



# 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 [www.uss.co.uk](http://www.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; and
  - 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 ten 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; and
  - 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**

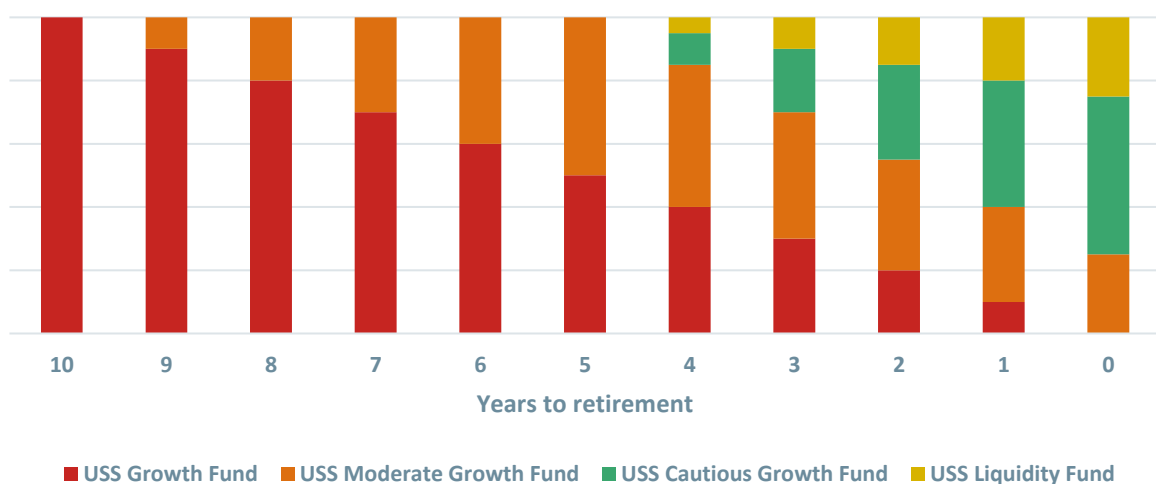
- 5.1.1 The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the default lifestyle option:
- **A growth fund** – will invest predominantly in growth assets, with an objective to provide long-term growth to members, with some 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 ten 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 glide-path 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.
- 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, cashflow 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; and
  - 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](http://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.