



# Financial statements

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# 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<sup>1</sup>

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

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

## Return on investments

|  | Note | 2021<br>£m    | 2020<br>£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)          |
| <b>Net return on investments</b>                           |      | <b>13,918</b> | <b>(1,385)</b> |
| <b>Net increase/(decrease) in the fund during the year</b> |      | <b>14,565</b> | <b>(772)</b>   |
| <b>Net assets of the scheme at the start of the year</b>   |      | <b>67,684</b> | <b>68,456</b>  |
| <b>Net assets of the scheme at the end of the year</b>     |      | <b>82,249</b> | <b>67,684</b>  |

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

|   | Note      | 2021<br>£m     | 2020<br>£m     |
|---|-----------|----------------|----------------|
| <b>Investment assets</b>                          |           |                |                |
| 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          |
|   |           | <b>86,948</b>  | <b>73,302</b>  |
| <b>Investment liabilities</b>                     |           |                |                |
| Derivatives                                       | 11        | (743)          | (1,427)        |
| Other investment balances                         | 12        | (4,037)        | (4,299)        |
|   |           | <b>(4,780)</b> | <b>(5,726)</b> |
| <b>Total net investments</b>                      |           | <b>82,168</b>  | <b>67,576</b>  |
| <b>Current assets</b>                             | 17        | <b>267</b>     | <b>305</b>     |
| <b>Current liabilities</b>                        | 18        | <b>(186)</b>   | <b>(197)</b>   |
| <b>Net assets of the scheme at 31 March</b>       |           | <b>82,249</b>  | <b>67,684</b>  |

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

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

## 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<br>£m | Defined contribution<br>£m | 2021<br>£m   | Defined benefit<br>£m | Defined contribution<br>£m | 2020<br>£m   |
|---|-----------------------|----------------------------|--------------|-----------------------|----------------------------|--------------|
| <b>Employer contributions</b>           |                       |                            |              |                       |                            |              |
| 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            |
|   | <b>2,444</b>          | <b>150</b>                 | <b>2,594</b> | <b>2,302</b>          | <b>152</b>                 | <b>2,454</b> |
| <b>Employee contributions</b>           |                       |                            |              |                       |                            |              |
| 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           |
|   | <b>130</b>            | <b>118</b>                 | <b>248</b>   | <b>138</b>            | <b>117</b>                 | <b>255</b>   |
|   | <b>2,574</b>          | <b>268</b>                 | <b>2,842</b> | <b>2,440</b>          | <b>269</b>                 | <b>2,709</b> |

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<br>£m | Defined contribution<br>£m | 2021<br>£m   | Defined benefit<br>£m | Defined contribution<br>£m | 2020<br>£m   |
|---|-----------------------|----------------------------|--------------|-----------------------|----------------------------|--------------|
| <b>Main section</b>                                   |                       |                            |              |                       |                            |              |
| 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            |
|   | <b>2,004</b>          | <b>51</b>                  | <b>2,055</b> | <b>1,901</b>          | <b>45</b>                  | <b>1,946</b> |
| <b>Supplementary section</b>                          |                       |                            |              |                       |                            |              |
| Pensions  | 16                    | –                          | 16           | 16                    | –                          | 16           |
| Lump sums on death in service                         | 2                     | –                          | 2            | 2                     | –                          | 2            |
|   | <b>18</b>             | <b>–</b>                   | <b>18</b>    | <b>18</b>             | <b>–</b>                   | <b>18</b>    |
| <b>Money purchase AVCs</b>                            |                       |                            |              |                       |                            |              |
| Lump sums on death in service                         | –                     | –                          | –            | –                     | 1                          | 1            |
|   | <b>–</b>              | <b>–</b>                   | <b>–</b>     | <b>–</b>              | <b>1</b>                   | <b>1</b>     |
|   | <b>2,022</b>          | <b>51</b>                  | <b>2,073</b> | <b>1,919</b>          | <b>46</b>                  | <b>1,965</b> |

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.

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

## 6 Payments to and on account of leavers

|   | Defined benefit<br>£m | Defined contribution<br>£m | 2021<br>£m | Defined benefit<br>£m | Defined contribution<br>£m | 2020<br>£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          |
|   | <b>78</b>             | <b>7</b>                   | <b>85</b>  | <b>101</b>            | <b>10</b>                  | <b>111</b> |

## 7 Administrative and investment management expenses

|  | 2021                          |                                      |             | 2020                          |                                      |             |
|--|-------------------------------|--------------------------------------|-------------|-------------------------------|--------------------------------------|-------------|
|  | Administrative expenses<br>£m | Investment management expenses<br>£m | Total<br>£m | Administrative expenses<br>£m | Investment management expenses<br>£m | Total<br>£m |
| <b>Personnel costs</b>   |                               |                                      |             |                               |                                      |             |
| 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           |
| <b>Total personnel costs</b>   | <b>21</b>                     | <b>52</b>                            | <b>73</b>   | <b>14</b>                     | <b>66</b>                            | <b>80</b>   |
| <b>Other costs incurred in managing and administering the scheme</b> |                               |                                      |             |                               |                                      |             |
| 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           |
| <b>Total other costs</b>   | <b>25</b>                     | <b>49</b>                            | <b>74</b>   | <b>22</b>                     | <b>58</b>                            | <b>80</b>   |
| <b>Total scheme overheads</b>  | <b>46</b>                     | <b>101</b>                           | <b>147</b>  | <b>36</b>                     | <b>124</b>                           | <b>160</b>  |

Administrative expenses<sup>1</sup> 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<sup>1</sup> 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

<sup>1</sup> 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<br>£m   | 2020<br>£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)         |
|  | <b>1,342</b> | <b>1,663</b> |

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<br>2020<br>£m | Purchases at<br>cost and<br>derivative<br>payments<br>£m | Proceeds of<br>sales and<br>derivative<br>receipts<br>£m | Changes in<br>market<br>value during<br>the year<br>£m | Market<br>value<br>2021<br>£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                         |
|   |        | <b>65,069</b>              | <b>41,013</b>  | <b>(37,221)</b>  | <b>12,661</b>  | <b>81,522</b>                 |
| Cash and cash equivalents                         | 13     | 5,395                      |  |  | 40   | 3,068                         |
| Other investment balances (net)                   | 12, 13 | (2,888)                    |  |  | 12   | (2,422)                       |
|   |        | <b>67,576</b>              |  |  | <b>12,713</b>  | <b>82,168</b>                 |



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

## 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<br>£m | Commission<br>£m | 2021<br>£m | Fees and taxes<br>£m | Commission<br>£m | 2020<br>£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          |
|  | <b>25</b>            | <b>4</b>         | <b>29</b>  | <b>12</b>            | <b>7</b>         | <b>19</b>  |

## 10 Pooled investment vehicles

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

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

## 11 Derivatives

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

|                                    | Note  | 2021<br>£m   | 2020<br>£m     |
|------------------------------------|-------|--------------|----------------|
| <b>Assets</b>                      |       |              |                |
| 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) | –            | –              |
|                                    |       | <b>1,380</b> | <b>1,301</b>   |
| <b>Liabilities</b>                 |       |              |                |
| 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)          | –              |
|                                    |       | <b>(743)</b> | <b>(1,427)</b> |
| <b>Net asset/(liability)</b>       | 9, 13 | <b>637</b>   | <b>(126)</b>   |

### 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.

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

## 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

| Type of option | Expires within | Notional principal<br>£m | Asset<br>£m | Liability<br>£m |
|----------------|----------------|--------------------------|-------------|-----------------|
| Currency       | 1 year         | 65                       | 15          | (8)             |
| Index          | 1 year         | 157                      | 73          | (80)            |
|                |                | <b>222</b>               | <b>88</b>   | <b>(88)</b>     |

#### b) Futures contracts (exchange traded)

| Type of future | Expires within | Notional principal<br>£m | Asset<br>£m | Liability<br>£m |
|----------------|----------------|--------------------------|-------------|-----------------|
| 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)            |
|                |                | <b>17,356</b>            | <b>336</b>  | <b>(78)</b>     |

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<br>£m | Asset<br>£m | Liability<br>£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           | –               |
|                  |                |                   | <b>8,537</b>             | <b>166</b>  | <b>(310)</b>    |

## d) Forward foreign exchange contracts (OTC)

| Currency bought | Currency sold | Notional principal<br>£m | Asset<br>£m | Liability<br>£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           | –               |
|                 |               | <b>42,178</b>            | <b>790</b>  | <b>(265)</b>    |

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<br>£m | Asset<br>£m | Liability<br>£m |
|-----------------------|----------------|--------------------------|-------------|-----------------|
| Forward Purchase Bond | 1 year         | <b>29</b>                | –           | <b>(2)</b>      |

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

## 12 Other investment balances

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

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).

|   | Note  | 2021 category |               |               | Total<br>£m   |
|---|-------|---------------|---------------|---------------|---------------|
|   |       | 1<br>£m       | 2<br>£m       | 3<br>£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)       |
|   |       | <b>20,567</b> | <b>36,933</b> | <b>24,668</b> | <b>82,168</b> |

|   | 2020 category |               |               |               | Total<br>£m   |
|---|---------------|---------------|---------------|---------------|---------------|
|   | Note          | 1<br>£m       | 2<br>£m       | 3<br>£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             | <b>18,008</b> | <b>28,817</b> | <b>20,751</b> | <b>67,576</b> |

#### 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.

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

## 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<br>£m       | 2020<br>£m    | 2021<br>£m           | 2020<br>£m   | 2021<br>£m    | 2020<br>£m    | 2021<br>£m    | 2020<br>£m    |
| <b>Direct non-collateralised</b>                    |                  |               |                      |              |               |               |               |               |
| 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            |
| <b>Sub-total</b>                                    | <b>19,946</b>    | <b>22,756</b> | <b>2,707</b>         | <b>1,458</b> | <b>25,079</b> | <b>17,870</b> | <b>47,732</b> | <b>42,084</b> |
| <b>Direct collateralised</b>                        |                  |               |                      |              |               |               |               |               |
| 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           |
| <b>Sub-total</b>                                    | <b>12,893</b>    | <b>9,639</b>  | <b>–</b>             | <b>–</b>     | <b>–</b>      | <b>–</b>      | <b>12,893</b> | <b>9,639</b>  |
|   | <b>32,839</b>    | <b>32,395</b> | <b>2,707</b>         | <b>1,458</b> | <b>25,079</b> | <b>17,870</b> | <b>60,625</b> | <b>51,723</b> |

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<br>£m | Defined contribution<br>£m | 2021<br>£m    | Defined benefit<br>£m | Defined contribution<br>£m | 2020<br>£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                                | <b>16,484</b>         | <b>1,422</b>               | <b>17,906</b> | <b>12,634</b>         | <b>1,133</b>               | <b>13,767</b> |

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.



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

## 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<br>£m    | 2020<br>£m    |
|--------------------------------|---------------|---------------|
| <b>Direct</b>                  |               |               |
| 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         |
|                                | <b>40,610</b> | <b>31,812</b> |
| Less: Foreign currency hedging | (12,321)      | (10,608)      |
|                                | <b>28,289</b> | <b>21,204</b> |

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<br>£m    | 2020<br>£m    |
|---------------|---------------|---------------|
| <b>Direct</b> |               |               |
| Bonds         | 37,230        | 30,607        |
| Equities      | 2,927         | 2,747         |
| Derivatives   | 462           | (399)         |
|               | <b>40,619</b> | <b>32,955</b> |

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          | 2020          |
|---|---------------|---------------|
|   | £m            | £m            |
| <b>Direct</b>                                     |               |               |
| 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           |
|   | <b>43,226</b> | <b>34,524</b> |

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          | 2020          |
|----------------------------|---------------|---------------|
|                            | £m            | £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             |
|                            | <b>13,533</b> | <b>11,331</b> |

### 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.

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

## 17 Current assets

|   | 2021<br>£m | 2020<br>£m |
|---|------------|------------|
| <b>Contributions receivable:</b>              |            |            |
| – 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         |
|   | <b>267</b> | <b>305</b> |

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<br>£m   | 2020<br>£m   |
|---------------------------|--------------|--------------|
| Rents received in advance | –            | (22)         |
| Benefits payable          | (109)        | (96)         |
| Taxation creditor         | (2)          | (3)          |
| Due to trustee company    | (74)         | (75)         |
| Other creditors           | (1)          | (1)          |
|                           | <b>(186)</b> | <b>(197)</b> |

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<br>£m   | 2020<br>£m   |
|---|--------------|--------------|
| <b>Value of stock on loan at 31 March</b> |              |              |
| Equities                                  | 1,359        | 1,096        |
| Bonds                                     | 7,279        | 4,138        |
|   | <b>8,638</b> | <b>5,234</b> |
| <b>Collateral held</b>                    | <b>9,262</b> | <b>5,695</b> |

## 20 Financial commitments

|  | 2021<br>£m   | 2020<br>£m   |
|--|--------------|--------------|
| Outstanding commitments to private equity partnerships | <b>5,158</b> | <b>5,038</b> |

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.