USS Institutions' Meeting – Thursday 10 December 2020

Dame Kate Barker: Good morning, everyone, and welcome to this USS session with the institutions. I'm very grateful to you all for giving up time to hear from us and engage with us this morning, particularly given that at this time of this particular year I think we are all really tired of screen time. So, thank you for bearing with a little bit more of it.

We are, of course, well aware more generally of the very difficult period the higher education sector is still grappling with as a result of COVID and the very uncomfortable decisions you've already had to take. At the same time, of course, it's great to see so many academic institutions playing a significant and valuable role in the UK's response to COVID.

The agenda for this session is that, following these opening remarks, Bill Galvin will provide an update on the 2020 valuation and a summary of the trustee company's performance against its key priorities. You will then also hear from Helen McEwan, the Chief Pensions Officer, and Simon Pilcher, the Chief Executive of USS Investment Management, as they look back on a challenging 12 months and then look forward to our ambitions for the future. Then we'll take your questions.

There have been quite a number of changes on the trustee board this year. At the end of August, Sir David Eastwood stepped down after a period of strong and successful leadership. For me, he's proving to be a very hard act to follow.

At the same time, Steve Wharton came to the end of his term as a UCU-appointed trustee, and we miss his experience and the generous time he gave to USS. Then, apart from myself, there are three other new members: Sir Paul Curran, Andrew Brown, and Helen Shay.

Finally, Sir Andrew Cubie came to the end of a long period as Chair of the Joint Negotiating Committee, a role that's now filled by Judith Fish. I recognise that the board still needs to have some greater diversity. Working with the stakeholders where appropriate, I hope we can move towards that as future appointments are made.

When I agreed to join the USS board as Chair, I certainly expected to have some challenges in the 2020 valuation, but I had really no idea of how the pandemic, with all its impacts and uncertainties, would make this such an exceptionally difficult moment for USS.

Probably all the trustees have, at one point or another, been faced with similarly challenging circumstances. I faced some very challenging circumstances myself a little more than 10 years ago, when I was a member of the Monetary Policy Committee at the Bank of England.

In some ways, I think the trustee body can be a little bit like the Bank of England and that group, in the sense that it is a group which has different views, often quite diverse views, but is nevertheless absolutely committed to trying to get the decisions right, and fully recognising the wide responsibilities that we have.

Indeed, it's notable that this year only one meeting has been cancelled across all of USSL's board and committee meetings since the first national lockdown came into effect. In fact, by the end of the year, there will have been a full 49 meetings, 5 more than scheduled at the start of the year, and 4 of those being meetings of the full board.

In addition to that, members of the board have attended the 10 Joint Negotiating Committee meetings held since January, and all 15 of the tripartite talks set up to progress the

recommendations that came from the Joint Expert Panel second report.

Finally, Ian Maybury, Anton Muscatelli and Steve Wharton attended all 11 meetings of the Valuation Methodology Discussion Forum, so COVID certainly hasn't brought things to a halt. Indeed, there has been a need for even greater commitment from all the trustees, and I'm very grateful to their efforts in that respect. It reflects the joint purpose that the trustees have, and their belief in the valuation and the principles of USS.

Nevertheless, the issues we're facing in the 2020 valuation are clearly complex. It is, of course, yet another valuation in which we face lower long-term real interest rates, but also a valuation which concern over longer-term global economic prospects has become more acute. Those factors are yet again pushing up the cost of providing defined benefit pensions in a secure way.

In addition, I think we're all aware that the current system is already not working as well as it should for younger potential members, with affordability among one of the reasons leading to opt-outs. Even before this crisis, many of us were concerned about intergenerational issues in the UK. I served, myself, on the Resolution Foundation's Intergenerational Committee, and I'm very well aware of the evidence that existed pre-COVID on inequalities between younger and older. The fear is, of course, that COVID has tended to make these worse.

The USS trustee, unfortunately, can't ignore or wish away any of these problems. It's a strong trustee, run by people who care very deeply about members' pensions. It benefits from a highly skilled investment team focused on one client and one purpose, and, indeed, a pensions team committed to high standards of service to members. One of my many regrets

about the pandemic is I haven't been able to go to Liverpool to visit that team, which does such important work on your behalf.

Of course, I wish this presentation was coming against the background we'd all hoped for, with a new methodology in response to the JEP, leading to a smaller deficit. The economic shock of the pandemic has swept that hope away, and, indeed, introduced new uncertainties. So, it's more important than ever that we have the express commitment of you, our sponsors, to underwriting the security of our members' pensions. That's absolutely critical to the cost of funding them.

We need to be sure that you will prioritise funding for the scheme in the long-term future and in adverse circumstances. That, of course, is why the covenant measures – we've already been discussing these for 18 months – are really vital. That's why so far we've delayed making any final decisions but extended the window with you in engaging on these covenant measures, because we really do hope to find a way forward.

Nobody underestimates the scale of the issues to be resolved in this valuation, but our duty as trustees – it is, indeed, our primary legal duty – means that our first priority is the security of our members' benefits. Of course, we recognise the issues around affordability. We'd be rather foolish if we didn't. We recognise how much that affects you, affects your colleagues, and, indeed, affects sustainability of the scheme.

None of us think about a scheme that has members opting out in high numbers as good news. It's certainly not the outcome we want. The issue of how to address this is for our stakeholders on the Joint Negotiating Committee rather than for the trustee.

I still believe we can find a way forward within the legal and regulatory boundaries that we have, that will provide a good

financial future for our members and for their families, that will give all our members access to a good-quality pension, and that maintains the USS status as one of the best private pension schemes but yet puts the scheme on a sustainable footing. But if that's going to happen, we're all going to have to work together very closely. We're going to have to accept the hard realities of the situation we have today, and probably make some difficult decisions.

We've spent a lot of time in the last month with UUK and UCU and representatives, discussing different perspectives to inform the 2020 valuation. We hope that will support all the parties in staying true to the shared valuation principles we agreed earlier this year. We need to work together while respecting the responsibilities of the different parties and with full regard, as I say, to the legal and regulatory framework in which all UK pension schemes have to operate.

It's highly unlikely, frankly, we'll be in total agreement on the 2020 valuation. Diverse opinions – some of them more optimistic, some of them more pessimistic – will continue to be aired, and different approaches championed, but our members deserve the best from us, our best efforts to continue to work together, steadfastly, diligently, respectfully, towards a good solution from this valuation. I'll now hand over to Bill Galvin to talk in more detail about the trustee’s work. Bill.

Bill Galvin: Thank you very much, Kate, and welcome to you to your first Institutions’ Meeting. It's a real shame that it's a virtual one. There's usually a great, positive energy in the location when we get together. We all miss that, I think, and miss seeing each other.

Thank you, Kate, from all of us, for all you've done in your first months as Chair. A valuation in a pandemic meant it certainly wasn't a boring a few months for you. Thanks also to David Eastwood, who led us through the year to August and has given very distinguished service to the scheme.

My task today is to give you a brief overview of some of the year's highlights and focus on some key messages, as Kate says. Then I'll hand over to Helen and Simon, who will talk in more detail about our pensions and investment activities. We will try to be as concise as possible. This format doesn't lend itself to soaring rhetoric, so we'll try to avoid it.

Everything we do at USS is towards our core purpose. We've expressed that as working with higher education employers to build a secure financial future for our members and their families. It's a privilege to work in an organisation that has such a clear purpose to our existence.

In delivering against that, we set out for ourselves three core values that guide what we do and how we do it: integrity, collaboration, and excellence. Our aim is that you will see clearly today the high standards we set for ourselves on your behalves, the effort that we put into collaborating with pensions professionals in 340 institutions that we serve, and the 500,000 members whose interests we put first, and the integrity with which we approach our decision-making, big or small and no matter how challenging the issue.

Some of you might have read Martin Wolf's article this week in the 'Financial Times' about why Milton Friedman was wrong. Martin recants on the view that the social responsibility of a business is just about increasing profits. Working in this organisation, serving this sector, we feel the privilege of interpreting our purpose without conflict and acting in our beneficiaries' interests.

In helping members make better decisions, in standing for the security of pensions that were promised, in stewarding the long-term health and responsible actions of the investee companies, and in delivering real value for money when benchmarked against our peers, in all these areas, we have good stories to tell you today, we believe.

Firstly, let me pause on our pensions delivery area. This is very much a collaborative endeavour with you, and it's clear that the higher education sector has had a year like no other. The whole pandemic has reinforced the importance of the higher education sector to our public realm and the activities of the institutions we serve, and understanding, managing through and mitigating the impact of the pandemic has been profound. We're privileged to work with you.

We hope we've played our part in our collaboration with you to continue providing a high-quality pensions offering. Central to our purpose is our ambition to provide our members with the clearest personalised information so that members have the tools, the guidance, and the decision support to navigate an increasingly complex environment of changing work patterns, different retirement options, financial uncertainties.

I feel we're in the foothills of what we can achieve in this arena, but we have made big strides this year. Helen will talk to you about our efforts to improve the member experience by launching new channels for engagement, a new digital offering, which we launched in September, extending online access to pensioners, improving accessibility standards, moving more transactions online and redesigning member journeys through their decisions.

We've also made great strides in our ambitions to go directly to our members and, hopefully, making your jobs easier, supporting initiatives like the distribution of our annual member

statement, which this year went to 99.7% of our active members and 55,000 of whom trialled a new speed-read version.

Helen will talk also about our new offerings in guidance, advice, and flexibility in retirement offerings. We do these, and much more, in collaboration with you. You provide the quality data, the insight, and the supportive key processes that make all these important things happen.

This year we achieved all that through the disruption of the pandemic. You seem to think we did well. Our survey of your views is hot off the press. There's a slide here which indicates a couple of the scores that we've got from that survey. We have an improved score, from a very high base on the quality of support that we provide to you: 87%, up from an already high score of 81%, and a very high score on the helpfulness of our teams as they work with you in the institutions.

We are quite proud of our efforts through the pandemic this year – our collaborative efforts. We feel we prepared very well through February this year, required every team to trial working from home so that on March 16th, when we left our offices, we were confident we could stand up the business.

Like so many of your experiences in your institutions, we surprised ourselves with the creativity, and adaptability, and the resilience. Like you, however, we’re very much looking forward to seeing real people again, and we hope that that’s soon.

All through this time, we achieved high satisfaction scores from our members who interacted with us. I do have to acknowledge, though, the levels of dissatisfaction caused amongst our members by the valuation. 31% of our members

surveyed believe that their overall relationship with USS is poor or very poor. That's up from 16% in 2017 and 6% in 2016.

Our aim, of course, is to inform and engage these members on the issues, explain the position of the trustee, and the rationale, but clearly the core of the message that pensions have become more expensive is not a welcome one. All of the dispute around that is not helping the build-up of trust between the scheme and our members. We’re aware of that and we're focused on it.

Moving to our investment sphere, we have had a very busy year on your behalf. Simon will talk you through our achievements in his first year at the helm. As at March 31st, as we published our annual report and accounts, we had total assets in the scheme of around £67bn. Today that number is close to £80bn, so it has been a volatile year in Simon’s first year.

At that yearend date of 31st March, as asset values fell globally, our investment portfolio did substantially better than our reference portfolio benchmark. That benchmark was down 5.4% over the year. Our implemented portfolio – or our *invested* portfolio – was down 1.7%.

Subsequent recovery in growth assets meant that this position has moderated since. However, at 31st March our five-year numbers were showing that the DB fund was outperforming its benchmark by 1% annualised. These conditions overall have made for an interesting 31st of [March] impact on our reported performance in financial terms. I'll come back to that later.

Simon will talk to you about some achievements through the year about which we are very proud. In February this year, we introduced private market assets to our DC portfolios. We feel

we did that in a very innovative way, creating what we think is a market-leading offering.

Throughout this year, the Private Markets team were exceptionally busy, stewarding our investments that we directly hold through the crisis – as, indeed, were their Public Market counterparts. You'll hear more on this later.

At the same time, our Private Market teams took advantage of these market conditions to deploy significant amounts of capital, investing, for example, in BP’s drive towards net zero by 2050, by helping them release value tied up in their freehold portfolio, looking to support 10 times increase in electric vehicle charging points in forecourts.

Simon and the team have worked harder than ever this year to understand the risks to the USS portfolio that are associated with ESG, with environmental, social and governance-related issues. As part of that, we conducted significant scenario testing on the resilience of our portfolio against different climate change scenarios. We were recognised in the Leaders’ Group 2020 by the PRI organisation, Principles for Responsible Investment.

Also this year, we came to a view that divestment is a valid tool for managing financial risks associated with the uncertainties in the social, political and regulatory arenas. Sometimes these risks are just too difficult, or perhaps impossible, to factor into portfolio decision-making.

We took the decision to not invest, or divest, if we were invested, from tobacco manufacturing, thermal coal mining, cluster munitions, white phosphorus and landmines, in both the DB and the default DC portfolios. We continue to review this area. Of course, we continue to follow the journey plan laid out for our DB portfolio at the 2018 valuation, ensuring the asset

liability risk of our implemented portfolio reflected the progressive reduction in volatility outlined in that journey plan.

The portfolio construction to support the outcome of the 2020 valuation is work for the New Year, and we'll be engaging with you on these issues as the valuation progresses. We also, as you would expect, reviewed our DC portfolios for suitability and performance, making some changes to the glide path destination in that area and changing some of our external managers. Simon will have more detail on a very eventful and productive first year for him.

Let me move on now to talk about financial performance, and here I'd like to share some charts with you. At first glance on these charts, you'll see a significant increase in total scheme costs. On the surface, having held our costs broadly flat in real terms over the previous three years, scheme costs overall increased by over 15%, as you can see here, from £260m to £301m in 2020.

There were increases both in the embedded costs, in red there on the slide, and in the internal cost base. The embedded cost increases reflect significant asset growth through 2019, before the fall early this year, and some restructuring effects in our indirect private equity portfolios. You'll see in the expanded section that our internal costs have been a significant contributor to the increase as well, rising by 20%, from £136m to £165m.

A very big single element – the biggest single element of this – is the March 31st effect I referred to earlier, due to the sharp fall in asset values and even sharper fall in their benchmarks. The investment performance compared to benchmark, as I said, was exceptionally high at that date.

As a result, our reserves against investment incentives in plans that have a longer than one-year duration meant they had a significant increase in their holding value in our accounts. None of this was crystallised. As the effect normalised over the year, these would now be held at lower values at almost any point later in the year.

It's important to tell you this effect didn't have any impact on our remuneration and our terms for our investment managers. This is calculated as at December 31st and so somewhat immune to this 31st March effect. As you will see in the annual report and accounts, that was broadly flat, year on year.

These effects that I just mentioned do play out in our long-run ratios as asset values grew through 2018 and ’19. You'll see on this slide, we realised the economies of scale from our investment platform as we insource further activities, such as private market, direct investment and fixed income management in-house.

We benefited from the cost advantages that those internal capabilities provided, but in 2020, driven largely by that 31st March effect, we'd increased our internal reported costs. As a result, while over this period asset values have increased by 22%, it looks as if our costs have kept pace. In fact, were we to report these numbers as at today's date, you would see an outturn much closer to the 2018 and ‘19 positions in respect to the basis-point cost for assets under management.

I think it's important also to note that our independent benchmarking of our costs reflects that our cost position is £50m per annum less expensive than peers who run a similar asset mix. Again, that's because of our choice to manage much of our investments in-house.

On the pension side of the business, you can see here, since 2016, we've been broadly flat. That has been a factor of two things. Significant investments in the scheme changes and in the complexity of the delivery of the hybrid scheme were offset by a 16% increase in membership numbers over that period. It has kept our cost per member steady over the last four years.

The investment in implementation in these areas has lessened as we've gone through the period since 2016, but it's likely that valuation project costs incurred this year in particular will prevent this number from falling significantly as we look forward to this year's reporting and next year's.

We do expect, however, that as we look forward the changes we're making in investments and in pensions will continue to deliver value for members and employers, as Simon and Helen will outline. We're very focused on realising our economies of scale and our market power, in the interests of our beneficiaries.

Let me move on now to the valuation. Maybe we should have known that finalising a 2018 valuation, with what the Pensions Regulator might have described as a 'backend loaded recovery plan' and a commitment to a 2020 valuation, was tempting fate. If it was, fate delivered. We're faced with a funding position where, even if a valuation was not in plan as we went through the earlier part of the year, we would probably not have been able to avoid it.

The process against that backdrop has been very challenging, both for you and for us. You, of course, have had lots of legitimate questions: "Why are we doing evaluation now at this stage? Why does it appear that we have low expected returns and higher prudence? Why have different participants in the Evaluation Methodology Discussion Forum that Kate mentioned come to very different conclusions on the same

analysis, and why are we insisting on covenant support measures that some in the sector find so difficult?”

We understand that you've been frustrated with the answers. We, too, have been frustrated at the lack of engagement with the key issues as we see them: the need for tangible covenant support to offset the objectively higher funding requirements of the scheme. The discourse on these issues has been less positive than we might have hoped, but we have moved forward in recent weeks.

Let me say firstly that we recognise and sympathise with the real challenges faced by UUK in combining diverse and often conflicting views on the way forward. There is a very wide range of views on affordability, on the desirability of covenant support, on risk appetite, and on preferred benefit structures even. I have heard most of these directly from you. It's clear that finding an outcome acceptable to all on every issue is flat impossible.

I realise, too, that UUK has limited ability to coerce employers to a standard position. The real risk, then, is that we end up with a lowest common denominator on risk, affordability, benefit design – or, indeed, with paralysis in decision-making. We, and I, really, really hope that this is not the outcome.

For our part, we genuinely do believe we have, since the outcome of the 2018 valuation, been very clear on what's required to support risk-taking in the scheme, been clear about the consequences of not providing that support. We've worked hard to communicate the high-level rationale and explain the key measures and metrics that the trustee believes are the key factors that must drive decision-making in these circumstances.

It's unfortunate from all our perspectives, I think, that we're not further advanced in this discussion. However, the covenant proposal that we received from UUK in the last few weeks is very helpful. It is the type of thing that might have made for a much narrower range of outcomes in the technical provisions consultation, the wide range of which was an area of some concern in the sector, but this was, from our perspective, a breakthrough.

It, indeed, is some way short of what we had asked for – and, indeed, what we had hoped for – but it has allowed real and tangible progress to be made in the last few weeks. We believe that, with this information, the trustee has all of the components required to decide on the structure and the conclusions of the report to the Joint Negotiating Committee that signals it's now to the stakeholders' task to find a solution. We expect that report to come together in the coming days.

UUK has indicated that there will be no further clarity on the covenant support position until next year. There is no reason, nor any legal basis, for further delay, given the framework of the scheme rules, the statutory requirements and the economic position of the scheme.

You'll see that the timelines are challenging. We know, for example, that unless the JNC concludes on an answer immediately on receipt of this report – and, perhaps, even if they do – we are likely to miss the statutory deadline of 30th June. We've informed the regulator of that and wait for their response.

We know, too, that the October increases, which can only realistically be superseded by a schedule of contributions written under the 2020 valuation, are also close to being an inevitable occurrence. We have been asked, as we go through

this, if we can be more collaborative and facilitative of our stakeholders in our approach.

We are trying very hard. We have endeavoured to prompt engagement on the key issues since the closure of the 2018 valuation, and we have sought to provide stakeholders with detailed information on the trustee's perspective on the valuation process and the decisions that are being made.

I must emphasise that now we stand ready to support stakeholders in their analysis of options and in their search for solutions. If, indeed, this is the employers' best and final offer on covenant support measures, this process will be more challenging than, perhaps, we had hoped, but we understand employers must interpret their priorities and preference for the commitment of their resources.

We continue to believe the sector has the capacity to support the proposition to the regulator, that the scheme is supported by a strong covenant. A critical component of that is the employers' willingness to provide the commitments that can confirm this.

It feels like there's some way to go on this process, yet it's also clear that time is of the essence. We are past the point where we should be focused on exploring viable solutions in a collaborative way. We are at the disposal of the stakeholders and the JNC as this process works through. I believe it's in all of our interests that we have a collaborative approach to finding a solution that works and respects the views of all parties.

Let me conclude with a few wrap-up remarks. First, just an observation on the growth of regulation in the financial services sector and how we're experiencing it in USS: last year we navigated the FCA Senior Manager Regime, focused on

clarifying the professional accountabilities of those running financial institutions.

This year we completed our second year as an authorised master trust, which also focused on individual authorisation, and governance, and the management standards in the scheme. We're navigating through our first year of one-to-one supervision under the regulator's defined benefit supervisory programme.

We're also navigating the challenges of valuation, assessing the increasing regulatory requirements around climate change disclosures, and navigating the challenge of the electronic communication limitations on our communication with members. So, there is a lot of regulatory work for us to work through as we go through this.

We're conscious of the privileges of working in financial services and managing your money on your behalves. You can be assured that, as well as your scrutiny, the regulators are intent on ensuring we are worthy of your trust in that regard.

Speaking of competence and integrity, I'd like to welcome Lindsey Matthews as our new Chief Risk Officer. Lindsey spent many years at UBS and brings a wealth of experience and insight to this role. Guy Coughlan, our previous CRO, continues to see through the 2020 valuation as Programme Executive.

Now looking forward, I believe that USS is one of the very best pension schemes, and we're very proud to serve you. I hope we can work through this valuation, and we can reset the relationships in the areas that need resetting, and move on to focus on providing the very best outcome for members, in whatever form you direct us to provide.

I'll pause there. You've got an opportunity to ask whatever questions you wish. There's a box at the bottom of your screen, and we'll pick up those after we've heard from Helen and Simon. I'll first hand over to Helen.

Helen McEwan: Thank you, Bill. Good morning, everyone. I'm Helen McEwan, Chief Pensions Officer at USS. My role at USS is to look after all the member and employer administration, as well as the strategy policy and technical piece, and the change and transformation, operating out of Liverpool.

What I'd like to do today is to cover off a review of the year and look at what we aim to do in 2020, the challenges that we had on the way, and the performance that we made against our own standards.

I said last year, at my first Institutions' Meeting, that I wanted to, this year, focus on making sure that we made the most of the pension plan that we have, and that we offer a first-class, value-for-money offering to our members. That's on an operational basis, on a day-to-day basis.

But more than that, I wanted to make sure that we strategically develop the proposition so that members can better understand what they have with USS and so that they can make the most of the benefit that is provided to them by their employer.

That involved making sure that the communication that we had with them was very much personalised, targeted to them at the right point in their journey. It also has to be accessible, making sure that people can operate with us in a way that suits them, whatever channel is actually appropriate to them at that time.

We also want to work with the members to let them know that we understand the sector that they work in. We understand the challenges that we have, and that we can work with them on their journey, at whatever relevant part of their pension journey they're on, and certainly reassuring them that we do understand the whole journey they have, from work to retirement, and taking them forward as far as that's concerned.

That was the aim we had. Like everyone else, we had an unexpected challenge. No-one expects to go through a year with the portfolio that we had, and have an easy time. However, clearly COVID gave us all challenges that we never expected. We have a large pensions operations team in Liverpool, and if you'd asked me this time last year, “Could we have them remote working within a matter of days?” I would have not been very confident in my answer.

I'm very pleased to say that we did actually manage to set up all our members within a very short period of time, to ensure that the member offering continued to receive the pension – the support – they needed. That meant all telephone lines being open, and it meant all systems go for our staff, so I'm very proud of the team for being able to achieve that in what was really quite a scary time and clearly a scary time for the members of the pension scheme as far as that's concerned.

We put together a COVID website to make sure that people had a clear understanding of how they could access information and support. We had everything we required in terms of the employer communications put together. I think that's a point I really do want to focus on and thank you for. The response of employers was amazing in terms of working with us.

Most of you will know that we have a quarterly IAP institutions working group, which we engage with key members of the

institutions at that point. But we moved that to a fortnightly meeting, which was a great way of understanding exactly what was going on, and making sure that we were being as responsive as we possibly could be. That has been incredibly helpful in terms of ensuring that operationally we've been doing what we needed to do.

Just looking at what we have actually done over the course of the past year, there has been 2.4m contributions applied, which is very similar to a normal year. It was 2.3m last year. We had 432,000 HR updates, and again very, very similar. I think it was 398,000 last year.

On the annual member statements, we managed to get 99.73% of annual member statements out. Bear in mind that that's nearly 200,000 statements. That is a huge logistical operation in any situation, never mind in a COVID world where everyone is working remotely, so I am very proud that we managed to increase that from 99% last year.

I will talk more about the strategic projects that we delivered, shortly. We didn't do them all in the time that we would like to have done. A few of them were a little bit later than planned, but again, given the circumstances, I don't think we were too unhappy as far as that was concerned.

We had 98% of employer contributions reconciled. I have worked in many pension schemes over the years, and it's a really hard thing for employers to submit data and ensure that it's completely up to date on a monthly date basis. Again, through COVID, we've managed to do that. That's the same percentage as last year. All our validations go through, and all contributions are paid by the 19th of the month, in the way that the regulation expects us to do that. Again, that is a real credit to the members.

We had 330 employers submitting 202,000 active member details. Again, that's up from last year. We had our new digital website launching, which saw 10,000 new registrations onto ‘My USS’ and 80,000 hits to the new website, so there is a real progress in terms of where we wanted to go.

We had 161,000 processes and 97% achievement to our service-level agreement. Again, I think that for the Pensions Operation team that is a real credit. That was actually slightly down on last year. We had 166,000 processes last year.

I think that could be explained. I will talk more about some of the operational performance because, as always with operational performance, it's not a straight-line process. We were a little bit quieter in March in April, but that has certainly been made up for over the course of the rest of the year.

Clearly, with the things that have been going on in institutions, we've had a considerable increase in severances. That has gone up 150% from what we are used to, so again, to achieve that 97% in that time period, I think we can be very happy in terms of where we have gone with that.

I did say I would speak some more about the strategic projects that we have put together. The biggest one I think we had to do was the revamp of our website, which we planned to do in July. We managed to do that in September.

It was really a fundamental programme. It was not just about making the website look prettier. We were rewriting content. We were making sure that our member journeys were better. We were trying to make sure that things were much more relevant and personalised, so it was a huge commitment for the team to get that over the line.

Similarly, in terms of the ‘Direct to Member’, most of you will be aware that we normally communicate with people, or have

done previously, going by the institutions, which is a huge administrative burden for yourselves. Also, the member experience becomes slightly disjointed because people can get things at different times.

We've been really pleased with how ‘Direct to Member’ has gone since its launch on 17th November. We've had many – over 3,000 – opt-ins. We've had very few opt-outs. Our data reconciliation is exactly where we need it to be. We have established a preference centre, which means that we can really work on getting that personalised information for people.

That is so important because we know, if we over-communicate with people, then they switch off. The ‘Holy Grail’ in pensions is member engagement. It's about people understanding what they have, and knowing what they need to have, and valuing the benefit, and understanding the benefit that they have. ‘Direct to Member’ will help us make sure that we communicate with people properly as we go along that journey.

Other key projects that we've had to go along there have been in terms of the guidance and advice piece, which has been massively important to us. Guidance and advice is our way of making sure that our members make the right decisions, and providing the right support to them along the way.

From a guidance and advice perspective, we have had two member webinars so far, hosted by Mercer's. Mercer have been excellent in terms of what they have done. We had a great feedback rate, as you'll see from the slide there, with 750 members who came along for that very targeted advice piece that Mercer have done.

We also have further plans with guidance and advice in terms of we have a guidance pilot already working together for

members. We're looking towards expanding into the areas of drawdown and flexibilities next year, so that's a very exciting place for us to be in terms of our delivery of that guidance and that support to members.

We've supported that guidance, and advice, and that understanding for members piece, with other member support in terms of trying to ensure communication with members is as simple and as clear as it can possibly be, and our member webinars that we hosted ourselves, which were around the valuation, about USS, and about our governance. So, less targeted, if you like, than the Mercer piece, but very much trying to ensure that our members understand what it is we are trying to do for them.

Again, we had thousands of people take part. I think the largest one was over 3,000 people who took part with members. Again, really good engagement, much better understanding afterwards in terms of the topics that we were discussing, which are really crucial to them. As you can see from that slide there, the annual member statement is a big strategic project that we undertake every year, and we were very pleased in terms of how that delivered for us along the way.

I'd just like to touch as well; I know Bill mentioned the employer engagement piece. It has been so important for us to work together there. You've seen the stats in terms of the increases that we've tried to have from there. It really is just about us working together.

I understand the issues of the valuation. The aim of my teams is to make sure that we make the most of what we have operationally and that, with the cost of what we have, that we deliver the best possible proposition to the members that we possibly can.

I think these figures tell us that we are working in the right way. We will continue to strive to do that. Your feedback, and working with you in collaboration, is incredibly important to us, so I really do hope that we can continue to do that, and sincerely thank you for the support that you have given us along the way.

In concluding, just a few words about what's next. I think you'll see from the number of things that we have on this slide that we are incredibly ambitious about where we go next. It is certainly about ensuring that, from the valuation point of view, we do whatever we need to do to deliver a proposition that fits with the sector requirements.

We will continue to expand on the member understanding piece, with our guidance, advice, and flexibility, our 'Direct to Member', with speed-read statements and a much simpler narrative. We will continue with our digital enhancement and our shift to a channel strategy that will ensure members can engage with us in as clear way as we possibly can get to that point.

Member segmentation is so important in that process so that we communicate effectively with people in the areas that are important to them, and that we take them on that journey from the workplace into retirement as successfully as we possibly can. Very happy to answer any questions at the end of the session, on any of the areas that I've touched upon, but I shall hand over to Simon at this point. Thank you very much.

Bill Galvin: Simon, we appear to have lost you. I don't know whether we will be able to pick you up again. Let me see while we are working through to see if we can deal with that. Perhaps we can get you refreshed and ready to go.

I think, while we're waiting to see if we can get you back online, we might take a few questions at this point in time, out of sequence. I do have some questions that have come in, in the Q&A session. We also have some additional panel members who can join us for the Q&A, so I'll introduce those now. We'll take a couple of questions. We'll see if we can get Simon back online to complete his presentation as we work through this.

We're joined for the Q&A session by Mel Duffield, who's a director of engagement on the valuation. Her day job is Director or Pensions Strategy Executive in our Pensions team. She's very much focused on ensuring that we have the correct levels of engagement and communication with stakeholders and members, and our decisions are explained effectively.

Richard Soldan joins us, as well. Richard is a partner at LCP. Richard is the alternate to our Scheme Actuary, Aaron Punwani. With Richard and Mel on board, we'll have a look at the first two questions that have come in. Let me start, perhaps, with the second one of those, which we, I think, will take in concert, perhaps.

We've got a question in from Chris Wood, which says, 'Depending on the basis of the evaluation, the 2020 accounts show a deficit that's in the range of £13bn to £50bn billion, with 200,000 active members. So, this equates to a deficit of 65,000 to 250,000 each. I understand there's an ongoing consultation process, but can you comment on how holistically you plan to deal with this funding gap?'

Chris, in responding to that question, I'm assuming you're asking a question about our valuation process, because the purpose of the valuation process is to come to a conclusion about the funding strategy in respect of past benefits, to assess any deficit in funding that might emerge from that and

to understand how that will be funded through a deficit recovery plan.

We've always been clear that the primary duty of the trustee is to make sure that pensions promised are secure. The task of that valuation is to understand what prudent expectations might be about how investment performance – future investment returns – might help to deliver those outcomes, and, to the extent that they don't, to understand what cash requirements there are from the sponsors to fill that gap.

That's a deficit recovery plan. The outcome of the valuation is to construct that deficit recovery plan within a risk envelope that is within the capacity of the sponsors and within the appetite of the trustee. We then have to explain that to the regulator and get their agreement to it.

The other part of that, of course, is that there is a cost of future service, which looks at what the cost of providing pensions now is, based on the investment strategy that will underpin future service, and the levels of ambition that we can have for return seeking in that regard. That, too, is an outcome of the valuation. These are the things upon which we are consulting, and that's the basis of the decision that the trustee will have to arrive at in consultation with the sector.

I suppose that brings to a point the key issues of what level of support employers can provide to a return-seeking strategy that seeks to both close that deficit and keep the cost of future pensions at a more affordable level, because that future support to the scheme on a contingent basis is critical to underpin a more ambitious strategy in respect of returns. Let me pause there and turn, perhaps, to Richard. Richard, was there anything that you wanted to add?

Richard Soldan: I think that the key point there, you explained, Bill, how there are a number of different features there that feed into the overall financial plan. A clear understanding of the support from the employers is really important for the trustee.

That's the factor that supports the level of risk within the scheme. The level of support that the trustee feels it can rely on is a very important component in coming up with suitable assumptions for the future and assessing the degree of risk that the trustee feels it can take.

So, it's certainly a holistic picture, looking at the support from the employers, the money that the scheme needs to pay the pensions to its members, and the way that that money is then invested, and the risks that emerge from that. So, yes, it's certainly an overall holistic picture.

Bill Galvin: Thank you, Richard. Chris, I'm not quite sure if that addressed the point that you were looking to make. We understand that there is a challenge in front of the scheme, the employers, and the sector. That is very certainly what we're trying to address.

We have a question here from Andy Gore, who asks about a comment that I had made earlier, I think, which is about defining 'very best pension scheme'. 'We have an increasingly unaffordable scheme for members and employers, with a risk-averse, short-term approach to finding a solution.' Andy, I can feel the frustration in your question. Indeed, I've heard that as I've been around the sector.

Defining 'a very best pension scheme', from my perspective, covers many different key factors, but first among those I think you would – everybody in receipt of a pension would – agree that it's the security of that pension as it's promised, and the ability of members to rely on the fact that a pension promised

from USS is a very, very secure promise and it will be paid when it falls due. That's the trustee's primary role. I do believe that, for everybody in receipt of a promise from the scheme, it is the thing that they would ultimately wish the scheme to focus on.

Of course, there are other factors that contribute to a very best pension scheme, as you put it. The affordability issue, as you play it out, is an issue in respect of the cost of future service. The cost of future service has a number of different factors that play into it, the most important being the structure of benefits that are offered, the levels of guarantee to those benefits. Guarantees are expensive, of course. We know that, and the ability of the trustee to take some funding risk in pursuing a more affordable contribution level.

That latter part is very dependent on the willingness and the capacity of the employers who back the scheme to support that risk-taking. That is what we are working through. Our ambition is for a secure and sustainable scheme, and that's the whole purpose of this valuation programme. We hope to be working in collaboration with the sector to get there.

Those factors, of course, are not the only things that make a good pension scheme. For members to feel secure in their pensions, my view is they need to understand that they are making decisions that are well informed, where they need to, about contribution levels, about how they deal with life events, about how they approach the very big decisions around retirement under a great deal of uncertainty.

We're very focused on trying to make sure that members have the tools to navigate these times of their lives effectively. I believe that's a core part of our mission as a pension provider, and one which we're very much focused on.

We're also focused on making sure that, as a pension scheme, we are responsible in the way we go about our business. That responsibility in terms of how we conduct our business as a pension scheme, as an investor, is to the fore. I think we know that members expect that to be the case, which is why there's a very significant focus on what we are doing in this regard.

So, the long answer to your question, Andy, and apologies for that, is that a very best pension scheme includes all of those factors. The USS trustee company, which is led by a very experienced and very respected board of directors, is very clear as we go through our planning processes, as we go through the key evaluation processes, that all of these issues need to be to the fore in deciding how we spend the resources of the scheme, and how we approach the really important decisions around the price of future benefits and the way in which deficits are recovered.

Let me pause there. I just want to check and see whether we have an option of returning to Simon. If not, we have more questions that we can get to.

Simon Pilcher: We can have a try.

Bill Galvin: Excellent, Simon.

Simon Pilcher: Apologies, everyone. I did want to talk about investment performance, and in particular how we've managed the scheme through COVID. We have a reference portfolio that articulates, effectively, the investment risk relative to the liabilities that we should be running on average.

What we seek to do is to optimise the risks that we're running, over time, in order to deliver the security of ensuring that we can pay members their pensions as they fall due, but also to do so in as affordable a way as possible. Embedded in that is the idea that we should be investing in growth assets. We hope, over time, that those growth assets will generate the higher returns that we need in order to generate those pensions in an affordable fashion.

During this year, we've largely maintained our exposure to equities, despite the fact that the reference portfolio de-risks slightly month by month, in tune with the 2018 valuation. We took action quite early on in the year, in order to improve the hedging of interest rates and inflation risk.

In particular, around the time of the market collapse, I think is probably the best way of describing what happened – particularly in March – we were able to trade very effectively, particularly between US and UK fixed-income assets, making the most of the dramatic outperformance from US treasuries relative to their gilts, the UK counterparts, and also benefiting from the outperformance of US inflation-protected securities relative to index-linked gilts.

That helped us – helped us weather the storm and helped us to outperform from an asset allocation perspective. We had some hairy moments as the market seized up, and I thought it would be helpful for you to hear from some of my key lieutenants, how they coped during those difficult times.

Carmel Peters: We adjusted how we did things. We have seen, we have talked to all the companies we own, several times. We have such good relationships that we just can call them up, and they will say that we set up a meeting in the morning at 6:30. You're

talking to somebody from China or something. We've had to adjust, and change our lives and how we operate, but I think we've done a good job.

Mirko Cardinale: In March we thought credit markets were very disciplined. We understood, obviously, that it was a regime change and so it's not that markets have fallen for no reason. There was a big event, but we thought that the credit market in particular had overreacted.

Therefore, we took advantage of the situation to start building up our portfolio allocation in credit, which is also consistent with our long-run strategic goal. That's the example: you take advantage of the market opportunities, but you always do it in a way that is consistent with the long-run goals. In our case, it was the increase of trading exposure.

Ben Clissold: The second half of March and start of April, when markets were very volatile, and we needed to manage our cash very carefully there and were working very hard. I think just to put some numbers onto that, we probably raised about £3.5bn of cash over the course of a 2 to 3-week period, to make sure that we had enough cash for the scheme and all the commitments we had at that point.

Mirko Cardinale: I think what's really important is that you can stand firm and be contrarian. Long-term investing is really about taking advantage of opportunities when everyone else can't, because they have to close their position because they've been running too much risk. If you are disciplined in the good times and you don't take excessive risk, then in the bad times you're able to

take advantage of opportunities. I think that’s what long-term investing should look like.

Simon Pilcher: We've set out here the investment performance of the scheme versus the defined benefit section of the scheme, in the grey bars, and compared that in the top half to the strategic benchmark that we've been set.

You can see, over different time periods, our outperformance over most periods relative to that in green. For the 10-year period there's a consistent average annual outperformance, but actually for the five-year period, just on this particular date, we dipped very slightly under it.

Clearly, what we're also trying to do is to outperform the liabilities. This is effectively the gilt market, or the index-linked gilt market, which is a good proxy for the net present value of the liabilities. Again, I'm pleased to report that over longer time periods, and actually in this case over this 12-month period, we've outperformed those as well.

Clearly, we manage more than just the defined benefit section. There's also the defined contribution section. We've been managing those monies now for about four years, and our objective over time is to generate positive returns that exceed inflation. Again, I'm happy to report that we've achieved that over this time period.

I thought it was worth mentioning some of the things that we've achieved over this time. Clearly, the move to remote working hasn't been utterly seamless. You'll have detected that there are challenges with the technology, but we're well aware that our responsibilities as a long-term investor involve not just making sure that the asset allocation and stock selection is

correct, but then that we also support the businesses that we've backed with your money.

This has been a time when many companies have struggled. We have sought to provide them the support – both practical advice and financial support – that some of them have needed. It has also been a time when, frankly, we've been able to react and take advantage of opportunities in the private markets. Again, I thought it would be helpful for you to hear from some of my colleagues, some of the things that they've been up to.

Rob Horsnall: The whole business has reacted with real calmness and in a very logical fashion, which has given colleagues a tremendous amount of confidence in the business. Then that in itself has allowed us to interact in a very positive and considered fashion with management teams, who have been experiencing, often, significant drops in revenue, often 70%, 80% drops in revenue, and have had to react to an incredibly difficult business environment. So, yes, the way USS has acted has given us the confidence to do the same with our portfolio companies.

Gavin Merchant: There is absolutely no doubt that in 2020 COVID has had a very significant impact on transportation assets – for example, a lot fewer people travelling on our toll roads, or real assets due to lockdown measures.

Throughout the last several months, we've been in constant dialogue with management teams so that we understand the challenges that they face and we're in a position to provide support when necessary. The feedback that we've received from those management teams tell us how greatly they’ve valued that input and it's something that they would wish us to continue to do.

Alex Turner: We've got over 600 tenants, so there have been huge amounts of engagement across the board. It has been particularly challenging for those retail and leisure tenants, so we've really tried to behave as a good corporate citizen, but being very cognisant, clearly, of our fiduciary duties.

Rob Horsnall: Moto employs around 5,000 staff. One of the things during COVID that we've had to focus on, given the impact of COVID on Moto, which has been fairly significant, is making sure that we can access government furlough schemes, which we've done very successfully, and, importantly, retained employees during some very challenging times.

Being a long-term investor like USS allows us to look through that short-term impact of COVID and continue to invest in businesses. We've done that across our portfolio, where we've continued to allocate capital towards long-term projects, with attractive returns.

Ben Levenstein: During the nadir of the pandemic, we found particularly banks withdrawing from the market in specific areas, covering areas such as asset finance. We were able to structure and to negotiate terms quickly, to fill the void the banks left by extending financing.

Simon Pilcher: One of the things that we're incredibly proud of is the ability to enable our DC section to access private markets. This was an innovation that went live for our DC section in February, just ahead of COVID striking.

What we've done since then is gradually increase the allocation within that section to the private markets assets, such that for the Default Growth Fund that's now approaching 15%. For the more cautious fund, that's around 10%.

We believe that over time this will help our members to access better risk-adjusted returns than they would simply by investing in the public markets. Of course, we're able to do that in a very cost-efficient way because of the scale that we have as a result of our defined benefit section.

We now have about £20bn in total invested in private assets and so our defined contribution section is enabled to access that scale in a way in which we just couldn't do if all we were running was the DC section.

Another notable thing that we've done during this last year for our DC section is to reduce the home market bias within equities. So, we're less dependent on UK equities and have got a higher allocation to global equity markets.

I'd like to talk a little bit more about responsible investment. For those of you who arrived in time, you'll have seen our clip at the beginning, looking at some of the work that we've been doing with Thames Water. We're proud about what they've done.

We've engaged in a similar journey with many of our portfolio companies, and we're keen that not only the private assets that we invest in, but also the overall shape of the portfolio that we're running in toto, is managed responsibly. By that, we mean for the longer term.

We made an announcement in the spring that we would no longer be investing in coal, tobacco, etc. We came to the conclusion that these were not long-term investments that were in the interest of the scheme, by really thinking about the

longer term. Our conviction is that the longer the time horizon you take, so it is increasingly likely that there'll be some combination of consumer backlash and governmental backlash on certain sectors that are, frankly, not sustainable, in our view.

Positively, we've made some investments this year backing the social housing sector. We think we can generate strong returns for the scheme and also do good within our community at the same time as that.

We did a member survey and we recently had the results back from that. You can see what our members' response was to various questions, and you can see they feel deeply about certain issues and less significantly about other issues.

That's interesting to us. As we look at that, so we will be thinking about what other areas we should be looking at, both when we're thinking about the ethical sections of our DC product proposition but also as we think about are there other sectors that we should be looking at? We obviously are looking at the whole issue of climate and are thinking about how that should colour the way in which the carbon intensity of our portfolio should decline over time.

Risk investment is an area that has always been important for USS, and it's an area that we're going to invest further in. We expect to see greater integration between the investment teams and our RI team, but, as we look forward, there's hope. It's fantastic news that people are now being inoculated against COVID. Shame it didn't come in time to get my daughter home. She has, as of last night, got to isolate for the next two weeks at university because someone in her flat has tested positive.

I guess that's part of the challenge, isn't it? We realise we're not yet out of the woods. The economies are going to remain

very fragile as we continue to go through this period of intense lockdown or restricted movement. Clearly, in the UK we have the additional challenge of Brexit to negotiate, and who knows what's happening there. I hope Boris does.

Our view is that it's highly likely that interest rates globally are going to remain very low for an extended period of time. We've seen an enormous build-up in debt levels. It's our view that the central banks are likely to ensure that interest rates are kept in negative real territory – as in negative inflation-adjusted interest rates – for a considerable period of time.

That's not helpful to a scheme such of ours, where we need as high returns as possible. Equities have risen substantially through November as the news of the vaccine has come through. In our view, they are not cheap. They are pretty fully priced and so, as we look out, it's hard to see areas of outstanding value and, therefore, to be overly optimistic about what returns might be, looking forward.

But clearly what we're seeking to do within USSIM is to find interesting opportunities where we can generate that ideal combination of strong returns whilst thinking about how we can hedge the inflation and interest-rate risks that the scheme bears.

We found a number of those this year. We're really pleased with some of those investments that we've made, particularly in the private arena, but, as we look forward, that is the challenge for us, is how we can get strong returns within the risk envelope that's appropriate for the scheme. That's what my team are fully focused on. At that point, I'll wrap up, and I'll hand back to Bill and he'll continue with questions.

Bill Galvin: Thank you very much, Simon. Thank you for that too, Helen. I think those were both very clear and, hopefully, presentations that people found helpful. We have a number of further questions that have come in. We'll go back into panel mode to deal with those. Kate and I are here with Helen and Simon. Again, Richard Soldan and Mel Duffield will help us work through the questions that are coming through.

I'm going to start with a question that has come in from Richard Anthony, which is about restoring trust and engaging with employers in a more productive way. Let me talk to that one in general terms as I interpret the question. Then, perhaps, I'll ask Mel to pick up on some of our plans for engagement, going forward.

The first important point, I think, is that the rules of the scheme require that our primary interlocutor in these purposes is Universities UK. Universities UK have the unenviable task of providing one voice to the trustee on behalf of all of the employers.

For the key decisions that the trustee is asked to make, the formal response to our consultation, and the one to which we must give due consideration and deal with the issues raised, is the UUK position, which we treat as representative of the employers. Clearly, that puts a big challenge on UUK.

What we have been trying to do through this valuation, and which we've put more focus on than, I think, ever before in any of the valuations, is to talk directly to employers ourselves. That is not to disintermediate UUK. We can't do that. That is to try to make sure that individual employers understand the perspective of the trustee as directly as possible, have the chance to ask questions of us.

Indeed, as well as the outreach programme, I spoke myself in the last month to over 25 of our largest employers and found that to be a very productive session. Hopefully, that worked on both sides.

The issues that came back, and the challenges and frustrations that employers have had in that process, have been around our assessment of covenant strength. We've run various webinars, including with PwC, our covenant advisor, on this very issue, explaining the processes that they've worked through and the way in which they are coming to their conclusions.

Indeed, we've been very transparent about our assessment of the covenant strength as strong and the way in which, at a high level, our risk management metrics relate that to the strength or to the risk in the scheme that's laid out in our technical provisions consultation document.

It is a very diverse covenant. Those judgments are quite challenging, but we have had a huge information-collecting exercise with PwC, our primary covenant advisors, and with Ernst & Young, who also advise on the macro issues in relation to the higher education sector.

We're very happy to answer any questions that individual employers have on how those judgments have been reached, and will encourage people to come to us. We'll also – and Mel will explain this shortly – make sure that we are playing out those judgments that we have made as we reflect on UUK's consultation response.

In terms of other issues, we have been challenged about how we have interpreted and given weight to the covenant support measures that employers are willing to provide. We have done our very best in that regard to explain the difference, to explain

what we believe the covenant support measures that are required to get to an optimal position in regards to contributions and risk in the scheme, to maximise the perspective that the employers' underlying capacity is quite strong. I think we've been, hopefully, quite clear on that, the implications of having those and not having those.

Indeed, the thing that we have been asking of employers is if there is something in between that you would wish to provide. As soon as you tell us what that is, we can analyse that, understand the impact of it on the measures about which we have concerns, and get back to you with the implications for the valuation.

We have been doing that directly over the past few weeks. Hopefully, as we go through an explanation of how the proposals from UUK go towards mitigating some of the key risks that we can see, that people will feel more informed in that regard.

I think people have also expressed concerns about the why we have not got closer to the Joint Expert Panel's proposals as they've seen. We've done our best to it, and we've certainly assessed all of those. We've looked at them. The dual discount rate has been a very big effort to take on board the most significant of their proposals. We believe we've been very consistent with the overall architecture of their proposals, including understanding that the distance to self-sufficiency is an important risk metric for the scheme.

Some of their measures we have found more difficult. Some of them are intrinsically related to the level of covenant support, such as the length of the recovery plan. We've dealt with that. We do believe that it's possible to have a longer recovery plan than we have illustrated in technical revision documents,

providing the long-term commitment of employers is proportionate to that recovery plan length.

We have worked through all of the issues about the level of risk in the pre-retirement discount rate and label that, I think and hope, quite clearly in the consultation documents. We'll look to explain our decision-making in that regard as we reflect on UUK's response and conclude on the final decisions.

Those were the messages that I was hearing as I went around to speak to individual employers, and we certainly want to respond to those. Mel, perhaps you could take this opportunity just to talk about how we will communicate back to employers about the trustee decision-making and the response.

Mel Duffield: Sure. Thanks, Bill. Hopefully, you can hear me okay. Yes, so we're obviously coming up to quite a key milestone in the valuation process around the issuance of the 76.1 report to the JNC. As Bill said, now that we have, or are about to, reached some conclusions on the covenant review, but also the pricing, potentially, of covenant support proposals and concluding our view on the TP inputs and methodology, then we are in a position to have more precision in terms of the information that we're sharing.

Our intention is very much not just to provide that report but also to provide a wider update to stakeholders that will, as Bill said, explain some of the judgments and decision-making that sit behind how we might price different covenant support proposals.

We know that's going to be quite a critical part of the next stage, particularly around UUK's engagement with employers. Hopefully, in the coming weeks, we'll be in a position to provide

a lot more and have the detail to provide that further granularity.

As Bill said, we did really value the employer engagements that we had in October. I think one of the advantages of remote working is that we've all learnt how to be more agile in terms of how we hold these stakeholder meetings. It means we can speak to five or six institutions rather than one institution in one day.

We would very much like to go out again in January and February and speak to employers again, and particularly explain the rationale underlying our decision-making there, so we will be in touch on that shortly.

Bill Galvin: Great. Thank you, Mel, and Richard. I understand that these are challenging issues all around. I hope we've given you some comfort that we take very seriously what we've heard from employers, and wish to engage on these issues and explain our decision-making in that regard.

I'll move on to a similar question which has come in from Keith Willan now, which says that 'The trustee focuses on reducing risk from the fund perspective, largely by passing risk on to employers. Does the trustee recognise that employers must also seek to reduce risk in their businesses, and how can the trustee adapt its current approach to collaboratively work with employers to address this important issue?'

Keith, thank you for that question. I think there are several aspects to that, some of which we've already covered. I'll try and limit the extent to which I repeat those. Again, I think Richard and Mel may have some piece to contribute here, but let me start with your first statement: 'The trustee focuses on

reducing risk from the fund perspective, largely by passing risk on to employers.'

I guess I'd come from a different perspective than that one, which effectively says that the employers are the ones that have made the promises and who hold all of the risk for fulfilling the legal promises made to members in respect of their pensions. The trustee can't, in my view, pass risk on to employers, because the risk is the employers'. The trustee seeks to understand what the employers' risk capacity and their appetite is for that risk.

That very definitely then plays on to your second point: 'Does the trustee recognise that employers must also seek to reduce risk in their businesses, and how can the trustee adapt its current approach to collaboratively work with employers to address this important issue?'

We, of course, understand that pensions risk is not the only risk that employers face and must manage, must budget for. The whole of our covenant assessment process has been focused on looking to work through those issues, understand them, and come to our conclusions about, first of all, what the absolute capacity of employers is from a risk-taking perspective.

That has been a very important part of the judgement that PwC, our covenant advisors, are making. That provides an absolute backstop, in many ways, to the amount of risk that the scheme is taking. That concerns looking at the overall resources available to the higher education sector, ignoring the fact that employers might choose to take other commercial risks and divert some of those resources in those areas.

The extent to which those resources remain available to the pension scheme to support risk-taking in the scheme, versus

other commercial risks that employers want to take, plays through in these very covenant support measures that we're looking at. For example, the requirement for pari passu to any further secured debt amongst employers is about understanding the extent to which employers are willing to make that risk capacity available to the scheme.

The risk appetite of employers is the piece, again, that we need to be expressed as a single view through Universities UK. This, we understand, is not a straightforward task. There is a wide range of appetites out there, and UUK has the unenviable task of distilling those.

We are working closely with UUK on that. It's an issue upon which we've been engaging on the specifics of the covenant support measures, which are the things that give expression to the risk appetite of employers in tangible ways for the extent of the employers, the duration of commitment to the scheme, the commitment about retaining balance-sheet flexibility to support risk-taking in the scheme.

We wish to engage with employers. Indeed, we have looked to do that through the covenant team working on the valuation – through making PwC, for example, available to go and talk to employers about these issues – and have had many conversations with individual employers on these issues, but again we must get our marching orders through UUK.

We must respond to the risk appetite that's expressly delivered to us on behalf of the employers through UUK, both in their expression of risk appetite but, most importantly, in the commitment to the measures which give expression to that risk appetite. These are the covenant support measures that we've been working through.

Perhaps I'll hand over to Richard to fill in any pieces that he feels that I haven't covered in that regard, and then, perhaps, Mel, who can pick up, perhaps, on this issue about collaboratively working with employers to address this important issue.

Richard Soldan: Yes, thanks, Bill. I think you've covered a huge amount of the ground, I think, very well. It's absolutely right that at the moment the employers are the ones that ultimately underwrite the risks within the fund. So, to the extent that there is a reduction in the risk within the fund, then that is a reduction in the risk that's actually supported by the employers as a whole.

As you say, it's very important for the trustee to understand the ability of the employers to support the risk in the fund – and, indeed, the willingness of them to do so and to really understand that the covenant support that the employers, in aggregate, are able and willing to provide. That's a short way of saying, "I very much agree with what you've just said."

Bill Galvin: Thank you very much. Mel, was there anything you wanted to add around engagement with employers on these issues?

Mel Duffield: I suppose I'd just flag, Bill, that a key part of this is obviously the investment strategy that we implement, and the risk implicit there, where we know there are wide ranges amongst the employers.

As we work through that part of the valuation process, we'll obviously engage with the stakeholders further, but we also need to formally consult with employers on the 'Statement of

Investment Principles' later on in the valuation process. So, there will be more dialogue on that.

Bill Galvin: Great, thank you very much, Mel. I'm going to change tack in terms of the question themes now, and move to a question that has been asked by Deepa Driver. Mel, I think I'll ask you to play in on this one directly. This is about the comparable percentages for what members think, please. 'Would you be able to provide comparable percentages for what members think, please?'

Deepa, thank you for the question. In my earlier piece, I outlined the fact that we were concerned about the progressive increase in the percentage of members that we survey that indicate they feel their relationship with the scheme is poor or very poor. From memory, I think I said that that has increased from 6% to 16% and now 31% this year as we've gone through the piece.

That has, of course, been accompanied by a very significant increase in members who feel neutral about the scheme. I think, from memory, that number is approximately about 47%, I think, between the neutral and the 'don't knows', which means the positive numbers now are, I think, broadly equivalent to the negative numbers, somewhere around the mid-20% mark.

That is not something about which we are relaxed. It's clearly the case that the discontent about the valuation and the outcome of the valuation, as well as the narrative that's being progressed about the approach to the valuation, is affecting some members' views of the scheme.

That's unfortunate, in my view – very unfortunate – because I think we would wish to be in a position where members feel that they can trust the objectivity and independence of the

trustee, and the integrity of its approach to some very difficult decisions, to the extent that we can address that through communication, communicating with members about the decisions, about the approach to those decisions.

That's something that we've been very focused on. I believe that there are at least three layers at which we need to communicate most of our decisions: at the very high principle-based level, at the level at which those people who have a broad understanding of the issues can engage with, and then at a more detailed technical level for the smaller number of members that can, and wish to, engage with on those issues.

We've tried very hard to get the communication tone and tenor right at each of those three levels. Of course, that's quite a challenging task in itself, and I'd be the first to admit that we don't always get it right. We certainly try very hard. We listen to feedback in that regard, to try to continue to get it right, and have always been keen to understand from our stakeholders whether there are areas in which they feel we can do better in this area. Mel, I know that you've been thinking quite hard about this one, too. Is there anything that you wanted to play in there?

Mel Duffield: Yes, just I think those were broadly the right numbers that you quoted, Bill. We do make those figures available in the annual report and accounts, and obviously share them with the JNC. I suppose just a word of caution. I think around 2,000 of our members respond to the surveys that we issue, which, of course, is only around 1% of the membership. What we'd really like to do is hear from as many members as possible so we've got a real view of the overall position.

I think what's interesting when we delve into the survey responses is that we see a distinction between the relationship with the scheme and the trustee overall versus what happens when members interact directly with our services, where some of our surveys show that 90% of members feel they have a good or a very good service. So, there's definitely something going on there.

We do, obviously, feel that some of the perceptions issues are strongly driven by the funding position, the valuation, the dialogue around that, and the scheme changes that have been required over time. Some of that is obviously driven by the trustee's actions and communications. Some of it is, of course, influenced by communications from other parties.

I think, in that area, some of the discussions that we've been having with the JEP tripartite group will be very helpful in terms of all parties recognising the impact of their communications, and the need to explain their positions and evidence base as well. So, hopefully, collectively move forward on that.

Bill Galvin: Thank you very much, Mel – and, Deepa, I hope that has answered your question. We are, of course, always ready to hear from stakeholders with views on this. The issue of trust and confidence is something that we discuss with UUK and UCU on a regular basis through our tripartite meetings.

Of course, all three sets of stakeholders communicate with members about the scheme and the valuation, and I think we are hoping that all three sets of communications can help to inform members better about the nature of the challenges and the way in which they're being addressed.

We have, probably, time for one more question before I hand over back to Kate to close the event. This is a question from

Andrew. ‘We've heard that, in the absence of anything else, the proposed October ‘21 contribution increases will take place. In terms of a change to the benefit structure, which might modify contribution rate increases, which benefit changes might be considered?’

Andrew, that is a, clearly, very important question, and one that I would hazard is occupying the minds of quite a few people in stakeholders and in institutions. I think one of the first things to make clear in that regard is the roles and responsibilities of the various parties. I'm not sure if anybody else can hear the background noise, but if all my colleagues can make sure they're on mute, that would be helpful.

The trustee’s role is quite clear under the terms of the scheme rules, under terms of statute and under case law. Under scheme rules, it’s the trustee’s job to set a price for current benefits and then to pass that conclusion to the JNC, who have the task of deciding whether a contribution increases, decreases, or benefit changes are required in response to that. It's very clearly, under scheme rules, the role of stakeholders.

I think there is also very clear case law that the role of the trustee is concerned with the administration of the scheme, under the terms of it in which the benefits are laid out, and that for the trustee to look to design the benefits of the scheme proactively would risk us moving outside the proper role of the trustee.

However, having said all that, it's clearly the case that we can contribute, and would wish to contribute, in a very substantive way to the considerations of stakeholders in terms of what benefits can be afforded, what designs are optimal, and what way things might go forward.

I think it's really important that deep consideration is given to the way in which changes impact different members, the way in which different levels and structures of guarantees have different impacts in terms of different cohorts. We would wish to be involved in those discussions. We think we can contribute to them, and, of course, we can provide some of the modelling of the pricing in that regard.

The prompting and the initiative, it's clear, must come from the stakeholders in this regard. As I've said earlier, we stand ready to support any of the discussions that we can do in that forum. We may well indicate, as we go forward with our communications, the nature or the quantum of benefit reorganisation that might be required in order to fit under certain contribution thresholds at certain levels of covenant report – support.

That might be quite a complex set of things to get across, but, to the extent that we do that, that would purely be for illustrative purposes and to help stakeholders with their discussions. Benefit design is an important and complex issue, but we believe stakeholders will wish to start considering this, and we're here and ready to support that.

I think, probably, I should leave it there. It is 11:55, and I think it's probably time to thank you for all your questions and your engagement, and hand back to Kate to conclude the session.

Dame Kate Barker: Thank you very much, Bill, and thank you to all of the panel for participating and dealing with the questions, and thank you to all of you for attending. I think if I had one observation to make, it's the fact that there is sometimes a view that somehow the trustee is sitting here wishing to make life difficult for the sector by making this scheme unaffordable.

We absolutely don't want to do that. All of us would be – I think I said this in my earlier remarks – we would, all of us, be much more pleased to be bringing good news with this valuation than we are to be bringing you the messages that we are today.

But I have to be frank about this. If I stand back, and look at this, and look actually at what has happened in the 21st century, we had the financial crisis, about 11, 12 years ago. One thing we realised in that crisis was we were not as well off as we thought. We then continued for some years to try and deal with the impact of that. The distributional impact of that rolled around not just our economy but many other economies.

This crisis is different. It's a genuine external economic shock which is very bad for the whole global economy. When we talk about issues of distribution – we've talked about issues of distributing risk this morning, but there are fundamental issues about distributing wealth and income – we have to think about the fact that the result of this crisis is that in the long run we're all poorer.

In the short run, some of us have actually done quite well, and other people have done very badly, but in the long run, on average, we are all poorer. That is going to lead to many, many discussions about how the pain is distributed fairly – or in many cases, perhaps, unfairly.

In some ways, this discussion about how to tackle this valuation is, perhaps, a microcosm of many of those other discussions that are going on about how pain is shared between employers and employees, between the young and the old, between different groups of taxpayers. There are going to be many of these discussions over the years to come, and they are certainly [live in 1:51:39] this valuation.

We really want to work through this valuation to try to come out with an outcome which is fair, which is reasonable, and which supports the long-term future of the sector and really secures benefits. I can't put it any more simply than that. We're looking for your help in assisting us to do so.

I think after this session, some of which has been gloomy in its tone, although I'd like to pay tribute to the good work we've heard, both from Helen and Simon, of what the team can do internally, we can't, of course, wish away external shocks.

Somehow, coming to the end of this, and coming to the end of this year, and knowing how difficult things are over next month, wishing you all a happy Christmas doesn't quite feel right, but I'd like to wish you at least some rest and respite at the end of this year.

If nothing else, can I wish you two or three days when you don't have to look at screens and you don't have to struggle with all the technical problems we've had to struggle with this morning? Thank you very much again for your time.

MEETING ENDS