The following note was sent to heads of participating institutions on 18 January 2022

Colleagues,

On behalf of everyone at USS, I want to send you our very best wishes for 2022, and to update you on the current position on some important topics.

Employer consultation

The statutory employer-led consultation with affected employees and their representatives, on the benefit changes proposed by the Joint Negotiating Committee (JNC), closed at 5pm yesterday. More than 3,500 responses had been submitted by the end of last week and we expect the final figure to be higher still.

Your nominated consultation contacts are currently uploading any written and oral responses received directly from affected employees and their representatives during the consultation period to **the employer section of the consultation site**. They will confirm they've uploaded all responses by **5pm tomorrow** (Wednesday 19 January).

Next steps

The JNC will, in early February, have a chance to formally consider all the responses submitted during the consultation period before the final decision is made regarding the proposed reforms. This follows two interim updates on the consultation feedback received that have been provided to the JNC in December and January.

If there are any changes to the JNC's proposals following the consultation, we will need to consider their effect on the required contributions and any requirement for further consultation and implications for implementation. Any changes to benefits that would impact on the required total contribution rate and/or employer contribution rate would require a further short consultation with UUK in early March on the Schedule of Contributions and a review of the associated funding documents.

In all cases, the deed implementing benefit changes needs to be executed **by 28 February 2022** (at the latest) in order to avoid **contribution increases** under the second leg of the 2020 Schedule of Contributions becoming payable from 1 April 2022.

We will keep you informed of any official developments over the coming weeks.

Investment strategy

The Trustee Board has now taken an 'in-principle' view on its preferred investment strategy for the 2020 valuation. This is subject to further review following a formal consultation with employers (including UUK and UCU) on the associated Statement of Investment Principles (SIP) in the spring. It will also, of course, depend on the overall outcome of the 2020 valuation, including the JNC's final position on its proposed benefit reforms.

In doing so, it has reflected on the views expressed to date by individual employers and through initial discussion with both UCU and UUK. It has also considered The Pensions Regulator's position on the 2020 valuation as a whole, as well as advice from the Scheme Actuary and USS Investment Management Limited.

Initial discussion papers for the 2020 valuation considered an allocation to growth assets of between 40% to 55%, depending on the degree of covenant support provided. Employers subsequently agreed to provide a very substantial degree of additional covenant support, including debt monitoring and pledges on new secured debt. In informal discussions with employers over the autumn we received a strong message that, in these circumstances, the allocation to growth assets should not be reduced from its current level (around 60%).

Further to the benefit changes proposed by the JNC and the additional covenant support provided by employers, we have undertaken comprehensive analysis of different investment strategies relative to the Integrated Risk Management Framework (IRMF). This analysis showed that it could be possible to maintain an allocation to growth assets in line with initial stakeholder feedback *and* stay within risk appetite, provided that the risk associated with the liabilities was reduced.

As a result, the Trustee Board's in-principle decision involves keeping the current allocation to growth assets broadly unchanged at 60% and implementing additional hedging of the inflation and interest rate risks associated with the liabilities. This is possible by increasing the leverage in the portfolio within manageable bounds.

Other investment strategies, involving slightly lower allocations to growth assets and even greater degrees of hedging (but less leverage), would also be compatible with the assumptions underpinning the 2020 valuation. There are, however, important trade-offs to consider in each case. We will look to make these clear to employers when we brief the EPF later this month and when we hold dedicated webinars (currently planned for February/March).

A final decision on the investment strategy, informed by our forthcoming informal discussions and the formal SIP consultation, is due to be made in late spring.

Net Zero

In November, my colleague Simon Pilcher (CEO of USS Investment Management) **updated** you on our journey to Net Zero and briefly trailed a move to introduce a climate 'tilt' to how we measure the performance of some of the scheme's assets.

I am pleased to say we will be announcing an important development in this space soon – involving assets across the scheme's DB and DC sections – as we move towards effectively rewarding companies who can demonstrate they are on the path to lowering greenhouse gas emissions.

More detail will follow in due course, on our website and social media channels.

The 2021 Institutions' Meeting

Finally, for those of you who could not join us on the day (virtually or in person), a recording of the 2021 Institutions' Meeting is now available **here**.

The meeting featured presentations from Dame Kate Barker (Chair of the USS Board), Helen McEwan (Chief Pensions Officer), Simon Pilcher (CEO of USS Investment Management Limited), and Dominic Gibb (Group Chief Financial Officer). There was also a Q&A session with the audience.

Please do watch the recording to hear more about our purpose, performance and priorities – which, as ever, include providing high standards of service and value for money.

Bill Galvin, Group Chief Executive