committee approves the external audit plan annually and oversees the integrity of the financial reporting process and production of the scheme's annual report and accounts and those of the trustee 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 in accordance with the applicable accounting framework. The committee also oversees the integrity of the financial reporting process and production of the USSIM annual report and accounts, through assurance provided by the USSIM Board. The committee receives regular updates from EY on the progress of the audits of the scheme's investment holding vehicles to ensure they are delivered in the required timeframe and the resulting accounts filed on time.

This year we have published a Value for Money Supplement to help stakeholders gain a better insight into how we focus on delivering value for money. This is an assessment the scheme undertaken by the executive, including a review of investing via USS versus peer pension schemes' investment arrangements and using benchmarking analysis. The latest report evidences a low cost and high value-add investment team in comparison to the peer group.

The committee monitors the performance and effectiveness of the group's internal audit function. Discussions with the Head of Internal Audit are held without the executive present at least once a year, and as required, to discuss the effectiveness of the function. During the year, the committee has overseen the development of a strategic plan for internal audit, as recommended by Protiviti, who performed an external quality assessment of the function in 2020/21. The committee approved the plan in February 2022 and anticipates the introduction of more innovative approaches to auditing work, intended to enhance insight and provide time saving efficiencies.

The committee also oversees the effectiveness of the Compliance and Risk functions and spends time with the executive responsible for each function to provide feedback on performance and perspective on where improvements could be made.

## Group Audit & Risk Committee report

### Continued

The committee has been focused during the period on ensuring each of the second line functions have sufficient resources to respond to the group's ambitious change activity in response to the 2020 valuation, and benchmarks to and operates in line with market/best practice, as appropriate.

#### Key activity in 2021/22

The committee monitors the group's internal controls and challenges their effectiveness. During the year, the committee has kept under review the assessments made by the executive about the continued robustness of the group's processes and controls in response to the continued homeworking undertaken by most USS staff. The committee was reassured that no material issues were identified and that the control environment and culture around risk reporting had remained robust.

The committee has overseen the implementation of the Chief Risk Officer's (CRO) strategic plan for the approach to risk, and the risk function, at USS, following his appointment in September 2020. The committee was supportive of the CRO's recommendation for a move towards greater simplification of the risk framework. The CRO welcomed the committee's detailed review of the amendments proposed to the group's risk appetite statements, key risk indicators (KRIs), and KRI thresholds for strategic and operational risks, which were approved by the Trustee Board in December 2021. The committee has also been particularly focussed on the work to strengthen the group's model risk framework and policy, particularly in the area of change control for critical models.

During the year, the committee oversaw the review conducted by Deloitte, the group's co-source internal audit provider, of the steps taken by the executive in response to the observations raised in Deloitte's 2020 review of the processes used for the 2020 Valuation of the scheme's Technical Provisions. In September 2021, the committee concluded that it was comfortable with steps taken by management in response to Deloitte's findings, and Deloitte's assurance on the same.

The Trustee Board accepted the committee's assurance on the implementation of the recommendations.

The committee receives a regular update on cyber risk. During the year it considered known and emerging cyber trends and the security controls in place at USS to mitigate cyber threats including how they are reviewed and monitored on an ongoing basis to ensure their effectiveness. The committee explored with the executive how it keeps pace with changes in cyber risk and maintains staff alertness to the changing nature of cyber risk. The committee is satisfied that although, like other organisations, not immune from a cyber attack, USS has adequate protective controls in place.

Each year the committee considers the Financial Crime Risk Assessment (FCRA) covering USSL, USSIM and the scheme's SPVs, and the USSIM Money Laundering Reporting Officer's Annual Report. The committee was comfortable that based on the FCRA, the residual and inherent financial crime risk for the group was low.

The committee also considered the outcome of a compliance review of pension fraud, a key area of focus given the increase in fraud in the pensions market during the pandemic. The committee was assured as to the management of pensions fraud risk by the bespoke training provided to the pensions operations team and the review ongoing of associated controls.

#### Other activity in 2021/22

The committee has continued to be kept up to date by the executive on the robustness of Capita's, the scheme's pensions administration provider, control environment, as it relates to the provision of services to the scheme, and the appropriateness and timeliness with which Capita has addressed any areas of concern. The committee is satisfied that the relationship with Capita is being actively managed by the executive to ensure both preparedness for scheme changes following the 2020 valuation, and the continued effective and efficient running of the Hartlink pensions administration system.

In preparation for the submission to TPR of the scheme's first 'Type 2' Audit Assurance Framework (AAF) report, for the period 1 April 2021 to 31 March 2022, the committee has overseen the results of the required control testing activity and assured itself as to the suitability of the third-party provider appointed to perform the Type 2 AAF review. The AAF report was completed without qualification or material questions.

The committee has overseen progress on the steps being taken to improve the efficiency of the approach to internal asset valuations in response to the significant growth in illiquid assets requiring valuation.

The committee has contributed to the consideration of tender activity for key professional services to the group. It was satisfied with the executive's recommendation that no imminent activity be planned for the external audit given EY's remaining tenure. The committee was involved in the Request for Proposal (RFP) for the co-source internal audit provider and in February 2022 approved the executive's recommendation that Deloitte be reappointed for a four-year term commencing on 1 April 2022.

#### Membership

##### – Appointed by the Trustee Board

Mr Gary Dixon (Chair), Dr Kevin Carter (retired from the committee and the Trustee Board on 31 August 2021), Mr Tony Owens, Mr Russell Picot and Ms Helen Shay.

# Governance and Nominations Committee report

## Introduction

The Governance and Nominations Committee was established by the Trustee Board to:

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

The committee comprises five members, four non-executive directors of the Trustee Board and Bill Galvin, Group Chief Executive Officer. Dame Kate Barker, an independent non-executive director, has chaired the committee since 1 February 2021.

## Role

The committee oversees the effectiveness of the trustee's corporate governance framework. It is responsible for approving the succession plan for both the Trustee Board and the USSIM Board and their principal committees, and for overseeing recruitment of board and committee members and key members of the executive. During the year, the committee has been actively involved in board succession planning, contributing to the ongoing development of a robust succession plan which has been tested and updated throughout the year.

The committee has a range of responsibilities in relation to recruitment to both the Trustee Board and the USSIM Board. In 2021-22, it played an instrumental role, alongside an executive search firm, in the recruitment of three independent non-executive directors to the Trustee Board, one of whom has also joined the USSIM Board. The Trustee Board has been focused on improving board diversity and met its target for gender representation of four female directors and eight male directors (33% female) during the year but not the ethnic minority representation target. The trustee remains committed to these targets and will keep Diversity and Inclusion (D&I) high on the agenda.

The committee has also closely monitored the composition of the committees of both boards, particularly in view of the loss of experience of retiring directors, ensuring new committee appointments have the necessary skills and knowledge to ensure their smooth running and continued

effectiveness. As part of these changes, Sarah Bates was appointed a director of USSIM Board in June 2021, having previously served as a special committee member of the Investment Committee, and appointed chair of the USSIM Board in September 2021, following the retirement of the previous chair, Virginia Holmes. Russell Picot was appointed as Deputy Chair and Senior Director of the Trustee Board, replacing Kevin Carter who retired from both the Trustee Board and USSIM Board during the period. The committee is currently focusing on succession planning for those positions where the incumbent directors' current terms of office come to an end in 2022/23.

The committee also oversees succession planning for the group executive and senior management team, which is led by the Group Chief Executive, and is involved in the recruitment processes for the most senior executives. During the year, the committee received an update on executive succession planning and pipeline, and also received an update on the Group Chief Executive's annual performance appraisal conducted by the USSL Board Chair.

Ensuring that the trustee's governance framework operates efficiently and effectively is a key part of the committee's remit. During the year, on behalf of the Trustee Board, the committee has been involved in considering delegations across the governance framework to ensure the optimal use of the Trustee Board's time and the continued effective operation of the framework. In addition, the Trustee Board has delegated to the committee oversight of the scheme governance review that Universities UK is proposing to undertake. The committee has received updates from the executive on the scope and progress of the proposed review.

## Other key activity in 2021/22

As part of its ongoing oversight of the effectiveness of the operation of the trustee's governance framework, the committee is responsible for overseeing the regular effectiveness reviews of the Trustee Board and USSIM Board, and their respective committees. During the year, the committee oversaw implementation of the agreed recommendations from the externally facilitated board and committee effectiveness reviews undertaken in the previous financial year.

The committee is also responsible for overseeing completion of individual director appraisals and any resulting actions. Having considered the outcomes of the most recent round of director appraisals, and reviewed the external interests of the board members, the committee remains satisfied that the USSL and USSIM directors commit sufficient time to their roles and about the effective management of conflicts of interest. In addition, the committee provided assurance to the Trustee Board around the composition of the Trustee Board and that it meets the legislative requirements applicable to the scheme. The committee also oversaw updates to the Trustee Board competency matrix to incorporate a new competency - Responsible asset ownership - to reflect the increasing importance of the wide range of ESG considerations.

The committee is focused on ensuring the effectiveness of the trustee's governance framework having regard to applicable corporate governance and regulatory requirements. The committee received updates on developments in corporate governance best practice and focused, in particular, on D&I best practice and the trustee's approach to promoting inclusion across its boards.

Each year, the committee approves the training programme for the Trustee Board and USSIM Board and their respective committees. During the year, as part of its ongoing oversight of the implementation of the training programmes, the committee made various suggestions for training topics. D&I will be a focus for the coming year. As well as oversight of director training, the committee is responsible for ensuring the completion of the director induction programme by new directors. During the year the committee received confirmation of the successful completion of the programme by David Watts, Marian D'Auria and Ellen Kelleher, who joined the Trustee Board in 2021, and of Sarah Bates who became a director and chair of the USSIM Board during the year.

## Membership

### – Appointed by the Trustee Board

Dame Kate Barker (Chair), Mr Bill Galvin, Professor Sir Paul Curran, Ms Ellen Kelleher (from 13 January 2022), Dr David Watts (from 8 December 2021), Mr Andrew Brown (until 8 December 2021), and Mr Ian Maybury (until 15 December 2021).

# Investment Committee report

## Introduction

The Investment Committee is a committee of the Trustee Board and makes recommendations on all strategic matters relating to, and provides oversight of, the investment of the scheme's assets. As at the scheme year-end 31 March 2022, the Investment Committee consisted of six members (as listed below in the 'membership' section of this report), comprising of five non-executive directors and one co-opted member. During the year, Kevin Carter retired as a director and chair of the committee, and Russell Picot (an independent non-executive director) became chair of the committee with effect from 1 September 2021.

## Role

The Investment Committee considers and provides recommendations to the Trustee Board for the investment strategy for the scheme, and oversees the investment of the scheme's assets, the discretionary day to day management of which has been delegated to USS Investment Management Limited (USSIM), and USSIM's investment management performance. The Investment Committee, having taken relevant investment advice where appropriate, provides recommendations to the Trustee Board on (or where delegated, approves aspects of) the investment strategy for the defined benefit (DB or USS Retirement Income Builder) and defined contribution (DC or USS Investment Builder) assets of the scheme.

The Investment Committee regularly reviews investment performance and risk reports from USSIM and receives regular investment manager presentations in order to provide assurance to the Trustee Board that USSIM's management of scheme assets is in line with the strategy set by the trustee and agreed targets.

On behalf of the Trustee Board, the Investment Committee undertakes regular reviews of key investment documents including the Statement of Investment Principles and the Investment Management and Advisory Agreement between the trustee and USSIM. The Investment Committee also issues investment strategy instructions to USSIM and considers various investment strategy proposals or valuation related investment matters as required.

## Key activity in 2021/22

The trustee's approach to environmental, social and governance (ESG) factors and climate change in the trustee's investment strategy was a particular area of focus for the committee over the year. In addition to its usual activities of reviewing and recommending changes to the trustee's responsible investment and voting policies and overseeing USSIM's implementation of such policies, this financial year, taking into account the trustee's fiduciary duties: the trustee set an ambition to be Net Zero for carbon generated by its investments by 2050 if not before; the committee oversaw the development by USSIM of a climate "tilt" to a Global Developed Markets Equities portfolio for both the DB and DC sections of the scheme; and the committee reviewed analysis provided by USSIM on how climate change might impact the investment strategies of both the DB and DC sections of the scheme and reviewed its existing processes and procedures (enhancing them where necessary) to comply with and report against the new Occupational Pension Scheme (Climate Change Governance and Reporting) Regulations.

Also, the committee has overseen reporting from, and been kept informed of, USSIM's approach to considering environmental, social and governance (ESG) factors in its investment strategy, including implementation of exclusions (and where necessary divestment from) investments in certain sectors (or assets from a certain country in the case of Russian investments) deemed to be financially unsuitable over the long term.

A significant project for the committee over the financial year has been to develop the trustee's DB investment strategy and a new investment framework - the "Valuation Investment Strategy" (a theoretical, but investible, high level asset allocation with which to frame the investment instructions to USSIM to manage the scheme's DB investment strategy). The strategy and framework have been developed as a result of and in accordance with the scheme's 2020 valuation (completed in September 2021) and the scheme's approach to monitoring and managing the funding position of the scheme (through the Financial Management Plan and associated integrated risk management framework).

Connected to the development of the Valuation Investment Strategy, this project has involved the committee reviewing and recommending updates to the Trustee's investment risk appetites and accompanying key risk indicators. The committee has also developed an enhanced approach to setting and monitoring USSIM's investment performance, using an investment balanced scorecard. This will allow the trustee to review USSIM's performance in advising upon and managing the scheme's investments, taking into account the full range of investment objectives and sensitivities set by the trustee for the hybrid scheme. In the development of the investment balanced scorecard the committee was assisted by and received independent advice from its regular DB investment adviser, Mercer, and received specialist advice from Willis Towers Watson.

Following the completion of the 2020 valuation and initial engagement with stakeholders over the new Valuation Investment Strategy framework and approach to the trustee's investment strategy, in March 2022 the committee reviewed and recommended that updates be made to the trustee's Statement of Investment Principles (SIP) and associated investment beliefs and commenced a formal SIP consultation process with employers. This consultation commenced on 30 March 2022 and, following consideration of the feedback received, will result in the finalisation of the trustee's main SIP (and any consequential changes required to the Trustee's DC default SIP) in the summer of 2022.

In addition, as a result of the completion of the 2020 valuation and subsequent changes to scheme benefits from 1 April 2022, the Investment Committee and Pensions Committee held a joint meeting to review DC member requirements and whether any changes to the DC fund and default offerings were required. The committee recommended that no changes be made to the DC fund range or DC default lifestyle option at this time. However, this will be kept under regular review as members will potentially build up bigger DC pension pots over time.

## Investment Committee report

### Continued

At each of the committee's meetings, the committee reviewed and challenged reporting from USSIM, including: investment performance and risk reporting; asset allocation and strategy reporting (which included analysis of how USSIM had been performing in increasing the scheme's interest and inflation rate DB liability hedging); reporting from the USSIM chief executive officer on key matters within the USSIM business relevant to delivering USSIM's investment management and advisory services to the trustee (including the development of investment teams and mandates within USSIM).

Annual activities completed by the committee included: reviewing and recommending to the Trustee Board the investment business plan and budget; reviewing the performance of the advisory services provided by USSIM, Mercer (for DB) and Lane Clark & Peacock (for DC); developing and recommending the SIP Implementation Statement to the trustee; reviewing and recommending to the trustee various investment targets and limits for USSIM to manage the scheme's DB and DC portfolios within; and review of investment related policies and their operation by USSIM. The committee has also considered reporting on how the scheme's DC product offering and the investment costs of the scheme compare with peers to ensure that these remain appropriate and the scheme continues to offer value for money for members.

In addition to its regular meetings, the committee also held a number of workshops and training sessions to discuss topics in detail with USSIM and external advisers prior to forming its decisions and recommendations in formal meeting of the committee.

### Membership

#### – Appointed by the Trustee Board

Dr Kevin Carter (Chair until 31 August 2021), Mr Russell Picot (a committee member from February 2021 and Chair from 1 September 2021), Dame Kate Barker, Mrs Sarah Bates (until 31 August 2021), Mr Andrew Brown, Mr Mark Fawcett, Dr Alain Kerneis (from 24 January 2022), Mrs Virginia Holmes (until 31 August 2021), Mr Ian Maybury (until 15 December 2021), Professor Sir Anton Muscatelli.

# Pensions Committee report

## Introduction

The Pensions Committee is a committee of the Trustee Board providing oversight of the administration and management of the scheme's pensions business.

As at the scheme year-end 31 March 2022, the Pensions Committee comprised six members (as listed below in the 'membership' section of this report), four non-executive directors of the Trustee Board and two members of the executive. Ms Marian D'Auria (an independent non-executive director) was appointed as chair of the committee in December 2021 following Mr Ian Maybury's retirement from the board.

## Role

The Pensions Committee oversees the administration of the scheme's pensions business, receiving regular reports from the executive on the operation and administration of the pensions business to allow it to provide assurance to the Trustee Board about USS's performance against the objectives and strategy approved by the Trustee Board. It also provides recommendations to the Trustee Board on material issues impacting the scheme's pensions offering and operations, and amendments to the scheme rules.

The Pensions Committee considers recommendations in respect of decisions of USS's Advisory Committee, where these involve a significant issue of principle or policy. The Advisory Committee is a stakeholder led committee with responsibility for exercising the member dispute resolution and complaints function on behalf of the Trustee Board and considering difficulties in the interpretation or application of the scheme rules.

## Key activity in 2021/22

A key part of the committee's work during the year was its continued oversight of delivery of several of the Trustee Board's strategic priorities for the pensions business to enhance the services offered to members and employers. This included oversight of activity undertaken by the executive to provide more direct and digitised communications to members, as well as enhancing online tools and resources available to members to support their retirement planning and decision making.

As part of this programme of work, the committee monitored the key risks associated with increasing the scheme's digital services by reviewing the measures in place with key third party providers to protect members' and employers' data and personal information, and the governance models in place with service providers to monitor the effectiveness of these controls. In addition, the committee received regular updates on the management of the scheme's relationship with these key providers to ensure system performance and delivery of externally provided services.

As part of its oversight of key risks within the pensions business, the committee oversaw an assurance programme to identify and document key controls to ensure compliance of the scheme's operational processes with the scheme rules and applicable legislation. The committee provided input to the executive on various workstreams, including on remedial actions highlighted through the programme, and reviewed proposed amendments to bring the scheme rules in line, or clarify that they are in line, with legislation.

The committee played an important role leading up to and following the conclusion of the actuarial valuation of the scheme as at 31 March 2020 (the 2020 valuation) which was completed in September 2021. This included supporting the Trustee Board with certain obligations, such as overseeing: (i) a statutory employer consultation on proposed scheme benefit changes with affected employees; and (ii) the executive's readiness for benefit changes, including the development and testing of all the required system changes and implementation of the consequential operational changes to scheme benefits from 1 April 2022.

## Employer participation

Over the financial year, the committee has continued to oversee the framework and decisions around employer participation in the scheme, including the development of a participation policy setting out the scheme's participation principles. Linked to this, the committee closely monitored the work undertaken by the executive in implementing the scheme's employer debt monitoring framework.

This framework, which was introduced as part of a package of measures agreed with employers to provide an enhanced level of covenant support to the scheme, explains how employers and the trustee will monitor sector debt and, if necessary, work together to protect the covenant to the scheme. This enhanced framework went live to all scheme employers on 1 October 2021.

With regards to employers, the committee also:

- Monitored an attestation exercise coordinated by the executive, designed to ensure that institutions are aware of and adhere to key actions and responsibilities as a participating employer in the scheme to ensure that the scheme operates effectively
- Provided strategic oversight of the scheme's interactions and relationship with employers
- Considered specific employer debt cases during the year
- Provided input into the high-level approach to, and structuring of, the statutory employer consultation, including the tools available for affected employees to model and understand the likely impact on their benefits/contributions of the proposed benefit changes

## Defined Contribution (DC)

On behalf of the Trustee Board, the committee reviewed, in conjunction with the Investment Committee, analysis of member requirements and the potential impacts of the scheme benefit changes on the suitability of the DC fund and default offerings. Following this review, the committee recommended that no changes be made to the member requirements for the DC default strategy, DC self-select range or DC retirement options at this time as a result of changes to scheme benefits. However, the committee will continue to monitor trends as more members potentially build up more DC funds over time.

In addition, within DC, the committee:

- Submitted its conclusions to the Investment Committee and Trustee Board as part of the trustee's annual suitability review of the USS Investment Builder ethical fund range

## Pensions Committee report

### Continued

- Recommended to the Trustee Board, the scheme's updated DC business plan, and the scheme's supervisory return (which documents how the Trustee Board has oversight of, and monitors governance activities and administration, including relevant systems, processes and policies surrounding the DC element of the scheme)
- Examined the trustee's external DC Value for Member assessment, which compares and scores the scheme's DC product to several master trust peer schemes across several categories, before being submitted to the Trustee Board for approval

In addition to its regular meetings, the committee held strategy sessions, including two joint sessions with the Investment Committee, to consider key high-level priorities, issues and risks facing the pensions business and potential medium to long term member and employer requirements, to inform the committee's consideration of future service and member proposition developments.

Following the launch in 2020 of the scheme's guidance, advice and annuity bureau services to support members in making decisions around how to flexibly take their benefits from the scheme, the committee undertook a review of these services to help ensure that they provide value at an appropriate point in members' journeys through to retirement and provided its input into the executive's further plans for development over the next financial year.

The committee provided input into and made recommendations to the Trustee Board, including:

- the strategic priorities and business plan developed by the executive for the pensions business for 2022/2023
- the risk appetite statements and key risk indicators relevant to the Pensions Business as part of a wider refresher of the trustee's overall risk profile of the scheme's risk framework

### Membership

#### – Appointed by the Trustee Board

Ms Marian D'Auria (appointed as a director and member of the committee on 1 September 2021 and became Chair of the committee on 16 December 2021), Mr Ian Maybury (Chair of the committee until his retirement from the Trustee Board on 15 December 2021), Mr Bill Galvin (Group CEO), Ms Helen McEwan (Chief Pensions Officer), Ms Ellen Kelleher (joined 1 November 2021), Mr Rene Poisson (until his retirement from the Trustee Board on 31 October 2021), Dr David Watts (from 16 June 2021), Ms Helen Shay (until 16 June 2021) and Mr Will Spinks.

# Remuneration Committee report

## Introduction

The Remuneration Committee (the committee) ensures that remuneration arrangements for the USS Group (both the trustee, USSL, and its subsidiary, USSIM) promote the recruitment, motivation and retention of high calibre employees, within a competitive market, to support the delivery of the trustee's long-term strategic objectives and support the purpose, values and culture of the USS Group.

On behalf of the Trustee Board, the committee considers and approves the structure of compensation and all long-term incentive plans for USS staff. It is also responsible for reviewing and making recommendations to the Trustee Board on non-executive director remuneration within an overall cap set by the Joint Negotiating Committee (JNC).

The committee comprises four members who are also serving non-executive UUK-nominated, UCU-nominated or independent directors of the Trustee Board. Will Spinks, a UUK-nominated director, has been chair of the committee since September 2020. Aon is the appointed remuneration consultant for the committee and provides compensation benchmarking for USSIM. Willis Towers Watson provide benchmarking for pensions services roles and their support functions. In addition, the chair of the USSIM Board also attends each meeting to provide a direct link from the USSIM Remuneration Committee which makes proposals on remuneration to the USSIM Board for recommendation for approval to the committee.

## Role

The committee provides review of and robust challenge to remuneration arrangements for staff (including senior management), in order to provide assurance to the Trustee Board that compensation complies with agreed remuneration principles, industry standards and best practice.

The committee reviews total remuneration costs, including long-term incentive plans (applicable to a limited employee population), and aggregate bonus awards to satisfy itself that they are aligned to industry trends and appropriate to balance stakeholder and member interests between:

- long term success, applying appropriate metrics and overlaying judgement
- remuneration outcomes for individuals that reflect the importance attached to adherence to values, behavioural standards and organisational risk management culture
- using external advice, comparing employee roles to peer organisations with the aim of ensuring the approach is fair, for individuals and in aggregate
- differentiating pay outcomes based on team and individual performance
- endeavouring to ensure a fair and transparent approach to remuneration

Incentives for all employees are based on performance and vary depending on which part of the organisation an employee works in. Whilst any incentive awards are discretionary, where awarded, some aspects of USSIM compensation are directly linked to long term investment performance, whilst other aspects are based on a more qualitative assessment of an individual's performance (as they are for USSL employees).

The committee challenges the executive and the proposals made by its investment management subsidiary, USSIM, to: (i) 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; (ii) comply with the requirements of regulatory and governance bodies; and (iii) satisfy the expectations of stakeholders and remain consistent with the expectations of the employee population. The USSIM Remuneration Committee has the same approach to governance and oversight as the committee.

The scheme's remuneration report provides an overview of the remuneration framework and compensation approach and can be found on pages 49 to 53 of the scheme Annual Report and Accounts.

## Key activity in 2021/22

The committee reviews and approves the recommendations made by the USSIM Board and the USS executive in relation to remuneration proposals (salaries and incentive awards) for staff across the London and Liverpool offices as described above. During the financial year, the committee approved a set of remuneration principles (as noted above) governing remuneration policy and philosophy at USS, designed to align with member interests and guide the committee in its decision-making in respect of remuneration approach across USSL and USSIM.

In addition, during the financial year, and following the Trustee Board's approval of a new investment balanced scorecard as the method for assessing the performance of USSIM in achieving the multiple investment objectives set by the trustee to manage the scheme's multi-faceted investment risks, the committee approved the method by which the investment balanced scorecard would be translated into remuneration outcomes for USSIM staff for the 2021 compensation year. The investment balanced scorecard will be further revised and developed over the next 12 months. More details about the investment balanced scorecard approach and its link to remuneration can be found on page 50 of the scheme Annual Report and Accounts.

In reviewing the remuneration proposals for 2021/22, the committee challenged the executive to ensure that the proposals were appropriately balanced whilst taking into account the agreed set of remuneration principles. Considering these factors in the executive's recommendations, how risk and compliance matters have been taken into account, and the advice and benchmarking information provided by the committee's external adviser, Aon, the committee approved the remuneration proposals for 2021/22.

Outside of its key activity to review and approve remuneration proposals, during 2021/22 the committee monitored the executive's work to implement key remuneration changes following its approval in 2021 that USSIM follow certain asset manager regulations to bring it in line with best practice principles.

## Remuneration Committee report

### Continued

This programme of work included a detailed review and approval of the approach to certain provisions contained within the regulations and consideration of the internal and external processes available to support their application. The updated approach will be implemented for relevant employees from performance year 2023 and will continue to be overseen by the committee.

As part of its activities during year, the committee reviewed the USSL and USSIM gender pay gap results for April 2021, including positive changes in certain metrics since 2020/21, reflecting both hiring patterns and internal progression. The committee will continue to monitor plans to close the gender pay gap through initiatives that feed into USS's broader Diversity & Inclusion Strategy, ensuring that the strategies adopted are in line with the scheme's remuneration principles. In future years, the committee will also consider diversity data beyond gender characteristics as well as how the scheme's Ethical, Social and Governance criteria relate to incentive pay.

In addition, over the course of the year the committee has overseen a review undertaken by the executive, of current practices relating to Real Living Wage issues and in February 2022 supported a proposed approach to embed the Living Wage Foundations principles within the Scheme's supply chain, with a view to become an accredited Living Wage employer.

During the year, the committee also approved updates to its terms of reference following a best practice review. In the latter part of the year, the committee agreed to conduct an effectiveness self-evaluation during 2022/23 to ensure the continued effectiveness of the committee following changes to its membership during 2021 and 2022. The committee also reviewed director and committee remuneration within the fee cap agreed by the Trustee Board and Joint Negotiating Committee.

### Membership

#### – Appointed by the Trustee Board:

Mr Will Spinks (Chair), Mr Andrew Brown, Mr Gary Dixon, Dr Alain Kerneis (appointed 1 February 2022), and Mr Rene Poisson (member of the committee until retiring from the Trustee Board on 31 October 2021).

# Joint Negotiating Committee

## Introduction

The Joint Negotiating Committee (JNC) was established under the Rules of the Scheme. Its constitution, powers and responsibilities are set out in the Scheme Rules. The JNC's main purpose is to initiate amendments to the Scheme Rules and to approve rule changes proposed by the trustee or the Advisory Committee. The JNC also plays a key role in the context of scheme funding. If, following an actuarial valuation of the scheme, the trustee determines that the cost sharing provisions under the Scheme Rules are triggered, the JNC also has the power to decide how the cost of the contribution increases or decreases should be shared between employers and members and/or whether there should be a change to future scheme benefits.

Ms Judith Fish of Dalriada Trustees Limited was appointed as interim Chair of the JNC with effect from 1 July 2020. Her appointment expires on 30 September 2022 (having been extended for two additional six month periods and one three month period since its original end date of 30 June 2021).

## Key activity in 2021/22

The JNC formally met 18 times during the year.

Reports from each of the meetings of the JNC held during the year can be accessed at [uss.co.uk/about-us/how-were-governed/joint-negotiating-committee](https://uss.co.uk/about-us/how-were-governed/joint-negotiating-committee).

## Membership during the year

### Independent committee member:

Ms Judith Fish

### UUK appointees:

Mr Anthony Odgers, Mr Stuart McLean, Mr Cliff Vidgeon (until 30 June 2021), Dr Carol Costello (from 1 July 2021), Mr John Neilson (until 31 July 2021), Margaret Monckton (from 1 August 2021), Mr Phil Harding (until 23 March 2022), Mr Mike Shore-Nye (from 24 March 2022)

### UCU appointees:

Dr Justine Mercer, Dr Deepa Govindarajan Driver, Dr Sam Marsh, Dr Woon Wong (until 15 June 2021), Dr Marion Hersh (from 15 June 2021), Ms Christine Haswell (until 14 October 2021), Mr Paul Bridge (from 14 October 2021)

# Advisory Committee report

## Introduction

The Advisory Committee is established under the Scheme Rules and it exercises the dispute resolution function on behalf of the Trustee under section 50 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);
- Difficulties in the interpretation or application of the Scheme Rules; and
- Complaints received from members or participating employers.

The committee met six times during the year.

## Key activity in 2021/22

During the period 1 April 2021 to 31 March 2022, the committee considered 24 complaints received under stage 2 of the internal dispute resolution (IDR) procedure from Scheme members (or their representatives) or their dependants. The complaints covered various topics including retirement quotation / annual member statement errors, incapacity retirement, ill health full commutation and eligible children's pension. The committee upheld one of the cases and distress and inconvenience payments were awarded in seven of the cases. In addition, one IDR stage 2 complaint involving an issue of policy was referred to the USSL Board by the additional members of the Advisory Committee and the Advisory Committee was requested, in accordance with the Scheme rules, to provide advice and a recommendation to the Trustee regarding a dispute between the Trustee and an employing university with regards to an outstanding early retirement funding charge.

The Advisory Committee also oversees cases referred to the Pensions Ombudsman (TPO) and received regular updates on the progress and outcome of all applicable cases during the year. TPO decisions during the year have generally been in line with the Advisory Committee's decisions, with three cases not upheld and one partially upheld by TPO. In addition, the Advisory Committee received regular updates on non-USS TPO cases and industry developments.

One of the functions of the Advisory Committee is to oversee the implementation of USS's dispute resolution policies and procedures. The Advisory Committee received a report from the Trustee's executive team providing an overview of the complaints received and determined by the Trustee in the period 1 April 2020 to 31 March 2021. This included complaints received informally, as well as those received under stage 1 and stage 2 of the IDR procedure, and complaints referred to TPO. The number of informal complaints received during the year increased from the level in the previous year but the number of formal complaints was broadly consistent.

The Scheme rules require the Advisory Committee to approve the Trustee's use of its power to compromise claims where the claim is of a type eligible for consideration by the Advisory Committee in the exercise of its dispute resolution function. During the year, the Advisory Committee was asked to consider two proposed uses of the Trustee's power to compromise claims, both of which it approved.

The Advisory Committee also oversaw 19 applications for full commutation during the year.

Under the USS Augmentation Policy, the Advisory Committee also provides the Trustee with any advice it may require in relation to the use of the Trustee's augmentation power under the Scheme Rules, in addition to making recommendations to the Trustee about the use of the augmentation power. During the year, the Advisory Committee reviewed proposed procedural clarifications to the Augmentation Policy prior to approval of the revised policy by the Trustee.

The Trustee has also asked the Advisory Committee for guidance and advice in respect of the Trustee's definition of "dependant" as set out in the Scheme Rules and a working group of the Advisory Committee was established during the year to consider this. This work is currently ongoing.

During the year the Advisory Committee received training on the new statutory transfer regulations and the approval of full commutation applications (following the change to the approval process) and refresher training on redress for non-financial injustice caused by maladministration.

## Membership

### University and College Union ('UCU') appointees during the year:

Dr Chris Grocott (Chair), Dr Renee Prendergast and Mr Sunil Banga (who replaced Dr Marion Hersh with effect from the July 2021 meeting of the committee). Since the financial year end, Professor Dennis Leech has been appointed to the committee in place of Dr Renee Prendergast, with effect from 15 June 2022.

### Universities UK ('UUK') appointees:

Mr Cliff Vidgeon, Dr Tony Bruce and Mr Denis Linfoot.

Mr Will Spinks (a UUK appointed director) and Mr Andrew Brown (a UCU appointed director) acted as the UUK and UCU Trustee director representatives attending Advisory Committee meetings during the year. Their presence is required when the committee is considering cases raised under the IDR procedure.