

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Governance Report

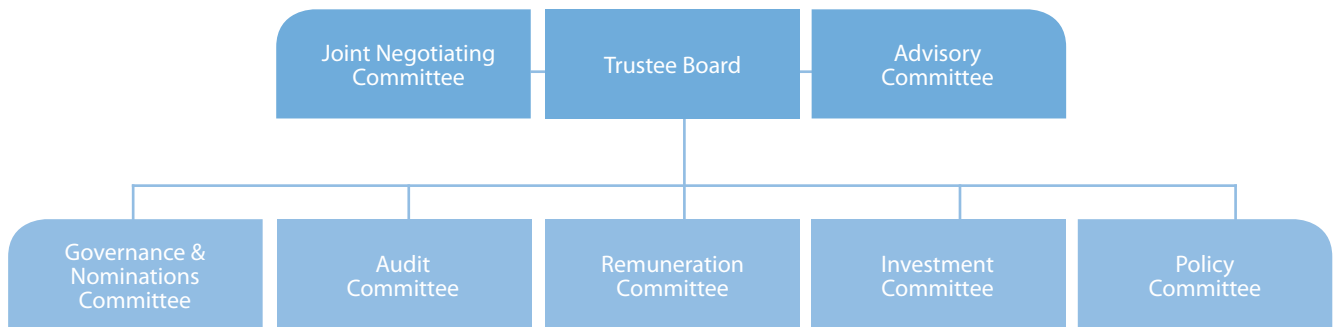
for the year ended 31 March 2017

Company registration number: 01167127

Governance

Overview

The governance structure of USS is sustained by a strong non-executive trustee board which ensures that USS is run efficiently and effectively. As shown in the diagram below, the trustee board is supported in its role by a number of committees.



Further information on the role, activities and membership of the board's committees is provided on the USS website.

This booklet provides information on the following:

- Trustee board composition;
- The role of the trustee board and executive;
- Induction, training and effectiveness; and
- The role, membership and activities of the board's principal committees.

Trustee board composition

The trustee board consists of between 10 and 12 non-executive members comprising:

- Four directors appointed by Universities UK;
- Three directors appointed by the University and College Union (UCU) at least one of whom must be a pensioner member; and
- Between three and five independent directors.

This composition promotes an effective and balanced trustee board with sufficient knowledge and experience of the Higher Education sector, scheme member viewpoints as well as independent opinion and specialised skills.

Universities UK and UCU each have the authority under the articles of association to remove their appointed directors from office.

An independent director may only be removed prior to the expiration of that director's term of office by resolution of the trustee company in a general meeting with the prior approval of the joint negotiating committee.

Role of the trustee board and executive

The trustee board is responsible for the effective governance and oversight of the scheme to ensure that the promised benefits are paid to all beneficiaries in accordance with the scheme rules, and in accordance with governing legislation and regulatory guidance. In order to do this, the trustee board must ensure that:

- USS is adequately funded;
- Its investment strategy is appropriate for the scheme's liabilities, having regard to the support available from the scheme's sponsoring employers;
- It provides effective trusteeship in accordance with applicable law and regulation, ensuring that it has the necessary skills and takes specialist advice where appropriate;
- Its scheme management, administration and investment services are delivered at a level with which the members and participating employers are content, reflecting optimum value for money.

The trustee board has established several committees and delegated authority to them on certain matters as detailed in their terms of reference.

USS's governance framework is designed to promote:

- Effectiveness;
- Accountability; and
- Efficiency.

The trustee board is responsible for strategic decision-making and is focused on providing frameworks and establishing principles to support executive management and overseeing delivery of it.

The trustee board appoints a Group Chief Executive Officer to implement the board's strategy and deliver its business plan through the day-to-day management of the scheme and trustee company. The Group Chief Executive Officer has established an executive committee to support him in the delivery of the executive management functions.

The executive is responsible for:

- Advising the trustee board on the company's strategy and producing annual business plans for the trustee board's approval;
- Delivering an effective operating model for USS;
- Driving performance against agreed plans and objectives;
- Ensuring internal control and risk management frameworks are effective; and
- Providing assurance to the trustee board in respect of each delegated matter.

Induction, training and effectiveness

All new directors undertake a formal induction programme upon joining the trustee board. The objectives of the induction programme are to ensure a full understanding of:

- The nature of the company, its business and the markets in which it operates;
- The roles and responsibilities of a trustee and non-executive director;
- The USS governance framework;
- The roles and responsibilities of key senior employees; and
- Key external relationships.

It includes:

- One-on-one meetings with the Chair, Group Chief Executive Officer, Company Secretary, members of the executive team and key staff;
- Provision of relevant corporate documentation including the most recent report and accounts;
- Strategic and business plans, governance framework, and trust deed and rules;
- Completion of the Pensions Regulator's trustee toolkit; and
- Delivery of a tailored training programme based on the outcome of a skills audit exercise.

During the year, the board completed its programme of activities to review its governance framework (which had commenced in the previous financial year). This project led to the implementation of a new corporate governance framework policy and updated terms of reference for each of the board's committees. The framework was implemented prior to the launch of defined contribution benefits to the scheme, meaning that the board was well set-up to complete the final stages of this project and with the governance in place to oversee the operation of these new scheme benefits on an ongoing basis.

The board is undertaking a review of its effectiveness in 2017.

Governance & nominations committee report

Introduction

The committee was established by the trustee board to:

- Provide assurance on relevant matters relating to USS's corporate governance capability; and
- Ensure the effective operation of governance arrangements and oversee trustee board and committee performance.

It comprises five members, four of whom are also serving non-executive directors of the trustee board and Mr Bill Galvin, Group Chief Executive Officer. Ms Kirsten English, an independent director, has chaired the committee since 1 April 2016.

Role & effectiveness

The committee continues to monitor membership of, and succession planning for, the trustee board and its principal committees to ensure:

- Ongoing effectiveness;
- The efficient operation of USS's corporate governance framework; and
- That there is an appropriate balance of skills and experience.

The trustee board values the assurance provided by the committee through its role in ensuring that USS's governance arrangements continue to deliver a framework that is effective, efficient and demonstrates appropriate accountability.

Key activity in 2016/17

During the year, the committee has overseen several changes to the trustee board and committee membership. It has also overseen the work carried out by the executive to establish an enhanced induction and training programme for new and existing directors and committee members. A key output has been the development of a skills matrix that will be used to refine the overarching director training programme and inform individual bespoke director training plans.

A significant amount of the committee's work centred on the review of USS's governance framework that was completed during the year. The purpose of this governance review was to:

- Provide a clear understanding of the existing governance arrangements;
- Eradicate areas of overlap, leading to clearer accountability and better decision-making;
- Clarify respective roles and responsibilities in respect of key areas of non-executive oversight; and
- Provide a solid foundation for any future work on the governance framework.

Key achievements included:

- Enhanced codification of levels of delegation across the governance framework; and
- The introduction of revised terms of reference for each of the committees.

Significant efforts have also been made to improve the quality and focus of information flowing from the executive to the trustee board and its principal committees to ensure that the directors are presented with reporting that enables them to provide appropriate challenge, and to make considered and informed decisions.

Membership - Appointed by the trustee board

Ms Kirsten English (chair since 1 April 2016), Professor Sir David Eastwood, Dr Angela Roger (until 31 August 2016), Mr Ian Maybury, Mr Bill Trythall (from 1 September 2016), Dr Steve Wharton (from 1 July 2017) and Mr Bill Galvin.

Audit committee report

Introduction

The committee was established by the trustee board to provide it with assurance:

- On all matters relating to the adequacy and effectiveness of USS's risk management and internal control framework;
- That financial and business reporting arrangements are appropriate; and
- On the effectiveness of the internal and external audit functions.

The committee comprises six members, four of whom are also serving non-executive directors of the trustee board. Mr Michael Merton, an independent director, has chaired the committee since February 2014.

Role & effectiveness

The committee continues to play a key role in ensuring that there is appropriate challenge around the USS group's risk management and internal control frameworks and providing assurance to the trustee board on the robustness of these systems. In addition to receiving reports at each meeting from the Group Chief Executive Officer, Chief Risk Officer and Head of Internal Audit, it also has regular 'in camera' sessions with the Head of Internal Audit and USS's external auditor.

The committee actively monitors the internal controls in place at USS and challenges their effectiveness. Where actions are identified to strengthen the control environment, the committee oversees their completion and impact.

The committee approves the external audit plan annually and oversees the process around drafting USS's report and accounts before submission to the trustee board for approval. It provides assurance to the trustee board that the financial statements and accompanying information in the trustee's annual report are true and fair and have been prepared properly in accordance with the applicable accounting framework.

Other activity in 2016/17

During the year, the committee monitored the formation of an audit, risk and compliance committee to oversee the control and assurance framework of the group's in-house investment management business. This newly formed committee has enhanced the assurance provided to the audit committee on the activities and controls of the investment business.

The audit committee oversaw enhancements to the group's IT controls framework and the implementation of an improved tool for monitoring regulatory change with the potential to impact the group. The committee has also had oversight of projects to review key finance processes and the ongoing management of the special purpose vehicles utilised by the group.

The committee also continued its role in monitoring the assurance framework established in respect of the 2016 scheme change deliverables.

Membership - Appointed by the trustee board

Mr Michael Merton (Chair), Mr Gordon Coull, Ms Kirsten English, Mr Ian Maybury (from 1 April 2016), Mr Tony Owens (from 1 April 2016) and Professor Jane Hutton (from 1 April 2016).

Remuneration committee report

Introduction

The committee was established by the trustee board to ensure that remuneration arrangements for USS promote the recruitment, motivation and retention of quality employees to support the delivery of the business and long-term strategic objectives of the group. The committee is also responsible for reviewing and making recommendations to the trustee board on director remuneration within an overall cap set by the joint negotiating committee. The committee comprises five members, each of whom are also serving non-executive directors of the trustee board. Mr Rene Poisson, an independent director, has chaired the committee since April 2014.

Role & effectiveness

The committee continues to provide thorough review and robust challenge to executive remuneration proposals for staff, in order to provide assurance to the trustee board that compensation complies with agreed remuneration principles.

The committee reviews total remuneration costs, including aggregate bonus awards and long-term incentive plans, to satisfy itself that they are aligned to industry trends and appropriate to balance stakeholder and member interests between:

- Low costs
- A long-term stable organisation; and
- An incentive structure to drive behaviours and performance aligned with stakeholder and member needs.

The committee challenges the executive to demonstrate a clear and robust link between reward and performance, seeking assurance that a rigorous process of performance appraisal is in place, with appropriate controls to manage behaviour and manager discretion.

As part of the wider governance review carried out during 2016/17, the committee engaged with the executive to clarify the committee's roles and responsibilities within the wider USS governance framework. The output of the review has helped to shape the structure and timing of the committee's core activities. Consequent on the agreed staging of engagement with the executive, the committee was afforded greater foresight of, and increased opportunity to review, the final compensation arrangements for 2016/17.

Other activity in 2016/17

The committee oversaw changes to director and committee fees, to ensure they appropriately reflected the increased workload and time commitment required of the individuals involved in the governance of USS.

Membership - Appointed by the trustee board

Mr Rene Poisson (Chair), Professor Dame Glynis Breakwell, Dr Angela Roger (until 31 August 2016), Mr Michael Merton, Mr Bill Trythall (from 1 September 2016) and Professor Stuart Palmer (from 1 September 2016).

Investment committee report

Introduction

The committee was established under article 49 of the Articles of Association of USS and rule 63 of the scheme rules by the trustee board to advise the trustee company on all strategic matters relating to, and to provide oversight of, the investment of the scheme's assets. The committee has seven members and comprises non-executive directors and special members who have investment experience. It is chaired by Dr Kevin Carter, an independent non-executive director.

Role & effectiveness

The committee continues to provide oversight of the performance of USS's investment strategy and the delivery of services under the investment management and advisory agreement with USS Investment Management Limited. At each committee meeting, investment performance and risk reports are reviewed and challenged by the committee in order to provide assurance to the trustee board that the management of scheme assets is in line with the agreed strategy and targets.

Revisions to key documents including the Statement of Investment Principles are reviewed in detail by the committee, on behalf of the trustee board.

A key part of the committee's work during the year was to agree and oversee the design and implementation of the investment fund range and default investment strategy for the defined contribution section of the scheme, launched in October 2016. The appropriate investment mapping of members' external AVC funds as part of the AVC transition was also part of this work.

Alongside the work on defined contribution investments, the committee has continued to focus on the investment strategy of the defined benefit section, including the strategic benchmark represented by the reference portfolio and the limits on investment risk and illiquid assets applicable to the manager's implemented portfolio. This aims to ensure that the portfolio is best structured to meet the investment targets set, with appropriate diversification and risk controls.

Other activity in 2016/17

The committee has continued its regular programme of activities to oversee the performance and procedures of its investment manager, USS Investment Management Limited, including review of and compliance with relevant policies that the trustee wishes its investment manager to follow (for instance Responsible Investment). The committee began preparations for the triennial scheme valuation (as at 31 March 2017), and in particular has considered the allocation assumptions to be used in the valuation and the best method to derive expected investment returns.

The committee undertook a review of its effectiveness at the end of the year and is in the process of implementing enhancements to the way it conducts its business as a result of this review.

Membership - Appointed by the trustee board

Dr Kevin Carter (Chair), Professor Sir David Eastwood, Professor Sir Anton Muscatelli, Mrs Virginia Holmes, Mr Ian Maybury, Ms Sarah Bates, Dr Angela Roger (until 31 August 2016), Mr Mark Fawcett.

Policy committee report

Introduction

The committee was established to:

- Provide oversight of policy related issues;
- Oversee the scheme rule amendment process; and
- Provide support to the trustee board in relation to administration of the scheme and implementation of those rules that relate to policy issues.

The committee comprises four members, each of whom are also serving non-executive directors of the trustee board. Professor Dame Glynis Breakwell, a Universities UK nominated director, has chaired the committee since 1 April 2015.

Role & effectiveness

The committee continues to undertake, on behalf of the trustee board, detailed review of proposals for changes to the scheme rules.

The committee also monitors at each meeting those policy and regulatory developments that may impact on USS's operating environment and potentially the scheme.

Other activity in 2016/17

The committee has had another busy year. The committee played an important role in the run up to the launch of the defined contribution section and considered a number of specific implementation issues. This included the committee reviewing and approving the framework for dealing with errors and omissions in relation to contributions made to the defined contribution section, considering refinements to the plans to transition certain money purchase AVCs (MPAVCs) to the defined contribution section and the increase to the voluntary salary cap.

Since launch of the defined contribution section, the committee has continued to make a significant contribution to this section by continuing to consider the needs of members in relation to this section and the possible introduction, over future years, of increased flexibilities (and product developments) for members.

The committee also considered issues relating to the employer participation framework and concluded given the complex issues, sensitivity and importance of this topic that the executive should continue to develop its thinking in this area, pending the committee considering it further in 2018 following the conclusion of the current valuation. During the year the committee also considered a number of employer debt cases.

In addition, the committee (in conjunction with its rules sub-group) has continued to provide detailed review and scrutiny of proposed amendments to the scheme rules. This has included the rule changes necessary to effect the transition of MPAVCs (third deed of amendment), expand scheme pays and deal with glitches (fourth deed of amendment) and a detailed consideration of the rules relating to incapacity retirement.

Membership - Appointed by the trustee board

Professor Dame Glynis Breakwell (Chair), Dr Kevin Carter, Mr Rene Poisson and Mr Bill Trythall.

Joint negotiating committee report

Introduction

The joint negotiating committee is established under the rules of the scheme. Its constitution, powers and responsibilities are set out in the rules.

The committee's purpose is to initiate, consider and/or approve amendments proposed by the trustee to the scheme rules. If, following a valuation, the cost sharing provisions under the rules are triggered the committee also has the power to decide on contribution increases or decreases and/or benefit changes in respect of the scheme. There are also a number of specific governance decisions that require the committee's approval (including the appointment or removal of independent directors to the trustee board and increases in fees for directors and certain other committee members, such as those sitting on the advisory and investment committees).

The committee comprises five representatives of Universities UK and five representatives of UCU, together with an independent committee member who acts as Chair. Sir Andrew Cubie has chaired the committee since 1 September 2008.

The committee met four times during the year. Its funding and benefits sub-committee met eight times. During the year an in-depth training session was held for the members of both committees in relation to the valuation. The committee members also received detailed induction training as part of a recognised desire to enhance the training provided to members of the committees. It is intended that similar induction training will be provided to all future appointees to the committees.

Key activities in 2016/17

The committee has considered a range of issues during the year. These have included a number of rule amendments and the committee has approved three deeds of amendment to the scheme rules during this period. These rule amendments included those necessary to give effect to the transfer of members' money purchase AVC funds from Prudential to USS Investment Builder.

In anticipation of the 2017 scheme valuation, the committee has devoted a substantial amount of time to discussing the valuation and stakeholder engagement in the valuation process. The committee has received regular monitoring reports in relation to the funding status of the scheme. It has also been actively engaged in discussions in relation to the valuation timetable and USS's plans to communicate and consult with the sector. The committee has provided valuable insight into stakeholder views on this important topic.

Following a review of fees paid to non-executive directors and certain other individuals, the committee reviewed and ultimately approved a revised fee structure for non-executive directors, the Chair of the committee and the members of the advisory and investment committees.

Whilst the scheme change programme was continuing the committee received regular updates on the implementation and communication plans in relation to the programme and the committee provided an employer and employee perspective on the programme. The committee has also received regular reports on the regulatory changes that may affect the scheme and has received updates in relation to the improvements being made to accessibility of the scheme's communications, particularly in relation to www.uss.co.uk.

The valuation has been the primary focus for the funding and benefits sub-committee during the year. It has considered and provided valuable input on a range of other issues, including the evolution of USS Investment Builder.

Membership

Independent committee member: Sir Andrew Cubie (Chair).

Universities UK appointees: Mr Cliff Vidgeon, Ms Mary Lambe, Mr Phil Harding, Mr John Neilson, and Mr Will Spinks.

UCU appointees: Professor Jimmy Donaghey, Dr Marion Hersh, Ms Pauline Collins, Ms Christine Haswell (appointed during the year), Dr Carlo Morelli (appointed during the year), Ms Geraldine Egan (retired during the year), Mr Roger Brooks (retired during the year).

Advisory committee report

Introduction

The advisory committee is established under the scheme rules. It exercises the dispute resolution function on behalf of USS under s50 of the Pensions Act 1995. Its role also extends to advising the trustee company on matters on which it requires advice, including those relating to:

- The exercise by the trustee company of its powers and discretions (other than those relating to investment matters);
- Difficulties in the implementation or application of the scheme rules; and
- Complaints received from members or participating employers.

The committee met five times during the year. A separate half day training session was also held for committee members.

Role & activity in 2016/17

During the year, 15 complaints were received under stage two of the internal dispute resolution (IDR) procedure. In that period, the advisory committee considered 14 complaints under the IDR procedure, of which 12 had been received during the scheme year and two had been received during the previous reporting year. Of the complaints considered, one was upheld in full, three were partially upheld and the remainder were rejected in full. The cases covered a broad range of topics including incapacity retirement applications, cash equivalent transfer values, legal costs and the validity of the changes to added years AVC contracts as part of scheme changes.

The committee also exercised its oversight role in relation to full commutation cases. Of the 20 full commutation applications received during the year one was rejected.

The advisory committee also oversees USS's pension ombudsman cases and received regular updates on the progress and outcome of such cases during the year.

The advisory committee also suggested that certain amendments to the scheme rules be considered during the year.

Membership

UCU appointees: Ms Pauline Collins (Chair), Professor Denis Leech, Ms Amanda Williams

Universities UK appointees: Mr Cliff Vidgeon, Dr Tony Bruce, Mr Denis Linfoot

Professor Dame Glynis Breakwell and Professor Jane Hutton (who replaced Dr Angela Roger with effect from the September meeting of the committee) act as the Universities UK and UCU director respectively when the committee considers cases raised under the IDR procedure.



USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

The registered number of the trustee company
(Universities Superannuation Scheme Ltd) at Companies
House is 01167127

The reference number of the scheme
(Universities Superannuation Scheme) at the Pensions
Regulator is 10020100