

Thank you for your recent email to Bill Galvin, the Group Chief Executive Officer of Universities Superannuation Scheme Ltd (USS), the corporate trustee of the Universities Superannuation Scheme (the scheme), regarding the trustee's investment approach. Mr Galvin has asked me to respond on behalf of the trustee.

The trustee's approach, in common with other UK-based occupational pension funds, is to consider the interests of the scheme's members to be paramount and to manage the fund in a manner which delivers the best possible returns for its beneficiaries and stakeholders and which is consistent with appropriate diversification and prudence.

The scheme is governed under UK trust law, it is a multi-employer pension scheme in which funds are invested to pay pensions for around 330,000 individuals across almost 400 member institutions. In this regard, it is unlike retail, ethical or SRI funds which enable individuals to express their personal values in their individual investments.

The trustee therefore invests in a wide range of companies and other instruments, and because of its size (USS is one of the largest pension funds in the UK), this inevitably involves holdings in a diverse range of sectors, including defence sector stocks, which could include those you mention in your email. The portfolio does of course change on an ongoing basis. The trustee is transparent about the stocks it holds and publishes a regularly updated list of public equity holdings on the USS website.

The trustee has taken legal advice in relation to this approach and has been advised that it should not make investment decisions based purely on non-financial, ethical or moral grounds. A copy of this legal advice has been made available to members and other stakeholders via the USS website <http://www.uss.co.uk/Documents/Legal%20advice%20to%20USS%20on%20RI%20from%20DLA%20Piper%20Sept06.pdf>.

You may be aware that in 2014, the UK Law Commission reviewed

fiduciary duties (the responsibility trustees have to act on behalf of the scheme's beneficiaries) as it applies to UK pension funds – see http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm. Following that review, the Law Commission stated that although the pursuit of a financial return remains the predominant concern of pension scheme trustees, they may also take account of non-financial factors provided two tests are met. These are:

- they have good reason to think that scheme members share the concern, and;
- there is no risk of significant financial detriment to the fund.

The trustee has been advised that the Law Commission's review has not changed the legal position from that set out in the 2006 advice mentioned above and its approach therefore remains consistent with its legal obligations.

The trustee's approach is to actively participate in the wider debate on these matters and it provided a submission to the Law Commission for its review which can be found on its website here. <http://www.uss.co.uk/ussinvestments/responsibleinvestment/MarketWideInitiativesPublicPolicy/regulatoryissues/Pages/default.aspx###faqlink35>

Following on from the Law Commission's paper, the Department of Work and Pensions has issued a consultation on potential changes to legislation in light of the Law Commission's findings on a number of aspects; the trustee has recently submitted a response to the Department for Work and Pensions consultation which shall be available on our website shortly. The trustee recognises the ongoing importance of these matters and shall continue to keep them under close review, including of course, further consideration in light of any legislative changes put forward by the Department for Work and Pensions.

We wish to maintain a dialogue with members and share information about our investment approach more generally. Representatives of the trustee, including the chairman of the board, Group chief executive officer, chief investment officer,

both co-heads of responsible investment and other senior employees met with ShareAction and members of the *Listen to USS* campaign in recent months to discuss these matters and hear their views, and further meetings are planned. The trustee is also working to enhance the accessibility of information on responsible investment to members, in light of feedback from these meetings. In the longer term, we intend to ask all members for their views on responsible and ethical investment matters, as part of a broader survey of attitudes towards USS, and the service the trustee provides.

The trustee is an active responsible investor; its investment beliefs include the principle that the incorporation of extra financial factors into the investment decision making process will improve long term returns. The trustee also continues to implement its responsible investment strategy and does take ethical, environmental, social and governance issues into account in investment decisions where these issues are material to performance, and is one of the most visible and active scheme trustees in this area. For example, for defence stocks, the trustee has engaged with companies on the manufacture of land mines and cluster bombs as well as around issues such as bribery and corruption, internal controls, political donations and remuneration concerns. Examples of the company engagements undertaken by the trustee can be found in the [RI Activity Reports](#) and [PRI Transparency Reports](#) published under the [extensive section dedicated to responsible investment](#) on the USS website.

I hope that this letter assures you that the trustee takes its commitment to responsible investment seriously. We know that these matters are of interest to members and we do provide a substantial amount of information about our investment approach on the USS website, which can be found here:

<http://www.uss.co.uk/UssInvestments/Responsibleinvestment/Pages/default.aspx>