



USS

# Governance Report

for the year ended 31 March 2018

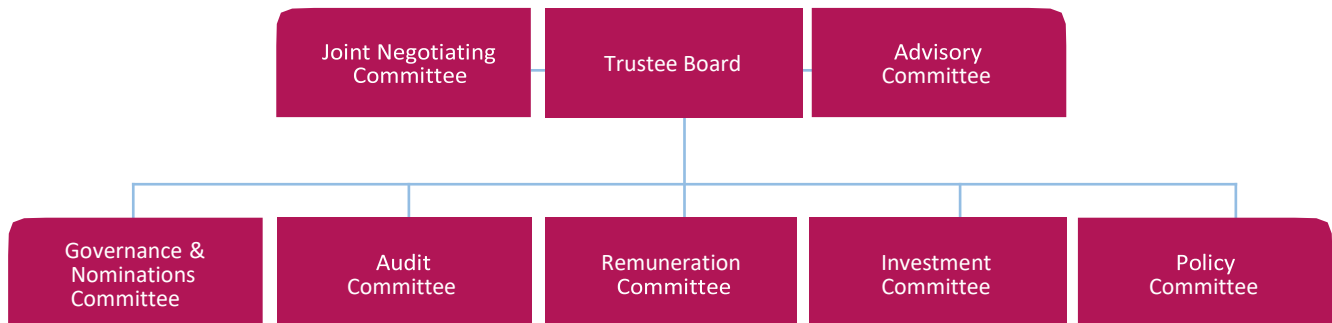


Universities Superannuation Scheme

# Governance

## Overview

The governance structure of USS is founded upon the trustee company's non-executive board which is responsible for ensuring 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; 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. Currently, there are 12 non-executive directors. The board will comprise of:

- 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.

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 members 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;
- the investment strategy adopted by the trustee company 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;
- scheme management, administration and investment services are delivered appropriately, and at a cost which represents 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. The terms of reference of the committees are described in the Corporate Governance Framework Policy available on the USS website.

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.

# 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 design and operation of USS's governance arrangements.

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 for strategic and operational considerations and decision making that is effective, efficient and demonstrates appropriate accountability.

## Key activity in 2017/18

During the year, the committee has liaised with the scheme's stakeholders to facilitate the process by which directors of the board have been appointed and/or re-appointed by UUK and UCU, as well as overseeing the process for the appointment and re-appointment of independent directors by the board. The committee has also overseen changes to the membership of the trustee board's committees during the year and initiated work from the executive to review the code of conduct of the USSSL board to ensure it reflects good corporate governance practice and applicable laws.

A significant amount of the committee's work has, and continues to be, centred on reviewing the trustee's governance arrangements and procedures to ensure that they continue to remain fit for purpose and in accordance with legislation (particularly those regulations for DC schemes which the scheme became subject to following the launch of the DC section of the scheme on 1 October 2016). This work has included consideration of and preparations for the upcoming Master Trust legislation.

During the year, the committee reviewed and made minor enhancements to its terms of reference.

## Membership - Appointed by the trustee board

Ms Kirsten English (chair), Professor Sir David Eastwood, Mr Ian Maybury, Mr Bill Trythall (until 30 September 2017), 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 serving non-executive directors of the trustee board, one of whom is a non-executive director of USS Investment Management Limited; and one of whom is an independent member with relevant financial experience. 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 of 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 Group Compliance, it also receives reports from the Head of Internal Audit and USS's external auditor. Discussions with the Head of Internal Audit and USS's external auditor are held 'in camera' as required. The committee also receives 'deep-dive' reports from various teams in USS focusing on the risk and control measures in place in such teams.

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 also 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 2017/18

During the year the committee undertook a tender exercise to review and consider the appointment of a new auditor. As a result of this exercise, the committee recommended to the trustee board that Ernst & Young replaced Grant Thornton as external auditor for USS and its companies.

The committee also oversaw (i) an independent assessment of the robustness of the trustee's 2017 valuation process and (ii) the executive's preparations for compliance with a number of new legislative requirements (including the General Data Protection Regulations and MiFID II).

## Membership - Appointed by the trustee board

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

# 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 four 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:

- Cost effectiveness
- 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.

## Key activity in 2017/18

In the year, the committee has reviewed and made recommendations on staff compensation and benefits for employees, on the bonus scheme and on long-term incentive plans.

The committee reviewed its terms of reference and has engaged with the executive to clarify the committee's roles and responsibilities within the wider USS governance framework.

During the year, the committee has also carried out an effectiveness review to evaluate performance and governance arrangements.

## Membership - Appointed by the trustee board

Mr Rene Poisson (Chair), Professor Dame Glynis Breakwell, Mr Michael Merton, Mr Bill Trythall (until 30 September 2017) and Professor Stuart Palmer.

# 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 appointed for their 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 ('IMAA') with USS Investment Management Limited ('USSIM'). At each committee meeting, investment performance and risk reports are reviewed and challenged by the committee, in addition to regular investment manager presentations, in order to provide assurance to the trustee board that the management of scheme assets is in line with the agreed strategy and targets.

On behalf of the trustee board, the committee undertakes regular reviews of key investment documents including the Statement of Investment Principles and the IMAA and accompanying investment instructions to USS Investment Management Limited.

## Other activity in 2017/18

A key part of the committee's work during the year was to consider and recommend the investment-related inputs to the triennial valuation (such as investment return and allocation assumptions), based on investment advice from USS Investment Management Limited and support from an independent investment consultant, Mercer. Later in the year, the committee began to use the preliminary results of the triennial valuation to consider the impact on the trustee's longer-term investment strategy for the scheme's defined benefit assets. These discussions will continue as the valuation is finalised.

Alongside this work, the committee has continued its regular activities of reviewing the current 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.

With the defined contribution ('DC') scheme having launched part-way through the previous year (October 2016), the investment committee has overseen the first full year of investment performance and management of these funds. In conjunction with work performed by the policy committee around member requirements, the committee undertook a review of the fund range based on these requirements and market developments to consider potential future product developments that would best serve DC scheme participants.

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).

## 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, 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 a minimum of 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 those policy and regulatory developments that may impact on USS's operating environment and potentially the scheme.

## Other activity in 2017/18

The committee has had another busy year and considered a wide range of topics. These have included the committee helping the trustee develop its thinking in relation to the enhanced member facing flexibilities and services that the trustee should provide (or facilitate the provision of) in future. This has included the consideration by the committee of plans to permit members to take uncrystallised fund pension lump sums (UFPLS) from age 55 as well as initial consideration of some of the guidance and advice plus other new flexibilities that members may want to access as their DC benefits grow. During the year the committee also reviewed the continuing suitability of the DC member requirements.

A key part of the committee's role relates to member engagement and communication and the committee has overseen the member communications strategy during the year as well as providing focused input in relation to the annual member statement process. The committee has also provided very helpful comment on the development of the scheme's brand.

The committee has also considered issues relating to the employer participation framework as well as a number of specific employer debt/participation cases during the year.

In addition, the committee has continued to provide review and scrutiny of proposed amendments to the scheme rules. This has included the committee considering the rule changes necessary to effect certain amendments to the rules in relation to flexible retirement (embodied in the fifth deed of amendment).

## Membership - Appointed by the trustee board

Professor Dame Glynis Breakwell (Chair), Dr Kevin Carter, Mr Rene Poisson and Professor Stuart Palmer (appointed during the year).

Mr Bill Trythall, retired during the year.



# Joint negotiating committee report

## Introduction

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

The JNC'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 JNC 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 JNC'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 JNC comprises five representatives of Universities UK (UUK) and five representatives of the University and College Union (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 11 times during the year. Its funding and benefits sub-committee (FBSC) met formally eight times and also met for a further informal training meeting. In addition to the training provided at the FBSC informal training meeting, the JNC and/or FBSC have received training during the year on a number of topics including reliance on employers, gilt yield forecasting and the respective roles of the Pensions Regulator, JNC and trustee board in relation to the valuation.

## Key activities in 2017/18

The JNC (and FBSC) have devoted a substantial amount of time to discussing the 2017 valuation process and proposed benefit design changes. As part of this the JNC and FBSC received regular updates on the progress of the valuation, the proposed valuation assumptions, the technical provisions consultation and the trustee's interactions with the Pensions Regulator. The JNC and FBSC have also actively participated in discussions in relation to the trustee's plans to communicate the valuation to members (and wider stakeholders).

During the financial year, the JNC has considered (and consented to) amendments to the scheme rules. The JNC has also discussed flexible retirement, the work being undertaken by the trustee to develop member services and flexibilities and accessibility issues as well as receiving and considering detailed 'insight' in relation to the scheme's membership.

## Membership

Independent committee member: Sir Andrew Cubie (Chair).

UUK appointees: Mr Phil Harding, Mr Cliff Vidgeon, Ms Mary Lamble, Mr John Neilson, and Mr Will Spinks.

UCU appointees: Ms Pauline Collins, Dr Marion Hersh, , Ms Christine Haswell, Dr Carlo Morelli, Dr R Prendergast (appointed during the year), Professor Jimmy Donaghey (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.

## Key activity in 2017/18

During the year, the committee considered 17 complaints under stage two of the internal dispute resolution (IDR) procedure. Of the complaints considered, none were upheld in full, although distress and inconvenience payments were awarded in four cases. The cases covered a broad range of topics including pension taxation, incapacity retirement, transfers and dependency.

The committee exercised its oversight role in relation to full commutation cases. 27 full commutation applications were considered by the committee during the year.

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 amendments to the scheme rules to be considered during the year and reviewed its terms of reference.

## Membership

UCU appointees: Ms Pauline Collins (Chair), Dr Adam Ozanne (who replaced Professor Dennis Leech with effect from the July 2017 meeting of the committee), Mrs Amanda Williams

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

Professor Dame Glynis Breakwell and Professor Jane Hutton act as the Universities UK and UCU director respectively when the committee considers cases raised under the IDR procedure.

