

Summary of Meeting between USS and DivestUSS, October 31st 2023

Attendees

USS

Innes McKeand – Head of Strategic Equities

Louise Howard – Chief Legal Officer

Dean Blower – Head of Strategy and Insight

Alexandra Bradshaw – Investment Communications Manager

DivestUSS

Ceri Sullivan, Cardiff

Bill Spence, Queen Mary University of London

Thomas Da Costa Viera, London School of Economics

Paul Kinnersley, Cardiff (retired)

Agenda item 1 - We (DivestUSS) believe that the membership of USS would strongly support divestment from fossil fuels. What evidence do you have of (all) members' views on divestment?

Agreed to bracket off from discussion David Watt's comments.

DivestUSS noted the consistency of results across USS recent surveys: c. 40% want hard lines drawn on divestment from FF; a further c. 10% want engagement and divestment, giving some support to USS's current position.

DivestUSS argued for five improvements to the survey process:

1. A date for surveys for deferred and pensioner members. USS reported that the latter would hopefully be surveyed by Dec 23, the former by Mar 24.
2. Survey results to be made available on the USS webpage, which would aid in response rates. USS noted that they were open to increasing transparency, and will consider what survey material can be published on uss.co.uk. USS noted that the Trustee Board will be involved in deciding what can be published and that there would need to be considerations of presentation – it would be very unlikely to include all the survey data.
3. Surveys to include the opinions of employers. USS flagged that employers' can give opinions on ESG - among other issues - during the Statement of Investment Principles (SIP) consultations, though there are no specific questions on fossil fuel investments. USS also expected a poor response when asking employers whether they would answer a survey focused on fossil fuel investments. USSDivest noted that
 - a. with 101 employers divested from fossil fuels themselves, and with employers making double the contribution rate to that of employees, it would seem important to ask more directly about the issue of fossil fuel investments.
 - b. the Trustee Directors might wish to have their attention drawn to the fact that they are only getting partial information on this exceptional issue if response rates are low.

4. Surveys tend not to produce a preference curve from respondents which measures their willingness to risk different levels of detriment, as a result of not diversifying a portfolio. USS flagged that the questions on RI preferences were developed in partnership with the University of Maastricht, who have run similar studies in several European pensions systems, but was interested in seeing peer review studies from DivestUSS on alternative ways of asking these questions to consider how appropriate they might be. USS did however flag that a curve or range couldn't be reflected in the markets themselves since invested returns can't be predicted.

Agenda item 2 - Earlier this year at the Shell and BP AGMs USS voted against the boards as they were failing to take sufficient action to reduce their emissions. What actions has USS taken as a consequence of these votes?

USS explained the background to their voting against the boards of BP and Shell. BP had been a very clear decision to oppose the proposals by the board due to the absence of meaningful engagement with shareholders on the recent strategic changes to BP's Net Zero strategy, and the lack of opportunity to vote on its changes. They viewed the paring back of BP's 2030 targets as a significant negative development, one that they would expect to have been put to an investor vote.. Shell was a more 'nuanced' decision as it was felt that Shell was taking some positive steps to reduce emissions, but ultimately they voted against due to concerns that the company's plans to decarbonise fell short of their expectations. USS was watching both companies closely and would consider taking further action – for example voting against directors or whole committees at the 2024 AGMs if the companies were not doing more to cut emissions.

USS does not believe that divestment has any positive effects on reducing carbon emissions as some other investor may purchase the shares and may be less concerned about carbon emissions than USS. USS is also focussing on the large carbon emitters in their portfolio – for example Cemex on the basis that even a 10% cut in emissions would have a considerable impact. Their focus is on driving 'real world change' (cuts in emissions) rather than gestures such as divestment which might have no impact.

USS flagged that they are aligned with DivestUSS on the need to address the climate challenge urgently, but that they believe they have a responsibility to engage with these companies to push for change. USS flagged that engagement is a patient, longer-term approach. DivestUSS agree that engagement will continue to have a role to play.

USS stated that there was a need for reduction in demand for carbon intensive products (oil and gas) and that government and policymakers have a significant role to play.

USS has been considering carefully the work that they have done with [Exeter University](#) but are yet to confirm how the new scenarios will be applied. USS will be drawing out the investment implications of the new scenarios over the next 12-18

months and will embed them into transition planning and financial decision-making appropriately. .

USS also reported that they were working with Cambridge University and others on the Cambridge Universal Ownership Initiative. The initiative brings together large global asset owners with the University of Cambridge to look at how to best collaborate to address systemic risks.

DivestUSS found the work with the University of Exeter particularly encouraging, in that it contributes to make USS a leader amongst asset managers and asset owners in trying to improve financial tools and models which investors use to inter alia price climate risk adequately. However DivestUSS expressed the view that this work needed to be operationalised and deployed in the near future.

DivestUSS took the view that BP, Shell and others are not cutting emissions fast enough and that engagement with these companies was having no effect and was unlikely to have significant impact in the future. DivestUSS reported that there was evidence that divestment would have an impact and that Shell themselves note in their annual report that divestment can have a potential impact on their ability to access capital reserves. Engagement with other companies – such as Cemex – may well be beneficial but USS must be prepared to consider divestment from oil and gas (as it has done with tobacco and coal)

DivestUSS also disagreed that reductions in carbon emissions had to be led by reduction in demand and ‘societal change’. There is an urgent need to cut emissions and this needs a range of actions by investors and asset managers – particularly those like USS which are obliged to take a long term view.

DivestUSS and USS agreed that climate change is a systemic issue that will be best addressed through adequate policy responses. In this context, DivestUSS encouraged USS to develop their approach to engage policymakers on that issue, in particular in the light of the failure so far of the markets to price climate risk appropriately, implying that government needed to be pressed to do more and adopt the policies that would send the right signals to financial markets and fossil fuel companies.

DivestUSS also agreed that the collaboration with Cambridge University sounded useful and hope to hear about this in future meetings.

Agenda Item 3 - Global temperatures are rising rapidly - and as a consequence carbon emissions need to be reduced more rapidly. Are USS considering faster emissions reductions and revising the target of 'net zero 2050'?

USS assured DivestUSS that they are taking the Climate Emergency very seriously, and noted the progress that they have made towards their 2025 target. However at present there are no plans to change the current target of ‘net zero 2050’ or the intermediate targets of 25% emission reduction by 2025 and 50% by 2030. USS noted that the trustee board in the last year has adopted a new investment framework which has responsible investment as a key feature, and the work they have been doing with Exeter and Cambridge are also significant evidence of USS’s

commitment in this important area. A new Head of Responsible Investment will also be joining USS in the new year.

DivestUSS expressed concerns at the very short timeline we are dealing with as a society, with the very latest research that notes that there are only 6 years left of the carbon budget before 1.5 degree becomes impossible, and that net zero must be reached by 2034 or 2040, rather than 2050. It is on this basis that DivestUSS reasserted their concerns regarding effectiveness of engagement particularly with fossil fuel companies and the need to increase USS' overall practices and deadlines'.

DivestUSS thanked USS for their time and it was agreed that there would be another meeting to consider the TCFD report 2024.

USS agreed to

- *confirm what level of engagement is received when consulting on the SIP and the sorts of questions we ask employers.*
- *confirm who we're meeting with from UCU on RI/ESG matters.*