USS

For members, for the future.

Universities Superannuation Scheme (USS)

Stewardship Report 2025

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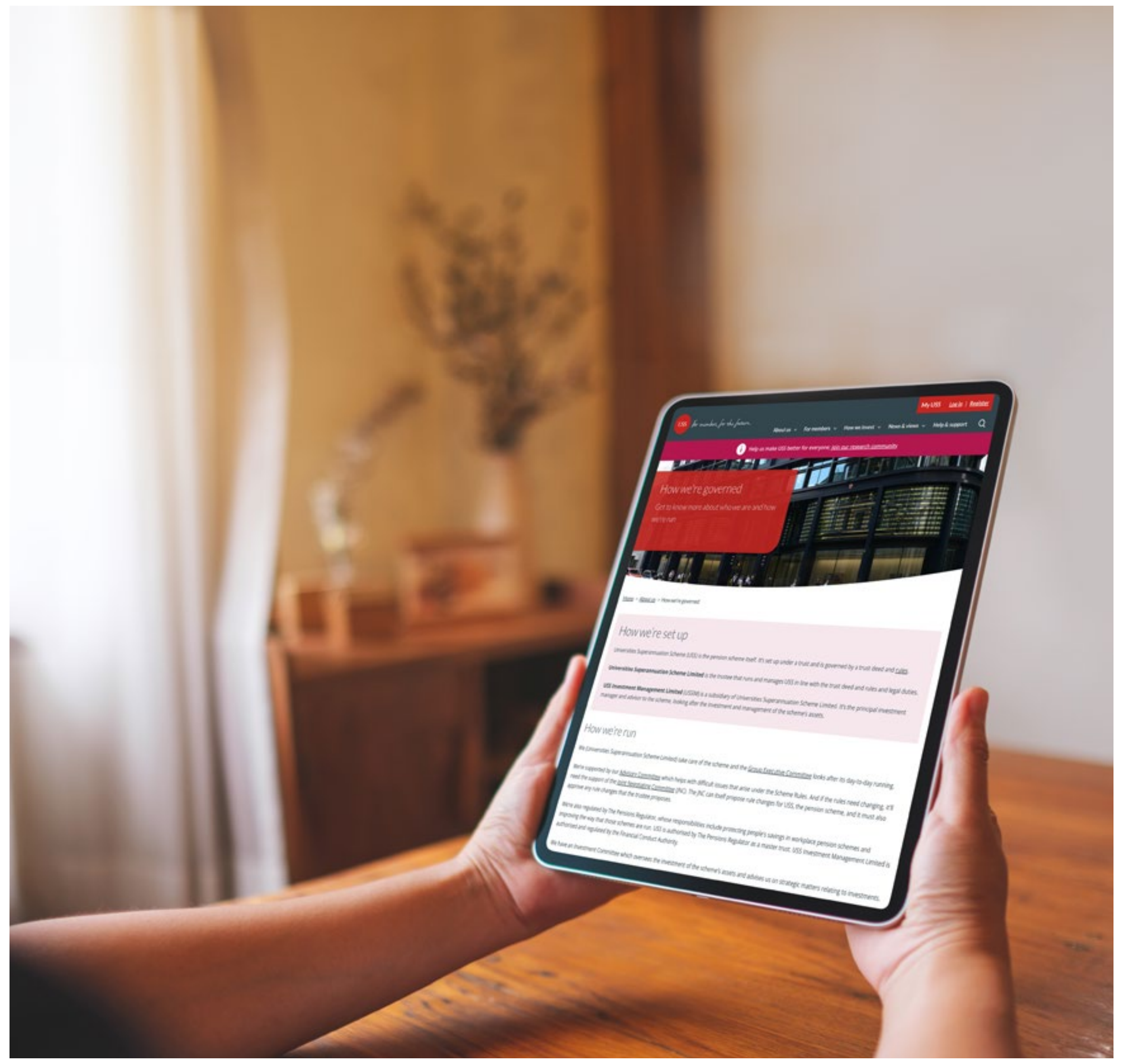
Purpose and Governance



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Front cover image: the Royal Liver Building, Liverpool and USS Ltd's head office

Foreword

Dame Kate Barker
Chair of the Trustee Board

I am delighted to introduce the fifth stewardship report from the Universities Superannuation Scheme (USS).

We consider it vital that investors be active stewards of their investments. Stewardship is an important tool that can influence change and mitigate possible negatives. This is particularly important as the world around us faces new challenges, including deglobalisation and deregulation; intensifying the pressure on investors. In specific markets, we have seen the lessening of shareholder rights, the removal of investor protections and obstacles put in place that can limit investor actions.

We define stewardship as the responsible allocation, management and oversight of capital, to allow us to protect and enhance long-term value for the scheme. This may contribute to capital market efficiency, integrity and resilience; including long-term economic growth. We believe that stewardship extends beyond the traditional consideration of environmental, social and governance factors; it includes all aspects of managing investments.

We consider it important that asset owners, like ourselves, should play a part in supporting capital market efficiencies, integrity and resilience. We believe in raising our voice, being clearer about the important role of asset owners in capital markets and aligning with other asset owners and like-minded stakeholders to support our financial objectives. You will read in this report about the activities undertaken during the reporting period in relation to the pre-consultation and actual consultation for the UK Stewardship Code; we were largely supportive of these proposals.

We also believe that company-level stewardship (engagement and the exercise of ownership rights) is an important aspect of a considered approach to investment. It can provide useful information that justifies:

- Avoiding an investment opportunity (see the European Industrials company case study)
- Providing conviction to an investment case (see the Moto case study)
- Influencing positive change that can position a company well for achieving long-term success (see the Vale case study)

To do all this well, we need stewardship to work effectively. This extends to corporate accountability to shareholders and transparency between shareholders and company management. This is true both at an individual company or asset level and at a market-wide and systemic level. In all aspects of stewardship, we advocate for a thoughtful and purposeful approach that is focused on who we are engaging with, what we are trying to achieve and why we're trying to achieve it.

We are a long-term, responsible investor with a legal duty to invest in the best financial interests of our members and beneficiaries, so we can pay pensions long into the future. We are also a Universal Owner (see box on page 7 for the definition of Universal Owner), which means we are exposed to certain market-wide or systemic issues that could impact the investment returns we seek; for example, climate change. We must therefore act as an active and engaged long-term owner to address these issues, together with other Universal Owners, to minimise the financial impact they can have on our investments.

Foreword
Continued

As a Universal Owner, we have a clear focus on the importance of public policy engagement and advocacy to support the risk adjusted returns for our portfolio. We believe that thriving capital markets, with strong shareholder rights, can have significant benefits to the economy, environment and society. Thriving capital markets can help us to provide for the financial futures of our members and beneficiaries.

At USS, we have a well-established approach to stewardship that we have evolved over time to address emerging issues and take opportunities from relevant changes to the landscape. Over the past year, we have been implementing our revised approach to responsible investment (RI). We established four overarching priority themes for RI (Climate, Governance, Nature and People) and determined the four primary activities for these themes (Advocacy, Collaboration, Integration and Stewardship). We are not complacent about our approach and continue to strive for improvements.

Our approach to stewardship is integrated with our investment process and involves the participation of all investment teams (equities, fixed income and private markets) for both the Retirement Income Builder – defined benefit (DB) and the Investment Builder – defined contribution (DC) parts of the scheme. It is a key consideration that determines the appointment and continued relationships with our external investment managers, as well as the rationale for many of our activities relating to public policy advocacy.

This report is aligned with the 12 principles of the UK Stewardship Code. It describes relevant structures, approaches, policies and processes; as well as examples of stewardship activities undertaken throughout the reporting period and, where relevant, the outcomes of these activities.

I welcome any feedback you have on this report or our approach to stewardship.

Activities and Highlights

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Introduction

The focus of this report is the scheme's response to the 12 Stewardship Principles developed by the Financial Reporting Council (FRC) in its UK Stewardship Code.

As in previous years, we describe principle-by-principle how we implement our commitment to being an active steward of the scheme's assets and summarise our responsible investment (RI) activities and outcomes across all of our asset classes, with a particular focus on USS's financial year April 2024 to March 2025.

Report oversight and approval

To bring to life the scheme's approach to stewardship, we have included case studies throughout the report, including examples of where progress has been made or the situation has evolved. We have also included information relating to our 2024 TCFD Report and our ongoing climate scenario research with the University of Exeter, which we use to inform our asset allocation and investment decisions.

This Report has been subject to the following review process:

- Content authored by the Head of Stewardship
- Inputs from investment and advisory teams across USS
- Review by the Head of Responsible Investment
- Review by the scheme's Group legal function
- Review by the CEO of USS Investment Management (USSIM)
- Review by the Investment Committee

About us

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and Higher Education institutions in the UK. We work with around 330 employers to help build a secure financial future for more than 500,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £78bn (at 31 March 2024).

The trustee of USS is Universities Superannuation Scheme Limited (USSL). It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. USSL's Investment Committee, which reports to the Trustee Board, oversees the investment of the scheme's assets and advises on strategic matters relating to investments. The trustee is regulated by The Pensions Regulator and has a primary responsibility to ensure that benefits promised to members are paid in full and on time.

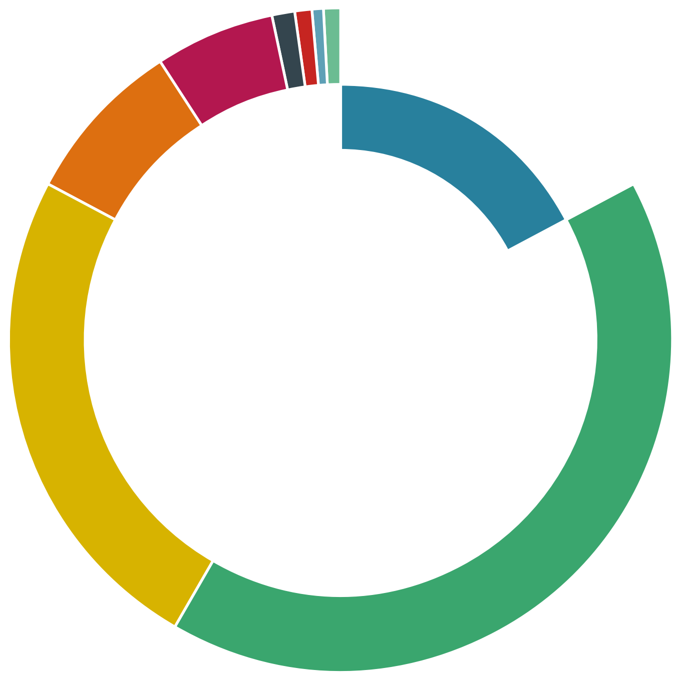
The trustee delegates implementation of its investment strategy to a wholly owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM manages between 70% to 80% of the investments in-house and appoints and oversees external investment managers to manage the remaining assets. USSIM is authorised and regulated by the Financial Conduct Authority.

USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder.

Where we invest*
By Asset

Cash	-26.6%**	Private Credit	11.3%
Liability matching	39.9%	Private Growth	9.0%
Public Equities	31.4%	Real Estate	5.4%
Public Credit	17.4%	Commodities	0.9%
Infrastructure	11.3%		

Where we invest*
By Geography



Cash	-26.6%**	South America	1.6%
UK	62.9%	Oceana	1.5%
North America	37.6%	Africa	0.8%
Europe	12.2%	Global	0.9%
Asia	9.1%		

Source: USS, March 2024

* Figures shown may not sum to 100% due to rounding. These differences do not affect the conclusions shown or contained within the report. Global assets includes commodities.
** Denotes leverage.

Leverage measures the degree to which total investment exposure exceeds the value of scheme net assets. Leverage is created by repurchase agreements and derivatives, including futures and swaps. Inputs from different investment and other teams across USSIM to cover asset class-specific issues.

Our key highlights for 2024/25 include:

- Defining the scheme's position as a Universal Owner and long-term responsible investor.
- Identifying four priority themes of Climate, Governance, Nature and People.
- Confirming implementation of the scheme's responsible investment approach through Stewardship, Integration, Collaboration and Advocacy.
- Appointing a Head of Stewardship.
- Making further progress towards our net zero ambition and published our third mandatory TCFD Report in July 2024.
- Working with the University of Exeter to further develop the four climate scenarios we use to inform our investment decision making and analysis.
- Increasing our public advocacy and responses to regulatory consultations as evidence of our commitment to visible leadership in responsible investment.

Our approach:

Our activities as a responsible investor fall into four core areas:

Stewardship:
As a long-term investor, we believe we have an obligation to act as active stewards of our investments, using our influence to promote good practice and better inform our investment expectations. We believe that effective stewardship can help prevent or avoid value destruction and enhance investment outcomes.

Collaboration:
We recognise that collaborating with other investors and investment industry stakeholders can enhance our stewardship activities, priorities and outcomes. Collaboration allows us to share knowledge, views and practices. It can also be a method for influencing companies, policymakers, standard setters and regulators by way of providing a common view from multiple stakeholders.

Integration:
We seek to integrate financially material responsible investment factors into investment decision making to identify mispriced assets and enable our investment teams to make better-informed investment decisions and improve risk-adjusted returns. We believe additional returns can be available to investors who take a long-term view and can identify where the market is overlooking the role of material responsible investment factors in asset performance. Systemic mishandling of these issues can also be an early indicator of wider mismanagement or financial problems.

Advocacy:
As a Universal Owner, we have a role to play in promoting the proper functioning of markets and economies. This includes engaging with policymakers and regulators in markets in which we invest, to articulate the concerns of asset owners and long-term investors. We seek to address externalities and systemic market failures in an effort to benefit market-wide long-term economic performance.

What is Universal Ownership

Universal ownership involves having highly diversified and long-term portfolios that, by virtue of their large size, are broadly representative of global capital markets. As a Universal Owner, we are exposed to certain market-wide or systemic issues which could impact the investment returns we seek. With risks that are systemic, it is unlikely that portfolio diversification alone will be enough to avoid all material risks in the same way as can be achieved with non-systemic risks. We therefore act as an active and engaged long-term owner to minimise the financial impact such issues can have on the scheme's investments.

Looking ahead

We are committed to improving our approach to responsible investment and seek to enhance our practices and policies. In 2025/26 we will:

Our strategic priorities

- Continue to work toward our **ambition for our investments to be net zero** by 2050, if not before.
- Evolve our responsible investment due diligence and monitoring processes for our external fund managers.
- Seek to address systemic risks by increasing our collaboration with other investors and stakeholders.
- Support our investment teams to integrate our four responsible investment priorities into investment decisions.

Purpose and Governance

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Principle 1: Purpose, strategy and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our purpose and strategy

Our purpose is:

- Working with Higher Education employers to build a secure financial future for our members and their families

In pursuit of our purpose, it is our duty to invest in the best financial interests of all our members and beneficiaries. Our strategic priorities are:

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

Our beliefs

At the heart of our organisation is a long-held belief that acting as a responsible investor will improve risk-adjusted returns. We also believe it enhances our ability to meet the pension promises due to members of the scheme. That is why active ownership and the stewardship work undertaken are fundamental to our approach to managing the assets entrusted to us.

Our culture and values

Our organisational values underpin our approach to investing responsibly. They are clearly defined and built on three pillars of integrity, collaboration, and excellence. These values guide what we do, including how we invest, and how we act as stewards of the assets in our portfolio. They are the foundations that set the corporate-wide culture that is driven by and overseen throughout our governance structure.

Integrity

- We always do the right thing
- We put our members' interests first
- We take decisions for the long term

Collaboration

- We work towards a common goal
- We take responsibility for our own actions
- We are straight-talking and respectful in our dealings with each other

Excellence

- We set high standards for ourselves and our colleagues for the benefit of our members
- We adapt and innovate to achieve the best outcome
- We bring our best selves to work, every day

Principle 1
Continued

Stewardship: Putting our purpose, strategy, beliefs, culture, and values into practice

We express our purpose, culture and values and strategy through how we invest, how we manage the scheme's assets and how we meet our members' retirement needs (we discuss how our approach meets our members' needs under Principle 6). As active owners, our focus is on sustainable outcomes, which includes good corporate governance. We also ensure the investment managers who are selected and appointed to manage our assets consider financially material matters, including the integration of our overarching themes of Climate, Governance, Nature and People into the selection, retention and realisation of investments.

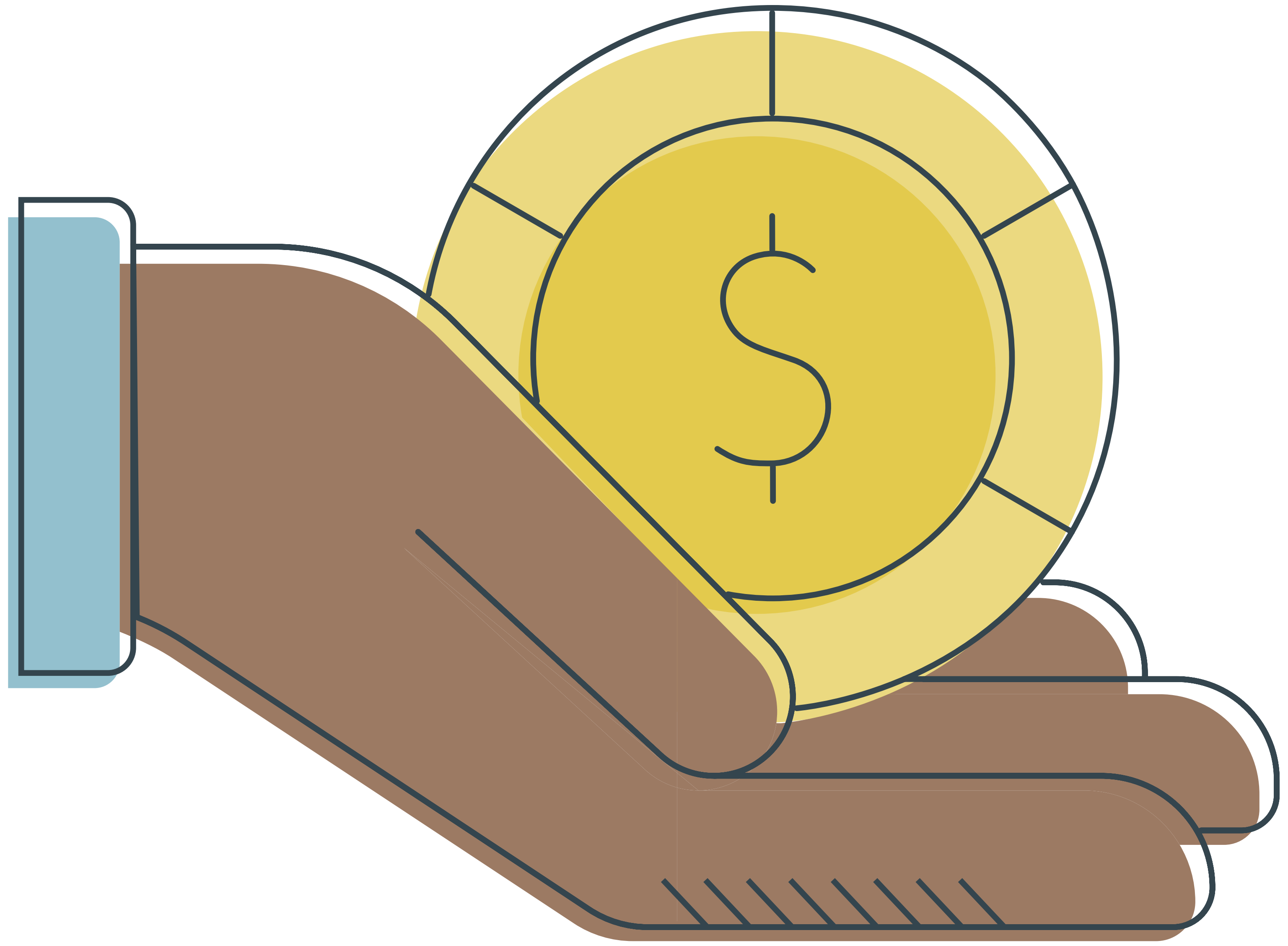
Our approach means that we integrate the consideration of financially material responsible investment factors in our investment decisions. We analyse and assess these factors in our investments, across multiple asset classes before we invest and during the life of our investment.

Long-term stewardship is central to our fiduciary duty to our members and beneficiaries. In line with our sponsors' covenant and liability profiles, we invest for the long term and expect to own investments for many years. This is particularly true of the direct investments the scheme makes.

We are also enhancing the ways of integrating climate considerations into investment decision-making processes across multiple asset classes (see Principle 7 for further information).

We put investor stewardship into practice by:

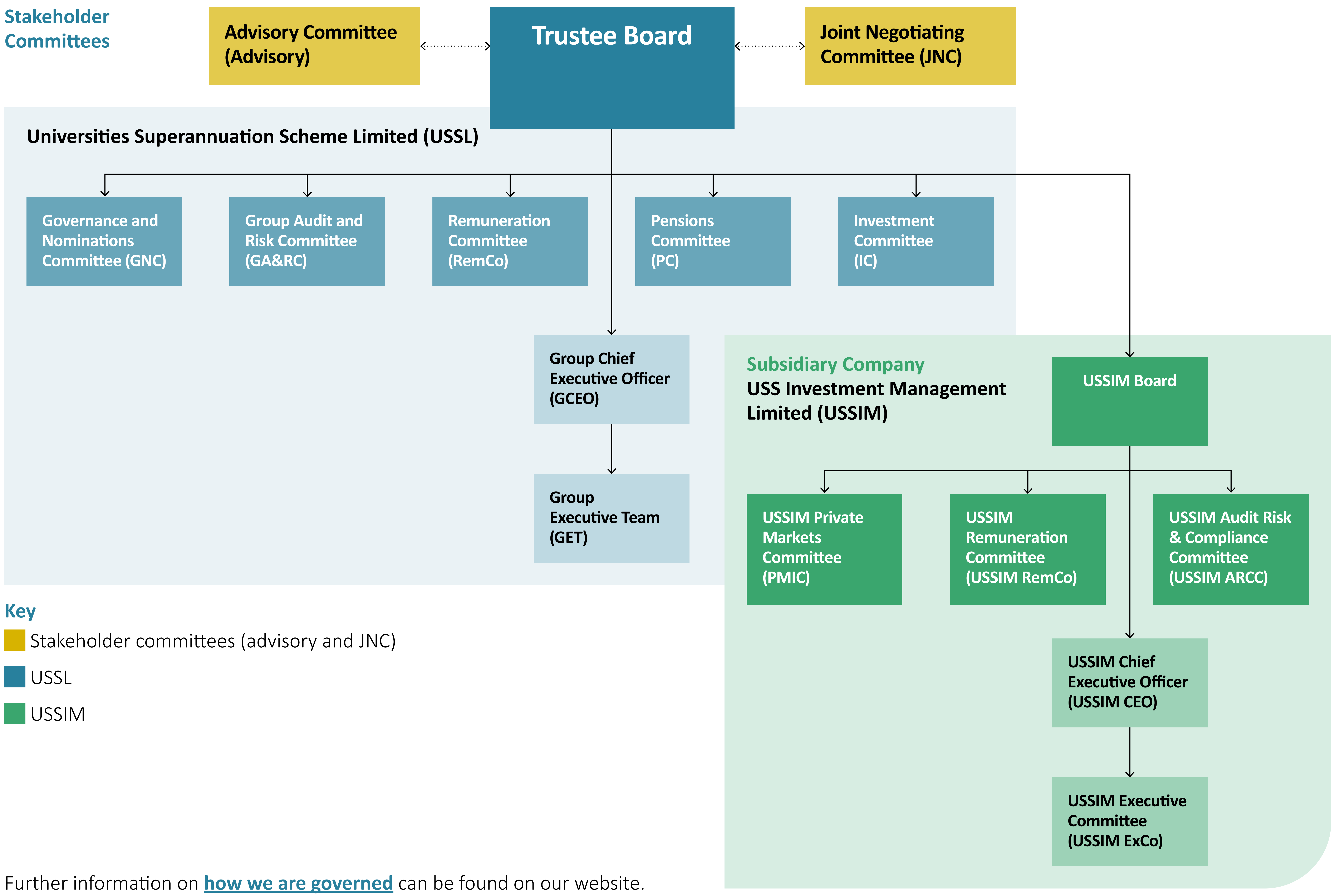
- Using our influence as an institutional investor to promote good practices through active engagement with investee companies
- Working with policy setters and regulators to ensure the views of long-term asset owners and investors are clearly understood
- Collaborating with other investment market participants to share views, best practices and provide a collective voice to advocate for and influence positive change



Principle 2: Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

Figure 1: USS Group corporate governance structure – main boards and committees



Further information on how we are governed can be found on our website.

Principle 2
Continued

We believe a strong organisational governance structure, paired with a commitment to investing responsibly for the long term, provides the basis to deliver effective stewardship.

We are structured and governed in a way that supports our commitment to responsible investment, which includes stewardship. Universities Superannuation Scheme Limited (USSL) is the trustee that runs and manages USS in line with the trust deed and rules and legal duties, with a Group Executive Committee that looks after day-to-day operations.

The Trustee Board of USS is responsible for the overall leadership, strategy and oversight of USS (the scheme), USS Investment Management Limited (USSIM) is a subsidiary of USSL. The USSIM Board oversees USSIM's implementation of investment and advice (including the activities of the RI team), which looks after the investment and management of the scheme's assets and the appointment and monitoring of a number of other external investment managers.

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

- Four directors nominated by Universities & Colleges Employers Association (UCEA)
- Three directors nominated by University and College Union (UCU) (one of whom is a retired member)
- Five independent directors

The composition and diversity of experience of the directors promotes an effective and balanced Trustee Board and helps to ensure that directors collectively have the key competencies and knowledge required. This includes competencies and knowledge of pensions, investments, actuarial matters, the Higher Education sector, audit and financial management, and communications. The trustee works with UCEA and UCU to ensure that the Trustee Board includes directors with a good understanding of the views of employers and members.

The Trustee Board agrees the responsible investment strategy and formally reviews USSIM's Responsible Investment (RI) team's activities annually, signing off key focus areas and policies. This includes reviewing the effectiveness of our stewardship processes and whether our resourcing, expertise and approach are appropriate to managing our assets. The Trustee Board is supported in this assessment by both the scheme's Investment Committee, which reviews RI activities biannually, and by specialist external advisers. These external advisers review reports to the Investment Committee and Trustee Board, providing an additional level of assurance.

The **Responsible Investment** (RI) page on the USS website sets out detailed information on how we integrate responsible investment considerations when we invest, and how this is communicated and managed with our internal and external managers. Having an in-house manager means that the trustee has greater visibility over the management of the scheme's assets and the implementation of the responsible investment strategy than is the case for the majority of UK pension funds.

Responsible investment beliefs and ambition

We believe that by working with other long-term investors to drive change, and by embedding responsible investment into all our investment activities, we can drive better outcomes for our members and beneficiaries. In 2023, we published our Responsible Investment Beliefs and Ambition Statement, which describes the scheme's RI beliefs.

Our beliefs:

- As a Universal Owner, we cannot diversify away from systemic risks. The overall risk to market returns (beta) is one of the biggest risks members face
- We believe that collaboration with other long-term investors is likely to improve the impact of our interventions
- We believe that integration and high-quality stewardship in all asset classes will contribute to better outcomes for members

Read more about our RI beliefs and ambitions **here**.

Principle 2
Continued

A holistic approach to risk management

Our Investment Framework takes a holistic approach to both risk management and the assessment of USSIM's investment management performance and covers both the Retirement Income Builder, the defined benefit (DB) part of the scheme, and the Investment Builder, the defined contribution (DC) part of the scheme[1].

The assessment uses a suite of DB and DC Key Risk Indicators (KRIs), which include qualitative KRIs for both climate and stewardship risks. These support the assessment in the RI section of an investment balanced scorecard, produced for the Investment Committee. These qualitative DB and DC KRIs are focused on the trustee's net zero ambition and USSIM's integration of financially material responsible investment considerations into its investment decision making and stewardship. Read more about our approach in Principle 5.

Our responsible investment and stewardship resourcing

The scheme commits significant resource to stewardship and responsible investment, including:

- A dedicated responsible investment team that provides responsible investment advice and research to our investment teams.
- Each investment team is responsible for integrating responsible investment considerations into their investment decision-making process.
- Specific climate change and carbon metrics and data are produced which enable tracking of our net zero progress.
- Specialist proxy voting research and analysis.

A new Head of Responsible Investment joined in January 2024, who is also a member of the USSIM Executive Committee, and we appointed a Head of Stewardship in September 2024. These senior hires reflect the Trustee Board's ongoing commitment to focus on RI. The RI team works with investment teams to integrate material RI issues into investment decision making and contributes to developing our visible leadership on RI. Read more about how we do this in Principle 7.

In addition to our RI team (see Principle 7), we also use external service providers to support our stewardship activities. Read more in Principles 8 and 12.

USSIM engages with our assets (including exercising voting rights) to promote the long-term success of our investments (see Principles 7 and 9-to-12).

1 The Retirement Income Builder, the DB part, gives a guaranteed income in retirement. The Investment Builder, the DC part, gives a flexible savings pot for the future. Together these make USS a hybrid pension. See more at **https://www.uss.co.uk/for-members/your-pension-explained/how-your-pension-works**

Principle 3: Managing conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our commitment

In line with our legal duties and stated value of integrity, our members' best financial interests come first. We ensure legal and regulatory requirements are fully complied with and we expect all employees to continually meet the high standards expected of them in their client and business activities. Any action in contradiction of this position is taken extremely seriously and we are committed to the full extent of internal and external sanctions being applied as appropriate.

Ensuring robust practice

We maintain a Conflicts of Interests Register. This includes an assessment of the inherent and residual risks of each actual or potential conflict we identify, along with the controls in place to manage or mitigate them. Our Code of Conduct also provides a clear statement of ethical standards, including a duty to act with reasonable care, skill and diligence in the best interests of USS, its members and beneficiaries, and to avoid or manage conflicts of interest. The Register also records all conflicts in relation to external appointments and connected persons reported by individuals across USS Group, including details of the controls put in place to manage conflicts where they arise.

There are processes in place to ensure conflicts of interest are avoided in any staff personal account dealing in stocks held by USS. Our Compliance team also maintains a personal account dealing policy that is applicable to all staff for this purpose.

Conflicts of Interest Policy

We have a Conflicts of Interest Policy. We review this annually via the USS governance structure, as well as the Conflicts of Interests Register that we discuss earlier. This review involves an assessment of actual and potential conflicts, including in relation to responsible investment and stewardship activities. We monitor for potential conflicts of interest on an ongoing basis and conflicts in relation to stewardship would be treated in the same way as any other. The policy aims to ensure that USS's interests are at the forefront of all stewardship activities, the ethical standards of USS are met, legal and regulatory requirements are complied with and material risk posed by conflicts is minimised and eliminated where possible. It also sets out our expectations of external managers, suppliers and advises in relation to stewardship.

In this reporting period:

- There were no potential investment-related conflicts of interest that could not be mitigated.
- There were no actual conflicts of interest recorded in relation to stewardship activities.

Being prepared for when a conflict may arise

As an in-house investment manager serving only one client, the scheme, USSIM does not face many of the potential conflicts of interest that commercial fund managers may need to address. However, potential conflicts of interest arise from time to time, and when then they do, our Conflicts of Interest Policy and processes mitigate potential conflicts, and this would be recorded in the Conflicts of Interest Register.

Principle 4: Promoting well-functioning markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Fostering sustainable markets for a sustainable future

As a Universal Owner and a pension fund with in-house investment expertise and liabilities extending decades into the future, we believe that an active approach to responsible investment and stewardship is critical to well-functioning markets. We recognise that certain issues, such as climate change, pose macro, market-wide or systemic risks and that these can translate into financially material factors that need to be addressed over the short, medium and long term.

We assess macro, market-wide or systemic issues at policy level and also at asset level. We recognise that risks and opportunities from climate change can and do influence our asset allocation. To assess the potential implications of climate change we have developed scenarios that address physical and transition risk. These scenarios are detailed in the case study overleaf.

Principle 4
Continued

Case study: University of Exeter Scenarios Integration

Purpose and objectives: The effects of climate change are highly uncertain. By identifying potential impacts and integrating them into our investment decision-making processes, we can better explore ways to mitigate risks and capitalise on opportunities arising from climate change.

Summary: We completed our first climate scenario analysis in 2022 where we identified significant limitations with the available scenarios which made it difficult to properly embed climate considerations into our transition planning and financial decision making.

In 2023 we started working with the University of Exeter to create a range of climate scenarios to better reflect the real-world risks and opportunities. Available on the Green Futures Solutions website, the No Time to Lose report outlines the first iteration of our scenarios published with the University of Exeter in 2023.

In 2024 we extended our work with the University of Exeter and Transition Risk Exeter Limited (TREX) (its spin-off company) to update the scenarios (Figure 2) and create a repeatable approach for assessing transition and physical risk exposure across various asset classes, regions and sectors.

Figure 2: No Time To Lose Scenarios

R20

Roaring 20s – policies and markets align

- Strong climate policies (led by China and Europe) and technology advancements drive economic growth.
- Easing geopolitical tensions, particularly with China, support global trade.
- Investments in renewables and infrastructure boost sustainability and economic stability.

GP

Green Phoenix – market-driven, while policy lags

- Geopolitical tensions disrupt supply chains, hindering international cooperation.
- Governments struggle to meet climate goals, but market forces drive renewable investments.
- Private sector plays a key role in pushing green initiatives forward despite weak policy support.

BB

Boom and Bust – policy steps up after boom bursts

- Rapid growth fuelled by tech advancements and aggressive fiscal policies leads to economic imbalance.
- A major recession follows, driven by inflation, policy conflicts and financial instability.
- Weak recovery prioritises traditional energy over renewables due to cost advantages.

M

Meltdown – policy failures compound weak growth

- Aggressive US fiscal policies and trade wars cause high inflation, instability and slow growth.
- Governments backtrack on climate commitments. Geopolitical tensions, and economic fragmentation disrupt supply chains.
- Energy security becomes a significant risk in Europe.

Principle 4
Continued

Case study: University of Exeter Scenarios Integration

Continued

Outcome: We've made significant progress over the past year in integrating top-down implications from these scenarios into our strategic asset allocation Figure 3.

Figure 3

Key investment views:	How have they shaped the Strategic Portfolio (SP)?
1. Higher and more volatile inflation	We have strengthened inflation protection through higher inflation hedge ratios and allocation-sensitive assets across the DB and DC portfolios.
2. Positive and volatile real rates	We have maintained an appropriate level of interest rate hedging while maintaining flexibility to make adjustments through a dynamically managed LDI (Liability Driven Investment) programme with a wide universe of instruments (including non-GBP ones like TIPS (Treasury Inflation-Protected Securities)).
3. Wide range of outcomes for GDP growth	Through our portfolio quality assessment, we have aimed to build a balanced portfolio allocation that is sufficiently resilient to alternative scenarios but also provides enough upside exposure.
4. Potential for large drawdowns/boom-bust patterns	We assessed portfolio resilience and portfolio flexibility to ensure we are not forced sellers in downside scenarios and are in a position to take counter-cyclical portfolio actions.
5. Large dispersion across countries and sectors	We are exploring the more granular implications of the scenarios and assess implications for mandate design and how we invest within mandates.

Principle 4
Continued

Case study: Invitation to join National Wealth Fund Taskforce

Our Group Chief Executive Officer (Group CEO) was invited to join the National Wealth Fund Taskforce in March 2024. The Taskforce, chaired by the Green Finance Institute, was established by the Labour Party, to advise the, then shadow, Chancellor of the Exchequer and the, then shadow, Secretary of State for Energy Security and Net Zero. It was asked to consider how to implement its National Wealth Fund proposals to maximise the crowding-in of private capital and its catalytic impact across target sectors, including energy transition.

Following a formal launch in May 2024, the final report of the taskforce was presented at an event at No.11 Downing Street after the General Election in July. Our Group CEO attended both events.

The decision to participate in the Taskforce reflects our commitment to engage with policymakers and others across the political spectrum to encourage the incentives and conditions that may contribute to real-world action and outcomes.

Engaging with policymakers

As a Universal Owner, we believe that we have a role to play in promoting the proper functioning of markets and economies. This includes actively engaging with policymakers, standard setters and regulators in markets in which we invest in order to articulate the concerns of asset owners.

During this reporting year our engagement and advocacy has covered a range of issues. We have highlighted some examples below:

- Green Finance Institute – Renewing Britain's Leadership on the Green Transition

Our Group Chief Executive Officer (Group CEO) participated in this event in October, where leaders from government and financial services discussed the UK's strengths in green finance, capital market innovation, and the new National Wealth Fund (NWF) as a catalyst for private investment.

- Mobilising pension capital for net zero: a policy blueprint for the UK

We supported IFM Investors' blueprint report 'Mobilising pension capital for net zero: a policy blueprint for the UK'. This initiative is a contribution by a number of the UK and Australia's leading pension funds, representing £1.7tn in workers' retirement savings, to support crowding-in pension capital at scale to accelerate the UK's energy transition.

International Investment Summit

Our Group CEO attended the UK Government's International Investment Summit 2024. She joined the Chancellor of the Exchequer, the Chair and CEO of BlackRock, and the CEO of Brookfield at a closing plenary panel session, to share perspectives on emerging sectors, growth, next steps for the NWF, and providing a stable and competitive environment for capital investment in the UK.

Group CEO at the UK Government's International Investment Summit 2024 (photograph courtesy of HM Treasury)

We also responded to a variety of consultations on stewardship and other responsible investment issues, including:

- Stewardship Code consultation see Case study overleaf for more detail
- Glasgow Financial Alliance for Net Zero (GFANZ) Consultation on Nature in Net-Zero Transition Planning – a consultation paper on voluntary, supplemental guidance for how financial institutions can integrate nature considerations in support of net-zero transition planning

Principle 4
Continued

UK STEWARDSHIP CODE

Case study: Stewardship Code Consultation

In 2010, the Financial Reporting Council (FRC) published the UK Stewardship Code (the Code). The Code was subsequently revised in 2012 and again in 2019. We are proud to have been an FRC approved signatory to the Code from the first opportunity.

The Code has undergone another review during this reporting period. Our Head of Stewardship took part in a series of pre-consultation events hosted by the FRC as well as meetings hosted by the Financial Conduct Authority and the UK Department for Business and Trade. We also provided input into roundtable discussions at various industry bodies and investor forums including the Investment Association, Investor Forum, International Corporate Governance Network and UK Sustainable Investment Finance.

We submitted our consultation response in February 2025. Whilst we agree with the proposed broad definition of stewardship, we would like to see the definition go beyond systemic risk and include idiosyncratic financial risks throughout the principles of the Code. We also highlighted the need to reduce the reporting burdens required for signatories to the Code and we supported the approach to distinguish between principles applied by those who manage assets directly and those who invest through external managers.

A copy of our response to the Stewardship Code Consultation can be found on our website **here**

Participation in industry initiatives and conferences

We participate in various industry bodies, organisations and groups. These include the UK's Pension and Lifetime Savings Association, the UK Investment Association, The Investor Forum, International Corporate Governance Network and UK Sustainable Investment and Finance Association (UKSIF). We review regularly our involvement and relationship with each industry body, organisation and group; ensuring that these are aligned with our priorities. We are also active in identifying new groups, organisations and initiatives that can help us meet specific needs. During the year, we joined the Investor Alliance for Human Rights in order to support our work under our RI theme of People.

We also participate in events and conferences to learn, share experience and encourage other investors to be more active in stewardship and RI activities. We believe this is in our members' best financial interests, as we believe that the more pension funds that are active on RI issues, the more effective stewardship can be.

Examples include:

- Our Head of Responsible Investment joined a panel discussion at the UK Pension Fund Investment Forum (PFIF) on Managing the Transition to Net Zero & Making an Impact – What is Practical & Realistic for Funds?
- A Senior Investment Director from Private Markets Group represented USS at the Goldman Sachs Corporate ESG Summit on a panel about Limited Partners' focus on ESG and the implications for USS, highlighting our commitment to integrating all aspects of responsible investment into investment strategies.
- Our Head of Stewardship a joined a panel on Great Expectations: Is Engagement Living Up to its Promise? at the PGIM EMEA Investor Forum.
- Our Head of Investment Strategy & Advice was interviewed by Accounting for Sustainability (A4S) on our approach to climate scenario analysis and how it is helping to shape investment strategy and decision making.
- We attended UKSIF Ownership Day 2025 where our Head of Stewardship spoke at a session on: Harnessing the power of the asset owner – how asset owners can use their power for stewardship and advocacy, and how they can leverage their position to influence the agenda.

We engage alongside other investors through investor associations and networks such as the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN) and the Principles for Responsible Investment (PRI) (see Principle 10 for further details). Our approach to collaborative engagement is grounded in the need to address systemic issues, promote effective markets or escalate an individual company matter.

Principle 5: Review and assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

A robust governance structure

We have a proactive and transparent approach to internal and external review and assurance. We take appropriate action to enhance our policies, processes and assurance. As described earlier in this report, the Trustee Board reviews and approves key policies, including the Responsible Investment Policy. It also (through its Investment Committee) assesses annually the performance of USSIM using investment balanced scorecards, as well as agreeing performance objectives for USSIM.

Our RI Beliefs and Ambition Statement is available on our public website (uss.co.uk) along with our Statement of Investment Principles, Implementation Statement, Investment Builder (DC) Ethical Guidelines and TCFD Reports.

Our activities are reported to the Trustee Board and its Investment Committee. Data that appears in our Report and Accounts, including, for example voting data, is also formally audited by the scheme's internal auditors.

The Trustee Board agrees the scheme's RI approach and reviews formally the RI team's activities, signing off key focus areas and policies.

Principle 5
Continued

Enterprise Risk Management Framework

Our Enterprise Risk Management Framework (ERMF) comprises a set of processes to identify, measure, manage and report enterprise and operational risks. This includes both forward- and backward-looking risk management disciplines, applied both top-down and bottom-up. Figure 4 shows the key activities included in the ERMF.

Figure 4

Areas of the ERMF where these risks are specifically considered are summarised below.

We identify climate risk as a Top risk: a top-down approach

We take a top-down approach to identify and prioritise the high-level (enterprise level) risks that pose significant potential for an adverse outcome, whether financial, non-financial or reputational. This allows a focused and robust approach to identifying and managing our strategic and operational risks.

RI and climate risks were identified within this set of risks for USS. The process for identifying these high-level risks is conducted annually and refreshed as necessary, unless triggered by events. Mitigating action plans are owned at the executive level and tracked and reported at the various governing bodies periodically.

Risk Appetite Framework and associated Key Risk Indicators

The Risk Appetite Framework is one of the key processes by which we manage and govern our risks. Risk appetite is the maximum level of risk we are willing to accept in pursuit of our objectives. It includes the Risk Appetite Statements (RASs), recommended by the IC and set by the Trustee Board. It also includes a set of Key Risk Indicators (KRIs), setting the parameters within which USSIM manages the scheme's investments. The RASs and KRIs cover a range of risks, from short-term liquidity risk to long-term funding risk. This brings a multi-faceted view of risk applicable over multiple time horizons. Through this process a RAS for climate risk has been set at the highest level of governance in the organisation – the Trustee Board. See Figure 5. These risks are monitored using the risk indicators and reported to appropriate governance bodies within the trustee.

Figure 5: DB and DC Risk Appetite Statements and Key Risk Indicators

Risk	Investment RAS	Investment KRI
DB and DC investment risk	'Cautious' for ESG risk (the potential for long-term detrimental impact on financial performance arising from ESG factors, except climate change) within the DB implemented portfolio	Qualitative assessment by the Risk team of how USSIM is integrating ESG factors (including reporting and stewardship)
Climate risk (applies to DB and DC)	'Cautious' appetite for climate issues causing detriment to performance	Qualitative assessment by the Risk team of how USSIM is delivering its net zero ambition

We are **cautious** in respect of climate change issues being detrimental to performance.

Principle 5
Continued

Responsible investment is in our day-to-day operating risk registers: a bottom-up approach

As part of the process for managing risk and ensuring we stay within appetite, business areas are required to maintain risk registers which document the risks and controls associated with their processes. These risk registers incorporate ESG, including climate risks and evidence that investment desks and supporting functions are integrating financially material responsible investment considerations into their everyday processes and decision making, where appropriate.

The business risk registers are reviewed periodically with input from the RI team, and oversight and challenge from the Group Risk team. The results of these assessments are reported to relevant governance forums on a quarterly basis (e.g. Risk Committees).

How we assess our performance and risk management for Responsible Investment (RI)

We introduced an Integrated Investment Framework in 2022, which changed the way the Trustee Board sets the mandate for USSIM. The framework includes the investment RASs and KRIs, including those for climate risk. This makes clear the parameters within which USSIM is to manage the scheme's investments. The Investment Framework also includes an assessment of investment performance using an investment balanced scorecard for each of DB and DC.

Investment balanced scorecard: Assessing USSIM's risk management, investment performance and advice

The investment balanced scorecard is a mechanism for the IC to assess USSIM's investment performance. Both DB and DC scorecards include a section on RI, which comprises the integration of ESG, managing climate risks and progress towards our net zero ambition.

Category 5 (Responsible Investment) includes the qualitative DB and DC KRIs on the trustee's net zero ambition and USSIM's integration of ESG factors into its investment decision-making process. See box above.

USSIM's performance in the RI category is qualitatively assessed annually by the USS Group Risk function. This assessment feeds into the overall scorecard assessment by the IC alongside USSIM's other RI achievements over the period. That overall scorecard assessment is used as an input by the Remuneration Committee in setting the overall compensation for USSIM.

The Investment Framework, of which the investment balanced scorecards are a part, therefore provides an integrated governance framework for climate risk, linking the assessment of investment risk and performance back to Trustee Board strategy, objectives, and risk appetite.

Figure 6: Investment balanced scorecard categories

Responsible Investment – qualitative Key Risk Indicator measures for ESG and Net Zero

a. Net zero ambition (KRI)
i. An assessment by the Risk team of how USSIM is delivering vs its commitment

b. ESG integration (KRI)
i. An assessment by the Risk team of how USSIM is integrating ESG factors (including reporting and stewardship)

ESG and Climate risk governance, assessment and reporting

The Trustee Board has ultimate responsibility for risk management across USS, even where this is delegated to USSIM. The Trustee Board is responsible for setting risk appetites and satisfying itself that appropriate systems are in place across both USSL and USSIM to make sure the Risk Governance Policy is implemented.

The way we assess and manage climate risk is in alignment with our existing risk management framework.

Risks for which the Trustee Board has set risk appetites (see box opposite) are assigned to an owner at Group Executive level. The USSIM CEO is the executive owner for climate risk, with the following responsibilities:

- Ongoing identification, monitoring and management of climate risks
- Understanding the implications of the risk on USS strategy/operations and investments
- Directing the appropriate risk response (mitigate, avoid, transfer, accept) and ensuring it is applied effectively
- Implementing and enforcing risk management policy
- Making sure frameworks for managing climate risk are available and applied across the organisation
- Performing a regular risk assessment of risk exposure against risk appetite

The USS Group Chief Risk Officer (CRO) oversees and challenges how relevant executives manage risk. The CRO supports business management in integrating climate risk into the Risk Management Framework and provides input to the Investment Committee's assessment of USSIM's performance in managing climate risk.

Investment Approach

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40 Principle 11: Escalation
42 Principle 12: Exercising rights and responsibilities

Principle 6: Client and beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

USS was established in 1974 and employs more than 500 people in London and Liverpool, including those employed by USSIM. During the period to 31 March 2024, USS paid out approximately £1.8bn in benefits to 87,953 pensioner members. We also have 232,360 active members accruing benefits with us and 233,938 deferred members with preserved benefits. For details of our assets under management across asset classes and geographies, please see page 5.

We seek to engage directly with our members on many matters, including responsible investment issues.

Helping our members stay engaged and informed
We have a large, unique and engaged membership. Effective communication is key in keeping our members informed. Our members are increasingly aware of responsible investment issues and how these may relate to their pension.

Our principal communications outlet for members is our website, www.uss.co.uk, which features dedicated sections on responsible investment (RI), providing details of the approach the scheme takes. This includes our reports and information on topics such as:

- Our TCFD Report 2024
- Our Stewardship and Voting Policy. Read more in Principle 12.
- Our Responsible Investment Beliefs and Ambition Statement. Read more in Principle 2.

Over the past year, we continued to engage with member and employer groups. These written exchanges focused on our ethically screened funds, our 2024 TCFD report and investment in fossil fuel companies.

Institutions Meeting 2024

We held our annual Institutions Meeting in October 2024. The purpose of the meeting is to give the scheme's sponsoring employers the opportunity to hear about the trustee's performance and priorities and to ask questions. Presentations were given by the Chair of the USS Board, the Group CEO, the CEO of USS Investment Management Limited, the Head of Responsible Investment, the Chief Pensions Officer, and the Chief Group Services Officer. The focus of the meeting was the overall position of the scheme, our investment performance and approach to responsible investment, our pensions operations and value for money. Questions were taken from the audience. You can watch a recording of the full event here.

We continued our Trustee Engagement Events (formerly known as 'Member Days') during the year visiting Nottingham University in May 2024, Lancaster University in July 2024 and Newcastle University in February 2025. This engagement with our members and senior teams at the universities enables us to gather feedback from our key stakeholders, inform them of the important work we've been doing and build trust and transparency. We will continue this valuable engagement.

Principle 7: Stewardship, Investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

In this section we provide details of how the different asset class teams across USSIM integrate responsible investment considerations into their investment decision-making process, and the stewardship activities they undertake, along with an update on our net zero strategy.

Our RI team

We have an established approach to responsible investment (RI) that includes a dedicated team of experts on matters relating to responsible investment. The team works with the internal investment teams to ensure that financially material ESG factors are integrated into investment decisions across asset classes. The RI team is also responsible for ensuring that both the internal investment teams act as good stewards of our invested assets.

Members of the RI Team have responsibility for our overarching thematic priorities of: Climate, Governance, Nature, and People; and for identifying the relevant sub-themes under these priorities. The RI team conducts research, supports stewardship activities, helps integrate financially material RI factors into investment decisions, collaborates with key stakeholders and champions for positive change through public advocacy efforts. Our internal portfolio managers also have responsibilities for stewardship and integration, which extend to engaging directly with our investee companies on RI matters both individually and with the specialist RI Team. For example, during this reporting period, our RI team and investment teams held engagement meetings with Chinese investee companies on their exposure to human rights issues in their supply chains.

Our investments

As a Universal Owner with an investment portfolio that is broadly diversified across asset classes and geographies, we cannot have a one size fits all approach to prioritising the RI matters upon which we focus our research, stewardship and integration activities. Instead, our approach to prioritisation for stewardship and integration activities can be based on a combination of the following criteria:

- Whether it is a thematic priority
- The financial materiality of the issue
- The relative or absolute size of our holdings
- The investment rationale for our investment and expectations regarding the topic in question
- Where the asset is held- i.e. internally or externally, in an active or passive mandate
- Macro systemic issues such as climate and nature or whether the topic impacts systemically important sectors
- The home market of the asset or portfolio company.
- The availability of qualitative and quantitative publicly disclosed data
- The likely outcome of an engagement

Principle 7
Continued

Our approach to exclusions

In 2020, we excluded certain sectors from our investment universe as they were deemed to be financially unsustainable over the long term. These include tobacco manufacturing; thermal coal mining, where this activity made up more than 25% of revenues; banned weapons under the Convention on Cluster Munitions and the Mine Ban Treaty; and, more recently, investment in Russian assets.

We monitor the exclusions through established internal processes and restrict the ability of internal managers to trade in excluded assets. We have also worked with external managers to ensure that the majority of funds are now aligned with the USSIM exclusions on a best-efforts basis.

Prioritisation example

To focus our resources on material investment relevant ESG matters, we establish thematic priorities under our overarching themes of Climate, Governance, Nature and People.

For example, as part of our analysis of climate change, we identified the individual invested assets that have the greatest carbon footprint or make the greatest contribution to the scheme's carbon footprint. You can read more about this in the Metrics and Targets section of our 2024 TCFD Report. We are using this data to prioritise our stewardship and integration efforts; with the RI team working closely with our Developed Markets and Global Emerging Markets investment teams to undertake research and target engagement with those companies that contribute to the majority of the portfolio's greenhouse gas (GHG) emissions.

How we are implementing our net zero strategy

Net zero is only one aspect of any investment decision.

Our net zero strategy includes:

- Developing individual asset class transition plans, so that the investment teams can plan and understand how they are going to contribute to our reduction targets
- Continuing to increase integration of climate data into investment decisions through the integration of net zero considerations into our analysis
- Continuing to engage with our high-emitting assets (see Cemex case study on page 38), as well as banks, which play a crucial role in lending to the fossil fuel sector
- Considering divestment on a case-by-case basis, for instance where there is an unwillingness or inability to transition. Continued engagement with policymakers on climate change (see Principle 4) which we see as critical in enabling the transition to net zero

The net zero transition will require continued focus by our investment teams in terms of where and how we invest. It also involves collective and collaborative engagement with peers, including our external asset managers and others in the investment value chain. This complements the scheme's existing renewable energy strategy, which will continue to develop and invest in wind and solar generation capacity.

Our approach to responsible investment integration by asset class

Listed Equity:

Our Listed Equity team manages two investment mandates, the Long-Term Real Return strategy (launched in 2023) and the long-established Global Emerging Markets strategy.

During 2024, our Equities team continued to progress work on RI based on integration, engagement and collaboration.

Integration

A new ESG template allows us to be more focused on the financially material risks in each position and enables the sharing of information across the desk, between analysts and portfolio managers and with the Responsible Investment team. We see the Investment Case and ESG template as 'living documents' to monitor effectively progress on ESG matters by our investee companies.

The ESG template enables each portfolio investment to be subject to in-depth due diligence, which integrates a review of Responsible Investment considerations in concert with the RI team and include, or are starting to include, the four RI priorities of Governance, Nature, Climate, and People.

Engagement

Examples of some of the consequent engagements arising from the identification of specific RI issues are detailed below:

- **Governance:** we identified that the composition of the board of directors at one of our portfolio companies did not reflect the operational experience required to appropriately hold the executive team to account. A meeting with the representatives of the Board resulted in our understanding that the company was to make appropriate changes to its Board.
- **Nature:** collaborating with other investors, we discussed core RI issues including protein diversification and anti-microbial resistance.
- **Climate:** a large number of companies have signed up to carbon emission reduction targets in the last few years. We have discussed with a number of companies both the assumptions behind these targets, and the proposed existing and emerging technologies to be employed to meet these targets.
- **People:** in 2024 we undertook site visits at retailers, distributors and logistics centres. These visits allowed us to properly understand the working conditions of employees at companies that we are invested in as well as others that we are considering as potential future holdings.

Principle 7
Continued

These interactions have deepened our understanding of the material issues our investee companies face and offered us the opportunity to provide them with feedback from a significant stakeholder. We have also exercised our right to vote at Annual General Meetings in every instance on matters such as director elections, executive remuneration and other important governance matters.

Collaboration
Our equities team works closely with our RI team to exchange information and share experience and knowledge. Specific examples during the reporting period are:

- Discussions to specify and implement of a new proxy voting management system and related procedures
- Discussions on the four priorities approach to RI (Climate, Nature, People and Governance), and particularly how to implement Nature into our investment processes
- Working together to establish the ESG templates as part of investment cases, finding the most relevant information and highlighting the most material issues
- Working together on engagement, particularly of the issue of forced labour in China

2025 Outlook
Looking ahead to 2025 we intend to deepen the integration of financially material RI matters into our investment process with greater monitoring of our investee companies on these issues, enabled by our new templates. This will help us to initiate more opportunities for engagement with investee companies and to encourage more positive behaviours which may lead to better outcomes.

Case study: NTPC makes progress on carbon intensity

Purpose and objectives: To understand the company's approach to renewable energy production and to provide support and encouragement for achieving targets.

Summary: NTPC is a fossil fuel-based energy producer that operates power generation plants across India. The company has set itself a target to reduce its carbon emission intensity by 21% by 2032 to 679gms/KWh (relative to 2022–23 intensity of c.840gms/KWh). It intends to use a multi-pronged approach to reduce its carbon emissions intensity committing to more efficient newly built thermal plants, use of alternative fuels such as biomass and increasing renewable power generation.

At the time of our investment in NTPC in October 2022, the company had an operational renewable capacity of around 2.5GW and by March 2024 the company had only managed to achieve 3GW of solar power generation capacity. This was partly explained by India's 'Make in India' initiative which requires purchasing solar PV cells and modules from an approved list of manufacturers. However, we had expected a faster increase in power generation from renewables.

Due to this slower than expected roll-out we met with NTPC's Sustainability Officer to better understand the initiatives currently being undertaken and if there were any changes or delays to the company's carbon emissions intensity reduction plan. We learnt that the company is working on the following initiatives to reduce its intensity: targeting 60GW renewable capacity by 2032 – it has 12GW of renewable capacity currently under construction and a further 11GW in the pipeline and commissioning new power plants using 'ultra super critical' technology which results in approximately an 8% reduction in carbon emissions intensity compared to older 'sub critical' technology. As these new plants come on stream the older, inefficient plants will be used less. The company has also undertaken pilot projects on replacing coal with biomass, and carbon capture and utilisation – converting CO_2 to ethanol and methanol for blending in petrol and LPG, among others.

Outcome: We believe that NTPC is on track to meet its carbon emissions reduction targets and we will continue to monitor the impact of the above initiatives on the overall carbon emissions intensity of NTPC.

Case study: Forced Labour in China

Purpose and objective: As equity investors in China, we are concerned about the potential for forced labour in the supply chain of the companies we invest in, particularly in relation to the treatment of minority groups. We recognise the need to better understand and mitigate associated risks.

Summary: The introduction of the International Labour Organisation (ILO)'s statutes 29 (Forced Labour Convention) and 105 (Abolition of Forced Labour Convention) into Chinese domestic law meant that companies had a legal requirement to ensure there was no forced labour in their operations or supply chains.

In our Stewardship Report 2024 we highlighted the engagement we did with our Chinese equity holdings in 2023 to assess the steps taken to eradicate forced labour from their business activities and supply chains.

This year, we repeated the survey and desk-based research with new holdings added during the year and with the companies that failed to adequately respond in 2023. We received full responses from 50% of the companies surveyed this year. However, three companies failed to reply, two of which also had not responded to our original survey in 2023. We will engage directly with this small number of firms who failed to respond to our survey and consider collaboration with other investors to maximise our effectiveness.

In addition to the direct survey, we conducted one-to-one meetings in conjunction with the Responsible Investment team with the largest e-commerce platform in China, the largest electronics assembler in China, and a garment manufacturer which supplies the largest international sportswear brands.

Our engagement findings concluded that while our investee firms are aware of the issue of forced labour, the policies and processes in place to manage this issue differ across the companies surveyed.

Outcome: The next steps will be to focus our ongoing engagement on those companies that, as we understand from our survey results and desk-based research, lack adequate supplier due diligence processes. We will encourage them to widen the adoption of their Supplier Code of Conduct, undertake training with suppliers on this issue and undertake more frequent third-party auditing.

Principle 7
Continued

Fixed Income: Credit

The credit team adopts a screening-based approach using ESG risk scores from external rating providers, including the three major credit rating agencies. The screening for any ESG red flags is automated by the team and runs at the start of each month, so that it captures the latest available data. It considers each ESG matter separately and highlights any pockets of risk to the respective sector analysts.

Where ESG matters are financially material to investment cases, this is flagged by the analyst as part of research to aid subsequent reviews and to help prepare for meetings. When an issuer company scores poorly on environmental factors and climate risks, we undertake further analysis and assess implications for its creditworthiness. For longer-term holdings we undertake a more in-depth review of the issuer and sector positioning to form a view as to the issuer's vulnerability to transition risks where the issuer's carbon intensity and reduction plans lag peers or the wider market. We consider that these issuers could be more vulnerable to increased credit risk from the transition.

We meet with issuers regularly through the new issue process, non-deal roadshows and at conferences. Where ESG risks have been flagged, we will seek to raise these issues with management to gauge their response and risk mitigation approach and to ultimately feed this back into the assessment of valuation of an issuer's bonds.

Case study: European Industrials company

Purpose and objectives: Improve our understanding of the ESG risks ahead of committing investing capital.

Summary: The company provides high performance energy-efficient building products and materials. Despite the potential energy saving benefits of this company's products, after careful consideration we took the decision not to participate in its first bond issue in October 2024. This was due to potential reputational, governance and legal risks associated with a high-profile incident that was connected to one of the company's products.

The company came to the investment grade bond market with its first corporate bond in October 2024. We assessed the opportunity through our investment process, which included comparing it against other companies' bond issuances, the businesses fundamentals, rationale for investment, ESG considerations, fair value and expected pricing. We recognised that the company had a strong business profile with attractive end markets, geographic diversification, good cash generating capability and that its products help customers meet their climate goals by reducing energy consumption.

However, we were cognisant of a subsidiary of the company being a core participant in a high-profile inquiry due to one of its products being a key component in a serious safety breach. While it was determined that the primary cause of the incident was not this company's product and that the specific installation system used was not manufactured by the company, the company acknowledged certain historical failings. Despite the company's claim that it had addressed these issues, it did acknowledge that there can be no assurance that the findings of the inquiry, associated negative press or industry sentiment following the inquiry will not impact the company, including the possibility of further investigations, litigation, regulatory responses or other legal proceedings.

Outcome: Given the uncertainty of any future findings regarding governance, the legal overhang and the potential implications of these on the company's credit quality, we decided not to participate in the bond issue.

We will continue to monitor the company as a potential constituent in our investible universe.

Fixed Income: Sovereign debt

We use a proprietary tool to rank countries based on ESG factors. For the Emerging Market Debt (local currencies) portfolio, the composite index ranking is a core tool used in portfolio construction. The results of the composite country score are combined with a fundamental credit assessment and integrated with two further factors to formulate the investment strategy. The data sets that form the basis of our country ranking are:

- Transparency International's Corruption Perceptions Index (CPI)
- The UNDP Human Development Index (HDI)
- The Yale/Columbia Universities' Environmental Performance Index (EPI)
- The Heritage Foundation/Wall Street Journal Index of Economic Freedom

Improving ESG country scores are viewed as an indicator of an improving outlook for a country, while deteriorating ESG scores are a reason to increase our caution towards a country. Our investment approach attempts to avoid countries where the risk of default is increasing, to improve the quality of the portfolio and better match to the risk appetite to the scheme. ESG country rankings contribute to this analysis but are not the only input. This ESG country analysis is also built into our emerging markets (hard currency and local currency) decision-making processes.

Principle 7
Continued

We also build climate and carbon exposure into our modelling by allocating towards countries showing the best improvement and allocating away from countries with larger increases in coal production. We use data on countries' percentage change in CO_2 emissions from Our World in Data and reduce our exposure to countries with the largest CO_2 emissions increases.

Fixed Income: Asset Backed Securities

There is a lack of external ESG data for Asset Backed Securities (ABS) and ESG factors tend to have limited direct financial impact on these transactions. However, where ESG factors are financially material to the assets, which can impact directly or through a regulatory, second-order effect, (for example, the governance of embedded counterparties such as mortgage servicers or the impact of diesel bans on vehicle residual values) they are built into the fundamental investment analysis. The ABS and RI teams review internal ESG scoring options, monitor developments in third-party data services and regulatory developments. Over the course of 2024, we contributed to the Partnership for Carbon Accounting Financials (PCAF) working group on Securitized and Structured Products, which has developed a methodology for GHG emissions accounting for these transactions.

Private Markets Group (PMG): Direct assets

Our Private Markets Group evolved its approach to responsible investment through a comprehensive ESG assessment based on scheme level transition goals and identifying ESG related risks and opportunities as well as physical and transition risks. The RI indicators facilitate early assessment as part of the investment due diligence process, aligning with established industry practices. Additional assessments may be conducted, including the use of external advisers/consultants. The process provides the basis for setting asset management initiatives and integrating RI initiatives into asset management plans once investments are made.

Figure 7: Climate Risk Framework

Physical Risk (Low risk – 10/10)	Transitional Risk (Medium – Low risk – 8/10)
• Global warming, rising sea levels and extreme weather may pose a degree of flood, landslide and/or wildfire risk to Company XYZ. • We would note that their sites are at lower risk of flooding/rising sea levels vs. other leisure opportunities we have reviewed, albeit we will diligence this further in the next round.	**Direct Emissions** • **Carbon emissions related to energy efficiency:** As a premium operator, we are not aware of any particular energy efficiency concerns within the Company XYZ estate, although we have to diligence this and any associated 'minimum standard' costs. • **Carbon offsetting:** Company XYZ has planted over 25,000 tress and often develops new sites that have been otherwise allocated for tree felling thereby preserving forested land; sources of the company's power for operations are to be explored. **Indirect missions** • Carbon emissions related to travel/risk of change in consumer preferences. Staycation thematic and 'back to nature' focus of Company XYZ has inherent environmental positives versus international alternatives reliant on air travel.

	1–2 (High risk)	3–5 (Medium – High risk)	6–8 (Medium – Low risk)	9–10 (Low risk)
Physical Risk Assessment	• High exposure to assets located in areas with high physical risk incidence. • Limited mitigation and adaptation plans are in place.	• High exposure to assets located in areas with high physical risk incidence. • Some mitigation and adaptation plans are in place but require enhancements.	• Some exposure to assets sensitive to physical climate risk. • Some mitigation and adaptation plans are in place but require enhancements.	• Low exposure to physical assets OR • The physical assets are located in areas where some physical risks from climate change can occur but do not impact the specific business under due diligence.

	1–2 (High risk)	3–5 (Medium – High risk)	6–8 (Medium – Low risk)	9–10 (Low risk)
Climate Risk Assessment	• The company has *significant direct and/or indirect exposure* to the net zero transition, facing significant loss of revenue, increased costs and risk of stranded assets. • The business lacks a robust decarbonisation plan and is reliant on status quo.	• The company has *some exposure* to direct and indirect transition risks, facing some cost increase, loss of revenue. • Mitigations plans are in place but require further development to ensure competitiveness.	• The company has some exposure to direct and indirect transition risks, however a robust decarbonisation plan is in place to ensure competitiveness.	• The company's direct and indirect exposure to the net zero transition is limited.

Principle 7
Continued

Case study: Moto's energy transition strategy

Purpose and objective: Encourage and support the company's transition to meeting customers' evolving demands in a lower carbon world.

Summary: We are the majority shareholder in Moto and we proactively engage with the management team on the energy transition strategy and Moto's ESG strategy, which is focused on three priority areas of People, Planet and Product.

Over the year, Moto continued to progress towards its goal of becoming the UK's number one en-route electric charging destination by expanding the number of ultra-rapid electric vehicle chargers (>250kW) at its sites across the UK. The company finished 2024 with 811 ultra rapid electric vehicle chargers (c.300 more chargers since 2023) covering 25% more Moto sites.

As part of Moto's ESG strategy focused on People, Planet and Product, Moto was recognised in the Sunday Times Best Places to Work 2024 list and named in the Top 10 Best Place to Work for very large companies (2k+ employees).

Outcome: We continue to work with and support Moto's management team to drive the energy transition strategy such as passenger car electric vehicle and eHGV charging capabilities, which we believe will help ensure the business enhances its value proposition for customers and support the wider energy transition across the UK.

Case study: BRUC renewables

Purpose and objective: Support the company's progress to become a leader in renewable energy generation in Spain.

Summary: We continue to support the growth of BRUC Energy, the Spanish renewable platform we have invested in since 2021. As a joint-controlling shareholder in BRUC, we work closely with its senior management team to achieve the ambition of making the company a leader in solar and wind renewable energy.

Over the course of 2024, BRUC has:

- Reached approximately 1.6GW (up from 1GW in 2023) of gross attributable solar PV installed operating capacity successfully adding 0.6GW of assets
- Generated more than 2.0GWh (up from 1.842GWh in 2023) of gross renewable energy, enough to power circa 512,000 homes for a year and avoided CO_2 emissions of 524,000 tonnes (408,000 tonnes in 2023)
- Contributed to the creation of 23 corporate jobs and generated more than 3,570 training hours, due to the significant construction activity undertaken

In early 2024 the company also recruited a head of ESG to take forward sustainability and ESG initiatives and embed into business operations as the business continues to grow.

Outcome: We will continue to proactively engage with the company; overseeing and encouraging the continuation of positive progress.

Principle 7
Continued

Case study: Launching Sparrow Shared Ownership

Purpose and objective: Understand and minimise exposure to governance and environmental risks.

Summary: In August 2024, we launched Sparrow Shared Ownership as a registered provider regulated by the Regulator of Social Housing following the acquisition of more than 3,000 shared ownership properties, from Sage Homes. Shared ownership is a government scheme which launched in 1990, allowing buyers to purchase a part share in a property, while paying reduced market rent to a landlord.

We consider ESG factors in our investment due diligence process and ESG is integrated into ongoing asset management plans where relevant. During the due diligence process for this acquisition:

- We selected a portfolio of energy-efficient properties, with 97% of units achieving an EPC A or B rating (all minimum EPC C), which contributes to sustainable living for residents.
- We appointed five independent non-executive directors with significant sector, regulatory and commercial experience to ensure high standards of governance and compliance with the Regulator of Social Housing's standards from the outset.
- We spent time understanding the customer journey and set up a board to aim to deliver customer-focused outcomes.

Outcome: Sparrow Shared Ownership is now operational with a portfolio of energy efficient homes and strong governance processes in place.

Principle 7
Continued

Private Markets: Stewardship of assets

During the acquisition process and once invested, we work on an asset management plan for each portfolio company. Where we have identified financially material ESG matters in our due diligence, these are integrated into the asset management plan. A USS appointee typically sits on the board of the company, which allows for regular oversight of material issues. In addition, we undertake post-investment visits to the companies and infrastructure assets we own directly. Among other things, these visits look at how well these investments are managing environmental, social and governance factors.

For co-investments, the due diligence process is similar to our direct asset investments. However, once invested, our control is limited by the Limited Partner (LP)/General Partner (GP)[2] relationship. In this case the GP (or fund manager) has complete responsibility for management and oversight of the investment.

Our aim is to work with portfolio companies over the life of the investment. This includes working with them to set long-term plans to improve environmental outcomes as well as appropriate future direct investment to support those outcomes.

Private Markets: Property

The majority of our property assets are UK-based directly held assets, although we do have some exposure internationally via funds. For buildings that are directly held, given the potential physical climate risk, we always assess these risks before we invest. In addition, regulation requires that Energy Performance Certificates (EPCs) are available for UK properties. This helps us assess a building's energy efficiency and therefore its potential exposure to higher energy and/or carbon costs.

We have had an active Responsible Property Investment (RPI) programme in place for over a decade. The RPI programme continues to focus on reducing energy consumption and enhancing energy efficiency, and therefore potential carbon exposure, across the directly held property assets.

Case study: Intelligent Building Operating System (IBOS) – Offices

Purpose and objectives: Support transition to lower energy consumption and our overall net zero ambition.

Summary: Our property portfolio includes several multi-let office buildings, all of which consume energy and produce Scope 1[3] and Scope 2[4] GHG emissions. Our property manager, Workman, has developed a bespoke intelligent energy management system to reduce energy consumption.

The IBOS technology has been introduced at nine properties in our portfolio. IBOS uses real-time data and technology to optimise energy efficiency and environmental performance. The use of IBOS at these properties has consistently identified and addressed energy inefficiencies, dynamically adjusted energy use to occupancy levels, and implemented smart technology protocols delivering measurable and impactful results.

Outcomes:

- Since its first installation at Atrium Court, Glasgow in February 2023, energy usage has reduced by 33%, saving over 1.9 million kWh, cutting costs by £371,702, and lowering GHG emissions by 360,786 kg CO_2e.
- At 15 Golden Square, London IBOS was installed in January 2024, and has delivered a 23% energy saving, conserving 238,480 kWh, cutting costs by £34,899, and reducing 46,491 kg CO_2e.
- Now installed across nine properties, IBOS has cumulatively saved us and our occupational tenants £695,051, reduced consumption by 3,258,111 kWh and cut 626,239 kg CO_2e.

These successes represent a major stride towards achieving our net zero ambition through operational energy management.

2 LP (limited partner) is the investor, for example, the pension fund. GP (General Partner) is the fund manager.
3 Scope 1 emissions are direct greenhouse gas (GHG) emissions that occur from sources that are controlled or owned by an organisation.
4 Scope 2 emissions are indirect GHG emissions from the generation of purchased energy for example electricity, steam, heat or cooling.

Principle 8: Monitoring managers and service providers

Signatories monitor and hold to account managers and/or service providers.

Our responsible investment (RI) strategy applies to all of the scheme's assets, whether these are managed by USSIM or by external managers. We consider our oversight of external managers as stewardship as we seek to ensure broad alignment with our RI beliefs, as well as informing our understanding of industry best practice.

We assess a manager's approach to RI matters prior to appointment and regularly post-investment. This involves reviewing external managers' RI-related resources, policies, processes and stewardship activities. Our approach is qualitative and flexible, recognising that a serious and thoughtful approach to RI can take many forms and will also vary by asset class.

Due diligence on new managers

Our assessment of a manager's RI capabilities, as part of our due diligence process, helps to establish a baseline view of the manager's approach, which in turn forms the basis for our monitoring programme. Our views on a new manager or strategy are informed by a combination of data rooms, fund Due Diligence Questionnaires and published reports, as well as meetings with analysts, portfolio managers and RI/sustainability specialists.

RI and stewardship are referenced in our contractual terms with managers, where possible. We request our managers to report and to commit to responding to ad hoc data requests regarding RI and stewardship in support of our analysis or reporting. We have also encouraged the use of standardised data platforms and participation in industry initiatives.

While we have not always been successful in achieving the proposed template wording, we believe our negotiations and starting position sends a strong signal to managers, emphasising the importance placed on RI considerations by the scheme.

Tailoring due diligence to specific asset classes

Our due diligence varies across asset classes reflecting the specific attributes of those asset classes or strategy type.

In private markets, we are often making a commitment to a fund where the assets have not yet been acquired – so-called blind pools. In these situations, our due diligence will focus on the manager's policy and processes and, where possible, case studies from previous funds. This focus on previous funds enables us to assess how well RI has been incorporated in previous investments and whether we can expect that the new fund meets our expectations.

Principle 8
Continued

Ongoing monitoring and review

Our interaction with external managers does not stop post-investment. We regularly follow up to assess whether a manager's approach has changed and whether they are delivering on commitments made in the initial due diligence. The frequency and type of monitoring is tailored to the mandate, asset class and our RI assessment. For example, in public markets, we review stewardship and engagement publications, voting records, engagement case studies and other forms of RI reporting.

If a manager or strategy receives a weak rating, or if performance declines, we will typically escalate our engagement, with additional research and meetings, often including senior management, to discuss our concerns and steps that might be taken to address any issues. For public markets managers we include RI-related questions within our quarterly monitoring questionnaires to ensure that material changes to RI policies, activities or concerns arising with portfolio assets are tracked and managed appropriately.

Case study: Impax Asset Management – sustainability-themed mandate

Purpose and objectives: Identify and appoint an external investment manager to manage a sustainability-themed equity portfolio aligned with our approach to responsible investment.

Summary: In 2024, we introduced a sustainability-themed equity portfolio within the Ethical Lifestyle and Ethical Equity Fund within the Investment Builder – the defined contribution (DC) part of the scheme. The new investment is a bespoke arrangement for us managed by Impax Asset Management complying with the Investment Builder Ethical Guidelines and goes beyond excluding companies or sectors to actively seek investment opportunities in environmental solutions that aim to contribute to positive, real-world change. This is a significant step forward in our commitment to delivering ethical investment options that align with members' values, where possible.

It invests in companies that seek to address long-term sustainability themes – such as resource scarcity, population growth and rising living standards – that stand to benefit from the transition to a more sustainable global economy.

Outcome: We will continue to survey our members on a range of topics and monitor the mandate and engage with Impax Asset Management to ensure the strategy remains fit for purpose.

Principle 9: Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

Taking an active approach to engagement

As discussed under Principle 7, we select and prioritise engagement based on a variety of factors including:

- Alignment with our prioritised RI theme
- The size of our holding in the entity or the size of the asset, portfolio company and/or property
- The materiality of the ESG factors on financial and/or operational performance
- Their ESG scores and ranking in specific benchmarks
- The adequacy of public disclosure on ESG factors and performance

Engagement tools

We use a variety of engagement tools, including one-on-one engagement meetings, collaborative engagement (see Principle 10), public engagement (e.g. open letters), exercise of our voting rights and divestment. We may also file, co-file or submit shareholder resolutions or proposals. The strategies we use and engagement escalation (see further details in Principle 11) depends on the subject matter for engagement, the degree of influence available to us and the characteristics of the investment (e.g. lock-in periods, liquidity) and our expected likelihood of success.

ESG reviews are conducted and updated on the investments in USS-managed active equity portfolios. Integrated into these reviews, which form part of the initial investment case, are material financial ESG factors. They also include any important questions that help to highlight and prioritise potential engagement with the investment.

Engagement meeting notes, internal company ESG reviews and voting letters for publicly listed companies are shared systematically internally with our investment teams via our investment research tool. This tool is a central system where all USS-generated investment-relevant notes for equities and fixed income assets are stored.

While the discussion in this section has focused on listed equity and credit, we engage across all of our asset classes (see the examples throughout this report). In addition, as noted in Principle 8, we have a detailed process for due diligence and monitoring of our external managers across asset classes) and we also engage with policymakers on key issues (see Principle 4). Finally, and as noted earlier, our board seats at direct assets give us greater access to information on management issues including ESG risks and opportunities and more direct influence of a company’s strategy and priorities. We expect each board to monitor progress over time, including reducing its environmental impact, lowering its operational costs and improving its financial performance.

Principle 9
Continued

Case study: Direct equity – PECO Pallets

Purpose and objective: Improve the company's health and safety performance to support a productive workforce and to seek to ensure company readiness for a lower carbon world.

Summary: We are a majority shareholder in PECO Pallets, a pallet rental company based in the US. Its pallets are used by manufacturers to ship grocery and consumer products to retailers throughout the US, Canada, and Mexico. We have been working with senior management at the company since 2020 to improve health and safety across its depots and office locations and work towards a 'zero accident culture'. We will continue to engage with senior management to seek to improve safety metrics at the company. We are also discussing building capacity to set carbon reduction targets.

Outcome: The company has established initiatives to increase employee involvement in safety-related activities, hire safety specialists and implement training programmes for forklift truck drivers, and implement safety monitoring and improvement procedures. Since 2020, the injury rate at the company has decreased by 75%.

Case study: Unilever and Nestlé on protein diversification

Purpose and objective: We are engaging with two of the world's largest food manufacturers, Unilever and Nestlé, as part of the collaborative initiative: FAIRR's Protein Diversification Engagement. The goal is to encourage companies to achieve their strategic ambitions by increasing the share of plant-based proteins within their portfolios to reduce their GHG emissions and mitigate supply chain risks.

Summary: Globally, the food and agriculture sector contributes over a third of GHG emissions and is a major driver of biodiversity loss. For food manufacturers, animal production alone accounts for approximately 25% of value chain GHG emissions. Both Unilever and Nestlé consider protein diversification as a mitigation opportunity and have integrated this into their climate transition strategies.

Delivering on these strategies will require greater consumer uptake of plant-based proteins, capitalising on existing consumer demand but also making plant-based options more appealing to a broad range of customers. In 2024 we met with the companies to understand the role they see themselves playing in incentivising consumers to make more sustainable choices and increase uptake of plant-based products. Each company tailors its marketing campaigns to appeal to mainstream consumers. For example, Unilever found that labelling its vegan mayonnaise as plant-based made it more attractive to consumers. Nestlé explained that sustainability messaging alone is not enough to incentivise consumers to try plant-based products and that messaging on health benefits is more impactful. We also discussed how rising inflation increasing the cost of food could lead to consumers making less adventurous food choices leading to a decrease in value or growth in this market.

Outcome: We will continue to monitor the market for plant-based products and expect to engage with Nestlé and Unilever on this topic in 2025.

Principle 10: Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Collaboration is key

We believe that our interests can be furthered by collaborating with like-minded investors and engaging with government, industry, and regulators (read more in Principle 4).

Our commitment to collaboration

We have dedicated considerable effort to founding and ensuring the ongoing success of collaborative responsible investment initiatives and to addressing systemic barriers to integrating responsible investment matters in investment. We remain active in a wide range of responsible investment and stewardship collaborations. See below for a list of our main collaborative memberships and engagements.

Examples of Memberships and Associations (illustrative)

Asian Corporate Governance Association (ACGA)	Governance	Works with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.
Carbon Disclosure Project (CDP)	Climate	Encourages companies to disclose their decarbonisation strategy and carbon data through the CDP framework.
International Corporate Governance Network (ICGN)	Governance	Advances corporate governance and investor stewardship standards worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment.
Institutional Investors Group on Climate Change (IIGCC)	Climate	Focused on bringing the investment community together to make significant progress towards a net zero and climate resilient future by 2030, in line with the goals of the Paris Agreement.
Investment Association (IA)	Investment Industry	Trade body representing investment managers and investors in the UK.
Investor Alliance for Human Rights	People	An organisation for international investors focused on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and related standard-setting activities.
Nature Action 100	Nature	A global investor engagement initiative focused on driving greater corporate ambition and action to reduce nature and biodiversity loss.
UK Sustainable Investment and Finance Association (UKSIF)	Climate, Governance, Nature, People	A UK membership organisation committed to the development of sustainable and responsible finance and investment.
Principles for Responsible Investment (PRI)	Climate, Nature, People	A UN-supported network of global investors working to promote a sustainable global financial system by encouraging adoption of six responsible investment principles.

Principle 10
Continued

Collaborative engagements
Examples of collaborative engagements activities during the year included:

- Partnership for Carbon Accounting Financials (PCAF)
- Investor Action on Antimicrobial Resistance (IAAMR)
- The Investor Alliance for Human Rights
- Finance for Biodiversity Pledge
- Climate Action 100+
- Nature Action 100

Finance for Biodiversity Foundation

Case study: Finance for Biodiversity Pledge and Foundation membership

Purpose and objective: Work with other stakeholders to support our thematic priorities relating to nature and integrate learnings into our investment decision-making process.

Summary: In October 2024, we signed the Finance for Biodiversity (FfB) Pledge and became a member of the FfB Foundation. We recognise that loss of biodiversity and natural capital could pose a financial risk for companies, markets and economies. The **FfB Pledge** is a commitment of financial institutions to protect and restore biodiversity through their finance activities and investments. Alongside 194[5] other financial institutions we are committed to collaborating and sharing knowledge, engaging with companies, assessing our biodiversity impact, setting targets, and reporting publicly on biodiversity matters by 2027[6]. As a member of the FfB Foundation, we are active in several working groups and subgroups, each connected to one of the five commitments of the FfB Pledge.

Outcome: We are in the early phase of our relationship and activities with FfB but the early signs indicate that this should prove to help achieve our objective.

Case study: Cemex

Purpose and objective: To understand and support the company in its efforts to mitigate risk associated with GHG emissions.

Summary: We hold Cemex, a global cement manufacturer, in our active Global Emerging Markets Fund, where it is one of the portfolio's largest emitters. The cement industry is recognised as being a hard-to-abate carbon dioxide emitter i.e. where it is either prohibitively costly, or impossible, to reduce GHG emissions with the currently available abatement technology.

We are one of three co-lead investors engaging with Cemex through the Climate Action 100+ (CA100+) investor engagement initiative; an initiative targeting the world's largest emitting companies to bring about improved performance and disclosure on decarbonisation.

Over the last few years, Cemex has increased the level of disclosure and has several pilot projects looking at different decarbonisation technologies, including carbon capture and storage, clinker substitution, and using AI to make its processes more efficient. During 2024, Cemex's disclosure and reporting was recognised by the World Benchmarking Alliance as the industry's top-scoring company in the 2024 Climate and Energy Benchmark.

Through the CA100+ initiative, we have the following objectives:

- Further understand how Cemex allocates capital and if decarbonisation factors are included in these decisions, where relevant
- Encourage the company to include decarbonisation KPIs in its executive and senior managers' remuneration. We have experienced push-back from the company but will continue to explain the importance to investor of linking executive-level pay to climate goals
- Encourage Cemex to disclose its plan and strategy in relation to the Just Transition[7], the company has stated that it is proposing to disclose its plan in early 2025 and a more detailed strategy in late 2025. As investors we would like to provide constructive feedback to the company

Outcome: We will monitor the company's decarbonisation efforts and continue to engage as it works to achieve its 2030 carbon reduction target.

5 As at 14th February 2025.
6 Financial institutions that signed the FfB Pledge in 2024 commit to report publicly by 2027 (with 2026 data).
7 Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. Ref: The International Labor Organization https://www.ilo.org/resource/other/climate-change-and-financing-just-transition

Principle 10
Continued

Case study: Vale

Purpose and objective: Support the company in improving its nature performance.

Summary: When we joined the Nature Action 100 (NA100) investor engagement group in late 2023, we engaged with Vale, a multinational metals and mining company based in Brazil and whose operations impact over 800sq km [as at 2021] including areas of the Amazon Rainforest. Vale is included on the Nature Action 100 Companies List because it has 'a high potential impact on nature', as well as other factors. Following the engagement between NA100 members and Vale, feedback was provided to the company about how to improve its score against the six action areas of: Ambition, Assessment, Targets, Implementation, Governance and Engagement.

Vale is undertaking several projects. Firstly, a pilot project at its S11D project in Para Province, Brazil where it intends to record "no net loss" until closure of the site, with a four-step programme for all operations and sites of: Avoidance, Monitor, Recover and Compensation.

It is conserving c.500,000 hectares of rainforest and intends to increase this through other projects to c.900,000 hectares by 2030; to do so it needs to create business and job opportunities that benefit the local communities.

The company has also undertaken biodiversity impact assessments at each of its sites and taken a lead role in the Taskforce for Nature-related Financial Disclosures being one of the first companies to voluntarily report against the disclosure recommendations and guidance.

Outcome: We continue to engage with Vale in order to follow up on the feedback it received from NA100. We want to understand the capital allocated to nature to meet its 2030 biodiversity target. As part of this 2030 goal, it has a Forest Target to restore and protect an additional 400,000 hectares beyond its fence lines; however, the level of reforestation only went up by 1% in FY2023, well below the growth required to meet its 2030 goal.

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

A proactive and constructive approach

As active owners and stewards, our default position is to support the board and management of our investments in our actively managed portfolios. We engage in active dialogue with senior management, boards and operational specialists within businesses. The focus of our stewardship is twofold:

1. to understand how the businesses in which we invest operate, are managed and overseen, and how the views of stakeholders are taken into account.
2. to drive change and positive outcomes where we identify business challenges.

Where we identify material business challenges and see the need for stewardship escalation, we may use one or more of the investor tools at our disposal including face-to-face meetings, calls, written communication, collaboration with other investors, exercise of our voting rights and, in certain circumstances, filing or co-filing shareholder resolutions. We reserve the right to divest where engagement has been ineffective, has not achieved the desired outcome and where we continue to have significant concerns.

Setting clear expectations for managers

For our investment managers, we define our expectations of stewardship in mandates. As noted in Principle 8, we monitor their stewardship performance as a standard part of our manager monitoring process and also during the selection process. We challenge managers if we feel that they are not delivering on their stewardship commitments or areas exist that require additional clarification. Should our managers fail to deliver on their commitments we can express our concerns in the following ways:

- Placing an external manager on a watch list
- Engaging the external manager's board or investment committee
- Reducing our exposure to the external manager
- Terminating the contract and/or not reappointing the external manager if stewardship failings persist

Tackling the global threat of drug-resistant infections

USS signed the Investor Action on Antimicrobial Resistance (IAAMR) Public Investor Statement.

The IAAMR was launched by the Access to Medicine Foundation, the FAIRR Initiative and the UK Government at the World Economic Forum Annual Meeting in Davos in January 2020. It is focused on tackling the global threat of drug-resistant infections and is currently supported by 22 investors representing USD $14 trillion in AUM.

The main aim of the IAAMR initiative is to leverage investor influence to combat drug-resistant superbugs, an urgent public health challenge which directly attributed to 1.27 million deaths in 2019 alone and is estimated to cost the world $100 trillion USD in global economic losses by 2050.

The Statement, launched in May 2024, calls on global leaders and policymakers to reinvigorate efforts and co-ordinate action to combat antimicrobial resistance (AMR) ahead of the United Nations General Assembly High-Level Meeting on AMR held in September.

Principle 11
Continued

Case study: Call to action on biodiversity loss

Purpose and objective: To raise awareness of investors' views in relation to nature loss and the meaningfulness of this to our investment portfolios and investible economies, globally. Specifically, we sought to encourage national commitments to achieving pre-determined 2050 targets as they related to nature loss.

Summary: As a Universal Owner, we understand the urgency of addressing nature and biodiversity loss in our portfolio. However, governments also have a pivotal role to play in enabling a transition to a nature-positive economy. By setting ambitious targets and establishing regulatory frameworks that empower businesses, investors, and communities to act, governments can enable all stakeholders to contribute effectively to this transition.

In October 2024, we, alongside other asset owners and pension funds, delivered the **Asset Owner Statement** at the United Nations Biological Diversity Conference 2024 (COP16) in Cali, Colombia. The statement called on governments to translate the goals and targets of the Kunming–Montreal Global Biodiversity Framework, which sets out key global policy goals and 23 targets for nature to be met by 2050, into national policy and regulation.

We were one of the five pension investors leading this initiative – working together with AP7 (Sweden); CDPQ (Canada); the Church of England Pensions Board (UK) and HESTA (Australia). The final statement was signed by 27 global pension funds and asset owners from Australia, Canada, Denmark, the Netherlands, Sweden, Switzerland, the United States and the United Kingdom.

Outcome: We will continue to utilise this collaborative platform to support our primary objective.

Principle 12: Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

Exercising our voting rights: A global perspective

We regard exercising our minority shareholder rights through the use of our votes as fundamental to our role as stewards and we aim to vote globally on all the companies in which we invest.

An updated voting policy

Our Stewardship and Voting Policy is reviewed regularly to ensure continued alignment to our beliefs about good practice in line with our fiduciary duties. Further information on our policy and voting activities can be found here. When making voting decisions, we take into account the company's unique situation, our investment rationale, any engagement undertaken as well as the company's relative position in relation to local laws, guidance and best practices. We may vote against or abstain on resolution items, including the reappointment of board directors and, when asked to, a company's report and accounts (or equivalent), if we believe the company is failing to appropriately manage or address an issue. We will consider voting against individual directors where the company has not addressed specific systemic risks, including but not limited to climate change.

As a specific example, we integrate data from the Transition Pathway Initiative (TPI), and the company's readiness for a transition to a low carbon economy, into certain voting decisions. The TPI ranks companies on management quality in relation to its GHG emissions and of risks and opportunities related to the low carbon transition. This can determine our ultimate voting decisions.

Our voting process

Prior to the commencement of the proxy voting season, we identify a priority list of companies based upon our active and high-profile holdings. These priority holdings are given additional scrutiny and the vote recommendations are discussed with the relevant portfolio manager, in advance of submitting the vote, thereby taking into account information obtained through engagement and other activities. See more in Principle 7.

We use proxy advisory firms to help inform our voting decisions. Also influencing our voting decisions are outcomes from engagement, discussions with peers and the views of our in-house expertise within the RI team and wider investment teams. These voting decisions are tailored to the individual circumstances of the company and focus on the overall quality of the company's management, its approach to corporate governance and the consideration of our investment expectations. Individual vote decisions for priority holdings are reviewed and confirmed by the responsible investment team, working closely with our portfolio managers.

Non-priority companies, for example those held in our passive funds, are voted in accordance with our custom voting policy, which is governed by our Stewardship and Voting Policy. The RI team monitors selected voting decisions to ensure the custom voting policy translates into the intended voting decisions.

For our external investment managers that retain voting discretion, we have included voting in our responsible investment Due Diligence Questionnaire (see Principle 8), and in the Investment Management Agreements.

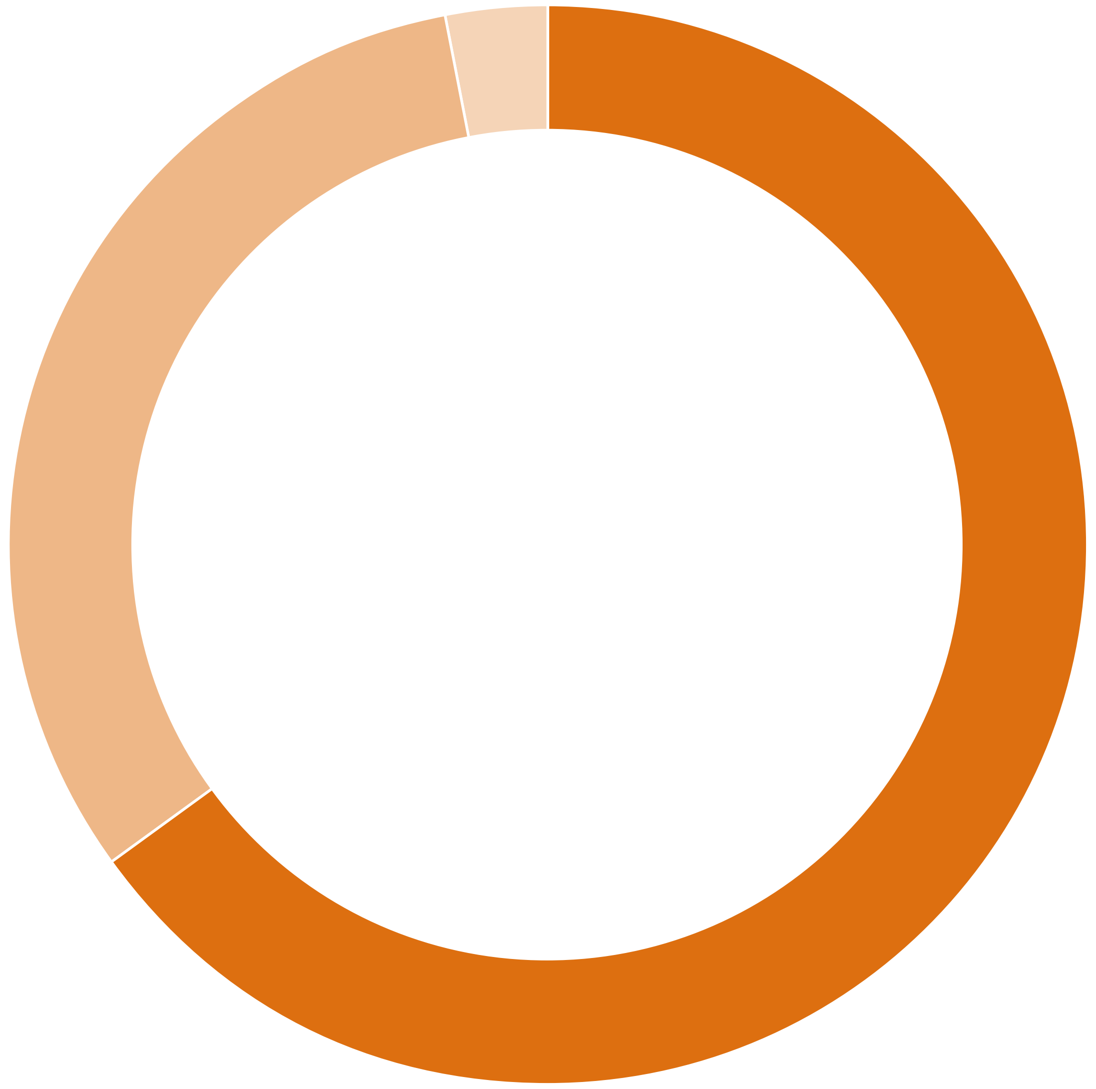
Principle 12
Continued

Our voting activity 2024–25

Our default position is to support the board and management. However, we will vote against management where we have fundamental concerns. During the reporting period, we exercised voting rights at a total of 1,960 shareholder meetings. Votes were instructed against management recommendations on 32.2% of the 28,301 separate resolutions.

Voting statistics April 2024 – March 2025	Response
How many meetings were USS eligible to vote at?	1,960
How many resolutions were USS eligible to vote on?	28,301
What percentage of resolutions did we vote on for which USS were eligible?	99.6%
Of the resolutions on which USS voted, what percentage did we vote with management?	65%
Of the resolutions on which USS voted, what percentage did we vote against management?	32.2%
What percentage of resolutions, for which USS were eligible to vote, did we abstain from?	2.8%
What percentage of meetings, for which USS were eligible to attend, did we vote against the recommendations of the company's management?	81.%

USS global votes
April 2024 to March 2025



For (with management)	**65.00%**
Against	**32.24%**
Abstain	**2.77%**

During the year, the three most common categories of resolutions where we voted against the recommendations of management included:

1. Audit and Reporting
2. Remuneration
3. Board elections

We utilise votes on resolutions relating to audit and reporting, as well as board elections, as an opportunity to convey concerns relating to a variety of matters. These can be on matters not related directly to audit or reporting and the suitability and/or characteristics of an individual seeking election to the board. We also vote against these resolutions when we have material concerns with a board's approach to managing systemic risks, such as climate change. A further example is where we have concerns relating to a company's structure or outcomes of its remuneration policy; we may hold to account members of the Remuneration Committee by voting against their re-election to the board.

Principle 12
Continued

Significant votes – examples for period from April 2024 – March 2025

CTBC Financial Holding Company Ltd	
Date of EGM	11th October 2024
Summary of resolution	Resolution 1: **Amendment to the Articles of Incorporation** The company convened an EGM for the sole purpose of gaining shareholder approval to increase its authorised share capital by 39% through the issuance of new shares.
Size of holding at date of vote (% scheme assets)	0.1%
Vote	AGAINST (company management recommended voting FOR)
Rationale for vote	Our primary concern was that the proposed amendments would allow the company to fund significant acquisitions without requiring shareholder scrutiny or approval of the transactions. We believe that the discipline of gaining shareholder approval for significant transactions increases the likelihood of success. In addition, our vote decision was also based on the company's intent to acquire a company by way of a hostile takeover, which we felt would lower the perceived quality of the bank and could increase its risk profile unnecessarily. We contacted the company in order to communicate our views and concerns. We also explained why we had reduced our invested position.
Vote outcome	7.5% of votes were instructed against the resolution.
Implications of the outcome	The substance of the shareholder meeting, our engagement with the company and, also, other fundamental considerations, led to us reducing our investment in the company's shares.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We recognised this as a significant vote owing to it being an important example of integrating financially material responsible investment considerations and activities with investment decisions. It demonstrated how good governance considerations and deliberate engagement can influence investment decisions. A company's capital allocation policy and its discipline surrounding the use of capital can be fundamental to our investment case.

Principle 12
Continued

Reliance Industries	
Date of EGM	29th August 2024
Summary of resolution	Resolution 1a: **Accept Standalone Financial Statements and Statutory Reports**
Size of holding at date of vote (% scheme assets)	0.1%
Vote	AGAINST (company management recommended voting FOR)
Rationale for vote	We expect companies that operate in sectors that emit high levels of GHG emissions, or sectors exposed to climate risks, to have robust climate transition plans. This supports our ambitions to achieve our net zero commitments. At this company's AGM in 2023, we voted against the Financial Statements owing to the company's lack of disclosure surrounding its management of GHGs. We wrote to the company explaining our voting rationale and were encouraged by the company's improved disclosures, which included the publication of GHG emission reduction targets. While the progress was positive, the company continued to fail in meeting our minimum expectations. This year, we continued to vote against the resolution to accept the financial statements and statutory reports in order to impress on the company our expectations and also for it to continue progressing on its management of climate risks.
Vote outcome	0.14% of votes were instructed against the resolution.
Implications of the outcome	While we recognise that, in isolation, the vote outcome is not a substantial proof point in relation to the effectiveness of stewardship; coupled with targeted engagement and collaborative efforts by investors, stewardship is an important activity that can lead to positive outcomes. We expect to continue supporting the company's progress.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We consider this vote to be significant as it aligns with our climate priorities and our net zero ambition. It is also an example of how voting and engagement can help support a company's progress towards managing a material systemic risk that may have financial implications.

Principle 12
Continued

Visa Inc	
Date of EGM	28th January 2025
Summary of resolution	Resolution 7: **Report on Lobbying Payments and Policy** This shareholder requisitioned resolution requested that the company increase it disclosure on its lobbying expenses, as well as its related policies and procedures.
Size of holding at date of vote (% scheme assets)	0.1%
Vote	AGAINST (company management recommended voting AGAINST)
Rationale for vote	We supported the company's management by voting against this proposal due to the increased disclosures promised by the company in the 2024 Political Engagement report. However, we encouraged the company to disclose the specific amount of fees that may be used for lobbying activities, as opposed to the aggregate amount. We believe that clear disclosure of lobbying expenditure allows shareholders to evaluate whether such expenditures are consistent with the company's expressed goals and in the best interests of long-term shareholders.
Vote outcome	85.3% of votes were instructed against the resolution.
Implications of the outcome	We followed-up this vote with a letter to the company outlining our key areas of concern and encouraging enhanced corporate disclosure, which would help investors better understand the risks associated with lobbying activities.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We considered this vote to be significant as it aligns with our governance priority of supporting the functioning of capital markets. In addition, we believe this is a good example of how shareholder proposals can affect positive change on issues that are important to shareholders.

Principle 12
Continued

ExxonMobil Corporation	
Date of EGM	29th May 2024
Summary of resolution	Resolution 1.6: **Elect Director Joseph L. Hooley** Resolution 1.12: **Elect Director Darren W. Woods**
Size of holding at date of vote (% scheme assets)	Less than 0.1%
Vote	AGAINST (company management recommended voting FOR)
Rationale for vote	We had concerns regarding the company's approach to corporate governance and shareholder rights. This concern centred on the company's decision to pursue legal action against its shareholders rather than use the established routes of engaging with these shareholders and using processes established by the U.S. Securities and Exchange Commission. We held to account the two board members most responsible by voting against the CEO/Chair and the Lead Director. The Lead Director also chaired the board's Nominating and Governance Committee.
Vote outcome	Resolution 1.6: 12.8% of votes were instructed against the resolution. Resolution 1.12: 8.4% of votes were instructed against the resolution.
Implications of the outcome	We followed up the vote decision by signing a joint statement with other investors that relating to the protection of shareholder rights. This letter, which was supported by investors with combined assets under management of USD 5.2 trillion can be found here.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We consider this vote to be significant as it aligns with our governance priority of protecting shareholder rights. We believe the ability to requisition and vote on shareholder proposals is a fundamental right of shareholders and that this case could set a precedent that undermines this very important and fundamental right of shareholders.

USS *For members, for the future.*

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