USS

For members, for the future.

Universities Superannuation Scheme

Report and Accounts for the year ended 31 March 2021

USS *For members, for the future.*

We are the principal pension scheme for universities and other Higher Education institutions in the UK.

The Annual Report and Accounts of the trustee company can be found on our website **uss.co.uk**

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About USS

Our purpose

Working with Higher Education employers to build a secure financial future for our members and their families.

Our strategic priorities

Members feel financially more secure

A sustainable scheme, for the long term

USS is recognised as a competent scheme manager

Our business model

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and other higher education institutions in the UK.

The trustee
The scheme's trustee is Universities Superannuation Scheme Limited. It is a corporate trustee which has overall responsibility for scheme management, led by a non-executive board of directors and employing a team of pension professionals in Liverpool and London. The trustee's key responsibility is to ensure that benefits promised to members are delivered in full on a timely basis.

Administration
The trustee employs an experienced team of pension administrators who are based in the Liverpool office. This team is supported by Capita, an external pensions administration firm.

Investment management
The trustee delegates implementation of investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which employs a team of investment management professionals in the London office, providing in-house investment management and advisory services.

The scheme

The scheme provides two types of pension benefits: **defined benefit (DB)** and **defined contribution (DC)** and in both cases we invest payroll contributions received from our members and employers to generate funds to pay for benefits in the future.

Our pension scheme assets

Retirement Income Builder
(defined benefit for all members)

£80.6bn

in assets and c.476,000 members

Investment Builder
(defined contribution)

£1.6bn

in assets and c.91,000 of our total members

Our values

- Integrity
- Collaboration
- Excellence

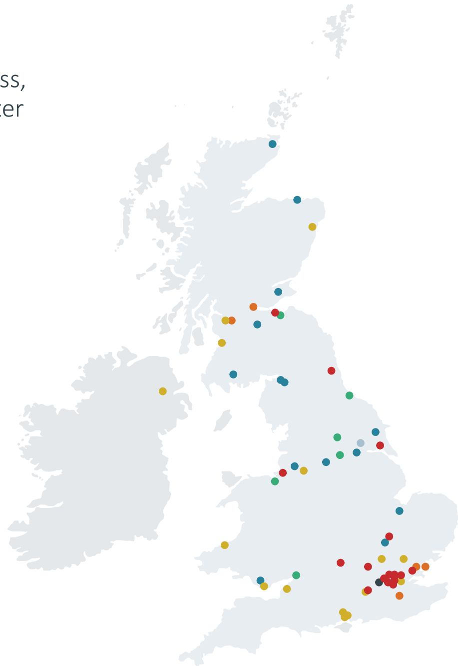
Our goals for stakeholders

Members feel financially more secure
We are committed to providing our members with the right retirement savings options, to invest well on their behalf, and help them make good decisions about their retirement. For more information see page 12.

Employers have a high quality service and a sustainable scheme
We engage with our employers informally as well as through more formal channels, such as the Institutions Advisory Panel and annual Institutions' Meeting. For more information see page 16.

Employees are valued and have the opportunity to thrive
Our employees are key to our success, so our people approach aims to foster a culture that supports diversity and inclusion, recruits, retains and develops talent and is responsive to employee needs. For more information see page 18.

Investee companies have a responsible investor who fosters long-term growth
We are a long-term, active and responsible major institutional investor with one of the largest Responsible Investment teams in the UK pension sector. We use our influence to encourage positive change.



Our major private market investments across the UK include:

- Energy from waste
- Heathrow Airport
- National Air Traffic Services (NATS)
- Property
- Wind farms

In addition, we invest in 60 Moto service stations and 35 Westerleigh (crematoria) locations.

Our investments

We invest our diversified portfolio in the UK and globally.
Our global assets of £82.2bn are principally invested in three main areas:

Private Markets including property	Public Markets Listed Bonds	Public Markets Listed Equities
£22.2bn	£33.7bn	£19.4bn

Chair's introduction

The past year has been very challenging for the vital sector USS serves. Despite the adverse economic, social and health impacts of COVID-19, USS remains fully committed to providing secure and valued pensions

Dame Kate Barker
Chair of the Trustee Board

Dame Kate Barker is one of Britain's leading economists. She became a Director of the trustee, Universities Superannuation Scheme Limited, on 1 April 2020 and has been Chair since 1 September 2020.

She was Chief Economic Adviser at the CBI from 1994 to 2001, and a member of the Bank of England's Monetary Policy Committee from 2001 to 2010.

She was a governor at Anglia Ruskin University from 2000 to 2010, including Chair of Governors from 2007 to 2010, and served on the Council of Oxford University from 2017 to 2020.

She has been Chair of the Trustee Board of the British Coal Staff Superannuation Scheme since 2014.

The stewardship of USS is an extraordinary responsibility, fully appreciated by every member of the Trustee Board. We have to ensure that the scheme is fit for purpose, that it offers our members excellent support and service, and that the pension promises made to members can be kept.

My first year on the board of USS (and as Chair since September 2020) has been dominated by many effects of the pandemic. It has not been the easiest introduction to USS, but it has been a pleasure to find a warm welcome from a very committed board and executive. We are proud of the way in which we were able to move swiftly to a virtual environment, maintaining our high quality service to our members and continuing to manage their investments effectively.

It is clear to me that keeping a bedrock of a defined benefit pension, increasingly rare in the UK, is important to the sector. My discussions with both sets of stakeholders have confirmed that view. However economic changes are reducing the affordability of that firm promise, and finding a way forward among varied risks is challenging.

The work of the board over the past year has been heavily focused on the 2020 valuation, a date which was agreed as part of the conclusions of the 2018 valuation. In agreeing to those conclusions, it was considered that a possible improvement in financial conditions and some changes to valuation methodology could enable a smoother process in 2020 avoiding the need for the increases in contribution rates otherwise due to come into effect in October 2021. Events have, however, frustrated these expectations for USS and for the sector, and I recognise that this is the latest in a series of difficult valuations.

The trustee has focused on assessing the impact of COVID-19 on the prospects for our sponsoring employers in the UK Higher Education (HE) sector, as well as on the fortunes of the global economy crucial to future investment returns. We have changed our methodology, following helpful and extensive discussions with stakeholders, to reflect better the open nature and maturity of the scheme. We are, as a result, able to take more investment risk compared with the 2018 valuation, but lower gilt yields and the deterioration in the long-term outlook for investment returns have outweighed these positive factors.

As a result, it is clear that the present joint contribution rate is no longer adequate to fund the pensions our members now expect to earn on their future service, and support the likely deficit recovery costs.

To protect the position of our contributing members, we are working to maximise the strength of the employers' covenant, their commitment to provide financial support to the scheme. Successful agreement in this area will have a material benefit in terms of future contribution rates.

We are encouraged that the HE sector has proved very resilient during the pandemic and we still firmly believe that the sector can support a strong covenant. However, we are seeking tangible commitments from employers in order to support that conclusion. Our position here has not changed since we agreed to work towards these commitments during the 2018 valuation and the need for them is more important than ever.

Over the past year, we have worked hard with our stakeholders to reach a common understanding of the risks to the scheme and the regulatory environment in which we operate. Over the coming months we will continue to engage with Universities UK (UUK), with the University and College Union (UCU) and with The Pensions Regulator to find the best way forward.

The Joint Negotiating Committee, which comprises representatives of our stakeholders, UUK and UCU, and an independent chair, decides how to manage these funding pressures by considering the design of the scheme's benefits and its contribution structure. In doing so, we hope it will also want to consider that as many as one in five becoming eligible to join the scheme choose to opt out, primarily on grounds of either affordability or flexibility.

There is still much to be done to complete the 2020 valuation. We know the increase in the overall contribution rate to 34.7%, due to come into effect in October 2021, is a concern for employers and members. We will work as constructively as possible with our stakeholders as we grapple with these complex issues.

There have been a number of changes on the Trustee Board over the year.

Most significant was the retirement of Professor Sir David Eastwood in August 2020. David first joined the board in January 2007 and had served as Chair since 2015. He led the board through a difficult period with exemplary diligence and unfailing courtesy – he is a very hard act to follow.

Dr Steve Wharton, Kirsten English and Michael Merton also retired from the board and will all be very much missed. Steve had a robust approach which got to the heart of the question; Kirsten and Michael were deft and assiduous chairs for the Governance and Nominations Committee and Audit Committee respectively.

More recently, in June 2021 Ian Maybury gave notice of his resignation from the board, to take effect this autumn. As a committed and technically skilled director he has worked tirelessly across many areas of USS and will be much missed.

It is very pleasing that there is now a full complement of three UCU-nominated directors. Andrew Brown and Helen Shay joined in summer 2020, and Dr David Watts in March 2021. Professor Sir Paul Curran joined as a UUK-nominated director, and finally Russell Picot as an independent director. All are most welcome to the board and contribute to making it effective and reflective of a diversity of viewpoints.

> **“We are fortunate to have a fantastic team in pensions administration and a highly skilled investment team, with a firm commitment to Responsible Investment.”**
>
> **Dame Kate Barker**
> Chair of the Trustee Board

This means we have a strong Trustee Board, united in achieving the purpose of USS. We are fortunate to have a fantastic team in pensions administration and a highly-skilled investment team, with a firm commitment to Responsible Investment. I am an advocate for environmental, social and governance issues being taken fully into account in our investment decisions. USSIM has announced important steps on that – our first investment exclusions policy followed recently by the important ambition to be 'Net Zero' (Net Zero is a state where we are net zero for carbon) by 2050, at the latest.

Despite the strong rebound in financial markets supported by concerted government and central bank actions, we face major challenges in dealing with the wide-ranging financial impacts of the pandemic. These will become more apparent as the tragic human consequences lessen. But whatever circumstances arise, I am convinced that USS has the leadership, the principles and the professionalism to deliver secure pensions and first-class services to our members.

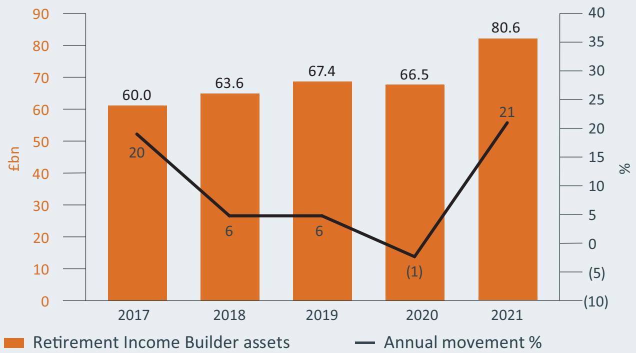
Dame Kate Barker
Chair of the Trustee Board

Performance overview

The following data and comparatives for the year ended 31 March 2021 provides a performance overview for indicators linked to our strategy

Retirement Income Builder assets

£80.6bn



Overview

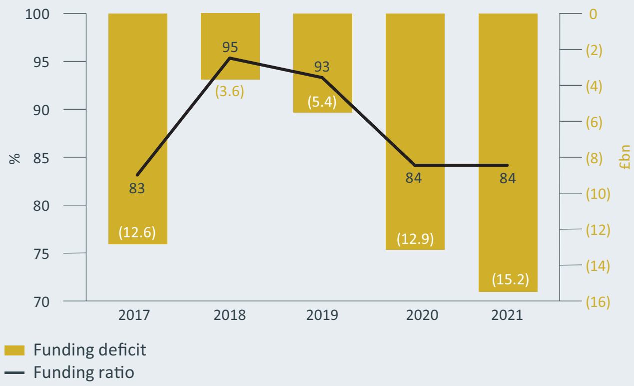
Retirement Income Builder (defined benefits/DB) assets have risen strongly in the year recovering from market falls related to the onset of COVID-19 in the final quarter of 2020.

For further information

See Investment matters section on page 21 for more on Retirement Income Builder investment performance.

Funding ratio

84%



Overview

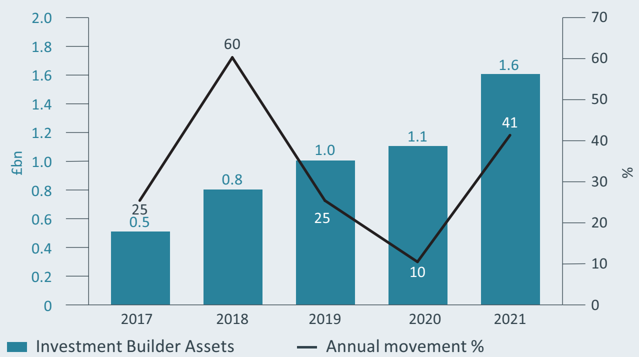
The funding ratio compares the Retirement Income Builder's assets with the actuarial liabilities (using the 2018 valuation monitoring basis). Asset gains noted to the left have been offset by liability increases due to reduced future return and increased inflation expectations leaving the ratio unchanged year on year.

For further information

See Actuarial section on page 26 for more on funding ratio.

Investment Builder assets

£1.6bn



Overview

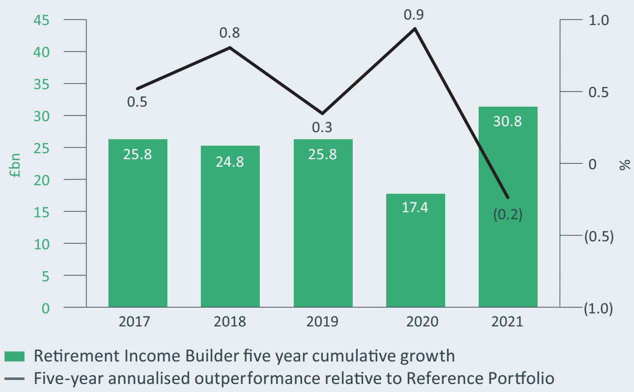
Investment Builder assets (defined contribution/DC) assets have grown every year with increasing contributions being more significant than market impacts and now include internally managed emerging markets equities as well as private markets assets.

For further information

See Investment matters section on page 22 for more on Investment Builder investment performance.

Investment growth

£30.8bn over five years



Overview

Retirement Income Builder valuation growth over five years to 31 March 2021 is £30.8bn, an investment return of 9.75% per annum. This is 0.24% per annum below that of the Reference Portfolio but 3.45% per annum above the Liability Proxy over the period.

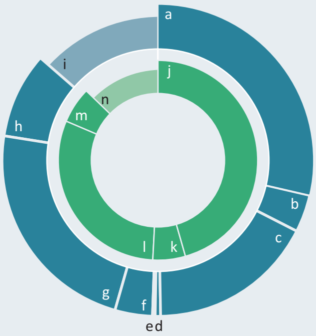
For further information

See Investment matters section on page 20 for more on investment performance.

Asset allocation

£80.6bn

invested in public and private markets



a. Listed Equities 39.4%
b. Property 5.3%
c. Other Private Markets 23.3%
d. Commodities 1.0%
e. Absolute Return 0.4%
f. Nominal Government Bonds 5.2%
g. Index-linked Bonds 31.5%
h. Other Fixed Income 12.2%
i. Cash and Overlays (18.3)%

j. Listed Equities 55.0%
k. Property 6.5%
l. Index-linked Bonds 36.7%
m. Other Fixed Income 17.0%
n. Cash and Overlays (15.2)%

Implemented Portfolio
Reference Portfolio

Overview

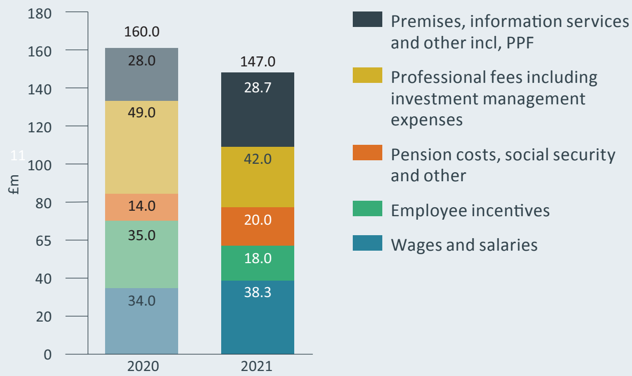
The Implemented Portfolio shows the breakdown of the Retirement Income Builder assets at 31 March 2021. The Reference Portfolio is a long-term benchmark for the returns and risk of the investment strategy for those assets.

For further information

See Investment matters section on page 20 for more on asset allocation and its development over time.

Scheme overheads

£147m (as per Note 7 financial statements)



Overview

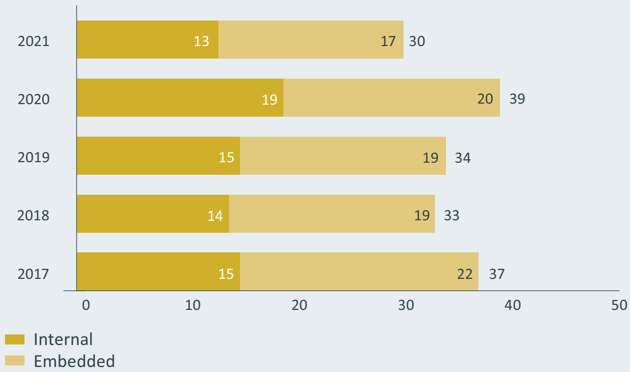
Scheme overheads, as laid out in the audited financial statements, reduced by 8% against the prior year. This was due to an unusually high long-term incentive provision charge in 2020 which largely reversed in the current year.

For further information

See Financial Statements section on page 56 and CFO update section on page 54 for more on costs and how they are managed efficiently.

Investment management cost

30 basis points



Overview

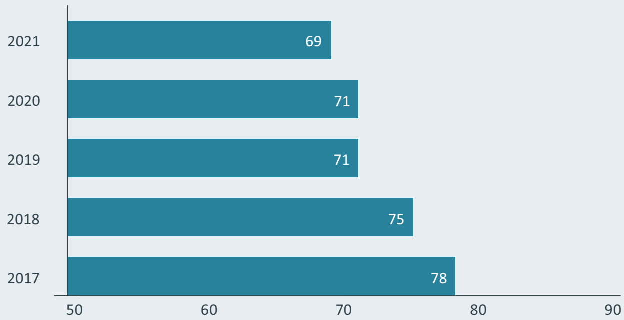
Investment management cost, inclusive of embedded cost, is shown as a proportion of average Retirement Income Builder assets in basis points (bps). The costs are calculated on a basis that is comparable with that used by CEM Benchmarking and thus reflect adjustments to the expenses included in the financial statements. USS was 9bps lower (equivalent of £66m p.a.) than peers in the most recent CEM Benchmarking report (2019 calendar year).

For further information

See CFO update section on page 54.

Pension administration cost

£69 per member



Overview

Pension administration cost per member is calculated on a basis intended to be comparable with that used by CEM Benchmarking. The most recent USS cost per member as validated by CEM Benchmarking was £71 – 2020. We consistently work to improve cost effectiveness while developing our service levels.

For further information

See CFO update section on page 54 and Member services section on page 12.

Group Chief Executive Officer's overview of performance

We have shown an unwavering commitment to maintaining a premium service for members and employers in unprecedented times

Bill Galvin
Group Chief Executive Officer

As we look back with sadness at the impact of the events of the past year on our families and communities, I am very proud of the way my USS colleagues and our counterparts in the institutions we served responded to the challenges presented by COVID-19. Despite the difficulties, the high standards of service expected by our members and institutions were maintained in almost every aspect, and overall the administration of the scheme proved remarkably resilient to the significant shocks wrought by the pandemic, and the enormous changes required to adapt to the new circumstances.

The start of the financial year required our investment teams in public and private markets to respond quickly as financial markets reacted to the sharp economic impact of the pandemic. Our public market teams stayed calm under intense pressure and made decisive moves that protected the scheme's funds – particularly in the early stages, when markets were extremely volatile. Our Private Markets team has engaged extensively and intensively over the course of the crisis with the many businesses we directly own to ensure they were actively supported throughout. Their efforts have left the scheme and its investments in a materially better place than might otherwise have been the case.

The year since March 2020 has seen very significant movements in the values of both our assets and liabilities. Over the past 12 months, the return on our assets has been significantly higher than that of the debt instruments making up our liability proxy (see pages 21 to 22). However, the impact of the planned convergence of CPIH and RPI and reductions in future expected returns following the market rebound have meant that our funding ratio using the 2018 valuation monitoring basis has remained static. As explained in the Actuarial section these measures will differ under the 2020 valuation once it is finalised as a result of revisions to our methodology and assumptions.

We have a long-term commitment to private market investments and to a more diversified approach to seeking liability-like assets than investing only in UK index-linked gilts. Over the past several years this approach has served the scheme well. However, the past year has been more challenging, largely because of unusual features of the COVID-induced turmoil in financial markets. Private market investments have lagged the gains in public markets and it has proved challenging to add liability-like assets to closely match the index-linked gilt elements of our Reference Portfolio. The recent weaker performance from these assets has diminished their ongoing positive impact on relative performance over five years. This coupled with adverse asset allocation positioning in the wake of the 2016 Brexit vote has caused the year end five year relative performance to drop below benchmark for the first time since the 2013 year end. Ten year relative performance remains positive as does the two year measure covering the period since before the onset of the pandemic. Simon Pilcher, CEO of USS Investment Management, explains in more detail our approach to liability hedging investments and our broader investment strategy on pages 20 to 21.

In June 2020, USSIM announced its first exclusions policy. This was a landmark moment for the scheme. Since then we have continued our progress in this area with our stated ambition to be 'Net Zero' for carbon by 2050, if not before. Achieving our goal here will involve a fresh focus in terms of where and how we invest, but we will also have to work closely with peer funds, our external asset managers and others in the investment value chain.

We know these are issues that matter a great deal to our members. They are also very important parts of our focus on ensuring our financial returns over the long term navigate risk factors that can be difficult to capture in shorter-term financial models or performance targets.

We also know that we have an important role in helping our members make the right decisions today in planning and preparing for their retirement. The prospects of longer, more productive lives in retirement, changing work patterns and opportunities for older workers, and more choice over pension capital and income, mean our members have far more complex decisions to make today.

So, we have focussed our energies on how we might best support their journeys to and through retirement. Part of this saw the launch of a new website in September. Following a programme of extensive research, we created a modern platform designed from the ground up around our members' evolving digital needs to empower them with information and new online functionality. The site underpins our drive to engage directly with our members in increasingly innovative ways.

In addition, we have partnered with Mercer to offer a range of specialist webinars that provide our members with free guidance. This complements the new features on the members' section of the site with topics such as how USS works, pensions taxation and tax planning, and support for members' retirement planning. The sessions have been developed in collaboration with our participating employers to make sure they provide the correct information in a way that works for members.

We also launched a series of general webinars for members covering who we are, what we do, and how we do it, and answering their questions.

We believe these developments have brought us closer to our members – and it is starting to show: perceptions of USS have improved over the past year, on all measures.

We clearly still have a lot of room for improvement and remain concerned that one in five members have negative perceptions of the scheme. The challenging economic outlook has, of course, presented funding challenges and our members and employers have borne the impact of these. Increases in the contributions required to fund existing and future benefits, driven by a world of enduringly low interest rates have understandably not been welcome. Despite this, by working with our stakeholders to confront these significant funding pressures, USS has defied the odds to be one of few remaining private defined benefit pension schemes in the country still open to both new members and future accrual.

We have worked hard to explain the external challenges we face, as well as the significant value the scheme continues to offer. We will continue to do that, and to make clear our resolute commitment to securing members' benefits and delivering premium administrative and investment services to the people and institutions we are privileged to serve.

That commitment is evident to the employers we work with day in, day out in administering the scheme. Their perceptions have also improved – but in this case, from an already very high starting point: 88% now rate their overall relationship with us as good or very good, and just 2% rate it as poor. That compares with 83% and 4% respectively in 2020. The overall quality of support we provide to employers has also been positive: 87% rated good/very good, 3% poor (81% and 5% in 2020).

We are committed to working with our stakeholders to address the implications of the 2020 valuation. We have endeavoured to look through the challenges of stormy market conditions to focus on the long-term challenges for the scheme, and want to work openly and collaboratively to find solutions.

Of particular concern is the level of eligible people currently choosing to opt-out of the scheme. The reasons are complex, but affordability is a key factor. It is also clear that the scheme's offering is not as clear or attractive as it might be to members with anticipated short tenure in the HE sector, or prospects of international mobility. We have raised this issue proactively with our stakeholders for several years now and are currently actively supporting their discussions to address the underlying causes through the 2020 valuation and beyond.

> **"The people who work for USS, nearly all of us members of the scheme, care deeply about its purpose and its mission. We are committed to maintaining its position as one of the best private pension schemes in the country."**
>
> **Bill Galvin**
> Group Chief Executive Officer

The demands of the valuation – in terms of commissioning professional advice and analysis and engaging with our stakeholders and our members – are impacting our operating costs. We believe that this is justified by the importance and complexity of the valuation and its outcomes to the scheme and our stakeholders.

However, our underlying costs are being managed carefully and effectively. Despite the costs of the valuation, operating expense has reduced, partly due to one-off pandemic-related cost impacts. As noted in the Chief Financial Officer's update (see pages 54 to 55) we do expect operating costs we show in the scheme financial statements to rise in future, with this increase being offset by reductions in costs embedded within net scheme returns.

This strategy – reducing external costs by increasing our in-house investment capabilities – has seen USS achieve strong investment returns at a much lower cost than global peers of a similar size and complexity. According to the latest independent benchmarking by CEM, covering the calendar year 2019, our investment costs were £66m lower than our peers on an equivalent basis.

Our strategy is supported by our three strategic priorities; these are explained below

As a complex financial institution, risk management is at the core of our trustee and investment manager role. In September, we welcomed Lindsey Matthews as our new Chief Risk Officer. With nearly 30 years' experience in financial markets, Lindsey's skills and motivations complement our dedication to delivering highly valued pension promises to our members and their families, effectively and safely.

We have reported two legacy compliance issues to The Pensions Regulator. Monitoring by our Compliance team found that, while rightly setting out the options available, our Early Leaver (members who have between three months and two years qualifying service) Letters did not proactively state the then-value of taking a cash transfer sum. This was, instead, only being provided on request. We are also proactively remediating 'death after retirement' lump sum payments that should have been payable in respect of deferred members who retired and then died within five years.

I, and all my colleagues at USS, feel our responsibility to members and sponsoring employers. After such a challenging year, I am pleased to report that we have maintained very positive employee engagement scores. We are also committed, as an employer, to promoting diversity in all its forms. Our Diversity and Inclusion programme has been an important step in our journey to effecting the change we want to see in terms of our culture and our workforce. We have a long way to go but, thanks to the work of our 30-plus 'D&I Champions', we know where we are going and how we plan to get there.

The people who work for USS, nearly all of us members of the scheme, care deeply about its purpose and its mission – evidence of that can be found throughout the pages of this report. We are committed to maintaining its position as one of the best private pension schemes in the country.

Bill Galvin
Group Chief Executive Officer

Strategic priorities	2020/2021 highlights
Members feel financially more secure	
We provide our members with the right retirement savings options, invest well on their behalf, and help them make good decisions about their retirement.	• Direct-to-Member (DTM) launched, with around 11,600 members opting in to value-add communications • Updated and refreshed website and My USS portal live • Launched specialist webinars explaining different aspects of the scheme and piloted one-to-one retirement guidance calls for which we received positive feedback
A sustainable scheme, for the long term	
We ensure funding is put on a stable path and the scheme is aligned with the long-term interests of the Higher Education sector.	• Private Markets Group deployed >£4bn capital in new investments while continuing to focus on responsible stewardship • Liability Driven Investing mandate live. Hedge fund review complete. Material savings delivered • ESG market exclusions complete and well received
USS is recognised as a competent scheme manager	
We visibly deliver expertise in scheme management with the right people, systems, and processes to deliver value for money for employers and members.	• Renegotiated Capita contract. New five-year contract in place. Member Service Desk insourced from Capita • Diversity and Inclusion targets agreed and actions delivered across all focus areas, including revised recruitment approach guidance and the launch of an Internship programme • In response to the COVID-19 pandemic, most of our people were working remotely within days, with new equipment provided where needed • Pension Operations productivity returned to pre-COVID-19 levels by May/June 2020, with new ways of working ensuring we met stakeholder needs. We achieved overall service level agreement (SLA) compliance of 94% on c.160,000 transactions • We met employers regularly; employer portal updates and ad-hoc communication helped them manage their COVID-19 impacts • USSIM introduced daily cash and collateral reporting

Further information regarding how risk management links to USS performance management measures and how it is aligned with our strategic priorities, can be found on page 37.

Notes

1 Active member is a member who is paying in to USS.

2 Not all active members receive Annual Member Statements due to personal circumstances or multiple periods of employment. Information on their benefits is available to these members from USS on request.

3 These cost KPIs are calculated on a management accounting basis which differs to the calculation and breakout of scheme overheads included in the fund account. The management basis does not include statutory adjustments, for example, it includes pension deficit recovery charges as they become payable rather than based on provision movements following finalisation of the scheme valuation. The investment management cost KPI is stated as a proportion of Retirement Income Builder assets under management which aligns more closely to the costs included than do total scheme assets.

2020/21		2019/20			
Result	**Target**	**Result**	**Target**	**Key performance indicators**	**Description**
88%	80%	83%	80%	**Employer positive relationship**	Based on 2020 employer survey findings. The percentage of employer respondents answering 'good' or 'very good' when asked the question 'Taking everything into account, how would you rate your overall relationship with USS?' Further information can be found on pages 16 to 17.
31%	40%	24%	36%	**Member positive relationship**	Based on the 2020 member perceptions survey, the percentage of respondents answering 'good' or 'very good', when asked about their overall relationship with USS. Further information can be found on pages 12 to 15.
103,600	95,600	86,900	88,200	**My USS registrations**	Number of active members[1] registered on My USS.
99.7%	98.0%	99.2%	96.0%	**Annual Member Statement[2]**	The percentage of active members who received an Annual Member Statement (78% rated the statement as being useful). Further information can be found on page 14.
(0.24)%	0.55%	0.91%	0.55%	**Investment outperformance (rolling five year)**	Comparison of actual annualised five-year performance to 31 March 2021 relative to that of the Reference Portfolio (net of costs). Further information on the drivers of the annualised five-year underperformance relative to Reference Portfolio, as well as details on our continued outperformance relative to the same benchmark over a 10 year period can be found on page 21.
£69	£69	£71	£70	**Pension administration cost per member[3]**	The pension administration cost per member calculated for the financial year on a CEM Benchmarking basis. Further information can be found on page 7.
30bps	28bps	39bps	33bps	**Investment management cost[3]**	Investment management cost in basis points (bps) as a proportion of average assets under management. Further information can be found on page 7.
97%	100%	91%	100%	**% of internal audit findings remediated**	Percentage of significant audit findings remediated within the agreed time frame.
100%	100%	100%	100%	**% of material breaches remediated**	Percentage of material breaches remediated within the agreed time frame.
7.9/10	7.4/10	7.5/10	7.4/10	**Employee engagement**	Based on 2020 employee engagement survey results. The number of USS employees who agree or strongly agree with relevant survey statements. Further information can be found on pages 18 to 19.

Member services

Improved services and greater support have enhanced engagement and confidence among our members

Our members are at the heart of USS, no matter at which stage of life they may find themselves.

That is why this year, against the backdrop of the COVID-19 pandemic, it was essential to ensure members continued to have full access to all our services. It is also why we continue to invest in member engagement and enhancing members' experience in line with their evolving expectations and needs, so that we can help our members to feel secure and confident about their retirement.

In 2020/21, we once again improved member service. This year we:

- Relaunched our website and member portal, widening access and improving members' ability to view and manage their pension online
- Began sending communications directly to members rather than via their employer, which has been enabled by the launch of a preference centre to allow members to tailor the communications that they receive
- Provided access to specialist webinars explaining different aspects of the scheme and piloted 1:1 retirement guidance calls
- Created an in-house Member Service Team with a single contact number for member enquiries

All service level targets were met throughout the year, despite the challenges of home working and lockdowns. These and other Key Performance Indicators (KPIs) are reviewed each year and set to monitor our delivery of annual and long-term business objectives. Our performance in the most important aspects of our service is measured by those KPIs, including the overall relationship, digital experience, and rating of key communications.

In 2021/22, we will continue to focus on improving our member experience by:

- Providing members with access to drawdown and an annuity broking service for them to consider alongside options available within the scheme and on the open market
- Developing our modelling and guidance tools to help members plan for their future
- Starting to provide members with communications tailored to their circumstances and stage in their retirement journey
- Expanding the functionality and range of services available online via the My USS portal

We will also help members prepare for any potential changes to contributions or benefits that follow the completion of the 2020 valuation.

Member service

Although it has been a busy year for our pension operations team, and one spent working from home, they have remained resolutely focused and have maintained a full service for members (with the exception of a temporary moratorium on transfers into the scheme for the first three months). Against a backdrop of a significant increase in demand for retirement quotations post the initial lockdown, the department completed 94% of all member requests within internal stretch targets and 100% within statutory timescales. All retirement and death benefit payments were settled on time.

We also responded to 50,000 phone calls during the period and created a dedicated in-house Member Service Team to provide a simplified single point of access for all pension-related calls, including those previously handled by the outsourced Member Service Desk.

Meanwhile, we maintained our service to employers with little disruption, thanks to close collaboration with client engagement teams. This included adopting digital communications both to and from employers, which enhanced our service capability and improved end-to-end processing times. At the same time, we have expanded our use of digital printing to reduce both time and cost.

160,000
number of member cases dealt with by our team in the year

87%
member satisfaction with our retirement service

27,500
members updating their beneficiaries online since website relaunch

We continue to ask members for feedback on their experience, particularly when they have important interactions with us. Among new joiners, 83% reported satisfaction with the overall process and information provided to them, and among retirees, satisfaction with our service was 87%. More detailed feedback from members continues to support improvements to these services.

We recognise that many members have concerns about potential changes in benefits. While the reported levels of member satisfaction remain too low, we are encouraged by an increase of 7% in those who report a good relationship with USS in our annual survey (2020/21: 31%) compared to last year (2019/20: 24%). This is also higher than the 21% who report a poor relationship.

We remain committed to greater transparency about all aspects of the valuation. We will also support members with any changes to their future benefits that are agreed by the Joint Negotiating Committee – changes that we acknowledge members may find challenging.

Digital service

The successful relaunch of our website and member portal in September 2020 was a significant milestone this year. It was a major undertaking that resulted in an enhanced digital experience, improving these platforms' design, content, user journey, and functionality. As demand for digital solutions continues to grow, our members can now better monitor and manage their pensions online and with greater ease.

More than half of our active[1] members are now registered for My USS, as well as an increasing number of deferred[2] and pensioner[3] members. Since the relaunch, an average of almost 20,000 unique members have accessed the portal each month, more than double the same period the year before. Feedback on the new website has been positive, with the overall user experience score improving from 3.1/5 to 3.6/5.

A key future priority is to allow members to see and do more within the portal, making self service easier and quicker for many transactions. It also means members can quickly access more personalised information to support them in making decisions about their pension.

Relaunched digital service

The design and functionality of our new website and the My USS portal reflects the evolving needs of our members. As a result, we have delivered:

- Improved content – clearer, more concise language
- Better accessibility (AA compliance standard), to ensure digital inclusion for all whether on desktop, tablet or mobile phone
- More intuitive site navigation, with a clean, modern design
- Pensioner member access
- New functionality to amend personal and beneficiary details

Notes
1 A member who is paying in contributions to USS.
2 A member who is not yet receiving a pension but has built up a USS pension pot and is no longer paying into the scheme.
3 A retired member.

Guidance

In November, we partnered with Mercer to provide an ongoing series of live online webinars for members, helping them to better understand their USS pension. The webinars deal with a range of topics, including:

- joining the scheme
- introduction to USS
- pensions tax
- planning for retirement

So far, almost 2,500 members have attended a webinar and recordings are available on our website for those who want to learn at their convenience. 98% of members attending our first webinar on USS benefits reported that it helped improve their understanding.

“Keep them coming, I’m finding the webinars very useful and I like that you included some links, for example about pensions advice as I wouldn’t know where to start otherwise. Thank you!”

Member attendee

Communicating with members

A pension is the critical part of any retirement plan, so it is essential we do all we can to ensure our members are fully engaged with – and confident about – their USS pension and making decisions for their financial future.

To support this, our member communications strategy has been developed with the aim of engaging members and removing potential barriers to their understanding of their pension. Four key pillars underpin the strategy:

- Member narrative – a focus on making communications simple, clear and easy to understand
- Direct to Member – sending communications direct to our members rather than via the employer
- Digital communications – gradually moving from paper to digital channels
- Member support – ensuring we have relevant communications that support members’ decision-making at key points in the member journey

Our *Direct to Member* initiative has enabled us to remove an unnecessary burden on employers and strengthen the link between members and the scheme. We’ve also begun to move more communications from print to digital channels, facilitated by the launch of a preference centre where members can choose how they want to receive communications and whether they’re happy to receive information on a broader range of topics to support them in their retirement planning. As at March 2021, almost 12,000 members had opted in to receive these updates.

These changes have already improved the impact of our emails, with the proportion of members actively engaging almost doubling.

This year our Annual Member Statements included an expanded pilot of our speed-read version, which is in line with the Government’s proposal for simpler annual statements. The speed-read version is only two pages long and seeks to provide members with an easy to digest summary, with signposts to more information available on our website and portal. Almost four in five members who read their 2020 statement found it useful, an improvement from the previous year.

In response to feedback, including views from our Member Voice Panel, we’ve significantly improved our communications about the scheme valuation. We have a dedicated 2020 valuation section of our website and provided regular updates to members, including high level summaries of developments and access to a wide range of supporting materials for those with a deeper interest. These written communications were supplemented with a range of videos explaining the process and a series of live member webinars, which have been well attended and received positive feedback.

Membership numbers

USS provides an annual snapshot of members at the financial year end and the table below shows the active membership of the scheme at the beginning and end of the year along with changes during the year.

Active members	University institutions	Non-university institutions	Total
Active members at 1 April 2020 as reported	198,099	6,654	204,753
Restatement of active members[1]	(3,549)	(102)	(3,651)
Active members at 1 April 2020 as restated	194,550	6,552	201,102
New members	22,093	883	22,976
Rejoiners	6,792	145	6,937
Sub-total	223,435	7,580	231,015
Leavers and exits during the year			
– Retirements	(2,695)	(83)	(2,778)
– Retirements through incapacity	(84)	(5)	(89)
– Deaths in service	(146)	(5)	(151)
– Refunds	(489)	(44)	(533)
– Deferrals	(18,987)	(662)	(19,649)
– Retrospective withdrawal[2]	(3,666)	(154)	(3,820)
Sub-total	(26,067)	(953)	(27,020)
Active members at 31 March 2021[3]	**197,368**	**6,627**	**203,995**

The number of pensioner members, along with an analysis of the movements in the year, is provided in the table below:

Pensioner members	University institutions	Non-university institutions	Total
Pensioner members at 1 April 2020 as reported	71,656	2,952	74,608
Restatement of pensioner members[1]	453	19	472
Pensioner members at 1 April 2020 as restated	72,109	2,971	75,080
New pensioners in year resulting from:			
– Retirement of active members	2,779	88	2,867
– Retirement of deferred members	1,862	97	1,959
Sub-total	76,750	3,156	79,906
Rejoiners / Other movements	(190)	(6)	(196)
Deaths in retirement	(1,696)	(51)	(1,747)
Pensioner members at 31 March 2021[4]	**74,864**	**3,099**	**77,963**

Deferred members

In addition to members included in the tables above, the scheme has 194,044 deferred members (2020: 180,353). Deferred members are members who have built up USS pension benefits but are not yet receiving a pension and are no longer paying into the scheme.

The total number of all members at 31 March 2021 was 476,002 (2020: 459,714).

Bereavements

Although proud of all our achievements during the year, our bereavement team represent the service ethos that we look to embody. Throughout the pandemic our dedicated bereavement team have provided security and comfort for all beneficiaries who sadly have had to contact us.

Despite an 18% increase in death notifications, the service provided by the team has been exemplary and has ensured that when members' loved ones need us the most, we have been able to offer support and guidance.

Notes

1. Membership data has been restated for administrative processes completed after 31 March 2021 but with an effective date prior to that date.
2. During the year, USS was notified of approximately 3,820 employees of participating employers who were eligible to join the scheme but elected not to do so, which equates to 11%. This represents a decrease of 4,671 from approximately 8,491 in the prior financial year.
3. Included in the active member numbers are 76,339 active members in the USS Investment Builder as at 31 March 2021.
4. In addition to the pensioner numbers are 14,774 pensions in payment at 31 March 2021 which are paid in respect of the service of another person (for example, a surviving spouse or dependant).

Employer services

We continue to evolve employers' experience of the scheme through effective collaboration and targeted enhancements to our communication, engagement, education and support model to ensure their increasingly diverse needs and priorities are met

Employer engagement
We work closely with employers to deliver an efficient, timely and high quality service to our members. We seek feedback from employers through daily contact with scheme administrators, through our engagement and relationship management teams, and through more formal channels, such as the Institutions' Advisory Panel. We also collaborate with employer focus groups and Institutions' Advisory Panel sub-groups on specific initiatives to ensure employers' views are represented, and their needs are fully understood and accommodated.

In response to the COVID-19 pandemic, we proactively increased our level of engagement with employers. This helped us establish the impact on working arrangements, understand employers' immediate challenges, and agree how best to adapt our support model accordingly.

Employer perceptions
Each year we survey employers to determine a relationship satisfaction rating with USS. The employer perception survey's main objective is to better understand how they view their interactions with us and our relationship. The metrics are closely monitored to ensure they remain appropriate and drive the right actions to improve the employers' experience.

> **"Good employer support. Always available to speak on the phone. Email updates helpful and full of good content."**
>
> **Employer Perception Survey**

In the latest survey, 88% of employers rated their overall relationship with USS as 'good' or 'very good' (2019/20: 83%). The proportion of employers rating their overall relationship with USS as 'very good' has increased by 7% this year to 41%.

Employer education and support
We are committed to providing employers with easy access to the support they require, helping them to discharge their administrative obligations in an accurate and timely manner.

Our formal training programme, which we have successfully delivered to employers over the past two years, has been adapted into a suite of virtual courses to enable uninterrupted delivery of this valued service during the COVID-19 pandemic. Six virtual courses were delivered to 183 delegates, with 100% agreeing that the courses met their intended goals and would be useful in their day-to-day work.

This year we also introduced an annual attestation framework designed to help employers better understand their key responsibilities under the scheme to ensure that the scheme operates effectively. This framework has provided employers with greater clarity on how the scheme works and, as a result, has assisted them in managing their participation more efficiently.

88%
of employers rate their overall relationship with USS as 'good' or 'very good'

86%
of employers rate the way in which we communicate with them as 'good' or 'very good'

87%
of employers rate the overall quality of support we provide as 'good' or 'very good'

In addition, our dedicated engagement and relationship management teams have continued to provide day-to-day support to employers in key areas of processing. The benefit of this investment in support continues to be seen. Despite the ongoing challenges from the pandemic and remote-working, more than 97% of employers consistently achieved their processing targets in key areas, such as processing contributions. This has also contributed to an increase in employers' rating of the overall quality of support we provide with 87% rating this as 'good' or 'very good' in 2020/21 (2019/20: 81%).

Employer focus

We have continued to build on our suite of employer-focused tools. During the year, we extended coverage of our quarterly Client Management Information Dashboards. Collectively, those employers receiving the quarterly dashboards now represent over 94% of the scheme's active membership.

Further enhancements to our Client Relationship Management system and Client Feedback Tracker have allowed us to improve our coordination and prioritisation of the resolution of issues. This has contributed to an increase in the percentage of employers who rated our ability to resolve their issues or questions, with 93% now rating this as 'good' or 'very good' (2019/20: 83%).

We have also taken steps to reduce the administrative burden on employers by moving to a more direct and digitised service for members. During the year, as part of our ***Direct to Member*** initiative, we issued Annual Member Statements directly to approximately 193,500 members, rather than asking employers to distribute them on our behalf as had been the previous practice.

Employer communications

Employers want timely, targeted and streamlined communications. We issue a monthly communication to all employers and provide additional updates on specific topics as required. This has included several communications and updates to our online Employer Portal content aimed at helping employers manage the impacts of COVID-19.

> **"Quick turnaround times and query resolution times. Excellent technical knowledge within specific teams."**
>
> **Employer Perception Survey**

We continually review and assess the way in which we communicate with employers. In collaboration with the employer focus group, we have made changes to the look, feel and content of our key employer communications and online Employer Portal. This has had a positive impact on the percentage of employers rating our overall performance in how we communicate with them as 'good' or 'very good', which increased to 86% from 75% in the prior year. In addition, 82% of employers rated the usefulness of the online Employer Portal content as 'good' or 'very good', an increase of 10 percentage points on last year.

Looking ahead

Building on our success this year, in 2021/22, we will:

- Increase our engagement with employers at a more strategic level to gain a greater understanding of their increasingly diverse needs and priorities
- Further reduce the administrative burden on employers by increasing direct and digitised services for members
- Continue to support employers in key areas of processing through targeted education and selective engagements
- Assist employers in managing their participation so that the scheme operates effectively
- Tailor our communications, with a greater focus on effectiveness.
- Further evolve the employer training programme through the introduction of online training videos and support
- Support employers in preparing for any changes to contributions or benefits that the scheme's stakeholders decide to implement as part of the 2020 valuation

> **"Excellent training presentations online. Excellent online trainers and training ... website is now much easier to use."**
>
> **Employer Perception Survey**

Our people approach

We work to attract, retain and reward the best talent in a motivated workforce that consistently delivers the quality of service, support and value for money our stakeholders expect

People priorities

- **Management capability**
- **Health and wellbeing of our employees**
- **Senior leadership succession planning**
- **Maintain high levels of employee engagement**
- **Diversity and Inclusion progress**

Against the backdrop of the COVID-19 pandemic, we continued to invest in our people, prioritising their health and safety while helping them navigate the changes to their working environment.

The safety and wellbeing of our employees is a top priority. To this end, we ensured all of our employees were quickly able to work safely from home until they could return to the office. With considerable management, IT, and facilities support, we maintained almost all normal activities to meet the scheme's needs and those of our members.

At the same time, we focused on helping our managers better understand and manage their teams and the wider organisation more effectively.

Talent cycle

Our talent management and succession planning strategies are now embedded at all levels to ensure we have strong successors for many of our critical roles. Long term investment in succession is motivational, develops loyalty to our purpose and provides value for money. This approach has already proved valuable and we have made several senior appointments to executive committees from our existing team over the past year, while recognising that we will not fill every role internally.

Resourcing

Hiring the best talent to deliver the best service remains a strategic imperative. Our resourcing partners are integral to the success of our Diversity and Inclusion plans and work in close partnership with hiring managers to ensure the plans are delivered.

This year we adapted our resourcing approach to a virtual recruitment model as a result of the COVID-19 pandemic and subsequent lockdowns to ensure there was no disruption to the business. New hires were successfully recruited and onboarded in this way, and both candidates and employees gave positive feedback about their experience despite the challenges presented by starting a new role in a fully remote working environment.

USS employee engagement

Despite a difficult operating backdrop over the past year, our employee engagement scores have generally increased and continue to be in line with our benchmark. This is a strong result, driven by our focus on developing our people and our management teams in particular.

While lower than last year, participation levels in our annual engagement survey remained high at 79%, recognising that we also conducted a number of pulse surveys during the year to monitor specific items relating to operating from home. Scores relating to our key areas of focus all showed significant increases this year. Our ability to provide a high-quality service depends on a motivated and engaged workforce, and we were pleased to see our employees scored highly on their understanding of how their roles support team goals (8.6/10).

> **"The commitment of USS employees to the Purpose and Values of the organisation is exemplary and has continued, in terms of both focus and delivery, as we quickly adapted to working from home throughout the year. The best interests of the employers and members are incorporated in the objectives of all employees."**
>
> **Kevin Purcell**
> Chief Human Resources Officer

Purpose and Values

During 2020 we launched Making our Values Matter training, supporting leaders in understanding how their strengths align to the values and how to role model these with their staff.

This also included equipping leaders to conduct sessions with their teams to bring the values to life, engage their teams and embedding these in our people processes.

This follows the rollout of our new purpose and values in 2019.

See our website for more information regarding USS purpose and values, which guide the USS management approach at **uss.co.uk/about-us/purpose-and-values**

Achievements this year

Senior appointments

Senior appointments successfully recruited and onboarded.

Health and Wellbeing

Mental health training introduced and completed for all line managers.

Diversity and Inclusion

Implemented a robust Diversity and Inclusion action plan.

Upskilling management

Enhanced training to advance managers' skills and capabilities, with a focus on risk and people.

Note, annual training days reduced due to the impact of the pandemic on in-person learning and the time needed to move to virtual delivery.

USS engagement survey

79% of staff participated:

7.9/10
Overall engagement

8.6/10
"People from all backgrounds are treated fairly at USS".

8.6/10
"I understand how my work supports the goals of the team".

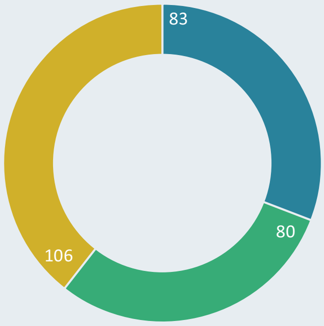
Mandatory e-learning completion rates

100%

- Anti-bribery and corruption
- Anti-money laundering
- Preventing market abuse
- Information security
- Data protection

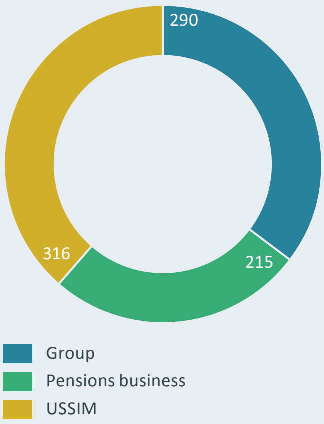
Total training days

269 (down 75%)



Total training course attendees

821 (down 46%)



Diversity and Inclusion

We are committed to promoting diversity in all its forms at USS and our Diversity and Inclusion programme supports this goal. We continue to make progress in our goal to build an inclusive and supportive environment where everyone feels able to be themselves at work, creating a more positive working experience.

Endorsed and supported by senior executives, our volunteer D&I Champions and the HR team, our approach delivered actions across five key priorities. For example, we published guidance for hiring managers to create a positive and fair candidate experience and all adverts and role profiles are analysed for any gender bias in the language used and amended accordingly.

Elsewhere, we set up an Internship programme across our sites for the summer of 2021, with interns joining us from a range of backgrounds. Recruitment was facilitated by both the 100 Black Interns programme and SEO London, which focused on social mobility. We also enhanced our internal communications to better educate staff and launched our new external site www.uss.co.uk/about-us/purpose-and-values/diversity-and-inclusion.

> **"I have been hugely impressed with how the organisation adapted to home working within a very short period of time, ensuring that the range of services, including training, provided to our members and employers continued at the highest standard during this challenging time."**

Helen McEwan
Chief Pensions Officer

Investment matters

Our financial year was dominated by managing the impact of the pandemic, ensuring our decisions continued to be made for the long-term benefit of our members and focussing more than ever on Environmental, Social and Governance (ESG) issues

Simon Pilcher
Chief Executive Officer of USSIM

As I described last year, COVID-19 hit financial markets hard in March 2020, and even the UK government bond market buckled, contrary to the accepted wisdom of how markets 'should' react. Our immediate concern was ensuring the scheme had enough cash to support its needs. As a long-term investor that exists to pay members' benefits, we were quickly able to take advantage of market opportunities where they matched our long-term investment strategy.

We increased our overall exposure to liability-matching assets while maintaining a diversified portfolio across different types of investments. For example, we bought UK inflation-protected government bonds and sold US fixed income Treasuries while we increased our allocation to corporate bonds issued by high quality companies.

We also invested more than £4 billion in private market assets. Private market assets such as critical infrastructure, property investments, and green energy businesses are typically difficult and expensive for individuals to own. Key investments during the year included G.Network, a London-based full-fibre broadband business connecting both private and commercial customers to rapid download speeds. The case study on page 23 provides further detail.

Our ability to react in these ways is underpinned by our active investment approach. We remain fully cognisant that a passive approach would reduce scheme costs but the limitations it would place on a scheme of our size would be very damaging. The nature of liquid markets limits our ability to hedge our pension liabilities efficiently. Access to private markets is a vital tool in overcoming this. As a result of our approach, the correlation of our DB assets to liabilities over the last two years was 18% higher than the passive benchmark; we are working to increase this further.

Our active approach also enables our ESG advances. Last year I detailed a new exclusions policy, launched by USSIM, following a review of how societal and regulatory changes might affect the long-term performance of parts of our portfolio. This review identified some sectors, such as tobacco, where we felt that consumer views and regulatory approaches were likely to impact their future financial performance.

As a result, we published that we would no longer be investing in these sectors and that where we already held investments in such industries, we would begin to divest. A year on, I am delighted to confirm that the Retirement Income Builder has substantially completed this exercise. The Investment Builder has also made substantial progress in this regard. Earlier this year, we announced the creation of a new role within USSIM – that of the Head of Strategic Equities. This will (amongst other things) enable us to integrate long-term themes such as ESG, into our equities investments more effectively.

More recently, we were delighted to announce our ambition to become Net Zero by 2050, if not before. We must play our part in ensuring that the world can limit the rise in temperature by minimising greenhouse gas emissions. We are not stopping there. We plan to integrate that ESG thinking more broadly into our wider product suite.

While 2020 was undoubtedly a challenging year, through careful management and thoughtful action, we navigated our way through the pandemic. Early in the year, equities fell sharply and our private assets also contracted in value albeit not to the same extent. Since then, public markets have soared, but our private assets – which generally are less volatile than public markets, have not recovered by as much. During the 12 months to 31 March 2021, the Retirement Income Builder generated returns of 20.50% while the Reference Portfolio benchmark returned 23.98% (see page 21 for an explanation of the Reference Portfolio). Whilst lagging the Reference Portfolio somewhat, the returns were vastly better than those of the Liability Proxy (which returned 2.07%). Over the last two years covering the onset of the pandemic and the subsequent market rally, the portfolio returned 8.78% annualised, outperforming the Reference Portfolio (by 0.44% p.a.).

The equivalent annualised number for five years was 9.75%, slightly lagging the Reference Portfolio (by 0.24% p.a.). This represents the first financial year end since 2013 that our DB assets underperformed the Reference Portfolio over a five-year period. This is partly due to the private market valuation impacts I mention above, and some adverse asset allocation positions in the wake of the 2016 Brexit vote, and is set against a backdrop of outperformance against liabilities over one, two, five and 10 years.

Photo: Tom Stables

Moto case study

USS invested in Moto, the UK's largest Motorway Service Area business, in 2015, and remains the controlling shareholder.

As the country's largest motorway services business operating more than 50 locations, USS was attracted to invest not just because of its size but due to the essential service that it offers UK drivers: a place to rest, refuel, restock and eat at one of over 300 branded restaurants, shops and forecourts. Partner brands include Marks & Spencer, Greggs, Costa Coffee, Burger King, WH Smith, KFC, Pret A Manger, BP and Ecotricity.

In a typical year, Moto caters for around 120 million customer visits but the pandemic and subsequent lockdowns brought the normal steady flow of visitors to a virtual standstill. However, as the services it provides are so important to the country, Moto kept all of its sites open during 2020 to enable the likes of delivery drivers, NHS workers and other emergency services to continue to go about their work safely. Indeed Moto, fully supported by its investors, went a step further in doing its bit during a national crisis by offering emergency service vehicles free fuel and NHS workers free hot drinks as well as 50% discounts on food.

With the UK slowly emerging from under the shadow of COVID-19, Moto has continued to invest in the business – opening its first new motorway services area in more than a decade. The site at Rugby on the M6 was a £40m investment which opened in April. This marked not only positive momentum in the business but also a step change in the company's environmental credentials.

From the structure of the building, to how it is powered, to the installation of 24 high-powered chargers for electric vehicles – 12 Tesla chargers and 12 Ecotricity chargers, ESG considerations have been central to the planning and design. For example, a large roof overhangs the south-facing approach to reduce the need for cooling, the glazing has been deliberately used to avoid overheating in the summer months while the building also uses a highly efficient thermal envelope to reduce the need for energy demand.

Meanwhile, the main building has been fitted with an external biomass boiler which will generate heating and hot water, ensuring energy from sustainable sources is used.

The Investment Builder performed well during the period, also reflecting the bounceback in public markets. The default funds (representing around 75% of the total held in the defined contribution section) and the ethical lifestyle funds delivered double digit returns over the year. Please see page 23 for more detail.

Simon Pilcher
Chief Executive Officer of USSIM

About the Retirement Income Builder

The Trustee Board sets a Reference Portfolio for the Retirement Income Builder. This is an allocation across mainstream investment types or 'asset classes' (global equities, UK property, government, corporate and emerging market bonds), consistent with the scheme's risk appetite. The Reference Portfolio is expected to deliver returns significantly above the Liability Proxy over the long-term. The Liability Proxy is an annually updated liabilities reference portfolio used for risk management and return comparison. It differs from Actuarial Liabilities used in monitoring the deficit which, as laid out on page 28, have been materially impacted by reductions in expected future returns and developments in the market view of future inflation.

USSIM is a wholly-owned subsidiary of the trustee. It is mandated to implement the trustee's investment programme and does so across a broad range of public and private assets. Private assets are expected to reward patient investors over a long time horizon due to the greater governance rights we have and the higher return we expect to earn in exchange for the investments' illiquidity. As we have seen recently, their valuations can also exhibit lower levels of price volatility than mainstream equities.

The returns of the Reference Portfolio can be measured via readily available performance data. USSIM is tasked with outperforming the Reference Portfolio, currently by 0.55% or more on an annualised basis, net of costs, over rolling five-year periods with asset-liability risk similar to the Reference Portfolio.

The table on page 22 sets out the approximate distribution of the scheme's assets (Implemented Portfolio) as at 31 March 2021 and compares it with the Reference Portfolio. As shown in the table, the Implemented Portfolio displays a more diversified investment mix, with less concentrated exposure to mainstream equity assets and a sizeable allocation to private market investments.

Performance of the Retirement Income Builder

The 12-month period to 31 March 2021 saw major fluctuations in markets, commencing with a crash, but recovering in much of the world to near pre-pandemic levels.

Our active investment strategy saw the scheme make a number of valuable decisions during the months immediately preceding the worst effects of the pandemic as well as the period after.

Over the last two years impacted by the pandemic, our asset allocation decisions have added around 1.7% cumulatively to performance, adding around £1bn of value to Retirement Income Builder assets. This has been partially offset by private asset performance which as we note elsewhere has not kept pace with the recovery of liquid markets supported by concerted actions of governments and central banks.

However, as a scheme that invests for the long-term, the overall performance was affected by the market swings. With a large percentage of our investments in privately-held assets, while markets fell, USS reported extraordinary outperformance over the Reference Portfolio.

This is because our private assets, although values contracted, did not fall in line with public markets. However, as markets recovered, so the reverse was also true and private asset values did not keep pace with their public counterparts.

Over five years to end March 2021 the scheme significantly outperformed the low-risk Liability Proxy (by 3.45% per annum) but slightly lagged the Reference Portfolio (by 0.24% per annum). Over 10 years, the scheme has outperformed both the Liability Proxy and the Reference Portfolio and its predecessor benchmark. The proxy, which is described on page 21, differs from Actuarial Liabilities on a monitoring basis which, as laid out on page 30, have been materially impacted by reductions in expected future returns and by planned convergence of CPIH and RPI.

It is in the long-term interests of the scheme, and in the interests of our members, for us to invest in a diverse array of investments. Whilst not the case in the last 12 months, our private assets have outperformed their liquid benchmarks over the last five years and we believe will continue to pay dividends over time.

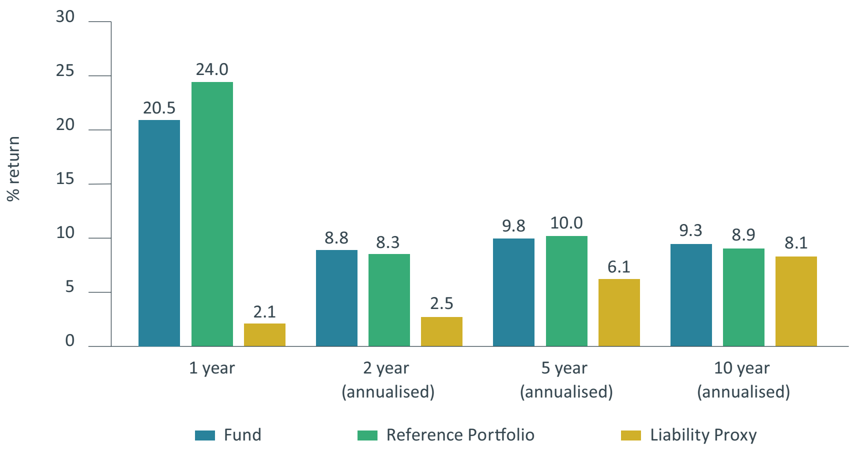
In coming periods we will be reviewing the strategic shape of the investment portfolio to ensure that we are prepared as the world seeks to rapidly decarbonise. It will require major investment into new technologies and a redesign of many business models. We will be working closely with the management teams of the companies in which we invest to encourage them to embrace change.

We will also be making additional investments in businesses (many of which will be private) that will lead the way towards a low-carbon world. We are convinced that this too is in our members' interests, for this will lead both to a better environment in which we all can live, but also is essential for us to continue to generate the returns that are needed in order to pay our members their pensions as they fall due.

Retirement Income Builder asset distribution

	Implemented Portfolio %	Reference Portfolio %	Difference %
Listed Equities	39.40	55.00	(15.60)
Property	5.30	6.50	(1.20)
Other Private Markets	23.30	0.00	23.30
Commodities	1.00	0.00	1.00
Absolute Return	0.40	0.00	0.40
Nominal Government Bonds	5.20	0.00	5.20
Index Linked Bonds	31.50	36.75	(5.25)
Other Fixed Income	12.20	17.00	(4.80)
Cash and Overlays	(18.30)	(15.25)	(3.05)
Total	**100.00**	**100.00**	**0.00**

Retirement Income Builder performance



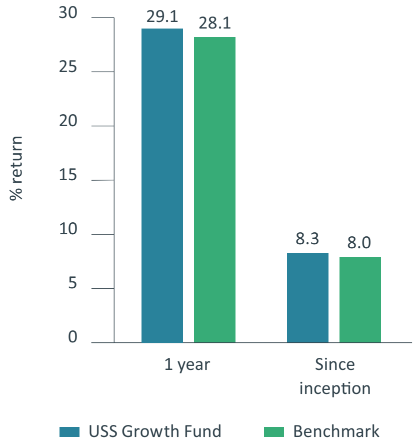
About the Investment Builder

The defined contribution element of the scheme offers members the option to manage their own investments, the Let Me Do It Option, or to have their investments managed for them, the Do It For Me Option, or to select a mix of both options, if they are building their pot in more than one way.

In the Do It For Me Option, members can choose from two lifestyle options, the USS Default Lifestyle Option and the USS Ethical Lifestyle Option.

The Let Me Do It Option offers members 10 funds where they can be actively involved in making investment decisions. These options include multi-asset funds, developed market equities, emerging market equities, bonds, cash, ethical, and Sharia funds.

USS Growth Fund performance



DC default strategy

In the default strategy, savings are invested in a mix of investment types that evolve in a lifestyle manner as members approach retirement. Members with more than 10 years from normal retirement age and invested in the USS Default Lifestyle Option are fully allocated to the USS Growth Fund.

However, as members get close to retirement, USS increases protection for their assets by moving assets progressively into the USS Moderate Growth Fund, the USS Cautious Growth Fund and USS Liquidity Fund, designed to deliver a smoother return path.

The USS Growth Fund invests in an equity-rich asset mix that is diversified across public and private investments to help reduce risk and deliver attractive risk-adjusted returns. Growth investments offer the opportunity for a higher return on a member's pension savings but also imply a higher level of risk, so the USS Default Lifestyle Option invests in these types of investments at a time when there are many years left for members' savings to recover from possible losses.

At 31 March 2021 the majority of DC assets were invested in the USS Growth Fund (£794m).

G.Network case study

In December 2020, USS announced a major investment in a rapidly-growing London-based broadband company, G.Network. The company, which was only established in 2016, had already become a leading 'alt net', providing ultra-fast internet speeds to 170,000 residential and commercial premises in areas underserved by traditional players.

Our investment, alongside a broader fundraising, enabled the company to raise more than £1 billion and will create 1,250 jobs. This investment will support G.Network's planned rollout to connect 1.4 million premises to full fibre broadband within five years.

The need for fast, reliable internet speeds was already important before the pandemic but became crucial over the last year when millions of people were forced to work and study from home. The situation shone a spotlight on the UK's languishing global position on internet speeds as other countries have benefitted from full fibre while the UK has largely continued to rely on old legacy copper technology.

Fibre, which can enable someone to download or upload a 4k film in three minutes, or simultaneously allow gaming, video streaming, access to work file networks and video conferencing, is the only technology widely available that can make this all happen affordably and reliably.

USS had been looking for some time at making an investment in the sector firstly because of the essential nature of broadband services and secondly because the 30-year or more lifespan of the fibre infrastructure. The latter, coupled with a supportive regulatory environment which allows investors to make fair returns on their investment, meant that the sector was suited to a long-term investor like a pension scheme. This investment gives us access to growing and long-term predictable cash flows by investing in the build and growth phase at a cheaper cost than acquiring a mature fibre network in the future.

Investment Builder performance

	1 year %	Benchmark %
Growth Fund	29.1	28.1
Moderate Growth Fund	23.4	22.2
Cautious Growth Fund	17.8	16.9
Liquidity Fund	0.2	(0.1)
Global Equity Fund	39.7	39.3
Emerging Markets Equity Fund	54.3	45.2
UK Equity Fund	26.5	29.9
Ethical Equity Fund	41.3	38.6
Bond Fund	4.6	5.4
Sharia Fund	37.2	37.6
Ethical Growth Fund	28.6	28.8
Ethical Moderate Growth Fund	21.3	22.2
Ethical Cautious Growth Fund	15.5	16.5
Ethical Liquidity Fund	0.2	(0.1)

Performance of the Investment Builder

The returns for the Investment Builder funds over the 12 months to 31 March 2021 were boosted by the performance of equity markets. The default funds (comprising the USS Growth Fund, USS Moderate Growth Fund, and USS Cautious Growth Fund) delivered double digit absolute returns over the past 12 months and continue to deliver on their respective objectives since inception. The ethical lifestyle growth funds also delivered double digit returns over the same period, continuing to deliver on their respective objectives since inception, while adhering to the USS Ethical Guidelines.

All 10 Let Me Do It funds all delivered positive returns over the 12 months to 31 March 2021 although the UK Equity, Bond and Sharia Funds underperformed their respective benchmarks. The Emerging Markets Equity Fund significantly outperformed its benchmark over the year, with strong performance from the underlying investment managers. The Ethical Equity Fund also outperformed its benchmark, due in part to its exposure to the technology sector. Since inception, all Let Me Do It funds have outperformed their benchmarks except for the UK Equity and Bond Funds.

In July 2020, the respective benchmarks for the default and ethical growth funds were amended to better reflect the long-term targets of the funds following a review by the trustee. In October 2020, the benchmark for the Bond Fund was also amended following a change to the underlying investment manager.

DC case study

Last year on these pages we detailed the continued innovation in our Investment Builder product that enabled members to access the benefits of our private markets investments for the first time.

Over the past year we have gone one step further and now the USS Default Lifestyle Option and the Global Emerging Markets Let Me Do It fund also include an allocation to our highly successful Global Emerging Markets team (GEMs). This team, which was set up in 2010, invests in regions such as Greater China, Korea and the Indian subcontinent and over the last decade to 31 March 2021, generated annualised 2.1% outperformance versus benchmark.

However, in our efforts to create a truly aligned product for members, we are not stopping there. As it is clear from the Responsible Investment section, during 2020 we not only launched our exclusions policy but also looked more broadly at how we adapt to rising concerns about ESG, particularly climate change.

This included the rollout, in conjunction with the University of Maastricht (who had been seeking a partner on an ESG project of this nature), of a major survey of members' views in order to capture their perspective of ESG. Among other things, members indicated that ESG considerations were important to them, as well as providing direct feedback on individual areas which will help us review the guidelines that govern our ethical investment options.

We are looking forward to starting this work in earnest later on this year and will provide further updates as we have further announcements to make.

Responsible Investment

We believe that promoting high standards of environmental, social and corporate governance (ESG), and investing responsibly in quality companies, reduces the risk associated with investing, and improves our ability to meet the pension promises made to members by scheme employers. That is why the concepts of active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to our Investment beliefs and principles.

As detailed earlier in this section, 2020 marked an important year in the development of a more integrated approach to Responsible Investment (RI) in our investment strategy. Our developed equities portfolio moved to an external manager while we moved towards a longer-term thematic approach, integrating ESG factors into our portfolio design and investment decision-making. This will include, for example, focusing more on the impact of ESG issues and other long-term factors as a driver of investment themes and how they should shape the portfolio in the years to come.

We also announced the exclusion of certain sectors which were deemed to be financially unsuitable over the long-term. These were: tobacco manufacturing; thermal coal mining (the mining of coal to be burned for electricity generation), specifically where this makes up more than 25% of revenues; and, certain controversial weapons.

We are already largely divested from these investments where we have control – nearly a year ahead of our original timetable of May 2022. These exclusions will be kept under review and may be changed or added to over time and are being made across the Retirement Income Builder and the Investment Builder.

But this is only the start of this new chapter for USS.

April 2021 saw the important announcement of our ambition to become Net Zero for carbon by 2050, if not before. This was a major milestone for the scheme and will be reliant on USS Investment Management achieving this goal while managing its fiduciary duties.

We are now in the process of developing short, medium and long-term targets so that we can track our delivery of this ambition. They will include extensive work internally to review the constituents of our portfolios in a transitioning world, the suitability of our internal performance benchmarks, as well as our existing portfolio of renewable energy sector investments to see how this can be best developed. We will also need to work closely with our direct investments to ensure they have plans in place to decarbonise.

But perhaps one of the biggest opportunities will be in how we collaborate with other asset owners to encourage the management teams of the companies and other assets in which we invest to materially enhance their progress in this area – and what we collectively decide to do when they do not move fast enough. The same is true for the need to work together to encourage our external fund managers to play their role in the transition.

This will be a major piece of work that will take time, but we are confident that we have the right plans in place to make this a reality.

Stewardship

As previously noted, during 2020 we moved from a relatively concentrated portfolio of equities to a much broader and more diverse spread of investments and have therefore increased our participation in collaborative engagements, working more widely with other investors to promote good practice. Examples of collaborations include:

- Signing a joint investor letter to mining companies to ask them to report on how they manage Aboriginal land rights
- Joining other investors in writing to UK-listed companies where it was unclear how they were complying with the UK Modern Slavery Act
- Supporting engagement with large tech companies on human rights, including how they control the live streaming of terror events

Voting

As active, long-term investors, exercising our voting rights is one of our stewardship activities. Having the right to vote on decisions made by the boards of these companies is one of the most effective tools we have for holding them to account and encouraging good governance.

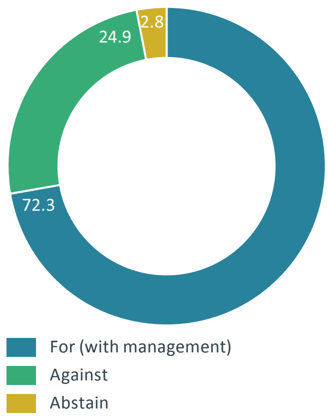
During the 12 months under review, USS voted on 13,553 resolutions at 1,066 events across 950 companies. Our voting pattern can be viewed in the pie chart.

We voted against management's recommendation on at least one resolution at around 75% of these companies, typically on remuneration or sustainability-focused resolutions.

We review our voting policy annually and publish it on our website along with our voting record. From the 2021 AGM season we have made changes related to our policy on climate change and executive remuneration.

More details of the scheme's approach to Responsible Investment are provided in the Implementation Statement on pages 101 to 118 of this report.

USS global votes April 2020 – March 2021[1]



Note

1 In line with the Implementation Statement on pages 101 to 118, voting data is now presented for the financial year whereas previously it was shown for a calendar year. For the period January to March 2020, our voting record was 75.6% for and 22.3% against management recommendations and 2.1% abstain.

Top 20 investments

Below are the top 20 holdings in the scheme (excluding the external manager mandates laid out earlier in this section) which total £20.1bn as at 31 March 2021.

Asset grouping	Asset description
Nominal Government Bonds	USA Bond Fixed 1.375% 15/02/2044 USA Bond Fixed 0.625% 15/02/2043 USA Bond Fixed 0.75% 15/02/2042 USA Bond Fixed 0.75% 15/02/2045
Inflation Linked Government Bonds	UK Gilt Infl. L. 0.375% 22/03/2062 UK Gilt Infl. L. 0.125% 22/11/2065 UK Gilt Infl. L. 1.25% 22/11/2055 UK Gilt Infl. L. 0.125% 22/03/2044 UK Gilt Infl. L. 0.75% 22/11/2047 UK Gilt Infl. L. 0.50% 22/03/2050 UK Gilt Infl. L. 0.125% 22/03/2058
Fixed Income Government Bonds	UK Gilt Fixed 0.625% 22/10/2050 UK Gilt Fixed 0.125% 23/03/2068 France Fixed 0.10% 25/07/2047 USA Bond Fixed 0.25% 15/02/2050 USA Bond Fixed 0.125% 15/02/2051
Private Inflation Linked Equity	Heathrow Airport Holdings Limited Redexis Gas S.A. Virginia International Gateway
Private Equity	Moto International Holdings Limited

Report on actuarial liabilities

Actuarial valuations: how we protect the promises made to members

Funding ratios
(using technical provisions liabilities)

95%
Actuarial valuation at 31 March 2018

84%
Funding update of 2018 valuation at 31 March 2021

Overview

As the trustee of USS, we must regularly carry out an actuarial valuation of the scheme's funding. A valuation establishes whether, at a certain date, we believe the scheme will have enough money for us to be able to pay the pensions that our members are expecting, now and long into the future. We last completed a valuation as at 31 March 2018. Part of the conclusion of that valuation was an agreement that we would carry out a further valuation as at 31 March 2020.

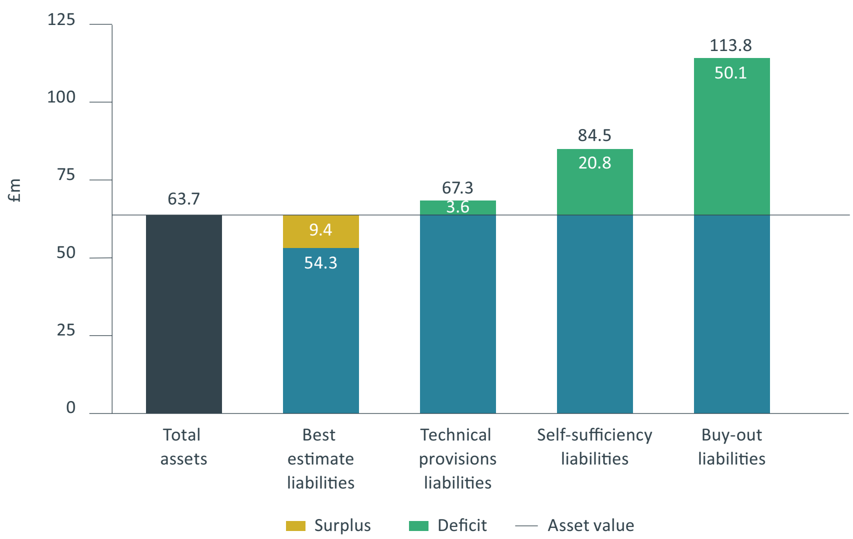
The actuarial valuation as at 31 March 2020 has been an important focus of attention for the trustee, its advisers and stakeholders over the financial year and is still ongoing. A summary of progress to date on the valuation can be found on page 28. More detailed and regularly revised update information is available at uss.co.uk/about-us/valuation-and-funding/2020-valuation.

In the absence of a finalised triennial valuation, the trustee continues to monitor the financial progress of the scheme against the Financial Management Plan (FMP) developed following the 2018 valuation.

Below, we show the results of the last valuation, at 31 March 2018, across a range of approaches. These results reflect different levels of certainty of being able to provide the promised benefits.

The 'best estimate' value represents an amount which we believe would be adequate if all our assumptions were borne out in practice. The amount on a best estimate basis does not make an allowance for prudence and has a 50% chance of being more than is required to pay the benefits and 50% of being too little.

USS (DB element) funding position as at 31 March 2018



The technical provisions value is the best estimate plus an allowance for prudence. This is the figure we use in finalising the valuation. In the 2018 valuation it was the value we estimated to have about a 67% chance of being sufficient to pay all the benefits when due. A more detailed explanation is set out below in “How we measure the financial position of the Retirement Income Builder”.

The self-sufficiency value reflects the value of assets required to pay, with a high probability, all the benefits members have built up so far, using a low-risk investment strategy without any further contributions. In our view, it has a more than 95% chance of being enough to be able to meet all the benefits as they fall due.

The ‘buy-out’ value is effectively the cost of buying near certainty of all earned benefits being paid – it represents the estimated cost of paying for an insurer to provide the benefits.

The actuarial valuation at 31 March 2018 was finalised in September 2019. This followed a thorough and robust review of the scheme’s financial position including extensive consultation with the scheme’s stakeholders. This resulted in a new set of contribution requirements from 1 October 2019, with a further increase to member and employer contributions being planned for 1 October 2021. The 84% funding level as at 31 March 2021 is based on updating the 2018 valuation results on an approximate basis using our monitoring approach which allows for changes in market value of assets, expected future investment returns, the expected changes in membership and includes an estimate for the impact of the Government announcement that RPI is being aligned with CPIH from 2030. This is shown in more detail in the section titled ‘How the funding position has changed since the 31 March 2018 valuation’ on page 28.

The USS benefit structure

Members build up benefits on what is called a Career Revalued Basis in the Retirement Income Builder in respect of salary up to a threshold (£59,883.65 from 1 April 2021). This threshold is adjusted each year in line with the Consumer Price Index (CPI) measure of inflation (subject to certain restrictions).

Above this salary threshold, defined contribution (DC) savings are built up in the Investment Builder. These DC benefits are funded by 8% and 12% of salary above the threshold being paid into the Investment Builder by members and employers respectively. The remainder of the contributions are paid into the Retirement Income Builder; the level of total contributions each year arising from the 2018 valuation is laid out in the table below.

Contributions from sponsoring employers and from scheme members into the Retirement Income Builder, together with the investment returns earned, are used to pay benefits to members and/or their eligible dependants and to pay the costs of operating the scheme.

	Member	Employer
Contributions to 31 March 2019	8.0%	18.0%
1 April 2019 to 30 September 2019	8.8%	19.5%
1 October 2019 to 30 September 2021	9.6%	21.1%
1 October 2021 onwards	11.0%	23.7%

For more information on the scheme’s benefits please refer to the USS website at uss.co.uk/for-members

How we measure the financial position of the Retirement Income Builder

The main way we measure the financial position of the Retirement Income Builder is by comparing the current level of its assets with our estimate of the current value of its liabilities. We determine the current value of the assets at a particular point in time, using their market value at that date. In estimating the current value of the liabilities there are inherent uncertainties. These uncertainties include the future rate of return on investments, the future level of inflation, the length of time a pension might be paid for, and the possibility that a survivor’s benefit might be paid. We use estimates or ‘assumptions’ of these factors. We then determine the value of the liabilities by calculating the amount of assets that would be required today in order to meet, in full and without additional contributions, the benefits members have already earned up to the date of the valuation. We aim to fund the scheme with an appropriate level of certainty, and to ensure that the reliance on employers to make good any shortfall remains at an acceptable level over time.

As noted above, the actuarial valuation as at 31 March 2020 is not yet finalised. The most recently completed full review of the funding position was the actuarial valuation as at 31 March 2018. In any actuarial valuation, a value is placed on the liabilities assuming that the scheme is ongoing, which is known formally as the ‘technical provisions’. It is this technical provisions basis that is typically used when referring to the value of the scheme’s liabilities.

Report on actuarial liabilities continued

In addition to technical provisions, we are required by law to value the scheme's liabilities on a buy-out basis as described on the previous page. This provides a further reference point for assessing the health of the scheme, although neither the trustee nor the scheme's stakeholders have any plans to buy-out the scheme with an insurance company.

At every actuarial valuation we review all of the underlying assumptions relating to the Retirement Income Builder. We then consult the employers to obtain their view of our proposed assumptions. Our final set of assumptions following consultation with the employers for the 2018 valuation is shown on page 32. The consultation in relation to the 31 March 2020 valuation occurred in the latter part of 2020, and our response to this and the resulting contribution requirements are being considered by the Joint Negotiating Committee, made up of representatives of employers and members.

How the funding position has changed since the 31 March 2018 valuation

As part of our overall monitoring of the Financial Management Plan, we regularly monitor the funding position under several metrics. These metrics include funding positions under both technical provisions and self-sufficiency approaches. The self-sufficiency position provides a measure of the amount of risk in the scheme and the level of reliance on the sponsoring employers. These updated funding positions do not involve the same detailed review of all the underlying assumptions that happens with full valuations, including the ongoing 2020 valuation. As the 2020 valuation is still underway, we have shown the funding position as at 31 March 2021 using the monitoring approach adopted for the 2018 valuation. We have allowed for expected benefit payments and changes in membership since 2018 and updated for changes to market conditions and investment return expectations.

Funding position based on the 2018 monitoring approach

The table below summarises the funding position of the scheme each 31 March since 2018 on the 2018 monitoring basis using the approach described above.

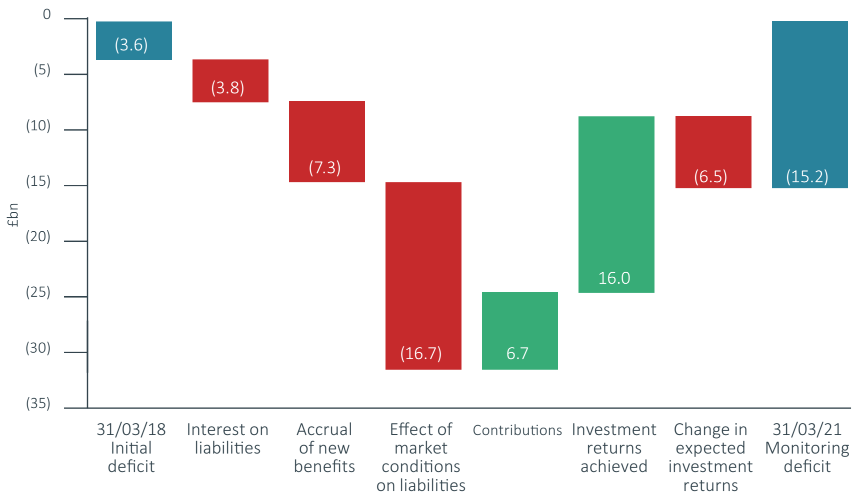
As at 31 March £bn	Funding update 2018	Funding update 2019	Funding update 2020	Funding update 2021
Value of assets	63.7	67.4	66.5	80.6
Value placed on liabilities	67.3	72.8	79.4	95.8
Deficit	3.6	5.4	12.9	15.2
Funding ratio	95%	93%	84%	84%

The above table shows that the deficit on the monitoring approach has increased by £2.3bn, from £12.9bn as at 31 March 2020, as although assets rose by £14.1bn (see Investment matters section, page 20), liabilities rose by £16.4bn.

We note that the value of liabilities at 31 March 2021 presented here does not reflect the same assumptions we will use to finalise the 2020 valuation and in particular the impact of movements over the year to 31 March 2021 will differ under the different measures.

The resulting deficit at 31 March 2021 has risen by £11.6bn relative to £3.6bn at the 2018 valuation. The chart below details the underlying drivers of the change in the deficit using this monitoring approach.

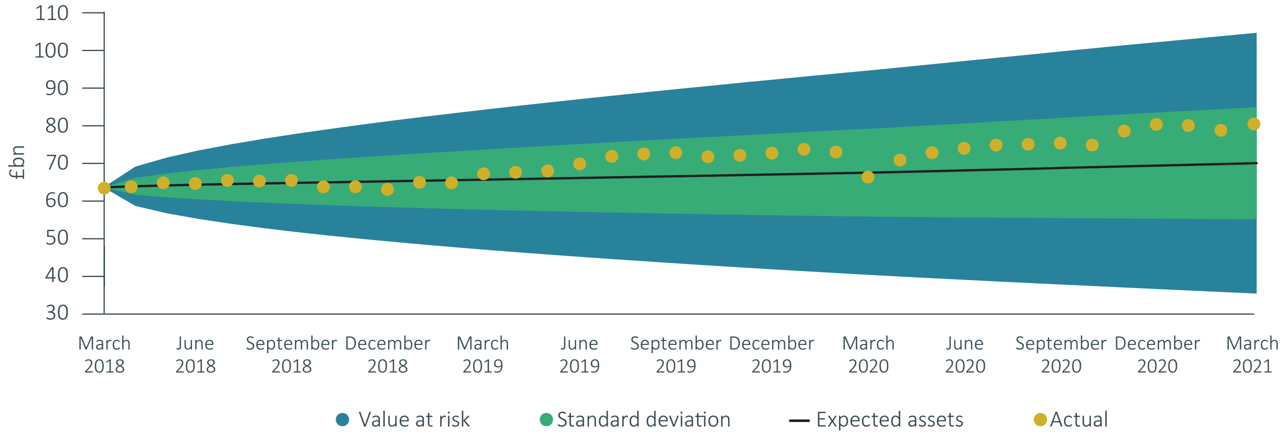
Change in deficit since 2018 valuation (monitoring approach)



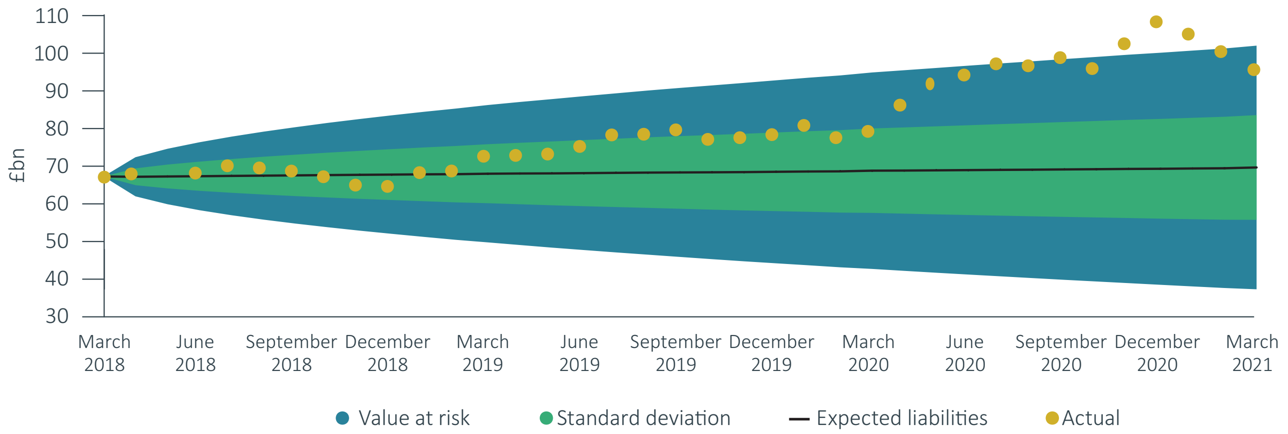
From December 2020, our monitoring incorporates an update to the way the CPI inflation assumption has been derived, to allow for the government announcement that RPI is being aligned with CPIH from 2030 and subsequent developments in the market view of future inflation. This change results in an increased CPI assumption, the effect of which (on a 'gilts+' approach) forms part of the 'effect of market conditions on liabilities' bar in the graph above. Additionally, RPI reform will reduce expected returns from index linked gilts within our investment portfolio. This, along with changes in return expectations on other asset classes since the 2018 valuation, also acts to increase the estimated present value of our liabilities. The effect of these is contained in the 'change in expected investment returns' bar.

You can find reports and other information on the valuation at uss.co.uk/about-us/valuation-and-funding/our-valuations.

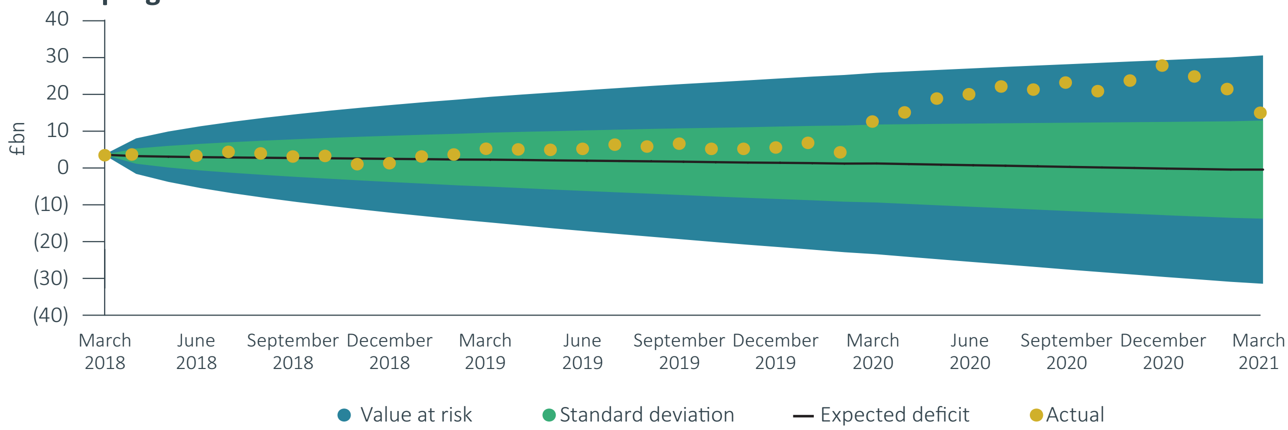
Asset progression since 2018 valuation



Liabilities progression since 2018 valuation[1]



Deficit progression since 2018 valuation[1]



The graphs above show the development of the value of the Retirement Income Builder assets and liabilities, based on the monitoring approach, since 31 March 2018. The black line reflects the central path of assets and liabilities[2] at the time of the valuation. The green area represents the range of outcomes around those central paths that might reasonably have been expected, shown here as the central path plus or minus one standard deviation. Each of the dots corresponds to the actual scheme assets and the monitoring approach estimate of the liabilities at the end of each month. The outer boundaries of the blue area show outcomes that in 2018 were considered extreme. These outcomes had a 1% likelihood of happening (as implied by usual levels of market volatility).

Note

1 Liabilities and deficit progression have no figures for May 2018 as there was no expected return data available for these dates.

2 The expected path of the liabilities is measured using the single equivalent discount rate relative to UK government bonds (gilts) on the valuation date, being the gilts yield plus 1.33%

Other approaches

As mentioned above, the value placed on the scheme's liabilities can be measured on a number of different bases, including technical provisions, buy-out, best estimate, and self-sufficiency bases.

We regularly monitor the technical provisions and self-sufficiency bases. We update the buy-out and best estimate liabilities at each actuarial valuation. The table above right summarises the scheme's position on a self-sufficiency basis. Self-sufficiency is based on the cash flows available from low risk investments. It is the value of assets we would need to hold in order to have a greater than 95% chance that all the benefits members have earned to date can be paid when due, without any further contributions. In other words, this is the funding level we would need to achieve in the absence of further support from employers. Self-sufficiency is assessed using return assumptions on the portfolio of assets that would achieve this level of security (delivering a discount rate of gilts +0.75%) and with a different inflation assumption to that adopted in the technical provisions. Our aim at the 2018 valuation was to be within a set value of self-sufficiency in 20 years' time such that the ability to secure the benefits promised to members at that point is, credibly and demonstrably, within the means of employers to fund. More details can be found in the Statement of Funding Principles on uss.co.uk.

As at 31 March £bn	Self-sufficiency 2018	Self-sufficiency 2019	Self-sufficiency 2020	Self-sufficiency 2021
Value of assets	63.7	67.4	66.5	80.6
Self-sufficiency liabilities	84.5	92.0	96.9	116.1
Deficit	20.8	24.6	30.4	35.5
Funding ratio	75%	73%	69%	69%

As at 31 March 2018, the Scheme Actuary estimated the cost on a buy-out basis as £113.8bn. As a result, the deficit on this basis was £50.1bn. A buy-out basis gives the highest view of the liabilities. However, on a best estimate basis, liabilities at 31 March 2018 were £54.3bn, implying a surplus on this basis of £9.4bn. Although not required, we also produced figures under the FRS 102 accounting approach which uses a discount rate based on corporate bond yields. We did this because such figures are a required disclosure for many UK entities, so it is a recognised method of measurement. Using this approach, as at 31 March 2021, produces liabilities of £95.5bn and a deficit of £14.9bn. This is based on a discount rate of 2.15% and a pension increase assumption of 2.5% with all other assumptions unchanged from those stated on page 32. This approach is not used to inform our decisions.

The Trustee Board's funding plan

Our overarching funding principle, supported by the employers, is that the amount of funding and solvency risk within the scheme should be proportionate to the amount of financial support available from the scheme's sponsoring employers. Specifically, the reliance being placed on the employers should not be greater than what they can and are willing to support. We are therefore of the view that, with the right economic conditions, and following appropriate dialogue, opportunities should be taken over the years ahead to reduce the amount of risk within the scheme, and specifically reduce the amount of investment risk.

At the 2018 actuarial valuation we incorporated a long-term, gradual de-risking into our funding approach, with the intention of slowly reducing the amount of investment risk in the scheme over a 20-year period. We also adopted this principle in the 2014 and 2017 valuations. You can find details of our investment approach in the Statement of Investment Principles, this is available online at uss.co.uk/how-we-invest/our-principles-and-approach.

The recovery plan in the 2018 actuarial valuation requires employers to make additional contributions towards repairing the deficit. These contributions are 2% of salaries from 1 October 2019 to 30 September 2021, increasing to 6% from 1 October 2021 to 31 March 2028. This recovery plan aims to recover the deficit over a 10-year period. We determined this plan following extensive work with our advisers on the ability of the scheme's sponsoring employers to financially support the scheme – the 'covenant'. The conclusion from that work was that there was good visibility of the ongoing strength of the covenant over the next 30 years, but the position became less clear after that.

However, the self-sufficiency deficit showed that the risk the scheme was carrying in the short term was close to the limit that employers could bear.

When we calculated the contributions required for the recovery plan, we used the same investment return assumptions as for the technical provisions.

The outcomes of the 2020 valuation are still being determined.

Pension Protection Fund

The Government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme.

USS is recognised by the PPF as a multi-employer scheme with a joint or shared liability. This joint liability is based on the 'last-man standing' concept. This means that it would only become eligible to enter the PPF in the extremely unlikely event that the vast majority (if not all) of the scheme's employers were to become insolvent. If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members. However, the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits. At the 31 March 2018 valuation date, the scheme's 'section 179' valuation position, used in determining the PPF levy payable by the scheme, showed a deficit of £19.7bn.

Further information about the PPF is available at pensionprotectionfund.org.uk or you can write to Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

Principal actuarial assumptions

The following table shows the assumptions used in the 2018 technical provisions actuarial valuation, and how these have been updated as at 2019, 2020 and 2021 to produce the figures shown earlier. These funding updates, shown in the 'Funding position based on the 2018 monitoring approach' section above, reflect broad changes in market conditions and expected investment return. The contributions payable to the scheme are determined based on the full actuarial valuations only, with the funding updates used for monitoring purposes.

The 2018 valuation uses full yield curves in the assumptions, rather than averages. The full year-on-year figures in the 2018 valuation assumptions are available in the documents shown on our website here: uss.co.uk/valuation.

The assumptions that will be used for the 2020 valuation are not yet finalised because this valuation is incomplete.

Principal actuarial assumptions	31 March 2018 valuation – technical provisions
Market derived price inflation[1]	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves
Inflation risk premium	0.3% p.a.
Price inflation – Retail Price Index (RPI)[1]	Term dependent rates based on market derived price inflation less Inflation risk premium
RPI/Consumer Prices Index (CPI) gap	1.0% p.a.
Price inflation – Consumer Prices Index[1]	Term dependent rates based on RPI assumption less RPI/CPI gap
Investment return	Years 1-10: CPI +0.14% reducing linearly to CPI -0.73% Years 11-20: CPI +2.52% reducing linearly to CPI +1.55% by year 21 Years 21+: CPI +1.55%
Salary increases[2]	CPI assumption plus 2% p.a.
Pension increases in payment	CPI assumption (for both pre- and post-2011 benefits)
Mortality base table	**Pre-retirement:** 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females **Post-retirement:** 97.6% of SAPS S1NMA 'light' for males and 102.7% of RFV00 for females
Future improvements to mortality	CMI 2017 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females

Notes

1 These values have been updated for funding updates in subsequent years in line with the table above.

2 This assumption is applied to the scheme's overall payroll and is used to project the development of the overall scheme over time, including the recovery plan, but does not affect the projected size of individual members' accrued benefits.

3 The pension increase assumption is increased by 5bps for figures from December 2020.

Date	Funding update 2019	Funding update 2020	Funding update 2021
Investment return	Years 1-10: CPI -0.2% reducing linearly to CPI -1.21% Years 11-19: CPI +2.37% reducing linearly to CPI +1.54% by year 20 Years 20+: CPI +1.54%	Years 1-10: CPI +0.32% reducing linearly to CPI -0.96% Years 11-18: CPI + 1.62% reducing linearly to CPI +0.82% by year 19 Years 19+: CPI +0.82%	Years 1-9: CPI -1.31% reducing linearly to CPI -2.22% Year 10: CPI -2.56% Years 11-18: CPI +1.31% reducing linearly to CPI +0.56% by year 18 Years 18+: CPI +0.56%
CPI assumption	As above, updated for market derived price inflation as at 31 March 2019	As above, updated for market derived price inflation as at 31 March 2020	Based on market derived price inflation as at 31 March 2021 less an inflation risk premium of 0.2%, less a term dependent RPI/CPI wedge of 1.1% to 2030, tapering to 0.1% from 2040 onwards

F

CERTIFICATE OF TECHNICAL PROVISIONS

Name of the Scheme	Universities Superannuation Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 16 September 2019.

Signature	
Name	Ali Tayyebi
Date of signing	16 September 2019
Name of employer	Mercer Limited
Address	Four Brindley place, Birmingham B1 2JQ
Qualification	Fellow of the Institute and Faculty of Actuaries

Actuarial certificate of schedule of contributions

CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Name of the Scheme	Universities Superannuation Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2018 to be met by the end of the period specified in the recovery plan dated 16 September 2019.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 16 September 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature	
Name	Ali Tayyebi
Date of signing	16 September 2019
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of employer	Mercer Limited
Address	4 Brindley Place Birmingham B1 2JQ

Strategic report
Governance
Financial statements
Other regulatory statements

Risk management

Our robust approach to risk management protects investment and safeguards our members' pension entitlements

In conducting our business, we manage a wide range of risks that could affect our duty to ensure that the benefits promised to members are delivered in full, on a timely basis.

For the Retirement Income Builder, this means ensuring there are sufficient funds available to provide members with retirement income which employers have promised.

For the Investment Builder, it means having an appropriate range of investment fund options available. Along with an effective investment process, this enables members to manage their investment selections in line with their risk appetite.

Risk framework

We operate a three lines of defence approach to risk management (see below), which is embedded in the organisation through the operation of our risk management framework.

We have a comprehensive framework for managing risks, including a dedicated group risk team and risk governance arrangements, policies and processes. The framework aims to ensure that risks are effectively identified, monitored, reported and managed across the business.

The group risk team is independent of USS first line businesses, and its head, the Chief Risk Officer, reports directly to the Group Chief Executive Officer.

Risks are identified on an ongoing basis, as part of business as usual and business change activities.

Consideration is also given to emerging risks. Risks are measured regularly using key risk indicators reviewed by the first and second lines of defence before being reported to the relevant risk governance and oversight committees.

Risks are managed by mitigation (for example, using controls), transfer or avoidance. Risk monitoring and reporting is implemented through several tools, including risk registers, event logs and assurance maps.

The latter have been developed collaboratively by each of the three lines of defence, to provide an indication of the health of the control environment in relation to key business processes. Additionally, risks are monitored through the delivery of a risk-based assurance programme undertaken by the Compliance and Internal Audit functions.

Risk appetite

Taking on too much or too little risk could result in a failure to deliver our strategic priorities. At the core of our approach to risk management is our risk appetite; this is articulated in our risk appetite statements which describe the types and levels of risk we are prepared to accept. They set risk-taking boundaries and enable consistently risk-aware decision-making.

Risk governance

As the ultimate owner of all risks, the Trustee Board has overall responsibility for risk management across the group. It sets risk appetite and must satisfy itself that the risk management framework has been implemented effectively. It delegates responsibility for this implementation to executive management, which ensures that responsibilities for risk management are clearly articulated, clearly applied, and consistent with the three lines of defence model. Risk management is overseen by executive and non-executive risk committees, ensuring that risk management processes are effective and that risk is appropriately assessed against appetite.

The USS three lines of defence risk management approach

1st

USS business units
- risk ownership
- risk management
- operation of control

2nd

USS functions of group risk, legal, compliance and financial control
- risk oversight
- challenge to first line
- maintenance of the risk framework

3rd

USS internal audit function
- independent review
- risk assurance
- challenge to first and second line

Principal risks

We maintain a comprehensive register of the principal risks faced by the business as well as their potential impact and how we mitigate them

Our three strategic priorities which can be identified in strategy, KPIs and risk categories. For further information see page 10.

- Members feel financially more secure
- A sustainable scheme, for the long term
- USS is recognised as a competent scheme manager

We have identified the scheme's principal risks and uncertainties based on their potential to threaten the trustee's ability to deliver its strategic priorities. These risks can arise from internal or external factors and can adversely impact the scheme's funding, investments, operations and reputation. The tables below set out those principal risks, their potential impact and the mitigation in place and represent a high-level summary of the scheme's risk registers.

The COVID-19 pandemic event has heightened some of the risks we face, so we have tightened our business continuity arrangements, strengthened our existing controls and added new ones as necessary. Details are included in the table.

Strategic priority	Description	Impact	Control/Mitigation
Defined benefit (DB) funding risk			
A sustainable scheme, for the long term; USS is recognised as a competent scheme manager	A deterioration in the financial health of the Retirement Income Builder driven by a significant increase in the scheme deficit and/or a significant deterioration in the ability of employers to make contributions to fund the benefits promised to members.	This may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.	• Implementation of a comprehensive Financial Management Plan (FMP) as part of each actuarial valuation, incorporating the acknowledged strength of the employers' covenant, the appropriate contribution rate and investment strategy • A dedicated funding strategy and actuarial team focused on funding of the Retirement Income Builder • Regular monitoring of the funding level, employers' covenant strength, contribution adequacy and liability in the context of the FMP • Regular analysis of the sources of changes in both the liability and the deficit and of the impact of this on the required employer contribution rate
Stakeholder risk			
A sustainable scheme, for the long term; USS is recognised as a competent scheme manager	Failure to engage effectively with our stakeholders.	This may lead to an impaired ability to understand correctly and respond effectively to the changing needs of employers and members. Employers, or their representative bodies, may no longer view USS as the primary service provider for retirement benefits, or members may no longer want to use USS for their retirement provision.	• Regular meetings with agendas relevant to those attendees are held with employers, member representatives and employer representatives, including both UUK and UCU. This engagement is ongoing but assumed to be more intensive during actuarial valuations • Annual member and employer surveys as well as publication of regular updates for members and employers, along with blogs, articles, videos and webinars on relevant topics of interest to UUK, UCU, individual employers and member webinars and the new My USS digital offering providing better access for members to information about their pension benefits
Climate change risk			
A sustainable scheme, for the long term	The risk of material financial impact from climate change, driven by transition risk where asset values are impacted by economic transition in response to climate change, and by physical risk of damage to assets from extreme climate and weather events.	Loss of value of assets from transition to a low-carbon economy or from actual or potential physical damage, especially where we are long-term holders of those assets.	• Analysis of potential direct real asset investments for long-term climate risk • Monitoring of climate risk exposure to equity portfolios • Ongoing monitoring of changes in legislation and policy developments in order to position our investments for the transition to a low-carbon economy • Stewardship of high carbon exposed equity assets, engaging both directly and in collaboration to ensure climate risk in all forms is being appropriately managed • Engaging with policy makers to ensure a smooth transition to a low carbon future

Strategic priority	Description	Impact	Control/Mitigation
Service risk			
	Pension service delivery fails to meet requisite quality or timeliness standards, as a result of the failure to manage or execute operational processes effectively.	This may lead to poor or incorrect outcomes for our members or beneficiaries and the potential for increased costs and reputational damage.	• Robust operational controls and defined service standards • Review and reporting of performance across all administration teams • Comprehensive workload forecasting • Quality control checking • Regular training of all service staff • Member Service Team is now in-house and handling higher call volumes from members than previously
Supplier risk			
	The risk that a supplier fails to perform a business-critical contracted service. This could arise as a result of an operational failure by a supplier or in the event of supplier insolvency.	This could result in a failure to perform business-critical activities on a timely basis or a failure to obtain value for money for the scheme.	• Dedicated procurement function with responsibility (together with the Group General Counsel) for controlling supplier onboarding and ongoing monitoring of key suppliers' performance. Appropriate remedial actions and ultimately replacement of non-performing suppliers and pursuit of USS entitlements should value for money not be received • Appropriate relationship management structures are in place with key suppliers, supported by service level agreements, management information provision and incident escalation and resolution protocols
Investment performance risk			
	A prolonged period of inadequate investment performance or a sharp fall in the value of investments in either element of the scheme. This may be due to (i) selection of an inappropriate Reference Portfolio, (ii) underperformance of the Implemented Portfolio relative to the Reference Portfolio and/or (iii) unfavourable economic conditions or political developments.	A significant increase in the deficit of the Retirement Income Builder. This may lead to the requirement to increase contributions, amend investment strategy and/or reduce future benefits. Lower growth in the size of members' Investment Builder funds. This may lead to lower than expected values being available to members on retirement.	• A documented, structured and effective investment process, run by experienced investment professionals, incorporating robust controls and diligent oversight • Retirement Income Builder: the investment portfolio is diversified across various investment types and risk factors. It is managed relative to a long-term Reference Portfolio designed to fulfil the goals of the USS FMP • Investment Builder: the Let Me Do It Fund range was chosen to provide members with an appropriate range of risk and return expectations. The Default Lifestyle Option progressively reduces investment risk exposure over the 10 years before expected retirement to provide greater certainty around outcomes
People risk			
	Failure to attract and retain sufficient people with the necessary skill sets in the right roles or to develop appropriate management structures and business culture.	This may lead to an inability to provide the necessary resources to achieve successful delivery of the scheme's strategic priorities, leading to poor investment performance, increased incidence of operational error and failure, and ultimately result in reputational damage with key stakeholders.	• Focused recruitment processes/talent management and succession planning/training and development programmes • Clear objectives set for all staff, linked to the USS strategic priorities / regular staff performance and remuneration reviews with reference to appropriate external benchmarks coupled to incentive programmes to reward and retain the most talented individuals • Regular employee satisfaction reviews • Employee Health and Wellbeing programme to promote a healthy and productive working environment for staff • Diversity and Inclusion (D&I) programme and targets to address diversity challenges including improving diversity at senior levels

Strategic priority	Description	Impact	Control/Mitigation
Regulatory risk			
	The product and service offering is impacted adversely by changes to pension and/or investment policy, legislation or regulation. The trustee fails to adopt and apply effective oversight of its legal and regulatory compliance arrangements.	Potential for change to impact the scheme's product and service offering gives rise to additional costs and leads to operational complexity. Failure to respond to such changes in an appropriate and timely manner could lead to fines, compensation costs and censure, as well as damage to stakeholder relationships and reputation.	• Dedicated professionals focused on assessing existing and emerging regulatory initiatives • Legal and regulatory change is monitored by the USS legal team and reviewed quarterly to ensure that relevant updates are captured and flagged to business areas • Structured change management methodology for the implementation of necessary changes • Ongoing compliance training, advisory and monitoring activity tailored for the relevant business divisions
Business disruption risk			
	Prolonged business disruption caused by economic, political or social disruption such as the outbreak of COVID-19, causing disruption in financial markets, inability to provide critical services due to staff unavailability or supplier failure, and financial hardship across the Higher Education sector.	Physical and infrastructural disruption could lead to adverse impact on operational capacity and controls. Economic disruption could result in deterioration of the value of the scheme's assets, adversely impacting our funding and liquidity position and asset valuation uncertainty in the short term. Financial hardship may lead to a deterioration of the employers' covenant.	• Full remote working capability for all teams, to allow continuity of key processes and physical isolation of employees • Wellbeing programme in place to support employees • Monitoring of supplier viability through the supplier framework processes • Investment monitoring and remedial actions to ensure adequate liquidity and to position optimally for economic conditions • Employers' covenant monitoring
Information and privacy risk			
	Failure to protect the confidentiality, integrity or availability of critical data (including personal and commercially sensitive data) held by the scheme or its suppliers, or failure to prevent unauthorised access to USS data.	Breach of applicable data protection legislation, potential for regulatory censure or fine, damage to stakeholder relationships and reputation. Potential for monetary loss and remediation costs.	• A dedicated information security team whose head is the USS Data Protection Officer • Implementation of appropriate information security and data protection framework and processes • Implementation of appropriate cyber risk controls. • Delivery of regular education and awareness training to employees, including phishing campaigns • Ongoing maintenance of the international information security accreditation, ISO 27001 • Achievement of Government-backed Cyber Essentials Plus accreditation • Implementation of processes designed to maintain compliance with General Data Protection Regulations (GDPR) • Mandatory compliance with information security team requirements as a condition of supplier onboarding with ongoing oversight through the appropriate relationship management structures

Governance
Good governance is of vital importance and a cornerstone of our approach

Contents

The governance framework at USS that supports our decision-making and accountability.

USS owns interests in a diverse range of renewable energy technologies including energy from water, onshore wind (similar to those shown in the image) and energy efficient street lighting

Governance

Strong governance is essential for the effective management of USS and for optimising performance

Universities Superannuation Scheme Limited is the trustee of the scheme. The trustee is led by a board comprised entirely of non-executive directors. The Trustee Board provides overall leadership, strategy and oversight of the scheme, the trustee company and USSIM, in co-operation with USSIM's board of directors. The Trustee Board is primarily responsible for exercising objective and independent judgement, in compliance with regulatory requirements, in order to safeguard our members' pension entitlements.

Good governance is of vital importance and a cornerstone of our approach. As such, our processes look to ensure that the directors of the Trustee Board collectively have the expertise, skills and competencies that are appropriate and proportionate to the oversight and governance of the scheme, the trustee and the evolving regulatory environment within which the scheme operates. You can read about the skills and expertise of the Trustee Board members on pages 43 to 45.

The Trustee Board has delegated responsibility for day-to-day management of the scheme to the Group Chief Executive Officer, who is supported by the Group Executive Committee, subject to ongoing board oversight. The Trustee Board is also supported by five specialist standing committees:

- Audit Committee (Audit)
- Governance and Nominations Committee (GNC)
- Investment Committee (Investment)
- Pensions Committee (Pension) (previously known as Policy Committee)
- Remuneration Committee (Remuneration)

The Trustee Board and committee structure is set out on page 43. There are two other key committees linked to the scheme:

- Joint Negotiating Committee (JNC)
- Advisory Committee

The JNC and Advisory Committee are both formed under the scheme's rules and while entirely separate to, and distinct from, the trustee, they play an important part in the governance of the scheme.

The JNC comprises representatives for the scheme's stakeholders, Universities UK (UUK) and the University and College Union (UCU) and is chaired by an independent chair appointed by the JNC. During the 2020/21 financial year, the JNC played a key role in relation to the ongoing 2020 valuation. The role of the JNC in the valuation is distinct from that of the trustee.

Generally, two trustee directors also attend and observe each JNC meeting to allow for greater levels of engagement between the JNC and Trustee Board members.

While the trustee has responsibility to undertake the valuation in accordance with all legal and regulatory requirements, the JNC's role is to consider whether any benefit changes should be made and to negotiate how any contribution rate changes should be shared between members and/or employers.

The Advisory Committee's primary role is to fulfil the member dispute resolution function for the scheme.

More information about the activities and membership of the Trustee Board, its committees, the JNC and the Advisory Committee is set out on the following pages and in the Governance Report provided on the USS website at uss.co.uk/about-us/report-and-accounts.

Division of responsibility between the Trustee Board and executive

As explained earlier in this report, the Trustee Board has delegated day-to-day management of the group to the Group Chief Executive Officer (GCEO), supported by the Group Executive Committee.

The Trustee Board has responsibility for the strategic direction of the group and makes key decisions (for example, it is required to approve the group's business plan, significant supplier contracts, the strategic aims and objectives of the scheme and the scheme's investment policy). A number of decisions about the commercial activities of the scheme are made by the Group Executive Committee, for example it decides the scheme's strategic approach to delivering the required levels of service to employers and members and takes certain decisions in relation to the scheme's recruitment and retention strategy.

Trustee Board composition

The Trustee Board consists of 12 non-executive directors comprising:

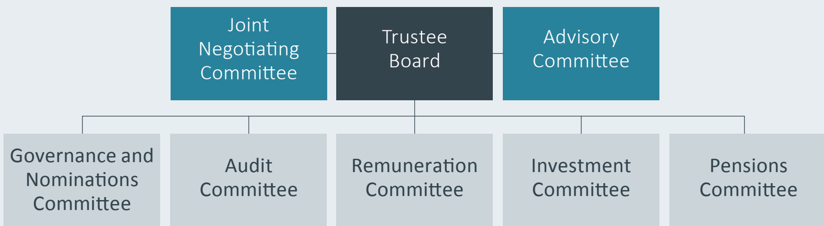
- four directors nominated by UUK
- three directors nominated by the UCU, (one of whom is a pensioner member)
- five independent directors[1.]

The composition and diversity of experience of the directors promotes an effective and balanced Trustee Board and helps to ensure the directors collectively have all the key competencies and knowledge required to manage and oversee the scheme. This includes competencies in, and knowledge of, pensions, investments, actuarial matters, the Higher Education (HE) sector, audit and financial management, communications, and scheme member views. The trustee works with UUK and UCU to ensure that the Trustee Board includes directors with a good understanding of the views of both members and employers.

In addition, the trustee is focused on improving the diversity of its board members. Maintaining and improving key competencies, knowledge (including relevant practical experience) and diversity of the Trustee Board remains vitally important. During the year the trustee has continued to focus on its board succession planning to respond appropriately to scheduled turnover of Trustee Board directors as they come to the end of their final terms of office. This is to ensure the collective competencies and experience of the Trustee Board are appropriate for the scheme and the orderly replacement of current board members.

The Trustee Board's succession plans are reviewed regularly to ensure the appropriate balance of continuity and refreshed membership is achieved going forward. In conducting director recruitment exercises, the trustee uses a skills matrix, which captures the core skills required for running a pension scheme of the size and complexity of USS. This provides a framework for considering the skills and competencies the trustee prioritises when preparing director role briefs, and when evaluating potential candidates. A summary of the skills of the serving trustee directors can be found below.

Trustee Board and committee structure



Board competencies

Skills and experience	Number of USS directors with this skill set
Experience in university governance and leadership	7
Senior/substantial experience of HE leadership and understanding of the economics of the HE sector	7
DB/DC pension industry experience	11
Senior corporate governance expertise/board management knowledge	12
Industrial relations	5
Pensions administration and member engagement	6
Communication, media and stakeholder engagement	10
Control, compliance and risk management	9
IT and security and digital development	4
Supplier/contract management	9
Senior management experience	11
Actuarial	5
Audit, accounting and financial management expertise	8
Investment	6
Legal	4
HR and remuneration	10
Strategy development	8

Note

1 The maximum potential size of the board was temporarily increased (until 31 January 2021) from 12 directors to 13 to facilitate board succession planning.

Members of the Trustee Board

Dame Kate Barker G I

- Independent appointee
- Chair of the Trustee Board
- Appointed as a director April 2020, Chair since September 2020

Dame Kate became Chair of the Trustee Board on 1 September 2020. She has been Chair of the Trustee Board of the British Coal Staff Superannuation Scheme since 2014, and a pension trustee for the Yorkshire Building Society from 2015 to 2019. She was a governor at Anglia Ruskin University from 2000 to 2010, including Chair of Governors from 2007 to 2010, and served on the Council of Oxford University from 2017 to 2020.

Dr Kevin Carter A I

- Independent appointee
- Senior Independent Director and Deputy Chair
- A director of USSIM
- Appointed September 2012

Kevin is Chair of JPMorgan American Investment Trust plc, and a non-executive director of Aspect Capital Limited, Newton Investment Management Ltd and Henderson Smaller Companies Trust plc. He is a Trustee Director of the BBC Pension Trust Limited, and Chair of its Investment Committee. Kevin is also valuation committee Chair of Hermes GPE LLP, a private markets asset manager.

Mr Andrew Brown G I R

- UCU appointee
- Appointed August 2020

Prior to joining the Trustee Board in August 2020, Andrew was CEO and Secretary of the Church Commissioners for England. He is Chair of William Leech Investments and Foundation Trusts, and a trustee of Trust for London. Andrew has previously been Chair of the CMS Pension Trust. In January 2020, he was awarded an OBE for services to the Church.

Professor Sir Paul Curran G

- UUK appointee
- Appointed September 2020

Professor Sir Paul Curran was President of City, University of London until June 2021 and has also held roles as Deputy Vice-Chancellor of the University of Southampton and Vice-Chancellor of the University of Bournemouth. He is currently Professor Emeritus of City, University of London and also Chair of the Universities and Colleges Employers Association and of the Review Body on Doctors' & Dentists' Remuneration.

Mr Gary Dixon A R

- UUK appointee
- Appointed April 2019

Gary trained as a Chartered Accountant with PwC after graduating in 1987 from the University of Leicester in Physics with Astrophysics. In 1994 he joined the banking and pensions focused financial services group, Pointon York, where he was subsequently appointed Group CFO. He is a Fellow of the ICAEW and holds an MBA from Warwick Business School. He is the Chair of Council at the University of Leicester having served as a Lay Member of Council since 2009. Gary is also a non-executive director of the Church of England's Investment Trustee company, CBF Funds Trustee Limited.

Mr Ian Maybury G I P

- Independent appointee
- Appointed November 2013

Ian joined Schroders in 2012 as the Head of Solution Management and has previously worked for Redington, Citigroup and Royal London Insurance in various actuarial and management roles. He is a Trustee Director of the John Lewis Pension Scheme and the Mineworkers Pension Scheme and Chair of Trustees at the RNIB Retirement Benefits Scheme.

Key to Committee membership
● Chair
Ⓐ Audit Committee
Ⓖ Governance and Nominations Committee
Ⓘ Investment Committee
Ⓟ Pensions Committee
Ⓡ Remuneration Committee

Professor Sir Anton Muscatelli Ⓘ

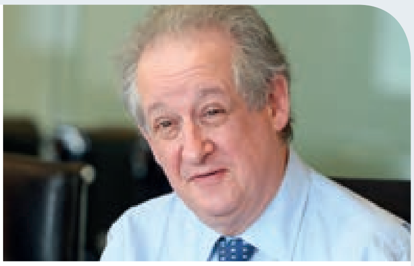
- UUK appointee
- Appointed April 2015

Professor Sir Anton became Principal and Vice-Chancellor of the University of Glasgow in October 2009. He studied at the University of Glasgow, where he graduated with an MA in Political Economy and with a PhD in Economics. Professor Sir Anton was Chair of the Russell Group from 2017 to 2020.

Mr Russell Picot Ⓐ Ⓘ

- Independent appointee
- Appointed February 2021

Russell became a Director of USS in February 2021 after more than 20 years with HSBC, latterly as Chief Accounting Officer. He was appointed as a trustee of the HSBC pension scheme in 1999 and has been Chair of the Trustee Board since 2017. He is also a trustee on the DC Master Trust LifeSight and has held roles with several accounting bodies and as Special Adviser to the Task Force on Climate-related Financial Disclosures.



Mr Rene Poisson Ⓟ Ⓡ

- Independent appointee
- Appointed November 2012

Rene became a Director of USS in November 2012 having retired after a 30-year career with JPMorgan latterly as Managing Director and Senior Credit Officer for Europe, Middle East and Africa. He is Chair of the JP Morgan UK Pension Plan and a member of its Investment Sub-Committee and a Director of the Standard Life Master Trust.

Ms Helen Shay Ⓐ

- UCU appointee
- Appointed September 2020
- Pensioner member

Helen has worked in the Higher Education sector previously as in-house counsel at the University of York as well as undertaking work for the College (now University) of Law. She also has commercial experience through her work for the Financial Ombudsman Service, Skipton Building Society and Next plc. Helen has also been a Board member of the Association of University Legal Practitioners.

Mr Will Spinks Ⓟ Ⓡ

- UUK appointee
- Appointed September 2018

Will has worked in Higher Education since 2007, initially as the first Chief Operating Officer at Loughborough University and subsequently as the Registrar, Secretary, Chief Operating Officer and Associate Vice President at the University of Manchester.

Dr David Watts Ⓟ

- UCU appointee
- Appointed March 2021

David is a social scientist and historian and has worked for the University of Aberdeen since 2007. He is based in the Rowett Institute, which sits within the School of Medicine, Medical Sciences and Nutrition. David has been a local pensions representative for the UCU since 2015 and, in 2017, was elected as the first academic trade union nominee to the Court (the University of Aberdeen's governing body). David was a trustee of the University from 2017 to 2020 and served on its Policy and Resources Committee.

Biographies of each board member appear on the USS website at uss.co.uk/about-us/how-were-governed/people/uss-board

Trustee Board key activities 2020/2021

There was a significant volume of activity carried out by the Trustee Board during 2020/21, particularly in connection with the ongoing triennial actuarial valuation as at 31 March 2020 (the '2020 valuation'). More information is set out below.

Board activities

Topic	Activity
Valuation	• Undertook a rigorous and comprehensive review of all the assumptions that underpin the valuation, to propose a valuation for consultation, involving extensive engagement with stakeholders, as well as a formal consultation exercise with UUK in relation to the technical provisions for the 2020 valuation • Undertook a review of the strength of the sponsoring employers' ability to support the scheme (the covenant), including an assessment of the impact of COVID-19 on the employer covenant • Oversaw the development of covenant support measures, including debt monitoring arrangements and a potential rule change in relation to employer exits from the scheme • Engaged extensively with UUK and employers in relation to covenant support measures • Oversaw member and employer communication and consultation activity in the year • Approved a change in the approach to the Financial Management Plan monitoring • Approved the interim approach to monitoring the financial position of the DB element of the scheme • Approved the Integrated Risk Management Framework (IRMF) for the 2020 valuation
Regulatory	• Engagement with The Pensions Regulator around the 2020 valuation and as part of its ongoing supervision of USS, both as a Master Trust and as part of The Pensions Regulator's one to one supervision of defined benefit schemes • Oversaw executive engagement with The Pensions Regulator • Commissioned a Master Trust Assurance Report (AAF) on governance control procedures
Pensions operations	• Oversaw the renegotiation of the scheme's arrangements with Capita for the provision of DC Pensions Administration Services • Oversaw engagement with members and employers, via updates from the Institutions' Advisory Panel (IAP), Institutions' Meeting and a virtual networking group, established to support engagement with the scheme's smaller employers • Oversaw projects in relation to the scheme's digital enhancement programme and the launch of member services including guidance, advice and pensions flexibilities • Received and discussed the outcomes of the member and employer perceptions surveys • Approved a new delegations framework in relation to key employer participation decisions
Strategy	• Approved the Annual Business Plan and Budget 2021/22 subject to any revisions that may need to be made or flexibilities that may need to be introduced during the financial year as a result of COVID-19 • Considered the impact on the USS business of the evolving regulatory landscape (including the new supervisory regimes introduced by The Pensions Regulator for both DB and DC schemes and the Pension Schemes Act)

Board activities

Topic	Activity
Investment	• Reviewed and upon recommendation of the Investment Committee, approved the investment strategy to be applied for the DB element of the scheme for the following year • Oversaw and approved policies in relation to the implementation of environmental, social and governance (ESG) initiatives associated with the scheme's investments • Oversaw the trustee's investment manager USS Investment Management Limited's (USSIM) decision to divest from selected tobacco, coal, and weapons manufacturers from its portfolios over the next two years • Reviewed and approved revisions to stewardship principles and voting policy as part of the scheme's Responsible Investment programme • Reviewed and upon recommendation of the Investment Committee, approved the scheme's Self-sufficiency Framework • Oversaw the completion of a review by the Investment Committee of the DC fund range and Default Lifestyle Option for members, following a Pensions Committee review of member requirements • Reviewed and approved amendments to the investment management advisory agreement, setting out the terms of engagement of USSIM including a widening of USSIM's investment powers to select its in-house Global Emerging Markets Equity team to manage the scheme's DC investments, in addition to external manager appointments • Reviewed and upon recommendation of the Investment Committee, approved the scheme's high-level investment strategy as part of the 2020 valuation process • Reviewed and approved simplification of the investment structure and risk limits for the DC funds which form the Default and Ethical lifestyle investment options • Reviewed and approved amendments to the instructions given to USSIM to manage the DB investment strategy in line with the scheme's journey plan
Financial reporting and controls	• Approved the financial statements for the scheme and the trustee company for the year ended 31 March 2020 on recommendation from the Audit Committee • Reviewed and approved the group three-year plan and budget • Reviewed annual statements on the effectiveness of company internal controls from the Audit Committee, GCEO and head of internal audit
Master Trust	• Oversaw the implementation of the DC business plan for the financial year 2020/2021 • Oversaw the Value for Members assessment for 2020/21 • Oversaw production of the scheme's annual supervisory return
Risk management and internal controls	• Regularly reviewed the enterprise risk report encompassing all key risks impacting upon the delivery of the scheme's strategic objectives • Considered the adequacy of the scheme's internal control and risk management framework, based on assurance provided by the Audit Committee on each of the three lines of defence • Reviewed and approved amendments to the Risk Governance Policy, setting out the board's expectations for risk management at USS, and risk appetite statements • Oversaw recruitment of the Chief Risk Officer • Oversight of the scheme's cyber and IT strategy and risks and controls • Reviewed performance reports from all key business areas on a quarterly basis

Board activities

Topic	Activity
Performance and general oversight	• Received and discussed reports from all standing Trustee Board committees which had met in the reporting period • Monitored the executive's ongoing response to the impact of COVID-19 on business operations and steps taken to mitigate and manage related risks and issues • Approved a range of key performance indicators, measures and targets against which performance across the group could be monitored and assessed
Corporate governance	• Reviewed the group corporate governance framework which includes the terms of reference for the Trustee Board's standing committees • Approved changes to the remit of the Policy Committee (renamed the 'Pensions Committee') to expand its high-level monitoring and oversight of the performance of the Pensions Business. As a result of this change, reviewed and delegated to the Pensions Committee certain decisions that generally impact the day-to-day management of the Pensions Business • Reviewed and approved one reappointment and five appointments to the Trustee Board and changes to the membership of Trustee Board standing committees • Commissioned a board effectiveness review via an external evaluation of the Trustee Board and committees • Approved changes to the length of term of office of directors to move to standard four-year terms of office • Oversaw the establishment of a designated non-executive director (NED) to help ensure that member perspectives are appropriately factored into board decisions • Approved the adoption of the Wates Corporate Governance Principles for Large Private Companies 2018, and to report against them in the 2020/21 Annual Report and Accounts
Leadership	• Oversaw succession planning for the Chair of USSIM • Discussed the outcomes of the USS employee engagement survey and the executive committee response • Received and discussed updates on initiatives being undertaken by the executive to increase diversity and inclusion • Initiated a project, USS 2022, focused on introducing flexible working practices • Oversaw the transition of the business operations to remote working in response to the COVID-19 outbreak and lockdown measures
Stakeholder	• Participated in the tripartite discussions between UUK, UCU and the Trustee Board in relation to the second Joint Expert Panel Report, including participation in the JNC Effectiveness Review • Engaged directly with the Joint Expert Panel on various matters, including in relation to the JNC Effectiveness Review, and oversaw the executive's engagement with key stakeholders including UUK and UCU • Considered employer and member feedback against the trustee's business plan and strategic objectives • Oversaw member and employer communications activity in the year, and the approach to corporate affairs more generally • Participated in meetings with JNC members and UUK's and UCU's actuarial advisers to discuss aspects of the 2020 valuation

Further information regarding the work completed by USS specialist standing committees in 2020/21 can be found in our Governance supplement which is available online on our website at **uss.co.uk/about-us/report-and-accounts**

Trustee Board meeting and committee attendance

The Trustee Board met 17 times during the year. A summary of Trustee Board activity during the year is outlined on pages 46 to 48. An overview of attendance at meetings of the Trustee Board and its specialist standing committees is provided below.

Meetings held in the year

Trustee Board members	Trustee Board	Investment	Pensions	Audit	Remuneration	Governance and Nominations
Dame Kate Barker[(i)]	17	9				4
Professor Sir David Eastwood[(ii)]	5	4				1
Dr Kevin Carter[(iii)]	16	10	4	1		
Mr Gary Dixon[(iv)]	17			5	2	
Ms Kirsten English[(v)]	13			4		4
Mr Ian Maybury	17	10	5			5
Mr Michael Merton[(vi)]	13			4	3	
Professor Sir Anton Muscatelli	17	9				
Mr Rene Poisson	17		6		5	
Mr Will Spinks	17		6		5	
Dr Steve Wharton[(vii)]	5		2		2	1
Mr Andrew Brown[(viii)]	12	5			3	4
Professor Sir Paul Curran[(ix)]	12					4
Ms Helen Shay[(x)]	12		4	2		
Mr Russell Picot[(xi)]	4	2		1		
Dr David Watts[(xii)]	1					
Committee members						
Mrs Sarah Bates		10				
Mr Mark Fawcett		9				
Mrs Virginia Holmes		9				
Mr Tony Owens				5		
Mr Bill Galvin[(xiii)]			4			5
Mrs Helen McEwan[(xiv)]			4			

Notes
(i) Dame Kate Barker was appointed to the GNC on 1 September 2020 and has attended all Committee meetings since then.
(ii) Professor Sir David Eastwood retired as Chair of the Trustee Board on 31 August 2020. He attended all GNC meetings held in the year up until the date of his retirement.
(iii) Dr Carter stepped down from the Pensions Committee on 2 December 2020. He attended all of the Pensions Committee meetings until that date. Dr Carter was appointed to the Audit Committee on 1 February 2021 and has attended all Audit Committee meetings since then.
(iv) Mr Dixon was appointed to the Remuneration Committee on 1 February 2021 and has attended all Remuneration Committee meetings since then.
(v) Ms English retired from the Trustee Board on 31 January 2021. She attended all Audit and GNC meetings held in the year up until the date of her retirement.
(vi) Mr Merton retired from the Trustee Board on 31 January 2021. He attended all Audit and Remuneration Committees meetings held in the year up until the date of his retirement.
(vii) Dr Wharton retired from the Trustee Board on 31 August 2020. He attended all the GNC, Remuneration and Pensions Committee meetings held in the year up until the date of his retirement.
(viii) Mr Brown was appointed to each of the Investment, GNC and Remuneration Committees with effect from 1 September 2020 and has attended all Committee meetings since then.
(ix) Professor Sir Paul Curran was appointed to the GNC with effect from 1 September 2020 and has attended all GNC meetings since then.
(x) Ms Shay was appointed to the Pensions and Audit Committees with effect from 1 September 2020 and has attended all Committee meetings since then. Ms Shay stepped down from the Pensions Committee post year end with effect from 16 June 2021.
(xi) Mr Picot was appointed to the Investment and Audit Committees with effect from 1 February 2021 and has attended all Committee meetings since then.
(xii) Dr Watts joined the Trustee Board on 1 March 2021 and attended the one Trustee Board meeting during the financial year after his date of appointment. Dr Watts was appointed to the Pensions Committee post year end with effect from 16 June 2021.
(xiii) Mr Galvin was appointed as an executive member of the Pensions Committee with effect from 1 October 2020 and has attended all Pensions Committee meetings since then.
(xiv) Mrs McEwan was appointed as an executive member of the Pensions Committee with effect from 1 October 2020 and has attended all Pensions Committee meetings since then.

Remuneration report

We focus on aligning pay with performance to ensure the right mix of skills and expertise to deliver our long-term priorities and value for money for members

Our remuneration framework is designed to ensure USS has access to those with the right mix of skills and expertise to deliver our long-term priorities and value for money for members.

We hire experts, who can deliver cumulative, long-term results, and we seek to pay them at market rates commensurate with the skills and experience they bring to the scheme.

Paying for performance is key to our remuneration and incentive policy, which means to reward contribution that is aligned to the needs of employers and members in a cost effective manner.

Investment management professionals represent the largest proportion of the compensation paid, in particular representing 91% of the variable incentive paid in the year. The direct costs associated with employing an in-house team of highly-skilled investment professionals in an extremely competitive market are much lower than the fees charged by external managers.

We give more details of our approach to managing costs and how our costs compare with third party peer cost benchmarking in the Chief Financial Officer's update on page 54.

Our total compensation approach includes the following key elements which are benchmarked annually:

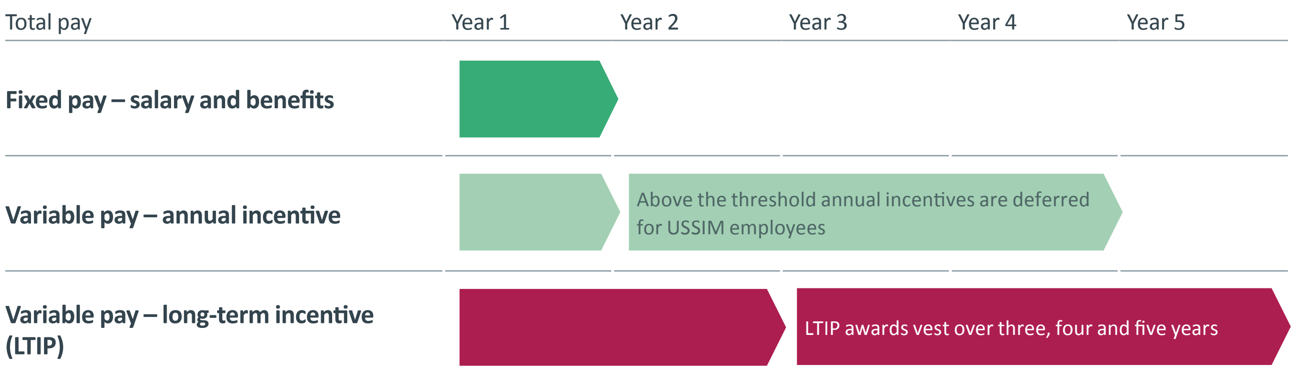
- Base salary, which is designed to attract and retain high-performing individuals
- Annual incentives, aimed at motivating and rewarding top performance, aligned to USS values. In the investment management function, where incentives exceed a £50,000 threshold, payment is partially deferred for three years. For investment management professionals, the annual incentive includes an element that is linked to scheme performance, calculated on a rolling five-year basis
- Long-term incentive plans (LTIPs), available to a limited population, are designed to incentivise delivery of scheme performance over the long term and to encourage retention of key personnel

£66m

Having an in-house investment management team means our investment management costs were the equivalent of £66m per year lower than the peer average according to the most recent cost/asset ratio analysis by CEM Benchmarking (for calendar year 2019).

- All employees are eligible to join the USS pension scheme which aligns the employee's own personal objectives with the purpose of the scheme itself
- Trustee Board directors and other non-executives receive only the agreed fee level for their services

Remuneration structure



Remuneration in 2020/21

The total remuneration paid includes payments in respect of deferred incentive amounts from previous years and prior year LTIP awards paid out in the year. The compensation reference period is based on the calendar year to 31 December 2020 and amounts paid in the year are based on performance up to that date. In the five-year period to December 2020 the scheme returned 10.86% p.a. (which compares to the 9.75% p.a. referred to in Investment matters in the five-year period to March 2021), outperforming the Reference Portfolio by 0.08% p.a. net of costs including remuneration and adding £273m of value to the scheme assets over that period.

A key driver of increased remuneration costs this year has been the continued expansion of our investment management team as we have insourced management of more of our assets which, despite driving reported remuneration cost and scheme overheads upwards, saves the scheme money compared to the expense of external management, particularly in relation to private assets. The impact on reduced embedded fees and reduced overall investment management costs is laid out on page 54. Investment management headcount has risen by 11% year-on-year which is the largest factor in the remuneration growth shown in the tables below and on page 52. High earners are defined as employees whose base salary plus any incentives and non-pension benefits paid in the year exceed £100,000.

	For the year-ended 31 March 2021 £m			
Remuneration	**High earners (excluding Group Executive)**	**Group Executive (A)**	**Trustee Board (B)**	**Total key management personnel (A+B)**
Fixed pay – salary and benefits	**20.0**	**2.4**	**0.7**	**3.1**
Variable pay – annual incentive	**15.2**	**1.3**	**-**	**1.3**
Variable pay – LTIPs	**6.0**	**1.0**	**-**	**1.0**
Total remuneration paid	**41.2**	**4.7**	**0.7**	**5.4**

	For the year-ended 31 March 2020 £m			
Remuneration	**High earners (excluding Group Executive)**	**Group Executive (A)**	**Trustee Board (B)**	**Total key management personnel (A+B)**
Fixed pay – salary and benefits	16.8	2.5	0.6	3.1
Variable pay – annual incentive	12.9	1.3	-	1.3
Variable pay – LTIPs	3.1	0.8	-	0.8
Total remuneration paid	32.8	4.6	0.6	5.2

Trustee Board director fees

The Trustee Board director fees are shown in table below with the comparison to 2019/20. Their fees are included within the analysis table above.

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of the trustee and their legal responsibilities.

The Remuneration Committee report provides a summary of the oversight and governance of the compensation awards and can be found in the Governance Report on our website at uss.co.uk/about-us/report-and-accounts.

The number of directors who are members of the Retirement Income Builder

	2021	**2020**
As at 31 March (100% of those eligible)	6	4

Total emoluments of the directors of the trustee company

For the year-ended 31 March £m	**2021**	**2020**
Fees (non-executive directors)	**0.7**	0.6
Total	**0.7**	0.6

How staff are incentivised

Incentives for employees are based on performance and vary, depending on the part of the organisation in which they work.

In USSIM, investment managers receive an incentive based on their performance against defined investment performance and personal targets.

Risk management and behavioural factors are included in the overall assessment, alongside remuneration market dynamics.

Non-investment staff both within USSIM and Universities Superannuation Scheme Limited have incentives based on similar non-investment factors as described above with the key driver being performance against agreed annual objectives. A notional amount is awarded to certain non-investment staff in respect of LTIPs and amounts eventually payable depend on the performance and service conditions explained on page 53 where qualifying criteria for each type of staff incentive are laid out.

Salary banding

We remain committed to openly reporting the total remuneration of the Group Executive, Trustee Board and high earners (who are typically the investment managers); our remuneration disclosure therefore goes beyond what legislation requires.

The table below shows total remuneration (base salary plus any incentives and non-pension benefits) paid in the year exceeding £100,000 including any such members of the Group Executive and Trustee Board. Approximately 76% of these high earners are investment management professionals.

The annual and long-term incentive amounts included below reflect that investment performance exceeded that of the Reference Portfolio net of costs including remuneration by 0.08% p.a., but did not achieve the target of 0.55% p.a., on a rolling five-year basis in the compensation reference period to 31 December 2020.

Benchmarking of base salary and/or total compensation

Given the importance of attracting and retaining high calibre employees in a competitive market, we offer fair and competitive salaries in comparison with our peers.

Salaries reflect the experience, responsibility and contribution of the individual and of their role within USS.

Annual benchmarking is performed on total compensation. This both minimises the disruption caused by employee turnover and any potential negative impact on employee engagement. At the same time, salary benchmarking is vital to ensure we deliver value for money to employers and members.

We used two external benchmarking agencies: one for investment management and support services, and another aimed at pensions services roles and their support functions.

For the year-ended 31 March, Amounts Paid	Number of individuals	
	2021	2020
£100,001 to £150,000	65	47
£150,001 to £200,000	31	31
£200,001 to £250,000	19	20
£250,001 to £500,000	33	33
£500,001 to £750,000	14	8
£750,001 to £1,000,000	4	2
£1,000,001 to £1,250,000	3	2
£1,250,001 to £1,500,000	0	0
£1,500,001 to £1,750,000	1	1
Total	**170**	**144**

Incentive payments

There are three types of incentive payments:

	Annual incentive	Investment LTIP[1]	Group LTIP[1]
Main features and objectives	• To drive strategic change and individual delivery of the business plan • To recognise and reward individual contributions to USS priorities • Individual contribution is calibrated annually	• Restricted to a minority of roles in the USSIM subsidiary • Value at vesting depends on scheme or, where applicable, private markets investment performance • Promotes performance and retention of key personnel	• To support the recruitment, reward and retention of senior staff key to the delivery of strategic objectives • Restricted to those not in receipt of an Investment LTIP • Promotes performance and retention of key personnel
Performance conditions	For investment managers: • Scheme performance[2] over five years and mandate performance (where applicable) over five years • Qualitative measures aligned to USS values and delivery of strategic objectives For other employees: • Qualitative elements aligned to longer-term strategic goals and behavioural competencies	• Scheme performance[2] over multiple years • Specific investment performance measures[2] for USSIM Private Markets employees over multiple years • Retention element included	• All qualitative – not linked to scheme performance • Reflects achievement of personal objectives • Promotes objectivity of senior management within the second and third lines of defence
Service conditions	• Must be in employment and not serving notice at date of award • For deferrals, must be in employment and not serving notice at the date of payment	• Must be in employment and not serving notice at date of award and through to vesting although 'good leaver' provisions may apply • LTIPs vest in tranches, the earliest being three years and the latest being five years after award	• Must be in employment and not serving notice at date of award and through to vesting although 'good leaver' provisions may apply • LTIPs vest after either three, four or five years
Deferred element	• Incentives above threshold for USSIM employees are deferred for three years as follows: – 30% over £50,000 – 40% over £200,000 – 50% over £400,000 Where the deferred element is calculated as less than £5,000, this is paid immediately	• As a long-term plan, the payment is deferred until conditions have vested	• As a long-term plan, the payment is deferred until conditions have vested

Notes

1 Long-term incentive plans.

2 Consistent with previous years, scheme performance is assessed over calendar year periods in order to allow payments to be made at the financial year end.

Chief Financial Officer's update

Efficient and effective financial stewardship is a cornerstone of long-term success for the scheme and our members

Dominic Gibb
Chief Financial Officer

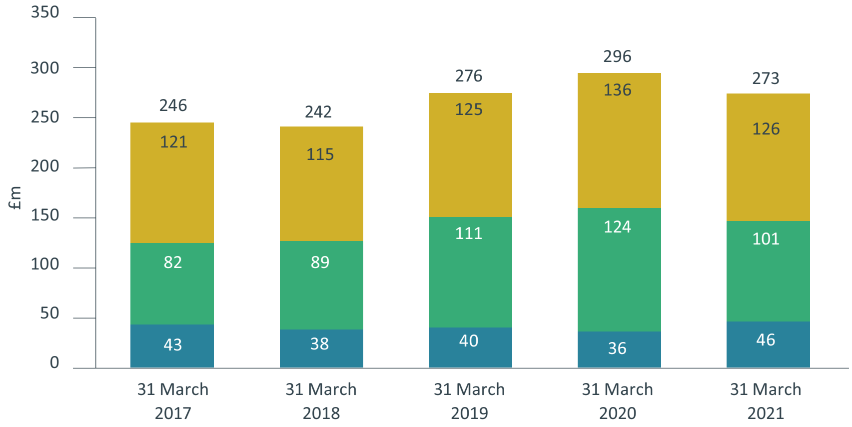
Delivering value for money for members and employers forms an essential part of our strategic priorities, with performance monitored through a robust set of KPIs. Despite material scheme asset growth, our total costs have been controlled partly by reducing relatively expensive allocations to third party managers and instead using internal expertise.

We manage total costs which include embedded costs deducted within scheme investment returns as well as scheme expenses included in the financial statements. Similarly, when we consider investment outperformance targets, we deduct relevant scheme expenses from performance in the same way as embedded costs are deducted. The first chart shows the evolution of total scheme costs over time. This year we have divested from a material proportion of our externally managed hedge funds saving around £20m per year in embedded costs.

Audited scheme expenses of £147m (2020: £160m) represent a year-on-year decrease of 8%.

Personnel costs were £7m lower than the prior year due to material movements in the long-term incentive plan (LTIP) and the pension deficit provisions. The LTIP provision caused a £23m year on year reduction as our estimates of LTIP payouts over the next five years reduced, largely reversing the sharp increase reported last year following material benchmark outperformance during the COVID-19 related market volatility. This was partly offset by a £13m increase relating to the pension deficit provision where finalisation of the 2018 valuation drove a provision release last year. Excluding these two items, underlying personnel charges were up by £3m (5%). Remuneration paid in the year is analysed on page 51.

Total scheme expenses as per financial statements and embedded costs

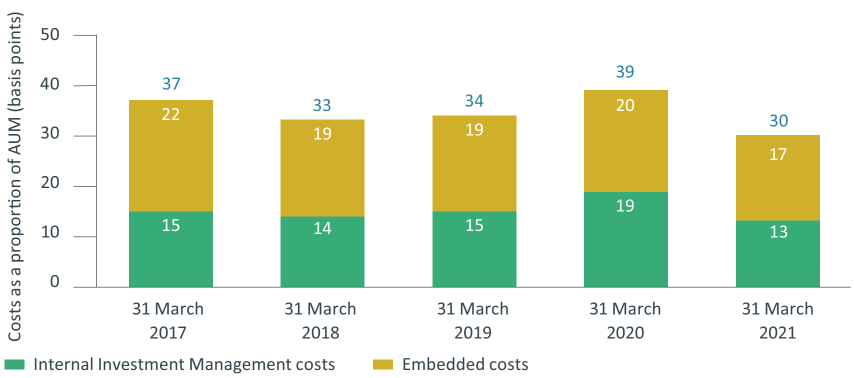


Non-personnel costs decreased by £6m on last year due to reduced private market deal expenses and savings as we re-design our developed equities approach, partially offset by an increase in professional fees arising from the 2020 valuation.

Our investment management costs, which make up around 85% of total scheme costs, remain materially below the peer cost benchmark as shown in the chart on page 55. The costs are displayed as a proportion of scheme assets in the chart below which demonstrates that we have maintained a downward trend over time (with the exception of 2020[1]).

CEM Benchmarking, an independent company, annually benchmarks our investment management costs against our peers. Participants' reported costs are adjusted to harmonise cost treatments and provide like-for-like comparisons using asset-mix adjusted cost/ asset ratios.

Investment management cost[2] ratios (CEM Benchmarking comparable basis)



1 The increase in 2020 was driven by increased future LTIP payout estimates as a result of COVID-19 related market volatility in the final quarter as well as increased embedded costs related to private market investments.
2 Investment management costs are shown as a proportion of average Retirement Income Builder (DB) assets in basis points on a basis intended to be comparable with that used by CEM Benchmarking. This basis differs from the expenses in the top chart which are on an accounting basis. Both charts exclude private equity fund performance fees (carried interest). We are working to improve data quality in reporting in this area.

Costs of running the scheme

	Description	2021
Pension administration operational expenses	We incur personnel and third-party provider costs to deliver high quality pension administration service to our members and sponsoring employers.	£27m
Group costs	To provide robust governance (including Master Trust and other TPR compliance requirements), legal, finance, IT and other central services for pension administration.	£19m
Pension administration costs		£46m
Investment management personnel and overheads	We incur personnel and other third-party expenses to deliver expert in-house investment management for around 70% of our investments.	£49m
Investment management fees including performance fees (and custody fees)	Where it is cost effective or requires specialist services, we incur fees for external investment management services, including incentive payments when fund returns exceed pre-determined thresholds.	£35m
Group costs	To provide robust governance (including FCA compliance requirements), legal, finance, IT and other central services for investment management.	£17m
Investment management operating costs (internal)		£101m
Embedded investment management costs	External management and performance fees, excluding carried interest, deducted from the scheme asset value.	£126m
Investment management cost (total)		**£227m**

Our cost advantage versus peer average is partly driven by our in-house capabilities which deliver better value to our members. Using skilled and experienced internal resource to deliver an active approach to managing the scheme's assets saves material cost compared to outsourcing (we explain why we use an active approach on page 20). Outsourced management of an asset portfolio of our current size and asset mix would more than double our cost given market pricing levels, particularly in private assets.

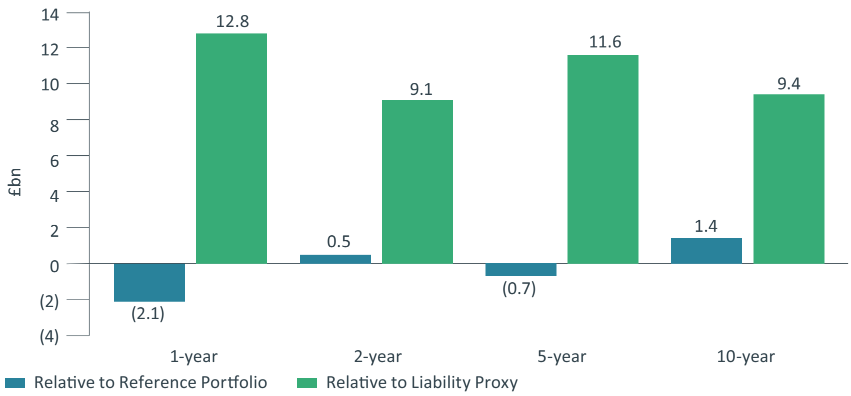
The cumulative net value-added relative to our Reference Portfolio and Liability Proxy that has been driven by our active investment strategy is shown in the chart to the bottom left.

The chart below right shows our investment management cost compared to the costs of managing our current asset portfolio using the latest CEM Benchmarking peer average cost rate (from the latest finalised calculation using calendar year 2019). (Note, cost comparisons on pages 7 and 50 are based on 2019 for both cost ratio and asset values).

The material divestment from hedge funds noted above is part of our drive to strengthen further our internal investment capability and approach whilst controlling our total investment management costs. Over the next few years, whilst aiming to maintain our total cost advantage over our peers, we plan to:

- Build out our fixed income and treasury capability to increase leverage in the scheme DB investments and to improve hedging of long-term risks in liabilities
- Further strengthen our ESG approach, including in our policies, benchmarking and reporting standards
- Develop in-house equities, which we temporarily outsourced while we revised our strategy and hired new senior leadership in that area
- Further develop our private markets capability with increased allocations, particularly in private credit, which deliver strong risk-adjusted returns and align well with our liabilities
- Improve our support and control infrastructure to enable these changes and to respond to regulatory developments

Cumulative value-added from investment strategy over time



Comparative investment management costs