

USS Default Lifestyle Option

Statement of Investment Principles

Introduction

1. This Statement of Investment Principles specifically covers the USS Default Lifestyle Option and shall be referred to as the Default SIP. It supplements the main [Statement of Investment Principles \(the SIP\)](#) which covers the whole scheme.
2. The trustee makes available a default lifestyle option for members of the DC section. The approach for the default lifestyle option has been formed as a lifestyle strategy. Lifestyle strategies are designed to meet the conflicting objectives of maximising the value of a member's assets at retirement and protecting the value of accumulated assets particularly in the years approaching retirement.
3. Typically, a proportion of members will actively choose this option because they feel it is suitable for them. However, the vast majority of members do not make an active investment decision and are therefore invested in the default lifestyle option by default.
4. The default lifestyle option aims to generate investment returns, in a risk-controlled manner, which are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid over a member's lifetime in to the DC section, whilst also recognising the hybrid nature of the scheme.

Objectives

5. The objectives of the default lifestyle option, and the ways in which the trustee seeks to achieve these objectives, are detailed below:

- To focus particularly on generating returns in excess of inflation during the growth phase of the strategy (up to 10 years before retirement) whilst mitigating downside risk.

The default lifestyle option's growth phase invests in equities and other growth-seeking and diversifying assets. These investments are structured to maximise real returns over the long term with some downside protection and some protection against inflation erosion. The downside risk from an equity market downturn is mitigated to a degree through diversification away from equities into other asset classes.

- To provide a strategy that reduces investment risk in the consolidation phase (between five and 10 years before retirement) for members as they approach retirement.

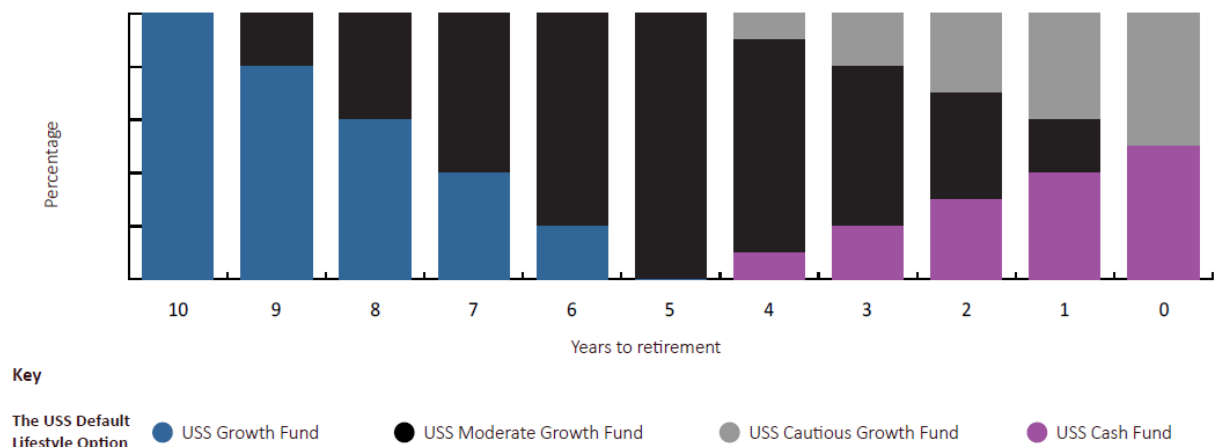
As a member's DC savings grow, investment risk will have a greater impact on member outcomes. Therefore, the trustee believes that a strategy which seeks to reduce investment risk as the member approaches retirement is suitable. In the consolidation phase, the trustee is seeking, through greater diversification of assets, to reduce the likelihood of extreme investment shocks adversely affecting retirement outcomes.

- To provide exposure, at retirement, to a more stable portfolio of assets that are broadly suitable for how members may take their retirement benefits.

In the final five years before retirement (protection phase), the trustee has constructed a glide-path that seeks to continue to grow the member’s DC savings in real terms while reducing volatility as member’s funds get closer to maturity. The trustee expects that the majority of members approaching retirement in the next five years or so will take their benefits as cash. In the protection phase, assets are therefore switched to more cautious assets (such as gilts and corporate bonds), including an allocation to cash. This has been designed additionally to reflect the uncertainty inherent in the timing of retirements, and the post-retirement investment choices that might be made by members. The trustee believes that maintaining a measured amount of risk will improve the average outcome for members.

- To comply with the trustee’s policy in relation to the realisation of assets as set out in paragraphs 3.9 of Section 1 of the SIP.

6. The chart below provides an illustration of the default structure described in paragraph 3.4 of Section 3 of the SIP, in particular detailing the balance between the different kinds of investments held:



Policies

7. The trustee’s policies in relation to the default lifestyle option are detailed below:
- The default lifestyle option manages strategic asset allocation risks through a diversified reference portfolio consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default lifestyle option, the trustee explicitly considers the trade-off between risk and expected returns and continues to monitor these risks through ongoing reporting.
 - Assets in the default lifestyle option are invested in the best interests of members and beneficiaries, taking into account the profile of members. In particular, the trustee considered high level profiling analysis of the scheme’s membership in order to inform decisions regarding the default lifestyle option.
 - Members are supported by communications aiming to set out clearly the aims of the default lifestyle option and the access to alternative investment approaches. If members wish to, they can opt to make their own choice of investment strategy or an alternative

lifestyle strategy from those made available by the trustee. This option is available on joining but also, subject to any restrictions or conditions imposed by the scheme rules of the trustee, at any other future date. Moreover, members do not have to take their retirement benefits in line with those targeted by the default lifestyle option; the target benefits are merely used to determine the investment strategy held pre-retirement.

Kinds and balance of investments held

8. The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the default lifestyle option.
 - A growth fund – will invest predominantly in growth assets, with an objective to provide long term growth to members, with some diversification to mitigate portfolio risk to a degree.
 - A moderate growth fund - will typically invest a majority in growth assets, with more diversification than the growth fund, and with an objective to provide long term growth to members from a balanced, more diversified portfolio of assets. This diversification aims to mitigate portfolio risk to a greater extent.
 - A cautious growth fund – with an objective to provide stable growth to members from a portfolio of predominantly low risk, income focussed assets, with some diversification, and minority exposure to growth assets.
 - A cash fund – typically aims to produce a return in excess of its benchmark, principally from a portfolio of Sterling denominated cash, deposits and money market instruments.
9. Moving from growth to moderate growth to cautious growth funds would be associated with decreasing proportions in growth assets such as equities, and property and increasing proportions in non-government and government bonds.

Social, environmental or ethical considerations

10. The default lifestyle option is managed in line with the trustee's policy on social, environmental or ethical considerations as set out in paragraph 4 of Section 1 of the SIP – Responsible Investment.

Alternative options

11. In addition to the default lifestyle option, the trustee makes available an alternative ethical lifestyle option reflecting the fact that a large group of the membership has specific objectives around ethical investing. This is built along similar principles to the default lifestyle option but has been specifically designed to reflect members' objectives in this area. As well as this, a range of self-select funds are also offered to members.

Review

12. Taking into account the demographics of the scheme's membership and the trustee's views of how the membership is likely to behave at retirement, the trustee will continue to review this over time, at least triennially, or sooner if there are significant changes to the scheme's investment policy, demographic or other circumstances which the trustee determines warrant a reconsideration of the reference portfolios for the default lifestyle option.