

## **USS response to ‘Pension trustee skills, capability and culture: a call for evidence’**

The Universities Superannuation Scheme (USS) welcomes the opportunity to respond to this consultation. We are mindful that USS is very different to most UK pension schemes, given its size, resources and hybrid nature. Proposals that might be appropriate for the generality of DB or DC schemes may not be appropriate for USS.

Good governance, and the quality of trustee boards, is hugely important; well governed schemes are better placed to secure better outcomes for members and should need less regulatory prescription. We’d encourage Government and regulators to seek to identify the quality issues they are seeking to remedy, identify those types or groups of schemes where they believe there may be an issue and tailor their approach accordingly.

We would welcome direct discussion on the themes of the consultation with Government as helpful.

### **About USS**

The 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 528,000 members and their families. USS is primarily a defined benefit pension scheme, we are one of the largest pension schemes in the UK, with total assets of around £ 75.5bn (at 31 March 2023); this includes £27.7bn (at 31 March 2023) of private market assets (our DC default fund also includes a significant allocation (c.20%) to private market assets). The scheme remains open to future defined benefit accrual for both new and existing members, with members also able to build up defined contribution benefits. As a non-associated multi-employer scheme offering DC benefits USS is an authorised Master Trust.

The trustee of USS is Universities Superannuation Scheme Limited (USSL), a corporate trustee which provides scheme management and administration from its offices based in Liverpool and London. USSL currently has twelve non-executive directors. Between them, they hold a wealth of competencies in, and knowledge of, pensions, investments, actuarial matters, the Higher Education (HE) sector, audit and financial management and communications. This diverse set of skills, experience and backgrounds helps ensure the smooth governance of USS. Four are appointed by Universities UK (UUK), three are appointed by the University and College Union (UCU) and five, including our Chair are appointed by the board as “independent” directors (i.e. unconnected to either UUK or UCU). Appointments are made on a fixed term basis and guided by a board skills matrix. None of the trustee company’s directors is from a professional independent trustee firm. However, a number of them have roles for more than one scheme and / or other company non-executive directorships. Four directors are accredited as professional trustees and one is accredited as a lay trustee.

The trustee’s directors are supported by a staff of nearly c.400 (excluding USSIM staff – see below), led by a Group Executive team of ten senior executives, providing a breadth of operational and financial skillsets.

The trustee company delegates implementation of its investment strategy to a wholly-owned investment management subsidiary company - USS Investment Management Limited (USSIM) -

which provides in-house investment management and advisory services, solely to USS. USSIM is authorised and regulated by the FCA and has its own board of directors and staff of c230.

USSIM manages between 60% and 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. This allows USS' investment approach to be tailored to the scheme's requirements and provides us with a unique perspective compared to many other institutional investors. USS aims to be an active, engaged, long-term and responsible owner of the companies and assets in which it invests.

### **Notes on our responses:**

Like many UK pension schemes, and as noted above, the USS trustee is a company. We do not have individual trustees. We respond to your questions by reference to the skills and experience of the directors of the trustee company; and (for ease) from this point on we use the term "trustee director" throughout our response.

### **Responses to Questions**

We have responded, as relevant to USS to each of the questions posed in the call for evidence.

**Question 1: Do trustees know what the knowledge and understanding standards expected of them are?**

**Question 2: Do trustees currently meet the knowledge and understanding requirements expected of them? Are some types of trustee better than others?**

We have answered these two questions together.

Our trustee directors are aware of the knowledge and understanding standards expected of them. Our board benefits from an annual performance review cycle and regular training opportunities, together with internal and external advice as to how the expectations apply. Given that USS is an authorised Master Trust pension scheme our trustee directors are subject to 'fit and proper' requirements which include an assessment of competency, including relevant knowledge, skills and experience. Across our board as a whole we benefit from a mix of trustee directors bringing diversity of perspective and a balanced mix of skills and experience.

**Question 3: What are the barriers to improving trustee capability? What do you think government should do to ensure that all trustees meet the standards expected of them? Does trustee liability put off potential trustees?**

We benefit from being able to appoint very capable and experienced trustee directors and therefore offer no view in relation to this question. However, we would highlight aspects of our own process that may be useful:

- As a Master Trust, we are required by law to follow an open, fair and transparent process to recruit all of our trustee directors, including those who are appointed by UUK and UCU. This typically includes advertising the roles in a national newspaper and using recruitment firms as necessary<sup>1</sup>;
- The advertisement makes clear the time commitment required for the role; and

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<sup>1</sup> This includes where a trustee director's term of office is coming to an end and they wish to serve a further term

- We pay a fee to all of our trustee directors for their services.

**Question 4: Do trustees (including Master Trust trustees) have the right knowledge and understanding to invest in the full breadth of investment opportunities? If not, what can be done to improve this?**

The current investment strategy of USS, and its implementation by USSIM, considers the full breadth of relevant investment opportunities. Our trustee directors, supported by USSIM and our wider internal team (and external advisors as required) are well equipped to oversee and play their role in these considerations. These considerations for our DB section start from an appropriate risk framework agreed by the trustee. This framework is used by USSIM to determine the appropriate investment strategy. Our hybrid structure then allows us to leverage both DB and DC investment capabilities in a single trust.

**Question 5: Is there enough understanding of advice around the consolidation of schemes?**

Given the circumstances of USS we offer no view in response to this question.

**Question 6: Do you think that the government should require all trustees to provide information to enable TPR to keep a register of all trustees?**

We are already required to provide such information under the Master Trust authorisation regime.

**Question 7: If the government were to require this information, would it be best achieved through the scheme return or through a separate trustee return**

Our experience is that the current approach for authorised Master Trusts with the assessment made at appointment works well and is similar to the process for submitting forms/returns for company directors and FCA applications upon appointment. The consistency in approach appears useful in this regard.

**Question 8: Do current accreditation frameworks provide a high enough bar to equip trustees who become accredited to properly fulfil their role, including in making investment decisions?**

Accreditation, alongside other means that a trustee board may use to demonstrate their individual and collective skills, provides a helpful tool to demonstrate appropriate knowledge and understanding. All of our trustee directors, regardless of accreditation status, are appropriately equipped to fulfil their role. Mindful of that, if accreditation were required of trustees in some form, we'd welcome a grace period where trustees newly appointed to reflect their wider skills need appropriate time to become accredited and consideration of how the experience and training of existing trustees (e.g. via the Trustee Toolkit) enable 'fast track' routes to accreditation.

**Question 9: What proportion of your trustee board are accredited trustees?**

While not a requirement of appointment as a trustee director of our scheme, currently four of our trustee directors are accredited as professional trustees and one is accredited as a lay trustee.

**Question 10: If we required each scheme to have a certain proportion of accredited trustees, where should this bar be set? Should Master Trusts be required to have a greater proportion of accredited trustees than single-employer schemes?**

We do not support the arbitrary approaches of simple thresholds or additional requirements on Master Trusts suggested in the consultation.

USS is a large and complex scheme and each of USSL and USSIM is a company in its own right, requiring a broad range of skills, experience and competencies (not solely pensions or investment related). We believe that each scheme should have processes in place to understand the skills and competencies required for its own unique set of circumstances and to recruit trustees on this basis. For a hybrid scheme like USS there will be both DB and DC areas of emphasis (e.g. alongside relevant investment expertise, employer risk appetite, scheme funding and covenant and member risk capacity and engagement).

And specifically for our own scheme, as the pension scheme for Universities and academics, having trustee directors from the higher education sector who understand our members and the finances and governance of universities is important. This is in addition to trustee directors with more traditional pensions experience, and trustee directors with investment experience (that may not necessarily have been acquired with pension schemes).

Also, whilst USS is a Master Trust, it is a non-commercial Master Trust and unlike other Master Trusts serving many non-connected employers, USS supports employers in one sector only and its governance arrangements (and trustee director make-up) reflect this.

Accredited status is therefore a helpful tool to demonstrate existing knowledge and skills, and for allowing those bringing other wider experience to demonstrate their building pension specific experience. We do see value in encouraging or potentially mandating accredited status subject to a clear rationale of how accredited trustees might be of value to different categories of schemes. Simple thresholds are unlikely to meaningfully improve trustee decision making (particularly for those schemes where Government believes there might be issues) without creating unhelpful regulatory demands.

**Question 11: Should there be more rigorous requirements for those acting in the capacity of a professional trustee? What sort of requirements/standards should professional trustees be meeting? Should there be mandatory accreditation?**

We offer no view in response to this question.

**Question 12: How would you define a professional trustee for the purposes of legislating for all professional trustees to be accredited?**

We support the current basis of an individual's business including trusteeship as the determinant of professional trustee status. Our trustee directors, given their skills and experience, may have other non-trustee non-executive roles and therefore greater clarity about how trusteeship as a business activity as part of a range of non-executive appointments might determine professional status would be helpful (particularly if there is an interest in drawing in more individuals who have wider investment experience to be trustees).

We are mindful of the dangers of any requirement for a certain proportion of a trustee board to be professional trustees (which we would regard as unhelpful and would not support). We would wish to retain the ability to appoint trustee directors with skills, expertise and representation that are appropriate for a scheme of the scale and complexity of USS, and which are complementary across the trustee board, rather than likely having to turn to professional trustee firms.

However, if there was a requirement to have professional trustees (rather than simply accredited trustees), we would urge that this be left as flexible as possible such that not all trustee companies had to turn to trustees from professional trustee firms, and we could retain the ability to appoint individuals with the skills and expertise we require, and who are fit for our roles (as per the master

trust requirements). As such, accreditation may be a helpful tool to demonstrate appropriate knowledge and understanding but should not be considered the only way to do so.

**Question 13: What are your observations on the external support trustees are given to make investment decisions, particularly in relation to unlisted equities?**

This is widely and easily available from USSIM, and from our (other/external) investment managers and investment advisors.

**Question 14: What changes could be made, including to the regulatory environment, to improve trustee support in relation to unlisted equities?**

We have not experienced any problems in this area<sup>2</sup>.

**Question 15: To trustees: To what extent do trustees use investment consultants to support decisions around allocations to unlisted equities? Did they subsequently increase? Is there a deficiency of knowledge or expertise by investment consultants of these types of investments?**

Our model means that good support to our trustees is widely and easily available from our investment team and our investment advisors.

**Question 16: What changes could be made to investment management to support pension scheme investment decision-making?**

Given our size, complexity and resources (including USSIM as an in-house FCA regulated investment manager/advisor and relevant external advice), we believe that we already have a well-established and robust governance framework for investment decision making, including significant investment in private market investments.

**Question 17: to trustees: How does legal advice impact on your investment decisions? What is an acceptable level of tolerance for investment risk? Is there a culture of ‘risk aversion’?**

The trustee benefits from valuable internal and external legal advice, which supports robust risk assessment but does not in our view lead to a culture of ‘risk aversion’. This is an area where we would be happy to discuss specific areas of interest with Government.

**Question 18: Is fiduciary duty a well-understood concept? Do current regulations and guidance support trustees to make investment decisions which seek higher returns for members? If not, what changes would be useful?**

Our trustee directors have a good understanding of the legal duties falling on them and receive relevant training and legal advice to support their decision making.

In the context of regulation, we would note our previous public concerns about the implications of the scheme funding regime and the draft DB Funding Code for future investment decision making.

**Question 19: Do trustees currently make investment decisions in the long-term interests of pension savers? If not, what barriers are there to trustees making investment decisions in the long-term interests of savers?**

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<sup>2</sup> Although we acknowledge others may point to the Occupational Pension Scheme (Investment) Regulations 2005 references to liquidity and ‘investments admitted to trading on regulated markets’.

**Question 20: How do trustees balance investment returns, costs and charges, and services when making decisions in the long-term interests of savers?**

USS is a long-term, responsible investor with a legal duty to invest in the best financial interests of our members and beneficiaries, while considering the views of our participating employers, so we can pay pensions long into the future; our trustee directors make investment decisions on that basis. We aim to develop and implement an investment strategy that should be resilient over the long term. Balancing the risks, costs and opportunities of the trustee's investment approach in the DB and DC sections is necessarily complex; we would be happy to discuss specific areas of interest with Government (including in relation to our significant private markets allocation in our DC default fund).

**Question 21: Do trustees' fiduciary duties discourage investment in alternative asset classes? If so, please explain with examples.**

No<sup>3</sup>.

**Question 22: Is the way in which trustees exercise their fiduciary duties preventing trustees from seeking the best returns for pension savers? If so, what is causing this?**

We believe that our current investment approach, and investment outcomes, demonstrate that USS is able to invest in alternative asset classes as part of a diversified investment portfolio to help manage risk and generate returns for scheme and members within the existing trustee legal duties.

**Question 23: Do those actors who have most influence on advice to trustees on long-term investment decisions experience any challenges or barriers in provision of their advice on illiquid assets? If so, what would unblock this?**

Given our size, complexity and resources (including an in-house FCA regulated investment manager/advisor and relevant external advice) we believe our trustee board receives appropriate advice, including on illiquid assets.

**Question 24: Would trustees find it helpful if they received more direction from regulators when assessing their investment decision making? In addition to our work on Value for Money we are also interested in whether the advice for trustees provided by regulators via training and guidance supports our objective to shift the focus from cost to value?**

We would caution against more direction from regulators in investment decision making (and would note the potential regulatory implication of the use of 'advice' rather than 'support' in this question); given the concerns noted above in relation to the draft DB Funding Code we would welcome greater alignment in Government and regulatory direction on scheme funding and asset allocation<sup>4</sup>.

**Question 25: Do lay trustees have enough time and support to perform their duties effectively? Do professional trustees? If not, what changes would support this?**

Our trustee directors have enough time and support to perform their duties effectively. We benefit from employers who are supportive of the involvement of their staff in the governance of USS, not just around our trustee directors but also other parts of our governance structure such as the

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<sup>3</sup> Although again we acknowledge others may reference the OPS regulations.

<sup>4</sup> We would again reference the OPS regulations



Advisory Committee and Joint Negotiating Committee. We are clear on the time commitment involved when advertising roles.