Composition of the Valuation Investment Strategy (VIS)

1. Introduction

The Valuation Investment Strategy (VIS) is the investment strategy for the Defined Benefit (DB) Section of the Scheme that was developed for the most recent actuarial valuation. It is adjusted from time to time to retain consistency with the Integrated Risk Management Framework (IRMF) and the Trustee's risk appetite.

For a description of the VIS, please refer to our Valuation Investment Strategy (VIS) for the DB Section report.

2. What is the composition of the VIS?

The composition of the VIS is shown in Tables 1 and 2. Table 1 shows the allocation to the high-level investment components or building-blocks. Table 2 shows a more detailed breakdown by asset class of the Growth and Credit components.

Table 1. The composition of the VIS in terms of high-level components.

Components		Allocation
Growth[1]		**60%**
Credit[1]		**25%**
LDI (liability hedges)		**52%**
Funded LDI	*25%*	
Levered LDI	*27%*	
Leverage		**–37%**
		100%

[1] *See Table 2 for a breakdown*

Table 2. The breakdown of the Growth and Credit components of the VIS.

Components	Asset class	Sub-asset class breakdown
Growth	90% Equity	20% UK Equity 65% Developed Market ex UK 15% Emerging Market
	10% Property	100% Property
Credit	100% Other Fixed Income	15% Emerging Market Debt 40% UK Credit 20% Global Credit 10% Global High Yield 15% US TIPS

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3. Permitted allocation ranges around the VIS

USSIM has considerable discretion to add-value in the investment process by deviating from the VIS. However, USSIM is set risk and return objectives by the Trustee in respect of the Implemented Portfolio which pay regard to the level of risk and expected return associated with the VIS.

In practise this means that there are direct and indirect constraints on the Implemented Portfolio. The main ones are shown in Tables 3 and 4.

The Implemented Portfolio is also constrained in other ways, for example, by virtue of constraints on (i) the level of asset-liability risk (similar to the volatility of the deficit) and (ii) the (very low) probability of running out of collateral and/or cash.

Table 3. Direct constraints on the Implemented Portfolio associated with the VIS

Component	VIS (31 March 2020)	Implemented Portfolio Range for 'green' status	
		Minimum	Maximum
Growth assets	60%	52%	72%
Other fixed income	25%	None	None
Hedge ratios	40%[1]	35%	None[2]

[1] Note that these hedge ratios correspond to physical hedging assets in the VIS of 52% as at 31 March 2020 (giving leverage in the VIS of 37%). The level of physical hedging assets will vary over time with market conditions and the funding level to maintain the same hedge ratios.

[2] While there is no direct constraint on the maximum hedge ratio, there is in fact an indirect constraint on the maximum hedge ratio as indicated in Table 4.

Table 4. Indirect (portfolio-driven) constraints on the Implemented Portfolio associated with the VIS

Component	Indirect constraint
Growth assets	Constrained by the expected return on the Implemented Portfolio not being less than the expected return on the VIS
Leverage	Constrained by collateral headroom, which depends inversely on the allocation to growth assets
Maximum hedge ratios	Constrained indirectly by leverage