USS

For members,
for the future.

Universities Superannuation Scheme

Report and Accounts for the year ended 31 March 2021

For members, for the future.

We are the principal pension scheme for universities and other Higher Education institutions in the UK.

The Annual Report and Accounts of the trustee company can be found on our website **uss.co.uk**

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About USS

Our purpose

Working with Higher Education employers to build a secure financial future for our members and their families.

Our strategic priorities

- **Members feel financially more secure**
- **A sustainable scheme, for the long term**
- **USS is recognised as a competent scheme manager**

Our business model

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and other higher education institutions in the UK.

The scheme

The scheme provides two types of pension benefits: **defined benefit (DB)** and **defined contribution (DC)** and in both cases we invest payroll contributions received from our members and employers to generate funds to pay for benefits in the future.

The trustee

The scheme's trustee is Universities Superannuation Scheme Limited. It is a corporate trustee which has overall responsibility for scheme management, led by a non-executive board of directors and employing a team of pension professionals in Liverpool and London. The trustee's key responsibility is to ensure that benefits promised to members are delivered in full on a timely basis.

Administration

The trustee employs an experienced team of pension administrators who are based in the Liverpool office. This team is supported by Capita, an external pensions administration firm.

Investment management

The trustee delegates implementation of investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which employs a team of investment management professionals in the London office, providing in-house investment management and advisory services.

Our pension scheme assets

Retirement Income Builder
(defined benefit for all members)

£80.6bn

in assets and c.476,000 members

Investment Builder
(defined contribution)

£1.6bn

in assets and c.91,000 of our total members

Our values

Integrity

Collaboration

Excellence

Our goals for stakeholders

Members feel financially more secure
We are committed to providing our members with the right retirement savings options, to invest well on their behalf, and help them make good decisions about their retirement. For more information see page 12.

Employers have a high quality service and a sustainable scheme
We engage with our employers informally as well as through more formal channels, such as the Institutions Advisory Panel and annual Institutions' Meeting. For more information see page 16.

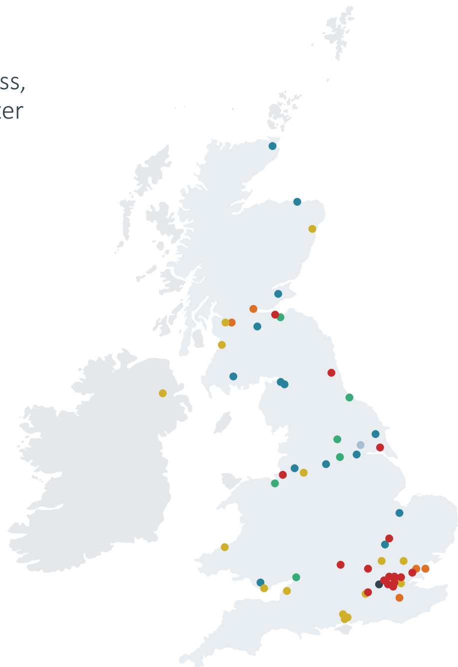
Employees are valued and have the opportunity to thrive
Our employees are key to our success, so our people approach aims to foster a culture that supports diversity and inclusion, recruits, retains and develops talent and is responsive to employee needs. For more information see page 18.

Investee companies have a responsible investor who fosters long-term growth
We are a long-term, active and responsible major institutional investor with one of the largest Responsible Investment teams in the UK pension sector. We use our influence to encourage positive change.

Our investments

We invest our diversified portfolio in the UK and globally. Our global assets of £82.2bn are principally invested in three main areas:

Private Markets including property	Public Markets Listed Bonds	Public Markets Listed Equities
£22.2bn	£33.7bn	£19.4bn



Our major private market investments across the UK include:

- Energy from waste
- Heathrow Airport
- National Air Traffic Services (NATS)
- Property
- Wind farms

In addition, we invest in 60 Moto service stations and 35 Westerleigh (crematoria) locations.

Chair's introduction

The past year has been very challenging for the vital sector USS serves. Despite the adverse economic, social and health impacts of COVID-19, USS remains fully committed to providing secure and valued pensions

Dame Kate Barker
Chair of the Trustee Board

Dame Kate Barker is one of Britain's leading economists. She became a Director of the trustee, Universities Superannuation Scheme Limited, on 1 April 2020 and has been Chair since 1 September 2020.

She was Chief Economic Adviser at the CBI from 1994 to 2001, and a member of the Bank of England's Monetary Policy Committee from 2001 to 2010.

She was a governor at Anglia Ruskin University from 2000 to 2010, including Chair of Governors from 2007 to 2010, and served on the Council of Oxford University from 2017 to 2020.

She has been Chair of the Trustee Board of the British Coal Staff Superannuation Scheme since 2014.

The stewardship of USS is an extraordinary responsibility, fully appreciated by every member of the Trustee Board. We have to ensure that the scheme is fit for purpose, that it offers our members excellent support and service, and that the pension promises made to members can be kept.

My first year on the board of USS (and as Chair since September 2020) has been dominated by many effects of the pandemic. It has not been the easiest introduction to USS, but it has been a pleasure to find a warm welcome from a very committed board and executive. We are proud of the way in which we were able to move swiftly to a virtual environment, maintaining our high quality service to our members and continuing to manage their investments effectively.

It is clear to me that keeping a bedrock of a defined benefit pension, increasingly rare in the UK, is important to the sector. My discussions with both sets of stakeholders have confirmed that view. However economic changes are reducing the affordability of that firm promise, and finding a way forward among varied risks is challenging.

The work of the board over the past year has been heavily focused on the 2020 valuation, a date which was agreed as part of the conclusions of the 2018 valuation. In agreeing to those conclusions, it was considered that a possible improvement in financial conditions and some changes to valuation methodology could enable a smoother process in 2020 avoiding the need for the increases in contribution rates otherwise due to come into effect in October 2021. Events have, however, frustrated these expectations for USS and for the sector, and I recognise that this is the latest in a series of difficult valuations.

The trustee has focused on assessing the impact of COVID-19 on the prospects for our sponsoring employers in the UK Higher Education (HE) sector, as well as on the fortunes of the global economy crucial to future investment returns. We have changed our methodology, following helpful and extensive discussions with stakeholders, to reflect better the open nature and maturity of the scheme. We are, as a result, able to take more investment risk compared with the 2018 valuation, but lower gilt yields and the deterioration in the long-term outlook for investment returns have outweighed these positive factors.

As a result, it is clear that the present joint contribution rate is no longer adequate to fund the pensions our members now expect to earn on their future service, and support the likely deficit recovery costs.

To protect the position of our contributing members, we are working to maximise the strength of the employers' covenant, their commitment to provide financial support to the scheme. Successful agreement in this area will have a material benefit in terms of future contribution rates.

We are encouraged that the HE sector has proved very resilient during the pandemic and we still firmly believe that the sector can support a strong covenant. However, we are seeking tangible commitments from employers in order to support that conclusion. Our position here has not changed since we agreed to work towards these commitments during the 2018 valuation and the need for them is more important than ever.

Over the past year, we have worked hard with our stakeholders to reach a common understanding of the risks to the scheme and the regulatory environment in which we operate. Over the coming months we will continue to engage with Universities UK (UUK), with the University and College Union (UCU) and with The Pensions Regulator to find the best way forward.

The Joint Negotiating Committee, which comprises representatives of our stakeholders, UUK and UCU, and an independent chair, decides how to manage these funding pressures by considering the design of the scheme's benefits and its contribution structure. In doing so, we hope it will also want to consider that as many as one in five becoming eligible to join the scheme choose to opt out, primarily on grounds of either affordability or flexibility.

There is still much to be done to complete the 2020 valuation. We know the increase in the overall contribution rate to 34.7%, due to come into effect in October 2021, is a concern for employers and members. We will work as constructively as possible with our stakeholders as we grapple with these complex issues.

There have been a number of changes on the Trustee Board over the year.

Most significant was the retirement of Professor Sir David Eastwood in August 2020. David first joined the board in January 2007 and had served as Chair since 2015. He led the board through a difficult period with exemplary diligence and unfailing courtesy – he is a very hard act to follow.

Dr Steve Wharton, Kirsten English and Michael Merton also retired from the board and will all be very much missed. Steve had a robust approach which got to the heart of the question; Kirsten and Michael were deft and assiduous chairs for the Governance and Nominations Committee and Audit Committee respectively.

More recently, in June 2021 Ian Maybury gave notice of his resignation from the board, to take effect this autumn. As a committed and technically skilled director he has worked tirelessly across many areas of USS and will be much missed.

It is very pleasing that there is now a full complement of three UCU-nominated directors. Andrew Brown and Helen Shay joined in summer 2020, and Dr David Watts in March 2021. Professor Sir Paul Curran joined as a UUK-nominated director, and finally Russell Picot as an independent director. All are most welcome to the board and contribute to making it effective and reflective of a diversity of viewpoints.

> **"We are fortunate to have a fantastic team in pensions administration and a highly skilled investment team, with a firm commitment to Responsible Investment."**
>
> **Dame Kate Barker**
> Chair of the Trustee Board

This means we have a strong Trustee Board, united in achieving the purpose of USS. We are fortunate to have a fantastic team in pensions administration and a highly-skilled investment team, with a firm commitment to Responsible Investment. I am an advocate for environmental, social and governance issues being taken fully into account in our investment decisions. USSIM has announced important steps on that – our first investment exclusions policy followed recently by the important ambition to be 'Net Zero' (Net Zero is a state where we are net zero for carbon) by 2050, at the latest.

Despite the strong rebound in financial markets supported by concerted government and central bank actions, we face major challenges in dealing with the wide-ranging financial impacts of the pandemic. These will become more apparent as the tragic human consequences lessen. But whatever circumstances arise, I am convinced that USS has the leadership, the principles and the professionalism to deliver secure pensions and first-class services to our members.

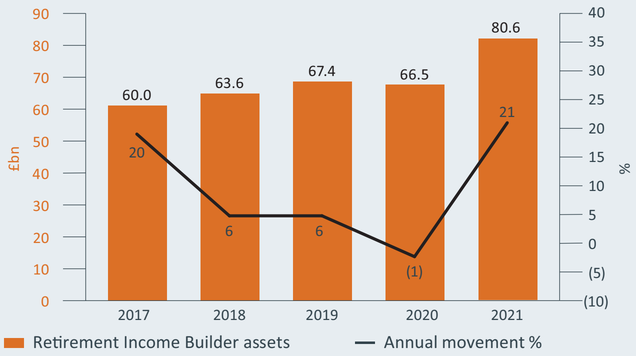
Dame Kate Barker
Chair of the Trustee Board

Performance overview

The following data and comparatives for the year ended 31 March 2021 provides a performance overview for indicators linked to our strategy

Retirement Income Builder assets

£80.6bn



Overview

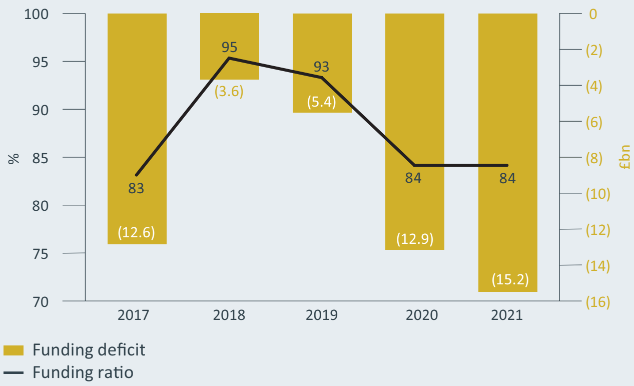
Retirement Income Builder (defined benefits/DB) assets have risen strongly in the year recovering from market falls related to the onset of COVID-19 in the final quarter of 2020.

For further information

See Investment matters section on page 21 for more on Retirement Income Builder investment performance.

Funding ratio

84%



Overview

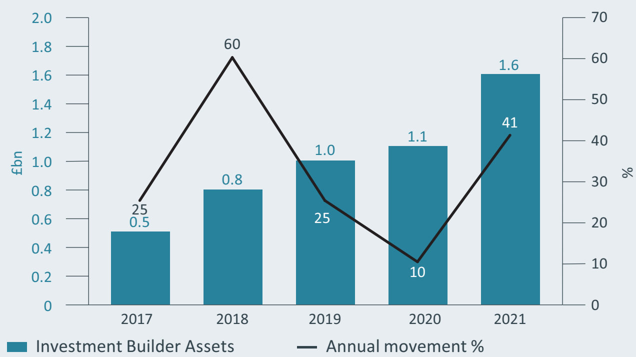
The funding ratio compares the Retirement Income Builder's assets with the actuarial liabilities (using the 2018 valuation monitoring basis). Asset gains noted to the left have been offset by liability increases due to reduced future return and increased inflation expectations leaving the ratio unchanged year on year.

For further information

See Actuarial section on page 26 for more on funding ratio.

Investment Builder assets

£1.6bn



Overview

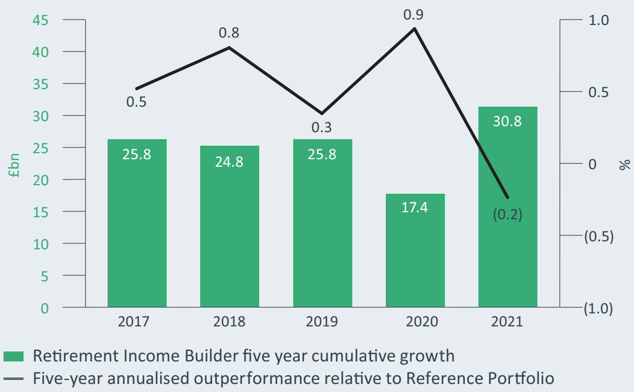
Investment Builder assets (defined contribution/DC) assets have grown every year with increasing contributions being more significant than market impacts and now include internally managed emerging markets equities as well as private markets assets.

For further information

See Investment matters section on page 22 for more on Investment Builder investment performance.

Investment growth

£30.8bn over five years



Overview

Retirement Income Builder valuation growth over five years to 31 March 2021 is £30.8bn, an investment return of 9.75% per annum. This is 0.24% per annum below that of the Reference Portfolio but 3.45% per annum above the Liability Proxy over the period.

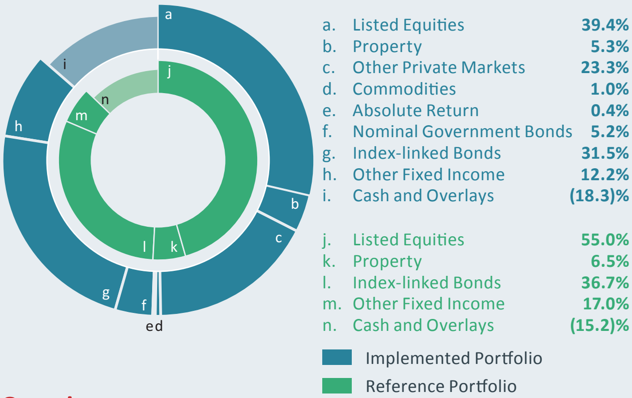
For further information

See Investment matters section on page 20 for more on investment performance.

Asset allocation

£80.6bn

invested in public and private markets



Overview

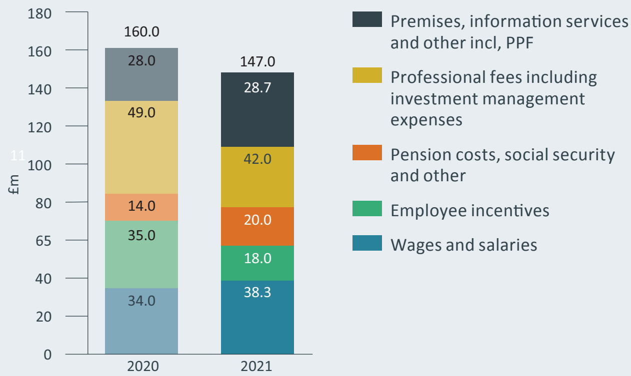
The Implemented Portfolio shows the breakdown of the Retirement Income Builder assets at 31 March 2021. The Reference Portfolio is a long-term benchmark for the returns and risk of the investment strategy for those assets.

For further information

See Investment matters section on page 20 for more on asset allocation and its development over time.

Scheme overheads

£147m (as per Note 7 financial statements)



Overview

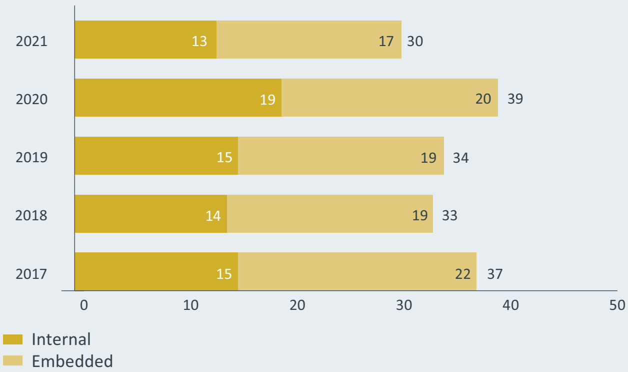
Scheme overheads, as laid out in the audited financial statements, reduced by 8% against the prior year. This was due to an unusually high long-term incentive provision charge in 2020 which largely reversed in the current year.

For further information

See Financial Statements section on page 56 and CFO update section on page 54 for more on costs and how they are managed efficiently.

Investment management cost

30 basis points



Overview

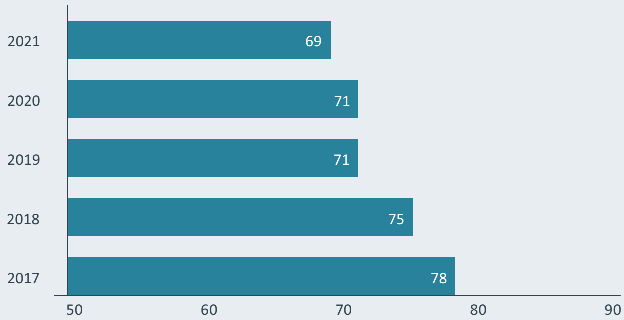
Investment management cost, inclusive of embedded cost, is shown as a proportion of average Retirement Income Builder assets in basis points (bps). The costs are calculated on a basis that is comparable with that used by CEM Benchmarking and thus reflect adjustments to the expenses included in the financial statements. USS was 9bps lower (equivalent of £66m p.a.) than peers in the most recent CEM Benchmarking report (2019 calendar year).

For further information

See CFO update section on page 54.

Pension administration cost

£69 per member



Overview

Pension administration cost per member is calculated on a basis intended to be comparable with that used by CEM Benchmarking. The most recent USS cost per member as validated by CEM Benchmarking was £71 – 2020. We consistently work to improve cost effectiveness while developing our service levels.

For further information

See CFO update section on page 54 and Member services section on page 12.

Group Chief Executive Officer's overview of performance

We have shown an unwavering commitment to maintaining a premium service for members and employers in unprecedented times

Bill Galvin
Group Chief Executive Officer

As we look back with sadness at the impact of the events of the past year on our families and communities, I am very proud of the way my USS colleagues and our counterparts in the institutions we served responded to the challenges presented by COVID-19. Despite the difficulties, the high standards of service expected by our members and institutions were maintained in almost every aspect, and overall the administration of the scheme proved remarkably resilient to the significant shocks wrought by the pandemic, and the enormous changes required to adapt to the new circumstances.

The start of the financial year required our investment teams in public and private markets to respond quickly as financial markets reacted to the sharp economic impact of the pandemic. Our public market teams stayed calm under intense pressure and made decisive moves that protected the scheme's funds – particularly in the early stages, when markets were extremely volatile. Our Private Markets team has engaged extensively and intensively over the course of the crisis with the many businesses we directly own to ensure they were actively supported throughout. Their efforts have left the scheme and its investments in a materially better place than might otherwise have been the case.

The year since March 2020 has seen very significant movements in the values of both our assets and liabilities. Over the past 12 months, the return on our assets has been significantly higher than that of the debt instruments making up our liability proxy (see pages 21 to 22). However, the impact of the planned convergence of CPIH and RPI and reductions in future expected returns following the market rebound have meant that our funding ratio using the 2018 valuation monitoring basis has remained static. As explained in the Actuarial section these measures will differ under the 2020 valuation once it is finalised as a result of revisions to our methodology and assumptions.

We have a long-term commitment to private market investments and to a more diversified approach to seeking liability-like assets than investing only in UK index-linked gilts. Over the past several years this approach has served the scheme well. However, the past year has been more challenging, largely because of unusual features of the COVID-induced turmoil in financial markets. Private market investments have lagged the gains in public markets and it has proved challenging to add liability-like assets to closely match the index-linked gilt elements of our Reference Portfolio. The recent weaker performance from these assets has diminished their ongoing positive impact on relative performance over five years. This coupled with adverse asset allocation positioning in the wake of the 2016 Brexit vote has caused the year end five year relative performance to drop below benchmark for the first time since the 2013 year end. Ten year relative performance remains positive as does the two year measure covering the period since before the onset of the pandemic. Simon Pilcher, CEO of USS Investment Management, explains in more detail our approach to liability hedging investments and our broader investment strategy on pages 20 to 21.

In June 2020, USSIM announced its first exclusions policy. This was a landmark moment for the scheme. Since then we have continued our progress in this area with our stated ambition to be 'Net Zero' for carbon by 2050, if not before. Achieving our goal here will involve a fresh focus in terms of where and how we invest, but we will also have to work closely with peer funds, our external asset managers and others in the investment value chain.

We know these are issues that matter a great deal to our members. They are also very important parts of our focus on ensuring our financial returns over the long term navigate risk factors that can be difficult to capture in shorter-term financial models or performance targets.

We also know that we have an important role in helping our members make the right decisions today in planning and preparing for their retirement. The prospects of longer, more productive lives in retirement, changing work patterns and opportunities for older workers, and more choice over pension capital and income, mean our members have far more complex decisions to make today.

So, we have focussed our energies on how we might best support their journeys to and through retirement. Part of this saw the launch of a new website in September. Following a programme of extensive research, we created a modern platform designed from the ground up around our members' evolving digital needs to empower them with information and new online functionality. The site underpins our drive to engage directly with our members in increasingly innovative ways.

In addition, we have partnered with Mercer to offer a range of specialist webinars that provide our members with free guidance. This complements the new features on the members' section of the site with topics such as how USS works, pensions taxation and tax planning, and support for members' retirement planning. The sessions have been developed in collaboration with our participating employers to make sure they provide the correct information in a way that works for members.

We also launched a series of general webinars for members covering who we are, what we do, and how we do it, and answering their questions.

We believe these developments have brought us closer to our members – and it is starting to show: perceptions of USS have improved over the past year, on all measures.

We clearly still have a lot of room for improvement and remain concerned that one in five members have negative perceptions of the scheme. The challenging economic outlook has, of course, presented funding challenges and our members and employers have borne the impact of these. Increases in the contributions required to fund existing and future benefits, driven by a world of enduringly low interest rates have understandably not been welcome. Despite this, by working with our stakeholders to confront these significant funding pressures, USS has defied the odds to be one of few remaining private defined benefit pension schemes in the country still open to both new members and future accrual.

We have worked hard to explain the external challenges we face, as well as the significant value the scheme continues to offer. We will continue to do that, and to make clear our resolute commitment to securing members' benefits and delivering premium administrative and investment services to the people and institutions we are privileged to serve.

That commitment is evident to the employers we work with day in, day out in administering the scheme. Their perceptions have also improved – but in this case, from an already very high starting point: 88% now rate their overall relationship with us as good or very good, and just 2% rate it as poor. That compares with 83% and 4% respectively in 2020. The overall quality of support we provide to employers has also been positive: 87% rated good/very good, 3% poor (81% and 5% in 2020).

We are committed to working with our stakeholders to address the implications of the 2020 valuation. We have endeavoured to look through the challenges of stormy market conditions to focus on the long-term challenges for the scheme, and want to work openly and collaboratively to find solutions.

Of particular concern is the level of eligible people currently choosing to opt-out of the scheme. The reasons are complex, but affordability is a key factor. It is also clear that the scheme's offering is not as clear or attractive as it might be to members with anticipated short tenure in the HE sector, or prospects of international mobility. We have raised this issue proactively with our stakeholders for several years now and are currently actively supporting their discussions to address the underlying causes through the 2020 valuation and beyond.

> **"The people who work for USS, nearly all of us members of the scheme, care deeply about its purpose and its mission. We are committed to maintaining its position as one of the best private pension schemes in the country."**
>
> **Bill Galvin**
> Group Chief Executive Officer

The demands of the valuation – in terms of commissioning professional advice and analysis and engaging with our stakeholders and our members – are impacting our operating costs. We believe that this is justified by the importance and complexity of the valuation and its outcomes to the scheme and our stakeholders.

However, our underlying costs are being managed carefully and effectively. Despite the costs of the valuation, operating expense has reduced, partly due to one-off pandemic-related cost impacts. As noted in the Chief Financial Officer's update (see pages 54 to 55) we do expect operating costs we show in the scheme financial statements to rise in future, with this increase being offset by reductions in costs embedded within net scheme returns.

This strategy – reducing external costs by increasing our in-house investment capabilities – has seen USS achieve strong investment returns at a much lower cost than global peers of a similar size and complexity. According to the latest independent benchmarking by CEM, covering the calendar year 2019, our investment costs were £66m lower than our peers on an equivalent basis.

Our strategy is supported by our three strategic priorities; these are explained below

As a complex financial institution, risk management is at the core of our trustee and investment manager role. In September, we welcomed Lindsey Matthews as our new Chief Risk Officer. With nearly 30 years' experience in financial markets, Lindsey's skills and motivations complement our dedication to delivering highly valued pension promises to our members and their families, effectively and safely.

We have reported two legacy compliance issues to The Pensions Regulator. Monitoring by our Compliance team found that, while rightly setting out the options available, our Early Leaver (members who have between three months and two years qualifying service) Letters did not proactively state the then-value of taking a cash transfer sum. This was, instead, only being provided on request. We are also proactively remediating 'death after retirement' lump sum payments that should have been payable in respect of deferred members who retired and then died within five years.

I, and all my colleagues at USS, feel our responsibility to members and sponsoring employers. After such a challenging year, I am pleased to report that we have maintained very positive employee engagement scores. We are also committed, as an employer, to promoting diversity in all its forms. Our Diversity and Inclusion programme has been an important step in our journey to effecting the change we want to see in terms of our culture and our workforce. We have a long way to go but, thanks to the work of our 30-plus 'D&I Champions', we know where we are going and how we plan to get there.

The people who work for USS, nearly all of us members of the scheme, care deeply about its purpose and its mission – evidence of that can be found throughout the pages of this report. We are committed to maintaining its position as one of the best private pension schemes in the country.

Bill Galvin
Group Chief Executive Officer

Strategic priorities | **2020/2021 highlights**

Members feel financially more secure

We provide our members with the right retirement savings options, invest well on their behalf, and help them make good decisions about their retirement.

- Direct-to-Member (DTM) launched, with around 11,600 members opting in to value-add communications
- Updated and refreshed website and My USS portal live
- Launched specialist webinars explaining different aspects of the scheme and piloted one-to-one retirement guidance calls for which we received positive feedback

A sustainable scheme, for the long term

We ensure funding is put on a stable path and the scheme is aligned with the long-term interests of the Higher Education sector.

- Private Markets Group deployed >£4bn capital in new investments while continuing to focus on responsible stewardship
- Liability Driven Investing mandate live. Hedge fund review complete. Material savings delivered
- ESG market exclusions complete and well received

USS is recognised as a competent scheme manager

We visibly deliver expertise in scheme management with the right people, systems, and processes to deliver value for money for employers and members.

- Renegotiated Capita contract. New five-year contract in place. Member Service Desk insourced from Capita
- Diversity and Inclusion targets agreed and actions delivered across all focus areas, including revised recruitment approach guidance and the launch of an Internship programme
- In response to the COVID-19 pandemic, most of our people were working remotely within days, with new equipment provided where needed
- Pension Operations productivity returned to pre-COVID-19 levels by May/June 2020, with new ways of working ensuring we met stakeholder needs. We achieved overall service level agreement (SLA) compliance of 94% on c.160,000 transactions
- We met employers regularly; employer portal updates and ad-hoc communication helped them manage their COVID-19 impacts
- USSIM introduced daily cash and collateral reporting

Further information regarding how risk management links to USS performance management measures and how it is aligned with our strategic priorities, can be found on page 37.

Notes

1 Active member is a member who is paying in to USS.

2 Not all active members receive Annual Member Statements due to personal circumstances or multiple periods of employment. Information on their benefits is available to these members from USS on request.

3 These cost KPIs are calculated on a management accounting basis which differs to the calculation and breakout of scheme overheads included in the fund account. The management basis does not include statutory adjustments, for example, it includes pension deficit recovery charges as they become payable rather than based on provision movements following finalisation of the scheme valuation. The investment management cost KPI is stated as a proportion of Retirement Income Builder assets under management which aligns more closely to the costs included than do total scheme assets.

2020/21		2019/20			
Result	**Target**	**Result**	**Target**	**Key performance indicators**	**Description**
88%	80%	83%	80%	**Employer positive relationship**	Based on 2020 employer survey findings. The percentage of employer respondents answering 'good' or 'very good' when asked the question 'Taking everything into account, how would you rate your overall relationship with USS?' Further information can be found on pages 16 to 17.
31%	40%	24%	36%	**Member positive relationship**	Based on the 2020 member perceptions survey, the percentage of respondents answering 'good' or 'very good', when asked about their overall relationship with USS. Further information can be found on pages 12 to 15.
103,600	95,600	86,900	88,200	**My USS registrations**	Number of active members[1] registered on My USS.
99.7%	98.0%	99.2%	96.0%	**Annual Member Statement[2]**	The percentage of active members who received an Annual Member Statement (78% rated the statement as being useful). Further information can be found on page 14.
(0.24)%	0.55%	0.91%	0.55%	**Investment outperformance (rolling five year)**	Comparison of actual annualised five-year performance to 31 March 2021 relative to that of the Reference Portfolio (net of costs). Further information on the drivers of the annualised five-year underperformance relative to Reference Portfolio, as well as details on our continued outperformance relative to the same benchmark over a 10 year period can be found on page 21.
£69	£69	£71	£70	**Pension administration cost per member[3]**	The pension administration cost per member calculated for the financial year on a CEM Benchmarking basis. Further information can be found on page 7.
30bps	28bps	39bps	33bps	**Investment management cost[3]**	Investment management cost in basis points (bps) as a proportion of average assets under management. Further information can be found on page 7.
97%	100%	91%	100%	**% of internal audit findings remediated**	Percentage of significant audit findings remediated within the agreed time frame.
100%	100%	100%	100%	**% of material breaches remediated**	Percentage of material breaches remediated within the agreed time frame.
7.9/10	7.4/10	7.5/10	7.4/10	**Employee engagement**	Based on 2020 employee engagement survey results. The number of USS employees who agree or strongly agree with relevant survey statements. Further information can be found on pages 18 to 19.

Member services

Improved services and greater support have enhanced engagement and confidence among our members

Our members are at the heart of USS, no matter at which stage of life they may find themselves.

That is why this year, against the backdrop of the COVID-19 pandemic, it was essential to ensure members continued to have full access to all our services. It is also why we continue to invest in member engagement and enhancing members' experience in line with their evolving expectations and needs, so that we can help our members to feel secure and confident about their retirement.

In 2020/21, we once again improved member service. This year we:

- Relaunched our website and member portal, widening access and improving members' ability to view and manage their pension online
- Began sending communications directly to members rather than via their employer, which has been enabled by the launch of a preference centre to allow members to tailor the communications that they receive
- Provided access to specialist webinars explaining different aspects of the scheme and piloted 1:1 retirement guidance calls
- Created an in-house Member Service Team with a single contact number for member enquiries

All service level targets were met throughout the year, despite the challenges of home working and lockdowns. These and other Key Performance Indicators (KPIs) are reviewed each year and set to monitor our delivery of annual and long-term business objectives. Our performance in the most important aspects of our service is measured by those KPIs, including the overall relationship, digital experience, and rating of key communications.

In 2021/22, we will continue to focus on improving our member experience by:

- Providing members with access to drawdown and an annuity broking service for them to consider alongside options available within the scheme and on the open market
- Developing our modelling and guidance tools to help members plan for their future
- Starting to provide members with communications tailored to their circumstances and stage in their retirement journey
- Expanding the functionality and range of services available online via the My USS portal

We will also help members prepare for any potential changes to contributions or benefits that follow the completion of the 2020 valuation.

Member service

Although it has been a busy year for our pension operations team, and one spent working from home, they have remained resolutely focused and have maintained a full service for members (with the exception of a temporary moratorium on transfers into the scheme for the first three months). Against a backdrop of a significant increase in demand for retirement quotations post the initial lockdown, the department completed 94% of all member requests within internal stretch targets and 100% within statutory timescales. All retirement and death benefit payments were settled on time.

We also responded to 50,000 phone calls during the period and created a dedicated in-house Member Service Team to provide a simplified single point of access for all pension-related calls, including those previously handled by the outsourced Member Service Desk.

Meanwhile, we maintained our service to employers with little disruption, thanks to close collaboration with client engagement teams. This included adopting digital communications both to and from employers, which enhanced our service capability and improved end-to-end processing times. At the same time, we have expanded our use of digital printing to reduce both time and cost.

160,000
number of member cases dealt with by our team in the year

87%
member satisfaction with our retirement service

27,500
members updating their beneficiaries online since website relaunch

We continue to ask members for feedback on their experience, particularly when they have important interactions with us. Among new joiners, 83% reported satisfaction with the overall process and information provided to them, and among retirees, satisfaction with our service was 87%. More detailed feedback from members continues to support improvements to these services.

We recognise that many members have concerns about potential changes in benefits. While the reported levels of member satisfaction remain too low, we are encouraged by an increase of 7% in those who report a good relationship with USS in our annual survey (2020/21: 31%) compared to last year (2019/20: 24%). This is also higher than the 21% who report a poor relationship.

We remain committed to greater transparency about all aspects of the valuation. We will also support members with any changes to their future benefits that are agreed by the Joint Negotiating Committee – changes that we acknowledge members may find challenging.

Digital service

The successful relaunch of our website and member portal in September 2020 was a significant milestone this year. It was a major undertaking that resulted in an enhanced digital experience, improving these platforms' design, content, user journey, and functionality. As demand for digital solutions continues to grow, our members can now better monitor and manage their pensions online and with greater ease.

More than half of our active[1] members are now registered for My USS, as well as an increasing number of deferred[2] and pensioner[3] members. Since the relaunch, an average of almost 20,000 unique members have accessed the portal each month, more than double the same period the year before. Feedback on the new website has been positive, with the overall user experience score improving from 3.1/5 to 3.6/5.

A key future priority is to allow members to see and do more within the portal, making self service easier and quicker for many transactions. It also means members can quickly access more personalised information to support them in making decisions about their pension.

Relaunched digital service

The design and functionality of our new website and the My USS portal reflects the evolving needs of our members. As a result, we have delivered:

- Improved content – clearer, more concise language
- Better accessibility (AA compliance standard), to ensure digital inclusion for all whether on desktop, tablet or mobile phone
- More intuitive site navigation, with a clean, modern design
- Pensioner member access
- New functionality to amend personal and beneficiary details

Notes
1 A member who is paying in contributions to USS.
2 A member who is not yet receiving a pension but has built up a USS pension pot and is no longer paying into the scheme.
3 A retired member.

Guidance

In November, we partnered with Mercer to provide an ongoing series of live online webinars for members, helping them to better understand their USS pension. The webinars deal with a range of topics, including:

- joining the scheme
- introduction to USS
- pensions tax
- planning for retirement

So far, almost 2,500 members have attended a webinar and recordings are available on our website for those who want to learn at their convenience. 98% of members attending our first webinar on USS benefits reported that it helped improve their understanding.

"Keep them coming, I'm finding the webinars very useful and I like that you included some links, for example about pensions advice as I wouldn't know where to start otherwise. Thank you!"

Member attendee

Communicating with members

A pension is the critical part of any retirement plan, so it is essential we do all we can to ensure our members are fully engaged with – and confident about – their USS pension and making decisions for their financial future.

To support this, our member communications strategy has been developed with the aim of engaging members and removing potential barriers to their understanding of their pension. Four key pillars underpin the strategy:

- Member narrative – a focus on making communications simple, clear and easy to understand
- Direct to Member – sending communications direct to our members rather than via the employer
- Digital communications – gradually moving from paper to digital channels
- Member support – ensuring we have relevant communications that support members' decision-making at key points in the member journey

Our ***Direct to Member*** initiative has enabled us to remove an unnecessary burden on employers and strengthen the link between members and the scheme. We've also begun to move more communications from print to digital channels, facilitated by the launch of a preference centre where members can choose how they want to receive communications and whether they're happy to receive information on a broader range of topics to support them in their retirement planning. As at March 2021, almost 12,000 members had opted in to receive these updates.

These changes have already improved the impact of our emails, with the proportion of members actively engaging almost doubling.

This year our Annual Member Statements included an expanded pilot of our speed-read version, which is in line with the Government's proposal for simpler annual statements. The speed-read version is only two pages long and seeks to provide members with an easy to digest summary, with signposts to more information available on our website and portal. Almost four in five members who read their 2020 statement found it useful, an improvement from the previous year.

In response to feedback, including views from our Member Voice Panel, we've significantly improved our communications about the scheme valuation. We have a dedicated 2020 valuation section of our website and provided regular updates to members, including high level summaries of developments and access to a wide range of supporting materials for those with a deeper interest. These written communications were supplemented with a range of videos explaining the process and a series of live member webinars, which have been well attended and received positive feedback.

Membership numbers

USS provides an annual snapshot of members at the financial year end and the table below shows the active membership of the scheme at the beginning and end of the year along with changes during the year.

Active members	University institutions	Non-university institutions	Total
Active members at 1 April 2020 as reported	198,099	6,654	204,753
Restatement of active members[1]	(3,549)	(102)	(3,651)
Active members at 1 April 2020 as restated	194,550	6,552	201,102
New members	22,093	883	22,976
Rejoiners	6,792	145	6,937
Sub-total	223,435	7,580	231,015
Leavers and exits during the year			
– Retirements	(2,695)	(83)	(2,778)
– Retirements through incapacity	(84)	(5)	(89)
– Deaths in service	(146)	(5)	(151)
– Refunds	(489)	(44)	(533)
– Deferrals	(18,987)	(662)	(19,649)
– Retrospective withdrawal[2]	(3,666)	(154)	(3,820)
Sub-total	(26,067)	(953)	(27,020)
Active members at 31 March 2021[3]	**197,368**	**6,627**	**203,995**

The number of pensioner members, along with an analysis of the movements in the year, is provided in the table below:

Pensioner members	University institutions	Non-university institutions	Total
Pensioner members at 1 April 2020 as reported	71,656	2,952	74,608
Restatement of pensioner members[1]	453	19	472
Pensioner members at 1 April 2020 as restated	72,109	2,971	75,080
New pensioners in year resulting from:			
– Retirement of active members	2,779	88	2,867
– Retirement of deferred members	1,862	97	1,959
Sub-total	76,750	3,156	79,906
Rejoiners / Other movements	(190)	(6)	(196)
Deaths in retirement	(1,696)	(51)	(1,747)
Pensioner members at 31 March 2021[4]	**74,864**	**3,099**	**77,963**

Deferred members

In addition to members included in the tables above, the scheme has 194,044 deferred members (2020: 180,353). Deferred members are members who have built up USS pension benefits but are not yet receiving a pension and are no longer paying into the scheme.

The total number of all members at 31 March 2021 was 476,002 (2020: 459,714).

Bereavements

Although proud of all our achievements during the year, our bereavement team represent the service ethos that we look to embody. Throughout the pandemic our dedicated bereavement team have provided security and comfort for all beneficiaries who sadly have had to contact us.

Despite an 18% increase in death notifications, the service provided by the team has been exemplary and has ensured that when members' loved ones need us the most, we have been able to offer support and guidance.

Notes

1 Membership data has been restated for administrative processes completed after 31 March 2021 but with an effective date prior to that date.

2 During the year, USS was notified of approximately 3,820 employees of participating employers who were eligible to join the scheme but elected not to do so, which equates to 11%. This represents a decrease of 4,671 from approximately 8,491 in the prior financial year.

3 Included in the active member numbers are 76,339 active members in the USS Investment Builder as at 31 March 2021.

4 In addition to the pensioner numbers are 14,774 pensions in payment at 31 March 2021 which are paid in respect of the service of another person (for example, a surviving spouse or dependant).

Employer services

We continue to evolve employers' experience of the scheme through effective collaboration and targeted enhancements to our communication, engagement, education and support model to ensure their increasingly diverse needs and priorities are met

Employer engagement
We work closely with employers to deliver an efficient, timely and high quality service to our members. We seek feedback from employers through daily contact with scheme administrators, through our engagement and relationship management teams, and through more formal channels, such as the Institutions' Advisory Panel. We also collaborate with employer focus groups and Institutions' Advisory Panel sub-groups on specific initiatives to ensure employers' views are represented, and their needs are fully understood and accommodated.

In response to the COVID-19 pandemic, we proactively increased our level of engagement with employers. This helped us establish the impact on working arrangements, understand employers' immediate challenges, and agree how best to adapt our support model accordingly.

Employer perceptions
Each year we survey employers to determine a relationship satisfaction rating with USS. The employer perception survey's main objective is to better understand how they view their interactions with us and our relationship. The metrics are closely monitored to ensure they remain appropriate and drive the right actions to improve the employers' experience.

> **"Good employer support. Always available to speak on the phone. Email updates helpful and full of good content."**
> **Employer Perception Survey**

In the latest survey, 88% of employers rated their overall relationship with USS as 'good' or 'very good' (2019/20: 83%). The proportion of employers rating their overall relationship with USS as 'very good' has increased by 7% this year to 41%.

Employer education and support
We are committed to providing employers with easy access to the support they require, helping them to discharge their administrative obligations in an accurate and timely manner.

Our formal training programme, which we have successfully delivered to employers over the past two years, has been adapted into a suite of virtual courses to enable uninterrupted delivery of this valued service during the COVID-19 pandemic. Six virtual courses were delivered to 183 delegates, with 100% agreeing that the courses met their intended goals and would be useful in their day-to-day work.

This year we also introduced an annual attestation framework designed to help employers better understand their key responsibilities under the scheme to ensure that the scheme operates effectively. This framework has provided employers with greater clarity on how the scheme works and, as a result, has assisted them in managing their participation more efficiently.

88%
of employers rate their overall relationship with USS as 'good' or 'very good'

86%
of employers rate the way in which we communicate with them as 'good' or 'very good'

87%
of employers rate the overall quality of support we provide as 'good' or 'very good'

In addition, our dedicated engagement and relationship management teams have continued to provide day-to-day support to employers in key areas of processing. The benefit of this investment in support continues to be seen. Despite the ongoing challenges from the pandemic and remote-working, more than 97% of employers consistently achieved their processing targets in key areas, such as processing contributions. This has also contributed to an increase in employers' rating of the overall quality of support we provide with 87% rating this as 'good' or 'very good' in 2020/21 (2019/20: 81%).

Employer focus

We have continued to build on our suite of employer-focused tools. During the year, we extended coverage of our quarterly Client Management Information Dashboards. Collectively, those employers receiving the quarterly dashboards now represent over 94% of the scheme's active membership.

Further enhancements to our Client Relationship Management system and Client Feedback Tracker have allowed us to improve our coordination and prioritisation of the resolution of issues. This has contributed to an increase in the percentage of employers who rated our ability to resolve their issues or questions, with 93% now rating this as 'good' or 'very good' (2019/20: 83%).

We have also taken steps to reduce the administrative burden on employers by moving to a more direct and digitised service for members. During the year, as part of our ***Direct to Member*** initiative, we issued Annual Member Statements directly to approximately 193,500 members, rather than asking employers to distribute them on our behalf as had been the previous practice.

Employer communications

Employers want timely, targeted and streamlined communications. We issue a monthly communication to all employers and provide additional updates on specific topics as required. This has included several communications and updates to our online Employer Portal content aimed at helping employers manage the impacts of COVID-19.

> **Quick turnaround times and query resolution times. Excellent technical knowledge within specific teams.**
>
> **Employer Perception Survey**

We continually review and assess the way in which we communicate with employers. In collaboration with the employer focus group, we have made changes to the look, feel and content of our key employer communications and online Employer Portal. This has had a positive impact on the percentage of employers rating our overall performance in how we communicate with them as 'good' or 'very good', which increased to 86% from 75% in the prior year. In addition, 82% of employers rated the usefulness of the online Employer Portal content as 'good' or 'very good', an increase of 10 percentage points on last year.

Looking ahead

Building on our success this year, in 2021/22, we will:

- Increase our engagement with employers at a more strategic level to gain a greater understanding of their increasingly diverse needs and priorities
- Further reduce the administrative burden on employers by increasing direct and digitised services for members
- Continue to support employers in key areas of processing through targeted education and selective engagements
- Assist employers in managing their participation so that the scheme operates effectively
- Tailor our communications, with a greater focus on effectiveness.
- Further evolve the employer training programme through the introduction of online training videos and support
- Support employers in preparing for any changes to contributions or benefits that the scheme's stakeholders decide to implement as part of the 2020 valuation

> **Excellent training presentations online. Excellent online trainers and training ... website is now much easier to use.**
>
> **Employer Perception Survey**

Our people approach

We work to attract, retain and reward the best talent in a motivated workforce that consistently delivers the quality of service, support and value for money our stakeholders expect

People priorities

- **Management capability**
- **Health and wellbeing of our employees**
- **Senior leadership succession planning**
- **Maintain high levels of employee engagement**
- **Diversity and Inclusion progress**

Against the backdrop of the COVID-19 pandemic, we continued to invest in our people, prioritising their health and safety while helping them navigate the changes to their working environment.

The safety and wellbeing of our employees is a top priority. To this end, we ensured all of our employees were quickly able to work safely from home until they could return to the office. With considerable management, IT, and facilities support, we maintained almost all normal activities to meet the scheme's needs and those of our members.

At the same time, we focused on helping our managers better understand and manage their teams and the wider organisation more effectively.

Talent cycle

Our talent management and succession planning strategies are now embedded at all levels to ensure we have strong successors for many of our critical roles. Long term investment in succession is motivational, develops loyalty to our purpose and provides value for money. This approach has already proved valuable and we have made several senior appointments to executive committees from our existing team over the past year, while recognising that we will not fill every role internally.

Resourcing

Hiring the best talent to deliver the best service remains a strategic imperative. Our resourcing partners are integral to the success of our Diversity and Inclusion plans and work in close partnership with hiring managers to ensure the plans are delivered.

This year we adapted our resourcing approach to a virtual recruitment model as a result of the COVID-19 pandemic and subsequent lockdowns to ensure there was no disruption to the business. New hires were successfully recruited and onboarded in this way, and both candidates and employees gave positive feedback about their experience despite the challenges presented by starting a new role in a fully remote working environment.

USS employee engagement

Despite a difficult operating backdrop over the past year, our employee engagement scores have generally increased and continue to be in line with our benchmark. This is a strong result, driven by our focus on developing our people and our management teams in particular.

While lower than last year, participation levels in our annual engagement survey remained high at 79%, recognising that we also conducted a number of pulse surveys during the year to monitor specific items relating to operating from home. Scores relating to our key areas of focus all showed significant increases this year. Our ability to provide a high-quality service depends on a motivated and engaged workforce, and we were pleased to see our employees scored highly on their understanding of how their roles support team goals (8.6/10).

> **"The commitment of USS employees to the Purpose and Values of the organisation is exemplary and has continued, in terms of both focus and delivery, as we quickly adapted to working from home throughout the year. The best interests of the employers and members are incorporated in the objectives of all employees."**
>
> **Kevin Purcell**
> Chief Human Resources Officer

Purpose and Values

During 2020 we launched Making our Values Matter training, supporting leaders in understanding how their strengths align to the values and how to role model these with their staff.

This also included equipping leaders to conduct sessions with their teams to bring the values to life, engage their teams and embedding these in our people processes.

This follows the rollout of our new purpose and values in 2019.

See our website for more information regarding USS purpose and values, which guide the USS management approach at **uss.co.uk/about-us/purpose-and-values**

Achievements this year

Senior appointments

Senior appointments successfully recruited and onboarded.

Health and Wellbeing

Mental health training introduced and completed for all line managers.

Diversity and Inclusion

Implemented a robust Diversity and Inclusion action plan.

Upskilling management

Enhanced training to advance managers' skills and capabilities, with a focus on risk and people.

Note, annual training days reduced due to the impact of the pandemic on in-person learning and the time needed to move to virtual delivery.

USS engagement survey

79% of staff participated:

7.9/10
Overall engagement

8.6/10
"People from all backgrounds are treated fairly at USS".

8.6/10
"I understand how my work supports the goals of the team".

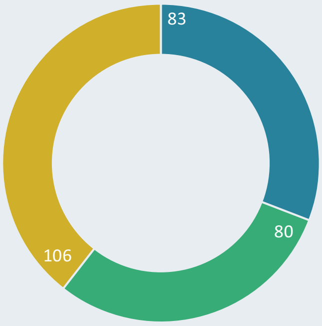
Mandatory e-learning completion rates

100%

- Anti-bribery and corruption
- Anti-money laundering
- Preventing market abuse
- Information security
- Data protection

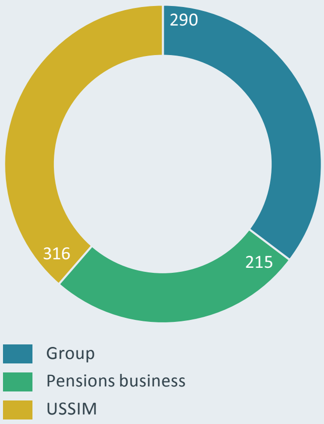
Total training days

269 (down 75%)



Total training course attendees

821 (down 46%)



Diversity and Inclusion

We are committed to promoting diversity in all its forms at USS and our Diversity and Inclusion programme supports this goal. We continue to make progress in our goal to build an inclusive and supportive environment where everyone feels able to be themselves at work, creating a more positive working experience.

Endorsed and supported by senior executives, our volunteer D&I Champions and the HR team, our approach delivered actions across five key priorities. For example, we published guidance for hiring managers to create a positive and fair candidate experience and all adverts and role profiles are analysed for any gender bias in the language used and amended accordingly.

Elsewhere, we set up an Internship programme across our sites for the summer of 2021, with interns joining us from a range of backgrounds. Recruitment was facilitated by both the 100 Black Interns programme and SEO London, which focused on social mobility. We also enhanced our internal communications to better educate staff and launched our new external site www.uss.co.uk/about-us/purpose-and-values/diversity-and-inclusion.

> **I have been hugely impressed with how the organisation adapted to home working within a very short period of time, ensuring that the range of services, including training, provided to our members and employers continued at the highest standard during this challenging time.**
>
> **Helen McEwan**
> Chief Pensions Officer

Investment matters

Our financial year was dominated by managing the impact of the pandemic, ensuring our decisions continued to be made for the long-term benefit of our members and focussing more than ever on Environmental, Social and Governance (ESG) issues

Simon Pilcher
Chief Executive Officer of USSIM

As I described last year, COVID-19 hit financial markets hard in March 2020, and even the UK government bond market buckled, contrary to the accepted wisdom of how markets 'should' react. Our immediate concern was ensuring the scheme had enough cash to support its needs. As a long-term investor that exists to pay members' benefits, we were quickly able to take advantage of market opportunities where they matched our long-term investment strategy.

We increased our overall exposure to liability-matching assets while maintaining a diversified portfolio across different types of investments. For example, we bought UK inflation-protected government bonds and sold US fixed income Treasuries while we increased our allocation to corporate bonds issued by high quality companies.

We also invested more than £4 billion in private market assets. Private market assets such as critical infrastructure, property investments, and green energy businesses are typically difficult and expensive for individuals to own. Key investments during the year included G.Network, a London-based full-fibre broadband business connecting both private and commercial customers to rapid download speeds. The case study on page 23 provides further detail.

Our ability to react in these ways is underpinned by our active investment approach. We remain fully cognisant that a passive approach would reduce scheme costs but the limitations it would place on a scheme of our size would be very damaging. The nature of liquid markets limits our ability to hedge our pension liabilities efficiently. Access to private markets is a vital tool in overcoming this. As a result of our approach, the correlation of our DB assets to liabilities over the last two years was 18% higher than the passive benchmark; we are working to increase this further.

Our active approach also enables our ESG advances. Last year I detailed a new exclusions policy, launched by USSIM, following a review of how societal and regulatory changes might affect the long-term performance of parts of our portfolio. This review identified some sectors, such as tobacco, where we felt that consumer views and regulatory approaches were likely to impact their future financial performance.

As a result, we published that we would no longer be investing in these sectors and that where we already held investments in such industries, we would begin to divest. A year on, I am delighted to confirm that the Retirement Income Builder has substantially completed this exercise. The Investment Builder has also made substantial progress in this regard. Earlier this year, we announced the creation of a new role within USSIM – that of the Head of Strategic Equities. This will (amongst other things) enable us to integrate long-term themes such as ESG, into our equities investments more effectively.

More recently, we were delighted to announce our ambition to become Net Zero by 2050, if not before. We must play our part in ensuring that the world can limit the rise in temperature by minimising greenhouse gas emissions. We are not stopping there. We plan to integrate that ESG thinking more broadly into our wider product suite.

While 2020 was undoubtedly a challenging year, through careful management and thoughtful action, we navigated our way through the pandemic. Early in the year, equities fell sharply and our private assets also contracted in value albeit not to the same extent. Since then, public markets have soared, but our private assets – which generally are less volatile than public markets, have not recovered by as much. During the 12 months to 31 March 2021, the Retirement Income Builder generated returns of 20.50% while the Reference Portfolio benchmark returned 23.98% (see page 21 for an explanation of the Reference Portfolio). Whilst lagging the Reference Portfolio somewhat, the returns were vastly better than those of the Liability Proxy (which returned 2.07%). Over the last two years covering the onset of the pandemic and the subsequent market rally, the portfolio returned 8.78% annualised, outperforming the Reference Portfolio (by 0.44% p.a.).

The equivalent annualised number for five years was 9.75%, slightly lagging the Reference Portfolio (by 0.24% p.a.). This represents the first financial year end since 2013 that our DB assets underperformed the Reference Portfolio over a five-year period.
This is partly due to the private market valuation impacts I mention above, and some adverse asset allocation positions in the wake of the 2016 Brexit vote, and is set against a backdrop of outperformance against liabilities over one, two, five and 10 years.

The Investment Builder performed well during the period, also reflecting the bounceback in public markets. The default funds (representing around 75% of the total held in the defined contribution section) and the ethical lifestyle funds delivered double digit returns over the year. Please see page 23 for more detail.

Simon Pilcher
Chief Executive Officer of USSIM

About the Retirement Income Builder

The Trustee Board sets a Reference Portfolio for the Retirement Income Builder. This is an allocation across mainstream investment types or 'asset classes' (global equities, UK property, government, corporate and emerging market bonds), consistent with the scheme's risk appetite. The Reference Portfolio is expected to deliver returns significantly above the Liability Proxy over the long-term. The Liability Proxy is an annually updated liabilities reference portfolio used for risk management and return comparison. It differs from Actuarial Liabilities used in monitoring the deficit which, as laid out on page 28, have been materially impacted by reductions in expected future returns and developments in the market view of future inflation.

USSIM is a wholly-owned subsidiary of the trustee. It is mandated to implement the trustee's investment programme and does so across a broad range of public and private assets. Private assets are expected to reward patient investors over a long time horizon due to the greater governance rights we have and the higher return we expect to earn in exchange for the investments' illiquidity. As we have seen recently, their valuations can also exhibit lower levels of price volatility than mainstream equities.

The returns of the Reference Portfolio can be measured via readily available performance data. USSIM is tasked with outperforming the Reference Portfolio, currently by 0.55% or more on an annualised basis, net of costs, over rolling five-year periods with asset-liability risk similar to the Reference Portfolio.

The table on page 22 sets out the approximate distribution of the scheme's assets (Implemented Portfolio) as at 31 March 2021 and compares it with the Reference Portfolio. As shown in the table, the Implemented Portfolio displays a more diversified investment mix, with less concentrated exposure to mainstream equity assets and a sizeable allocation to private market investments.

Photo: Tom Stables

Moto case study

USS invested in Moto, the UK's largest Motorway Service Area business, in 2015, and remains the controlling shareholder.

As the country's largest motorway services business operating more than 50 locations, USS was attracted to invest not just because of its size but due to the essential service that it offers UK drivers: a place to rest, refuel, restock and eat at one of over 300 branded restaurants, shops and forecourts. Partner brands include Marks & Spencer, Greggs, Costa Coffee, Burger King, WH Smith, KFC, Pret A Manger, BP and Ecotricity.

In a typical year, Moto caters for around 120 million customer visits but the pandemic and subsequent lockdowns brought the normal steady flow of visitors to a virtual standstill. However, as the services it provides are so important to the country, Moto kept all of its sites open during 2020 to enable the likes of delivery drivers, NHS workers and other emergency services to continue to go about their work safely. Indeed Moto, fully supported by its investors, went a step further in doing its bit during a national crisis by offering emergency service vehicles free fuel and NHS workers free hot drinks as well as 50% discounts on food.

With the UK slowly emerging from under the shadow of COVID-19, Moto has continued to invest in the business – opening its first new motorway services area in more than a decade. The site at Rugby on the M6 was a £40m investment which opened in April. This marked not only positive momentum in the business but also a step change in the company's environmental credentials.

From the structure of the building, to how it is powered, to the installation of 24 high-powered chargers for electric vehicles – 12 Tesla chargers and 12 Ecotricity chargers, ESG considerations have been central to the planning and design. For example, a large roof overhangs the south-facing approach to reduce the need for cooling, the glazing has been deliberately used to avoid overheating in the summer months while the building also uses a highly efficient thermal envelope to reduce the need for energy demand.

Meanwhile, the main building has been fitted with an external biomass boiler which will generate heating and hot water, ensuring energy from sustainable sources is used.

Performance of the Retirement Income Builder

The 12-month period to 31 March 2021 saw major fluctuations in markets, commencing with a crash, but recovering in much of the world to near pre-pandemic levels.

Our active investment strategy saw the scheme make a number of valuable decisions during the months immediately preceding the worst effects of the pandemic as well as the period after.

Over the last two years impacted by the pandemic, our asset allocation decisions have added around 1.7% cumulatively to performance, adding around £1bn of value to Retirement Income Builder assets. This has been partially offset by private asset performance which as we note elsewhere has not kept pace with the recovery of liquid markets supported by concerted actions of governments and central banks.

However, as a scheme that invests for the long-term, the overall performance was affected by the market swings. With a large percentage of our investments in privately-held assets, while markets fell, USS reported extraordinary outperformance over the Reference Portfolio.

This is because our private assets, although values contracted, did not fall in line with public markets. However, as markets recovered, so the reverse was also true and private asset values did not keep pace with their public counterparts.

Over five years to end March 2021 the scheme significantly outperformed the low-risk Liability Proxy (by 3.45% per annum) but slightly lagged the Reference Portfolio (by 0.24% per annum). Over 10 years, the scheme has outperformed both the Liability Proxy and the Reference Portfolio and its predecessor benchmark. The proxy, which is described on page 21, differs from Actuarial Liabilities on a monitoring basis which, as laid out on page 30, have been materially impacted by reductions in expected future returns and by planned convergence of CPIH and RPI.

It is in the long-term interests of the scheme, and in the interests of our members, for us to invest in a diverse array of investments. Whilst not the case in the last 12 months, our private assets have outperformed their liquid benchmarks over the last five years and we believe will continue to pay dividends over time.

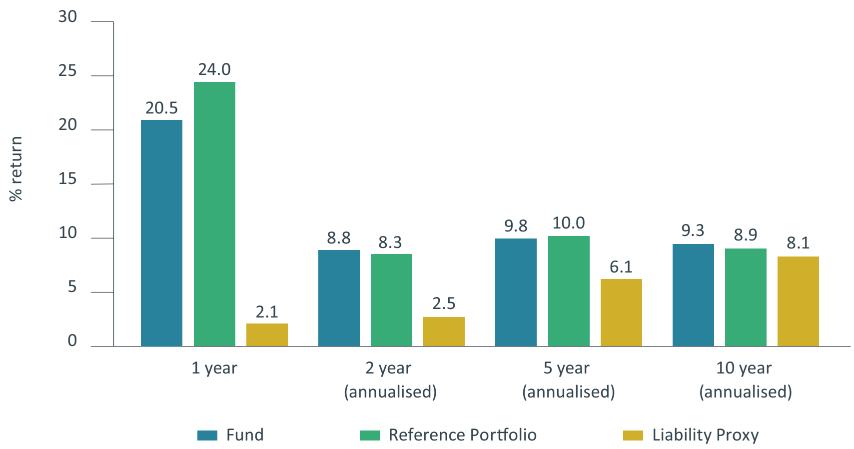
In coming periods we will be reviewing the strategic shape of the investment portfolio to ensure that we are prepared as the world seeks to rapidly decarbonise. It will require major investment into new technologies and a redesign of many business models. We will be working closely with the management teams of the companies in which we invest to encourage them to embrace change.

We will also be making additional investments in businesses (many of which will be private) that will lead the way towards a low-carbon world. We are convinced that this too is in our members' interests, for this will lead both to a better environment in which we all can live, but also is essential for us to continue to generate the returns that are needed in order to pay our members their pensions as they fall due.

Retirement Income Builder asset distribution

	Implemented Portfolio %	Reference Portfolio %	Difference %
Listed Equities	39.40	55.00	(15.60)
Property	5.30	6.50	(1.20)
Other Private Markets	23.30	0.00	23.30
Commodities	1.00	0.00	1.00
Absolute Return	0.40	0.00	0.40
Nominal Government Bonds	5.20	0.00	5.20
Index Linked Bonds	31.50	36.75	(5.25)
Other Fixed Income	12.20	17.00	(4.80)
Cash and Overlays	(18.30)	(15.25)	(3.05)
Total	**100.00**	**100.00**	**0.00**

Retirement Income Builder performance



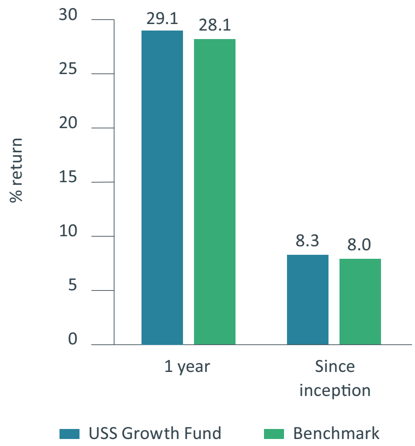
About the Investment Builder

The defined contribution element of the scheme offers members the option to manage their own investments, the Let Me Do It Option, or to have their investments managed for them, the Do It For Me Option, or to select a mix of both options, if they are building their pot in more than one way.

In the Do It For Me Option, members can choose from two lifestyle options, the USS Default Lifestyle Option and the USS Ethical Lifestyle Option.

The Let Me Do It Option offers members 10 funds where they can be actively involved in making investment decisions. These options include multi-asset funds, developed market equities, emerging market equities, bonds, cash, ethical, and Sharia funds.

USS Growth Fund performance



DC default strategy

In the default strategy, savings are invested in a mix of investment types that evolve in a lifestyle manner as members approach retirement. Members with more than 10 years from normal retirement age and invested in the USS Default Lifestyle Option are fully allocated to the USS Growth Fund.

However, as members get close to retirement, USS increases protection for their assets by moving assets progressively into the USS Moderate Growth Fund, the USS Cautious Growth Fund and USS Liquidity Fund, designed to deliver a smoother return path.

The USS Growth Fund invests in an equity-rich asset mix that is diversified across public and private investments to help reduce risk and deliver attractive risk-adjusted returns. Growth investments offer the opportunity for a higher return on a member's pension savings but also imply a higher level of risk, so the USS Default Lifestyle Option invests in these types of investments at a time when there are many years left for members' savings to recover from possible losses.

At 31 March 2021 the majority of DC assets were invested in the USS Growth Fund (£794m).

G.Network case study

In December 2020, USS announced a major investment in a rapidly-growing London-based broadband company, G.Network. The company, which was only established in 2016, had already become a leading 'alt net', providing ultra-fast internet speeds to 170,000 residential and commercial premises in areas underserved by traditional players.

Our investment, alongside a broader fundraising, enabled the company to raise more than £1 billion and will create 1,250 jobs. This investment will support G.Network's planned rollout to connect 1.4 million premises to full fibre broadband within five years.

The need for fast, reliable internet speeds was already important before the pandemic but became crucial over the last year when millions of people were forced to work and study from home. The situation shone a spotlight on the UK's languishing global position on internet speeds as other countries have benefitted from full fibre while the UK has largely continued to rely on old legacy copper technology.

Fibre, which can enable someone to download or upload a 4k film in three minutes, or simultaneously allow gaming, video streaming, access to work file networks and video conferencing, is the only technology widely available that can make this all happen affordably and reliably.

USS had been looking for some time at making an investment in the sector firstly because of the essential nature of broadband services and secondly because the 30-year or more lifespan of the fibre infrastructure. The latter, coupled with a supportive regulatory environment which allows investors to make fair returns on their investment, meant that the sector was suited to a long-term investor like a pension scheme. This investment gives us access to growing and long-term predictable cash flows by investing in the build and growth phase at a cheaper cost than acquiring a mature fibre network in the future.

Investment Builder performance

	1 year %	Benchmark %
Growth Fund	29.1	28.1
Moderate Growth Fund	23.4	22.2
Cautious Growth Fund	17.8	16.9
Liquidity Fund	0.2	(0.1)
Global Equity Fund	39.7	39.3
Emerging Markets Equity Fund	54.3	45.2
UK Equity Fund	26.5	29.9
Ethical Equity Fund	41.3	38.6
Bond Fund	4.6	5.4
Sharia Fund	37.2	37.6
Ethical Growth Fund	28.6	28.8
Ethical Moderate Growth Fund	21.3	22.2
Ethical Cautious Growth Fund	15.5	16.5
Ethical Liquidity Fund	0.2	(0.1)

Performance of the Investment Builder

The returns for the Investment Builder funds over the 12 months to 31 March 2021 were boosted by the performance of equity markets. The default funds (comprising the USS Growth Fund, USS Moderate Growth Fund, and USS Cautious Growth Fund) delivered double digit absolute returns over the past 12 months and continue to deliver on their respective objectives since inception. The ethical lifestyle growth funds also delivered double digit returns over the same period, continuing to deliver on their respective objectives since inception, while adhering to the USS Ethical Guidelines.

All 10 Let Me Do It funds all delivered positive returns over the 12 months to 31 March 2021 although the UK Equity, Bond and Sharia Funds underperformed their respective benchmarks. The Emerging Markets Equity Fund significantly outperformed its benchmark over the year, with strong performance from the underlying investment managers. The Ethical Equity Fund also outperformed its benchmark, due in part to its exposure to the technology sector. Since inception, all Let Me Do It funds have outperformed their benchmarks except for the UK Equity and Bond Funds.

In July 2020, the respective benchmarks for the default and ethical growth funds were amended to better reflect the long-term targets of the funds following a review by the trustee. In October 2020, the benchmark for the Bond Fund was also amended following a change to the underlying investment manager.

Responsible Investment

We believe that promoting high standards of environmental, social and corporate governance (ESG), and investing responsibly in quality companies, reduces the risk associated with investing, and improves our ability to meet the pension promises made to members by scheme employers. That is why the concepts of active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to our Investment beliefs and principles.

As detailed earlier in this section, 2020 marked an important year in the development of a more integrated approach to Responsible Investment (RI) in our investment strategy. Our developed equities portfolio moved to an external manager while we moved towards a longer-term thematic approach, integrating ESG factors into our portfolio design and investment decision-making. This will include, for example, focusing more on the impact of ESG issues and other long-term factors as a driver of investment themes and how they should shape the portfolio in the years to come.

We also announced the exclusion of certain sectors which were deemed to be financially unsuitable over the long-term. These were: tobacco manufacturing; thermal coal mining (the mining of coal to be burned for electricity generation), specifically where this makes up more than 25% of revenues; and, certain controversial weapons.

We are already largely divested from these investments where we have control – nearly a year ahead of our original timetable of May 2022. These exclusions will be kept under review and may be changed or added to over time and are being made across the Retirement Income Builder and the Investment Builder.

But this is only the start of this new chapter for USS.

April 2021 saw the important announcement of our ambition to become Net Zero for carbon by 2050, if not before. This was a major milestone for the scheme and will be reliant on USS Investment Management achieving this goal while managing its fiduciary duties.

DC case study

Last year on these pages we detailed the continued innovation in our Investment Builder product that enabled members to access the benefits of our private markets investments for the first time.

Over the past year we have gone one step further and now the USS Default Lifestyle Option and the Global Emerging Markets Let Me Do It fund also include an allocation to our highly successful Global Emerging Markets team (GEMs). This team, which was set up in 2010, invests in regions such as Greater China, Korea and the Indian subcontinent and over the last decade to 31 March 2021, generated annualised 2.1% outperformance versus benchmark.

However, in our efforts to create a truly aligned product for members, we are not stopping there. As it is clear from the Responsible Investment section, during 2020 we not only launched our exclusions policy but also looked more broadly at how we adapt to rising concerns about ESG, particularly climate change.

This included the rollout, in conjunction with the University of Maastricht (who had been seeking a partner on an ESG project of this nature), of a major survey of members' views in order to capture their perspective of ESG. Among other things, members indicated that ESG considerations were important to them, as well as providing direct feedback on individual areas which will help us review the guidelines that govern our ethical investment options.

We are looking forward to starting this work in earnest later on this year and will provide further updates as we have further announcements to make.

We are now in the process of developing short, medium and long-term targets so that we can track our delivery of this ambition. They will include extensive work internally to review the constituents of our portfolios in a transitioning world, the suitability of our internal performance benchmarks, as well as our existing portfolio of renewable energy sector investments to see how this can be best developed. We will also need to work closely with our direct investments to ensure they have plans in place to decarbonise.

But perhaps one of the biggest opportunities will be in how we collaborate with other asset owners to encourage the management teams of the companies and other assets in which we invest to materially enhance their progress in this area – and what we collectively decide to do when they do not move fast enough. The same is true for the need to work together to encourage our external fund managers to play their role in the transition.

This will be a major piece of work that will take time, but we are confident that we have the right plans in place to make this a reality.

Stewardship

As previously noted, during 2020 we moved from a relatively concentrated portfolio of equities to a much broader and more diverse spread of investments and have therefore increased our participation in collaborative engagements, working more widely with other investors to promote good practice. Examples of collaborations include:

- Signing a joint investor letter to mining companies to ask them to report on how they manage Aboriginal land rights
- Joining other investors in writing to UK-listed companies where it was unclear how they were complying with the UK Modern Slavery Act
- Supporting engagement with large tech companies on human rights, including how they control the live streaming of terror events

Voting

As active, long-term investors, exercising our voting rights is one of our stewardship activities. Having the right to vote on decisions made by the boards of these companies is one of the most effective tools we have for holding them to account and encouraging good governance.

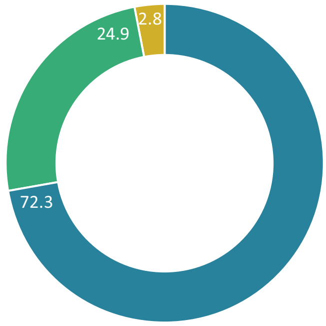
During the 12 months under review, USS voted on 13,553 resolutions at 1,066 events across 950 companies. Our voting pattern can be viewed in the pie chart.

We voted against management's recommendation on at least one resolution at around 75% of these companies, typically on remuneration or sustainability-focused resolutions.

We review our voting policy annually and publish it on our website along with our voting record. From the 2021 AGM season we have made changes related to our policy on climate change and executive remuneration.

More details of the scheme's approach to Responsible Investment are provided in the Implementation Statement on pages 101 to 118 of this report.

USS global votes April 2020 – March 2021[1]



Note

1 In line with the Implementation Statement on pages 101 to 118, voting data is now presented for the financial year whereas previously it was shown for a calendar year. For the period January to March 2020, our voting record was 75.6% for and 22.3% against management recommendations and 2.1% abstain.

Top 20 investments

Below are the top 20 holdings in the scheme (excluding the external manager mandates laid out earlier in this section) which total £20.1bn as at 31 March 2021.

Asset grouping	Asset description
Nominal Government Bonds	USA Bond Fixed 1.375% 15/02/2044 USA Bond Fixed 0.625% 15/02/2043 USA Bond Fixed 0.75% 15/02/2042 USA Bond Fixed 0.75% 15/02/2045
Inflation Linked Government Bonds	UK Gilt Infl. L. 0.375% 22/03/2062 UK Gilt Infl. L. 0.125% 22/11/2065 UK Gilt Infl. L. 1.25% 22/11/2055 UK Gilt Infl. L. 0.125% 22/03/2044 UK Gilt Infl. L. 0.75% 22/11/2047 UK Gilt Infl. L. 0.50% 22/03/2050 UK Gilt Infl. L. 0.125% 22/03/2058
Fixed Income Government Bonds	UK Gilt Fixed 0.625% 22/10/2050 UK Gilt Fixed 0.125% 23/03/2068 France Fixed 0.10% 25/07/2047 USA Bond Fixed 0.25% 15/02/2050 USA Bond Fixed 0.125% 15/02/2051
Private Inflation Linked Equity	Heathrow Airport Holdings Limited Redexis Gas S.A. Virginia International Gateway
Private Equity	Moto International Holdings Limited

Report on actuarial liabilities

Actuarial valuations: how we protect the promises made to members

Funding ratios
(using technical provisions liabilities)

95%
Actuarial valuation at 31 March 2018

84%
Funding update of 2018 valuation at 31 March 2021

Overview

As the trustee of USS, we must regularly carry out an actuarial valuation of the scheme's funding. A valuation establishes whether, at a certain date, we believe the scheme will have enough money for us to be able to pay the pensions that our members are expecting, now and long into the future. We last completed a valuation as at 31 March 2018. Part of the conclusion of that valuation was an agreement that we would carry out a further valuation as at 31 March 2020.

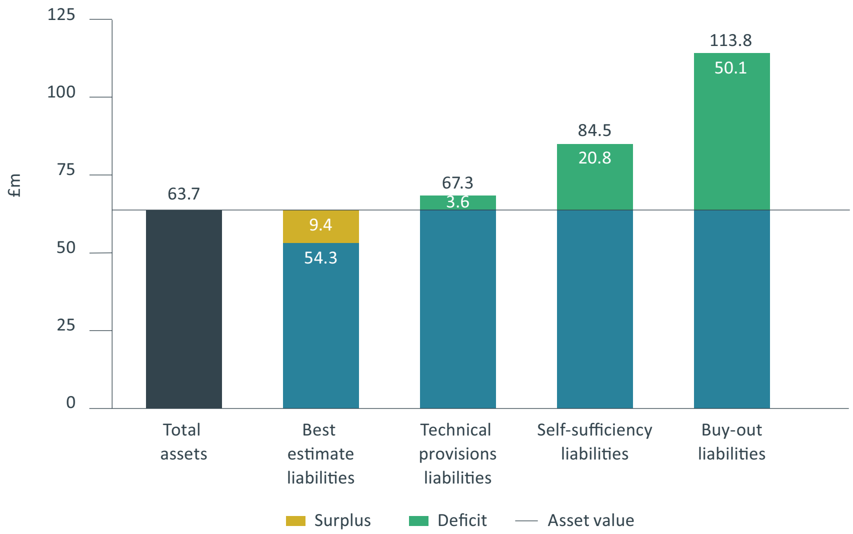
The actuarial valuation as at 31 March 2020 has been an important focus of attention for the trustee, its advisers and stakeholders over the financial year and is still ongoing. A summary of progress to date on the valuation can be found on page 28. More detailed and regularly revised update information is available at uss.co.uk/about-us/valuation-and-funding/2020-valuation.

In the absence of a finalised triennial valuation, the trustee continues to monitor the financial progress of the scheme against the Financial Management Plan (FMP) developed following the 2018 valuation.

Below, we show the results of the last valuation, at 31 March 2018, across a range of approaches. These results reflect different levels of certainty of being able to provide the promised benefits.

The 'best estimate' value represents an amount which we believe would be adequate if all our assumptions were borne out in practice. The amount on a best estimate basis does not make an allowance for prudence and has a 50% chance of being more than is required to pay the benefits and 50% of being too little.

USS (DB element) funding position as at 31 March 2018



The technical provisions value is the best estimate plus an allowance for prudence. This is the figure we use in finalising the valuation. In the 2018 valuation it was the value we estimated to have about a 67% chance of being sufficient to pay all the benefits when due. A more detailed explanation is set out below in "How we measure the financial position of the Retirement Income Builder".

The self-sufficiency value reflects the value of assets required to pay, with a high probability, all the benefits members have built up so far, using a low-risk investment strategy without any further contributions. In our view, it has a more than 95% chance of being enough to be able to meet all the benefits as they fall due.

The 'buy-out' value is effectively the cost of buying near certainty of all earned benefits being paid – it represents the estimated cost of paying for an insurer to provide the benefits.

The actuarial valuation at 31 March 2018 was finalised in September 2019. This followed a thorough and robust review of the scheme's financial position including extensive consultation with the scheme's stakeholders. This resulted in a new set of contribution requirements from 1 October 2019, with a further increase to member and employer contributions being planned for 1 October 2021. The 84% funding level as at 31 March 2021 is based on updating the 2018 valuation results on an approximate basis using our monitoring approach which allows for changes in market value of assets, expected future investment returns, the expected changes in membership and includes an estimate for the impact of the Government announcement that RPI is being aligned with CPIH from 2030. This is shown in more detail in the section titled 'How the funding position has changed since the 31 March 2018 valuation' on page 28.

The USS benefit structure

Members build up benefits on what is called a Career Revalued Basis in the Retirement Income Builder in respect of salary up to a threshold (£59,883.65 from 1 April 2021). This threshold is adjusted each year in line with the Consumer Price Index (CPI) measure of inflation (subject to certain restrictions).

Above this salary threshold, defined contribution (DC) savings are built up in the Investment Builder. These DC benefits are funded by 8% and 12% of salary above the threshold being paid into the Investment Builder by members and employers respectively. The remainder of the contributions are paid into the Retirement Income Builder; the level of total contributions each year arising from the 2018 valuation is laid out in the table below.

Contributions from sponsoring employers and from scheme members into the Retirement Income Builder, together with the investment returns earned, are used to pay benefits to members and/or their eligible dependants and to pay the costs of operating the scheme.

	Member	Employer
Contributions to 31 March 2019	8.0%	18.0%
1 April 2019 to 30 September 2019	8.8%	19.5%
1 October 2019 to 30 September 2021	9.6%	21.1%
1 October 2021 onwards	11.0%	23.7%

For more information on the scheme's benefits please refer to the USS website at uss.co.uk/for-members

How we measure the financial position of the Retirement Income Builder

The main way we measure the financial position of the Retirement Income Builder is by comparing the current level of its assets with our estimate of the current value of its liabilities. We determine the current value of the assets at a particular point in time, using their market value at that date. In estimating the current value of the liabilities there are inherent uncertainties. These uncertainties include the future rate of return on investments, the future level of inflation, the length of time a pension might be paid for, and the possibility that a survivor's benefit might be paid. We use estimates or 'assumptions' of these factors. We then determine the value of the liabilities by calculating the amount of assets that would be required today in order to meet, in full and without additional contributions, the benefits members have already earned up to the date of the valuation. We aim to fund the scheme with an appropriate level of certainty, and to ensure that the reliance on employers to make good any shortfall remains at an acceptable level over time.

As noted above, the actuarial valuation as at 31 March 2020 is not yet finalised. The most recently completed full review of the funding position was the actuarial valuation as at 31 March 2018. In any actuarial valuation, a value is placed on the liabilities assuming that the scheme is ongoing, which is known formally as the 'technical provisions'. It is this technical provisions basis that is typically used when referring to the value of the scheme's liabilities.

In addition to technical provisions, we are required by law to value the scheme's liabilities on a buy-out basis as described on the previous page. This provides a further reference point for assessing the health of the scheme, although neither the trustee nor the scheme's stakeholders have any plans to buy-out the scheme with an insurance company.

At every actuarial valuation we review all of the underlying assumptions relating to the Retirement Income Builder. We then consult the employers to obtain their view of our proposed assumptions. Our final set of assumptions following consultation with the employers for the 2018 valuation is shown on page 32. The consultation in relation to the 31 March 2020 valuation occurred in the latter part of 2020, and our response to this and the resulting contribution requirements are being considered by the Joint Negotiating Committee, made up of representatives of employers and members.

How the funding position has changed since the 31 March 2018 valuation

As part of our overall monitoring of the Financial Management Plan, we regularly monitor the funding position under several metrics. These metrics include funding positions under both technical provisions and self-sufficiency approaches. The self-sufficiency position provides a measure of the amount of risk in the scheme and the level of reliance on the sponsoring employers. These updated funding positions do not involve the same detailed review of all the underlying assumptions that happens with full valuations, including the ongoing 2020 valuation. As the 2020 valuation is still underway, we have shown the funding position as at 31 March 2021 using the monitoring approach adopted for the 2018 valuation. We have allowed for expected benefit payments and changes in membership since 2018 and updated for changes to market conditions and investment return expectations.

Funding position based on the 2018 monitoring approach

The table below summarises the funding position of the scheme each 31 March since 2018 on the 2018 monitoring basis using the approach described above.

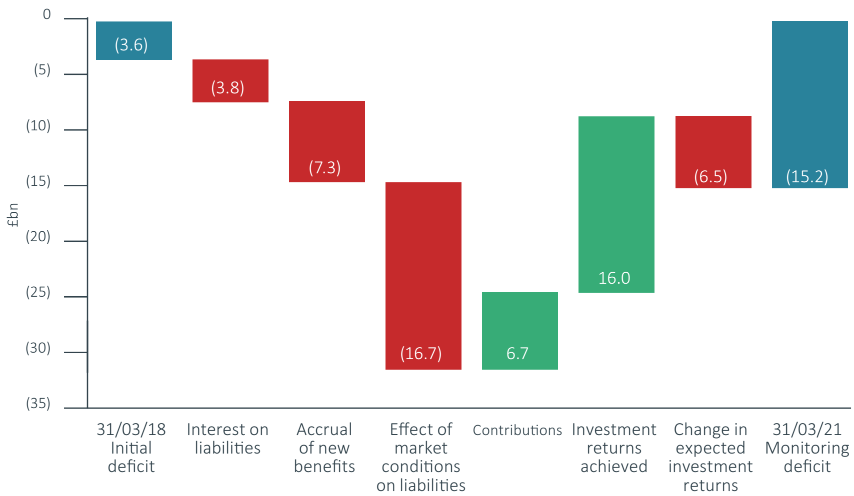
As at 31 March £bn	Funding update 2018	Funding update 2019	Funding update 2020	Funding update 2021
Value of assets	63.7	67.4	66.5	80.6
Value placed on liabilities	67.3	72.8	79.4	95.8
Deficit	3.6	5.4	12.9	15.2
Funding ratio	95%	93%	84%	84%

The above table shows that the deficit on the monitoring approach has increased by £2.3bn, from £12.9bn as at 31 March 2020, as although assets rose by £14.1bn (see Investment matters section, page 20), liabilities rose by £16.4bn.

We note that the value of liabilities at 31 March 2021 presented here does not reflect the same assumptions we will use to finalise the 2020 valuation and in particular the impact of movements over the year to 31 March 2021 will differ under the different measures.

The resulting deficit at 31 March 2021 has risen by £11.6bn relative to £3.6bn at the 2018 valuation. The chart below details the underlying drivers of the change in the deficit using this monitoring approach.

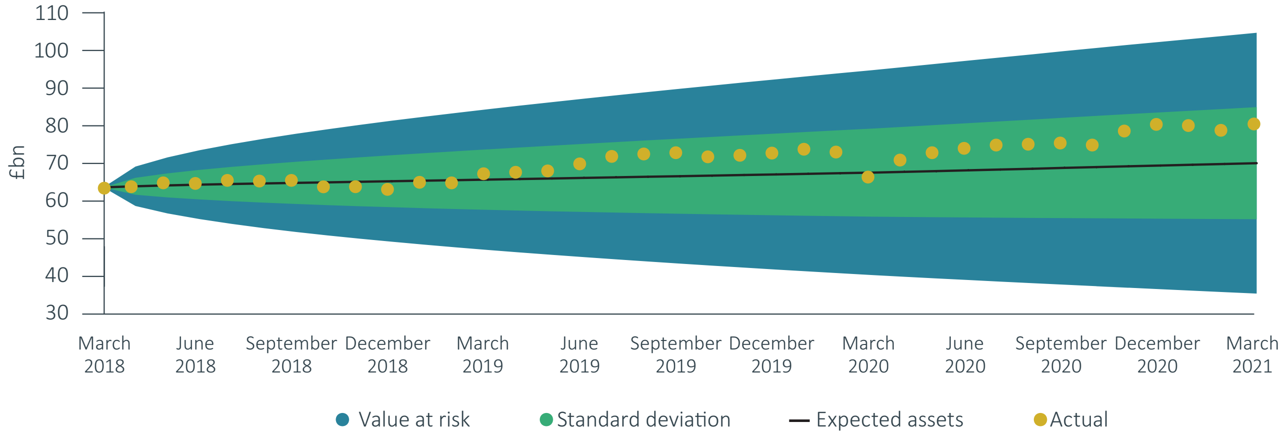
Change in deficit since 2018 valuation (monitoring approach)



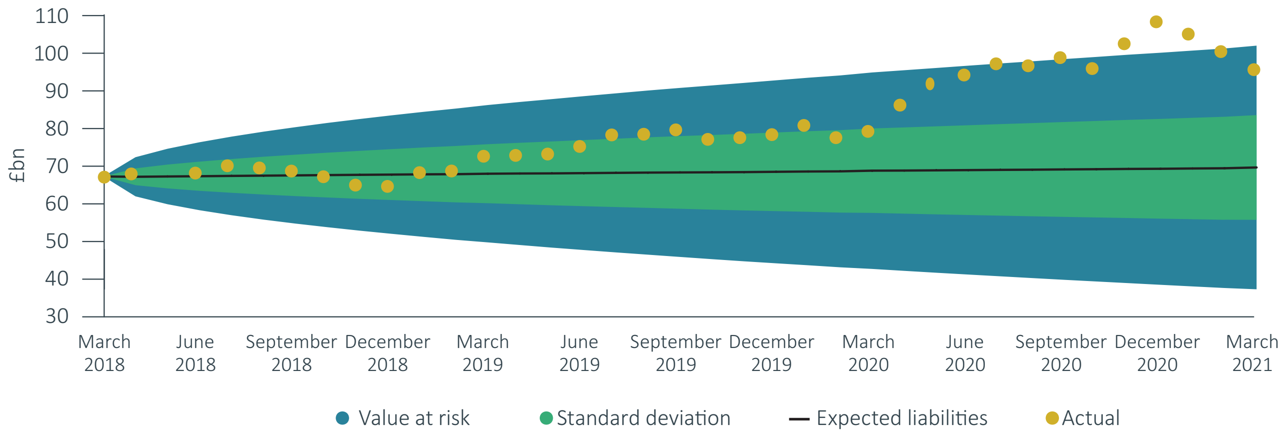
From December 2020, our monitoring incorporates an update to the way the CPI inflation assumption has been derived, to allow for the government announcement that RPI is being aligned with CPIH from 2030 and subsequent developments in the market view of future inflation. This change results in an increased CPI assumption, the effect of which (on a 'gilts+' approach) forms part of the 'effect of market conditions on liabilities' bar in the graph above. Additionally, RPI reform will reduce expected returns from index linked gilts within our investment portfolio. This, along with changes in return expectations on other asset classes since the 2018 valuation, also acts to increase the estimated present value of our liabilities. The effect of these is contained in the 'change in expected investment returns' bar.

You can find reports and other information on the valuation at uss.co.uk/about-us/valuation-and-funding/our-valuations.

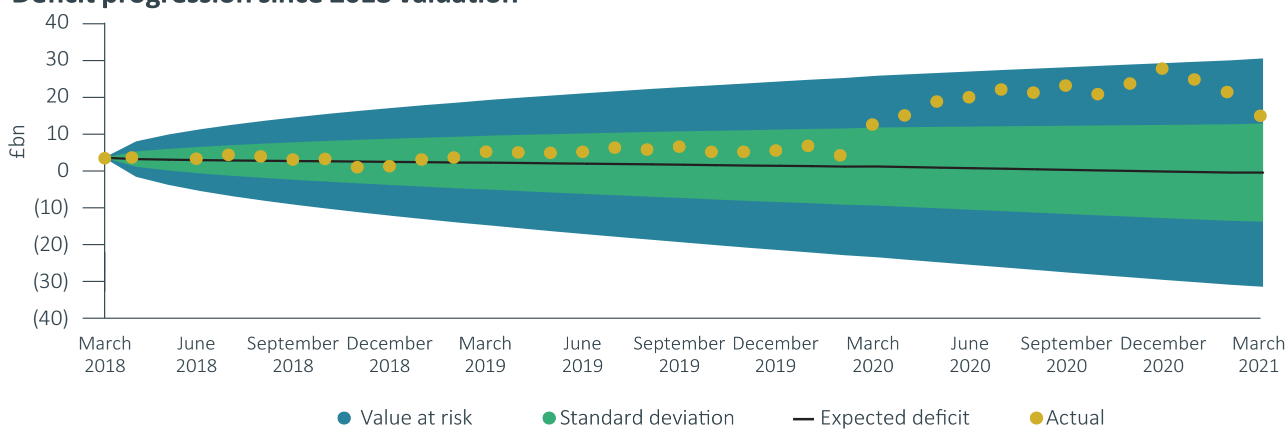
Asset progression since 2018 valuation



Liabilities progression since 2018 valuation[1]



Deficit progression since 2018 valuation[1]



The graphs above show the development of the value of the Retirement Income Builder assets and liabilities, based on the monitoring approach, since 31 March 2018. The black line reflects the central path of assets and liabilities[2] at the time of the valuation. The green area represents the range of outcomes around those central paths that might reasonably have been expected, shown here as the central path plus or minus one standard deviation. Each of the dots corresponds to the actual scheme assets and the monitoring approach estimate of the liabilities at the end of each month. The outer boundaries of the blue area show outcomes that in 2018 were considered extreme. These outcomes had a 1% likelihood of happening (as implied by usual levels of market volatility).

Note

1 Liabilities and deficit progression have no figures for May 2018 as there was no expected return data available for these dates.

2 The expected path of the liabilities is measured using the single equivalent discount rate relative to UK government bonds (gilts) on the valuation date, being the gilts yield plus 1.33%

Other approaches

As mentioned above, the value placed on the scheme's liabilities can be measured on a number of different bases, including technical provisions, buy-out, best estimate, and self-sufficiency bases.

We regularly monitor the technical provisions and self-sufficiency bases. We update the buy-out and best estimate liabilities at each actuarial valuation. The table above right summarises the scheme's position on a self-sufficiency basis. Self-sufficiency is based on the cash flows available from low risk investments. It is the value of assets we would need to hold in order to have a greater than 95% chance that all the benefits members have earned to date can be paid when due, without any further contributions. In other words, this is the funding level we would need to achieve in the absence of further support from employers. Self-sufficiency is assessed using return assumptions on the portfolio of assets that would achieve this level of security (delivering a discount rate of gilts +0.75%) and with a different inflation assumption to that adopted in the technical provisions. Our aim at the 2018 valuation was to be within a set value of self-sufficiency in 20 years' time such that the ability to secure the benefits promised to members at that point is, credibly and demonstrably, within the means of employers to fund. More details can be found in the Statement of Funding Principles on uss.co.uk.

As at 31 March £bn	Self-sufficiency 2018	Self-sufficiency 2019	Self-sufficiency 2020	Self-sufficiency 2021
Value of assets	63.7	67.4	66.5	80.6
Self-sufficiency liabilities	84.5	92.0	96.9	116.1
Deficit	20.8	24.6	30.4	35.5
Funding ratio	75%	73%	69%	69%

As at 31 March 2018, the Scheme Actuary estimated the cost on a buy-out basis as £113.8bn. As a result, the deficit on this basis was £50.1bn. A buy-out basis gives the highest view of the liabilities. However, on a best estimate basis, liabilities at 31 March 2018 were £54.3bn, implying a surplus on this basis of £9.4bn. Although not required, we also produced figures under the FRS 102 accounting approach which uses a discount rate based on corporate bond yields. We did this because such figures are a required disclosure for many UK entities, so it is a recognised method of measurement. Using this approach, as at 31 March 2021, produces liabilities of £95.5bn and a deficit of £14.9bn. This is based on a discount rate of 2.15% and a pension increase assumption of 2.5% with all other assumptions unchanged from those stated on page 32. This approach is not used to inform our decisions.

The Trustee Board's funding plan

Our overarching funding principle, supported by the employers, is that the amount of funding and solvency risk within the scheme should be proportionate to the amount of financial support available from the scheme's sponsoring employers. Specifically, the reliance being placed on the employers should not be greater than what they can and are willing to support. We are therefore of the view that, with the right economic conditions, and following appropriate dialogue, opportunities should be taken over the years ahead to reduce the amount of risk within the scheme, and specifically reduce the amount of investment risk.

At the 2018 actuarial valuation we incorporated a long-term, gradual de-risking into our funding approach, with the intention of slowly reducing the amount of investment risk in the scheme over a 20-year period. We also adopted this principle in the 2014 and 2017 valuations. You can find details of our investment approach in the Statement of Investment Principles, this is available online at uss.co.uk/how-we-invest/our-principles-and-approach.

The recovery plan in the 2018 actuarial valuation requires employers to make additional contributions towards repairing the deficit. These contributions are 2% of salaries from 1 October 2019 to 30 September 2021, increasing to 6% from 1 October 2021 to 31 March 2028. This recovery plan aims to recover the deficit over a 10-year period. We determined this plan following extensive work with our advisers on the ability of the scheme's sponsoring employers to financially support the scheme – the 'covenant'. The conclusion from that work was that there was good visibility of the ongoing strength of the covenant over the next 30 years, but the position became less clear after that.

However, the self-sufficiency deficit showed that the risk the scheme was carrying in the short term was close to the limit that employers could bear.

When we calculated the contributions required for the recovery plan, we used the same investment return assumptions as for the technical provisions.

The outcomes of the 2020 valuation are still being determined.

Pension Protection Fund

The Government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme.

USS is recognised by the PPF as a multi-employer scheme with a joint or shared liability. This joint liability is based on the 'last-man standing' concept. This means that it would only become eligible to enter the PPF in the extremely unlikely event that the vast majority (if not all) of the scheme's employers were to become insolvent. If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members. However, the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits. At the 31 March 2018 valuation date, the scheme's 'section 179' valuation position, used in determining the PPF levy payable by the scheme, showed a deficit of £19.7bn.

Further information about the PPF is available at pensionprotectionfund.org.uk or you can write to Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

Principal actuarial assumptions

The following table shows the assumptions used in the 2018 technical provisions actuarial valuation, and how these have been updated as at 2019, 2020 and 2021 to produce the figures shown earlier. These funding updates, shown in the 'Funding position based on the 2018 monitoring approach' section above, reflect broad changes in market conditions and expected investment return. The contributions payable to the scheme are determined based on the full actuarial valuations only, with the funding updates used for monitoring purposes.

The 2018 valuation uses full yield curves in the assumptions, rather than averages. The full year-on-year figures in the 2018 valuation assumptions are available in the documents shown on our website here: uss.co.uk/valuation.

The assumptions that will be used for the 2020 valuation are not yet finalised because this valuation is incomplete.

Principal actuarial assumptions	31 March 2018 valuation – technical provisions
Market derived price inflation[1]	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves
Inflation risk premium	0.3% p.a.
Price inflation – Retail Price Index (RPI)[1]	Term dependent rates based on market derived price inflation less Inflation risk premium
RPI/Consumer Prices Index (CPI) gap	1.0% p.a.
Price inflation – Consumer Prices Index[1]	Term dependent rates based on RPI assumption less RPI/CPI gap
Investment return	Years 1-10: CPI +0.14% reducing linearly to CPI -0.73% Years 11-20: CPI +2.52% reducing linearly to CPI +1.55% by year 21 Years 21+: CPI +1.55%
Salary increases[2]	CPI assumption plus 2% p.a.
Pension increases in payment	CPI assumption (for both pre- and post-2011 benefits)
Mortality base table	**Pre-retirement:** 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females **Post-retirement:** 97.6% of SAPS S1NMA 'light' for males and 102.7% of RFV00 for females
Future improvements to mortality	CMI 2017 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females

Notes
1 These values have been updated for funding updates in subsequent years in line with the table above.
2 This assumption is applied to the scheme's overall payroll and is used to project the development of the overall scheme over time, including the recovery plan, but does not affect the projected size of individual members' accrued benefits.
3 The pension increase assumption is increased by 5bps for figures from December 2020.

Date	Funding update 2019	Funding update 2020	Funding update 2021
Investment return	Years 1-10: CPI -0.2% reducing linearly to CPI -1.21% Years 11-19: CPI +2.37% reducing linearly to CPI +1.54% by year 20 Years 20+: CPI +1.54%	Years 1-10: CPI +0.32% reducing linearly to CPI -0.96% Years 11-18: CPI + 1.62% reducing linearly to CPI +0.82% by year 19 Years 19+: CPI +0.82%	Years 1-9: CPI -1.31% reducing linearly to CPI -2.22% Year 10: CPI -2.56% Years 11-18: CPI +1.31% reducing linearly to CPI +0.56% by year 18 Years 18+: CPI +0.56%
CPI assumption	As above, updated for market derived price inflation as at 31 March 2019	As above, updated for market derived price inflation as at 31 March 2020	Based on market derived price inflation as at 31 March 2021 less an inflation risk premium of 0.2%, less a term dependent RPI/CPI wedge of 1.1% to 2030, tapering to 0.1% from 2040 onwards

SCHEME FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 MARCH 2018

UNIVERSITIES SUPERANNUATION SCHEME

F
CERTIFICATE OF TECHNICAL PROVISIONS

Name of the Scheme	Universities Superannuation Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 16 September 2019.

Signature	
Name	Ali Tayyebi
Date of signing	16 September 2019
Name of employer	Mercer Limited
Address	Four Brindley place, Birmingham B1 2JQ
Qualification	Fellow of the Institute and Faculty of Actuaries

Actuarial certificate of schedule of contributions

CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Name of the Scheme	Universities Superannuation Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2018 to be met by the end of the period specified in the recovery plan dated 16 September 2019.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 16 September 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature	
Name	Ali Tayyebi
Date of signing	16 September 2019
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of employer	Mercer Limited
Address	4 Brindley Place Birmingham B1 2JQ

Risk management

Our robust approach to risk management protects investment and safeguards our members' pension entitlements

In conducting our business, we manage a wide range of risks that could affect our duty to ensure that the benefits promised to members are delivered in full, on a timely basis.

For the Retirement Income Builder, this means ensuring there are sufficient funds available to provide members with retirement income which employers have promised.

For the Investment Builder, it means having an appropriate range of investment fund options available. Along with an effective investment process, this enables members to manage their investment selections in line with their risk appetite.

Risk framework

We operate a three lines of defence approach to risk management (see below), which is embedded in the organisation through the operation of our risk management framework.

We have a comprehensive framework for managing risks, including a dedicated group risk team and risk governance arrangements, policies and processes. The framework aims to ensure that risks are effectively identified, monitored, reported and managed across the business.

The group risk team is independent of USS first line businesses, and its head, the Chief Risk Officer, reports directly to the Group Chief Executive Officer.

Risks are identified on an ongoing basis, as part of business as usual and business change activities.

Consideration is also given to emerging risks. Risks are measured regularly using key risk indicators reviewed by the first and second lines of defence before being reported to the relevant risk governance and oversight committees.

Risks are managed by mitigation (for example, using controls), transfer or avoidance. Risk monitoring and reporting is implemented through several tools, including risk registers, event logs and assurance maps.

The latter have been developed collaboratively by each of the three lines of defence, to provide an indication of the health of the control environment in relation to key business processes. Additionally, risks are monitored through the delivery of a risk-based assurance programme undertaken by the Compliance and Internal Audit functions.

Risk appetite

Taking on too much or too little risk could result in a failure to deliver our strategic priorities. At the core of our approach to risk management is our risk appetite; this is articulated in our risk appetite statements which describe the types and levels of risk we are prepared to accept. They set risk-taking boundaries and enable consistently risk-aware decision-making.

Risk governance

As the ultimate owner of all risks, the Trustee Board has overall responsibility for risk management across the group. It sets risk appetite and must satisfy itself that the risk management framework has been implemented effectively. It delegates responsibility for this implementation to executive management, which ensures that responsibilities for risk management are clearly articulated, clearly applied, and consistent with the three lines of defence model. Risk management is overseen by executive and non-executive risk committees, ensuring that risk management processes are effective and that risk is appropriately assessed against appetite.

The USS three lines of defence risk management approach

1st

USS business units
- risk ownership
- risk management
- operation of control

2nd

USS functions of group risk, legal, compliance and financial control
- risk oversight
- challenge to first line
- maintenance of the risk framework

3rd

USS internal audit function
- independent review
- risk assurance
- challenge to first and second line

Principal risks

We maintain a comprehensive register of the principal risks faced by the business as well as their potential impact and how we mitigate them

Our three strategic priorities which can be identified in strategy, KPIs and risk categories. For further information see page 10.

- Members feel financially more secure
- A sustainable scheme, for the long term
- USS is recognised as a competent scheme manager

We have identified the scheme's principal risks and uncertainties based on their potential to threaten the trustee's ability to deliver its strategic priorities. These risks can arise from internal or external factors and can adversely impact the scheme's funding, investments, operations and reputation. The tables below set out those principal risks, their potential impact and the mitigation in place and represent a high-level summary of the scheme's risk registers.

The COVID-19 pandemic event has heightened some of the risks we face, so we have tightened our business continuity arrangements, strengthened our existing controls and added new ones as necessary. Details are included in the table.

Strategic priority	Description	Impact	Control/Mitigation
Defined benefit (DB) funding risk			
A sustainable scheme, for the long term; USS is recognised as a competent scheme manager	A deterioration in the financial health of the Retirement Income Builder driven by a significant increase in the scheme deficit and/or a significant deterioration in the ability of employers to make contributions to fund the benefits promised to members.	This may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.	• Implementation of a comprehensive Financial Management Plan (FMP) as part of each actuarial valuation, incorporating the acknowledged strength of the employers' covenant, the appropriate contribution rate and investment strategy • A dedicated funding strategy and actuarial team focused on funding of the Retirement Income Builder • Regular monitoring of the funding level, employers' covenant strength, contribution adequacy and liability in the context of the FMP • Regular analysis of the sources of changes in both the liability and the deficit and of the impact of this on the required employer contribution rate
Stakeholder risk			
A sustainable scheme, for the long term; USS is recognised as a competent scheme manager	Failure to engage effectively with our stakeholders.	This may lead to an impaired ability to understand correctly and respond effectively to the changing needs of employers and members. Employers, or their representative bodies, may no longer view USS as the primary service provider for retirement benefits, or members may no longer want to use USS for their retirement provision.	• Regular meetings with agendas relevant to those attendees are held with employers, member representatives and employer representatives, including both UUK and UCU. This engagement is ongoing but assumed to be more intensive during actuarial valuations • Annual member and employer surveys as well as publication of regular updates for members and employers, along with blogs, articles, videos and webinars on relevant topics of interest to UUK, UCU, individual employers and member webinars and the new My USS digital offering providing better access for members to information about their pension benefits
Climate change risk			
A sustainable scheme, for the long term	The risk of material financial impact from climate change, driven by transition risk where asset values are impacted by economic transition in response to climate change, and by physical risk of damage to assets from extreme climate and weather events.	Loss of value of assets from transition to a low-carbon economy or from actual or potential physical damage, especially where we are long-term holders of those assets.	• Analysis of potential direct real asset investments for long-term climate risk • Monitoring of climate risk exposure to equity portfolios • Ongoing monitoring of changes in legislation and policy developments in order to position our investments for the transition to a low-carbon economy • Stewardship of high carbon exposed equity assets, engaging both directly and in collaboration to ensure climate risk in all forms is being appropriately managed • Engaging with policy makers to ensure a smooth transition to a low carbon future

Strategic priority	Description	Impact	Control/Mitigation
Service risk			
	Pension service delivery fails to meet requisite quality or timeliness standards, as a result of the failure to manage or execute operational processes effectively.	This may lead to poor or incorrect outcomes for our members or beneficiaries and the potential for increased costs and reputational damage.	• Robust operational controls and defined service standards • Review and reporting of performance across all administration teams • Comprehensive workload forecasting • Quality control checking • Regular training of all service staff • Member Service Team is now in-house and handling higher call volumes from members than previously
Supplier risk			
	The risk that a supplier fails to perform a business-critical contracted service. This could arise as a result of an operational failure by a supplier or in the event of supplier insolvency.	This could result in a failure to perform business-critical activities on a timely basis or a failure to obtain value for money for the scheme.	• Dedicated procurement function with responsibility (together with the Group General Counsel) for controlling supplier onboarding and ongoing monitoring of key suppliers' performance. Appropriate remedial actions and ultimately replacement of non-performing suppliers and pursuit of USS entitlements should value for money not be received • Appropriate relationship management structures are in place with key suppliers, supported by service level agreements, management information provision and incident escalation and resolution protocols
Investment performance risk			
	A prolonged period of inadequate investment performance or a sharp fall in the value of investments in either element of the scheme. This may be due to (i) selection of an inappropriate Reference Portfolio, (ii) underperformance of the Implemented Portfolio relative to the Reference Portfolio and/or (iii) unfavourable economic conditions or political developments.	A significant increase in the deficit of the Retirement Income Builder. This may lead to the requirement to increase contributions, amend investment strategy and/or reduce future benefits. Lower growth in the size of members' Investment Builder funds. This may lead to lower than expected values being available to members on retirement.	• A documented, structured and effective investment process, run by experienced investment professionals, incorporating robust controls and diligent oversight • Retirement Income Builder: the investment portfolio is diversified across various investment types and risk factors. It is managed relative to a long-term Reference Portfolio designed to fulfil the goals of the USS FMP • Investment Builder: the Let Me Do It Fund range was chosen to provide members with an appropriate range of risk and return expectations. The Default Lifestyle Option progressively reduces investment risk exposure over the 10 years before expected retirement to provide greater certainty around outcomes
People risk			
	Failure to attract and retain sufficient people with the necessary skill sets in the right roles or to develop appropriate management structures and business culture.	This may lead to an inability to provide the necessary resources to achieve successful delivery of the scheme's strategic priorities, leading to poor investment performance, increased incidence of operational error and failure, and ultimately result in reputational damage with key stakeholders.	• Focused recruitment processes/talent management and succession planning/training and development programmes • Clear objectives set for all staff, linked to the USS strategic priorities / regular staff performance and remuneration reviews with reference to appropriate external benchmarks coupled to incentive programmes to reward and retain the most talented individuals • Regular employee satisfaction reviews • Employee Health and Wellbeing programme to promote a healthy and productive working environment for staff • Diversity and Inclusion (D&I) programme and targets to address diversity challenges including improving diversity at senior levels

Strategic priority	Description	Impact	Control/Mitigation
Regulatory risk			
	The product and service offering is impacted adversely by changes to pension and/or investment policy, legislation or regulation. The trustee fails to adopt and apply effective oversight of its legal and regulatory compliance arrangements.	Potential for change to impact the scheme's product and service offering gives rise to additional costs and leads to operational complexity. Failure to respond to such changes in an appropriate and timely manner could lead to fines, compensation costs and censure, as well as damage to stakeholder relationships and reputation.	• Dedicated professionals focused on assessing existing and emerging regulatory initiatives • Legal and regulatory change is monitored by the USS legal team and reviewed quarterly to ensure that relevant updates are captured and flagged to business areas • Structured change management methodology for the implementation of necessary changes • Ongoing compliance training, advisory and monitoring activity tailored for the relevant business divisions
Business disruption risk			
	Prolonged business disruption caused by economic, political or social disruption such as the outbreak of COVID-19, causing disruption in financial markets, inability to provide critical services due to staff unavailability or supplier failure, and financial hardship across the Higher Education sector.	Physical and infrastructural disruption could lead to adverse impact on operational capacity and controls. Economic disruption could result in deterioration of the value of the scheme's assets, adversely impacting our funding and liquidity position and asset valuation uncertainty in the short term. Financial hardship may lead to a deterioration of the employers' covenant.	• Full remote working capability for all teams, to allow continuity of key processes and physical isolation of employees • Wellbeing programme in place to support employees • Monitoring of supplier viability through the supplier framework processes • Investment monitoring and remedial actions to ensure adequate liquidity and to position optimally for economic conditions • Employers' covenant monitoring
Information and privacy risk			
	Failure to protect the confidentiality, integrity or availability of critical data (including personal and commercially sensitive data) held by the scheme or its suppliers, or failure to prevent unauthorised access to USS data.	Breach of applicable data protection legislation, potential for regulatory censure or fine, damage to stakeholder relationships and reputation. Potential for monetary loss and remediation costs.	• A dedicated information security team whose head is the USS Data Protection Officer • Implementation of appropriate information security and data protection framework and processes • Implementation of appropriate cyber risk controls. • Delivery of regular education and awareness training to employees, including phishing campaigns • Ongoing maintenance of the international information security accreditation, ISO 27001 • Achievement of Government-backed Cyber Essentials Plus accreditation • Implementation of processes designed to maintain compliance with General Data Protection Regulations (GDPR) • Mandatory compliance with information security team requirements as a condition of supplier onboarding with ongoing oversight through the appropriate relationship management structures

Governance

Good governance is of vital importance and a cornerstone of our approach

Contents

The governance framework at USS that supports our decision-making and accountability.

USS owns interests in a diverse range of renewable energy technologies including energy from water, onshore wind (similar to those shown in the image) and energy efficient street lighting

Governance

Strong governance is essential for the effective management of USS and for optimising performance

Universities Superannuation Scheme Limited is the trustee of the scheme. The trustee is led by a board comprised entirely of non-executive directors. The Trustee Board provides overall leadership, strategy and oversight of the scheme, the trustee company and USSIM, in co-operation with USSIM's board of directors. The Trustee Board is primarily responsible for exercising objective and independent judgement, in compliance with regulatory requirements, in order to safeguard our members' pension entitlements.

Good governance is of vital importance and a cornerstone of our approach. As such, our processes look to ensure that the directors of the Trustee Board collectively have the expertise, skills and competencies that are appropriate and proportionate to the oversight and governance of the scheme, the trustee and the evolving regulatory environment within which the scheme operates. You can read about the skills and expertise of the Trustee Board members on pages 43 to 45.

The Trustee Board has delegated responsibility for day-to-day management of the scheme to the Group Chief Executive Officer, who is supported by the Group Executive Committee, subject to ongoing board oversight. The Trustee Board is also supported by five specialist standing committees:

- Audit Committee (Audit)
- Governance and Nominations Committee (GNC)
- Investment Committee (Investment)
- Pensions Committee (Pension) (previously known as Policy Committee)
- Remuneration Committee (Remuneration)

The Trustee Board and committee structure is set out on page 43. There are two other key committees linked to the scheme:

- Joint Negotiating Committee (JNC)
- Advisory Committee

The JNC and Advisory Committee are both formed under the scheme's rules and while entirely separate to, and distinct from, the trustee, they play an important part in the governance of the scheme.

The JNC comprises representatives for the scheme's stakeholders, Universities UK (UUK) and the University and College Union (UCU) and is chaired by an independent chair appointed by the JNC. During the 2020/21 financial year, the JNC played a key role in relation to the ongoing 2020 valuation. The role of the JNC in the valuation is distinct from that of the trustee.

Generally, two trustee directors also attend and observe each JNC meeting to allow for greater levels of engagement between the JNC and Trustee Board members.

While the trustee has responsibility to undertake the valuation in accordance with all legal and regulatory requirements, the JNC's role is to consider whether any benefit changes should be made and to negotiate how any contribution rate changes should be shared between members and/or employers.

The Advisory Committee's primary role is to fulfil the member dispute resolution function for the scheme.

More information about the activities and membership of the Trustee Board, its committees, the JNC and the Advisory Committee is set out on the following pages and in the Governance Report provided on the USS website at uss.co.uk/about-us/report-and-accounts.

Division of responsibility between the Trustee Board and executive

As explained earlier in this report, the Trustee Board has delegated day-to-day management of the group to the Group Chief Executive Officer (GCEO), supported by the Group Executive Committee.

The Trustee Board has responsibility for the strategic direction of the group and makes key decisions (for example, it is required to approve the group's business plan, significant supplier contracts, the strategic aims and objectives of the scheme and the scheme's investment policy). A number of decisions about the commercial activities of the scheme are made by the Group Executive Committee, for example it decides the scheme's strategic approach to delivering the required levels of service to employers and members and takes certain decisions in relation to the scheme's recruitment and retention strategy.

Trustee Board composition

The Trustee Board consists of 12 non-executive directors comprising:

- four directors nominated by UUK
- three directors nominated by the UCU, (one of whom is a pensioner member)
- five independent directors[1.]

The composition and diversity of experience of the directors promotes an effective and balanced Trustee Board and helps to ensure the directors collectively have all the key competencies and knowledge required to manage and oversee the scheme. This includes competencies in, and knowledge of, pensions, investments, actuarial matters, the Higher Education (HE) sector, audit and financial management, communications, and scheme member views. The trustee works with UUK and UCU to ensure that the Trustee Board includes directors with a good understanding of the views of both members and employers.

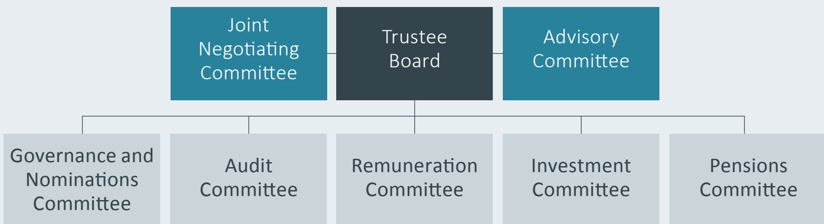
In addition, the trustee is focused on improving the diversity of its board members. Maintaining and improving key competencies, knowledge (including relevant practical experience) and diversity of the Trustee Board remains vitally important. During the year the trustee has continued to focus on its board succession planning to respond appropriately to scheduled turnover of Trustee Board directors as they come to the end of their final terms of office. This is to ensure the collective competencies and experience of the Trustee Board are appropriate for the scheme and the orderly replacement of current board members.

Note

1 The maximum potential size of the board was temporarily increased (until 31 January 2021) from 12 directors to 13 to facilitate board succession planning.

The Trustee Board's succession plans are reviewed regularly to ensure the appropriate balance of continuity and refreshed membership is achieved going forward. In conducting director recruitment exercises, the trustee uses a skills matrix, which captures the core skills required for running a pension scheme of the size and complexity of USS. This provides a framework for considering the skills and competencies the trustee prioritises when preparing director role briefs, and when evaluating potential candidates. A summary of the skills of the serving trustee directors can be found below.

Trustee Board and committee structure



Board competencies

Skills and experience	Number of USS directors with this skill set
Experience in university governance and leadership	7
Senior/substantial experience of HE leadership and understanding of the economics of the HE sector	7
DB/DC pension industry experience	11
Senior corporate governance expertise/board management knowledge	12
Industrial relations	5
Pensions administration and member engagement	6
Communication, media and stakeholder engagement	10
Control, compliance and risk management	9
IT and security and digital development	4
Supplier/contract management	9
Senior management experience	11
Actuarial	5
Audit, accounting and financial management expertise	8
Investment	6
Legal	4
HR and remuneration	10
Strategy development	8

Members of the Trustee Board

Dame Kate Barker G I

- Independent appointee
- Chair of the Trustee Board
- Appointed as a director April 2020, Chair since September 2020

Dame Kate became Chair of the Trustee Board on 1 September 2020. She has been Chair of the Trustee Board of the British Coal Staff Superannuation Scheme since 2014, and a pension trustee for the Yorkshire Building Society from 2015 to 2019. She was a governor at Anglia Ruskin University from 2000 to 2010, including Chair of Governors from 2007 to 2010, and served on the Council of Oxford University from 2017 to 2020.

Dr Kevin Carter A I

- Independent appointee
- Senior Independent Director and Deputy Chair
- A director of USSIM
- Appointed September 2012

Kevin is Chair of JPMorgan American Investment Trust plc, and a non-executive director of Aspect Capital Limited, Newton Investment Management Ltd and Henderson Smaller Companies Trust plc. He is a Trustee Director of the BBC Pension Trust Limited, and Chair of its Investment Committee. Kevin is also valuation committee Chair of Hermes GPE LLP, a private markets asset manager.

Mr Andrew Brown G I R

- UCU appointee
- Appointed August 2020

Prior to joining the Trustee Board in August 2020, Andrew was CEO and Secretary of the Church Commissioners for England. He is Chair of William Leech Investments and Foundation Trusts, and a trustee of Trust for London. Andrew has previously been Chair of the CMS Pension Trust. In January 2020, he was awarded an OBE for services to the Church.

Professor Sir Paul Curran G

- UUK appointee
- Appointed September 2020

Professor Sir Paul Curran was President of City, University of London until June 2021 and has also held roles as Deputy Vice-Chancellor of the University of Southampton and Vice-Chancellor of the University of Bournemouth. He is currently Professor Emeritus of City, University of London and also Chair of the Universities and Colleges Employers Association and of the Review Body on Doctors' & Dentists' Remuneration.

Mr Gary Dixon A R

- UUK appointee
- Appointed April 2019

Gary trained as a Chartered Accountant with PwC after graduating in 1987 from the University of Leicester in Physics with Astrophysics. In 1994 he joined the banking and pensions focused financial services group, Pointon York, where he was subsequently appointed Group CFO. He is a Fellow of the ICAEW and holds an MBA from Warwick Business School. He is the Chair of Council at the University of Leicester having served as a Lay Member of Council since 2009. Gary is also a non-executive director of the Church of England's Investment Trustee company, CBF Funds Trustee Limited.

Mr Ian Maybury G I P

- Independent appointee
- Appointed November 2013

Ian joined Schroders in 2012 as the Head of Solution Management and has previously worked for Redington, Citigroup and Royal London Insurance in various actuarial and management roles. He is a Trustee Director of the John Lewis Pension Scheme and the Mineworkers Pension Scheme and Chair of Trustees at the RNIB Retirement Benefits Scheme.

Key to Committee membership

- ● Chair
- Ⓐ Audit Committee
- Ⓖ Governance and Nominations Committee
- Ⓘ Investment Committee
- Ⓟ Pensions Committee
- Ⓡ Remuneration Committee

Professor Sir Anton Muscatelli Ⓘ

- UUK appointee
- Appointed April 2015

Professor Sir Anton became Principal and Vice-Chancellor of the University of Glasgow in October 2009. He studied at the University of Glasgow, where he graduated with an MA in Political Economy and with a PhD in Economics. Professor Sir Anton was Chair of the Russell Group from 2017 to 2020.

Mr Russell Picot Ⓐ Ⓘ

- Independent appointee
- Appointed February 2021

Russell became a Director of USS in February 2021 after more than 20 years with HSBC, latterly as Chief Accounting Officer. He was appointed as a trustee of the HSBC pension scheme in 1999 and has been Chair of the Trustee Board since 2017. He is also a trustee on the DC Master Trust LifeSight and has held roles with several accounting bodies and as Special Adviser to the Task Force on Climate-related Financial Disclosures.

Mr Rene Poisson Ⓟ Ⓡ

- Independent appointee
- Appointed November 2012

Rene became a Director of USS in November 2012 having retired after a 30-year career with JPMorgan latterly as Managing Director and Senior Credit Officer for Europe, Middle East and Africa. He is Chair of the JP Morgan UK Pension Plan and a member of its Investment Sub-Committee and a Director of the Standard Life Master Trust.

Ms Helen Shay Ⓐ

- UCU appointee
- Appointed September 2020
- Pensioner member

Helen has worked in the Higher Education sector previously as in-house counsel at the University of York as well as undertaking work for the College (now University) of Law. She also has commercial experience through her work for the Financial Ombudsman Service, Skipton Building Society and Next plc. Helen has also been a Board member of the Association of University Legal Practitioners.

Mr Will Spinks Ⓟ Ⓡ

- UUK appointee
- Appointed September 2018

Will has worked in Higher Education since 2007, initially as the first Chief Operating Officer at Loughborough University and subsequently as the Registrar, Secretary, Chief Operating Officer and Associate Vice President at the University of Manchester.

Dr David Watts Ⓟ

- UCU appointee
- Appointed March 2021

David is a social scientist and historian and has worked for the University of Aberdeen since 2007. He is based in the Rowett Institute, which sits within the School of Medicine, Medical Sciences and Nutrition. David has been a local pensions representative for the UCU since 2015 and, in 2017, was elected as the first academic trade union nominee to the Court (the University of Aberdeen's governing body). David was a trustee of the University from 2017 to 2020 and served on its Policy and Resources Committee.

Biographies of each board member appear on the USS website at uss.co.uk/about-us/how-were-governed/people/uss-board

Trustee Board key activities 2020/2021

There was a significant volume of activity carried out by the Trustee Board during 2020/21, particularly in connection with the ongoing triennial actuarial valuation as at 31 March 2020 (the '2020 valuation'). More information is set out below.

Board activities

Topic	Activity
Valuation	• Undertook a rigorous and comprehensive review of all the assumptions that underpin the valuation, to propose a valuation for consultation, involving extensive engagement with stakeholders, as well as a formal consultation exercise with UUK in relation to the technical provisions for the 2020 valuation • Undertook a review of the strength of the sponsoring employers' ability to support the scheme (the covenant), including an assessment of the impact of COVID-19 on the employer covenant • Oversaw the development of covenant support measures, including debt monitoring arrangements and a potential rule change in relation to employer exits from the scheme • Engaged extensively with UUK and employers in relation to covenant support measures • Oversaw member and employer communication and consultation activity in the year • Approved a change in the approach to the Financial Management Plan monitoring • Approved the interim approach to monitoring the financial position of the DB element of the scheme • Approved the Integrated Risk Management Framework (IRMF) for the 2020 valuation
Regulatory	• Engagement with The Pensions Regulator around the 2020 valuation and as part of its ongoing supervision of USS, both as a Master Trust and as part of The Pensions Regulator's one to one supervision of defined benefit schemes • Oversaw executive engagement with The Pensions Regulator • Commissioned a Master Trust Assurance Report (AAF) on governance control procedures
Pensions operations	• Oversaw the renegotiation of the scheme's arrangements with Capita for the provision of DC Pensions Administration Services • Oversaw engagement with members and employers, via updates from the Institutions' Advisory Panel (IAP), Institutions' Meeting and a virtual networking group, established to support engagement with the scheme's smaller employers • Oversaw projects in relation to the scheme's digital enhancement programme and the launch of member services including guidance, advice and pensions flexibilities • Received and discussed the outcomes of the member and employer perceptions surveys • Approved a new delegations framework in relation to key employer participation decisions
Strategy	• Approved the Annual Business Plan and Budget 2021/22 subject to any revisions that may need to be made or flexibilities that may need to be introduced during the financial year as a result of COVID-19 • Considered the impact on the USS business of the evolving regulatory landscape (including the new supervisory regimes introduced by The Pensions Regulator for both DB and DC schemes and the Pension Schemes Act)

Board activities

Topic	Activity
Investment	• Reviewed and upon recommendation of the Investment Committee, approved the investment strategy to be applied for the DB element of the scheme for the following year • Oversaw and approved policies in relation to the implementation of environmental, social and governance (ESG) initiatives associated with the scheme's investments • Oversaw the trustee's investment manager USS Investment Management Limited's (USSIM) decision to divest from selected tobacco, coal, and weapons manufacturers from its portfolios over the next two years • Reviewed and approved revisions to stewardship principles and voting policy as part of the scheme's Responsible Investment programme • Reviewed and upon recommendation of the Investment Committee, approved the scheme's Self-sufficiency Framework • Oversaw the completion of a review by the Investment Committee of the DC fund range and Default Lifestyle Option for members, following a Pensions Committee review of member requirements • Reviewed and approved amendments to the investment management advisory agreement, setting out the terms of engagement of USSIM including a widening of USSIM's investment powers to select its in-house Global Emerging Markets Equity team to manage the scheme's DC investments, in addition to external manager appointments • Reviewed and upon recommendation of the Investment Committee, approved the scheme's high-level investment strategy as part of the 2020 valuation process • Reviewed and approved simplification of the investment structure and risk limits for the DC funds which form the Default and Ethical lifestyle investment options • Reviewed and approved amendments to the instructions given to USSIM to manage the DB investment strategy in line with the scheme's journey plan
Financial reporting and controls	• Approved the financial statements for the scheme and the trustee company for the year ended 31 March 2020 on recommendation from the Audit Committee • Reviewed and approved the group three-year plan and budget • Reviewed annual statements on the effectiveness of company internal controls from the Audit Committee, GCEO and head of internal audit
Master Trust	• Oversaw the implementation of the DC business plan for the financial year 2020/2021 • Oversaw the Value for Members assessment for 2020/21 • Oversaw production of the scheme's annual supervisory return
Risk management and internal controls	• Regularly reviewed the enterprise risk report encompassing all key risks impacting upon the delivery of the scheme's strategic objectives • Considered the adequacy of the scheme's internal control and risk management framework, based on assurance provided by the Audit Committee on each of the three lines of defence • Reviewed and approved amendments to the Risk Governance Policy, setting out the board's expectations for risk management at USS, and risk appetite statements • Oversaw recruitment of the Chief Risk Officer • Oversight of the scheme's cyber and IT strategy and risks and controls • Reviewed performance reports from all key business areas on a quarterly basis

Board activities

Topic	Activity
Performance and general oversight	• Received and discussed reports from all standing Trustee Board committees which had met in the reporting period • Monitored the executive's ongoing response to the impact of COVID-19 on business operations and steps taken to mitigate and manage related risks and issues • Approved a range of key performance indicators, measures and targets against which performance across the group could be monitored and assessed
Corporate governance	• Reviewed the group corporate governance framework which includes the terms of reference for the Trustee Board's standing committees • Approved changes to the remit of the Policy Committee (renamed the 'Pensions Committee') to expand its high-level monitoring and oversight of the performance of the Pensions Business. As a result of this change, reviewed and delegated to the Pensions Committee certain decisions that generally impact the day-to-day management of the Pensions Business • Reviewed and approved one reappointment and five appointments to the Trustee Board and changes to the membership of Trustee Board standing committees • Commissioned a board effectiveness review via an external evaluation of the Trustee Board and committees • Approved changes to the length of term of office of directors to move to standard four-year terms of office • Oversaw the establishment of a designated non-executive director (NED) to help ensure that member perspectives are appropriately factored into board decisions • Approved the adoption of the Wates Corporate Governance Principles for Large Private Companies 2018, and to report against them in the 2020/21 Annual Report and Accounts
Leadership	• Oversaw succession planning for the Chair of USSIM • Discussed the outcomes of the USS employee engagement survey and the executive committee response • Received and discussed updates on initiatives being undertaken by the executive to increase diversity and inclusion • Initiated a project, USS 2022, focused on introducing flexible working practices • Oversaw the transition of the business operations to remote working in response to the COVID-19 outbreak and lockdown measures
Stakeholder	• Participated in the tripartite discussions between UUK, UCU and the Trustee Board in relation to the second Joint Expert Panel Report, including participation in the JNC Effectiveness Review • Engaged directly with the Joint Expert Panel on various matters, including in relation to the JNC Effectiveness Review, and oversaw the executive's engagement with key stakeholders including UUK and UCU • Considered employer and member feedback against the trustee's business plan and strategic objectives • Oversaw member and employer communications activity in the year, and the approach to corporate affairs more generally • Participated in meetings with JNC members and UUK's and UCU's actuarial advisers to discuss aspects of the 2020 valuation

Further information regarding the work completed by USS specialist standing committees in 2020/21 can be found in our Governance supplement which is available online on our website at **uss.co.uk/about-us/report-and-accounts**

Trustee Board meeting and committee attendance

The Trustee Board met 17 times during the year. A summary of Trustee Board activity during the year is outlined on pages 46 to 48. An overview of attendance at meetings of the Trustee Board and its specialist standing committees is provided below.

Meetings held in the year

Trustee Board members	Trustee Board	Investment	Pensions	Audit	Remuneration	Governance and Nominations
Dame Kate Barker[i]	17	9				4
Professor Sir David Eastwood[ii]	5	4				1
Dr Kevin Carter[iii]	16	10	4	1		
Mr Gary Dixon[iv]	17			5	2	
Ms Kirsten English[v]	13			4		4
Mr Ian Maybury	17	10	5			5
Mr Michael Merton[vi]	13			4	3	
Professor Sir Anton Muscatelli	17	9				
Mr Rene Poisson	17		6		5	
Mr Will Spinks	17		6		5	
Dr Steve Wharton[vii]	5		2		2	1
Mr Andrew Brown[viii]	12	5			3	4
Professor Sir Paul Curran[ix]	12					4
Ms Helen Shay[x]	12		4	2		
Mr Russell Picot[xi]	4	2		1		
Dr David Watts[xii]	1					
Committee members						
Mrs Sarah Bates		10				
Mr Mark Fawcett		9				
Mrs Virginia Holmes		9				
Mr Tony Owens				5		
Mr Bill Galvin[xiii]			4			5
Mrs Helen McEwan[xiv]			4			

Notes
(i) Dame Kate Barker was appointed to the GNC on 1 September 2020 and has attended all Committee meetings since then.
(ii) Professor Sir David Eastwood retired as Chair of the Trustee Board on 31 August 2020. He attended all GNC meetings held in the year up until the date of his retirement.
(iii) Dr Carter stepped down from the Pensions Committee on 2 December 2020. He attended all of the Pensions Committee meetings until that date. Dr Carter was appointed to the Audit Committee on 1 February 2021 and has attended all Audit Committee meetings since then.
(iv) Mr Dixon was appointed to the Remuneration Committee on 1 February 2021 and has attended all Remuneration Committee meetings since then.
(v) Ms English retired from the Trustee Board on 31 January 2021. She attended all Audit and GNC meetings held in the year up until the date of her retirement.
(vi) Mr Merton retired from the Trustee Board on 31 January 2021. He attended all Audit and Remuneration Committees meetings held in the year up until the date of his retirement.
(vii) Dr Wharton retired from the Trustee Board on 31 August 2020. He attended all the GNC, Remuneration and Pensions Committee meetings held in the year up until the date of his retirement.
(viii) Mr Brown was appointed to each of the Investment, GNC and Remuneration Committees with effect from 1 September 2020 and has attended all Committee meetings since then.
(ix) Professor Sir Paul Curran was appointed to the GNC with effect from 1 September 2020 and has attended all GNC meetings since then.
(x) Ms Shay was appointed to the Pensions and Audit Committees with effect from 1 September 2020 and has attended all Committee meetings since then. Ms Shay stepped down from the Pensions Committee post year end with effect from 16 June 2021.
(xi) Mr Picot was appointed to the Investment and Audit Committees with effect from 1 February 2021 and has attended all Committee meetings since then.
(xii) Dr Watts joined the Trustee Board on 1 March 2021 and attended the one Trustee Board meeting during the financial year after his date of appointment. Dr Watts was appointed to the Pensions Committee post year end with effect from 16 June 2021.
(xiii) Mr Galvin was appointed as an executive member of the Pensions Committee with effect from 1 October 2020 and has attended all Pensions Committee meetings since then.
(xiv) Mrs McEwan was appointed as an executive member of the Pensions Committee with effect from 1 October 2020 and has attended all Pensions Committee meetings since then.

Remuneration report

We focus on aligning pay with performance to ensure the right mix of skills and expertise to deliver our long-term priorities and value for money for members

Our remuneration framework is designed to ensure USS has access to those with the right mix of skills and expertise to deliver our long-term priorities and value for money for members.

We hire experts, who can deliver cumulative, long-term results, and we seek to pay them at market rates commensurate with the skills and experience they bring to the scheme.

Paying for performance is key to our remuneration and incentive policy, which means to reward contribution that is aligned to the needs of employers and members in a cost effective manner.

Investment management professionals represent the largest proportion of the compensation paid, in particular representing 91% of the variable incentive paid in the year. The direct costs associated with employing an in-house team of highly-skilled investment professionals in an extremely competitive market are much lower than the fees charged by external managers.

We give more details of our approach to managing costs and how our costs compare with third party peer cost benchmarking in the Chief Financial Officer's update on page 54.

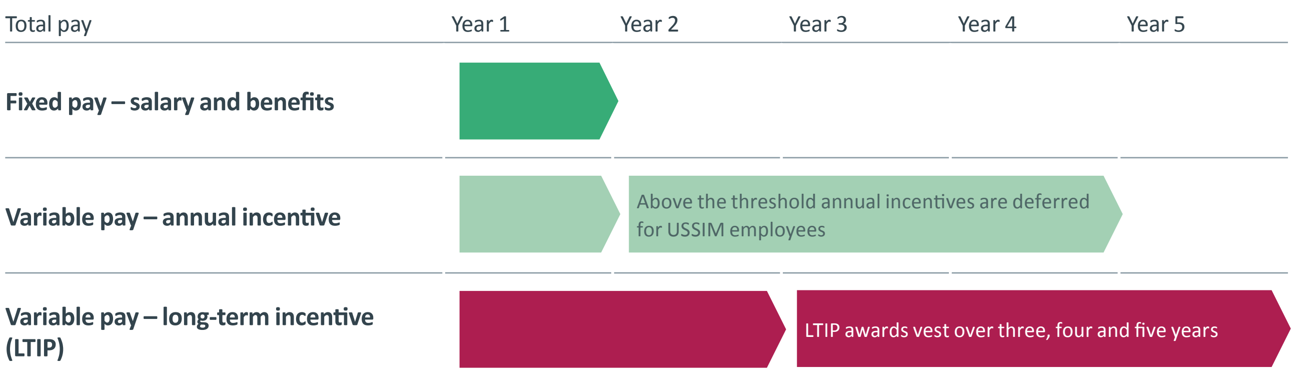
Our total compensation approach includes the following key elements which are benchmarked annually:

- Base salary, which is designed to attract and retain high-performing individuals
- Annual incentives, aimed at motivating and rewarding top performance, aligned to USS values. In the investment management function, where incentives exceed a £50,000 threshold, payment is partially deferred for three years. For investment management professionals, the annual incentive includes an element that is linked to scheme performance, calculated on a rolling five-year basis
- Long-term incentive plans (LTIPs), available to a limited population, are designed to incentivise delivery of scheme performance over the long term and to encourage retention of key personnel
- All employees are eligible to join the USS pension scheme which aligns the employee's own personal objectives with the purpose of the scheme itself
- Trustee Board directors and other non-executives receive only the agreed fee level for their services

£66m

Having an in-house investment management team means our investment management costs were the equivalent of £66m per year lower than the peer average according to the most recent cost/asset ratio analysis by CEM Benchmarking (for calendar year 2019).

Remuneration structure



Remuneration in 2020/21

The total remuneration paid includes payments in respect of deferred incentive amounts from previous years and prior year LTIP awards paid out in the year. The compensation reference period is based on the calendar year to 31 December 2020 and amounts paid in the year are based on performance up to that date. In the five-year period to December 2020 the scheme returned 10.86% p.a. (which compares to the 9.75% p.a. referred to in Investment matters in the five-year period to March 2021), outperforming the Reference Portfolio by 0.08% p.a. net of costs including remuneration and adding £273m of value to the scheme assets over that period.

A key driver of increased remuneration costs this year has been the continued expansion of our investment management team as we have insourced management of more of our assets which, despite driving reported remuneration cost and scheme overheads upwards, saves the scheme money compared to the expense of external management, particularly in relation to private assets. The impact on reduced embedded fees and reduced overall investment management costs is laid out on page 54. Investment management headcount has risen by 11% year-on-year which is the largest factor in the remuneration growth shown in the tables below and on page 52. High earners are defined as employees whose base salary plus any incentives and non-pension benefits paid in the year exceed £100,000.

	For the year-ended 31 March 2021 £m			
Remuneration	**High earners (excluding Group Executive)**	**Group Executive (A)**	**Trustee Board (B)**	**Total key management personnel (A+B)**
Fixed pay – salary and benefits	**20.0**	**2.4**	**0.7**	**3.1**
Variable pay – annual incentive	**15.2**	**1.3**	**-**	**1.3**
Variable pay – LTIPs	**6.0**	**1.0**	**-**	**1.0**
Total remuneration paid	**41.2**	**4.7**	**0.7**	**5.4**

	For the year-ended 31 March 2020 £m			
Remuneration	**High earners (excluding Group Executive)**	**Group Executive (A)**	**Trustee Board (B)**	**Total key management personnel (A+B)**
Fixed pay – salary and benefits	16.8	2.5	0.6	3.1
Variable pay – annual incentive	12.9	1.3	-	1.3
Variable pay – LTIPs	3.1	0.8	-	0.8
Total remuneration paid	32.8	4.6	0.6	5.2

Trustee Board director fees

The Trustee Board director fees are shown in table below with the comparison to 2019/20. Their fees are included within the analysis table above.

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of the trustee and their legal responsibilities.

The Remuneration Committee report provides a summary of the oversight and governance of the compensation awards and can be found in the Governance Report on our website at uss.co.uk/about-us/report-and-accounts.

The number of directors who are members of the Retirement Income Builder

	2021	**2020**
As at 31 March (100% of those eligible)	6	4

Total emoluments of the directors of the trustee company

For the year-ended 31 March £m	**2021**	**2020**
Fees (non-executive directors)	**0.7**	0.6
Total	**0.7**	0.6

How staff are incentivised

Incentives for employees are based on performance and vary, depending on the part of the organisation in which they work.

In USSIM, investment managers receive an incentive based on their performance against defined investment performance and personal targets.

Risk management and behavioural factors are included in the overall assessment, alongside remuneration market dynamics.

Non-investment staff both within USSIM and Universities Superannuation Scheme Limited have incentives based on similar non-investment factors as described above with the key driver being performance against agreed annual objectives. A notional amount is awarded to certain non-investment staff in respect of LTIPs and amounts eventually payable depend on the performance and service conditions explained on page 53 where qualifying criteria for each type of staff incentive are laid out.

Salary banding

We remain committed to openly reporting the total remuneration of the Group Executive, Trustee Board and high earners (who are typically the investment managers); our remuneration disclosure therefore goes beyond what legislation requires.

The table below shows total remuneration (base salary plus any incentives and non-pension benefits) paid in the year exceeding £100,000 including any such members of the Group Executive and Trustee Board. Approximately 76% of these high earners are investment management professionals.

The annual and long-term incentive amounts included below reflect that investment performance exceeded that of the Reference Portfolio net of costs including remuneration by 0.08% p.a., but did not achieve the target of 0.55% p.a., on a rolling five-year basis in the compensation reference period to 31 December 2020.

Benchmarking of base salary and/or total compensation

Given the importance of attracting and retaining high calibre employees in a competitive market, we offer fair and competitive salaries in comparison with our peers.

Salaries reflect the experience, responsibility and contribution of the individual and of their role within USS.

Annual benchmarking is performed on total compensation. This both minimises the disruption caused by employee turnover and any potential negative impact on employee engagement. At the same time, salary benchmarking is vital to ensure we deliver value for money to employers and members.

We used two external benchmarking agencies: one for investment management and support services, and another aimed at pensions services roles and their support functions.

For the year-ended 31 March, Amounts Paid	Number of individuals 2021	2020
£100,001 to £150,000	65	47
£150,001 to £200,000	31	31
£200,001 to £250,000	19	20
£250,001 to £500,000	33	33
£500,001 to £750,000	14	8
£750,001 to £1,000,000	4	2
£1,000,001 to £1,250,000	3	2
£1,250,001 to £1,500,000	0	0
£1,500,001 to £1,750,000	1	1
Total	**170**	**144**

Incentive payments

There are three types of incentive payments:

	Annual incentive	Investment LTIP[1]	Group LTIP[1]
Main features and objectives	• To drive strategic change and individual delivery of the business plan • To recognise and reward individual contributions to USS priorities • Individual contribution is calibrated annually	• Restricted to a minority of roles in the USSIM subsidiary • Value at vesting depends on scheme or, where applicable, private markets investment performance • Promotes performance and retention of key personnel	• To support the recruitment, reward and retention of senior staff key to the delivery of strategic objectives • Restricted to those not in receipt of an Investment LTIP • Promotes performance and retention of key personnel
Performance conditions	For investment managers: • Scheme performance[2] over five years and mandate performance (where applicable) over five years • Qualitative measures aligned to USS values and delivery of strategic objectives For other employees: • Qualitative elements aligned to longer-term strategic goals and behavioural competencies	• Scheme performance[2] over multiple years • Specific investment performance measures[2] for USSIM Private Markets employees over multiple years • Retention element included	• All qualitative – not linked to scheme performance • Reflects achievement of personal objectives • Promotes objectivity of senior management within the second and third lines of defence
Service conditions	• Must be in employment and not serving notice at date of award • For deferrals, must be in employment and not serving notice at the date of payment	• Must be in employment and not serving notice at date of award and through to vesting although 'good leaver' provisions may apply • LTIPs vest in tranches, the earliest being three years and the latest being five years after award	• Must be in employment and not serving notice at date of award and through to vesting although 'good leaver' provisions may apply • LTIPs vest after either three, four or five years
Deferred element	• Incentives above threshold for USSIM employees are deferred for three years as follows: – 30% over £50,000 – 40% over £200,000 – 50% over £400,000 Where the deferred element is calculated as less than £5,000, this is paid immediately	• As a long-term plan, the payment is deferred until conditions have vested	• As a long-term plan, the payment is deferred until conditions have vested

Notes

1 Long-term incentive plans.

2 Consistent with previous years, scheme performance is assessed over calendar year periods in order to allow payments to be made at the financial year end.

Chief Financial Officer's update

Efficient and effective financial stewardship is a cornerstone of long-term success for the scheme and our members

Dominic Gibb
Chief Financial Officer

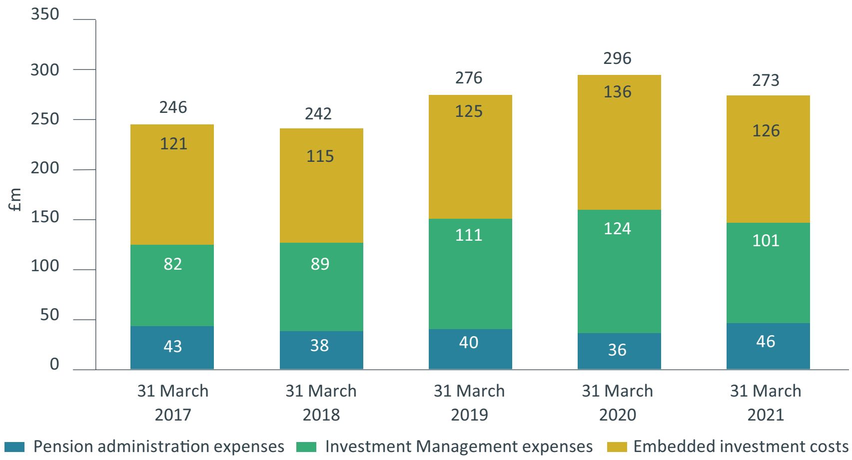
Delivering value for money for members and employers forms an essential part of our strategic priorities, with performance monitored through a robust set of KPIs. Despite material scheme asset growth, our total costs have been controlled partly by reducing relatively expensive allocations to third party managers and instead using internal expertise.

We manage total costs which include embedded costs deducted within scheme investment returns as well as scheme expenses included in the financial statements. Similarly, when we consider investment outperformance targets, we deduct relevant scheme expenses from performance in the same way as embedded costs are deducted. The first chart shows the evolution of total scheme costs over time. This year we have divested from a material proportion of our externally managed hedge funds saving around £20m per year in embedded costs.

Audited scheme expenses of £147m (2020: £160m) represent a year-on-year decrease of 8%.

Personnel costs were £7m lower than the prior year due to material movements in the long-term incentive plan (LTIP) and the pension deficit provisions. The LTIP provision caused a £23m year on year reduction as our estimates of LTIP payouts over the next five years reduced, largely reversing the sharp increase reported last year following material benchmark outperformance during the COVID-19 related market volatility. This was partly offset by a £13m increase relating to the pension deficit provision where finalisation of the 2018 valuation drove a provision release last year. Excluding these two items, underlying personnel charges were up by £3m (5%). Remuneration paid in the year is analysed on page 51.

Total scheme expenses as per financial statements and embedded costs

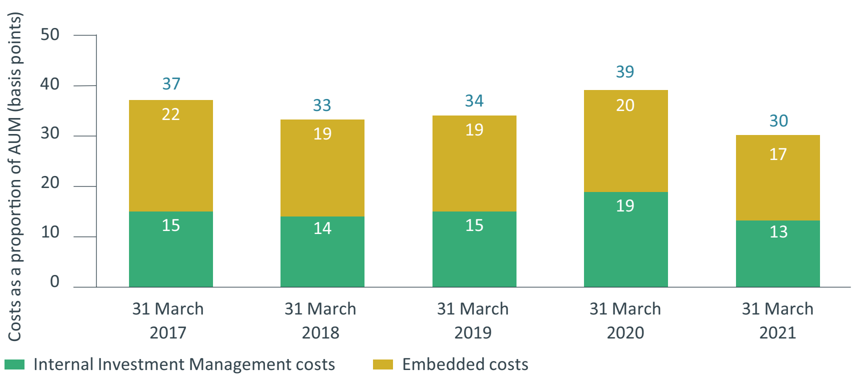


Non-personnel costs decreased by £6m on last year due to reduced private market deal expenses and savings as we re-design our developed equities approach, partially offset by an increase in professional fees arising from the 2020 valuation.

Our investment management costs, which make up around 85% of total scheme costs, remain materially below the peer cost benchmark as shown in the chart on page 55. The costs are displayed as a proportion of scheme assets in the chart below which demonstrates that we have maintained a downward trend over time (with the exception of 2020[1]).

CEM Benchmarking, an independent company, annually benchmarks our investment management costs against our peers. Participants' reported costs are adjusted to harmonise cost treatments and provide like-for-like comparisons using asset-mix adjusted cost/ asset ratios.

Investment management cost[2] ratios (CEM Benchmarking comparable basis)



1 The increase in 2020 was driven by increased future LTIP payout estimates as a result of COVID-19 related market volatility in the final quarter as well as increased embedded costs related to private market investments.
2 Investment management costs are shown as a proportion of average Retirement Income Builder (DB) assets in basis points on a basis intended to be comparable with that used by CEM Benchmarking. This basis differs from the expenses in the top chart which are on an accounting basis. Both charts exclude private equity fund performance fees (carried interest). We are working to improve data quality in reporting in this area.

Costs of running the scheme

	Description	2021
Pension administration operational expenses	We incur personnel and third-party provider costs to deliver high quality pension administration service to our members and sponsoring employers.	£27m
Group costs	To provide robust governance (including Master Trust and other TPR compliance requirements), legal, finance, IT and other central services for pension administration.	£19m
Pension administration costs		£46m
Investment management personnel and overheads	We incur personnel and other third-party expenses to deliver expert in-house investment management for around 70% of our investments.	£49m
Investment management fees including performance fees (and custody fees)	Where it is cost effective or requires specialist services, we incur fees for external investment management services, including incentive payments when fund returns exceed pre-determined thresholds.	£35m
Group costs	To provide robust governance (including FCA compliance requirements), legal, finance, IT and other central services for investment management.	£17m
Investment management operating costs (internal)		£101m
Embedded investment management costs	External management and performance fees, excluding carried interest, deducted from the scheme asset value.	£126m
Investment management cost (total)		**£227m**

Our cost advantage versus peer average is partly driven by our in-house capabilities which deliver better value to our members. Using skilled and experienced internal resource to deliver an active approach to managing the scheme's assets saves material cost compared to outsourcing (we explain why we use an active approach on page 20). Outsourced management of an asset portfolio of our current size and asset mix would more than double our cost given market pricing levels, particularly in private assets.

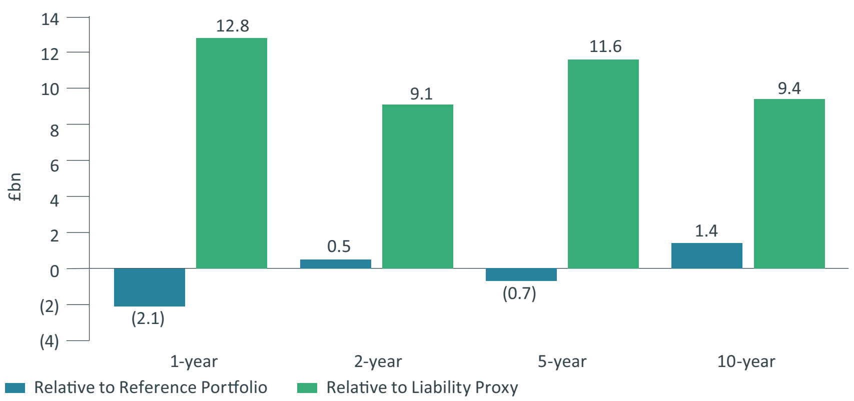
The cumulative net value-added relative to our Reference Portfolio and Liability Proxy that has been driven by our active investment strategy is shown in the chart to the bottom left.

The chart below right shows our investment management cost compared to the costs of managing our current asset portfolio using the latest CEM Benchmarking peer average cost rate (from the latest finalised calculation using calendar year 2019). (Note, cost comparisons on pages 7 and 50 are based on 2019 for both cost ratio and asset values).

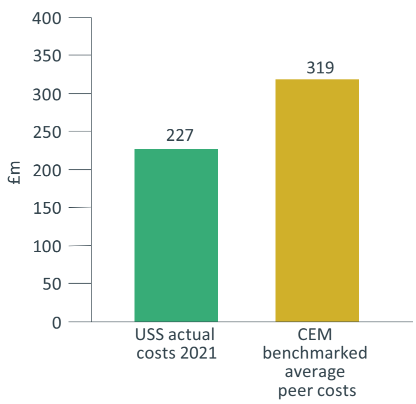
The material divestment from hedge funds noted above is part of our drive to strengthen further our internal investment capability and approach whilst controlling our total investment management costs. Over the next few years, whilst aiming to maintain our total cost advantage over our peers, we plan to:

- Build out our fixed income and treasury capability to increase leverage in the scheme DB investments and to improve hedging of long-term risks in liabilities
- Further strengthen our ESG approach, including in our policies, benchmarking and reporting standards
- Develop in-house equities, which we temporarily outsourced while we revised our strategy and hired new senior leadership in that area
- Further develop our private markets capability with increased allocations, particularly in private credit, which deliver strong risk-adjusted returns and align well with our liabilities
- Improve our support and control infrastructure to enable these changes and to respond to regulatory developments

Cumulative value-added from investment strategy over time



Comparative investment management costs



Financial statements
Dedicated USS professionals delivering to high standards

Contents

Audited financial statements consisting of the fund account, statement of net assets and notes

Statement of trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the trustee. Pension scheme regulations require, and the trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employers and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employers in accordance with the schedule of contributions. Where breaches of the schedule occur, the trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed on behalf of the trustee
on 20 July 2021.

Dame Kate Barker
Chair

Independent auditor's report to the trustee of Universities Superannuation Scheme

Opinion[1]

We have audited the financial statements of the Universities Superannuation Scheme for the year ended 31 March 2021 which comprise the Fund Account, the Statement of Net Assets and the related Notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the scheme during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of 12 months from when the scheme's annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the scheme's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The trustee is responsible for the other information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Note

1 The maintenance and integrity of the Universities Superannuation Scheme website is the responsibility of the trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the trustee of Universities Superannuation Scheme continued

Responsibilities of the trustee

As explained more fully in the trustee's responsibilities statement set out on page 58, the trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to wind up the scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes)
- We understood how the scheme is complying with these legal and regulatory frameworks by making enquiries of management, including the Group General Counsel, Group Financial Controller, Chief Financial Officer, Head of Compliance, Head of Internal Audit and also the Trustee Board directors including the Chair of the Audit Committee. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence with regulatory bodies
- We assessed the susceptibility of the scheme's financial statements to material misstatement, including how fraud might occur by meeting with the Trustee Board directors and management to understand where they considered there was susceptibility to fraud. We considered the key risks impacting the financial statements and documented the controls that the scheme has established to address risks identified, or controls that otherwise seek to prevent, deter or detect fraud. We considered the financial reporting risk arising from the potential for management override of controls and the valuation of illiquid assets to be a significant risk. Whilst we have assessed that this override risk is mitigated by the segregation of duties that exists within the scheme, we have performed specific procedures to gain assurance that the risk associated is adequately mitigated
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee Board directors for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator, review of board minutes, journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the scheme, enquiries of senior management and focused substantive testing
- The scheme is required to comply with UK pensions regulations. As such the Statutory Auditor has considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the scheme's trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme's trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
25 Churchill Place
London E14 5EY
20 July 2021

Fund account for the year ended 31 March 2021

Contributions and benefits

	Note	2021 £m	2020 £m
Employer contributions receivable	4	2,594	2,454
Employee contributions receivable	4	248	255
Total contributions		**2,842**	**2,709**
Transfers in		9	16
Total additions		**2,851**	**2,725**
Benefits payable	5	(2,073)	(1,965)
Payments to and on account of leavers	6	(85)	(111)
Administrative expenses	7	(46)	(36)
Total withdrawals		**(2,204)**	**(2,112)**
Net additions from dealings with members		**647**	**613**

Return on investments

	Note	2021 £m	2020 £m
Investment income	8	1,342	1,663
Taxation		(36)	(21)
Change in market value of net investments	9	12,713	(2,903)
Investment management expenses	7	(101)	(124)
Net return on investments		**13,918**	**(1,385)**
Net increase/(decrease) in the fund during the year		**14,565**	**(772)**
Net assets of the scheme at the start of the year		**67,684**	**68,456**
Net assets of the scheme at the end of the year		**82,249**	**67,684**

Statement of net assets available for benefits as at 31 March 2021

	Note	2021 £m	2020 £m
Investment assets			
Equities	9, 13	23,212	18,397
Bonds	9, 13	37,230	30,607
Pooled investment vehicles – Defined benefit	9, 10, 13	16,484	12,634
Pooled investment vehicles – Defined contribution	9, 10, 13	1,422	1,133
Derivatives	11	1,380	1,301
Property	9, 13	2,537	2,424
Cash and cash equivalents	9, 13	3,068	5,395
Other investment balances	12	1,615	1,411
		86,948	**73,302**
Investment liabilities			
Derivatives	11	(743)	(1,427)
Other investment balances	12	(4,037)	(4,299)
		(4,780)	**(5,726)**
Total net investments		**82,168**	**67,576**
Current assets	17	**267**	**305**
Current liabilities	18	**(186)**	**(197)**
Net assets of the scheme at 31 March		**82,249**	**67,684**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on page 26 and should be read in conjunction with this report.

The defined contribution investments included within total net investments include additional voluntary contributions (AVCs) invested with Prudential Assurance Company Limited (the Prudential). These assets are specifically allocated to secure extra benefits for those members that have made these additional voluntary contributions.

The financial statements on pages 62 to 81 were approved by the trustee, Universities Superannuation Scheme Limited, on 20 July 2021 and were signed on its behalf by:

Dame Kate Barker
Chair

The notes on pages 64 to 81 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2021

1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2018) (the SORP).

Universities Superannuation Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore not normally liable to income tax on income from investments directly held, nor to capital gains tax arising from the disposal of such investments.

The scheme is a hybrid scheme. However, where it is material and can be reliably measured the amounts in the financial statements have been split between defined contribution and defined benefit elements of the scheme. Where amounts have not been split this has been disclosed in the relevant section or note.

The financial statements are prepared on the going concern basis, as the trustee considers the scheme to be operationally resilient. In making this assessment, the trustee has reviewed the principal risks and uncertainties facing the scheme as set out on pages 37 to 39 and has concluded that these risks do not cast significant doubt on the scheme's ability to continue as a going concern. The trustee has reviewed the cash flow forecasts of the scheme, for a period of 12 months from the date of signing these financial statements and in doing so has considered the impact of COVID-19. COVID-19 has brought about increased market uncertainty. However, the trustee considers the scheme to be operationally resilient. There have been no material operational incidents or losses post year end.

2 Treatment of subsidiary undertakings

The trustee company, Universities Superannuation Scheme Limited, owns the share capital of a number of investment holding companies to aid the efficient administration of the scheme's investment portfolio. In accordance with FRS 102 and the SORP, the trustee is not required to prepare consolidated accounts which include these entities and has chosen not to do so because the companies are held for investment purposes and not as operating subsidiaries. Assets and liabilities held within such companies are included in the appropriate lines in the statement of net assets and an analysis of these net assets is shown in Note 15. Details of these companies may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, Ms N Mayo, at Royal Liver Building, Liverpool L3 1PY.

3 Accounting policies

The principal accounting policies of the scheme are set out below and have been applied consistently by the scheme in both the current and prior year.

(a) Contributions receivable

Contributions represent the amounts returned by the participating employers as being those due to the scheme under the Schedule of Contributions for the year of account and include contributions in respect of deficit funding. The responsibility for ensuring the accuracy of contributions rests with institutions which, under the terms of the trust deed regulating Universities Superannuation Scheme, are ultimately responsible for ensuring the solvency of the scheme. Retirement augmentation receipts and benefits payable are accounted for in the period in which they fall due under the agreement under which they are payable. Employer Section 75 debt contributions are accounted for when a reasonable estimate of the amount receivable can be determined.

(b) Benefits paid or payable

Pensions in payment are accounted for in the period to which they relate. The principal scheme benefits are provided under the main section. The supplementary section, which is funded by a contribution of 0.35% (2020: 0.35%) of salary from the members, provides additional benefits payable when a member retires on the grounds of ill health or incapacity or dies in service.

Where members can choose whether to take their retirement benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis from whichever is the later of the retirement date and the date the scheme is advised of the member's choice. Other benefits are accounted for on the date of retirement or death as appropriate. Opt-outs are accounted for when the scheme is notified of the opt-out.

Where the trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

(c) Transfers in and out
Transfers to and from the scheme are accounted for when member liability is accepted or discharged, which is normally when the transfer amount is received or paid.

(d) Administrative and investment management expenses
Administrative and investment management expenses represent the costs incurred by the trustee company in managing and administering the scheme. These costs are recharged to the scheme in accordance with its rules and recognised in the scheme accounts on an accruals basis.

(e) Investment income
Investment income is brought into account on the following bases:

(i) Dividends, tax and interest from investments, on the date that the scheme becomes entitled to the income
(ii) Interest on cash deposits and bonds, as it accrues
(iii) Property rental income, on a straight-line basis over the period of the lease

(f) Change in the market value of investments
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

(g) Investments
Investments are included in the statement of net assets at fair value at the year end as follows:

(i) Quoted equities and bonds – Quoted equities and bonds in active markets are stated at closing prices; these prices may be last traded prices or bid market prices depending on the convention of the stock exchange on which they are quoted.

(ii) Fixed interest securities – Interest is excluded from the market value of fixed interest securities and is included within investment income receivable. However, in some global markets, the market value of the fixed income security includes the accrued interest and there will not be any separate interest accruals on these securities.

(iii) Unquoted equities and bonds – Unquoted equities and bonds are stated at fair value as estimated by the trustee using appropriate valuation techniques, for example discounted cash flow models. Direct investments are valued by independent valuation experts or a qualified internal team of valuation experts.

(iv) Pooled investment vehicles – Pooled investment vehicles are stated at unit prices or values as advised by the fund administrator based on the fair value of the underlying assets.

Unit trusts and managed funds
- Unit trusts and managed funds are stated at latest available bid price or single price, as advised by the fund manager, based on the market valuation of the underlying assets

Private equity funds
- Private equity funds are stated at the latest available cash flow adjusted valuations prepared in accordance with International Private Equity and Venture Capital (IPEV) Guidelines, including, to the extent appropriate, the special IPEV guidance which addressed how to reflect the impact of COVID-19 in subsequent valuations

Hedge funds
- Hedge funds are stated at fair value based on prices determined by the independent administrator of each respective investment manager

(v) Derivative contracts – Derivative contracts are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivatives comprise the following types of contracts which are either exchange-traded or over-the-counter (OTC). Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit, such as initial margin to be placed with the broker, are recorded at nil cost on purchase.

Options (exchange-traded)
- Options are recognised at the fair value as determined by the exchange price for closing out the option as at the year end. Collateral payments and receipts are reported as broker balances and are not included within realised gains or losses reported within change in market value

3 Accounting policies continued

Futures (exchange-traded)

- Open futures contracts are recognised in the statement of the net assets at their fair value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract, as determined by the closing exchange price as at the year end. Margin balances with the brokers represent the amounts outstanding in respect of the initial margin and any variation margin due to or from the broker. Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts

Swaps (OTC)

- Swaps (OTC) are recognised at fair value, which is the current value of future expected net cash flows arising from the swap, taking into account the time value of money. Net receipts and payments are reported within change in market value. Realised gains and losses on closed contracts and unrealised gains and losses on open contracts are included within change in market value. The notional principal amount is used for the calculation of cash flow only

Forward foreign exchange contracts (OTC)

- Forward foreign exchange contracts outstanding at the year end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year end with an equal and opposite contract at that date. Changes in the fair value of forward contracts are reported within the change in market value in the fund account

Forward purchase bond

- Forward purchase bond contracts outstanding at the year end are stated at fair value. This is determined as the gain or loss that would arise if the asset was sold at that date, using the mark to market value of the underlying bond against the agreed forward purchase price. Changes in the fair value of forward purchase bond contracts are reported within the change in market value in the fund account

(h) Property

Property is stated at open market value as at the year end date determined in accordance with the Royal Institute of Chartered Surveyors (RICS), Valuation – Global Standards 2017 (Incorporating the International Valuation Standards) and the UK National Supplement 2018, taking into consideration the current estimate of rental value and market yields.

(i) Defined contribution investments

Defined contribution investments are stated at net asset value provided by the fund administrator at the year end date. Where material and relevant, separate disclosures have been made of defined contribution investments.

(j) Repurchase agreements (repos)

The scheme continues to recognise and value securities that are delivered out as collateral under repurchase agreements and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable.

(k) Foreign currency

The scheme's functional and presentation currency is pounds sterling. Foreign currency investments and related assets and liabilities are translated into sterling at the rate of exchange on the date of the transaction and subsequently at the rates of exchange at the year end. Exchange differences arising from translation are included in the fund account within the change in market value of investments. Foreign currency income and expenditure is translated at exchange rates prevailing on the appropriate dates, which are usually the transaction dates.

(l) Other investment arrangements

The scheme continues to recognise securities delivered out under stock lending arrangements and as collateral under OTC derivative contracts reflecting its ongoing interest in those securities.

Collateral securities received in respect of stock lending arrangements and derivative contracts are disclosed but not recognised as scheme assets.

The value of collateral received in respect of OTC derivative contracts reflects its fair value.

4 Contributions receivable

	Defined benefit £m	Defined contribution £m	2021 £m	Defined benefit £m	Defined contribution £m	2020 £m
Employer contributions						
Employer contributions	1,760	93	1,853	1,632	95	1,727
Employer salary sacrifice contributions	681	57	738	635	57	692
S75 debt	–	–	–	33	–	33
Augmentation	3	–	3	2	–	2
	2,444	**150**	**2,594**	**2,302**	**152**	**2,454**
Employee contributions						
Members' basic contributions	77	6	83	83	7	90
Main section AVCs	24	112	136	27	106	133
Legacy AVCs	–	–	–	–	4	4
Supplementary section	29	–	29	28	–	28
	130	**118**	**248**	**138**	**117**	**255**
	2,574	**268**	**2,842**	**2,440**	**269**	**2,709**

The scheme offers the following additional contributions facilities:

- Main section AVCs referred to above, represent additional contributions made into the Investment Builder which provides defined contribution benefits from the scheme. Contributions from members who commenced additional contributions on or after October 2016 are paid into main section AVCs
- Legacy AVCs represent contributions made to purchase benefits under a legacy facility administered throughout the current and prior year by the Prudential. Individual contributions into the fund were ceased from 1 October 2019. A large proportion of the AVC pots from Prudential's Unit-Linked Funds have already been switched to the Investment Builder, however, remaining funds will continue to be managed by the Prudential on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by HM Revenue & Customs (HMRC)
- Contributions receivable from employers towards the past service deficit are included within employer contributions above. Under the current deficit funding plan, from 1 October 2019 up to the 30 September 2021 contributions will be 2% of total salaries, increasing to 6% from 1 October 2021 up to 31 March 2028

5 Benefits payable

	Defined benefit £m	Defined contribution £m	2021 £m	Defined benefit £m	Defined contribution £m	2020 £m
Main section						
Pensions	1,641	(2)	1,639	1,574	–	1,574
Lump sums on or after retirement	344	50	394	307	42	349
Lump sums on death in service	19	–	19	19	–	19
Taxation where lifetime and annual allowance exceeded	–	3	3	1	3	4
	2,004	**51**	**2,055**	**1,901**	**45**	**1,946**
Supplementary section						
Pensions	16	–	16	16	–	16
Lump sums on death in service	2	–	2	2	–	2
	18	**–**	**18**	**18**	**–**	**18**
Money purchase AVCs						
Lump sums on death in service	–	–	–	–	1	1
	–	**–**	**–**	**–**	**1**	**1**
	2,022	**51**	**2,073**	**1,919**	**46**	**1,965**

Taxation arising on benefits paid is in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the scheme in exchange for the scheme settling their tax liability.

6 Payments to and on account of leavers

	Defined benefit £m	Defined contribution £m	2021 £m	Defined benefit £m	Defined contribution £m	2020 £m
Individual transfers out to other schemes	77	7	84	100	10	110
Refunds of contributions in respect of non-vested leavers	1	–	1	1	–	1
	78	**7**	**85**	**101**	**10**	**111**

7 Administrative and investment management expenses

	2021			2020		
	Administrative expenses £m	Investment management expenses £m	Total £m	Administrative expenses £m	Investment management expenses £m	Total £m
Personnel costs						
Wages and salaries	14	24	38	12	22	34
Employee incentives	2	16	18	2	33	35
Pension costs	2	7	9	(3)	(1)	(4)
Social security costs	2	5	7	1	8	9
Other	1	–	1	2	4	6
Total personnel costs	**21**	**52**	**73**	**14**	**66**	**80**
Other costs incurred in managing and administering the scheme						
Professional fees	11	10	21	10	13	23
Invoiced external manager fees	–	13	13	–	12	12
Securities research fees	–	2	2	–	8	8
Information services costs	3	8	11	2	9	11
Investment property management fees	–	6	6	–	6	6
Group premises costs	2	3	5	1	3	4
Recruitment, training and welfare	1	2	3	1	2	3
Pension Protection Fund levies	4	–	4	4	–	4
Other costs	4	5	9	4	5	9
Total other costs	**25**	**49**	**74**	**22**	**58**	**80**
Total scheme overheads	**46**	**101**	**147**	**36**	**124**	**160**

Administrative expenses[1] are incurred by the trustee company in managing and administering the scheme and, in accordance with the trust deed, are chargeable to the scheme.

Investment management expenses[1] comprise all costs directly attributable to the scheme's investment activities, including the operating costs of USS Investment Management Limited and the costs of management and agency services rendered by third parties.

USS operates a hybrid scheme and therefore administrative and investment expenses are incurred, recorded and controlled as a whole; a split between defined benefit and defined contribution would therefore be on an estimated basis. Any such defined contribution element would not be material for the current and prior year and therefore is not disclosed.

Note

1 Investment management expenses and administrative expenses differ from the investment management and pension administration cost KPIs, as the KPIs do not include annual statutory adjustments such as the movements in the pension deficit recovery provision.

Included in the administrative personnel costs are emolument charges (which equal amounts paid) in relation to salary and benefits, excluding LTIP and pension-related charges, for Mr Galvin, Group Chief Executive Officer, of £484,999 (2020: £486,410). Mr Galvin is eligible to participate in an individual LTIP which vests after 3, 4 and 5 years that will be entirely related to his performance and the achievement of set objectives. Amounts paid relating to the LTIP plan, for Mr Galvin, in the year are £214,325 (2020: £212,009). Pension-related payments for Mr Galvin in the year amounted to £57,918 (2020: £58,369). Mr Galvin's accrued Retirement Income Builder pension at 31 March 2021 was £18,803 (2020: £18,709) and his accrued lump sum, including Investment Builder pension was £66,353 (2020: £64,338). These accrued pension benefits relate to amounts earned in respect of services to the scheme and exclude transfers in from other schemes. No pension contributions to the scheme were made on behalf of Mr Galvin in the current or previous financial year.

The aggregate amount of compensation payable for loss of office to employees during the year was £1.1m (2020: £0.4m) of which £0.3m (2020: £0.4m) was payable to employees whose remuneration exceeded £100,000 during the year.

8 Investment income

	2021 £m	2020 £m
Dividends from equities	448	718
Net property income	113	116
Income from pooled investment vehicles	197	245
Income from bonds	577	600
Interest on cash deposits	8	29
Expenses from derivatives	(4)	(27)
Other income/(expenses)	3	(18)
	1,342	**1,663**

Income from property is net of property-related expenses of £8m (2020: £5m). Investment income from overseas investments may be subject to deduction of local withholding taxes under local domestic law. Where double taxation treaties exist between the UK and the country in which the income arises, the tax withheld may be reduced to a lesser rate or to zero by the operation of the relevant treaty. Final withholding taxes suffered, after applying any beneficial treaty rates, are disclosed on the face of the fund account as taxation. The investment income attributed to defined contribution is £2m in total, and so has not been included in a separate column in the table above.

9 Investments reconciliation

The changes in the market value of investments are shown below:

	Note	Market value 2020 £m	Purchases at cost and derivative payments £m	Proceeds of sales and derivative receipts £m	Changes in market value during the year £m	Market value 2021 £m
Equities	13	18,397	7,140	(7,277)	4,952	23,212
Bonds	13	30,607	23,621	(16,732)	(266)	37,230
Pooled investment vehicles – defined benefit	10, 13	12,634	3,985	(2,560)	2,425	16,484
Pooled investment vehicles – defined contribution	10, 13	1,133	814	(776)	251	1,422
Derivatives	11, 13	(126)	5,385	(9,876)	5,254	637
Property	13	2,424	68	–	45	2,537
		65,069	**41,013**	**(37,221)**	**12,661**	**81,522**
Cash and cash equivalents	13	5,395			40	3,068
Other investment balances (net)	12, 13	(2,888)			12	(2,422)
		67,576			**12,713**	**82,168**

9 Investments reconciliation continued

Changes in the value of investments comprise both realised gains and (losses) on investments sold during the year and unrealised gains and (losses) on investments held at the year end. Please refer to Note 3(g) for the valuation techniques and key model inputs used for determining investment fair values. At 31 March 2021, the scheme's approach to valuation was substantially consistent with its normal process and valuation policy. For the scheme's private market investment holdings, the valuation approach considered estimations regarding both the short and the long-term effects of COVID-19 on their ability to generate earnings and cash flow. The trustee has a separate Fair Value Committee to review the valuations policies, processes and their application to individual investments. The trustee has satisfied itself as to the methodology used, the discount rates and other key assumptions applied in the valuations reported at the year end date.

Included in the amount for derivatives are realised and unrealised losses of £1,672m (2020: £1,199m) from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see Note 11, Derivatives). These are offset by gains in the values of the corresponding overseas assets. Pooled investment vehicles – defined contribution comprises £208m (2020: £228m) legacy AVC investments and £1,214m (2020: £905m) Investment Builder investments.

At the year end, within other investment balances, amounts payable under repurchase agreements are £3,257m (2020: £3,568m). At the year end £3,168m (2020: £3,644m) of bonds reported in scheme assets are held by counterparties under repurchase agreements.

In addition to the defined contribution assets reported as pooled investment vehicles – defined contribution (market value 2021: £1,422m (2020: £1,133m)), a further £128m (2020: £12m) of assets included in other categories are held within the defined contribution element of the scheme. Further analysis of this balance is deemed immaterial to the financial statements.

Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the scheme such as advisory fees, commissions and stamp duty. In addition to the direct transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments. Transaction costs analysed by main asset class and type of cost are as follows:

	Fees and taxes £m	Commission £m	2021 £m	Fees and taxes £m	Commission £m	2020 £m
Equities	17	4	21	7	7	14
Bonds	3	–	3	2	–	2
Pooled investment vehicles – defined benefit	4	–	4	2	–	2
Property	1	–	1	1	–	1
	25	**4**	**29**	**12**	**7**	**19**

10 Pooled investment vehicles

The scheme's pooled investment vehicles at the year end comprised:

	Note	2021 £m	2020 £m
Equities		3,590	1,981
Hedge funds		352	1,296
Private equity		10,607	8,111
Property		1,710	1,246
Bonds		225	–
Pooled investment vehicles – defined benefit	9, 13	**16,484**	**12,634**
Equities		745	511
Bonds		304	255
Cash		74	83
Private equity		37	–
Property		54	56
Legacy AVCs		208	228
Pooled investment vehicles – defined contribution	9, 13	**1,422**	**1,133**
Total pooled investment vehicles		**17,906**	**13,767**

11 Derivatives

At the year end, the scheme recognised the following derivatives:

	Note	2021 £m	2020 £m
Assets			
Options	11(a)	88	–
Futures contracts	11(b)	336	463
Swaps	11(c)	166	237
Forward foreign exchange contracts	11(d)	790	601
Forward purchase bonds	11(e)	–	–
		1,380	**1,301**
Liabilities			
Options	11(a)	(88)	–
Futures contracts	11(b)	(78)	(69)
Swaps	11(c)	(310)	(165)
Forward foreign exchange contracts	11(d)	(265)	(1,193)
Forward purchase bonds	11(e)	(2)	–
		(743)	**(1,427)**
Net asset/(liability)	9, 13	**637**	**(126)**

Objectives and policies

The trustee has authorised the use of derivatives by the investment managers in accordance with the investment guidelines for each mandate. Investment in derivative instruments is only permitted for the purposes of:

- contributing to a reduction of risks
- facilitating efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk)

Processes and controls are in place to ensure risk exposures, including to individual counterparties, are maintained within acceptable levels.

11 Derivatives continued

The main objectives for the use of derivatives are summarised as follows:

(i) Protection
Derivatives may be used as part of the permitted instrument types available to managers to protect (or enhance) active returns relative to the specified strategic benchmarks, for example, through the use of options and credit default swaps.

(ii) Modify exposure to asset classes
Derivatives are bought or sold to allow the scheme to change its exposure to a particular market or asset class more quickly than by holding the underlying physical assets. They may also be easier to trade than conventional stocks, particularly in large amounts.

(iii) Hedging
Forward currency contracts are used to partially hedge the currency risk relating to overseas investments. This aims to achieve a better match between the fund's assets and the base currency of its future liabilities. Derivatives may also be used for the purpose of hedging risk exposures affecting future scheme liabilities, for example, through the use of inflation and interest rate swaps.

(iv) Replication
Derivatives are used where liquidity or funding for generating a relevant investment exposure is perceived to be more efficient in derivatives, rather than the underlying physical assets.

Derivative contracts outstanding at year end

A summary of the scheme's outstanding derivative contracts at the year end is set out below. The valuations are based on the unrealised fair values of the various investments as at 31 March 2021:

a) Options

	Expires within	Notional principal £m	Asset £m	Liability £m
Type of option				
Currency	1 year	65	15	(8)
Index	1 year	157	73	(80)
		222	**88**	**(88)**

b) Futures contracts (exchange traded)

	Expires within	Notional principal £m	Asset £m	Liability £m
Type of future				
Equities	1 year	5,625	69	(8)
Commodity	1 year	1,340	145	(22)
Bonds	1 year	1,458	27	–
Currency	1 year	89	1	(1)
Interest rate	1 year	8,844	94	(47)
		17,356	**336**	**(78)**

The economic exposure is represented by the notional principal value of stock purchased under the futures contract on an absolute basis and is subject to market movements.

c) Swaps (OTC)

	Expires within	Nature of swap	Notional principal £m	Asset £m	Liability £m
Credit default	0-10 years	Index	387	4	(19)
	0-10 years	Single	825	18	(8)
Interest rate	0-50 years	Fixed vs floating	4,646	124	(246)
Total return	0-1 years	Equity	1,351	19	(11)
	0-1 years	Commodity	786	–	(11)
	1 year	Bond	208	–	(15)
Inflation linked	0-10 years	RPI	334	1	–
			8,537	**166**	**(310)**

d) Forward foreign exchange contracts (OTC)

Currency bought	Currency sold	Notional principal £m	Asset £m	Liability £m
BRL	USD	604	5	(9)
EUR	GBP	598	1	(14)
GBP	AUD	953	10	–
GBP	EUR	2,230	69	–
GBP	HKD	1,842	94	–
GBP	Other	1,310	18	–
GBP	USD	19,512	485	(61)
JPY	GBP	3,779	–	(56)
Other	GBP	267	–	(3)
Other	Other	160	–	–
Other	USD	3,430	4	(89)
USD	BRL	1,030	15	(6)
USD	COP	216	3	–
USD	EUR	753	10	–
USD	GBP	1,116	3	(15)
USD	Other	2,994	64	(6)
INR	USD	784	1	(1)
USD	ZAR	321	–	(5)
ZAR	USD	279	8	–
		42,178	**790**	**(265)**

Other currency relates to a number of smaller contracts in denominations not disclosed above. All of the above contracts settle within one year.

At the end of the year the scheme held collateral of £506m (2020: £149m) and pledged collateral of £52m (2020: £1,134m) in the form of cash and government bonds in respect of OTC derivatives.

e) Forward purchase bonds

Contract	Expires within	Notional principal £m	Asset £m	Liability £m
Forward Purchase Bond	1 year	**29**	–	**(2)**

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12 Other investment balances

	2021 £m	2020 £m
Assets		
Amount due from stockbrokers	212	29
Dividends and accrued interest	245	211
Margin balances	1,143	1,171
Other	15	–
	1,615	**1,411**
Liabilities		
Amount due to stockbrokers	(180)	(268)
Margin balances	(570)	(462)
Repurchase agreements	(3,257)	(3,568)
Accrued interest	(10)	(1)
Other	(20)	–
	(4,037)	**(4,299)**
Other investment balances (net)	**(2,422)**	**(2,888)**

During the normal course of business, the scheme enters into derivative transactions which are reflected in the scheme financial statements. As a consequence of the clearing arrangements in respect of these transactions, certain charges have been granted by Universities Superannuation Scheme Limited. No liability is expected to arise as a result of these charges.

13 Fair value determination

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Category 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Category 2: Valuation using directly or indirectly observable inputs other than those included in category 1. Those with quoted prices for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets.

Category 3: Valuation where one or more significant inputs are unobservable market data (i.e. where market data is unavailable).

		2021 category			
	Note	1 £m	2 £m	3 £m	Total £m
Equities	9	19,353	–	3,859	23,212
Bonds	9	–	33,235	3,995	37,230
Pooled investment vehicles – defined benefit	9, 10	309	1,935	14,240	16,484
Pooled investment vehicles – defined contribution	9, 10	–	1,385	37	1,422
Derivatives	9, 11	259	378	–	637
Property	9	–	–	2,537	2,537
Cash and cash equivalents	9	3,068	–	–	3,068
Other investment balances	9, 12	(2,422)	–	–	(2,422)
		20,567	**36,933**	**24,668**	**82, 168**

		2020 category			
	Note	1 £m	2 £m	3 £m	Total £m
Equities		14,958	–	3,439	18,397
Bonds		–	27,302	3,305	30,607
Pooled investment vehicles – defined benefit	10	149	902	11,583	12,634
Pooled investment vehicles – defined contribution	10	–	1,133	–	1,133
Derivatives	11	394	(520)	–	(126)
Property		–	–	2,424	2,424
Cash and cash equivalents		5,395	–	–	5,395
Other investment balances	12	(2,888)	–	–	(2,888)
	9	**18,008**	**28,817**	**20,751**	**67,576**

14 Investment risks

Investment risks are set out below as follows:

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate risk and other price risk.

- **Currency risk**: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates
- **Interest rate risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates
- **Other price risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market

The trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the Reference Portfolio in place with the scheme's internal investment manager and monitored by the trustee by regular reviews of the activity and performance of the internal manager and of scheme assets relative to the Reference Portfolio.

Further information on the trustee's approach to risk management and the scheme's exposures to credit and market risks are set out below and within the Statement of Investment Principles and Implementation Statement.

This note has been updated this year to include and separately disclose pooled investment vehicles – defined contribution. These assets were not included or reported within the risk note in the prior year as they were not considered material to the understanding of the risks of the scheme. Other assets held within the defined contribution element of the scheme are included and reported where relevant in the appropriate asset category but not separately disclosed as not considered material to the understanding of the risks of the scheme.

14 Investment risks continued

Credit risk

The scheme is subject to credit risk because the scheme invests directly in bonds, OTC derivatives, has cash balances and unsettled trades, undertakes stock lending activities, leases properties and enters into repurchase agreements. The scheme also invests in pooled investment vehicles and is therefore exposed directly to credit risk in relation to the instruments it holds in the pooled investment vehicles.

	Investment grade		Non-investment grade		Unrated		Total	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Direct non-collateralised								
Bonds not under repurchase or stock loan agreements	16,878	17,361	2,707	1,458	7,255	4,207	26,840	23,026
Cash	3,068	5,395	–	–	–	–	3,068	5,395
Pooled investment vehicles – defined benefit	–	–	–	–	16,175	12,490	16,175	12,490
Pooled investment vehicles – defined contribution		–	–	–	1,422	1,133	1,422	1,133
Rent debtor	–	–	–	–	15	11	15	11
Amounts due to stockbrokers	–	–	–	–	212	29	212	29
Sub-total	**19,946**	**22,756**	**2,707**	**1,458**	**25,079**	**17,870**	**47,732**	**42,084**
Direct collateralised								
Bonds lent under repurchase agreements	3,257	3,569	–	–	–	–	3,257	3,569
Bonds lent under stock loan agreements	7,279	4,138	–	–	–	–	7,279	4,138
Equities lent under stock loan agreements	1,359	1,096	–	–	–	–	1,359	1,096
Derivatives	998	836	–	–	–	–	998	836
Sub-total	**12,893**	**9,639**	–	**–**	–	**–**	**12,893**	**9,639**
	32,839	**32,395**	**2,707**	**1,458**	**25,079**	**17,870**	**60,625**	**51,723**

As stated on page 75, the prior year comparatives have been revised to include pooled investment vehicles – defined contribution (2020: £1,133m reported as unrated). In addition, the prior year comparatives for amounts due to stockbrokers (£29m) has been reclassified as unrated (previously reported as investment grade) to give a more accurate reflection of the risks to the scheme.

Credit risk arising on bonds is managed:

(i) through investment in developed-market government bonds where the credit risk is minimal

(ii) for corporate and emerging-market bonds and private credit, individual investment mandates set out the maximum permissible exposure to non-investment grade issuers, so as to maintain the overall credit quality of the portfolios

The use of credit default swaps has the effect of mitigating the maximum exposure to credit risk. The exposure to fixed interest credit risk mitigated through credit derivatives was £181m (2020: £662m).

Cash is held with financial institutions which are at least investment grade credit rated, with the maximum deposit limit for any one counterparty set by reference to its credit rating. Credit default swaps (CDS) spreads and rating notifications are monitored to ensure exposures remain within the approved limits. Money market liquidity funds must have a minimum AAA rating to be eligible for investment and limits are in place on the maximum allowable exposure to any single fund.

The scheme is exposed indirectly to credit risks arising on the financial instruments held by the pooled investment vehicles. Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles holding private market funds, hedge funds and controlled property funds (value of underlying assets subject to credit risk only included in the note). The value at the year end was: private market funds £8,283m (2020: £6,742m), hedge funds £352m (2020: £1,296m) and controlled property funds £20m (2020: £19m).

A summary of pooled investment vehicles by type of arrangement is as follows:

	Note	Defined benefit £m	Defined contribution £m	2021 £m	Defined benefit £m	Defined contribution £m	2020 £m
Unit trusts		1,337	7	1,344	832	–	832
Open ended investment companies (OEICs)		3,815	207	4,022	1,981	-	1,981
Partnership interests		10,980	1,208	12,188	8,525	1,133	9,658
Shares of limited liability partnerships		352	–	352	1,296	–	1,296
	9, 10, 13	**16,484**	**1,422**	**17,906**	**12,634**	**1,133**	**13,767**

Direct credit risk on pooled investment vehicles comprises the pooled funds shown in Note 10 with the exception of £309m (2020: £149m) investment in exchange traded funds which are not considered to be subject to credit risk as they are traded on an active market. Additionally £nil (2020: £5m) of accrued income is included within the credit risk table.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled investment manager, provisions to automatically dissolve the funds in the event of insolvency of the pooled investment manager or general partner, a cap of liability to pooled funds at the level of funds committed, and diversification of investments among a number of pooled arrangements. Due diligence checks are carried out on the appointment of new pooled investment managers and on an ongoing basis thereafter.

Credit risk arises from the rents due from tenants of the scheme's investment property portfolio. This is mitigated through credit control procedures, regular review of tenant credit ratings and the use of rent deposits where appropriate.

Credit risk arising from amounts due to stockbrokers is mitigated through delivery versus payment settlement in the majority of markets.

Credit risk arising from repurchase activities is mitigated through collateral arrangements which fully collateralise the exposure.

Credit risk arising from stock lending activities is mitigated by restricting the amount of stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and through collateral arrangements. Loans are fully collateralised, with daily mark to market of all loaned securities, to ensure collateral is received or returned to maintain full collateralisation. In addition, the scheme's custodians provide indemnity against losses arising from stock lending exposure to counterparties.

Credit risk arising on derivatives depends on whether the derivative is exchange-traded or OTC. OTC derivative contracts, other than those which are centrally cleared, are not guaranteed by any regulated exchange and therefore the scheme is subject to risk of failure of the counterparty. The credit risk for OTCs, including swaps and forward foreign currency contracts, is reduced by collateral arrangements (see Note 11). OTCs are valued daily and counterparty exposures are fully collateralised subject to de minimis limits.

14 Investment risks continued

Market risk

Currency risk

The scheme is subject to currency risk because some of the scheme's investments are denominated in foreign currencies and/or comprise assets whose economic value is generated in foreign currencies. Currency exposures are monitored and mitigated through a currency hedging policy, through which the Reference Portfolio includes 50% hedging for developed market equity and 100% for developed market fixed income. Derivative holdings are represented on a market value basis within the table below:

	2021 £m	2020 £m
Direct		
Australian Dollar	758	744
Brazilian Real	38	422
Canadian Dollar	470	449
Euro	5,972	4,523
Hong Kong Dollar	1,488	1,278
Indian Rupee	1,197	473
Indonesian Rupiah	421	338
Japanese Yen	1,638	1,813
Mexican Peso	588	626
South African Rand	403	313
South Korean Won	788	472
Swiss Franc	617	760
Taiwan New Dollar	705	513
United States Dollar	22,605	17,099
Other	2,922	1,989
	40,610	**31,812**
Less: Foreign currency hedging	(12,321)	(10,608)
	28,289	**21,204**

The current year market values above include £58m relating to the defined contribution element of the scheme which have not been separately disclosed as the balances are not considered material to the financial statements.

Indirect currency risk arises on pooled investment vehicles where the vehicle invests in assets which are denominated in foreign currencies and/or comprise assets whose economic value is generated in foreign currencies. The value as at the year end relating to pooled investment vehicles – defined benefit was £11,692m (2020: £9,343m) and to pooled investment vehicles – defined contribution £30m (2020: £2m).

Interest rate risk

The scheme's investments are subject to interest rate risk because they include public and private credit, swaps and money market instruments. Also, investments in certain unquoted equities are valued in a way that makes them sensitive to interest rates and are, therefore, directly subject to interest rate risk. Much of this investment-related interest-rate risk provides an offsetting exposure to the interest risk which is inherent to the scheme's liabilities. This serves to mitigate the interest rate risk across the scheme as a whole.

Cash including liquidity funds are exposed to short duration interest rate risk. However, these balances have been excluded from the amounts disclosed below as the interest rate risk involved is immaterial.

	2021 £m	2020 £m
Direct		
Bonds	37,230	30,607
Equities	2,927	2,747
Derivatives	462	(399)
	40,619	**32,955**

Indirect interest rate risk arises on pooled investment vehicles where the vehicle invests in assets which are exposed to interest rate risk. The value as at the year end relating to pooled investment vehicles – defined benefit was £2,525m (2020: £1,705m) and to pooled investment vehicles – defined contribution was £378m (2020: £338m).

Other price risk

Other price risk arises principally in relation to the scheme's return-seeking portfolio, which includes directly held equities, equities held in pooled vehicles, futures, hedge funds, private equity and investment properties. Derivative values below are based on market value.

The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

	2021 £m	2020 £m
Direct		
Equities	23,212	18,397
Derivatives	174	274
Property	2,537	2,424
Pooled investment vehicles – defined benefit	16,260	12,634
Pooled investment vehicles – defined contribution	1,043	795
	43,226	34,524

As stated on page 75, the prior year comparatives have been revised to include pooled investment vehicles – defined contribution (2020: £795m).

Indirect other price risk arises in relation to underlying investments held in pooled investment vehicles holding equity, private market funds, hedge funds and property funds. The value at the year end relating to pooled investment vehicles – defined benefit was £16,260m (2020: £12,634m) and to pooled investment vehicles – defined contribution £1,043m (2020: £795m). The current year pooled investment vehicles – defined benefit can be further analysed as: equity £3,590m (2020: £1,981m); private market funds £10,608m (2020: £8,111m); hedge funds £352m (2020: £1,296m); and property funds £1,710m (2020: £1,246m).

15 Subsidiaries controlled by Universities Superannuation Scheme

The net assets of subsidiary companies through which the scheme holds investments are summarised in aggregate below.

	2021 £m	2020 £m
Equities	3,500	2,884
Bonds	2,023	1,672
Pooled investment vehicles	8,054	6,754
Cash	10	19
Other investment balances	(54)	2
	13,533	**11,331**

16 Self investment

The scheme had no 'employer-related investments' at year end, as defined by relevant legislation, except equity and loan investments made in the normal course of business in certain investment holding companies. The funding of these investment vehicles, which are held for investment purposes and are not operating subsidiaries as explained on page 64, amounts to 1.56% (2020: 2.0%) of the net assets of the scheme.

17 Current assets

	2021 £m	2020 £m
Contributions receivable:		
– employer contributions	197	145
– members' basic contributions	11	66
– members' additional voluntary contributions	11	11
Other debtors	23	26
Cash at bank and in hand	25	57
	267	**305**

Contributions due at the year end have been paid to the scheme subsequent to the year end in accordance with the Schedule of Contributions. Current assets have not been split between defined benefit and defined contribution on the basis that the defined contribution element would not be material on a line by line basis (see Note 7 for further details).

18 Current liabilities

	2021 £m	2020 £m
Rents received in advance	–	(22)
Benefits payable	(109)	(96)
Taxation creditor	(2)	(3)
Due to trustee company	(74)	(75)
Other creditors	(1)	(1)
	(186)	**(197)**

Current liabilities have not been split between defined benefit and defined contribution on the basis that the defined contribution element would not be material on a line by line basis (see Note 7 for further details).

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. A further judgement was issued on 20 November 2020 with a similar conclusion affecting transferred out benefits. The issues determined by the judgments arise in relation to many defined benefit schemes. The trustee of the scheme is aware that the issue will affect the scheme and will be considering this at its future board meetings and decisions will be made as to the next steps. Under the rulings, schemes are required to backdate benefit adjustments and transferred out benefits in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest, the trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. Any such amounts will be accounted for in the year in which they are determined.

19 Securities on loan

Securities have been lent to the counterparties in return for fee income earned by the scheme. Security for these loans is obtained by holding collateral in the form of cash, equities, government bonds and letters of credit.

	2021 £m	2020 £m
Value of stock on loan at 31 March		
Equities	1,359	1,096
Bonds	7,279	4,138
	8,638	**5,234**
Collateral held	**9,262**	**5,695**

20 Financial commitments

	2021 £m	2020 £m
Outstanding commitments to private equity partnerships	**5,158**	**5,038**

These represent amounts subscribed and committed to private equity partnerships that had not been drawn down at the year end and are committed for draw down in the next five years.

21 Related party transactions

Related party transactions are defined as either employer-related transactions or trustee-related transactions. There were no transactions with employers in either the current or preceding years, other than those identified as employer-related investments disclosed in Note 16. Such transactions are performed in the normal course of business and at an arm's length. The only trustee-related transactions in either the current or prior year relate to the day-to-day administration of the scheme by the trustee company and its subsidiary, and the membership of the scheme of certain Trustee Board members or key management personnel. The membership of those Trustee Board directors is through past or present employment with the scheme employers and accordingly is in the normal course of business on an arm's length basis. Similarly, membership of key management personnel which arises on account of their employment by the trustee company, is based on the same conditions as all members and is therefore considered to be on an arm's length basis and in the normal course of business.

Administrative and investment management expenses incurred by the trustee company are shown in Note 7. All transactions are solely for the purposes of effectively administering the scheme.

Other regulatory statements

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Chair's defined contribution statement

The purpose of this statement is to explain how the trustee ensures that the scheme is governed and managed to the standard required by legislation and expected by The Pensions Regulator (TPR)

Investment Builder, the defined contribution (DC) element of the Universities Superannuation Scheme (the scheme), was introduced in October 2016.

This is the fifth annual statement from the chair of the trustee (Universities Superannuation Scheme Limited) regarding the governance of the Investment Builder and the scheme's money purchase AVC arrangement with the Prudential Assurance Company Limited.[1]

The content of this statement is structured around the following areas:

1 Investment design: the default investment approach and other investment options available to members.

2 Fund performance and governance: management of investment options to ensure investment performance is at appropriate levels compared to risks, benchmarks and charges and that the fund selection remains appropriate.

3 Administration: demonstrating how core financial transactions are processed promptly and accurately.

4 Value for members: how costs and charges, including transaction costs, are managed, monitored and recorded, and how this provides value for money to our members.

5 Trustee knowledge and understanding: how the Trustee Board ensures that it has the skills and competencies required for the role it performs and how the requirements regarding non-affiliation of trustee directors are met.

6 Member, communication, engagement and representation: how the scheme engages with members (and member representatives) and encourages member feedback to improve member experience.

1 Investment design

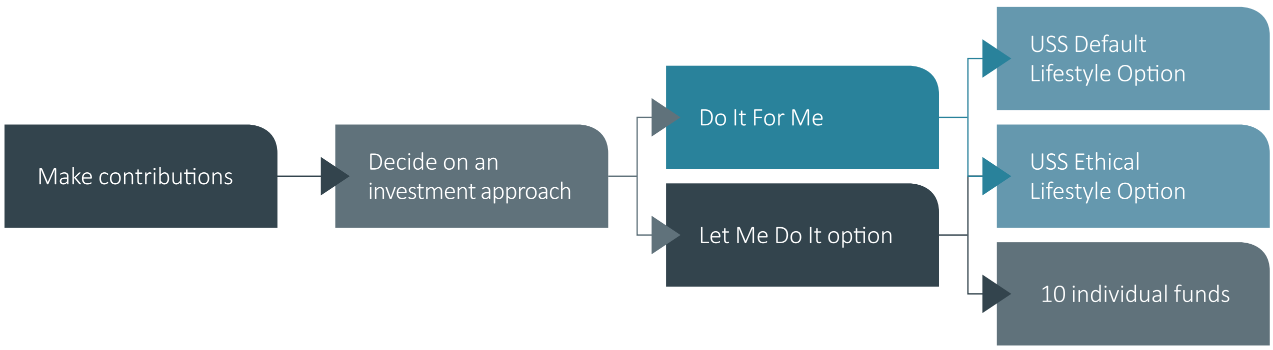
The Investment Builder provides members with a choice of whether to use the default investment approach designed by the trustee, or to actively manage their investments themselves through a choice of self select funds or an alternative ethical lifestyle option. Members have funds in the Investment Builder if they have had earnings above the salary threshold (£59,585.72 for the 2020/21 financial year), made additional contributions, or have transferred funds into the scheme since October 2016.

The options offer a range of different types of investment with different levels of risk and prospective return to cater for a range of investment objectives and beliefs.

The investment choices fall into two broad categories reflecting the degree of self-management that members wish to undertake:

- Do It For Me– a choice between two lifestyle options – the USS Default Lifestyle Option and the USS Ethical Lifestyle Option. Both lifestyle options automatically adjust to reduce risk as the member approaches their target retirement age (TRA)

Key investment decisions available are:



Note

1 Prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended from time to time).

Default investment approach: USS Default Lifestyle Option

At outset
- Invested in the USS Growth Fund
- To provide greater opportunity to generate investment returns over the longer term

Within 10 years of retirement
Switched progressively into the USS Moderate Growth Fund over the next 5 years to reduce the overall level of risk

Within 5 years of retirement
Start reducing the USS Moderate Growth Fund and switch progressively into the USS Cautious Growth Fund and the USS Cash Fund

At retirement
Invested 25% in the USS Moderate Growth Fund, 50% in the USS Cautious Growth Fund and 25% in the USS Cash Fund

- Let Me Do It – a choice of 10 individual funds if members wish to customise their approach. These are referred to as the self-select options

It is also possible for a member to adopt a combination of the two broad categories outlined above.

Members who make no decision about investment approach are invested in the USS Default Lifestyle Option. As at 31 March 2021, 83% of the active membership were fully invested in the USS Default Lifestyle Option with a further 11% choosing a combination of the USS Default Lifestyle Option and individual funds. The remaining members were wholly invested in either the individual funds (4%) or the USS Ethical Lifestyle Option (2%).

My USS portal
By logging on to the member portal (My USS), members can manage their Investment Builder at any time, changing investment choices for their existing funds or future contributions, including moving between the Do It For Me and Let Me Do It options, changing the level of contributions and amending their TRA.

Default investment approach: USS Default Lifestyle Option
The USS Default Lifestyle Option is designed to reflect the different investment needs of a member during their working life and as they approach their TRA. If a member has not set their own TRA, it will be set to the scheme's normal pension age (currently age 66).

Design of the USS Default Lifestyle Option
The default option was designed in advance of the Investment Builder launch in October 2016, explicitly taking into account the hybrid structure and demographics of the scheme and considering the findings of:

- A large scale survey with members to understand their risk appetite and investment beliefs
- Projections of member benefits and the relative role of Defined Benefit (DB) and DC benefits at retirement
- Focus groups with members to understand their views on DC benefits and their plans for how they might use their funds at retirement
- Extensive investment strategy modelling to consider different risk and return profiles and asset allocation strategies

The conclusions from this research and a corresponding set of 'Policy Beliefs' that have been updated since launch and guide the development of Investment Builder funds are published at uss.co.uk/-/media/Project/USSMainSite/Files/How we invest/Investment Builder Policy beliefs.pdf

As a result of the trustee's triennial review of the default arrangement which was completed on 3 October 2019, it was resolved that while the overall conclusions of the initial research remained valid, it was appropriate to adjust the glidepath for the USS Default Lifestyle Option to provide greater potential for growth during the years running up to a member's TRA, while still providing a relatively high degree of protection for members wishing to fully disinvest their DC benefits when they take their DB benefits. The same glidepath adjustment was made for the USS Ethical Lifestyle Option.

Most members were moved onto this new glidepath in February 2021, after the change had been communicated to them by letter. However, a small group of members very close to their TRA were left on the previous glidepath, to manage any additional risk and transaction costs where they were more likely to take their benefits shortly after the switch.

The next triennial review of the USS Default LIfestyle Option will be carried out by 3 October 2022, in line with legislative requirements. However, the suitability of the Investment Builder product is reviewed annually by the trustee, including most recently in October 2020. Given the nature of the hybrid scheme the trustee operates, a full review will be carried out if the trustee has reasons to believe that the demographics of the scheme or the needs of members have changed before then.

A full description of the USS Default Lifestyle Option is included in the USS Default Lifestyle Option Statement of Investment Principles (SIP) on pages 98 to 100 (annexed to and immediately following this Chair's DC Statement).

Prudential money purchase AVCs

In addition to the funds offered in Investment Builder, some scheme assets are managed by Prudential.

These assets relate to the money purchase AVC (MPAVC) arrangement previously in place. Prudential funds are closed to new contributions. Members with Prudential funds can choose to transfer them into Investment Builder or retain them in the AVC arrangement.

2 Fund performance and governance

The trustee has appointed USS Investment Management Limited (USSIM) as its investment manager. USSIM monitors the performance of each of the investment options offered to members within the Investment Builder monthly. It also reviews the performance of any remaining funds held under the Prudential money purchase AVC arrangement on an ongoing basis.

USSIM provides regular investment performance reports to the trustee's Investment Committee which is responsible for the oversight of the performance of the Investment Builder.

The Investment Committee provides the trustee with a report on its activities and any recommendations arising after each meeting.

Each November, following the Pensions Committee suitability review, the Investment Committee carries out an in-depth look at both fund performance and how any recommended changes are implemented, to be recommended for approval at the full Trustee Board. The Investment Committee also reviews the performance of the Default Lifestyle Option versus the objectives set out in the USS Default Lifestyle Option Statement of Investment Principles.

Since their appointment in February 2020 Lane Clark & Peacock (LCP) have acted as external investment consultant to the trustee.
This appointment helps to provide robust, independent challenge on all investment matters relating to members' DC benefits. This is separate from, and additional to, the investment advice that the trustee receives from USSIM as principal investment adviser to the trustee.

3 Administration

The trustee operates and reviews a suite of processes and controls designed to (i) ensure that those who are carrying out scheme administration have the appropriate training and expertise and (ii) enable a continuous and consistent service in the event of a change of administrator personnel or administration provider, including the business continuity plan that is tested periodically.

Quality assurance is embedded into scheme procedures as the trustee recognises that delay and error in these financial transactions can cause losses to members. The financial transactions for the Investment Builder arrangement include (but are not limited to):

- Receipt, reconciliation and investment of contributions to the scheme
- Transfers of assets relating to members into and out of the scheme
- Transfers of assets relating to members between different investment options within the scheme, including operation of the glidepath for the lifestyle options
- Payments from the scheme to, or in respect of, members

The trustee has considered the processes, controls and reports and is assured that the scheme has processed core financial transactions promptly and accurately.

More detail on processes and how they operate in practice is provided below.

Strategic partnerships

The trustee has established strategic partnerships with two external suppliers to deliver different aspects of Investment Builder, namely:

- Capita: provides the pensions administration IT system for the scheme and all DC-related back office administration services
- Northern Trust: provides the investment platform

Working with these two partners, the trustee closely monitors end to end financial transactions to ensure prompt and accurate processing. This is achieved by delegation of this function to various dedicated teams, which are described in more detail below. We conduct monthly service reviews with the partners, which are underpinned by comprehensive stewardship and management information reports. Collaboration between the dedicated teams and the external partners is critical and appropriate systems and processes are in place to ensure smooth and timely communication.

The trustee has a dedicated Supplier Relationship Manager to oversee its strategic relationship with key suppliers to the Pensions segment of the company, including Capita. Although the day-to-day oversight remains with the dedicated teams, the Supplier

Relationship Manager provides a point for escalation of any matters that the teams deem appropriate.

Core transactions

Contributions

The Service Level Agreement between Capita and the trustee requires contributions to be invested by the end of the third working day following receipt or reconciliation against member records where this occurs later. Any delays in reconciliation are investigated to identify thematic issues which require improvement.

Processes and controls are now established across both employers and USS teams and, assisted by a significant degree of process automation, provide assurance to the trustee that queries and issues are identified and addressed promptly.

A dedicated USS Client Engagement Team works with employers on a daily basis to manage contribution cycles effectively and to monitor validation matters or queries. Where validation matters are not addressed within prescribed timescales, and therefore contributions not allocated to member records, an automatic loss remedy procedure is invoked to ensure members experience no material shortfall as a result of these investment delays.

The USS Pensions Operating Group and DC Product Governance Committee monitors receipt and investment of contributions on a monthly basis. Any significant matters are also reported to the trustee

Transfers into and out of the scheme

Transfers in and out of the scheme are overseen by the USS Transfers Team. Transferred monies are sent directly to the DC bank account which is operated by Capita. To ensure out of market exposure is limited, the USS Transfers Team work closely with the Capita DC Back Office Team to identify these payments and send them for investment within two days of receipt.

Members can transfer out their Investment Builder funds to another registered pension scheme at any time, subject to none of their funds being in payment. Members have to initiate a transfer by completing a form available online, following which the scheme aims to complete its due diligence procedures and make the transfer within 15 working days (excluding any time allocated to dialogue and correspondence with the receiving scheme).

Switching of investments

Switching of investments happens automatically for those members with funds invested in the scheme's lifestyle options and who are within 10 years from their TRA. The switches operate in line with the scheme's glidepaths, which stipulate the gradual movement of investments from higher to lower risk funds. Automatic switches are sample checked by Capita and the USS Pension Operations team to ensure they have been completed in accordance with the glide paths.

Further assurance that the glidepaths changed have been implemented correctly has been subsequently provided via an independent external review.

Members can also voluntarily switch investments between funds via a web form on the member portal, My USS. Switches are transacted within one working day of the member's instruction. Controls are in place to ensure that voluntary switches are executed to the member's instruction and completed within expected timescales.

Members can choose to switch funds invested with the MPAVC provider (Prudential) into the Investment Builder. Once payments have been received, they are sent for investment within two days of receipt.

Payment of pensions and other amounts to members

Pension commencement lump sum (PCLS) and uncrystallised funds pension lump sum (UFPLS) payments are made directly to members' bank accounts from the scheme. Once a payment request has been confirmed, payment of a PCLS is made on the first day following the member's date of retirement. Pension payments are made on the 21st of each month. UFPLS payments also go through the pension payroll, however, USS operates a daily payroll cycle for these payments to ensure that they are paid to members in the shortest time possible.

During the scheme year, no material issues have been encountered in relation to the processing of core transactions promptly and accurately.

Quality controls

The trustee ensures that core financial transactions are processed promptly and accurately by:

- Defining the timescales and associated Service Level Agreements (SLAs) both internally and with the third-party service providers (see below)
- Requiring monthly reporting and assessment against the SLAs
- Designing appropriate and effective controls to mitigate the risk of inaccurate or protracted transactions
- Identifying errors or delays that have affected Investment Builder investments and rectifying these in conjunction with a loss remedy procedure
- Monthly reviews of the effectiveness of the controls and the timeliness of information processing, performance against SLAs and operational risk issues carried out by the USS Pensions Operations team
- Completing monthly reconciliation exercises to ensure that unit holdings are consistent between the administration platform and the fund manager (Northern Trust)
- Carrying out regular data review exercises to ensure that the data held in relation to members' DC benefits is complete and accurate, with conditional data reviewed on a monthly basis and additional checks carried out on other data at least four times a year

- Leveraging assurance reviews completed by the USS Internal Audit team who carry out periodic risk-based audits across key processes and controls
- Commissioning an external annual audit (performed by Ernst & Young LLP) to provide external assurance that the financial statements are free from material misstatement
- Commissioning an external annual review of the default lifestyle funds' glidepaths (performed by an independent third party) to provide external assurance that switches are completed in accordance with the glidepath rules

The trustee also routinely considers administration of the scheme on a quarterly basis. Failure to process financial transactions promptly and accurately is recognised as a risk on the risk register. Risk reporting is considered quarterly at Trustee Board. Records of any issues in this area are also kept and the need to report any failures to the regulator is considered and documented.

4 Value for members

Costs and charges

Charges and transaction costs borne by members can have a significant impact on the value of their Investment Builder funds. In recognition of this, the approach to, and appropriate level of, member charges was subject to extensive discussion as part of the design of the Investment Builder. Costs and charges are benchmarked against a range of other DC schemes at least annually, as are the services offered by the scheme in exchange.

Typically, the majority of members who are invested in the Investment Builder do not incur any direct charges. This is because employers meet all administration costs of the scheme. They also subsidise investment costs up to 0.30% on all funds resulting from normal and additional contributions.

Following the reduction of the USS Emerging Markets Equity Fund charge in March 2021, the charges for all of the funds offered are covered entirely by the scheme subsidy. Funds resulting from transfers into the scheme do not qualify for this subsidy and therefore incur a charge on funds under management as set out in the tables on page 90.

USS Default Lifestyle Option – notional charges

While employers meet the majority of the costs of Investment Builder on members' behalf, for transparency, estimated notional charges are included below to demonstrate what members would pay if they met the full cost.

The trustee reviews this notional charge on an annual basis and benchmarks it against the wider industry, noting the challenges in direct cost comparisons arising from the scheme's hybrid status and the additional complexity of running such an arrangement. A review of the level of the notional charges was completed in May 2021.

The notional charging structure for the USS Default Lifestyle Option is a single notional charge of 0.50% of the member's fund value, including 0.30% for investment management charges and 0.20% in respect of pension administration and other services provided by the scheme.

Self-select options

The trustee has considered the cost and charges of the Let Me Do It options, including the USS Ethical Lifestyle Option, and compared these to those for the USS Default Lifestyle Option. Investment cost is based on the member's total fund value for the self-select fund options, and charges (pre-subsidy) range from 0.10% to 0.30%, as shown in the tables on page 90.

In the 12 months to 31 March 2021 the trustee made several changes to the underlying investment managers within the Let Me Do It options, which led to changes in charges (pre subsidy). Value for members was a key consideration when these changes were being proposed and approved.

Firstly, the USS UK Equity Fund changed from a mix of active and passive investment to being solely passively managed. As a result, the charge (pre subsidy) reduced from 0.25% to 0.10%, with effect 1 October 2020.

Secondly, the benchmark for the USS Bond Fund was changed to a global index, investing in both corporate and government bonds. As a result of this change, the underlying manager was changed from passive to active and the charge (pre subsidy) increased from 0.10% to 0.20%, with effect 1 February 2021.

Finally, a portion of the investment management for the USS Emerging Markets Equity Fund was brought in house. This change resulted in the charge (pre subsidy) from 0.45% to 0.30%, with effect 25 March 2021.

Transaction costs

This section of the Chair's DC Statement reflects the latest legal requirements introduced in April 2018 and the September 2018 DWP guidance in this area which the trustee has taken into account, along with other regulatory guidance issued from time to time.

Transaction costs are the costs associated with buying and selling units within a fund. There are three components (the first two of which are one-off costs):

- Purchase costs – these are the costs of making new investments into a fund
- Selling costs – these are the costs of selling out of a fund
- Embedded costs – these costs can be explicit and therefore easily identifiable (such as taxes, levies, and broker commissions) or implicit and therefore less readily defined and may include the response of the market to a trade or the timing of a trade (market impact, opportunity cost, and delay costs). There may be times when there is a negative cost (i.e. a gain is shown) due to market impact

The potential transaction costs for buying and selling funds vary over time and with market conditions. Transaction costs within Investment Builder are minimised as far as possible by netting sales and purchases and using new cash flows for rebalancing funds to target.

The Cost Transparency Initiative (CTI) is an industry body overseeing the introduction of standardised templates for reporting of costs and charges by suppliers of investment services. The trustee has adopted their templates for the purpose of collecting transaction cost information from the external investment managers.

Without exception, the external investment managers have all provided the requested data in this format for the period 1 January 2020 to 31 December 2020. The data collected for periods prior to 1 January 2019 used the DC workplace pensions template developed by the industry working group for the purpose of providing insurers with transaction costs data in accordance with COBS 19.8.4R, while the CTI templates used for the first time last year were being finalised. As reported in previous year, only two managers were able to provide historical data for full years prior to 1 January 2018. However, the trustee is building up transaction cost data each year in line with TPR guidance.

The embedded transaction cost data provided for the funds in the AVC arrangement with Prudential was an aggregate figure rather than being collected via the CTI template. The transaction cost data received for the period 1 January 2020 to 31 December 2020 has been aggregated with the prior period data previously collated (as described above) to calculate the average transaction costs shown in the tables and illustrations on pages 90 to 92.

The tables on the following pages provide the details of the (pre-subsidy) investment management costs and specific transaction costs for both the USS Default Lifestyle Option and the Let Me Do It funds (including the USS Ethical Lifestyle Option).

As mentioned above, no members pay the 0.20% notional cost of pension administration services applicable to all of the scheme's funds so this cost has not been included in the tables below. Sale and purchase costs for the USS DC Funds range up to 0.70% for the USS Default Lifestyle Option and up to 0.62% in the USS Ethical Lifestyle Option. Exact costs will depend on the particular funds members are invested in, whether they are buying or selling and the day on which they deal.

The costs apply to the investment of contributions, requests by members to switch between funds or disinvest funds, automatic switching as part of the scheme's lifestyle options and transferring assets in from schemes outside USS. Transaction costs include advisory fees, commissions and stamp duty (stamp duty is applicable on property and UK equity purchases only, not sales).

Overall value for members

Delivering good value for both employers (who subsidise the costs of the Investment Builder) and members is fundamental to the scheme. In designing and managing the Investment Builder, the trustee focused on using the scheme's scale and expertise to deliver a high quality, cost-effective DC arrangement as part of the overall hybrid scheme.

For the second year running the trustee has worked with Redington to undertake a value for member benchmarking exercise with five Master Trust peers.

Assessment framework

The Redington benchmarking exercise considered our performance alongside that of the five peers across six service characteristics compared to the value members receive for those services. This was based on a completed questionnaire and additional insight gained from meetings with management.

Weightings were agreed for the service characteristics to reflect what matters most to members retirement outcomes. Administration and Investment capabilities were given the greatest weighting.

The trustee is satisfied that the quality of the Investment Builder product and service is high relative to both the costs of running it and the charges borne by members post subsidy.

The Redington assessment, when compared to last year, showed the greatest improvement in the areas of Communications and Environmental, Social and Corporate Governance (ESG). The development to improve readability and segmentation of email communications was noted as an area of improvement.

The Investment Builder scored highest in the Investment category, with robust controls and innovations in areas such as private markets investments within the USS Default Lifestyle Option. Redington also noted the simple charging structure as a clear differentiator in offering good value for members.

Overall, the Investment Builder benchmarked first in the Redington assessment. The trustee uses the Redington assessment, alongside input from advisers, employers and members to strive to continually improve and enhance the Investment Builder produce so that it continues to deliver good value for members.

Funds in the USS Default Lifestyle Option

Fund	Transaction costs and charges (%) IMC	Purchase (max)	Sale (max)	Embedded
USS Growth	0.30	0.70	0.20	0.07
USS Moderate Growth	0.30	0.59	0.21	0.08
USS Cautious Growth	0.30	0.45	0.20	0.08
USS Liquidity	0.10	0.00	0.00	0.01

Funds in the USS Ethical Lifestyle Option

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Ethical Growth	0.30	0.62	0.23	0.06
USS Ethical Moderate Growth	0.30	0.54	0.25	0.05
USS Ethical Cautious Growth	0.30	0.43	0.25	0.03
USS Ethical Liquidity	0.10	0.00	0.00	0.01

Self-select Funds

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Growth	0.30	0.70	0.20	0.07
USS Moderate Growth	0.30	0.59	0.21	0.08
USS Cautious Growth	0.30	0.45	0.20	0.08
USS Liquidity	0.10	0.00	0.00	0.01
USS Bond	0.20	0.08	0.08	0.08
USS UK Equity	0.10	0.59	0.09	0.04
USS Global Equity	0.10	0.09	0.05	0.00
USS Emerging Markets Equity	0.30	0.18	0.24	0.06
USS Ethical Equity	0.30	0.12	0.08	0.08
USS Sharia	0.30	0.00	0.00	0.03

Funds in an AVC arrangement with Prudential

Fund	IMC	Purchase (max)	Sale (max)	Embedded
With-Profits Cash Accumulation	Up to 1%	Not applicable	Not applicable	0.10%
Deposit	Not applicable	Not applicable	Not applicable	0.00%
International Equity	0.65%	0.13%	0.36%	0.12%
UK Equity	0.65%	0.72%	0.29%	0.00%
Index-Linked	0.65%	0.16%	0.15%	0.16%
Discretionary	0.65%	0.44%	0.24%	0.07%
Fixed Interest	0.65%	0.08%	0.07%	0.00%
LGIM Ethical Global Equity Index	0.85%	0.10%	0.05%	0.00%
UK Equity Passive	0.45%	0.62%	0.16%	0.07%
Cash	0.65%	0.00%	0.00%	0.00%

Notes for the transaction cost information included in the tables to the left:

1 Purchases and sale costs are maximum costs. Actual realised costs may be much lower.
2 A negative embedded cost indicates a positive impact i.e. a gain. This may be due to implicit costs such as market timings.
3 IMCs are applied per annum, sales and purchases are one-off costs and embedded fees will vary depending on the reporting period.
4 Prudential embedded transaction costs are the average over the period from January 2019 to 31 December 2020.

Illustration of costs and charges

The trustee is required to provide an illustrative example of the cumulative effect over time, of the application of the transaction costs and charges on the value of a member's Investment Builder savings.

Members automatically make contributions into the Investment Builder at the point where their salary exceeds the salary threshold (£59,883.65 for the 2021/22 financial year).

All members (including those with earnings below this threshold) can elect to make additional contributions into the Investment Builder.

The potential impact of costs and charges across three different investment examples is set out below, and on the next page for four different member profiles.

The examples illustrate the costs and charges borne by each member whose entire funds are invested in one of the funds named below only (and not a combination of the different options):

(i) USS Default Lifestyle Option

(ii) USS Emerging Markets Equity Fund (most expensive fund with the highest expected return)

(iii) USS Liquidity Fund (cheapest fund with the lowest expected return)

It is important to note that for the purposes of the illustration we have assumed that members meet all investment management costs, even though employers currently subsidise most of the fees a member would otherwise pay for investing in the Investment Builder.

Member 1: Member who joins the scheme age 40 with a starting salary of £60,000 and makes normal contributions (but no additional contributions) until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges £	After all charges and costs £	%
1	24	24	98.9
3	801	791	98.8
5	2,619	2,581	98.6
10	12,297	12,048	98.0
15	30,537	29,733	97.4
20	58,767	56,827	96.7
25	96,121	92,432	96.2
26	104,277	100,052	95.9

Investment in USS Emerging Markets Equity Fund (most expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	24	24	99.5
3	824	818	99.3
5	2,730	2,706	99.1
10	13,280	13,082	98.5
15	34,205	33,481	97.9
20	68,735	66,830	97.2
25	120,935	116,760	96.5
26	133,924	128,802	96.2

Investment in USS Liquidity Fund (least expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	23	23	99.9
3	769	768	99.8
5	2,468	2,463	99.8
10	11,050	11,005	99.6
15	26,161	26,011	99.4
20	48,268	47,913	99.3
25	77,893	77,195	99.1
26	84,769	83,984	99.1

Member 2: Member who joins the scheme age 30 with a starting salary of £35,000 and makes additional voluntary contributions of 2% from entering the scheme as well as normal contributions when salary exceeds the prevailing salary threshold until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges £	After all charges and costs £	%
1	716	708	98.9
3	2,237	2,205	98.6
5	3,885	3,817	98.2
10	8,614	8,387	97.4
15	14,324	13,822	96.5
20	21,173	20,249	95.6
25	29,342	27,809	94.8
30	39,152	36,764	93.9
35	53,982	50,533	93.6
36	57,523	53,780	93.5

Investment in USS Emerging Markets Equity Fund (most expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	730	726	99.5
3	2,329	2,309	99.1
5	4,129	4,079	98.8
10	9,642	9,440	97.9
15	16,907	16,399	97.0
20	26,378	25,343	96.1
25	38,624	36,745	95.1
30	54,698	51,529	94.2
35	80,535	75,402	93.6
36	87,295	81,458	93.3

Investment in USS Liquidity Fund (least expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	695	694	99.9
3	2,111	2,107	99.8
5	3,564	3,553	99.7
10	7,367	7,324	99.4
15	11,436	11,341	99.2
20	15,802	15,635	98.9
25	20,501	20,239	98.7
30	25,898	25,518	98.5
35	36,373	35,836	98.5
36	39,262	38,691	98.5

Member 3: Member who joins the scheme age 50 with a starting salary of £80,000, transfers in a starting pot of £100,000, and who makes normal contributions (but no additional contributions) until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges £	After all charges and costs £	%
1	106,327	105,919	99.6
3	120,375	119,047	98.9
5	136,394	133,989	98.2
10	184,952	178,935	96.7
15	240,884	230,323	95.6
16	251,929	240,103	95.3

Investment in USS Emerging Markets Equity Fund (most expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	108,489	108,112	99.7
3	127,572	126,297	99.0
5	149,711	147,315	98.4
10	220,622	214,166	97.1
15	318,662	305,674	95.9
16	342,148	326,673	95.5

Investment in USS Liquidity Fund (least expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	103,293	103,178	99.9
3	110,742	110,390	99.7
5	119,372	118,767	99.5
10	146,338	145,022	99.1
15	181,473	179,301	98.8
16	189,536	187,172	98.8

Member 4: Member who joins the scheme age 40 with a starting salary of £60,000 and makes normal contributions (but no additional contributions) until leaving the scheme at age 50, and remaining as a deferred member until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges £	After all charges and costs £	%
1	24	24	98.9
3	801	791	98.8
5	2,619	2,581	98.6
10	12,297	12,048	98.0
15	13,720	13,204	96.2
20	15,218	14,374	94.5
25	16,321	15,139	92.8
26	16,428	15,165	92.3

Investment in USS Emerging Markets Equity Fund (most expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	24	24	99.5
3	824	818	99.3
5	2,730	2,706	99.1
10	13,280	13,082	98.5
15	16,386	15,868	96.8
20	20,218	19,249	95.2
25	24,946	23,349	93.6
26	26,017	24,209	93.1

Investment in USS Cash Fund (least expensive fund)

Years in scheme	Before charges £	After all charges and costs £	%
1	23	23	99.9
3	769	768	99.8
5	2,468	2,463	99.8
10	11,050	11,005	99.6
15	10,667	10,565	99.0
20	10,297	10,143	98.5
25	9,941	9,738	98.0
26	9,871	9,659	97.9

Notes on illustrations above and the previous page:

1 Starting pot criteria is as follows:
a) Member 1, 2 and 4: starting pot criteria is nil and no funds are transferred in.
b) Member 3: starting pot criteria is £100,000 of transferred in funds. No further funds are transferred in.

2 All members retire at age 66 and funds are then fully disinvested, with no early withdrawals.

3 For the purposes of this illustration it is assumed that investment management charges apply, even though employers currently fully subsidise most of the fees that a member would otherwise pay for investing in the Investment Builder. This approach has been taken because there is no guarantee that employers will continue the subsidy in the future so it provides a more prudent estimate of the impact of charges.

4 Values shown are illustrations and actual experience will depend on investment performance.

5 Projected pension pot values are shown in today's prices, and do not need to be reduced further for the effect of future inflation.

6 Inflation is assumed to be 2.5% per annum as prescribed in the Statutory Money Purchase Illustrations.

7 Normal contributions are assumed to be 20% per annum in excess of salary cap (8% employee and 12% employer). It is assumed that there are no contribution holidays for any of the three members and no additional contributions are made by member 1, 3 or 4. Member 2 is assumed to make 2% additional voluntary contribution from entering the scheme.

8 Salary increases are assumed to be 4.5% per annum.

9 The projected growth rate for the USS Default Investment Lifestyle Option is 4.8% up to 10 years prior to retirement, reducing to 4.5% at 5 years prior to retirement, and 3.4% at 1 year prior to retirement. The projected growth rate for the USS Emerging Markets Equity Fund is 6.9%. The projected growth rate for the USS Liquidity Fund is 1.8%. These are consistent with the assumptions used in calculating members' Statutory Money Purchase illustrations as at 31 March 2021.

10 The above illustrations take account of property management expenses as these are embedded within the projected growth rate of the relevant fund; they are not included within the percentages in the tables on page 90.

11 Year 1 represents the year ending 31 March 2022, with a pertaining salary threshold of £59,883.65.

Members typically face minimal charges, as administrative costs are met in full by the employer and investment costs are currently fully subsidised (other than for funds transferred in) for members in all funds. Even in a case where a member does face some charges, for example a member who has transferred funds into the scheme, the trustee assesses that the charges for investment management represent value for members.

The trustee continues to identify and implement improvements to the products and services we offer members. In 2021/22 we are focusing on the following developments:

- Implementing segmented member communications to allow us to tailor communications that are most relevant to members, including those with Investment Builder funds.
- Improving access to pensions flexibilities, including signposting to a drawdown option and an annuity brokerage.
- Increasing the range of activities that members can undertake themselves online

More information on our member services can be found on pages 12 to 15.

5 Trustee knowledge and understanding

The Trustee Board is made up of a diverse and mixed range of individuals who collectively possess the broad range of skills needed for management of both the DC and DB elements of the hybrid scheme. The board includes members with significant expertise, recent and relevant practical experience in DB and DC pensions, trusteeship, investment, governance, pension administration, audit, accounting and financial management, risk and compliance, IT, HR and remuneration, communications, stakeholder engagement and the Higher Education sector. There are also a number of board directors who are members of the scheme (active, deferred and pensioners), who help to support and contribute to the board's understanding of the views and needs of the scheme's membership.

The diversity of the Trustee Board allows individuals to challenge each other and to offer different perspectives and solutions to matters. The trustee is committed to ensuring that its directors, both individually and collectively, have access to appropriate professional advice, and have and maintain all of the necessary skills, knowledge, competence and understanding required for the effective performance of their role as Trustee Board directors. As part of this, each trustee director ensures that he or she is conversant with all of the key scheme documents (including the Scheme Rules, the Statement of Investment Principles, the default Statement of Investment Principles and the Statement of Funding Principles) as well as the law relating to pension schemes and the principles relating to funding and investment. The scheme has various procedures in place to facilitate this which are detailed below. A number of activities are undertaken each year to evaluate and enhance the individual and collective skills, knowledge, competence and experience of the Trustee Board.

These activities facilitate compliance by the trustee with The Pensions Regulator's DC Code of Practice number 7 (TKU) and number 13 (Governance and administration) and are summarised in the diagram below and further details appear on the following pages.

Trustee skills, knowledge and understanding: key tools

Skills matrix	Competency matrix	Induction
Training needs assessment and training programme	Annual appraisal process	Trustee Board/ committee effectiveness reviews

Skills and competencies

Each trustee director is assessed against the trustee's skills and competency matrices, at least annually, on joining the board and every year as part of the annual appraisal process. In addition, each director has a personal development plan to help meet both short and long-term objectives. Individual training and/or development requirements are also identified through the annual appraisal process, and appropriate steps taken to rectify any actual or potential knowledge gaps (see further below).

An effectiveness review of the Trustee Board is usually carried out annually and of the board's standing sub-committees every two years. Every two to three years this is supplemented by an externally facilitated review. During the financial year, an external independent provider was commissioned to undertake an effectiveness review of the Trustee Board and its standing sub-committees. The recommendations principally focus on improving, enhancing and further embedding the framework and procedures that USS has already set up to be an effective organisation.

The Governance and Nominations Committee also reviews the board competency matrix annually, and in anticipation of changes to board membership, and assesses whether or not it considers the Trustee Board's collective competencies are appropriate to enable the trustee to properly exercise its functions and whether there are any gaps which should be filled by training, succession planning or other means. As part of this review, consideration is also given to whether the skills and knowledge of the Trustee Board's standing committees are appropriate or need supplementing in any manner. Rigorous appointment processes are followed in respect of all trustee director appointments and reappointments (having regard to the board succession plan and competency matrix), including use of a role specification which highlights the skills and experience and behaviours required for the role. This helps to ensure that the directors, collectively as a board, have appropriate competencies and that each director appointed is fit and proper.

Training

In addition to the review of individual director's training and development needs during annual appraisals, the collective training needs of the Trustee Board and its committees are reviewed at least annually by the Governance and Nominations Committee, which has responsibility for approving and overseeing the implementation of the annual board and committee training programme.

In compiling the annual training programme, consideration is given to a number of relevant matters including:

(a) directors' completed skills matrices and any gaps identified

(b) the scheme's business plan and business and strategic objectives

(c) future board and committee agenda plans

(d) legal and regulatory horizon scanning

(e) regulatory guidance

(f) feedback from directors, committee members and the executive

The training is compiled in this way in order to ensure that any actual or potential knowledge gaps are identified and rectified. The directors receive targeted training sessions delivered by both external industry experts and USS employees. These formal training sessions are supplemented by additional (non-compulsory) educational sessions, open house events where the directors spend time with different areas of the business and the completion of mandatory e-learning modules. A log is maintained of all training undertaken by the trustee directors.

Trustee directors are also encouraged to attend additional external training events relevant to their specific areas of expertise and/or the committees on which they sit.

Trustee directors receive training on a broad range of topics, including some that are DC specific. Over the financial year, the Trustee Board has continued to enhance its knowledge and understanding of both the internal procedures and controls relating to the DC element of the scheme, as well as keeping up-to-date with developments in the broader DC marketplace.

In particular, training that has been received by the Trustee Board included the following topics:

- The trustee's and Scheme Strategists' obligations under the Master Trust regime
- The Scheme Rules and trustee constitutional documents
- Cyber and IT Security Risk
- Our risk profile and how risks are assessed and analysed
- Responsible Investment and related reporting and disclosure requirements
- Procedures and controls around the USS investment valuation process, covering fair value reporting; financial valuations on unlisted assets, and future control enhancements
- Competition Law and the processes USS has in place to control the risk of Competition Law breaches
- Audit sector reform, other entities of public interest, and the role of external auditors
- USSIM's Global Emerging Markets team and deployment of global market equities within DC funds
- USSIM's approach and opportunities for investing in Fixed Income (both public and private markets)
- External session on DC investment trends and wider innovation in the marketplace
- In addition, the board received a number of training sessions in relation to the ongoing valuation of the DB assets of the scheme and approaches to asset and liability management

At the end of the scheme year, the Governance and Nominations Committee concluded that, on balance, the training delivered was aligned to the scheme's strategic priorities, while at the same time provided timely information to the directors and committee members to allow them to discharge their duties and to facilitate decision-making.

Induction

The scheme has a detailed induction process for new Trustee Board directors, designed to ensure familiarity with the key scheme documents and sufficient knowledge and understanding of pensions and trust law, as well as the principles of pension scheme funding and investment (among other matters). This includes sessions with board members, members of the management team and key external advisers including on investment, pensions administration, actuarial, accounting, communications, risk and internal audit, compliance, legal and governance and the role of the JNC and Advisory Committee.

This process is documented and is regularly reviewed by the Governance and Nominations Committee, which also oversees completion of the induction process by each new director. Of the six new trustee directors who joined the board during the scheme year, all have completed or are currently completing this induction programme.

Each new Trustee Board director is expected to devote significant time to their induction, which is tailored to reflect their individual level of knowledge and assessed by reference to their completion of the skills matrix.

The trustee's appointment and induction processes also require that any individual appointed to the Trustee Board completes TPR's Trustee Toolkit prior to commencement of their appointment (in line with TPR's Code of Practice 15). All of the current trustee directors have completed TPR's Trustee Toolkit. In addition, one trustee director holds an accreditation from the Association of Professional Pension Trustees (APPT) and three trustee directors have received accreditation from Pensions Management Institute (PMI) as professional trustees.

Advice and guidance

The combined knowledge of the Trustee Board is supported by the USS Executive Management Team (which includes a range of professionals from various disciplines including: legal, actuarial and risk and compliance) as well as external professional advisers.

The Scheme Actuary and the Group General Counsel generally attend all Trustee Board meetings ensuring that the board has access to timely actuarial and legal advice. The trustee's principal investment manager and adviser is USSIM. During the financial year, the trustee also received the benefit of independent investment advice in relation to members' DC benefits provided by Lane Clark & Peacock LLP. Both USSIM and the scheme's external investment advisers generally attend each meeting of the Investment Committee. In addition, other professional advisers attend meetings of the Trustee Board and its other committees on an ad hoc basis when required.

Non-affiliation of trustee directors

The scheme is a multi-employer trust-based pension scheme and as such it is required to comply with additional requirements in relation to governance. These include that the majority of the trustee directors (including the chair) must be 'non-affiliated'. The Trustee Board has considered these requirements and determined that of the 12 directors, 11 directors, including the chair, can be classed as 'non-affiliated trustees' for the purpose of the legislation, and therefore the requirement for a majority of non-affiliated directors is satisfied.

This means that we have considered carefully any links that directors may have with companies providing services to the scheme and reviewed the procedures in place for managing any conflicts of interest that may arise. We have also reviewed the length of service on the Trustee Board and confirmed that no director who is regarded as non-affiliated has been in his or her post for longer than the requisite time limits and that each has either been appointed or reappointed through an open and transparent process or their appointment or reappointment preceded these requirements.

Dr Carter is the only affiliated director because he is also a director of USSIM, the scheme's principal investment manager, providing investment and advisory services to the scheme.

The trustee director appointment procedures, which reflect legislative requirements, ensure that the trustee has oversight and suitable control over the appointment process for all directors and that every director appointment or reappointment satisfies the 'open and transparent' criteria.

During the scheme year ended 31 March 2021, six non-affiliated trustee directors were subject to an appointment process and one was subject to a reappointment process as follows:

- Dame Kate Barker is an independent director and was appointed to the Trustee Board with effect from 1 April 2020, and as Chair of the Trustee Board with effect from 1 September 2020. The recruitment process was led by an executive search firm, which was supplemented by adverts on the scheme's job site, in ***The Sunday Times***, and ***The Guardian*** newspapers and on LinkedIn. Applicants were then shortlisted for interview and the shortlisted candidates interviewed and assessed against a common scorecard which reflected the role profile for this position. The process was overseen by the Governance and Nominations Committee. The then Chair of the Trustee Board, Professor Sir David Eastwood, was also consulted on the proposed appointment. The Governance and Nominations Committee and the Trustee Board then reviewed and approved the appointment of Dame Kate Barker
- Mr Russell Picot is an independent director and was appointed by the Trustee Board during the financial year. Mr Picot was appointed to the Trustee Board with effect from 1 February 2021. An executive search firm was also engaged to conduct this search. The role was also advertised on the scheme's job site, in ***The Sunday Times***, and on LinkedIn. Applicants were shortlisted for interview and interviewed and assessed against a common scorecard which reflected the role profile for this position. The process was overseen by the Governance and Nominations Committee and the then Chair of the Trustee Board, Dame Kate Barker, was consulted on the proposed appointment. The Governance and Nominations Committee and the Trustee Board then reviewed and approved the appointment of Mr Picot
- The appointment/reappointment process for UUK-nominated directors or UCU-nominated directors is led by UUK or UCU, as appropriate, with involvement of the trustee, and follows the same process as that for the appointment of independent directors (as noted above), subject to certain minor modifications as explained below
- During the financial year, three directors were nominated for appointment by UCU (Mr Andrew Brown appointed on 1 August 2020, Ms Helen Shay appointed on 1 September 2020 and Dr David Watts appointed on 1 March 2021) and one director was nominated for appointment by UUK (Professor Sir Paul Curran appointed on 1 September 2020). In addition, Professor Sir Anton Muscatelli was nominated for reappointment to the Trustee Board by UUK and reappointed to the Trustee Board with effect from 1 April 2021. All of these roles were advertised in national newspapers; posted on specialist recruiters in the academic sector, as well as on websites open to the public such as LinkedIn and jobs.ac.uk. In addition, the roles for the recruitment processes were managed by UUK and UCU, were also advertised by UUK and UCU in communications with USS employers and members
- Applicants were shortlisted by reference to the criteria of the relevant role profiles and shortlisted candidates interviewed and assessed against a common scorecard by a UUK or UCU, as appropriate, led interview panel, which also included the chair of USS Governance and Nominations Committee. The then Chair of the Trustee Board was also consulted on the proposed appointments. The Governance and Nominations Committee and the Trustee Board then reviewed and approved each of these the appointments and the one director reappointment
- Following the reappointment exercise outlined above, Sir Anton Muscatelli, who had previously been classified as an affiliated director, is now regarded as non-affiliated as the role was advertised sufficiently widely to meet the open and transparent criteria in the legislation, in addition to the other criteria under the legislation being met

6 Member communications, engagement and representation

We are proactive to communicate with members, engage them in their pension saving and reflect their views in decision-making. As well as meeting statutory disclosure requirements, we are continuously seeking to improve the overall member experience and reflect best practice identified by the Government, regulators and wider industry. A range of channels are used to communicate with members, including regular email updates, the online member portal, My USS, and Annual Member Statements (including Statutory Money Purchase Illustration (SMPI) components) which are issued to active members.

Website
In 2020, we relaunched our website, including a dedicated area for members wanting to understand the Investment Builder. Members can easily find information, including short videos, on how the Investment Builder works, their investment and contribution options, and how they can access their benefits. We have also published a number of blogs on DC issues of interest

My USS
Over three quarters of the scheme's active membership with Investment Builder funds are now registered for the My USS portal. This online platform, which was also relaunched this year, allows active and deferred members to manage their contributions and investment decisions, see the value and performance of their Investment Builder funds and view detailed fund information through fund factsheets. Access for retired members who retain Investment Builder Funds has been recently introduced, so all members can now manage their funds online.

Emails
Throughout the scheme year, we've continued to provide members with monthly emails including reference to the Investment Builder within the constraints of the Privacy and Electronic Communications Regulations (PECR). The regulations inhibit our ability to send non-essential email content such as retirement planning and financial wellbeing articles, to members – topics which typically encourage member engagement.

Instead we have focused on bolstering our service email proposition and have kept members up to date with important scheme news such as contribution changes and the introduction of illiquid assets in the USS Lifestyle investment options.

Combined Annual Member Statements
Combined DB and DC Annual Member Statements for the year ended 31 March 2020 were issued to the vast majority of active members by September 2020 and made available online shortly afterwards. These statements are personalised to individual members and they highlight specific benefits and/or calls to action. They also include information about the tax status of members' pensions in relation to annual and lifetime allowances to assist members with tax planning. 55,000 members received a shorter "speed read" version of the statement, in line with the government's efforts to make statements simpler, and this is due to be expanded in 2021. The scheme also met the statutory requirement to provide all deferred members with Statutory Money Purchase Illustrations (SMPIs) during the scheme year.

Member feedback
The scheme ensures member experiences and views are at the heart of its decision-making and we encourage members to provide their feedback and make their views regarding the scheme known. UCU has the power (subject to the approval of the trustee) 'to appoint' three directors to the Trustee Board. UCU also has a wide role representing members in connection with the scheme, both formally through the Joint Negotiating Committee (JNC) which approves and can initiate changes to Scheme Rules, and also informally through regular discussions with the USS Executive Management Team.

The scheme gathers feedback from individual members in a number of ways. Members are given information on uss.co.uk about how to contact USS with any questions or comments online, by phone or by letter, and there is also a specific number for the Member Service Team (MST) for members needing help their benefits.

Members are also invited to provide specific 'touch point' feedback, for example, when calling with a technical enquiry or going through the retirement process. In 2020/21, the arrangements outlined above were supplemented by two large scale surveys of the membership. These were designed to understand members' perceptions, but also to encourage members to share their views about a number of aspects of the scheme, including the options available in the Investment Builder, the quality of member communications, and other dimensions of the products and services offered. The surveys included both structured questions and the ability to provide open feedback. USS also runs, via an independent research agency, a 'Member Voice' Panel, which provides a flexible and timely way of soliciting feedback from members, as well as giving members another route to raise issues that will be passed on to the executive. This year the panel participated in a number of projects relating to the Investment Builder, including reviewing our fund factsheets to make them more useful and easier to understand.

Feedback from the surveys and the member panel has been shared with the Trustee Board and the scheme stakeholders through the JNC.

The trustee takes all member feedback seriously and through dedicated policy and member communications teams, continually assesses all of the channels (and their effectiveness) including through a dedicated Member Experience Forum, which reports regularly to the trustee's Pensions Committee.

Dame Kate Barker
Chair of the Trustee Board

USS Default Lifestyle Option Statement of Investment Principles

1. Introduction

1.1 This is the Statement of Investment Principles of the Universities Superannuation Scheme ("**USS**" or "**scheme**") Default Lifestyle Option (the "**Default SIP**"). The USS Default Lifestyle Option is the default arrangement in relation to the USS Investment Builder (**DC Section**). Although the USS Default Lifestyle Option can be actively chosen by members as their investment strategy, as a default arrangement it is the investment strategy into which the contributions of members who do not make any investment decisions are paid.

1.2 Universities Superannuation Scheme Limited (the "**trustee**") has selected a lifestyle strategy as its default arrangement. Lifestyle strategies are designed to meet the divergent objectives of maximising the value of a member's assets at retirement and protecting the value of accumulated assets particularly in the years approaching retirement.

1.3 This Default SIP sometimes refers to the main Statement of Investment Principles (the "**Main SIP**") which covers the whole scheme. Copies of the Main SIP can be found in the "How USS invests" area of the scheme's website uss.co.uk.

2. The trustee's investment beliefs

2.1 The trustee maintains a set of Investment Beliefs as set out in section 1.2 of the Main SIP and available in the "How USS invests" area of the USS website. These Investment Beliefs include beliefs in relation to the range of suitable investment options for the DC Section.

2.2 In relation to the default arrangement, the trustee's key beliefs are that:

2.2.1 As a member's DC savings grow, investment risk will have a greater impact on member outcomes. Therefore, a strategy which seeks to reduce investment risk as the member approaches retirement is suitable.

2.2.2 Maintaining a measured amount of risk will improve the average outcome for members in the protection phase prior to retirement.

3. Investment governance structure

3.1 The trustee applies the same governance structure it uses for the scheme as a whole to the default arrangement. This is described in detail in Section 1.3 of the Main SIP. Broadly, the trustee's governance structure focuses on embedding compliance with legislative requirements into agreements with investment and related service providers and monitoring compliance by having clear terms of reference for the board and sub-committees and supplementing this with appropriate formal investment advice where required.

4. Aims and objective of the Default Fund

4.1 The Default Lifestyle Option aims to take a suitably controlled amount of risk to generate investment returns in order to provide a reasonable level of retirement benefits for members, taking into account the performance of asset markets and the level of contributions paid over a member's lifetime into the DC section and recognising the hybrid nature of the scheme.

4.2 The objectives of the Default Lifestyle Option are detailed below:

4.2.1 To focus particularly on generating returns in excess of inflation during the growth phase of the strategy (up to 10 years before retirement) with a degree of downside risk mitigation.

4.2.2 To provide a strategy that reduces investment risk in the consolidation phase for members between ten and five years before expected retirement.

4.2.3 To provide exposure, at retirement, to a portfolio of assets to align as much as possible with how a member is likely to use their savings at and into retirement.

4.2.4 To ensure sufficient liquidity to be able to pay benefits or transfers when required.

5. Investment strategy

5.1 Kinds of investments to be held, the expected returns and the balance between different kinds of investments.

5.1.1 The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the Default Lifestyle Option:

– **A growth fund** – will invest predominantly in growth assets, with an objective to provide long-term growth to members, with some diversification to mitigate portfolio risk to a degree. Investments will be made in both public and private markets in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and the benefit of additional diversification.

– **A moderate growth fund** – will typically invest a majority in growth assets, with more diversification than the growth fund, and with an objective to provide long-term growth to members from a balanced, more diversified portfolio of assets. Investments will be made in both private and public markets to increase diversification and enhance returns. This additional diversification aims to mitigate portfolio risk to a greater extent.

- **A cautious growth fund** – with an objective to provide stable growth to members from a portfolio of predominantly low risk, income focused assets, with some diversification, and minority exposure to growth assets. Investment will be made in both private and public markets to increase diversification and enhance returns.
- **A liquidity fund** – typically aims to produce a return in line with its benchmark which represents short-term interest rates, principally from a portfolio of Sterling denominated cash, deposits and money market instruments.

5.1.2 Moving from growth to moderate growth to cautious growth funds would be associated with decreasing proportions in growth assets such as equities and property; and increasing proportions in non-government and government bonds.

5.1.3 The chart below provides an illustration of the default structure, in particular detailing the balance between the different Default Lifestyle funds held in the final 10 years prior to a member's retirement date:

5.2 Managing risk

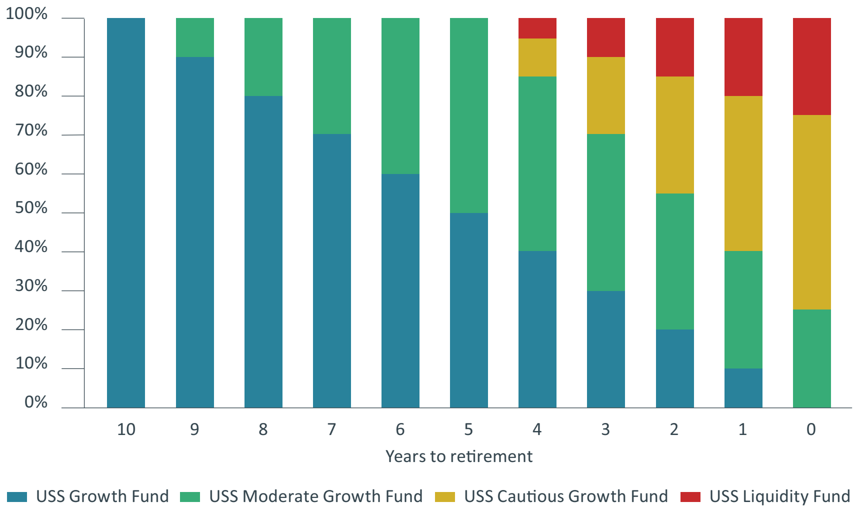
5.2.1 The Default Lifestyle Option manages strategic asset allocation risks through Reference Portfolios consisting of mainstream assets, calibrated to different stages in the lifestyle strategy (as indicated in item 5.1.3). Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The actual holdings within the constituent Default Lifestyle funds will include private market investments where appropriate in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and to gain additional diversification.

5.2.2 The Default Lifestyle Option's growth phase invests in equities and other growth-seeking and diversifying assets. These investments are structured to generate higher real (after inflation) returns over the long term with some downside protection. During the growth phase, the downside risk from an equity market downturn is partially mitigated through diversification away from equities into other asset classes.

5.2.3 In the consolidation phase, from 10 years before expected retirement, the trustee is seeking, through greater diversification of assets, to reduce the likelihood of extreme investment shocks adversely affecting retirement outcomes.

5.2.4 In the final five years before expected retirement (protection phase), the trustee has constructed a glidepath that seeks to continue to grow the member's DC retirement savings while reducing volatility as members' funds get closer to maturity. In the protection phase, assets are therefore switched to more cautious assets (such as gilts and corporate bonds), including an allocation to cash. This has been designed to reflect the uncertainty inherent in the timing of retirements, and the post-retirement investment choices that might be made by members.

The USS Default Lifestyle Option glidepath



USS Default Lifestyle Option Statement of Investment Principles continued

5.2.5 Paragraph 2.3 of the Main SIP sets out further detail on how the trustee measures and manages risks.

5.3 Realisation of investments, cash flow and liquidity management.

5.3.1 The USS DC section offers members a range of daily dealing notional funds. While a portion of the USS Default Lifestyle Option will be in illiquid assets, the trustee's policy is to maintain sufficient investments in liquid assets so that the realisation of assets will not be unduly costly nor disrupt the scheme's overall investment strategies in foreseeable circumstances. More detail can be found in paragraphs 2.2.5 and 3.2.9 of the Main SIP.

6. The trustee's policies on responsible investment and engagement activities

6.1 The Default Lifestyle Option is managed in line with the trustee's policies as set out in the Main SIP, in particular, paragraph 1.4. The trustee's policies on responsible investment and engagement activities cover:

6.1.1 How financially material considerations are taken into account in the selection, retention and realisation of investments. This includes how the trustee considers environmental, social and governance (ESG) factors where financially material to the scheme, such as but not limited to climate change.

6.1.2 The extent to which non-financial ESG matters are taken into account in the selection, retention and realisation of investments.

6.1.3 The exercise of the rights (including voting rights) attaching to the investments.

6.1.4 Engagement activities in respect of the investments.

6.2 In addition to the Default Lifestyle Option, the trustee makes available an ethical lifestyle option reflecting the fact that a number of members have specific objectives around ethical investing. This ethical lifestyle option is built along similar principles to the Default Lifestyle Option but has been specifically designed to reflect members' objectives in this area. As well as this, an ethical equity fund and a Sharia consistent fund are included in the range of self-select funds offered to members.

6.3 The scheme's statement on responsible investment sets out detailed information on how the trustee considers ESG factors where financially material to the scheme and the extent to which it takes non-financial ESG factors into account. The trustee expects its internal and external managers to act consistently with this statement in the selection, retention and realisation of the scheme's investments. The current Statement on Responsible Investment can be found in the "How USS invests" area of the scheme's website www.uss.co.uk.

6.4 The trustee's policies in relation to its arrangements with asset managers are as set out in paragraph 1.5 of the Main SIP, including in relation to the trustee's wholly owned investment manager and advisor, USS Investment Management Limited (USSIM) which is primarily responsible for the management of the default arrangement and manager selection.

7. Investment in the best interests of beneficiaries

7.1 In designing the Default Lifestyle Option, the trustee aims to invest USS assets in beneficiaries' best financial interests, taking into account the different risk profile of representative members (e.g. according to their expected time frame until retirement). In doing so, the trustee explicitly considers the trade-off between risk and expected returns and continues to monitor these risks through ongoing reporting. The trustee considers high level profiling analysis of the scheme's membership in order to inform decisions regarding the Default Lifestyle Option. In accordance with the trustee's mandate, USSIM also manages and monitors the default arrangement and the performance of investment managers involved in that arrangement, and makes changes where necessary to ensure the trustee's aims and objectives are met.

8. Compliance and review

8.1 This Default SIP has been prepared in accordance with the requirements of the Pensions Act 1995 and relevant Regulations taking into account guidance from the Pensions Regulator.

8.2 The trustee will undertake such a review at least triennially, or sooner and without delay if there are significant changes to the scheme's investment policy, demographic profile or other circumstances which the trustee determines warrant a reconsideration of the reference portfolios for the Default Lifestyle Option.

8.3 The trustee will revise the Default SIP after every review unless it decides that no action is needed as a result of the review.

Implementation statement

1 Introduction

The trustee of the Universities Superannuation Scheme (the scheme) has prepared this Implementation Statement (the Statement), which should be read in conjunction with the Statement of Investment Principles (SIP - uss.co.uk/how-we-invest/our-principles-and-approach). The scheme operates as a hybrid pension scheme providing defined benefit (DB) and defined contribution (DC) pension benefits and is authorised by the Pensions Regulator as a Master Trust.

This Statement, as with the SIP, applies to both the DB and DC elements of the scheme within the single trust. The trustee also has a supplementary Statement of Investment Principles (see uss.co.uk/how-we-invest/our-principles-and-approach) specifically for the USS Default Lifestyle Option in the Investment Builder (the 'Default SIP').

1.1 Purpose

This Statement is designed to set out how, and the extent to which, the trustee believes the SIP has been followed during the scheme year ending 31 March 2021. The Statement outlines how key activities and decisions implemented for the scheme have followed the policies within the SIP and the Default SIP and, where they have not, what steps will be taken to remedy this.

This Statement also sets out how, and the extent to which, in the opinion of the trustee, the policies in relation to voting rights and the engagement activities have been followed during the year and describes a review of the voting behaviour carried out by investment managers on the trustee's behalf.

Following review and analysis, the trustee believes that the SIP, and the policies in relation to voting rights and engagement have been followed during the year, except where any immaterial divergences have been highlighted. This Statement explains how the trustee has reached this view.

1.2 Review of the SIP and Default SIP

Section 35 of the Pensions Act 1995 requires that trustees prepare, maintain and revise (if necessary) a written SIP, governing decisions about investments for the purposes of the scheme. The trustee last updated its SIP in 2019 following the completion of the 31 March 2017 and 31 March 2018 actuarial valuations and in anticipation of future pensions regulations[1] coming into force.

The SIP was finalised in September 2019 following consultation with the scheme's participating employers and receipt of investment advice from its external advisers, Mercer (see Section 1.4) both as required by legislation, and assistance from its principal investment adviser, USS Investment Management Limited (USSIM) (see Section 1.3). There have been no significant changes to the scheme or its investment policy requiring the SIP to be revised since. The SIP is reviewed annually by the trustee and the Investment Committee and was last reviewed in March 2021, with no changes recommended.

The Default SIP was last updated in February 2021. Following the triennial DC default lifestyle strategy review in 2019, it was concluded that although the original strategy remained valid, adjustments to the glidepath for the USS Default and Ethical Lifestyle Options were appropriate to provide potential for greater investment growth during the years running up to a member's retirement age. See Section 3 and the Chair's DC Statement for further detail.

1.3 Relationship with USSIM

The SIP is required to include the trustee's policy for arrangements with asset managers, and this includes USSIM. USSIM is the trustee's wholly owned subsidiary, and acts as both principal investment manager and adviser to the trustee. USSIM is required to act in accordance with the SIP in performing its duties.

The trustee appoints USSIM to implement the scheme's investment strategy within the terms of the Investment Management Advisory Agreement (the IMAA). USSIM manages assets directly on behalf of the trustee as well as having the delegated authority to appoint, monitor and change the trustee's external asset managers.

The trustee has various methods for overseeing the services of USSIM and USSIM provides regular reporting on its performance. The trustee's Investment Committee is responsible for overseeing the delivery of services provided (see Section 1.5).

In addition to the oversight provided by the trustee's Investment Committee (see Section 1.5), USSIM's remuneration structures and risk and control environment are reported through the Trustee's Remuneration Committee and Group Audit Committee respectively. Further details of the committees, including the Terms of Reference for the USSIM Board, Remuneration Committee and Group Audit Committee can be found at uss.co.uk/about-us/how-were-governed.

Investment advice

The trustee is required to obtain written investment advice before exercising its power of investment under the Scheme Rules. The trustee has ensured that these requirements are met by including them in the IMAA. Any investment advice required by the trustee is provided in accordance with legislation and primarily to the trustee's Investment Committee.

Alignment of interests

The SIP covers the trustee's policy on how the arrangements and contract with USSIM incentivise USSIM to make decisions in the long-term interests of the scheme.

Note

1 The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

USSIM is a non-profit entity, which is wholly owned by the trustee. The duration of USSIM's appointment is indefinite. The trustee intends that USSIM will continue to manage investments and external managers on behalf of the trustee on a continuous basis. The trustee periodically reviews the overall value-for-money of investing via USSIM, while its Investment Committee regularly reviews the investment strategy and overall and individual mandate investment performance.

The trustee is satisfied that its arrangements incentivise USSIM:

- to align its investment strategy and decisions with the trustee's policies, including whether to manage certain investments itself or to appoint external managers and
- to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their, and thereby the scheme's performance in the medium to long-term

on the basis that USSIM does not provide services to other clients and has no conflicting duties or arrangements in place. In addition, the trustee does not have any fee arrangements in place with USSIM which would incentivise it to deviate from the trustee's policies.

The trustee undertakes a full 'value for money' assessment of both the DB and DC sections of the scheme annually, including a review of investing via USSIM versus peer pension schemes' investment arrangements and using benchmarking analysis, as described on page 55 in the Chief Financial Officer's update.

The latest report (presented to the Trustee Board in March 2021), evidences a low cost and high value-add investment team in comparison to the peer group. In respect of the DC section of the scheme, the trustee worked with an independent consultancy to undertake a benchmarking exercise with five Master Trust peers. Further information can be found in the Chair's DC Statement.

For the DB section of the scheme, the trustee has set USSIM an outperformance target relative to the Reference Portfolio over rolling periods of five years and spanning both internal and external managers. The suitability of the outperformance target is reviewed on an annual basis by the Investment Committee and recommended to the trustee.

USSIM uses a remuneration framework involving both investment performance-linked and qualitative assessments for its staff to ensure that USSIM's incentives are aligned to the needs of the scheme and the trustee's policies in relation to the selection and balance of investments, the management of risk, return on and realisation of investments, and responsible investment and engagement activities. To encourage alignment and retention of key personnel, this framework includes a base salary, annual incentives and, where applicable, long-term incentive plans (vesting over multiple years). USSIM is thereby incentivised and aligned with the long-term performance of the scheme (including through making decisions informed by both financial and non-financial considerations, on issuers of debt and equity in which the trustee invests and engaging with such issuers in order to improve their performance). For the financial year 2021/22 onwards, compensation assessments will also include environmental, social and governance ("ESG") factors in investment related activities where relevant.

The trustee is satisfied that USSIM is aligned with the trustee's policies because of the relationship between the trustee and USSIM, and the non-profit arrangements in place.

1.4 Relationship with external investment consultants

In addition to the advice from USSIM, the trustee has contracts in place with two external investment advisers/consultants. For the year ending 31 March 2021, the scheme's external investment advisers/consultants were Mercer (DB matters) and LCP (DC matters). Both attend all of the trustee's Investment Committee meetings and provide independent insight and challenge to the Committee's consideration of USSIM's investment strategy proposals and on the reporting provided by USSIM with regards to its investment management activities. The trustee may also request formal investment advice from these advisers (instead of USSIM), as it deems appropriate.

As required by The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf), the Investment Committee set its external investment advisers formal objectives, and in early 2021, the Committee reviewed the performance of its external investment advisers against those objectives.

1.5 Role of the trustee's investment committee (the Investment Committee)

The purpose of the Investment Committee is to oversee the investment of the scheme's assets and, based primarily on investment advice from USSIM, it makes recommendations to the trustee, and where authority has been delegated, approves on the trustee's behalf strategic matters relating to the investment of the assets and development of the scheme's strategy, having regard to any legislative and regulatory requirements.

Further details of the Governance structure, including the Terms of Reference for the trustee and Investment Committee can be found at uss.co.uk/about-us/how-were-governed. The allocation of responsibilities between the trustee and the Investment Committee are clearly set out in the Terms of Reference that were last reviewed in March 2021, with updates made to reflect changes in regulations and working practices. Details of USSIM's corporate governance structure and Terms of Reference for USSIM's Board and main Committees are also available via the above link.

The Investment Committee meets regularly (10 times in the scheme year 2020-21) to review investment strategy proposals and regular reporting by USSIM on its ongoing investment management activities. Regular reviews of the investment strategy, including the overall and individual mandate investment performance, are also completed. It is a standing agenda item on each Investment Committee to report on the tactical asset allocation decisions made by USSIM during the period.

The Investment Committee is responsible for overseeing the delivery of services provided by USSIM under the IMAA. As part of this, the Investment Committee reviews USSIM's business plan, budget and other investment costs prior to final approval by the Trustee Board. It includes consideration of the strategic projects that the trustee has asked USSIM to complete, as well as comparing USSIM's investment management costs compared to peers. The Investment Committee receives an annual attestation from USSIM confirming compliance with the responsibilities and guidelines given to it by the trustee under the IMAA.

The activities, decisions made and recommendations of the Investment Committee to the trustee are reported to the Trustee Board after each Investment Committee meeting.

1.6 Consideration of Non-Financial factors

Investing in the best financial interests of the scheme is the trustee's primary concern in relation to investment strategy. However, to the extent permitted by its fiduciary duties, there are some circumstances where the trustee would consider non-financial factors and the trustee will take account of member views in relation to the selection, retention and realisation of investments. These circumstances include:

- where there is a choice as between two otherwise equivalent investments without risk of significant financial detriment to the scheme
- where
  - (i) the trustee's longstanding and ongoing relationship with the membership has, over time, helped the trustee form a specific view on a given non-financial factor relevant to a certain investment opportunity
  - (ii) the trustee is satisfied that there is no risk of significant financial detriment to the scheme in taking account of the non-financial factor in respect of that investment opportunity
  - (iii) the trustee has good reason to believe that members would share each other's views on that non-financial factor

In the scheme's DC section, where the trustee is able to offer members a choice, ethical options are made available, based on member research and allowing members to reflect their views and preferences directly taking account of their own position on the risks of potentially lower returns (see Section 3.6).

The trustee received updated legal advice on this area, uss.co.uk/how-we-invest/responsible-investment, and there were no circumstances over the past twelve months where the trustee (or USSIM on its behalf) could take into account non-financial factors (the circumstances being those as described above) within its investment decision-making. The trustee's process for engagement with members is set out in more detail in below.

1.7 Engagement with the members

The trustee provides members with several ways to provide feedback on investment issues, including via a contact form on the website, email and post. The trustee also engages with members on their investment preferences through surveys, an online member panel and views expressed by member representatives. These sources of insight help to inform the trustee's reviews of the Investment Builder (the DC section of the scheme) as set out in Section 1.6 above. Representatives from USS also meet with stakeholder groups such as Ethics for USS and the University and College Union (UCU) to discuss ESG related issues.

In addition to statutory communications, USSIM campaign themes were developed to help members understand the scheme's investments as well as bringing investments to life with a focus on Responsible Investment.

In 2020, USS revamped the 'Quarterly Investment Report' and the 'Guide to Investing in the Investment Builder' (both available via My USS), to make them more engaging and to help members understand the DC product and the options it provides in the context of the hybrid nature of USS.

As part of this engagement, the trustee invites views from members and beneficiaries on non-financial matters. For example, non-financial matters include (but are not limited to) ESG issues and ethical matters. To the extent permitted by its fiduciary duties, there are some circumstances where the trustee will take account of member views on non-financial matters in relation to the selection, retention and realisation of investments (see Section 1.6).

2 Retirement Income Builder (the DB Section)

2.1 Investment beliefs

The trustee's investment belief statements and principles can be found at uss.co.uk/how-we-invest/our-principles-and-approach. The trustee has separate belief statements for the DB and DC Sections and these are reviewed on an annual basis by the Investment Committee and the Trustee Board (last reviewed in early 2021).

The investment belief statements guide the scheme's governance and strategic management, as well as the alignment sought between the trustee and its investment managers. They provide a reference for considered and consistent investment decisions by both the trustee and USSIM. The investment belief statements are embedded throughout USSIM's investment management activities and advice to the trustee.

2.2 Investment objectives
The SIP and Default SIP set out the scheme's investment objectives. For the DB Section, the scheme exists to pay the benefits as they fall due to its members. The capacity for the trustee to take investment risk is based on the assessment of the covenant of the employers and their associated tolerance for the level and variability of contributions.

2.3 Investment strategy
The SIP covers the trustee's policy in relation to the type and balance of investments held. The trustee's broad investment strategy and overall investment risk is set out as a Reference Portfolio, a theoretical, but investible, asset allocation designed to provide excess returns versus the scheme's liabilities over time while maintaining a prudent approach to meeting the scheme's liabilities, as required by the funding regulations. It is adapted over time to balance the trustee's investment objective for returns and risk appetite.

The Reference Portfolio is agreed with the intention of ensuring that the investment element of the covenant, and the reliance on the participating employers is kept to an appropriate level. The trustee seeks advice from a covenant adviser on the strength of the employer covenant.

When agreeing the Reference Portfolio, the trustee considers the scheme's funding position, cash flow profile and its liability profile. In conjunction with investment advice, and in line with the SIP, these factors are reviewed from an investment perspective at least annually and reflected in the Reference Portfolio and associated investment risk and hedging parameters.

The Reference Portfolio also provides a benchmark against which USSIM's aggregate investment results and risk can be monitored by the Investment Committee with particular attention to rolling five-year performance, asset-liability risk and leverage, given the trustee's long-term investment strategy.

In order to ensure the Reference Portfolio remains appropriate, the trustee, with the support of the Investment Committee and USSIM, monitors changes to expected asset class and Reference Portfolio returns on at least an annual basis.

2.4. Implemented Portfolio
For the DB Section, USSIM's objective, within risk parameters given by the trustee, is to outperform the Reference Portfolio by investing in a more diverse range of assets known as the "Implemented Portfolio".

The Implemented Portfolio invests in a range of asset classes, including quoted equity, government and non-government debt (including inflation-linked), currencies, money market instruments, commodities, derivatives or other financial instruments, as well as alternative strategies (such as absolute return strategies) and private market assets including equity and debt, infrastructure and property. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

To reduce asset-liability risk over recent years, the trustee has taken on additional exposure to liability-hedging assets, partially financed by reductions in its return-seeking assets and partly by using additional leverage. Since 1 January 2019, the leverage within the Reference Portfolio has increased from around 10% to around 15% as at 1 January 2021.

Over the scheme year, USSIM has also made the following changes to the Implemented Portfolio:

- Increased its allocation to high-quality credit (particularly long-duration sterling assets) across both public and private markets. High-quality credit provides interest rate exposure useful for liability hedging and higher coupons than government bonds
- Invested more in private markets assets which provide growth potential as well as long-term, inflation exposure (useful for meeting the inflation-linked liabilities promised to members)
- Diversified the scheme's foreign currency exposure to reduce risk and help to protect the scheme against counter-cyclical economic environments

The SIP covers the trustee's policy in relation to the expected return on assets. The actual investment returns of the scheme's DB investments are monitored regularly by the Investment Committee, through reporting provided by USSIM's Performance and Investment Risk (PAIR) team. In order to ensure the Implemented Portfolio remains appropriate (and is expected to deliver the appropriate long-term returns at the desired level of risk), the trustee, with the support of the Investment Committee and USSIM, monitors changes to expected asset class and Implemented Portfolio returns at least annually.

Over the past 12 months USSIM has been key to the scheme's response to COVID-19, ensuring that the positioning of the scheme's DB investments has been suitable for the economic landscape and ensuring that all of the underlying investment managers were managing risks appropriately through the pandemic. It was important for the scheme's investments to be well diversified and for the DB Section to have sufficient cash and collateral within the scheme to manage investment market fluctuations appropriately and in a cost-effective manner.

2.5. DB investment risk oversight

The SIP recognises the exposure to investment, funding and operational risks and the trustee's approach is to integrate management of those risks throughout its organisation. USSIM considers these risks, when advising on investment policy, strategic asset allocation and investment strategy, manager and fund selection when applicable.

The trustee has a structure to monitor these risks and take action to mitigate them when appropriate to do so. USSIM provides the trustee with regular quantitative and qualitative assessments of all the investment-related risks and in implementing appropriate mitigation strategies.

The key investment risks relating to the DB Section are currently managed through a range of limits as detailed in the IMAA. These limits are reviewed at least annually by the Investment Committee and the trustee.

Managing risk

The overall investment risk taken by the trustee is diversified across a range of different investment opportunities. Investment performance and risk are monitored by the Investment Committee on a quarterly basis, led primarily by USSIM's PAIR team. The Implemented Portfolio has a diversified asset allocation by geography, asset class and across active management strategies, to achieve outperformance relative to the Reference Portfolio over the long term, with similar or lower risk.

If the actual risk of the Implemented Portfolio exceeds beyond set limits that of the Reference Portfolio, USSIM must report to the Investment Committee as soon as practicably possible with proposed corrective action.

The trustee's funding risks are monitored and predominantly managed by the trustee's Funding Strategy team, with advice from the Scheme Actuary. The trustee's operational risks are managed throughout the organisation by individual teams; each has their own register of operational risks which is formally reviewed bi-annually. Investment-related risks are a subset of these funding risks and are assessed by USSIM throughout the year and more formally on an annual basis, when USSIM advises on the suitability of the Reference Portfolio. The trustee and the Investment Committee assess the key risks relevant to the DB Section, including asset-liability, market, credit, longevity, currency, liquidity and operational risks, as well as the variability of returns of the scheme's investments relative to the Reference Portfolio and the strength of the employer covenant. The integration of these investment-related risks is assessed, managed and advised upon by USSIM, particularly as they relate to strategic asset allocation and investment strategy.

The SIP covers the trustee's policy in relation to the realisation of investments. In conjunction with USSIM, the trustee monitors the amount of cash and other liquid instruments held to ensure that benefits and other commitments can be met in the short term and the operation of robust and timely disinvestment and financing procedures, without disrupting the scheme's asset allocation or incurring excessive transaction costs. These processes are overseen by an internal USSIM committee.

The Investment Committee has approved an Illiquidity Framework to manage the scheme's liquidity risk and to ensure there is a sufficiently low probability of being forced to sell assets for liquidity purposes. Investments in illiquid assets are subject to an upper limit set by the trustee (and periodically reviewed by the Investment Committee) on the proportion of such assets in the DB Section. On an annual basis, the Investment Committee also approves an overall investment plan for USSIM to implement over the following years.

The trustee's currency risk policy is to hedge a portion of its developed market overseas equity and 100% of its developed market bond currency exposure back to Sterling. Emerging markets equity and debt exposure is fully unhedged. USSIM reviews this policy and advises the trustee on its suitability at least annually.

3 Investment Builder (the DC Section)

3.1 Investment beliefs

The trustee's investment belief statements and principles can be found at uss.co.uk/how-we-invest/our-principles-and-approach. The trustee has separate belief statements for the DB and DC Sections and these are reviewed annually by the Investment Committee and the Trustee Board and were last reviewed in early 2021.

The belief statements guide the scheme's governance and strategic management, as well as the alignment sought between the trustee and its investment managers. They provide a reference for considered and consistent investment decisions by both the trustee and USSIM. The investment belief statements are embedded throughout USSIM's investment management activities and advice to the trustee. The DC Section has additional Policy belief statements at uss.co.uk/how-we-invest/our-principles-and-approach which sets out the trustee's beliefs regarding member behaviour and they were last reviewed in late 2020.

3.2 Investment objectives

The SIP and Default SIP set out the scheme's investment objectives for the Investment Builder. This DC section exists to enable members with salaries over the threshold and those with additional contributions to save for retirement by providing a suitable range of default and self-select investment options to members.

In the DC Section, members have the option to manage their own investments (the Let Me Do It Option) or have their investments managed for them, the Do It For Me Option. In the Do It For Me Option, members can choose from two lifestyle options, the USS Default Lifestyle Option and the USS Ethical Lifestyle Option. The Let Me Do It Option offers members 10 funds where they can be actively involved in making investment decisions.

The USS Default Lifestyle Option is the default arrangement for the DC Section. Although the USS Default Lifestyle Option can be actively chosen by members as their investment strategy, as a default arrangement it is the investment strategy into which are paid the DC contributions of members who do not make any investment decisions. Approximately 96% of members invest at least part of their funds in the USS Default Lifestyle Option or USS Ethical Lifestyle Option.

Although the trustee has discretion to invest in a wide range of assets, in practice the type of assets held in the Do It For Me and Let Me Do It funds depend on the objectives and strategy of each fund.

The trustee believes that the current default strategy and self-select range are suitable for the members of the scheme. This was last reviewed formally in 2019 in line with legislation (see Section 3.3.1).

3.3 USS Default Lifestyle Option

The USS Default Lifestyle Option is designed to reflect the different investment needs of a member during their working life and as they approach their target retirement age.

The USS Default Lifestyle Option manages strategic asset allocation risks through DC Reference Portfolios consisting of mainstream assets, calibrated to different stages in the lifestyle strategy. The USS Default Lifestyle Option's growth phase invests predominantly in equities and other growth-seeking and diversifying assets. These investments are structured to generate high real (after inflation) returns over the long term.

The glidepath for the USS Default Lifestyle Option is shown in the Default SIP. Members' contributions are invested in the USS Growth Fund and moved into the USS Moderate Growth Fund, USS Cautious Growth Fund and USS Liquidity Fund as the member approaches their target retirement age.

3.3.1 Triennial review

Legislation requires the trustee carry out a triennial review of the suitability of the USS Default Lifestyle Option and the other investment options offered by the scheme. The last full review of the USS Default Lifestyle Option was carried out in 2019 including extensive analysis of the active member population and modelling of members' expected pension outcomes.

As a result of the review, the trustee agreed to adjust the glide path to provide greater potential for growth during the years running up to a member's target retirement age. Most members were moved onto the new glide path in February 2021. Further details can be found in the DC Chair Statement.

Following the review, the trustee is also putting in place signposting for members to an income drawdown option and a whole of market annuity broking service (both external providers selected following a competitive tender exercise). These options will be made available later in 2021.

The next full default review is scheduled for September 2022, in line with legislation, or sooner if the trustee has reason to believe member demographics will significantly change.

3.3.2 High-level annual review

In addition to the triennial review, the trustee (in conjunction with its Pensions and Investment Committees) has decided to carry out a higher-level review of the DC fund range on an annual basis. The last review took place in late 2020 and considered how the USS Default Lifestyle Option and other investment options were performing relative to expectations.

The review looked at member demographics and behaviours, including their investment and access choices, and was accompanied by the views of both USSIM and LCP. This review also covered the impact of potential market movements in the period prior to retirement, market risks and the expected returns on the scheme's DC Reference Portfolios. It also included analysis of the USS DC fund offering compared to peers.

As part of the annual review, the trustee's Pensions Committee concluded that there should be no changes to the Policy belief statements (uss.co.uk/how-we-invest/our-principles-and-approach) and no changes to member requirements for the USS Default Lifestyle Option. The Investment Committee concluded that there should be no investment changes to the USS Default Lifestyle Option.

3.3.3 Underlying funds

The USS Default Lifestyle Option manages investment risks through DC Reference Portfolios consisting of mainstream asset classes. The DC Reference Portfolios for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds are set by the trustee to reflect the requirements for the funds, as determined by the trustee's Pensions and Investment Committees.

In 2020, the Trustee Board and Investment Committee reviewed the DC Reference Portfolios for the funds used within the USS Default Lifestyle Option. USSIM worked closely with the Trustee's Pensions Strategy Team to ensure that member requirements continue to be well understood. This exercise included looking at member behaviour, member surveys and market analysis.

The USS Growth, USS Moderate Growth and USS Cautious Growth Funds are designed to deliver long-term returns above inflation for members, within varying risk tolerances.

Following a detailed review, the trustee decided to move away from detailed composite benchmarks for these funds to more simplistic benchmarks that will help the trustee understand how well these funds are meeting members' requirements and help members understand the long-term return expectations of the funds they might choose to invest in. From 1 July 2020, the DC Reference Portfolios for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds were changed to long-term absolute return targets as well as long-term market comparators.

For the USS Growth, USS Moderate Growth and USS Cautious Growth Funds, USSIM aims to achieve a return in line with the DC Reference Portfolios over the long-term with an acceptable risk level by investing in a diversified pool of assets known as the "Implemented Portfolios". The DC Reference Portfolios and risk levels are documented in the IMAA.

The actual holdings for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds are expected to include some investments not present in the DC Reference Portfolios and the Implemented Portfolios for the DC funds are approved by USSIM.

Over the scheme year, USSIM made several changes to the Implemented Portfolios of the USS Growth, USS Moderate Growth and USS Cautious Growth Funds, including:

- Increased allocation to private markets to provide members cost-effective exposure to a wider spectrum of assets (see below)
- Added global nominal and inflation linked government bonds to the investment portfolios
- Reduced allocation to our external active Emerging Market equity managers, in favour of our internal team (see below)

Increased allocation to private markets

In February 2020, the USS Growth, USS Moderate Growth and USS Cautious Growth Funds started making an allocation to private markets. The allocation to private markets is expected to generate additional long-term returns and benefits from the additional diversification and lower expected risk. This allocation increased over the scheme year, and as at 31 March 2021, the USS Growth Fund had approximately 19% allocated to private markets (including property). The allocations are now close to USSIM's desired long-term allocation.

Introduction of internally managed Global Emerging Markets Equities

Due to the strong track record and capabilities of the team, in early 2021, USSIM decided to appoint its Global Emerging Markets Equity team to manage the Emerging Markets Equities allocation within the USS Growth, USS Moderate Growth and USS Cautious Growth Funds and a proportion of the assets within the USS Emerging Markets Equity Fund.

When considering the appointment, the Investment Committee and the Trustee Board also received a report from an external investment consultant on the suitability of the USSIM team for the DC Section.

The SIP and Default SIP cover the trustee's policy in relation to the expected return on investment. Investment returns on the investments for the DC Section are monitored regularly by the Investment Committee. In order to ensure the DC Reference Portfolios remain appropriate (and are expected to deliver the appropriate long-term returns at the desired level of risk), expected returns are regularly reviewed by the Investment Committee, including alternative scenarios and peer-group benchmarking.

3.4 DC Let Me Do It Funds

The trustee makes available a choice of 10 individual funds (self-select options) that members can choose to invest in if they wish to customise their investment approach and believes the range is suitable for members.

Through its Pensions Committee and Investment Committee, the trustee regularly reviews its DC fund range against member requirements and makes enhancements as required. As part of the review in 2019, the Pensions Committee carried out a review of the member requirements based on member data, experience to date and industry trends.

Following this review and discussion with the Investment Committee, the Pensions Committee recommended that the trustee change the requirements for the USS Bond Fund. The requirement for the USS Bond Fund now reflects the appetite to have access to a steady income stream and broad access to global bond markets. This was considered by USSIM and following advice to the trustee, it was decided to move away from a Reference Portfolio and have a single asset-based benchmark.

This change took place in October 2020 with member charges increasing from 0.10% p.a. to 0.20% p.a. from 1 February 2021. See Chair's DC Statement for more information.

As noted in Section 3.3.2, the Pensions Committee and Investment Committee carried out their annual review of the DC fund range (including the Let Me Do It Funds) in late 2020 and recommended that no changes be made to the DC fund range.

Due to the cost efficiencies of using an internal team rather than an external investment manager, the trustee has been able to reduce the Investment Management Charge (IMC) for members from 0.45% p.a. to 0.30% p.a. for the USS Emerging Markets Equity Fund by moving some of the assets internally. The IMC for members invested in the fund is now in line with the IMCs for the majority of the other Let Me Do It funds, even though IMCs for emerging market equity funds tend to be more expensive than for developed market equity funds. This means that charges for all funds are now covered entirely by the scheme subsidy (see Chair's DC Statement for more information), except for funds transferred into the Investment Builder.

Over the year, USSIM also decided to change one of the underlying investment managers for the USS UK Equity Fund and move their allocation to the passively managed element of this fund. As a result, the IMC for this fund reduced from 0.25% p.a. to 0.10% p.a. from 1 November 2020.

While the appointment of the underlying investment managers and allocation of assets has been delegated to USSIM by the trustee, USSIM provides regular reporting to the Investment Committee on its investment manager decisions and the case for decisions to appoint USSIM internal teams to manage DC investments.

3.5. DC risk oversight

The trustee has a structure to monitor the risks relevant to the DC Section and to take action to mitigate them when the trustee believes it appropriate. The role of USSIM is to provide the trustee with regular quantitative and qualitative assessments of all the investment-related risks and in implementing appropriate mitigation strategies within its delegated mandate.

The SIP and Default SIP cover the trustee's policy in relation to risks, including the ways in which risks are to be measured and managed. The trustee believes that risk is best understood and managed using multiple approaches. For the DC Section, risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

In setting and reviewing the scheme's DC investment strategy annually, the Trustee Board and the Investment Committee assess the key risks relevant to the DC Section. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on the scheme's investments relative to the DC Reference Portfolios, liquidity risk, operational risk and market risk including equity, interest rate and credit risk.

USSIM reports annually on the impact of inflation on its absolute return targets and reviews its policies on currency hedging and liquidity on an annual basis. The PAIR team also report to the Investment Committee and Trustee Board on performance versus expectations, benchmarks and peers.

The funds made available to members by the scheme are daily dealing notional funds. The trustee has put in place several measures to ensure that the introduction of illiquid assets (including private market assets) will not affect a member's ability to switch or access their Investment Builder funds, unless in extreme market circumstances. This is monitored by USSIM.

The USSIM PAIR team monitors the absolute volatility of the funds used within the USS Default Lifestyle Option on a daily basis to ensure the portfolios remain within the required tolerances, as set out in the IMAA. If a DC fund is outside the permitted volatility ranges, then this will be escalated to the Investment Committee. The PAIR team also report regularly to the Investment Committee and Trustee Board on performance versus expectations, benchmarks and peers.

3.6 Ethical investment options

In the scheme's DC Section, where the trustee can offer members a choice, ethical investment options are made available allowing members to reflect their views and preferences. The scheme offers two ethical options – one (to the extent possible) mirroring the USS Default Lifestyle Option and the other a global equity fund (a self-select option). In addition, a Sharia consistent fund is available to members. The assets are invested in line with the USS Ethical Guidelines, based on market practice and research with members in 2015 prior to the launch of the DC Section.

Along with the review of the USS Default Lifestyle Option in 2019, the trustee also carried out a review of the USS Ethical Lifestyle Option. Changes were made to the glidepath and most members were moved to the new glidepath in February 2021. The Reference Portfolios for the USS Ethical Growth, USS Ethical Moderate Growth and USS Ethical Cautious Growth Funds were also changed as at 1 July 2020, in line with the changes to the USS Growth, USS Moderate Growth and USS Cautious Growth Funds.

In late 2020, the trustee carried out a large-scale survey of members to understand their views on sustainable investment, including beliefs on their general importance and on particular sectors and activities. This information is currently being analysed by an academic institution and will be used alongside other sources to consider, to the extent permitted by the trustee's fiduciary duties, whether any changes to the USS Ethical Guidelines and the ethical funds in the DC Section are needed.

4 Financially material considerations

The trustee's primary duty in relation to investment strategy is to invest the scheme assets in the best financial interests of members and beneficiaries, having regard to an appropriate level of risk. In carrying out this duty, the trustee expects its investment managers (USSIM and the external managers appointed by USSIM) to take into account all financially material considerations in the selection, retention and realisation of investments.

This includes ESG considerations (such as, but not limited to climate change) where these are considered relevant financial factors.

This approach is implemented in three ways:

- Integration into investment decision-making processes: The trustee requires active managers to seek to identify mispriced assets and make better investment decisions to enhance long-term performance by taking account of financially material considerations. The trustee believes additional returns are available to investors who take a long-term view and are able to identify where the market is overlooking or misestimating the role played by these considerations in corporate and asset performance

- Stewardship, engagement and voting rights: As a long-term investor the trustee expects its managers to behave as active owners on its behalf and use their influence to promote good practices concerning financially material considerations (further detail is set out below)
- Market transformation activities: The trustee and its agents engage with policy-makers and regulators in markets in which it invests, to articulate concerns of asset owners and long-term investors, covering areas such as accounting standards and climate change policies

USSIM has processes in place to ensure the investment strategy and management of the assets are in the best interests of the members and beneficiaries.

These processes are overseen by the USSIM Board and the Investment Committee. The trustee is satisfied that USSIM is informed about the matters that the investment managers are taking into consideration and that these are aligned with the trustee's policies, as expressed in the SIP and the Default SIP.

The decision to appoint either internal or external managers and decision regarding the preferred investment structure is made in the best interests of the members and beneficiaries considering several factors including investment capability, experience and value for money. This applies for both the DB and DC Sections.

4.1. Investment management oversight: alignment of Interests

The SIP sets out the trustee's policies in relation to the arrangement with asset managers and this is set out in Section 1, in respect of USSIM, and Section 4, primarily in respect of external managers, of this Statement.

The trustee and USSIM have put in place several processes with its investment managers (internal and external) to ensure alignment of interests with the trustee's policies, objectives and focus on the long-term and these are taken into account in the selection, retention and realisation of investments.

When appointing an investment manager, the trustee requires managers, including USSIM, to take account of these of these investment policies which cover such things as:

- The kinds of investments to be held
- The balance between different kinds of investments
- Financially material considerations to be taken into account over the appropriate time horizon of the scheme, including how those considerations are taken into account in the selection, retention and realisation of investments

The trustee considers that the following processes create alignment with the trustee's investment policies:

Setting the investment strategy with a long-term horizon, including the use of private market assets

The trustee recognises that while underperformance may occur over periods of time, the probability of "return-seeking" assets outperforming "low-risk" investments increases as the investment horizon lengthens, though does not become a certainty. The trustee, as a long-term investor, is likely to hold some investments over many years, including the use of private market assets that provide opportunities for additional returns over the long-term.

Long-term relationship with USSIM and external managers

USSIM and external managers are been appointed as long-term investment managers, in line with the long-term focus and horizon for the scheme.

For external managers and USSIM the trustee focuses on performance over five-year rolling periods and put in place performance-related fees where appropriate

The trustee monitors the performance of USSIM over rolling five-year periods and USSIM, on behalf of the trustee, monitors external managers in the same way. USSIM's outperformance target for the DB Section is set relative to the Reference Portfolio and spans both internal and external managers.

While USSIM carries out the monitoring of external managers on a regular basis, the USSIM PAIR team focus their framework for monitoring managers and triggering a more formal assessment on performance over medium to long-term performance. A similar process is undertaken in relation to USSIM and USSIM's performance is reported to the Investment Committee as a standing agenda item.

If performance is not satisfactory, and the external manager is unable to provide rationale for this, then the that manager's appointment may be terminated.

Using in-house investment management where beneficial to the scheme and members

USSIM's compensation approach for in-house investment managers is designed to incentivise the delivery of scheme performance over the long-term and to encourage the retention of key personnel (see Section 1.3 for more details).

Investing responsibility and engaging as long-term owners

USSIM and the trustee expect its investment managers to engage as active owners of assets, focused on sustainability, good corporate governance and to consider all financially material considerations in relation to the selection, retention and realisation of investments. Members' interests are further protected from adverse impacts by collaboration with like-minded investors and engagement with government, industry and regulators.

4.2 External manager selection and monitoring

Once the Implemented Portfolios for the DB and DC Sections have been agreed, USSIM defines the requirements for individual investment mandates for different asset classes, including whether the mandate should be internally or externally managed.

Manager selection

When appointing a new public markets manager, USSIM sets out mandate requirements which details the investment and operational requirements for the individual investment mandate. This is key in developing an Investment Proposal Note which will usually consist of a long list of managers that are filtered down based on assessed skill and quality.

The short list stage is where more due diligence is carried out on the external manager's investment team, process, risk management, including Responsible Investment (RI) practices and initial fee negotiations. After this work, a final candidate will be proposed for further due diligence including RI assessment (see Section 5.2) and Operational Due Diligence (ODD) assessment. During the new manager onboarding process, USSIM compares fund expenses where relevant and possible.

Where USSIM does not possess the expertise itself, USSIM will outsource its manager selection exercises. For example, for a new mandate to take advantage of opportunities in China, a specialist consultant was appointed that had strong knowledge and 'on the ground' China expertise to help USSIM select a strong manager that would be suitable for the scheme, given its investment strategy and relevant policies. The specialist consultant carefully considered USSIM's requirements including RI practices before recommending a short list. In these instances, USSIM retains the final selection decision.

External managers are requested to provide USSIM with details of their remuneration arrangements, which allows USSIM, where ascertainable, to assess whether they are aligned with the trustee's policies, values and principles.

For active mandates, USSIM aims to create alignment by agreeing performance fee structures with hurdles. For managers of passive mandates (or where performance fees are not available), USSIM aims to have as low a management fee as possible. In order to ensure that USSIM is obtaining the best value for money with its external manager appointments, USSIM commissioned an independent consultant to carry out a fee benchmarking exercise in 2020 to compare peer fees with similar types of external mandates.

For private market fund investments, due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, the USSIM team will consider how the key individuals involved in the fund's decision-making processes are aligned to fund performance, how performance fees are shared among the team and how the ownership of the fund management firm is shared amongst partners. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of the scheme's capital are well-aligned with the scheme's investment objectives over the long-term.

Manager monitoring

Oversight of the external and internal public market mandates is carried out by USSIM. The method and time horizon for evaluating and remunerating external managers is determined by policies set by USSIM, rather than the trustee. USSIM engages at least quarterly via questionnaires and regular meetings, covering performance, risk and changes to the portfolio and process. The RI team undertake monitoring reviews against the scheme's bespoke ratings framework (see Section 5.2).

USSIM also undertake formal in-depth annual reviews of all external public market managers incorporating detailed assessments of changes in the organisation, team, process, expenses, portfolio turnover, risk, performance, RI developments and Diversity and Inclusion initiatives. It also includes benchmarking of performance, fees, and reviewing governance structures. A lighter touch annual review is carried out for the scheme's legacy AVC manager, Prudential, which is reviewed by the Investment Committee and in line with the trustee's policies.

For private markets fund investments, the trustee's policy is complied with at the time of the investment and oversight is undertaken by USSIM on at least a semi-annual basis. However, there is an immaterial divergence from the policy as these regular reviews do not cover all elements of the policy that cannot be influenced post-investment due to the illiquid nature of the private market fund investment (i.e. governance and fees).

Following a review of the scheme's hedge fund programme, USSIM redeemed several of its investments with external hedge fund managers, reducing the number of managers from 10 to three (a reduction from £1.3bn to £490m over the year). Formal annual reviews for managers with in-progress full redemptions are not carried out, which the trustee considers is an immaterial divergence from the processes as set out in the SIP. Regular quarterly monitoring continues until the redemption is complete.

USSIM has processes in place to assess and monitor how its external managers are addressing financially material considerations in the selection and retention of investee managers and assets, both before they are appointed and on an ongoing basis. This applies to managers of both public market and private markets funds, and managers within the DB and DC Sections.

4.3 Fees and transaction costs

There are different types of investment costs and charges, some of which are explicit (like an Investment Management Charge) and some of which are implicit (for example transaction costs).

In order to provide the trustee with a full view of the costs and charges across the scheme, in 2020 USSIM carried out an exercise to report to the Investment Committee total investment costs incurred over the calendar year 2019 (for both the DB and DC Sections). USSIM appointed an external provider to help with the data collation and benchmarking purposes. Upon conclusion, the trustee was able to include the costs and charges for the DC funds within the Chair's DC Statement and comply with the Cost Transparency Initiative's guidance for both the DB and DC Sections.

The Cost Transparency Initiative is an industry body overseeing the introduction of standardised templates for reporting of costs and charges by suppliers of investment services. The trustee has played a key role in the creation of these templates and adopted them for the purpose of collecting transaction cost information from external managers and within USSIM across both DB and DC Sections. The templates also cover portfolio turnover costs[1] which allows the trustee to monitor target portfolio turnover and/or turnover ranges which it does so on an annual basis.

To date, benchmarking has indicated that costs are in line with peers in the UK and the Netherlands. Fees and expenses are also considered on the appointment of an investment manager and as part of the regular reviews.

4.4 Best execution

Best execution is overseen by an internal USSIM oversight committee. The committee's responsibilities include oversight and challenge of USSIM and the external managers' Cost and Quality of Execution.

On an annual basis, the Committee will oversee USSIM's RTS28 and Cost Transparency reporting arrangements (see uss.co.uk/how-we-invest/our-principles-and-approach) relating to Portfolio Investment Activity and Transaction Costs. Analysis on best execution is included on all private markets fund transactions. The Investment Committee monitors this activity on an ongoing basis.

4.5. Scheme-wide investment exclusions

At the end of 2019, USSIM embarked on a detailed review of a selection of sectors in which the scheme invests, looking for any differences between what industry financial models predict in terms of performance returns, and what it could reasonably expect to happen over the long term horizon of the scheme. USSIM concluded from the process, taking into account the trustee policy on non-financial factors set out in Section 1.6, that in several cases, the outcomes predicted by the market do not appropriately consider the potential impact of certain specific risks, which could impact financially on these sectors.

In May 2020 USSIM announced plans to exclude, and where necessary divest from, companies in those sectors that were deemed to be financially unsuitable over the long term. These were:

- Tobacco manufacturing
- Thermal coal mining (the mining of coal to be burned for electricity generation), specifically where this makes up more than 25% of revenues; and companies that may have ties to the following industries – cluster munitions (a form of explosive), white phosphorus (a chemical which self-ignites on contact with air) and landmines
- Controversial weapons – companies that may have ties to cluster munitions (a form of explosive), white phosphorus-based weapons (a chemical which spontaneously ignites on contact with air) and anti-personnel mines

USSIM has largely divested of these assets a year ahead of the original target date of May 2022. These exclusions will be kept under review and may be changed or added to over time and will be made across the DB and DC Sections. To date, USSIM have divested c.£290m from companies that fall into the sectors USSIM have excluded.

5 Stewardship, engagement and Responsible Investment

The trustee is an active and responsible steward of the assets in which it invests on behalf of scheme members. The trustee expects this approach to both protect and enhance the value of the scheme in the long-term and to create sustainable value for the members and beneficiaries, recognising the interdependence of performance for the members with benefits to the economy and society. The trustee's responsible investment strategy applies to all the assets in which the scheme invests, whether this is via portfolios run by USSIM or external managers. As a result, the scheme has processes in place to assess and monitor how potential or existing managers are addressing responsible investment factors.

The trustee will undertake its decision making in a manner which is consistent with the trustee's investment objectives, its legal duties and other relevant commitments e.g. the UN-backed Principles for Responsible Investment (UNPRI) and the UK Stewardship Code. Specifically, the trustee has instructed USSIM, as its principal investment manager and adviser, and (through USSIM) its external managers, where applicable, to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the scheme's investments are exposed.

Note

1 Turnover has been defined as Sales + Purchases / Average Asset Value. Purchases (sales) are total consideration paid (received) for the purchase(from the sale) of assets during the reporting period. Average Asset Value = average of value of assets at month end during the reporting period.

The scheme's Statement on Responsible Investment at uss.co.uk/how-we-invest/responsible-investment sets out detailed information on how the trustee considers ESG factors where financially material to the scheme and the extent to which it can take non-financial ESG factors into account (see Section 1.6). The Trustee Board agrees the RI strategy, and formally reviews the RI team's activities annually, signing off key focus areas and policies. The Statement on Responsible Investment is reviewed regularly and is currently being updated by the trustee for approval in Summer 2021. The Investment Committee receives reports from USSIM on a semi-annual basis so that it can assure the Trustee Board that the Statement is being effectively implemented.

In the trustee's opinion, the policies in relation to engagement activities have been materially followed during the year.

5.1 Implementation of the scheme's RI strategy

The trustee's approach to carrying out its primary duty in relation to its investment strategy is implemented as more fully described in Section 4 (Financially Material Considerations), in three main ways:

- Integration into investment decision-making processes
- Stewardship, engagement and voting rights
- Market transformation activities

Further information on the scheme's approach and examples of the trustee's activities are reported annually under the UN Principles for Responsible Investment reporting framework at unpri.org/signatories/reporting-and-assessment/public-signatory-reports and USS RI Annual Reports at uss.co.uk/how-we-invest/responsible-investment. The PRI's latest annual assessment of the scheme's practices in responsible investment, published in 2020, is outlined below.

The internal investment managers reflect the Statement on Responsible Investment and their incorporation of ESG factors within their investment desk procedures. Further information on the processes in place for external managers are included in Section 5.2.

Summary Scorecard

AUM	Module Name	Your Score	Your Score / Median Score
	01.Strategy & Governance	A+	A
Indirect - Manager Sel., App. & Mon			
<10%	02. Listed Equity	A+	A
<10%	03. Fixed Income - SSA	A	B
<10%	04. Fixed Income - Corporate Financial	A+	A
<10%	05. Fixed Income - Corporate Non-Financial	A+	A
<10%	06. Fixed Income - Securitised	A+	A
<10%	07. Private Equity	A+	A
<10%	08. Property	A+	A
Direct & Active Ownership Modules			
10-50%	10. Listed Equity - Incorporation	A+	A
10-50%	11. Listed Equity - Active Ownership	A+	B
10-50%	12. Fixed Income - SSA	B	B
<10%	13. Fixed Income - Corporate Financial	Not reported	
<10%	14. Fixed Income - Corporate Non-Financial	Not reported	
<10%	16. Private Equity	Not reported	
<10%	17. Property	Not reported	
<10%	18. Infrastructure	Not reported	

5.1.1 ESG integration

Having an in-house RI team at USSIM permits better coordination of RI activities across the scheme and facilitates the integration of ESG analysis and stewardship activities into USSIM's investment processes and investment advice to the trustee in accordance with the trustee's policy. Details of the trustee's approach to RI integration across the scheme's different asset classes are outlined in the annual PRI reports at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

Integration in public markets

For the scheme's internal public markets holdings, engagement meeting notes and voting letters are shared systematically within USSIM. This provides the internal investment teams with a record of how the scheme voted and USSIM's view of the firm's ESG practices which help to inform their view of a company. RI records voting practice and engagement notes alongside the portfolio manager's investment cases and buy/sell/hold decision notes. Members from the RI team also attend internal active equity team meetings to discuss ESG-related issues resulting from research and company engagements.

Integration in private markets

RI is integrated into the selection and retention of directly held private assets. Although access to ESG ratings information is not typically available, RI due diligence is undertaken for all direct deals and presented to internal USSIM oversight committees. The process seeks to identify any material legal, ethical, governance, reputational, environmental and social risks that could potentially affect the value of the investment and explores whether there are appropriate processes in place to mitigate these factors.

Due diligence is underpinned by site visits by the deal team, commercial, legal and operational due diligence for the assets. If appropriate, USSIM will also appoint specialist external advisers and consultants to assess ESG risks and performance.

Following acquisition, USSIM continues to monitor ESG activities at directly held assets to determine if there are any financial implications. For direct assets, USSIM will typically have board representation and material influence at the company to affect and oversee ESG performance. The RI team will typically work alongside the USS appointed directors who represent the trustee on the investee company's board. These stewardship activities are particularly important as a long-term investor.

5.1.2. Stewardship – engagement

The trustee believes that promoting high standards of ESG, and investing responsibly in quality companies and assets, reduces the risk associated with investing, and improves its ability to meet the pension promises. The concepts of active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to the scheme's Investment Beliefs (at uss.co.uk/how-we-invest/our-principles-and-approach).

The trustee has instructed USSIM to follow good practice and use its influence as a major institutional investor and long-term steward of capital to promote good practice in the investee companies and markets to which the scheme's investments are exposed. Wherever possible – regardless of asset class – ESG practices are integrated into the investment decision-making process and taken account of when they have a financial impact. The trustee believes that there have not been any material divergences from the policies in relation to engagement (as set out in the SIP and Statement on Responsible Investment) during the year.

Case studies on engagements and further details about the collaborative RI initiatives the trustee supports are reported in our PRI Report at unpri.org/signatories/reporting-and-assessment/public-signatory-reports. Further examples of USSIM's engagement can be found in our latest Stewardship Report at uss.co.uk/news-and-views/latest-news/2021/06/06172021_uss-has-released-its-first-stewardship-code.

For our external managers, USSIM views its monitoring programme (see Section 5.2) as engagement with the manager. This involves the RI team reviewing external managers' RI-related policies, processes, resources, reporting and stewardship activities, with managers ranked against in-house assessment frameworks. The frequency and type of monitoring is tailored to the asset class.

Climate change

In recent years, the trustee has been considering the expected outcomes of scheme-wide climate scenario analysis and stress-testing, looking at the impact of climate change based on different temperature scenarios.

Case study – Climate Action 100+ collaborative engagement

The scheme joined more than 550 global investors with over US$54 trillion in assets under management, as participants in the Climate Action (CA) 100+. This five-year project has seen investors engage with the world's largest emitting companies to encourage them to act on climate change. As a result, USSIM will continue to engage with companies in collaboration with other investors (to improve the efficiency of engagement) to ensure that they do more to reduce emissions, strengthen climate-related financial disclosures and improve their governance of climate change issues as they affect their business: the outcome will be stronger corporate alignment with the Paris Agreement and better communication with investors on how companies are managing the transition to a low carbon future.

USSIM is working on embedding climate as a financial factor in the return expectation process for consideration in the scheme's asset allocation.

Details of the scheme's approach to climate change are reported to members and other stakeholders Task Force on Climate-related Financial Disclosures (TCFD) -aligned updates, the latest of which was published within the scheme's RI Annual Report 2020 at uss.co.uk/how-we-invest/responsible-investment. The trustee's approach to reporting and disclosure on climate change was recognised by the PRI in their Global Leaders Group 2020.

Developments in public markets
USSIM engaged in several collaborative initiatives during the year such as the UK companies with the Investor Forum at investorforum.org.uk and globally with the CA100+ on climate risk at climateaction100.org/ (see case study above). Further case studies are reported in the annual PRI Report available through the public reporting portal at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

Over the past year, USSIM has increased its participation in collaborative engagements which cover a broader range of companies and issues than it would have previously. This produces greater engagement because the scheme's capital is being put to work in collaboration with other funds, which is a more efficient use of the scheme's resources.

Developments in private markets
Integration of financially relevant ESG factors and stewardship activities is also undertaken across the scheme's direct and indirect private markets portfolios. Further details, including thematic work on climate change and case studies of our approach to RI in private equity, real estate and infrastructure are reported in our annual PRI reports at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

In 2019, USSIM undertook a thematic project focused on identifying the key risks of climate change across the major sectors and geographies in which it invests, as well as identifying investment opportunities driven by the transition into a net zero-carbon world. Over the past year, the private markets investment team has continued to focus on the following areas – energy efficiency, hydrogen, CCUS and battery storage, in addition to growing the scheme's existing renewables exposure. USSIM is also working closely with portfolio companies, using its governance position to drive change and incorporate the transition to net zero into business planning.

5.1.3 Market transformation
As a large global investor, the trustee believe that it has a role to play in promoting the proper functioning of markets and includes market-level initiatives within the scheme's RI strategy. This includes engagement with policymakers and regulators in markets in which the scheme invests, to articulate the concerns of asset owners and long-term investors.

Examples include responding to the Financial Reporting Council's consultations on the revised UK Stewardship Code; engaging with representatives of the European Commission on the subject of Sustainable Investment and the Green Taxonomy ahead of proposed changes to EU regulation; and meeting with the UK Department for Work and Pensions on their 2020 TCFD reporting consultation. Over the year, USSIM engaged with the Department of Work and Pensions (DWP) and the Department for Business Energy and Industrial Strategy on issues with TCFD reporting.

USSIM seeks to ensure that externalities and market failures, such as pollution, climate change or systemically weak corporate governance standards, do not affect market-wide, long-term economic performance. Thus, USSIM actively supports improvements to corporate governance codes as well as global ESG data-initiatives such as CDP www.cdp.net/en which encourages corporate reporting of carbon emissions and water usage against a standardised framework.

5.2 Responsible Investment, oversight and monitoring
The trustee, via its Investment Committee, expects its investment managers to undertake appropriate monitoring and oversight of current investments. This oversight is to enable the identification of issues and facilitate early engagement with boards and management of investee companies and other stakeholders where necessary. These matters include strategy, capital structure, management of actual or potential conflicts of interest, corporate governance, social and environmental impact. The trustee oversees USSIM's policies and practices on responsible investment, stewardship and ESG integration, including how USSIM, in turn, monitors external managers in this regard.

Under the scheme's SIP, the trustee expects its investment managers, including USSIM, to take the scheme's Statement on Responsible Investment (at uss.co.uk/how-we-invest/responsible-investment) into account in the selection, retention and realisation of the scheme's investments.

For externally managed assets, USSIM ensures the managers are aware that the scheme is a signatory to the UNPRI and supporter of TCFD. The external managers also confirm that they will consider ESG in portfolio management to the extent it accords with the trustee policy (see Section 1.6).

USSIM has processes in place to assess and monitor how its external managers are addressing RI considerations in the selection and retention of investee managers and assets, both before they are appointed and on an ongoing basis. This applies to managers of both public market and private markets funds, and managers within the DB and DC Sections.

RI reviews are based on information provided by the investment managers and face-to-face meetings. Standard template questionnaires are in place for due diligence and monitoring for public and private markets but are adapted to suit the asset class and investment strategy for each fund under review. The due diligence establishes a baseline view and rating which then forms USSIM's ongoing monitoring programme. Considerable emphasis is placed on mandate/fund-level responses to ensure the case studies, policies and processes under review are applicable to the USS mandate.

The reviews rate the funds across the following key areas: RI policies and processes, ESG integration, stewardship (or asset management practices for private markets), collaboration/ public policy and reporting. The reviews also consider voting practices (see Section 6.3).

Where necessary, USSIM uses feedback and engagement with its managers to improve RI practices and increase alignment to the scheme's Statement of Responsible Investment and the SIP. For example, the RI team met with several managers to discuss improvements to fund-level reporting on RI activities in 2020. USSIM have also been engaging with one of the scheme's external equity managers, who had a low initial RI rating under the RI scoring framework. USSIM discussed the challenges and set milestones that the manager needed to achieve in order to have an acceptable score. USSIM continues to engage with the manager to improve their RI practices.

RI oversight of external managers in relation to their compliance with the scheme's Statement on Responsible Investment and SIP is reported to internal USSIM oversight committees, the Investment Committee semi-annually and provided in an annual update for the Trustee Board.

The USSIM RI team report semi-annually to the Investment Committee in relation to how USSIM has implemented the scheme's Statement on Responsible Investment. This process allows the trustee to monitor the implementation of the scheme's Statement on Responsible Investment and engage with the relevant persons about its implementation.

6. Voting behaviour and vote disclosure

This section includes further information on the trustee's policies and the voting behaviour during the year The trustee believes that there have not been any material divergences from the policies in relation to the exercising of voting rights on behalf of the trustee during the scheme year.

As active, long-term owners of the companies in which the scheme invests, exercising the trustee's voting rights is one of the cornerstones of USSIM's stewardship activities. Voting at the general meetings of these companies is one of the most effective tools USSIM has for holding the companies to account and encouraging good governance[1].

6.1 USS voting policy

The trustee has its own USS Voting Policy at uss.co.uk/how-we-invest/responsible-investment/how-we-vote outlining the scheme's expectations for investee companies and reflecting international best practice – including the UK Corporate Governance Code at frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

The trustee also expects USSIM and its external managers, where appropriate, to use their voting rights as part of their engagement work, in a prioritised, value-adding and informed manner.

Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the trustee expects its investment manager to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Investment Committee monitors this engagement on an ongoing basis with the aim of maximising its effectiveness. The trustee's ESG related policies are also reviewed regularly by the trustee Board and updated as required to ensure that they are in line with good practice.

The trustee reviews the USS Voting Policy each year to align to the trustee's beliefs about good practice in line with the trustee's fiduciary duties. The policy was updated in 2019 and in 2020 to integrate data from the Transition Pathway Initiative (TPI), at transitionpathwayinitiative.org, and the readiness for a transition to a low carbon economy, into voting decisions. For the 2021 AGM season, USS may vote against or abstain on the resolution to receive the report and accounts where it has concerns about a company's management quality score, as assessed by the TPI.

Note

1 While USSIM intends to vote globally on all the scheme's listed investments, the requirement of Qatar's commercial code that voting must be done in person has limited the ability of USS to vote by proxy in this region. This affects less than 1% of the scheme's holdings.

USSIM forms an independent decision on voting on a case by case basis, considering international local market standards and best practice, proxy research, outcomes from engagement meetings, discussions with peers, and the scheme's investment managers' perspectives. In the trustee's opinion, the USS Voting policy is not applied rigidly, and discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, i.e. the overall improvement of the company's corporate governance.

USSIM integrates ESG factors into its voting decisions for the portfolios where such factors are financially relevant. The trustee promotes high quality disclosure and performance management of ESG issues through engagement with companies and the scheme's voting activities. Shareholder proposals, including those which relate to ESG issues such as climate change, human rights, labour relations and other ethical matters, are considered on their individual merits. It is USSIM's intention to support those resolutions that it considers to be in the long-term interests of shareholders. However, if USSIM consider the resolution as overly burdensome or better addressed through another route, it will not be supported.

Typically, USSIM has voted against company management on issues such as excessive executive remuneration or lack of board member independence. Whenever USSIM votes against management, USSIM usually writes to the company to explain its concerns. USSIM sees this as an important way of providing feedback and encouraging change.

The scheme has an active securities lending programme. To ensure that the scheme is able to vote all its shares at important meetings or where the scheme is a significant shareholder, USSIM has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes.

USSIM monitors the meetings and can restrict stock lending on a case by case basis, for example in the event of a contentious vote or in relation to engagement activities, further to discussion with the portfolio manager. Further details can be found on the USS website at uss.co.uk/news-and-views/latest-news/2020/03/032014_uss-statement-on-the-uk-stewardship-code-sept13.

6.2 Voting and the scheme equity holdings

For the DB Section, the scheme's internally managed equities (circa £8bn) and main externally managed mandate (circa £12bn) are both subject to the USS Voting Policy. The scheme also has £1.9bn of equities which are externally managed in a pooled account. USSIM has agreed a 'vote override' with the manager of the pooled account which means that USSIM can direct the vote to ensure USSIM align the voting decisions. Due to the number of holdings the scheme owns, USSIM are unable to attend every company shareholder meeting to cast their votes, USSIM therefore vote by proxy through the Minerva voting platform for the assets subject to the USS Voting Policy.

The remaining equity holdings for the DB and DC Section are externally managed in pooled funds and votes are cast in accordance with the external manager's policy (circa £2bn). While the trustee is not in a position to exercise voting rights directly this does not mean that the way these voting rights are used is not important. USSIM regularly monitors the voting and stewardship practices of the external equity managers, reviewing updates to voting policies, sampling the managers' vote records and commentaries, and scrutinizing their more fulsome disclosures on 'significant votes'. As part of USSIM's monitoring and engagement programme with external managers, USSIM engages to encourage greater alignment with international best practice and/or our Voting Policy where appropriate (see Section 5.2).

For the DC element, USSIM have focused efforts on the voting and stewardship practices of the primary external equity manager to confirm that the manager is broadly aligned with the trustee's beliefs and policies.

6.3. Disclosure and oversight

USSIM records, and publicly discloses, on behalf of the trustee voting actions on the USS website at uss.co.uk/how-we-invest/responsible-investment/how-we-vote (disclosing the scheme's voting history dating back to 2010).

The trustee monitors and reviews USSIM's voting decisions twice a year through the Investment Committee and once a year through the Trustee Board. The external equity managers' voting records are reviewed by USSIM as part of the RI manager oversight and monitoring processes. Voting policies and practices are also reviewed alongside voting case studies, vote activity reporting and analysis applicable to the USS mandate. Regular proxy voting activity reports are also included in the standard quarterly reporting suite requested from our external equity managers and typically covered in the manager's annual RI/stewardship publications.

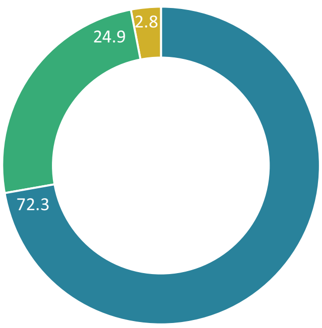
To date, USSIM has not had, nor expects to have, any difficulty obtaining voting data from the scheme's external managers. However, USSIM has engaged with the scheme's managers to improve their reporting at fund level, rather than market or regional level.

6.4. Scheme voting statistics

The statistics below are in respect of the scheme's internal equity assets and the large externally managed mandate (representing c.85% of the scheme's equity holdings):

Voting Statistics April 2020 – March 2021	Response
How many meetings was USSIM eligible to vote at?	1,076
How many resolutions were USSIM eligible to vote on?	13,615
What percentage of resolutions did USSIM vote on for which USSIM were eligible?	99.5%
Of the resolutions on which USSIM voted, what percentage did USSIM vote with management?	72.3%
Of the resolutions on which USSIM voted, what percentage did USSIM vote against management?	24.9%
What percentage of resolutions, for which USSIM were eligible to vote, did USSIM abstain from?	2.8%
In what percentage of meetings, for which USSIM were eligible to attend, did USSIM vote at least once against management?	73.8%
What percentage of resolutions, on which USSIM did vote, did USSIM vote contrary to the recommendation of your proxy adviser?	N/A

USS global votes April 2020 – March 2021



6.5 Most Significant votes – examples for period from 1 April 2020 – 31 March 2021

Below are details of the most significant votes on behalf of the trustee.

6.5.1. Royal Dutch Shell plc – 19/05/2020

Summary of resolution:
AGM resolution 21 – Request the Company to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels.

Vote: Against

Rationale for the voting decision:
USSIM voted against this shareholder resolution in light of the additional commitments Shell had been making to address climate change and Shell's delivery on several commitments made between Shell and the Climate Action 100+ investors. In 2018 Shell committed to reducing its carbon emissions by 50% by 2050[1]. The critical point was this also covered the Shell's so-called Scope 3 emissions, i.e. those associated with the end use of its products (oil and gas) rather than the more traditional Scope 1 and 2 emissions which focus on the company's own generation of emissions. The CA100+ engagement continued and in April 2020, Shell committed to taking significant additional action on climate change including a commitment to achieving net zero emissions by 2050 or sooner (covering scope one, two and three emissions). This helps align Shell with the Paris Climate Agreement and provides some confidence in the long-term sustainability of the business.

Outcome of the vote: For 14%, Abstain 4%, Against 82%

Implications of the outcome?
USSIM continues to engage with Shell and monitor progress. The ambitions set in April 2020 have been accelerated by new goals announced in February 2021 committing Shell to reducing its net carbon Intensity (using its Net Carbon Footprint metric) by 100% by 2050 (increased from around 65% as stated in 2020), and by around 45% by 2035 (increased from around 30%).

On which criteria have you selected this vote to be significant?
This is a significant vote for the trustee as the company is a relatively large holding for the scheme, and there was considerable member interest in how the trustee voted the shareholder resolution.

6.5.2. Mizuho Financial Group Inc ("Mizuho") – 25/06/2020

Summary of the resolution:
AGM resolution 5 – Amend Articles to disclose plan outlining Mizuho's business strategy to align investments with goals of Paris Climate Agreement.

Vote: For

Note
1 https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html.

Rationale for the voting decision:
USSIM participated in a collaborative engagement facilitated by Asia Research and Engagement which targeted Japanese Banks and their role in financing climate change and in particular coal extraction. The group sought to improve integration of climate change risks and opportunities into strategy for banks across the region. As part of the collaborative engagement, USSIM voted in favour of this shareholder resolution at the AGM of Mizuho requesting Mizuho to disclose climate risks and publish a plan to ensure its investments are aligned with the Paris Climate Agreement. As part of our regular AGM engagement programme, USSIM wrote to Mizuho explaining that it supported the resolution as it would welcome enhanced transparency and disclosure on the specific processes and strategies, including targets and metrics, employed by the bank to align the business and investments with the goals of the Paris Climate Agreement. USSIM believes greater disclosure would help investors understand the risks arising out of this issue.

Outcome of the vote: For 35%
Against 65%

Implications of the outcome?
The resolution gained support from 35% of investors who voted and was the first resolution of this type in Japan. USSIM continues to engage with Mizuho on its energy transition plans and how climate scenario analysis is integrated into its business strategy.

On which criteria have you selected this vote to be significant?
This resolution represented the first climate change related resolution at a Japanese company, and the scheme's vote formed part of an ongoing engagement with Mizuho.

6.5.3. Bayer AG ("Bayer") – 28/04/2020
Summary of resolution:
AGM resolution 2 – To approve the actions of the members of Bayer's management board

AGM resolution 3 – To approve the actions of the members of Bayer's supervisory board

Vote: Against

Rationale for the voting decision:
Following its acquisition of agribusiness Monsanto, the use of glyphosate in Bayer's Roundup weed killer product led to ongoing litigation as well as personal health and environmental impact issues. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. In 2020, Bayer set aside billions of Euros to settle the numerous lawsuits it faces by. USSIM continues to question Bayer's judgement in respect of the legal and reputational risks associated with the Monsanto acquisition and engaged to gain a better understanding of Bayer's decision-making process and express continued disappointment with Bayer's handling of the situation. As a result of USSIM's analysis, USSIM made the decision to continue to vote against the resolutions asking shareholders to approve the formal discharge of responsibility of the management board (resolution 2) and the supervisory board (resolution 3) for fiscal year 2019.

Outcome of the vote: resolution 2 –
For 85%
Abstain 8%
Against 7%

resolution 3 –
For 89%
Abstain 5%
Against 6%

Implications of the outcome?
USSIM continues to engage with the company and monitor progress. While it appreciates that this is only a minor positive step, USSIM welcomed Bayer's commitment to disclose the number of abstentions received, for which there is currently no legal obligation in Germany. USSIM will review the position again in 2021, ahead of Bayer's next annual meeting of shareholders.

On which criteria have you selected this vote to be significant?
Bayer faces ongoing litigation resulting from its purchase of Monsanto and when combined with market perception that there has been poor decision making by Bayer's board and management team, made this a high profile vote.

Glossary

Actuarial valuation	appraisal of the defined benefit element of the scheme's assets and liabilities, using investment, economic, and demographic assumptions for the model to determine whether, at a certain date, we believe the scheme will have enough money for us to be able to pay the pensions promised to our members on a timely basis
CEM Benchmarking	external benchmarking service for pension providers to compare value for money across industry peers
CPI	Consumer Price Index
CPIH	Consumer Price Index including owner occupiers' housing costs
defined benefit	an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history
defined contribution	a plan in which members and employers contribute a fixed amount or a percentage of pay which is invested and the proceeds used to buy a pension and/or other benefits at retirement
employees	employees of Universities Superannuation Scheme Limited or USSIM
employers	Higher Education institutions who pay contributions to their employees pensions
ESG	environmental, social and corporate governance
FCA Senior Manager and Certification Regime	relates to regulation, implemented by the Financial Conduct Authority (FCA), to extend regulatory accountability to the senior managers within financial institutions in an effort to curb corruption and enforce an increased culture of compliance in the UK's financial services market
fixed income	means an investment approach focused on preservation of capital and income. It typically includes investments like government and corporate bonds and can offer a lower risk steady stream of income
funding ratio	ratio of a pension or annuity's assets to its liabilities
IAP	Institutions Advisory Panel; employer advisory group to USS
Implemented Portfolio	the actual distribution of the scheme's assets, across a more diversified asset mix, as determined by the investment programme
Investment Builder	the defined contribution element of the scheme. Members have funds in the USS Investment Builder if they have earnings above the salary threshold (£59,585.72 for the 2020/21 financial year), made additional contributions, or recently transferred funds into the scheme
investment management cost	a measure used by USS to assess most of the investments managed on USS members behalf to analyse value for money
members	employees of Higher Education institutions who may be active (make contributions into future pensions), deferred (previously active who have deferred their pension until retirement age), or pensioner members (in receipt of pension benefits)
My USS	the online service for managing USS savings and benefits
pension administration cost	a measure used by USS to assess the cost of administrating USS pensions to analyse value for money for members
private markets	financial companies involved in private rather than public markets are part of the capital market. They include investment banks, private equity, and venture capital firms in contrast to broker-dealers and public exchanges
public markets	refers to securities available on an exchange or an over-the-counter market
Reference Portfolio	the Reference Portfolio is set by the board, and is an allocation of investments across mainstream asset classes (global equities, UK property, government, corporate and emerging market bonds). It is used as a benchmark for performance and asset-liability risk
Retirement Income Builder	the defined benefit element of the scheme. Members automatically join the Retirement Income Builder
RPI	Retail Price Index
the scheme	the scheme means Universities Superannuation Scheme
the trustee	the trustee or trustee company means Universities Superannuation Scheme Limited. It is a corporate trustee which has overall responsibility for scheme management
Trustee Board	representatives of the trustee who provide overall leadership, strategy and oversight of USS, the scheme, the trustee company and USSIM, in co-operation with its board of directors
USS	USS primarily means the scheme but, where the context admits, may mean the trustee and/or USSIM; Universities Superannuation Scheme (USS)
USSIM	USSIM means USS Investment Management Limited. The trustee delegates implementation of investment strategy to a wholly-owned subsidiary – USSIM
we, us or our	we, us or our means the trustee but, where the context admits, may mean USSIM

Pensions increases

USS pensions are generally increased in line with increases in official pensions as defined in the Pensions (Increase) Act 1971, although from 1 October 2011, changes to the Scheme Rules introduced limits on such increases in respect of rights that accrue after that date. Increases to official pensions are based on the rate of inflation for the 12 months to September, measured using the Consumer Prices Index (CPI). For the year to September 2020, the CPI rate was 0.5% and therefore the increase applied to USS pensions in payment and deferment was 0.5% effective from April 2021.

Enquiries about the scheme

Enquiries should be addressed to the Company Secretary, Ms Nicola Mayo, Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY.

Following a competitive tender process, a new Scheme Actuary has been appointed. Ali Tayyebi of Mercer ceased to be Scheme Actuary on 3 April 2020 and confirmed in writing to USS on 3 April 2020, that he knew of no circumstances connected with his removal from the appointment, which will significantly affect the interests of the current or prospective members and beneficiaries under the Universities Superannuation Scheme. The new Scheme Actuary (noted below) was appointed on 6 April 2020.

Principal officers and advisers

A range of external advisers were engaged in the UK and overseas to support the operation of the scheme during the year. The principal external advisers of the scheme and for the trustee company are:

Scheme Actuary
Aaron Punwani of Lane Clark & Peacock LLP, 95 Wigmore Street, London, W1U 1DQ

Independent Auditor
Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London, E14 5EY

Bankers
Barclays Bank PLC, 48B & 50 Lord Street, Liverpool, L2 1TD

National Westminster Bank Plc, 22 Castle Street, Liverpool, L2 0UP

Custodians
JP Morgan, 25 Bank St, Canary Wharf, London, E14 5JP

Northern Trust 50 Bank Street, Desk 7-18-F, London, E14 5NT

Legal advisers
(Actuarial Valuation) CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF

Covenant advisers
PriceWaterhouse Coopers LLP, 1 Embankment Place, London, WC2N 6RH

The financial statements included within the Annual Report and Accounts have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

The registered number of the trustee company (Universities Superannuation Scheme Ltd) at Companies House is 01167127.

The reference number of the scheme (Universities Superannuation Scheme) at The Pensions Regulator is 10020100, Royal Liver Building, Liverpool, L3 1PY.