USS

For members, for the future.

Universities Superannuation Scheme

Report and Accounts for the year ended 31 March 2022

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

From February 2022, more students returned to face-to-face tuition

Universities have been critical to the development of vaccines, including those for COVID-19

Strategic report

How we create lasting value for our members and employers.

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Governance

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

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

UK's first hydrogen-powered train (Birmingham Centre for Railway Research and Education)

Universities are supporting research into the use of seaweed to reduce methane emissions from cattle

Financial statements

Audited financial statements consisting of the fund account, statement of net assets and notes.

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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

For more information see page 10

Our values

1 Integrity
- We always do the right thing
- We put our members' interests first
- We take decisions for the long term

2 Collaboration
- We work towards a common goal
- We take responsibility for our own actions
- We are straight talking and respectful in our dealings with each other

3 Excellence
- We set high standards for ourselves and our colleagues for the benefit of our members
- We adapt and innovate to achieve the best outcome
- We bring our best selves to work, every day

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.

Pension management

The trustee employs an experienced pension management team, providing member, employer and scheme funding and strategy services, 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.

Our investments

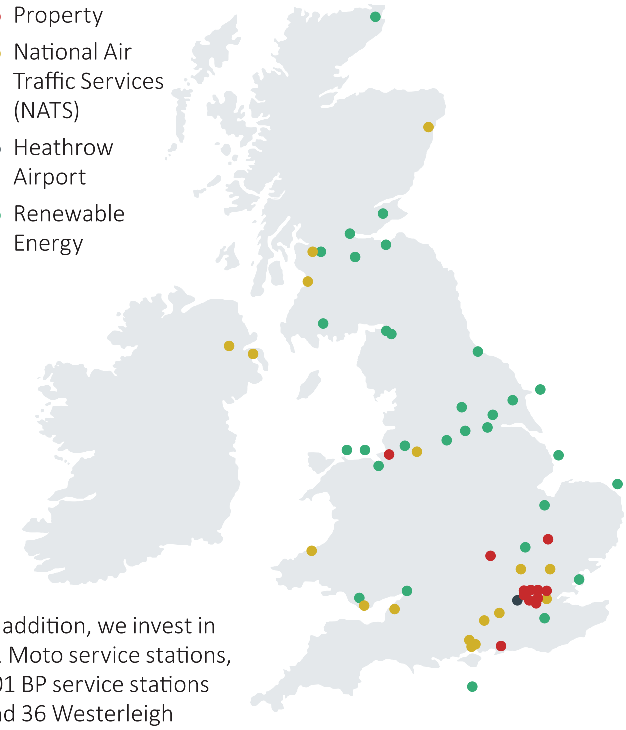
We invest our diversified portfolio in the UK and globally. Our global Retirement Income Builder investments of £88.9bn are deployed across three main categories:

71.0%
Return seeking assets

56.4%
Liability matching assets

(27.4%)
Net leverage

Our major private market investments across the UK include:



In addition, we invest in 61 Moto service stations, 201 BP service stations and 36 Westerleigh (crematoria) locations.

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.

For more information see page 4

Our pensions scheme assets

Retirement Income Builder
(defined benefit)

£88.9bn
in assets and c. 500,000 members

Investment Builder
(defined contribution)

£1.9bn
in assets and c. 97,000 of our total members

Stakeholders

Members feel financially more secure

We are committed to providing our members with the right retirement savings options, investing well on their behalf, and helping 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 Investments teams in the UK pension sector. We use our influence to encourage positive change.

For more information see page 20

Chair's introduction

Managing a scheme as big and complex as USS, on which so many people rely, brings many challenges. We have to ensure we rise to them and achieve good outcomes and value for money for our members.

Dame Kate Barker
Chair of the Trustee Board

2020 valuation

We know the value members place on 'guaranteed' pension outcomes and that any reduction in future benefits is very unwelcome.

As the cost of providing a guaranteed pension with inflation protection has risen over many years it has put pressure on schemes, even where, like USS, investments have performed well.

In response to the funding challenges identified by the latest scheme valuation, and following extensive deliberations supported by USS, the Joint Negotiating Committee (JNC) recommended changes to the benefits offered to members in future. These changes came into effect from 1 April 2022.

"With the 2020 valuation behind us, we must look forward. We are working with UUK and UCU as they consider some important programmes of work over the next year."

Over the past year, we have wrestled with significant issues and difficult decisions. There have been robust exchanges – with our stakeholders and with our principal regulator. Some significant differences of opinion remain. This is probably inevitable given the wider economic context, the pressures in the Higher Education sector, and the importance of USS.

Supported by valuable commitments from our sponsors – including a minimum 20-year rolling moratorium on employers exiting without USS consent – the scheme continues to be among the few UK private defined benefit (DB) schemes still open to new members and future accrual.

While benefits earned prior to 1 April 2022 remain secure and unchanged, changes to benefits offered since then have put the scheme on an affordable and more stable footing.

These changes include reducing both the salary threshold up to which DB pension can be accrued and the rate at which such pension promises build up, while amounts paid into defined contribution (DC) accounts increase as a result of the reduced salary threshold.

We have focused on explaining the detail of the changes for members and supporting those who are new to the Investment Builder, including providing them with more online functionality such as new self-service tools. In doing so, we hope to demonstrate the value that a high quality DC benefit can offer while being supported by the security of the guaranteed DB pension of the Retirement Income Builder. You can read more on this on page 12 .

The funding issues identified through the 2020 valuation presented Universities UK (UUK) and University College Union (UCU), via the JNC, with major challenges.

Despite considerable efforts by all parties to try to reach agreement we again missed our statutory valuation deadline.

The time taken was, in part, due to work to implement the new 'Dual Discount Rate' method in the valuation (as recommended by UUK and UCU's Joint Expert Panel) and performing a review to check that the valuation's conclusions, reached after including an allowance for the difficult conditions at March 2020, remained reasonable in retrospect.

Our hope is that conditions improve over time, sufficient to allow more positive valuations in future. For the first time in some years, recent data indicate we could be on track to achieving a more robust funding position, albeit current contribution levels could still not have been maintained without the benefit changes as unwelcome as they were.

The global economy is facing issues on multiple fronts: living with COVID-19, rising inflation, climate change, and the consequences of the invasion of Ukraine.

Reflecting this, in consultation with participating employers, we have set an investment strategy that looks to strike the right balance between delivering growth and mitigating risk. You can read more on this on page 20.

As well as delivering strong results, our in-house investment team has completed some vital work on the scheme's response to climate change, repositioning key funds to help deliver our important Net Zero ambition. The Trustee Board is strongly committed to the Net Zero target and is engaged with all aspects of Responsible Investment. You can read more on this on page 24. Our latest Task Force on Climate-related Financial Disclosures report will be published alongside this report.

There have been a number of movements on the Trustee Board.

Dr Kevin Carter's term came to end in August, followed by that of Rene Poisson at the end of October – both having served USS for nearly a decade. Ian Maybury departed in December, having served for eight years.

All three made huge personal contributions to the scheme through several valuation cycles and during a period marked by increasing regulation and a global pandemic.

I want to offer my sincere thanks to them for their unfailing commitment and strong contributions.

In turn, we welcomed three new directors.

Marian D'Auria brings 20 years' experience of advising pension trustees and corporate clients, in both the public and private sectors. She is a Fellow of the Institute & Faculty of Actuaries and has served two terms on their governing Council, as well as sitting on their Management Board.

Ellen Kelleher has spent her career in the pensions industry and is currently Chief Pensions Officer at Trafalgar House Pension Trust. She spent five years at HSBC as Chief Operating Officer of the HSBC Pension Trust (UK) Limited and 22 years with PwC where she set up the PwC consultancy practice advising on pensions administration and systems, operational effectiveness and governance.

Alain Kerneis is an investment and governance specialist with more than 20 years' experience in managing portfolios on behalf of pension schemes. He was formerly Co-head of Investments for BlackRock's Client Portfolio Solutions. Before BlackRock, he spent 14 years at Goldman Sachs in senior roles in asset management and investment research.

Recent high turnover on the board risks losing some institutional memory, but this is balanced by the arrival of capable individuals with fresh thinking.

I am also pleased that a third of the board are women, although we have further to go on other aspects of diversity.

On behalf of the Trustee Board I also want to thank Virginia Holmes. Virginia retired as Chair of the USS Investment Management Board in August last year after eight years in post (and after 16 years' service in total – having first joined the Trustee Board in 2005). Sarah Bates took up the role on 1 September 2021, having served on the Investment Committee since 2013.

98%
Funding Ratio (Technical Provisions method) as at 31 March 2022

7.8%
Retirement Income Builder five year annualised return

With the 2020 valuation behind us, we must look forward. We are working with UUK and UCU as they consider some important programmes of work over the next year. These include exploring lower cost options, considering different benefit structures (such as conditional indexation), and reviewing the scheme's governance arrangements with stakeholders.

These are important initiatives to improve the resilience of the scheme and support a wider range of the academic community we serve.

As we turn the page on a difficult chapter in the scheme's history, we continue to focus on the ways USS can evolve and maintain its position as one of the best private pension offerings in the country.

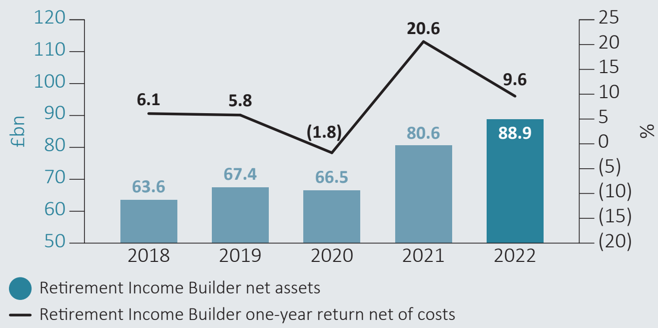
Dame Kate Barker
Chair of the Trustee Board

Performance overview

The following data and comparatives for the year ended 31 March 2022 provides a performance overview for indicators linked to our strategy.

Retirement Income Builder assets

£88.9bn net investment in public & private markets



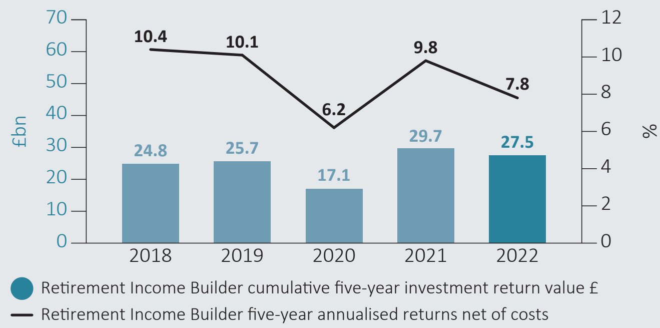
Overview

Retirement Income Builder assets have increased in the year by £8.3bn as a result of £7.8bn investment return and £0.5m net inflow from dealings with members.

For further information see Investment matters section on page 22 for more on Retirement Income Builder performance.

Retirement Income Builder return

7.8% five-year annualised return (net of costs)



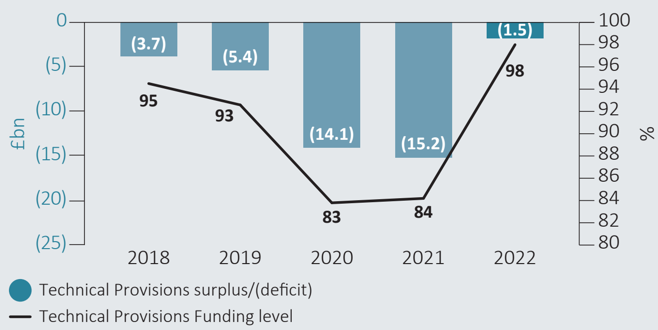
Overview

Retirement Income Builder (defined benefits/DB) assets have delivered a strong performance.

For further information see Investment matters section on page 22 for more on Retirement Income Builder investment performance.

Funding ratio

98% Funding ratio (Technical Provisions method)



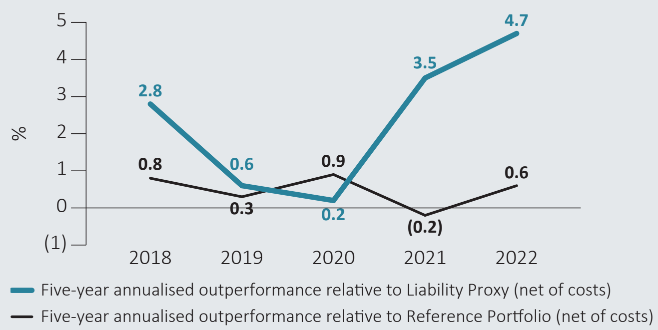
Overview

The funding ratio compares the Retirement Income Builder's assets with the actuarial liabilities (using the 2020 valuation monitoring basis for 2021 and 2022 and the 2018 valuation monitoring basis for 2019).

For further information see Report on Actuarial liabilities section on page 26 for more on the funding ratio.

Retirement Income Builder relative performance

0.6% outperformance relative to Reference Portfolio (net of costs)



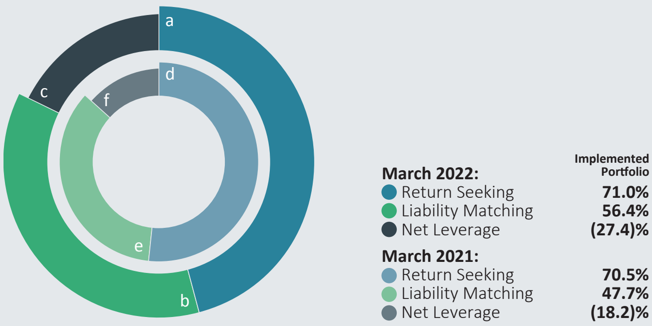
Overview

Retirement Income Builder (defined benefits/DB) assets have delivered a strong outperformance relative to both the Reference Portfolio and Liability Proxy.

For further information see Investment matters section on page 22 for more on Retirement Income Builder performance.

Asset allocation

£8.3bn increase in net assets



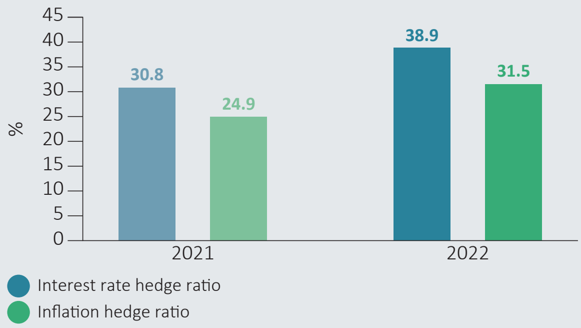
Overview

Additional hedging of the inflation and interest rate risks associated with the liabilities and retention of the same level of return-seeking assets has been achieved during the year through increasing the leverage in the portfolio within manageable bounds.

For further information see Investment matters section on page 22 for more on asset allocation.

Hedge ratios

8.1%/6.6% point increase in interest rate/inflation hedge ratios respectively



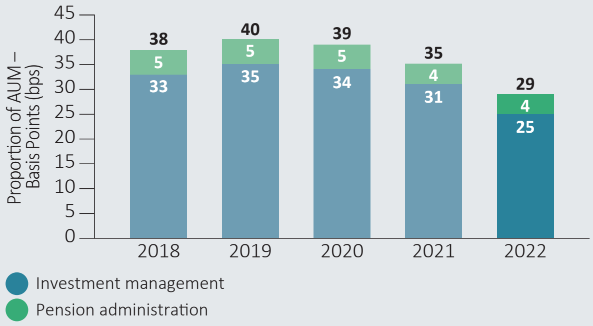
Overview

Interest rate and inflation risks are the most significant financial risks to the scheme's liabilities and funding ratio. USS has increased hedging assets to reduce the impact of these risks in the future.

For further information see Investment matters section on page 20 for more on the hedge ratios.

Scheme management cost ratios

29 basis points



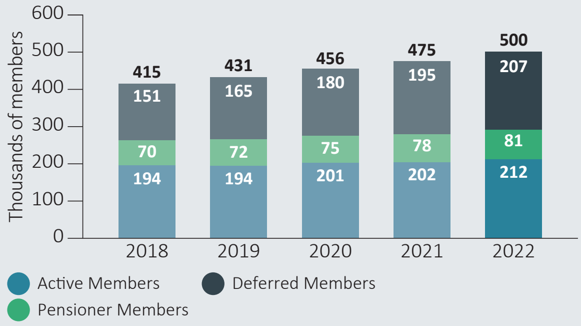
Overview

Total scheme costs, expressed as a proportion of scheme assets, have fallen over the last four years. The costs are calculated on a basis consistent with that used by CEM Benchmarking. USS was 11 basis points lower than the peer benchmark in the most recent survey (2020), which is the equivalent of an £83m p.a. saving.

For further information see CFO Update section on page 54 for more on how we manage our costs.

Members

500,000 members



Overview

Member numbers have increased by an annualised growth rate of 4.8% p.a. since 2018.

For further information see Member services section on page 12 for more on our members.

Group Chief Executive Officer's overview of performance

In a year shaped by the aftermath of a pandemic, inflationary pressure and armed conflict in Europe, we have retained our focus on delivering the best possible outcomes for our members and for participating employers.

Bill Galvin
Group Chief Executive Officer

"The team at USS, so many of whom are members, fully appreciate the value of 'guaranteed' pension benefits, and that any reduction in this part of the pension promise is unwelcome."

Across investments, administration, scheme funding, member support and employer engagement, important steps have been taken over the year.

The biggest step was completing the 2020 valuation. Supported by the important and valuable commitments employers have made to the scheme's covenant, the valuation puts USS on a stronger footing for the future when open private DB schemes are increasingly rare; USS membership accounts for a fifth of the people in the UK who are actively paying into a private DB pension.

The team at USS, so many of whom are members, fully appreciate the value of 'guaranteed' pension benefits, and that any reduction in this part of the pension promise is unwelcome.

We are keenly aware of the difficulties created for our stakeholders by the conclusions of the 2020 valuation. The complex and lengthy analysis underpinning the valuation – covered extensively on our website – confirmed that the cost of the previous benefit structure had risen. Other HE sector DB schemes recently reached similar conclusions following their own reviews.

In fact, The Pensions Regulator's view was the appropriate contributions level "should be at least 1% to 2% of salaries higher" than the rate we set for the new benefits first proposed in September by the Joint Negotiating Committee (JNC).

The revisions to benefits subsequently recommended by the JNC in February (implemented from 1 April 2022) allied with the covenant support measures, put the scheme in a more robust position. More information on these changes is included in the Report on actuarial liabilities (see pages 26 to 31).

Key economic indicators are changing quite fundamentally, as markets come to terms with the prospect of significantly higher inflation, and maybe for longer than policymakers have anticipated. Perhaps counterintuitively, falling asset prices (if accompanied by rising long term expectations for returns) can be helpful to our assessment of the cost of future accrual in the scheme. We are looking very carefully at the options that may be open to us if these conditions persist.

Our Pensions team is fully focused on helping members and employers through the changes arising from the valuation which include a material increase in members building up pension savings in the Investment Builder. As part of a major ongoing member communications campaign, around 9,000 members registered for webinars in March explaining the overall scheme changes.

Similar numbers registered for sessions that looked at how the Investment Builder works, and decisions members who are new to such defined contribution (DC) arrangements might take. These sessions reinforced the value that a high quality DC pension offering can deliver in tandem with the security provided by the Retirement Income Builder.

Prior to this we unveiled an innovative guidance, advice and flexibilities offer featuring free guidance calls for over-50s, a rolling guidance webinar series for members at different points on their respective journeys to retirement, bespoke online decision support, and signposting to financial advice services.

Members who want to keep their DC pot invested and withdraw income from it can now transfer their funds directly into a LifeSight flexible income drawdown account – a product not available on the open market. We also provided access to the guided annuity service offered by HUB Financial Solutions Limited which explains available annuity options and helps members search the market.

The impact of these efforts shows in some of the feedback from members and employers as set out on page 12.

While members' feedback on our service has been consistently positive, there is no escaping that the challenges and changes arising from the 2020 valuation have impacted members' satisfaction scores overall. We completely understand these sentiments, and in many ways share the same frustrations. We can only ask for members' understanding as we seek to make the very difficult judgments that should ensure pension promises are secure and can safely be paid in almost all potential futures, without threat to the financial stability of the institutions that ultimately stand behind the promises.

Looking to the scheme's investments, the valuation changes – including the enhanced covenant support from employers – have enabled us to maintain relatively more return-seeking growth assets, such as equities, for longer than we had previously planned. This, we believe, will deliver the returns needed to pay members' promised pensions long into the future.

And, as also explained in Investment Matters (see page 20), by gradually increasing our leverage to hedge more of our interest and inflation related risks, we hope to see less volatility in the funding position from valuation to valuation – again, helping to support our levels of return-seeking assets.

When carrying out the valuation, we made specific allowance for asset value recovery as the pandemic risks receded – though we could not be certain of the horizon or the trajectory of that recovery. Indeed, performance of both the Retirement Income Builder and Investment Builder assets over 2021/22 was strong, helped even more by the scheme's investments outperforming rebounding benchmarks.

The DB investments (£88.9bn) delivered a return of 9.55% during the year, outperforming the benchmark by 2% in the year and by 0.6% p.a. over the five years to 31 March 2022 (both net of costs). The latter amounts to £2.3bn of value added by our in-house team at USS Investment Management (USSIM). At 31 March 2022, around 97,000 members had total DC savings of £1.9bn.

As is set out so comprehensively in our latest Stewardship Code Report[1], we take a holistic approach to assessing performance. That's why, as set out briefly in the Investment Matters section of this report, we will in future report performance using a balanced scorecard. A key element of the scorecard measures how we deliver against our commitment to responsible investment. There have been some key developments in this area over the past year, not least in respect of our long-standing position on the critical issue of climate change; in 2021, we announced our ambition to be Net Zero for carbon generated by our investments by 2050 (if not before).

Then, in January this year, we introduced a climate 'tilt' to £5bn worth of Global Developed Markets Equity assets in the defined benefit and defined contribution funds. In February, we set out our interim Net Zero targets, including tasking our in-house investment team in USSIM to work with the companies in our investment portfolio to cut emissions related to our investments by 25% by 2025 and by 50% by 2030 (relative to the 2019 baseline).

On the same theme, our latest Task Force on Climate-related Financial Disclosures (TCFD) report[2] has been published alongside this report. The TCFD is an industry-led group which helps investors understand their financial exposure to climate risk. We have voluntarily reported in line with the TCFD recommendations since 2018, but this year will be our first report under the new statutory requirements announced in November 2020.

Our focus on climate change, as with all our decisions, reflects the scheme's fundamental purpose: to work with Higher Education employers to build a secure financial future for our members and their families.

Performing the valuation, delivering our new investment strategy and maintaining our high service levels for members in a period of rising prices and very competitive staffing markets put even more pressure on the cost of managing the scheme and its investments. This year we have published a Value for Money Supplement[3] specifically to help stakeholders gain a better insight into how we focus on delivering value for money. The CFO section of this report, on page 54, also provides cost performance commentary.

The vast majority of our costs are incurred in managing the scheme's investments (either as part of the scheme expenses or deducted by external managers from asset returns). As is evidenced in the supporting information referenced above, our long-term decision to build up the capability of the USSIM team, as opposed to outsourcing to relatively more expensive third parties, continues to deliver good outcomes. Despite the corresponding increase in headcount and staff costs (set out on pages 49 to 53), managing scheme investments 'in-house' where appropriate is demonstrably less expensive than paying the rates charged by commercial investment managers.

The latest independent analysis by CEM Benchmarking (for calendar year 2020) shows our cost advantage over peers increased further with annual investment management costs £101m lower than peer median on an equivalent basis.

The balance of our operating costs relates to pension processing, support services for members, and other important administration activities. The latter includes scheme governance – which covers the functions of the JNC as well as the trustee, full scheme valuations, and communications.

Our hybrid DB/DC multi-employer structure and other elements of our governance mean that we are more expensive than peers in this area albeit that it accounts for less than 20% of our costs and our approach delivers a service level to employers and members assessed as above peer average.

With investment management costs being by far the decisive factor in our total cost position, stakeholders can be satisfied that the scheme management represents good value for money overall. But we are always looking for further efficiencies, as explained in the value for money document mentioned above.

We will also give our full support and collaboration to our stakeholders with the work they are leading on: developing a low cost benefit option for members who may otherwise choose to opt out of pension saving, exploring alternative benefit structures (such as conditional indexation), and reviewing scheme governance. We are committed to working together with our stakeholders to deliver secure pensions and a high quality service to our members.

Bill Galvin
Group Chief Executive Officer

Notes

1 uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/uss-stewardship-code-report-2022.pdf
2 uss.co.uk/-/media/Project/USSMainSite/files/How-we-invest/TCFD-2022.pdf
3 uss.co.uk/-/media/Project/USSMainSite/Files/About-us/Report-and-Accounts/Value-for-money.pdf

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

Strategic priorities | **2021/22 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.

- Additional Contributions and Pension/Lump-Sum options modellers launched
- Provided signposting to a high-quality drawdown arrangement (LifeSight), a product not available on the open market
- Provided access to a guided annuity service (provided by HUB Financial Solutions Limited), giving members access to a wide range of annuity options
- Continued to evolve how we communicate with members, with more communication now going direct to members rather than through their employers
- A range of webinars are now available, along with access to guidance calls and signposting to advice calls to help our members make decisions about their retirement

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.

- Completed 2020 valuation
- Developed the Scheme Investment Framework
- Debt monitoring framework agreed and implemented
- Leverage increased from 18% at 31 March 2021 to 27% at 31 March 2022 to support hedge ratios which has enabled us to maintain relatively more return-seeking growth assets, such as equities, for longer than we had previously planned
- Private Markets Group deployed greater than £4bn capital in new investments while continuing to focus on responsible stewardship
- Established Net Zero for carbon interim targets which include cutting emissions related to our investments by 25% by 2025 and by 50% by 2030 (relative to the 2019 baseline)

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.

- In-housing of our Member Service Desk enabling a more joined up member experience and delivering a one call resolution rate of over 90%
- Completed the inaugural Master Trust Supervisory return and assurance report without qualification or material questions
- Pension Operations overall service level agreement (SLA) compliance of 97% on c. 183,000 transactions
- Completed 12 virtual training courses for employers with 99% of attendees finding the courses useful
- 'Speed-read' version of annual member statement (AMS) launched and a digital AMS pilot sent to c. 50,000 members
- Launched and ran our first Internship programme with recruitment supported by the 100 Black Intern programme and SEO London with a focus on social mobility
- Launched new hybrid working culture and collaborative workspaces enabling consolidation of office footprint and savings of c. £2m over the lease period

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 34.

Key performance indicators	2021/22 Result	2021/22 Target	2020/21 Result	2020/21 Target	Description
Employer positive relationship	**92%**	***85%***	88%	*80%*	Based on 2022 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.
Member communications overall rating	**38%**	***46%***	44%	*50%*	Based on the 2022 member perceptions survey, the percentage of respondents answering 'good' or 'very good', when asked about the quality of USS communications. Further information can be found on pages 12 to 15.
My USS registrations	**57%**	***55%***	49%	*45%*	Proportion of active members[1] registered on My USS.
Annual Member Statement[2]	**99.96%**	***98.0%***	99.7%	*98.0%*	The percentage of active members who received an Annual Member Statement (62% rated the statement as being useful). Further information can be found on page 12.
Investment outperformance (rolling five year)	**0.62%**	***0.55%***	(0.24)%	*0.55%*	Comparison of actual annualised five-year performance to 31 March 2022 relative to that of the Reference Portfolio (net of costs). Further information on the drivers of the annualised five-year outperformance 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 22.
Pension administration cost per member[3]	**£70**	***£74***	£69	*£69*	The pension administration cost per member calculated for the financial year on a CEM Benchmarking basis. Further information can be found on page 7.
Investment management cost[3]	**25bps**	***27bps***	31bps	*28bps*	Investment management cost in basis points (bps) as a proportion of average assets under management. Further information can be found on page 7.
% of internal audit findings remediated[4]	**92%**	***100%***	97%	*100%*	Percentage of significant audit findings remediated within the agreed time frame.
% of material breaches remediated	**100%**	***100%***	100%	*100%*	Percentage of material breaches remediated within the agreed time frame.
Employee engagement	**7.6/10**	***7.5/10***	7.9/10	*7.4/10*	Based on 2022 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.

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 expenses 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 total assets under management.

4 The 8% internal audit findings not remediated within the agreed timeframe relates to the remediation of two medium priority audit findings that missed their original implementation date during the year as a result of delays in the delivery of third party actions.

Member services

Targeted engagement and enhanced support offerings have enabled our members to make more informed retirement decisions.

Ensuring members feel financially more secure, supported and engaged is at the heart of our delivery and development of member services. Whether joining the scheme, making financial decisions for the future or choosing which retirement options suit members' needs best, we want to ensure the experience is uncomplicated and dependable.

We know that the difficult 2020 valuation process created uncertainty for members and that its outcome and subsequent changes to future benefits have been unwelcome news. This is understandably reflected in overall member satisfaction scores. 17% now rate their relationship with USS as good, while 30% gave an average rating and 42% report a negative relationship. (The remaining 11% were passive.) While we understand the challenging backdrop, having the trust and confidence of our members is very important. We are working with the scheme's stakeholders on a number of areas that could improve USS for members, including considering lower cost options, conditional indexation and scheme governance reform.

In contrast to the scores above, where members have had direct interactions with the scheme, we have been pleased to see continued improvements in their satisfaction with the service they received:

- 84% of members rated their overall satisfaction with the retirement quote process as good or very good
- 74% of new members were satisfied with the joining process
- 89% of members attending our webinars reported an improved understanding of scheme changes

All service level targets were met throughout the year, despite the challenges of increased demand and the continued backdrop of the pandemic. We measure our performance against these and other key performance indicators (KPIs), including the overall relationship, digital experience, and rating of key communications.

Some areas of improved member service during 2021/22 include:

- Key service performance measures were maintained in our new hybrid working arrangement, with our pension operations team achieving 97% (an increase of 3% from last year) relative to our internal stretch targets, and as last year, achieved 100% relative to statutory targets
- Helping members improve their understanding of the valuation outcome, the impact of scheme changes and how it will impact their benefits
- Supporting members to make informed choices through the launch of two new modelling tools
- Introducing new options for members to access their Investment Builder savings
- Rolling out a speed-read version of the Annual Member Statement (AMS) to all active members and introducing an online version to c. 50,000 members
- Personalising our approach to our direct communications with members rather than through their employers

In 2022/23, we will continue to focus on improving our member experience by:

- Supporting members through the implementation of the new benefit changes
- Consulting with our Member Voice panel to inform our approach to engaging members
- Developing our modelling and guidance tools to help members plan for their future

84%
of members rated their overall satisfaction with the retirement quote process as good or very good

89%
of members attending our webinars reported an improved understanding of scheme changes

97%
KPIs delivered relative to internal stretch targets

- Expanding the range and functionality of online services on the My USS portal
- Continued improvements to new joiner process
- Further improving and enhancing direct member communications, so we can provide timely and personalised communications and therefore drive engagement and understanding
- Reviewing our pensions platform to ensure it can support the evolution of the scheme over the long term
- Delivering efficiency and effectiveness training to our pension operations team so as to improve member service still further

Member Service

A high level of engagement from our members this year saw an 8% increase in member interactions with the scheme, from general enquiries through to retirement quotations. We also saw an increase in contact from our members by phone, our Member Service Team dealing with 44,000 calls, an 18% increase from the previous year.

Against this backdrop, all retirement and death benefit payments were settled on time and the team returned positive KPI results which were backed up by positive member feedback. People and processes were in place in readiness for the 1 April 2022 scheme changes.

We have taken steps to increase our member feedback survey frequency this year. We now check in with sub-groups of the membership on a quarterly basis, rather than annually, allowing a faster response to any issues.

74% of members joining the scheme this year were satisfied with the experience, and 84% of members retiring from the scheme were likewise positive about the quality of service they received.

Member Communications

Our communications strategy aims to engage and educate our members about their benefits and options, to ensure they are confident in making decisions to get the best possible retirement outcome.

The speed-read AMS – which provides members with an easily digestible benefit summary – was rolled out to all active members following the success of last year's expanded pilot. In addition, we piloted a digital version of the statement which was sent to around 50,000 members where they were able to download their statement from our member portal My USS.

Our Direct to Member initiative has enabled us to better personalise our communications and slowly shift our traditional paper mailings online. This has increased the scope of members who we engage with digitally via our email communications and driven a greater use of our website and My USS. During 2022/23 we intend to implement a segmentation approach to enable the delivery of the right message, to the right member, at the right time.

We produced a range of tailored content to help our members get to grips with changes implemented on 1 April 2022 covering the impact these changes have on their benefits, and any action they might need to take as a result. To support this, we created videos to boost understanding of how the Retirement Income Builder and Investment Builder work. We also ran a webinar that provided an overview of the scheme changes and another that gave a back to basics look at the Investment Builder. These webinars were attended by just over 14,000 members and 89% reported an improvement in their understanding in post-webinar survey results.

In addition, to improve general understanding, we launched both a podcast as well as new web pages that explain how a hybrid scheme works.

Digital service

It has been a successful year with strong consolidation and further refinement of the digital platform.

During the year, an average of almost 25,000 different members have accessed the portal each month, 25% more than the year before. Feedback on the website continues to be positive.

Member insights and industry best practice has informed our roadmap of digital enhancements, to ensure we meet the high expectations members hold for these services. During 2021/22 we focused on supporting members to make informed choices, through the implementation of a revised additional contributions modeller and benefits conversion modeller. In 2022/23, we will be launching additional modelling tools (a new cost of contributions modeller and benefits modeller) and digitising the new joiner process.

Ensuring the site is accessible for all users is important to us, and during 2021/22 our work with the Royal National Institute of Blind People led to enhancements in order to better support the needs of all members.

57%

Active members[1] registered for My USS

70%

Pensioner members[2] registered for My USS

31%

Deferred members[3] registered for My USS

Notes

1 A member who is paying in contributions to USS.
2 A retired member.
3 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.

Member support options

Our programme of webinars is designed to provide useful information to all members, particularly those approaching retirement. Member satisfaction has been excellent and most members find the webinars relevant and easy to understand.

Members can also choose to have a guidance call with a pension professional to discuss the retirement options available to them, both through USS and externally. The guidance calls have been well-received, with 91% of members being either satisfied or very satisfied. Decision-making confidence was also improved; 90% of members confirmed increased confidence, and 36% ended the call feeling very confident.

In September 2021 we began signposting members to a flexi-access drawdown arrangement and a guided annuity service. These options compliment the broader support we provide to members when taking their USS benefits, which we'll continue to evolve as members' needs change.

Membership numbers

The tables below analyse movements in the membership of the scheme during the year:

Active members	University institutions	Non-university institutions	Total
Active members as at 1 April 2021 as reported	197,368	6,627	203,995
Restatement of active members[1]	(1,889)	(41)	(1,930)
Active members as at 1 April 2021 as restated	**195,479**	**6,586**	**202,065**
New members	33,549	1,119	34,668
Rejoiners	8,461	142	8,603
Sub-total	**237,489**	**7,847**	**245,336**
Leavers and exits during the year			
- Retirements	(2,240)	(62)	(2,302)
- Retirements through incapacity	(76)	(2)	(78)
- Deaths in service	(110)	(5)	(115)
- Refunds	(507)	(60)	(567)
- Deferrals	(23,431)	(893)	(24,324)
- Retrospective withdrawal[2]	(5,458)	(186)	(5,644)
Sub-total	**(31,822)**	**(1,208)**	**(33,030)**
Active members as at 31 March 2022[3]	**205,667**	**6,639**	**212,306**

Photograph taken by Professor Max Crispin, University of Southampton

Deferred members

Deferred members	University institutions	Non-university institutions	Total
Deferred members as at 1 April 2021 as reported	185,725	8,319	194,044
Restatement of deferred members[1]	845	6	851
Deferred members as at 1 April 2021 as restated	**186,570**	**8,325**	**194,895**
New deferrals	23,431	893	24,324
Sub-total	**210,001**	**9,218**	**219,219**
Leavers during the year resulting from:			
- Rejoiners	(8,461)	(142)	(8,603)
- Transfers	(1,068)	(50)	(1,118)
- Retirements	(2,069)	(123)	(2,192)
- Deaths in deferment	(101)	(4)	(105)
Sub-total	**(11,699)**	**(319)**	**(12,018)**
Deferred members as at 31 March 2022	**198,302**	**8,899**	**207,201**

Pensioner members

Pensioner members	University institutions	Non-university institutions	Total
Pensioner members as at 1 April 2021 as reported	74,864	3,099	77,963
Restatement of pensioner members[1]	449	22	472
Pensioner members as at 1 April 2021 as restated	**75,313**	**3,121**	**78,434**
New pensioners in year resulting from:			
- Retirement of active members	2,316	64	2,380
- Retirement of deferred members	2,069	123	2,192
Sub-total	**79,698**	**3,308**	**83,006**
Rejoiners / Other movements	(215)	(15)	(230)
Deaths in retirement	(1,648)	(51)	(1,699)
Pensioner members as at 31 March 2022[4]	**77,835**	**3,242**	**81,077**

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 5,644 employees of participating employers who were eligible to join the scheme but elected not to do so, which equates to 13%. This represents an increase of 1,824 from approximately 3,820 in the prior financial year.
3 Included in the active member numbers are 78,939 active members in the Investment Builder as at 31 March 2022.
4 At 31 March 2022, there are an additional 15,528 pensions paid in respect of the service of another person (e.g. to a surviving spouse or dependant).

Employer services

Through effective collaboration with employers, we continue to refine and improve our service model to ensure it remains valued and continues to meet their changing needs and priorities.

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 (IAP).
We also collaborate with employer focus groups and IAP sub-groups on specific initiatives to ensure employers' views are represented, and their needs are fully understood and accommodated.

We continued to work with employers in response to the ongoing challenges brought about by COVID-19. This allowed us to assess impacts on working arrangements, understand employers' challenges, and adapt our support model to maintain service levels.

We also engaged with employers throughout a very challenging valuation process and are grateful for their support and efforts in bringing this to a conclusion.

Employer perceptions
We perform an employer perception survey annually to better understand how employers view their interactions with us and our relationship. We use the survey to determine a relationship satisfaction score and other metrics which are closely monitored to ensure they remain appropriate and drive the right actions to improve the employers' experience.

In the latest survey, 92% of employers who responded rated their overall relationship with USS as 'good' or 'very good' (2020/21: 88%).

"Very responsive to queries, always very helpful and go out of their way to assist"

Employer perception survey

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.

As part of our formal training programme, 12 virtual courses were delivered to 169 delegates, with 99% agreeing that the courses met their intended goals and would be useful in their day-to-day work. In addition, during the year we introduced 23 new online training videos which received more than 5,300 views. Employer awareness of available support is high, with 85% of employers stating they are clear on the nature and content of the training offered by USS.

Our annual attestation framework continues to provide employers with greater clarity on how the scheme works, a better understanding of their key responsibilities under the scheme and has assisted them in managing their participation more efficiently. As part of this year's exercise, 96% of employers provided confirmation that they fully understood their key responsibilities and were complying with them.

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, over 97% of employers consistently achieved their processing targets in key areas, such as processing contributions. We work hard to help them achieve this; employers' rating of the overall quality of support we provide increased with 91% rating it as 'good' or 'very good' (2020/21: 87%).

92%
of employers rate their overall relationship with USS as 'good' or 'very good'

91%
of employers rate the overall quality of support we provide as 'good' or 'very good'

85%
of employers rate the way in which we communicate with them as 'good' or 'very good'

"Good range of training materials available to choose from such as webinars, training videos and monthly newsletters"

Employer perception survey

Employer focus

Further enhancements to our processes and procedures have contributed to an increase in employers' rating of these with 72% now rating the clarity of our processes as 'good' or 'very good' (2020/21: 65%).

We continue to take steps to reduce the administrative burden on employers by moving to a more direct and digitised service for members. This is reflected in a reduction in the percentage (51% to 43%) of employers who feel that working with USS takes more effort than with other schemes they work with.

Employer communications

Employers want timely, targeted and streamlined communications. Therefore, alongside a monthly communication issued to all employers, we 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 implementation and impacts of the contribution and benefit changes following the 2020 valuation.

We continually review and assess the way in which we communicate with employers and work with the employer focus group to ensure that the look, feel and content of our key employer communications and online Employer Portal remain fit for purpose. This has allowed us to maintain a very high rating in relation to our overall performance in how we communicate with employers, with 85% of employers rating this as 'good' or 'very good' (2020/21: 86%). The percentage of employers that rated the overall quality of the online Employer Portal as 'good' or 'very good' remains unchanged at 80%, although we did record a 7% increase in the percentage of employers that rated the reliability of the online Employer Portal as 'good' or 'very good'.

"Communication is excellent, everyone I've spoken to is knowledgeable, friendly and, if they can't help, always pass me over to the right team. Everyone seems happy and proud to work for USS"

Employer perception survey

Looking ahead

Building on our success this year, in 2022/23, we will:

- Support employers with the implementation and impacts of the benefit changes approved as part of the 2020 valuation
- 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 via our channel shift programme
- 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 segmentation and effectiveness

Drones are used by universities in their scientific research into offshore renewable energy sources

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.

Achievements this year

Senior appointments

Three internal promotions to the Group Executive

Health and well-being

Mental health training delivered to all line managers

Diversity and Inclusion

Launched social mobility focussed intern programme working with 100 Black Interns and SEO London

Upskilling management

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

Hybrid working framework

Framework launched to recognise the changed working environment post COVID-19

USS engagement survey

69% of staff participated:

7.6/10

Overall engagement

8.1/10

"People from all backgrounds are treated fairly at USS."

8.6/10

"I understand how my work supports the team's goals."

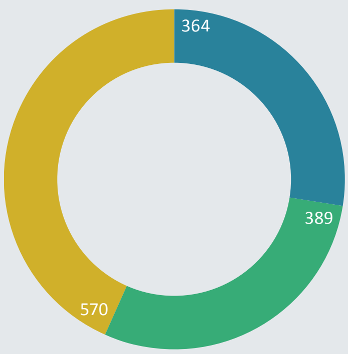
Mandatory e-learning completion rates

100%

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

Total training course attendees

1,323 **(up 61%)**



People priorities

- Management capability
- Health and well-being of our employees
- Senior leadership succession planning
- Hybrid working framework launch
- Diversity and Inclusion progress

Against the backdrop of the changing landscape due to 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 well-being and positive motivation of our employees is a top priority. We launched a hybrid working framework which looks to balance the delivery requirements of USS with the work/life balance needs of our employees. This initiative also feeds into our Diversity and Inclusion strategy by recognising that attraction and retention of employees require increasingly flexible working arrangements.

At the same time, we focused on helping our managers better understand and lead their teams and the wider organisation more effectively, as they returned to the office and implemented hybrid working.

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 leadership teams 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 also 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 continued to adapt our resourcing approach to a blended recruitment model as a result of the COVID-19 pandemic and related lockdowns to ensure there was no disruption to the business. New hires were successfully recruited, onboarded and inducted 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 hybrid or, at times, a fully remote working environment.

USS employee engagement

Despite a difficult operating backdrop over the past year due to the pandemic, our employee engagement scores have generally held up well.

Participation levels in our annual engagement survey were at 69% which was a small drop from previous years. Given how fluid the working situation was, we instigated quarterly pulse surveys to help monitor specific engagement areas such as hybrid working and well-being. The overall engagement score was 7.6/10 which is at the industry benchmark. Scores relating to our key areas of focus showed significant increases this year particularly in environment, autonomy and workload. 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).

Culture and Values

The Human Resources and Risk teams have jointly designed a USS Culture Framework to ensure robust and ongoing support and monitoring of our culture and values. It considers industry leading practice but will be a bespoke framework for USS.

Measurement will be ongoing and is internally reported annually in October.

"Employees are adapting well to the new hybrid working framework and I am pleased to see the positive impact it is having on our colleagues' work-life balance."

Victoria Timlin
Chief Operating Officer, USSIM

Diversity and Inclusion

We are committed to continually promoting diversity in all its forms at USS, and our Diversity and Inclusion programme supports this goal. We are actively making 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.

We collaborate across the organisation and the work is endorsed and supported by senior executives, our volunteer Diversity and Inclusion (D&I) Champions and the HR team.

There are deliverables at several stages from recruitment and onboarding of new staff, to retention, development and progression of existing staff. Some examples during the past year include an emphasis on education and awareness for all staff and leaders on leading inclusively, building trust and understanding difference.

We celebrated events such as National Inclusion week and Black History month. Work has commenced on the creation of a Gender Network to encourage gender balance across the organisation.

We launched a trial of anonymised CVs in our recruitment process, demonstrating our commitment to fair, inclusive and objective candidate selection.

In summer 2021, we ran our first Internship programme, with interns joining us from a range of socio-economic and ethnic minority backgrounds. Recruitment was facilitated by both the 100 Black Interns programme and SEO London, which focused on social mobility. The programme was well received and, as such, we look to run our second Internship programme in summer 2022.

In addition to the significant gender balance progress we have seen on the Trustee Board over the past year (see Chair Report), recent appointments to the Group Executive Committee have increased female representation from 14% to 30%.

Investment matters

Our financial year was dominated by managing the ongoing impact of the pandemic, ensuring our decisions continued to be made for the long-term benefit of our members, and focusing more than ever on our responsibilities as a global investor.

Simon Pilcher
Chief Executive Officer of USSIM

"Our dedicated team of investment professionals have worked diligently to safeguard the scheme's assets, to ensure we can deliver the investment returns USS will need to pay pensions promised to our members – today and many decades into the future."

We live in a world that is full of surprises; sadly, not all of them are pleasant.

Just over two years ago, COVID-19 struck and turned our lives, as well as financial markets, upside down. Thanks to vaccines restoring a degree of normality and confidence, lockdowns ended, economies re-opened and markets recovered. However, this extreme volatility put pressure on global supply chains. Demand outpaced supply and inflation steadily started to rise.

And then, in February this year, Russia invaded Ukraine. Having already reduced our Russian investments in the lead up to the invasion, we placed a moratorium on new long positions taken in all Russian assets. The global consequences of Russia's actions are significant and have compounded the challenges, not least in terms of energy and food supplies, already faced following the pandemic.

Throughout this turbulence, our dedicated team of investment professionals have worked diligently to safeguard the scheme's assets, to ensure we can deliver the investment returns USS will need to pay pensions promised to our members – today and many decades into the future.

Over long timeframes, and across almost all scenarios, we expect investments in equities to deliver stronger returns than government bonds. But over the short and medium term this is far from certain. Given the size of our unhedged inflation-linked liabilities, the scheme is particularly sensitive to changes to interest rates or inflation in the future. These are bigger risk factors for us than, say, a large fall in equity or credit prices.

The scheme's balance between returns and risk is reviewed in detail at each full actuarial valuation and is regularly monitored by the Investment Committee. In our discussions during the 2020 valuation, employers and other stakeholders were clear that planned medium-term reductions to growth asset allocations should stop and existing levels (around 60%) should be maintained.

We have reflected on the views expressed by stakeholders and individual employers in relation to the scheme's associated investment strategy for the defined benefit element of the scheme. This aims to achieve a balance between generating returns and managing risks.

Supported by other changes arising from the valuation, our analysis showed this balance could be achieved, within risk appetite, through additional hedging of the liabilities' inflation and interest rate risks. This would, in turn, involve increasing the leverage in the portfolio within manageable bounds. Hence, we have gradually (and at opportune times) improved hedging of the scheme's liabilities over the year, while maintaining the exposure to investments (such as equities) which we expect to deliver stronger returns.

£2.3bn
Value added by our active investment strategy over five years

£348m
Equivalent saving compared to peer costs over five years

£28bn
of DB investments are in Property and other Private Markets

As a result our inflation hedge ratio increased by c. 7 percentage points and our interest rate hedge ratio by c. 8 percentage points. Recent inflation rises reinforce the benefit of this strategy to the stability of scheme funding.

To support this strategy, among other things, we are improving our ability to trade with a wider counterparty range and introducing a new framework for monitoring cash and collateral.

The scheme is also heavily exposed to private markets (we invest in property, private debt, infrastructure and private equity investments). As well as diversifying scheme assets, they have outperformed over time, as we believed they would, when compared to public market comparators.

When taken together, these and previous decisions have enabled the investment performance of the Retirement Income Builder to deliver an annualised return of 7.8% over a five-year period, outstripping both the liabilities (by 4.7% p.a.), and the Reference Portfolio (by 0.6% p.a.) and is now better positioned to withstand adverse environments than was the case previously.

While investment return and liability-hedging are clearly critical measures of performance, we recognise that how USSIM goes about managing the scheme's investments to achieve the right long-term outcomes is just as important. This is reflected in our dynamic response to events (such as the invasion of Ukraine), our responsible stewardship of the scheme's assets, and delivery on our Net Zero ambition (which will be critical in the long-term and is already influencing our approach). Some decisions may not pay off immediately but should generate value for the scheme over decades.

Such considerations and dynamics will be an important part of how our performance is assessed in future. Further information on our revised, more broadly based and balanced evaluation of performance is included in the Remuneration section on page 49.

Continuing the theme of long-term, strategic decisions, we have further developed our in-house Fixed Income and Treasury capability, creating a new asset backed securities team. This is another example of our developing in-house capabilities, which is demonstrably less expensive than paying commercial investment managers. The latest independent analysis by CEM Benchmarking (for the calendar year 2020) shows that our annual investment management costs were the equivalent of £101m lower than the global peer median. This is a long-term trend: over CEM's last five annual completed benchmarking reports, USS has been assessed as being 24% less expensive – equivalent to £348m cheaper.

We continue to focus on value for money; during the last 12 months we have brought back in-house a number of mandates, saving the scheme over £2 million each year. We explore in more detail the choices we have around managing the scheme's assets and how we factor value for money into those decisions here **uss.co.uk/-/media/Project/USSMainSite/Files/About-us/Report-and-Accounts/Value-for-money.pdf**.

Investments in long-term, stable, predictable, regulated and inflation-linked assets are key to fulfilling our primary duty to pay the pensions promised to members. It is for that reason we increased our stake in Thames Water, the country's largest water and wastewater company with 15 million customers in London and the South East. After purchasing an additional 8.8%, our holding now stands at close to 20%.

Thames Water has a strengthened board and executive leadership team under CEO Sarah Bentley. Sarah has commented that "discharges of untreated sewage are unacceptable, even when they are permitted" and the company is working hard to reduce these and increase the resilience of its sewerage network.

Looking Ahead

It is currently far from clear if the coming years and decades will be characterised by strong productivity growth and favourable financial market performance or structurally higher inflation, reduced international trade and weak growth. We must be prepared for a range of outcomes, even some that may initially look unlikely.

About the Retirement Income Builder

The Retirement Income Builder is the defined benefit (DB) element of the scheme. It promises members an income for life – to be paid regardless of what happens to the economy or Higher Education sector in future.

The Trustee Board set a Reference Portfolio which is an allocation across mainstream investment types consistent with the scheme's risk appetite. It is designed 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 are laid out on page 26.

USSIM was tasked with outperforming the Reference Portfolio, 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.

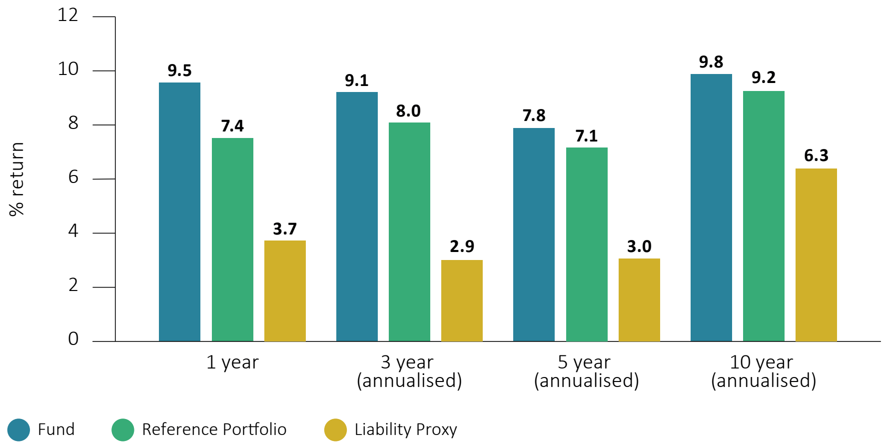
It does this across a broad range of public and private assets. The following table sets out the approximate distribution of the scheme's assets (Implemented Portfolio) as at 31 March 2022 and compares it with the Reference Portfolio.

As laid out earlier, following the 2020 valuation and consultations with stakeholders, we are working on revisions to our investment strategy and how we assess performance to align more closely with our pension liabilities' funding requirements. This will see us move away from a more singular focus on outperformance of a reference portfolio and towards a broader range of objectives aimed at delivering a more stable funding position for the scheme within our agreed return and risk parameters. The balanced scorecard used as part of our assessment of performance for compensation represents a step in this progression and further developments are underway.

Retirement Income Builder asset distribution[1]

	Implemented Portfolio %	Reference Portfolio %	Difference %
Listed Equities	37.80	54.00	(16.20)
Property	5.80	6.00	(0.20)
Other Private Markets	25.70	0.00	25.70
Commodities	0.80	0.00	0.80
Absolute Return	0.30	0.00	0.30
Nominal Government Bonds	7.00	0.00	7.00
Index Linked Bonds	38.80	39.00	(0.20)
Other Fixed Income	11.20	18.30	(7.10)
Net Leverage[2]	(27.40)	(17.30)	(10.10)
Total	**100.00**	**100.00**	**0.00**

Retirement Income Builder performance



Performance of the Retirement Income Builder

As laid out above, the 12-month period to 31 March 2022 saw continued recovery from the pandemic and ended with the early impact of the Ukraine conflict. As noted on page 20, our active investment strategy enabled us to respond swiftly to events.

Over the past five years, our asset allocation decisions have added around £2.3bn of value to Retirement Income Builder assets.

In the prior financial year, relative investment performance was affected by significant market swings, but we take a longer view given our investment decisions reflect our position as a long-term investor. Consistent with this, a large percentage of our investments are in privately held assets.

These kinds of 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.

Over five years to end March 2022 the scheme significantly outperformed the low-risk Liability Proxy (by 4.70% per annum) and delivered a solid outperformance compared to the Reference Portfolio (by 0.62% per annum). Over 10 years, the scheme has outperformed both the Liability Proxy and the Reference Portfolio and its predecessor benchmark.

Notes

1 The asset distribution presented in the table reflects the economic exposure of the scheme investments by asset class including that generated from derivative positions. It therefore differs from the categorisation of scheme investments included in the statement of net assets on page 63, which is determined by the applicable financial reporting standards and includes derivatives on a mark-to-market basis.

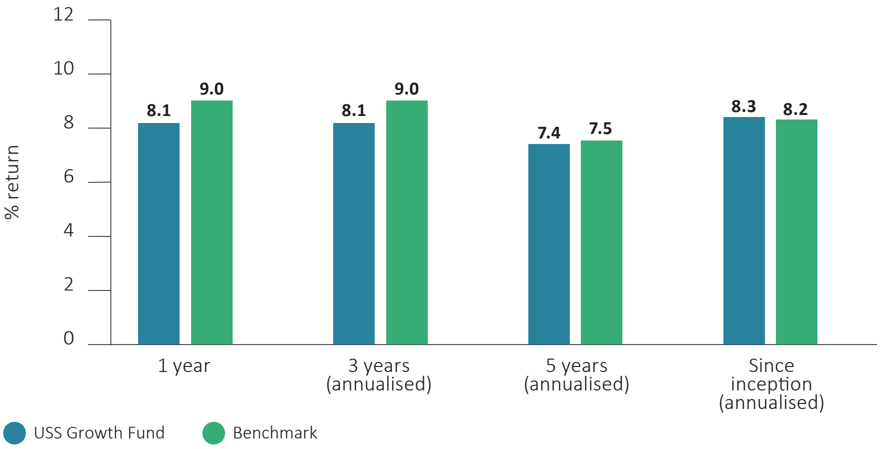
2 Leverage measures the degree to which total investment exposure exceeds the value of scheme net assets. Leverage is created by repurchase agreements and derivatives, including futures and swaps.

About the Investment Builder

The defined contribution (DC) 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, ethical equities, bonds, cash, and Sharia funds.

USS Growth Fund performance



Investment Builder performance	1 year %	Market comparator/ Benchmark %	(annualised) 5 year %	Market comparator/ Benchmark %
Growth Fund	8.1	9.0	7.4	7.5
Moderate Growth Fund	6.0	5.7	6.1	6.1
Cautious Growth Fund	2.9	2.4	4.8	4.6
Liquidity Fund	0.1	0.1	0.4	0.3
Global Equity Fund	12.5	12.4	11.2	10.7
Emerging Markets Equity Fund	(9.1)	(7.1)	6.0	5.2
UK Equity Fund	11.8	13.0	4.0	5.2
Ethical Equity Fund	10.7	15.4	14.2	11.7
Bond Fund	(4.4)	(4.1)	1.7	2.0
Sharia Fund	19.9	20.1	16.3	16.4
Ethical Growth Fund	7.4	9.0	10.3	9.1
Ethical Moderate Growth Fund	4.0	5.7	7.8	7.3
Ethical Cautious Growth Fund	1.8	2.4	5.9	5.6
Ethical Liquidity Fund	0.2	0.1	0.4	0.3

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 who are more than 10 years from normal retirement age and invested in the default strategy 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 default strategy 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 2022, the majority of DC assets were invested in the USS Growth Fund (£953m).

Performance of the Investment Builder

Similar to the Retirement Income Builder, returns for the Investment Builder funds over the 12 months to 31 March 2022 were buoyed by the performance of rebounding equity markets following the pandemic. The funds underpinning the default strategy (comprising the USS Growth Fund, USS Moderate Growth Fund, and USS Cautious Growth Fund) delivered absolute returns between 2.9% to 8.1% over the past 12 months and continue to deliver on their respective objectives since inception.

The ethical lifestyle growth funds also delivered returns between 1.8% to 7.4% over the same period, continuing to deliver on their respective objectives since inception, while adhering to the USS Ethical Guidelines.

The returns over the 12 months to 31 March 2022 were positive for the majority of the 10 Let Me Do It funds, although there were some notable exceptions with the USS Emerging Markets Equity Fund and USS Bond Fund. The USS Emerging Markets Equity Fund returned -9.1% over the year and underperformed its benchmark with growth companies falling out of favour with investors and the further concerns over the level of COVID-19 cases in China. The USS Bond Fund returned -4.4% over the year as concerns around long term inflation and resulting interest rate increases from central banks hurt returns.

In February 2022, it was announced that the performance for the developed markets equities allocation of the USS Global Equity Fund would be measured against a new carbon-intensity reducing benchmark with effect from 1 April 2022 following a review by the trustee. It was announced at the same time that this would result in a change to the underlying investment manager for the USS Global Equity Fund and the developed markets equity allocation within the default strategy.

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.

Our latest Stewardship Code Report **uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/uss-stewardship-code-report-2022.pdf,** published in May 2022 and covering the financial year 2021/22, sets out how we have delivered against the Financial Reporting Council's 12 Stewardship Principles and put responsible investment into practice by:

- Integrating ESG factors into our investment decisions across asset classes
- Using our influence as a major institutional investor to promote good ESG practices through engaging, voting and applying stewardship
- Working with policymakers and regulators to ensure the concerns of long-term asset owners and investors are clearly understood

The report combines an update of our principle-by-principle approach with details of new case studies and examples of other initiatives we've undertaken over the past year. Key highlights include:

- Making progress on our Net Zero ambition
- Introducing a 'climate tilt' to our portfolio
- Taking action on human rights
- Working with real assets to create sustainable value

Our interim targets and the steps taken during the year towards reaching our ambition of achieving Net Zero for carbon by 2050 (if not earlier) are set out on page 25.

We are clear that society cannot divest its way to Net Zero and neither can we. There needs to be a transition to a low-carbon future which involves companies shifting their business models. This will require an enormous investment, and we have an important role to play in encouraging and helping to fund this.

More information on how we identify, assess and manage climate change risk is provided in our Task Force on Climate-related Financial Disclosures (TCFD) Report **uss.co.uk/-/media/Project/USSMainSite/files/How-we-invest/TCFD-2022.pdf**, a summary of which is included on pages 120 and 121 of this report.

More details of the scheme's approach to Responsible Investment are provided in the Implementation Statement on pages 105 to 119 of this report.

Voting

As part of our commitment to being a long-term, active and responsible steward of the scheme's assets, our base intention is to vote globally on all the companies in which we invest.

Having the right to vote on decisions made by the boards of the companies in which we invest is one of the most effective tools we have for holding them to account, encouraging good governance and driving improvements.

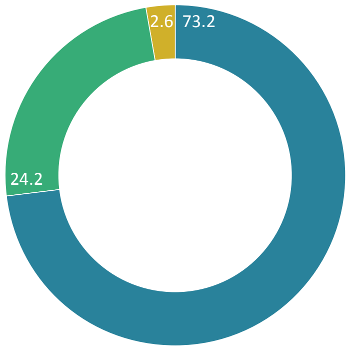
For 2021/22, we strengthened our voting policies on gender diversity and disclosure of climate data. We voted on 22,739 resolutions at 1,711 events. Our voting pattern is shown in the pie chart.

Abstaining or voting against management are not decisions we take lightly, but we do consistently vote against management where we feel it is not serving our best interests as a shareholder; in 2021/22, we voted at least once against management at 74.9% of meetings.

When we vote against management in one of our priority holdings, we will usually write to the company to explain our concerns. We see this as an important way of providing feedback and encouraging change.

In line with best practice, we publish a list of our global equity holdings and our voting records, and have done so for almost 20 years **uss.co.uk/how-we-invest/where-we-invest/public-market-investments**.

USS global votes
April 2021 – March 2022



Net Zero

In May 2021 we announced our Net Zero ambition. Since then, there has been a huge amount of work carried out to identify how we can achieve our goal in a manner consistent with our fiduciary duties to the scheme. This has culminated in the establishment of realistic interim targets to cut the emissions generated by companies in our portfolio by 25% by 2025 and by 50% by 2030 (relative to the 2019 baseline).

Last year we increased our interest in renewable energy, with a €225m investment in Bruc Energy securing a 50% stake in a major pipeline of 4000 MW of solar photovoltaic (PV) farms. Bruc Energy is a Spain and Portugal based renewables-focused investment vehicle that has an ambitious growth plan extending to other green energies, such as wind power.

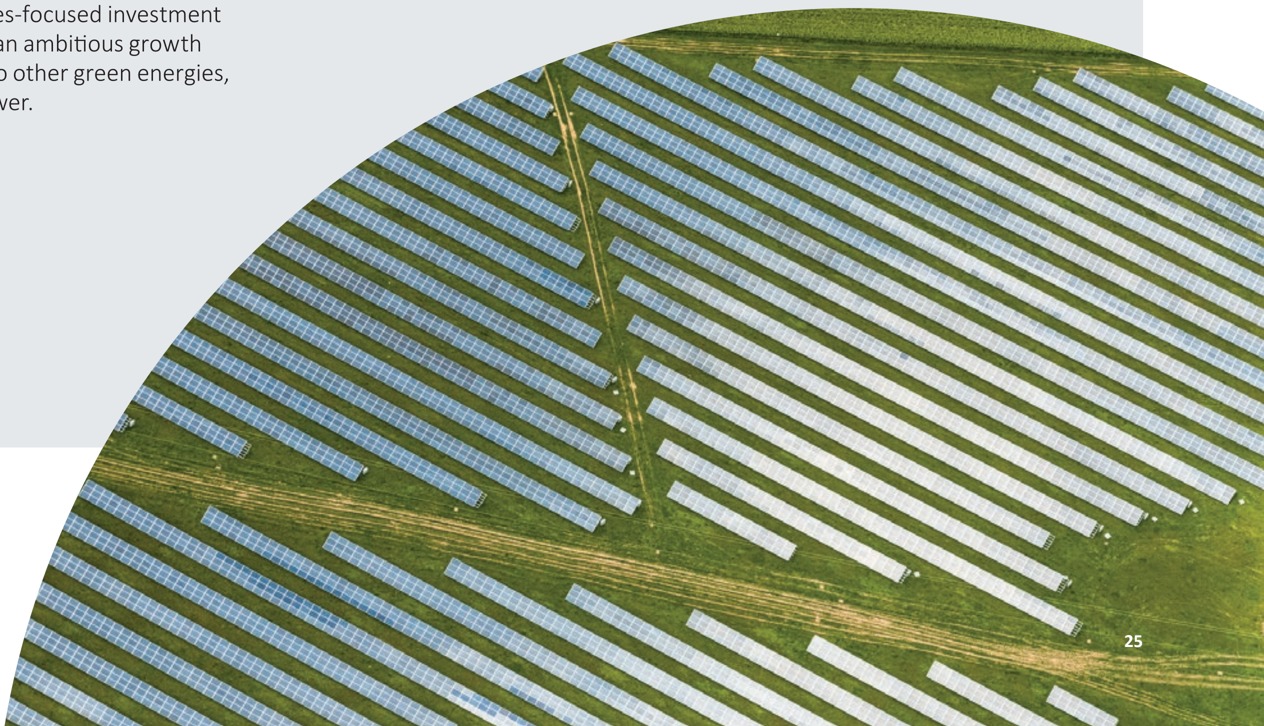
And in February this year we introduced a £500m Sustainable Growth mandate that will be invested globally in high growth, privately-owned businesses that are developing technologies and services that will help companies and the broader economy to decarbonise.

We have also introduced a climate 'tilt' to a £5.6bn portion of our equity investments – expected to reduce Scope 1, 2 and 3 emissions of this portfolio by at least 30% from day one (compared to the broad equity market) and which will deliver further reductions in its carbon intensity of 7% each year thereafter.

And it is the launch of this mandate that has enabled us to complete the last elements of our divestment from tobacco, coal and certain controversial weapons which we announced two years ago.

These developments demonstrate the seriousness of our commitment to delivering against our Net Zero ambition, and form part of a much bigger plan that will involve all of our investment professionals and the management teams of our portfolio companies.

Ultimately, we will need to work closely with our industry peers, regulators, governments and many others to achieve our ambition.



Report on actuarial liabilities

Actuarial valuations: how we protect the promises made to members.

Overview

As USS trustee, we must regularly carry out an actuarial valuation of the scheme's funding. A valuation establishes whether, at the valuation date, we believe the scheme has sufficient assets to be able to pay pensions to which members are entitled, now and long into the future. We carried out a valuation as at 31 March 2020 and the next is planned to be as at 31 March 2023.

The 2020 valuation, completed in September 2021, revealed higher costs of pensions and the Joint Negotiating Committee (JNC) agreed revised future service benefits for members in response. The contribution rates resulting from the valuation were subsequently amended following employers' consultation with members and employees on the benefit changes. These changes, coupled with additional covenant support measures from the employers, have led to an affordable and more resilient outcome for the scheme.

Additional covenant support measures

As part of a package of measures to protect the strength of the covenant, employers will provide an enhanced level of covenant support to the scheme (including limitations on employer exits without trustee approval). These measures, developed in collaboration with employers, introduced a debt monitoring framework and pari passu ('equal footing') rights for the scheme should employers grant security over their assets to third parties. These measures protect the strength of the employers' covenant which supports the scheme's ongoing capacity to take investment risk.

Methodology and assumptions

At every actuarial valuation we review all the underlying assumptions relating to the scheme's defined benefit element (Retirement Income Builder).

For the 2020 valuation, we have used a 'dual discount rate', which means we use separate discount rates pre and post-retirement to work out the current cost of future pension obligations for members paying into their pension and for members that have retired. Moving to a dual discount rate approach was one of the Joint Expert Panel's (JEP) main recommendations.

In line with advice from the scheme actuary, we have expressed the discount rates relative to gilts, which are fixed interest bonds issued by the UK Government, whereas the 2017 and 2018 valuation discount rates were expressed relative to the Consumer Price Index (CPI) measure of inflation. However, the discount rates are informed by our analysis of expected returns of all asset classes relative to CPI.

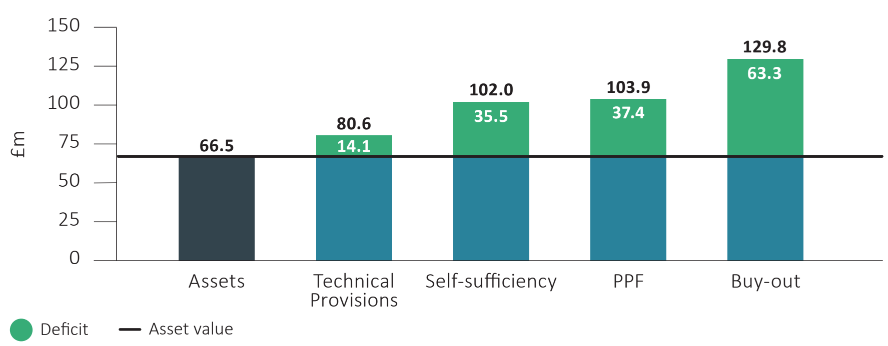
More information on the final set of assumptions for the 2020 valuation is shown on page 27.

Funding ratios
(using technical provisions liabilities)

83%
Actuarial valuation as at 31 March 2020

98%
Funding update of 2020 valuation as at 31 March 2022

USS DB funding position at 31 March 2020



The trustee has updated its Financial Management Plan (FMP) as part of the 2020 valuation, and has developed a framework for monitoring the scheme based on this.

On the previous page, we show the results of the valuation, as at 31 March 2020, across a range of approaches. These results reflect different levels of certainty of being able to provide the benefits promised to members.

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 'PPF' value is an indication of the level of assets which the Pension Protection Fund would require to provide reduced benefits in the event of the scheme being discontinued due to employer insolvency. These are measures which the trustee has to consider as part of a valuation, but there are no plans for the scheme to be discontinued or for a buy-out with an insurance company.

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. It is intended to give at least a 95% chance of being enough to be able to meet all the benefits as they fall due whilst continuing to demonstrate a high level of solvency.

The 'technical provisions' is the value of assets we must by law seek to hold given our investment strategy, and the support provided by the covenant of the employers. As explained above, this support allows us to take investment risk now and well into the future (allowing lower contributions to be paid than would otherwise be required). As required by legislation, in determining the technical provisions we take a prudent view of the investment return we will achieve.

A more detailed explanation is set out below in 'How we measure the financial position of the Retirement Income Builder'.

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. 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 active members and employers respectively. The remainder of the contributions are paid into the Retirement Income Builder.

The salary threshold is £40,000 from 1 April 2022, based on the new benefit structure (reduced from £59,883.65 in the 2021/22 year). This threshold is adjusted each year in line with the CPI measure of inflation (subject to a maximum of 2.5%), and is subject to review in 2025. Benefits being built up revalue with CPI inflation subject to certain limits.

Total contributions as a percentage of pensionable earnings each year arising from the 2020 valuation are 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 the defined benefits to members and/or their eligible dependants and to pay the costs of operating the scheme.

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 is at an acceptable level over time.

More detail on the trustee's approach to funding the scheme is available in the Financial Management Plan document **uss.co.uk/about-us/valuation-and-funding/our-valuations**.

In addition to technical provisions, we are required by law to value the scheme's liabilities on a buy-out and a PPF value basis as described above.

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 for the 2020 valuation, following consultation with the employers and allowing for the covenant support provided by the employers and benefit changes implemented, is shown on page 31.

Total contributions as a percentage of pensionable earnings each year

	Member	Employer
Contributions to 30 September 2021	9.6%	21.1%
1 October 2021 to 31 March 2022	9.8%	21.4%
1 April 2022 to 31 March 2024	9.8%	21.6%
1 April 2024 onwards	9.8%	21.4%

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

Funding position based on the 2020 monitoring approach

The table to the right summarises the funding position of the scheme each 31 March on the 2020 monitoring basis using the approach described below. It shows that the deficit on the monitoring approach has decreased to £1.5bn, from £14.1bn as at 31 March 2020 and £5.6bn as at 31 March 2021. Assets have risen substantially since the valuation date and, as anticipated in the 2020 valuation, this effect has outweighed the smaller increase in liabilities.

How the funding position has changed since the 31 March 2020 valuation

As part of our overall monitoring of the Financial Management Plan, we regularly monitor the funding position under several approaches. These include funding positions under both technical provisions and self-sufficiency. 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.

We have allowed for expected changes in membership since 2020 and updated for changes to market conditions and investment return expectations.

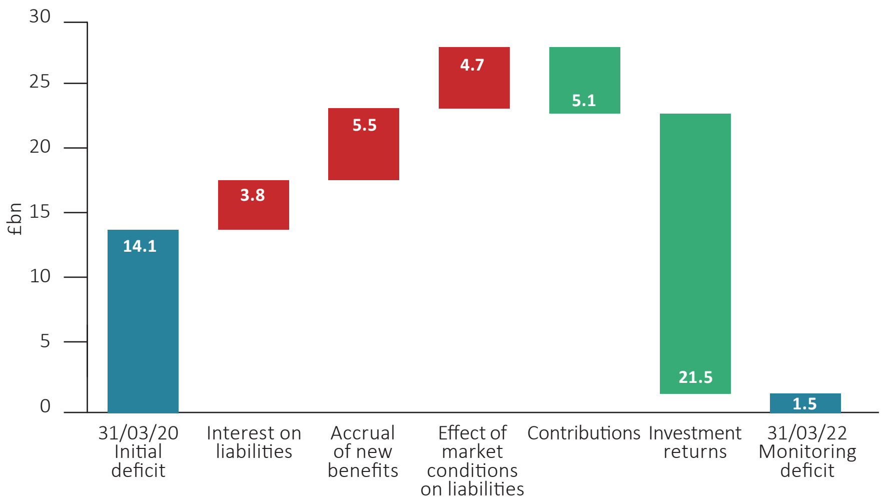
At 31 March 2022, based on updating the 2020 valuation results on an approximate basis using our monitoring approach, the funding level is 98%.

The chart to the right details the underlying drivers of the change in the deficit since the valuation using this monitoring approach.

Funding position based on the 2020 monitoring approach

As at 31 March £bn	Actuarial valuation 2020	Funding update 2021	Funding update 2022
Value of assets	66.5	80.6	88.9
Value placed on liabilities	80.6	86.2	90.4
Deficit	14.1	5.6	1.5
Funding ratio	83%	94%	98%

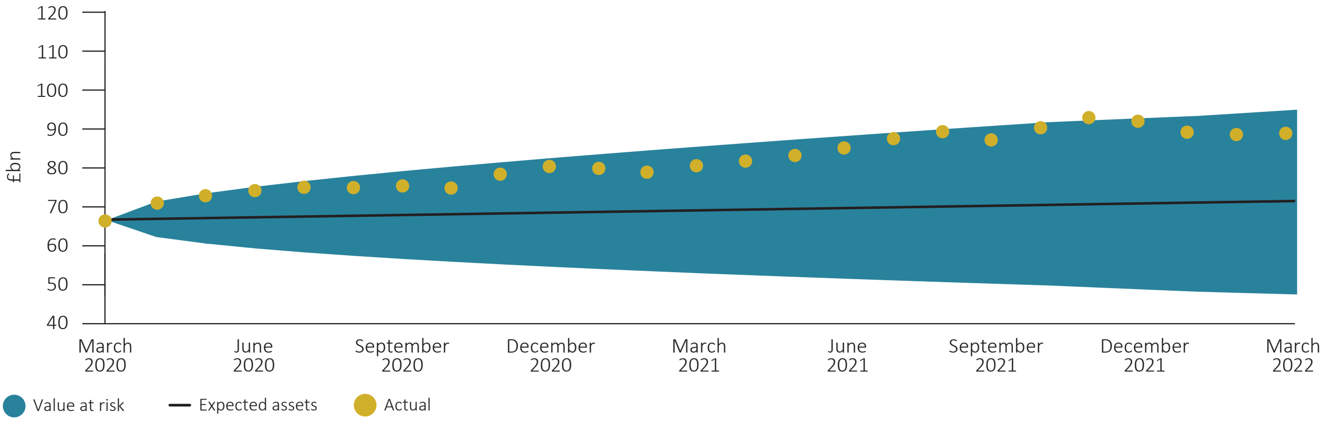
Change in deficit since 2020 valuation (monitoring approach)



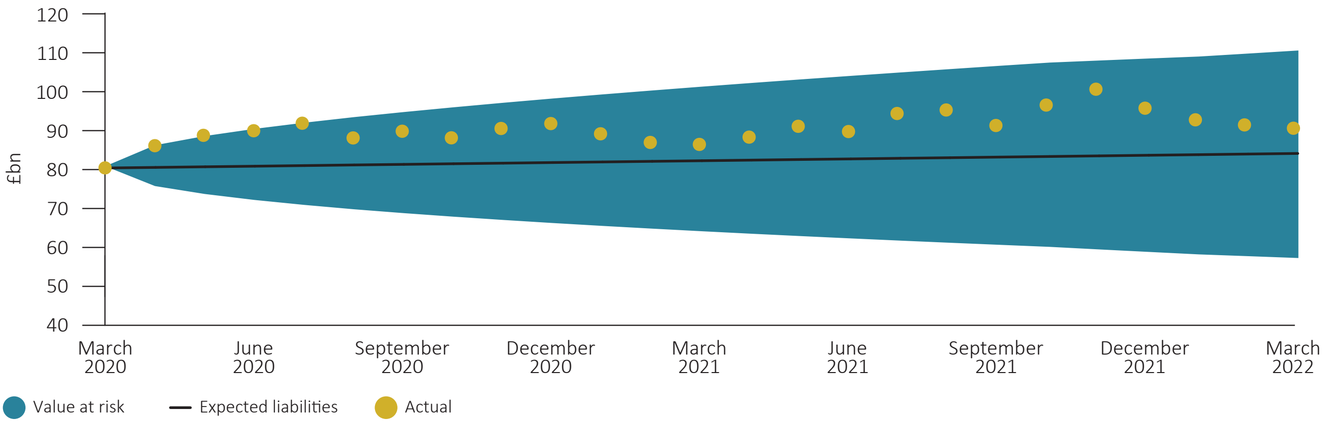
From December 2020, our monitoring incorporates an update to the CPI inflation assumption to allow for the impact on market views following the government announcement that RPI is to be aligned with Consumer Price Index including owner occupiers' housing costs (CPIH) from 2030. Furthermore, an allowance has been made in the 2022 monitoring for the known changes since the last measurement date (end of September 2021) given the significant changes in actual CPI observed recently. This change results in an increase in liabilities. As at 31 March 2022, return expectations on the various asset classes had decreased when measured against nominal gilts. These expectations do factor in the significant movement in markets since then. The impact of these changes forms part of the 'effect of market conditions on liabilities' bar. Actual returns on the underlying assets have been significantly higher than the 2020 valuation assumption which is shown in the 'Investment returns' bar.

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

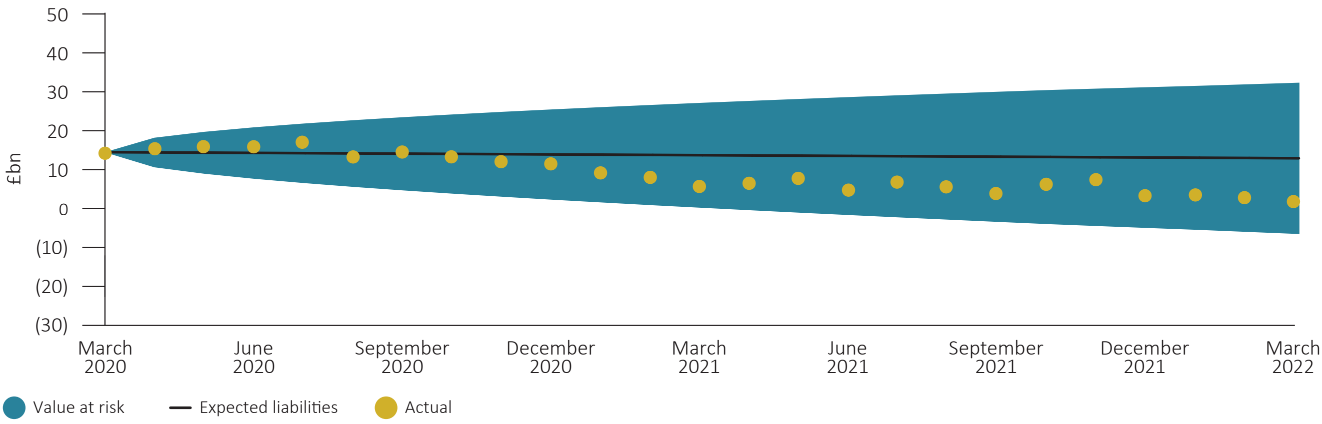
Asset progression since 2020 valuation



Liabilities progression since 2020 valuation



Deficit progression since 2020 valuation



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 2020. The black line reflects the central path of assets and liabilities at the time of the valuation. The blue area represents the range of outcomes around those central paths that had a 5% likelihood of happening (as implied by usual levels of market volatility). Each of the dots corresponds to the actual scheme assets and the monitoring approach estimate of the liabilities at the end of each month.

Other approaches

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

The table here 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 and a high level of solvency be demonstrated, 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, using a discount rate reflecting this portfolio and with a different inflation assumption to that adopted in the technical provisions.

The 2020 valuation did not target self-sufficiency, but the distance from self-sufficiency was considered as part of the trustee's Integrated Risk Management Framework, 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 2020, the scheme actuary estimated the cost on a buy-out basis as £129.8bn. As a result, the deficit on this basis was £63.3bn. A buy-out basis normally gives the highest view of the liabilities.

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 across different pension schemes. Using this approach, as at 31 March 2022, produces liabilities of £92.9bn and a deficit of £4.0bn. This is based on a discount rate of 2.8% and a pension increase assumption of 3.0% with all other assumptions unchanged from those stated on page 31. This approach is not used to inform our decisions.

As at 31 March £bn	Self-sufficiency 2020	Self-sufficiency 2021	Self-sufficiency 2022
Value of assets	66.5	80.6	88.9
Self-sufficiency liabilities	102.0	111.5	115.4
Deficit	35.5	30.9	26.5
Funding ratio	65%	72%	77%

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 consider this as part of the Integrated Risk Management Framework which feeds into the Financial Management Plan.

The 2020 actuarial valuation used a different methodology from previous valuations, in particular adopting a dual discount rate approach. This notionally allows for a lower-risk investment strategy for assets which back pensions that are being paid, and a higher-risk strategy for assets which back pensions prior to members' retirement. Assuming the scheme remains stable, this means that the overall actual investment strategy can remain more consistent over time than was allowed for in previous valuations, while still giving sufficient security to members' benefits.

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 2020 actuarial valuation requires employers to make additional contributions towards repairing the deficit. These contributions are 6.2% of salaries from 1 April 2022 to 31 March 2024, increasing to 6.3% from 1 April 2024 to 30 April 2038. This recovery plan aims to recover the deficit over a period slightly over 18 years from the 2020 valuation date. 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 (with the new covenant support measures in place), 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 higher and close to the limit that employers could bear.

The recovery plan also allows for additional investment returns of 0.5% a year for 18 years. When we determined the parameters for the recovery plan (in particular the extension of the recovery plan from 2028, and the allowance for these additional investment returns), we took into account the specific conditions as at 31 March 2020. Future recovery plans will depend on the financial conditions and outlook at that point of time.

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 to meet promised benefits.

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. As at the 31 March 2020 valuation date, the scheme's 'section 179' valuation position, used in determining the PPF levy payable by the scheme, showed a deficit of £37.4bn.

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 for technical provisions in the 2020 actuarial valuation, and how these have been updated as at 2021 and 2022 to produce the figures shown earlier. These funding updates, shown previously in the 'Funding position based on the 2020 monitoring approach' section, reflect broad changes in market conditions and expected investment returns. The contributions payable to the scheme are determined based on the full actuarial valuations, with the funding updates used for monitoring purposes.

The 2020 valuation uses full yield curves in the assumptions, rather than averages. The full year-on-year figures in the 2020 valuation assumptions are available in the documents shown on our website here: **uss.co.uk/valuation**.

Principal actuarial assumptions	31 March 2020 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	0.00% 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	1.10% p.a. to 2030, reducing linearly by 0.10% p.a. to a long-term difference of 0.10% p.a. from 2040
Price inflation – Consumer Prices Index[1]	Term dependent rates based on RPI assumption less RPI/CPI gap (Results in single equivalent average of 2.10%)
Discount rate	Fixed interest gilt yield curve plus: Pre-retirement: 2.75% p.a. Post-retirement 1.00% p.a.
Pension increases (all subject to a floor of 0%)	Current pension increases (for both pre- and post-2011 benefits): CPI assumption + 5bps Increases capped at 2.50% CPI assumption – 35bps
Mortality base table	101% of S2PMA 'light' for males and 95% of S3PFA for females
Future improvements to mortality	CMI 2019 with a smoothing parameter of 7.5, and initial addition of 0.50% p.a. and a long-term improvement rate of 1.80% p.a. for males and 1.60% p.a. for females

Notes

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

	2021 funding update	2022 funding update
Discount rate spread over fixed interest gilt yield		
Pre-retirement	2.45%	2.45%
Post-retirement	0.55%	0.60%
Average CPI assumption*	2.50%	3.0%
Pension increase assumption		
Current pension increases	CPI + 3bps	CPI + 2bps
Increases capped at 2.5% p.a.	CPI – 55bps	CPI – 82bps

* In practice full yield curves for gilts and inflation have been used in the calculations

Actuarial certificate of technical provisions

Actuary's certification of the calculation of technical provisions

Universities Superannuation Scheme

This certificate is provided for the purpose of Section 225(1) of the Pensions Act 2004 and Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of 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 2020 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 30 September 2021.

DocuSigned by:

Signature: ……7A1910D328A648F…………………………… Date: 30 September 2021

Name: *Aaron Punwani*
Appointed Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

About Lane Clark & Peacock LLP

We are a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office.

The firm is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland, and - operating under licence - the Netherlands.

https://www.lcp.uk.com/emails-important-information contains important information about this communication from LCP, including limitations as to its use.

Actuarial certificate of schedule of contributions

LCP INSIGHT CLARITY ADVICE

Actuary's certification of schedule of contributions

Universities Superannuation Scheme

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of 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 2020 to be met by the end of the period specified in the recovery plan dated 28 March 2022.

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 28 March 2022.

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: .... Date: 28 March 2022

Name: *Aaron Punwani*
Appointed Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Risk management

Our robust approach to risk management protects the scheme's investments and operations and aims to help members feel more financially secure.

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, and on a timely basis.

For the Retirement Income Builder, this means ensuring there are sufficient funds available to provide members with the 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 a comprehensive risk management framework.

Our risk framework includes a dedicated group risk team and risk governance arrangements, policies and processes. The framework aims to ensure that risks are effectively identified, managed, monitored and reported 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 both business as usual and business change activities. Consideration is also given to emerging risks. Risks are measured regularly using key risk indicators and reviewed by business management and the Group Risk team before being reported to the relevant risk governance and oversight committees.

Risks are managed by control, transfer or avoidance. Risk monitoring and reporting is implemented through several tools, including risk and control registers, event logs and assurance activities.

Assurance activities 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, along with related Key Risk Indicator (KRI) metrics, 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 identification and 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 register of the risks faced by the business as well as their potential impact and how we mitigate them.

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.

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

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

Description	Impact	Control/Mitigation	Strategic Priority
Funding risk The risk that USS holds inadequate assets to cover the accrued pension benefits.	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 • Provision of expert investment advice from the scheme's principal investment manager • 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 • Strengthening of the covenant by the implementation of a moratorium on institutions leaving the scheme and pari passu rules on future institutional debt issuance	
Proposition and stakeholders The risk that institutions, members or their representative bodies no longer view USS as their preferred service provider for retirement benefits.	Members choose not to participate in USS, missing out on the scheme's benefits. Employers, or their representative bodies, may no longer view USS as the right provider to build a secure financial future for their employees and their families.	• Regular meetings with agendas relevant to the 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 • Working closely with the scheme's stakeholders, including the JNC, who are responsible for agreeing member benefits and meeting their needs • Engagement with stakeholders on low-cost options and conditional indexation to ensure the continued suitability of USS benefits for the sector • Quarterly member and annual 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 and UCU • Individual employers and member webinars and the new 'My USS' digital offering providing better access for members to information about their pension benefits	

Description	Impact	Control/Mitigation	Strategic Priority
Climate change risk			
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.	• USSIM has set ambitious targets to achieve Net Zero for carbon by 2050 with interim targets for 2025 and 2030 • Integration of climate risk into our Governance and Risk Management processes with oversight at the Trustee Board level • Integration of climate risk into investment decision-making process • Ongoing scenario analysis and modelling to help identify and quantify the systemic impact of climate change on the real economy and markets • USSIM Net Zero Steering Committee and Net Zero Working Groups to monitor and implement change at asset class level • Stewardship of high carbon exposed equity assets, engaging both directly and in collaboration, to ensure climate risk in all forms is being appropriately managed • Dedicated in-house Responsible Investment (RI) team with specialist expertise to support investment teams and trustee	
Service delivery risk			
The risk that transaction errors may occur in the processing of data due to faults in the process caused by inadequate design; poor operating procedures; errors in the input of data upon which the process operates by customer, third party or employee.	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	

Members feel financially more secure

A sustainable scheme, for the long term

USS is recognised as a competent scheme manager

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

Description	Impact	Control/Mitigation	Strategic Priority
Supplier performance failure risk			
The risk that a supplier fails to perform a business-critical contracted service.	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, supplier selection (through either Procurement involvement or oversight) and ongoing monitoring of key suppliers' financial standing and performance. Appropriate remedial actions and/or commercial compensatory actions, and ultimately replacement of non-performing suppliers 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 • Ensuring suppliers have appropriate BCPs (Business Recovery Plans) and RTOs (Recovery Time Objective) and RPOs (Recovery Point Objective) in place that align to business criticality and expectations	
Investment performance risk			
The risk that investment returns are below the required return over the medium to long term (5+ years), leading to the scheme funding ratio being below acceptable minimum levels for DB, or member investment return targets not being met for the DC portfolios.	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: investment options are diversified across investment types and we have an experienced dedicated team monitoring the performance of the DC portfolios and the related managers • Implementation of the Scheme Investment Framework and the balanced scorecard for measuring USSIM performance • Development and adoption of new Investment Risk Appetite Statements and associated KRIs from 2022	

Description	Impact	Control/Mitigation	Strategic Priority
People risk			
The risk of an absence of sufficient, competent and engaged staff to operate key process elements necessary for the organisation to do business in a manner that aligns with the USS core values of Integrity, Collaboration and Excellence.	This may lead to an inability to provide the necessary capacity and skills 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 with incentive programmes to reward and retain the most talented individuals • Regular employee satisfaction reviews • Employee Health and Well-being 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	
Regulatory and legal			
Breaching Risk – Risk that the activities of USSL personnel breach an applicable UK legal or regulatory obligation/requirement or the scheme rules. *Awareness Risk* – Risk that USSL fails to have necessary awareness of applicable UK legal or regulatory obligations or requirements.	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.	• 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	

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

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

Description	Impact	Control/Mitigation	Strategic Priority
Resilience, technology and change risk			
Risk that the ability of USS to provide important business services is compromised as a result of: • disruption to IT or facilities infrastructure • inadequacy of technology arrangements • changes to business capabilities and processes not being delivered reliably	Physical and infrastructural disruption could lead to adverse impact on operational capacity and controls. 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.	• Full remote working capability for all teams, to allow continuity of key processes and physical isolation of employees • Business Continuity management governance framework in place, with defined continuity plans and IT Disaster recovery in place • Resilient data centre hosting arrangements in place providing high availability for key systems • Well-being programme in place to support employees. • Monitoring of supplier viability through the supplier framework processes	A sustainable scheme, for the long term
Information security and privacy risk			
The risk that the confidentiality, integrity and availability of the data that we hold and manage is not maintained.	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 • 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	A sustainable scheme, for the long term; USS is recognised as a competent scheme manager

Governance

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

Contents

The governance framework at USS supporting decision-making and accountability.

42 Governance
49 Remuneration report
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Universities have been at the forefront of preventative scientific research for decades. Many, including the University of Oxford's Jenner Institute and Oxford Vaccine Group, have been critical to the rapid development of vaccines to provide global protection against COVID-19.


12.5

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 (GCEO), who is supported by the Group Executive Committee, also referred to as the Group Executive, subject to ongoing board oversight. The Trustee Board is also supported by five specialist standing committees:

- Audit and Risk Committee (Audit & Risk) (previously called Audit Committee)
- Governance and Nominations Committee (GNC)
- Investment Committee (Investment)
- Pensions Committee (Pensions)
- Remuneration Committee (Remco)

The Trustee Board and committee structure is set out on the next page. 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 2021/22 financial year, the JNC played a key role in the 2020 valuation process and formally voted to implement a package of benefit reforms to conclude the 2020 valuation.

Generally, two trustee directors will 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 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

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 employers and members.

The trustee is committed to improving the diversity of its board members and, during the financial year, considered: (i) its Diversity and Inclusion (D&I) targets and any further steps that could be taken over the coming years to promote greater diversity and; (ii) especially in relation to ethnic diversity, amendments to its current recruitment approaches and processes to influence diversity. As part of its considerations, the trustee agreed D&I targets for gender and ethnic minority representation as set out here:

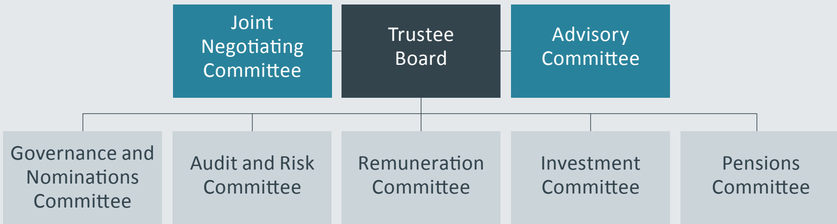
- A minimum of four female directors and four male directors
- A minimum of one member from an ethnic minority background

As at 31 March 2022, the Trustee Board had met the gender representation target of four female directors and eight male directors (33% female), but not the ethnic representation target. The trustee remains committed to these targets and will keep D&I high on the agenda over the coming year.

Maintaining and improving key competencies, knowledge (including relevant practical experience) and diversity of the Trustee Board remains vitally important. During the financial year the trustee has continued to focus on its board succession planning to respond appropriately to scheduled turnover of Trustee Board directors as they came to the end of their final terms of office, including a number of changes to committee composition following changes in board membership in the final months of 2021. 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 in the table to the right.

Trustee Board and committee structure



Board Competencies	2021/22
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	6
Pensions administration and member engagement	6
Communication, media and stakeholder engagement	12
Control, compliance and risk management	9
IT, security and digital development	5
Supplier/contract management	9
Senior management experience	11
Actuarial	4
Audit, accounting and financial management expertise	9
Investment	7
Ethical, Social and Environmental	8
Legal	3
HR and remuneration	11
Strategy development	9

Members of the Trustee Board

Dame Kate Barker G I

- Independent appointee
- Chair of the Trustee Board
- Appointed April 2020 (Chair of the Trustee Board since 1 September 2020)

Dame Kate 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. Dame Kate 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.

Russell Picot I A

- Independent appointee
- Deputy Chair and Senior Director
- Appointed February 2021

Russell joined USS after more than 20 years with HSBC, latterly as Group Chief Accounting Officer. Russell was appointed as a trustee of the HSBC Bank UK pension scheme in 2000 and has been Chair of the Trustee Board since 2017. Russell was formerly a trustee on the DC Master Trust LifeSight and has held roles with several accounting bodies and is Special Adviser to the Task Force on Climate-related Financial Disclosures.

Andrew Brown 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. Andrew is Chair of William Leech Investments and Foundation Trusts, and a trustee of Trust for London and the Jane Cart Trust.

Andrew has previously been Chair of the CMS Pension Trust. In January 2020, was awarded an OBE for services to the Church.

Professor Sir Paul Curran G

- UUK appointee
- Appointed September 2020

Professor Sir Paul Curran is Professor Emeritus of City, University of London, where he previously held the role of President for over a decade, and has also held roles as Deputy Vice-Chancellor of the University of Southampton and Vice-Chancellor of the University of Bournemouth. Prior to this, Professor Sir Paul held academic appointments at the Universities of Reading, Sheffield and Swansea and was a Research Scientist with NASA in California. Professor Sir Paul is also Chair of the Universities and Colleges Employers Association and of the Review Body on Doctors' & Dentists' Remuneration as well as Chair of the MS Society, NHS National Joint Registry and NERC Advisory Committee on Scientific Leadership.

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 Gary joined the banking and pensions focused financial services group, Pointon York, and was subsequently appointed Group CFO. Gary 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.

Marian D'Auria P

- Independent appointee
- Appointed September 2021

Marian is currently Global Head of Pensions at GFG Alliance. Prior to joining GFG, Marian was a Managing Director at Redington and before that led Deloitte's Trustee Advisory team in London. Marian has over 20 years' experience advising trustees and corporate clients in the UK pensions market in both the public and private sectors. Marian's experience covers risk management, sustainability, trusteeship and governance, scheme actuarial work, corporate advisory and investment consulting.

Key to Committee membership

- Chair (red)
- Senior Director (dark grey)
- USSIM Director (teal)

Ⓐ Audit and Risk Committee
Ⓖ Governance and Nominations Committee
Ⓘ Investment Committee
Ⓟ Pensions Committee
Ⓡ Remuneration Committee

Ellen Kelleher Ⓟ Ⓖ

- Independent appointee
- Appointed November 2021

Ellen has over thirty years' experience in the pensions industry and is currently Chief Pension Officer at Trafalgar House Pension Trust. Prior to joining Trafalgar, Ellen was Chief Operating Officer of the HSBC Bank (UK) Pension Scheme until March 2021, and was responsible for leading the management and administration of the scheme, directing operations, formulating and implementing policies and managing adviser relationships on behalf of the Trustee Board.

Dr Alain Kerneis ● Ⓘ Ⓡ

- Independent appointee
- Appointed January 2022

Alain is an investment and governance specialist with over 20 years of experience in managing portfolios on behalf of pension schemes, and in mitigating market, operational and regulatory risks. Since transitioning from an executive career, Alain has built a diverse portfolio of non-executive director and investment advisory roles in the pension, private wealth and retail markets.

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. Professor Sir Anton studied at the University of Glasgow, graduating 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.

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. Helen also has commercial experience through 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. Helen is also a member of the USS Rules Group.

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, from 2018 in the Rowett Institute, which sits within the School of Medicine, Medical Sciences and Nutrition. David was a local pensions representative for the UCU from 2015 to 2021 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.

Trustee Board key activities 2021/22

There continued to be a significant volume of activity carried out by the Trustee Board during 2021/22, particularly in connection with the completion of the triennial actuarial valuation as at 31 March 2020 (the '2020 valuation'). More information is set out below.

Board activities

Topic	Activity
Valuation	• Concluded the 2020 valuation of the scheme, and as part of the valuation supported employers in undertaking a formal consultation with members and their representatives and formally consulted with UUK who acted on behalf of employers in relation to the schedule of contributions and recovery plan • Continued its engagement with UUK and employers in relation to covenant support measures • Oversaw member and employer communication and consultation activity throughout the year in relation to the valuation • Approved the methodology and assumptions used to establish the technical provisions and contribution requirements for the 2020 valuation and the benefit changes approved by the JNC and the related total contribution rate • Reviewed the actions taken by the executive in response to an independent review of the 2020 valuation process
Scheme Funding	• Approved the final form of the debt monitoring framework and oversaw the implementation of covenant support measures, including debt monitoring arrangements • Oversaw and approved metrics for an interim FMP monitoring process of the 2020 valuation for funding and covenant purposes • Approved a modification in approach to monitoring the financial position of the DB element of the scheme
Regulatory	• Engaged with The Pensions Regulator (TPR) around the 2020 valuation and as part of its ongoing supervision of USS, both as a Master Trust and as part of TPR's one-to-one supervision of defined benefit schemes • Oversaw executive engagement with TPR • Monitored and oversaw the executive's approach for ensuring compliance with newly introduced climate change reporting obligations
Pensions operations	• Oversaw pensions administration during the year and maintained key service levels and turnaround times, against the backdrop of the continued impact of COVID-19 • Oversaw engagement with members and employers • Received and discussed the outcomes of the member and employer perceptions surveys • Oversaw the scheme's readiness to administer the contribution changes arising from the 2020 valuation
Strategy	• Approved the group three year plan, annual plan and budget
Investment	• Approved a revised approach to monitoring USSIM's investment performance for the 2021 compensation year, the investment balanced scorecard, on recommendation from the Investment Committee • Approved the scheme's Statement of Investment Principles (SIP), DC Default SIP and Investment Beliefs • Oversaw the completion of a review by the Investment Committee of the DC fund range and Default Lifestyle Option and Ethical fund options for members, following a Pensions Committee review of member requirements • Received and discussed updates on compliance with and activities undertaken in accordance with the Trustee Board's Responsible Investment policies • Approved the scheme's Net Zero ambition and targets and reporting metrics and interim targets required to implement its Net Zero ambition • Approved an Asset and Liability Management (ALM) and Investment Strategy Framework • Approved the Valuation Investment Strategy, that feeds into the scheme's FMP and is used to monitor progress against the valuation projections via the Monitoring & Actions Framework

Topic	Activity
Financial reporting and controls	• Approved the financial statements for the scheme and the trustee company for the year ended 31 March 2021 on recommendation from the Audit Committee • Reviewed annual statements on the effectiveness of company internal controls from the Audit Committee, GCEO and head of internal audit • Reviewed the executive's activities to ensure that the financial control environment was adequately robust
Master Trust	• Oversaw the implementation of the DC business plan for the financial year 2021/22 • Oversaw the Value for Members assessment for 2021/22 • Oversaw production of the scheme's annual supervisory return and reviewed a 'type 1' Master Trust Assurance (AAF) Report on scheme governance control procedures
Risk management and internal controls	• Oversaw a review of our Risk Governance Policy and simplification of the risk process, including approval of a set of refreshed and rationalised risk appetite statements setting out the board's expectations for risk management at USS, and key risk performance indicators, measures and targets against which performance across the group is monitored and assessed • 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 and Risk Committee on each of the three lines of defence • Reviewed performance reports from all key business areas on a quarterly basis
Performance and general oversight	• Received and discussed reports from all standing Trustee Board committees which had met in the reporting period • Oversaw ongoing claims made against the scheme
Corporate governance	• Reviewed the group corporate governance framework, including an extension to the remit of the Audit Committee to encompass risk related issues • Approved three appointments to the Trustee Board and changes to the membership of the Trustee Board standing committees • Reviewed the output from the externally conducted board effectiveness review of the Trustee Board and committees and implementation of recommendations • Adopted diversity targets for the Trustee Board and USSIM Board
Leadership	• Discussed the outcomes of the USS employee engagement survey and the Group Executive Committee's response • Received and discussed updates on initiatives being undertaken by the executive to increase diversity and inclusion • Oversaw the project on introducing flexible working practices
Stakeholder	• Supported the JNC in its decision making by overseeing the executive's detailed analysis of UCU and UUK benefit reform proposals, including contribution requirements and impact on the scheme covenant • Engaged directly with UUK and UCU and their actuarial advisers and oversaw the executive's engagement with each of them • Attended and participated in meetings with the JNC • Monitored support of various stakeholder initiatives, such as the exploration of conditional indexation and low-cost benefit structures • Oversaw member and employer communications activity in the year, and the approach to corporate affairs more generally

Trustee Board meeting and committee attendance

The Trustee Board met 16 times during the year. A summary of the Trustee Board activity during the year is outlined on pages 46 to 47. 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	Investment	Pensions	Audit and Risk	Remuneration	Governance and Nominations
Trustee Board members						
Dame Kate Barker	16	9				4
Mr Russell Picot	16	8		5		
Mr Andrew Brown[(i)]	15	8			5	3
Dr Kevin Carter[(ii)]	6	3		3		
Professor Sir Paul Curran	14					4
Mr Gary Dixon	15			5	4	
Mrs Marian D'Auria[(iii)]	9		6			
Ms Ellen Kelleher[(iv)]	6		5			1
Dr Alain Kerneis[(v)]	4	4			1	
Mr Ian Maybury[(vi)]	11	5	4			
Professor Sir Anton Muscatelli	15	8				
Mr Rene Poisson[(vii)]	10		3			
Mr Will Spinks	16		8		5	
Ms Helen Shay[(vii)]	16		1	5		
Dr David Watts[(ix)]	16		7			2
Committee members						
Mrs Sarah Bates[(x)]		3				
Mr Mark Fawcett [(xi)]		7				
Mrs Virginia Holmes[(xii)]		3				
Mr Tony Owens				5		
Mr Bill Galvin			8			4
Mrs Helen McEwan			8			

Notes
(i) Mr Brown stepped down from the GNC on 8 December 2021.
(ii) Dr Carter retired from the Trustee Board on 31 August 2021.
(iii) Mrs D'Auria was appointed to the Pensions Committee on 1 September 2021.
(iv) Ms Kelleher was appointed to the Pensions Committee on 1 November 2021 and the GNC with effect from 13 January 2022.
(v) Dr Kerneis was appointed to the Investment Committee with effect from 24 January 2022 and was appointed to the Remuneration Committee with effect from 9 February 2022.
(vi) Mr Maybury retired from the Trustee Board on 16 December 2021.
(vii) Mr Poisson retired from the Trustee Board on 31 October 2021.
(vii) Ms Shay joined the Group Audit and Risk Committee, and stepped down from the Pensions Committee, with effect from 16 June 2021.
(ix) Dr Watts was appointed to the Pensions Committee with effect from 16 June 2021 and was appointed to the GNC with effect from 8 December 2021.
(x) Mrs Bates stepped down as a special member of the Investment Committee with effect from 31 August 2021.
(xi) Mr Fawcett stepped down as a member of the Investment Committee post year end with effect from 30 April 2022.
(xii) Mrs Holmes stepped down from the Investment Committee with effect from 31 August 2021.

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 92% 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 for similar services.

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 with more details in the Value for Money supplement **uss.co.uk/-/media/Project/USSMainSite/Files/About-us/Report-and-Accounts/Value-for-money.pdf.**

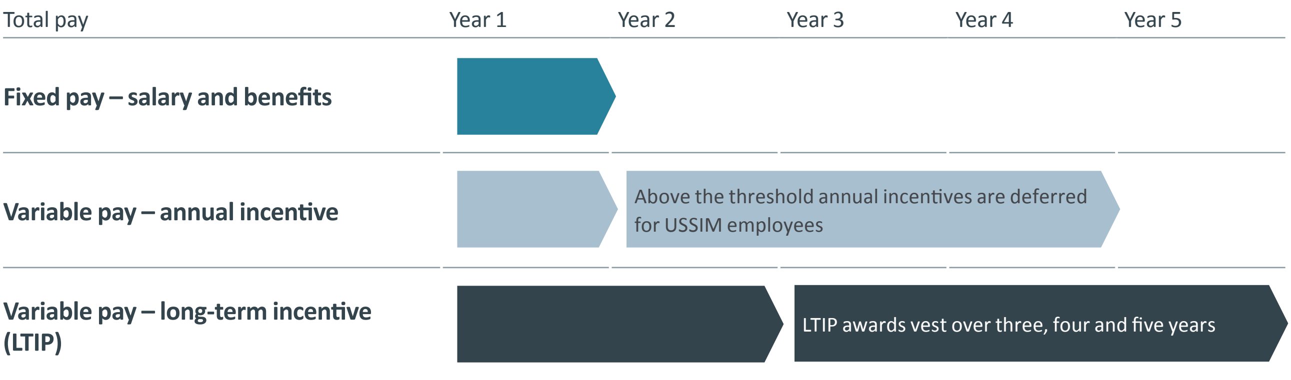
Our total compensation approach includes the following key elements which are benchmarked annually:

- 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 performance based on an investment balanced scorecard assessment. The scorecard includes a rolling five-year performance metric among other measures aligned with calendar year scheme performance periods
- 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
- All employees are eligible to join the USS pension scheme which aligns the employee's own personal objectives with the purpose of the scheme
- Trustee Board directors and other non-executives receive only the agreed fee for their role

£101m

Having an in house investment management team enabled our investment management costs to be the equivalent of £101m per year lower than the peer median according to the most recent analysis by CEM Benchmarking (for the calendar year 2020).

Remuneration structure



Remuneration Principles

The foundation of our remuneration approach is to promote alignment to our scheme's interests.

- We focus on long-term success, applying appropriate metrics and overlaying judgement
- Remuneration outcomes for individuals reflect the importance we attach to adherence to our values, behavioural standards and our risk management culture
- Using external advice, we compare our employee roles to peer organisations with the aim of ensuring our approach is fair, for individuals and in aggregate
- We differentiate pay outcomes based on team and individual performance
- We endeavour to ensure a fair and transparent approach to remuneration

How staff are incentivised

Staff incentives, which include the annual incentives and long-term incentive plans described on the previous page, are based on performance and vary depending on where in the organisation 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.

For the 2021 compensation year investment performance was assessed using an investment balanced scorecard approach. In previous years, investment performance has been assessed solely with reference to performance relative to the Reference Portfolio over a rolling five-year period. The investment balance scorecard was introduced to ensure the assessment of performance was better aligned to the scheme's interests and therefore our remuneration principles. Each metric in the table below was assessed and the Remuneration Committee approved an overall outcome, recommended to it by the Investment Committee, for the investment performance of USSIM (ranging between Very Good, Good, Average, Poor or Very Poor). This overall assessment takes account of each element of the scorecard acknowledging that the relative priorities of each element may well change depending on circumstances. This overall assessment was then converted into a quantitative score for the one-year investment performance, which was then included in the five-year investment performance score used in our incentive programmes.

Evaluation of USSIM performance

	Metric 1	Metric 2	Metric 3	Metric 4	Metric 5	Metric 6	Metric 7
USSIM 2021 Performance	DB Performance vs. Reference Portfolio	DB Performance vs. Liability Proxy/Self Sufficiency Deficit	Hedge Ratio Progression	DB Mandates Performance	Asset Liability Risk Ratio and Self Sufficiency VaR Progression	DC Funds Performance Scorecard	Quality of advice from USSIM

Non-investment staff in both USSIM and Universities Superannuation Scheme Limited have incentives based on non-investment factors with the key driver being performance against agreed annual objectives together with risk management and behavioural factors. Certain non-investment staff receive LTIP awards 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.

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 compared with peers. Salaries reflect the individual's experience, responsibility and contribution and 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, compensation 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.

Remuneration	For the year ended 31 March 2022 £m High earners (excluding A and B)	Group Executive (A)	Trustee Board (B)	Total key management personnel (A+B)
Fixed pay – salary and benefits	**22.2**	**2.6**	**0.7**	**3.3**
Variable pay – annual incentive	**18.6**	**1.3**	**–**	**1.3**
Variable pay – LTIPs	**9.6**	**0.2**	**–**	**0.2**
Total remuneration paid	**50.4**	**4.1**	**0.7**	**4.8**

Remuneration	For the year ended 31 March 2021 £m High earners (excluding A and B)	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

Remuneration in 2021/22

The total remuneration paid includes payments in respect of incentive amounts deferred 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 2021 and amounts paid in the year are based on performance up to that date. For the performance year ended 31 December 2021 the investment performance was assessed as between Good and Very Good. USSIM's 1-year and 5-year annualised outperformance to end 2021 are 0.74% and 0.43% respectively (net of costs). This compares to 5-year annualised outperformance to 31 December 2020, after costs, of 0.08%. As laid out above the balanced scorecard extends the measures against which performance is monitored and strong performance was delivered during the year, in particular against metric 2 (where 1-year outperformance against liabilities was +8.6%) and metric 3 (where hedge ratios increased by 2.2% for interest rates and 1.1% for inflation). Please see page 21 in the Investment matters section for further details.

A key driver of increased remuneration costs this year has been the continued expansion of our investment management team as we aim to manage more of our assets internally and as we increase the sophistication of our approach including in relation to hedging of scheme liability risks. Managing assets internally is significantly less expensive than engaging third party managers and with our development of our internal capabilities, investment management costs as a proportion of average scheme assets has fallen again this year to 0.25% from 0.31%. Investment management headcount has risen by 16% year-on-year which, coupled with strong increases in financial services pay levels in the year, drove the growth in paid remuneration shown in the tables above and on page 52.

Salary banding

We remain committed to openly reporting the total remuneration of the Group Executive, Trustee Board and high earners (those whose base salary plus incentives and non-pension benefits paid in the year exceed £100,000 including any such members of the Group Executive and Trustee Board); 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 for high earners. Approximately 79% of these high earners are investment management professionals.

For the year ended 31 March, amounts paid	Number of individuals	
	2022	2021
£100,001 to £150,000	63	65
£150,001 to £200,000	40	31
£200,001 to £250,000	22	19
£250,001 to £500,000	37	33
£500,001 to £750,000	14	14
£750,001 to £1,000,000	5	4
£1,000,001 to £1,250,000	2	3
£1,250,001 to £1,500,000	2	0
£1,500,001 to £1,750,000	1	1
£1,750,001 to £2,000,000	0	0
£2,000,001 to £2,250,000	0	0
£2,250,001 to £2,500,000	1	0
Total	**187**	**170**

Trustee Board director fees

Trustee Board director fees are shown in the table on page 51 with the comparison to 2020/21.

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 Remco 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/reports-and-accounts**.

The number of directors who are members of the Retirement Income Builder	2022	2021
As at 31 March (100% of those eligible)	6	6

Note, Trustee Board directors do not earn pension benefits from their role on the board, however, they may be a member of the scheme through employment outside their trustee role.

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, to include the investment balanced scorecard assessment, 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 vesting conditions are fulfilled	• As a long-term plan, the payment is deferred until vesting conditions are fulfilled

Notes

1 Long-term incentive plans.

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

Chief Financial Officer's update

Efficient and effective financial stewardship enables us to deliver value for money for the scheme and our members.

Dominic Gibb
Chief Financial Officer

Delivering value for money for members and employers is 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. Around 83% of scheme costs relate to the investment management of our £91bn fund. The remaining 17% relates to the delivery of services to employers and members, referred to as pension management costs below.

The table below shows that total costs of running the scheme have increased by 6% (£16m) compared to prior year. Reported scheme expenses have increased by £47m, the most significant driver (£26m) being the impact of revising the pension deficit recovery liability arising from the deficit recovery plan agreed in the 2020 Valuation.

Excluding charges related to the pension deficit recovery liability, pension management costs have reduced by £2m, while reported investment management costs have increased by £23m. Stronger investment performance led to higher (£3m) cash payments in the year relating to vested long-term incentive plans (LTIP) and has driven higher LTIP provision estimates for future pay-outs. This impact, coupled with a reduced charge last year following COVID-19 impacts, drove a year-on-year increase of £19m. Remuneration paid in the year is analysed further on page 51.

The cost of headcount increases during the year was more than offset by reduced invoiced investment management expenses as a result of the group's in-sourcing strategy and cost efficiency initiatives.

£83m

Total scheme costs are the equivalent of £83m per year lower than the peer benchmark according to the most recent analysis by CEM Benchmarking (for the calendar year 2020)

£289m

Total costs of running the scheme

Costs of running the scheme

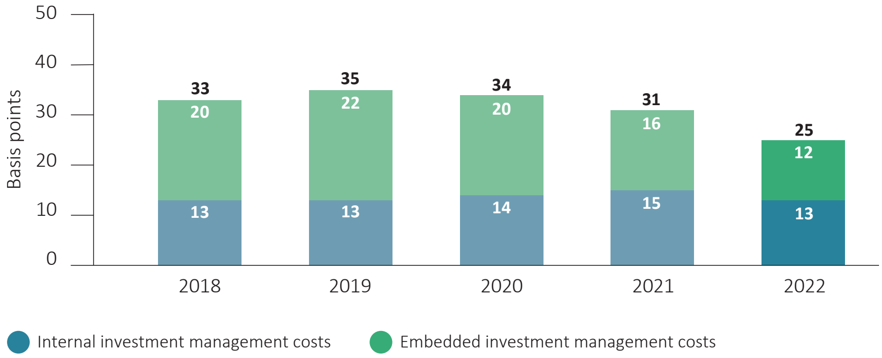
Costs £m	Pension management 2022	Pension management 2021	Investment management 2022	Investment management 2021	Total 2022	Total 2021
Personnel costs (excluding group functions)	13	12	72	47	85	59
Invoiced investment management expenses – including performance and custody fees	–	–	30	35	30	35
Other invoiced expenses (excluding group functions)	14	15	1	2	15	17
Personnel costs (group functions)	8	7	6	4	14	11
Non-personnel costs (group functions)	7	10	13	11	20	21
Reported scheme expenses before pension deficit provision charges	**42**	**44**	**122**	**99**	**164**	**143**
Pension deficit provision charges	6	2	24	2	30	4
Reported scheme expenses	**48**	**46**	**146**	**101**	**194**	**147**
Embedded investment management costs	–	–	95	126	95	126
Total costs of running the scheme	**48**	**46**	**241**	**227**	**289**	**273**

Value for Money

As well as the compensation benchmarking laid out in the Remuneration section (page 49), we undertake a range of other cost benchmarking activities each year. We engage CEM Benchmarking, an independent company, annually to benchmark our investment management and pension management costs against our peers.

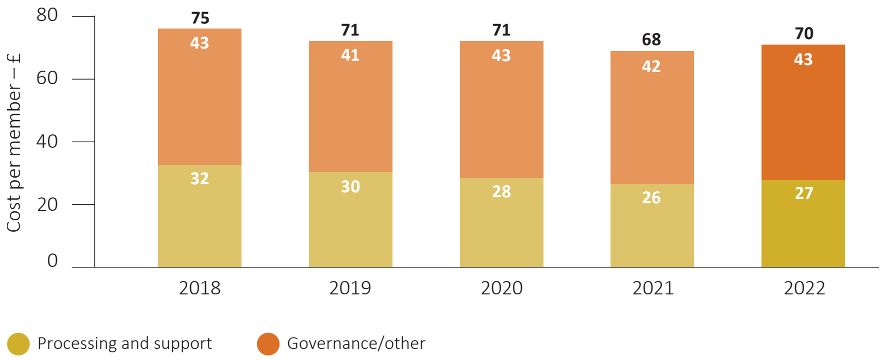
For investment management costs, participants' reported costs are adjusted to harmonise cost treatments and provide like-for-like comparisons using asset-mix adjusted cost/asset ratios. Our investment management costs as a proportion of scheme assets, moved even further below the peer cost benchmark in the most recent survey (2020) where USS was 13 basis points lower, equivalent to £101m below peers.

Investment management cost ratios



Our investment management 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, given market pricing levels, particularly in private assets.

Pension administration cost per member



The CEM Pension Administration survey evidenced that we are broadly in line with our peers in core employer and member processing activities. The most recent survey, 2021, showed that these core processing costs were £26 per member for USS compared to a peer benchmark of £24. Our multi-employer, hybrid benefit and governance structure is not typical of the peer group. The increased complexity of USS relative to peers results in higher support costs, and an overall cost per member of £68, relative to a peer benchmark of £38, equivalent to £18m above peers. We consistently work to improve cost effectiveness while developing our service levels.

The combination of our significant cost advantage in investment management costs more than offsets the additional costs incurred running our multi-employer, hybrid benefit and governance structure. As shown in the Performance Overview section, page 6, CEM Benchmarking also provide a peer comparison for the total costs of running the scheme, which in the most recent survey (2020) showed that USS was 11 basis points lower than the peer benchmark, which is equivalent to a per annum saving of approximately £83m.

Further information on how USS deliver value for money, including more on our in-sourcing/out-sourcing decisions, our investment performance and quality of pension services can be found in the Value for Money Supplement on our website **uss.co.uk/-/media/Project/ USSMainSite/Files/About-us/Report-and-Accounts/Value-for-money.pdf**.

Financial statements

Dedicated USS professionals delivering to high standards

Contents

Audited financial statements consisting of the fund account, statement of net assets and notes.

58 Statement of trustee's responsibilities
59 Independent auditor's report
62 Fund account
63 Statement of net assets
64 Notes to the financial statements

The team from the Birmingham Centre for Railway Research and Education (BCRRE) have been showcasing the hydrogen fuel technology used to power HydroFLEX, the UK's first mainline approved hydrogen powered train. Developed by engineers in BCRRE, in partnership with Porterbrook, the HydroFLEX train is now ready for the next stage of its journey providing zero emission passenger transport services. By utilising green hydrogen (produced with renewable electricity), the fuel cells are emission free and generating clean electricity to propel the train

Statement of trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the trustee. Pension scheme regulations require, and the trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employers and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employers in accordance with the schedule of contributions. Where breaches of the schedule occur, the trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed on behalf of the trustee on 19 July 2022.

Dame Kate Barker
Chair

Independent auditor's report to the trustee of Universities Superannuation Scheme

Opinion[1]

We have audited the financial statements of the Universities Superannuation Scheme for the year ended 31 March 2022 which comprise the Fund Account, the Statement of Net Assets available for benefits and the related Notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the scheme during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of 12 months from when the scheme's annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the scheme's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The trustee is responsible for the other information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Note

1 The maintenance and integrity of the Universities Superannuation Scheme website is the responsibility of the trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibilities of the trustee

As explained more fully in the trustee's responsibilities statement set out on page 58, the trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to wind up the scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.
- We understood how the scheme is complying with these legal and regulatory frameworks by making enquiries of management, including the Group General Counsel, Group Financial Controller, Chief Financial Officer, Head of Compliance, Head of Internal Audit and also the Trustee Board directors including the Chair of the Audit Committee. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence with regulatory bodies.
- We assessed the susceptibility of the scheme's financial statements to material misstatement, including how fraud might occur by meeting with the Trustee Board directors and management to understand where they considered there was susceptibility to fraud. We considered the key risks impacting the financial statements and documented the controls that the scheme has established to address risks identified, or controls that otherwise seek to prevent, deter or detect fraud. We considered the financial reporting risk arising from the potential for management override of controls and the valuation of illiquid assets to be a significant risk. Whilst we have assessed that this override risk is mitigated by the segregation of duties that exists within the scheme, we have performed specific procedures to gain assurance that the risk associated is adequately mitigated. Our audit procedures included verifying cash balances and investment balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is an increased risk of override, and an assessment of segregation of duties. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee Board directors for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator, review of board minutes, journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the scheme, enquiries of senior management and focused substantive testing.

- The scheme is required to comply with UK pensions regulations. As such we have considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the scheme with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the scheme's trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme's trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
London

19 July 2022

Fund account for the year ended 31 March 2022

Contributions and benefits

	Note	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Employer contributions receivable	4	2,546	154	2,700	2,444	150	2,594
Employee contributions receivable	4	124	121	245	130	118	248
Total contributions		**2,670**	**275**	**2,945**	**2,574**	**268**	**2,842**
Transfers in		–	13	13	–	9	9
Total additions		**2,670**	**288**	**2,958**	**2,574**	**277**	**2,851**
Benefits payable	5	(2,056)	(48)	(2,104)	(2,022)	(51)	(2,073)
Payments to and on account of leavers	6	(69)	(5)	(74)	(78)	(7)	(85)
Administrative expenses	7	(45)	(3)	(48)	(43)	(3)	(46)
Total withdrawals		**(2,170)**	**(56)**	**(2,226)**	**(2,143)**	**(61)**	**(2,204)**
Net additions from dealings with members		**500**	**232**	**732**	**431**	**216**	**647**

Return on investments

	Note	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Investment income	8	1,585	9	1,594	1,340	2	1,342
Taxation		(79)	–	(79)	(36)	–	(36)
Change in market value of net investments	9	6,372	112	6,484	12,466	247	12,713
Investment management expenses	7	(142)	(4)	(146)	(96)	(5)	(101)
Net return on investments		**7,736**	**117**	**7,853**	**13,674**	**244**	**13,918**
Net increase in the fund during the year		**8,236**	**349**	**8,585**	**14,105**	**460**	**14,565**
Net assets of the scheme at the start of the year		**80,726**	**1,523**	**82,249**	**66,621**	**1,063**	**67,684**
Net assets of the scheme at the end of the year		**88,962**	**1,872**	**90,834**	**80,726**	**1,523**	**82,249**

Statement of net assets available for benefits as at 31 March 2022

	Note	Defined benefit £m	Defined contribution £m	2022 £m	(Reclassified) Defined benefit £m	(Reclassified) Defined contribution £m	(Reclassified) 2021 £m
Investment assets							
Equities*	9, 13	28,094	879	28,973	25,359	108	25,467
Bonds*	9, 13	41,844	145	41,989	37,513	47	37,560
Pooled investment vehicles*	9, 10, 13	17,490	777	18,267	13,850	1,389	15,239
Derivatives	11	1,732	–	1,732	1,380	–	1,380
Property*	9, 13	3,268	40	3,308	2,619	–	2,619
Cash and cash equivalents	9, 13	2,805	14	2,819	3,062	6	3,068
Other investment balances	12	1,391	2	1,393	1,615	–	1,615
		96,624	**1,857**	**98,481**	**85,398**	**1,550**	**86,948**
Investment liabilities							
Derivatives	11	(2,073)	–	(2,073)	(743)	–	(743)
Other investment balances	12	(5,616)	(2)	(5,618)	(4,037)	–	(4,037)
		(7,689)	**(2)**	**(7,691)**	**(4,780)**	**–**	**(4,780)**
Total net investments		**88,935**	**1,855**	**90,790**	**80,618**	**1,550**	**82,168**
Current assets	17	**258**	**25**	**283**	**243**	**24**	**267**
Current liabilities	18	**(231)**	**(8)**	**(239)**	**(135)**	**(51)**	**(186)**
Net assets of the scheme at 31 March		**88,962**	**1,872**	**90,834**	**80,726**	**1,523**	**82,249**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on page 26 and should be read in conjunction with this report.

The 2021 comparatives for the asset classes marked with a * in the statement above have been reclassified as described in the basis of preparation on page 64. The reclassification impacts defined benefit and defined contribution pooled investment vehicles but only impacts equities, bonds and property at a total level as the defined benefit/defined contribution split of these asset classes was not separately disclosed in 2021.

The financial statements on pages 62 to 83 were approved by the trustee, Universities Superannuation Scheme Limited, on 19 July 2022 and were signed on its behalf by:

Dame Kate Barker
Chair

The notes on pages 64 to 83 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2022

1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2018) (the SORP).

Universities Superannuation Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore not normally liable to income tax on income from investments directly held, nor to capital gains tax arising from the disposal of such investments.

The scheme is a hybrid scheme and historically has not separately disclosed defined benefit and defined contribution within the financial statements as it was not considered material to the accounts. However in anticipation of the increase in the DC element as a result of the 2020 valuation scheme changes, and to enhance disclosure this year in line with the SORP, the DC element of the financial statement balances have been shown in the primary statements and notes to the accounts. To allow comparability the equivalent prior year balances have also been split on a consistent basis to the current year disclosure.

Investment reclassification

Where pooled investment vehicles are internally managed, for the current and prior period, asset balances previously disclosed as pooled investment vehicles have been reclassified to allow separate disclosure based on the underlying investment type. Additionally we have updated the classifications of investment trusts in line with market classifications. The total asset values as at 31 March 2021 have not changed.

2021 as previously stated: equities £23,212m, bonds £37,230m, pooled investment vehicles DB £16,484m, pooled investment vehicles DC £1,422m, and property £2,537m (total £80,885m). 2021 as reclassified: equities £25,467m, bonds £37,560m, pooled investment vehicles DB £13,850m, pooled investment vehicles DC £1,389m, and property £2,619m (total £80,885m).

Going Concern

The financial statements are prepared on the going concern basis, as the trustee considers the scheme to be operationally resilient. In making this assessment, the trustee has reviewed the principal risks and uncertainties facing the scheme as set out on pages 35 to 39 and has concluded that these risks do not cast significant doubt on the scheme's ability to continue as a going concern. The trustee has reviewed the cash flow forecasts of the scheme, for a period of 12 months from the date of signing these financial statements and in doing so has considered the impact of COVID-19, the conflict in Ukraine and other economic factors which have brought about increased market uncertainty. However, the trustee considers the scheme to be operationally resilient. There have been no material operational incidents or losses post year end.

2 Treatment of subsidiary undertakings

The trustee company, Universities Superannuation Scheme Limited, owns the share capital of a number of investment holding companies to aid the efficient administration of the scheme's investment portfolio. In accordance with FRS 102 and the SORP, the trustee is not required to prepare consolidated accounts which include these entities and has chosen not to do so because the companies are held for investment purposes and not as operating subsidiaries. Assets and liabilities held within such companies are included in the appropriate lines in the statement of net assets and an analysis of these net assets is shown in Note 15. Details of these companies may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, Ms N Mayo, at Royal Liver Building, Liverpool L3 1PY.

3 Accounting policies

The principal accounting policies of the scheme are set out below and have been applied consistently by the scheme in both the current and prior year.

(a) Contributions receivable

Contributions represent the amounts returned by the participating employers as being those due to the scheme under the Schedule of Contributions for the year of account and include contributions in respect of deficit funding. The responsibility for ensuring the accuracy of contributions rests with institutions which, under the terms of the trust deed regulating Universities Superannuation Scheme, are ultimately responsible for ensuring the solvency of the scheme. Retirement augmentation receipts and benefits payable are accounted for in the period in which they fall due under the agreement under which they are payable. Employer Section 75 debt contributions are accounted for when a reasonable estimate of the amount receivable can be determined.

(b) Benefits paid or payable

Pensions in payment are accounted for in the period to which they relate. The principal scheme benefits are provided under the main section. The supplementary section, which is funded by a contribution of 0.35% (2021: 0.35%) of salary from the members, provides additional benefits payable when a member retires on the grounds of ill health or incapacity or dies in service.

Where members can choose whether to take their retirement benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis from whichever is the later of the retirement date and the date the scheme is advised of the member's choice. Other benefits are accounted for on the date of retirement or death as appropriate. Opt-outs are accounted for when the scheme is notified of the opt-out.

Where the trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

(c) Transfers in and out

Transfers to and from the scheme are accounted for when member liability is accepted or discharged, which is normally when the transfer amount is received or paid.

(d) Administrative and investment management expenses

Administrative and investment management expenses represent the costs incurred by the trustee company in managing and administering the scheme. These costs are recharged to the scheme in accordance with its rules and recognised in the scheme accounts on an accruals basis.

(e) Investment income

Investment income is brought into account on the following bases:

(i) Dividends, tax and interest from investments, on the date that the scheme becomes entitled to the income.
(ii) Interest on cash deposits and bonds, as it accrues.
(iii) Property rental income, on a straight-line basis over the period of the lease.

(f) Change in the market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

(g) Investments

Investments are included in the statement of net assets at fair value at the year end as follows:

(i) Quoted equities and bonds – Quoted equities and bonds in active markets are stated at closing prices; these prices may be last traded prices or bid market prices depending on the convention of the stock exchange on which they are quoted.

(ii) Fixed interest securities – Interest is excluded from the market value of fixed interest securities and is included within investment income receivable. However, in some global markets, the market value of the fixed income security includes the accrued interest and there will not be any separate interest accruals on these securities.

(iii) Unquoted equities and bonds – Unquoted equities and bonds are stated at fair value as estimated by the trustee using appropriate valuation techniques, for example discounted cash flow models. Direct investments are valued by independent valuation experts or a qualified internal team of valuation experts.

(iv) Pooled investment vehicles – Pooled investment vehicles are stated at unit prices or values as advised by the fund administrator based on the fair value of the underlying assets.

Unit trusts and managed funds

- Unit trusts and managed funds are stated at latest available bid price or single price, as advised by the fund manager, based on the market valuation of the underlying assets.

Private equity funds

- Private equity funds are stated at the latest available cash flow adjusted valuations prepared in accordance with International Private Equity and Venture Capital (IPEV) Guidelines, including, to the extent appropriate, the special IPEV guidance which addressed how to reflect the impact of COVID-19 in subsequent valuations.

Hedge funds

- Hedge funds are stated at fair value based on prices determined by the independent administrator of each respective investment manager.

(v) Derivative contracts – Derivative contracts are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivatives comprise the following types of contracts which are either exchange-traded or over-the-counter (OTC). Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit, such as initial margin to be placed with the broker, are recorded at nil cost on purchase.

3 Accounting policies continued

Options (exchange-traded)

- Options are recognised at the fair value as determined by the exchange price for closing out the option as at the year end. Collateral payments and receipts are reported as broker balances and are not included within realised gains or losses reported within change in market value.

Futures (exchange-traded)

- Open futures contracts are recognised in the statement of the net assets at their fair value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract, as determined by the closing exchange price as at the year end. Margin balances with the brokers represent the amounts outstanding in respect of the initial margin and any variation margin due to or from the broker. Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

Swaps (OTC)

- Swaps (OTC) are recognised at fair value, which is the current value of future expected net cash flows arising from the swap, taking into account the time value of money. Net receipts and payments are reported within change in market value. Realised gains and losses on closed contracts and unrealised gains and losses on open contracts are included within change in market value. The notional principal amount is used for the calculation of cash flow only.

Forward foreign exchange contracts (OTC)

- Forward foreign exchange contracts outstanding at the year end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year end with an equal and opposite contract at that date. Changes in the fair value of forward contracts are reported within the change in market value in the fund account.

Forward purchase bond

- Forward purchase bond contracts outstanding at the year end are stated at fair value. This is determined as the gain or loss that would arise if the asset was sold at that date, using the mark to market value of the underlying bond against the agreed forward purchase price. Changes in the fair value of forward purchase bond contracts are reported within the change in market value in the fund account.

(h) Property

Property is stated at fair value as at the year end date and determined in accordance with the latest version of the RICS Valuation– Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the “Red Book”).

(i) Defined contribution investments

Defined contribution investments are stated at net asset value. Net asset value is calculated in line with the approach set out in notes 3a) to h) where such investments are held in the defined contribution element of the scheme.

(j) Repurchase agreements (repos)

The scheme continues to recognise and value securities that are delivered out as collateral under repurchase agreements and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable.

(k) Foreign currency

The scheme’s functional and presentation currency is pounds sterling. Foreign currency investments and related assets and liabilities are translated into sterling at the rate of exchange on the date of the transaction and subsequently at the rates of exchange at the year end. Exchange differences arising from translation are included in the fund account within the change in market value of investments. Foreign currency income and expenditure is translated at exchange rates prevailing on the appropriate dates, which are usually the transaction dates.

(l) Other investment arrangements

The scheme continues to recognise securities delivered out under stock lending arrangements and as collateral under OTC derivative contracts reflecting its ongoing interest in those securities.

Collateral securities received in respect of stock lending arrangements and derivative contracts are disclosed but not recognised as scheme assets.

The value of collateral received in respect of OTC derivative contracts reflects its fair value.

4 Contributions receivable

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Employer contributions						
Employer contributions	1,834	95	1,929	1,760	93	1,853
Employer salary sacrifice contributions	707	59	766	681	57	738
S75 debt	4	–	4	–	–	–
Augmentation	1	–	1	3	–	3
	2,546	**154**	**2,700**	**2,444**	**150**	**2,594**
Employee contributions						
Members' basic contributions	73	5	78	77	6	83
Main section AVCs	21	116	137	24	112	136
Supplementary section	30	–	30	29	–	29
	124	**121**	**245**	**130**	**118**	**248**
	2,670	**275**	**2,945**	**2,574**	**268**	**2,842**

The scheme offers the following additional contributions facilities:

- Main section AVCs referred to above, represent additional contributions made into the Investment Builder which provides defined contribution benefits from the scheme. Contributions from members who commenced additional contributions on or after October 2016 are paid into main section AVCs.
- Contributions receivable from employers towards the past service deficit are included within employer contributions above. Under the current deficit funding plan, from 1 April 2022 up to 31 March 2024 contributions will be 6.2% of total salaries, increasing to 6.3% from 1 April 2024 up to 30 April 2038.

5 Benefits payable

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Main section						
Pensions	1,687	(8)	1,679	1,641	(2)	1,639
Lump sums on or after retirement	333	54	387	344	50	394
Lump sums on death in service	18	1	19	19	–	19
Taxation where lifetime and annual allowance exceeded	–	1	1	–	3	3
	2,038	**48**	**2,086**	**2,004**	**51**	**2,055**
Supplementary section						
Pensions	16	–	16	16	–	16
Lump sums on death in service	2	–	2	2	–	2
	18	**–**	**18**	**18**	**–**	**18**
	2,056	**48**	**2,104**	**2,022**	**51**	**2,073**

Taxation arising on benefits paid is in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the scheme in exchange for the scheme settling their tax liability.

Notes to the financial statements for the year ended 31 March 2022
Continued

6 Payments to and on account of leavers

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Individual transfers out to other schemes	68	5	73	77	7	84
Refunds of contributions in respect of non-vested leavers	1	–	1	1	–	1
	69	**5**	**74**	**78**	**7**	**85**

7 Administrative and investment management expenses

	2022			2021		
Defined benefit	Administrative expenses £m	Investment management expenses £m	Total £m	Administrative expenses £m	Investment management expenses £m	Total £m
Personnel costs						
Wages and salaries	13	26	39	12	23	35
Employee incentives	2	36	38	2	15	17
Pension costs	8	30	38	2	7	9
Social security costs	2	9	11	2	5	7
Other	–	–	–	1	–	1
Total personnel costs	**25**	**101**	**126**	**19**	**50**	**69**
Other costs incurred in managing and administering the scheme						
Professional fees	8	10	18	10	9	19
Invoiced external manager fees	–	10	10	–	18	18
Securities research fees	–	2	2	–	2	2
Information services costs	2	9	11	3	8	11
Group premises costs	1	3	4	2	3	5
Recruitment, training and welfare	1	2	3	1	1	2
Pension Protection Fund levies	4	–	4	4	–	4
Other costs	4	5	9	4	5	9
Total other costs	**20**	**41**	**61**	**24**	**46**	**70**
Total defined benefit costs	**45**	**142**	**187**	**43**	**96**	**139**
Total defined contribution costs	**3**	**4**	**7**	**3**	**5**	**8**
Total scheme expenses	**48**	**146**	**194**	**46**	**101**	**147**

Administrative expenses[1] are incurred by the trustee company in managing and administering the scheme and, in accordance with the trust deed, are chargeable to the scheme. Investment management expenses[1] comprise all costs directly attributable to the scheme's investment activities, including the operating costs of USS Investment Management Limited and the costs of management and agency services rendered by third parties.

USS operates a hybrid scheme and therefore administrative and investment expenses are incurred, recorded and controlled as a whole. The split between defined benefit and defined contribution presented above is calculated with reference to the Master Trust DC business plan as submitted to TPR for the current and prior year.

Remuneration for Mr Galvin, Group Chief Executive Officer comprises the following elements:

- Included in Administrative expenses-personnel costs is £481,760 (2021: £484,999) in relation to salary and benefits, excluding LTIP and pension-related amounts, (all of which was paid during the year).
- Mr Galvin is eligible to participate in an individual LTIP which vests after 3, 4 and 5 years with payment being entirely related to his performance and the achievement of set objectives; £108,021 (2021: £214,325) was paid during the year.
- Payments in lieu of pension contributions in the year amounted to £47,153 (2021: £48,265). Mr Galvin's accrued Retirement Income Builder pension at 31 March 2022 was £19,386 (2021: £18,803) and his accrued lump sum, including Investment Builder pension was £68,406 (2021: £66,353). These accrued pension benefits relate to amounts earned in respect of services to the scheme and exclude transfers in from other schemes. No pension contributions to the scheme were made in the current or previous financial year.
- Deficit recovery contributions into the scheme were made in the year of £19,535 (2021: £9,653).

The aggregate amount of compensation payable for loss of office to employees during the year was £0.5m (2021: £1.1m) of which £0.3m (2021: £0.3m) was payable to employees whose remuneration exceeded £100,000 during the year.

8 Investment income

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Dividends from equities	599	5	604	447	1	448
Net property income	110	1	111	114	–	113
Income from pooled investment vehicles	262	1	263	196	–	197
Income from bonds	605	2	607	576	1	577
Interest on cash deposits	1	–	1	8	–	8
Expenses from derivatives	–	–	–	(4)	–	(4)
Other income/(expenses)	8	–	8	3	–	3
	1,585	**9**	**1,594**	**1,340**	**2**	**1,342**

Income from property is net of property-related expenses of £10m (2021: £8m). Investment income from overseas investments may be subject to deduction of local withholding taxes under local domestic law. Where double taxation treaties exist between the UK and the country in which the income arises, the tax withheld may be reduced to a lesser rate or to zero by the operation of the relevant treaty. Final withholding taxes suffered, after applying any beneficial treaty rates, are disclosed on the face of the fund account as taxation.

Note

1 Investment management expenses and administrative expenses differ from the investment management and pension administration cost KPIs, as the KPIs do not include annual statutory adjustments such as the movements in the pension deficit recovery provision.

9 Investments reconciliation

The changes in the market value of investments are shown below:

	Note	(Reclassified) Market value Mar 2021 £m	Purchases at cost and derivative payments £m	Proceeds of sales and derivative receipts £m	Changes in value during the year £m	Market value Mar 2022 £m
Defined benefit						
Equities*		25,359	7,551	(6,712)	1,896	28,094
Bonds*		37,513	17,695	(13,742)	378	41,844
Pooled investment vehicles*	10	13,850	3,438	(2,740)	2,942	17,490
Derivatives	11	637	5,886	(7,576)	712	(341)
Property*		2,619	183	(56)	522	3,268
		79,978	**34,753**	**(30,826)**	**6,450**	**90,355**
Cash and cash equivalents		3,062			43	2,805
Other investment balances (net)	12	(2,422)			(121)	(4,225)
		80,618			**6,372**	**88,935**

	Note	(Reclassified) Market value Mar 2021 £m	Purchases at cost and derivative payments £m	Proceeds of sales and derivative receipts £m	Changes in value during the year £m	Market value Mar 2022 £m
Defined contribution						
Equities*		108	873	(147)	45	879
Bonds*		47	125	(24)	(3)	145
Pooled investment vehicles*	10	1,389	412	(1,086)	62	777
Derivatives	11	–	1	(2)	1	–
Property		–	34	–	6	40
		1,544	**1,445**	**(1,259)**	**111**	**1,841**
Cash and cash equivalents		6			1	14
Other investment balances (net)	12	–			–	–
		1,550			**112**	**1,855**

* Items are reclassified, the impact of which is described on page 64.

Changes in the value of investments comprise both realised gains and (losses) on investments sold during the year and unrealised gains and (losses) on investments held at the year end. Please refer to Note 3(g) for the valuation techniques and key model inputs used for determining investment fair values. At 31 March 2022, the scheme's approach to valuation was substantially consistent with its normal process and valuation policy. For the scheme's private market investment holdings, the valuation approach considered estimations regarding both the short and the long-term effects of COVID-19 on their ability to generate earnings and cash flow, and considered the impact of climate change on the valuations. There is a Fair Value Committee to review the valuations policies, processes and their application to individual investments. The trustee has satisfied itself as to the methodology used, the discount rates and other key assumptions applied in the valuations reported at the year end date.

Included in the amount for derivatives are realised and unrealised losses of £908m (2021: £1,672m) from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see Note 11, Derivatives). These are offset by gains in the values of the corresponding overseas assets.

At the year end, within other investment balances, amounts payable under repurchase agreements amounted to £5,079m (2021: £3,257m). At the year end £4,998m (2021: £3,168m) of bonds reported in scheme assets are held by counterparties under repurchase agreements.

Investments purchased by the scheme in respect of the defined contribution section are allocated to provide benefits to the individuals on whose behalf the corresponding contributions were paid. Accordingly, these assets do not form a common pool of assets available for members generally. Members each receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights. All investment assets under the DC section are designated to members.

Defined contribution investments include legacy money purchase AVC investments with Prudential Assurance Company Limited of £184m (2021: £208m). These assets are specifically allocated to secure extra benefits for those members who have made these additional voluntary contributions.

Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the scheme such as advisory fees, commissions and stamp duty. In addition to the direct transaction costs disclosed below, indirect costs are incurred through the bid-offer spread on investments. Transaction costs analysed by main asset class and type of cost are as follows:

	Fees and taxes £m	Commission £m	Mar 2022 £m	Fees and taxes £m	Commission £m	Mar 2021 £m
Defined benefit						
Equities	11	4	15	17	4	21
Bonds	5	–	5	3	–	3
Pooled investment vehicles	2	–	2	4	–	4
Property	10	–	10	1	–	1
	28	**4**	**32**	**25**	**4**	**29**

The defined contribution element of transaction costs is less than £1m and therefore has not been separately disclosed.

10 Pooled investment vehicles

The scheme's pooled investment vehicles at the year end comprised:

	Note	Defined benefit £m	Defined contribution £m	2022 £m	(Reclassified) Defined benefit £m	(Reclassified) Defined contribution £m	(Reclassified) 2021 £m
Equities*		4,133	196	4,329	3,568	744	4,312
Hedge funds		387	–	387	352	–	352
Private equity*		9,971	11	9,982	8,076	5	8,081
Property*		1,922	14	1,936	1,629	55	1,684
Bonds		1,077	284	1,361	225	304	529
Cash		–	88	88	–	74	74
Legacy AVCs		–	184	184	–	207	207
Total pooled investment vehicles		**17,490**	**777**	**18,267**	**13,850**	**1,389**	**15,239**

The 2021 comparatives for the asset classes marked with a * in the statement above have been reclassified as described in the basis of preparation on page 64. 2021 as previously stated: equities DB £3,590m, equities DC £745m, private equity DB £10,607m, private equity DC £37m, property DB £1,710m, and property DC £54m. 2021 as reclassified: equities DB £3,568m, equities DC £744m, private equity DB £8,076m, private equity DC £5m, property DB £1,629m, and property DC £55m.

11 Derivatives

At the year end, the scheme recognised the following derivatives:

	Note	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Assets							
Options	11(a)	599	–	599	88	–	88
Futures contracts	11(b)	125	–	125	336	–	336
Swaps	11(c)	704	–	704	166	–	166
Forward foreign exchange contracts	11(d)	304	–	304	790	–	790
		1,732	**–**	**1,732**	**1,380**	**–**	**1,380**
Liabilities							
Options	11(a)	(177)	–	(177)	(88)	–	(88)
Futures contracts	11(b)	(61)	–	(61)	(78)	–	(78)
Swaps	11(c)	(1,089)	–	(1,089)	(310)	–	(310)
Forward foreign exchange contracts	11(d)	(746)	–	(746)	(265)	–	(265)
Forward purchase bonds		–	–	–	(2)	–	(2)
		(2,073)	**–**	**(2,073)**	**(743)**	**–**	**(743)**
Net (liability)/asset	9, 13	**(341)**	**–**	**(341)**	**637**	**–**	**637**

Objectives and policies

The trustee has authorised the use of derivatives by the investment managers in accordance with the investment guidelines for each mandate. Investment in derivative instruments is only permitted for the purposes of:

- contributing to a reduction of risks
- facilitating efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk)

Processes and controls are in place to ensure risk exposures, including to individual counterparties, are maintained within acceptable levels.

The main objectives for the use of derivatives are summarised as follows:

(i) Protection

Derivatives may be used as part of the permitted instrument types available to managers to protect (or enhance) active returns relative to the specified strategic benchmarks, for example, through the use of options and credit default swaps.

(ii) Modify exposure to asset classes

Derivatives are bought or sold to allow the scheme to change its exposure to a particular market or asset class more quickly than by holding the underlying physical assets. They may also be easier to trade than conventional stocks, particularly in large amounts.

(iii) Hedging

Forward currency contracts are used to partially hedge the currency risk relating to overseas investments. This aims to achieve a better match between the fund's assets and the base currency of its future liabilities. Derivatives may also be used for the purpose of hedging risk exposures affecting future scheme liabilities, for example, through the use of inflation and interest rate swaps.

(iv) Replication

Derivatives are used where liquidity or funding for generating a relevant investment exposure is perceived to be more efficient in derivatives, rather than the underlying physical assets.

Derivative contracts outstanding at year end

A summary of the scheme's outstanding derivative contracts at the year end is set out below. The valuations are based on the unrealised fair values of the various investments as at 31 March 2022. The value of derivatives relating to defined contribution is less than £1m and is not therefore separately disclosed:

a) Options (OTC)

Defined benefit	Expires within	Notional principal £m	Asset £m	Liability £m
Type of option				
Swaption	1 year	7	–	(15)
Currency	1 year	19	13	(10)
Index	1 year	734	586	(152)
		760	**599**	**(177)**

b) Futures contracts (exchange traded)

Defined benefit	Expires within	Notional principal £m	Asset £m	Liability £m
Type of future				
Equities	1 year	2,161	98	(12)
Commodity	1 year	274	–	(15)
Bonds	1 year	878	14	–
Currency	1 year	54	–	–
Interest rate	1 year	2,233	13	(34)
		5,600	**125**	**(61)**

The economic exposure is represented by the notional principal value of stock purchased under the futures contract on an absolute basis and is subject to market movements.

c) Swaps (OTC)

Defined benefit	Expires within	Nature of swap	Notional principal £m	Asset £m	Liability £m
Credit default	11 years	Index	405	2	(17)
	11 years	Single	646	20	(5)
Interest rate	49 years	Fixed vs floating	12,091	312	(837)
Total return	1 year	Equity	9,461	20	(27)
	1 year	Commodity	1,193	144	–
	1 year	Bond	483	–	(195)
Inflation linked	41 years	RPI	1,970	206	(8)
			26,249	**704**	**(1,089)**

11 Derivatives continued

d) Forward foreign exchange contracts (OTC)

Defined benefit

Currency bought	Currency sold	Notional principal £m	Asset £m	Liability £m
GBP	Other	9,978	10	(166)
GBP	USD	14,745	21	(305)
Other	GBP	4,766	20	(64)
Other	USD	7,041	146	(77)
USD	GBP	1,594	30	(2)
USD	Other	5,764	77	(132)
		43,888	**304**	**(746)**

Other currency relates to a number of smaller contracts in denominations not disclosed above. All of the above contracts settle within one year.

At the end of the year the scheme held collateral of £581m (2021: £506m) and pledged collateral of £864m (2021: £52m) in the form of cash and government bonds in respect of OTC derivatives.

12 Other investment balances

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Assets						
Amount due from stockbrokers	30	–	30	212	–	212
Dividends and accrued interest	252	2	254	245	–	245
Margin balances	1,101	–	1,101	1,143	–	1,143
Other	**8**	**–**	**8**	15	**–**	15
	1,391	**2**	**1,393**	**1,615**	**–**	**1,615**
Liabilities						
Amount due to stockbrokers	(97)	(2)	(99)	(180)	–	(180)
Margin balances	(413)	–	(413)	(570)	–	(570)
Repurchase agreements	(5,079)	–	(5,079)	(3,257)	–	(3,257)
Accrued interest	(7)	–	(7)	(10)	–	(10)
Other	(20)	–	(20)	(20)	–	(20)
	(5,616)	**(2)**	**(5,618)**	**(4,037)**	**–**	**(4,037)**
Other investment balances (net)	**(4,225)**	**–**	**(4,225)**	**(2,422)**	**–**	**(2,422)**

During the normal course of business, the scheme enters into derivative transactions which are reflected in the scheme financial statements. As a consequence of the clearing arrangements in respect of these transactions, certain charges have been granted by Universities Superannuation Scheme Limited. No liability is expected to arise as a result of these charges.

13 Fair value determination

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Category 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Category 2: Valuation using directly or indirectly observable inputs other than those included in category 1. Those with quoted prices for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets.

Category 3: Valuation where one or more significant inputs are unobservable market data (in other words, where market data is unavailable).

		2022 category			
Defined benefit	**Note**	**1** £m	**2** £m	**3** £m	**Total £m**
Equities	9	20,809	–	7,285	28,094
Bonds	9	–	36,954	4,890	41,844
Pooled investment vehicles	9, 10	344	2,190	14,956	17,490
Derivatives	9, 11	499	(828)	(12)	(341)
Property	9	–	–	3,268	3,268
Cash and cash equivalents	9	2,805	–	–	2,805
Other investment balances	9, 12	(4,225)	–	–	(4,225)
		20,232	**38,316**	**30,387**	**88,935**

		2021 category (reclassified)			
Defined benefit	**Note**	**1** £m	**2** £m	**3** £m	**Total £m**
Equities*	9	19,336	–	6,023	25,359
Bonds*	9	–	33,234	4,279	37,513
Pooled investment vehicles*	9, 10	287	1,935	11,628	13,850
Derivatives	9, 11	259	378	–	637
Property*	9	–	–	2,619	2,619
Cash and cash equivalents	9	3,062	–	–	3,062
Other investment balances	9, 12	(2,422)	–	–	(2,422)
		20,522	**35,547**	**24,549**	**80,618**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

13 Fair value determination continued

Defined contribution	Note	2022 category 1 £m	2 £m	3 £m	Total £m
Equities	9	780	–	99	879
Bonds	9	–	73	72	145
Pooled investment vehicles	9, 10	2	751	24	777
Derivatives	9, 11	–	–	–	–
Property	9	–	–	40	40
Cash and cash equivalents	9	14	–	–	14
Other investment balances	9, 12	–	–	–	–
		796	**824**	**235**	**1,855**

Defined contribution	Note	2021 category (reclassified) 1 £m	2 £m	3 £m	Total £m
Equities*	9	40	–	68	108
Bonds*	9	–	–	47	47
Pooled investment vehicles*	9, 10	–	1,382	7	1,389
Derivatives	9, 11	–	–	–	–
Property	9	–	–	–	–
Cash and cash equivalents	9	6	–	–	6
Other investment balances	9, 12	–	–	–	–
		46	**1,382**	**122**	**1,550**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

14 Investment risks

Investment risks are set out below as follows:

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate risk and other price risk.

- **Currency risk**: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the Reference Portfolio in place with the scheme's internal investment manager and monitored by the trustee by regular reviews of the activity and performance of the internal manager and of scheme assets relative to the Reference Portfolio.

Further information on the trustee's approach to risk management and the scheme's exposures to credit and market risks are set out below and within the Statement of Investment Principles and Implementation Statement.

This note has been updated this year to separately disclose defined contribution. This separate disclosure was not included or reported within the risk note in the prior year as it was not considered material to the understanding of the risks of the scheme.

Credit risk

The scheme is subject to credit risk because the scheme invests directly in bonds, OTC derivatives, has cash balances and unsettled trades, undertakes stock lending activities, leases properties and enters into repurchase agreements. The scheme also invests in pooled investment vehicles and is therefore exposed directly to credit risk in relation to the instruments it holds in the pooled investment vehicles.

	Investment grade		Non-investment grade		Unrated		Total	
Defined benefit	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Direct non-collateralised								
Bonds not under repurchase or stock loan agreements*	20,719	16,888	2,015	2,707	6,615	7,538	29,349	27,133
Cash	2,804	3,063	–	–	–	–	2,804	3,063
Pooled investment vehicles*	–	–	–	–	17,145	13,562	17,145	13,562
Rent debtors	–	–	–	–	8	15	8	15
Amounts due from stockbrokers	–	–	–	–	26	212	26	212
Sub-total	**23,523**	**19,951**	**2,015**	**2,707**	**23,794**	**21,327**	**49,332**	**43,985**
Direct collateralised								
Bonds lent under repurchase agreements	5,081	3,257	–	–	–	–	5,081	3,257
Bonds lent under stock loan agreements	7,538	7,279	–	–	–	–	7,538	7,279
Equities lent under stock loan agreements	1,899	1,359	–	–	–	–	1,899	1,359
Derivatives	1,021	998	–	–	–	–	1,021	998
Sub-total	**15,539**	**12,893**	–	–	–	–	**15,539**	**12,893**
	39,062	**32,844**	**2,015**	**2,707**	**23,794**	**21,327**	**64,871**	**56,878**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

14 Investment risks continued

	Investment grade		Non-investment grade		Unrated		Total	
Defined contribution	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Direct non-collateralised								
Bonds not under repurchase or stock loan agreements*	66	–	6	–	74	47	146	47
Cash	14	6	–	–	–	–	14	6
Pooled investment vehicles*	–	–	–	–	775	1,389	775	1,389
Rent debtors	–	–	–	–	–	–	–	–
Amounts due from stockbrokers	–	–	–	–	–	–	–	–
Sub-total	**80**	**6**	**6**	**–**	**849**	**1,436**	**935**	**1,442**
Direct collateralised								
Bonds lent under repurchase agreements	–	–	–	–	–	–	–	–
Bonds lent under stock loan agreements	13	–	–	–	–	–	13	–
Equities lent under stock loan agreements	24	–	–	–	–	–	24	–
Derivatives	–	–	–	–	–	–	–	–
Sub-total	**37**	**–**	–	–	–	–	**–**	**–**
	117	**16**	**6**	**–**	**849**	**1,436**	**972**	**1,442**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

Credit risk arising on bonds is managed:
(i) through investment in developed-market government bonds where the credit risk is minimal.

(ii) for corporate and emerging-market bonds and private credit, individual investment mandates set out the maximum permissible exposure to non-investment grade issuers, so as to maintain the overall credit quality of the portfolios.

The use of credit default swaps has the effect of mitigating the maximum exposure to credit risk. The exposure to fixed interest credit risk mitigated through credit derivatives was £181m (2021: £181m).

Cash is held with financial institutions which are at least investment grade credit rated, with the maximum deposit limit for any one counterparty set by reference to its credit rating. Credit default swaps (CDS), spreads and rating notifications are monitored to ensure exposures remain within the approved limits. Money market liquidity funds must have a minimum AAA rating to be eligible for investment and limits are in place on the maximum allowable exposure to any single fund.

The scheme is exposed indirectly to credit risks arising on the financial instruments held by the pooled investment vehicles. Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles holding private market funds, hedge funds and controlled property funds (value of underlying assets subject to credit risk only included in the note).

The DB value at the year end was: private market funds £9,702m (2021: £7,971m), hedge funds £387m (2021: £352m), listed bonds funds £1,077m (2021: £225m) and controlled property funds £24m (2021: £20m).

The DC value at the year end was: private market funds £10m (2021: £4m), DC USS Investment Builder £567m (2021: £1,214m) and £184m legacy AVCs (2021: £208m)

A summary of pooled investment vehicles by type of arrangement is as follows:

	Note	Defined benefit £m	Defined contribution £m	2022 £m	(Reclassified) Defined benefit £m	(Reclassified) Defined contribution £m	(Reclassified) 2021 £m
Unit trusts		440	6	446	1,337	7	1,344
Open ended investment companies (OEICs)*		5,210	752	5,962	1,202	176	1,378
Partnership interests*		11,453	19	11,472	10,959	1,206	12,165
Shares of limited liability partnerships		387	–	387	352	–	352
	9, 10, 13	**17,490**	**777**	**18,267**	**13,850**	**1,389**	**15,239**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

Direct credit risk on pooled investment vehicles comprises the pooled funds shown in Note 10 with the exception of £346m (2021: £309m) investment in exchange traded funds which are not considered to be subject to credit risk as they are traded on an active market.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled investment manager, provisions to automatically dissolve the funds in the event of insolvency of the pooled investment manager or general partner, a cap of liability to pooled funds at the level of funds committed, and diversification of investments among a number of pooled arrangements. Due diligence checks are carried out on the appointment of new pooled investment managers and on an ongoing basis thereafter.

Credit risk arises from the rents due from tenants of the scheme's investment property portfolio. This is mitigated through credit control procedures, regular review of tenant credit ratings and the use of rent deposits where appropriate.

Credit risk arising from amounts due to stockbrokers is mitigated through delivery versus payment settlement in the majority of markets.

Credit risk arising from repurchase activities is mitigated through collateral arrangements which fully collateralise the exposure.

Credit risk arising from stock lending activities is mitigated by restricting the amount of stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and through collateral arrangements. Loans are fully collateralised, with daily mark to market of all loaned securities, to ensure collateral is received or returned to maintain full collateralisation. In addition, the scheme's custodians provide indemnity against losses arising from stock lending exposure to counterparties.

Credit risk arising on derivatives depends on whether the derivative is exchange-traded or OTC. OTC derivative contracts, other than those which are centrally cleared, are not guaranteed by any regulated exchange and therefore the scheme is subject to risk of failure of the counterparty. The credit risk for OTCs, including swaps and forward foreign currency contracts, is reduced by collateral arrangements (see Note 11). OTCs are valued daily and counterparty exposures are fully collateralised subject to de minimis limits.

14 Investment risks continued

Market risk

Currency risk

The scheme is subject to currency risk because some of the scheme's investments are denominated in foreign currencies and/or comprise assets whose economic value is generated in foreign currencies. Currency exposures are monitored and mitigated through a currency hedging policy, through which the Reference Portfolio includes 50% hedging for developed market equity and 100% for developed market fixed income. Derivative holdings are represented on a market value basis within the table below:

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Direct						
Australian Dollar	978	23	1,001	750	8	758
Brazilian Real	713	4	717	38	–	38
Canadian Dollar	456	22	478	470	–	470
Euro	7,332	95	7,427	5,944	28	5,972
Hong Kong Dollar	1,475	35	1,510	1,488	–	1,488
Indian Rupee	620	15	635	1,197	–	1,197
Indonesian Rupiah	394	2	396	421	–	421
Japanese Yen	1,314	58	1,372	1,638	–	1,638
Mexican Peso	631	3	634	588	–	588
South African Rand	630	5	635	403	–	403
South Korean Won	665	14	679	788	–	788
Swiss Franc	882	20	902	617	–	617
Taiwan New Dollar	774	18	792	705	–	705
United States Dollar	23,861	497	24,358	22,584	21	22,605
Other	2,881	40	2,921	2,921	1	2,922
	43,606	**851**	**44,457**	**40,552**	**58**	**40,610**
Less: Foreign currency hedging	(12,465)	–	(12,465)	(12,321)	–	(12,321)
	31,141	**851**	**31,992**	**28,231**	**58**	**28,289**

Indirect currency risk arises on pooled investment vehicles where the vehicle invests in assets which are denominated in foreign currencies and/or comprise assets whose economic value is generated in foreign currencies.

The DB value as at the year end was £11,961m (2021: £9,912m), The DC value as at the year end was £11m (2021: £5m).

Interest rate risk

The scheme's investments are subject to interest rate risk because they include public and private credit, swaps and money market instruments. Also, investments in certain unquoted equities are valued in a way that makes them sensitive to interest rates and are, therefore, directly subject to interest rate risk. Much of this investment-related interest-rate risk provides an offsetting exposure to the interest risk which is inherent to the scheme's liabilities. This serves to mitigate the interest rate risk across the scheme as a whole.

Cash including liquidity funds are exposed to short duration interest rate risk. However, these balances have been excluded from the amounts disclosed below as the interest rate risk involved is immaterial.

	Defined benefit £m	Defined contribution £m	2022 £m	(Reclassified) Defined benefit £m	(Reclassified) Defined contribution £m	(Reclassified) 2021 £m
Direct						
Bonds*	41,844	145	41,989	37,514	46	37,560
Equities*	6,519	100	6,619	5,091	68	5,159
Derivatives	(984)	–	(984)	462	–	462
	47,379	**245**	**47,624**	**43,067**	**114**	**43,181**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

Indirect interest rate risk arises on pooled investment vehicles where the vehicle invests in assets which are exposed to interest rate risk. The value as at the year end relating to pooled investment vehicles – defined benefit was 1,093m (2021: £2,525m) and to pooled investment vehicles – defined contribution was £372m (2021: £378m).

Other price risk

Other price risk arises principally in relation to the scheme's return-seeking portfolio, which includes directly held equities, equities held in pooled vehicles, futures, hedge funds, private equity and investment properties. Derivative values below are based on market value.

The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

	Defined benefit £m	Defined contribution £m	2022 £m	(Reclassified) Defined benefit £m	(Reclassified) Defined contribution £m	(Reclassified) 2021 £m
Direct						
Equities*	28,094	879	28,973	25,359	108	25,467
Derivatives	643	–	643	174	–	174
Property*	3,268	40	3,308	2,619	–	2,619
Pooled investment vehicles*	16,413	406	16,819	13,625	1,017	14,642
	48,418	**1,325**	**49,743**	**41,777**	**1,125**	**42,902**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

Indirect other price risk arises in relation to underlying investments held in pooled investment vehicles holding equity, private market funds, hedge funds and property funds.

The value relating to defined benefit pooled investment vehicles at the year end was; equity £4,133m (2021: £3,568m) private market funds £9,768m (2021: £8,401m), hedge funds £387m (2021: £352m), and property funds £1,904m (2021: £1,628m)

The value relating to defined contribution pooled investment vehicles at the year end was; equity £3m (2021: £nil) private market funds £10m (2021: £11m), legacy AVCs £184m (2021: £208m), DC USS Investment Builder £194m (2021: £799m) and property funds £14m (2021: £nil).

15 Subsidiaries controlled by Universities Superannuation Scheme

The net assets of subsidiary companies through which the scheme holds investments are summarised in aggregate below.

	2022 £m	(Reclassified) 2021 £m
Equities	7,087	3,500
Bonds	3,436	2,023
Pooled investment vehicles*	7,467	7,972
Property*	80	82
Cash	18	10
Other investment balances	(118)	(54)
	17,970	**13,533**

* Items are reclassified, the impact of which, at an investment type level, is described on page 64.

16 Self investment

The scheme had no 'employer-related investments' at year end, as defined by relevant legislation, except equity and loan investments made in the normal course of business in certain investment holding companies. The funding of these investment vehicles, which are held for investment purposes and are not operating subsidiaries as explained on page 64, amounts to 1.42% (2021: 1.56%) of the net assets of the scheme.

17 Current assets

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Contributions receivable:						
– employer contributions	207	13	220	186	11	197
– members' basic contributions	8	1	9	10	1	11
– members' additional voluntary contributions	2	9	11	2	9	11
Other debtors	25	–	25	23	–	23
Cash at bank and in hand	16	2	18	22	3	25
	258	**25**	**283**	**243**	**24**	**267**

Contributions due at the year end have been paid to the scheme subsequent to the year end in accordance with the Schedule of Contributions.

18 Current liabilities

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Benefits payable	(120)	(3)	(123)	(106)	(3)	(109)
Taxation creditor	–	–	–	(6)	–	(6)
Due to trustee company	(110)	(4)	(114)	(68)	(2)	(70)
Other creditors	(1)	(1)	(2)	44	(45)	(1)
	(231)	**(8)**	**(239)**	**(136)**	**(50)**	**(186)**

19 Securities on loan

Securities have been lent to the counterparties in return for fee income earned by the scheme. Security for these loans is obtained by holding collateral in the form of cash, equities, government bonds and letters of credit.

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Value of stock on loan at 31 March						
Equities	1,899	24	1,923	1,359	–	1,359
Bonds	7,538	13	7,551	7,279	–	7,279
	9,437	**37**	**9,474**	**8,638**	–	**8,638**
Collateral held	**10,068**	**40**	**10,108**	**9,262**	–	**9,262**

20 Financial commitments

	Defined benefit £m	Defined contribution £m	2022 £m	Defined benefit £m	Defined contribution £m	2021 £m
Outstanding commitments	5,850	20	5,870	5,150	8	5,158

These represent amounts subscribed and committed that had not been drawn down at the year end and are committed for draw down in the next five years.

21 Related party transactions

Related party transactions are defined as either employer-related transactions or trustee-related transactions. There were no transactions with employers in either the current or preceding years, other than those identified as employer-related investments disclosed in Note 16. Such transactions are performed in the normal course of business and at an arm's-length. The only trustee-related transactions in either the current or prior year relate to the day-to-day administration of the scheme by the trustee company and its subsidiary, and the membership of the scheme of certain Trustee Board members or key management personnel. The membership of those Trustee Board directors is through past or present employment with the scheme employers and accordingly is in the normal course of business on an arm's length basis. Similarly, membership of key management personnel which arises on account of their employment by the trustee company, is based on the same conditions as all members and is therefore considered to be on an arm's-length basis and in the normal course of business.

Administrative and investment management expenses incurred by the trustee company are shown in Note 7. All transactions are solely for the purposes of effectively administering the scheme.

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Universities are supporting research into the use of seaweed to reduce methane emissions from cattle

Chair's defined contribution statement

The purpose of this statement is to explain how the trustee ensures that the scheme is governed and managed to the standard required by legislation and expected by The Pensions Regulator (TPR).

Investment Builder, the defined contribution (DC) element of the Universities Superannuation Scheme (the scheme), was introduced in October 2016.

This is the sixth annual statement from the Chair of the trustee (Universities Superannuation Scheme Limited) regarding the governance of the Investment Builder and the scheme's money purchase AVC arrangement with the Prudential Assurance Company Limited.[1]

The content of this statement is structured around the following areas:

1 Investment design: the default investment approach and other investment options available to members.

2 Fund performance and governance: management of investment options to ensure investment performance is at appropriate levels compared to risks, benchmarks and charges and that the fund selection remains appropriate.

3 Administration: demonstrating how core financial transactions are processed promptly and accurately.

4 Value for members: how costs and charges, including transaction costs, are managed, monitored and recorded, and how this provides value for money to our members.

5 Trustee knowledge and understanding: how the Trustee Board ensures that it has the skills and competencies required for the role it performs and how the requirements regarding non-affiliation of trustee directors are met.

6 Member communication, engagement and representation: how the scheme engages with members (and member representatives) and encourages member feedback to improve member experience.

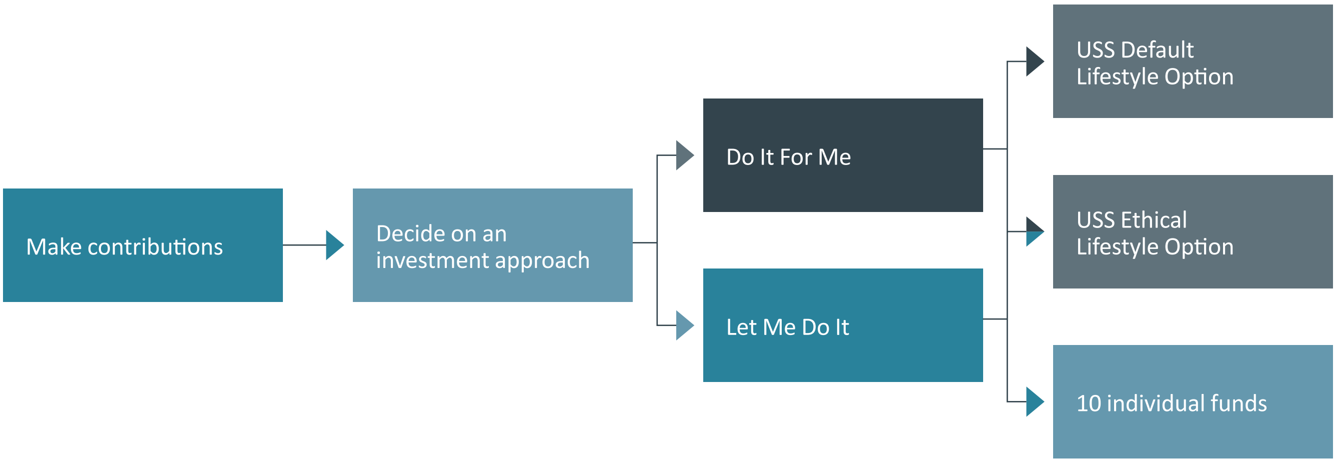
1 Investment design

The Investment Builder provides members with a choice of whether to use the default investment approach designed by the trustee, to use an alternative ethical lifestyle option which has the same objectives, or to actively manage their investments themselves through a choice of self select funds. Members have funds in the Investment Builder if they have had earnings above the salary threshold (£59,883.65 for the 2021/22 financial year), made additional contributions, or have transferred funds into the scheme since October 2016.

The investment choices fall into two broad categories reflecting the degree of self-management that members wish to undertake:

- Do It For Me – a choice between two lifestyle options – the USS Default Lifestyle Option and the USS Ethical Lifestyle Option. Both lifestyle options automatically adjust to reduce risk as the member approaches their target retirement age (TRA)

Key investment decisions available are:



Note

1 Prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended from time to time).

Default investment approach: USS Default Lifestyle Option

At outset
Invested in the USS Growth Fund to provide greater opportunity to generate investment returns over the longer term

10 to 5 years from target retirement age
Half of funds switched progressively into the USS Moderate Growth Fund to reduce the overall level of risk

5 years or less from target retirement age
Start switching funds progressively into the the USS Cautious Growth Fund and the USS Liquidity Fund

At and beyond target retirement age
Invested 25% in the USS Moderate Growth Fund, 50% in the USS Cautious Growth Fund and 25% in the USS Cash Fund

- Let Me Do It – a choice of 10 individual funds if members wish to customise their approach. These are referred to as the self-select options. The self select options offer a range of investment types with different levels of risk and prospective return to cater for a range of investment objectives and beliefs

It is also possible in some circumstances for a member to adopt a combination of the two categories outlined above.

Members who make no decision about investment approach are invested in the USS Default Lifestyle Option. As at 31 March 2022, 83% of the active membership were fully invested in the USS Default Lifestyle Option with a further 10% choosing a combination of the USS Default Lifestyle Option and individual funds. The remaining members were wholly invested in either the individual funds (4%) or the USS Ethical Lifestyle Option (3%).

My USS portal

By logging on to the member portal (My USS), members can manage their Investment Builder at any time:

- Changing investment choices for their existing funds or future contributions, including moving between the Do It For Me and Let Me Do It options
- Changing the level of contributions
- Amending their TRA
- Updating their contact details and contact preferences

Default investment approach: USS Default Lifestyle Option

The USS Default Lifestyle Option is designed to reflect the different investment needs of a member during their working life and as they approach their TRA. If a member has not set their own TRA, it will be set to the scheme's normal pension age at the time they join Investment Builder (currently age 66).

Design of the USS Default Lifestyle Option

The default option was designed in advance of the Investment Builder launch in October 2016, explicitly taking into account the hybrid structure and demographics of the scheme and considering the findings of:

- A large survey with members to understand their risk appetite and investment beliefs
- Projections of member benefits and the relative role of defined benefit (DB) and defined contributions (DC) benefits at retirement
- Focus groups with members to understand their views on DC benefits and their plans for how they might use their funds at retirement
- Extensive investment strategy modelling to consider different risk and return profiles and asset allocation strategies

The conclusions from this research and a corresponding set of 'Policy Beliefs' that have been updated since launch and guide the development of Investment Builder funds are published at **uss.co.uk/-/media/ Project/USSMainSite/Files/How-we-invest/Investment-Builder-Policy-beliefs.pdf**.

On 1 April 2022, the structure of future benefit accrual in the scheme changed, including a reduction in the salary threshold above which contributions go towards DC benefit to £40,000, a reduction in the accrual rate of DB benefits below that threshold, and changes to future uprating of DB benefits.

The trustee considered the impact of these changes on the DC section and concluded that:

- there would be an immediate increase in membership of the DC section of around 50,000
- a further 65,000 active members would see a significant increase in contributions going towards DC benefits
- over time, DC benefits will play an increasingly important role in the retirement benefits of many USS members

The trustee considered that these changes were likely to result in a material change in the demographics of the DC section, and carried out a pre-emptive review of the default strategy and the performance of the default arrangement, and of the overall suitability of the DC element, in line with Regulation 2A(2) of the Occupational Pension Schemes (Investment) Regulations 2005.

The review was carried out from November 2021 to February 2022 and, with the support of our investment advisers, the Trustee Board adopted the conclusions in March 2022 following confirmation of changes to the scheme. The conclusions drawn in relation to the review of the default strategy and overall suitability of the DC section were:

- The demographics of the scheme would shift to younger members, but members would still typically have smaller pots until later in their career

- The build up of DB benefits, although reduced, would still be significant for most members, particularly for members retiring over the next 5-10 years
- Over this period, we would still expect most members to be taking their DC benefits as cash at retirement, although we would expect other uses to grow slowly
- The adoption of a universal glidepath, reflecting the unique characteristics of the scheme, remained preferable to forcing member choice between alternative glidepaths targeting specific outcomes

As a result, the trustee concluded that the requirements for the three phases of the default strategy remained appropriate.

The trustee carried out a further regulatory review of the Default Lifestyle Option Statement of Investment Principles (SIP) and default fund performance after the scheme year end taking into account that the demographic changes were materially as expected, and confirmed its original conclusions. Additionally, in conjunction with a wider review and updates to the main USS SIP after the scheme year end, on 24 May 2022 the trustee adopted an updated version of the Default Lifestyle Option SIP incorporating stylistic and clarificatory changes and amendments to align with the trustee's updated investment beliefs.

The details of the review of the performance of the default arrangement is confirmed below under 'Fund Performance and Governance'.

The next statutory review of the USS Default Lifestyle Option will be carried out in line with legislative requirements. However, the suitability of the Investment Builder product will also be reviewed annually by the trustee, including considering how members respond to the new structure.

A full description of the USS Default Lifestyle Option is included in the latest USS Default Lifestyle Option Statement of Investment Principles (SIP) on pages 101 to 104 (annexed to and immediately following this Chair's DC Statement). The latest SIP can also be found on the USS website.

Prudential money purchase AVCs
In addition to the funds offered in Investment Builder, some scheme assets are managed by Prudential.

These assets relate to the money purchase AVC (MPAVC) arrangement previously in place. Prudential funds are closed to new contributions.

Members with Prudential funds can choose to transfer them into Investment Builder or retain them in the AVC arrangement.

2 Fund performance and governance

The trustee has appointed USS Investment Management Limited (USSIM) as its investment manager. USSIM monitors the performance of each of the investment options offered to members within the Investment Builder monthly. It also reviews the performance of any remaining funds held under the Prudential money purchase AVC arrangement on an ongoing basis.

USSIM provides regular investment performance reports to the trustee's Investment Committee which is responsible for the oversight of the performance of the Investment Builder.

The Investment Committee provides the trustee with a report on its activities and any recommendations arising after each meeting.

In February 2022, following the Pensions Committee suitability review, the Investment Committee carried out an in-depth look at the ongoing suitability of the Default Lifestyle Option and SIP prior to the scheme change activity due to occur on 1 April 2022.

In March 2022, the Investment Committee reviewed the performance of the Default Lifestyle Option, including examining returns in relation to different groups of members, and concluded that the returns for all groups of members were consistent with the aims and objectives set out in the USS Default Lifestyle Option Statement of Investment Principles. In summary, the Default Lifestyle Option seeks to generate returns in excess of inflation during the growth phase of the strategy with a degree of downside risk mitigation and to provide exposure, at retirement, to a portfolio of assets to align as much as possible with how a member is likely to use their savings at and into retirement.

The Investment Committee therefore concluded that the Default Lifestyle Option strategy and wider fund range remained appropriate and recommended that these were not changed. A similar review was also carried out in relation to other funds available in the Investment Builder and reached the same conclusion. The recommendations from these reviews were approved by the trustee prior to scheme year end.

Since their appointment in February 2020 Lane Clark & Peacock (LCP) have acted as external investment consultant to the trustee. This appointment helps to provide robust, independent challenge on all investment matters relating to members' DC benefits. This is separate from, and additional to, the investment advice that the trustee receives from USSIM as principal investment adviser to the trustee.

3 Administration

The trustee operates and reviews a suite of processes and controls designed to (i) ensure that those who are carrying out scheme administration have the appropriate training and expertise and (ii) enable a continuous and consistent service in the event of a change of administrator personnel or administration provider, including the business continuity plan that is tested periodically.

Quality assurance is embedded in scheme procedures as the trustee recognises that delay and error in these financial transactions can cause losses to members. The financial transactions for the Investment Builder arrangement include (but are not limited to):

- Receipt, reconciliation and investment of contributions to the scheme
- Transfers of assets relating to members into and out of the scheme
- Transfers of assets relating to members between different investment options within the scheme, including operation of the glidepath for the lifestyle options
- Payments from the scheme to, or in respect of, members

The trustee has considered the processes, controls and reports and is assured that the scheme has processed core financial transactions promptly and accurately and, to the extent of any delays or errors, those transactions have been or will be dealt with in accordance with the scheme's remediation process to ensure members experience no material shortfall.

More detail on processes and how they operate in practice is provided below.

Strategic partnerships

The trustee has established strategic partnerships with two external suppliers to deliver different aspects of Investment Builder, namely:

- Capita: provides the pensions administration IT system for the scheme and all DC-related back office administration services
- Northern Trust: provides the investment platform

Working with these two partners, the trustee closely monitors end to end financial transactions to ensure prompt and accurate processing. This is achieved by delegation of this function to various dedicated teams, which are described in more detail below. We conduct monthly service reviews with the partners. The reviews are underpinned by comprehensive monthly stewardship and management information reports which include month by month performance against service level agreements (SLA) attributable to the processing of the core financial transactions explained earlier. Collaboration between the dedicated teams and the external partners is critical and appropriate systems and processes are in place to ensure smooth and timely communication.

The trustee has a dedicated Supplier Relationship Manager to oversee its strategic relationship with key suppliers to the Pensions segment of the company, including Capita.

Although the day-to-day oversight remains with the dedicated teams, the Supplier Relationship Manager provides a point for escalation of any matters that the teams deem appropriate.

Core transactions
Contributions
Daily reconciliation of contributions receipts into the trustee bank account are made and DC related contributions are sent to Capita for investment the subsequent day.

The Service Level Agreement between Capita and the trustee requires contributions to be invested by the end of the third working day following receipt or reconciliation against member records where this occurs later. Any delays in reconciliation are investigated to identify thematic issues which require improvement.

Processes and controls are now established across both employer and USS teams and, assisted by a significant degree of process automation, provide assurance to the trustee that queries and issues are identified and addressed promptly.

A dedicated USS Client Engagement Team works with employers on a daily basis to manage contribution cycles effectively and to monitor validation matters or queries. Where validation matters are not addressed within prescribed timescales, and therefore contributions not allocated to member records, an automatic loss remedy procedure is invoked to ensure members experience no material shortfall as a result of these investment delays. Performance in this area is particularly strong with zero validation queries outside of the prescribed timescales.

The USS Pensions Operating Group and DC Product Governance Committee monitors receipt and investment of contributions on a monthly basis. Any significant matters are also reported to the trustee.

Transfers into and out of the scheme
Transfers in and out of the scheme are overseen by the USS Transfers Team. Transferred monies are sent directly to the DC bank account which is operated by Capita. To ensure out of market exposure is limited, the USS Transfers Team work closely with the Capita DC Back Office Team to identify these payments and send them for investment within two days of receipt.

Members can transfer out their Investment Builder funds to another registered pension scheme at any time, subject to none of their funds being in payment. Members can initiate a transfer by completing a form available online, following which the scheme aims to complete its due diligence procedures and make the transfer within 15 working days (excluding any time allocated to dialogue and correspondence with the receiving scheme).

Switching of investments
Switching of investments happens automatically for those members with funds invested in the scheme's lifestyle options and who are within 10 years from their TRA. The switches operate in line with the scheme's glidepaths, which stipulate the gradual movement of investments from higher to lower risk funds. Automatic switches are sample checked by Capita and the USS Pension Operations team to ensure they have been completed in accordance with the glidepaths.

Members can also voluntarily switch investments between funds via a digital form on the member portal, My USS. Switches are transacted within one working day of the member's instruction. Controls are in place to ensure that voluntary switches are executed to the member's instruction and completed within expected timescales.

Members can choose to switch funds invested with the MPAVC provider (Prudential) into the Investment Builder. Once payments have been received, they are sent for investment within two days of receipt.

Payment of pensions and other amounts to members
Disinvestment of members' DC funds are completed within three working days from the request being made to the DC administration team, once all preparatory work for the payment to members has been completed by our Pensions Operations team.

Pension commencement lump sum (PCLS) and uncrystallised funds pension lump sum (UFPLS) payments are made directly to members' bank accounts from the scheme. Once a payment request has been confirmed, payment of a PCLS is made on the first day following the member's date of retirement. Pension payments are made on the 21st of each month. UFPLS payments also go through the pension payroll, however, USS operates a daily payroll cycle for these payments to ensure that they are paid to members in the shortest time possible.

During the scheme year, no material issues have been encountered in relation to the processing of core transactions promptly and accurately.

Quality controls

The trustee ensures that core financial transactions are processed promptly and accurately by:

- Defining the timescales and associated Service Level Agreements (SLAs) both internally and with the third-party service providers (see below) that accord with The Pensions Regulator's DC Code of Practice number 13 (Governance and administration)
- Requiring monthly reporting and assessment against the SLAs
- Designing appropriate and effective controls to mitigate the risk of inaccurate or protracted transactions, including peer review of all transactional processes
- Identifying errors or delays that have affected Investment Builder investments and rectifying these in conjunction with the DC Errors & Omissions Policy
- Monthly reviews of the effectiveness of the controls and the timeliness of information processing, performance against SLAs, the accuracy of transactions and operational risk issues, which is carried out by the DC administration team – the results are reported to various committees including the Pensions Executive Committee
- Completing monthly reconciliation exercises to ensure that unit holdings are consistent between the administration platform and the fund manager (Northern Trust)
- Carrying out regular data review exercises to ensure that the data held in relation to members' DC benefits is complete and accurate, with conditional data reviewed on a monthly basis and additional checks carried out on other data at least four times a year to ensure that fund choices, values and all key Statutory Money Purchase Illustration (SMPI) data requirements are present and correct
- Developing a DC assurance dashboard to comprehensively assess the accuracy of members' core DC data held on the administration platform and to provide an extra layer of assurance
- Leveraging assurance reviews completed by the USS Internal Audit team who carry out periodic risk-based audits across key processes and controls
- Commissioning an external annual audit (performed by Ernst & Young LLP) to provide external assurance that the financial statements are free from material misstatement
- Where there is delay or inaccuracy in the processing of DC transactions by USS, members' losses are remediated in accordance with the Scheme's DC Errors and Omissions Policy

The trustee also routinely considers administration of the scheme on a quarterly basis. Failure to process financial transactions promptly and accurately is recognised as a risk on the risk register. Risk reporting is considered quarterly at Trustee Board. Records of any issues in this area are also kept and the need to report any failures to The Pensions Regulator is considered and documented.

Information Security

USS has multiple controls to ensure scheme members' data is secure and processed in accordance with the Data Protection Act 2018 and other data protection requirements, including:

- Senior management commitment to Information Security and Data Protection, with oversight and sign off of key policies
- A dedicated Information Security team
- Ongoing maintenance of the international information security accreditation, ISO 27001
- Delivery of regular Information Security and Data Protection education and awareness training to employees
- Implementation of appropriate technical and organisational cyber controls

4 Value for members

Costs and charges

Charges and transaction costs borne by members can have a significant impact on the value of their Investment Builder funds. In recognition of this, the approach to, and appropriate level of, member charges was subject to extensive discussion as part of the design of the Investment Builder. Costs and charges are benchmarked against a range of other DC schemes at least annually, as are the services offered by the scheme in exchange.

Typically, the majority of members who are invested in the Investment Builder do not incur any direct charges. This is because employers meet all administration costs of the scheme. They also subsidise investment costs up to 0.30% on all funds resulting from normal and additional contributions.

In practice, this means the charges for all of the funds offered are covered entirely by the scheme subsidy. Funds resulting from transfers into the scheme, and funds built with legacy AVCs managed by Prudential do not qualify for this subsidy and therefore incur a charge on funds under management as set out in the tables on page 92.

USS Default Lifestyle Option – notional charges

While employers meet the majority of the costs of Investment Builder on members' behalf, for transparency, estimated notional charges are included below to demonstrate what members would pay if they met the full cost.

The trustee reviews this notional charge on an annual basis and benchmarks it against the wider industry, noting the challenges in direct cost comparisons arising from the scheme's hybrid status and the additional complexity of running such an arrangement. A review of the level of the notional charges was completed in May 2022.

The notional charging structure for the USS Default Lifestyle Option is a single notional charge of 0.50% of the member's fund value, including 0.30% for investment management charges and 0.20% in respect of pension management and other services provided by the scheme.

In the 12 months to 31 March 2022 the trustee made several changes to the underlying investment managers within the Do It For Me and Let Me Do It options. Value for members was a key consideration when these changes were being proposed and approved.

In March 2022, the developed markets equities within the USS Default Lifestyle Investment Option and USS Global Equity Fund were transitioned to be invested in line with a new carbon intensity reducing benchmark. The new benchmark rewards companies which can demonstrate they are on the path to lowering greenhouse gas emissions by giving them a higher weighting. The opposite is true of companies that cannot demonstrate this.

The developed markets equities in Investment Builder being managed in this way were in excess of £650m as at 31 March 2022. The allocation is managed in the same way as an allocation in Retirement Income Builder (the scheme's DB section), meaning in aggregate the mandate was in excess of £5bn as at 31 March 2022.

Managing the portfolio in this way allows both Investment Builder and Retirement Income Builder to benefit from economies of scale when delivering value for members.

Self-select options

The trustee has considered the cost and charges of the Let Me Do It options, including the USS Ethical Lifestyle Option, and compared these to those for the USS Default Lifestyle Option. Investment cost is based on the member's total fund value for the self-select fund options, and charges (pre-subsidy) range from 0.10% to 0.30%, as shown in the tables on page 92.

Transaction costs

This section of the Chair's DC Statement reflects the latest legal requirements and the October 2021 DWP guidance in this area, which the trustee has taken into account, along with other regulatory guidance issued from time to time.

Transaction costs are the costs associated with buying and selling units within a fund. There are three components (the first two of which are one-off costs):

- Purchase costs – these are the costs of making new investments into a fund
- Selling costs – these are the costs of selling out of a fund
- Embedded costs – these costs can be explicit and therefore easily identifiable (such as taxes, levies, and broker commissions) or implicit and therefore less readily defined and may include the response of the market to a trade or the timing of a trade (market impact, opportunity cost, and delay costs)

There may be times when there is a negative embedded cost (in other words, a gain is shown) due to market impact. The potential transaction costs for buying and selling funds vary over time and with market conditions. Transaction costs within Investment Builder are minimised as far as possible by netting sales and purchases and using new cash flows for rebalancing funds to target

The Cost Transparency Initiative (CTI) is an industry body overseeing the introduction of standardised templates for reporting of costs and charges by suppliers of investment services. The trustee has adopted their templates for the purpose of collecting transaction cost information from the external investment managers.

Without exception, the external investment managers have all provided the requested data in this format for the period 1 January 2021 to 31 December 2021. The data collected for periods prior to 1 January 2019 used the DC workplace pensions template developed by the industry working group for the purpose of providing insurers with transaction cost data in accordance with COBS 19.8.4R. The trustee continues to build up transaction cost data each year in line with TPR guidance.

The embedded transaction cost data provided for the funds in the AVC arrangement with Prudential was an aggregate figure rather than being collected via the CTI template. The transaction cost data received for the period 1 January 2021 to 31 December 2021 has been aggregated with data from prior periods (as described above) to calculate the average transaction costs shown in the tables and illustrations on pages 92 to 96.

The tables on the following pages provide the details of the (pre-subsidy) investment management costs and specific transaction costs for both the USS Default Lifestyle Option and the Let Me Do It funds (including the USS Ethical Lifestyle Option).

As mentioned above, no members pay the 0.20% notional cost of pension management services applicable to all of the scheme's funds so this cost has not been included in the tables below. Sale and purchase costs for the USS DC Funds range up to 0.32% for the USS Default Lifestyle Option and up to 0.15% in the USS Ethical Lifestyle Option. Exact costs will depend on the particular funds members are invested in, whether they are buying or selling and the day on which they deal.

The costs apply to the investment of contributions, requests by members to switch between funds or disinvest funds, automatic switching as part of the scheme's lifestyle options and transferring assets in from schemes outside USS. Transaction costs include advisory fees, commissions and stamp duty (stamp duty is applicable on property and UK equity purchases only, not sales).

Overall value for members

Delivering good value for both employers (who subsidise the costs of the Investment Builder) and members is fundamental to the scheme.

In designing and managing the Investment Builder, the trustee focused on using the scheme's scale and expertise to deliver a high quality, cost-effective DC arrangement as part of the overall hybrid scheme.

For the third year running the trustee has worked with Redington to undertake a value for member benchmarking exercise with Master Trust peers.

Assessment framework

The Redington benchmarking exercise considered our performance alongside that of the six peers across six service characteristics compared to the value members receive for those services. This was based on a completed questionnaire and additional insight gained from meetings with management.

Weightings were agreed for the service characteristics to reflect what matters most to members' retirement outcomes. Administration and Investment capabilities were given the greatest weighting.

The trustee is satisfied that the quality of the Investment Builder product and service is high relative to both the costs of running it and the charges borne by members pre- and post-subsidy, and that the scheme offers good value for members.

The Redington assessment, when compared to last year, showed the greatest improvement in the areas of Communications and Environmental, Social and Corporate Governance (ESG). The development to improve readability and segmentation of email communications was noted as an area of improvement.

The Investment Builder scored highest in the Investment category, with robust controls and innovations in areas such as private markets investments within the USS Default Lifestyle Option. Redington also noted the simple charging structure as a clear differentiator in demonstrating and offering good value for members.

Overall, the Redington assessment concluded that the scheme continues to rate ahead of the other master trusts assessed. The trustee uses the Redington assessment, alongside input from advisers, employers and members to strive to continually improve and enhance the Investment Builder product so that it continues to demonstrate and deliver good value for members.

Transaction costs and charges for the year ended 31 March 2022

Funds in the USS Default Lifestyle Option

Fund	IMC	Purchase (max)	Sale (max)	Embedded
	Transaction costs and charges (%)			
USS Growth	0.30	0.32	0.07	0.08
USS Moderate Growth	0.30	0.31	0.10	0.09
USS Cautious Growth	0.30	0.25	0.12	0.09
USS Liquidity	0.10	0.00	0.00	0.01

Funds in the USS Ethical Lifestyle Option

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Ethical Growth	0.30	0.11	0.09	0.08
USS Ethical Moderate Growth	0.30	0.14	0.13	0.06
USS Ethical Cautious Growth	0.30	0.15	0.15	0.04
USS Ethical Liquidity	0.10	0.00	0.00	0.01

Self-select Funds

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Growth	0.30	032	0.07	0.08
USS Moderate Growth	0.30	0.31	0.10	0.09
USS Cautious Growth	0.30	0.25	0.12	0.09
USS Liquidity	0.10	0.00	0.00	0.01
USS Bond	0.20	0.00	0.12	0.06
USS UK Equity	0.10	0.58	0.08	0.05
USS Global Equity	0.10	0.09	0.05	0.00
USS Emerging Markets Equity	0.30	0.14	0.18	0.12
USS Ethical Equity	0.30	0.08	0.06	0.10
USS Sharia	0.30	0.00	0.00	0.03

Funds in an AVC arrangement with Prudential

Fund	IMC	Purchase (max)	Sale (max)	Embedded
With-Profits Cash Accumulation	Up to 1%	Not applicable	Not applicable	0.07
Deposit	Not applicable	Not applicable	Not applicable	0.00
International Equity	0.65	0.18	0.18	0.08
UK Equity	0.65	0.70	0.22	0.00
Index-Linked	0.65	0.14	0.14	0.10
Discretionary	0.65	0.32	0.18	0.07
Fixed Interest	0.65	0.06	0.06	0.01
LGIM Ethical Global Equity Index	0.85	0.10	0.05	0.00
UK Equity Passive	0.45	0.61	0.11	0.09
Cash	0.65	0.00	0.00	0.00

Notes for the transaction cost information included in the tables above:

1 Purchases and sale costs are maximum costs. Actual realised costs may be much lower.
2 A negative embedded cost indicates a positive impact, i.e. a gain. This may be due to implicit costs such as market timings.
3 IMCs and embedded fees are calculated on a per annum basis, sales and purchases are one-off costs.
4 Prudential embedded transaction costs are the average over the period from January 2019 to 31 December 2021.

Net Investment Returns

The trustee is required to provide net investment returns for funds that members were invested in during the scheme year to 31 March 2022, including the USS default investment option. The trustee has taken account of statutory guidance when preparing this section of the statement.

The historic net investment returns shown are not a guide to future returns, which may vary over time.

Funds/Investment Options in the Investment Builder

As set out in more detail in the sections above, employers currently subsidise investment costs up to 0.30% on all Investment Builder funds resulting from normal and additional contributions. Investment Builder funds resulting from transfers into the scheme and funds from legacy AVCs managed by Prudential do not qualify for this subsidy. Therefore, the investment returns in the following tables are shown both before (within brackets) and after (outside of brackets) the scheme subsidy to reflect that the net investment returns experienced by members will be dependent on the extent to which their funds are covered by the subsidy.

Investment Builder was introduced in October 2016, and we have shown the net investment returns over one-year and five-year periods to 31 March 2022 only.

Funds in an AVC arrangement with Prudential

The legacy AVC funds do not include a lifestyle option and do not qualify for the subsidy. The investment returns presented for these funds are therefore net of costs and charges.

Net investment returns

Funds/Investment Options in the Investment Builder

	5 years (%p.a.) to 31 March 2022		
	Age as at 31 March 2017		
Fund / Investment Option	25 year old	45 year old	55 year old
USS Default Investment Option	7.4 (7.0)	7.4 (7.0)	4.8 (4.5)
USS Ethical Investment Option	10.3 (10.0)	10.3 (10.0)	6.0 (5.7)
USS Growth	7.4 (7.0)	7.4 (7.0)	7.4 (7.0)
USS Moderate Growth	6.1 (5.8)	6.1 (5.8)	6.1 (5.8)
USS Cautious Growth	4.8 (4.5)	4.8 (4.5)	4.8 (4.5)
USS Liquidity	0.4 (0.3)	0.4 (0.3)	0.4 (0.3)
USS UK Equity	4.0 (3.8)	4.0 (3.8)	4.0 (3.8)
USS Global Equity	11.2 (11.1)	11.2 (11.1)	11.2 (11.1)
USS Emerging Markets Equity	6.0 (5.7)	6.0 (5.7)	6.0 (5.7)
USS Ethical Equity	14.2 (13.9)	14.2 (13.9)	14.2 (13.9)
USS Sharia	16.3 (16.0)	16.3 (16.0)	16.3 (16.0)
USS Bond	1.7 (1.6)	1.7 (1.6)	1.7 (1.6)

Source: USS Funds – USS Investment Management. Returns shown are annualised geometric mean returns

	1 year (%) to 31 March 2022		
	Age as at 31 March 2021		
Fund / Investment Option	25 year old	45 year old	55 year old
USS Default Investment Option	8.1 (7.8)	8.1 (7.8)	3.5 (3.2)
USS Ethical Investment Option	7.4 (7.1)	7.4 (7.1)	2.6 (2.3)
USS Growth	8.1 (7.8)	8.1 (7.8)	8.1 (7.8)
USS Moderate Growth	6.0 (5.7)	6.0 (5.7)	6.0 (5.7)
USS Cautious Growth	2.9 (2.6)	2.9 (2.6)	2.9 (2.6)
USS Liquidity	0.1 (0.0)	0.1 (0.0)	0.1 (0.0)
USS UK Equity	11.8 (11.7)	11.8 (11.7)	11.8 (11.7)
USS Global Equity	12.5 (12.4)	12.5 (12.4)	12.5 (12.4)
USS Emerging Markets Equity	-9.1 (-9.4)	-9.1 (-9.4)	-9.1 (-9.4)
USS Ethical Equity	10.7 (10.3)	10.7 (10.3)	10.7 (10.3)
USS Sharia	19.9 (19.6)	19.9 (19.6)	19.9 (19.6)
USS Bond	-4.4 (-4.5)	-4.4 (-4.5)	-4.4 (-4.5)

Source: USS Funds – USS Investment Management. Returns shown are annualised geometric mean returns

Funds in an AVC arrangement with Prudential

Fund / Investment Option	1 Year (%)	5 Years (% p.a)	10 Years (% p.a)	15 Years (% p.a)	20 Years (% p.a)
With-profits Cash Accumulation	6.3	5.1	6.5	5.4	6.9
Deposit	0.2	0.4	0.4	1.0	1.9
International Equity	7.4	6.8	10.3	8.1	8.1
UK Equity	6.6	4.0	6.7	5.2	6.0
Index Linked	6.6	3.4	6.7	7.7	7.4
Discretionary	5.6	5.2	7.7	6.4	6.9
Fixed Interest	-4.7	0.5	2.7	4.3	4.4
LGIM Ethical Global Equity	15.8	11.6	13.0	-	-
UK Equity Passive	12.0	4.3	6.7	4.9	5.8
Cash	-0.6	-0.3	-0.3	0.4	1.3

Source: Prudential – USSIM calculations. Returns shown are annualised geometric returns. Investment returns data was not available covering periods of more than twenty years. As such we have shown net investment returns to 31 March 2022 over a one year, five-year, ten-year and twenty-year period. Prudential were able to provide investment returns after allowing for the impact of certain fund charges and further costs, but before the deduction of the Investment Management Charge. USS calculations include the deduction of charges and transaction costs shown on page 92.
The value of a member's With-Profits policy can change by more or less than the underlying net investment return of the overall fund. The above table therefore shows average overall returns experienced by policyholders, which combine the previously declared regular bonus and final bonus applicable to a fund withdrawn to provide benefits from 15 March 2022 subject to any further bonuses notified by Prudential after the scheme year end. Prudential With-Profits policies are currently subject to a fund charge of 1% p.a. The fund charge and any transaction costs are allowed for in the overall returns shown in the above table.

Illustration of costs and charges

The trustee is required to provide an illustrative example of the cumulative effect over time, of the application of the transaction costs and charges on the value of a member's Investment Builder savings.

Members automatically make contributions into the Investment Builder at the point where their salary exceeds the salary threshold (£40,000 for the 2022/23 financial year).

All members (including those with earnings below this threshold) can elect to make additional contributions into the Investment Builder.

The potential impact of costs and charges across three different investment examples is set out on the following pages, for five member profiles.

The examples illustrate the costs and charges borne by each member whose entire funds are invested in one of the funds named below only (and not a combination of the different options):

(i) USS Default Lifestyle Option

(ii) USS Emerging Markets Equity Fund (highest charging self select fund with the highest expected return)

(iii) USS Liquidity Fund (lowest charging self select fund with the lowest expected return)

It is important to note that for the purposes of the illustration we have assumed that members meet all investment management costs, even though employers currently subsidise most of the fees a member would otherwise pay for investing in the Investment Builder.

The trustee has taken account of statutory guidance when preparing this section of the statement.

Member 1: Member who joins the scheme age 30 with a starting salary of £40,000 and makes normal contributions (but no additional contributions) until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	–	–	–
3	487	483	99.2
5	1,674	1,656	99.0
10	8,117	7,984	98.3
15	20,429	19,965	97.7
20	23,706	23,138	97.6
25	68,045	65,637	96.5
30	106,064	101,603	95.8
35	151,591	144,349	95.2
36	160,957	153,013	95.1

Investment in USS Emerging Markets Equity Fund (highest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	–	–	–
3	502	498	99.3
5	1,749	1,732	99.1
10	8,813	8,670	98.4
15	23,083	22,542	97.7
20	27,005	26,332	97.5
25	83,687	80,430	96.1
30	137,174	130,705	95.3
35	212,599	200,752	94.4
36	230,865	217,199	94.1

Investment in USS Liquidity Fund (lowest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	–	–	–
3	469	468	99.9
5	1,579	1,576	99.8
10	7,299	7,271	99.6
15	17,501	17,405	99.5
20	20,113	19,995	99.4
25	52,913	52,452	99.1
30	79,003	78,194	99.0
35	111,350	110,044	98.8
36	118,619	117,203	98.8

Member 2: Member who joins the scheme age 30 with a starting salary of £30,000 and makes additional voluntary contributions of 2% from entering the scheme as well as normal contributions when salary exceeds the prevailing salary threshold until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	615	611	99.3
3	1,929	1,909	99.0
5	3,362	3,315	98.6
10	7,513	7,341	97.7
15	12,594	12,194	96.8
20	13,753	13,292	96.6
25	34,554	33,117	95.8
30	55,663	53,138	95.5
35	82,986	78,947	95.1
36	88,867	84,440	95.0

Investment in USS Emerging Markets Equity Fund (highest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	629	625	99.5
3	2,015	1,997	99.1
5	3,590	3,543	98.7
10	8,488	8,290	97.7
15	15,075	14,568	96.6
20	16,654	16,059	96.4
25	44,449	42,345	95.3
30	74,038	70,125	94.7
35	117,902	110,948	94.1
36	128,757	120,772	93.8

Investment in USS Liquidity Fund (lowest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	598	597	99.9
3	1,821	1,817	99.8
5	3,084	3,074	99.7
10	6,420	6,384	99.4
15	10,037	9,956	99.2
20	10,814	10,722	99.2
25	25,717	25,460	99.0
30	40,670	40,239	98.9
35	60,912	60,215	98.9
36	65,635	64,877	98.8

Member 3: Member who joins the scheme age 50 with a starting salary of £80,000, transfers in a starting pot of £100,000, and who makes normal contributions (but no additional contributions) until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	110,740	110,315	99.6
3	134,017	132,588	98.9
5	159,839	157,173	98.3
10	235,471	228,486	97.0
15	320,699	307,946	96.0
16	337,501	323,299	95.8

Investment in USS Emerging Markets Equity Fund (highest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	113,163	112,714	99.6
3	142,410	140,831	98.9
5	175,913	172,844	98.3
10	281,501	272,666	96.9
15	425,555	406,878	95.6
16	459,918	437,826	95.2

Investment in USS Liquidity Fund (lowest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	107,579	107,464	99.9
3	123,585	123,217	99.7
5	140,757	140,103	99.5
10	189,066	187,535	99.2
15	245,628	242,960	98.9
16	257,997	255,067	98.9

Member 4: Member who joins the scheme age 40 with a starting salary of £60,000 and makes normal contributions (but no additional contributions) until leaving the scheme at age 50, and remaining as a deferred member until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	4,101	4,074	99.3
3	13,350	13,213	99.0
5	24,085	23,755	98.6
10	58,204	56,925	97.8
15	65,970	63,367	96.1
20	74,346	70,120	94.3
25	81,105	75,170	92.7
26	81,936	75,638	92.3

Investment in USS Emerging Markets Equity Fund (highest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	4,191	4,169	99.5
3	13,937	13,810	99.1
5	25,681	25,349	98.7
10	65,399	63,939	97.8
15	82,598	79,206	95.9
20	104,322	98,119	94.1
25	131,758	121,548	92.3
26	138,056	126,635	91.7

Investment in USS Liquidity Fund (lowest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	3,984	3,980	99.9
3	12,610	12,584	99.8
5	22,136	22,068	99.7
10	50,100	49,830	99.5
15	49,130	48,606	98.9
20	48,179	47,411	98.4
25	47,246	46,246	97.9
26	47,062	46,016	97.8

Member 5: Member who joins the scheme age 20 with a starting part-time salary of £10,000 and makes additional voluntary contributions of 1% from entering the scheme as well as normal contributions when salary exceeds the prevailing salary threshold until accessing their Investment Builder funds at age 66 (Normal Pension Age)

Investment in USS Default Lifestyle Option

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	103	102	99.3
3	322	318	99.0
5	560	552	98.6
10	1,252	1,224	97.7
15	2,099	2,032	96.8
20	2,289	2,212	96.6
25	4,370	4,153	95.0
30	4,647	4,408	94.9
35	7,643	7,130	93.3
40	8,039	7,485	93.1
45	11,774	10,783	91.6
46	12,136	11,089	91.4

Investment in USS Emerging Markets Equity Fund (highest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	105	104	99.5
3	336	333	99.1
5	598	590	98.7
10	1,415	1,382	97.7
15	2,513	2,428	96.6
20	2,773	2,673	96.4
25	5,898	5,572	94.5
30	6,350	5,985	94.3
35	11,702	10,791	92.2
40	12,467	11,468	92.0
45	21,449	19,277	89.9
46	22,724	20,332	89.5

Investment in USS Liquidity Fund (lowest charging fund)

Years in scheme	Before charges and costs £	After all charges and costs £	After all charges and costs %
1	100	100	99.9
3	304	303	99.8
5	514	512	99.7
10	1,070	1,064	99.4
15	1,673	1,659	99.2
20	1,799	1,784	99.2
25	3,038	3,001	98.8
30	3,188	3,147	98.7
35	4,657	4,580	98.3
40	4,834	4,753	98.3
45	6,582	6,455	98.1
46	6,794	6,661	98.0

Notes on illustrations above and the previous page:

1 Starting pot criteria is as follows:
   a) Members 1, 2, 4 and 5: starting pot criteria is nil and no funds are transferred in.
   b) Member 3: starting pot criteria is £100,000 of transferred in funds. No further funds are transferred in.
2 All members retire at age 66 and funds are then fully disinvested, with no early withdrawals.
3 For the purposes of this illustration it is assumed that investment management charges apply, even though employers currently fully subsidise most of the fees that a member would otherwise pay for investing in the Investment Builder. This approach has been taken because there is no guarantee that employers will continue the subsidy in the future so it provides a more prudent estimate of the impact of charges.
4 Values shown are illustrations and actual experience will depend on investment returns, as well as realised charges and costs.
5 Projected pension pot values are shown in today's prices, and do not need to be reduced further for the effect of future inflation.
6 Inflation is assumed to be 2.5% per annum as prescribed in the Statutory Money Purchase Illustrations.
7 Normal contributions are assumed to be 20% per annum in excess of salary cap (8% employee and 12% employer). It is assumed that there are no contribution holidays for any of the five members and no additional contributions are made by members 1, 3 or 4. Member 2 is assumed to make 2% additional voluntary contribution from entering the scheme. Member 5 is assumed to make 1% additional voluntary contributions from entering the scheme.
8 Salary increases are assumed to be 4.5% per annum.
9 The projected growth rate for the USS Default Investment Lifestyle Option is 5.1% up to 10 years prior to retirement, reducing to 4.5% at 5 years prior to retirement, and 3.8% at 1 year prior to retirement. The projected growth rate for the USS Emerging Markets Equity Fund is 7.4%. The projected growth rate for the USS Liquidity Fund is 2.1%. These are consistent with the assumptions used in calculating members' Statutory Money Purchase Illustrations as at 31 March 2022.
10 The above illustrations take account of property management expenses as these are embedded within the projected growth rate of the relevant fund; they are not included within the percentages in the tables on page 92.
11 Year 1 represents the year ending 31 March 2023, with a pertaining salary threshold of £40,000.

Members typically face minimal charges, as administrative costs are met in full by the employer and investment costs are currently fully subsidised (other than for funds transferred in) for members in all Investment Builder funds. Even in a case where a member does face some charges, for example a member who has transferred funds into the scheme, the trustee assesses that the charges for investment management represent value for members.

The trustee continues to identify and implement improvements to the products and services we offer members. In 2022/23 we are focusing on the following developments:

- Further segmenting member communications to allow us to tailor communications that are most relevant to members, including those with Investment Builder funds at different stages of their journey
- Digitising a number of our core journeys, including joining the scheme and transferring in funds – this will make it easier and quicker for members, but also encourage them to use online resources to support their decision making
- Launching enhanced modellers, helping members understand their pension and how it can support their retirement

More information on our member services can be found on pages 12 to 15.

5 Trustee knowledge and understanding

The Trustee Board is made up of a diverse range of individuals who collectively have a broad range of skills needed for management and oversight of both the DC elements and DB elements of the hybrid scheme, and to ensure the proper exercise of their functions as trustee directors of the scheme.

The Trustee Board includes members with significant expertise and recent and relevant practical experience in DB and DC pensions, investment, actuarial, governance, financial management, law, risk and compliance, IT, HR, stakeholder engagement and the Higher Education sector. A number are, or have been trustees or executives of other DC or hybrid schemes and bring practical knowledge and experience of developing member facing products and services within a DC context, experience of value for money assessments and criteria, pensions administration and investment management.

There are also a number of board directors who are members of the scheme (active, deferred and pensioners), who help to support and contribute to the board's understanding of the views and needs of the scheme's membership.

The diversity of the Trustee Board allows individuals to challenge each other and to offer different perspectives and solutions to matters.

In addition to the skills within the Trustee Board, we have also appointed a number of professional advisers who provide specialist support and advice. These include the scheme's lawyers, auditors, actuary and investment consultants.

The trustee is committed to ensuring that its directors, both individually and collectively, have access to appropriate professional advice, and have and maintain all of the necessary skills, knowledge, competence and understanding required for the effective performance of their roles as Trustee Board directors. As part of this, each trustee director ensures that they:

- Are conversant with all of the key scheme documents (including the Scheme Rules, the Statement of Investment Principles, the default Statement of Investment Principles and the Statement of Funding Principles)
- Have an appropriate degree of knowledge and understanding of the law relating to pension schemes, of the principles relating to funding and investment, and in relation to the identification, assessment and management of risks and opportunities relating to the scheme from the effects of climate change, including risks and opportunities arising from steps taken because of climate change (whether by governments or otherwise)

The scheme has various procedures in place to facilitate this, which are detailed in the following pages.

A number of activities are undertaken each year to evaluate and enhance the individual and collective skills, knowledge, competence and experience of the Trustee Board.

These activities facilitate compliance by the trustee with The Pensions Regulator's DC Code of Practice number 7 (TKU) and number 13 (Governance and administration). They are summarised in the table on page 98 and further details appear on the following pages.

Skills and competencies

On appointment and subsequently, trustee directors are required to maintain appropriate levels of knowledge and understanding, both individually and collectively, to ensure that the board as a whole has the right combination of skills, knowledge and experience to fulfil its responsibilities. Each trustee director is assessed against the trustee's skills and competency matrices on joining the Board and every year as part of the annual appraisal process. In addition, each director has a personal development plan to help meet both short and long-term objectives. Individual training and/or development requirements are also identified through the annual appraisal process, and appropriate steps taken to rectify any actual or potential knowledge gaps (see further below).

An effectiveness review of the Trustee Board is usually carried out annually and of the board's standing sub-committees every two years. This is supplemented every two to three years by an externally facilitated review. During the scheme year, the Trustee Board considered the findings and recommendations from an externally facilitated effectiveness review and agreed an action plan, including prioritisation and timings of agreed outcomes. In addition, the USS internal Governance team have discussed with the Chairs of the Trustee Board and its committees the papers provided for each committee to identify improvements to the information provided to the trustee directors to support their decision making.

Trustee skills, knowledge and understanding: key tools

Skills matrix	Competency matrix	Induction
Training needs assessment and training programme	Annual appraisal process	Trustee Board/committee effectiveness reviews

The Trustee Board has developed a skills matrix and competency matrix to assist it in identifying the skills and training required of the Trustee Board. The balance of the Trustee Board's knowledge, skills and experience is summarised in the skills matrix, which sets out the behaviours, knowledge, skills and experience that are required of the Trustee Board. In doing this, the Trustee Board also considers the strategic priorities in the business plan to identify any future areas of focus.

The Governance and Nominations Committee reviews the board competency and skills matrices annually, and in anticipation of changes to board membership, and assesses whether or not it considers the Trustee Board's collective competencies are appropriate to enable the trustee to properly exercise its functions and whether there are any gaps which should be filled by training, succession planning or other means. As part of this review, consideration is also given to whether the skills and knowledge of the Trustee Board's standing committees are appropriate or need supplementing in any manner.

Rigorous appointment processes are followed in respect of all trustee director appointments and reappointments (having regard to the board succession plan and competency matrix), including use of a role specification which highlights the skills and experience and behaviours required for the role. This helps to ensure that the directors collectively have appropriate competencies and that each director appointed is fit and proper.

Training

In addition to the review of individual directors' training and development needs during annual appraisals as noted under the Skills and competencies section, the collective training needs of the Trustee Board and its committees are reviewed at least annually by the Governance and Nominations Committee, which has responsibility for approving and overseeing the implementation of the annual board and committee training programme.

In compiling the annual training programme, consideration is given to a number of relevant matters including:

(a) directors' completed skills matrices and any gaps identified

(b) the scheme's business plan and business and strategic objectives

(c) future board and committee agenda plans

(d) legal and regulatory horizon scanning

(e) regulatory guidance

(f) feedback from directors, committee members and the executive.

The training is compiled in this way in order to ensure that any actual or potential knowledge gaps are identified and rectified. The directors receive targeted training sessions delivered by both external industry experts and USS employees. These formal training sessions are supplemented by additional (non-compulsory) educational sessions, open house events where the directors spend time with different areas of the business and the completion of mandatory e-learning modules. A log is maintained of all training undertaken by the trustee directors.

Trustee directors are also encouraged to attend additional external training events relevant to their specific areas of expertise and/or the committees on which they sit.

The trustee directors' working knowledge of the scheme's trust documentation, the latest Statements of Investment Principles, pensions and trust law, the principles of pension funding and investment, and assessment and management of climate change risks and opportunities is evidenced by the latest completed training needs analysis and supplemented by training for trustee directors.

Trustee directors receive training on a broad range of topics, including some that are DC specific. Over the scheme year the Trustee Board continued to receive targeted training on valuation and investment-focused topics to support the board in its decision making around the 2020 valuation. This training has been complimented by additional training sessions focused on supporting the board more generally in their oversight and management of the scheme. During the scheme year, training received by the Trustee Board and its committees included the following topics:

- The trustee's risk framework and strategic risks
- Pension services offering and USS's pension business
- Investment strategy and investment risk governance, including training on the proposed investment balanced scorecard approach to measuring investment performance (more information can be found in the Remuneration section on page 50)
- Climate change risk and related reporting and disclosure requirements
- Cyber security and approach to managing cyber related risks
- The Master Trust regime
- Member communications
- Diversity and Inclusion
- Proposed changes to the UK's audit, corporate reporting and corporate governance regimes
- The scheme's internal dispute resolution processes, and how it operates at USS
- The scheme's Asset-Liability Management framework
- Challenges and changes within the Higher Education sector
- Use of leverage within the scheme and management of key risks
- Educational sessions focused on the 2020 valuation, covering such themes as: scenario planning for scheme changes; key elements and risk metrics of the Integrated Risk Management Framework; Financial Management Plan and Monitoring & Action Framework

At the end of the scheme year, the Governance and Nominations Committee concluded that, on balance, the training delivered was aligned to the scheme's strategic priorities, while at the same time provided timely information to the directors and committee members to allow them to discharge their duties and to facilitate decision-making.

Induction
The scheme has a detailed induction process for new Trustee Board directors, designed to ensure familiarity with the key scheme documents and sufficient knowledge and understanding of pensions and trust law, as well as the principles of pension scheme funding and investment (among other matters). This includes sessions with board members, members of the management team and key external advisers including on investment, pensions administration, actuarial, accounting, communications, risk and internal audit, compliance, legal and governance and the role of the Joint Negotiating Committee (JNC) and Advisory Committee.

This process is documented and is regularly reviewed by the Governance and Nominations Committee, which also oversees completion of the induction process by each new director. Of the three new trustee directors who joined the board during the scheme year, all have completed or are currently completing this induction programme.

Each new Trustee Board director is expected to devote significant time to their induction, which is tailored to reflect their individual level of knowledge and assessed by reference to their completion of the skills matrix.

The trustee's appointment and induction processes also require that any individual appointed to the Trustee Board completes TPR's Trustee Toolkit prior to commencement of their appointment (in line with TPR's Code of Practice 15). All of the current trustee directors have completed TPR's Trustee Toolkit. In addition, two trustee directors have received accreditation from Pensions Management Institute (PMI) as professional trustees and one trustee director holds an award in trusteeship from the Association of Professional Pension Trustees (APPT).

Advice and guidance
The combined knowledge of the Trustee Board is supported by the USS Executive Management Team (which includes a range of professionals from various disciplines, including legal, actuarial and risk and compliance) as well as external professional advisers.

The Scheme Actuary and the Group General Counsel generally attend all Trustee Board meetings ensuring that the board has access to timely actuarial and legal advice. The trustee's principal investment manager and adviser is USSIM. The trustee also received the benefit of independent investment advice in relation to members' DC benefits provided by Lane Clark & Peacock LLP. Both USSIM and the scheme's external investment advisers generally attend each meeting of the Investment Committee. In addition, other professional advisers attend meetings of the Trustee Board and its other committees on an ad hoc basis when required.

Non-affiliation of trustee directors
The scheme is a multi-employer trust-based pension scheme and as such it is required to comply with additional requirements in relation to governance. These include that the majority of the trustee directors (including the Chair) must be 'non-affiliated'. The Trustee Board has considered these requirements and determined that all the directors, including the Chair acting during the scheme year (with the exception of Dr Kevin Carter who retired on 31 August 2021 and Dr Alain Kerneis who was appointed on 24 January 2022) were classed as 'non-affiliated trustees' for the purpose of the legislation. Dr Kevin Carter was, and Dr Alain Kerneis is, a director of USS Investment Management Ltd, the scheme's investment manager. During the year, a minimum of 11 directors out of 12 (and at times 12) were classed as non-affiliated trustees. Therefore the requirement for a majority of non-affiliated directors has been satisfied throughout the scheme year.

This means that we have considered carefully any links that the directors (including the three newly appointed directors – see below) may have with companies providing services to the scheme and reviewed the procedures in place for managing any conflicts of interest that may arise. We have also reviewed the length of service on the Trustee Board and confirmed that no director who is regarded as non-affiliated has been in his or her post for longer than the requisite time limits, and that each has either been appointed or reappointed through an open and transparent process or their appointment or reappointment preceded these requirements.

Dr Alain Kerneis is the only affiliated director because he is also a director of USSIM, the scheme's principal investment manager, providing investment and advisory services to the scheme.

The trustee director appointment procedures, which reflect legislative requirements, ensure that the trustee has oversight and suitable control over the appointment process for all directors and that every director appointment or reappointment satisfies the 'open and transparent' criteria.

During the scheme year ended 31 March 2022, two non-affiliated trustee directors (Ms Marian D'Auria and Ms Ellen Kelleher) and one affiliated trustee director (Dr Alain Kerneis), all of whom were independent i.e. not appointed by UUK or UCU, were subject to the following appointment process.

A search process was facilitated by a recruitment agency for each appointment, and all roles were advertised on USS's job site, in the Sunday Times, and on LinkedIn. Applicants were shortlisted for interview and interviewed and assessed against a common scorecard which reflected the relevant role profile for each position. The process was overseen by the Governance and Nominations Committee and the Chair of the Trustee Board, Dame Kate Barker, was consulted on each proposed appointment. The Governance and Nominations Committee and the Trustee Board then reviewed and approved each of these appointments.

The appointment/reappointment process for UUK-appointed directors or UCU-appointed directors is led by UUK or UCU, as appropriate, with involvement of the trustee, and follows the same process as that for the appointment of independent directors (as noted above). No UUK directors or UCU directors were appointed or reappointed during the scheme year.

6 Member communications, engagement and representation

We are proactive to communicate with members, engage them in their pension saving and reflect their views in decision-making. As well as meeting statutory disclosure requirements, we are continuously seeking to improve the overall member experience and reflect best practice identified by the Government, regulators and wider industry. A range of channels are used to communicate with members, including regular email updates, the online member portal, My USS, and Annual Member Statements (including Statutory Money Purchase Illustration (SMPI) components) which are issued to active members.

Website

The USS website is the central hub for members, including a dedicated area for members wanting to understand the Investment Builder. Members can easily find information, including short videos, on how the Investment Builder works, their investment and contribution options, and how they can access their benefits.

My USS

Over three quarters of the scheme's active membership with Investment Builder funds were registered for the My USS portal as at 31 March 2022. This online platform, which was relaunched in 2020, allows active and deferred members to manage their contributions and investment decisions, see the value and performance of their Investment Builder funds and view detailed fund information through fund factsheets. Retired members who retain Investment Builder Funds also have access, so all members can manage their funds online. We will gradually move more activity to My USS where it is easier for members and we can better support them.

Emails

Throughout the scheme year, we've continued to provide members with monthly emails including reference to the Investment Builder within the constraints of the Privacy and Electronic Communications Regulations (PECR). The regulations inhibit our ability to send non-essential email content such as retirement planning and financial well-being articles, to members – topics which typically encourage member engagement. Instead we have focused on bolstering our service email proposition and have kept members up to date with important scheme news such as scheme changes and developments in the scheme's approach to Environmental, Social and Governance issues (ESG).

Combined Annual Member Statements

Combined DB and DC Annual Member Statements for the year ended 31 March 2021 were issued to the vast majority of active members by September 2021 and made available online at the same time. These statements are personalised to individual members and they highlight specific benefits and/or calls to action. They also include information about the tax status of members' pensions in relation to annual and lifetime allowances to assist members with tax planning. This year, all active members received a speed read version of the statement in line the government's guidance on simpler annual statements, and we trialled digital statements to around 50,000 members, inviting them to view their statement online on My USS, where they can easily navigate to other support available. The scheme also met the statutory requirement to provide deferred members with Statutory Money Purchase Illustrations (SMPIs) during the scheme year.

Member feedback

The scheme ensures member experiences and views are at the heart of its decision-making and we encourage members to provide their feedback and make their views regarding the scheme known. UCU has the power (subject to the approval of the trustee) to appoint three directors to the Trustee Board. UCU also has a wide role representing members in connection with the scheme, both formally through the Joint Negotiating Committee (JNC) which approves and can initiate changes to Scheme Rules, and also informally through regular discussions with the USS Executive Management Team.

The scheme gathers feedback from individual members in a number of ways. Members are given information on **uss.co.uk** about how to contact USS with any questions or comments online, by phone or by letter, and there is also a specific number for the Member Service Team (MST) for members needing help with their benefits.

Members are also invited to provide specific 'touch point' feedback, for example, when calling with a technical enquiry or going through the retirement process. In 2021/22, the arrangements outlined above were supplemented by three large scale surveys of the membership. These were designed to understand members' perceptions, but also to encourage members to share their views about a number of aspects of the scheme, including the options available in the Investment Builder, the quality of member communications, and other aspects of the products and services USS offers. The surveys included both structured questions and the ability to provide open feedback. USS also runs, via an independent research agency, a 'Member Voice' Panel, which provides a flexible and timely way of soliciting feedback from members, as well as giving members another route to raise issues that will be passed on to the executive.

Feedback from the surveys and the member panel has been shared with the Trustee Board and the scheme stakeholders through the JNC.

The trustee takes all member feedback seriously and through dedicated policy and member communications teams, continually assesses all of the channels (and their effectiveness) including through a dedicated Member Experience Forum, which reports regularly to the trustee's Pensions Committee.

Dame Kate Barker
Chair of the Trustee Board
19 July 2022

USS Default Lifestyle Option Statement of Investment Principles

1. Introduction

1.1 This is the Statement of Investment Principles of the Universities Superannuation Scheme (“USS” or “scheme”) Default Lifestyle Option (the “Default SIP”). The USS Default Lifestyle Option is the default arrangement in relation to the USS Investment Builder (“DC Section”). Although the USS Default Lifestyle Option can be actively chosen by members as their investment strategy, as the default arrangement it is the investment strategy into which the contributions of members in the DC Section who do not make any investment decisions are paid.

1.2 Universities Superannuation Scheme Limited (the “trustee”) has selected a lifestyle strategy as its default arrangement. Lifestyle strategies are designed to meet the divergent objectives of maximising the value of a member’s assets at retirement and protecting the value of accumulated assets particularly in the years approaching retirement.

1.3 This Default SIP sometimes refers to the main Statement of Investment Principles (the “Main SIP”) which covers the whole scheme. Copies of the Main SIP can be found in the “How USS invests” area of the scheme’s website **uss.co.uk**.

2. The trustee’s investment beliefs

2.1 The trustee maintains a set of Investment Beliefs available in the “How we invest” area of the scheme’s website **uss.co.uk**. These beliefs form the basis of the trustee’s investment principles as set out in Section 1.2 of the Main SIP and Default SIP.

2.2 In relation to the USS Default Lifestyle Option, the trustee’s key beliefs are that:

2.2.1 The investment design of the default arrangement will take into account the hybrid benefit design and the benefit flexibility that members have up to and into retirement.

2.2.2 The asset allocation will adjust around a glide-path consistent with assumed member risk tolerance throughout the member’s savings life-cycle. The default arrangement cannot capture all differences across individual members. However, a higher risk tolerance may be assumed when members are far from retirement, with the aim of increasing expected real returns and retirement savings. In later stages of the life-cycle, the accumulated investment pots will typically be greater and the ability to subsequently make good any material losses is reduced.

2.2.3 Asset Allocation and the timing of material changes are important drivers of a fund’s financial outcomes. The asset allocation process for the USS Default Lifestyle Option balances diversified risks against the expected additional returns for exposure to these risks. The main sources of return for bearing risk (‘risk premia’) are expected to be equity, credit, illiquidity and complexity. Other exposures such as duration, inflation and foreign exchange offer less reliable risk premia but are expected to provide valuable sources of portfolio diversification. The asset mix should be reviewed periodically for suitability relative to evolving investment objectives and to take into account material changes to relative valuations across asset classes, which strongly influence long-run return prospects and risk of loss.

2.2.4 Private markets provide investment opportunities and structures not available in public markets. They may provide opportunities for additional returns (including illiquidity premia), diversification, protections or other desired characteristics relative to public market assets.

2.2.5 Diversification through effective portfolio construction allows risk to be mitigated and spread across a range of factors. This reduces the adverse impact of any one risk on a member’s pension investments. There are limits, however, on overall risk-reduction from diversification and there are scenarios in which correlation between asset classes increases and diversification may be less effective.

3. Investment governance structure

3.1 The trustee applies the same governance structure it uses for the scheme as a whole to the USS Default Lifestyle Option. This is described in detail in Section 1.3 of the Main SIP.

3.2 Broadly, the trustee’s governance structure focuses on embedding compliance with legislative requirements into agreements with investment and related service providers. The trustee’s monitor compliance by having clear terms of reference for the board and sub-committees to which it delegates a number of tasks, supplementing this with appropriate formal investment advice where required.

4. Aims and objective of the Default Fund

4.1 The main investment objectives in relation to the DC Section are described in detail in section 3.1 of the Main SIP. The USS Default Lifestyle Option aims to take a suitably controlled amount of risk to generate investment returns in order to provide a reasonable level of retirement benefits for members, taking into account the performance of asset markets and the level of contributions paid over a member's lifetime into the DC Section and recognising the hybrid nature of the scheme.

4.2 As well as the objectives set out in the Main SIP, the specific objectives of the USS Default Lifestyle Option are detailed below:

4.2.1 To focus particularly on generating returns in excess of inflation during the growth phase of the strategy (up to 10 years before retirement) with a degree of downside risk mitigation.

4.2.2 To provide a strategy that reduces investment risk in the consolidation phase for members between ten and five years before expected retirement.

4.2.3 To provide exposure, at retirement, to a portfolio of assets to align as much as possible with how a typical member is likely to use their savings at and into retirement.

4.2.4 To ensure sufficient liquidity to be able to pay benefits or transfers when required.

5. Investment strategy

5.1 Kinds of investment to be held

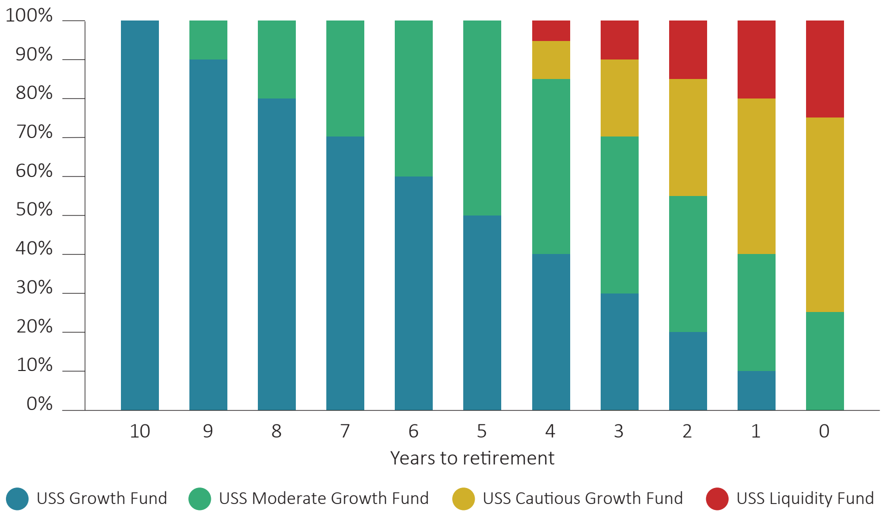
5.1.1 The main policies covering the kinds of investments to be held, the expected returns and the balance between different kinds of investments can be found in section 3.2 of the Main SIP.

The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the Default Lifestyle Option:

- USS Growth Fund – will invest predominantly in growth assets, with an objective to provide long-term growth in excess of inflation to members, with some diversification to mitigate portfolio risk to a degree. Investments will be made in both public and private markets across a range of asset classes in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and the benefit of additional diversification.
- USS Moderate Growth Fund – will typically invest a majority in growth assets, with more diversification than the growth fund, and with an objective to provide long-term growth in excess of inflation to members from a balanced, more diversified portfolio of assets. Investments will be made in both private and public markets across a range of asset classes to increase diversification and enhance returns. This additional diversification aims to mitigate portfolio risk to a greater extent.
- USS Cautious Growth Fund – with an objective to provide stable growth at least in line with inflation to members from a portfolio of predominantly lower risk, income focussed assets, with some diversification, and minority exposure to growth assets. Investment will be made in both private and public markets across a range of asset classes to increase diversification and enhance returns.
- USS Liquidity Fund – typically aims to produce a return in line with its benchmark which represents short-term interest rates, principally from a portfolio of Sterling denominated cash, deposits and money market instruments.

5.1.2 Moving from the USS Growth Fund to the USS Moderate Growth Fund to the Cautious Growth Fund would be associated with decreasing proportions in growth assets, such as equities and property; and increasing proportions in non-government and government bonds.

The USS Default Lifestyle Option glidepath



5.1.3 The chart on page 102 provides an illustration of the USS Default Lifestyle Option structure, in particular detailing the balance between the different funds held in the final 10 years prior to a member's retirement date.

5.2 Managing risk

5.2.1 The USS Default Lifestyle Option manages strategic asset allocation risks through use of diversification. The allocation typically consists of a mix of mainstream public market assets as well as allocations to private market assets. The asset allocation is calibrated to different stages in the USS Default Lifestyle Option (as indicated in item 5.1.3). Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the USS Default Lifestyle Option, the trustee considers the trade-off between risk and expected returns and opportunities for diversification and continues to monitor these risks through ongoing reporting. The actual holdings within the constituent USS Default Lifestyle Option will include private market assets where appropriate in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and to gain additional diversification. appropriate in order to take advantage of the opportunity to earn enhanced returns including a premium for illiquidity and to gain additional diversification.

5.2.2 The USS Growth Fund invests in equities and other growth-seeking and diversifying assets. These investments are structured to generate higher real (after inflation) returns over the long term with some downside protection. During the growth phase, the downside risk from an equity market downturn is partially mitigated through diversification away from equities into other growth-seeking asset classes.

5.2.3 In the consolidation phase, from 10 years before expected retirement, the trustee is seeking, through greater diversification of assets, to reduce the likelihood of extreme investment shocks adversely affecting retirement outcomes.

5.2.4 In the final five years before expected retirement (protection phase), the trustee has constructed a glide-path that seeks to continue to grow the member's DC retirement savings while reducing volatility as members' funds get closer to maturity. In the protection phase, assets are therefore switched to more cautious assets (such as government and corporate bonds), including an allocation to money market instruments. This has been designed to reflect the uncertainty inherent in the timing of retirements, and the post-retirement investment choices that might be made by members.

5.2.5 Paragraph 3.3 of the Main SIP details key risks that the trustee considers in relation to the DC Section in particular.

5.3 Realisation of investments, cash flow and liquidity management.

5.3.1 The DC Section offers members a range of daily dealing notional funds. While a portion of the USS Default Lifestyle Option will be in illiquid assets, the trustee's policy is to maintain sufficient investments in liquid assets so that the realisation of assets will not be unduly costly nor disrupt the USS Default Lifestyle Option or scheme's overall investment strategies in foreseeable circumstances. More detail can be found in paragraph 3.2.9 of the Main SIP.

6. The trustee's policies on responsible investment and engagement activities

6.1 The USS Default Lifestyle Option is managed in line with the trustee's policies as set out in the Main SIP, in particular, paragraph 1.4. The trustee's policies on responsible investment and engagement activities cover:

6.1.1 How financially material considerations are taken into account in the selection, retention and realisation of investments. This includes how the trustee considers environmental, social and governance (ESG) factors where financially material to the scheme, such as but not limited to climate change;

6.1.2 The extent to which non-financial ESG matters are taken into account in the selection, retention and realisation of investments;

6.1.3 The exercise of the rights (including voting rights) attaching to the investments; and

6.1.4 Engagement activities in respect of the investments.

6.2 In addition to the USS Default Lifestyle Option, the trustee makes available the USS Ethical Lifestyle Option reflecting the fact that a number of members have specific objectives around ethical investing. This USS Ethical Lifestyle Option is built along similar principles to the USS Default Lifestyle Option but has been specifically designed to reflect members' ethical beliefs in this area. As well as this, an ethical equity fund and a Sharia consistent fund are included in the range of self-select funds offered to members.

6.3 The scheme's statement on Responsible Investment sets out detailed information on how the trustee considers ESG factors where financially material to the scheme and the extent to which it takes non-financial ESG factors into account. The trustee expects its internal and external managers to act consistently with this statement in the selection, retention and realisation of the scheme's investments. The current Statement on Responsible Investment can be found in the "How we invest" area of the scheme's website **uss.co.uk**.

6.4 The Trustee's policies in relation to its arrangements with asset managers are as set out in paragraph 1.5 of the Main SIP, including in relation to the Trustee's wholly owned investment manager and adviser, USS Investment Management Limited ('USSIM') which is primarily responsible for the management of the USS Default Investment Option and manager selection.

7. Investment in the best interests of beneficiaries

7.1 In designing the USS Default Lifestyle Option, the Trustee aims to invest in the beneficiaries' best financial interests, taking into account the different risk profile of representative members (e.g. according to their expected time frame until retirement). In doing so, the Trustee explicitly considers the trade-off between risk and expected returns and continues to monitor these risks through ongoing reporting. The Trustee considers high level profiling analysis of the scheme's membership in order to inform decisions regarding the USS Default Lifestyle Option. In accordance with the Trustee's mandate, USSIM also manages and monitors the default arrangement and the performance of investment managers involved in that arrangement and makes changes where necessary to ensure the Trustee's aims and objectives are met.

8. Compliance and review

8.1 This Default SIP has been prepared in accordance with the requirements of the Pensions Act 1995 and relevant Regulations taking into account guidance from the Pensions Regulator.

8.2 The Trustee will undertake such a review at least triennially, or sooner and without delay if there are significant changes to the scheme's investment policy, demographic profile or other circumstances which the Trustee determines warrant a reconsideration of the USS Default Lifestyle Option.

8.3 The Trustee will revise the Default SIP after every review unless it decides that no action is needed as a result of the review. The trustee will revise the Default SIP after every review unless it decides that no action is needed as a result of the review.

Implementation statement

1.1. Introduction

USS[1] has prepared this Implementation Statement (the Statement), which should be read in conjunction with the Statement of Investment Principles (SIP) at **uss.co.uk/how-we-invest/our-principles-and-approach**. The scheme operates as a hybrid pension scheme providing defined benefit (DB) and defined contribution (DC) pension benefits and is authorised by the Pensions Regulator as a Master Trust.

Section 35 of the Pensions Act 1995 requires that trustees prepare, maintain and revise (if necessary) a written SIP, governing decisions about investments for the purposes of the scheme. USS last finalised its SIP in 2019 following the completion of the 31 March 2017 and 31 March 2018 actuarial valuations and in anticipation of future pensions regulations coming into force. The SIP was finalised in 2019 following consultation with the scheme's participating employers and receipt of investment advice.

This Statement, as with the SIP, applies to both the DB and DC sections of USS within the single trust. USS also has a supplementary Statement of Investment Principles (see **uss.co.uk/how-we-invest/our-principles-and-approach**) specifically for the USS Default Lifestyle Option in the Investment Builder (the 'Default SIP').

The SIP is required to include USS's policy for arrangements with asset managers, and this includes USSIM. USSIM is the trustee's wholly owned subsidiary, and acts as both principal investment manager and principal adviser to the trustee. USSIM is required to act in accordance with the SIP in performing its duties. See Section 7.1 for further information.

1.2. Purpose

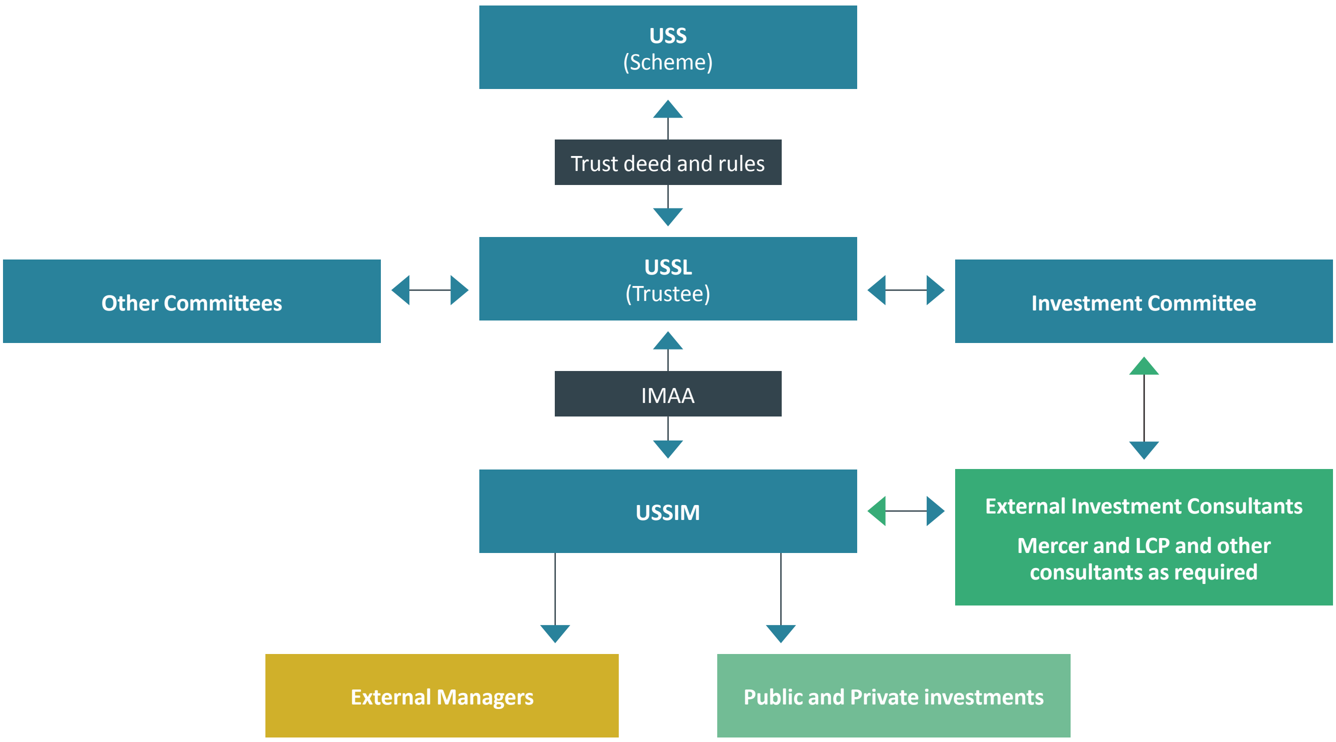
This Statement sets out how, and the extent to which, USS believes the SIP has been followed during the year ended 31 March 2022. The Statement outlines how key activities and decisions have followed the SIP and the Default SIP and, where they have not, what steps will be taken to remedy this.

This Statement also sets out how, and the extent to which, in the opinion of USS, the policies in relation to voting rights and the engagement activities have been followed during the year and describes a review of the voting behaviour carried out by investment managers on USS's behalf.

Following review and analysis, USS believes that the SIP, and the policies in relation to voting rights and engagement have been followed during the scheme year April 2021 to March 2022, except where any immaterial divergences have been highlighted. This Statement explains how USS has reached this view.

1.3. Review of the SIP and Default SIP

Following the completion of the 2020 valuation, USS reviewed and considered amendments to its SIP in March 2022. USS consulted on these proposed amendments with its participating employers during April 2022, and finalised a new SIP on 24 May 2022. This SIP implementation statement is based on the SIP that was in force for the financial year 2021/22, the SIP dated 25 September 2019.



1 To make this document easier to read, we have used the term 'USS' as a catch-all reference to different elements of the USS group. So, depending on where it appears in the text, 'USS' means either (i) the scheme (Universities Superannuation Scheme), (ii) the trustee (Universities Superannuation Scheme Limited acting as trustee), or (iii) the trustee's wholly-owned investment management company (USS Investment Management Limited/USSIM). On a few occasions we do refer specifically to one of these three elements, where it seems helpful to do so. For the avoidance of doubt, all regulated activities for the purposes of the Financial Services and Markets Act 2000 are carried out by USSIM which is authorised and regulated by the FCA.

The Default SIP was last updated in February 2021 to reflect adjustments to the glidepath for the USS Default and Ethical Lifestyle Options. These adjustments provide potential for greater investment growth during the years running up to a member's retirement age. There have been no changes required to the Default SIP since February 2021. However, the Default SIP was reviewed by USS, in line with the changes to the SIP, and re-issued on 24 May 2022.

1.4. USS's governance structure

Further details of USS's Governance structure, including the Terms of Reference for the Trustee Board and Investment Committee can be found at **uss.co.uk/about-us/how-were-governed**. The allocation of responsibilities between the trustee and its committees is clearly set out in their Terms of Reference. These Terms of Reference are reviewed at least annually and updated to reflect any changes in regulations, best practice guidance and/or working practices. The delegation of discretionary investment management by the trustee to USSIM is set out in the investment management and advisory agreement between USSL and USSIM (the 'IMAA'). Details of USSIM's corporate governance structure and Terms of Reference for USSIM's Board are also available via the above link.

2. What's changed over the 12 months?

2.1. Scheme ambition to be Net Zero

In May 2020, USS announced its ambition to be Net Zero for carbon generated by its investments by 2050 if not before. This is in line with the Paris Agreement, which USS has publicly supported. In February 2022, USS announced interim targets to achieve its ambition. USS will work with the companies in its investment portfolio to cut the emissions[2] they generate by 25% by 2025 and by 50% by 2030 relative to the 2019 baseline. These will be expressed in terms of emissions intensity (total carbon emitted per £1 of assets under management). You can read more on this on page 24.

2.2. Developed Market Carbon Tilt Benchmark

In February and March 2022, USS introduced a climate 'tilt' to a portfolio within the Global Developed Markets Equities mandate, which applies to both the DB and DC sections of the scheme. This portfolio (totalling around £5.5bn) is designed to track a specially developed index (the Developed Market Carbon Tilt Benchmark). That index excludes investments in companies that rank poorly on the four UN Sustainable Development Goals (SDGs) relating to environmental sustainability and climate impact. By tracking this index, USS aims to ensure that the portfolio is weighted more towards companies that are performing well against ambitious carbon emissions targets. (See page 120 for more detail.)

2.3. DC Investment Strategy Changes

From October 2021 USS changed the benchmark for the DC USS Liquidity Fund and USS Ethical Liquidity Fund from 7-day GBP LIBID to SONIA. This was ahead of the closure of the LIBID index at the end of December 2021 following reform to the interbank offered rate.

During the year USS also agreed to change the benchmark for the DC USS Global Equity Fund (which was implemented on 1 April 2022). This reflected the move to the Developed Market Carbon Tilt Benchmark (as described above)[3]. Further details can be found in the DC Chair's Statement.

2.4. Scheme-Wide Investment Exclusions

In May 2020, USS announced plans to exclude, and where necessary divest from, companies in those sectors that were deemed to be financially unsuitable for USS over the long term. While much of this divestment took place in 2021, further divestments have taken place in the first quarter of 2022 for the DC Section.

These exclusions are kept under review and, in February 2022, USS announced its view that there is at this time a clear financial case, as well as a moral case, for divestment from Russian investments. In light of the circumstances in Ukraine, USS has placed a moratorium on new long positions taken in all Russian assets which is over and above full compliance with UK government sanctions restricting trading in sovereign debt and other Russian assets. Where USS is not in direct control of assets (in externally-managed pooled funds, for example), USS has encouraged the managers to respect the moratorium, in line with USS's exclusions policy.

3. Stewardship, engagement and responsible investment

3.1. Introduction

USS is an active and responsible steward of the assets in which it invests on behalf of scheme members. USS expects this approach to protect and enhance the value of the scheme in the long term and to create sustainable value for the members and beneficiaries. USS recognises the interdependence of performance for the members with benefits to the economy and society. USS's Responsible Investment (RI) strategy applies to all the assets in which the scheme invests, whether this is via portfolios run by USSIM or by external managers. As a result, USS has processes in place to assess and monitor how potential or current external managers are addressing responsible investment factors.

USS has instructed USSIM, as its principal investment manager and adviser, and (through USSIM) its external managers, to follow good practice and to use their influence as long-term stewards of capital to promote good practice in the investee companies and markets to which the scheme's investments are exposed.

2 Greenhouse gases produced as a result of owned or controlled sources, indirect emissions from the generation of purchased electricity, steam, heating or cooling consumed by the reporting company and all other indirect emissions that occur in a company's value chain

3 The details of this change are: we moved from 92% MSCI World Index, 8% MSCI Emerging Markets Equity Index; and to 92% Solactive USS Developed Markets Climate Transition Benchmark, 8% MSCI Emerging Markets Equity Index.

Details of USS's approach to RI can be found at **uss.co.uk/how-we-invest/responsible-investment** and in USS's Stewardship Code report. This report provides details on how USS considers environmental, social and governance (ESG) factors where financially material to the scheme and the extent to which it can take non-financial ESG factors into account (see Section 8.3). The USS Trustee Board agrees the RI strategy and formally reviews the RI team's activities annually, signing off key focus areas and policies. USS receives reports from USSIM on a semi-annual basis so that it can ensure the strategy is being effectively implemented. USS's ESG related policies[4] are reviewed regularly and updated as required to ensure that they are in line with good practice.

In the trustee's opinion, USS's policies in relation to engagement activities have been materially followed during the year.

3.2. Implementation of the scheme's RI strategy

USS's approach to carrying out its primary duty in relation to its RI strategy is implemented in three main ways:

- Integration into investment decision-making processes
- Stewardship, engagement and voting rights
- Market transformation activities

USSIM reflects the SIP and incorporates ESG factors within its investment management procedures.

ESG integration

Having an in-house RI team at USSIM permits better co-ordination of RI activities across USS and facilitates the integration of ESG analysis and stewardship activities into USS's investment processes and investment advice to the trustee in accordance with the trustee's policy.

Integration in public markets

For USS's internal public markets holdings, engagement meeting notes and voting letters are shared across the different investment teams at USSIM. This provides the internal investment teams with a record of how USSIM voted and USSIM's view of the firm's ESG practices which help to inform the investment managers' view of a company. The RI team records voting practice and engagement notes alongside the portfolio manager's investment cases and buy/sell/hold decision notes. USSIM employs a financial analyst within its RI team to support the integration of ESG factors into its investment decisions. Members from the RI team also meet with USSIM's active equity team to discuss ESG-related issues resulting from research and company engagements. Further information on voting is included in Section 4.

Integration in private markets

RI is integrated into USSIM's selection and retention of directly held private assets. RI due diligence is undertaken for material direct investments in a process which seeks to identify any material ESG or reputational risks that could potentially affect the value of the investment and explores whether there are appropriate processes in place to mitigate these factors.

Stewardship – engagement

USS believes that promoting high standards of ESG both reduces the risk associated with investing and improves the trustee's ability to meet the pension promises of the scheme. The concepts of active ownership and stewardship, as well as assessing investment risk in all its forms, are fundamental to the scheme's Investment Beliefs (at **uss.co.uk/how-we-invest/our-principles-and-approach**).

Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, USS aims to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Investment Committee monitors this engagement on an ongoing basis with the aim of maximising its effectiveness.

Case studies on engagements and further details about the collaborative RI initiatives USS supports are reported in our Stewardship Code report available at **uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/uss-stewardship-code-report-2022.pdf**.

Market transformation

As a large global investor, USS believes that it has a role to play in promoting the proper functioning of markets and includes market-level initiatives within the scheme's RI strategy. This includes engagement with policymakers and regulators in markets in which the scheme invests to articulate the concerns of asset owners and long-term investors. USS seeks to ensure that externalities and market failures, such as pollution, climate change or systemically weak corporate governance standards, do not affect market-wide, long-term economic performance.

For example, USS supported the global investor statement on climate change, submitted to political leaders in advance of COP26. In addition, an RI team member attended and spoke at a side event at the COP, as the scheme believes it's important that the investor voice is heard at these discussions.

3.3. Oversight and monitoring the Investment Managers

USS expects its investment managers to undertake appropriate monitoring and oversight of current investments. This oversight is to enable the identification of issues and facilitate early engagement with boards and management of investee companies and other stakeholders where necessary. The trustee oversees USSIM's policies and practices on responsible investment, stewardship and ESG integration. This includes how USSIM, in turn, monitors external managers in this regard. More details of USS's processes for external managers are found in its Stewardship Code report.

4 By 'ESG related policies' we mean the following items: USS Statement on Responsible Investment, the USS Voting Policy, the USSIM Scheme-wide investment exclusion policy, the USS Ethical Guidelines (for DC) and the USS Global Asset Stewardship Principles.

USS has processes in place to assess and monitor how its external managers are addressing RI considerations in the selection and retention of assets. This applies to managers of both public market and private markets funds, and managers within the DB and DC Sections. USS ensures the external managers are aware that the scheme is a signatory to the UNPRI and supporter of TCFD and the external managers also confirm that they will consider ESG in portfolio management to the extent it accords with the USS policy. USS views its monitoring programme as engagement with the manager.

USS's RI reviews are based on information provided by the investment managers and from face-to-face meetings. Standard processes are in place for due diligence and monitoring for public and private markets but are adapted to suit the asset class and investment strategy for each fund under review. The due diligence establishes a baseline view and rating which then informs USS's ongoing monitoring programme.

The RI team rates external managers across the following key areas: RI policies and processes, ESG integration, stewardship (or asset management practices for private markets), collaboration/public policy and reporting. The reviews also consider voting practices (see Section 4). The frequency and type of monitoring is tailored to the asset class.

4. Voting behaviour and vote disclosure

4.1. Introduction

This section includes further information on USS's policies and the voting behaviour during the year. USS believes that there have not been any material divergences from its policies in relation to the exercising of voting rights on behalf of USS during the scheme year.

As an active, long-term owner of the companies in which the scheme invests, our exercise of voting rights is one of the cornerstones of USS's stewardship approach.

Further information on USS's approach and examples of USS's voting activities are in its Stewardship Code report at **uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/uss-stewardship-code-report-2022.pdf**.

4.2. USS Voting Policy

The USS Voting Policy is at **uss.co.uk/how-we-invest/responsible-investment/how-we-vote**. This outlines USS's expectations for investee companies and reflecting international best practice – including the UK Corporate Governance Code at **frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code**.

USS also expects USSIM and its external managers, where appropriate, to use their voting rights as part of their engagement work, in a prioritised, value-adding, and informed manner.

The USS Voting Policy is reviewed each year to ensure continued alignment to USS's beliefs about good practice in line with the trustee's fiduciary duties. The policy was updated in 2020 to integrate data from the Transition Pathway Initiative (TPI), at **transitionpathwayinitiative.org**, and the readiness for a transition to a low carbon economy, into voting decisions. For the 2022 AGM season, USS may vote against or abstain on resolutions receiving a company's report and accounts where USS has concerns about the level of that company's management quality score (if assessed by the TPI to be at Level 2 (building capacity) or below).

USS forms an independent decision on voting on a case-by-case basis, considering both international and local market standards and best practice, proxy research, outcomes from engagement meetings, discussions with peers, and USS's investment managers' perspectives. The USS Voting Policy is not applied rigidly, and discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, namely the overall improvement of the company's corporate governance.

USS integrates ESG factors into its voting decisions for the portfolios where such factors are financially relevant. USS promotes high quality disclosure and performance management of ESG issues through engagement with companies and the scheme's voting activities.

Shareholder proposals, including those which relate to ESG issues such as climate change, human rights, labour relations and other matters, are considered on their individual merits. It is USS's intention to support those resolutions which it considers to be in the long-term interests of shareholders. However, USS will not support a resolution which it considers overly burdensome or better addressed by another route.

Typically, USS has voted against company management on issues such as excessive executive remuneration or lack of board member independence. Usually when USS votes against management, in one of USS's priority[5] holdings, USS will write to the company to explain its concerns. USS sees this as an important way of providing feedback and encouraging change – that is, it is a form of engagement. For non-priority holdings, USS will write to the company after voting seasons informing them that we voted against certain resolutions and that the reasons for that are available on the dedicated Disclosure tool at **uss.co.uk/how-we-invest/responsible-investment/how-we-vote**.

USS has an active securities lending programme. To ensure that USS can vote all its shares at important meetings or where the scheme is a significant shareholder, USS has worked with service providers to establish procedures to restrict lending for certain stocks and to recall shares in advance of shareholder votes.

USS monitors the upcoming company meetings and can restrict stock lending on a case-by-case basis, for example in the event of a contentious vote or in relation to engagement activities, further to discussion with the portfolio manager.

5 Prioritisation for voting and engagement activities is based on criteria set out in our Stewardship Code report, including the size of our holding, the home market, the materiality of ESG factors and the adequacy of public disclosure on ESG factors.

4.3. Voting and USS's equity holdings

For the DB section, the scheme's internally managed equities (circa £8.1bn) and main externally managed mandates (circa £12.9bn) are both subject to the USS Voting Policy. USS also has circa £2.2bn of equities which are externally managed in a pooled account. USS has agreed a 'vote override' with the manager of the pooled account which means that USS can direct any voting to ensure it is aligned with the USS Voting Policy. Due to the number of holdings the scheme owns, USS is unable to attend every company shareholder meeting to cast the trustee's votes. Therefore, USS votes by proxy through the Minerva voting platform for the assets subject to the USS Voting Policy.

For the DC section, the scheme's main externally managed mandate (circa £675m) and internally managed emerging market equities (circa £115m) are now subject to the USS Voting Policy.

The remaining equity holdings for the DB and DC Sections are externally managed in pooled funds and votes are cast in accordance with the external manager's policy (circa £2bn). While the trustee is not in a position to exercise voting rights directly this does not mean that the way these voting rights are used is not important. USS regularly monitors the voting and stewardship practices of the external equity managers, reviewing updates to voting policies, sampling the managers' vote records and commentaries, and scrutinizing their more fulsome disclosures on 'significant votes'. As part of USS's monitoring and engagement programme with external managers, USS engages to encourage greater alignment with international best practice and/or the USS Voting Policy where appropriate.

4.4. Disclosure and oversight

USS records, and publicly discloses, voting actions on its website at **uss.co.uk/how-we-invest/responsible-investment/how-we-vote** (disclosing the scheme's voting history dating back to 2010).

USS monitors and reviews voting decisions twice a year through the Investment Committee and once a year through USS Board. The external equity managers' voting records are reviewed by USS as part of the RI manager oversight and monitoring processes. Voting policies and practices are also reviewed alongside voting case studies, vote activity reporting and analysis applicable to the USS mandate. Regular proxy voting activity reports are also included in the standard quarterly reporting suite requested from our external equity managers and typically covered in the manager's annual RI/stewardship publications.

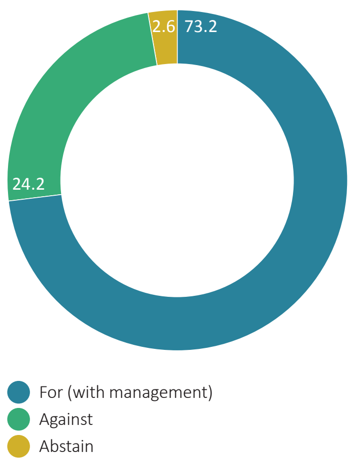
USS has not had, and does not expect to have, any difficulty obtaining voting data from the scheme's external managers. However, USS has engaged with the scheme's managers to improve their reporting at fund level (as opposed to market or regional level.

4.5. Scheme voting statistics

The statistics below are in respect of the scheme's internal equity assets and the large externally managed mandate (together representing c.85% of the scheme's equity holdings):

Voting Statistics April 2021 – March 2022	Response
How many meetings were USS eligible to vote at?	1,711
How many resolutions were USS eligible to vote on?	22,739
What percentage of resolutions did we vote on for which USS were eligible?	99.2%
Of the resolutions on which USS voted, what percentage did we vote with management?	73.2%
Of the resolutions on which USS voted, what percentage did we vote against management?	24.2%
What percentage of resolutions, for which USS were eligible to vote, did we abstain from?	2.6%
In what percentage of meetings, for which USS were eligible to attend, did we vote at least once against management?	74.9%
What percentage of resolutions, on which USS did vote, did we vote contrary to the recommendation of your proxy adviser?	N/A

USS global votes April 2021 – March 2022



4.6. Most significant votes – examples for period from 1 April 2021 – 31 March 2022

Below are details of the most significant votes on behalf of USS.

Company and date of AGM	Shell plc 18 May 2021
Summary of resolution	Resolution 20 – Approve the Shell Energy Transition Strategy Resolution 21 – Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions
Vote	Resolution 20 – For Resolution 21 – Against
Rationale for vote	USS voted in favour of Shell's Energy Transition Strategy and against the 2021 shareholder resolution in light of the commitments announced by the company to address climate change, the progress made through engagement with CA100+ investors, and management's commitment to continue to engage on achieving alignment to the CA100+ Net Zero Company Benchmark. Shell's Net Zero target supports the more ambitious goal of the Paris Agreement to limit the increase in the average temperature to 1.5 degrees Celsius above pre-industrial levels, and it aligns with the findings of the Intergovernmental Panel on Climate Change (IPCC). USS welcomed the Company's decision to put a review of its Energy Transition Strategy up for an advisory vote every three years and to give shareholders an annual advisory vote on the progress made in relation to its Energy Transition Strategy from 2022. This made Shell one of the first CA100+ companies and the first in the oil and gas sector to give shareholders a vote on a strategy that sets out the Company's energy transition in line with the Paris Climate Agreement. We saw this as an implicit recognition by management that the Company's Energy Transition Strategy is expected to continue to evolve as a result of the experience of implementing it, continued engagement with investor groups like CA100+ and evolving international regulations and policies. After careful consideration, USS did not believe resolution 21 was in the best interests of shareholders and therefore voted against it. However, USS supports the Follow This resolutions at other oil and gas companies where progress in planning for the transition has not been as clear.
Vote outcome	Resolution 20 – For 83%, Against 11% (Abstain 6%) Resolution 21 – For 29.5%, Against 67% (Abstain 3.5%)
Implications of the outcome	Over the next decades, Shell will transition from an oil and gas producer to a diversified energy company. Following the ruling by the District Court in The Hague on 26th May 2021, Shell committed to rise to the challenge of the Court Ruling and accelerate its approach to transitioning to Net Zero (45% reductions by 2030 compared to 2019). In October 2021, Shell set a target to reduce absolute Scope 1 and 2 emissions by 50% by 2030 (compared to 2016 on a net basis). USS will continue to engage with Shell and monitor progress on its alignment to the CA100+ Net Zero Company Benchmark by 2023.
Criteria selected for this vote to be significant	This is a significant vote for USS as Shell is a relatively large holding for the scheme, and there was considerable member interest in how USS voted on the shareholder resolution.

Company and date of AGM	Toshiba Corp 25 June 2021
Summary of resolution	Resolution 1.02 and 1.04 To re-elect as a director, Osamu Nagayama and Nobuyuki Kobayashi
Vote	Against
Rationale for vote	An independent special investigation report into Toshiba's 2020 AGM concluded the AGM was not fairly conducted by the company and confirmed claims that Toshiba was involved in a pressure campaign with the Japanese Ministry of Economy, Trade and Industries to try to influence the votes of large, foreign shareholders, who collectively held the majority of Toshiba shares. The investigation particularly condemned the Audit Committee for not functioning properly. USS voted against Mr Nagayama, who as Chairman of the Board had ultimate responsibility for its conduct, and Mr Kobayashi considering his membership of the Audit Committee at the time. USS had significant concerns regarding the governance failures in monitoring management and the allegations that improper pressure was placed on shareholders in relation to the exercise of voting rights, as highlighted in the special investigation report. The vote reflected the concerns USS had with the Chairman's inadequate response to shareholder concerns and the Audit Committees failure to function as an appropriate check and balance on management.
Vote outcome	Resolution 1.02 – For 43.75%, Against 56.07% (Abstain 0.18%) Resolution 1.04 – For 25.32%, Against 74.38% (Abstain 0.30%)
Implications of the outcome	Following the shareholder revolt, Mr. Nagayama resigned as Chairman of the Board and Nomination Committee in June 2021. The Audit Committee consists of three new independent outside directors, two of whom have an audit and accounting background and can provide fresh oversight to the audit function. As publicly stated by the new independent Chair of the Nomination Committee, the outcome of the vote has provided the Board with clarity on shareholder concerns and the necessity of regaining shareholder trust in the Boards' ability to provide effective governance oversight. USS continues to engage with the company and monitor progress. Toshiba's newly established Strategic Review Committee concluded a restructuring and split of the business was the Company's best option. In February 2022, Toshiba scrapped a contentious plan to split into three companies and offered an alternative proposal to break into two groups. This was followed in March by the sudden resignation of its chief executive Satoshi Tsunakawa, who had only returned to the position in 2020 after the ejection of his successor.
Criteria selected for this vote to be significant	This vote is considered significant due to the high-profile nature of the series of corporate governance scandals at Toshiba, the subsequent defeat of the directors' re-elections and the rising trend in activist investor pressure in a market that has traditionally been difficult for foreign investors to influence.

Company and date of AGM	BHP Group Ltd 11 November 2021
Summary of resolution	Resolution 20 To approve the Company's Climate Transition Action Plan (CTAP)
Vote	Against
Rationale for vote	BHP Group Ltd were the first Australian company to put a 'Say on Climate' plan to their shareholders. Before the AGM, USS joined a collaborative investor meeting with the Chairman of the Board to discuss the proposed greenhouse gas reduction targets included in the CTAP in detail. USS welcomed management's candour in discussions of BHP's climate strategy with investors and providing shareholders an advisory vote every three years on the CTAP. USS had concerns, however, on the ambition of reducing Scope 3 emissions. The CTAP does not extend to steelmaking, BHP's largest source of Scope 3 emissions (circa 75%), which is significant as their Scope 3 emissions comprise over 90% of all Scope 1 2 3 emissions combined. Peer companies have set targets to include such Scope 3 emissions and there are increasing stakeholder expectations for more robust targets to be adopted by companies operating in material sectors. USS had further concerns on BHP's strategy to divest from certain assets rather than prioritise closure and remediation and the Company was unable to commit to not extending the Mt Arthur mine life licence. Therefore, despite it being the Company's first Say on Climate plan, USS voted against the CTAP recognising that at the time of voting the next opportunity to vote would be in 2025.
Vote outcome	Resolution 20 – For 82%, Against 15% (Abstain 3%)
Implications of the outcome	USS followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging an annual advisory vote on the progress made in relation to BHP's Net Zero strategy from 2022. USS will continue to engage with BHP and monitor progress on its alignment to the CA100+ Net Zero Company Benchmark. USS looks forward to ongoing dialogue regarding the Company's management of climate change risks and opportunities and on the use of carbon offset, CAPEX alignment and effectiveness of BHP's Just Transition strategy. Following the 2021 AGM, BHP decided to put a 'Say on Climate' progress report resolution up for shareholder vote at its 2022 AGM.
Criteria selected for this vote to be significant	This is a significant vote for USS as BHP's resolution allowing shareholders a non-binding vote on their Climate Transition Action Plan was among only four other Australian companies to do so in 2021. This can be considered to set a precedent to permit non-binding 'Say on Climate' resolutions to be voted on going forward which is significant for a market where boards historically relied on legal precedent to deny a vote on non-binding ESG proposals.

5. Investment strategy

5.1. Investment beliefs

USS's Investment Beliefs can be found at **uss.co.uk/how-we-invest/our-principles-and-approach**. USS has separate Investment Beliefs for the DB and DC sections and these are reviewed on an annual basis by the Investment Committee and the Trustee Board (last reviewed in March 2022).

The Investment Beliefs guide USS's governance and strategic management, as well as the alignment sought between USS and its investment managers. They provide a reference point for considered and consistent investment decisions. The Investment Beliefs are embedded throughout USSIM's investment management activities and advice to the trustee.

The DC section has additional policy belief statements at **uss.co.uk/how-we-invest/our-principles-and-approach** which sets out USS's beliefs regarding member behaviour and they were last reviewed in March 2022.

5.2. Investment objectives

The SIP and Default SIP set out USS's investment objectives.

For the DB section, USS's primary legal duty is to pay the promised pension benefits as they fall due to its members. The capacity for USS to take investment risk is based on the assessment of the covenant of the employers and their associated tolerance for the level and variability of contributions.

The DC section allows those members with salaries over the threshold who want to make additional contributions to save for retirement by providing a suitable range of lifestyle and self-select investment options to members.

5.3. DB Investment strategy

The SIP covers USS's policy in relation to the type and balance of investments held. USS's broad investment strategy and overall investment risk has been set out as a Reference Portfolio, a theoretical, but investible, asset allocation designed to provide excess returns versus the scheme's liabilities over time while maintaining a prudent approach to meeting the scheme's liabilities, as required by applicable statutory funding requirements. It has been adapted over time to balance USS's objective for investment returns and its risk appetite.

The Reference Portfolio has been agreed with the intention of ensuring that the investment element of the covenant, and the reliance on the participating employers is kept to an appropriate level. USS seeks advice from a covenant adviser on the strength of the employer covenant.

When agreeing the Reference Portfolio, USS has considered the scheme's funding position, cash flow profile and its liability profile. With the benefit of investment advice, and in line with the SIP, these factors are reviewed from an investment perspective at least annually and reflected in the Reference Portfolio and associated investment risk and hedging parameters.

The Reference Portfolio has also provided a benchmark against which USSIM's aggregate investment results and risk can be monitored by the Investment Committee with particular attention to rolling five-year performance, asset-liability risk and leverage, given USS's long-term investment strategy.

In order to ensure the Reference Portfolio has remained appropriate, USS has monitored changes to expected asset class and Reference Portfolio returns on at least an annual basis.

As set out in Section 1.3, this Statement is based on the SIP in force for the financial year 2021/22. From 1 July 2022 the Reference Portfolio framework will be replaced by a new framework, which is based on a range of investment objectives and risk limits, including a more comprehensive balanced-scorecard approach to monitoring and reviewing investment risk and performance. Further details are set out in the new SIP, finalised on 24 May 2022.

5.4. DB Implemented Portfolio

For the DB Section, USSIM's primary investment objective, operating within risk parameters given by USS, has been to outperform the Reference Portfolio by investing in a more diverse range of assets known as the 'Implemented Portfolio'. This year USS has considered additional factors to assess the achievements of USSIM over time. Some of these additional factors include USSIM's performance versus a measure of the scheme's liabilities and USSIM's progress in hedging the scheme's interest rate and inflation risks.

The Implemented Portfolio invests in a range of asset classes, including quoted equity, government and non-government debt (including inflation-linked), currencies, money market instruments, commodities, derivatives or other financial instruments, as well as alternative strategies and private market assets including equity and debt, infrastructure and property.

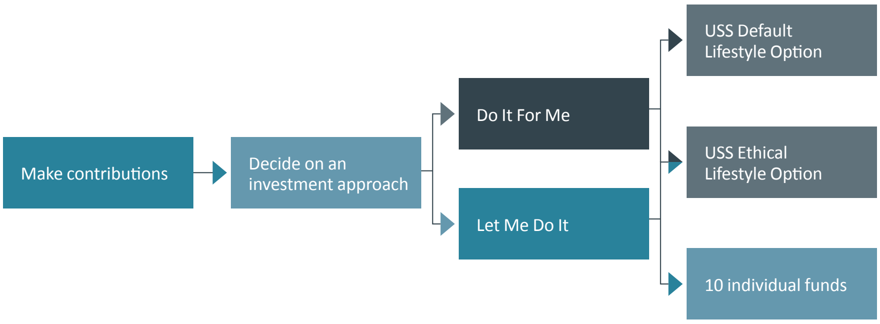
Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

To improve prospective returns and better manage asset-liability risk, over recent years, USS has taken on additional exposure to liability-hedging assets and increased its exposure to return-seeking assets. This additional exposure is made possible by using additional leverage.

The SIP covers USS's policy in relation to the expected return on assets. The achieved investment returns of the scheme's DB investments are monitored regularly by the Investment Committee, through reporting provided by USS's Performance and Investment Risk (PAIR) team. In order to ensure the Implemented Portfolio remains appropriate (and is expected to deliver the appropriate long-term returns at the desired level of risk), USS monitors changes to expected asset class and Implemented Portfolio returns at least annually.

5.5. DC Section

In the DC section, members have the option to manage their own investments (the Let Me Do It option) or have their investments managed for them (the Do It For Me option). 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. USS also makes available a choice of 10 individual funds (self-select options). This allows members to choose to invest in these funds if they wish to customise their investment approach. Further details can be found in the DC Chair's Statement.



Although USS has discretion to invest in a wide range of assets, in practice the type of assets held in the Do It For Me and Let Me Do It funds depend on the objectives and strategy of each fund.

USS regularly reviews its DC fund range against member requirements and makes enhancements as required. USS believes that the current default strategy and self-select range are suitable for the members of the scheme.

Triennial review

Legislation requires USS carry out a triennial review of the suitability of the USS Default Lifestyle Option and the other investment options offered by the scheme. The last full review of the USS Default Lifestyle Option was carried out during February and March 2022 given the expected change in member demographics following the conclusion of the 2020 actuarial valuation.

As a result of the review, USS concluded that there should be no significant changes to the Policy belief statements (**uss.co.uk/how-we-invest/our-principles-and-approach**) and no changes to member requirements for the USS Default Lifestyle Option. USS also concluded that there should be no investment changes to the USS Default Lifestyle Option.

The next full default review is scheduled for March 2025, in line with legislation, or sooner if USS has reason to believe member demographics will significantly change before then.

Underlying funds

The USS Default Lifestyle Option manages investment risks through investment in three underlying funds: USS Growth Fund; USS Moderate Growth Fund; USS Cautious Growth Fund. The investment objectives for these funds are set by USS to reflect the requirements.

The USS Growth, USS Moderate Growth and USS Cautious Growth funds are designed to deliver long-term returns above inflation for members, within varying risk tolerances, investing in a range of asset classes.

The SIP and Default SIP cover USS's policy in relation to the expected return on investment. Investment returns on the investments for the DC section are monitored regularly by USS. In order to ensure the DC funds remain appropriate (and are expected to deliver the appropriate long-term returns at the desired level of risk), expected returns are regularly reviewed by USS, including alternative scenarios and peer-group benchmarking.

Ethical investment options

In the scheme's DC section, where USS can offer members a choice, ethical investment options are made available which allow members to reflect their views and preferences. The scheme offers two ethical options – one (to the extent possible) mirroring the USS Default Lifestyle Option and the other a global equity fund. The assets are invested in line with the USS Ethical Guidelines, based on market practice and on research undertaken with members in 2015 prior to the launch of the DC Section. In addition, a Sharia compliant fund is available to members.

Last year USS carried out a large-scale survey of members to understand their views on sustainable investment, including beliefs on their general importance and on particular sectors and activities. USS is currently considering whether any changes to the USS Ethical Guidelines and the ethical funds in the DC Section are needed.

6. Investment risk oversight

6.1. Introduction

The SIP recognises USS's exposure to investment, funding and operational risks. USS integrates the management of those risks throughout its organisation. USS considers these risks when advising on investment policy, strategic asset allocation and investment strategy, manager and fund selection when applicable.

The SIP and the Default SIP cover USS's policy in relation to risks, including the ways in which risks are to be measured and managed. USS believes that risk is best understood and managed using multiple approaches. USS has a structure in place to monitor the risks relevant to both the DB and DC sections and will take action to mitigate risk when appropriate. The key investment risks are managed through a range of limits as detailed in the IMAA. These limits are reviewed at least annually.

USSIM provides the trustee with regular quantitative and qualitative assessments of investment-related risks and implements appropriate mitigation strategies within its delegated mandate. USS's overall investment risk is diversified across a range of different investment opportunities. Investment performance and risk are monitored on a quarterly basis.

6.2. Managing risk – DB section

The DB assets have been diversified by geography, asset class, and issuer. If the actual risk of the DB Section exceeds limits set out in the IMAA, USSIM must report to the Investment Committee as soon as practicably possible with proposed corrective action.

USS's funding risks are monitored and managed by USS's Funding Strategy team, with advice from the Scheme Actuary. USS's operational risks are managed throughout the organisation by individual teams.

Investment-related risks are a subset of USS's funding risks. USS assesses them throughout the year and more formally on an annual basis, when USSIM advises the trustee on the suitability of the Reference Portfolio. USS assesses the key risks relevant to the DB Section, including asset-liability, market, credit, longevity, currency, liquidity and operational risks, as well as the variability of returns of the scheme's investments relative to the Reference Portfolio and the strength of the employer covenant. USSIM assesses and manages the integration of investment-related risks, particularly as they relate to strategic asset allocation and investment strategy. USSIM provides relevant advice to the trustee.

The SIP covers USS's policy in relation to the realisation of investments. USS ensures that the scheme maintains sufficient cash and other liquid instruments to pay benefits and other commitments as they fall due. This is supported by robust and timely disinvestment and financing procedures, which operate without either disrupting the scheme's asset allocation or incurring excessive transaction costs. These processes are overseen by an internal USSIM committee.

USS's Illiquidity Framework is applied to manage the scheme's liquidity risk and to ensure there is a sufficiently low probability of USS being forced to sell assets for liquidity purposes. Investments in illiquid assets are subject to an upper limit set, and periodically reviewed by USS. On an annual basis, USS also approves an overall investment plan for USSIM to implement over the following years.

An appropriate allocation to foreign currency is made on the basis of risk/return considerations and, where appropriate, a proportion of the foreign currency exposure is hedged back to sterling.

6.3. Managing risk – DC section

In setting and reviewing the DC investment strategy, USS assesses the key risks relevant to the DC Section. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on the scheme's investments relative to the investment objectives, liquidity risk, operational risk and market risk including equity, interest rate and credit risk. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.

USS reports annually on the impact of inflation on its absolute return targets and reviews its policies on currency hedging and liquidity on an annual basis. USS also reviews performance versus expectations, benchmarks and peers.

The funds made available to members by the scheme are daily dealing notional funds. USS has put in place several measures to ensure that the introduction of illiquid assets (including private market assets) will not affect a member's ability to switch or access their DC funds, unless in extreme market circumstances.

7. Investment governance

7.1. Relationship with USSIM

The trustee has appointed USSIM to implement the trustee's investment strategy within the terms of the IMAA. USSIM manages assets directly on behalf of the trustee as well as having the delegated authority to appoint, monitor and change USS's external asset managers.

USS has various methods for overseeing the services of USSIM and USSIM provides regular reporting on its performance. The trustee's Investment Committee is responsible for overseeing the delivery of services provided by USSIM.

In addition to the oversight provided by the trustee's Investment Committee, USSIM's remuneration structures and risk and control environment are reported through the trustee's Remuneration Committee and Group Audit Committee respectively. Further details of the committees, including the Terms of Reference for the USSIM Board, Remuneration Committee and Group Audit Committee can be found at **uss.co.uk/about-us/how-were-governed**.

Investment advice

USS is required to obtain written investment advice before exercising its power of investment under the Scheme Rules. USS has ensured that these requirements are met by including them in the IMAA with USSIM as principal investment adviser to the trustee. USS may also engage external advisers, such as Mercer (for DB matters), LCP (for DC matters), and other specialist advisers as appropriate. Any investment advice required by USS is provided in accordance with legislation and primarily to the trustee's Investment Committee.

Alignment of interests

The SIP covers USS's policy on how the arrangements with USSIM incentivise USSIM to make decisions in the long-term interests of USS.

USSIM is a non-profit entity, which is wholly owned by USS. The duration of USSIM's appointment is indefinite. It is intended that USSIM will continue to manage investments and external managers on behalf of USS on a continuous basis.

USS is satisfied that its arrangements incentivise USSIM:

- To align its investment strategy and decisions with USS's policies, including whether to manage certain investments itself or to appoint external managers; and
- To make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their, and thereby USS's, performance in the medium to long term.

USS has reached this conclusion on the basis that USSIM does not provide services to other clients and has no conflicting arrangements in place. USS does not have any fee arrangements in place with USSIM which would incentivise it to deviate from USS's policies.

USS undertakes a full 'value-for-money' assessment of both the DB and DC sections of the scheme annually, including a review of investing via USS versus peer pension schemes' investment arrangements and using benchmarking analysis. Further information can be found here **uss.co.uk/-/media/Project/USSMainSite/Files/About-us/Report-and-Accounts/Value-for-money.pdf**. The latest report evidences a low cost and high value-add investment team in comparison to the peer group.

This year USS has considered additional factors to assess the achievements of USSIM over time and ensure alignment of interests. Some of these additional factors include USSIM's performance versus a measure of the scheme's liabilities, USSIM's progress in reducing USS's interest rate and inflation risks within the DB section and an assessment of USSIM's performance as investment adviser to USS.

USSIM uses a remuneration framework involving both quantitative (in other words, based on investment performance) and qualitative assessments for its staff to ensure that USSIM's incentives are aligned to the needs of the scheme and USS's policies in relation to the selection and balance of investments, the management of risk, return on and realisation of investments, and responsible investment and engagement activities. To encourage alignment and retention of key personnel, this framework includes a base salary, annual incentives and, where applicable, long-term incentive plans (vesting over multiple years).

USSIM is thereby incentivised and aligned with the medium to long-term performance of the scheme (including through making decisions informed by both financial and non-financial considerations, on issuers of debt and equity in which USS invests and engaging with such issuers in order to improve their performance).

The trustee is satisfied that USSIM is aligned with the trustee's policies because of the relationship between the trustee and USSIM, and the non-profit arrangements in place.

7.2. Role of USS's Investment Committee

The purpose of the Investment Committee is to oversee the investment of USS's assets. It will, based primarily on investment advice from USSIM, make recommendations to the Trustee Board. Where authority has been delegated to it, it will approve on USS's behalf strategic matters relating to the investment of the assets and development of the scheme's investment strategy, having regard to any legislative and regulatory requirements.

The Investment Committee meets regularly (nine times in the scheme year 2021/22) to review investment strategy proposals and to receive regular reporting from USSIM on its ongoing investment management activities. Regular reviews of the existing investment strategy, including the overall and individual mandate investment performance, are also completed. It is a standing agenda item on each Investment Committee to review the tactical asset allocation decisions made by USSIM during the period.

The Investment Committee is responsible for overseeing the delivery of services provided by USSIM under the IMAA. As part of this oversight, the Investment Committee reviews USSIM's business plan, budget and other investment costs prior to final approval by the Trustee Board. It includes consideration of the strategic projects that USS has asked USSIM to complete, as well as comparing USSIM's investment management costs compared to peers. The Investment Committee receives an annual attestation from USSIM confirming compliance with the responsibilities and guidelines given to it by USS under the IMAA.

The activities, decisions made and recommendations of the Investment Committee are reported to the Trustee Board after each Investment Committee meeting.

7.3. Relationship with external investment consultants

In addition to the advice from USSIM, USS has contracts in place with two external investment advisers/consultants. For the year ended 31 March 2022, the scheme's external investment advisers/consultants were Mercer (DB matters) and LCP (DC matters). Both attend all of USS's Investment Committee meetings and provide independent insight and challenge to the Committee's consideration of USSIM's investment strategy proposals and on the reporting provided by USSIM with regards to its investment management activities. USS may also request formal investment advice from these advisers (in addition to or instead of USSIM), as it deems appropriate. USS also engages other external investment advisers/consultants from time to time. In late 2021, USS engaged Willis Towers Watson to provide an independent view on USSIM's current and proposed investment and risk management framework.

As required by The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (**assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf**), the Investment Committee set its external investment advisers formal objectives, and in early 2022, USS reviewed the performance of its external investment advisers against those objectives.

7.4. External manager selection and monitoring

USSIM defines the requirements for individual investment mandates for different asset classes, including whether the mandate should be internally or externally managed.

Manager selection

When appointing a new public markets manager, USSIM sets out mandate requirements which detail the investment and operational requirements for the mandate. These underpin the selection process which will usually consist of a long-list of managers which is then filtered based on assessed skill, quality and fit with scheme requirements.

At the short-list stage further due diligence is carried out on the external manager's investment team, process, risk management, RI practices, and business structure. Initial fee negotiations will also be undertaken at this stage. After this work, a final candidate will be proposed for further due diligence including a detailed RI assessment (see Section 3.3) and Operational Due Diligence assessment. During the new manager onboarding process, USSIM compares fund expenses where relevant and possible.

External managers are requested to provide USSIM with details of their remuneration arrangements, which allows USSIM, where ascertainable, to assess whether they are aligned with the long-term objectives.

For private market fund investments, due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, USSIM will consider how the key individuals involved in the fund's decision-making processes are aligned to fund performance, how performance fees are shared among the team and how the ownership of the fund management firm is shared among partners. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of the scheme's capital are well-aligned with the scheme's investment objectives over the long term.

Manager monitoring

Oversight of the external and internal public market mandates is carried out by USSIM. The method and time horizon for evaluating and remunerating external managers is determined by policies set by USSIM, rather than the trustee. USSIM engages at least quarterly via questionnaires and regular meetings, covering performance, emerging risks and changes to the portfolio and process. The RI team undertake monitoring reviews against the scheme's bespoke ratings framework (see Section 3.3).

USSIM also undertakes formal in-depth annual reviews of all external public market managers incorporating detailed assessments, including changes in the organisation, team, process, expenses, portfolio turnover, risk and Diversity and Inclusion initiatives. USSIM undertakes regular benchmarking exercises of the external manager fees and looks to renegotiate accordingly to ensure the fees remain competitive. The scheme's legacy AVC manager, Prudential, is also subject to an annual review, which is reviewed by the Investment Committee and in line with USS's policies.

For private markets fund investments, USS's policy is complied with at the time of the investment and oversight is undertaken by USSIM on at least a semi-annual basis. We do note, however, that these regular reviews do not cover all elements of the policy that cannot be influenced post-investment due to the illiquid nature of the private market fund investment (namely governance and fees). This represents a non-material divergence from the policy.

Following a review of the hedge fund programme, USSIM has redeemed the majority of its investments with external hedge fund managers. As at the beginning of 2022, USS had a small residual allocation to a redeeming hedge fund. USSIM did not carry out a formal annual review for this manager. USS considers this to be an immaterial divergence from the processes as set out in the SIP.

USSIM has processes in place to assess and monitor how its external managers are addressing financially material considerations in the selection and retention of investee managers and assets, both before they are appointed and on an ongoing basis. This applies to managers of both public market and private markets funds, and managers within the DB and DC sections.

7.5. Fees and transaction costs

There are different types of investment costs and charges, some of which are explicit (like an Investment Management Charge) and some of which are implicit (for example transaction costs).

In order to provide USS with a full view of the costs and charges across the scheme, in 2022 USSIM carried out an exercise to report total investment costs incurred over the calendar year 2021 (for both the DB and DC sections). USSIM appointed an external provider to help with the data collation and benchmarking purposes. Upon conclusion, USS was able to include the costs and charges for the DC funds within the DC Chair's Statement and comply with the Cost Transparency Initiative's guidance. The exercise also covered external portfolios which allows USS to monitor target portfolio turnover and/or turnover[6] ranges which it does on an annual basis.

Best execution is overseen by an internal USSIM Oversight Committee. The committee's responsibilities include oversight and challenge of USSIM and the external managers' Cost and Quality of Execution. On an annual basis, the committee will oversee USSIM's reporting arrangements (see **uss.co.uk/how-we-invest/our-principles-and-approach**) relating to Portfolio Investment Activity and Transaction Costs. Analysis on best execution is included on all private markets fund transactions. USS monitors this activity on an ongoing basis. To date, benchmarking has indicated that costs are in line with peers in the UK and the Netherlands.

6 Turnover has been defined as Sales + Purchases/Average Asset Value. Purchases (sales) are total consideration paid (received) for the purchase (from the sale) of assets during the reporting period. Average Asset Value = average of value of assets at month end during the reporting period.

8. Financially material considerations

8.1 Introduction

USS's primary duty in relation to investment strategy is to invest the scheme assets in the best financial interests of members and beneficiaries, having regard to an appropriate level of risk. In carrying out this duty, USS expects its investment managers (USSIM and the external managers appointed by USSIM) to take into account all financially material considerations in the selection, retention and realisation of investments. This includes ESG considerations (such as, but not limited to climate change) where these are considered relevant financial factors. This approach is implemented in three ways:

- Integration into investment decision-making processes: USS requires active managers to seek to identify mispriced assets and make better investment decisions to enhance long-term performance by taking account of financially material considerations. USS believes additional returns are available to investors who take a long-term view and are able to identify where the market is overlooking or misestimating the role played by these considerations in corporate and asset performance
- Stewardship, engagement and voting rights: As a long-term investor USS expects its managers to behave as active owners on its behalf and use their influence to promote good practices concerning financially material considerations
- Market transformation activities: USS and its agents engage with policy-makers and regulators in markets in which it invests, and articulate concerns of asset owners and long-term investors, covering areas such as accounting standards and climate change policies

USS has processes in place to ensure the investment strategy and management of the assets are in the best financial interests of the members and beneficiaries. These processes are overseen by USSIM and the Investment Committee. USS is satisfied that USSIM is informed about the matters that the investment managers are taking into consideration and that these are aligned with USS's policies, as expressed in the SIP and the Default SIP.

The decision to appoint either internal or external managers and the decision regarding the preferred investment structure is made in the best interests of the members and beneficiaries considering several factors including investment capability, experience and value for money. This applies for both the DB and DC Sections.

8.2. Investment manager oversight: alignment of interests

The SIP sets out USS's policies in relation to arrangements with asset managers and this is set out in Section 7, in respect of USSIM, and in respect of external managers, of this Statement.

USS has put in place several processes with its investment managers (internal and external) to ensure alignment of interests with USS's policies, objectives and focus on the long-term and these are taken into account in the selection, retention and realisation of investments.

When appointing an investment manager, USS requires managers, including USSIM, to take account of these investment policies which cover such things as:

- The kinds of investments to be held
- The balance between different kinds of investments
- Financially material considerations to be taken into account over the appropriate time horizon of the scheme, including how those considerations are taken into account in the selection, retention and realisation of investments

USS considers that the following processes create alignment with USS's investment policies:

Setting the investment strategy with a long-term horizon, including the use of private market assets

USS recognises that while underperformance may occur over periods of time, the probability of 'return-seeking' assets outperforming 'lower-risk' investments increases as the investment horizon lengthens, though it does not become a certainty. USS, as a long-term investor, is likely to hold some investments over many years, including the use of private market assets that provide opportunities for additional returns over the long term.

Investing responsibility and engaging as long-term owners

USS expects its investment managers, including USSIM, to engage as active owners of assets, focused on sustainability, good corporate governance and to consider all financially material considerations, including material ESG factors, in relation to the selection, retention and realisation of investments. Members' interests are further protected from adverse impacts by collaboration with like-minded investors and engagement with government, industry and regulators.

Long-term relationship with USSIM and external managers

USSIM and external managers are appointed as long-term investment managers, in line with the long-term focus and horizon of the scheme. USS monitors the performance of USSIM over rolling five-year periods and USSIM, on behalf of the trustee, monitors external managers in the same way.

Using in-house investment management where beneficial to the scheme and members

USSIM's compensation approach for in-house investment managers is designed to incentivise the delivery of scheme performance over the long term and to encourage the retention of key personnel (see Section 7.1 for more details).

8.3. Consideration of Non-Financial Factors

Investing in the best financial interests of the scheme is USS's primary duty in relation to investment strategy. However, to the extent permitted by its fiduciary duties, there are some circumstances where USS would consider non-financial factors and USS will take account of member views in relation to the selection, retention and realisation of investments. These circumstances include:

- Where there is a choice as between two otherwise equivalent investments without risk of significant financial detriment to the scheme

- Where:
  i) the trustee's long-standing and ongoing relationship with the membership has, over time, helped USS form a specific view on a given non-financial factor relevant to a certain investment opportunity
  ii) the trustee is satisfied that there is no risk of significant financial detriment to the scheme in taking account of the non-financial factor in respect of that investment opportunity
  iii) the trustee has good reason to believe that members would share each other's views on that non-financial factor

In the scheme's DC section, where USS is able to offer members a choice of self-select funds, ethical options are made available, based on member research and allowing members to reflect their views and preferences directly taking account of their own position on the risks of potentially lower returns.

USS received updated legal advice on this area, **uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/responsible-investment-legal-advice.pdf.**

There have been no circumstances over the past 12 months where the trustee (or USSIM on its behalf) could take into account non-financial factors (the circumstances being those as described above) within its investment decision-making. USS's process for engagement with members is set out in more detail below.

8.4. Engagement with the members

USS provides members with several ways to provide feedback on investment issues, including via a contact form on the website, email and post. USS also engages with members on their investment preferences through surveys, an online member voice panel and views expressed by member representatives. These sources of insight help to inform USS's reviews of the Investment Builder (the DC section of the scheme) as set out above.

Representatives from USS also meet with stakeholder groups such as Ethics for USS and the University and College Union (UCU) to discuss ESG related issues.

As part of this engagement, the trustee invites views from members and beneficiaries on non-financial matters. For example, non-financial matters include (but are not limited to) ESG issues and ethical matters. As explained above, and subject to its fiduciary duties, there are some circumstances where the trustee may take account of member views on non-financial matters in relation to the selection, retention and realisation of investments.

Taskforce on Climate-related Financial Disclosures (TCFD) Report Summary

USS has long recognised the potential impacts of climate-related risks and we produced our first (voluntary) TCFD report in 2018. Set out below is a summary of our TCFD Report 2022 and details of where to find further information.

What is a TCFD Report?

The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures in 2015, an industry-led group which helps companies and their investors understand their financial exposure to climate risk. In 2017, it published recommendations designed to help companies, asset managers and asset owners disclose how they are managing climate risks and opportunities in a clear and consistent way. The recommendations are structured around four sections:

1. **Governance** – how the organisation's Board, Committees and senior management is assessing, managing and monitoring climate-related risks and opportunities.
2. **Strategy** – actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.
3. **Risk Management** – the processes for identifying, assessing and managing climate-related risks and how these are integrated into the organisation's overall risk management.
4. **Metrics and Targets** – the metrics and targets the organisation uses to assess and manage relevant climate-related risks and opportunities.

While we have voluntarily reported in line with the TCFD recommendations since 2018, TCFD reporting is now a statutory requirement: the UK Department of Work and Pensions (DWP) Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 ('DWP TCFD Regulations') require large pension funds like USS to follow the TCFD structure to report how they are managing climate change risks.

The report on the following pages follows this clear structure, following the DWP's TCFD Regulation and Guidance, enabling our efforts to address climate change to be compared to others in our sector.

Why is it important?

USS has a long history of recognising climate change as an investment risk. Our first work on this was completed in 2001, leading to the launch of the Institutional Investors Group on Climate Change (**IIGCC**). Since then, members and other stakeholders increasingly have wanted to understand how climate-related risks and opportunities may affect USS in the short, medium and long term.

The DWP's TCFD regulations and this report help us to structure our assessment, to manage climate change and to communicate what we are doing. As a large asset owner and manager, we also have an important role to play in influencing the organisations in which we invest to provide better climate-related disclosures and solutions.

In May 2021 USSIM announced our ambition to become Net Zero for carbon by 2050, if not before. Achieving this goal will involve both reducing emissions from the scheme's portfolio and investing in assets that support the transition towards a low carbon economy.

Our TCFD report, which includes details of our carbon footprint and scenario analysis data, is an important step in monitoring and reporting our progress as we work to achieve this ambition. It is important to note that some of the numbers detailed in the report, particularly the scenario analysis and carbon footprint data, are approximations and are subject to change as further climate data becomes available and the situation evolves.

Key findings

A summary of the report's key findings is set out below. The full TCFD report is available here **uss.co.uk/-/media/Project/USSMainSite/files/How-we-invest/TCFD-2022.pdf.**

Governance

We adapted our governance structures to incorporate oversight of the scheme's climate strategy

The Board has adapted its governance processes and structures to ensure that it complies with the new regulations. This section of the report also details how the scheme has established internal asset class level Net Zero Working Groups reporting to a Net Zero Steering Committee; these groups will set internal targets and put in place the internal processes to ensure that the scheme achieves its targets and ambition.

Strategy

Our scenario analysis findings show that risk-adjusted returns vary across assets, pathways and time horizons

The Strategy section of the TCFD report focuses on the use of climate change scenarios (or pathways) to estimate how changing climate could impact the assets, liabilities and covenant of the scheme. We used three scenarios across short (5-10 years), medium (15 years) and long-term (30 years) time horizons.

Relative to a realistic 'best case' climate scenario (Paris Orderly), where transition to below 2^{o}C occurs without major shocks to financial markets, the analysis found long term downside risk to defined benefit (DB) and defined contribution (DC) assets and the funding position of the scheme in less optimistic climate scenarios due to the negative climate impact over time. Worst short-term outcomes for USS portfolios occurred in a Paris Disorderly scenario as a result of financial markets' response to transition risks, and worst long-term outcomes in a Failed Transition scenario as a result of the long-term impact of physical risks. As noted above, although actual numerical outputs of this analysis may be questioned, we are clear that the direction of travel and overall impact indicated by the scenarios is very significant.

Risk management

We have integrated ESG risks, and specifically climate risks, into USS's wider risk governance, monitoring and management processes. This includes looking at the risk a changing climate poses to the scheme's liabilities and covenant, as well as to its assets.

In addition to the inclusion of climate in top down risk frameworks, we also have processes for identifying, assessing and managing climate risk at asset class and asset level. This bottom-up analysis by our in-house investment teams identifies both climate-related risks and opportunities and enables the scheme to focus its stewardship activities on those assets posing greatest risk.

Metrics and targets

Measuring our carbon footprint and reporting against key metrics will help us to both track and make progress

In 2022, we are reporting Scope 1 and 2 emissions against three metrics: absolute emissions, emissions intensity and alignment. For the DB fund, the carbon footprint analysis indicated that the fund's financed emissions were c.4.2 million tCO_2e (tonnes of carbon dioxide and equivalents), with an intensity of 89.5 tCO_2e per £million invested. Between 2019 to 2021, based on the latest available data, we achieved a reduction in carbon intensity of 3.7% or 1.9% annualised for our non-sovereign debt assets. This means that the reductions over the past two years were lower than needed for us to achieve our targets. Finally, 24% of the assets where data were available were aligned to well below 2°C.

Table 1. Greenhouse gas (GHG) emissions and intensities for DB section calculated on 11th February 2022 and based on 31st December data in tonnes of carbon dioxide equivalent (tCO_2e)

31st December 2021	AUM (£M)	Financed Emissions* (tCO_2e)	Emissions Intensity* (tCO_2e/£m)	Well below 2°C Aligned† (%)
Investments in companies and properties	£47,388	4,243,411	89.5	24%

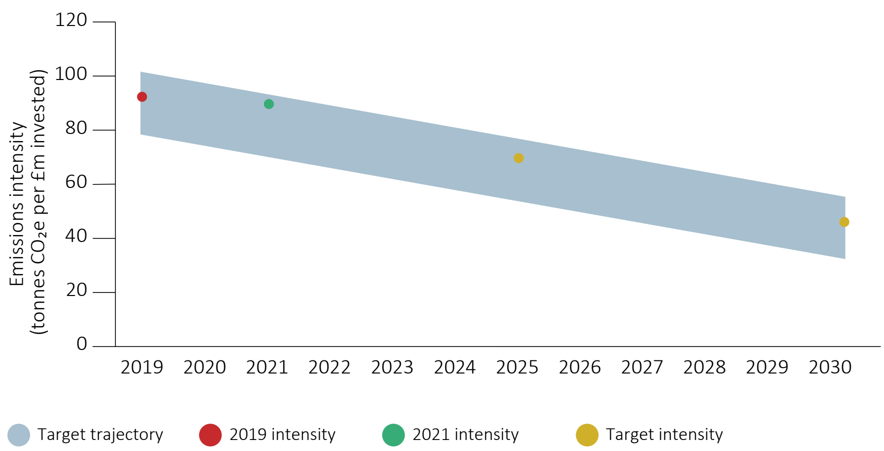
* Emissions reported are Scopes 1 and 2 only.
† Proportion of the £28bn of assets for which Trucost has Paris Alignment data available.

Table 2: 2021 vs. 2019 Emissions Intensity of non-sovereign assets

TCFD Group	2019 Emissions Intensity (tCO_2e/£m)	2021 Emissions Intensity (tCO_2e/£m)	Reduction from 2019 to 2021 (%)	Annualised Reduction (%)
Investments in companies and properties	93.0	89.5	-3.7	-1.9%

As shown in Figure 1 below (depicted by the green dot), this means that we are currently slightly behind our required transition-rate to reach our interim targets for carbon emissions, but still within the broad target trajectory (depicted by the shaded blue area). Our interim targets are depicted by the two yellow dots and our 2019 baseline is depicted by the red dot.

Figure 1. Actual vs. Target emissions intensity reduction



We're at the start of both our Net Zero and TCFD reporting journeys. Each year, we will be reporting in our Annual Report and Accounts and in a TCFD report (available on our website) how we are addressing climate change and our progress towards Net Zero in line with the TCFD recommendations. This will not only drive our own improvement, but also influence the companies in which we invest as well as a wider group of stakeholders.

You can read the full report and find more information about how we invest at **uss.co.uk/how-we-invest/responsible-investment.**

Glossary

Actuarial valuation	appraisal of the defined benefit element of the scheme's assets and liabilities, using investment, economic, and demographic assumptions for the model to determine whether, at a certain date, we believe the scheme will have enough money for us to be able to pay the pensions promised to our members on a timely basis
CEM Benchmarking	external benchmarking service for pension providers to compare value for money across industry peers
CPI	Consumer Price Index
CPIH	Consumer Price Index including owner occupiers' housing costs
defined benefit	an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history
defined contribution	a plan in which members and employers contribute a fixed amount or a percentage of pay which is invested and the proceeds used to buy a pension and/or other benefits at retirement
employees	employees of Universities Superannuation Scheme Limited or USSIM
employers	Higher Education and other institutions who pay contributions to their employees pensions
ESG	environmental, social and corporate governance
FCA Senior Manager and Certification Regime	relates to regulation, implemented by the Financial Conduct Authority (FCA), to extend regulatory accountability to the senior managers within financial institutions in an effort to curb corruption and enforce an increased culture of compliance in the UK's financial services market
fixed income	means an investment approach focused on preservation of capital and income. It typically includes investments like government and corporate bonds and can offer a lower risk steady stream of income
funding ratio	ratio of a pension or annuity's assets to its liabilities
growth assets	investments expected to deliver capital growth and/or variable/dividend income over time
IAP	Institutions Advisory Panel; employer advisory group to USS
Implemented Portfolio	the actual distribution of the scheme's assets, across a more diversified asset mix, as determined by the investment programme
Investment Builder	the defined contribution element of the scheme. Members have funds in the USS Investment Builder if they have earnings above the salary threshold (£59,883.65 for the 2021/22 financial year reducing to £40,000 from 1 April 2022), made additional contributions, or recently transferred funds into the scheme
investment management cost	a measure used by USS to assess most of the investments managed on USS members' behalf to analyse value for money
leverage	Leverage measures the degree to which total investment exposure exceeds the value of scheme net assets. Leverage is created by repurchase agreements and derivatives, including futures and swaps
liability-matching assets	investments exposed to interest rate and inflation risks and which are expected to hedge those risks within the scheme's liabilities
members	employees of Higher Education institutions who may be active (make contributions into future pensions), deferred (previously active who have deferred their pension until retirement age), or pensioner members (in receipt of pension benefits)
My USS	the online service for managing USS savings and benefits
pari passu	Pari passu is a Latin phrase meaning 'equal footing'.
pension administration cost	a measure used by USS to assess the cost of administrating USS pensions to analyse value for money for members

private markets	financial companies involved in private rather than public markets are part of the capital market. They include investment banks, private equity, and venture capital firms in contrast to broker-dealers and public exchanges
public markets	refers to securities available on an exchange or an over-the-counter market
Reference Portfolio	the Reference Portfolio is set by the board, and is an allocation of investments across mainstream asset classes (global equities, UK property, government, corporate and emerging market bonds). It is used as a benchmark for performance and asset-liability risk
Retirement Income Builder	the defined benefit element of the scheme. Members automatically join the Retirement Income Builder
return-seeking assets	investments comprising growth assets and assets expected to deliver fixed income in excess of cash and gilts
RPI	Retail Price Index
the scheme	the scheme means Universities Superannuation Scheme
the trustee	the trustee or trustee company means Universities Superannuation Scheme Limited It is a corporate trustee which has overall responsibility for scheme management
Trustee Board	a board comprised entirely of non-executive directors that provides overall leadership, strategy and oversight of the scheme, the trustee company and USSIM, in co-operation with USSIM's board of directors
USS	USS means Universities Superannuation Scheme
USSIM	USSIM means USS Investment Management Limited
we, us or our	we, us or our means the trustee but, where the context admits, may mean USSIM

Pensions increases

USS pensions are generally increased in line with increases in official pensions as defined in the Pensions (Increase) Act 1971, although from 1 October 2011, changes to the Scheme Rules introduced limits on such increases in respect of rights that accrue after that date. Increases to official pensions are based on the rate of inflation for the 12 months to September, measured using the Consumer Prices Index (CPI). For the year to September 2020, the CPI rate was 0.5% and therefore the increase applied to USS pensions in payment and deferment was 0.5% effective from April 2021.

Enquiries about the scheme

Enquiries should be addressed to the Company Secretary, Ms Nicola Mayo, Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY.

Principal officers and advisers

A range of external advisers were engaged in the UK and overseas to support the operation of the scheme during the year. The principal external advisers of the scheme and for the trustee company are:

Scheme Actuary
Aaron Punwani of Lane Clark & Peacock LLP, 95 Wigmore Street, London, W1U 1DQ

Independent Auditor
Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London, E14 5EY

Bankers
Barclays Bank PLC, 48B & 50 Lord Street, Liverpool, L2 1TD

National Westminster Bank Plc, 22 Castle Street, Liverpool, L2 0UP

Custodians
JP Morgan, 25 Bank St, Canary Wharf, London, E14 5JP

Northern Trust 50 Bank Street, Desk 7-18-F, London, E14 5NT

Legal advisers
(Actuarial Valuation) CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF

Covenant advisers
PriceWaterhouse Coopers LLP, 1 Embankment Place, London, WC2N 6RH

The financial statements included within the Annual Report and Accounts have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

The registered number of the trustee company (Universities Superannuation Scheme Ltd) at Companies House is 01167127.

The reference number of the scheme (Universities Superannuation Scheme) at The Pensions Reguator is 10020100.

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USS

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