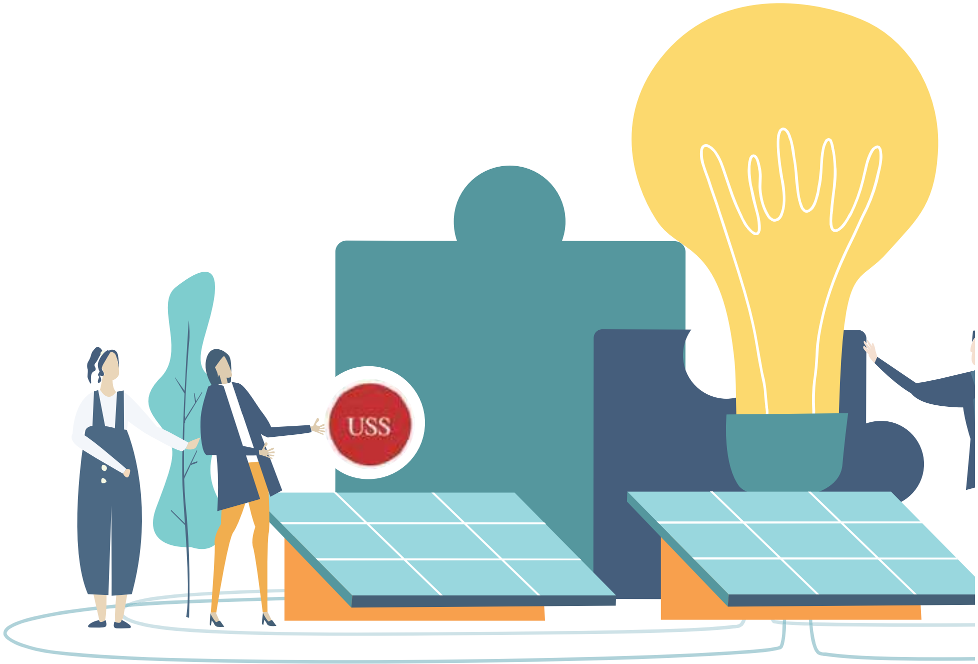

Putting pledges into action

Following the Universities Superannuation Scheme's recent commitment to reach net zero greenhouse gas emissions, Sophie Smith takes a closer look at how the scheme has been putting its promise into action

The UK's largest pension scheme by assets, the Universities Superannuation Scheme (USS), recently announced its commitment to reach net zero for greenhouse gasses by 2050. The ambition is in line with the Paris Agreement, which was designed to limit global warming below 2 degrees centigrade, and will require the scheme to ensure that assets owned are resilient in the face of a net-zero transition.

As part of this, USS Investment Management is expected to develop a comprehensive strategy that will deliver on this ambition, whilst also remaining mindful of the scheme's fiduciary duty to members. However, instead of relying on buying carbon offsets, the transition will take a 'fresh focus' in terms of where and how the scheme divests, with collaboration with peer funds, external asset manages and others in the investment value chain, also expected to be required in order to deliver against this ambition.

USS Group CEO, Bill Galvin, highlighted the move as recognition of the seriousness with which the trustee is treating environmental, social and governance (ESG) risks, and as a "signal to the market, our assets and to policymakers that USS is willing to play its part in the important move to decarbonise by 2050".

The commitment was also welcomed by experts further afield, as UK Energy Minister, Anne-Marie Trevelyan, stated: "Pension funds and their members have a critical role to play in fighting climate change and the USS's new target to reach net zero by 2050, if not before, will see it take a leading role as a responsible investor.

"I hope USS's step will encourage other investment groups to follow suit in using their position to shape the green economy, provide climate security for generations to come, and play their part in helping the UK end its contribution to climate change by 2050."

Following this commitment, *Pensions Age* reporter, Sophie Smith, sat down with a USS spokesperson to discuss how the scheme expects to put these promises into action…

Can you tell us a bit more about the work that USS has been undertaking around ESG and what prompted the decision to commit to net zero?
USS has been actively working in ESG for 20 years and our announcement was prompted by the seriousness with which we consider the risk from climate change. It is clearly a major threat to the planet and is likely to have a serious impact on investment returns into the future.

We have to act in the best financial interests of our members and the scheme and our aim to be net zero by 2050 if not before was in recognition of that. It was also a signal to the market, the companies in which we invest and policymakers that we look forward to playing our part in global moves to decarbonise.

What action will the scheme be taking in light of this and how will this commitment be reflected in the USS

investment strategy, particularly in terms of further divestment?
We are now working to establish meaningful short-, medium- and long-term targets and milestones on our journey to net zero. We need to integrate consideration of climate change into all of our decisions and processes.

That will include working with our internal investment teams to ensure that we have the processes in place to select those companies and assets to own, or from which to divest, in a transitioning world, as well as reviewing our asset allocation and possibly changing the benchmarks we use to guide and measure performance to ensure that these take carbon (and other ESG factors) into account.

We will also actively engage with the companies in which we invest to understand their own paths to net zero. We will also continue to build on our considerable portfolio of renewable energy investments, adding to the £1 billion both already invested and committed to new projects. For example, only a few weeks after our net zero news we announced a c.£200 million investment into a Spanish solar platform, which will become a major energy supplier in Spain over time.

We are actively in the market looking to invest in new opportunities and look forward to making further announcements in due course. We will also be actively engaging with our external managers on this as they will also have a role to play in supporting our transition to net zero.

The scheme has also recently published its inaugural stewardship report. Can you tell us a bit more about how the scheme has been using its influence to engage with companies?
Engagement is at the heart of our responsible investment strategy and one of our Investment Principles, so it has always been an important part of how we invest. We have participated more in collaborative engagements alongside other investors. Examples include:

Our work alongside other investors with regard to Boohoo's supply chain. Following the exposé of supply chain issues in UK garment manufacturing (as a result of the Covid outbreak in Leicester) we committed to participate in an Investor Forum-led engagement with the company and the sector. We are also participating in the Workforce Disclosure Initiative (WDI), a ShareAction sponsored project, which organised a collaborative engagement around supply chain management in the fast fashion sector.

In addition, following the destruction by Rio Tinto of the 46,000 year old Aboriginal heritage site in Juukan Gorge, Australia, in addition to direct engagement with the company on the issues, USS and a group of investors sent a letter to the top 71 international mining companies and all other major companies that operate in Australia. The letter sought assurances on the issue of indigenous community land rights and social licence to operate.

How have member views been incorporated into the scheme's approach to ESG, and how have you communicated these recent ESG and climate commitments with your members?
We regularly invite views from members on investment issues. At the end of last year, USS, in conjunction with the University of Maastricht (which had been seeking a partner on an ESG project of this nature), launched a major survey of members' views in order to capture their perspective of ESG – and further to this their views on our ethical investments, where members who participate in our DC section can directly choose ethical investment options. We are still working through the results of this survey but we know how important ESG is to our members.

We also communicate regularly to members on ESG through our newsletter, social media channels as well as our reports such as the stewardship code report , and annual report (which will be launched toward the end of the month) and we also regularly meet with our stakeholders, the University and College Union (UCU) and Ethics for USS.

How have you kept in touch with members amid the pandemic, and how has the pandemic impacted the scheme's operations more broadly?
We have maintained a thorough and regular dialogue with all of our stakeholders throughout the process and this has not changed during the pandemic.

From an operational perspective, we're really pleased that we have been able to maintain a full service for members whilst staff work remotely – unlike many schemes we continued all major processes at normal speed, with the exception of a short moratorium on transfers in, which was lifted as soon as possible.

Written by Sophie Smith