

Responsible Investment

Approach

Activities

Climate change

Corporate governance

Shareholder rights

Voting

Activities

For USS, investing responsibly means basing our decisions on the best possible information about risks and opportunities in our markets; it means active ownership of assets in which we have invested in order to protect their long-term value; and it means working with the policy makers and influencers who shape our investment environment.

The activities we undertake as part of our responsible investment strategy fall into three core areas:

- 1. Integration: we seek to include material environmental, ethical, social and corporate governance (ESG) considerations within the investment decision making processes for all asset classes, where there is a financial bearing.**

We believe that by analysing ESG factors as part of our investment decision making process we can identify mis-priced assets and make better investment decisions to protect and enhance the fund's long-term performance.

We seek to integrate material environmental, ethical, social and corporate governance (ESG) factors into decisions at every stage of the investment process, particularly through due diligence prior to investment and the on-going monitoring and mitigation of ESG risks within the portfolio.

Our data sources include financial analysts, specialist ESG research providers, specially commissioned bespoke analysis, and information from responsible investment and peer networks. As the materiality of ESG factors may differ between assets and asset classes - factors relevant to private equity might be irrelevant to infrastructure investments, for example - specific processes and systems are in place for each asset class.

The integration of ESG factors into our different asset classes

Equities

- It is widely accepted that material environmental, ethical, social and corporate governance (ESG) factors can have a financial bearing on company performance, but calculating this impact is notoriously difficult. The in-house responsible investment team has strengthened USS's capacity in this area by working closely with portfolio managers to analyse ESG value drivers alongside traditional value drivers.
- We have worked with service providers to develop a bespoke system of integrating key ESG data, voting and engagement records onto the terminals used by our listed equity portfolio managers to execute investments.
- [UK Voting Policy](#)
- [UK Stewardship Code Statement](#)
- [Global Stewardship Principles](#)
- [Remuneration Principles](#)

Fixed Income

The in-house responsible investment team produces an annual ranking of countries in terms of key material environmental, ethical social and corporate governance (ESG) risks, for use in the Fixed Income investment process and the sovereign debt selection process for emerging markets. Scores from global indices are combined annually to provide a composite country score. The indices are chosen based on their credibility and accessibility, and the range of social and environmental criteria that they combine. The resources used include:

- [Corruption Perceptions Index, Transparency International](#)
- [Human Development Index, UN Development Programme](#)
- [Environmental Performance Index, Yale & Colombia Universities](#)
- [Index of Economic Freedom, Wall Street Journal and Heritage Foundation](#)

Hedge Funds

- USS has taken a leading role globally in integrating responsible investment issues into the hedge fund investment process. In 2010 we articulated our Governance Expectations for Hedge Funds in a publicly available document. We have focused on the inclusion of governance assessments for the selection and monitoring of our hedge fund managers, for example appointing independent director candidates to oversee our 'fund of one' funds.
- We have also led international investor delegations to meet with the Cayman Islands Monetary Authority (CIMA) to encourage enhanced governance in the industry.
- USS Investment Management was recognised in 2014 for its outstanding contribution to the industry as an institutional investor by the trade publication Hedge Funds Review.

Real Estate & Property

- Our in-house team has developed tools to evaluate environmental performance at our directly held properties. We set targets for reducing energy use, water consumption and waste production and monitor performance against these targets.
- The trustee, through the responsible property investment committee has articulated the integration of material environmental, ethical, social and corporate governance (ESG) factors where these have a financial bearing into the investment process and responsible property investment considerations are included in tender processes.
- For further information on our responsible property investment policy and the remit of the responsible property investment committee please see [here](#).
- USS helped to establish the [Global Real Estate Sustainability Index](#). GRESB collects data on the sustainability performance of property companies and funds, including information on energy, greenhouse gas emissions, water and waste. We use GRESB surveys to highlight priority issues within the investments we hold and engage with portfolio managers on specific assets.

Private Equity

- USS has taken a leading role globally in integrating responsible investment issues into the private equity investment process.
- Responsible investment issues are considered as part of our [Enhanced Due Diligence Process](#) for all private market investments.
- Prior to any new investments in private equity funds or co-investments, USS Investment Management reviews the General Partner's (GP) approach to responsible investment. All new GPs and fund teams are asked to complete a questionnaire regarding their approach to environmental, social and governance (ESG) matters, due diligence, disclosure on responsible investment and participation in industry initiatives relating to private equity and ESG. The in-house team continues to monitor these behaviours throughout the relationship with the GP.
- USS's approach to the integration of ESG in private equity due diligence was highlighted in the [British Private Equity & Venture Capital Association Guide to Responsible Investment, 2012](#).

Improving the quality of ESG data

We have used our influence as a large asset owner with an in-house investment team to enhance the quality of ESG data available within global investment markets. We were one of the founder signatories to the [CDP](#) (formerly known as the Carbon Disclosure Project), [Institutional Investors Group on Climate Change \(IIGCC\)](#) and the [UN Principles for Responsible Investment \(PRI\)](#). These initiatives have helped demonstrate market demand for ESG data to support the implementation of responsible investment strategies across asset classes. The PRI provide an international framework for the integration of ESG factors into investment decision-making processes across many asset classes. The latest PRI report can be [found here](#).

2. **Engagement, voting and stewardship: using our influence as a major institutional investor to promote good material environmental, ethical, social and corporate governance (ESG) practice in our assets and markets.** We engage with companies and other assets when it is in the interests of the long-term value of our investments. This may be because an asset is underperforming, is failing to meet best practice ESG standards, or risks impairing its reputation.

We have long practised the principles reflected in the [UK Stewardship Code](#) of which we were a founder signatory in 2010. In 2015, we also published the [USS Stewardship Principles](#).

We regularly attend analyst briefings and meet with company executives and non-executive directors on a range of subjects. The topics on which we engage are broad

but frequently include corporate governance issues such as succession planning, board composition and oversight and executive compensation, as well as climate related risks, environmental management, labour relations and human rights issues. Engagement relating specifically to ESG matters tends to be conducted by the dedicated responsible investment team.

We will engage collaboratively, take part in joint initiatives, or engage via a consultancy relationship when it is more effective to do so. For example, in Japan, where culture and language can be barriers to engagement, we participate in the Japan Engagement Consortium, a partnership of institutional shareholders which engages with companies to improve long term shareholder returns.

We also engage with external fund managers across all asset classes to review their approaches to responsible investment.

For more information on our voting policy and how we engage with publicly listed companies please refer to our [Voting page](#).

3. Engaging with policy makers and regulators of markets in which the fund invests to ensure that the concerns of asset owners and long-term investors are taken into consideration. We seek to influence and address thematic, sector and market related issues that could impact the performance of the fund.

Three important market-wide issues on which we engage are [climate change](#), [corporate governance](#) and [shareholder rights](#).



Last updated: about 3 years ago