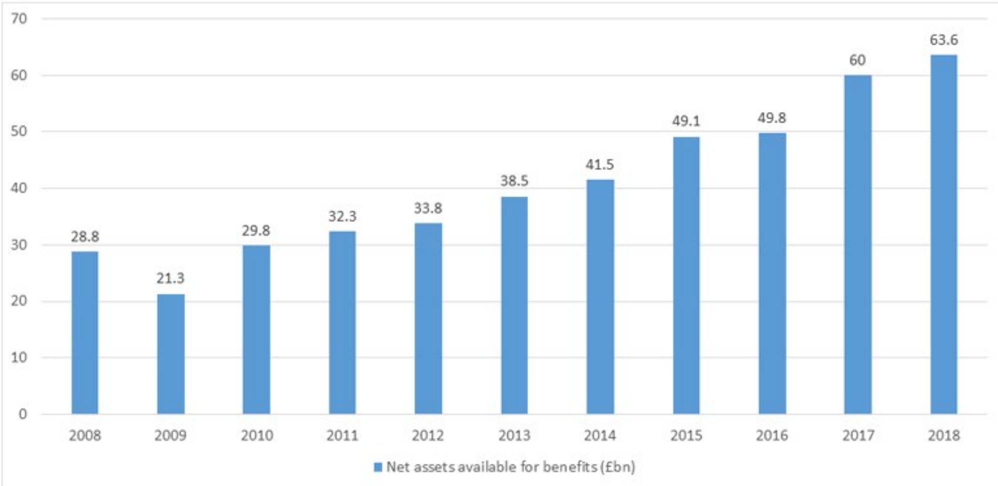
Performance of the USS Retirement Income Builder or Defined Benefit (DB) fund

The total value of the assets available for the payment of future pension benefits grew by £3.6 billion to a new high of £63.6 billion in the 12 months to 31 March 2018.

Growth in scheme assets (year-end 31 March 2018)

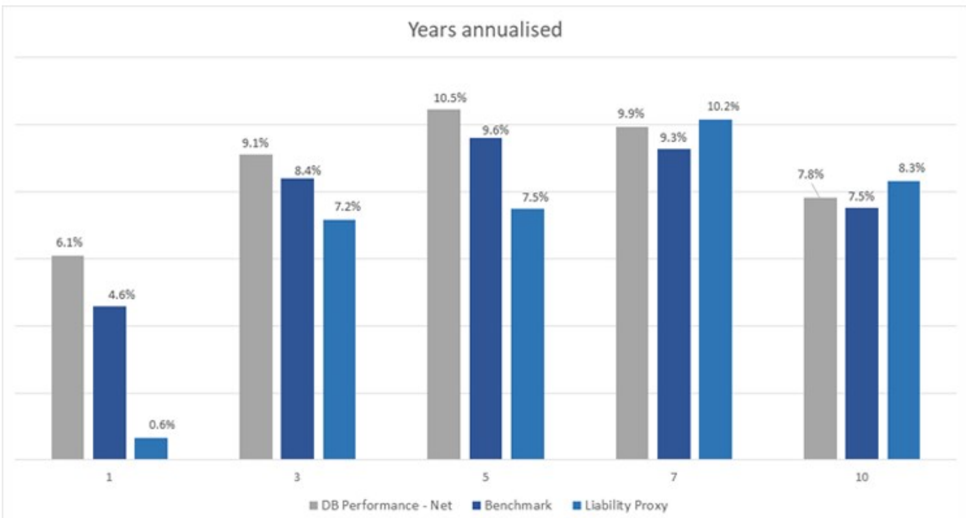


USS Retirement Income Builder (defined benefit) investment performance over the long term has been strong – the USS Investment Management team works to a rolling five year performance target to reflect that we manage the fund for long-term performance and focus on decisions which will provide long-term – but not necessarily short-term - returns.

Over the last five years (2013/14 to 2017/18), our diverse investment fund has returned 10.6% gross of costs per year. The total fund has achieved above benchmark returns in the 2017/18 year by 1.44% net of costs and over the five-year period exceeded the benchmark by 0.78% per year net of applicable costs. Our consistent outperformance of the benchmark over the past five years has been worth an additional £1.7bn on the fund's value.[1]

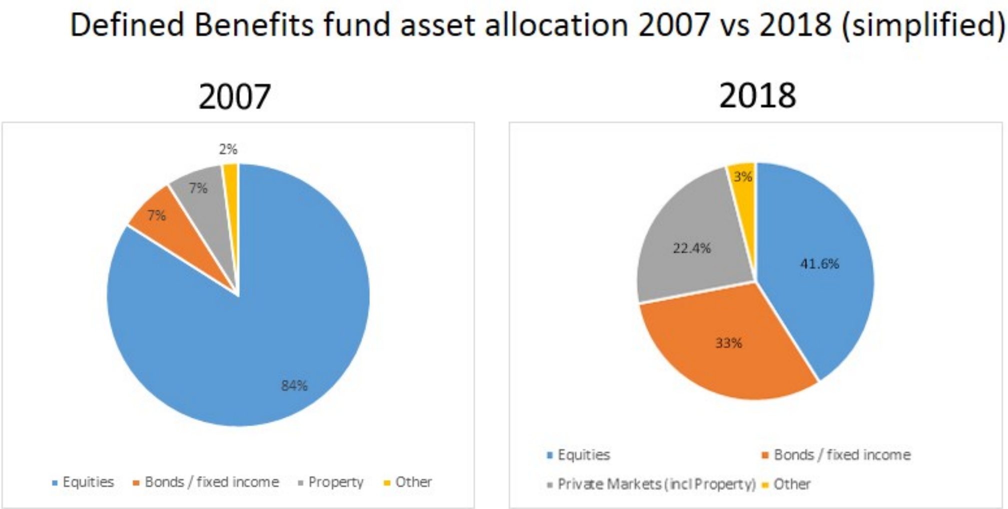
[1]The added value calculation is net of non-USSIM costs, but gross of USSIM costs.

USS Retirement Income Builder annualised returns to 31 March 2018



As well as beating its performance benchmark*, the USS Retirement Income Builder performance has also beaten the liability proxy benchmark, comprised mainly of long dated index-linked bonds, over all time periods except for seven years. This strong performance is due to effective diversification across different asset classes and a strong performance from our in-house investment team. The ten year period straddles both the global financial crisis and the further sharp fall in gilt (Government bond) yields following the Brexit referendum in June 2016.

Looking at our 10-year performance in the chart, the USS Retirement Income Builder net performance lags that of gilts as a consequence of the scheme's substantial exposure to equities (c.80%) at the time of the global financial crisis in 2008. Since then we have progressively diversified our investments to the portfolio we operate today, seeking to maximize returns and reduce risk within the risk budget agreed with sponsoring employers as demonstrated in the pie charts below.



NB. Private Markets (incl Property) also includes infrastructure investments; Other includes alternative investments (eg. derivatives, absolute return investments), commodities, debt & cash

The Trustee's overarching funding principle, supported by the employers, is that the amount of pension risk within the scheme should be proportionate to the amount of financial support available from the scheme's sponsoring employers. Furthermore, there should be no increase in the reliance placed on that support over time. The current investment strategy is gradually to reduce the amount of investment risk within the scheme, given the right economic conditions, over a 20-year period. However, this strategy and the rate of change in investment risk in the scheme may change as a result of the valuation process which is currently under way.

To find out more about this process, please read:

- How decisions are made on future pensions for USS – Bill Galvin, Group CEO
- Investment challenges: the facts – Roger Gray, Chief Investment Officer
- Protecting pensions – Guy Coughlan, Chief Risk Officer

You can find out more about our investment performance in our annual Report and Accounts.

Notes:

*The benchmark – or reference portfolio – is a hypothetical allocation across standard market assets - such as equities, credit and property - which is expected to deliver the level of returns targeted by the trustee to meet the benefits promised given the agreed contributions within acceptable levels of risk agreed to by the employers. The reference portfolio acts as a guideline for the level of risk the in-house investment team should target in its actual investment portfolio and also serves as a benchmark for investment performance.

The in-house investment team is tasked with delivering greater returns than those derived from the reference portfolio, whilst simultaneously targeting a similar (or lower) level of risk. This is achieved by investing in a broad range of asset classes and instruments.

The Reference Portfolio as at 31 March 2018:

Asset class	% of Reference Portfolio
Equities	62.5%
Credit	10%
Inflation linked government bonds	25%
Private Markets	7.5%

Leverage = 5%

Last updated: about 12 months ago