

Other regulatory statements

Contents

- 84 **Chair's defined contribution statement**
- 98 **USS Default Lifestyle Option Statement of Investment Principles**
- 101 **Implementation statement**





Strategic report

Governance

Financial statements

Other regulatory statements

Chair's defined contribution statement

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

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

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

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

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

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

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

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

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

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

1 Investment design

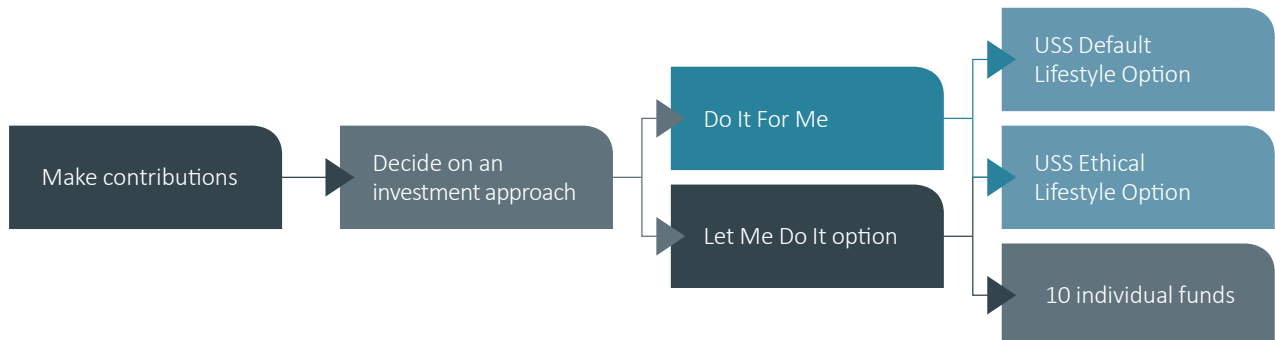
The Investment Builder provides members with a choice of whether to use the default investment approach designed by the trustee, or to actively manage their investments themselves through a choice of self select funds or an alternative ethical lifestyle option. Members have funds in the Investment Builder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

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

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

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

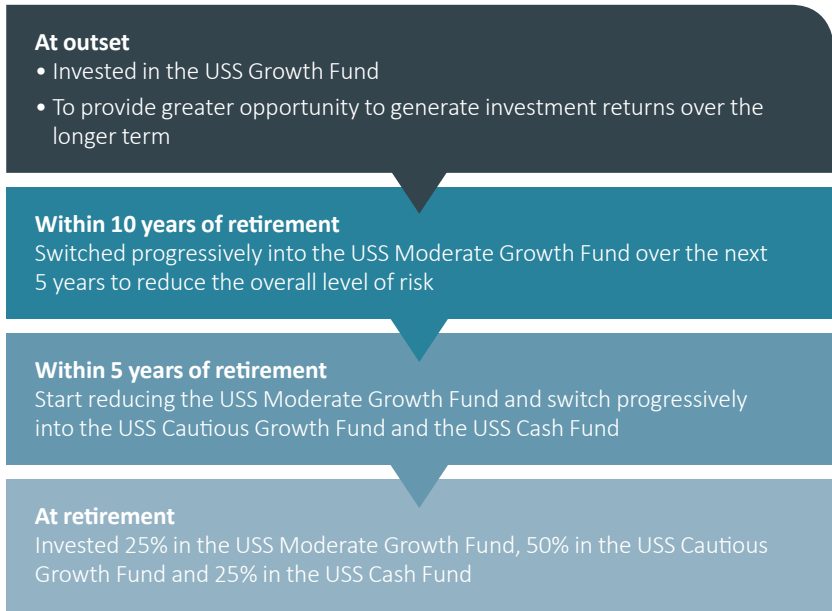
Key investment decisions available are:



Note

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

Default investment approach: USS Default Lifestyle Option



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

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

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

My USS portal

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

Default investment approach: USS Default Lifestyle Option

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

Design of the USS Default Lifestyle Option

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

- A large scale survey with members to understand their risk appetite and investment beliefs
- Projections of member benefits and the relative role of Defined Benefit (DB) and DC benefits at retirement

- Focus groups with members to understand their views on DC benefits and their plans for how they might use their funds at retirement
- Extensive investment strategy modelling to consider different risk and return profiles and asset allocation strategies

The conclusions from this research and a corresponding set of 'Policy Beliefs' that have been updated since launch and guide the development of Investment Builder funds are published at [uss.co.uk/-/media/Project/USSMainSite/Files/How we invest/Investment Builder Policy beliefs.pdf](https://uss.co.uk/-/media/Project/USSMainSite/Files/How%20we%20invest/Investment%20Builder%20Policy%20beliefs.pdf)

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

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

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

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

Prudential money purchase AVCs

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

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

2 Fund performance and governance

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

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

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

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

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

3 Administration

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

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

- Receipt, reconciliation and investment of contributions to the scheme

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

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

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

Strategic partnerships

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

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

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

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

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

Core transactions Contributions

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

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

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

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

Transfers into and out of the scheme

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

Members can transfer out their Investment Builder funds to another registered pension scheme at any time, subject to none of their funds

being in payment. Members have to initiate a transfer by completing a form available online, following which the scheme aims to complete its due diligence procedures and make the transfer within 15 working days (excluding any time allocated to dialogue and correspondence with the receiving scheme).

Switching of investments

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

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

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

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

Payment of pensions and other amounts to members

Pension commencement lump sum (PCLS) and uncrystallised funds pension lump sum (UFPLS) payments are made directly to members' bank accounts from the scheme. Once a payment request has been confirmed, payment of a PCLS is made on the first day following the member's date of

retirement. Pension payments are made on the 21st of each month. UFPLS payments also go through the pension payroll, however, USS operates a daily payroll cycle for these payments to ensure that they are paid to members in the shortest time possible.

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

Quality controls

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

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

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

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

4 Value for members

Costs and charges

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

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

Following the reduction of the USS Emerging Markets Equity Fund charge

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

USS Default Lifestyle Option – notional charges

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

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

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

Self-select options

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

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

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

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

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

Transaction costs

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

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

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

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

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

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

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

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

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

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

Overall value for members

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

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

Assessment framework

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

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

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

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

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

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

Chair's defined contribution statement continued

Funds in the USS Default Lifestyle Option

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

Funds in the USS Ethical Lifestyle Option

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

Self-select Funds

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

Funds in an AVC arrangement with Prudential

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

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

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

Illustration of costs and charges

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

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

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

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

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

- (i) USS Default Lifestyle Option
- (ii) USS Emerging Markets Equity Fund (most expensive fund with the highest expected return)

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

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

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

Investment in USS Default Lifestyle Option

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

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

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

Investment in USS Liquidity Fund (least expensive fund)

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

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

Investment in USS Default Lifestyle Option

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

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

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

Investment in USS Liquidity Fund (least expensive fund)

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

Chair's defined contribution statement continued

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

Investment in USS Default Lifestyle Option

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

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

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

Investment in USS Liquidity Fund (least expensive fund)

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

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

Investment in USS Default Lifestyle Option

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

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

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

Investment in USS Cash Fund (least expensive fund)

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

Notes on illustrations above and the previous page:

- Starting pot criteria is as follows:
 - Member 1, 2 and 4: starting pot criteria is nil and no funds are transferred in.
 - Member 3: starting pot criteria is £100,000 of transferred in funds. No further funds are transferred in.
- All members retire at age 66 and funds are then fully disinvested, with no early withdrawals.
- For the purposes of this illustration it is assumed that investment management charges apply, even though employers currently fully subsidise most of the fees that a member would otherwise pay for investing in the Investment Builder. This approach has been taken because there is no guarantee that employers will continue the subsidy in the future so it provides a more prudent estimate of the impact of charges.
- Values shown are illustrations and actual experience will depend on investment performance.
- Projected pension pot values are shown in today's prices, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5% per annum as prescribed in the Statutory Money Purchase Illustrations.
- Normal contributions are assumed to be 20% per annum in excess of salary cap (8% employee and 12% employer). It is assumed that there are no contribution holidays for any of the three members and no additional contributions are made by member 1, 3 or 4. Member 2 is assumed to make 2% additional voluntary contribution from entering the scheme.
- Salary increases are assumed to be 4.5% per annum.
- The projected growth rate for the USS Default Investment Lifestyle Option is 4.8% up to 10 years prior to retirement, reducing to 4.5% at 5 years prior to retirement, and 3.4% at 1 year prior to retirement. The projected growth rate for the USS Emerging Markets Equity Fund is 6.9%. The projected growth rate for the USS Liquidity Fund is 1.8%. These are consistent with the assumptions used in calculating members' Statutory Money Purchase illustrations as at 31 March 2021.
- The above illustrations take account of property management expenses as these are embedded within the projected growth rate of the relevant fund; they are not included within the percentages in the tables on page 90.
- Year 1 represents the year ending 31 March 2022, with a pertaining salary threshold of £59,883.65.

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

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

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

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

5 Trustee knowledge and understanding

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

The diversity of the Trustee Board allows individuals to challenge each other and to offer different perspectives and solutions to matters. The trustee is committed to ensuring that its directors, both individually and collectively, have access to appropriate professional advice, and have and maintain all of the necessary skills, knowledge, competence and understanding required for the effective performance of their role as Trustee Board directors. As part of this, each trustee director ensures that he or she is conversant with all of the key

scheme documents (including the Scheme Rules, the Statement of Investment Principles, the default Statement of Investment Principles and the Statement of Funding Principles) as well as the law relating to pension schemes and the principles relating to funding and investment. The scheme has various procedures in place to facilitate this which are detailed below. A number of activities are undertaken each year to evaluate and enhance the individual and collective skills, knowledge, competence and experience of the Trustee Board.

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

Skills and competencies

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

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

Trustee skills, knowledge and understanding: key tools

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

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

Training

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

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

- (a) directors' completed skills matrices and any gaps identified
- (b) the scheme's business plan and business and strategic objectives
- (c) future board and committee agenda plans
- (d) legal and regulatory horizon scanning
- (e) regulatory guidance
- (f) feedback from directors, committee members and the executive

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

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

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

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

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

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

Induction

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

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

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

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

Advice and guidance

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

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

Non-affiliation of trustee directors

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

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

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

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

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

- Dame Kate Barker is an independent director and was appointed to the Trustee Board with effect from 1 April 2020, and as Chair of the Trustee Board with effect from 1 September 2020. The recruitment process was led by an executive search firm, which was supplemented by adverts on the scheme's job site, in *The Sunday Times*, and *The Guardian* newspapers and on LinkedIn. Applicants were then shortlisted for interview and the shortlisted candidates interviewed and assessed against a common scorecard which reflected the role profile for this position. The process was overseen by the Governance and Nominations Committee. The then Chair of the Trustee Board, Professor Sir David Eastwood, was also consulted on the proposed appointment. The Governance and Nominations Committee and the Trustee Board then reviewed and approved the appointment of Dame Kate Barker
- Mr Russell Picot is an independent director and was appointed by the Trustee Board during the financial year. Mr Picot was appointed to the Trustee Board with effect from 1 February 2021. An executive search firm was also engaged to conduct this search. The role was also advertised on the scheme's job site, in *The Sunday Times*, and on LinkedIn. Applicants were shortlisted for interview and interviewed and assessed against a common scorecard which reflected the role profile for this position. The process was overseen by the Governance and Nominations Committee and the then Chair of the Trustee Board, Dame Kate Barker, was consulted on the proposed appointment. The

Governance and Nominations Committee and the Trustee Board then reviewed and approved the appointment of Mr Picot

- The appointment/reappointment process for UUK-nominated directors or UCU-nominated directors is led by UUK or UCU, as appropriate, with involvement of the trustee, and follows the same process as that for the appointment of independent directors (as noted above), subject to certain minor modifications as explained below
- During the financial year, three directors were nominated for appointment by UCU (Mr Andrew Brown appointed on 1 August 2020, Ms Helen Shay appointed on 1 September 2020 and Dr David Watts appointed on 1 March 2021) and one director was nominated for appointment by UUK (Professor Sir Paul Curran appointed on 1 September 2020). In addition, Professor Sir Anton Muscatelli was nominated for reappointment to the Trustee Board by UUK and reappointed to the Trustee Board with effect from 1 April 2021. All of these roles were advertised in national newspapers; posted on specialist recruiters in the academic sector, as well as on websites open to the public such as LinkedIn and jobs.ac.uk. In addition, the roles for the recruitment processes were managed by UUK and UCU, were also advertised by UUK and UCU in communications with USS employers and members

- Applicants were shortlisted by reference to the criteria of the relevant role profiles and shortlisted candidates interviewed and assessed against a common scorecard by a UUK or UCU, as appropriate, led interview panel, which also included the chair of USS Governance and Nominations Committee. The then Chair of the Trustee Board was also consulted on the proposed appointments. The Governance and Nominations Committee and the Trustee Board then reviewed and approved each of these the appointments and the one director reappointment
- Following the reappointment exercise outlined above, Sir Anton Muscatelli, who had previously been classified as an affiliated director, is now regarded as non-affiliated as the role was advertised sufficiently widely to meet the open and transparent criteria in the legislation, in addition to the other criteria under the legislation being met

6 Member communications, engagement and representation

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

Website

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

My USS

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

Emails

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

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

Combined Annual Member Statements

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

Member feedback

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

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

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

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

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

Dame Kate Barker

Chair of the Trustee Board

USS Default Lifestyle Option Statement of Investment Principles

1. Introduction

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

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

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

2. The trustee’s investment beliefs

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

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

2.2.1 As a member’s DC savings grow, investment risk will have a greater impact on member outcomes. Therefore, a strategy

which seeks to reduce investment risk as the member approaches retirement is suitable.

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

3. Investment governance structure

3.1 The trustee applies the same governance structure it uses for the scheme as a whole to the default arrangement. This is described in detail in Section 1.3 of the Main SIP. Broadly, the trustee’s governance structure focuses on embedding compliance with legislative requirements into agreements with investment and related service providers and monitoring compliance by having clear terms of reference for the board and sub-committees and supplementing this with appropriate formal investment advice where required.

4. Aims and objective of the Default Fund

4.1 The Default Lifestyle Option aims to take a suitably controlled amount of risk to generate investment returns in order to provide a reasonable level of retirement benefits for members, taking into account the performance of asset markets and the level of contributions paid over a member’s lifetime into the DC section and recognising the hybrid nature of the scheme.

4.2 The objectives of the Default Lifestyle Option are detailed below:

4.2.1 To focus particularly on generating returns in excess of inflation during the growth phase of the strategy (up to 10 years before retirement) with a degree of downside risk mitigation.

4.2.2 To provide a strategy that reduces investment risk in

the consolidation phase for members between ten and five years before expected retirement.

4.2.3 To provide exposure, at retirement, to a portfolio of assets to align as much as possible with how a member is likely to use their savings at and into retirement.

4.2.4 To ensure sufficient liquidity to be able to pay benefits or transfers when required.

5. Investment strategy

5.1 Kinds of investments to be held, the expected returns and the balance between different kinds of investments.

5.1.1 The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the Default Lifestyle Option:

– **A growth fund** – will invest predominantly in growth assets, with an objective to provide long-term growth to members, with some diversification to mitigate portfolio risk to a degree. Investments will be made in both public and private markets in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and the benefit of additional diversification.

– **A moderate growth fund** – will typically invest a majority in growth assets, with more diversification than the growth fund, and with an objective to provide long-term growth to members from a balanced, more diversified portfolio of assets. Investments will be made in both private and public markets to increase

diversification and enhance returns. This additional diversification aims to mitigate portfolio risk to a greater extent.

– **A cautious growth fund** – with an objective to provide stable growth to members from a portfolio of predominantly low risk, income focused assets, with some diversification, and minority exposure to growth assets. Investment will be made in both private and public markets to increase diversification and enhance returns.

– **A liquidity fund** – typically aims to produce a return in line with its benchmark which represents short-term interest rates, principally from a portfolio of Sterling denominated cash, deposits and money market instruments.

5.1.2 Moving from growth to moderate growth to cautious growth funds would be associated with decreasing proportions in growth assets such as equities and property; and increasing proportions in non-government and government bonds.

5.1.3 The chart below provides an illustration of the default structure, in particular detailing the balance between the different Default Lifestyle funds held in the final 10 years prior to a member’s retirement date:

5.2 Managing risk

5.2.1 The Default Lifestyle Option manages strategic asset allocation risks through Reference Portfolios consisting of mainstream assets, calibrated to different stages in the lifestyle strategy (as indicated in item 5.1.3). Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The actual holdings within the constituent Default Lifestyle funds will include private

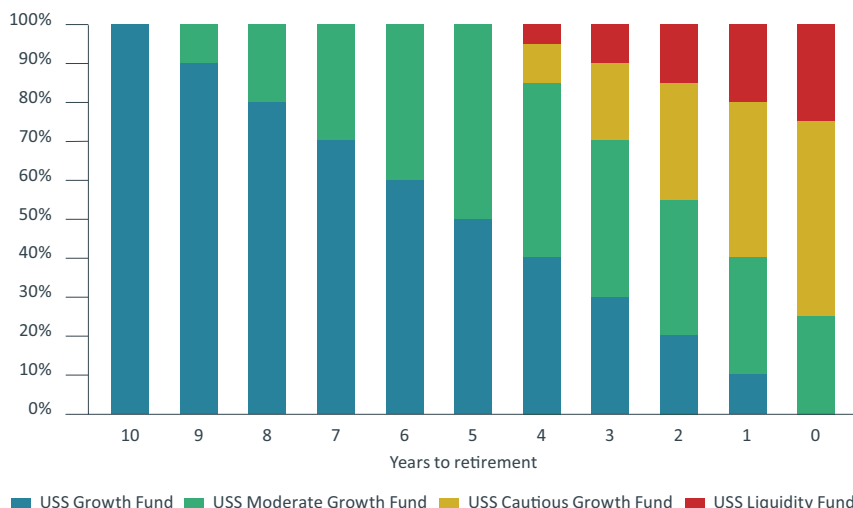
market investments where appropriate in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and to gain additional diversification.

5.2.2 The Default Lifestyle Option’s growth phase invests in equities and other growth-seeking and diversifying assets. These investments are structured to generate higher real (after inflation) returns over the long term with some downside protection. During the growth phase, the downside risk from an equity market downturn is partially mitigated through diversification away from equities into other asset classes.

5.2.3 In the consolidation phase, from 10 years before expected retirement, the trustee is seeking, through greater diversification of assets, to reduce the likelihood of extreme investment shocks adversely affecting retirement outcomes.

5.2.4 In the final five years before expected retirement (protection phase), the trustee has constructed a glidepath that seeks to continue to grow the member’s DC retirement savings while reducing volatility as members’ funds get closer to maturity. In the protection phase, assets are therefore switched to more cautious assets (such as gilts and corporate bonds), including an allocation to cash. This has been designed to reflect the uncertainty inherent in the timing of retirements, and the post-retirement investment choices that might be made by members.

The USS Default Lifestyle Option glidepath



USS Default Lifestyle Option

Statement of Investment Principles continued

5.2.5 Paragraph 2.3 of the Main SIP sets out further detail on how the trustee measures and manages risks.

5.3 Realisation of investments, cash flow and liquidity management.

5.3.1 The USS DC section offers members a range of daily dealing notional funds. While a portion of the USS Default Lifestyle Option will be in illiquid assets, the trustee's policy is to maintain sufficient investments in liquid assets so that the realisation of assets will not be unduly costly nor disrupt the scheme's overall investment strategies in foreseeable circumstances. More detail can be found in paragraphs 2.2.5 and 3.2.9 of the Main SIP.

6. The trustee's policies on responsible investment and engagement activities

6.1 The Default Lifestyle Option is managed in line with the trustee's policies as set out in the Main SIP, in particular, paragraph 1.4. The trustee's policies on responsible investment and engagement activities cover:

6.1.1 How financially material considerations are taken into account in the selection, retention and realisation of investments. This includes how the trustee considers environmental, social and governance (ESG) factors where financially material to the scheme, such as but not limited to climate change.

6.1.2 The extent to which non-financial ESG matters are taken into account in the selection, retention and realisation of investments.

6.1.3 The exercise of the rights (including voting rights) attaching to the investments.

6.1.4 Engagement activities in respect of the investments.

6.2 In addition to the Default Lifestyle Option, the trustee makes available an ethical lifestyle option reflecting the fact that a number of members have specific objectives around ethical investing. This ethical lifestyle option is built along similar principles to the Default Lifestyle Option but has been specifically designed to reflect members' objectives in this area. As well as this, an ethical equity fund and a Sharia consistent fund are included in the range of self-select funds offered to members.

6.3 The scheme's statement on responsible investment sets out detailed information on how the trustee considers ESG factors where financially material to the scheme and the extent to which it takes non-financial ESG factors into account. The trustee expects its internal and external managers to act consistently with this statement in the selection, retention and realisation of the scheme's investments. The current Statement on Responsible Investment can be found in the "How USS invests" area of the scheme's website www.uss.co.uk.

6.4 The trustee's policies in relation to its arrangements with asset managers are as set out in paragraph 1.5 of the Main SIP, including in relation to the trustee's wholly owned investment manager and advisor, USS Investment Management Limited (USSIM) which is primarily responsible for the management of the default arrangement and manager selection.

7. Investment in the best interests of beneficiaries

7.1 In designing the Default Lifestyle Option, the trustee aims to invest USS assets in beneficiaries' best financial interests, taking into account the different risk profile of representative members (e.g. according to their expected time frame until retirement). In doing so, the trustee explicitly considers the trade-off between risk and expected returns and continues to monitor these risks through ongoing reporting. The trustee considers high level profiling analysis of the scheme's membership in order to inform decisions regarding the Default Lifestyle Option. In accordance with the trustee's mandate, USSIM also manages and monitors the default arrangement and the performance of investment managers involved in that arrangement, and makes changes where necessary to ensure the trustee's aims and objectives are met.

8. Compliance and review

8.1 This Default SIP has been prepared in accordance with the requirements of the Pensions Act 1995 and relevant Regulations taking into account guidance from the Pensions Regulator.

8.2 The trustee will undertake such a review at least triennially, or sooner and without delay if there are significant changes to the scheme's investment policy, demographic profile or other circumstances which the trustee determines warrant a reconsideration of the reference portfolios for the Default Lifestyle Option.

8.3 The trustee will revise the Default SIP after every review unless it decides that no action is needed as a result of the review.

Implementation statement

1 Introduction

The trustee of the Universities Superannuation Scheme (the scheme) has prepared this Implementation Statement (the Statement), which should be read in conjunction with the Statement of Investment Principles (SIP - uss.co.uk/how-we-invest/our-principles-and-approach). The scheme operates as a hybrid pension scheme providing defined benefit (DB) and defined contribution (DC) pension benefits and is authorised by the Pensions Regulator as a Master Trust.

This Statement, as with the SIP, applies to both the DB and DC elements of the scheme within the single trust. The trustee also has a supplementary Statement of Investment Principles (see uss.co.uk/how-we-invest/our-principles-and-approach) specifically for the USS Default Lifestyle Option in the Investment Builder (the 'Default SIP').

1.1 Purpose

This Statement is designed to set out how, and the extent to which, the trustee believes the SIP has been followed during the scheme year ending 31 March 2021. The Statement outlines how key activities and decisions implemented for the scheme have followed the policies within the SIP and the Default SIP and, where they have not, what steps will be taken to remedy this.

This Statement also sets out how, and the extent to which, in the opinion of the trustee, the policies in relation to voting rights and the engagement activities have been followed during the year and describes a review of the voting behaviour carried out by investment managers on the trustee's behalf.

Following review and analysis, the trustee believes that the SIP, and the policies in relation to voting rights and engagement have been followed during the year, except where any immaterial divergences have been highlighted. This Statement explains how the trustee has reached this view.

1.2 Review of the SIP and Default SIP

Section 35 of the Pensions Act 1995 requires that trustees prepare, maintain and revise (if necessary) a written SIP, governing decisions about investments for the purposes of the scheme. The trustee last updated its SIP in 2019 following the completion of the 31 March 2017 and 31 March 2018 actuarial valuations and in anticipation of future pensions regulations¹ coming into force.

The SIP was finalised in September 2019 following consultation with the scheme's participating employers and receipt of investment advice from its external advisers, Mercer (see Section 1.4) both as required by legislation, and assistance from its principal investment adviser, USS Investment Management Limited (USSIM) (see Section 1.3). There have been no significant changes to the scheme or its investment policy requiring the SIP to be revised since. The SIP is reviewed annually by the trustee and the Investment Committee and was last reviewed in March 2021, with no changes recommended.

The Default SIP was last updated in February 2021. Following the triennial DC default lifestyle strategy review in 2019, it was concluded that although the original strategy remained valid, adjustments to the glidepath for the USS Default and Ethical Lifestyle Options were appropriate to provide potential for greater investment growth during the years running up to a member's retirement age. See Section 3 and the Chair's DC Statement for further detail.

1.3 Relationship with USSIM

The SIP is required to include the trustee's policy for arrangements with asset managers, and this includes USSIM. USSIM is the trustee's wholly owned subsidiary, and acts as both principal investment manager and adviser to the trustee. USSIM is required to act in accordance with the SIP in performing its duties.

The trustee appoints USSIM to implement the scheme's investment strategy within the terms of the Investment Management Advisory Agreement (the IMAA). USSIM manages assets directly on behalf of the trustee as well as having the delegated authority to appoint, monitor and change the trustee's external asset managers.

The trustee has various methods for overseeing the services of USSIM and USSIM provides regular reporting on its performance. The trustee's Investment Committee is responsible for overseeing the delivery of services provided (see Section 1.5).

In addition to the oversight provided by the trustee's Investment Committee (see Section 1.5), USSIM's remuneration structures and risk and control environment are reported through the Trustee's Remuneration Committee and Group Audit Committee respectively. Further details of the committees, including the Terms of Reference for the USSIM Board, Remuneration Committee and Group Audit Committee can be found at uss.co.uk/about-us/how-were-governed.

Investment advice

The trustee is required to obtain written investment advice before exercising its power of investment under the Scheme Rules. The trustee has ensured that these requirements are met by including them in the IMAA. Any investment advice required by the trustee is provided in accordance with legislation and primarily to the trustee's Investment Committee.

Alignment of interests

The SIP covers the trustee's policy on how the arrangements and contract with USSIM incentivise USSIM to make decisions in the long-term interests of the scheme.

Note

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

USSIM is a non-profit entity, which is wholly owned by the trustee. The duration of USSIM's appointment is indefinite. The trustee intends that USSIM will continue to manage investments and external managers on behalf of the trustee on a continuous basis. The trustee periodically reviews the overall value-for-money of investing via USSIM, while its Investment Committee regularly reviews the investment strategy and overall and individual mandate investment performance.

The trustee is satisfied that its arrangements incentivise USSIM:

- to align its investment strategy and decisions with the trustee's policies, including whether to manage certain investments itself or to appoint external managers and
- to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their, and thereby the scheme's performance in the medium to long-term

on the basis that USSIM does not provide services to other clients and has no conflicting duties or arrangements in place. In addition, the trustee does not have any fee arrangements in place with USSIM which would incentivise it to deviate from the trustee's policies.

The trustee undertakes a full 'value for money' assessment of both the DB and DC sections of the scheme annually, including a review of investing via USSIM versus peer pension schemes' investment arrangements and using benchmarking analysis, as described on page 55 in the Chief Financial Officer's update.

The latest report (presented to the Trustee Board in March 2021), evidences a low cost and high value-add investment team in comparison to the peer group. In respect of the DC section of the scheme, the trustee worked

with an independent consultancy to undertake a benchmarking exercise with five Master Trust peers. Further information can be found in the Chair's DC Statement.

For the DB section of the scheme, the trustee has set USSIM an outperformance target relative to the Reference Portfolio over rolling periods of five years and spanning both internal and external managers. The suitability of the outperformance target is reviewed on an annual basis by the Investment Committee and recommended to the trustee.

USSIM uses a remuneration framework involving both investment performance-linked and qualitative assessments for its staff to ensure that USSIM's incentives are aligned to the needs of the scheme and the trustee's policies in relation to the selection and balance of investments, the management of risk, return on and realisation of investments, and responsible investment and engagement activities. To encourage alignment and retention of key personnel, this framework includes a base salary, annual incentives and, where applicable, long-term incentive plans (vesting over multiple years). USSIM is thereby incentivised and aligned with the long-term performance of the scheme (including through making decisions informed by both financial and non-financial considerations, on issuers of debt and equity in which the trustee invests and engaging with such issuers in order to improve their performance). For the financial year 2021/22 onwards, compensation assessments will also include environmental, social and governance ("ESG") factors in investment related activities where relevant.

The trustee is satisfied that USSIM is aligned with the trustee's policies because of the relationship between the trustee and USSIM, and the non-profit arrangements in place.

1.4 Relationship with external investment consultants

In addition to the advice from USSIM, the trustee has contracts in place with two external investment advisers/consultants. For the year ending 31 March 2021, the scheme's external investment advisers/consultants were Mercer (DB matters) and LCP (DC matters). Both attend all of the trustee's Investment Committee meetings and provide independent insight and challenge to the Committee's consideration of USSIM's investment strategy proposals and on the reporting provided by USSIM with regards to its investment management activities. The trustee may also request formal investment advice from these advisers (instead of USSIM), as it deems appropriate.

As required by The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf), the Investment Committee set its external investment advisers formal objectives, and in early 2021, the Committee reviewed the performance of its external investment advisers against those objectives.

1.5 Role of the trustee's investment committee (the Investment Committee)

The purpose of the Investment Committee is to oversee the investment of the scheme's assets and, based primarily on investment advice from USSIM, it makes recommendations to the trustee, and where authority has been delegated, approves on the trustee's behalf strategic matters relating to the investment of the assets and development of the scheme's strategy, having regard to any legislative and regulatory requirements.

Further details of the Governance structure, including the Terms of Reference for the trustee and Investment Committee can be found at uss.co.uk/about-us/how-were-governed. The allocation of responsibilities between the trustee

and the Investment Committee are clearly set out in the Terms of Reference that were last reviewed in March 2021, with updates made to reflect changes in regulations and working practices. Details of USSIM's corporate governance structure and Terms of Reference for USSIM's Board and main Committees are also available via the above link.

The Investment Committee meets regularly (10 times in the scheme year 2020-21) to review investment strategy proposals and regular reporting by USSIM on its ongoing investment management activities. Regular reviews of the investment strategy, including the overall and individual mandate investment performance, are also completed. It is a standing agenda item on each Investment Committee to report on the tactical asset allocation decisions made by USSIM during the period.

The Investment Committee is responsible for overseeing the delivery of services provided by USSIM under the IMAA. As part of this, the Investment Committee reviews USSIM's business plan, budget and other investment costs prior to final approval by the Trustee Board. It includes consideration of the strategic projects that the trustee has asked USSIM to complete, as well as comparing USSIM's investment management costs compared to peers. The Investment Committee receives an annual attestation from USSIM confirming compliance with the responsibilities and guidelines given to it by the trustee under the IMAA.

The activities, decisions made and recommendations of the Investment Committee to the trustee are reported to the Trustee Board after each Investment Committee meeting.

1.6 Consideration of Non-Financial factors

Investing in the best financial interests of the scheme is the trustee's primary concern in relation to investment strategy. However, to the extent permitted by its fiduciary duties, there are some circumstances where the trustee would consider non-financial

factors and the trustee will take account of member views in relation to the selection, retention and realisation of investments. These circumstances include:

- where there is a choice as between two otherwise equivalent investments without risk of significant financial detriment to the scheme
- where
 - (i) the trustee's longstanding and ongoing relationship with the membership has, over time, helped the trustee form a specific view on a given non-financial factor relevant to a certain investment opportunity
 - (ii) the trustee is satisfied that there is no risk of significant financial detriment to the scheme in taking account of the non-financial factor in respect of that investment opportunity
 - (iii) the trustee has good reason to believe that members would share each other's views on that non-financial factor

In the scheme's DC section, where the trustee is able to offer members a choice, ethical options are made available, based on member research and allowing members to reflect their views and preferences directly taking account of their own position on the risks of potentially lower returns (see Section 3.6).

The trustee received updated legal advice on this area, uss.co.uk/how-we-invest/responsible-investment, and there were no circumstances over the past twelve months where the trustee (or USSIM on its behalf) could take into account non-financial factors (the circumstances being those as described above) within its investment decision-making. The trustee's process for engagement with members is set out in more detail in below.

1.7 Engagement with the members

The trustee provides members with several ways to provide feedback on investment issues, including via a contact form on the website, email and

post. The trustee also engages with members on their investment preferences through surveys, an online member panel and views expressed by member representatives. These sources of insight help to inform the trustee's reviews of the Investment Builder (the DC section of the scheme) as set out in Section 1.6 above. Representatives from USS also meet with stakeholder groups such as Ethics for USS and the University and College Union (UCU) to discuss ESG related issues.

In addition to statutory communications, USSIM campaign themes were developed to help members understand the scheme's investments as well as bringing investments to life with a focus on Responsible Investment.

In 2020, USS revamped the 'Quarterly Investment Report' and the 'Guide to Investing in the Investment Builder' (both available via My USS), to make them more engaging and to help members understand the DC product and the options it provides in the context of the hybrid nature of USS.

As part of this engagement, the trustee invites views from members and beneficiaries on non-financial matters. For example, non-financial matters include (but are not limited to) ESG issues and ethical matters. To the extent permitted by its fiduciary duties, there are some circumstances where the trustee will take account of member views on non-financial matters in relation to the selection, retention and realisation of investments (see Section 1.6).

2 Retirement Income Builder (the DB Section)

2.1 Investment beliefs

The trustee's investment belief statements and principles can be found at uss.co.uk/how-we-invest/our-principles-and-approach. The trustee has separate belief statements for the DB and DC Sections and these are reviewed on an annual basis by the Investment Committee and the Trustee Board (last reviewed in early 2021).

The investment belief statements guide the scheme's governance and strategic management, as well as the alignment sought between the trustee and its investment managers. They provide a reference for considered and consistent investment decisions by both the trustee and USSIM. The investment belief statements are embedded throughout USSIM's investment management activities and advice to the trustee.

2.2 Investment objectives

The SIP and Default SIP set out the scheme's investment objectives. For the DB Section, the scheme exists to pay the benefits as they fall due to its members. The capacity for the trustee to take investment risk is based on the assessment of the covenant of the employers and their associated tolerance for the level and variability of contributions.

2.3 Investment strategy

The SIP covers the trustee's policy in relation to the type and balance of investments held. The trustee's broad investment strategy and overall investment risk is set out as a Reference Portfolio, a theoretical, but investible, asset allocation designed to provide excess returns versus the scheme's liabilities over time while maintaining a prudent approach to meeting the scheme's liabilities, as required by the funding regulations. It is adapted over time to balance the trustee's investment objective for returns and risk appetite.

The Reference Portfolio is agreed with the intention of ensuring that the investment element of the covenant, and the reliance on the participating employers is kept to an appropriate level. The trustee seeks advice from a covenant adviser on the strength of the employer covenant.

When agreeing the Reference Portfolio, the trustee considers the scheme's funding position, cash flow profile and its liability profile. In conjunction with investment advice, and in line with the SIP, these factors are reviewed from an investment perspective at least annually and reflected in the Reference Portfolio

and associated investment risk and hedging parameters.

The Reference Portfolio also provides a benchmark against which USSIM's aggregate investment results and risk can be monitored by the Investment Committee with particular attention to rolling five-year performance, asset-liability risk and leverage, given the trustee's long-term investment strategy.

In order to ensure the Reference Portfolio remains appropriate, the trustee, with the support of the Investment Committee and USSIM, monitors changes to expected asset class and Reference Portfolio returns on at least an annual basis.

2.4. Implemented Portfolio

For the DB Section, USSIM's objective, within risk parameters given by the trustee, is to outperform the Reference Portfolio by investing in a more diverse range of assets known as the "Implemented Portfolio".

The Implemented Portfolio invests in a range of asset classes, including quoted equity, government and non-government debt (including inflation-linked), currencies, money market instruments, commodities, derivatives or other financial instruments, as well as alternative strategies (such as absolute return strategies) and private market assets including equity and debt, infrastructure and property. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

To reduce asset-liability risk over recent years, the trustee has taken on additional exposure to liability-hedging assets, partially financed by reductions in its return-seeking assets and partly by using additional leverage. Since 1 January 2019, the leverage within the Reference Portfolio has increased from around 10% to around 15% as at 1 January 2021.

Over the scheme year, USSIM has also made the following changes to the Implemented Portfolio:

- Increased its allocation to high-quality credit (particularly long-duration sterling assets) across both public and private markets. High-quality credit provides interest rate exposure useful for liability hedging and higher coupons than government bonds
- Invested more in private markets assets which provide growth potential as well as long-term, inflation exposure (useful for meeting the inflation-linked liabilities promised to members)
- Diversified the scheme's foreign currency exposure to reduce risk and help to protect the scheme against counter-cyclical economic environments

The SIP covers the trustee's policy in relation to the expected return on assets. The actual investment returns of the scheme's DB investments are monitored regularly by the Investment Committee, through reporting provided by USSIM's Performance and Investment Risk (PAIR) team. In order to ensure the Implemented Portfolio remains appropriate (and is expected to deliver the appropriate long-term returns at the desired level of risk), the trustee, with the support of the Investment Committee and USSIM, monitors changes to expected asset class and Implemented Portfolio returns at least annually.

Over the past 12 months USSIM has been key to the scheme's response to COVID-19, ensuring that the positioning of the scheme's DB investments has been suitable for the economic landscape and ensuring that all of the underlying investment managers were managing risks appropriately through the pandemic. It was important for the scheme's investments to be well diversified and for the DB Section to have sufficient cash and collateral within the scheme to manage investment market fluctuations appropriately and in a cost-effective manner.

2.5. DB investment risk oversight

The SIP recognises the exposure to investment, funding and operational risks and the trustee's approach is to integrate management of those risks throughout its organisation. USSIM considers these risks, when advising on investment policy, strategic asset allocation and investment strategy, manager and fund selection when applicable.

The trustee has a structure to monitor these risks and take action to mitigate them when appropriate to do so. USSIM provides the trustee with regular quantitative and qualitative assessments of all the investment-related risks and in implementing appropriate mitigation strategies.

The key investment risks relating to the DB Section are currently managed through a range of limits as detailed in the IMAA. These limits are reviewed at least annually by the Investment Committee and the trustee.

Managing risk

The overall investment risk taken by the trustee is diversified across a range of different investment opportunities. Investment performance and risk are monitored by the Investment Committee on a quarterly basis, led primarily by USSIM's PAIR team. The Implemented Portfolio has a diversified asset allocation by geography, asset class and across active management strategies, to achieve outperformance relative to the Reference Portfolio over the long term, with similar or lower risk.

If the actual risk of the Implemented Portfolio exceeds beyond set limits that of the Reference Portfolio, USSIM must report to the Investment Committee as soon as practicably possible with proposed corrective action.

The trustee's funding risks are monitored and predominantly managed by the trustee's Funding Strategy team, with advice from the Scheme Actuary. The trustee's operational risks are managed throughout the organisation by individual teams; each has their own register of operational risks which is formally reviewed bi-annually.

Investment-related risks are a subset of these funding risks and are assessed by USSIM throughout the year and more formally on an annual basis, when USSIM advises on the suitability of the Reference Portfolio. The trustee and the Investment Committee assess the key risks relevant to the DB Section, including asset-liability, market, credit, longevity, currency, liquidity and operational risks, as well as the variability of returns of the scheme's investments relative to the Reference Portfolio and the strength of the employer covenant. The integration of these investment-related risks is assessed, managed and advised upon by USSIM, particularly as they relate to strategic asset allocation and investment strategy.

The SIP covers the trustee's policy in relation to the realisation of investments. In conjunction with USSIM, the trustee monitors the amount of cash and other liquid instruments held to ensure that benefits and other commitments can be met in the short term and the operation of robust and timely divestment and financing procedures, without disrupting the scheme's asset allocation or incurring excessive transaction costs. These processes are overseen by an internal USSIM committee.

The Investment Committee has approved an Illiquidity Framework to manage the scheme's liquidity risk and to ensure there is a sufficiently low probability of being forced to sell assets for liquidity purposes. Investments in illiquid assets are subject to an upper limit set by the trustee (and periodically reviewed by the Investment Committee) on the proportion of such assets in the DB Section. On an annual basis, the Investment Committee also approves an overall investment plan for USSIM to implement over the following years.

The trustee's currency risk policy is to hedge a portion of its developed market overseas equity and 100% of its developed market bond currency exposure back to Sterling. Emerging

markets equity and debt exposure is fully unhedged. USSIM reviews this policy and advises the trustee on its suitability at least annually.

3 Investment Builder (the DC Section)

3.1 Investment beliefs

The trustee's investment belief statements and principles can be found at uss.co.uk/how-we-invest/our-principles-and-approach. The trustee has separate belief statements for the DB and DC Sections and these are reviewed annually by the Investment Committee and the Trustee Board and were last reviewed in early 2021.

The belief statements guide the scheme's governance and strategic management, as well as the alignment sought between the trustee and its investment managers. They provide a reference for considered and consistent investment decisions by both the trustee and USSIM. The investment belief statements are embedded throughout USSIM's investment management activities and advice to the trustee. The DC Section has additional Policy belief statements at uss.co.uk/how-we-invest/our-principles-and-approach which sets out the trustee's beliefs regarding member behaviour and they were last reviewed in late 2020.

3.2 Investment objectives

The SIP and Default SIP set out the scheme's investment objectives for the Investment Builder. This DC section exists to enable members with salaries over the threshold and those with additional contributions to save for retirement by providing a suitable range of default and self-select investment options to members.

In the DC Section, members have the option to manage their own investments (the Let Me Do It Option) or have their investments managed for them, the Do It For Me Option. In the Do It For Me Option, members can choose from two lifestyle options, the USS Default Lifestyle Option and the USS Ethical Lifestyle Option. The Let Me Do It Option offers members 10 funds where they can be actively involved in making investment decisions.

The USS Default Lifestyle Option is the default arrangement for the DC Section. Although the USS Default Lifestyle Option can be actively chosen by members as their investment strategy, as a default arrangement it is the investment strategy into which are paid the DC contributions of members who do not make any investment decisions. Approximately 96% of members invest at least part of their funds in the USS Default Lifestyle Option or USS Ethical Lifestyle Option.

Although the trustee has discretion to invest in a wide range of assets, in practice the type of assets held in the Do It For Me and Let Me Do It funds depend on the objectives and strategy of each fund.

The trustee believes that the current default strategy and self-select range are suitable for the members of the scheme. This was last reviewed formally in 2019 in line with legislation (see Section 3.3.1).

3.3 USS Default Lifestyle Option

The USS Default Lifestyle Option is designed to reflect the different investment needs of a member during their working life and as they approach their target retirement age.

The USS Default Lifestyle Option manages strategic asset allocation risks through DC Reference Portfolios consisting of mainstream assets, calibrated to different stages in the lifestyle strategy. The USS Default Lifestyle Option's growth phase invests predominantly in equities and other growth-seeking and diversifying assets. These investments are structured to generate high real (after inflation) returns over the long term.

The glidepath for the USS Default Lifestyle Option is shown in the Default SIP. Members' contributions are invested in the USS Growth Fund and moved into the USS Moderate Growth Fund, USS Cautious Growth Fund and USS Liquidity Fund as the member approaches their target retirement age.

3.3.1 Triennial review

Legislation requires the trustee carry out a triennial review of the suitability of the USS Default Lifestyle Option and the other investment options offered by the scheme. The last full review of the USS Default Lifestyle Option was carried out in 2019 including extensive analysis of the active member population and modelling of members' expected pension outcomes.

As a result of the review, the trustee agreed to adjust the glide path to provide greater potential for growth during the years running up to a member's target retirement age. Most members were moved onto the new glide path in February 2021. Further details can be found in the DC Chair Statement.

Following the review, the trustee is also putting in place signposting for members to an income drawdown option and a whole of market annuity broking service (both external providers selected following a competitive tender exercise). These options will be made available later in 2021.

The next full default review is scheduled for September 2022, in line with legislation, or sooner if the trustee has reason to believe member demographics will significantly change.

3.3.2 High-level annual review

In addition to the triennial review, the trustee (in conjunction with its Pensions and Investment Committees) has decided to carry out a higher-level review of the DC fund range on an annual basis. The last review took place in late 2020 and considered how the USS Default Lifestyle Option and other investment options were performing relative to expectations.

The review looked at member demographics and behaviours, including their investment and access choices, and was accompanied by the views of both USSIM and LCP. This review also covered the impact of potential market movements in the period prior to retirement, market risks and the expected returns on the scheme's DC Reference Portfolios.

It also included analysis of the USS DC fund offering compared to peers.

As part of the annual review, the trustee's Pensions Committee concluded that there should be no changes to the Policy belief statements (uss.co.uk/how-we-invest/our-principles-and-approach) and no changes to member requirements for the USS Default Lifestyle Option. The Investment Committee concluded that there should be no investment changes to the USS Default Lifestyle Option.

3.3.3 Underlying funds

The USS Default Lifestyle Option manages investment risks through DC Reference Portfolios consisting of mainstream asset classes. The DC Reference Portfolios for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds are set by the trustee to reflect the requirements for the funds, as determined by the trustee's Pensions and Investment Committees.

In 2020, the Trustee Board and Investment Committee reviewed the DC Reference Portfolios for the funds used within the USS Default Lifestyle Option. USSIM worked closely with the Trustee's Pensions Strategy Team to ensure that member requirements continue to be well understood. This exercise included looking at member behaviour, member surveys and market analysis.

The USS Growth, USS Moderate Growth and USS Cautious Growth Funds are designed to deliver long-term returns above inflation for members, within varying risk tolerances.

Following a detailed review, the trustee decided to move away from detailed composite benchmarks for these funds to more simplistic benchmarks that will help the trustee understand how well these funds are meeting members' requirements and help members understand the long-term return expectations of the funds they might choose to invest in. From 1 July 2020, the DC Reference Portfolios for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds were changed to long-term absolute return

targets as well as long-term market comparators.

For the USS Growth, USS Moderate Growth and USS Cautious Growth Funds, USSIM aims to achieve a return in line with the DC Reference Portfolios over the long-term with an acceptable risk level by investing in a diversified pool of assets known as the “Implemented Portfolios”. The DC Reference Portfolios and risk levels are documented in the IMAA.

The actual holdings for the USS Growth, USS Moderate Growth and USS Cautious Growth Funds are expected to include some investments not present in the DC Reference Portfolios and the Implemented Portfolios for the DC funds are approved by USSIM.

Over the scheme year, USSIM made several changes to the Implemented Portfolios of the USS Growth, USS Moderate Growth and USS Cautious Growth Funds, including:

- Increased allocation to private markets to provide members cost-effective exposure to a wider spectrum of assets (see below)
- Added global nominal and inflation linked government bonds to the investment portfolios
- Reduced allocation to our external active Emerging Market equity managers, in favour of our internal team (see below)

Increased allocation to private markets

In February 2020, the USS Growth, USS Moderate Growth and USS Cautious Growth Funds started making an allocation to private markets. The allocation to private markets is expected to generate additional long-term returns and benefits from the additional diversification and lower expected risk. This allocation increased over the scheme year, and as at 31 March 2021, the USS Growth Fund had approximately 19% allocated to private markets (including property). The allocations are now close to USSIM’s desired long-term allocation.

Introduction of internally managed Global Emerging Markets Equities

Due to the strong track record and capabilities of the team, in early 2021, USSIM decided to appoint its Global Emerging Markets Equity team to manage the Emerging Markets Equities allocation within the USS Growth, USS Moderate Growth and USS Cautious Growth Funds and a proportion of the assets within the USS Emerging Markets Equity Fund.

When considering the appointment, the Investment Committee and the Trustee Board also received a report from an external investment consultant on the suitability of the USSIM team for the DC Section.

The SIP and Default SIP cover the trustee’s policy in relation to the expected return on investment. Investment returns on the investments for the DC Section are monitored regularly by the Investment Committee. In order to ensure the DC Reference Portfolios remain appropriate (and are expected to deliver the appropriate long-term returns at the desired level of risk), expected returns are regularly reviewed by the Investment Committee, including alternative scenarios and peer-group benchmarking.

3.4 DC Let Me Do It Funds

The trustee makes available a choice of 10 individual funds (self-select options) that members can choose to invest in if they wish to customise their investment approach and believes the range is suitable for members.

Through its Pensions Committee and Investment Committee, the trustee regularly reviews its DC fund range against member requirements and makes enhancements as required. As part of the review in 2019, the Pensions Committee carried out a review of the member requirements based on member data, experience to date and industry trends.

Following this review and discussion with the Investment Committee, the Pensions Committee recommended that the trustee change the requirements for the USS Bond Fund. The requirement for the USS Bond Fund now reflects the appetite to have access to a steady income stream and broad access to global bond markets. This was considered by USSIM and following advice to the trustee, it was decided to move away from a Reference Portfolio and have a single asset-based benchmark.

This change took place in October 2020 with member charges increasing from 0.10% p.a. to 0.20% p.a. from 1 February 2021. See Chair’s DC Statement for more information.

As noted in Section 3.3.2, the Pensions Committee and Investment Committee carried out their annual review of the DC fund range (including the Let Me Do It Funds) in late 2020 and recommended that no changes be made to the DC fund range.

Due to the cost efficiencies of using an internal team rather than an external investment manager, the trustee has been able to reduce the Investment Management Charge (IMC) for members from 0.45% p.a. to 0.30% p.a. for the USS Emerging Markets Equity Fund by moving some of the assets internally. The IMC for members invested in the fund is now in line with the IMCs for the majority of the other Let Me Do It funds, even though IMCs for emerging market equity funds tend to be more expensive than for developed market equity funds. This means that charges for all funds are now covered entirely by the scheme subsidy (see Chair’s DC Statement for more information), except for funds transferred into the Investment Builder.

Over the year, USSIM also decided to change one of the underlying investment managers for the USS UK Equity Fund and move their allocation to the passively managed element of this fund. As a result, the IMC for this fund reduced from 0.25% p.a. to 0.10% p.a. from 1 November 2020.

While the appointment of the underlying investment managers and allocation of assets has been delegated to USSIM by the trustee, USSIM provides regular reporting to the Investment Committee on its investment manager decisions and the case for decisions to appoint USSIM internal teams to manage DC investments.

3.5. DC risk oversight

The trustee has a structure to monitor the risks relevant to the DC Section and to take action to mitigate them when the trustee believes it appropriate. The role of USSIM is to provide the trustee with regular quantitative and qualitative assessments of all the investment-related risks and in implementing appropriate mitigation strategies within its delegated mandate.

The SIP and Default SIP cover the trustee's policy in relation to risks, including the ways in which risks are to be measured and managed. The trustee believes that risk is best understood and managed using multiple approaches. For the DC Section, risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

In setting and reviewing the scheme's DC investment strategy annually, the Trustee Board and the Investment Committee assess the key risks relevant to the DC Section. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on the scheme's investments relative to the DC Reference Portfolios, liquidity risk, operational risk and market risk including equity, interest rate and credit risk.

USSIM reports annually on the impact of inflation on its absolute return targets and reviews its policies on currency hedging and liquidity on an annual basis. The PAIR team also report to the Investment Committee and Trustee Board on performance versus expectations, benchmarks and peers.

The funds made available to members by the scheme are daily dealing notional funds. The trustee has put in place several measures to ensure that the introduction of illiquid assets (including private market assets) will not affect a member's ability to switch or access their Investment Builder funds, unless in extreme market circumstances. This is monitored by USSIM.

The USSIM PAIR team monitors the absolute volatility of the funds used within the USS Default Lifestyle Option on a daily basis to ensure the portfolios remain within the required tolerances, as set out in the IMAA. If a DC fund is outside the permitted volatility ranges, then this will be escalated to the Investment Committee. The PAIR team also report regularly to the Investment Committee and Trustee Board on performance versus expectations, benchmarks and peers.

3.6 Ethical investment options

In the scheme's DC Section, where the trustee can offer members a choice, ethical investment options are made available allowing members to reflect their views and preferences. The scheme offers two ethical options – one (to the extent possible) mirroring the USS Default Lifestyle Option and the other a global equity fund (a self-select option). In addition, a Sharia consistent fund is available to members. The assets are invested in line with the USS Ethical Guidelines, based on market practice and research with members in 2015 prior to the launch of the DC Section.

Along with the review of the USS Default Lifestyle Option in 2019, the trustee also carried out a review of the USS Ethical Lifestyle Option. Changes were made to the glidepath and most members were moved to the new glidepath in February 2021. The Reference Portfolios for the USS Ethical Growth, USS Ethical Moderate Growth and USS Ethical Cautious Growth Funds were also changed as at 1 July 2020, in line with the changes to the USS Growth, USS Moderate Growth and USS Cautious Growth Funds.

In late 2020, the trustee carried out a large-scale survey of members to understand their views on sustainable investment, including beliefs on their general importance and on particular sectors and activities. This information is currently being analysed by an academic institution and will be used alongside other sources to consider, to the extent permitted by the trustee's fiduciary duties, whether any changes to the USS Ethical Guidelines and the ethical funds in the DC Section are needed.

4 Financially material considerations

The trustee's primary duty in relation to investment strategy is to invest the scheme assets in the best financial interests of members and beneficiaries, having regard to an appropriate level of risk. In carrying out this duty, the trustee expects its investment managers (USSIM and the external managers appointed by USSIM) to take into account all financially material considerations in the selection, retention and realisation of investments.

This includes ESG considerations (such as, but not limited to climate change) where these are considered relevant financial factors.

This approach is implemented in three ways:

- Integration into investment decision-making processes: The trustee requires active managers to seek to identify mispriced assets and make better investment decisions to enhance long-term performance by taking account of financially material considerations. The trustee believes additional returns are available to investors who take a long-term view and are able to identify where the market is overlooking or misestimating the role played by these considerations in corporate and asset performance

- Stewardship, engagement and voting rights: As a long-term investor the trustee expects its managers to behave as active owners on its behalf and use their influence to promote good practices concerning financially material considerations (further detail is set out below)
- Market transformation activities: The trustee and its agents engage with policy-makers and regulators in markets in which it invests, to articulate concerns of asset owners and long-term investors, covering areas such as accounting standards and climate change policies

USSIM has processes in place to ensure the investment strategy and management of the assets are in the best interests of the members and beneficiaries.

These processes are overseen by the USSIM Board and the Investment Committee. The trustee is satisfied that USSIM is informed about the matters that the investment managers are taking into consideration and that these are aligned with the trustee's policies, as expressed in the SIP and the Default SIP.

The decision to appoint either internal or external managers and decision regarding the preferred investment structure is made in the best interests of the members and beneficiaries considering several factors including investment capability, experience and value for money. This applies for both the DB and DC Sections.

4.1. Investment management oversight: alignment of interests

The SIP sets out the trustee's policies in relation to the arrangement with asset managers and this is set out in Section 1, in respect of USSIM, and Section 4, primarily in respect of external managers, of this Statement.

The trustee and USSIM have put in place several processes with its investment managers (internal and external) to ensure alignment of interests with the trustee's policies, objectives and focus on the long-term and these are taken into account in the selection, retention and realisation of investments.

When appointing an investment manager, the trustee requires managers, including USSIM, to take account of these of these investment policies which cover such things as:

- The kinds of investments to be held
- The balance between different kinds of investments
- Financially material considerations to be taken into account over the appropriate time horizon of the scheme, including how those considerations are taken into account in the selection, retention and realisation of investments

The trustee considers that the following processes create alignment with the trustee's investment policies:

Setting the investment strategy with a long-term horizon, including the use of private market assets

The trustee recognises that while underperformance may occur over periods of time, the probability of "return-seeking" assets outperforming "low-risk" investments increases as the investment horizon lengthens, though does not become a certainty. The trustee, as a long-term investor, is likely to hold some investments over many years, including the use of private market assets that provide opportunities for additional returns over the long-term.

Long-term relationship with USSIM and external managers

USSIM and external managers are appointed as long-term investment managers, in line with the long-term focus and horizon for the scheme.

For external managers and USSIM the trustee focuses on performance over five-year rolling periods and put in place performance-related fees where appropriate

The trustee monitors the performance of USSIM over rolling five-year periods and USSIM, on behalf of the trustee, monitors external managers in the same way. USSIM's outperformance target for the DB Section is set relative to the Reference Portfolio and spans both internal and external managers.

While USSIM carries out the monitoring of external managers on a regular basis, the USSIM PAIR team focus their framework for monitoring managers and triggering a more formal assessment on performance over medium to long-term performance. A similar process is undertaken in relation to USSIM and USSIM's performance is reported to the Investment Committee as a standing agenda item.

If performance is not satisfactory, and the external manager is unable to provide rationale for this, then the that manager's appointment may be terminated.

Using in-house investment management where beneficial to the scheme and members

USSIM's compensation approach for in-house investment managers is designed to incentivise the delivery of scheme performance over the long-term and to encourage the retention of key personnel (see Section 1.3 for more details).

Investing responsibility and engaging as long-term owners

USSIM and the trustee expect its investment managers to engage as active owners of assets, focused on sustainability, good corporate governance and to consider all financially material considerations in relation to the selection, retention and realisation of investments. Members' interests are further protected from adverse impacts by collaboration with like-minded investors and engagement with government, industry and regulators.

4.2 External manager selection and monitoring

Once the Implemented Portfolios for the DB and DC Sections have been agreed, USSIM defines the requirements for individual investment mandates for different asset classes, including whether the mandate should be internally or externally managed.

Manager selection

When appointing a new public markets manager, USSIM sets out mandate requirements which details the investment and operational requirements for the individual investment mandate. This is key in developing an Investment Proposal Note which will usually consist of a long list of managers that are filtered down based on assessed skill and quality.

The short list stage is where more due diligence is carried out on the external manager's investment team, process, risk management, including Responsible Investment (RI) practices and initial fee negotiations. After this work, a final candidate will be proposed for further due diligence including RI assessment (see Section 5.2) and Operational Due Diligence (ODD) assessment. During the new manager onboarding process, USSIM compares fund expenses where relevant and possible.

Where USSIM does not possess the expertise itself, USSIM will outsource its manager selection exercises. For example, for a new mandate to take advantage of opportunities in China, a specialist consultant was appointed that had strong knowledge and 'on the ground' China expertise to help USSIM select a strong manager that would be suitable for the scheme, given its investment strategy and relevant policies. The specialist consultant carefully considered USSIM's requirements including RI practices before recommending a short list. In these instances, USSIM retains the final selection decision.

External managers are requested to provide USSIM with details of their remuneration arrangements, which allows USSIM, where ascertainable, to assess whether they are aligned with the trustee's policies, values and principles.

For active mandates, USSIM aims to create alignment by agreeing performance fee structures with hurdles. For managers of passive mandates (or where performance fees are not available), USSIM aims to have as low a management fee as possible. In order to ensure that USSIM is obtaining the best value for money with its external manager appointments, USSIM commissioned an independent consultant to carry out a fee benchmarking exercise in 2020 to compare peer fees with similar types of external mandates.

For private market fund investments, due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, the USSIM team will consider how the key individuals involved in the fund's decision-making processes are aligned to fund performance, how performance fees are shared among the team and how the ownership of the fund management firm is shared amongst partners. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of the scheme's capital are well-aligned with the scheme's investment objectives over the long-term.

Manager monitoring

Oversight of the external and internal public market mandates is carried out by USSIM. The method and time horizon for evaluating and remunerating external managers is determined by policies set by USSIM, rather than the trustee. USSIM engages at least quarterly via questionnaires and regular meetings, covering performance, risk and changes to the portfolio and process. The RI team undertake monitoring reviews against the scheme's bespoke ratings framework (see Section 5.2).

USSIM also undertake formal in-depth annual reviews of all external public market managers incorporating detailed assessments of changes in the organisation, team, process, expenses, portfolio turnover, risk, performance, RI developments and Diversity and Inclusion initiatives. It also includes benchmarking of performance, fees, and reviewing governance structures. A lighter touch annual review is carried out for the scheme's legacy AVC manager, Prudential, which is reviewed by the Investment Committee and in line with the trustee's policies.

For private markets fund investments, the trustee's policy is complied with at the time of the investment and oversight is undertaken by USSIM on at least a semi-annual basis. However, there is an immaterial divergence from the policy as these regular reviews do not cover all elements of the policy that cannot be influenced post-investment due to the illiquid nature of the private market fund investment (i.e. governance and fees).

Following a review of the scheme's hedge fund programme, USSIM redeemed several of its investments with external hedge fund managers, reducing the number of managers from 10 to three (a reduction from £1.3bn to £490m over the year). Formal annual reviews for managers with in-progress full redemptions are not carried out, which the trustee considers is an immaterial divergence from the processes as set out in the SIP. Regular quarterly monitoring continues until the redemption is complete.

USSIM has processes in place to assess and monitor how its external managers are addressing financially material considerations in the selection and retention of investee managers and assets, both before they are appointed and on an ongoing basis. This applies to managers of both public market and private markets funds, and managers within the DB and DC Sections.

4.3 Fees and transaction costs

There are different types of investment costs and charges, some of which are explicit (like an Investment Management Charge) and some of which are implicit (for example transaction costs).

In order to provide the trustee with a full view of the costs and charges across the scheme, in 2020 USSIM carried out an exercise to report to the Investment Committee total investment costs incurred over the calendar year 2019 (for both the DB and DC Sections). USSIM appointed an external provider to help with the data collation and benchmarking purposes. Upon conclusion, the trustee was able to include the costs and charges for the DC funds within the Chair's DC Statement and comply with the Cost Transparency Initiative's guidance for both the DB and DC Sections.

The Cost Transparency Initiative is an industry body overseeing the introduction of standardised templates for reporting of costs and charges by suppliers of investment services. The trustee has played a key role in the creation of these templates and adopted them for the purpose of collecting transaction cost information from external managers and within USSIM across both DB and DC Sections. The templates also cover portfolio turnover costs¹ which allows the trustee to monitor target portfolio turnover and/or turnover ranges which it does so on an annual basis.

To date, benchmarking has indicated that costs are in line with peers in the UK and the Netherlands. Fees and expenses are also considered on the appointment of an investment manager and as part of the regular reviews.

4.4 Best execution

Best execution is overseen by an internal USSIM oversight committee. The committee's responsibilities include oversight and challenge of USSIM and the external managers' Cost and Quality of Execution.

On an annual basis, the Committee will oversee USSIM's RTS28 and Cost Transparency reporting arrangements (see uss.co.uk/how-we-invest/our-principles-and-approach) relating to Portfolio Investment Activity and Transaction Costs. Analysis on best execution is included on all private markets fund transactions. The Investment Committee monitors this activity on an ongoing basis.

4.5. Scheme-wide investment exclusions

At the end of 2019, USSIM embarked on a detailed review of a selection of sectors in which the scheme invests, looking for any differences between what industry financial models predict in terms of performance returns, and what it could reasonably expect to happen over the long term horizon of the scheme. USSIM concluded from the process, taking into account the trustee policy on non-financial factors set out in Section 1.6, that in several cases, the outcomes predicted by the market do not appropriately consider the potential impact of certain specific risks, which could impact financially on these sectors.

In May 2020 USSIM announced plans to exclude, and where necessary divest from, companies in those sectors that were deemed to be financially unsuitable over the long term. These were:

- Tobacco manufacturing
- Thermal coal mining (the mining of coal to be burned for electricity generation), specifically where this makes up more than 25% of revenues; and companies that may have ties to the following industries – cluster munitions (a form of explosive), white phosphorus (a chemical which self-ignites on contact with air) and landmines
- Controversial weapons – companies that may have ties to cluster munitions (a form of explosive), white phosphorus-based weapons (a chemical which spontaneously ignites on contact with air) and anti-personnel mines

USSIM has largely divested of these assets a year ahead of the original target date of May 2022. These exclusions will be kept under review and may be changed or added to over time and will be made across the DB and DC Sections. To date, USSIM have divested c.£290m from companies that fall into the sectors USSIM have excluded.

5 Stewardship, engagement and Responsible Investment

The trustee is an active and responsible steward of the assets in which it invests on behalf of scheme members. The trustee expects this approach to both protect and enhance the value of the scheme in the long-term and to create sustainable value for the members and beneficiaries, recognising the interdependence of performance for the members with benefits to the economy and society. The trustee's responsible investment strategy applies to all the assets in which the scheme invests, whether this is via portfolios run by USSIM or external managers. As a result, the scheme has processes in place to assess and monitor how potential or existing managers are addressing responsible investment factors.

The trustee will undertake its decision making in a manner which is consistent with the trustee's investment objectives, its legal duties and other relevant commitments e.g. the UN-backed Principles for Responsible Investment (UNPRI) and the UK Stewardship Code. Specifically, the trustee has instructed USSIM, as its principal investment manager and adviser, and (through USSIM) its external managers, where applicable, to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the scheme's investments are exposed.

Note

¹ Turnover has been defined as Sales + Purchases / Average Asset Value. Purchases (sales) are total consideration paid (received) for the purchase (from the sale) of assets during the reporting period. Average Asset Value = average of value of assets at month end during the reporting period.

The scheme's Statement on Responsible Investment at uss.co.uk/how-we-invest/responsible-investment sets out detailed information on how the trustee considers ESG factors where financially material to the scheme and the extent to which it can take non-financial ESG factors into account (see Section 1.6). The Trustee Board agrees the RI strategy, and formally reviews the RI team's activities annually, signing off key focus areas and policies. The Statement on Responsible Investment is reviewed regularly and is currently being updated by the trustee for approval in Summer 2021. The Investment Committee receives reports from USSIM on a semi-annual basis so that it can assure the Trustee Board that the Statement is being effectively implemented.

In the trustee's opinion, the policies in relation to engagement activities have been materially followed during the year.

5.1 Implementation of the scheme's RI strategy

The trustee's approach to carrying out its primary duty in relation to its investment strategy is implemented as more fully described in Section 4 (Financially Material Considerations), in three main ways:

- Integration into investment decision-making processes
- Stewardship, engagement and voting rights
- Market transformation activities

Further information on the scheme's approach and examples of the trustee's activities are reported annually under the UN Principles for Responsible Investment reporting framework at unpri.org/signatories/reporting-and-assessment/public-signatory-reports and USS RI Annual Reports at uss.co.uk/how-we-invest/responsible-investment. The PRI's latest annual assessment of the scheme's practices in responsible investment, published in 2020, is outlined below.

The internal investment managers reflect the Statement on Responsible Investment and their incorporation of ESG factors within their investment desk procedures. Further information on the processes in place for external managers are included in Section 5.2.

Summary Scorecard

AUM	Module Name	Your Score	Your Score	Median Score
	01. Strategy & Governance	A+		A
Indirect - Manager Sel., App. & Mon				
<10%	02. Listed Equity	A+		A
<10%	03. Fixed Income - SSA	A		B
<10%	04. Fixed Income - Corporate Financial	A+		A
<10%	05. Fixed Income - Corporate Non-Financial	A+		A
<10%	06. Fixed Income - Securitised	A+		A
<10%	07. Private Equity	A+		A
<10%	08. Property	A+		A
Direct & Active Ownership Modules				
10-50%	10. Listed Equity - Incorporation	A+		A
10-50%	11. Listed Equity - Active Ownership	A+		B
10-50%	12. Fixed Income - SSA	B		B
<10%	13. Fixed Income - Corporate Financial	Not reported		
<10%	14. Fixed Income - Corporate Non-Financial	Not reported		
<10%	16. Private Equity	Not reported		
<10%	17. Property	Not reported		
<10%	18. Infrastructure	Not reported		

5.1.1 ESG integration

Having an in-house RI team at USSIM permits better coordination of RI activities across the scheme and facilitates the integration of ESG analysis and stewardship activities into USSIM's investment processes and investment advice to the trustee in accordance with the trustee's policy. Details of the trustee's approach to RI integration across the scheme's different asset classes are outlined in the annual PRI reports at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

Integration in public markets

For the scheme's internal public markets holdings, engagement meeting notes and voting letters are shared systematically within USSIM. This provides the internal investment teams with a record of how the scheme voted and USSIM's view of the firm's ESG practices which help to inform their view of a company. RI records voting practice and engagement notes alongside the portfolio manager's investment cases and buy/sell/hold decision notes. Members from the RI team also attend internal active equity team meetings to discuss ESG-related issues resulting from research and company engagements.

Integration in private markets

RI is integrated into the selection and retention of directly held private assets. Although access to ESG ratings information is not typically available, RI due diligence is undertaken for all direct deals and presented to internal USSIM oversight committees. The process seeks to identify any material legal, ethical, governance, reputational, environmental and social risks that could potentially affect the value of the investment and explores whether there are appropriate processes in place to mitigate these factors.

Due diligence is underpinned by site visits by the deal team, commercial, legal and operational due diligence for the assets. If appropriate, USSIM will also appoint specialist external advisers and consultants to assess ESG risks and performance.

Following acquisition, USSIM continues to monitor ESG activities at directly held assets to determine if there are any financial implications. For direct assets, USSIM will typically have board representation and material influence at the company to affect and oversee ESG performance. The RI team will typically work alongside the USS appointed directors who represent the trustee on the investee company's board. These stewardship activities are particularly important as a long-term investor.

5.1.2. Stewardship – engagement

The trustee believes that promoting high standards of ESG, and investing responsibly in quality companies and assets, reduces the risk associated with investing, and improves its ability to meet the pension promises. The concepts of active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to the scheme's Investment Beliefs (at uss.co.uk/how-we-invest/our-principles-and-approach).

The trustee has instructed USSIM to follow good practice and use its influence as a major institutional investor and long-term steward of capital to promote good practice in the investee companies and markets to which the scheme's investments are exposed. Wherever possible – regardless of asset class – ESG practices are integrated into the investment decision-making process and taken account of when they have a financial impact. The trustee believes that there have not been any material divergences from the policies in relation to engagement (as set out in the SIP and Statement on Responsible Investment) during the year.

Case studies on engagements and further details about the collaborative RI initiatives the trustee supports are reported in our PRI Report at unpri.org/signatories/reporting-and-assessment/public-signatory-reports. Further examples of USSIM's engagement can be found in our

Case study – Climate Action 100+ collaborative engagement

The scheme joined more than 550 global investors with over US\$54 trillion in assets under management, as participants in the Climate Action (CA) 100+. This five-year project has seen investors engage with the world's largest emitting companies to encourage them to act on climate change. As a result, USSIM will continue to engage with companies in collaboration with other investors (to improve the efficiency of engagement) to ensure that they do more to reduce emissions, strengthen climate-related financial disclosures and improve their governance of climate change issues as they affect their business: the outcome will be stronger corporate alignment with the Paris Agreement and better communication with investors on how companies are managing the transition to a low carbon future.

latest Stewardship Report at uss.co.uk/news-and-views/latest-news/2021/06/06172021_uss-has-released-its-first-stewardship-code.

For our external managers, USSIM views its monitoring programme (see Section 5.2) as engagement with the manager. This involves the RI team reviewing external managers' RI-related policies, processes, resources, reporting and stewardship activities, with managers ranked against in-house assessment frameworks. The frequency and type of monitoring is tailored to the asset class.

Climate change

In recent years, the trustee has been considering the expected outcomes of scheme-wide climate scenario analysis and stress-testing, looking at the impact of climate change based on different temperature scenarios.

USSIM is working on embedding climate as a financial factor in the return expectation process for consideration in the scheme's asset allocation.

Details of the scheme's approach to climate change are reported to members and other stakeholders Task Force on Climate-related Financial Disclosures (TCFD) -aligned updates, the latest of which was published within the scheme's RI Annual Report 2020 at uss.co.uk/how-we-invest/responsible-investment. The trustee's approach to reporting and disclosure on climate change was recognised by the PRI in their Global Leaders Group 2020.

Developments in public markets

USSIM engaged in several collaborative initiatives during the year such as the UK companies with the Investor Forum at investorforum.org.uk and globally with the CA100+ on climate risk at climateaction100.org/ (see case study above). Further case studies are reported in the annual PRI Report available through the public reporting portal at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

Over the past year, USSIM has increased its participation in collaborative engagements which cover a broader range of companies and issues than it would have previously. This produces greater engagement because the scheme's capital is being put to work in collaboration with other funds, which is a more efficient use of the scheme's resources.

Developments in private markets

Integration of financially relevant ESG factors and stewardship activities is also undertaken across the scheme's direct and indirect private markets portfolios. Further details, including thematic work on climate change and case studies of our approach to RI in private equity, real estate and infrastructure are reported in our annual PRI reports at unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

In 2019, USSIM undertook a thematic project focused on identifying the key risks of climate change across the major sectors and geographies in which it invests, as well as identifying investment opportunities driven by the transition into a net zero-carbon world. Over the past year, the private markets investment team has continued to focus on the following areas – energy efficiency, hydrogen, CCUS and battery storage, in addition to growing the scheme's existing renewables exposure. USSIM is also working closely with portfolio companies, using its governance position to drive change and incorporate the transition to net zero into business planning.

5.1.3 Market transformation

As a large global investor, the trustee believe that it has a role to play in promoting the proper functioning of markets and includes market-level initiatives within the scheme's RI strategy. This includes engagement with policymakers and regulators in markets in which the scheme invests, to articulate the concerns of asset owners and long-term investors.

Examples include responding to the Financial Reporting Council's consultations on the revised UK Stewardship Code; engaging with representatives of the European Commission on the subject of Sustainable Investment and the Green Taxonomy ahead of proposed changes to EU regulation; and meeting with the UK Department for Work and Pensions on their 2020 TCFD reporting consultation. Over the year, USSIM engaged with the Department of Work and Pensions (DWP) and the Department for Business Energy and Industrial Strategy on issues with TCFD reporting.

USSIM seeks to ensure that externalities and market failures, such as pollution, climate change or systemically weak corporate governance standards, do not affect market-wide, long-term economic performance. Thus, USSIM actively supports improvements to corporate governance codes as well as global ESG data-initiatives such as CDP www.cdp.net/en which encourages corporate reporting of carbon emissions and water usage against a standardised framework.

5.2 Responsible Investment, oversight and monitoring

The trustee, via its Investment Committee, expects its investment managers to undertake appropriate monitoring and oversight of current investments. This oversight is to enable the identification of issues and facilitate early engagement with boards and management of investee companies and other stakeholders where necessary. These matters include strategy, capital structure, management of actual or potential conflicts of interest, corporate governance, social and environmental impact. The trustee oversees USSIM's policies and practices on responsible investment, stewardship and ESG integration, including how USSIM, in turn, monitors external managers in this regard.

Under the scheme's SIP, the trustee expects its investment managers, including USSIM, to take the scheme's Statement on Responsible Investment (at uss.co.uk/how-we-invest/responsible-investment) into account in the selection, retention and realisation of the scheme's investments.

For externally managed assets, USSIM ensures the managers are aware that the scheme is a signatory to the UNPRI and supporter of TCFD. The external managers also confirm that they will consider ESG in portfolio management to the extent it accords with the trustee policy (see Section 1.6).

USSIM has processes in place to assess and monitor how its external managers are addressing RI considerations in the selection and retention of investee managers and assets, both before they are appointed and on an ongoing basis. This applies to managers of both public market and private markets funds, and managers within the DB and DC Sections.

RI reviews are based on information provided by the investment managers and face-to-face meetings. Standard template questionnaires are in place for due diligence and monitoring for public and private markets but are adapted to suit the asset class and investment strategy for each fund under review. The due diligence establishes a baseline view and rating which then forms USSIM's ongoing monitoring programme. Considerable emphasis is placed on mandate/fund-level responses to ensure the case studies, policies and processes under review are applicable to the USS mandate.

The reviews rate the funds across the following key areas: RI policies and processes, ESG integration, stewardship (or asset management practices for private markets), collaboration/ public policy and reporting. The reviews also consider voting practices (see Section 6.3).

Where necessary, USSIM uses feedback and engagement with its managers to improve RI practices and increase alignment to the scheme's Statement of Responsible Investment and the SIP. For example, the RI team met with several managers to discuss improvements to fund-level reporting on RI activities in 2020. USSIM have also been engaging with one of the scheme's external equity managers, who had a low initial RI rating under the RI scoring framework.

USSIM discussed the challenges and set milestones that the manager needed to achieve in order to have an acceptable score. USSIM continues to engage with the manager to improve their RI practices.

RI oversight of external managers in relation to their compliance with the scheme's Statement on Responsible Investment and SIP is reported to internal USSIM oversight committees, the Investment Committee semi-annually and provided in an annual update for the Trustee Board.

The USSIM RI team report semi-annually to the Investment Committee in relation to how USSIM has implemented the scheme's Statement on Responsible Investment. This process allows the trustee to monitor the implementation of the scheme's Statement on Responsible Investment and engage with the relevant persons about its implementation.

6. Voting behaviour and vote disclosure

This section includes further information on the trustee's policies and the voting behaviour during the year. The trustee believes that there have not been any material divergences from the policies in relation to the exercising of voting rights on behalf of the trustee during the scheme year.

As active, long-term owners of the companies in which the scheme invests, exercising the trustee's voting rights is one of the cornerstones of USSIM's stewardship activities. Voting at the general meetings of these companies is one of the most effective tools USSIM has for holding the companies to account and encouraging good governance¹.

6.1 USS voting policy

The trustee has its own USS Voting Policy at uss.co.uk/how-we-invest/responsible-investment/how-we-vote outlining the scheme's expectations for investee companies and reflecting international best practice – including the UK Corporate Governance Code at frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

The trustee also expects USSIM and its external managers, where appropriate, to use their voting rights as part of their engagement work, in a prioritised, value-adding and informed manner.

Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the trustee expects its investment manager to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Investment Committee monitors this engagement on an ongoing basis with the aim of maximising its effectiveness. The trustee's ESG related policies are also reviewed regularly by the trustee Board and updated as required to ensure that they are in line with good practice.

The trustee reviews the USS Voting Policy each year to align to the trustee's beliefs about good practice in line with the trustee's fiduciary duties. The policy was updated in 2019 and in 2020 to integrate data from the Transition Pathway Initiative (TPI), at transitionpathwayinitiative.org, and the readiness for a transition to a low carbon economy, into voting decisions. For the 2021 AGM season, USS may vote against or abstain on the resolution to receive the report and accounts where it has concerns about a company's management quality score, as assessed by the TPI.

Note

¹ While USSIM intends to vote globally on all the scheme's listed investments, the requirement of Qatar's commercial code that voting must be done in person has limited the ability of USS to vote by proxy in this region. This affects less than 1% of the scheme's holdings.

USSIM forms an independent decision on voting on a case by case basis, considering international local market standards and best practice, proxy research, outcomes from engagement meetings, discussions with peers, and the scheme's investment managers' perspectives. In the trustee's opinion, the USS Voting policy is not applied rigidly, and discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, i.e. the overall improvement of the company's corporate governance.

USSIM integrates ESG factors into its voting decisions for the portfolios where such factors are financially relevant. The trustee promotes high quality disclosure and performance management of ESG issues through engagement with companies and the scheme's voting activities. Shareholder proposals, including those which relate to ESG issues such as climate change, human rights, labour relations and other ethical matters, are considered on their individual merits. It is USSIM's intention to support those resolutions that it considers to be in the long-term interests of shareholders. However, if USSIM consider the resolution as overly burdensome or better addressed through another route, it will not be supported.

Typically, USSIM has voted against company management on issues such as excessive executive remuneration or lack of board member independence. Whenever USSIM votes against management, USSIM usually writes to the company to explain its concerns. USSIM sees this as an important way of providing feedback and encouraging change.

The scheme has an active securities lending programme. To ensure that the scheme is able to vote all its shares at important meetings or where the scheme is a significant shareholder, USSIM has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes.

USSIM monitors the meetings and can restrict stock lending on a case by case basis, for example in the event of a contentious vote or in relation to engagement activities, further to discussion with the portfolio manager. Further details can be found on the USS website at uss.co.uk/news-and-views/latest-news/2020/03/032014_uss-statement-on-the-uk-stewardship-code-sept13.

6.2 Voting and the scheme equity holdings

For the DB Section, the scheme's internally managed equities (circa £8bn) and main externally managed mandate (circa £12bn) are both subject to the USS Voting Policy. The scheme also has £1.9bn of equities which are externally managed in a pooled account. USSIM has agreed a 'vote override' with the manager of the pooled account which means that USSIM can direct the vote to ensure USSIM align the voting decisions. Due to the number of holdings the scheme owns, USSIM are unable to attend every company shareholder meeting to cast their votes, USSIM therefore vote by proxy through the Minerva voting platform for the assets subject to the USS Voting Policy.

The remaining equity holdings for the DB and DC Section are externally managed in pooled funds and votes are cast in accordance with the external manager's policy (circa £2bn). While the trustee is not in a position to exercise voting rights directly this does not mean that the way these voting rights are used is not important. USSIM regularly monitors the voting and stewardship practices of the external equity managers, reviewing updates to voting policies, sampling the managers' vote records and commentaries, and scrutinizing their more fulsome disclosures on 'significant votes'. As part of USSIM's monitoring and engagement programme with external managers, USSIM engages to encourage greater alignment with international best practice and/or our Voting Policy where appropriate (see Section 5.2).

For the DC element, USSIM have focused efforts on the voting and stewardship practices of the primary external equity manager to confirm that the manager is broadly aligned with the trustee's beliefs and policies.

6.3. Disclosure and oversight

USSIM records, and publicly discloses, on behalf of the trustee voting actions on the USS website at uss.co.uk/how-we-invest/responsible-investment/how-we-vote (disclosing the scheme's voting history dating back to 2010).

The trustee monitors and reviews USSIM's voting decisions twice a year through the Investment Committee and once a year through the Trustee Board. The external equity managers' voting records are reviewed by USSIM as part of the RI manager oversight and monitoring processes. Voting policies and practices are also reviewed alongside voting case studies, vote activity reporting and analysis applicable to the USS mandate. Regular proxy voting activity reports are also included in the standard quarterly reporting suite requested from our external equity managers and typically covered in the manager's annual RI/stewardship publications.

To date, USSIM has not had, nor expects to have, any difficulty obtaining voting data from the scheme's external managers. However, USSIM has engaged with the scheme's managers to improve their reporting at fund level, rather than market or regional level.

6.4. Scheme voting statistics

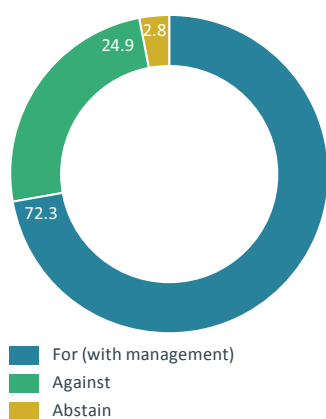
The statistics below are in respect of the scheme’s internal equity assets and the large externally managed mandate (representing c.85% of the scheme’s equity holdings):

Voting Statistics April 2020 – March 2021	Response
How many meetings was USSIM eligible to vote at?	1,076
How many resolutions were USSIM eligible to vote on?	13,615
What percentage of resolutions did USSIM vote on for which USSIM were eligible?	99.5%
Of the resolutions on which USSIM voted, what percentage did USSIM vote with management?	72.3%
Of the resolutions on which USSIM voted, what percentage did USSIM vote against management?	24.9%
What percentage of resolutions, for which USSIM were eligible to vote, did USSIM abstain from?	2.8%
In what percentage of meetings, for which USSIM were eligible to attend, did USSIM vote at least once against management?	73.8%
What percentage of resolutions, on which USSIM did vote, did USSIM vote contrary to the recommendation of your proxy adviser?	N/A

Shell’s so-called Scope 3 emissions, i.e. those associated with the end use of its products (oil and gas) rather than the more traditional Scope 1 and 2 emissions which focus on the company’s own generation of emissions. The CA100+ engagement continued and in April 2020, Shell committed to taking significant additional action on climate change including a commitment to achieving net zero emissions by 2050 or sooner (covering scope one, two and three emissions). This helps align Shell with the Paris Climate Agreement and provides some confidence in the long-term sustainability of the business.

Outcome of the vote: For 14%, Abstain 4%, Against 82%

USS global votes April 2020 – March 2021



6.5 Most Significant votes – examples for period from 1 April 2020 – 31 March 2021

Below are details of the most significant votes on behalf of the trustee.

6.5.1. Royal Dutch Shell plc – 19/05/2020

Summary of resolution:

AGM resolution 21 – Request the Company to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels.

Vote: Against

Rationale for the voting decision:

USSIM voted against this shareholder resolution in light of the additional commitments Shell had been making to address climate change and Shell’s delivery on several commitments made between Shell and the Climate Action 100+ investors. In 2018 Shell committed to reducing its carbon emissions by 50% by 2050¹. The critical point was this also covered the

Implications of the outcome?

USSIM continues to engage with Shell and monitor progress. The ambitions set in April 2020 have been accelerated by new goals announced in February 2021 committing Shell to reducing its net carbon Intensity (using its Net Carbon Footprint metric) by 100% by 2050 (increased from around 65% as stated in 2020), and by around 45% by 2035 (increased from around 30%).

On which criteria have you selected this vote to be significant?

This is a significant vote for the trustee as the company is a relatively large holding for the scheme, and there was considerable member interest in how the trustee voted the shareholder resolution.

6.5.2. Mizuho Financial Group Inc (“Mizuho”) – 25/06/2020

Summary of the resolution:

AGM resolution 5 – Amend Articles to disclose plan outlining Mizuho’s business strategy to align investments with goals of Paris Climate Agreement.

Vote: For

Note

¹ <https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html>.

Rationale for the voting decision:

USSIM participated in a collaborative engagement facilitated by Asia Research and Engagement which targeted Japanese Banks and their role in financing climate change and in particular coal extraction. The group sought to improve integration of climate change risks and opportunities into strategy for banks across the region. As part of the collaborative engagement, USSIM voted in favour of this shareholder resolution at the AGM of Mizuho requesting Mizuho to disclose climate risks and publish a plan to ensure its investments are aligned with the Paris Climate Agreement. As part of our regular AGM engagement programme, USSIM wrote to Mizuho explaining that it supported the resolution as it would welcome enhanced transparency and disclosure on the specific processes and strategies, including targets and metrics, employed by the bank to align the business and investments with the goals of the Paris Climate Agreement. USSIM believes greater disclosure would help investors understand the risks arising out of this issue.

**Outcome of the vote: For 35%
Against 65%**

Implications of the outcome?

The resolution gained support from 35% of investors who voted and was the first resolution of this type in Japan. USSIM continues to engage with Mizuho on its energy transition plans and how climate scenario analysis is integrated into its business strategy.

On which criteria have you selected this vote to be significant?

This resolution represented the first climate change related resolution at a Japanese company, and the scheme's vote formed part of an ongoing engagement with Mizuho.

6.5.3. Bayer AG ("Bayer") – 28/04/2020

Summary of resolution:

AGM resolution 2 – To approve the actions of the members of Bayer's management board

AGM resolution 3 – To approve the actions of the members of Bayer's supervisory board

Vote: Against

Rationale for the voting decision:

Following its acquisition of agribusiness Monsanto, the use of glyphosate in Bayer's Roundup weed killer product led to ongoing litigation as well as personal health and environmental impact issues. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. In 2020, Bayer set aside billions of Euros to settle the numerous lawsuits it faces by. USSIM continues to question Bayer's judgement in respect of the legal and reputational risks associated with the Monsanto acquisition and engaged to gain a better understanding of Bayer's decision-making process and express continued disappointment with Bayer's handling of the situation. As a result of USSIM's analysis, USSIM made the decision to continue to vote against the resolutions asking shareholders to approve the formal discharge of responsibility of the management board (resolution 2) and the supervisory board (resolution 3) for fiscal year 2019.

Outcome of the vote: resolution 2 –

**For 85%
Abstain 8%
Against 7%**

resolution 3 –

**For 89%
Abstain 5%
Against 6%**

Implications of the outcome?

USSIM continues to engage with the company and monitor progress. While it appreciates that this is only a minor positive step, USSIM welcomed Bayer's commitment to disclose the number of abstentions received, for which there is currently no legal obligation in Germany. USSIM will review the position again in 2021, ahead of Bayer's next annual meeting of shareholders.

On which criteria have you selected this vote to be significant?

Bayer faces ongoing litigation resulting from its purchase of Monsanto and when combined with market perception that there has been poor decision making by Bayer's board and management team, made this a high profile vote.

Actuarial valuation	appraisal of the defined benefit element of the scheme's assets and liabilities, using investment, economic, and demographic assumptions for the model to determine whether, at a certain date, we believe the scheme will have enough money for us to be able to pay the pensions promised to our members on a timely basis	investment management cost	a measure used by USS to assess most of the investments managed on USS members behalf to analyse value for money
CEM Benchmarking	external benchmarking service for pension providers to compare value for money across industry peers	members	employees of Higher Education institutions who may be active (make contributions into future pensions), deferred (previously active who have deferred their pension until retirement age), or pensioner members (in receipt of pension benefits)
CPI	Consumer Price Index	My USS	the online service for managing USS savings and benefits
CPIH	Consumer Price Index including owner occupiers' housing costs	pension administration cost	a measure used by USS to assess the cost of administrating USS pensions to analyse value for money for members
defined benefit	an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history	private markets	financial companies involved in private rather than public markets are part of the capital market. They include investment banks, private equity, and venture capital firms in contrast to broker-dealers and public exchanges
defined contribution	a plan in which members and employers contribute a fixed amount or a percentage of pay which is invested and the proceeds used to buy a pension and/or other benefits at retirement	public markets	refers to securities available on an exchange or an over-the-counter market
employees	employees of Universities Superannuation Scheme Limited or USSIM	Reference Portfolio	the Reference Portfolio is set by the board, and is an allocation of investments across mainstream asset classes (global equities, UK property, government, corporate and emerging market bonds). It is used as a benchmark for performance and asset-liability risk
employers	Higher Education institutions who pay contributions to their employees pensions	Retirement Income Builder	the defined benefit element of the scheme. Members automatically join the Retirement Income Builder
ESG	environmental, social and corporate governance	RPI	Retail Price Index
FCA Senior Manager and Certification Regime	relates to regulation, implemented by the Financial Conduct Authority (FCA), to extend regulatory accountability to the senior managers within financial institutions in an effort to curb corruption and enforce an increased culture of compliance in the UK's financial services market	the scheme	the scheme means Universities Superannuation Scheme
fixed income	means an investment approach focused on preservation of capital and income. It typically includes investments like government and corporate bonds and can offer a lower risk steady stream of income	the trustee	the trustee or trustee company means Universities Superannuation Scheme Limited. It is a corporate trustee which has overall responsibility for scheme management
funding ratio	ratio of a pension or annuity's assets to its liabilities	Trustee Board	representatives of the trustee who provide overall leadership, strategy and oversight of USS, the scheme, the trustee company and USSIM, in co-operation with its board of directors
IAP	Institutions Advisory Panel; employer advisory group to USS	USS	USS primarily means the scheme but, where the context admits, may mean the trustee and/or USSIM; Universities Superannuation Scheme (USS)
Implemented Portfolio	the actual distribution of the scheme's assets, across a more diversified asset mix, as determined by the investment programme	USSIM	USSIM means USS Investment Management Limited. The trustee delegates implementation of investment strategy to a wholly-owned subsidiary – USSIM
Investment Builder	the defined contribution element of the scheme. Members have funds in the USS Investment Builder if they have earnings above the salary threshold (£59,585.72 for the 2020/21 financial year), made additional contributions, or recently transferred funds into the scheme	we, us or our	we, us or our means the trustee but, where the context admits, may mean USSIM

Pensions increases

USS pensions are generally increased in line with increases in official pensions as defined in the Pensions (Increase) Act 1971, although from 1 October 2011, changes to the Scheme Rules introduced limits on such increases in respect of rights that accrue after that date. Increases to official pensions are based on the rate of inflation for the 12 months to September, measured using the Consumer Prices Index (CPI). For the year to September 2020, the CPI rate was 0.5% and therefore the increase applied to USS pensions in payment and deferment was 0.5% effective from April 2021.

Enquiries about the scheme

Enquiries should be addressed to the Company Secretary, Ms Nicola Mayo, Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY.

Following a competitive tender process, a new Scheme Actuary has been appointed. Ali Tayyebi of Mercer ceased to be Scheme Actuary on 3 April 2020 and confirmed in writing to USS on 3 April 2020, that he knew of no circumstances connected with his removal from the appointment, which will significantly affect the interests of the current or prospective members and beneficiaries under the Universities Superannuation Scheme. The new Scheme Actuary (noted below) was appointed on 6 April 2020.

Principal officers and advisers

A range of external advisers were engaged in the UK and overseas to support the operation of the scheme during the year. The principal external advisers of the scheme and for the trustee company are:

Scheme Actuary	Independent Auditor	Bankers	Custodians	Legal advisers (Actuarial Valuation)	Covenant advisers
Aaron Punwani of Lane Clark & Peacock LLP, 95 Wigmore Street, London, W1U 1DQ	Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London, E14 5EY	Barclays Bank PLC, 48B & 50 Lord Street, Liverpool, L2 1TD National Westminster Bank Plc, 22 Castle Street, Liverpool, L2 0UP	JP Morgan, 25 Bank St, Canary Wharf, London, E14 5JP Northern Trust 50 Bank Street, Desk 7-18-F, London, E14 5NT	CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF	PriceWaterhouse Coopers LLP, 1 Embankment Place, London, WC2N 6RH

The financial statements included within the Annual Report and Accounts have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

The registered number of the trustee company (Universities Superannuation Scheme Ltd) at Companies House is 01167127.

The reference number of the scheme (Universities Superannuation Scheme) at The Pensions Regulator is 10020100, Royal Liver Building, Liverpool, L3 1PY.