Universities Superannuation Scheme

Responsible Investment Report

for the year ended 31 December 2018

Responsible Investment

On behalf of the Universities Superannuation Scheme (USS), I am delighted to welcome you to our first Responsible Investment (RI) Report, which covers the 2018 calendar year.

Unlike the majority of UK pension funds, USS has its own wholly-owned, in-house investment manager – USS Investment Management Ltd – which is the principal investment manager and adviser to USS, including on RI, overseeing the Scheme's £68bn of assets.

We believe that promoting high standards of environmental, social and corporate governance, and investing responsibly in quality companies, reduces the risk associated with investing, and improves our ability to meet the pension promises made to members by our sponsors. That is why the concepts of active ownership and engagement, as well as assessing investment risk in all its forms, are fundamental to USS's Investment Beliefs and Principles.

The Trustee Board has both led and supported the Scheme's RI-related activities for many years: our first policy on RI was launched in 1999, the first team members were appointed in 2000, and our first work on climate change risk and opportunities was undertaken in 2001, when USS first assessed the implications of climate change for institutional investors.

Furthermore, USS considers that these policies should be applied across the asset classes in which we invest as consistently as possible – both public and private, and whether internally or externally managed.

Today, USS Investment Management Ltd has an RI team of five supporting our in-house investment managers. Wherever possible, environmental, social and governance practices and structure (ESG) is integrated into the investment decision-making process rather than being an add-on, and so our RI team provides information and data to our investment team to support their analysis.

Equally, USS does not operate in isolation, but strongly believes in promoting best-in-class ideas alongside our peers through research and through global organisations that aim to drive positive changes in behaviour. To this end, the RI team often take the lead in encouraging policymakers to improve market standards, thereby protecting USS's interests. Much of the stewardship activity is associated with encouraging both listed companies and other assets to better manage ESG risks.

In 2018 and for the fourth year running, USS was awarded a coveted A+ for its approach to strategy and governance in RI by the world-leading UN-supported Principles of Responsible Investment (PRI).

This report covers all of these aspects of our work and we hope it demonstrates our commitment to responsible investing as it runs through everything that we do.

Professor Sir David Eastwood
Chair of the Trustee Board

Our Responsible Investment Philosophy

> **“In the decade since I joined, and indeed in the decade before, USS has made a sustained commitment of resources to enhancing the integration of ESG issues into our investment processes, into the stewardship of our assets and into our work with policymakers. We have acted both individually and alongside similarly-minded global peers. While of course there remains a long way to go, we are proud to support a more sustainable future for our industry and the world by participating in the movement to embed responsible investment across both public and private markets.**
>
> **Roger Gray**
> Chief Investment Officer, USS
> and Chief Executive,
> USS Investment Management Ltd

USS was established in 1974 as the principal pension scheme for universities and other higher education institutions in the UK. It has more than 400,000 members across 350 institutions and is one of the largest pension schemes in the UK, with total fund assets of £68bn (as at 31 March 2019). We will be paying pensions to our beneficiaries and their dependants for decades to come and therefore adopt a long-term perspective in our activities.

USS is an active and responsible investor and steward of assets because we believe that companies and funds with strong ESG have the best chance of producing superior, sustainable long-term returns. For this reason, USS has, for many years had a strategy for addressing these issues as part of its investment processes and we use our scale to bring about positive change in the companies, markets and economies in which we operate.

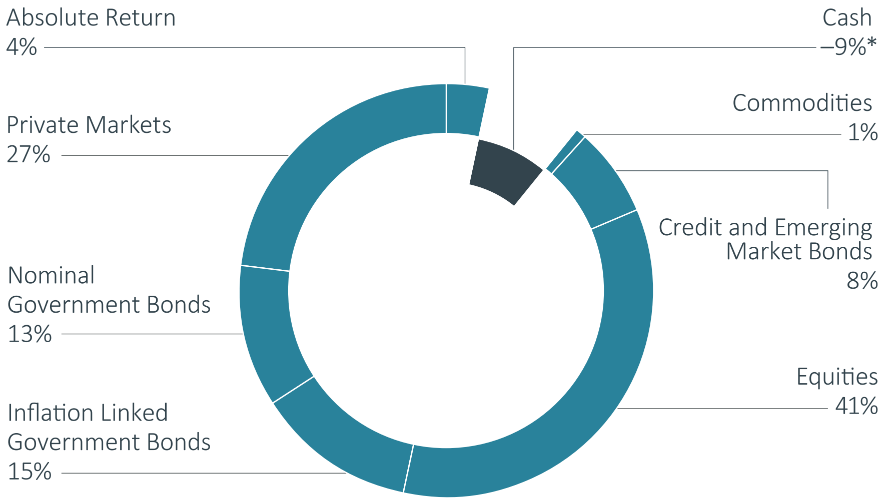
Our activities are based around three strands:

- integration of ESG issues into our investment research process and our ongoing monitoring of investments;
- engagement to promote strong ESG practices with the companies and funds in which we invest by regular company meetings and additionally, in public markets, our voting rights and for unlisted, private investments, our board memberships where we have them; and
- working closely with policymakers and other investors, where appropriate, to bring about positive change in market standards and regulations to protect and enhance USS’s interests in the UK and globally.

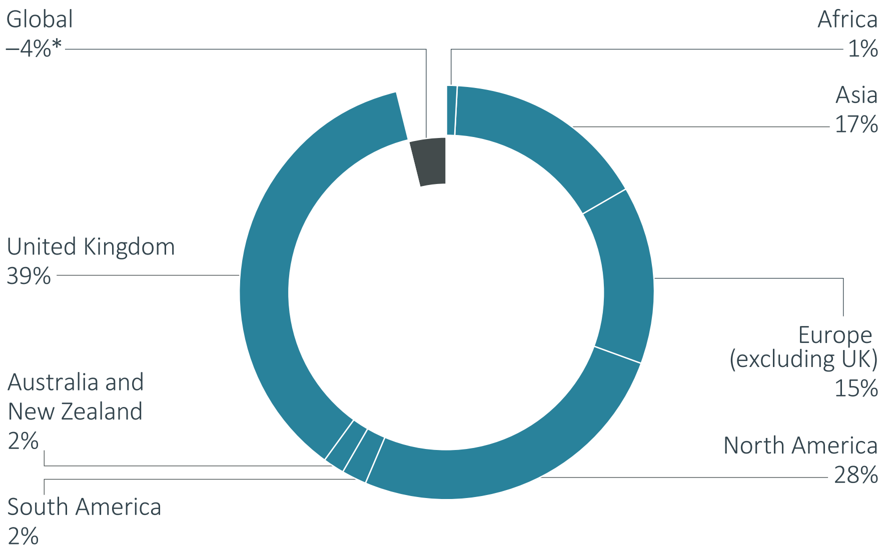
USS has an RI team of five experienced professionals and having this internal resource means that expertise on the investment implications of ESG issues is readily available to both directors of the Trustee Board and the executive. Reflecting the range of activities undertaken by USS, the RI team is organised into two groups – one focusing on public markets integration and stewardship including voting and engagement, and the other on external managers (in both public and private markets) and direct asset due diligence and monitoring. ‘Direct asset’ is the term we give to unlisted investments made by USS directly into companies, rather than via a fund. The RI team is based in the London office with our investment team, allowing formal and informal interactions on a daily basis, promoting collaboration and sharing of insights.

Our Responsible Investment Philosophy

How we invest – by Asset Class



Where we invest – by Geography



*Denotes leverage.

Stewardship

> **Being an active and responsible owner of the businesses and assets in which we invest is just good common sense. We want sustainable, successful companies as that is how we do our best to ensure we can pay the pensions of tomorrow. High governance standards and management who are protecting and enhancing their licence to operate are the ones most likely to deliver these returns.**
>
> **Elizabeth Fernando**
> Head of Equities

Stewardship is how we oversee and engage with the assets in which we invest, evaluating whether they are meeting our expectations and behaving in a way which is consistent with creating sustainable value.

We established USS's Global Stewardship Principles to provide a framework for our stewardship activities. This framework is published on our website.

USS is also a strong supporter of the UN supported PRI. Launched in 2006, the PRI has established a framework for ESG-related practices which has helped RI make significant inroads into investment practices. USS played a leading role in the governance and development of the PRI through its first decade, and still plays an active role in many of the PRI's activities. Please read USS's 2018 PRI report here.

We are also a founder signatory to the UK Stewardship Code which defines how investors should address stewardship.

Voting

As active, long-term owners of the companies in which we invest, exercising our voting rights is one of the cornerstones of our stewardship activities.

We develop our own voting policy which we review annually for alignment with our beliefs on best practice, something that USS has done for over a decade.

When we vote, we take into consideration outcomes from our engagement meetings, our portfolio managers' perspectives, proxy research and discussions with our peers. In this way we ensure that voting is integral to our stewardship rather than separate and distinct. Our voting record and policy is available on our website.

Unlike many pension funds, USS holds a concentrated active portfolio of shares in companies, which allows us to spend more time researching and engaging with our investments on a variety of issues. Where we vote against management we usually write to let them know why, which we believe adds to the effectiveness of voting as a tool for encouraging change.

During the January to December 2018 voting season, USS voted on 6,270 resolutions at 493 events at 437 companies. USS voted 'against' management's recommendation on at least one resolution at 380 or 87% of these companies. For example:

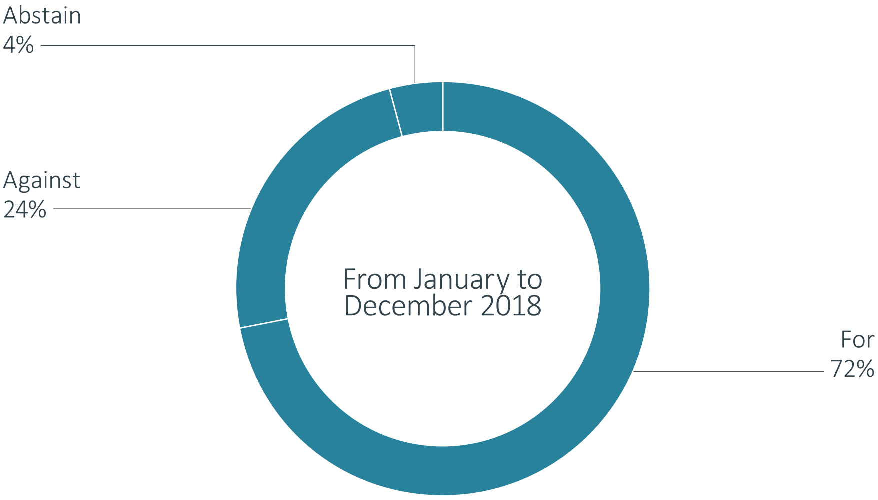
- 55% of remuneration resolutions
- 32% of auditor appointments

USS also supported:

- 71% of sustainability focused resolutions
- 63% of shareholder resolutions

A breakdown of the votes cast is outlined in the pie chart below.

USS Global Votes – January to December 2018



Stewardship

During 2018 we saw an increase in shareholder resolutions not only on climate-related matters (see case study on Rio Tinto) but also other environmental issues: for example, we noted an increasing number of shareholder resolutions on plastic pollution and the recycling of plastics.

From the 2019 AGM season onwards, USS will vote against or abstain on the Chairman and/or members of the nomination committee, if there are no women on the Board and the company has not disclosed a time frame for appointment. This will be applied in developed markets including Japan. A case-by-case basis will be taken in developing markets where diversity issues are less advanced.

Wider Engagement

Voting is only one way in which we demonstrate active ownership of our investee companies. At USS it is our duty to protect and enhance the value of our investments over the long term, to underpin the pension promises made to members by our sponsors. That means we try to consider long-term risks to the performance of our investments, and use our influence as a major institutional investor to promote good practice.

The topics on which we engage are broad, including corporate governance issues such as succession planning, board composition and oversight and executive compensation, as well as climate-related risks, environmental management, labour relations and human rights issues. Where possible and appropriate, both the RI team and fund managers attend company meetings.

As well as being active with our own portfolio, USS is also a supporter of initiatives both in the UK and globally, to improve governance. We invest internationally and supporting high standards of governance in all of its forms, which benefits our risk-adjusted returns and therefore our ability to pay our members' pensions. In overseas markets we typically work closely with domestic asset owners or other groups to secure change, for example, we are members in the Asian Corporate Governance Association.

In the UK, examples of engagement on public policy-related issues in 2018 included: a submission to the Competition and Markets Authority's Statutory Audit market study; the Department of Work & Pensions' consultation on Trustees' investment duties; and to the Financial Conduct Authority to prevent the dilution of premium listed market standards.

Corporate lobbying disclosure
Rio Tinto

Objective

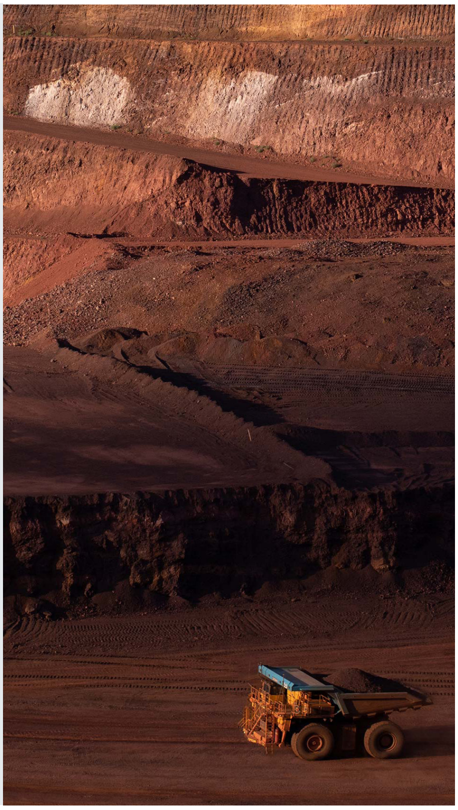
USS is concerned that the public positions being taken by corporations on climate change and associated issues is not always consistent with the lobbying position being taken by the industry bodies of which they are members. Such a situation may send a mixed message to governments and regulators and delay action. We wanted to ensure that Rio Tinto took responsibility for lobbying undertaken on its behalf by industry bodies and had a formal mechanism in place to: identify such lobbying; address such lobbying activity where it was inconsistent with the company's own position; review the benefits associated with being a member of all industry bodies: and report to shareholders on these benefits.

Process and Outcome

We were considering a vote against the report and accounts on the basis that poor disclosure on lobbying meant that the document was lacking full ESG disclosure.

However we decided instead to support a shareholder resolution and participated in a collaborative engagement with Rio Tinto as well as a bilateral meeting with the Chairman.

Following the AGM and a number of engagement meetings with investors, the company reviewed and enhanced its processes around the monitoring of the lobbying associated with its representative bodies.



Stewardship

Away from providing our views on specific issues, USS helped to establish the Global Investors Governance Network (GIGN). This is a collaboration of global investors designed to encourage the sharing of corporate governance information to improve engagement activities across markets internationally and in 2018, a member of the RI team was deputy Chair of GIGN.

USS is also a member of the Tomorrow's Company Stewardship Forum, which promotes best practice in stewardship throughout the investment chain. In addition, the Chair of the Board of USS Investment Management Ltd was a board member of the UK's Investor Forum during the year. The Investor Forum seeks to facilitate dialogue between UK institutional investors and companies on the fundamental drivers of long-term strategy and operational execution.

Executive Remuneration
The Weir Group

Objective

USS was concerned that the incentive schemes that had been proposed by the Weir Group at the 2016 general meeting of shareholders were too generous. After voting against them, we engaged with the company to ensure that the revised proposals did not lead to excessive executive pay and were aligned with the remuneration principles supported by USS.

Scope and Process

We sought meetings and calls with representatives of the Weir Group, which intensified in 2017 and 2018 as the company came back with new proposals for a restricted share plan that would replace its conventional long-term incentives. In these meetings, we stated our concerns about the alignment with best practices, clarified outstanding questions and sought improvements.

After careful consideration, the Weir Group responded with a revised restricted share plan. It introduced lower caps on share awards for the Chief Executive of 125% of salary and Chief Financial Officer of 100% of salary. This compared favourably to the previous arrangements which offered 250% and 200% of salary respectively. The new plan also extended the time horizons during which the shares would be released. Additionally, vesting would be underpinned by metrics including balance sheet health, investor returns and strong governance.

USS was reassured that the revised plan would provide better aligned rewards in the form of long-term share ownership and, at its 2018 AGM, the Weir Group received over 94% support for its new policy.

Tackling Climate Change

As long-term active investors, environmental considerations, climate change specifically, present critical issues for USS today: rising sea levels will impact property and infrastructure asset valuations, weather events will disrupt supply chains and corporate activity and public policy changes and regulation will create winners and losers. USS was one of the first pension funds in the world to recognise climate change as a risk and we have been actively working with our investor partners for over a decade to address it.

For example, USS supported the Paris Agreement to limit global temperature rises to 2°C or lower and we are a founder member of the Transition Pathway Initiative (TPI) that was set up to monitor progress on delivering this.

Partnering with other global pension funds, the PRI, FTSE Russell (a global provider of analytics) and the Grantham Institute (part of the London School of Economics) this project tracks companies' climate change strategies and the implementation of their policies and practices within the limits of a 2°C world. The results of the assessments are freely available to other investors and can be used in both stewardship activities and by our fund managers to show where companies are in their transition.

USS helped either establish or is an active supporter of a number of other initiatives designed to bring industry leaders together to tackle climate change. Examples include the Institutional Investor Group on Climate Change (IIGCC) and the 2018 Global Investor Statement to Governments on Climate Change – the latter of which was signed by investors worth over $32 trillion in assets to encourage support for the delivery of the Paris Agreement. This is in addition to the CDP (formerly known as the Carbon Disclosure Project).

USS is also an active supporter of Climate Action 100+ a collaborative engagement of major global investors targeting the 100 largest emitters of carbon in the global economy. As a result of our collective engagement with Royal Dutch Shell in December 2018, the company announced a ground-breaking plan to guide its transition to a low carbon future (see case study below for further information) and has linked executive remuneration to its successful delivery.

USS puts great effort into providing details on our approach to climate change and other issues to our members. For example, USS is one of a small number of pension funds globally to produce a Task Force for Climate-Related Financial Disclosures Report (TCFD). The TCFD was established by the Governor of the Bank of England, Mark Carney, to provide a framework within which companies and investors, like pension funds, can manage and report their climate change-related management activities to their stakeholders. Within this report, amongst other things, we disclose how action on climate change is governed at USS, what we believe its impact might be, and what metrics and approaches we use to identifying and managing climate-related risks and opportunities.

Engagement with Royal Dutch Shell

USS participated in an engagement with Royal Dutch Shell as part of the Climate Action 100+ initiative. This was led by the Church of England Pension Fund and Dutch asset manager Robeco, and included active participation from USS, the Environment Agency Pension Fund and the Dutch pension provider, APG. We met with senior representatives of the company to understand their concerns and negotiate a joint investor / company statement. The final statement is available here.

The outcomes of the engagement were of critical importance: the company committed to reducing its carbon emissions by 50% by 2050 and start setting shorter-term three to five year targets within which it will do so. These will start from 2020 and other companies in the oil and gas sectors are now under pressure to follow suit.

The important point was that the agreement covered the company's so-called Scope 3 emissions, i.e., those associated with the end use of its products (oil and gas) rather than the more conventional Scope 1 and 2 emissions which focus on the company's own generation of emissions. This helped align the company with the Paris Agreement and provided some confidence in the long-term sustainability of the business. The targets gained additional credibility as the company agreed that executive remuneration will be linked to their achievement.

By taking a lead and demonstrating what can be done, other companies are taking note.

Tackling Climate Change

Focusing on our Carbon Footprint

To manage the risk of climate change we focus on where, and how much, exposure we have to carbon in our own portfolio.

Since 2009, we have been assessing the carbon footprint of our public equity portfolio. The analysis shows both our aggregate exposure and concentrations of exposure in particular portfolios and companies, and allows us to factor climate change considerations into our investment decisions where it has a financial bearing. In 2015, we became a signatory to the Montréal Pledge, committing to annually measure and publicly disclose the carbon footprint of our equity portfolio.

Most investors are focusing their efforts in this area on their public equities portfolios.

However, we believe that the risk should be assessed across all our investments whether publicly traded or not and as a result USS is one of the few pension funds globally to have sought to undertake carbon footprinting for our whole portfolio. This process certainly has its challenges: while it is now a requirement for some companies to disclose the data we need, there are many others who choose not to make such information available. Where we invest via externally managed funds we are often reliant on the asset manager to collect and provide information to us which is still not common practice.

Our 2018 carbon footprinting exercise found that our public equity portfolio was 20% less carbon intensive than it would have been if we had been passively invested in the MSCI World Index – a common industry benchmark for equities, and that our carbon footprint had fallen since the 2016 assessment.

One of the ways we have achieved these good results is by being more aware of the carbon emissions of our investee companies. An example of this work has been in our Low Volatility Portfolio (see case study below for further information).

USS has also committed in excess of £700m in financing to a diverse range of UK renewables projects and low carbon energy infrastructure like wind power. These investments are seen by USS as good financial investments, made possible by clear and consistent public policy frameworks, and offering potential returns that are consistent with our fiduciary duties.

The Low Volatility Portfolio

Over the long term, equities are expected to deliver superior returns to assets such as government bonds or corporate debt, however, equities (being the most subordinated element in a company's capital structure) can be more volatile and susceptible to sharp downturns in price. Low Volatility (Low Vol) portfolios aim to deliver similar returns to the equity market but with less risk of a sharp drawdown in capital values. They do this by investing in more stable and predictable companies and historically utilities have been one of the sectors favoured by Low Vol portfolios.

Through our carbon footprinting exercise we noted that the Low Vol portfolio had a much greater carbon exposure than our other public equity portfolios and that this was exposing us to an unintended risk. Further investigation found that this was due to the screen having a relatively short horizon of the volatility factors which did not capture the longer-term risk which climate change poses to asset values.

USS decided to include a more explicit carbon factor in the process and analysed the implications of removing 3% of the most carbon intensive companies from the investable universe; the outcome of this suggested there would no material impact on returns.

This change was implemented in 2018, leading to a successful reduction in the carbon footprint for the portfolio. By applying the carbon overlay to the factor model we have achieved a 70% reduction in carbon emissions and the portfolio is now 8% less carbon intensive than MSCI World. Factor portfolios, such as Low Vol, which are built using quantitative screens may require the addition of an explicit carbon overlay as they do not benefit from the long-term perspective which our research analysts bring to the discretionary portfolios. We therefore cannot rely on the models to capture long horizon risks appropriately.

Our Approach to External Fund Managers

"Since I joined USS, which was soon after the RI team was established, much has changed and the breadth of our investments has grown dramatically. Yet what has remained consistent throughout that time has been our strong ESG philosophy, which applies irrespective of whether those investments are managed internally or externally.

David Russell
Head of RI

USS Investment Management Ltd manages about three-quarters of USS's defined benefit assets and places the remainder with complementary external managers. The introduction of the defined contribution element to the pension fund in October 2016 led to the appointment of a significant number of new external fund managers. We used this opportunity to refresh our existing approach to the due diligence and ongoing oversight of responsible investment at our externally managed portfolios in both public and private markets. Recognising the increased importance of this activity, USS Investment Management Ltd created a Senior Analyst role dedicated to RI oversight of the scheme's external managers in 2018.

In this section, we will cover our approach to RI due diligence and monitoring for all our externally managed investments.

Due Diligence

USS assesses how its external managers address ESG issues prior to investment and then on a regular and ongoing basis. This is an extensive process and involves the RI team reviewing external managers' RI-related policies, processes, resources, reporting and stewardship activities in order to evaluate the managers' approach and commitment to RI.

The due diligence is applied flexibly depending on the underlying investments of the fund, the expected duration of holdings and their ESG risk profiles. For example, when reviewing public market managers, the RI team will review the manager's Stewardship Code statement.

With all our managers, we typically discuss the manager's views on the PRI and how ESG-related activities are communicated to investors and other stakeholders. Where available, we will review the fund manager's PRI reports and assessments; PRI signatories are required to report on their implementation of the six principles for responsible investment on an annual basis, which can provide useful case studies and benchmarking on their approach.

Similarly, since the inception of our Private Markets Group (PMG) in 2006, we have included an evaluation of the approaches to RI issues in our external private manager due diligence. We are often considering a commitment to a fund in which the companies we will be invested in have not yet been acquired. In these situations, the due diligence process will typically identify case studies from previous funds on which to base 'deep dive' questions. Such discussions enable USS to assess how well RI has been incorporated in any previous investments and what we should expect in the new fund. As these firms are often investors who take majority ownership in the companies in which they invest, they are in a position to have a decisive influence on the ESG impact of these businesses. For this reason, we have found these asset classes to be a productive ground for engagement on responsible investment.

With public equity mandates, we may also consider the consistency of voting records between different markets and the manager's public policy statements or review the handling of a specific vote compared to USS's position on the same resolution where we have an in-house holding.

For our absolute return portfolios (hedge funds), we place particular emphasis on the governance of the fund manager and interview the independent directors alongside our operational due diligence colleagues to assess their skills and experience and ensure appropriate levels of oversight at the fund.

Our Approach to External Fund Managers

Ongoing Monitoring

Our monitoring of our external managers does not stop post-investment – we regularly follow up to see if their approach has changed and whether they are delivering on any commitments made in the initial due diligence review. The frequency and type of monitoring is tailored to the mandate and asset class.

For example, for fund managers investing in public markets, we review voting histories, company engagement case studies and ESG integration. We include RI-related questions within USS's quarterly monitoring questionnaires to ensure material changes to RI policies, activities or concerns arising with portfolio assets are tracked and managed.

Periodically, the RI team undertakes a more detailed deep-dive review as part of the RI monitoring process, meeting with representatives from the investment management firm for a more detailed face-to-face discussion on ESG. Ahead of these meetings, we research the portfolio companies or other assets in which a fund has invested to identify relevant ESG risks or opportunities that can be interrogated further with the fund manager. This process, which we have adapted for both public and private market managers, is designed to identify areas of strength and weakness in RI, and divergence between their stated approach and actual implementation, and to allow comparisons to be made across USS's different external managers, especially when they are working within a similar asset class. The information can also help to inform USS's future allocations to a private equity manager as the data and views collected feed in to the due diligence process for assessing new commitments.

The RI review processes draw upon, and broadly aligns with, the PRI practice guides, such as the PRI's 'ESG Monitoring, Reporting and Dialogue in Private Equity' report which USS played a key role in developing (to read more about our involvement with the PRI please turn to page 4).

While the RI team plays a key role in monitoring our external managers on ESG, our colleagues in the Public Markets Manager Selection team and PMG, who manage these relationships day-to-day, are also heavily involved in the oversight. For example, PMG team members are typically also members of the Limited Partners' Advisory. Committees of the private market funds in which USS invests.

These committees meet once or twice a year, or more frequently where required, and will often include ESG topics and updates on the meeting agendas, providing an additional forum for USS to monitor and challenge our fund managers on RI-related matters.

More detail can be found on our website and in the PRI report.

Supporting Smaller Funds
Mayfair Equity Partners

In early 2015, USS met the founders of Mayfair Equity Partners when they were contemplating their first independent fundraising. Following extensive diligence, USS agreed to become their first institutional investor. As part of this diligence process, the USS RI team and the investment team worked together to inform the Mayfair team about our approach to responsible investment. As Mayfair grew, they embraced the trend towards better ESG engagement and reporting, and became one of the smallest private equity managers to sign up to the UN PRI. Having now raised a second institutional private equity fund, they have a comprehensive approach to ESG engagement, including specific diligence on each company prior to investment, and then subsequent regular ESG assessments of their portfolio. As a result of their efforts, Mayfair Equity Partners was recognised in 2018 with the British Venture Capital Association's Responsible Investment Award for managers with less than £1bn under management. Mayfair invests in a range of companies including Yo! a restaurant operator focusing on Japanese cuisine.

Our Approach to Direct Investing

> **As a board director of Heathrow, I know just how much management focusses on managing the environmental and social issues faced in running a large airport. From plans to be carbon neutral by 2020, to establishing a league table for aircraft noise to encourage reductions, the airport continues to be sector-leading in its focus on ESG.**
>
> **Mike Powell**
> Head of Private Markets Group

USS also invests directly in unlisted assets where it sees opportunities to generate attractive risk-adjusted returns for the benefit of members. Examples of our direct investments include stakes in Moto (motorway service stations), holdings in infrastructure assets such as Heathrow Airport and Thames Water, rail, port and renewable energy assets, and a significant property portfolio.

As with our listed investments, we integrate ESG considerations into both our enhanced due diligence (EDD) prior to investment and our post-acquisition stewardship activities. This is particularly important in our direct investments as we expect to own them for many years and we have the ability to directly influence board composition, strategy and remuneration.

The EDD process is designed to identify material ESG and reputational risks that could potentially affect the value of the investment, and explores whether there are appropriate controls and processes in place to prevent or mitigate these risks. These investigations are usually conducted by the RI team, and we will frequently appoint specialist external advisors and consultants, including environmental consultants, to support the internal team's assessment of ESG issues.

Once we are invested, we follow an ESG review process that was formalised in 2017/18 using market leading frameworks. When benchmarking governance, we use an adapted International Finance Corporation (part of the World Bank) framework. We assess the level of commitment shown to high quality corporate governance including the structure and functioning of the board of directors, the control environment and processes and transparency and disclosures. Each of these factors are scored against best practice to identify how the governance at the business could be improved.

For environmental and social issues, typically USS will use the Global Real Estate Sustainability Benchmark framework, which USS helped to establish in 2009. This is an internationally accepted environmental and social performance assessment process for property and infrastructure assets and funds. We conduct face-to-face ESG review meetings with the

Grand Arcade Shopping Centre
Cambridge

Consistent with our commitment to Responsible Property Investment, we monitor energy consumption on all of our assets where we have responsibility for the utility supplies. Particular attention is given to our 'Focus Sites', comprising eight assets covering two shopping centres and six offices held on a long-term basis. Our target has been a 30% reduction in energy intensity between 2010/11 and 2019/20. We have, in fact, achieved a 34% reduction in electricity and a 37% reduction in gas for the period 2011 to 2018.

The Grand Arcade, Cambridge, comprises 450,000 square feet of retail space in 60 shops and cafés in central Cambridge. Since 2012/13, we have undertaken a series of energy audits, prompting improved control of the building management system, upgrades to central air handling units and fans, plus replacement with more efficient LEDs for the front and back of house lighting.

As a consequence, we have achieved a reduction in total electricity use at the Centre of 697,000 kilowatt hours in 2018/19 compared to the 2012/13 baseline. This represents a 35% annualised reduction on the baseline from six years earlier; the equivalent of approximately 197 tonnes of CO_2.

Our Approach to Direct Investing

sustainability team of the company to discuss how the asset's managers are addressing ESG risks and opportunities.

The purpose of these assessments is to compare the current ESG management at our assets with best practice and to identify recommendations for improvement. Past recommendations have covered contractor oversight, human capital management, air pollution, health & safety and community relations. Recommendations are made to the PMG's regular Portfolio Review Committee whose members have the ability to influence investee companies.

As part of our investment in our direct assets we often seek Board membership. This gives us greater access to information on management issues including ESG risks and more direct influence on strategy and priorities. We expect the Board to monitor progress over time, including reduction in environmental impacts, lower operational costs and improved financial performance. For larger companies, it is already normal business practice to report such metrics both internally and externally. For example, Heathrow's 2018 Sustainability report is available online here.

Strategy in action
Commitment to the UK

USS bought a 10% share in Heathrow Airport Holdings Limited in two transactions in 2013 and 2014.

We wanted to invest in one of the world's busiest airports, which is of critical importance to the British economy and also as an international airline hub.

Being such a key part of the fabric of the UK, we could see how owning a share of the business would make sense for USS. Heathrow has benefited from a world-class reputation as well as a strong group of aligned, long-term investors.

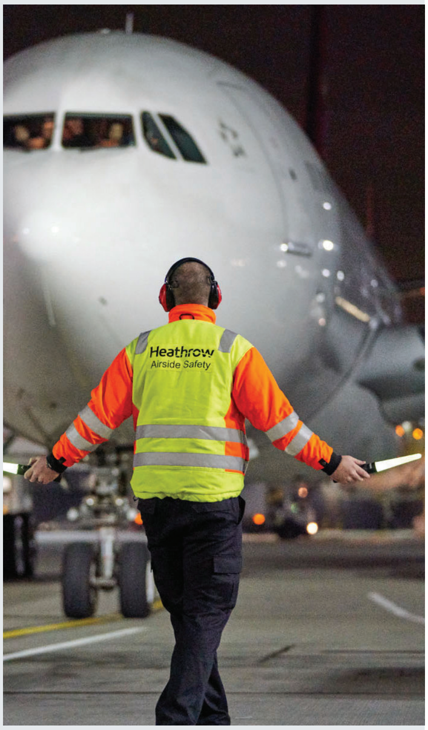
This was all before the UK Government gave the green light for a third runway to expand the airport's capacity which has become constrained in recent years.

We place significant emphasis on our duties as a responsible investor and through our influence in the boardroom, we actively engage with the company to ensure that it maintains its sector leading focus on sustainability and carbon neutrality.

Since USS made its investment, Heathrow has continued its transformation into one of the best airports in the world, being named 'Best Airport in Western Europe' in the 2018 Skytrax World Airport Awards, as well as Terminal 2 being named as the 'World's Best Passenger Terminal'. The awards were based on 13.73 million airport survey questionnaires.

Heathrow said: "Tackling climate change is the biggest challenge of our generation and the aviation industry must be part of the solution. Heathrow has a four-part plan that will enable the industry to decarbonise over the coming decades. Currently, Heathrow is focused on modernising airspace and making ground operations more efficient. These are changes that will contribute to a reduction in emissions in the short term. Alongside that, Heathrow is promoting and investing in best-practice offsetting measures and carbon capture. In the medium term, scaling up the production of sustainable alternative fuels will help the industry reduce emissions from their primary source – aircraft. Finally and in the longer term, the industry must accelerate the arrival of new aircraft technology, including hybrid and electric aircraft, that will transition the industry to a zero carbon future.

Over the past five years, Heathrow has invested over £100m which will mean it operates carbon neutral airport infrastructure by 2020 – this includes investments in electric car fleets and charging points, renewable



energy generation and peatland restoration projects. Over the coming years, they will be investing further to achieve net zero carbon airport infrastructure by 2050 at the latest – but its ambition is to deliver this change much sooner. Heathrow fully supports the Government's goal to make the UK economy net zero carbon by 2050 and is also a signatory of the Paris Agreement."

Further information

Subject	Reference
USS's Global Stewardship Principles	https://www.uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/Global Stewardship Principles.pdf
USS's 2018 PRI Report	https://reporting.unpri.org/surveys/PRI-reporting-framework-2018/BAE5CF12-DBF7-4A56-89B8-8FEB15006F29/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1
Our voting record and policy	https://www.uss.co.uk/how-we-invest/responsible-investment/how-we-vote
The Institutional Investor Group on Climate Change (IIGCC),	https://www.iigcc.org/
The 2018 Global Investor Statement to Governments on Climate Change	https://theinvestoragenda.org/wp-content/uploads/2019/03/190304-GISGCC.pdf
Climate Action	http://www.climateaction100.org/
Global Real Estate Sustainability Benchmark Framework	https://gresb.com/
Final statement regarding the engagement with Royal Dutch Shell	https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html
Climate-Related Financial Disclosures Report (TCFD)	https://www.uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/taskforce-on-climate-related-financial-disclosures.pdf
Heathrow's 2018 Sustainability Report	https://www.heathrow.com/file_source/Company/Static/PDF/Communityandenvironment/HEA-2018-Report.PDF

The Responsible Investment Team

From left to right:

Philipp: RI Analyst, joined in 2019 with a focus on voting, integration and stewardship of ESG issues into the public market portfolios

Sandrine: RI Analyst, joined in 2017, focuses on the ESG integration and stewardship of public market assets, and the due diligence and monitoring of private assets

David: Head of RI, joined in 2001, manages the team and implements the Trustee's RI strategy

Helen: Senior RI Analyst, joined in 2007 with a focus on ESG due diligence and monitoring of USS's external managers within public and private markets

Patrick: Senior RI Analyst, joined in 2014 with a focus on ESG with regard to its integration into public market portfolios as well as broader stewardship with public market assets