

Summary of Meeting between Ethics for USS (E4U) and USS Team on Responsible Investment 16/01/20

Present:

Ethics for USS Paul Kinnersley (E4U contact), Ceri Sullivan, Keith Pitcher, Andrew Jarvis
USS: Daniel Summerfield (Head of Corporate Affairs; USS contact), David Russell (Head of Responsible Investment), Naomi Clark (Head of Investment Product Management), Dean Blower (Strategy & Insight)

1 The Climate Emergency/Risk of stranded assets

- 1.1 E4U expressed concern that USS was vulnerable to holding stranded asset investments in fossil fuel companies and in particular about the continued holding of £ 500 million in Royal Dutch Shell, the largest public holding (USS also noted that it did not hold other European oil majors including BP and Total in its active portfolios). USS responded that it considers that its approach reflects the global climate and financial landscape, in part revealed in the current portfolio of Nationally Determined Contributions pledged to the Paris Agreement. E4U viewed this as somewhat reactive whilst USS viewed this policy as pragmatic and well considered. USS also noted that it was proactively engaging with policy makers on climate policy (frequently via the IIGCC <https://www.iigcc.org/our-work/policy-programme/>).
- 1.2 On Shell, USS argued that the company is shifting its asset base to gas as a transition fuel in line with global climate policy whilst also increasing significantly its investments in renewables. E4U stated that Shell was failing to meet its own targets for investment in renewables and was continuing to invest heavily in oil and gas production evidencing Shell's annual report of 2018 (the latest available) which describes plans to increase oil production by 50% and gas production by 25% over the next 10 years. USS noted that Shell had recently missed out on a large renewable energy deal, as indication that the company was continuing to invest in the sector. E4U stated that climate science required a direct and urgent transition to renewables without the extended use of gas as a transition fuel.
- 1.3 USS commented that holdings in companies like Shell could be easily and quickly liquidated if we decided to do so.
- 1.4 USS stated that how investments are viewed regarding carbon emissions and the climate emergency was complex. USS used the example of Glencore which mines both coal and cobalt that is used in the rechargeable batteries central to the low carbon transition. E4U accepted that divestment is complex but stated that the 2018 IPCC (International Panel on Climate Change) demanded rapid decarbonisation and that USS members could be justifiably concerned that an evolving climate policy landscape will impact on their pensions in the short term (as well as the medium to long term) if USS's current position is retained.

2 Stress Testing of possible Climate Change scenarios

2.1 In terms of scenario analysis, USS reported that in addition to its existing 'bottom-up' approach (looking at how specific investments would fare) they are incorporating a 'top-down' approach. This includes work to model the economic effects of the physical and transition risks of climate change and include these with their return expectations and risk scenario analysis.

3 Future Investment Strategy

3.1 USS reported that the newly appointed CEO of Investment Management Business, Simon Pilcher was reviewing with Naomi Clark many aspects of investment policy relevant to this discussion. This review could lead to the exclusion of certain sectors on financial grounds. The conclusions of the review would be reported publicly in Spring, 2020.

4 Engagement with companies and voting on shareholder motions

4.1 USS stated that it actively engages with many companies with whom it has holdings and believes that this is a very positive method of effecting change. E4U noted that USS did not always vote to support shareholder motions pressing compliance with the Paris Agreement. USS stated that, as has been the case to date, they will take such motions on a case-by-case basis.

5 Carbon foot-printing and the Montreal Pledge

5.1 USS reported that they have carbon footprinted their public holdings for several years and that each time the holdings were less carbon-intensive than those of similar investment funds. E4U said they would like to see all classes of assets carbon footprinted and disclosed, since tools to do this had improved since the TCFD 2017 report (Taskforce on Climate-Related Disclosures). USS noted that carbon footprint methodologies were not sufficiently advanced to make reporting publicly meaningful, referring to a project they led <https://www.responsible-investor.com/articles/carbon-footprint-piece> .

5.2 E4U said it would be helpful to see all the Montreal Pledge measurements on USS's website (currently only 2017 and 2018 are available). USS said that a new website would be launched in 2020 and would report this.

6 Communication with members/Seeking members' views

6.1 USS reported they seek the views of members on issues including Environmental, Social and Governance issues through annual surveys of a large representative sample of active members. They also gather views from a newly introduced Member Voice panel but rely mainly on quantitative data from the surveys for overall member views. E4U pointed out that, in addition to surveying only a sub-sample of

contributing members, beneficiary and deferred members were excluded. As a result, the full breadth of members' views was not canvassed. USS accepted this and would consider how deferred and retired member views could be sought.

6.2 E4U stressed that in their view, the Dec 2019 Member Voice newsletter was incorrect by referring to ethical investments as being automatically more risky than default options (see USS's Sept 2019 fact sheets on Ethical and Default Lifestyle investment options which has similar risk profiles for these funds). E4U highlighted that the ethical option had outperformed the default portfolio in recent years. USS pointed out that the Member Voice newsletter is produced by the independent research agency based on the full range of points raised by members in discussion. USS agreed to raise with the research agency the framing of risk in future Member Voice discussions, and ensure that it, as well as USS member communications, fairly and clearly reflected any differences in risk between ethical options and their equivalents.

7 Confidentiality Agreement

7.1 E4U will produce a summary of the meeting and share this with USS for comment and amendment. No other information about the discussions would be shared with others outside the room.

8 Agreed Actions

USS will:

- 1 Review the presentation of risks of ethical investments in newsletters and on the website
- 2 Send examples of the survey questions used when seeking members' views to E4U along with draft future questions for comment
3. USS to consider how views on responsible investing from deferred and retired members could be heard.
4. Organise a meeting between E4U, Simon Pilcher and Naomi Clark on how plans for investment strategy are developing in relation to the Climate Emergency
5. Consider appearing at a discussion about responsible investing with a wider group of USS members.

E4U will:

- 1 Discuss with ShareAction the proposed meeting in 5 above
- 2 Comment on survey questions sent to them and respond to other requests from USS on the presentation of information on the website