



Statement of
Trustee on
responsible investment
and legal obligations

Trustee statement on responsible investment and legal obligations for USS as a whole (both USS Retirement Income Builder and USS Investment Builder)

1. Background: USS as a whole

1.1. USS's overall approach to investment policy and decision-making for the scheme as a whole must be consistent with the trustee's fiduciary and other duties as confirmed by legal advice and the trustee's legal framework.

1.2. That legal advice and framework is clear that the trustee must carry out its investment duties in line with:

- the scheme's trust deed and rules;
- trust law duties, and in particular the duty when exercising a power to consider relevant matters (and to disregard irrelevant ones), taking care not to fetter discretion;
- legislation – particularly the wide investment power conferred by the Pensions Act 1995 and the requirements to produce and comply with USS' Statement of Investment Principles; and
- case law – in particular, that pension scheme assets should be invested in the “best interests” of beneficiaries, and that “best interests” here means their best **financial** interests.

1.3. The trustee will also consider regulatory materials from the Pensions Regulator when carrying out its investment duties.

1.4. Against that backdrop we can articulate how those legal responsibilities in relation to responsible investment apply across the scheme and this is set out below.

1.5. Universities Superannuation Scheme Limited (USSL) as the trustee of USS has delegated all day-to-day investment management to USS Investment Management Limited (USSIM). USSIM is authorised and regulated by the FCA, and is a wholly-owned subsidiary company of USSL.

1.6 Given this structure, in this statement we have, for simplicity, generally referred to “USS” or “the trustee” and have not attempted to distinguish precisely between USSL and USSIM.

2. Key Principles: USS as a whole

2.1. USS's primary duty when exercising its investment power is to invest scheme assets in the best financial interests of beneficiaries.

2.2. USS must consider all relevant financial factors when making investment decisions. In respect of responsible investment, the trustee can therefore take into account ethical, environmental, social and governance factors (ESG factors) where these are relevant financial factors. Climate change is

an example of a financial factor (that is also an ESG factor) which can be taken into account when making investment decisions.

2.3. Non-financial factors should not drive the investment process and can only be considered in very limited circumstances - see section 2.6 below.

2.4. USS's investment approach incorporates these principles, and applies a series of questions/considerations as part of the investment process, as noted below.

How does the trustee make investment decisions?

2.5. USS must always consider all relevant financial factors when making an investment decision – for example, these financial factors may include price, long-term sustainability of the company (due to increased regulation, consumer demands, etc.) and climate change.

2.6 USS can only consider non-financial factors in very limited circumstances, i.e. where:

- taking those factors into account would not pose a risk of significant financial detriment to the Scheme. An example of this would be where there is a choice to be made between two investments which are broadly equivalent from a financial perspective; and
- USS has good reason to think that Scheme members share each other's concerns about the non-financial factors.

2.7 USS can also exclude certain types of investments (provided that exclusion is not permanent) in which case the same principles above will apply.

3. How do these principles apply to the USS Retirement Income Builder and USS Investment Builder elements of USS?

3.1. USS Retirement Income Builder (Defined Benefit)

USS must ensure that: (i) scheme assets are invested in the best financial interests of members and beneficiaries; and (ii) all relevant and material considerations are taken into account when investment decisions are made. The principles outlined at paragraph 2 above are consistent with those key duties and USS will continue to apply those principles to USS Retirement Income Builder investments, as it has always done.

3.2. USS Investment Builder (Defined Contribution) – as a whole

USS will apply the principles outlined above when considering USS Investment Builder investments and constructing the Defined Contribution (DC) investment range as a whole. Those principles will apply to the USS Investment Builder in the same manner as they apply to the USS Retirement Income Builder.

3.3. USS Investment Builder – default strategy

When constructing and monitoring the USS Investment Builder default strategy, USS applies the principles outlined above in the same manner as it applies those principles to the USS Retirement Income Builder.

3.4. USS Investment Builder – self-select options

- The general principles set out above still apply, but with an added nuance which is accepted by both The Pensions Regulator and the Law Commission.
- This nuance is that trustees can offer self-select options which take account of non-financial factors even where these factors could result in the self-select option in question producing lower returns than would otherwise be the case.
- However, it is important to recognise that a trustee who chose to do this would have to make clear to members the background, structure and risks of the self-select option.
- Also, the trustee would not be permitted to offer a self-select option with no regard to its financial performance.
- Accordingly, USS's primary duty for the USS Investment Builder remains to provide members with benefits at retirement. However, for self-select options USS can, and does, (at least for some of the self-select options) take non-financial factors into account more than is possible for the USS Retirement Income Builder or for the USS Investment Builder default strategy.
- Accordingly, whilst still primarily applying the principles set out above, USS is able to offer optional ethical investment options (based on non-financial factors) for the USS Investment Builder. These ethical self-select options are offered on the basis that they may produce a lower return than investments based solely on financial factors.