

USS's approach to Responsible Investment

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As a pension fund representing almost 400,000 members with over £60 billion in assets, the USS trustee's primary aim is to provide a secure pension for members in their retirement. To this end, we are bound by a legal duty to act in the best financial interests of the scheme.

Considerations of best financial interests are fundamental to how USS Investment Management invests the scheme's assets in order to fund members' pensions – but careful consideration should span all factors influencing financial returns and risks.

For the defined benefit section of the scheme, USS protects our members' pensions by acting as engaged stewards of the investments we make on their behalf. We believe that the way a company is governed, and how it manages environmental and social factors such as environmental performance or health and safety, will impact the likely long-term returns that the company will make.

As a long-term investor, USS Investment Management's interests in a company can last for many years. As such, it has both the opportunity and duty to protect its investment in an organisation by actively engaging in the ways it goes about its business.



Being an engaged shareholder and having a "seat at the table" is one of the most effective approaches to influencing beneficial change at a company level.

With this in mind, USS Investment Management developed its initial Responsible Investment (RI) policy and strategy in 1999 through a process of identifying good practice and then reviewing the fund's activities against that standard. It now has a team of six specialists – the largest dedicated RI team for a UK pension fund – who work with internal fund managers to ensure environmental, social and governance (ESG) issues are taken into account based on a three-pronged strategy:

- When they are material, we will aim to integrate ESG issues into investment decisions;
- We will act as stewards, actively engaging with companies and other asset investors to encourage improved management of ESG issues;
- We will also engage with policymakers to encourage them to put in place appropriate frameworks to address ESG issues across the whole market and raise market standards.



David Russell

**Head of Responsible
Investment
USS Investment
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Recent announcements

- > USS backs Climate Action 100+
- > USS backs ShareAction's Workforce Disclosure Initiative
- > USS one of thirteen pension funds to co-found the Transition Pathway Initiative (TPI)

Related information

- > [View previous blogs here](#)

As with most UK trust-based pension funds with a defined benefit section of the scheme, USS is not legally in a position to screen out or divest from companies on ethical or moral grounds alone. Indeed, UK trust law indicates that these issues can only be taken into account in investment decisions once their financial impact on the company has been assessed. That said, USS Investment Management does not disregard these issues but we address them, when material, through engagement rather than divestment. Divestment means that you don't have that "seat at the table", and can no longer act as an active and engaged owner who is working to improve standards and pushing companies for positive change, for sustained improvement.

Climate change is an issue with long term implications for the fund, as its impacts could influence the fund's ability to pay the pensions promised. Recognising its implications, in 2001 USS Investment Management established the Institutional Investor Group on Climate Change (IIGCC) to coordinate investor action in Europe. This includes support in direct engagement with companies and policy makers to encourage them to take appropriate steps in the shift to a low carbon economy. It now has more than 130 members and, among other actions, has sent open letters to G7 finance ministers and others urging support for long-term emissions reduction goals.

In its engagements with companies, USS Investment Management's RI team will often work directly with our portfolio managers to identify risks and then meet with company management and board directors. Research and engagement has focused on issues such as governance and risk reporting, succession planning and incentive arrangements for senior management. We are better placed than many investors to integrate the expertise of the RI team into the investment process. We believe this to be the most effective way of achieving objectives, rather than treating RI as a box ticking exercise at the end of the investment process.

RI activities are not limited to public equities. Attention is also paid to how these issues are addressed in other asset classes. It is particularly important in illiquid investments where divestment is a less ready option. As a result, RI forms part of the due diligence processes associated with private markets investments such as infrastructure, or where USS Investment Management invests directly or via funds in private equity. For our property investments, performance data have been collected and targets set for reductions in resource and energy use and waste for many years.

RI is a core aspect of how USS Investment Management, on behalf of the trustee, invests to provide pensions for the scheme's members and their beneficiaries. It is an essential feature of how USS can secure the returns needed while influencing companies to behave in a way that takes account of the environmental and social impacts of their activities.

At USS, we take the views of our members seriously and, where the law allows, we take action. We launched the USS Investment Builder last year which has been designed around the needs of our members, based on extensive research and surveys undertaken with our membership. The two ethical investment options reflect what members said to us about their ethical preferences. One year in, we've seen a difference between the strength of members' views on this issue and the relatively low translation into take-up of these two market-leading options. We encourage all of our members to find out more about the ethical options available in the USS Investment Builder so they are fully aware of the choices available to them.

Further information

USS has worked with a number of European pension funds to publish a document outlining the group's views on the methodological challenges facing the process and what can be done

to address them. This document, *If carbon footprinting is the answer, then what is the question? A group of asset owners reflect on current practice in carbon reporting*, can be found [here](#).

