USS Investment update - Focus on fixed income

20 April 2020

I joined USS Investment Management at the start of the year from BlackRock, in order to build on some of the great work that had already been done in our fixed income business area. This part of our portfolio, which includes all fixed income, treasury and trading is focussed on classes of investments which are well-suited to a pension scheme as they provide more certain and secure returns, while matching some of the risks associated with our liabilities.

With the arrival of Covid-19, that work seems particularly prescient and since I joined we've been full steam ahead - working at both analysing the short and the long-term: on the one hand how we are able to respond at speed to this crisis, while on the other keeping a firm eye on our ultimate goal to enable USS to pay the pensions that have been promised.

As an in-house advisor with USS as our only client, we have complete alignment on the needs of the scheme. That means that while we have some limitations to risk taking in our investment strategies, we have strong in-house capabilities that have allowed us to make considered proactive moves during the market turmoil.

Make no mistake, market conditions are tough (and I started life trading volatility in the aftermath of the 9/11 attacks) , but I agree with Simon that this is likely to be a short to medium term dramatic correction and that USS is well-positioned as a long-term investor to manage through it.

Since my arrival I've been working with teams across the business to enhance some of our risk reporting and oversight, as well as increasing the number of bank counterparties. We have also started to look more holistically at some of the scheme-wide interest rate and inflation exposures we are running. That includes some of our large strategic positions, thinking about where we could add or start to shift allocations to take profit on positions.

In recent weeks our Treasury function has been working hard to maintain sufficient cash and liquidity within the scheme to meet all our potential requirements. This has involved raising cash via repo markets – where we trade in government securities on a short-term basis, as well as testing our ability to be dynamic by accessing funding sources in both the UK and US bond markets.

Being able to manage foreign exchange hedges in-house has meant we have been able to take advantage of market dislocations to fund the scheme's investment activities at exceptional levels. We have also shared our extensive knowledge of managing cash and liquidity with companies with whom we have long term strategic ties (via our Private Markets Group).

That said, the current market environment is very challenging, and transacting at levels material to the scheme is difficult due to the extreme volatility as well as our size, so as the UK's largest private pension scheme, that means being very careful about what we do, and how we do it. But thus far while the markets have fallen, the work we have done already done and continue to do means we can react to market dynamics and adapt as markets move.

Clearly the full impact on the global economy has yet to be seen and the effects of even a relatively short-term lockdown have already been devastating to certain sectors. But as a long-term investor, we are remaining calm and thinking carefully about how we best protect our stakeholders' money. And while long-term returns may well be impacted by this, we are doing our very best to navigate through these unprecedented times.

Ben Clissold

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