USS *For members, for the future.*

Universities Superannuation Scheme

Report and Accounts
for the year ended
31 March 2024

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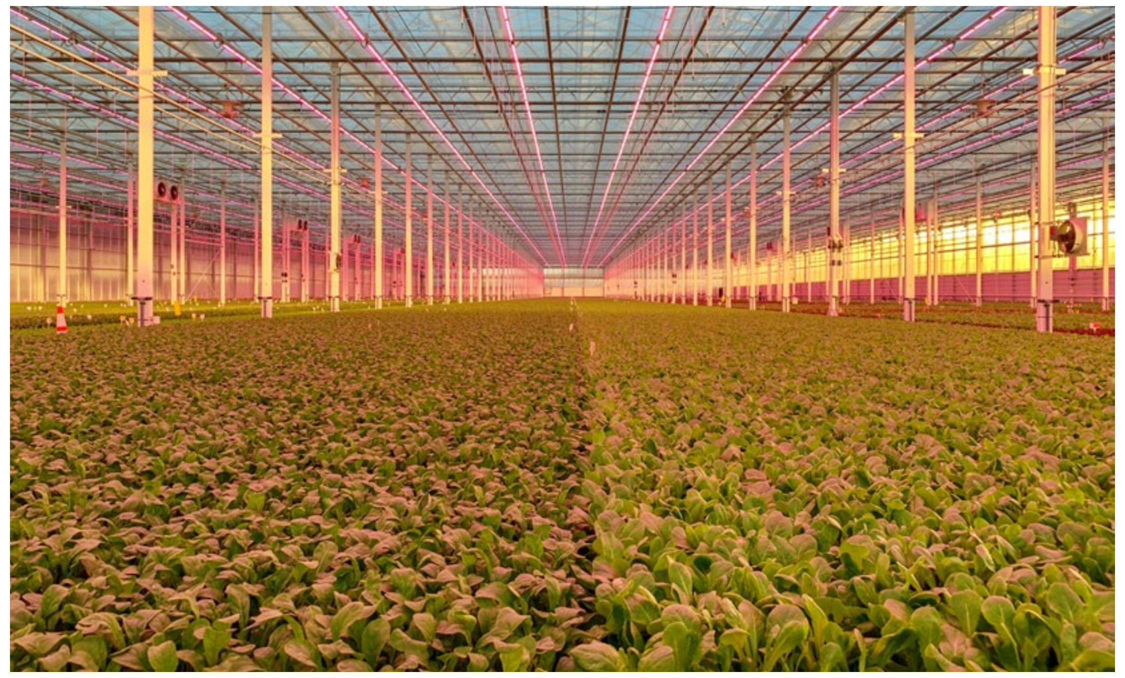


Strategic report

How we create lasting value for our members and employers.

Governance

High-quality governance and decision making is critical to success.

Financial statements

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

Other regulatory statements

Information on further aspects of scheme management

Glossary

About USS

Our purpose

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

Our strategic priorities

Members feel financially more secure

A sustainable scheme, for the long term

USS is recognised as a competent scheme manager

Our values

Integrity

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

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

Excellence

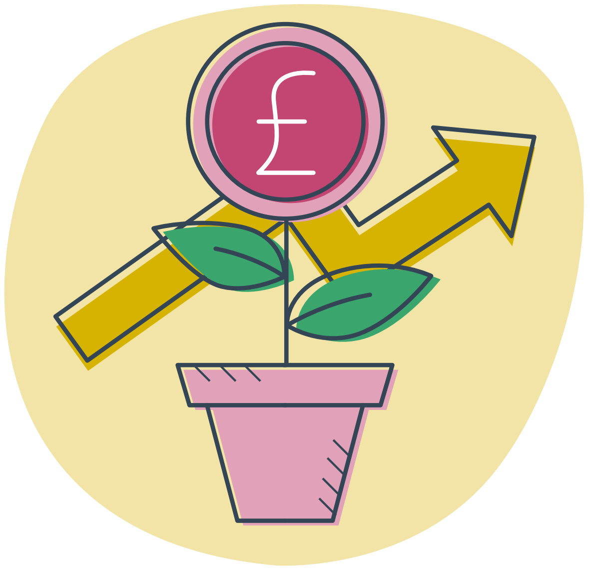
- We set high standards for ourselves and our colleagues for the benefit of our members
- We adapt and innovate to achieve the best outcome
- We bring our best selves to work, every day

Our business model

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

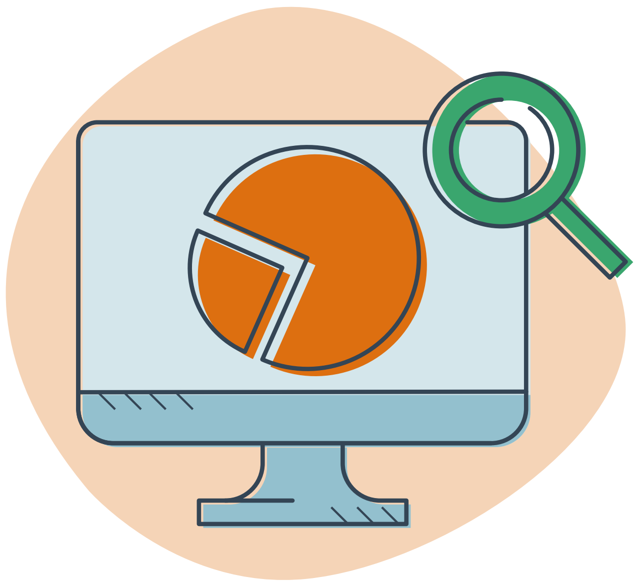
The trustee

The scheme's trustee is Universities Superannuation Scheme Limited. It is a corporate trustee which has overall responsibility for scheme management, overseen by a non-executive board of directors and employing a team of pensions 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 and London offices. This team has been supported by Capita since 2016, an external pensions administration firm. We have commenced a project to migrate to Procentia, an award winning service provider.



Investment management

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

The scheme

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

Our pension scheme assets and membership at 31 March 2024

Retirement Income Builder
(defined benefit)

Assets
£74.8bn

Members
554,000

Investment Builder
(defined contribution)

Assets
£3.1bn

Members
190,000

Stakeholders

Members feel financially more secure

We are committed to helping members understand their pension entitlements, providing them with the right retirement savings options, and helping them to make good decisions about their retirement.

For more information see page 10

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 10

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 recruits, retains and develops a high-quality, diverse workforce in an inclusive and supportive environment.

For more information see page 30

Investee companies have a responsible investor who fosters long-term growth

We are a long-term, responsible investor with a legal duty to invest in the best financial interests of our members and beneficiaries so we can pay pensions long into the future.

For more information see page 21

Our investments

We invest in a diversified portfolio in the UK and globally. Our Retirement Income Builder investments of £74.8bn are deployed across four main categories:

61.8%
Growth

27.2%
Credit

41.9%
Liability matching

(30.9)%
Net leverage

For more information see page 19

Chair’s introduction

> *We want USS to thrive for the next 50 years and beyond.*
>
> **Dame Kate Barker**
> Chair of the Trustee Board

In its golden anniversary year, I am very pleased to be able to report that the scheme is in good health.

The world around us has changed dramatically in the 50 years since USS was established on 18 April 1974, but our focus, as expressed through our current purpose statement – to work with Higher Education (HE) employers to build a secure financial future for our members and their families – has not.

So it is especially good to be commenting on the 31 March 2023 actuarial valuation (‘2023 valuation’), which resulted in improved benefits and lower contributions from members and employers. This outcome was made possible largely by the significant change in financial conditions since 2020 – the scheme has formally reported a funding surplus for the first time since 2008.

The valuation was completed in record time through the hard work of University and College Union (UCU), Universities UK (UUK) and USS staff. I am grateful to them and to the members of the Joint Negotiating Committee (JNC) for working together effectively for the benefit of members.

It is interesting to note that some of the very first members to join the scheme are still paying in and building up benefits today. Many others have retired and are now receiving their pensions as envisaged by the scheme’s founders half a century ago.

Importantly, unlike nine out of ten private DB schemes today, we remain open to new members and so our membership continues to grow.

According to the Pensions Regulator (TPR), USS accounts for half of the people in the UK still actively paying into an open private pension scheme that offers defined benefits. It is the largest such scheme in the country by way of assets, with the DB fund standing at £74.8bn at 31 March 2024.

USS has, of course, been a ‘hybrid’ scheme since 2016 when the USS Investment Builder – the DC part of the scheme – was launched. The value of the scheme’s DC assets stood at £3.1bn at 31 March 2024.

The value of the assets in both parts of the scheme grew in the financial year, a year where uncertainty over interest rates and inflationary pressures caused volatility in financial markets (see Investment matters, page 16).

The Investment Committee assesses the performance of USS Investment Management (USSIM) on a calendar-year basis and, for 2023, decided on an overall score of ‘Good’ across both the DB and DC investment balanced scorecards (see page 22).

Following this assessment, at the end of March, there were further material developments regarding the scheme’s investment in Thames Water, which is part of our large portfolio of private investments.

We have engaged extensively with Thames Water’s regulator and management. That this effort has not borne fruit is a great disappointment and frustration to us all. I appreciate the concerns members will have. Some would have wanted more information from us than we provided as this issue developed. But it is not possible, nor often in investors’ or members’ interests, to provide regular public updates, particularly where there are legal and regulatory constraints as well as commercial sensitivities.

Notwithstanding the losses incurred on Thames Water, our private markets team has delivered strong overall performance since it was established in 2007. Our diversified investment strategy means that no single investment is of sufficient magnitude as to jeopardise the scheme’s ability to pay its liabilities as they fall due. Furthermore, monitoring of the DB funding position reported an estimated surplus of £9.2bn at the end of March 2024, an increase of £1.8bn since the 2023 valuation (see Report on actuarial liabilities, page 24).

> *We hope to build on the positive momentum built up with our stakeholders over the course of the 2023 valuation by jointly considering ways we can achieve greater long-term stability.*
>
> **Dame Kate Barker**
> Chair of the Trustee Board

While it is the nature of investing that not every decision will be successful, a core part of our process is to learn from all our investing experiences, as we will do here, to strengthen our approach in future.

We welcomed our new Group Chief Executive Officer, Carol Young, in September 2023. This was midway through the 2023 valuation, and Carol was able to pick up the reins seamlessly from outgoing Group Chief Executive Officer, Bill Galvin, who stepped down after a decade in the post.

Carol's energy and commitment to external engagement is proving beneficial, as a key focus over the past year has been engaging with the Government and TPR to make clear the unique features of open, multi-employer DB schemes like USS. It is vital that we advocate successfully for a regulatory regime that avoids being overly restrictive, and that allows sufficient flexibility to manage stability and invest for the long term.

We want USS to not just survive, but to thrive for the next 50 years and beyond.

A key part of the scheme's success rests on effective governance, and there are some changes in prospect. UUK's role in relation to the scheme is anticipated to transfer to Universities and Colleges Employers Association (UCEA) on 1 August 2024. The JNC recommended changes to the scheme rules in March 2024 to facilitate this. We look forward to working productively and collaboratively with UCEA, as we have with UUK.

Our stakeholders have for some time been considering a review of scheme governance. Once the UUK to UCEA transfer is completed, we expect that this review will commence. The complex interactions between the trustee, stakeholders, and stakeholder-led committees must be robustly constructed to support good decision making and to enable us to work together as effectively as possible. We look forward to exploring potential developments, in line with best practice and consistent with our legal, regulatory and fiduciary duties and obligations. We anticipate, and will play our part in creating, an outcome that focuses on what best serves members and the sector.

On the topic of serving members and participating employers, the Pensions team continues to strive to improve and enhance experiences of interacting with the scheme. Key performance measures have been maintained over the year (see Pension services, page 10). This is despite the significant additional workload involved with the Capita cyber incident, in which some historic USS member data was regrettably exfiltrated by hackers who targeted part of Capita's IT servers (see Pension services, page 12). Our monitoring has found no evidence that the data is in the public domain.

As we consider the next 50 years, we hope to build on the positive momentum generated with our stakeholders over the course of the 2023 valuation by jointly considering ways we can achieve greater long-term stability for the scheme. This will be an important area of focus, as none of us want to revisit the tensions over the 2020 valuation.

Following completion of the 2023 valuation, we engaged with participating employers in reviewing the scheme's investment strategy and formally consulted them on the scheme's Statement of Investment Principles – as set out in the Investment matters section.

We also developed and shared our new Responsible Investment Beliefs and Ambition Statement. This reinforces our commitment to being responsible stewards of the scheme's assets, as evidenced in our latest Stewardship Report.

And, as set out in our latest Task Force on Climate-related Financial Disclosures (TCFD) Report (a summary of which is included on page 112), we have made good progress on our journey to achieving our net zero ambition. Early indications are that we remain on course to meet our interim 2025 target, but it is clear that the journey to net zero is unlikely to be smooth.

In closing, I want to thank Bill Galvin and Professor Sir Anton Muscatelli.

After a decade serving as Group Chief Executive Officer, Bill stood down in September 2023. He was instrumental in transforming USS to build a resilient and professional organisation capable of responding to changing regulatory and economic challenges whilst materially improving the service we offer our members. Much of what is good about USS today bears the hallmarks of Bill's leadership.

Anton's term on the board came to an end on 31 March 2024. He first joined the board as a UUK appointed non-executive director in April 2015 and was a member of the Investment Committee throughout. The board is grateful for his contribution in bringing his expertise as an economist, and his detailed knowledge of the HE sector, to bear.

I also want to welcome Professor Adam Tickell, who joined the board on 1 April 2024 as a non-executive director. With a career spanning more than 30 years – starting as a Research Assistant at the University of Manchester in 1989 – Professor Tickell has extensive executive experience of working in the UK's HE sector. We look forward to his contribution to the Board.

Dame Kate Barker
Chair of the Trustee Board
18 July 2024

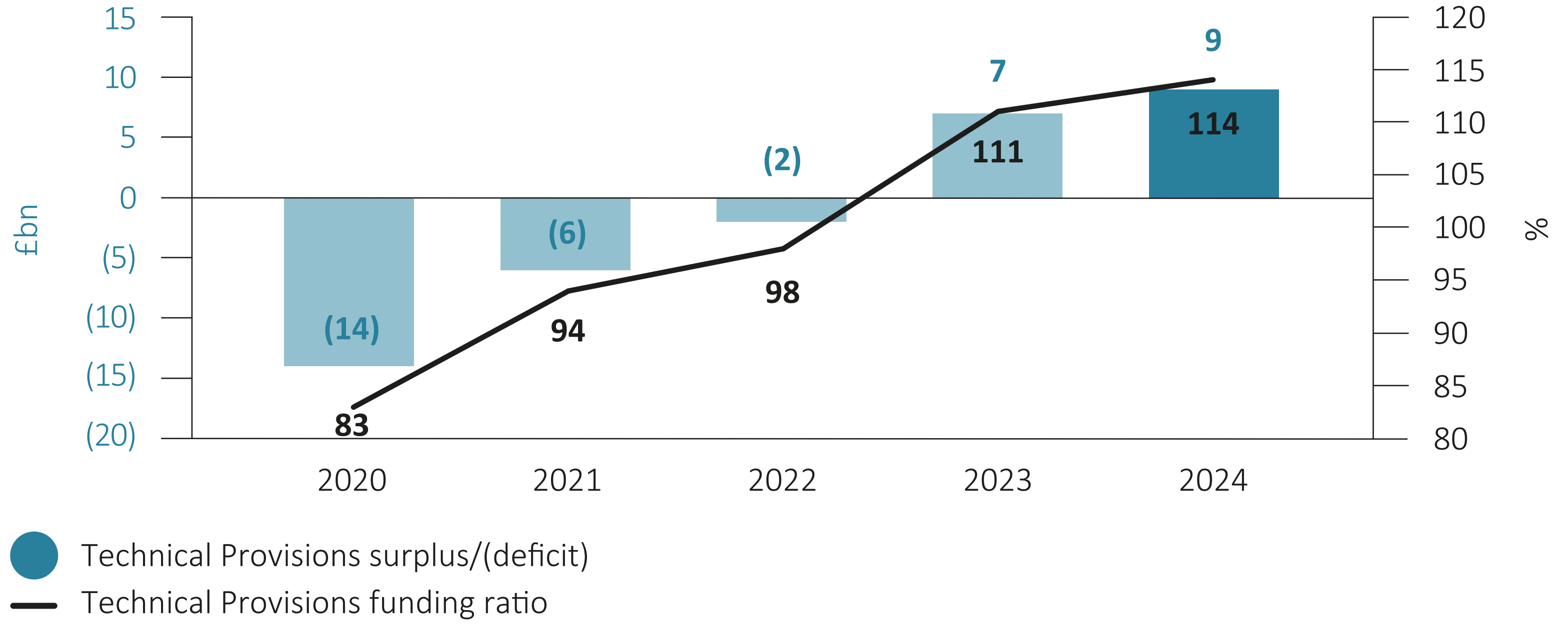
Key facts and figures

For the year ended 31 March 2024

- In DB, the 2023 actuarial valuation revealed a scheme surplus of £7.4bn which led to lower contributions and the restoration of benefits to pre-April 2022 levels
- Although rising interest rates negatively impacted bond assets, they reduced the value of scheme liabilities by a larger amount (see page 19 for further information)
- In DC, Investment Builder recorded strong returns over the year to 31 March 2024, driven by robust equity markets
- In the latest CEM benchmarking survey (calendar year 2022), our scheme management cost ratio was 13 basis points, equivalent to £102m per year below the median global peer pension fund (see page 51 for more information)

Funding ratio

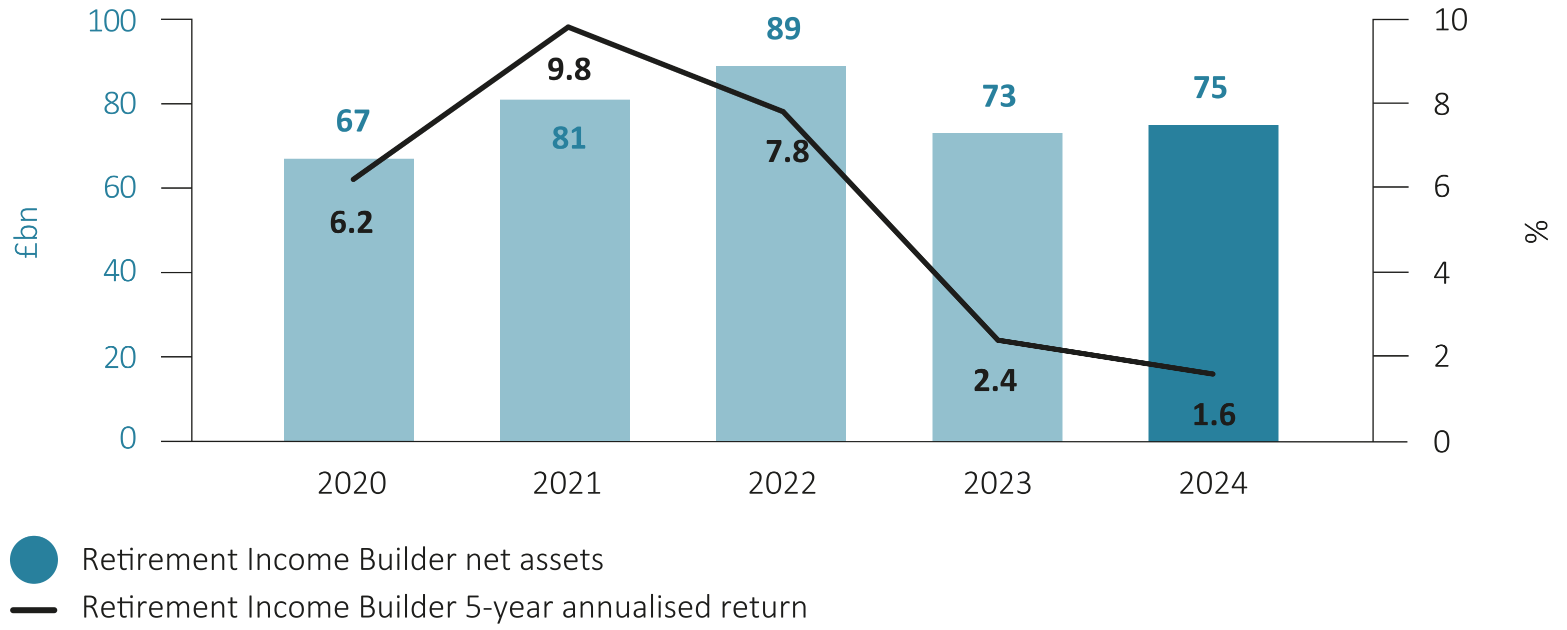
114% **Funding ratio (Technical Provisions method)**



For further information see Report on actuarial liabilities section for more on the funding ratio.

Retirement Income Builder assets and return

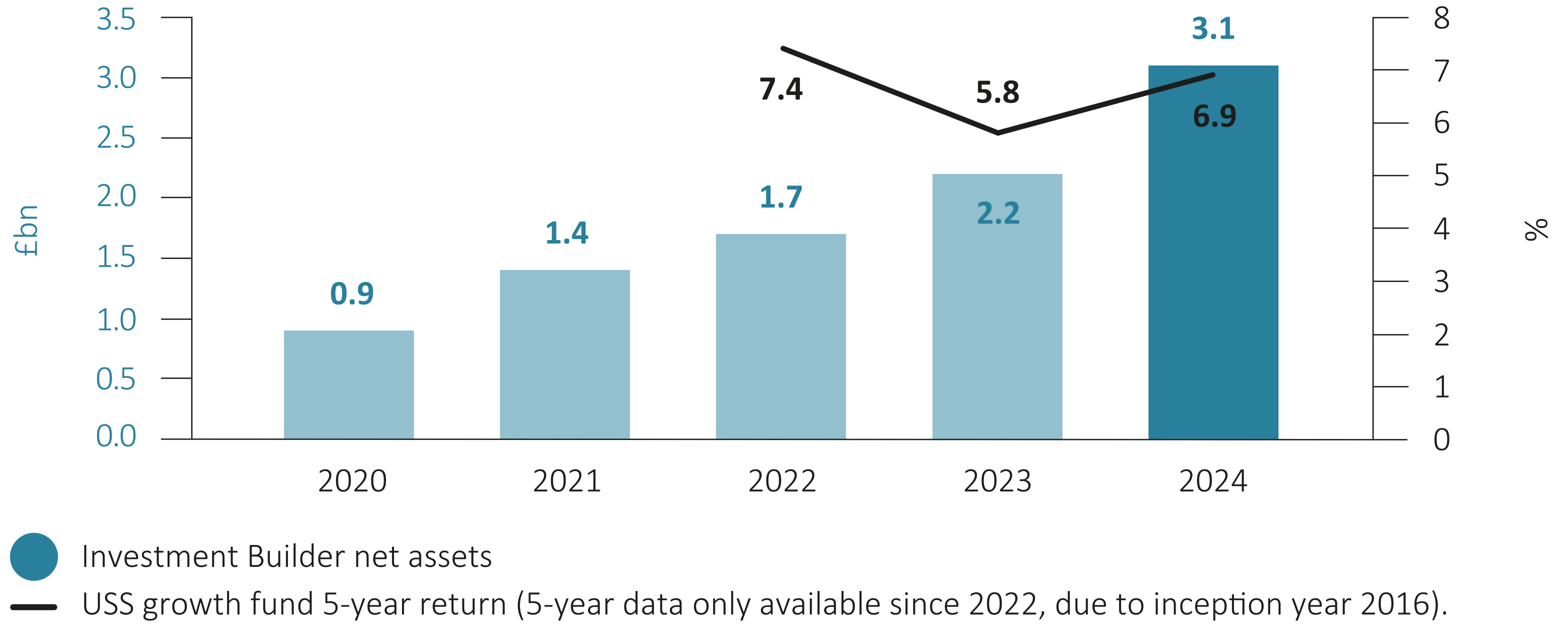
£74.8bn **Total net defined benefit investments**



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

Investment Builder assets and return

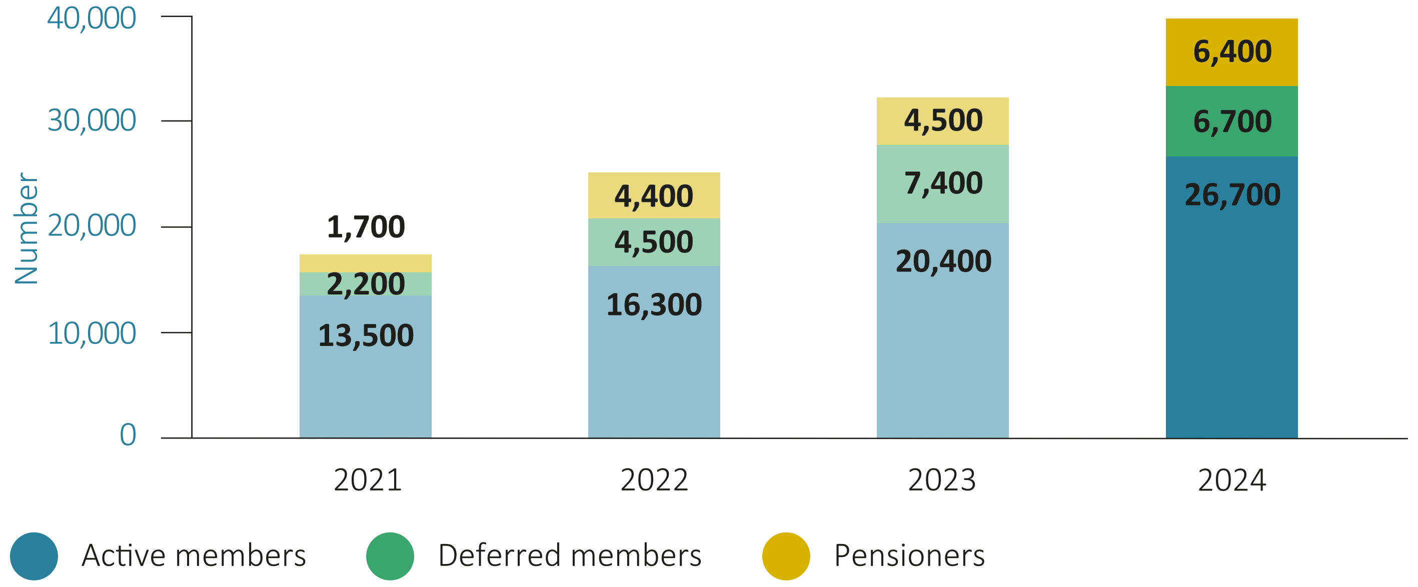
£3.1bn **Total net defined contribution investments (excl. legacy AVCs)**



For further information see Investment matters section for more on Investment Builder performance.

Improved digital engagement

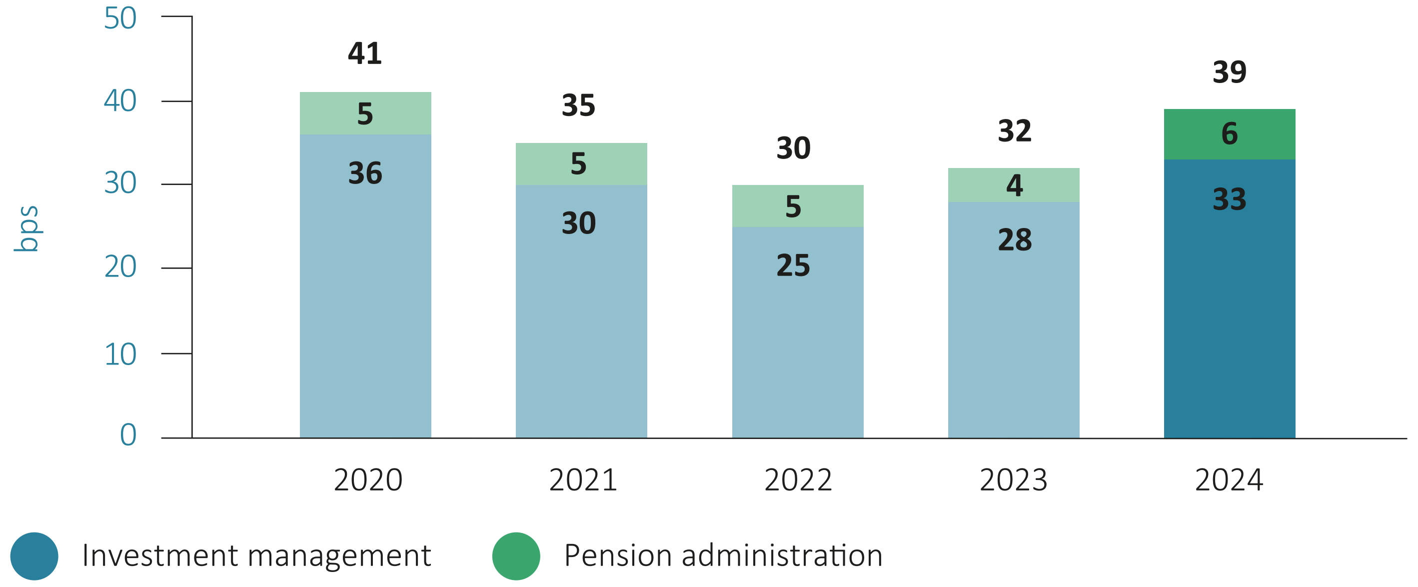
40k **members accessing My USS each month**



For further information see Pension services section for more on our members.

Scheme management cost ratios (as restated)

39 **basis points**



For further information see the Chief Financial Officer's update section for more on how we manage our costs.

Group Chief Executive Officer's overview

> *It is a privilege to lead such a high-performing organisation, with a great culture. I want to work with stakeholders to take the scheme from strength to strength.*
>
> **Carol Young**
> Group Chief Executive Officer

We continue to develop our investment capability and to engage more extensively with all stakeholders. We are focused on how we can innovate to serve our members and sponsoring employers better.

Prior to my appointment, I had always held USS in high regard for its quality and innovation. Having become part of the team, I am delighted that perception has been validated. It is a privilege to lead such a high-performing organisation, with a great culture. I want to work with stakeholders to take the scheme from strength to strength, and the backdrop of the scheme's 50th anniversary is a positive platform on which to do that.

In looking back on the past year and thinking about what will be important in the future, a number of key themes come to mind: the funding position and member outcomes; stakeholder relations; influencing policy and regulations; responsible investment; and value and standards of service.

I will address each of these in turn.

Funding and outcomes

After coming through one of the toughest periods on record for private DB pension schemes, changes in economic conditions have driven a significant improvement in the scheme's funding position and the 2023 valuation reported a £7.4bn surplus.

On 1 January 2024, the member contribution rate came down from 9.8% to 6.1%, and the employer rate moved from 21.6% to 14.5%.

On 1 April 2024, the defined benefits offered by the scheme were restored to pre-April 2022 levels, and a one-off uplift was applied to benefits earned by members who, subject to certain exceptions, paid into the scheme between 1 April 2022 and 31 March 2024.

That is a very welcome outcome, given the financial pressures being experienced in many parts of the HE sector. Up to a fifth of people eligible to join USS opt out – and the most common reason is affordability. I hope the recent changes have had a positive impact in that respect too. While we will need more time for the data to come through, the early indications are encouraging.

Stakeholder relations

The valuation process itself has also been very positive. We set out to work closely with our key stakeholders, UCU and UUK, on a 'no surprises' basis and with a shared ambition to complete the valuation on an accelerated timetable. I think it speaks volumes that it was completed in record time, ahead of what we felt at the outset was an ambitious schedule.

We want to maintain that momentum in working with our stakeholders to consider how the scheme's funding, investment and benefit strategies can be used to support the future stability of the scheme over the long term.

When I arrived at USS in September 2023, I set about meeting with as many of our stakeholders and participating employers as possible.

I have been able to visit different institutions and stakeholders, with more visits planned. Hearing their perspectives, understanding what they want from the scheme and how we can work together to achieve our shared ambitions, has been very valuable.

Influencing policy

Another early priority for me has been engaging more closely with Government, including regular contact with the Department for Work and Pensions, HM Treasury and 10 Downing Street. I was particularly pleased to be able to share our views on economic regulation with the Economic Secretary to the Treasury and others at the Global Investment Summit.

As Kate mentions in her introduction to this year's report, we have – together with our stakeholders – engaged extensively with Government and the Pensions Regulator to promote the unique features of open, multi-employer DB schemes like USS – not just as regards the regulatory framework but also in terms of our ability to invest, at scale and for the long term, in productive assets.

I was also pleased to be invited to take part in a Work and Pensions Select Committee meeting in February – a one-off evidence session on fiduciary duty, including managing climate risks. It was a good opportunity to discuss the work we carried out with The University of Exeter on climate scenarios, and to share our broader focus on addressing climate change.

Responsible investment

As a long-term, responsible investor with a legal duty to invest in the best financial interests of the scheme's members and beneficiaries, we view climate change as one of our largest systemic risks. It could have a huge financial impact if not addressed appropriately.

We have progressed work to deliver our net zero ambition and won the Judges' Choice Award at the World Pension Summit's Excellence and Innovation Awards 2023 for our work with Exeter.

But this ultimately has to be a global effort and, as a global investor, we are committed to engaging across the political spectrum to encourage the incentives and conditions that can bring about urgent, real-world change.

So, in March, I welcomed the opportunity to join a task force advising the Labour Party on how it could implement a National Wealth Fund to help encourage increased private capital investment in the UK to support the transition to net zero.

Investment in UK infrastructure remains a key area for long-term investment opportunities for the scheme. Our infrastructure investments have been a successful contributor to scheme returns for over a decade.

However, the past year has not been without its challenges. Most recently, our investment in Thames Water has been the subject of much press comment. Simon Pilcher, USSIM's Chief Executive, addresses this in more detail in the Investment matters section (see page 16).

Value and services

Turning to the day-to-day administration of the scheme, we continue to be focused on delivering value for members. So we were pleased to see our overall cost benchmark position improve still further in the most recent assessment (see Chief Financial Officer's update, page 50).

We recognise that value for money is not just about how much we spend, but also the quality of services we provide and overall outcomes we achieve. I am pleased we have maintained strong scores in our employer surveys – with 88% rating their relationship with USS as good or very good (52% rating it as very good).

And the results of our latest member survey are also really encouraging; satisfaction with the services we provide is up year-on-year and, perhaps most importantly of all, trust in USS has also increased.

We have achieved the Customer Service Excellence (CSE) accreditation for the second year in a row. In our latest annual assessment, we were recognised in three areas as having 'Compliance Plus' standards.

We maintained high levels of service, with Pension Operations achieving 97% of service level agreements, despite a 12% increase in member interactions. This increase was impacted by the Capita cyber incident noted by Kate in her introduction and covered in more depth by Helen McEwan, our Chief Pensions Officer (see Pension services, page 10).

Looking ahead, as well as developing our investment capability further and engaging more extensively with governments, policymakers and regulators, we are equally focused on how we can innovate to serve our members and sponsoring employers better.

The planned move from Capita's Hartlink platform to Procentia, as detailed in the Pension services section (page 14), is a statement of our ambition to deliver high levels of automation, enhanced functionality, and digital self-service. After an extensive process, spanning two years, we are confident we have got the right partner on board to help us achieve a transformation in our service offer to members and employers, and we are focused on achieving as smooth a transition as possible.

Of course, key to everything we do is having highly skilled and motivated staff who are committed to the scheme's purpose and values. We prioritise attracting and retaining talented colleagues and being a good employer.

This year, we were accredited as a Living Wage employer. In addition, as outlined in the Our people approach section (see page 30), we continue to develop our internal networks on Equity, Diversity and Inclusion including social mobility. We are also working with external providers to develop support for neurodiverse individuals.

As you can see, we have achieved a lot in the year across a range of factors that are important to creating value and good outcomes for members and employers alike. That gives me confidence in our ability to engage with the broad and, in some areas, challenging agenda ahead of us. I look forward to working with my colleagues here at USS and with our stakeholders to deliver for members over the next 12 months and lead the scheme positively into the start of its next 50 years.

Carol Young
Group Chief Executive Officer
18 July 2024

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

Strategic priorities	2023/24 highlights	Key performance indicators	2023/24		2022/23		Description
			Result	Target	Result	Target	
Members feel financially more secure We are committed to helping members understand their pension entitlements, providing them with the right retirement savings options, and helping them to make good decisions about their retirement	• Achieved Customer Service Excellence accreditation for second year running • Invested in developing decision support tools with a new online Benefit Calculator launched in November 2023 • Enhanced member communications and support by use of technology such as introduction of guidance calls via Zoom • Digitised the New Joiner journey, to give members a more streamlined experience	**Employer positive relationship**	88%	85%	90%	85%	Further information can be found on page 10.
		My USS active member usage	54%	54%	n/a	n/a	Proportion of active members that have logged into My USS in the 12 months to 31 March 2024
		My USS new member registrations	50%	35%	20%	n/a	Proportion of new members registered on My USS within six months of joining. More information is available on page 12.
A sustainable scheme, for the long term We strive to ensure that funding is put on a stable path and that the scheme is aligned with the long-term interests of the HE sector where possible.	• 2023 Valuation completed in record time through improved collaboration with our stakeholders • Significant reduction in emissions intensity in 2023 for DB part of scheme, now 39% below 2019 baseline (targeted 25% reduction by 2025) • Collaborated with The University of Exeter to develop four new innovative climate scenarios enhancing our investment decision making. This award-winning research was made available to the public, aiming to spur real world action and benefits • Developed our new Responsible Investment Beliefs and Ambition Statement to further reinforce our commitment to being responsible stewards of the scheme’s assets	**Investment balanced scorecard assessment**	Good	Average to Good	Better than Good	Average to Good	More information is available on page 23.
USS is recognised as a competent scheme manager We deliver clear expertise in scheme management with the right people, systems, and processes to drive value for employers and members.	• Pension Operations overall service level agreement (SLA) compliance of 97% on c.213,000 transactions • Latest CEM Benchmarking survey (calendar year 2022) showed investment management costs as a proportion of scheme assets remained materially below peer cost benchmark with USS 15 basis points, equivalent to £121m a year, below peer median	**Pension administration cost per member**	£76	£81	£71	£78	Further information can be found on page 51.
		Investment management cost	33bps	31bps	28bps	25bps	Further information can be found on page 50.
		% of internal audit findings remediated	100%	100%	97%	100%	
		% of material breaches remediated	100%	100%	100%	100%	
		Employee engagement	7.9/10	7.8/10	7.7/10	7.6/10	Further information can be found on page 30.

Pension services

> *The dedication of our employees has led to the Pension Operations team retaining accreditation under the esteemed Customer Service Excellence Standard for the second year running.*
>
> **Helen McEwan**
> Chief Pensions Officer

We aim to enhance members' experience and satisfaction through delivery of high-quality services and personalised communications that drive engagement and help members feel informed and more financially secure.

Delivering excellent service

88%
of employers rated their relationship with USS as good or very good (52% as very good).

64%
of members were satisfied with the service we provided, up from 42% last year.

97%
of member cases completed within target.

83%
of employers trust USS to look after members' pensions, up from 75% last year

> *The staff, when called, are very helpful and always very kind and considerate with their customers.*
>
> Member perception survey 23/24

Through effective collaboration with our employers and a continued focus on delivering a seamless member experience, we have met all our service level targets throughout the year, while also making improvements across core member processes.

The Pension Operations team managed a 12% year-on-year increase in member interactions with the scheme, with the Capita cyber incident contributing to the increase.

These combined efforts contributed to the Pension Operations team achieving accreditation under the Customer Service Excellence standard for the second year running.

Our Pension Operations and Change teams implemented the benefits uplift, which was also delivered following the 2023 valuation.

Our dedicated Client Engagement team successfully supported employers through the implementation of the reduction in scheme contributions, which took effect from 1 January 2024. In addition, the team has continued to provide day-to-day support to employers, with 97% of employers consistently achieving their processing targets in key areas, such as having fully reconciled contributions data for all members by the 19th day of each month.

Our goal has been not just to deliver a good service, but to improve the experience for both members and employers as they interact with the scheme. The digital distribution of key statutory communications, such as the Annual Member Statement (AMS), Summary Funding Statement (SFS) and Statutory Notice of Scheme Changes, together with enhancements like the digitisation of the New Joiner journey, member segmentation and delivery of the new online Benefit Calculator, have played key roles in service improvement.

This has resulted in a more personalised and responsive service for members and contributed to a reduction in workload for employers.

Engaging and effective communications

Communications to employers and members are designed to be timely and engaging, based on underlying narrative principles that help us to produce content that is simple, clear, and easy to understand.

Our approach aims to provide the right communication at the right time, supporting members to make confident decisions about their pension wherever they are in their journey, and to enable employers to administer the scheme effectively and provide additional support to members.

For employers, our primary communications tool is our monthly Employer Update, which contains information designed to support them with operational processes and keep them up to date with improvements and changes, as well as acting as a link to valuable resources and training. 93% of employers rate the usefulness of information contained within the monthly Employer Update as good or very good. Outside of the monthly Employer Update, we provided additional emails, where required, to keep employers abreast of any fast-moving or important changes, such as the Capita cyber incident, 2023 valuation, employer-led member consultation and the resulting scheme changes agreed by the JNC.

For members, our communications strategy is designed to support them in making key pension decisions while building their knowledge of pension basics. A particular area of focus this year was keeping members updated on the 2023 valuation and subsequent scheme changes agreed by the JNC. Email campaigns were run using a segmented approach to ensure key messages and calls to action were more relevant to member needs. This attracted high levels of member engagement with an average open rate of 53% and an average click rate of 25%, which compares favourably against industry averages of 32% and 3% respectively. Following these

> *Extremely helpful staff who are constantly on hand to answer queries from employers and members alike.*
>
> Employer perception survey 23/24

We have continued to focus on further improving our service, delivering a streamlined, frictionless member experience using digital channels, and to invest in developing new tools and resources for both members and employers.

Maintained excellent service levels
with our Pension Operations team being accredited under the Customer Service Excellence standard for the second year running. We also achieved Compliance Plus in three areas relating to the career progression/development framework, our member proposition work and our response to the Capita cyber incident.

Enhanced key member journeys
like the New Joiner journey, to give members a more streamlined experience.

Continued to invest in developing new online tools
such as the new online Benefit Calculator to support members in managing their USS pension and planning for the future.

Developed guidance calls and webinars
improving the existing support we offer members through increased use of technology, such as the introduction of guidance calls via video call.

Proactively supported employers
in implementing the reduction in scheme contributions agreed by the JNC, together with the day-to-day administration of the scheme and delivery of several virtual employer training courses.

Engaging and effective communications

73%
of members agree that their Annual Member Statement was easy to read, up from 65% last year

86%
of employers rate our communications as good or very good

> *Clear and timely communications. Speed of response.*
>
> Employer perception survey 23/24

communication campaigns, 80% of members surveyed said that they were aware of the scheme changes agreed by the JNC.

In May 2023, Capita formally informed USS of a personal data breach, where USS member data held on their servers had been accessed and/or copied by hackers. We engaged extensively with Capita on this regrettable issue, wrote to all members and their employers, and set up a dedicated hub of information and advice on uss.co.uk. Members were also provided with free of charge access to a leading identity protection service for a 12 month period. Having found no evidence over the past 12 months that the data is in the public domain, we will continue to monitor the dark web to confirm that no USS member data has been compromised.

An improved digital experience

The Annual Member Statement was rolled out via My USS. A personalised email pointed members to My USS, where they could log in to view their up-to-date benefits and download their statement. The online statement acted as a significant driver of engagement, with 13,000 new My USS registrations with 53% unique logins to My USS during the campaign period. During the year we also launched our new communication strategies for pensioners and deferred members, with improved information going live on our website and new quarterly email campaigns helping provide education and support with their USS pension. Key messages aimed to raise awareness of actions and plans these members might need to think about, even though they are receiving their pension or are no longer paying into the scheme, and the importance of USS keeping in touch with them about their benefits and any remaining savings.

> *Website is very informative and clear. I would say one of the most helpful pension websites in the country for both employers and employees to obtain information from.*
>
> Employer perception survey 23/24

An improved digital experience

Members registered for our online portal, My USS:

69%
(2023 – 63%) of active members

53%
(2023 – 51%) of deferred members

78%
(2023 – 74%) of pensioners

c.40k
(2023 – c.32k) members typically access My USS each month

80%
of employers rate the overall quality of the employer portal as good or very good

Member ratings for the overall quality of our communications have improved this year, with 57% of members surveyed now rating this as good or very good, our highest rating since 2016.

We also moved our New Joiner process online, with new members receiving automatically generated emails once they join the scheme. These emails are even more closely aligned to their pension journey, and signpost members to information designed to help them get to grips with pension basics. As part of this process, we also refreshed My USS with an improved document management area and a new notification panel to bring members' attention to important information and highlight key actions they could take. We have seen an improvement on both new member engagement and satisfaction, with 50% (up from 20%) of new joiners now registering for My USS within the first six months of joining the scheme and 71% (up from 60%) of new joiners reporting satisfaction with the information provided upon joining.

Providing an easy online experience for employers is equally important, and we regularly review and assess the look, feel and content of our Employer Portal.

Supporting employers

For our employers, our key focus is providing them with day-to-day support via our Client Engagement team, who are on hand to help. Our annual attestation framework continues to provide employers with greater clarity on how the scheme works and a better understanding of their key responsibilities, helping them manage their participation more effectively. Employers' rating of the overall quality of support we provide remained high with 86% rating it as good or very good.

Providing support where it is needed

96%
of members rated our guidance webinars as relevant

86%
of employers rate the quality of support we provide as good or very good

100%
of employers attending our training programme agreed the content would be useful in their day-to-day work

As part of our formal employer training plan, we delivered 12 virtual training courses to 134 delegates, conducted eight employer portal run-through sessions and held 37 employer catch-up meetings. Employer awareness of available support is high and 100% of those surveyed who attended a training course agreed that it met their goals and would be useful in their day-to-day work.

Supporting members
Providing timely and thoughtful support is key to helping members navigate their pensions journey. We have continued to provide free member webinars, which have covered a range of topics such as About USS, Pension Tax and Planning for Retirement. Member feedback has been positive, with 96% of members rating our guidance webinars as relevant. Whilst many members still value interactivity via the live webinars, we have seen an increasing number of members seek out online recordings and videos. Throughout the year, 2,166 members attended 57 live webinar sessions, with an average of 38 members per webinar. In addition, we also ran two webinars to support members' understanding of their AMS. These webinars were attended by 1,046 members. Meanwhile 1,903 members watched our webinar recordings on the USS website. Overall, 91% of webinar attendees rated their understanding of the sessions as good or very good.

Many members have complex decisions to make about how they use their USS benefits, and we continue to provide our one-on-one guidance call service to support members. Members can choose to have a guidance call with a pensions professional to discuss the retirement options available to them, taking account of their benefits and any other provision for the future that they might have alongside it. As an enhancement to this existing service, members can now elect a guidance call via Zoom. This enables a face-to-face engagement and an ability to share content on screen, to improve the discussion and member understanding. Approximately 67% of our guidance calls are now conducted via Zoom. These calls continue to have a considerable impact for members using the service: before the guidance call only 72% of members said they were confident about making an informed decision with their USS pension. This increases to 98% of members after the call.

Ensuring members have easy-to-use tools to support informed decision making is an essential strand of the member support we provide. Following the successful launch of our new Contributions and Tax calculator last year, which helps members understand how much they pay, how much their employer pays and how much they save in tax by making contributions, we launched our new Benefit Calculator this year. The new Benefit Calculator replaces several older modellers and provides members with improved functionality and an improved user experience. A basic version of the Benefit Calculator is located on the public website, to help new and prospective members, and there is also a version in My USS, aimed at existing members, which uses pre-population of data and provides advanced modelling options. Members can use the calculator to project their benefits, taking into account different scenarios such as making additional contributions, transferring in benefits, future changes to salary and career breaks. The calculator also supports members in understanding how different options could look when they come to access their Investment Builder savings, such as taking cash payments, choosing a drawdown product, or buying an annuity. Since its launch in November 2023, the new Benefit Calculator has been used over 430,000 times by more than 50,000 members.

What employers and members think
We have continued to seek feedback from employers through daily contact with scheme administrators, and through more formal channels, such as the Institutions' Advisory Panel (IAP) and our annual Employer Perception survey. In addition, we have collaborated with employer focus groups and IAP sub-groups on specific initiatives to ensure employers' views are well represented and their needs fully understood and accommodated.

Whilst we have seen a slight fall in some of the headline ratings from employers, they remain very positive. 88% of employers rated their relationship with USS positively compared with 90% in the previous year. Smaller employers' ratings have declined, whilst larger employers' ratings have remained largely static.

The results from the survey demonstrated that the team's proactive approach to engagement continued to pay off.

> *Professionalism of USS staff, prompt response to my email queries, patience when explaining matters.*
>
> Employer perception survey 23/24

We have focused on engaging directly with members to understand how we can improve their experience, as well as using our traditional approach of surveying them quarterly for feedback. Although still not at the level we would wish, this has contributed to an increase in member ratings across most areas, particularly those relating to quality of our service, overall relationship, trust, and confidence.

45% of members now rate their overall relationship with USS as good or very good – up from 30% last year. Similarly, the proportion of members rating their overall relationship as poor has decreased from 32% to 13%.

The more positive 2023 valuation outcome has had a clear impact on member feedback, with 50% (up from 38% last year) of members now agreeing that USS is a reliable and trustworthy source of information and 48% (up from 38% last year) agreeing that USS pensions are secure and will be paid as promised.

A new annual survey of USS pensioner members was also conducted this year. 78% of those members who responded were satisfied with the service they have received from USS, with 53% saying they were extremely satisfied.

We continue to focus on encouraging more direct interaction between USS and members. A Trustee Engagement Event was held at University of York in May 2023 and included a Q&A session on scheme governance, benefits and investments. It was attended by around 200 USS members and included informal engagement with members of the York executive, Council and the trade union branches. Our Group Chief Executive Officer, Carol Young, has completed visits to Lancaster, Nottingham and Newcastle, which have been successful in gathering valuable feedback.

There will also be a new annual survey for deferred members, to help us understand where any potential improvements could be made.

We will continue to do what we can to improve members' relationship with USS through tailored communications and our day-to-day interactions, delivering a strong and supportive customer experience.

Looking to the future

To ensure that USS can continue to provide the best possible service to its members, after an extensive review of the pension's technology market, we have taken the decision to move to Procentia's award-winning administration platform. The move is driven by our ambition to deliver high levels of automation, enhanced functionality, and digital self-service for members and sponsoring employers. We are aiming to complete the transition from Capita's Hartlink platform by October 2026 and will be scheduling training sessions to support employers in the transition.

A continued focus on encouraging more direct interaction between USS and members is planned for the year ahead.

A relaunch of our online research community, Member Voice, on a new and improved platform, is also in the pipeline, with the aim of creating a more engaging space for participating members.

Review of historical scheme practice

As noted in last year's report, a review of historical Scheme Rules and relevant legislation applicable over time to deferred members (previously active members who deferred their pension until retirement age) identified a number of historical issues. These relate to iterations of the Scheme Rules that applied at different points prior to October 2011. It is the trustee's duty to ensure that all members receive the correct entitlement and we are currently working through a complex, historical dataset to resolve these matters, some of which are likely to require court directions to establish the correct treatment to be applied. An internal team has been established which is working with external legal experts and HMRC to expedite the clarification of benefits entitlements and any associated remediation. Court directions on a subset of issues are likely to be issued in the next 12 months.

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 at 31 March 2023 as reported	**216,465**	**6,764**	**223,229**
Restatement of active members[1]	(4,644)	(181)	(4,825)
Active members at 31 March 2023 as restated	**211,821**	**6,583**	**218,404**
New members	35,103	1,175	36,278
Rejoiners	9,006	203	9,209
Sub-total	**255,930**	**7,961**	**263,891**
Leavers and exits during the year			
– Retirements	(2,231)	(91)	(2,322)
– Retirements through incapacity	(126)	(8)	(134)
– Deaths in service	(159)	(6)	(165)
– Refunds	(460)	(36)	(496)
– Deferrals	(22,333)	(723)	(23,056)
– Retrospective withdrawal[2]	(5,159)	(199)	(5,358)
Sub-total	**(30,468)**	**(1,063)**	**(31,531)**
Active members at 31 March 2024[3]	**225,462**	**6,898**	**232,360**

Deferred members	University institutions	Non-university institutions	Total
Deferred members at 31 March 2023 as reported	**211,037**	**9,469**	**220,506**
Restatement of deferred members[1]	2,569	143	2,712
Deferred members at 31 March 2023 as restated	**213,606**	**9,612**	**223,218**
New deferrals	22,333	723	23,056
Sub-total	**235,939**	**10,335**	**246,274**
Leavers during the year resulting from:			
– Rejoiners	(9,006)	(203)	(9,209)
– Transfers	(391)	(22)	(413)
– Retirements	(2,452)	(145)	(2,597)
– Deaths in deferment	(109)	(8)	(117)
Sub-total	**(11,958)**	**(378)**	**(12,336)**
Deferred members at 31 March 2024	**223,981**	**9,957**	**233,938**

Pensioner members	University institutions	Non-university institutions	Total
Pensioner members at 31 March 2023 as reported	**80,901**	**3,438**	**84,339**
Restatement of pensioner members[1]	715	33	748
Pensioner members at 31 March 2023 as restated	**81,616**	**3,471**	**85,087**
New pensioners in year resulting from:			
– Retirement of active members	2,357	99	2,456
– Retirement of deferred members	2,452	145	2,597
Sub-total	**86,425**	**3,715**	**90,140**
Other movement	(333)	(45)	(378)
Deaths in retirement	(1,749)	(60)	(1,809)
Pensioner members at 31 March 2024[4]	**84,343**	**3,610**	**87,953**

Notes
1 Membership data has been restated to reflect updates processed after 31 March 2023 but with an effective date prior to that date.
2 During the year, USS was notified of 5,358 employees of participating employers who were eligible to join the scheme but elected not to do so, which equates to 12%.
3 Included in the active member numbers are 156,219 active members in the Investment Builder at 31 March 2024.
4 At 31 March 2024, there are an additional 16,214 pensions paid in respect of the service of another person (for example, to a surviving spouse or dependant).

Investment matters

> *We employ tools like horizon scanning, scenario planning, diversification, and stress-testing … to build a resilient portfolio and respond effectively to events as they unfold.*
>
> **Simon Pilcher**
> Chief Executive Officer of USSIM

It was another turbulent year for the global economy. Higher interest rates and inflationary pressures continued to impact both company operating costs and market valuations, and contributed to volatility in financial markets. Economies held up better than had been expected but while inflation started to come down, interest rates rose in most countries.

One benefit of higher interest rates was that it became cheaper to hedge the scheme's liabilities. We took advantage of this opportunity, thus reducing our exposure to interest rates and inflation, which means the scheme is better protected should bond yields fall again.

Returns across growth assets were generally positive in the period. This was true particularly in the US, where there was a very strong performance from major global tech stocks, driven in part by great hopes around artificial intelligence. The outlook for equities is reasonable, and we believe that bond markets are also likely to deliver solid returns now that yields have risen.

Looking further ahead, climate change and its close relative, loss of biodiversity, pose serious threats to the globe and to financial returns. We face other long-term threats, for instance from rising geopolitical tensions, the demographic time bomb that is embedded in many countries where fewer people of working age must support rising numbers of retired people, and ongoing competition between labour and capital for a larger share of the economic pie.

We employ tools like horizon scanning, scenario planning, diversification, and stress-testing as critical elements to help us as we seek to build a resilient portfolio and respond effectively to events as they unfold.

Our diversified investment portfolio means no single investment on its own can jeopardise our ability to pay members' pensions when they are due. But some of our investments have a greater profile than others, and Thames Water is one of these. Despite our very best efforts, it is clear this has not been a successful investment. While poor performance of a single asset should be considered in terms of our overall performance, as I will discuss below, this has been deeply disappointing, and we recognise the concern it will have caused our members. We have taken time to consider the implications for our investment decision making, asset oversight, and our wider investments in economically regulated sectors.

In respect of Thames Water, on the final trading day of our financial year, all nine shareholders of the company, including USS, announced they would not be investing new equity into the company. This was because the necessary conditions for further funding were not in place at that time. Thames Water itself also announced that, based on the feedback provided by its regulator Ofwat at that point, the regulatory arrangements they expected would apply to the company made its business plan uninvestible.

This was despite extensive engagement with the regulator and commitments from investors that they would not take any money out of the business for at least a further six years. Since we first invested in 2017, any profits that might otherwise have been used to pay shareholder dividends were reinvested into the business. We have not received any dividends or payments of interest on any shareholder loans.

We will continue to co-operate in the next steps that flow from the end of March announcements. At the date of writing, we remain a shareholder but the future outlook for the company is unclear and the value of our holding at 31 March 2024 was minimal in the context of the defined benefit part of the scheme with £74.8bn worth of assets under management. We deeply regret having arrived at such a position.

As I noted above, we are continuing to consider the implications of the Thames Water situation; an outcome like this has led to serious reflection. Economically regulated assets should be a good fit for long-term patient investors like USS, particularly where, as with infrastructure, they require long-term investment to address historical challenges. That is, though, dependent on similarly long-term, consistent regulation that recognises the need for that investment and that strikes a fair balance between risk and returns over the long term.

While our overall experience of investing in private markets has been beneficial, we seek to learn the lessons of all our investments – whatever the outcome. Our experience with Thames Water will influence our future approach to investing both in economically regulated assets and more broadly.

Private markets

Despite the material decline in the value of our investment in Thames Water, our broad-based approach to investment in infrastructure means there has been a wide dispersion of returns from these assets in the last 12 months. Private markets as a whole have delivered strong returns to the scheme over an extended period. Over 10 years to 31 March 2024, our infrastructure assets have delivered annual returns in excess of 11%.

Investments in private markets are a good fit for schemes like USS as we are able to provide long-term, patient capital. We can find investments that meet our needs well, like those with inflation-linked returns or high growth investment opportunities, which will help us pay our members' pensions long into the future.

In the July 2023 Mansion House speech, the then Government set an ambition of a 5% allocation to unlisted equities for UK pensions funds, something we continue to be well positioned on. At 31 March 2024, we had 34% of the Retirement Income Builder (DB) and 20% of our default growth fund in the Investment Builder (DC) invested in private assets as a whole. These private investments include allocations to private equity, infrastructure, property, fixed income, renewables, and natural capital.

Our Private Markets Group has been hard at work applying a long-term strategic view to our private portfolio and assessing which assets we believe will deliver the best long-term returns for our members. We are constantly looking to rebalance our overall portfolio with the aim of moving to our desired asset allocation. During the past year we exited a number of private investments, generally at favourable prices to where they had previously been marked in our books. This demonstrated our ability to recycle capital efficiently, and effectively buy assets with strong long-term prospects and, at the same time, gave us helpful evidence of the robustness of our private asset valuation framework. The acquisitions included growth-focused private equity, long duration income-generating property assets, and inflation-linked assets like renewables.

I also want to mention the development of a few of our other private investments.

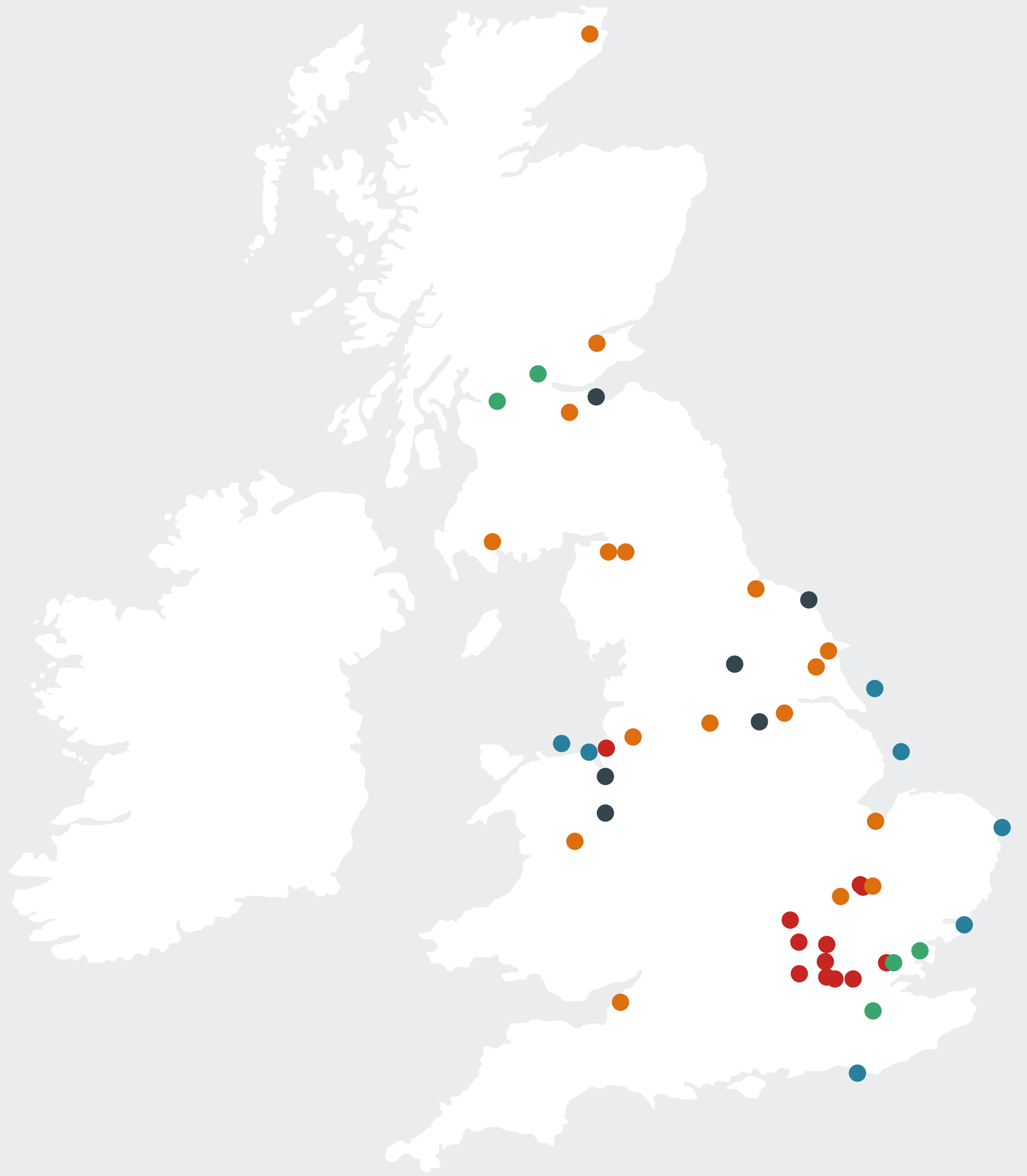
First, there is Moto, which operates motorway service stations across the UK. As the majority shareholder in Moto, we work with them to support their goal of becoming the UK's number one en-route electric charging destination, enabling sustainable journeys and helping the UK's energy transition. Moto continues to expand the number of ultra-rapid electric vehicle chargers (>250kW) across their sites and finished 2023 with 515 ultra-rapid electric vehicle chargers live across 35 sites, eight times more than in 2021. They are now the biggest provider of motorway service chargers in the UK.

There is also Bruc Energy, a renewable energy company in Spain that builds solar energy farms. By March 2024 Bruc had:

- Reached around 1GW of solar photovoltaic (PV) installed capacity, successfully adding 155MW of assets

Some of our key UK private market investments and where they are located:

As well as our major UK portfolio, we invest in businesses across Europe, Australia and the Americas covering solar, toll roads, reusable pallet logistics, gas networks, woodland and a port.



- Generated more than 1,842GWh of renewable energy, enough to power around 500,000 homes for a year and avoid the emission of 408,000 tonnes of CO_2
- Contributed to the creation of 269 jobs
- Positively impacted skill shortages in the construction sector by delivering more than 800 training hours

In-house expertise

Our Developed Markets Equities team is now established and is managing the new Long-Term Real Return (LTRR) mandate. This mandate is designed to provide strong long-term returns at lower levels of risk than the wider equity market, an objective that is aligned with the overall scheme. We now have £4bn invested in high-quality companies, each of which we believe has strong competitive advantages. Responsible investment has been built into every stage of the investment process for this mandate and a thorough assessment of climate and other environmental, social and governance (ESG) issues is integrated to ensure appropriate consideration is given to relevant risks and opportunities. Alongside this, the low-carbon emissions of the companies owned in the LTRR mandate supports our ambition for our investments to be net zero by 2050, and the concentrated nature of the mandate means that our stewardship activities can be a real focus. Ultimately, we are focused on driving long-term, real-world change with these companies.

> *The LTRR mandate is a strong example of us developing our in-house investment capabilities to deliver an investment proposition that meets the needs of the scheme, integrating our net zero ambition and our commitment to responsible investment.*
>
> **Simon Pilcher**
> Chief Executive Officer of USSIM

The LTRR mandate is a strong example of us developing our in-house investment capabilities to deliver an investment proposition that meets the needs of the scheme, integrating our net zero ambition and our commitment to responsible investment. We have adopted a similar approach both within Fixed Income and in our private markets investing.

Overall, our use of in-house investment capabilities is also demonstrably less expensive than employing commercial investment managers. The latest independent analysis by CEM Benchmarking (for the calendar year 2022) shows that our annual investment management costs were equivalent to £121m lower than the median global peer pension fund, after adjusting for scale and the adopted investment strategy. Over the past five years, this benchmarking assessed USS as being 26% less expensive than the peer median – equivalent to a total saving of £410m over this period.

We commissioned an external review of our approach to asset allocation to assess whether the investment process and governance was as effective as it could be, and to identify areas for improvement. The review concluded that we have strong people, capabilities, and processes. In light of the review, we have redoubled our efforts in relation to long-term thinking and horizon scanning in our asset allocation. We also aim to embed thinking about climate and other systemic risks into the asset allocation process more clearly, as we seek to make the portfolio more resilient to various possible futures.

We have been aware of the limitations with existing climate scenario analysis for some time, which make it difficult to properly embed climate considerations into investment decisions. That is why we worked with the University of Exeter to develop four new climate scenarios that are more useful in decision making – a piece of work that has won many plaudits, including the Judges' Choice Award at the World Pension Summit's Excellence and Innovation Awards 2023. For more information see our TCFD Report summary on page 112.

The new scenarios better reflect the real-world risks and opportunities that frame our investment decision making over the short and medium term. They switch the focus away from climate pathways and allow us to pay close attention to shorter-term changes to politics, markets and extreme weather events when assessing the long-term financial impacts of climate change. We took the decision to make this research publicly available for other investors because the real-world impact of climate change could be much greater than previous modelling has suggested. We hope this work will be of benefit to many others and help galvanise real-world action as people understand the costs of inaction associated with the current trajectory towards ever higher temperatures.

Investment strategy

We have spent considerable effort engaging with a wide range of employers to understand their investment risk appetite. This has been very helpful as we have sought to arrive at a Valuation Investment Strategy (VIS), the high-level theoretical investment strategy for the DB part of the scheme, to accompany the 2023 valuation.

Following this, a formal consultation was launched on the updated Statement of Investment Principles (SIP) to accompany the 2023 valuation. Twenty-six individual employers responded, accounting for 50% of active members. The vast majority (23) were supportive, neutral or made no substantive comment on the proposed updates. Aon was commissioned by UUK to review the updates and concluded that 'the draft SIP, as updated, correctly reflects the proposed new strategy and complies with the legislation'. They also concluded that the changes proposed to the SIP were 'modest', and that they 'saw nothing that caused us concern'. Other key themes touched on by employers were the Valuation Investment Strategy, stability, responsible investment, and a desire to hear more from the trustee. We will be keeping this in mind as we undertake our regular reviews of our approach to member and employer communication.

Engagement with Government

Over the past year, we have continued to engage with Government, regulators, and key policymakers to protect our position and drive change on the issues that matter to us. We have had regular engagement with officials at 10 Downing Street on the economic and regulatory environment; we outlined our views at the Government's annual Global Investment Summit; and we have built constructive relationships with Treasury officials.

A key aspect of the year was being asked to give evidence to the Work and Pensions Committee on fiduciary duty and climate change, which Carol touched on earlier in this report. We were able to emphasise the seriousness with which we take climate change as it is one of the largest systemic risks and could have huge financial impact if not appropriately tackled on a global basis.

Performance of the Retirement Income Builder

The Retirement Income Builder is the defined benefit part of the scheme. It promises members an income for life plus a one-off cash lump sum at retirement.

The value of the DB fund rose to £74.8bn over the 12-month period to 31 March 2024. Equity markets across the globe performed strongly over the period despite ongoing inflation concerns. While credit markets displayed positive performance over the year, the rising interest rate environment proved to be a drag on government bonds. However, the estimated value of USS's liabilities (the amount we need to pay out in pensions in the future) continued to fall materially, which means our funding position has improved further over the year.

The following table sets out the distribution of Retirement Income Builder assets (the implemented portfolio) at 31 March 2024.

	Implemented portfolio %	2020 VIS %	Difference %
Growth	**61.8**	**60.0**	**1.7**
– Public Equities	36.6	54.0	
– Commodities	2.4		
– Private Growth	7.3		
– Infrastructure	10.6		
– Real Estate	4.9	6.0	
Credit	**27.2**	**25.0**	**2.2**
– Public Credit	16.0	25.0	
– Private Credit	11.2		
Liability matching	**41.9**		
Net leverage	**(30.9)**		
Total	**100.0**		

Hedge ratios	Implemented portfolio %	2020 VIS %	Difference %
Rates hedge ratio	48.6	40.0	8.6
Inflation hedge ratio	50.2	40.0	10.2

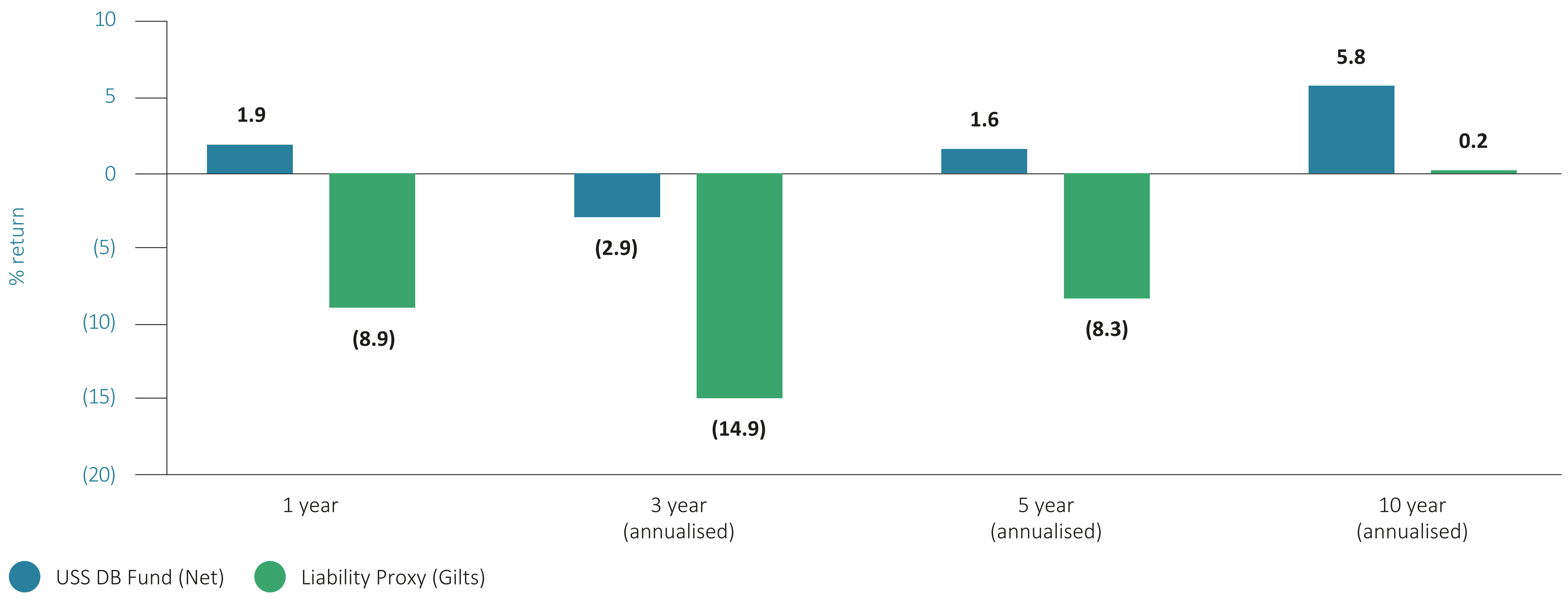
To help us assess how well we are doing, we use an investment balanced scorecard. This takes a rounded view of investment performance against the backdrop of our investment objectives and the interests of our members and employers.

The Investment Committee (IC) assessed the performance of USSIM over the calendar year 2023 as having been Good overall (looking across both the DB and DC parts). The IC particularly called out USSIM's positive progress on responsible investment, strong investment advice around the valuation, progress against our net zero ambitions, and how well counterparty risk was managed. It also noted the weaker performance of Thames Water and that 2023 was a year in which private markets as a whole lagged their public market counterparts. You can read more about USSIM's performance against the investment balanced scorecard (see page 22).

We also look at how we deliver investment returns over the long term in excess of the return of the Liability Proxy. The Liability Proxy is updated annually and reflects the estimated present-day value of the scheme's future pension liabilities (using current market UK gilt prices).

The scheme significantly outperformed the Liability Proxy (by 10.8% per annum) over the five years to March 2024 and has outperformed the Liability Proxy over 10 years (by 5.6% per annum).

Retirement Income Builder performance



Performance of the Investment Builder

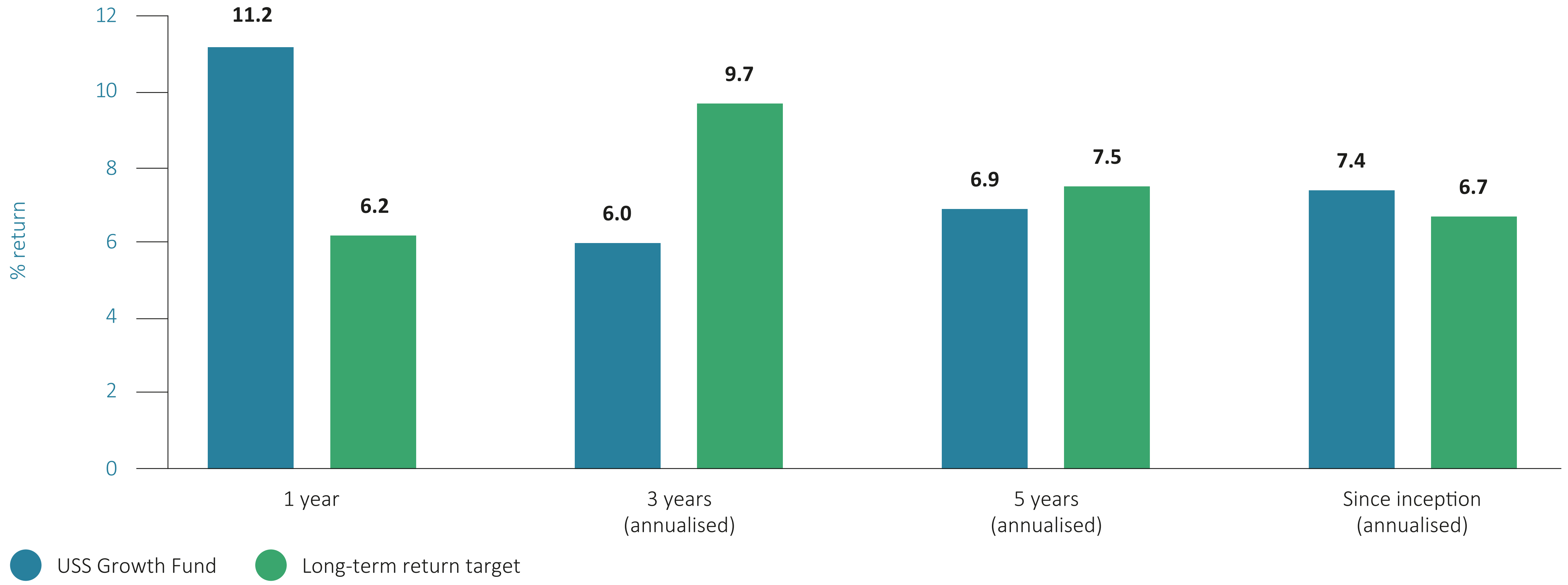
The Investment Builder is the DC part of USS. It offers members the option to manage their own investments in the Let Me Do It option, or to have their investments managed for them in the Do It For Me option.

The DC funds recorded strong returns over the 12 months to 31 March 2024, with the growth funds within the Do It For Me option all exceeding their objectives. Unlike last year, this was a more favourable year for DC investments across the industry, with returns being positive across the board. Most of the Let Me Do It funds matched or outperformed their respective benchmarks over the period, with the exception of the Ethical Equity Fund.

We measure the performance of the Growth Fund, where most DC assets are invested, using a long-term return target (LTRT), which is CPI inflation +3% each year. In recent years this has been a tough target to beat in the context of historically high inflation throughout 2021 to 2023. However, now that inflation has started to come down, the fund outperformed the target by +5.0% over one year. While recent high inflation means that the medium-term targets are more volatile, particularly over the past three years, looking over a longer-term horizon the fund return since inception has outperformed the target. The chart on the next page shows performance of the Growth Fund against this LTRT over various time periods.

Our DC investment adviser reviewed the USS Growth Fund against 18 UK DC master trust default growth fund returns over the 12 months to 31 March 2024. Equity markets performed strongly over the year and so master trusts with higher equity allocations performed well. Our globally diversified portfolio looks to spread investment risk across a variety of factors and the USS Growth Fund is therefore invested in a number of different asset classes alongside equities, such as

Investment Builder performance (USS Growth fund)



The following table sets out the performance of all funds within the Investment Builder against a LTRT or benchmark.

Investment Builder performance	1 year		5 years	
	Fund %	LTRT/Benchmark %	Fund %	LTRT/Benchmark %
Growth Fund	11.2	6.2	6.9	7.5
Moderate Growth Fund	9.1	5.2	5.2	6.4
Cautious Growth Fund	6.6	4.7	3.2	5.9
UK Equity Fund	6.9	7.1	4.8	5.5
Global Equity Fund	19.6	19.8	12.0	11.9
Liquidity Fund	5.2	5.2	1.7	1.6
Emerging Markets Equity Fund	7.0	5.9	3.8	3.4
Bond Fund	4.6	3.5	0.4	0.6
Ethical Equity Fund	17.0	22.5	12.3	12.9
Sharia Fund	30.5	30.4	17.3	17.4
Ethical Growth Fund	12.9	6.2	8.4	7.5
Ethical Moderate Growth Fund	10.2	5.2	5.7	6.4
Ethical Cautious Growth Fund	7.7	4.7	3.6	5.9
Ethical Liquidity Fund	5.2	5.2	1.7	1.6

property, infrastructure and bonds. As a result of this diversification, and that 2023 was a year in which private markets lagged their public market counterparts, its performance was behind some less diversified, more equity-reliant peer funds. The fund has outperformed its long-term return target (LTRT) over one year and since inception. We believe that using a LTRT, which is CPI inflation +3% each year, is in the best financial interests of our members as it allows them to see how their Investment Builder savings are performing relative to inflation over the long term.

We also won the DC Innovation of the Year award at the UK Pension Awards 2024. Our entry highlighted three main areas of investment innovation, which included increasing private market assets in our DC product, investing responsibly, and introducing a foreign exchange overlay to our default investment strategy.

Responsible investment

We are a long-term, responsible investor with a legal duty to invest in the best financial interests of our members and beneficiaries, so we can pay pensions long into the future. We believe that when our investments are run effectively and when they appropriately manage their environmental and social risks, risk-adjusted returns can be improved over the long term.

In 2023 we published our new Responsible Investment Beliefs and Ambition Statement and in January 2024 our new Head of Responsible Investment, Sandra Carlisle, joined us. We have of course been working hard in this area for a long time now but our evolution in this space will bolster our growing responsible investment ambitions and prioritise the long-term financial success of the scheme for our members.

We are a Universal Owner with a large, highly diversified investment portfolio that is managed for the long term and is broadly representative of global capital markets. Consequently, we are exposed to certain market-wide or systemic issues that could impact the investment returns we seek. We therefore act as an active and engaged long-term owner, working with other Universal Owners to address these issues, as we seek to minimise the financial impact they might have on our investments. Our new Responsible Investment Beliefs and Ambition Statement supports this.

Since arriving, Sandra has been hard at work reviewing our key systemic risks and what our immediate priority areas should be. Climate change is of course one of them and I lay out our ambition and our good progress later. Our other priority areas are nature and biodiversity, people, such as human rights and labour standards, and governance, which covers both corporate governance and market governance. Moving forward, we will be agreeing the focus areas for each of these priorities and how we plan to address them.

Our latest Stewardship Report, published in July 2024, sets out how we have delivered against the Financial Reporting Council's 12 Stewardship Principles and put responsible investment into practice. The key highlights of the report include:

- Making progress on our journey to net zero and publishing our second mandatory TCFD Report
- Developing four new climate scenarios with the University of Exeter that can inform our investment decision making
- Collaborating with other large asset owners, such as the Cambridge Universal Ownership Initiative on antimicrobial resistance

We are grateful for the engagement we have had with our stakeholders on broader responsible investment matters throughout the year. This has importantly touched on the horrific events that have unfolded in the Middle East, both on 7 October and subsequently. We

appreciate the diversity of views that these events have precipitated among those who share an ambition to see peace in the region. We are however mindful of our legal duty to invest in the best financial interests of our members and beneficiaries, rather than any wider basis.

We have actively monitored the implications of ongoing events on our investment outlook. We continue to keep our portfolio and broader positions under regular review; in response to the financial risks that became apparent, we have reduced our exposure to the region. Our long-standing exclusions of sectors that pose a financial risk to the scheme are still in place. These include tobacco manufacturing, thermal coal mining (where this makes up more than 25% of revenue), and companies that are involved in the development, production, stockpiling and transfer of cluster munitions, white phosphorus, and landmines.

Our journey to net zero

We believe that a low-carbon world is likely to be a more financially stable one. That is why in 2021 we set an ambition for our investments to be net zero by 2050, if not before. We continue to make decisions that are in the best financial interest of our members, believing that better run companies and businesses that are aligned with a path to net zero will achieve better returns over the long term.

We are increasingly focused on driving real-world change and that is why we are prioritising engagement with our investments over divesting from them. Divestment makes no difference to the actual carbon emitted to the atmosphere and will not effectively address the climate challenge. We would rather be an investor with a seat at the table and proactively engage with the companies we invest in to drive positive change, than have no influence. That is why we consider divestment to be the last tool we would use, after we have exhausted all other engagement approaches.

We are actively engaging with the companies we own through dialogue and by exercising our voting rights. In this way we continue to encourage our highest emitting companies to reduce their carbon emissions and shift their ‘business as usual’ models to ones that are more conducive to a lower-carbon future. See our Implementation Statement on page 100 for information on how we voted during the year to 31 March 2024. We also publish a list of our voting records at **how we vote**.

Alongside this, we are acutely aware that reaching a net zero world will require a radical shift in government policy – both in this country, and across the world. We cannot deliver this ourselves. To tackle climate change, we must proactively engage with policymakers and regulators, so they adopt policies that are supportive of a sustainable and low-carbon future. For example, we need to see the necessary changes to the planning regime and regulatory encouragement for the huge investment in the energy transition (both generation and transmission) if electric vehicles are to replace those with internal combustion engines.

Our progress

In the calendar year 2023 the emissions intensity of the DB part of the scheme’s corporate investments reduced by more than 22%, from just over 70 tonnes CO_2e per £million invested (tCO_2e per £m) to 55 tCO_2e per £m. Our emissions intensity is now 39% lower than in 2019, 14% ahead of our 2025 target of a 25% reduction.

Over half of the reduction seen in 2023 is a result of our new Long Term Real Return equities mandate. The high-quality companies owned in this mandate typically have a very low emissions intensity. Alongside this, our climate-tilted equity portfolio saw a reduction in emissions intensity driven by increased exposure to information technology investments and lower exposure to businesses from the materials and utilities sectors. Our Alternative Income and Private Equity strategies now report reduced emissions intensities as we receive more accurate data from managers.

It is worth noting that our reported emissions intensity data remains extremely sensitive to small changes in our investment portfolio, including our asset allocation. We know that the journey of our portfolio towards net zero will not be linear – we will sometimes overshoot and sometimes undershoot our targets. Despite the progress of our portfolio, we need to see much greater real-world change. This will require decisive action from all players across society, government, regulators, businesses, and individuals.

For more information on our latest progress and our next steps, read our TCFD Report summary on page 112 or take a look at our **net zero page**, where you can find the full report.

Investment balanced scorecard

To help us measure USSIM's investment and advisory performance we use an investment balanced scorecard.

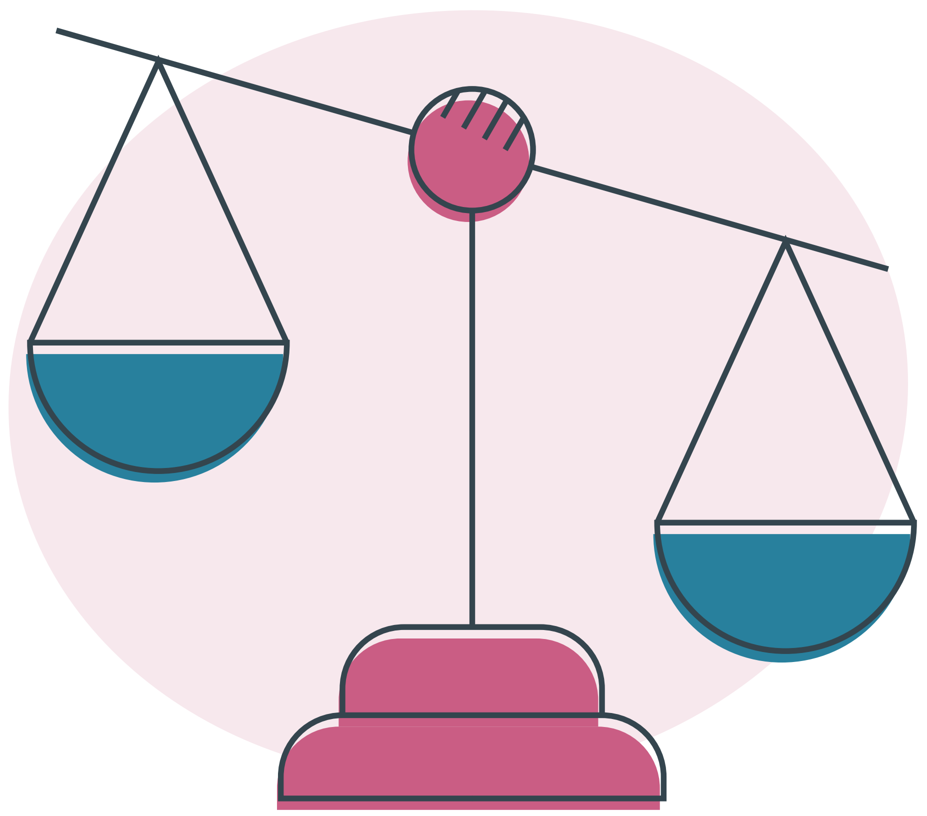
This takes a view of investment performance in the round against the backdrop of our investment objectives and the interests of our members and employers. The assessment includes a range of factors from quantitative risk and return metrics, to qualitative inputs, allowing our Investment Committee to assess independently and holistically USSIM's performance.

There is a scorecard for both the Defined Benefit (DB) and Defined Contribution (DC) parts of the scheme, which each cover six important categories. The DB and DC versions have the same six categories, but different metrics are used in each scorecard. The Investment Committee's assessment of the scorecard is a rating on a scale of Very Good, Good, Average, Poor and Very Poor.

The metrics used in the DB version of the scorecard are shown below.

1. Investment return	**a. Realised return** i. Versus required return ii. Versus expected returns	**b. Funding measures** i. Probability of Technical Provisions full-funding ii. Evolution of Technical Provisions funding level iii. Evolution of Self-Sufficiency funding level	
2. Investment risk	**a. Deficit risk** i. A projection of the scheme's affordability ii. Self-sufficiency liability hedge ratios iii. Asset liability volatility and Value at Risk (95%)	**b. Long-term hedging attributes** i. The contribution from longer-term inflation sensitive assets	
3. Active management	**a. Asset allocation** i. Return versus market comparators	**b. Public markets** i. Return over benchmarks ii. Information ratio iii. Number of mandates to have outperformed	**c. Private markets** i. Return over benchmarks ii. Quality and quantity of matching assets originated iii. Number of mandates to have outperformed
4. Portfolio resilience	**a. Liquidity** i. The probability of running out of cash ii. The probability of running out of collateral	**b. Counterparty risk** i. The probability of losing 0.5% of scheme NAV from a counterparty default	
5. Responsible Investment	**a. Net zero ambition** i. An assessment of how USSIM is delivering against the scheme's net zero ambition	**b. ESG integration** i. An assessment of how USSIM is integrating ESG factors (including reporting and stewardship)	
6. Investment advice	**a. Investment Committee assessment of USSIM advice** i. The annual Investment Committee advice survey ii. A qualitative assessment by the Investment Committee		

This was the second year the Investment Committee assessed USSIM's investment performance using the DB scorecard, and the first full year for the DC scorecard. The Committee's review considered all aspects of USSIM's performance during the calendar year to 31 December, with input from USSIM, the trustee executives and external advisers from Mercer (for DB) and LCP (for DC).



Assessment by the Investment Committee

The Committee acknowledged that USSIM delivered against its objectives during 2023, including being recognised as a leader in climate scenario analysis and further embedding ESG factors into its investment management processes and decision making. It also made significant progress towards the scheme's net zero ambition.

The Committee highlighted the following areas of USSIM's performance as being particularly strong:

- High-quality investment advice, particularly around the scheme valuation process and the role USSIM played in engaging with stakeholders. USSIM's investment advice around the new responsible investment ambition and implementation of a new solution to manage foreign exchange risk in DC funds were also acknowledged as market leading.
- Distinct and clear progress on responsible investment – particularly the industry leading and award-winning work with the University of Exeter to develop new climate scenarios.
- Well managed counterparty risk. USSIM successfully took decisive actions to avoid losses and manage positions with Credit Suisse.
- USSIM also increased the number of counterparties and the range of collateral that could be used across a variety of financial instruments to diversify and manage risk, which was seen as a positive contribution during the year.
- Overall DC performance was good, with all funds outperforming their CPI inflation targets over the year and achieving strong absolute returns.

While there were no areas of the scorecard where the Committee felt USSIM was underperforming:

- It did not believe USSIM's performance in the active management category was at the level achieved in other categories.
- While the Committee recognised the significant effort expended in managing the minority of underperforming investments, in particular Thames Water, it acknowledged that these had a negative impact on scheme performance. More generally it noted that 2023 was a year in which private markets as a whole lagged their public market counterparts. Against this, the Private Markets Group were able to achieve positive pricing on private asset sales that were completed to rebalance the overall portfolio and maintain the desired asset allocation.

Taking all these elements into account, the Committee awarded USSIM an overall score of Good for investment performance across both the DB and DC investment balanced scorecards.

Russell Picot
Chair of the Investment Committee
18 July 2024

> *The Committee acknowledged that USSIM delivered against its objectives during 2023, including being recognised as a leader in climate scenario analysis and further embedding ESG factors into its investment management processes and decision making. It also made significant progress towards the scheme's net zero ambition.*
>
> **Russell Picot**
> Chair of the Investment Committee

Report on actuarial liabilities

Actuarial valuations: how we provide for the promises made to members.

Overview

As trustee, we must regularly carry out an actuarial valuation of the funding of the Retirement Income Builder (defined benefit) part of the scheme. 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, and determines the contributions required to fund future benefits. We carried out a valuation as at 31 March 2023 in accordance with the requirements of the Scheme Rules and the Pensions Act 2004 including required consultation with UUK acting as the employer representative for those purposes.

Alongside this valuation we worked closely with the scheme's stakeholder representatives, UUK and UCU, via their membership of the JNC to facilitate the benefits changes the JNC wished to make. The 2023 valuation revealed a substantially improved funding position, and lower contribution requirements, compared with the valuations over the previous decade. Based on this, the JNC recommended improvements to future service benefits, returning these to the levels provided prior to April 2022, alongside a reduction in the contribution rates. It also recommended giving a one-off uplift to members who built up benefits between 1 April 2022 and 31 March 2024, and improving the cap on future pension increases for benefits accrued between these dates.

The valuation was closed in late December 2023, a significantly shorter time frame than previous valuations, with the contribution rate reductions implemented from 1 January 2024, and the associated benefit changes and uplift proposed by the JNC coming into effect in April 2024.

As part of the 2023 valuation, the package of measures to protect the strength of the covenant which was introduced at the 2020 valuation was reconfirmed. These measures, which remain in force, include limitations on employer exits without trustee approval, a debt monitoring framework and pari passu ('equal footing') rights for the scheme should employers grant security over their assets to third parties. These protections support the scheme's ongoing capacity to take funding and investment risk.

The next valuation is planned to be at 31 March 2026.

Methodology and assumptions

At every actuarial valuation we review all the underlying assumptions relating to the funding of the scheme's defined benefit part.

The 2023 actuarial valuation maintained the use of 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 return-seeking strategy for assets which back accrual of benefits prior to members' retirement. Provided the scheme membership remains stable and the covenant support from employers remains strong (helped by the support measures outlined earlier), the overall investment strategy can remain broadly consistent over time, while still giving sufficient security to members' benefits.

Based on advice from the Scheme Actuary, we state the discount rates relative to gilts, as in the 2020 valuation. However, the discount rates are informed primarily by our analysis of expected returns of all asset classes relative to CPI.

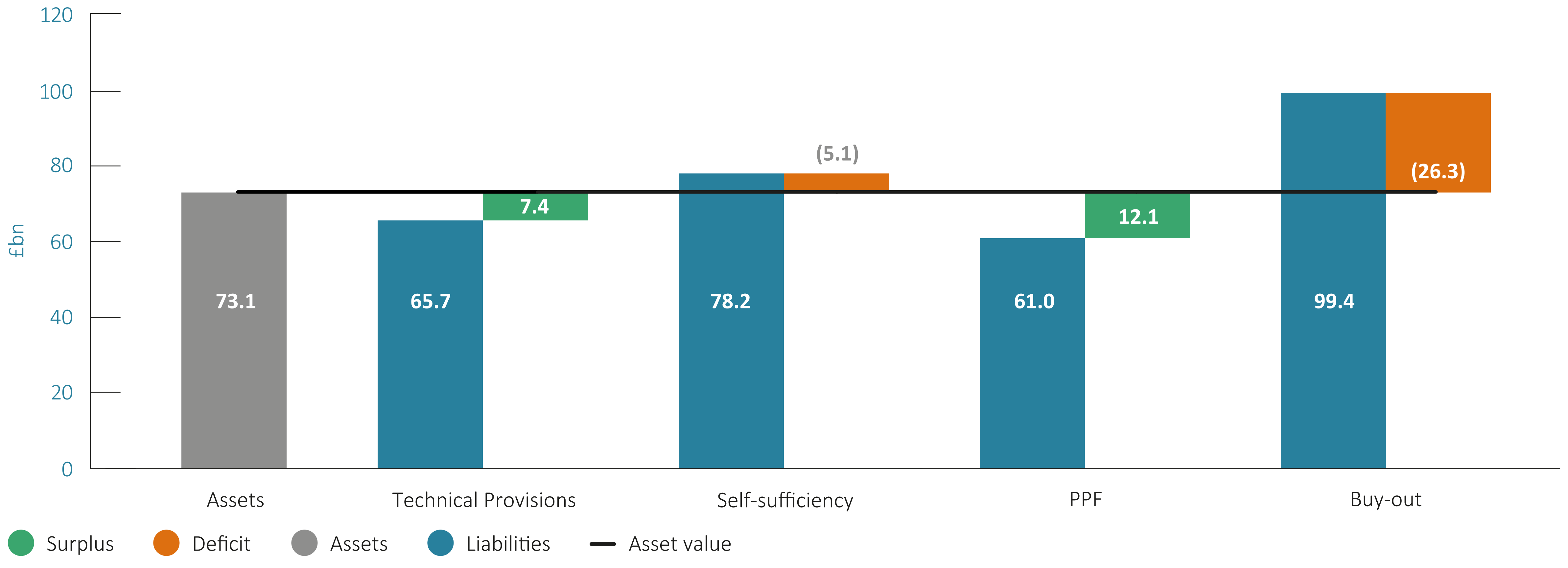
More detail on the final set of assumptions for the 2023 valuation is shown on page 28, and further information is available on our website 2023 valuation.

Following the completion of the 2023 valuation, the trustee has updated its Financial Management Plan (FMP) and the framework for monitoring the scheme's funding position based on this.

In the chart below, we show the results of the valuation at 31 March 2023, 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 benefits at the reduced level of compensation the PPF grants in the event of the scheme

USS defined benefit funding positions at 31 March 2023 valuation under various funding measures



being discontinued due to employer insolvency. These are measures which the trustee must generate 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 from members or employers. It is intended to give at least a 95% chance of being able to meet all the benefits as they fall due while continuing to demonstrate a high level of funding.

The 'technical provisions' is the value of assets we seek to hold given our investment strategy, and the support provided by the covenant of the employers. This support allows us to take both funding and 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 expect to achieve. For the first time in recent years, we had a surplus on this measure at the 2023 valuation; in other words the assets we held exceeded this value. We also had an estimated surplus on the PPF basis.

A more detailed explanation is set out in 'How we measure the financial position of the defined benefit part of the scheme'.

The USS benefit structure

Members build up benefits in the defined benefit part of the scheme based on their salary, up to a threshold, on a Career Revalued Basis. This means benefits which accrue based on salary (up to the threshold) at the time are revalued each year thereafter based on inflation, subject to certain limits. Above this salary threshold, defined contribution (DC) savings are built up in the Investment Builder part of the scheme. These DC savings are funded by contributions of salary that fall above the threshold being paid into the Investment Builder by active members and employers. Until 31 December 2023, these contributions were 8% and 12% for members and employers respectively but following the reduction in contribution rates resulting from the 2023 valuation, these have been changed to 6.1% and 13.9% respectively (so the 20% overall contribution rate being paid into the Investment Builder has not changed). The balance of contributions made are paid into the Retirement Income Builder.

The salary threshold is £70,296 from 1 April 2024, based on the benefit structure agreed as part of the 2023 valuation (increased from £41,004 in the 2023/24 year). This threshold will be adjusted each year in line with the CPI measure of inflation (subject to limits if CPI exceeds 5%), and is subject to review in 2028, unless reconsidered by the JNC as part of the 2026 valuation.

Total contributions as a percentage of pensionable earnings each year arising from the 2023 valuation are laid out in the table to the right.

Contributions from sponsoring employers and from scheme members into the defined benefit part of the scheme, together with the investment returns earned, are used to pay the defined benefits to members and their eligible dependants and to pay the costs of operating the scheme.

Total contributions as a percentage of pensionable earnings each year

	Member	Employer
Contributions to 31 December 2023	9.8%	21.6%
1 January 2024 onwards	6.1%	14.5%

For more information on the scheme's benefits please refer to the USS website at for-members

How we measure the financial position of the defined benefit part of the scheme

The main way we measure the financial position of the defined benefit part of the scheme is by comparing the current value of its assets with our prudent 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 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 allowing for the support provided by employers, ensuring that the reliance on employers is at an acceptable level now and in the future.

More detail on the trustee's approach to funding the defined benefit part of the scheme is available in the Financial Management Plan document our valuations.

At every actuarial valuation we review all of the underlying assumptions relating to the Retirement Income Builder. We then consult UUK, on behalf of employers, to obtain their view of our proposed assumptions and methodologies. Our technical provisions assumptions for the 2023 valuation are shown on page 28.

Funding position based on the 2023 monitoring approach

The table below summarises the funding position of the defined benefit part of the scheme on the 2023 monitoring approach described on page 26. It shows that, on this basis, the defined benefit part of the scheme is now estimated to have a surplus of £9.2bn, compared with a surplus of £7.4bn at 31 March 2023. The position at 31 March 2024 allows for the changes to accrued benefits granted at 1 April 2024 referred to above.

Funding position based on the 2023 monitoring approach

At 31 March £bn	Funding update 2024	Actuarial valuation 2023
Value of net assets	74.8	73.1
Value placed on liabilities	(65.6)	(65.7)
Surplus	9.2	7.4
Funding ratio	114%	111%

How the funding position has changed since the 31 March 2023 valuation

As part of our overall monitoring of progress against the Financial Management Plan, we regularly monitor the funding position under several approaches. These include funding positions under both technical provisions and self-sufficiency assumptions. Self-sufficiency provides a baseline against which the level of risk in funding the scheme and the level of reliance on the sponsoring employers can be measured.

Estimation of these funding positions does not involve the same detailed review of all the underlying assumptions that is carried out in a full valuation. Our monitoring approach allows for expected changes in membership since 31 March 2023 (but not for actual changes) and updates the analysis for changes to market conditions and investment return expectations.

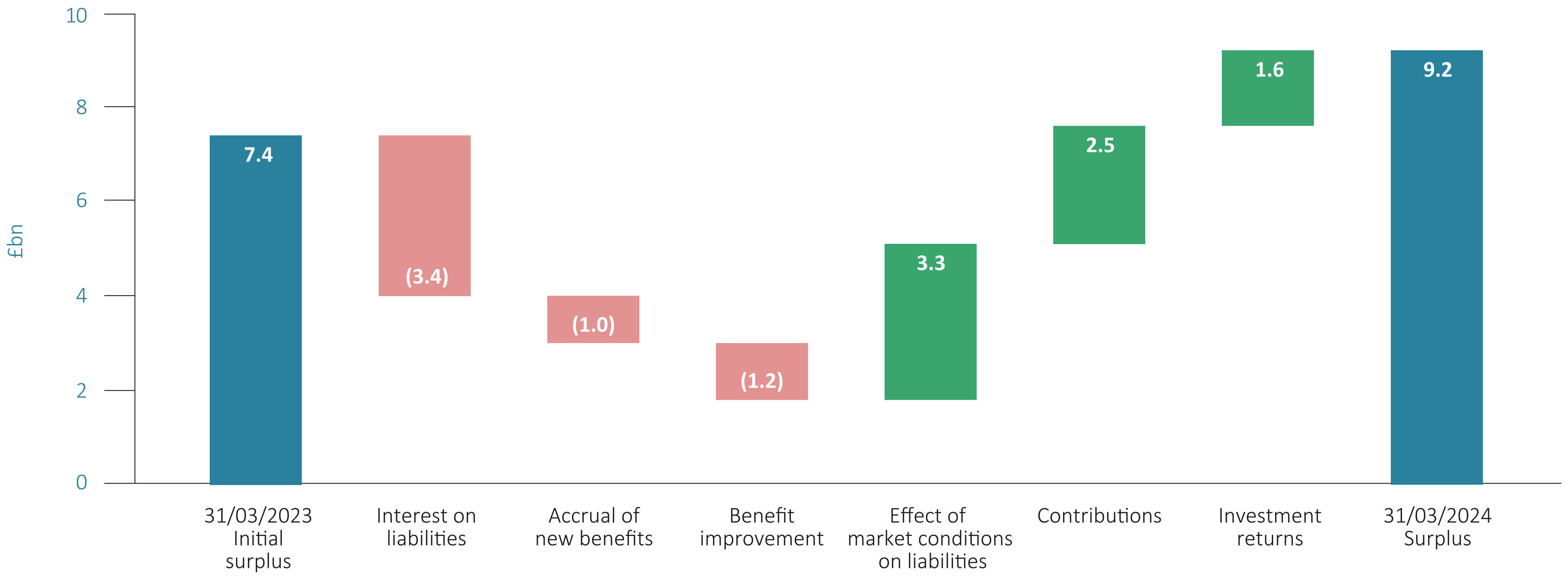
At 31 March 2024, based on updating the 2023 valuation results on an approximate basis using our monitoring approach, the funding level is 114%. This includes allowance for an estimate of the cost of providing the benefit uplift agreed as part of the 2023 valuation.

The chart below details the underlying drivers of the change in the defined benefit part of the scheme's funding position since the 2023 valuation using this monitoring approach. The liabilities in respect of the benefit improvement granted at 1 April 2024 have been estimated at 31 March 2024.

Over the year to 31 March 2024, there have been some increases in interest rates and expected returns. In aggregate allowing for the increase in liabilities resulting from the benefit improvement, the scheme's overall liabilities have decreased slightly since the valuation date. There has also been an increase in asset value, and this coupled with the fall in the liabilities results in an improved funding position compared to that at the valuation date.

You can find reports and other information on the 2023 valuation at our valuations

Change in funding position since 2023 valuation (monitoring approach)



The graphs on the next page show the development of the value of the defined benefit part of the scheme's assets and liabilities, based on the monitoring approach, since 31 March 2023. The black dashed line reflects the expected 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 being exceeded at each boundary (as implied by modelled levels of market volatility). Each of the dots corresponds to the actual scheme assets and the monitoring approach estimate of the liabilities and resulting funding position at the end of each quarter.

Other approaches

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

The table below summarises the defined benefit part of the scheme's position on a self-sufficiency basis. The self-sufficiency liability 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 while demonstrating a high level of funding without any further contributions.

At 31 March £bn	Self-sufficiency 2024	Self-sufficiency 2023
Value of assets	74.8	73.1
Self-sufficiency liabilities	(74.4)	(78.2)
Surplus/(Deficit)	0.4	(5.1)
Funding ratio	101%	93%

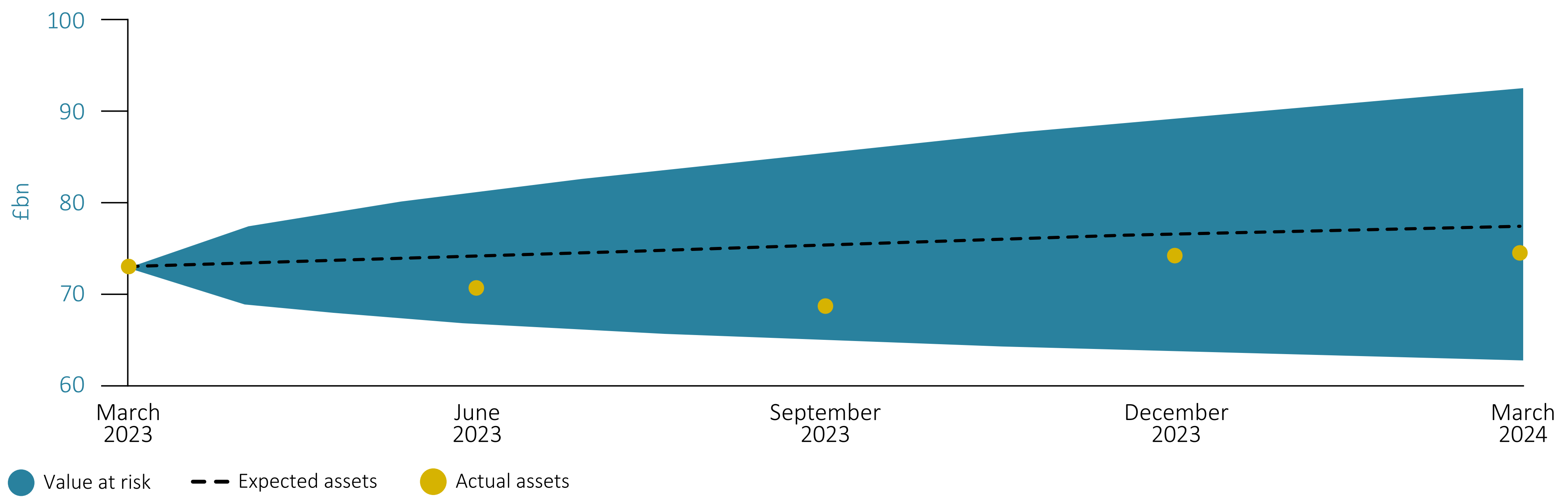
This is the funding level we would need to achieve in the absence of support from employers. Self-sufficiency is assessed using return assumptions for the portfolio of assets that would achieve this level of security, using a discount rate reflecting this portfolio, and with a different inflation assumption to that adopted in the technical provisions.

The 2023 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 statement of funding principles.

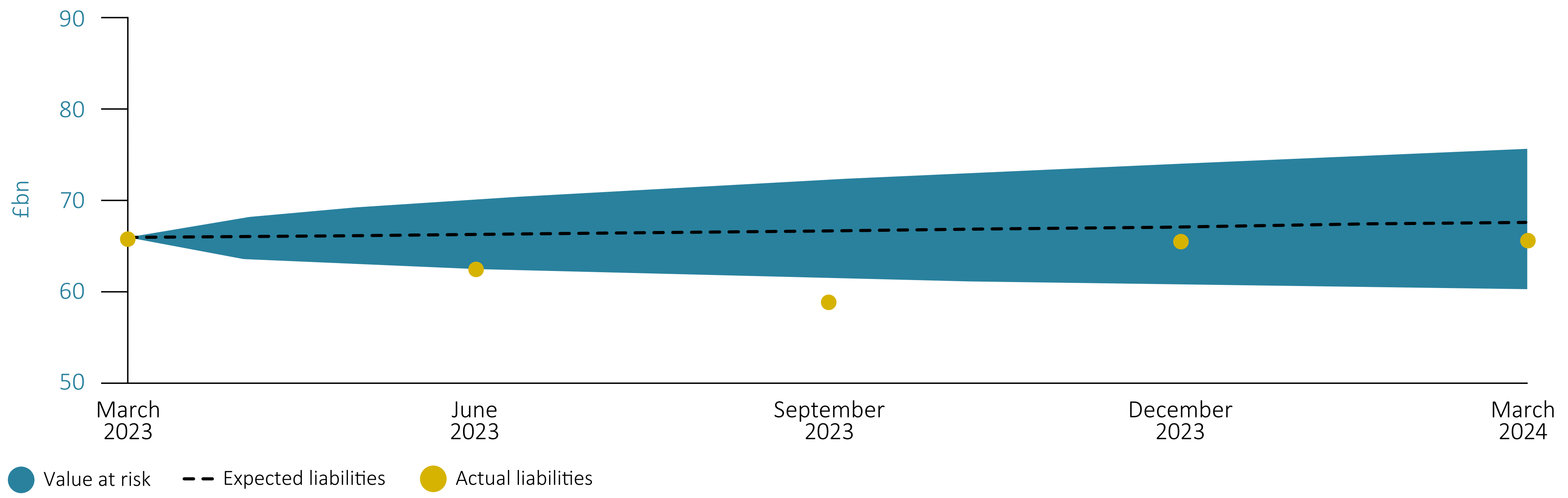
At 31 March 2023, the Scheme Actuary estimated the cost of an insurance buy-out as £99.4bn. As a result, the deficit on this basis was £26.3bn. A buy-out basis normally gives the highest view of the liabilities because it represents the cost of paying an insurer to take on the responsibility for paying the benefits.

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, at 31 March 2024, produces estimated liabilities of £75.0bn and an estimated deficit of £0.2bn. This is based on a discount rate of 4.7% and a pension increase assumption of 3.0% with all other assumptions unchanged from those stated on page 28. This approach is not used to inform our decisions.

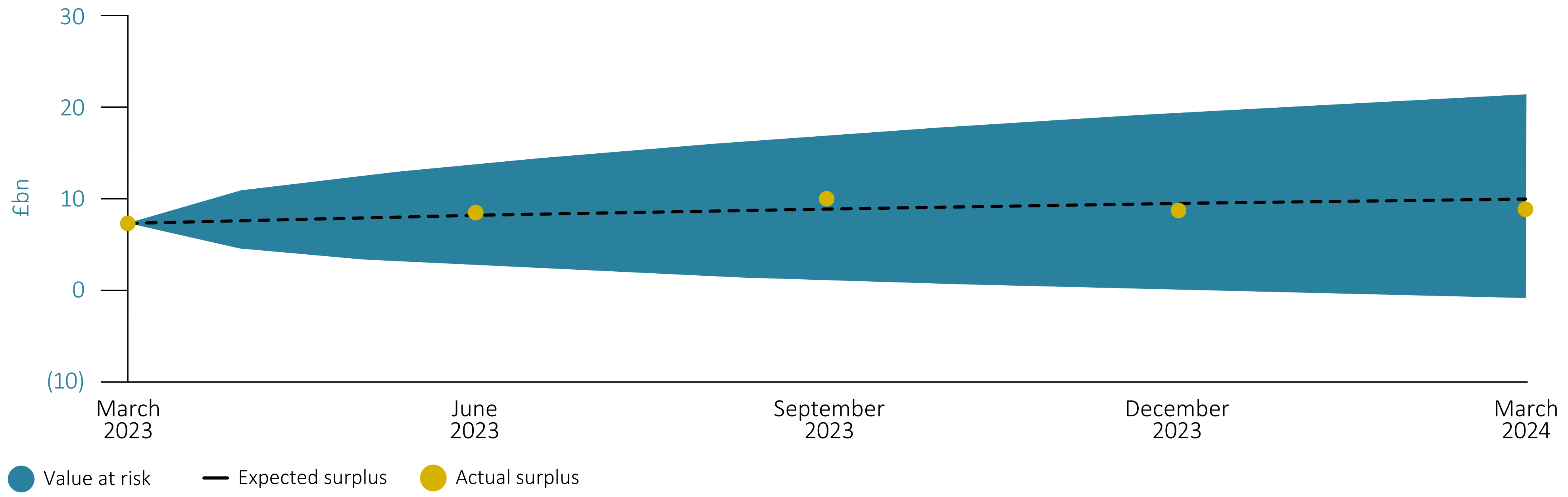
Asset progression since 2023 valuation



Liability progression since 2023 valuation



Surplus progression since 2023 valuation



The Trustee Board's funding plan

Our funding of the scheme is intended to ensure that the funding and solvency risk within the defined benefit part of 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 that which they are willing and able to support. We consider this as part of the Integrated Risk Management Framework which feeds into the Financial Management Plan.

You can find details of our investment approach in the Statement of Investment Principles; this is available online at **our principles and approach**. We recently consulted on a new Statement of Investment Principles following the 2023 valuation, which was implemented on 1 July 2024.

We determined the funding plan following extensive work with our advisers on the ability of the scheme's sponsoring employers to support the scheme financially – 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 covenant support measures in place), but the position became less clear after that.

No deficit recovery plan was required resulting from the 2023 valuation, because the scheme was in surplus. This meant the deficit recovery contributions required after the 2020 valuation were no longer needed.

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 most of the scheme's employers were to become insolvent. If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members. However, the benefits received might be less than the full benefits earned within USS.

The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits. At the 2023 valuation date, the scheme's 'section 179' valuation position, used in determining the PPF levy payable by the scheme, showed a surplus of £12.1bn, in other words at that date we held more assets than the PPF would have needed to pay their standard benefits.

Further information about the PPF is available at **ppf.co.uk** or you can write to Pension Protection Fund, PO Box 254, Wymondham, NR18 8DN.

Principal actuarial assumptions

The following table shows the assumptions used for technical provisions in the 2023 actuarial valuation, and how these have been updated since then to produce the figures for 31 March 2024 shown earlier. These funding updates, reflected above in the 'Funding position based on the 2023 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 only for monitoring purposes.

All these assumptions will be reviewed as part of the next valuation.

The 2023 valuation uses full yield curves in the discount rate assumptions, rather than averages. The full year-on-year figures in the 2023 valuation assumptions are available in the documents shown on our website here: **our valuations**.

Principal actuarial assumptions	31 March 2023 valuation – technical provisions
Price inflation – Consumer Prices Index (CPI)	3.0% p.a. (based on a long-term average expected level of CPI, broadly consistent with long-term market expectations)
RPI/CPI gap	1.0% p.a. to 2030, reducing to 0.1% p.a. from 2030
Discount rate	Fixed interest gilt yield curve plus: Pre-retirement: 2.5% p.a. Post-retirement: 0.9% p.a.
Pension increases (all subject to a floor of 0%)	Benefits with no cap: CPI assumption plus 3bps Benefits subject to a 'soft cap' of 5% (providing inflationary increases up to 5%, and half of any excess inflation over 5% up to a maximum increase of 10%). CPI assumption minus 3bps
Mortality base table	101% of S2PMA 'light' for males and 95% of S3PFA for females
Future improvements to mortality	CMI_2021 with a smoothing parameter of 7.5, an initial addition of 0.40% p.a., 10% w2020 and w2021 parameters, and a long-term improvement rate of 1.80% p.a. for males and 1.60% p.a. for females

At 31 March	2024 funding update
Discount rate spread over fixed interest gilt yield[1]	
Pre-retirement	1.97%
Post-retirement	0.80%
Average CPI assumption	3.0%
Pension increase assumption	
Uncapped increases	CPI plus 3bps
Soft cap increases	CPI minus 3bps

1 In practice full yield curves for gilts have been used in the calculations.

Actuarial certificate of technical provisions

Actuary's certification of the calculation of technical provisions

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 2023 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 20 December 2023.

Signature: DocuSigned by: 7A1910D328A648F... Date: 20 December 2023

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

Actuarial certificate of schedule of contributions

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 2023 to continue to be met for the period for which the schedule is to be in force.

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 20 December 2023.

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: DocuSigned by: 7A1910D328A648F... Date: 20 December 2023

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

Our people approach

We work to attract, retain, and reward talented colleagues in a motivated workforce that consistently delivers the service and support our stakeholders expect.

Achievements this year

Senior appointments

Successful transition to new Group Chief Executive Officer and appointment of Head of Responsible Investment.

Employee Value Proposition (EVP)

Creation of our Employee Value Proposition to support attracting and retaining talented employees. The EVP articulates the benefits of working at USS through four pillars: 'excel in your role'; 'build your career'; 'thrive in and out of work'; and 'find purpose and fulfilment'.

Learning and Development

Continued our commitment as a Learning Organisation through the introduction of My Learning, a Learning Experience Platform for all staff.

Talent development

Launched bespoke talent development programme to develop and nurture USS talent pool.

Health and well-being

Focus on financial well-being including the signposting of various related resources to employees.

Equity, diversity, and inclusion (EDI)

Collaborated with the EDI employee networks enabling a full programme of EDI awareness and education across gender, ethnicity, ability, LGBTQ+ and social mobility.

USS engagement survey

80% of staff participated:
The scores, ranging from 0 to 10, reflect how strongly employees agree with statements about their workplace.

7.9/10
Overall engagement

8.5/10
"People from all backgrounds are treated fairly at USS."

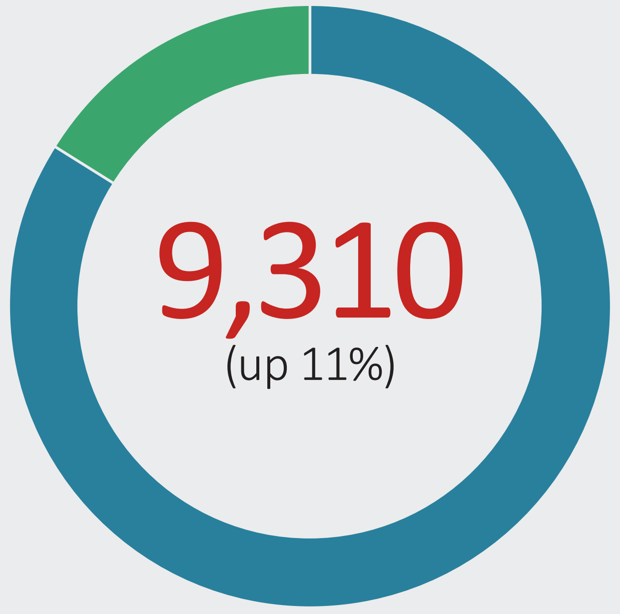
8.7/10
"I understand how my work supports the team's goals."

Mandatory e-learning completion rates within set time frames

99%

- Risk
- Compliance
- Legal
- EDI for all staff
- Lead Inclusively
- Hire Inclusively

Total training hours delivered



Non-mandatory	7,824
Mandatory	1,486

Non-mandatory training consists of professional development, behavioural and technical competence, leadership development and early talent development.

People priorities

- Management capability
- Health and well-being of our employees
- Senior leadership succession planning
- Talent development and retention
- Ongoing staff development in professional and operational excellence
- Equity, diversity, and inclusion progress
- Employer education and training

We continue to invest in our people, focusing on creating an engaging and inclusive workplace that retains and develops a talented workforce to enable us to deliver our objectives.

Creating an inclusive and competitive proposition is a top priority. This year, we introduced several benefit enhancements that consider the different needs of a diverse workforce and enable all our employees to achieve balance in their work-life.

Although cost of living pressures have eased slightly over the past 12 months, we continued to focus on financial well-being, providing our employees with access to various resources including the launch of a mortgage advice and financial education service.

The creation of a formal Employee Value Proposition allows us to communicate the benefits of working at USS in a clear and consistent way, enhancing how we attract and retain talented colleagues.

Talent development

Our talent management and succession planning strategies are 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. Our 'Developing Potential' training course further supports the development of future leaders and high potential employees.

Resourcing

Hiring talented colleagues to deliver the best service remains a strategic imperative. Our resourcing partners are also integral to the success of our EDI plans and work in close partnership with hiring managers to ensure these plans are delivered.

In a competitive recruitment market, the creation of our new Employee Value Proposition is an important part in attracting talented new staff. We successfully recruited candidates aligned to our purpose and values and continue to receive positive feedback from candidates on their experience of the process.

We continue to look at ways to enhance EDI in our recruitment practices. We have amended the process for candidate salary/total compensation disclosure in recruitment, which aims to support reducing pay gaps and pay disparities that can be experienced by minority candidates. We have also expanded our candidate equal opportunities data gathering to help us further assess the impact of our changes. Developing potential at an early stage is an important part of our EDI strategy. Our fourth internship programme runs in summer 2024, having run another successful programme in 2023. Interns joined us from a range of socio-economic and ethnic minority backgrounds. Recruitment was facilitated by SEO London. Additionally, in Liverpool we have partnered with Elevate to support a work experience and career awareness programme for local schools.

USS employee engagement

We continue to see strong employee engagement across the business.

Participation in our last pulse engagement survey was at 80%. The overall engagement score was 7.9/10 which is at the industry benchmark. 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 (8.7/10).

Learning and development

We have continued to develop and implement a range of tailored learning opportunities for all employees over the last year. L&D provision includes core programmes and other offerings which cover business specific needs, professional and regulatory external qualifications, EDI, mandatory training, talent development, apprenticeships, and employer training.

The introduction of our new Learning Experience Platform, My Learning, has created a one-stop-shop for learning and development, enabling the learner experience to be more self-directed and personalised, depending on their specific development requirements.

> *"USS is a great business to work for; one that values its purpose, puts its members first and supports its employees.*
> (Engagement survey)

Managers are also encouraged to support team development and any professional or regulatory learning.

Equity, diversity, and inclusion

Our EDI strategy focuses on attracting and recruiting talented colleagues, creating an inclusive culture through our working practices, and developing diverse talent and EDI awareness through education and development. This year, we launched a range of enhancements to our employee benefits and provisions to support inclusion. This includes increasing our paid paternity leave to match our paid maternity/adoption leave; introducing support for carers and those undergoing fertility treatment; and flexible bank holidays, allowing employees to swap a bank holiday to take at another time, for instance for another religious festival.

We are committed to promoting diversity in all its forms at USS, and progress on EDI forms part of our strategic objectives. Our EDI programme is actively supporting our goal to build an inclusive and supportive environment where everyone feels able to be themselves at work, creating a more effective and positive working experience. We collaborate across the organisation and the work is endorsed and supported by the Trustee Board, senior executives, and the HR team.

We have grown our EDI employee networks to include LGBTQ+ and social mobility, as well as gender, ethnicity, neurodiversity, and ability. These networks have been active both in supporting colleagues and generating progressive ideas to advance the programme of activity.

Rebecca Whyte, Investment Product Associate

In the past three years in the USSIM Investment Product Management (IPM) team, I have completed multiple L&D programmes, including the Investment Management Certificate and the Chartered Financial Analyst qualification, Level 1.

With support from my team, the USS Gender Network, and the Learning and Development team, I was successful in gaining a place on the Diversity Pathway Programme run by The Diversity Project, which supports women into fund management roles.

I have felt fortunate with the opportunities provided by USS to develop and build my career, and I look forward to applying my new skills to help maintain a high-quality pension offering to our members.

Risk management

Our robust approach to risk management protects USS'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 objectives including our duty to ensure that the benefits promised to members are delivered in full, and on a timely basis.

For the Retirement Income Builder (DB part of the scheme), this means ensuring there are sufficient funds available to provide members with their promised retirement income.

For the Investment Builder (DC part of the scheme), it means having an appropriate range of investment fund options available, along with an effective investment process, to enable 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 opposite), which is embedded in the organisation through the operation of a comprehensive risk management framework.

Our risk framework includes dedicated Group Risk, Compliance and Legal functions, 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, Compliance and Legal functions are independent of USS first line businesses. Each of the Chief Risk Officer (for the Risk function) and the Group General Counsel (for Compliance and Legal) reports directly to the GCEO.

The team are responsible for ensuring the risk frameworks are in place for the first line management of risks and for overseeing that management. They also provide independent risk and performance metrics for the investment portfolio, and these are used for the administration of the scheme and for the investment balanced scorecard assessment of USSIM.

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 (KRIs) 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, hedging or avoidance. Risk monitoring and reporting is implemented through several tools, including investment risk reports, 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 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 and compliance

- 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 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 trustee's administration of the scheme: its 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 organisation's risk registers.

Members feel financially more secure

A sustainable scheme, for the long term

USS is recognised as a competent scheme manager

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 Monitoring 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 DB part of the scheme • Provision of expert investment advice from the Scheme Actuary and the scheme's principal investment manager and adviser • 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 surplus/deficit and of the impact of this on the required employer contribution rate • Protection of the covenant strength by having in place a moratorium on institutions leaving the scheme and a framework for monitoring debt levels among employers and pari passu rules on future issuance by employers of secured debt	
Scheme proposition risk			
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. The engagement is ongoing but is more frequent during actuarial valuations • Working closely with the scheme's stakeholders, including the JNC, who are responsible for agreeing member benefits • Invite regular feedback from members and employers through surveys, advisory panels and online member voice panels, to understand their priorities and needs • Communications to employers and members explaining the benefits of USS, including emails, videos, webinars and blogs	

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.	This could lead to loss of value of assets and/or asset stranding from transition to a low-carbon economy or from actual or potential physical damage, especially where we are long-term holders of those assets.	• USS has an ambition for the investment portfolio 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 Trustee Board level • Integration of climate risk into investment decision-making process • Regular 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 emissions intensive assets, through direct and collective engagement and system level engagement where appropriate, to ensure climate risk in all forms is being appropriately managed • Dedicated in-house Responsible Investment 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.	• Service standards are defined and tracked on an ongoing basis • Review and reporting of performance across all administration teams • Comprehensive workload management reporting on current and forecasted volumes • Controls are documented and tested on a periodic basis, control results are included in monthly reporting • Data is subject to system validation processes • All service staff receive extensive training on a regular basis to ensure consistency and maintain high service standards	
Supplier performance failure risk			
The risk that a supplier fails to perform a contracted service	This could result in the failure of key business processes, potential data leakage, monetary loss and remediation costs.	• Dedicated procurement function with responsibility, together with the Group General Counsel (GGC) for controlling supplier onboarding, supplier selection (in other words, through either direct Procurement involvement or oversight) and ongoing monitoring of critical suppliers' financial standing and performance. Appropriate remedial actions and/or commercial compensatory actions (for example service credits), and ultimately replacement of non-performing suppliers should value for money not be received • Relationship management structures are in place with critical suppliers, supported by service level agreements, management information provision and incident escalation and resolution protocols • Ensure that suppliers have appropriate Business Continuity Plans (BCPs) in place that align to business criticality • Review and oversight, using a risk-based approach, of suppliers' cyber security and data security controls	

Description	Impact	Control/mitigation	Strategic priority
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.	This could result in a significant change to the funding position for DB, leading to a potential requirement to increase contributions, amend investment strategy and/or reduce future benefits. Lower growth in the size of members' DC funds is also a potential consequence, leading 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 • DB: the investment portfolio is diversified across various investment types and risk factors. It is managed relative to a series of KRIs which seek to align the investment strategy with the trustee's investment risk appetite to fulfil the goals of the FMP • DC: the 'Let Me Do It' fund range was chosen to provide members with an appropriate range of risk and return expectations. The Default Lifestyle Option progressively reduces investment risk exposure over the 10 years before expected retirement to provide greater certainty around outcomes • Investment risk appetite is captured via the trustee's risk appetite statements (RASs) developed for the Investment Framework and measured by KRIs • The RASs and KRIs are reviewed annually by the Investment Committee, and USSIM is regularly assessed for its adherence to them by the Investment Risk function • Use of the investment balanced scorecard process (see page 22) to assess investment performance against multiple criteria over various investment horizons	
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 and onboarding processes; talent management and succession planning; training and development programmes • Performance management framework that focuses on setting clear objectives that link to the USS purpose and strategic priorities and regular staff performance reviews • Remuneration strategy that incorporates external benchmarking and incentive programmes that reward and retain the most talented individuals • Regular employee engagement reviews • Employee health and well-being programme to promote a healthy and productive working environment for staff • EDI strategy and targets to address diversity challenges including improving diversity at senior levels	

Description	Impact	Control/mitigation	Strategic priority
Legal and regulatory risk			
Breaching risk – Risk that the activities of USS personnel breach an applicable legal or regulatory obligation/requirement or the Scheme Rules. **Awareness risk –** Risk that USS fails to have necessary awareness of applicable legal or regulatory obligation/requirement.	This could lead to potential for member detriment as a result of activities of USS being non-compliant with applicable legal or regulatory obligation/requirement or the Scheme Rules. 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.	• Group General Counsel leads the process to monitor legal and regulatory change. Updates are flagged to the relevant business areas • Change management is applied by relevant business areas for the implementation of necessary changes • Key changes are communicated by specific updates to relevant business heads, compliance and legal training, advisory work and monitoring activity • Risk based assurance activities assess the design and effectiveness of the control environment across key business processes and functions, to help reduce the risk of breaching applicable laws and regulations and Scheme Rules • Key policies are implemented and maintained to inform staff of their regulatory obligations which in turn helps to reduce the risk of breaching applicable legal or regulatory obligation/requirement including Scheme Rules	
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	

Description	Impact	Control/mitigation	Strategic priority
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 • Achievement of government-backed Cyber Essentials Plus accreditation • Implementation of processes designed to maintain compliance with the UK General Data Protection Regulations (UK GDPR) as enacted via the Data Protection Act 2018 • Mandatory compliance with information security team requirements as a condition of supplier onboarding with ongoing oversight through the appropriate relationship management structures • Oversight of key suppliers and their information security and privacy risks for the work they carry out on behalf of USS	

Governance

High-quality governance and decision making is critical to success.

MOTO Services: electric vehicle charging station, Wetherby, A1, Yorkshire, England, UK.

Governance

High-quality governance and decision making is critical to success.

The scheme's trustee is Universities Superannuation Scheme Limited (the 'trustee' or 'USSL'). It has overall responsibility for scheme management and administration, led by a non-executive board of directors (the 'Trustee Board'). The trustee employs a team of pensions professionals in Liverpool and London. The trustee is regulated by the Pensions Regulator (TPR) and has a legal duty to ensure that benefits promised to members are paid in full on a timely basis.

The Trustee Board provides monitoring and oversight of USS's operations, ensuring competent and prudent management, sound planning, proper procedures for the maintenance of adequate systems of internal control, and compliance with statutory and regulatory obligations. This includes oversight of the administration of the scheme (including investment of the scheme's assets) to ensure that: (i) the scheme is adequately funded; (ii) benefits are paid when they fall due; (iii) the scheme is effectively administered in line with the trustee's objectives; and (iv) the scheme and its administration continue to meet the needs of the UK Higher Education (HE) sector.

While the Trustee Board retains overall oversight of USSL and its wholly-owned subsidiary, USS Investment Management Limited ('USSIM') (together referred to as the 'USS Group' in this document), day-to-day management of USSL in accordance with the approved business plan and budget has been vested by the Trustee Board in the Group Chief Executive Officer (GCEO). The GCEO then allocates specific responsibilities to the senior members of her team.

The trustee delegates implementation of its investment strategy to USSIM which provides in-house investment management and advisory services to the trustee. USSIM currently manages between 70% and 80% of the scheme's investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

The USSIM Board of directors is responsible for the overall leadership, long-term strategy, and oversight of USSIM including oversight of day-to-day management and values and culture, and the delivery of services as agreed with USSL.

To achieve effective leadership and discharge their duties successfully, the Trustee Board must have an appropriate balance of knowledge, skills, and experience. Recruitment, ongoing training and development and performance management processes are in place to achieve this. You can read about the skills and expertise of the Trustee Board members on pages 40 to 42. The same principles apply to the USSIM Board. Details of the USSIM Board can be found on our **website**.

The Trustee Board is supported by five specialist standing committees:

- Audit and Risk Committee
- Governance and Nominations Committee (GNC)
- Investment Committee
- Pensions Committee
- Remuneration Committee

The Trustee Board and committee structure is set out on the next page.

There are two other key committees linked to the scheme:

- The Advisory Committee
- The Joint Negotiating Committee (JNC)

The Advisory Committee and the JNC are constituted, empowered, and governed by the Scheme Rules, not the Trustee Board. Whilst entirely separate to, and distinct from, the trustee, they play an important part in the governance of the scheme.

The Advisory Committee is the primary body for managing member complaints and the Internal Dispute Resolution (IDR) process. The Trustee Board is responsible for seeking and acting upon the advice of the Advisory Committee as appropriate and in line with the Scheme Rules. The Advisory Committee advises the Trustee Board on any matters on which it requires advice, including: the exercise of its powers and discretions (except for any matter falling within the jurisdiction of the Investment Committee); matters of difficulty in the interpretation or application of the Scheme Rules; and any complaints received from members. The Advisory Committee comprises three representatives from UUK and three representatives from UCU. The members of the Advisory Committee appoint its Chair and two trustee directors attend its meetings when the Advisory Committee considers cases raised under the IDR procedure.

The JNC comprises five members appointed by UUK and five members appointed by the UCU. It is chaired by an independent Chair appointed by the JNC. The JNC has a number of responsibilities, including to initiate changes to the Scheme Rules and to approve any changes proposed by the trustee. During the 2023/24 financial year, the JNC played a key role in relation to the 2023 valuation and approved a package of benefit changes to conclude the 2023 valuation. The role of the JNC in the valuation is distinct from that of the trustee. While the trustee has responsibility to undertake the valuation in accordance with all legal and regulatory requirements, the JNC has a key role under the scheme's cost-sharing provisions to decide how any contribution rate changes required by the trustee should be shared between members and employers and/or whether there should be a change to future benefits.

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

The JNC creates working groups when required to discuss particular matters in greater detail. One such working group established during the scheme year and involving UCU, UUK and the trustee was the Stability Working Group. This group was set up to consider scheme funding stability as well as the future stability of benefits and contributions. The trustee supports the efforts being made and has dedicated substantial resource to participating in and providing information for this group.

More information about the activities and membership of the Trustee Board, its committees, the Advisory Committee and the JNC is set out on the following pages and in the Governance Supplement provided on the USS website at **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 USS Group to the GCEO, supported by the Group Executive Team. The allocation of roles and responsibilities is set out in the terms of reference of each of the Trustee Board and the Group Executive Team.

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

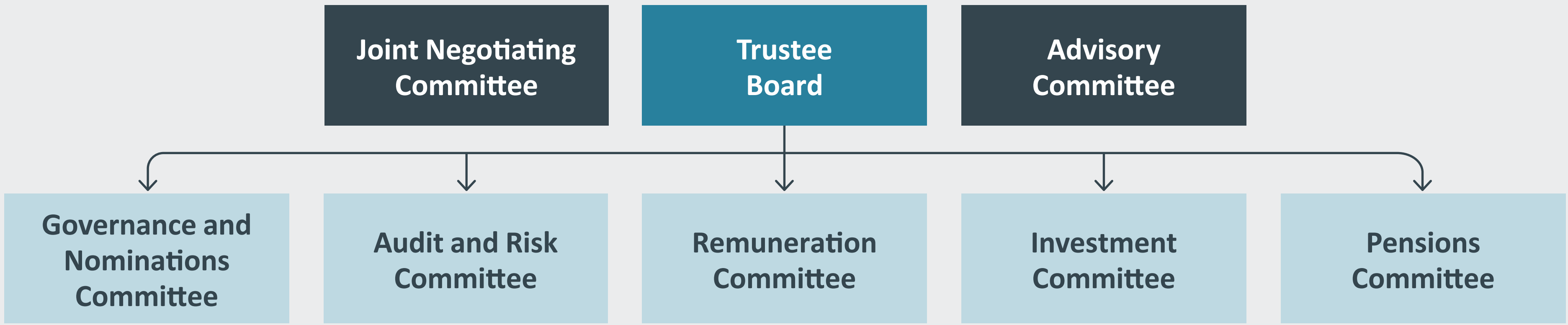
The composition and diversity of experience of the directors promotes an effective and balanced Trustee Board and helps to ensure that directors collectively have the key competencies and knowledge required to manage and oversee the scheme. This includes competencies in, and knowledge of, pensions, investments, actuarial matters, the HE sector, audit and financial management, and communications. 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, and during the financial year, continued to pursue EDI initiatives to promote diversity on the Trustee and USSIM Boards. At 31 March 2024, the Trustee Board continued to meet its gender representation goal of at least 33% female directors and 33% male directors with four female directors and eight male directors. It remains committed to achieving its ethnic representation target of at least one director from an ethnic minority background. The trustee will continue to keep EDI high on its agenda over the coming year.

Maintaining and improving key competencies, knowledge and diversity remains vitally important for the Trustee Board. During the financial year, the Trustee Board has been particularly focused on recruitment and succession planning for directors of both the Trustee Board and USSIM Board. With several director roles coming to the end of their terms in 2024, the Trustee Board is working with our stakeholders to fill these positions and ensure that the terms of office are staggered such that there is better continuity in future years and the combined skills, experience and knowledge of the boards continue to be appropriate for the scheme. In addition, the Trustee Board led (via the GNC) the recruitment exercise for the new GCEO, Carol Young, who was appointed to the role from September 2023.

The Trustee Board regularly reviews its succession plans to ensure the appropriate balance of continuity and refreshed membership is achieved going forward. Director recruitment exercises are undertaken by reference to 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 the Trustee Board's consideration of key skills and competencies for director roles, and for the evaluation of potential candidates for those roles. A summary of the skills of the serving trustee directors can be found in the table to the right.

Trustee Board and committee structure



The JNC and Advisory Committee are constituted, empowered and governed by the Scheme Rules, not the Trustee Board

Board competencies	Number of directors with this competency*
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 pensions industry experience	12
Senior corporate governance expertise/board management knowledge	12
Industrial relations	6
Pensions administration and member engagement	8
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	8
Ethical, social and environmental	8
Legal	3
HR and remuneration	11
Strategy development	10

* From the 12 directors who held office at 31 March 2024

Members of the Trustee Board

Key to committee membership

- Chair
- Senior Director
- USSIM Director
- (A) Audit and Risk Committee
- (G) Governance and Nominations Committee
- (I) Investment Committee
- (P) Pensions Committee
- (R) Remuneration Committee

Dame Kate Barker

Chair (G) (I)

- Independent appointee
- Chair of the Trustee Board since 1 September 2020
- Appointed April 2020 (reappointed for second term from 1 April 2024)
- Current term ends April 2028

Dame Kate was Chair of the Trustee Board of the British Coal Staff Superannuation Scheme from 2014 to 2023, 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. Dame Kate is also a Church Commissioner at the Church of England. Dame Kate is an economist and served as an external member of the Monetary Policy Committee of the Bank of England from 2001 to 2010.

Russell Picot

Senior Director (A) (I)

- Independent appointee
- Deputy Chair and Senior Director
- Chair of the Investment Committee
- Appointed February 2021
- Current term ends January 2025

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. He was Special Adviser to the Task Force on Climate-related Financial Disclosures.

Andrew Brown

(I) (R)

- UCU appointee
- Appointed August 2020
- Current term ends July 2024

Prior to joining the Trustee Board in August 2020, Andrew was CEO and Secretary for 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
- Current term ends August 2024

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 MS Society and NHS National Joint Registry.

Gary Dixon

(A) (R)

- UUK appointee
- Chair of the Audit and Risk Committee
- Appointed April 2019
- Current term ends March 2027

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 was also a non-executive director of the Church of England's Investment Trustee company, CBF Funds Trustee Limited until May 2023. 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. He is a non-executive director and Chair of the Audit Committee of Wesleyan Assurance Society Limited.

Marian D'Auria

(P)

- Independent appointee
- Chair of the Pensions Committee
- Appointed September 2021
- Current term ends August 2025

Marian is currently Global Head of Risk & Sustainability 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 (green)
- USSIM Director (blue)
- (A) Audit and Risk Committee
- (G) Governance and Nominations Committee
- (I) Investment Committee
- (P) Pensions Committee
- (R) Remuneration Committee

Ellen Kelleher

(G) (P)

- Independent appointee
- Chair of the GNC
- Appointed November 2021
- Current term ends October 2025

Ellen has over 30 years' experience in the pensions industry and is currently Chief Pensions Officer at Trafalgar House Pension Trust and a member of the Operations Committee for the Lloyds Banking Group Pension Trustees. Prior to joining Trafalgar, Ellen was Chief Operating Officer of the HSBC Bank (UK) Pension Scheme and was Chair of the Judicial Pensions Board. She is an Accredited Professional Pension Trustee.

Dr Alain Kerneis

(USSIM Director) (I) (R)

- Independent appointee
- A director of USSIM
- Appointed January 2022
- Current term ends January 2026

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, with roles at both Goldman Sachs and latterly as Co-Head of Investments for BlackRock's Client Portfolio Solutions.

Since transitioning from an executive career, Alain is now a non executive director of both the Trustee Board and USSIM, and is Chair of the Board of Waystone Fund Services, which provides governance services to the asset management industry.

Professor Sir Anton Muscatelli

(I)

- UUK appointee
- Appointed April 2015
- Term ended March 2024

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 is Chair of the Trustees of the Royal Economic Society and was Chair of the Russell Group from 2017 to 2020.

Helen Shay

(A)

- UCU appointee
- Appointed September 2020
- Current term ends August 2024
- 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 been a Board member of the Association of University Legal Practitioners. Helen is a member of the USS Rules Group.

Will Spinks

(P) (R)

- UUK appointee
- Chair of the Remuneration Committee
- Appointed September 2018
- Current term ends August 2026

Will started working in Higher Education in 2007, initially as the first Chief Operating Officer at Loughborough University and subsequently as the Registrar, Secretary and Chief Operating Officer at the University of Manchester. Since stepping down in 2018, he has continued working in Higher Education on consultancy assignments and also chairs a number of charities.

Dr David Watts

(G) (P)

- UCU appointee
- Appointed March 2021
- Current term ends February 2025

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.

Professor Adam Tickell

(I)

- UUK appointee
- Appointed April 2024 (after the scheme year end 31 March 2024)
- Current term ends March 2028

Professor Adam has extensive executive experience of working in the UK's Higher Education sector with a career spanning more than 20 years, starting as a Research Assistant at the University of Manchester in 1989. He has been Vice-chancellor and Principal of the University of Birmingham since January 2022 and was Vice-chancellor of the University of Sussex between 2016 and 2021.

From 2018 to March 2024, Professor Adam was a member of UCEA's Board and Chair of the Employers Pensions Forum – an advisory body to the UUK Board on USS pensions, made up of Finance Directors, HR Directors, Registrars, Vice-Chancellors, and other USS stakeholders.

Trustee Board key activities 2023/24

There continued to be a significant volume of activity carried out by the Trustee Board during 2023/24, particularly in connection with the scheme's triennial actuarial valuation at 31 March 2023 (the '2023 valuation'). More information is set out below.

Board activities

Topic	Activity
2023 valuation and related activities	• Concluded the 2023 valuation of the scheme, and as part of the valuation, supported employers in undertaking a formal consultation with members and their representatives and separately consulted with UUK who acted on behalf of employers in relation to the schedule of contributions • Oversaw member and employer communication and consultation activity throughout the year in relation to the 2023 valuation • Approved the methodology and assumptions used to establish the technical provisions and contribution requirements for the 2023 valuation and the benefit changes approved by the JNC and the related total contribution rate • Approved the Integrated Risk Management Framework for the 2023 valuation • Oversaw the implementation of the contribution rate and benefit changes arising from the 2023 valuation
Regulatory	• Engaged with TPR on the 2023 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 for defined benefit schemes • Monitored current legal and regulatory matters, and relevant legal and regulatory change, and oversaw the executive's approach to ensuring compliance with these developments • Approved the 2023 Taskforce for Climate related Financial Disclosures (TCFD) Report and the USS Stewardship Code Report • Monitored and oversaw the executive's response to several consultations including the DWP's consultation on pension trustee skills, capability, and culture and Pension Protection Fund's (PPF) consultation on the Levy Rules 2024/25
Pension operations	• Oversaw the executive's tender process for the pensions platform project and approved the selection of the chosen supplier of the scheme's future pension administration platform • Oversaw pensions administration during the year, including key service levels and turnaround times for services to members and employers • Oversaw engagement with members and employers • Received and discussed the outcomes of the member and employer perception surveys
Investment	• Approved updated investment key risk indicators for the Defined Benefit (DB) and Defined Contribution (DC) Investment Frameworks which allow USSIM to manage the scheme's assets according to the Trustee Board's risk appetite • Approved updated DB and DC Investment Balanced Scorecards which allows the trustee to assess USSIM's investment performance from 1 January 2024 • Provided oversight of USSIM activities • Approved the trustee's Statement of Investment Principles Implementation statement • Reviewed and approved revisions to the scheme's voting policy as part of the scheme's Responsible Investment programme • Reviewed and approved the scheme's Responsible Investment Beliefs and Ambition Statement • Oversaw USS's collaboration with the University of Exeter on a project to develop new climate scenarios to help tackle climate change • Reviewed and recommended to the Trustee Board amendments to the scheme's Valuation Investment Strategy and Statement of Investment Principles, following completion of the 2023 valuation
Business planning, strategy and financial reporting and controls	• Approved the Group Three Year Plan, Annual Business Plan and Budget • Approved the financial statements for the scheme and the trustee company for the year ended 31 March 2023, on recommendation from the Audit and Risk Committee • Reviewed annual statements on the effectiveness of company internal controls from the Audit and Risk Committee, GCEO and Head of Internal Audit • Reviewed the executive's activities to ensure that the financial control environment was adequately robust

Board activities continued

Topic	Activity
Master Trust	• Approved and oversaw the implementation of the DC business plan for the financial year 2023/24 • Oversaw the Value for Members assessment for 2023/24 • Approved the scheme's 2023 supervisory return, updated Continuity Strategy, and a Master Trust Audit Assurance Framework report (also known as a AAF 05/20 Assurance Report, in line with guidelines published by the ICAEW's Audit and Assurance Faculty)
Risk management and internal controls	• Approved a revised Risk Governance Policy and the associated risk management framework (which includes the trustee's risk appetite statements and key risk indicators) • 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 • Oversaw and monitored the executive's response to the Capita cyber event including enhancements to scheme's cyber security systems and controls
Performance and general oversight	• Received and discussed reports from all standing Trustee Board committees which had met in the reporting period • Reviewed performance reports from all key business areas on a quarterly basis • Oversaw the successful defence of litigation claims against the scheme
Corporate governance	• Reviewed the Group corporate governance framework which includes the terms of reference for the Trustee Board, its standing committees, and the Group Executive Team • Approved the appointment of a new GCEO • Reviewed and approved the reappointment of Dame Kate Barker as chair of the Trustee Board, the appointment of Professor Adam Tickell (to replace Professor Sir Anton Muscatelli) on the Trustee Board, as well as three new director appointments to the USSIM Board • Approved amendments to the Trustee Board Succession Plan • Evaluated the board's effectiveness and adopted proposals for enhancing its effectiveness further
Leadership	• Discussed the outcomes of the 2023 USS employee engagement survey and the Group Executive Team's response • Received and discussed updates on initiatives being undertaken by the executive to increase EDI • Approved amendments to the Trustee Board EDI targets and strategic goals • Oversaw USSIM succession planning and non-executive director appointments
Stakeholder	• Supported the JNC in its role as the decision-making body for the 2023 valuation by determining the funding position and the potential contribution requirements • Supported the JNC in its decision making by overseeing the executive's detailed analysis of UCU and UUK benefit reform proposals, including contribution requirements, consultation feedback, and member impact analysis • Participated in meetings with JNC members and UUK's and UCU's actuarial advisers to discuss aspects of the 2023 valuation • Oversaw the implementation of the 2023/24 Member and Employer Communications strategy in the year, including regular updates on progress with the 2023 valuation and consultations with UUK • Through the Valuation Technical Forum, considered the key funding assumptions and scheme funding position up to 31 March 2023, with UUK and UCU representatives (and their advisers) • Consultations with UUK on the Technical Provisions and Statement of Funding Principles • Participated in the joint Stability Working Group set up by UCU, UUK and the trustee to consider scheme funding stability and the future stability of benefits and contributions • Received and discussed updates on ongoing initiatives being undertaken by the executive to enhance employee experience, including: (i) to champion USS's EDI Networks – BOLD (Ethnicity), Gender Equality and Ability; (ii) to support neurodiversity at USS; and (iii) to develop USS's community volunteering activity

Trustee Board meeting and committee attendance

The Trustee Board met 12 times during the financial year. A summary of the Trustee Board activity during the year is outlined on pages 43 to 44. An overview of attendance at meetings of the Trustee Board and its specialist standing committees is provided to the right.

Meetings held in the year	Trustee Board	Investment	Pensions	Audit and Risk	Remuneration	Governance and Nominations
Total number of meetings held in the year	**12**	**8**	**10**	**5**	**4**	**4**
Trustee Board members						
Dame Kate Barker	12	8				4
Mr Russell Picot*	11	8		5		
Mr Andrew Brown*	11	8			4	
Professor Sir Paul Curran	12					4
Mr Gary Dixon*	10			4	4	
Mrs Marian D'Auria	12		10			
Ms Ellen Kelleher	12		10			4
Dr Alain Kerneis	12	8			4	
Professor Sir Anton Muscatelli[1]*	10	6				
Mr Will Spinks	12		10		4	
Ms Helen Shay	12			5		
Dr David Watts	12		10			4
Committee members						
Mr Tony Owens				5		
Mr Richard Metcalf[2]				1		
Mr Bill Galvin[3]			2			1
Mrs Carol Young[4]*			6			3
Mrs Helen McEwan			10			

Notes

1 Professor Sir Anton Muscatelli retired from the Trustee Board on 31 March 2024.
2 Mr Richard Metcalf was appointed to the Audit and Risk Committee on 1 January 2024 and has attended all Committee meetings since his appointment.
3 Mr Bill Galvin stepped down as an executive member of the Pensions Committee and the GNC on 3 September 2023. He attended all Pensions Committee and GNC meetings until that date.
4 Mrs Carol Young was appointed as an executive member of the Pensions Committee and the GNC with effect from 4 September 2023. Due to commitments made prior to her appointment, Carol was unable to attend two Pensions Committee meetings.

* During the year, there were five ad hoc Trustee Board meetings, five ad hoc Pensions Committee meetings and two ad hoc Investment Committee meetings. On occasion, trustee directors and other committee members were unable to attend meetings due to prior commitments.

Remuneration report

We focus on aligning pay with performance to ensure the right mix of skills to deliver our strategic priorities and value for money for members.

Our remuneration framework is designed to ensure USS has access to individuals with the right mix of skills to deliver our strategic priorities and value for money for members.

We hire individuals with relevant expertise and experience, and we seek to pay them at market rates commensurate with the value they bring to the scheme. Consistent with this approach, the scheme sought and gained accreditation as a Real Living Wage employer during the year.

Paying for performance is key to our remuneration and incentive policy, which means rewarding 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 receiving 90% of the variable incentive paid in the year. The direct costs associated with employing an in-house team of highly skilled investment professionals in a competitive market are much lower than the fees charged by external managers for similar services.

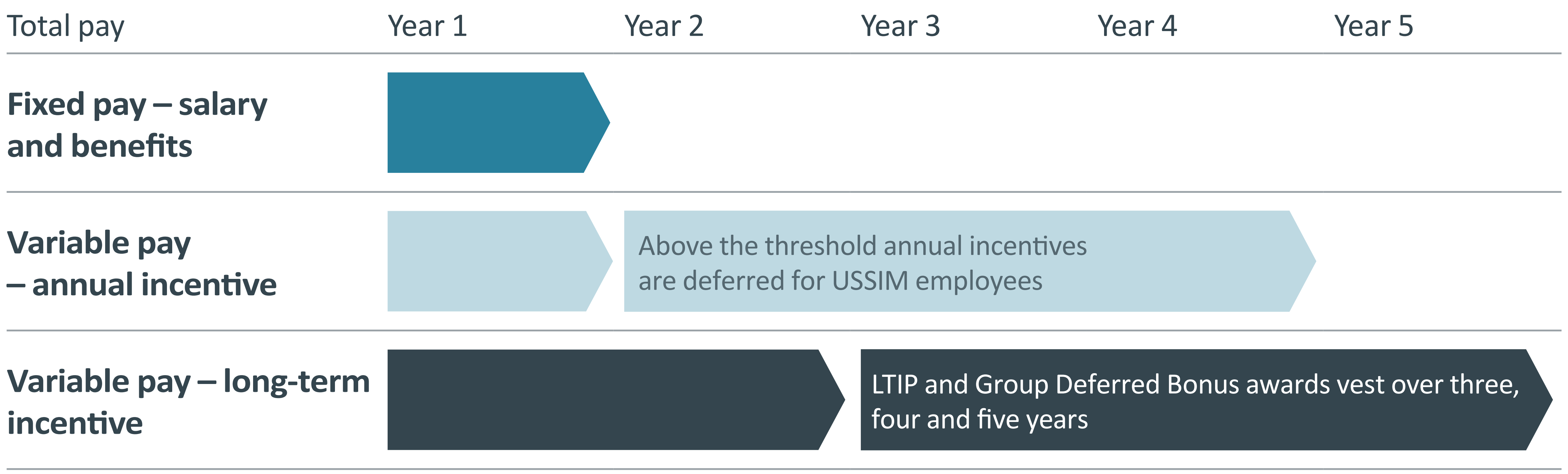
Our approach to managing costs and how they compare against peer benchmarks is described in the Chief Financial Officer's update on page 50. Our total compensation approach includes the following key elements which are benchmarked against market levels annually:

- Base salary, which is designed to attract and retain high-performing individuals
- Annual incentives which are aimed at motivating and rewarding performance, aligned to USS values. In the investment management function, where annual incentives exceed a £50,000 threshold, payment is partially deferred, being paid in equal proportions over each of the three years following award. For investment management professionals, these annual incentives include elements linked to:
  - individual mandate investment performance against benchmark
  - performance assessed by the Investment Committee against an investment balanced scorecard (scorecard which includes a rolling five-year investment return metric among other measures aligned with calendar year scheme performance periods); and
  - delivery of strategic objectives and behavioural aspects
- Long-term incentive plans (LTIPs) and Group Deferred Bonuses, which are available to a limited population, are designed to incentivise delivery of scheme performance over the long term and to encourage retention of key personnel respectively
- 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

£121m Having an in-house investment management team is the most material driver enabling our investment management costs to be the equivalent of £121m per year lower than the peer median according to the most recent analysis by CEM Benchmarking (for the calendar year 2022).

For non-investment staff in the pensions team or providing Group-wide support and governance, incentives are based on delivery of agreed objectives and on performance against behavioural standards. Independent benchmarking is performed by third-party advisers.

Remuneration structure



Note

For USSIM LTIP awards made from March 2023, vesting for all recipients will be after three years rather than previous LTIP award vesting schedules of 50% after four years and 50% after five years. Payment will be made at vesting other than for USSIM executive directors where payment will be made after an additional two-year holding period. Also from March 2023, Group LTIP awards were discontinued in favour of Group Deferred Bonuses which vest and are paid either in full after three years or, for the Group Executive Team, 50% after four years and 50% after five years. These changes will result in increased cash payments for a transitional period covering the years ending 31 March 2026 and 2027. The changes aim to provide greater incentives alignment to the external market and, as a consequence, support members' interests by attracting and retaining key talent within the organisation. Changes in the timing of the pay-outs will not impact the total amounts awarded.

Benchmarking and oversight of 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 aim to 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 use two external benchmarking agencies: one for investment management and support services, and another aimed at pension services roles and their support functions.

The Group Remuneration Committee oversees USS remuneration arrangements ensuring that they promote the recruitment, motivation and retention of high calibre employees, within a competitive market, to support the delivery of the trustee's long-term strategic priorities for the scheme and support the purpose, values and culture of USS. On behalf of the Trustee Board, the Group Remuneration Committee considers and approves both aggregate and individual senior employee remuneration including long-term incentive plans for USS staff.

The Group includes both malus and clawback provisions within its variable incentive awards that seek to ensure risk alignment, accountability and responsible behaviour. Malus provisions apply to all variable awards allowing for reductions, cancellations, and delays before vesting. Events that could trigger consideration and application of malus include material failures of responsible risk management, employee negligence, misconduct, regulatory investigations, contract breaches, significant absences, poor performance, and regulatory non-compliance. Clawback provisions apply to variable incentives awarded to Material Risk Takers (MRT) with respect to performance years starting from 1 January 2023 (USSIM) and 1 April 2023 (USSL) or the performance year of the role being identified as MRT, whichever is later. Relevant events that could trigger consideration and application of clawback include fraud, significant losses, or failure to meet UK regulatory standards. The standard clawback period is three years (five years for Group Executive and USSIM Executive Directors).

Remuneration in 2023/24

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 for all USSIM colleagues is based on the calendar year to 31 December 2023 and amounts paid in the year to 31 March 2024 are based on performance up to that date. For the performance year ended 31 December 2023 the performance under the investment balanced scorecard was assessed by the Investment Committee as 'Good'. Please see page 22 for further details of the investment balance scorecard assessment.

For USSIM annual incentive awards for the year ended 31 December 2023, any deferred portion is distributed equally over the subsequent three years, a change from 100% of the deferral being paid after three years which applied to annual incentive awards prior to 2023. Consequently, there will be increased cash payments during the period of overlap between the old deferral profile and the revised profile impacting this year and the years ending 31 March 2025 and 2026. Whilst the revised approach changes the timing of payment of awards it does not increase the overall value of awards granted. For the year to 31 March 2024 this results in an increase in annual incentive payments of £1.7m.

The growth in remuneration paid to key management personnel and high earners is primarily influenced by the following factors: increased investment management headcount, the Investment Committee's assessment of USSIM's investment balanced scorecard performance as 'Good' for the year ended 31 December 2023, as well as the impact of the change in deferral period for USSIM annual incentive awards, as discussed above. As a result of developing our investment management team, it now manages more of our assets internally and has adopted more sophisticated approaches, particularly regarding the hedging of scheme liability risks.

As we continue to enhance our internal capabilities, our latest evaluation by CEM Benchmarking demonstrates a material cost advantage over our peers, as detailed on page 50. Our internal investment management strategy significantly contributes to this advantage. It should be noted that the calculations are influenced by changes in both our own and our peers' investment approaches, as well as refinements to the methodologies employed by CEM.

	For the year ended 31 March 2024 £m			
Remuneration	High earners (excluding A and B)	Group Executive (A)	Trustee Board (B)	Total key management personnel (A+B)
Fixed pay – salary, fees and benefits	31.5	2.9	0.8	3.7
Variable pay – annual incentive	25.2	2.1	–	2.1
Variable pay – Long-term incentive	7.3	1.5	–	1.5
Total remuneration paid to key management personnel and high earners	**64.0**	**6.5**	**0.8**	**7.3**

	For the year ended 31 March 2023 £m			
Remuneration	High earners (excluding A and B)	Group Executive (A)	Trustee Board (B)	Total key management personnel (A+B)
Fixed pay – salary, fees and benefits	25.4	2.9	0.7	3.6
Variable pay – annual incentive	20.2	1.6	–	1.6
Variable pay – Long-term incentive	8.7	0.6	–	0.6
Total remuneration paid to key management personnel and high earners	**54.3**	**5.1**	**0.7**	**5.8**

Remuneration paid banding

We are committed to open reporting of the total remuneration of the Group Executive, the 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 the Trustee Board). In addition to legislative requirements, the table below provides analysis of total remuneration (base salary plus any incentives and non-pension benefits) paid in the year for high earners and how it has changed year-on-year. Approximately 80% of these high earners are investment management professionals. As noted on the previous page, there is an increase in cash payments this year due to the overlap between the old and new annual incentive deferral profiles.

For the year ended 31 March, amounts paid	Number of individuals 2024	2023
£100,001 to £150,000	73	74
£150,001 to £200,000	57	47
£200,001 to £250,000	37	24
£250,001 to £500,000	47	42
£500,001 to £750,000	18	10
£750,001 to £1,000,000	9	10
£1,000,001 to £1,250,000	3	3
£1,250,001 to £1,500,000	1	1
£1,500,001 to £1,750,000	1	–
£1,750,001 to £2,000,000	–	–
£2,000,001 to £2,250,000	–	–
£2,250,001 to £2,500,000	1	1
Total	**247**	**212**

Remuneration for Group Chief Executive Officer

The table below shows total remuneration (base salary plus any incentives and non-pension benefits) paid in the year, from the 4 September commencement date, to Carol Young.

For the year ended 31 March, amounts paid	2024 £'000	2023 £'000
Fixed pay – salary and benefits	297	–
Variable pay – annual bonus	150	–
Buy-out award	30	–
Total remuneration paid	**477**	–

Carol Young's remuneration package consists of base salary, benefits and incentive arrangements that are in line with our remuneration policy.

Her accrued Retirement Income Builder pension at 31 March 2024 was £844 (2023: £nil) and the accrued lump sum, including Investment Builder pension was £51,077 (2023: £nil). These accrued pension benefits relate to amounts earned in respect of services to the scheme and exclude transfers from other schemes.

USS agreed to compensate awards forfeited on her resignation from her previous employer in the form of deferred annual bonus awards. The total value of the buy-out award was £457,000 of which £29,600 was paid in March 2024. The buy-out award is scheduled to be paid over several years and is subject to our standard remuneration buy-out terms.

Bill Galvin continued to receive his base salary and contractual benefits up until his final date of employment on 3 September 2023. He received a total salary of £202,000. He also received the outstanding 2019 and 2020 LTIP awards that have vested totalling £321,000. His remaining 2020, 2021, 2022 and 2023 LTIPs will vest, subject to his adherence to vesting conditions on the original scheduled payment dates.

Remuneration ratio: CEO to median paid employee

The remuneration ratio of the CEO relative to the median paid employee in USS is 17.4:1 (2023: 14.7:1). The total remuneration figure used for the purposes of calculating the pay ratio reflects the sum of the total remuneration for the former Group Chief Executive Officer (Bill Galvin) and the new Group Chief Executive Officer (Carol Young).

Compensation for loss of office

The aggregate amount of compensation payable for loss of office to employees during the year was £0.1m (2023: £0.5m) of which £0.1m (2023: £0.3m) was payable to employees whose remuneration exceeded £100,000 during the year.

Trustee Board

Total Trustee Board director fees are shown in the table on page 47 together with the comparison to 2023.

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

The Remuneration committee report provides a summary of the oversight and governance of the compensation awards and can be found within the Governance Report on our website at report and accounts.

The number of directors who are members of the Retirement Income Builder	2024	2023
At 31 March (100% of those eligible)	**6**	6

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] and Deferred Bonus
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 measures aligned to USS values and delivery of strategic objectives	• Scheme performance[2] over multiple years, to include the investment balanced scorecard assessment • 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 or otherwise treated as a 'good leaver' under USS leaver provisions • For deferrals, must be in employment and not serving notice at the date of payment • Awards are subject to malus and clawback. Details of when these may be applied are set out on page 47.	• 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 • Awards are subject to malus and clawback. Details of when these may be applied are set out on page 47.	• Must be in employment and not serving notice at date of award and through to vesting although 'good leaver' provisions may apply • LTIPs and Group Deferred Bonuses vest after either three, four or five years • Awards are subject to malus and clawback. Details of when these may be applied are set out on page 47.
Deferred element	• Incentives above threshold for USSIM employees are deferred over 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 in year	• As a long-term plan, the payment is deferred until vesting conditions are fulfilled. For USSIM executive directors, for three-year vesting LTIPs, payment is deferred until five years after award	• 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

Delivery of value for money is monitored through a robust set of KPIs and reviewed in depth by the Trustee Board on an annual basis.

Dominic Gibb
Chief Financial Officer

Managing the scheme's finances effectively and efficiently is key to delivering value for money to members and employers.

Value for money

Delivering value for money for the scheme is an essential part of our strategic priorities, with performance monitored through a robust set of KPIs and reviewed in depth by the Trustee Board on an annual basis.

We employ a wide range of methodologies, including professional procurement and supplier management and annual cost-saving targets, supported by business wide initiatives and benchmarking. In addition to compensation benchmarking outlined in the Remuneration report on page 46, we participate in various cost and value benchmarking exercises annually as part of our overarching value for money framework.

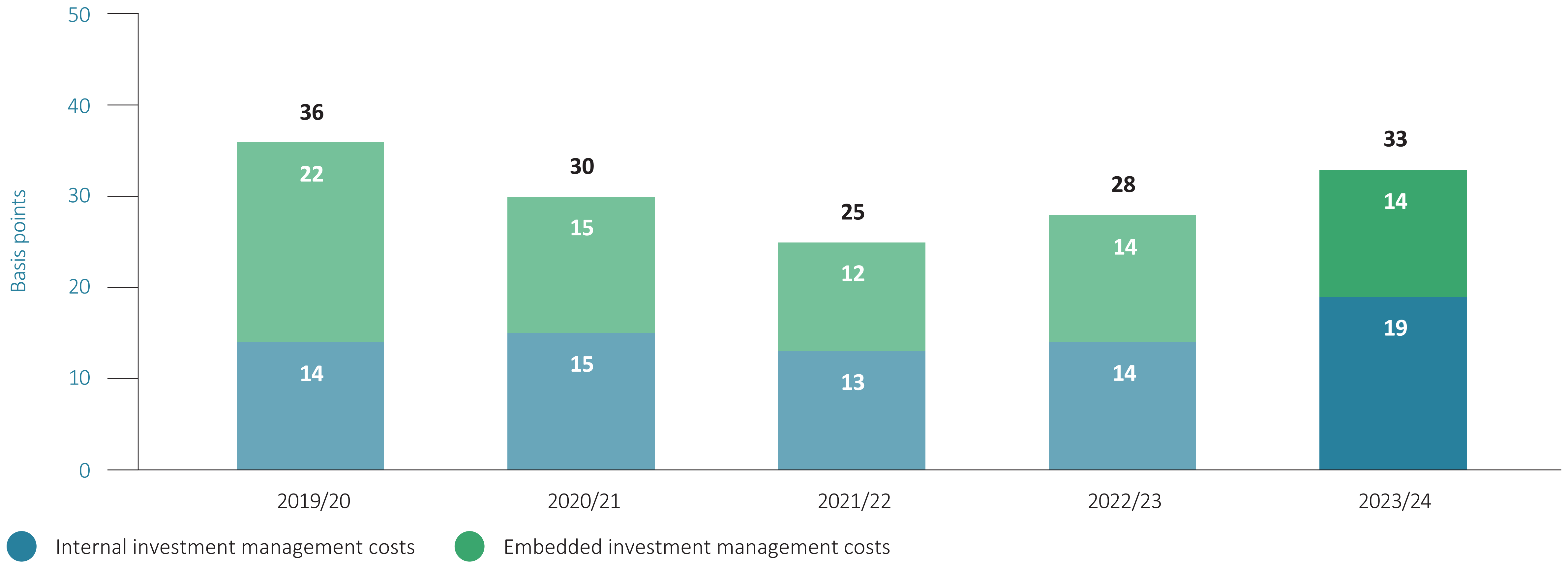
We engage CEM Benchmarking, an independent pension scheme benchmarking specialist, to compare our investment management and pension management costs and service levels against our peers on an annual basis. Participants' reported costs are adjusted to harmonise cost treatments and provide like-for-like comparisons.

In relation to investment management, the analysis uses ratios of cost as a proportion of asset values (normalised for asset mix) in basis points i.e. 1/100ths of a percent.

In the latest CEM Benchmarking survey (calendar year 2022), our investment management costs as a proportion of scheme assets remained materially below the peer cost benchmark with USS assessed as being 15 basis points, equivalent to £121m a year, below the median global peer pension fund.

The chart below shows the investment cost ratio calculated by USS on a basis consistent with CEM over five scheme years ending 31 March. The ratio increase in the year ended 31 March 2024 is largely driven by the reduction in average scheme asset value following interest rate increases in late 2022. The remainder is due to increased year-on-year investment costs.

Investment management cost ratios



Note:
2020 to 2023 investment management costs have been restated following receipt of updated embedded fee data.

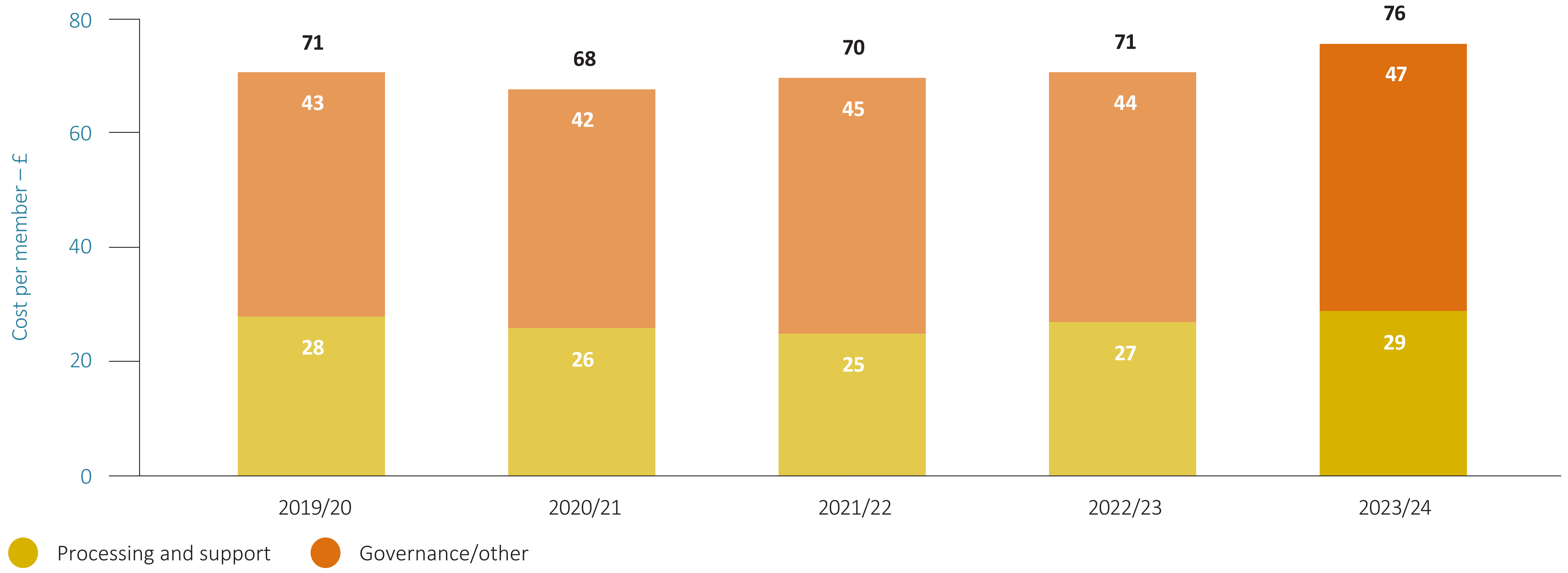
Our investment management cost advantage versus median global peer pension fund is partly driven by our in-house capabilities which, as well as enabling approaches tailored to the scheme’s needs, also provide greater value to our members.

Using skilled and experienced internal resource to deliver an active approach to managing the scheme’s assets results in cost savings compared to outsourcing, particularly in private assets and in emerging markets. In these areas we manage more in-house and incur lower expenses to manage those assets internally than our peers.

The CEM Benchmarking Pension Administration survey evidenced that we are broadly in line with our peers in core employer and member processing activities. The most recent survey, for the year to 31 March 2023, showed that these core processing costs were £27 per member for USS compared to a peer benchmark of £25.

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 £71, against a peer benchmark of £39, equivalent to £19m a year above peers.

Pension administration cost per member



The chart shows the pension administration cost ratio calculated by USS on a basis consistent with CEM over five scheme years ending 31 March. The increase in the year ended 31 March 2024 is driven primarily by cost base inflation together with a component relating to increased scheme valuation and stakeholder support resource.

We are assessed as providing member and employer service levels that are above peer benchmarks and as the highest overall for active members.

While acknowledging our multi-employer, hybrid benefit and governance structure is complex compared to peer schemes, we continue to work to improve our cost effectiveness while developing our service levels.

Our significant cost advantage in investment management more than offsets the additional pension administration costs associated with our scheme structure. This is demonstrated by a further CEM Benchmarking peer comparison of the total costs of running the scheme. In the most recent survey (calendar year 2022) it showed that on a total cost basis, USS was 13 basis points, equivalent to approximately £102m a year, less expensive than the peer benchmark, which is a £24m a year improvement in our cost advantage over the prior year (as restated).

Further information on how USS delivers value for money, including more on our in-sourcing/out-sourcing decisions, our investment performance and quality of pension services can be found on our website **Value for money**.

> *The most recent survey (2022), showed that on a total cost basis USS was approximately £102m a year less expensive than the peer benchmark.*
>
> **Dominic Gibb**
> Chief Financial Officer

	Pension management		Investment management		Total	
Costs £m	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Personnel costs (excluding group functions)	14	12	87	72	101	84
Invoiced investment management expenses – including performance and custody fees	–	–	32	31	32	31
Other invoiced expenses (excluding group functions)	14	13	4	5	18	18
Personnel costs (group functions)	10	9	9	8	19	17
Non-personnel costs (group functions)	9	9	10	10	19	19
Reported scheme expenses before pension deficit recovery liability credit	**47**	**43**	**142**	**126**	**189**	**169**
Pension deficit recovery liability credit	(27)	(1)	(20)	(1)	(47)	(2)
Reported scheme expenses	**20**	**42**	**122**	**125**	**142**	**167**
Embedded investment management costs	–	–	89	93	89	93
Total costs of running the scheme	**20**	**42**	**211**	**218**	**231**	**260**

Note:
Current year embedded fees are based on estimated figures. The 2023 figure has been updated from £92m (as presented last year) to £93m based on the final amounts provided by investment managers.

Cost management

We manage total costs which include embedded costs deducted within scheme investment returns as well as scheme expenses included in the financial statements. Around 91% of scheme costs relate to the investment management of our £78bn fund. The remaining 9% relate to pension management costs incurred in the delivery of services to members and employers.

The table above shows the total costs of running the scheme have reduced by 11% (£29m) compared to the prior year. Within that, reported scheme expenses have reduced by 15% (£25m), the most significant driver being the impact of the release of the pension deficit recovery liability due to the scheme reporting a surplus in the 2023 valuation.

Excluding the release of the pension deficit recovery liability, pension management costs increased by £4m (9%), while total investment management costs, including embedded fees increased by £12m (5%).

Personnel costs (excluding group functions) have increased by £17m (20%), primarily arising from inflation and increased headcount as we continue to strengthen our internal investment management capability. Improvements in the investment balanced scorecard assessment and scheme investment return also impacted employee incentive charges included within personnel costs.

More information including analysis of remuneration paid in the year is shown in the Remuneration report on page 47. An explanation of the investment balanced scorecard assessment is included on page 22.

Invoiced investment management expenses have remained relatively stable year-on-year, with an increase in performance fees for external securities managers due to improved investment performance, partially offset by a reduction in external manager fees.

Other invoiced expenses remains consistent with the prior year, with reductions in irrecoverable VAT expense and the Pension Protection Fund levy being offset by increased professional fees relating to the 2023 valuation.

Personnel costs for group functions have increased by £2m due to wages and salary inflation and headcount increases.

Embedded investment management costs reduced by £4m due to no hedge fund performance fees being incurred in the period.

Looking forward, the scheme is undertaking a number of projects over the next few years including the pension re-platforming initiative, resolution of historical pension entitlement issues and developing our investment management IT infrastructure. Whilst these projects will result in temporary increases in costs in the coming years, they aim to deliver a more efficient, effective and well-controlled scheme better able to support employers and members and to manage our investments.

Financial statements

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

L1 Renewables: Deltastream tidal energy project, from the Pembrokeshire coast path, St Justinians, Pembrokeshire, Wales, UK.

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, made under the Pensions Act 1995, 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 judgements 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 18 July 2024.

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 2024 which comprise the Fund account, the Statement of net assets available for benefits and the related Notes 1 to 20, 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 2024, 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.

Responsibilities of the trustee

As explained more fully in the trustee's responsibilities statement set out on page 54, 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.

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.

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 Acts 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, Chief Financial Officer, Deputy Chief Financial Officer, Head of Compliance, Head of Internal Audit and also the Trustee Board directors including the Chair of the Group Audit and Risk Committee. We corroborated our enquiries through our review of board minutes, papers provided to the Group Audit and Risk 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
18 July 2024

Fund account for the year ended 31 March 2024

Contributions and benefits	Note	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Employer contributions receivable	2	2,414	561	2,975	2,474	500	2,974
Employee contributions receivable	2	115	175	290	112	146	258
Total contributions		**2,529**	**736**	**3,265**	**2,586**	**646**	**3,232**
Transfers in		–	20	20	–	12	12
Total additions		**2,529**	**756**	**3,285**	**2,586**	**658**	**3,244**
Benefits payable	3	(2,374)	(69)	(2,443)	(2,169)	(52)	(2,221)
Payments to and on account of leavers	4	(18)	(4)	(22)	(44)	(5)	(49)
Administrative expenses	5	(17)	(3)	(20)	(39)	(3)	(42)
Total withdrawals		**(2,409)**	**(76)**	**(2,485)**	**(2,252)**	**(60)**	**(2,312)**
Net additions from dealings with members		**120**	**680**	**800**	**334**	**598**	**932**
Return on investments							
Investment income	6	1,486	51	1,537	1,640	35	1,675
Taxation		(28)	(1)	(29)	(33)	–	(33)
Change in market value of net investments	7	217	238	455	(17,665)	(93)	(17,758)
Investment management expenses	5	(117)	(5)	(122)	(121)	(4)	(125)
Net return on investments		**1,558**	**283**	**1,841**	**(16,179)**	**(62)**	**(16,241)**
Net increase/(decrease) in the fund during the year		**1,678**	**963**	**2,641**	**(15,845)**	**536**	**(15,309)**
Net assets of the scheme at the start of the year		**73,117**	**2,408**	**75,525**	**88,962**	**1,872**	**90,834**
Net assets of the scheme at the end of the year		**74,795**	**3,371**	**78,166**	**73,117**	**2,408**	**75,525**

Statement of net assets available for benefits as at 31 March 2024

	Note	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Investment assets							
Equities	7	22,626	1,666	24,292	19,659	1,033	20,692
Bonds	7	36,123	398	36,521	34,835	314	35,149
Pooled investment vehicles	8	12,444	1,050	13,494	14,375	873	15,248
Derivatives	9	2,100	1	2,101	2,051	4	2,055
Property	7	2,537	86	2,623	2,645	57	2,702
Cash and cash equivalents	7	2,201	32	2,233	2,440	28	2,468
Other investment balances	10	2,349	12	2,361	2,383	10	2,393
Finance leases	11	791	26	817	575	13	588
		81,171	**3,271**	**84,442**	**78,963**	**2,332**	**81,295**
Investment liabilities							
Derivatives	9	(2,544)	(9)	(2,553)	(2,753)	(2)	(2,755)
Other investment balances	10	(3,794)	(7)	(3,801)	(3,130)	(5)	(3,135)
		(6,338)	**(16)**	**(6,354)**	**(5,883)**	**(7)**	**(5,890)**
Total net investments		**74,833**	**3,255**	**78,088**	**73,080**	**2,325**	**75,405**
Current assets	16	**221**	**125**	**346**	**268**	**94**	**362**
Current liabilities	17	**(259)**	**(9)**	**(268)**	**(231)**	**(11)**	**(242)**
Net assets of the scheme at 31 March		**74,795**	**3,371**	**78,166**	**73,117**	**2,408**	**75,525**

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 24 and should be read in conjunction with this report.

The financial statements on pages 57 to 76 were approved by the trustee, Universities Superannuation Scheme Limited, on 18 July 2024 and were signed on its behalf by:

Dame Kate Barker
Chair

The notes on pages 59 to 76 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2024

1 Basis of preparation and significant accounting policies

This section describes the significant accounting policies of the scheme that relate to the financial statements and notes as a whole. If an accounting policy relates to a specific item, the applicable accounting policy is contained within the relevant note. These policies have been consistently applied to all years presented unless otherwise stated.

(a) 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.

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 33 to 37 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 also 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 the war in Ukraine, high inflation and other economic factors which have impacted operating and market valuations, and contributed to volatility in financial markets. There have been no material operational incidents or losses post year end.

(b) Treatment of subsidiary undertakings

The trustee company, Universities Superannuation Scheme Limited, owns a number of investments in limited partnerships 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 entities are held for investment purposes and not as operating subsidiaries. Assets and liabilities held within such entities are included in the appropriate lines in the statement of net assets and an analysis of these net assets is shown in Note 14.

Details of these companies may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, Mr M Burt, at Royal Liver Building, Liverpool L3 1PY.

(c) Foreign currency translation

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.

(d) Judgements and key sources of estimation uncertainty

In preparing these financial statements, the trustee is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

i) Critical judgements in applying the scheme's accounting policies

Finance leases: The trustee determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the trustee makes an overall assessment of whether the lease transfers substantially all of the risks and rewards of ownership of the underlying asset to the lessee. If this is the case, the lease is a finance lease. If it is not, it is an operating lease. As part of this assessment, the trustee considers the substance of the lease terms including whether the lease transfers ownership to the lessee at the end of the lease term or whether there is an option for the lessee to purchase the asset at a nominal value. Further information is contained in note 11.

ii) Key sources of estimation uncertainty

Measurement of fair values: The scheme holds its investment assets either at fair value or, in the case of the finance leases, the net present value of the net investment in the lease. For unquoted equities and bonds, valuation techniques such as discounted cash flow models are used in determining fair value.

One of the key assumptions in determining fair value using the discounted cash flow technique is the discount rate. Others may include assumptions relating to macroeconomic forecasts, debt financing and growth and profitability aspects of the asset. The discount rate(s) are derived by taking into account a number of factors including, among others, the underlying nature of the asset, relative risk of the industry to which the asset relates compared to the wider equity market and the assessed level of uncertainty in the cash flows.

The market approach is often used as a cross-check and compares the valuation to metrics derived from either or both of comparable publicly traded assets and transactions in comparable assets.

1 Basis of preparation and significant accounting policies continued

The judgements are applied by valuation experts and there is significant estimation uncertainty underpinning the assumptions used in both the discounted cash flow approach and market approach cross-check. The trustee has considered the uncertainty in cash flows and the assumptions made and determine these to be the best estimates as at valuation date, when calculating fair value.

Finance leases: The scheme holds finance leases at the net present value of the net investment in the lease, discounted at the rate implicit within the lease terms. To calculate the net investment in the lease, the trustee assumes an inflationary increase for each lease payment over the life of the lease term. This inflationary increase is based on Bank of England data.

2 Contributions receivable

Accounting for 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.

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Employer contributions						
Employer contributions	1,734	360	2,094	1,808	309	2,117
Employer salary sacrifice contributions	677	201	878	622	191	813
S75 debt	1	–	1	43	–	43
Augmentation	2	–	2	1	–	1
	2,414	**561**	**2,975**	**2,474**	**500**	**2,974**
Employee contributions						
Members' basic contributions	70	15	85	67	15	82
Main section AVCs	17	160	177	19	131	150
Supplementary section	28	–	28	26	–	26
	115	**175**	**290**	**112**	**146**	**258**
	2,529	**736**	**3,265**	**2,586**	**646**	**3,232**

Main section AVCs 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.

3 Benefits payable

Accounting for benefits 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% (2023: 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.

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Main section						
Pensions	1,988	–	1,988	1,776	–	1,776
Lump sums on or after retirement	333	65	398	355	49	404
Lump sums on death in service	31	1	32	19	1	20
Taxation where lifetime and annual allowance exceeded	–	2	2	–	2	2
	2,352	**68**	**2,420**	**2,150**	**52**	**2,202**
Supplementary section						
Pensions	19	–	19	17	–	17
Lump sums on death in service	3	1	4	2	–	2
	22	**1**	**23**	**19**	**–**	**19**
	2,374	**69**	**2,443**	**2,169**	**52**	**2,221**

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.

4 Payments to and on account of leavers

Accounting for transfers to and from the scheme
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.

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Individual transfers out to other schemes	17	4	21	43	5	48
Refunds of contributions in respect of non-vested leavers	1	–	1	1	–	1
	18	**4**	**22**	**44**	**5**	**49**

5 Administrative and investment management expenses

Defined benefit	2024 Administrative expenses £m	2024 Investment management expenses £m	2024 Total £m	2023 Administrative expenses £m	2023 Investment management expenses £m	2023 Total £m
Personnel costs						
Wages and salaries	15	35	50	14	31	45
Employee incentives	3	41	44	3	32	35
Pension costs	(24)	(15)	(39)	1	5	6
Social security costs	2	10	12	2	8	10
Other	–	2	2	–	1	1
Total personnel costs	**(4)**	**73**	**69**	**20**	**77**	**97**
Other costs incurred in managing and administering the scheme						
Professional fees	9	10	19	6	12	18
Invoiced external manager fees	–	9	9	–	7	7
Securities research fees	–	3	3	–	2	2
Information services costs	2	12	14	2	11	13
Group premises costs	2	3	5	1	3	4
Recruitment, training and welfare	1	2	3	1	2	3
Pension Protection Fund levies	3	–	3	5	–	5
Other costs	4	5	9	4	7	11
Total other costs	**21**	**44**	**65**	**19**	**44**	**63**
Total defined benefit costs	**17**	**117**	**134**	**39**	**121**	**160**
Total defined contribution costs	**3**	**5**	**8**	**3**	**4**	**7**
Total scheme expenses	**20**	**122**	**142**	**42**	**125**	**167**

Accounting for 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.

Administrative expenses 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 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 advisory 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 is calculated with reference to the Master Trust DC business plan as submitted to TPR for the current and prior year.

Pension costs include a one-off credit of £47m in the current period relating to the release of the pension deficit recovery liability in the trustee company which has reduced the value of amounts recharged for the year.

The aggregate amount of compensation payable for loss of office to employees during the year was £0.1m (2023: £0.5m) of which £0.1m (2023: £0.3m) was payable to employees whose remuneration exceeded £100,000 during the year.

6 Investment income

Accounting for investment income
Investment income is brought into account on the following bases:

- Dividends, tax and interest from investments, on the date that the scheme becomes entitled to the income
- Interest on cash deposits and bonds, as it accrues
- Property rental income, on a straight-line basis over the period of the lease
- Finance leases, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease over the period of the lease

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Dividends from equities	404	26	430	543	20	563
Net property income	115	2	117	108	2	110
Income from pooled investment vehicles	312	4	316	325	2	327
Income from bonds	747	17	764	644	11	655
Interest on cash deposits	111	1	112	77	–	77
Expenses from derivatives	(219)	–	(219)	(55)	–	(55)
Other expenses	(23)	–	(23)	(21)	–	(21)
Income from finance leases	39	1	40	19	–	19
	1,486	**51**	**1,537**	**1,640**	**35**	**1,675**

Income from property is net of property-related expenses of £10m (2023: £12m).

Investment income from overseas investments may be subject to deduction of local withholding taxes under relevant 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.

7 Investments reconciliation

Accounting for 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
(v) Derivatives – Derivative contracts are recognised initially and are subsequently measured at fair value
(vi) Property – Property is stated at fair value as at the year end date and determined by independent professional valuers who are members of the Royal Institute of Chartered Surveyors. Any gains or losses arising from a change in fair value are recognised in the return on investments
(vii) Finance leases – Leases are stated as the present value of the minimum lease payments, discounted at the interest rate implicit within the lease

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.

7 Investments reconciliation continued

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

	Note	Market value Mar 2023 £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 2024 £m
Defined benefit						
Equities		19,659	7,453	(6,038)	1,552	22,626
Bonds		34,835	16,970	(13,183)	(2,499)	36,123
Pooled investment vehicles	8	14,375	2,107	(4,195)	157	12,444
Derivatives	9	(702)	4,605	(5,431)	1,084	(444)
Property		2,645	177	(159)	(126)	2,537
		70,812	**31,312**	**(29,006)**	**168**	**73,286**
Cash and cash equivalents		2,440			(26)	2,201
Other investment balances (net)	10	(747)			75	(1,445)
Finance leases	11	575			–	791
		73,080	**31,312**	**(29,006)**	**217**	**74,833**
Defined contribution						
Equities		1,033	602	(162)	193	1,666
Bonds		314	248	(170)	6	398
Pooled investment vehicles	8	873	378	(251)	50	1,050
Derivatives	9	2	42	(37)	(15)	(8)
Property		57	36	(4)	(3)	86
		2,279	**1,306**	**(624)**	**231**	**3,192**
Cash and cash equivalents		28			7	32
Other investment balances (net)	10	5				5
Finance leases	11	13				26
		2,325	**1,306**	**(624)**	**238**	**3,255**

At 31 March 2024, the scheme's approach to valuation was substantially consistent with its normal process and valuation policy. There is a Fair Value Committee to review the valuation 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 £608m (2023: £1,735m) from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see Note 9). These are offset by gains in the values of the corresponding overseas assets.

At year end, within other investment balances, amounts payable under repurchase agreements amounted to £2,118m (2023: £2,089m). At the year end £2,201m (2023: £2,131m) of bonds reported in scheme assets are held by counterparties under repurchase agreements.

Investments purchased by the scheme in respect of the defined contribution part 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 part of the scheme are designated to members.

Defined contribution investments include legacy money purchase AVC investments with Prudential Assurance Company Limited of £158m (2023: £174m). These assets are specifically allocated to secure extra benefits for those members who have made these additional voluntary contributions.

7 Investments reconciliation continued

Transaction costs

Accounting for 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	2024 £m	Fees and taxes £m	Commission £m	2023 £m
Defined benefit						
Equities	7	4	11	9	4	13
Bonds	1	–	1	1	–	1
Pooled investment vehicles	3	–	3	2	–	2
Property	1	–	1	–	–	–
Finance leases	10	–	10	20	–	20
	22	**4**	**26**	**32**	**4**	**36**

The defined contribution element of transaction costs is not separately disclosed on the basis of materiality.

8 Pooled investment vehicles

Accounting for pooled investment vehicles
Equities held by 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 are stated at the latest available cash flow adjusted valuations prepared in accordance with International Private Equity and Venture Capital (IPEV) Guidelines.

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

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

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Equities	180	211	391	1,294	222	1,516
Hedge funds	222	–	222	363	–	363
Private equity	9,665	51	9,716	10,231	21	10,252
Property	1,824	42	1,866	1,930	31	1,961
Bonds	553	443	996	557	302	859
Cash	–	145	145	–	123	123
Legacy AVCs	–	158	158	–	174	174
Total pooled investment vehicles	**12,444**	**1,050**	**13,494**	**14,375**	**873**	**15,248**

9 Derivatives

Accounting for derivative contracts

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. 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. Derivatives comprise the following types of contracts which are either exchange-traded or over-the-counter (OTC).

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

	Note	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Assets							
Options	9(a)	139	–	139	235	–	235
Futures contracts	9(b)	131	–	131	118	–	118
Swaps	9(c)	1,667	–	1,667	1,261	–	1,261
Forward foreign exchange contracts	9(d)	163	1	164	437	4	441
		2,100	**1**	**2,101**	**2,051**	**4**	**2,055**
Liabilities							
Options	9(a)	(73)	–	(73)	(60)	–	(60)
Futures contracts	9(b)	(43)	–	(43)	(26)	–	(26)
Swaps	9(c)	(2,067)	–	(2,067)	(2,488)	–	(2,488)
Forward foreign exchange contracts	9(d)	(361)	(9)	(370)	(179)	(2)	(181)
		(2,544)	**(9)**	**(2,553)**	**(2,753)**	**(2)**	**(2,755)**
Net (liability)/asset	7, 12	**(444)**	**(8)**	**(452)**	**(702)**	**2**	**(700)**

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, 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 at 31 March 2024. Derivatives relating to defined contribution are not separately disclosed on the basis of materiality, the total value at year end being less than £10m.

9 Derivatives continued

a) Options (OTC)

Accounting for options
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.

The economic exposure is represented by the notional principal value of stock purchased under the contract on an absolute basis.

Defined benefit	Expires within	Notional principal £m	Asset £m	Liability £m
Type of option				
Index	1 year	**225**	**139**	**(73)**

b) Futures contracts (exchange traded)

Accounting for futures contracts
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.

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.

The economic exposure is represented by the notional principal value of stock purchased under the contract on an absolute basis.

Defined benefit	Expires within	Notional principal £m	Asset £m	Liability £m
Type of future				
Equities	1 year	5,682	105	(13)
Commodity	1 year	358	21	–
Bonds	1 year	6,562	5	(30)
Currency	1 year	47	–	–
		12,649	**131**	**(43)**

c) Swaps (OTC)

Accounting for swaps
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.

9 Derivatives continued

Defined benefit	Expires within	Nature of swap	Notional principal £m	Asset £m	Liability £m
Credit default	6 years	Index	138	–	(4)
	6 years	Single	129	5	(1)
Interest rate	46 years	Fixed vs floating	14,582	1,144	(2,009)
Total return	8 years	Equity	5,484	119	–
	8 years	Commodity	1,399	39	–
	2 years	Bond	1,286	76	(19)
Inflation linked	9 years	HICPXT	205	31	–
	10 years	CPI	165	1	–
	50 years	RPI	4,317	252	(34)
			27,705	**1,667**	**(2,067)**

d) Forward foreign exchange contracts (OTC)

Accounting for forward foreign exchange contracts
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.

Defined benefit

Currency bought	Currency sold	Notional principal £m	Asset £m	Liability £m
GBP	Other	3,680	16	(3)
GBP	USD	11,956	73	(40)
JPY	GBP	4,924	–	(149)
Other	GBP	3,913	3	(40)
Other	USD	4,821	14	(55)
Other	Other	163	–	–
USD	Other	3,932	57	(5)
CLP	USD	857	–	(36)
JPY	USD	778	–	(33)
		35,024	**163**	**(361)**

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 £277m (2023: £349m) and had pledged collateral of £325m (2023: £371m) in the form of cash and government bonds in respect of OTC derivatives.

10 Other investment balances

Accounting for other investment balances
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.

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.

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.

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Assets						
Amount due from stockbrokers	104	1	105	54	1	55
Dividends and accrued interest	304	10	314	247	7	254
Margin balances	1,929	1	1,930	2,055	2	2,057
Other	12	–	12	27	–	27
	2,349	**12**	**2,361**	**2,383**	**10**	**2,393**
Liabilities						
Amount due to stockbrokers	(553)	(5)	(558)	(127)	(3)	(130)
Margin balances	(1,037)	(1)	(1,038)	(861)	(1)	(862)
Repurchase agreements	(2,118)	–	(2,118)	(2,089)	–	(2,089)
Accrued interest	(48)	–	(48)	(16)	–	(16)
Other	(38)	(1)	(39)	(37)	(1)	(38)
	(3,794)	**(7)**	**(3,801)**	**(3,130)**	**(5)**	**(3,135)**
Other investment balances (net)	**(1,445)**	**5**	**(1,440)**	**(747)**	**5**	**(742)**

11 Finance leases

Accounting for finance leases
On initial recognition, a finance lease will be held at the present value of the net investment in the lease; the net investment in the lease is the aggregate of minimum lease payments and residual value at end of lease. On subsequent measurement, changes to the net investment in the lease are recognised in the return on investments immediately.

Lease payments receivable due in	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Less than 1 year	25	1	26	18	–	18
1 year to 5 years	139	5	144	97	2	99
Greater than 5 years	12,327	407	12,734	6,740	157	6,897
Total undiscounted lease payments receivable	**12,491**	**413**	**12,904**	**6,855**	**159**	**7,014**
Unearned finance income	(11,700)	(387)	(12,087)	(6,280)	(146)	(6,426)
Net investment in leases	**791**	**26**	**817**	**575**	**13**	**588**

Unearned finance income is the undiscounted value of lease payments over the term of the lease. As lease payments vary with inflation, these payments will fluctuate over the lease term and therefore the unearned finance income will fluctuate over time.

12 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).

12 Fair value determination continued

		2024 category			
Defined benefit	Note	1 £m	2 £m	3 £m	Total £m
Equities	7	16,361	–	6,265	22,626
Bonds	7	23,400	8,090	4,633	36,123
Pooled investment vehicles	7, 8	237	–	12,207	12,444
Derivatives	7, 9	87	(531)	–	(444)
Property	7	–	–	2,537	2,537
Cash and cash equivalents	7	2,201	–	–	2,201
Other investment balances	7, 10	(1,445)	–	–	(1,445)
Finance leases	7, 11	–	–	791	791
		40,841	**7,559**	**26,433**	**74,833**

		2023 category			
Defined benefit	Note	1 £m	2 £m	3 £m	Total £m
Equities	7	12,627	–	7,032	19,659
Bonds	7	–	29,391	5,444	34,835
Pooled investment vehicles	7, 8	250	1,136	12,989	14,375
Derivatives	7, 9	267	(969)	–	(702)
Property	7	–	–	2,645	2,645
Cash and cash equivalents	7	2,440	–	–	2,440
Other investment balances	7, 10	(747)	–	–	(747)
Finance leases	7, 11	–	–	575	575
		14,837	**29,558**	**28,685**	**73,080**

Bonds include government bonds which are measured using pricing provided by Gilt-edged Market Makers Association (GEMMA). The SORP permits government bonds to be disclosed as Level 1 assets even if priced using the GEMMA mid-price provided the bond is highly actively traded and there is an insignificant difference between GEMMA and a market quoted price. UK, US, French, German and Italian government bonds are all considered to be highly actively traded. Accordingly, £23.4m of bonds have been transferred from Level 2 to Level 1 at 31 March 2024.

		2024 category			
Defined contribution	Note	1 £m	2 £m	3 £m	Total £m
Equities	7	1,503	–	163	1,666
Bonds	7	10	272	116	398
Pooled investment vehicles	7, 8	6	951	93	1,050
Derivatives	7, 9	–	(8)	–	(8)
Property	7	–	–	86	86
Cash and cash equivalents	7	32	–	–	32
Other investment balances	7, 10	5	–	–	5
Finance leases	7, 11	–	–	26	26
		1,556	**1,215**	**484**	**3,255**

		2023 category			
Defined contribution	Note	1 £m	2 £m	3 £m	Total £m
Equities	7	913	–	120	1,033
Bonds	7	–	232	82	314
Pooled investment vehicles	7, 8	3	818	52	873
Derivatives	7, 9	–	2	–	2
Property	7	–	–	57	57
Cash and cash equivalents	7	28	–	–	28
Other investment balances	7, 10	5	–	–	5
Finance leases	7, 11	–	–	13	13
		949	**1,052**	**324**	**2,325**

13 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 objectives and risk limits are implemented through the holistic DB and DC investment frameworks which have been agreed with USSIM and are overseen by the trustee.

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.

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	**2024** £m	**2023** £m	**2024** £m	**2023** £m	**2024** £m	**2023** £m	**2024** £m	**2023** £m
Direct non-collateralised								
Bonds not under repurchase or stock loan agreements	20,844	20,518	1,849	1,513	7,490	7,032	30,183	29,063
Cash	2,201	2,440	–	–	–	–	2,201	2,440
Pooled investment vehicles	–	–	–	–	12,207	14,124	12,207	14,124
Finance leases	–	–	–	–	791	575	791	575
Rent debtors	–	–	–	–	3	8	3	8
Amounts due from stockbrokers	–	–	–	–	96	35	96	35
Sub-total	**23,045**	**22,958**	**1,849**	**1,513**	**20,587**	**21,774**	**45,481**	**46,245**
Direct collateralised								
Bonds lent under repurchase agreements	2,132	2,101	–	–	–	–	2,132	2,101
Bonds lent under stock loan agreements	3,887	3,794	–	–	–	–	3,887	3,794
Equities lent under stock loan agreements	1,697	1,651	–	–	–	–	1,697	1,651
Derivatives	2,414	1,699	–	–	–	–	2,414	1,699
Sub-total	**10,130**	**9,245**	**–**	**–**	**–**	**–**	**10,130**	**9,245**
	33,175	**32,203**	**1,849**	**1,513**	**20,587**	**21,774**	**55,611**	**55,490**

13 Investment risks continued

Defined contribution	Investment grade 2024 £m	Investment grade 2023 £m	Non-investment grade 2024 £m	Non-investment grade 2023 £m	Unrated 2024 £m	Unrated 2023 £m	Total 2024 £m	Total 2023 £m
Direct non-collateralised								
Bonds not under repurchase or stock loan agreements	119	114	150	116	123	87	392	317
Cash	32	28	–	–	–	–	32	28
Pooled investment vehicles	–	–	–	–	1,043	871	1,043	871
Finance leases	–	–	–	–	26	13	26	13
Amounts due from stockbrokers	–	–	–	–	1	1	1	1
Sub-total	**151**	**142**	**150**	**116**	**1,193**	**972**	**1,494**	**1,230**
Direct collateralised								
Bonds lent under stock loan agreements	8	10	–	–	–	–	8	10
Equities lent under stock loan agreements	43	42	–	–	–	–	43	42
Derivatives	1	–	–	–	–	–	1	–
Sub-total	**52**	**52**	**–**	**–**	**–**	**–**	**52**	**52**
	203	**194**	**150**	**116**	**1,193**	**972**	**1,546**	**1,282**

Credit risk arising on bonds is managed:

- Through investment in developed-market government bonds where the credit risk is minimal
- For corporate and emerging-market bonds and private credit, through individual investment mandates which 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 £50m (2023: £167m).

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 financial instruments held by the pooled investment vehicles. Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles which themselves hold private market funds, hedge funds and controlled property funds (only the value of those underlying assets which are subject to credit risk is included in the note).

The DB value at the year end was: private market funds £9,655m (2023: £10,231m), hedge funds £222m (2023: £363m), listed bonds funds £553m (2023: £557m) and controlled property funds £48m (2023: £23m).

The DC value at the year end was: private market funds £51m (2023: £21m), DC USS Investment Builder £587m (2023: £425m), £158m legacy AVCs (2023: £174m), and controlled property funds £1m (2023:£nil).

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

	Note	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Unit trusts		380	13	393	408	8	416
Open ended investment companies (OEICs)		734	957	1,691	1,851	821	2,672
Partnership interests		11,108	80	11,188	11,753	44	11,797
Interests in limited partnerships		222	–	222	363	–	363
	7, 8, 12	**12,444**	**1,050**	**13,494**	**14,375**	**873**	**15,248**

13 Investment risks continued

Direct credit risk on pooled investment vehicles comprises the pooled funds shown in Note 8 with the exception of £237m (DB) and £6m (DC) (2023: £251m DB, £2m DC) invested 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 finance leases is mitigated by holding title of the underlying property, which fully collateralises 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 9). OTCs are valued daily and counterparty exposures are fully collateralised subject to de minimis limits.

Market risk

Currency risk

The scheme is subject to currency risk because some of the scheme's investments are denominated in foreign currencies, comprise assets whose economic value is generated in foreign currencies, and/or take active exposure to foreign currencies. Derivative holdings are represented on a market value basis within the table below:

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Direct						
Australian Dollar	976	47	1,023	881	32	913
Brazilian Real	417	5	422	470	3	473
Canadian Dollar	255	36	291	281	25	306
Euro	5,767	224	5,991	6,167	158	6,325
Hong Kong Dollar	889	40	929	1,294	33	1,327
Indian Rupee	806	26	832	531	11	542
Indonesian Rupiah	212	4	216	209	2	211
Japanese Yen	1,814	118	1,932	380	71	451
Mexican Peso	520	4	524	623	3	626
South African Rand	352	3	355	436	2	438
South Korean Won	494	16	510	426	9	435
Swiss Franc	1,156	35	1,191	904	25	929
Taiwan New Dollar	679	22	701	469	10	479
United States Dollar	20,903	1,216	22,119	19,677	729	20,406
Other	2,285	69	2,354	1,958	44	2,002
	37,525	**1,865**	**39,390**	**34,706**	**1,157**	**35,863**
Less: Foreign currency hedging	(2,740)	–	(2,740)	(1,121)	–	(1,121)
	34,785	**1,865**	**36,650**	**33,585**	**1,157**	**34,742**

13 Investment risks continued

Indirect currency risk arises on pooled investment vehicles when the vehicle invested in is denominated in a foreign currency and/or comprise assets whose economic value is generated in foreign currency. At the year end, the market value of indirect currency risk was £9,926m in the DB part of the scheme (2023: £10,490m) and £51m in the DC part of the scheme (2023: £24m).

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	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Direct						
Bonds	36,123	398	36,521	34,835	314	35,149
Equities	5,116	150	5,266	5,866	113	5,979
Derivatives	(780)	(8)	(788)	(1,034)	2	(1,032)
	40,459	**540**	**40,999**	**39,667**	**429**	**40,096**

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 £626m (2023: £573m) and to pooled investment vehicles – defined contribution was £587m (2023: £425m).

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	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Direct						
Equities	22,626	1,666	24,292	19,659	1,033	20,692
Derivatives	336	–	336	332	–	332
Property	2,537	86	2,623	2,645	57	2,702
Pooled investment vehicles	11,891	462	12,353	13,818	448	14,266
	37,390	**2,214**	**39,604**	**36,454**	**1,538**	**37,992**

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 £180m (2023: £1,294m), private market funds £9,665m (2023: £10,231m), hedge funds £222m (2023: £363m), and property funds £1,824m (2023: £1,930m).

The value relating to defined contribution pooled investment vehicles at the year end was: equity £211m (2023: £222m), legacy AVCs £158m (2023: £174m), private market funds £51m (2023: £21m), and property funds £42m (2023: £31m).

14 Subsidiary undertakings controlled by Universities Superannuation Scheme

The net assets of subsidiary undertakings through which the scheme holds investments are summarised below.

	2024 £m	2023 £m
Equities	6,232	6,939
Bonds	3,491	4,143
Pooled investment vehicles	7,999	8,088
Property	202	76
Cash	19	20
Other investment balances	(67)	(78)
Finance leases	221	217
	18,097	**19,405**

15 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 59, amounts to 1.47% (2023: 1.45%) of the net assets of the scheme.

16 Current assets

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Contributions receivable:						
– employer contributions	168	59	227	212	44	256
– members' basic contributions	6	1	7	8	1	9
– members' additional voluntary contributions	1	13	14	2	11	13
Other debtors	27	50	77	32	36	68
Cash at bank and in hand	19	2	21	14	2	16
	221	**125**	**346**	**268**	**94**	**362**

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

17 Current liabilities

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Benefits payable	(132)	(4)	(136)	(118)	(4)	(122)
Due to trustee company	(84)	(5)	(89)	(113)	(6)	(119)
Other creditors	(43)	–	(43)	–	(1)	(1)
	(259)	**(9)**	**(268)**	**(231)**	**(11)**	**(242)**

18 Securities on loan

Accounting for 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.

Securities received as collateral 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.

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	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Value of stock on loan at 31 March						
Equities	1,697	43	1,740	1,651	42	1,693
Bonds	3,887	8	3,895	3,794	10	3,804
	5,584	**51**	**5,635**	**5,445**	**52**	**5,497**
Collateral held	**5,978**	**55**	**6,033**	**5,751**	**55**	**5,806**

19 Financial commitments

	Defined benefit £m	Defined contribution £m	2024 £m	Defined benefit £m	Defined contribution £m	2023 £m
Outstanding commitments	**4,466**	**11**	**4,477**	**4,770**	**10**	**4,780**

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.

20 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 15. 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 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 5. All transactions are solely for the purposes of effectively administering the scheme.

Other regulatory statements

L1 Renewables: wind farm, Tolmauds, Aberdeenshire, UK

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).

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

This is the eighth 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.[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 communications, 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 option designed by the trustee, to use an alternative ethical lifestyle option, to actively manage their investments themselves through a choice of self-select funds, or to use a mixture of default and self-select options for each contribution type. Members have funds in the Investment Builder if they earn above the salary threshold (£41,004 for the 2023/24 financial year and £70,296 for 2024/25), have 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), as illustrated in the graphic to the right.
- Let Me Do It – a choice of 10 individual funds if members wish to customise their approach. This is referred to as the self-select option. This option offers a range of funds with different levels of risk and prospective return to cater for a range of investment objectives and beliefs for members who want to make their own investment choices.

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

Members who do not make an investment choice, will be invested in the USS Default Lifestyle Option. At 31 March 2024, 89% of the active membership were fully invested in the USS Default Lifestyle Options with a further 5% choosing a combination of the Lifestyle and self-select options. The remaining members were wholly invested in either the self-select option (4%) or the USS Ethical Lifestyle Option (2%).

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 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 Liquidity Fund

Note

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

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 and/or future contributions, including moving between the Do It For Me and Let Me Do It options
- Making new or amending additional contributions
- Amending their TRA
- Update their contact details and contact preferences
- Update their Expression of Wish form for lump sum death benefits

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 (currently age 66) at the date of joining the Investment Builder.

Design of the USS Default Lifestyle Option

The default option was designed in advance of the Investment Builder launch, 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 (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 are reviewed and updated annually, guide the development of Investment Builder funds and are available online at the USS Investment Builder policy beliefs page.

The suitability of the Investment Builder is reviewed each year by the trustee.

- The output of the review aims to inform the Pensions Committee and Investment Committee of the following:
  - Ongoing suitability of the default option
  - Range of alternative investment options
  - Decumulation options
  - Engagement objectives
- We aim to address the following questions as part of the annual review:
  i. To what extent the USS Investment Builder policy beliefs are being borne out and are any changes required?
  ii. What market developments are influencing DC provision and member behaviour, for example economic factors such as the cost-of-living crisis?
  iii. Ultimately, are the requirements for the investment products (including the default option) and the engagement priorities still valid?
- This year's review also bore in mind:
  i. The proposed changes to the scheme's benefit structure, including the increase to the salary threshold, that were anticipated as an outcome of the scheme's 2023 actuarial valuation
  ii. The principles of the new FCA Consumer Duty, as it applies to USS Investment Management Ltd (USSIM), to deliver good outcomes for customers (USS members) which was implemented by the FCA from 31 July 2023
- Overall, the review found that member behaviour and demographics continue to be broadly in line with expectations that were set at the launch of the USS Investment Builder in 2016. Therefore, the trustee's Pension Committee approved in November 2023 that:
  i. The requirements for the USS Default Lifestyle Option should be updated to reflect the high risk capacity of USS members during the growth phase
  ii. The self-select funds remained appropriate
  iii. The ethical products (managed in line with the USS Ethical Guidelines, revised in 2022 following a full review in 2021) remain appropriate

Whilst the trustee carried out the above activity during the scheme year, the trustee was next due to carry out a full regulatory review of the default investment strategy and performance of the USS Default Lifestyle Option in 2025, as the last review took place in May 2022. However, with effect from 1 April 2024 the scheme benefit structure was amended, including increasing the salary threshold to £70,296. This means that fewer members are now building up DC benefits in the Investment Builder, and most that are will contribute significantly less. We consider this to be a significant change in the demographic profile of members who have assets invested in the default arrangement. Therefore, the review has been brought forward to 2024 in line with legislative requirements.

The details of the review of the default investment strategy and performance of the USS Default Lifestyle Option which took place during the scheme year are confirmed on the next page under 'Fund performance and governance'.

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 96 to 99 (annexed to and immediately following this Chair's Defined Contribution statement. The latest SIP can also be found on the USS website.

Prudential money purchase AVCs

In addition to the funds offered in the 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 the Investment Builder or retain them in the MPAVC arrangement.

2 Fund performance and governance

In setting and monitoring the DC investment strategy, USS assesses the key investment risks relevant to the DC part. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on investments relative to the investment objectives, liquidity risk, climate change management 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 and within the agreed parameters set by the trustee. These are formalised in the Investment Framework which was agreed between the trustee and USSIM on 2 January 2023 and was last reviewed on 20 December 2023.

The trustee has appointed USSIM as its investment manager. USSIM monitors the performance of each of the investment options offered to members within the Investment Builder in line with the Investment Framework. USS reports periodically on the return of the DC funds relative to their targets and reviews its policies on currency hedging and liquidity on an annual basis. USS also reviews performance versus expectations, benchmarks, and peers.

It also reviews the performance of any remaining funds held under the Prudential MPAVC 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 March 2024, the Investment Committee carried out the annual review of the performance of the USS Default Lifestyle Option. As part of this review, the Investment Committee reviewed the performance of the USS 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 SIP. In summary, the USS 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 USS Default Lifestyle Option strategy remained appropriate and recommended that it was not changed. A similar review was also carried out in relation to the other investment options available in the Investment Builder and the Investment Committee 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 consultants 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
- Switching 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 and tested the processes, controls and assurance reports and is assured that the scheme has processed core financial transactions promptly and accurately during the scheme year and, to the extent of any delays or errors, those transactions have been or will be dealt with in accordance with the scheme's DC Errors and Omissions policy and 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 core financial transactions within the Investment Builder, namely:

- Capita: provides the pensions administration system for the scheme and all DC related back-office administration services
- Northern Trust: provides the investment platform to enable contributions and assets to be invested

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 as well as engendering opportunities for continuous improvement.

The trustee has a dedicated Supplier Relationship Manager to oversee its strategic relationship with key suppliers, 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 and tracks matters through to resolution.

Core transactions

Contributions

Daily reconciliation of contributions receipts into the trustee bank account from employers are made and DC related contributions are sent to Capita for investment the subsequent working 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 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 reconciled and 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 that result in a material shortfall at 31 March 2024.

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 from other schemes into USS 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 working 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 on the USS website, following which the scheme aims to complete its due diligence procedures and make the transfer within 15 working days of those procedures being completed (excluding any time allocated to dialogue and correspondence with the receiving scheme).

Switching of investments

Switching of investments happens quarterly 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 point where all preparatory work for the payment to members has been completed by our Pension 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 usually made on the first working day following the member's date of retirement and regular 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.

Quality controls

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

- Defining the timescales and associated SLAs both internally and with the third-party service providers (see below) that accord with administration expectations within TPR's General Code of Practice and The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended)
- 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 or core financial transactions and rectifying these in conjunction with the scheme's DC Errors and Omissions Policy
- Completing monthly reviews of the effectiveness of the controls and the timeliness of information processing, performance against SLAs and the accuracy of transactions, which are carried out by the DC administration team – the results are reported to various committees including the Pensions Executive Committee
- Coordinating bi-annual assessments of risks and controls to ensure they remain appropriate and robust
- 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 and key DC administration data reviewed on a monthly basis. In addition to this, further checks are 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 and frequently 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 and Compliance teams 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

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 by the Trustee Board. Records of any issues in this area are also kept and the need to report any failures to TPR, or events likely to be of interest to the 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
- Achievement of government-backed Cyber Essentials Plus accreditation

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 and 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, which carries a notional cost of 0.20% per annum of a member's fund value in respect of pension management and other services provided by the scheme. They also subsidise investment costs up to 0.30% per annum of a member's fund value 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 (unless resulting from a transfer from legacy AVCs that were managed by Prudential), and funds built with legacy AVCs that remain 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 85.

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 for the Investment Management Charges are included below to demonstrate what members would pay if they met these costs.

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 2024.

The notional charging structure for the USS Default Lifestyle Option is a single notional charge of 0.50% per annum of the member's fund value, including 0.30% per annum for investment management charges and 0.20% per annum in respect of administration costs.

In the 12 months to 31 March 2024 the trustee made a number of 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.

Self-select options

The trustee has considered the cost and charges of the Let Me Do It self-select 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 84.

Transaction costs

This section of the Chair's DC Statement reflects the latest legal requirements and the October 2022 Department of Work and Pension 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) shown due to market impact. The potential transaction costs for buying and selling funds vary over time and with market conditions. Transaction costs within the Investment Builder are minimised as far as possible by netting sales and purchases and using new cash flows for rebalancing funds to their target allocation.

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 its 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 2023 to 31 December 2023. 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 MPAVC 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 2023 to 31 December 2023 has been aggregated with data from prior periods (as described above) to calculate the average transaction costs included in the illustrations on pages 85 to 87.

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 self-select funds (including the USS Ethical Lifestyle Option).

As mentioned above, no members pay the 0.29% per annum 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, however the notional 0.19% per annum Investment Management Charge that is covered by the employer subsidy has been included because it is not guaranteed to be in place all the way to a member's retirement. Sale and purchase costs for the USS DC Funds range up to 0.29% for the USS Default Lifestyle Option and up to 0.19% per annum 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 fifth year running the trustee has worked with Redington Investment Consultants to undertake a value for member benchmarking exercise with Master Trust peers to assess the scope and quality of services being provided.

Assessment framework

The Redington benchmarking exercise considered our performance alongside that of the five 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 USS 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. This information is considered alongside the performance of the Investment Builder investment options.

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 continues to assign the highest score for the Investment Builder in the Investment category, with robust controls and innovations in areas such as private markets investments and climate tilted equities within the USS Default Lifestyle Option.

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 2024

Funds in the USS Default Lifestyle Option

	Transaction costs and charges (%)			
Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Growth	0.30	0.29	0.03	0.09
USS Moderate Growth	0.30	0.23	0.05	0.10
USS Cautious Growth	0.30	0.22	0.04	0.09
USS Liquidity	0.10	0.00	0.00	-0.05

Funds in the USS Ethical Lifestyle Option

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Ethical Growth	0.30	0.14	0.09	0.22
USS Ethical Moderate Growth	0.30	0.17	0.13	0.15
USS Ethical Cautious Growth	0.30	0.19	0.15	0.09
USS Ethical Liquidity	0.10	0.00	0.00	-0.05

Self-select Funds

Fund	IMC	Purchase (max)	Sale (max)	Embedded
USS Growth	0.30	0.29	0.03	0.09
USS Moderate Growth	0.30	0.23	0.05	0.10
USS Cautious Growth	0.30	0.22	0.04	0.09
USS Liquidity	0.10	0.00	0.00	-0.05
USS Bond	0.20	0.13	0.00	0.05
USS UK Equity	0.10	0.57	0.08	0.04
USS Global Equity	0.10	0.02	0.02	0.00
USS Emerging Markets Equity	0.30	0.14	0.20	0.13
USS Ethical Equity	0.30	0.10	0.06	0.30
USS Sharia	0.30	0.09	0.10	0.02

Funds in an AVC arrangement with Prudential

Fund	IMC	Purchase (max)	Sale (max)	Embedded
With-Profits Cash Accumulation	Up to 1%	N/A	N/A	0.18
Deposit	N/A	N/A	N/A	0.00
International Equity	0.68	0.18	0.16	0.07
UK Equity	0.66	0.49	0.24	0.29
Index-Linked	0.66	0.17	0.17	0.14
Discretionary	0.67	0.21	0.15	0.12
Fixed Interest	0.66	0.04	0.04	0.10
LGIM Ethical Global Equity Index	0.85	0.07	0.03	0.00
UK Equity Passive	0.46	0.32	0.32	0.58
Cash	0.65	0.00	0.00	0.01

Notes for the transaction cost information included in the table 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 1 October 2022 to 30 September 2023, more recent information was not available from Prudential.

Performance-based fees and the charge cap

The trustee is required to disclose the amount of any performance-based fees incurred in relation to the default arrangement, calculated as a percentage of the average value of the assets held within the default arrangement during the scheme year to 31 March 2024. The trustee has taken account of the statutory guidance issued by the DWP in January 2023 when preparing this section of the statement.

	Performance based-fees as % of average value of assets held within the default arrangement to 31 March 2024
USS Growth	0.01
USS Moderate Growth	0.01
USS Cautious Growth	0.01

Notes for the performance based fee information included in the tables above

1 Figures shown refer to the period from 1 January 2023 to 31 December 2023 and are based on estimated positions as data from 1 April 2023 to 31 March 2024 is not available at the time of writing.

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 2024, including the USS default investment option. The trustee has taken account of statutory guidance issued by the DWP in October 2021 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% per annum on all Investment Builder funds resulting from normal and additional contributions. Investment Builder funds resulting from transfers into the scheme (unless resulting from a transfer from legacy AVCs that were managed by Prudential), and funds from legacy AVCs that remain 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. We have shown the net investment returns over one-year and five-year periods to 31 March 2024 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 2024		
	Age at 31 March 2019		
Fund/investment option	25 year old	45 year old	55 year old
USS Default Investment Option	6.9 (6.5)	6.9 (6.5)	6.5 (6.1)
USS Ethical Investment Option	8.4 (8.1)	8.4 (8.1)	7.9 (7.6)
USS Growth	6.9 (6.5)	6.9 (6.5)	6.9 (6.5)
USS Moderate Growth	5.2 (4.9)	5.2 (4.9)	5.2 (4.9)
USS Cautious Growth	3.2 (2.9)	3.2 (2.9)	3.2 (2.9)
USS Liquidity	1.7 (1.6)	1.7 (1.6)	1.7 (1.6)
USS UK Equity	4.8 (4.7)	4.8 (4.7)	4.8 (4.7)
USS Global Equity	12.0 (11.9)	12.0 (11.9)	12.0 (11.9)
USS Emerging Markets Equity	3.8 (3.5)	3.8 (3.5)	3.8 (3.5)
USS Ethical Equity	12.3 (12.0)	12.3 (12.0)	12.3 (12.0)
USS Sharia	17.3 (17.0)	17.3 (17.0)	17.3 (17.0)
USS Bond	0.4 (0.3)	0.4 (0.3)	0.4 (0.3)

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

	1 year (%) to 31 March 2024		
	Age at 31 March 2023		
Fund/investment option	25 year old	45 year old	55 year old
USS Default Investment Option	11.2 (10.9)	11.2 (10.9)	11.2 (10.9)
USS Ethical Investment Option	12.9 (12.6)	12.9 (12.6)	12.9 (12.6)
USS Growth	11.2 (10.9)	11.2 (10.9)	11.2 (10.9)
USS Moderate Growth	9.1 (8.8)	9.1 (8.8)	9.1 (8.8)
USS Cautious Growth	6.6 (6.3)	6.6 (6.3)	6.6 (6.3)
USS Liquidity	5.2 (5.1)	5.2 (5.1)	5.2 (5.1)
USS UK Equity	6.9 (6.8)	6.9 (6.8)	6.9 (6.8)
USS Global Equity	19.6 (19.5)	19.6 (19.5)	19.6 (19.5)
USS Emerging Markets Equity	7.0 (6.7)	7.0 (6.7)	7.0 (6.7)
USS Ethical Equity	17.0 (16.7)	17.0 (16.7)	17.0 (16.7)
USS Sharia	30.5 (30.1)	30.5 (30.1)	30.5 (30.1)
USS Bond	4.6 (4.4)	4.6 (4.4)	4.6 (4.4)

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	7.8	4.7	5.4	6.5	6.2
Deposit	5.0	1.6	1.0	0.9	1.8
International Equity	15.0	8.7	9.6	8.5	6.2
UK Equity	5.9	3.5	4.6	6.9	4.7
Index Linked	-7.6	-6.5	1.4	4.2	4.2
Discretionary	9.3	4.6	6.2	8.5	7.2
Fixed Interest	-0.5	-3.9	0.6	2.2	2.8
LGIM Ethical Global Equity	21.1	13.1	12.3	n/a	n/a
UK Equity Passive	8.1	4.9	5.3	8.7	6.8
Cash	4.4	1.0	0.4	0.6	1.2

Source: Prudential – USSIM calculations. Returns shown are annualised geometric returns. Investment returns data was not available covering periods of more than 20 years. As such we have shown net investment returns to 31 March 2024 over a one year, five-year, 10-year, 15-year and 20-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 84.

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 to provide benefits from 15 March 2024 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% per annum. 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 (£41,004 for the 2023/24 financial year and £70,296 for the 2024/25 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 three member profiles. All illustrations have been based on the 2024/25 contribution structure and salary threshold amount.

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 £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

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	620	617	99.4
3	1,944	1,925	99.0
5	3,385	3,340	98.7
10	7,557	7,389	97.8
15	12,668	12,270	96.9
20	18,900	18,128	95.9
25	26,465	25,131	95.0
30	34,965	32,842	93.9
35	42,627	39,613	92.9
36	43,894	40,717	92.8

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

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	626	623	99.5
3	1,981	1,962	99.0
5	3,483	3,435	98.6
10	7,975	7,779	97.5
15	13,725	13,234	96.4
20	21,044	20,048	95.3
25	30,317	28,522	94.1
30	42,023	39,023	92.9
35	56,755	51,995	91.6
36	60,127	54,932	91.4

Investment in USS Liquidity Fund (lowest charging fund)

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	597	596	99.9
3	1,800	1,796	99.8
5	3,015	3,006	99.7
10	6,107	6,074	99.5
15	9,282	9,211	99.2
20	12,545	12,421	99.0
25	15,903	15,711	98.8
30	19,362	19,087	98.6
35	22,929	22,556	98.4
36	23,656	23,262	98.3

Member 2: 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

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	105,422	105,053	99.6
3	117,318	116,114	99.0
5	130,711	128,527	98.3
10	168,375	162,974	96.8
15	205,122	195,806	95.5
16	211,616	201,550	95.2

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

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	106,416	105,980	99.6
3	120,604	119,155	98.8
5	136,744	134,070	98.0
10	186,913	180,009	96.3
15	253,957	240,591	94.7
16	269,751	254,750	94.4

Investment in USS Liquidity Fund (lowest charging fund)

	Before charges and costs	After all charges and costs	
Years in scheme	£	£	%
1	101,444	101,343	99.9
3	104,776	104,471	99.7
5	108,709	108,193	99.5
10	121,206	120,136	99.1
15	137,599	135,918	98.8
16	141,356	139,543	98.7

Member 3: 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	103	99.4
3	324	321	99.0
5	564	557	98.7
10	1,259	1,231	97.8
15	2,111	2,045	96.9
20	3,150	3,021	95.9
25	4,411	4,188	95.0
30	5,936	5,579	94.0
35	7,776	7,231	93.0
40	9,806	9,013	91.9
45	11,538	10,486	90.9
46	11,807	10,706	90.7

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	104	104	99.5
3	330	327	99.0
5	581	573	98.6
10	1,329	1,296	97.5
15	2,287	2,206	96.4
20	3,507	3,341	95.3
25	5,053	4,754	94.1
30	7,004	6,504	92.9
35	9,459	8,666	91.6
40	12,542	11,330	90.3
45	16,403	14,606	89.0
46	17,285	15,315	88.6

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	99	99.9
3	300	299	99.8
5	502	501	99.7
10	1,018	1,012	99.5
15	1,547	1,535	99.2
20	2,091	2,070	99.0
25	2,651	2,619	98.8
30	3,227	3,181	98.6
35	3,821	3,759	98.4
40	4,435	4,354	98.2
45	5,069	4,967	98.0
46	5,198	5,092	98.0

Notes on the illustration of costs and charges:

1 Starting pot criteria is as follows:
   a) Members 1 and 3: starting pot criteria is nil and no funds are transferred in.
   b) Member 2: 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 (6.1% employee and 13.9% employer). It is assumed that there are no contribution holidays for any of the three members and no additional contributions are made by member 2. Member 1 is assumed to make 2% additional voluntary contributions from entering the scheme. Member 3 is assumed to make 1% additional voluntary contributions from entering the scheme.

8 Salary increases are assumed to be 3.5% per annum.

9 The projected growth rate for the USS Default Investment Lifestyle Option is 6.0% per annum up to 10 years prior to retirement, reducing to 5.0% per annum at five years prior to retirement, and 3.8% per annum at one year prior to retirement. The projected growth rate for the USS Emerging Markets Equity Fund is 7.0% per annum. The projected growth rate for the USS Liquidity Fund is 2.0% per annum. These are consistent with the assumptions used in calculating members' Statutory Money Purchase Illustrations issued for scheme year ending 31 March 2024.

10 The 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 84.

11 Year 1 represents the year ending 31 March 2025, with a pertaining salary threshold of £70,296. The salary threshold is projected to increase in line with inflation each year.

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 2024/25 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
- Improving our member decision support solutions by introducing new digital tools and calculators to help members understand their pension benefits and options
- 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

More information on our member services can be found on pages 10 to 15.

Asset allocation disclosure

The trustee is required to disclose the percentage of assets allocated in the default arrangement by reference to specified asset classes. The table below illustrates the average asset allocation split in the default arrangement at 31 March 2024 by reference to four different age cohorts. The trustee has taken account of statutory guidance issued by the DWP in January 2023 when preparing this section of the statement.

USS Default Investment Option Asset Allocation at 31 March 2024

Asset class		Percentage allocation – average 25 year old	Percentage allocation – average 45 year old	Percentage allocation – average 55 year old	Percentage allocation – average 1 day prior to state pension age
Cash		**0.0**	**0.0**	**0.0**	**25.0**
Bonds	Fixed interest government bonds	6.6	6.6	6.6	10.9
	Index-linked government bonds	6.4	6.4	6.4	8.3
	Investment grade bonds	1.5	1.5	1.5	15.7
	Non-investment grade bonds	6.2	6.2	6.2	6.0
Bonds total		**20.7**	**20.7**	**20.7**	**40.9**
Listed equities	Developed market equities	51.5	51.5	51.5	16.5
	Emerging markets	6.0	6.0	6.0	2.0
	UK equities	1.9	1.9	1.9	0.6
Listed equities total		**59.4**	**59.4**	**59.4**	**19.1**
Private equity		**0.0**	**0.0**	**0.0**	**0.0**
Infrastructure	Economic infrastructure	10.2	10.2	10.2	4.8
	Social infrastructure	0.7	0.7	0.7	0.3
Infrastucture total		**10.9**	**10.9**	**10.9**	**5.1**
Property		**6.0**	**6.0**	**6.0**	**3.9**
Private debt	Inflation linked credit	2.0	2.0	2.0	0.8
	Investment grade bonds	1.0	1.0	1.0	5.2
Private debt total		**3.0**	**3.0**	**3.0**	**6.0**
Total		**100.0**	**100.0**	**100.0**	**100.0**

Figures may not sum to total due to rounding.

5 Trustee knowledge and understanding

The Trustee Board is made up of a range of individuals who collectively possess the broad range of skills needed to manage and oversee both the DC and DB parts of the hybrid scheme, and the trustee executive and in-house asset manager, USSIM, required to support the scheme. All Trustee Board members during the scheme year have been assessed as Master Trust Scheme Strategists.

The Trustee Board includes directors 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. Several trustee directors are, or have been, trustees of, executives or advisers to other DC or hybrid schemes and bring practical knowledge and experience of value for money assessments and criteria, pensions administration, investment management and developing member facing products and services within a DC context. Several board directors who are members of the scheme (active, deferred and pensioners), 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, the executive and advisers, offering different perspectives and proposed solutions.

In addition to the skills within the Trustee Board and the trustee's executive, the trustee has also appointed several professional advisers who provide specialist support and advice. This includes the scheme's lawyers, auditors, investment consultants and remuneration 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 the necessary skills, knowledge, competence and understanding required for the effective performance of their role as trustee directors. As part of this, each trustee director ensures that they:

- Are conversant with all the key scheme documents (including the Scheme Rules, Statement of Investment Principles, USS Default Lifestyle Option Statement of Investment Principles and Statement of Funding Principles)
- Have an appropriate degree of knowledge and understanding of: (i) the law relating to pension schemes; (ii) the principles relating to funding and investment; and (iii) risk management (including the risks to the scheme from climate change).

The Trustee Board has various procedures in place to facilitate this, which are detailed below.

Several 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 with TPR's DC Code of Practice number 7 (TKU) and number 13 (Governance and administration) and are summarised in the diagram below and further details appear on the following pages.

Trustee skills, knowledge and understanding: key tools

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

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 Trustee 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 upon joining and every year as part of the annual director appraisal process. Any learning or development objectives are agreed as part of these annual appraisals and individual training arranged to fill any actual or potential knowledge gaps (see further below).

An effectiveness review (or 'performance 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. The last externally facilitated review was undertaken in the financial year 2020/21.

During the scheme year, the Trustee Board and its committees (except for the Remuneration Committee which had already undertaken a review in November 2022) undertook a combined performance review facilitated by the trustee's Governance team. In this exercise, the Trustee Board and its committees reflected on various aspects of their governance and processes and agreed a series of actions to be completed by a given date. The actions arising from these reviews were overseen and monitored by the board's Governance and Nominations Committee (GNC).

In the financial year 2024/25 an externally facilitated board and committee performance review for both the trustee and USSIM will be undertaken. The GNC has initiated a selection process for a firm to undertake this review.

The Trustee Board has developed a skills matrix and competency matrix to assist it in identifying the skills and training required of the trustee directors. 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 directors. In doing this, the Trustee Board also considers the strategic priorities in the business plan to identify any future areas of focus.

The GNC reviews the board competency and skills matrices annually (and in anticipation of changes to board membership).

It assesses whether or not 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.

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, 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 of this report), the collective training needs of the Trustee Board and its committees are reviewed at least annually by the GNC. The GNC 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:

1. Directors' completed skills matrices and any gaps identified
2. The scheme's business plan and business and strategic objectives
3. Future board and committee agenda plans
4. Legal and regulatory horizon scanning
5. Regulatory guidance
6. Feedback from directors, committee members and the executive

The training programme 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. In addition to deep dive sessions and presentations from different teams across USS during the scheme year, training received by the trustee directors and its committees included the following topics:

- The trustee's and scheme strategists' obligations under the Master Trust regime
- Cyber and IT security risk
- Recent developments in DC and ESG investment trends
- Equity, diversity and inclusion
- The impact of Artificial Intelligence on the financial services industry
- Investment outlooks relating to different climate scenarios
- USS Responsible Investment strategy
- The current UK political environment and the risks and opportunities for the scheme
- Possible risks associated with migrating to a new pension administration platform
- Latest trends in DC proposition and learnings from global DC schemes
- Market trends on remuneration related regulatory and governance developments
- Health and safety liabilities, roles and responsibilities
- Liability-Driven Investments
- Educational sessions relating to the 2023 valuation, covering such themes as: Investment strategy, Asset Liability Management framework, Technical Provisions liabilities, contribution requirements, deterministic (scenarios) modelling, contribution/benefit change scenarios

At the end of the scheme year, the GNC Committee concluded that the training delivered had been aligned to the scheme's strategic priorities, whilst at the same time having 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 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). The induction process includes sessions with Trustee Board members, members of the management team and key external advisers, covering topics such as: investments, 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 which are both established under the Scheme Trust Deed and Rules.

This process is documented and is regularly reviewed by the GNC, which also oversees completion of the induction process by each new director.

Each new 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 the current trustee directors have completed TPR's Trustee Toolkit. In addition, four trustee directors have been accredited as professional trustees, either by the Pensions Management Institute (PMI) or the Association of Professional Pension Trustees (APPT).

Advice and guidance

The combined knowledge of the Trustee Board is supported by the USS Group Executive (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 receives the benefit of independent investment advice in relation to members' DC benefits provided by LCP, and DB benefits by Mercer Limited. 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. This includes the requirement that the majority of the trustee directors (including the Chair) must be 'non-affiliated'. The Trustee Board has considered these requirements and determined that, with the exception of Dr Alain Kerneis, all directors (including the Chair) acting during the scheme year are 'non-affiliated' trustees for the purpose of the legislation. Dr Alain Kerneis is considered an 'affiliated director' as he is a director of both the trustee and the trustee's subsidiary, USSIM. Therefore, during the year, 11 directors out of 12 were classed as non-affiliated trustees and the requirement for a majority of non-affiliated directors has been satisfied. This means that we have carefully considered any links that the directors may have with companies providing services to the scheme and reviewed the procedures in place for managing any conflicts of interest that may arise.

The length of service of each of the trustee directors on the Trustee Board has also been reviewed and no director who is regarded as non-affiliated has been in his or her post for longer than the requisite time limits prescribed by legislation, and each has either been appointed or reappointed through an open and transparent process.

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 ending 31 March 2024, two non-affiliated trustee directors were subject to an appointment/reappointment process as follows:

- Professor Adam Tickell was nominated for appointment by Universities UK (UUK) and was appointed as a director with effect from 1 April 2024. UUK advertised the role in its CEO newsletter, the role was also advertised in The Times and The Sunday Times newspapers, posted on USS recruitment pages as well as on websites open to the public such as LinkedIn. In addition, the role was advertised by UUK in communications with USS employers and members. Applicants were shortlisted by UUK based on whether or not they met the criteria of the director role profile. Shortlisted candidates were interviewed and assessed against a common scorecard by a UUK led interview panel, which also included the chair of the GNC. The Chair of the Trustee Board was also consulted on the proposed appointment. The GNC and the Trustee Board then reviewed and approved the appointment of Professor Adam Tickell with effect from 1 April 2024.
- Dame Kate Barker, Chair of the Trustee Board and an Independent director, was reappointed by the Trustee Board with effect from 1 April 2024. The role was advertised in The Sunday Times newspaper, posted on USS recruitment pages as well as on websites open to the public such as LinkedIn. Applicants were reviewed by the trustee's external recruitment adviser – Omni RMS, prior to being shortlisted. The shortlisted candidates were then assessed against a common scorecard. The process was overseen by the GNC with input from the scheme's Chief HR Officer. The GNC and the Trustee Board then reviewed and approved the reappointment of Dame Kate Barker.
- The appointment/reappointment process for UCU-appointed directors is also led by UCU, with the involvement of the trustee, and follows a similar process as that for the appointment of UUK-appointed and independent directors as explained above. No UCU directors were appointed or reappointed during the scheme year.

6 Member communications, engagement and representation

We take a very proactive approach to our member communications, and have a communications strategy that is designed to engage, educate, and support member decision making throughout their pensions journey, while building their knowledge of pensions basics along the way.

As well as meeting statutory disclosure requirements, we seek to improve the overall member experience and reflect best practice identified by the government, regulators, and the wider industry. We use a range of channels to communicate with members, including regular emails that point to a range of information and support on our website, the My USS member portal, and Annual Member Statements, including Statutory Money Purchase Illustration (SMPI) components, which are issued to active, deferred and pensioner members.

Website

The support we provide to members through our website has been a focus during the past 12 months. We have built on information around the Investment Builder, the defined contribution part of the scheme, with a new 'Key features of the Investment Builder' page highlighting its benefits at a glance. We have also provided a greater level of support around investment options and performance, with a revamped Investment Builder guide, a new Quarterly Investment Report and a new 'Understanding investments' page, which now forms a hub of information for members, signposting information about investments and linking members to various other web pages and articles that support their decision making.

We have also launched a 'Your pension in payment' page, to increase awareness of how members can maintain and manage their DC savings in retirement, and we have published a new flexible retirement page, offering guidance around how the Investment Builder could work for members that choose to take flexible retirement.

To help members understand where their contributions go and how we are investing responsibly, we have also created new online content, including a new website page 'Our journey to Net Zero', and podcasts on DC investments.

Online videos remain central to the support we offer members and we have expanded on this with additional videos around our DC offering, including videos explaining options for taking DC benefits and how they work, such as how to take cash payments (UFPLS) from the Investment Builder.

We have continued to offer members a Guidance and Financial Advice area on the website that aims to ensure members have the information they need to make the right decisions for them now and in future. In this area, we signpost members to sources of free guidance – either an exclusive USS member link to a range of free webinars delivered by Mercer or to other sources, such as MoneyHelper – and links to sources of financial advice.

My USS

More than 69% of the scheme's active membership with Investment Builder funds were registered for My USS at 31 March 2024. My USS allows active, deferred and retired (with remaining Investment Builder funds) 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 fact sheets.

Members have access to calculators in My USS, including the new Benefit Calculator, launched in November 2023. This calculator represents a significant investment for USS and a leap forward in terms of the personalised online support we provide to members.

It gives members a tool that allows them to see an instant estimate of the values of both their DC savings and DB benefits at a point in time they choose. They can also model the impact of saving more, transferring into the Investment Builder and projecting the various different ways and times they can access both their DC and DB benefits, including modelling taking their DC savings as UFPLS, an annuity or as flexi-access drawdown.

Email

Throughout the scheme year, we continued to send regular emails to our members. A key focus for these communications was the 2023 valuation. This was followed up with content covering the statutory employer-led consultation and changes to contributions and benefits.

The changes to the scheme, in particular an increase to the salary threshold meant, from 1 April 2024, many members would no longer be paying into the Investment Builder as part of their normal contributions. Emails in December and January aimed to educate members on the impact of these changes and the Statutory notice of Scheme change in March was also used as a vehicle to educate members who had Investment Builder savings, on how changes would impact them.

The reduction in the contribution rate, resulting from the valuation outcome, also provided an opportunity to educate members about how that contribution saving could be used to make additional contributions to the Investment Builder. As part of the scheme change communications, we signposted members to pen portrait examples of 'typical members' in order to show the impact of benefit and contribution changes and the impact of saving more in the Investment Builder.

This campaign resulted in a 3% rise in members making additional voluntary contributions (AVCs). This was the highest level of member engagement with AVC options since Investment Builder launched eight years ago in 2016. We also saw 1,200 members increase the level of AVCs they made, and the campaign triggered transfer in engagement with the Investment Builder; in February we saw a monthly high of 135 members transferring in from outside the scheme.

Combined Annual Member Statements (AMS)

Following the success of last year's digital roll out of the AMS, all annual statements this year, including the Statutory Money Purchase Illustrations (SMPIs), were distributed digitally, with a new digital-first format.

We emailed members to let them know their combined DB and DC Annual Member Statements for the year to 31 March 2023 were available on My USS. Emails were personalised, with wording reflecting what pension savings members had, whether they were close to or had exceeded their Annual Allowance, and whether they were registered for My USS. Only a small number of members that have opted out of receiving statutory communications digitally, received hard copy statements.

Once in My USS, members could view their up-to-date pensions benefits, download a full statement, see previous statements and access other sources of information and support, such as FAQs and calculators. They were also invited to attend an AMS webinar, hosted by Mercer, to help them get to grips with their statements.

All statements were personalised and highlighted specific benefits and/or calls to action. They also included information about the tax status of members' pensions in relation to annual and lifetime allowances, in order to support members with tax planning.

Engagement with this year's statement exceeded KPIs set out by the project including email engagement, My USS registrations and log ins, and statement downloads.

Member feedback

We strive to ensure member experiences and views are at the heart of our decision making and we encourage members to provide their feedback and make their views regarding the scheme known.

We gather feedback from individual members in several ways: We share information on our website about how to contact us with any questions or service comments online, by phone or by letter, and there is a specific number for the Member Service Team (MST) for members who want specific help with their benefits.

Members are also invited to provide specific feedback when they interact with their pension. For example, when using My USS or going through the retirement process. Since 2021/22, this is supplemented by four large-scale surveys of the active membership per year. These are designed to help us understand members' views about USS, including the options available in the Investment Builder, responsible investment, the quality of member communications and other aspects of the products and services USS offers.

A new annual survey was introduced this year to invite general feedback from retired members too. These surveys all include both structured questions and the ability to provide open feedback. In addition, with representation of all member types, we run – via an independent research agency – the 'Member Voice' research community. This provides a flexible and timely way of gathering feedback from members, as well as giving members another route to raise non-sensitive issues that will be passed on to the executive.

Feedback from the surveys and the Member Voice community has been shared with the Trustee Board and the scheme stakeholders through the JNC.

The trustee takes all member feedback seriously and through business control 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
18 July 2024

USS Default Lifestyle Option Statement of Investment Principles May 2024

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 Investment Builder part of the scheme (‘**DC part**’). 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 part 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. The lifestyle strategy is 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 applies to the whole scheme. Copies of the Main SIP can be found in the ‘*How we invest*’ 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 which are 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 Section 2 of this Default SIP.

2.2
In relation to the Default Lifestyle Option, the trustee’s key beliefs are that:

2.2.1
The investment design of the Default Lifestyle Option 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 glidepath consistent with assumed member risk tolerance throughout the member’s savings life cycle. The default strategy cannot capture all differences across individual members. However, a higher risk tolerance is assumed when members are far from retirement, with the aim of increasing expected real (after inflation) returns and retirement savings. In later stages of the savings 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 to it are important drivers of a fund’s financial outcomes. The asset allocation process for the 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 in areas such as private equity, infrastructure, property and private debt. Private markets may be accessed via a mix of direct investments, co-investments and fund investments. They may provide opportunities for additional returns (including illiquidity premia), diversification or other desired characteristics relative to public market assets; and

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 the 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 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 and regulatory requirements into agreements with investment and related service providers. The trustee monitors 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 objectives of the USS Default Lifestyle Option

4.1
The main investment objectives in relation to the DC part are described in detail in Section 3.1 of the Main SIP. The 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 expected performance of asset markets and the level of contributions paid over a member's lifetime into the DC part 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 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 ten years before target retirement age) 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 target retirement age;

4.2.3
To provide exposure, at retirement, to a portfolio of assets that aligns as much as possible with how a typical member is likely to use their savings at and into retirement; and

4.2.4
To ensure sufficient liquidity to be able to pay benefits or transfers when required.

5 Investment strategy

5.1
Kinds of investments 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.

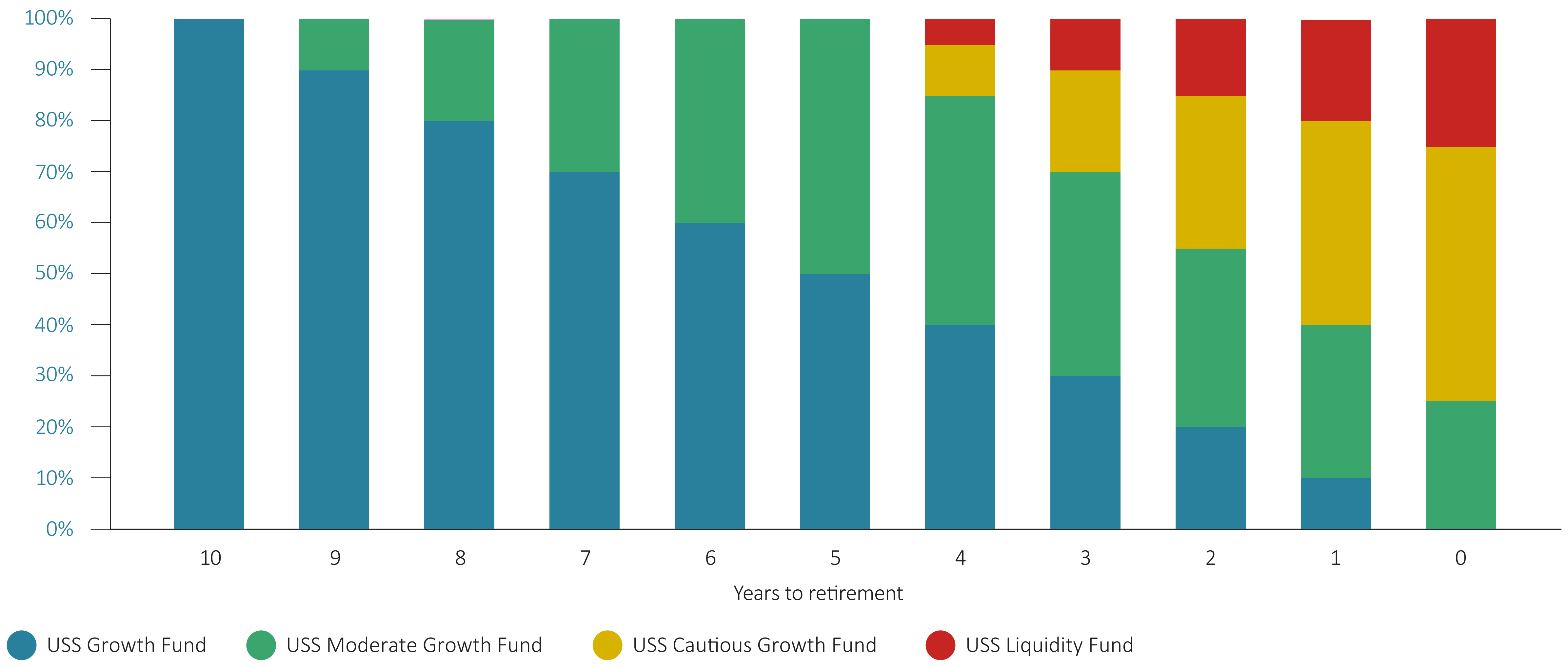
5.1.2
The following are indicative descriptions of the type of investments that may be held by the different underlying funds comprising the USS Default Lifestyle Option:

- **USS Growth Fund** – will invest predominantly in growth assets, with an objective to provide long-term growth in excess of inflation to members. 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 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 from a balanced, more diversified portfolio of assets. Investments will be made in both public and private 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 than is the case for the USS Growth Fund.
- **USS Cautious Growth Fund** – with an objective to provide stable growth in excess of inflation to members from a portfolio of predominantly lower risk, income focused assets, with some diversification, and minority exposure to growth assets. Investment will be made in both public and private 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.

5.1.3
Moving from the USS Growth Fund to the USS Moderate Growth Fund to the USS 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.

5.1.4
The chart below provides an illustration of the Default Lifestyle Option structure, in particular detailing the balance between the different funds held in the years prior to a member's target retirement age.

The USS Default Lifestyle Option glidepath



5.2
Managing risk

5.2.1
The 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 throughout the savings life cycle. The asset allocation is calibrated to different stages in the Default Lifestyle Option (as indicated in Section 5.1.3 of this Default SIP). Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the Default Lifestyle Option, the trustee 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 parts of the 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.

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 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, which commences 10 years before target retirement age, 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 target retirement age, the trustee has constructed a glidepath that seeks to continue to grow the member's DC retirement savings while reducing volatility. In the final five years, 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
Section 3.3 of the Main SIP details key risks that the trustee considers in relation to the DC part in particular.

5.3
Realisation of investments, cash flow and liquidity management

5.3.1
The DC part offers members a range of daily dealing notional funds. While a portion of the USS Default Lifestyle Option will be in illiquid assets throughout the savings life cycle, 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 Default Lifestyle Option or the scheme's overall investment strategies in foreseeable circumstances. The trustee has thresholds on the proportion of illiquid assets being held in the Default Lifestyle Option and, while it currently has no plans to increase these in the near future, it reviews the thresholds on a periodic basis. More detail can be found in Section 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, Section 1.4 of the Main SIP. 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 the financial impact of Responsible Investment (RI) factors where financially material to the scheme;

6.1.2
the extent to which non-financial 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 Default Lifestyle Option, the trustee makes available the Ethical Lifestyle Option reflecting the fact that a number of members have specific preferences. The specific objectives of the Ethical Lifestyle Option are defined in the USS Investment Builder Ethical Guidelines. This Ethical Lifestyle Option is built along similar principles to the Default Lifestyle Option but has been specifically designed to reflect certain preferences. 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 Responsible Investment Policy sets out detailed information on how the trustee considers RI factors where financially material to the scheme and the extent to which it takes non-financial RI and other 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 trustee's position on RI can be found in the '*How we invest*' area of the scheme's website **uss.co.uk**. This area of the website includes the RI Beliefs and Ambition Statement which further articulates the trustee's investment beliefs.

6.4
The trustee's policies in relation to its arrangements with asset managers are as set out in Section 1.5 of the Main SIP, including in relation to the trustee's wholly owned investment manager and adviser, USSIM which is primarily responsible for the management of the Default Lifestyle Option and manager selection.

7 Investment in the best interests of beneficiaries

7.1
In designing the Default Lifestyle Option, the trustee aims to invest in the beneficiaries' best financial interests, taking into account the different risk profile of representative members (for example, 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 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, including the Occupational Pension Scheme (Investment) Regulations 2005, and taking into account guidance from the Pensions Regulator.

8.2
The trustee will undertake 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 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.

Implementation statement

1.1. Introduction
USS's[1] Implementation Statement (the Statement), sets out how, and the extent to which, the trustee believes the Statement of Investment Principles (SIP) has been followed during the scheme year ending 31 March 2024.

This Statement, as with the SIP, applies to both the DB and DC parts of USS. USS also has a supplementary Statement of Investment Principles specifically for the USS Default Lifestyle Option in the Investment Builder (the DC part). This is called the Default SIP (see uss.co.uk/how-we-invest/our-principles-and-approach).

The purpose of this statement is to:

- Describe any formal review of the SIP and the Default SIP undertaken during the year
- Outline 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
- Detail how, and the extent to which, in the opinion of the trustee, the policies in relation to voting rights and our engagement activities have been followed
- Describe the voting behaviour carried out by investment managers on the trustee's behalf, over the year

1 To keep things simple, we have used USS as a catch-all reference for different parts of the USS Group. So, depending on where it appears, USS means either the scheme (Universities Superannuation Scheme), the trustee (Universities Superannuation Scheme Limited) or the trustee's principal investment manager (USS Investment Management Limited or USSIM). We may refer specifically to one of these three elements, where it is helpful to do so.

The Statement has been included in the scheme's Report and Accounts and made public online. It should be read in conjunction with the SIP at **our principles and approach**.

The Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the associated guidance published by the Pensions Regulator.

1.2. Review of the SIP and Default SIP
Following the completion of the 2023 valuation, USS reviewed and considered amendments to its SIP in March 2024. USS consulted on these proposed amendments with its participating employers during April 2024, and finalised a new SIP on 21 May 2024. This Implementation Statement is based on the previous SIP (dated 24 May 2022) that was in force for the financial year 2023/24.

1.3. USS's governance structure
Further details of USS's governance structure, including the Terms of Reference for the Trustee Board and the Investment Committee can be found at **how were governed**. The allocation of responsibilities between the Trustee Board 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 SIP is required to include USS's policy for arrangements with asset managers, and this includes USSIM. USSIM is a subsidiary of Universities Superannuation Scheme Limited. It's the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. USSIM is required to act in accordance with the SIP in performing its duties. USSIM manages assets directly on behalf of the trustee as well as having the delegated authority to appoint, monitor and change external asset managers.

2. How the SIP has been followed during the year
Following review and analysis, USS believes that the SIP, Default SIP and the USS Stewardship and Voting Policy have been followed during the scheme year 1 April 2023 to 31 March 2024. This Statement explains how USS has reached this view.

2.1. The kinds of investments to be held by the scheme and the balance between different kinds of investments – and the expected return on investments
The SIP and Default SIP set out USS's investment objectives and USS's policy in relation to the type and balance of investments held and the expected return on investments.

The Retirement Income Builder – the DB part
For the DB part, USS's broad investment strategy is set out as a theoretical, but investible, asset allocation across equities, property, gilts and other fixed income assets, including liability driven investments (LDI) and corporate and emerging market bonds. This theoretical asset allocation is the Valuation Investment Strategy (VIS), which is the investment strategy developed for the most recent actuarial valuation. The VIS is adjusted from time to time to retain consistency with the Investment Risk Management Framework (IRMF), the risk appetite of the trustee and trustee investment beliefs. There have been no changes to the VIS over the year to 31 March 2024.

The implemented portfolio corresponds to the actual investments held in the DB part. As described in the SIP, the implemented portfolio can differ from the VIS as USS identifies opportunities to add value in its implementation of the strategy. 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 better manage asset-liability risk, over recent years USS has taken on additional exposure to liability-hedging assets. This exposure is made possible by the prudent use of leverage, risk controls around the use of cash and collateral, as well as monitoring around counterparty risk.

The Investment Builder – the DC part
In the DC part, 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). USS regularly reviews its DC investment options against member requirements and makes enhancements as required.

The USS Default Lifestyle Option manages investment risks as members approach their Target Retirement

Age by investing in four underlying funds: USS Growth Fund, USS Moderate Growth Fund, USS Cautious Growth Fund and USS Liquidity Fund. The investment objectives for these funds are set by USS to reflect member requirements and are collectively designed to deliver long-term returns above inflation, while providing some protection against market drawdowns in the years before retirement.

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 options depends on the objectives and strategy of each DC fund. Investment is undertaken either directly, indirectly (for example via funds), in physical assets or using derivatives (where required for efficient portfolio management).

Expected return on assets

The SIP covers USS's policy in relation to the expected return on assets. The achieved investment returns are monitored regularly by the Investment Committee through reporting provided by USSIM. To ensure the DB implemented portfolio and DC funds remain appropriate (and are expected to deliver the appropriate long-term returns at the desired level of risk), USS monitors changes to asset class expected returns, the DB implemented portfolio and DC fund returns regularly.

2.2. Risks – including the ways these are measured and managed

USS regards 'risk' as the likelihood of failing to achieve the objectives included in the SIP. USS seeks to measure and manage these risks as described below.

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 and has a structure in place to monitor the risks relevant to both the DB and DC parts. USS will take action to mitigate risk when appropriate. The key investment risks are managed through a range of thresholds and limits as detailed in the Investment Management and Advisory Agreement (IMAA) and corresponding DB and DC Instruction Letters.

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 portfolio management, and manager and fund selection when applicable.

USSIM provides 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.

USS's Investment Framework for the DB and DC parts takes a holistic approach to both risk management and the assessment of USSIM's investment management performance. For risk management, USSIM uses a range of risk metrics across investment, liquidity, counterparty and climate risks. For the assessment of UUSIM's investment management performance, the Investment Committee uses a range of investment objectives on more comprehensive investment balanced scorecards (as shown in section 5). The scorecards include separate categories for investment return, investment risk, active management, portfolio resilience, responsible investment, and advice and support.

USS assesses the definition of the risks, and the trustee's disposition to those risks throughout the year and more formally on an annual basis, when USSIM advises the trustee on the suitability of the risk metrics, thresholds, and limits in the Investment Framework.

USS is satisfied with the operation of its risk management and measurement processes. Further details on the elements relevant to the DB and DC parts are provided below.

The Retirement Income Builder – the DB part

USS's funding risks are monitored and managed by the trustee's Funding Strategy team, with advice from the Scheme Actuary. The key funding risks include sector reliance and affordability of contribution rates. USS's operational risks are managed throughout the organisation by individual teams.

Investment-related risks are a subset of USS's funding risks. These risks are assessed and monitored within the Investment Framework:

- USS assesses and manages the integration of investment-related risks, particularly as they relate to strategic asset allocation and investment strategy
- The key risks include asset-liability (including inflation and interest rate risk), market, credit, currency, liquidity, collateral, responsible investment, climate and operational risks
- USS oversees the scheme's liquidity and collateral risks to ensure there is a sufficiently low probability of USS being forced to sell assets for liquidity and/or collateral purposes. Investments in illiquid assets are also subject to an upper limit and are periodically reviewed by USS
- 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

USS also assesses the returns of the scheme's investments relative to a range of comparators (including the VIS) and the strength of the employer covenant.

The SIP covers USS's policy in relation to the realisation of investments. USSIM 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 asset allocation or incurring excessive transaction costs. These processes are overseen by an internal USSIM committee.

The Investment Builder – the DC part

In setting and reviewing the DC investment strategy, USS assesses the key investment-related risks relevant to the DC part. These risks include inflation, currency, the impact of market movements in the period prior to retirement, returns on 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 and within the Investment Framework.

USS reports periodically on the return of the DC funds relative to their targets and reviews its policies on managing currency risk and liquidity on an annual basis. USS also reviews performance versus expectations, benchmarks, and peers on a regular basis.

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 savings, unless in extreme market circumstances.

3. Stewardship, engagement and responsible investment

3.1. Introduction

USS's Responsible Investment (RI) Policy was approved on 21 March 2024 by the Trustee Board. The RI Policy sets out clearly and in one place USS's stated investment beliefs about RI and its commitment to the principles (including relevant legal principles) which will guide its implementation of these beliefs.

The RI Policy and the SIP sets out the RI Investment Belief that USS is a Universal Owner. Universal Ownership involves having highly diversified and long-term portfolios that, by virtue of their large size, are broadly representative of global capital markets.

Both USSIM and the external managers use their influence as major institutional investors and long-term stewards to promote good practice in the investee companies and markets to which the scheme's investments are exposed.

Details of USS's approach to RI can be found at **responsible investment** and in **USS's stewardship report**. This report provides details of how USS considers RI factors where financially material to the scheme and the extent to which it can take non-financial RI factors into account (see Section 6.3).

The trustee agrees the RI strategy and formally reviews the RI team's activities on a semi-annual basis, signing off key focus areas and policies. The trustee receives reports from USSIM on a regular basis so that it can ensure the strategy is being effectively implemented. USS's RI related policies[2] have been reviewed regularly and updated as required to ensure that they are in line with good practice.

The trustee believes USS's RI related policies and procedures in relation to engagement activities have been materially followed during the year.

3.2. Oversight and monitoring external 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 to facilitate early engagement with the boards, management and other stakeholders of investment companies. USS oversees USSIM's policies and practices on RI, with a focus on stewardship and ESG integration. This includes how USSIM, in turn, monitors external managers in this regard.

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 market funds, and managers within the DB and DC parts. USS ensures the external managers are aware that the scheme is a signatory to the UN Principles for Responsible Investment (UNPRI) and a supporter of the Task force on Climate-Related Financial Disclosures (TCFD). The external managers also confirm that they will reflect RI considerations in portfolio management, in accordance with the USS policy.

USSIM's assessment of external managers' RI capabilities and processes is now fully integrated into the manager selection and monitoring framework. 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 USSIM's ongoing monitoring programme.

4. Voting behaviour and vote disclosure

4.1. Introduction

USS believes that there have not been any material divergences from its voting policies during the scheme year.

As an active, long-term owner of the companies USS invests in, exercising the right to vote 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 our Stewardship Report.

4.2. USS Stewardship and Voting Policy

In January 2024, USS introduced an updated Voting Guidance document which supports the USS Stewardship and Voting Policy. These documents can be found at **how we vote**. The Stewardship and Voting Policy outlines USS's position on a range of RI issues and why USS believes RI factors should be well managed by companies. These are put in the context of Universal Ownership and systemic risk. The documents also outline USS's expectations for investee companies. USS's Stewardship and Voting Policy will be reviewed each year to ensure continued alignment to USS's beliefs about good practice in line with USS's fiduciary duties.

Key updates ahead of the 2024 AGM season include an increasing expectation for board diversity, an increased focus on climate change and new sector specific criteria for antimicrobial resistance.

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 Stewardship and Voting Policy is not applied rigidly. Discretion is exercised to ensure voting decisions are tailored to the circumstances of the company and comply with the spirit of this policy, in other words the overall improvement of the company's corporate governance.

USS integrates RI factors into its voting decisions where such factors are financially relevant. We promote high-quality disclosure and performance management of RI issues through both engagement with companies and our voting activities.

Shareholder proposals, including those which relate to RI 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 financial 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[3] holdings USS will write to the company to explain its concerns. 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 our dedicated disclosure tool (**how we vote**).

2 By RI related policies we mean the following items: the RI Policy, USS Stewardship and Voting Policy and its associated Voting Guidance document, the USSIM scheme-wide investment exclusion policy and the Investment Builder (DC) Ethical Guidelines.
3 Prioritisation for voting and engagement activities is based on criteria set out in our Stewardship Report, including the size of our holding, the home market, the materiality of RI factors and the adequacy of public disclosure on RI factors.

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 (for example, in the event of a contentious vote or in relation to engagement activities, after discussion with the portfolio manager) and to recall shares in advance of shareholder votes.

4.3. Voting and USS's equity holdings

For the DB part, USS's internally managed equities (circa £10.3bn) and main externally managed equity mandate (circa £6.4bn) are subject to the USS Stewardship and Voting Policy. All DB external accounts are voted on by USS. Due to the number of holdings, USS is unable to attend every company shareholder meeting to cast votes. Therefore, USS votes by proxy through an external voting platform for the assets subject to the USS Stewardship and Voting Policy.

For the DC part, USS's largest externally managed equity mandate (circa £1.3bn), its externally managed ethical equity mandate (circa £100m), and the internally managed emerging market equity mandate (circa £140m) are also subject to the USS Stewardship and Voting Policy. The remaining equity holdings for the DC part are externally managed in pooled funds. For one of these funds, a UK equity index fund, voting is now undertaken in line with the USS Stewardship and Voting Policy (circa £30m). For the other holdings, votes are cast in accordance with the external manager's policy (circa £170m).

USS 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. USS monitors the voting and stewardship practices of the external equity managers as part of the external manager oversight and monitoring process. 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 Stewardship and Voting Policy where appropriate.

4.4. Disclosure and oversight

USS records, and publicly discloses, voting actions on its website at how we vote (USS's voting disclosures date back to 2010).

USS monitors and reviews voting decisions twice a year through the Investment Committee and once a year through the Trustee Board. Regular proxy voting activity reports are also included in the standard quarterly reporting suite from our external equity managers and are 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 external managers. However, USS has engaged with the external managers to improve their reporting at fund level (as opposed to market or regional level).

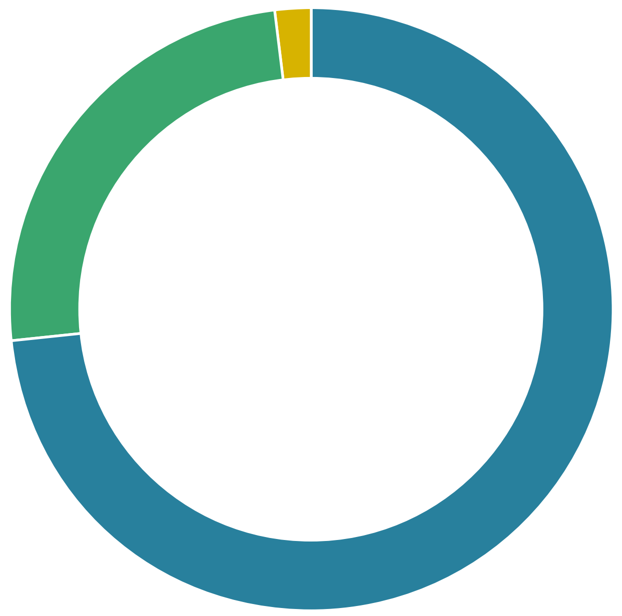
4.5. Scheme voting statistics

The statistics below are in respect of USS's internal equity assets and the large externally managed mandate (together representing over 98% of the scheme's equity holdings):

Voting statistics April 2023 to March 2024	Response
How many meetings was USS eligible to vote at?	1,999
How many resolutions was USS eligible to vote on?	29,706
What percentage of resolutions did we vote on for which USS was eligible?	99.9%
Of the resolutions on which USS voted, what percentage did we vote with management?	73.6%
Of the resolutions on which USS voted, what percentage did we vote against management?	24.7%
What percentage of resolutions, for which USS was eligible to vote, did we abstain from?	1.7%
In what percentage of meetings, for which USS was eligible to attend, did we vote at least once against management?	81.5%
What percentage of resolutions, on which USS did vote, did we vote contrary to the recommendation of our proxy adviser?	N/A[4]

4 N/A: Our proxy vote agent does not issue its own voting recommendations; it applies the USS Stewardship and Voting Policy directly on behalf of USS.

USS global votes
April 2023 to March 2024



4.6. Most significant votes – examples from 1 April 2023 to 31 March 2024

Below are details of the most significant votes on behalf of the trustee. The trustee has set out that one of its key priorities is climate and that is the theme that brings together the following votes.

Company and date of AGM	Shell plc 23 May 2023
Summary of resolution	Resolution 13 – Re-elect Catherine Hughes as Director Resolution 14 – Re-elect Sir Andrew Mackenzie as Director Resolution 25 – Approve the Shell Energy Transition Progress Update Resolution 26 – Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement
Size of holding at date of vote (% scheme assets)	0.2%
Vote	Resolution 13 – Against Resolution 14 – Against Resolution 25 – Against Resolution 26 – For
Rationale for vote	After careful consideration and noting Shell's net emissions intensity targets and progress made, USS decided to vote against the re-election of Shell's Chairman Sir Andrew Mackenzie and Catherine J. Hughes, Chair of the Safety, Environment and Sustainability Committee due to concerns that the company's plans to decarbonise fell short of our expectations. USS also voted against Shell's Energy Transition Progress Update report. USS no longer had confidence that Shell was making the overall progress that it would expect and was concerned that the company's decarbonisation plans fell short of limiting global warming to 1.5°C in a Paris-aligned manner. Whilst Shell's 2035 target appeared to be aligned with a well-below 2°C pathway, USS was concerned about the validity of the target since Shell's operating plans did not cover it. There was also no independent third-party source to confirm that Shell's plans aligned with the Paris Agreement and a 1.5°C global warming pathway. Furthermore, the company's investment in oil production and oil products increased by 30% in 2022, and a total of $8.1bn was invested in its upstream business, outstripping investments in renewable energy. New oil and gas projects lock in future emissions and pose risks to investors and wider society. According to the IEA Net Zero Emissions by 2050 scenario, to limit warming to 1.5°C there can be no new oil and gas fields approved for development after 2021. Communications from Shell at the time also appeared to prioritise the short term over the long term by potentially prolonging Shell's conventional oil and gas business and refraining from accelerating ambitions in clean energy. USS decided a vote in favour of the Follow This group's proposal (resolution to Align its Existing 2030 Reduction Target) was in the best interests of shareholders and therefore supported it. While Shell already met some requests of the shareholder resolution, it underlined USS's wish for adoption of quantifiable medium-term targets for the company's Scope 3 emissions in line with peers and a review and strengthening of Shell's 2030 net emissions intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.
Vote outcome	Resolution 13 passed – For 97.8%, Against 1.7% (Abstain 0.5%) Resolution 14 passed – For 92.4%, Against 6.9% (Abstain 0.7%) Resolution 25 passed – For 76.6%, Against 19.1% (Abstain 4.3%) Resolution 26 defeated – For 19.3%, Against 76.2% (Abstain 4.5%)

Implications of the outcome	In 2023, Follow This filed resolutions at five companies in the oil and gas industry asking them to draw up carbon reduction plans in line with the Paris Agreement. Shareholder support ranged from 30% at Total Energies Valero to 10% at Chevron. Over the next decades, Shell will transition from an oil and gas producer to a diversified energy company. As a long-term, responsible investor, we believe in being active owners of the companies we invest in. USS informed the company of our voting decision ahead of the AGM by sending a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	As part of the scheme's commitment to being a long-term, active, and responsible shareowner, USS believes in active stewardship through company engagement and views voting as a valuable tool for engaging with companies to encourage better standards of corporate governance and management of environmental and social issues. USS has set an ambition for its investments to be net zero by 2050. To achieve this, USS requires the assets and companies in which USS invests to collectively achieve net zero. USS therefore expects the companies we invest in to establish processes to both manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. This is a significant vote for USS as Shell was a relatively large holding for USS, and if left unaddressed, the scientific evidence points to a world where a changed climate will impact the scheme's ability to achieve the returns it requires and will impact the quality of retirement for our members.

Company and date of AGM	BP plc 27 April 2023
Summary of resolution	Resolution 4 – To re-elect as a director, H Lund Resolution 25 – To request that the Board align climate change targets with the goal of the Paris Climate Agreement
Size of holding at date of vote (% scheme assets)	0.1%
Vote	Resolution 4 – Against Resolution 25 – For
Rationale for vote	Our 2023 Stewardship and Voting Policy set out that our primary approach would be to vote against individual directors if we believe the company is failing to appropriately manage or address a material issue. Therefore, we voted against the re-election of Mr Lund due to the absence of meaningful engagement with shareholders following strategic changes to BP's net zero strategy, and the lack of opportunity to vote on the changes. As we notified the Board in 2022, we encourage companies to put a review of their climate strategy up for a shareholder vote every three years, or sooner if significant changes are made to the strategy. We view the paring back of BP's 2030 targets as a significant negative development, one that we would expect to have been put to an investor vote. We would have seen this as implicit recognition by management and the Board, that the company's net zero strategy is expected to continue to evolve as a result of the experience of implementing it, continued engagement with shareholders and investor groups like CA100+ and evolving international regulations and policies. We also supported the Follow This shareholder resolution (25). Voting for the resolution reinforced our 2022 Board engagement to request further development of the company's Scope 3 commitments. Whilst we noted BP's emissions intensity target under Aim 3 of the net zero strategy, we would like BP to adopt quantifiable medium-term targets for its Scope 3 emissions in line with peers. We also encourage a review and strengthening of the company's 2030 emissions intensity goal to ensure robust alignment with the goals of the Paris Agreement and real-world emissions reduction impact.
Vote outcome	Resolution 4 passed – For 90.2%, Against 9.6% (Abstain 0.2%) Resolution 25 defeated – For 16.3%, Against 81.2% (Abstain 2.5%)

Implications of the outcome	USS informed the company of our voting decision ahead of the AGM by sending a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change. As noted above, it is our first year of targeting re-election of directors where we have concerns with management of material issues so we consider 10% vote against Mr Lund to be significant. (Over the past three years, average votes against directors at BP has hovered around 3%). In light of this, we continued to engage with BP and in Q4, with other concerned investors, spoke with the Chair of the Board on climate commitments for 2030. The Chair provided assurance that the incoming CEO supports BP's transition to an energy company with a forward-looking strategy, however, continued engagement by investors will be needed to support BP in reaching Paris aligned medium-term targets.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	As part of the scheme's commitment to being a long-term, active, and responsible shareowner, USS believes in active stewardship through company engagement, and views voting as a valuable tool for engaging with companies to encourage better standards of corporate governance and management of environmental and social issues. Therefore, we consider this a significant vote for USS. Not only does BP's net zero strategy impact USS's own net zero ambitions (it is held across asset classes), we do not want BP to set an example to the market that it is acceptable to investors to make a significant change to its climate transition without a shareholder vote. We will therefore continue to engage with BP where relevant, with the backing of other investors, to seek constructive and positive change. We believe that engagement over divestment is the most effective way of driving this change. If we were to simply sell the asset, we could be seen to be absolving the scheme of its responsibilities as a universal owner.

Company and date of AGM	Electric Power Development Co. 28 June 2023
Summary of resolution	Resolution 8 – Disclose Business Plan through 2050 Aligned with Goals of Paris Agreement Resolution 9 – Disclose Evaluation concerning Consistency between Capital Expenditures and Greenhouse Gas Emission Reduction Target Resolution 10 – Disclose How Executive Compensation Policy Contributes to Achievement of Greenhouse Gas Emission Reduction Target
Size of holding at date of vote (% scheme assets)	0.0% (due to rounding)
Vote	Resolution 8 – For Resolution 9 – For Resolution 10 – For
Rationale for vote	Electric Power Development (known as J-Power) operates Japan's largest coal fleet and derives more than 40% of its operating revenue from coal. While USS commended the company's adoption of its net zero commitments, we voted in favour of all three shareholder resolutions, as we consider the proposed amendments to be aligned with the interests of the company and its stakeholders. We have concerns with how the company's plans to manage the responsible decline of the coal portfolio align with its decarbonisation strategy and how its compensation policy incentivises executives to work towards set climate goals. USS also requires companies to provide the appropriate level of disclosure on their climate plans so that investors can track progress in achieving those plans. We would welcome enhanced transparency and disclosure on the specific processes and strategies, including metrics and short-, medium- and long-term targets, to align the company's decarbonisation strategy and future capital expenditure with the goals of the Paris Climate Agreement and the IEA's net zero by 2050 emissions scenario.
Vote outcome	Resolution 8 defeated – 25.9% For; 74.1% Against Resolution 9 defeated – 18.2% For; 81.8% Against Resolution 10 defeated – 19.0% For; 81.0 Against

Implications of the outcome	In 2022, HSBC Asset Management, Amundi, Man Group, and Australian Center for Corporate Responsibility (ACCR) co-filed a set of climate-related resolutions, which were the first investor group-led climate proposal in Japan. The proponents have argued that the Board has not been responsive to the shareholder votes at last year's AGM. We expect the companies we invest in to establish processes to both manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. Under Japanese corporate law, shareholder proposals on climate change have to be filed as an amendment to the company's articles of incorporation, thus requiring two-thirds majority support to pass. USS followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	Poor management of environmental issues can have significant implications for companies, both financially and reputationally. The most challenging environmental issue is climate change, both in terms of transitioning to a low-carbon future, and in adapting to the physical risks that climate change poses. Our Stewardship and Voting Policy sets out that USS expects the companies it is invested in to establish processes to manage their transition to a low-carbon future whilst adapting to the physical risks of a changing climate. This vote is considered significant due to the high-profile nature of the investor group-led climate proposals in a market that has traditionally been difficult for foreign investors to influence. If left unaddressed the scientific evidence points to a world where a changed climate will impact the scheme's ability to achieve the returns it requires and will impact the quality of retirement for our members.

Company and date of AGM	Glencore plc 26 May 2023
Summary of resolution	Resolution 13- To approve the Company's 2022 Climate Progress Report Resolution 19- Shareholder Resolution in respect of the Next Climate Action Transition Plan
Size of holding at date of vote (% scheme assets)	0.1%
Vote	Resolution 13 – Against Resolution 19 – For
Rationale for vote	We commended the Board for putting its climate progress report to shareholders again for approval (following high dissent of 25% against its 2021 Climate Strategy) and noted the enhanced discussions provided by Glencore in response to shareholder feedback. However, we withheld our support from this item and voted in favour of the shareholder proposal, which sought clarification and further information to be included in the next climate report that the company will present, which is due in 2024. We did not consider the transition strategy credible with regard to its projected thermal coal production exposure and capital expenditure.
Vote outcome	Resolution 13 passed – For 68.2%, Against 29.6% (Abstain 2.2%) Resolution 19 defeated – For 28.8%, Against 69.9% (Abstain 1.2%)
Implications of the outcome	USS followed up the vote with a letter to the Board outlining key areas of concern and strongly encouraging enhanced corporate disclosure, which would help investors better understand risk associated with climate change. As with the 2021 vote, with over 20% dissent on Resolution 13, Glencore were required, under the UK Corporate Governance Code, to formally consult with shareholders about the reasons for the result. With another opportunity for investors to vote on Glencore's climate progress due in 2024, increased opportunity for Glencore to understand investors' concerns, particularly on the coal strategy, is welcome.
Criteria selected for this vote to be significant and link to the USS Stewardship and Voting Policy	We consider this vote to be significant in line with USS's climate priorities. Resolution 19 received 29% support. This is the second highest vote ever recorded in favour of a climate-related shareholder resolution*, not supported by management, on the London Stock Exchange. (*Source: Voting Matters report, Shareaction 2024)

5. Investment governance

The trustee believes USS's policies in relation to the arrangement with USSIM and any asset managers have been materially followed during the year.

5.1. Relationship with USSIM

USSIM is a subsidiary of Universities Superannuation Scheme Limited. It is the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. USS has various methods for overseeing USSIM and it is the Investment Committee that is responsible for overseeing the delivery of these services. USSIM also provides regular reporting on its performance.

In addition to the oversight provided by the Investment Committee, USSIM's remuneration structures and risk and control environment are overseen through the Remuneration Committee and Group Audit and Risk Committee respectively.

Investment advice

USS must obtain written investment advice before exercising its power of investment under the Scheme Rules. These requirements are included in the IMAA with USSIM as the principal investment manager and adviser to the trustee. USS may also engage external advisers and other specialist advisers as it considers appropriate. Any investment advice required by USS is provided in accordance with legislation and primarily to the 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
- Make decisions based on assessments of the 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 parts of the scheme annually, including a review of investing internally via our in-house investment managers (USSIM) versus peer pension schemes' investment arrangements and using benchmarking analysis. In the latest CEM Benchmarking survey (calendar year 2022), our investment management costs as a proportion of scheme assets remained materially below the peer cost benchmark, with USS 0.15% below peers, equivalent to £121m a year.

As part of the investment balanced scorecards, USS considers a wide range of metrics to assess the investment management performance of USSIM over time and to ensure alignment of interests. Some of these metrics include USSIM's realised investment returns versus a measure of USS's liabilities, USSIM's progress in reducing USS's interest rate and inflation risks within the DB part, and an assessment of USSIM's progress in integrating RI factors into its investment decision making. These metrics are included in the investment balanced scorecards below, which span six important categories. The scorecards are considered separately for both DB and DC. These categories have been designed to be consistent with the best interests of the scheme's members and employers.

1. Investment return
2. Investment risk
3. Active management
4. Portfolio resilience
5. Responsible Investment
6. Advice and support

USSIM uses a remuneration framework involving both quantitative (in other words based on investment performance) and qualitative assessments. This framework ensures 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). From January 2023, every USSIM employee (with two years or more service) has had an element of their annual bonus linked to overall long-term scheme performance (using the balanced scorecard above).

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 to improve their performance).

The trustee is satisfied that USSIM is aligned with its policies because of the relationship between the trustee and USSIM, and the non-profit arrangements in place.

5.2. Role of the 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 strategic recommendations to the Trustee Board. Where authority has been delegated to the Investment Committee, it will approve on USS's behalf strategic matters relating to the investment of the assets and development of the investment strategy, having regard to any legislative and regulatory requirements. All day-to-day investment decision making is made by USSIM.

The Investment Committee meets regularly 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.

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 to peers. The Investment Committee receives an annual attestation from USSIM confirming compliance with the responsibilities and guidelines given to it by the trustee under the IMAA.

The activities, decisions made, and recommendations of the Investment Committee are reported to the Trustee Board after each meeting. The Investment Committee also reviews the provision of investment advice from USSIM on an annual basis.

5.3. Relationship with external investment advisers

In addition to the advice from USSIM, USS has contracts in place with two external investment advisers. For the year ended 31 March 2024, USS's external investment advisers were Mercer (for DB matters) and LCP (for DC matters). Both attend all 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. USS may also request formal investment advice from these advisers or other external advisers (in addition to or instead of that from USSIM), as it deems appropriate.

As required under the Occupational Pension Schemes (Scheme Administration) Regulations 1996, trustees of a 'relevant trust scheme' are required to: (1) set objectives for investment consultancy service providers and review their performance against those objectives at least every 12 months; and (2) review, and if appropriate revise, the objectives at least every three years and without delay after any significant change in investment policy. In early 2024, USS reviewed the objectives and the performance of its external investment advisers against their respective objectives and made changes to ensure they remain appropriate.

The trustee is not required to do this in respect of USSIM as it is a wholly owned subsidiary of the trustee. However, the trustee rates the performance of USSIM in the same survey. The main mechanism for rating advisers is set out in the respective Investment Frameworks.

5.4. External manager selection and monitoring

USSIM is the principal investment manager and adviser to the scheme, looking after the investment and management of the scheme's assets. As part of this role, USSIM can allocate investment mandates to external managers.

Any decisions made by USSIM to appoint either internal or external managers and any decisions regarding the preferred investment structure to be used for any mandate are 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 DB and DC parts.

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 that 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, responsible investment practices and business structure. Initial fee negotiations will also be undertaken at this stage. During the new manager selection process, USSIM compares fund expenses where relevant and possible. After this work, a final candidate will be proposed for further due diligence including an Operational Due Diligence assessment.

Over the course of the year, the manager selection team took over responsibility for assessing the responsible investment capabilities of new investment managers, as opposed to this being undertaken by the responsible investment team. This should allow for an integrated and more rounded assessment of managers, with RI factors being assessed alongside broader investment process and risk management considerations.

External manager due diligence also considers remuneration, firm culture and incentive structures. As part of the analysis prior to investment, USSIM will consider how the key decision makers are aligned to fund performance, how performance fees (where applicable) are shared among the team and how the ownership of the business is shared. A key focus of this review is to ensure that those performing the analysis and responsible for the allocation of USS's capital are well-aligned with USS's long-term investment objectives.

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. USSIM engages via questionnaires and regular meetings, covering performance, emerging risks and changes to the portfolio and process.

USSIM also undertakes formal in-depth annual reviews of all external public market managers covering changes in the organisation, team, process, portfolio turnover, risk, responsible investment considerations and equity, diversity, and inclusion initiatives. USSIM undertakes periodic benchmarking exercises of the external managers' fees and looks to renegotiate accordingly to ensure the fees remain competitive.

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.

USSIM has processes in place to assess and monitor how its external managers are addressing financially material considerations in the selection and retention of investments. This assessment takes place before appointment and is monitored on an ongoing basis. This applies to managers of both public market and private market funds, and managers within both the DB and DC parts.

5.5. Fees and transaction costs
There are different types of investment costs and charges, some of which are explicit (for example, an investment management charge) and some of which are implicit (for example, transaction costs).

To provide USS with a full view of the costs and charges, USSIM carried out an exercise to report total investment costs incurred over the calendar year 2023 (for both the DB and DC parts). 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 Chair's defined contribution statement at 31 March 2024 and comply with the Cost Transparency Initiative's guidance. The exercise also covered external portfolios, allowing USS to monitor target portfolio turnover[5] and/or turnover ranges, which it does on an annual basis.

Best execution is overseen by an internal USSIM committee. The committee's responsibilities include oversight and challenge of USSIM and the external managers' Cost and Quality of Execution.

6. Financially material considerations

6.1. Introduction
USS's legal duty in relation to investment strategy is to invest in the best financial interests of members and beneficiaries, with 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 RI 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 can 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 policymakers 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.

As it is financially material, USS believes that addressing climate change is in the best financial interests of its members and beneficiaries, and as such has set an ambition for its investments to be net zero by 2050 if not before. Further details on our progress towards this target is included in our TCFD reporting.

6.2. Investment manager oversight: alignment of interests
The SIP sets out USS's policies in relation to arrangements with internal (USSIM) and external asset managers, which is set out in Section 5, 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 and objectives, and a long-term focus. These are considered in the selection, retention, and realisation of investments.

5 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 is the average value of assets at month end during the reporting period.

When appointing an investment manager, USS requires managers, including USSIM, to consider 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 looked at over the appropriate time horizon of the scheme, including how those considerations are weighed 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 responsibly 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 RI 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 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 performance over the long term and to encourage the retention of key personnel.

6.3. Consideration of non-financial factors
Investing in the best financial interests of members and beneficiaries is USS's legal duty. However, to the extent permitted by its fiduciary duties, there are some circumstances where USS may consider non-financial factors and take account of members' views in relation to the selection, retention and realisation of investments. These circumstances may include where:

i) Taking those non-financial factors into account would not pose a risk of significant financial detriment to the scheme, for example, where the choice is between two investments which are broadly equivalent from a financial perspective
ii) USS has good reason to believe that all members would share each other's concerns about the non-financial factors

In the Investment Builder (the DC part), where USS is able to offer members a choice of self-select funds, alternative options are made available. These are based on member research and allow members to reflect their views and preferences and take account of their own position on the risks of potentially lower returns. There have been no circumstances over the past 12 months outside of these alternative options where non-financial factors could be taken into account for investment decision making.

6.4. Engagement with the members
USS offers members several ways to provide feedback on investment issues, including via a contact form on the website, post and member surveys. As part of USS's survey engagement, USS invites views from members and beneficiaries on non-financial matters. These include (but are not limited to) RI issues.

Task Force on Climate-related Financial Disclosures (TCFD) Report summary

Welcome to a summary of our 2024 Task Force on Climate-related Financial Disclosures (TCFD) Report. We believe climate change presents a significant financial risk and that a low-carbon world will likely be a more financially stable one. That is why we have set an ambition for our assets to be net zero by 2050, if not before. We continue to embed this ambition into our culture and ways of working, and managing climate risks and opportunities continues to be central to our investment strategy. Our full 2024 TCFD Report sets out our progress which is presented in summary form here.

What is the TCFD Report?

The purpose of the TCFD Report is to fulfil the requirements of the Department of Work and Pensions (DWP) Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (DWP TCFD Regulations). The DWP TCFD Regulations require us to explain the governance and actions the trustee has taken to identify, assess and manage climate-related risks and opportunities. This is our third mandatory TCFD Report.

The report is structured around the following four sections:

1. **Governance:** how our Trustee Board, committees and executive oversee, assess and manage climate-related risks and opportunities.
2. **Strategy:** the climate-related risks and opportunities identified over the short, medium, and long term and the impact of these on our strategy, along with the resilience of our strategy taking into consideration different climate-related scenarios.
3. **Risk management:** the processes we use for identifying, assessing and managing climate-related risks, and how these processes are integrated into overall risk management.
4. **Metrics and targets:** the metrics we use to assess climate-related risks and opportunities, the targets we set, and our performance against these.

Scenario analysis

The DWP TCFD regulations specify that we must conduct scenario analysis at least every three years, and more frequently if there are significant changes in either the scheme or the climate. We ran detailed scenario analysis in 2021/22 and we concluded that this scenario analysis including the three limited scenarios and modelling could be improved upon. We have since developed decision-useful climate transition scenarios with the University of Exeter which we will use when we next run the scenario analysis, including physical risk, in 2024/25. As a result, the Trustee Board and its Investment Committee approved that USS Investment Management (USSIM) would not undertake new climate scenario analysis for this year’s TCFD reporting cycle.

Key highlights

We would like to highlight two particular activities undertaken in 2023/24. Firstly, as mentioned above, we worked with the University of Exeter to develop four new decision-useful climate scenarios. We believe these new scenarios better reflect the real-world risks and opportunities that frame our investment decision making to 2030. Secondly, to help define a longer-term ambition for responsible investment (RI) at USS and ensure that USSIM is clear on what to deliver for the scheme, we introduced an RI Beliefs and Ambition Statement whose elements were approved and adopted by the Trustee Board in 2023. These beliefs acknowledge the systemic risks that climate change presents, and that we cannot diversify our way out of these. Hence, we believe that integrating financially material responsible investment issues into our investment process and engaging in high quality stewardship across all asset classes will contribute to better outcomes for members. We therefore act as an active and engaged long-term owner to address them, together with other Universal Owners, to minimise the financial impact such issues can have on the scheme’s investments. The overall risk to market returns (beta) is one of the biggest risks members face.

Progress since 2023

We set out the following areas of focus in our 2023 report, and have made the following progress against these:

Last year's focus areas	The progress we have made
Improved integration of carbon and other climate data into our investment decision making and stewardship	During 2023 we transitioned circa £4 billion in equity assets from passively managed, highly diversified portfolios into an internally managed active portfolio focusing on high-quality, developed markets businesses expected to have attractive risk-return characteristics for the scheme over the long term. RI has been built into every stage of the investment process for this portfolio and a thorough assessment of climate and other environmental, social and governance (ESG) issues is integrated to ensure appropriate consideration is given to material risks and opportunities. Alongside this, the low emissions intensity of the companies owned in the portfolio support our ambition for our investments to be net zero by 2050, and the concentrated nature of the mandate means that our stewardship activities can be a real focus.
Stewardship of our assets: engaging with the highest emitters	We have engaged with Tripod Tech Corp, ranked among our top 10 Global Emerging Markets (GEMs) portfolio emitters in 2023 (noting that it is in GEMs where the emissions intensity of the portfolio is highest). Since engaging there have been a number of positive developments, including Tripod issuing comprehensive sustainability reports in English, disclosing emissions from all three of their manufacturing sites and setting specific greenhouse gas (GHG) reduction targets for their three main campuses.
Improved scenario analysis	Working with the University of Exeter, we developed a new set of global climate scenarios. These scenarios better reflect the real-world risks and opportunities that will frame our investment decision making to 2030.
Improved data collection and management	On data quality, we saw a substantial increase in reported data on the absolute emissions and emissions intensity of our DB assets, including private markets investments. Emissions data for 64% of our assets came from fully or partially reported sources, up from 52% last year.
Increasing allocation to renewables and other low-carbon assets	We have continued to support the growth of Bruc Energy. In 2023, Bruc added 155MW of solar photovoltaic (PV) installed operating capacity, contributing to the creation of 269 jobs. In total, Bruc generated more than 1,842GWh of renewable energy, enough to power circa 500,000 homes for a year and avoid the emission of 408,000 tonnes of CO_2. In 2023, we made our first direct investment into the Sustainable Growth mandate, providing growth capital to eco-friendly battery producer Northvolt.
Defined our longer-term ambitions and priorities	To help define a longer-term ambition for RI at USS and ensure alignment between the Trustee Board and USSIM, the Trustee Board approved and adopted the **RI Beliefs and Ambition Statement** in July 2023. In May 2024, both the Investment Committee and Trustee Board discussed the key RI priorities for the year ahead.

Key findings

Governance

Given the systemic implications of climate change, climate-related risks and opportunities are topics which the Trustee Board and its Investment Committee dedicates significant time and resources to. The trustee's oversight of climate-related risks and opportunities includes: approving the scheme's overall climate-related strategy, regular reporting from USSIM and an annual review by the Investment Committee (IC) of USSIM's approach to managing climate risk.

Progress against our targets

Our target is to achieve portfolio net zero by 2050, if not before. Our interim targets are to reduce the emissions intensity of the non-sovereign assets in our portfolio by 25% by 2025, and by 50% by 2030 (relative to a 2019 baseline). With an emissions intensity of 55 tCO_2e per £million invested, a reduction of 16 tCO_2e per £million since December 2022, we are now 39% lower than our 2019 baseline[1] and well ahead of our 2025 interim target. Our portfolio emissions (Scopes 1 and 2) from the non-sovereign assets in our portfolio as at December 2023 were 2.6 $MtCO_2e$. This is a reduction of 0.7 $MtCO_2e$ since the previous year. Our net zero ambition and progress so far can also be found on our **net zero web page**.

By formal delegation, USSIM implements the trustee's investment strategy within set parameters, which include risk appetite statements and key risk Indicators for climate risk. The USSIM Net Zero Steering Committee and Working Groups oversee and coordinate all activities associated with addressing climate change.

In July 2023, following advice from USSIM, the Trustee Board approved and adopted a RI Beliefs and Ambition Statement. These help define a longer-term ambition for RI at USS. USSIM also shared its planned approach to help the Trustee Board fulfil its ambition, and the methodology for USSIM to identify RI priorities.

Following adoption of the statement by the Trustee Board in July 2023, USSIM has been advising the IC and helping it develop a plan for how USSIM will implement and prioritise the actions arising from the RI Beliefs and Ambition Statement.

1 Scopes 1 and 2 emissions

Strategy

Our assets are vulnerable to climate transition and physical risks over the short, medium and long term. These risks can affect our investment returns, the life expectancy of our membership, and the covenant provided by our sponsoring employers. This will influence the Technical Provisions the scheme needs to target to meet current liabilities, the balance between contributions and investment returns and the cost of future benefits being built up within the scheme.

Our 2021/22 analysis showed our long-term returns to be impacted in all scenarios. As noted earlier, we identified limitations with this approach and felt it could be improved upon. We therefore worked with the University of Exeter on a collaborative project developing four new climate scenarios that we believe are more useful for investment decision making. They are set out below, [No Time To Lose – New Scenario Narratives for Action on Climate Change].

We believe that the scenarios better reflect the real-world risks and opportunities that frame our investment decision-making to 2030, moving the focus away from climate pathways and towards changes in politics, economics, asset prices and extreme weather events. They range from optimistic, with drivers working in harmony and rapid decarbonisation, to pessimistic, where a toxic political climate compounded by dysfunctional markets frustrates progress. They give us a wider and more realistic range of scenarios on which we can base our investment decisions. As such, this new approach is less focused on precise estimation, and focused more on understanding how real-world dynamics could play out in a complex world where climate risks cannot be looked at in isolation from political, economic and technological factors.

Our four scenarios

Scenario 1

Roaring 20s (R20) – policy and markets align

Proactive climate policies and dynamic markets create powerful positive feedback loops. More extreme weather events focus minds and create a sense of global solidarity around a recognition of humanity's mounting debt to nature. Constructive competition between nations accelerates technological progress and deployment.

Scenario 2

Green Phoenix (GP) – market-driven, while policy lags

Climate action is initially upended by stagflation, the geopolitical fallout of a stalemate in Ukraine and badly-handled weather shocks. Popular anger builds and civil society gradually emboldens more enlightened businesses and local governments to step up and roll out mature green technologies, but progress is patchy and erratic.

Scenario 3

Boom and bust (BB) – policy steps up after fossil fuel surge bursts

A Ukraine peace deal and easing of global geopolitical tension triggers an initial surge in economic growth which leads to overheating in major economies and higher fossil fuel prices. Policy is tightened in response, which leads to a bust, forcing governments to step in to provide support. A just green transition is driven by proactive policies to ease private sector frictions and support the emerging world.

Scenario 4

Meltdown (M) – policy failures compound weak growth

Climate policy is the casualty of mounting geopolitical tension and protracted recession. A Republican victory in the US elections is followed by Ukraine being partitioned. Tension with China undermines global decarbonisation efforts and technological progress. Extreme weather events are badly handled, triggering famines, mass migration and political instability.

Risk management

The Trustee Board has ultimate responsibility for risk management across USS, even where this is delegated to the Group including USSIM. This means the Trustee Board is responsible for setting risk appetites and satisfying itself that appropriate systems are in place to make sure the Risk Governance Policy is implemented. Rather than having a separate risk management framework for climate risk, the way we assess and manage climate risk fully aligns with our existing risk management framework.

In this context, risk is defined as the possibility that the scheme's objectives will not be achieved, including, for example:

- Target funding levels are not met
- Expected investment returns do not materialise
- Climate change impacts the scheme's investments

We have integrated broader ESG risks, and specifically climate risks, into our wider risk governance, monitoring and management processes. This includes processes for identifying, assessing and managing these risks. Our Enterprise Risk Management Framework, which includes risk appetite statements (RASs) set by the trustee along with key risk indicators (KRIs) allows us to take a top-down approach to identify and prioritise high-level risks, including those for climate risk. We also take a bottom-up approach, in which the Group Risk team assesses each business area's operating risk registers.

Our Investment Framework includes an investment balanced scorecard, which uses the investment RASs and the subset of associated KRIs specifically focused on investment risks. The IC uses this scorecard to assess USSIM's performance and risk management. These tools are integrated into our Enterprise Risk Management Framework. We also assess the impact risk (including climate risk) has across the employer covenant, investment and potential liabilities.

Metrics and targets

We use the following four metrics to assess and manage climate-related risks and opportunities and to measure progress towards our net zero ambition:

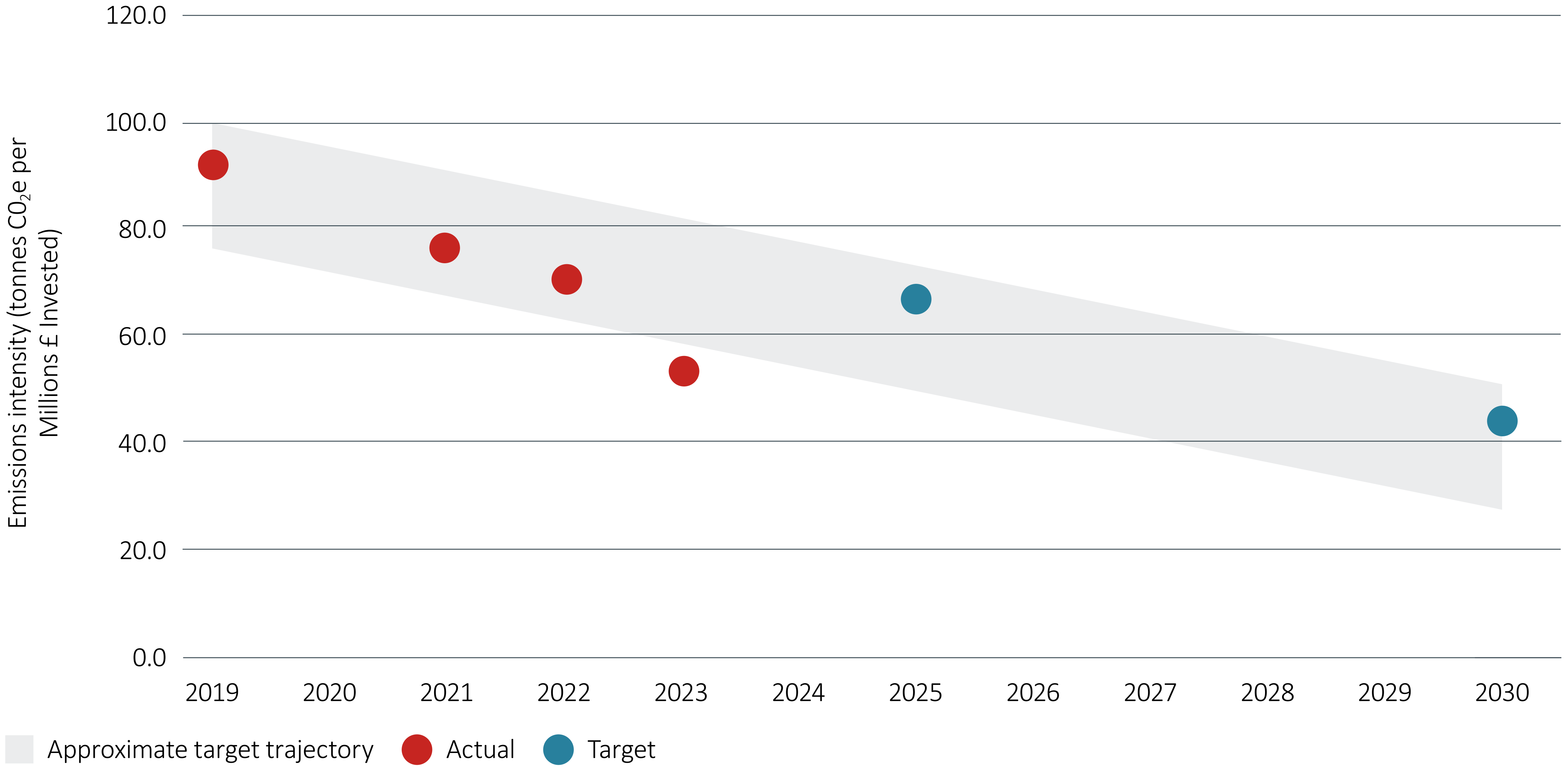
Category	Our chosen metric	Explanation and scopes covered
Absolute emissions	Portfolio emissions	Absolute amount of carbon dioxide and equivalents emitted (Scopes 1 and 2) by the investments: Million tCO_2e. We currently focus on Scopes 1 and 2 and report Scope 3 emissions separately where available. We expect to see this metric reduce substantially over the long term as the scheme and the global economy decarbonises.
Emissions intensity	tCO_2e per £million invested	The amount of carbon dioxide and equivalents emitted per million pounds of investments. We currently focus on Scopes 1 and 2 and report Scope 3 emissions separately where available. We expect to see this metric reduce substantially over the long term as the scheme and the global economy decarbonises.
Alignment	Percentage of portfolio emissions from assets aligned with a pathway of well below 2˚C	This will assess the proportion of our assets that are on a decarbonisation trajectory that is expected to align with 2˚C or below. This is based on the warming path as assessed by S&P Trucost modelling. This forward-looking metric shows how assets are transitioning: we expect to see it increase in future.
Data quality	Estimated reliability of sourced data for proportions of our investments	We group different sources of Scope 1 emissions data by an estimate of their accuracy. We then report the proportion of our investments for which emissions data were sourced using that method. This metric tracks how well companies are disclosing their carbon exposure and climate plans, giving us more confidence to use this data in our investment decision making. We expect to see the percentage increase in future.

As at 31 December 2023, our total assets under management (AUM) were £77billion, where £74.2billion was DB and £2.8billion was DC. Within DB, £47.3billion are non-sovereign assets and £26.9billion are sovereign debt.

DB metrics excluding sovereign debt

Category	Description	Dec 2023	Dec 2022
AUM	Net asset value (NAV) of non-sovereign assets for which are measured: £bn	**47.3**	46.4
Absolute emissions	Absolute amount of carbon dioxide and equivalents emitted (Scopes 1 and 2) by the investments: Million tCO_2e	**2.6**	3.3
Emissions intensity	Amount of carbon dioxide and equivalents emitted per million pounds of investments: tCO_2e per £million invested	**54.6**	70.7
Portfolio alignment	Percentage of portfolio emissions from assets aligned with a pathway of well below 2˚C	**45**	27
Data quality	Percentage of assets for which emissions data was reported or derived from reported information	**64**	52
Scope 3 emissions	Total Scope 3 emissions: Million tCO_2e	**8.5**	7.2

Emissions intensity vs targets



As shown on the left, the **emissions intensity** of the scheme's DB non-sovereign assets reduced by more than 22% from 2022 to 2023, from just over 70 tonnes CO_2e per £million invested (tCO_2e per £m) to 55 tCO_2e per £million invested. The **absolute financed emissions** of the scheme's DB non-sovereign assets reduced by around 0.7M tonnes tCO_2e from 3.3 $MtCO_2e$ to 2.6 $MtCO_2e$.

During 2023, we transitioned circa £4billion in equity assets from passively managed, highly diversified portfolios into an internally managed active portfolio focusing on very high-quality businesses expected to have attractive risk-return characteristics for the scheme over the long term. These businesses typically have a low emissions intensity and the portfolio emissions intensity is measured at circa 10 tCO_2e per £m compared with the passive portfolios that are 50 to 100 tCO_2e per £m. This is a key contributor to the reduction in the scheme's emissions intensity. The more concentrated positions in this portfolio are also the key contributor to the increase in assets invested in companies that are estimated to be on an emissions trajectory aligned with a well below 2˚C warming scenario.

Our targets imply that, from our baseline year of 2019, we need to reduce our emissions intensity by between 4.7% and 6.1% each year on average (see the graph on bottom left). We expect to see greater reductions in later years as we:

- Improve the integration of climate data into our investment decision making
- Focus on active climate engagement of our assets
- Incorporate climate change risks into our asset allocation

We have included here a snapshot of our key metrics and data. Please refer to the full TCFD Report for a complete view of calculated metrics across both DB and DC together with an explanation of the methodology used.

We have a legal duty to make sure we can pay our members' pensions when they are due, and we would also like to see a world that is worth retiring into. The Trustee Board and executive will continue to make decisions that are in the best financial interest of our members while also making progress towards our net zero goals. As a long-term investor, we have a responsibility to actively engage with the assets we invest in to deliver a sustainable low-carbon future.

Glossary

absolute emissions	absolute amount of carbon dioxide and equivalents emitted (Scopes 1 and 2) by the investments, expressed in million tonnes of carbon dioxide equivalents
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
basis points	a unit of measurement to describe the percentage change in the value or rate of a financial instrument. One basis point is equal to 1/100th of a percent or 0.01%.
CEM Benchmarking	specialist independent external benchmarking service for pension providers to compare value for money across 150 of the world's top 300 pension funds
CPI	Consumer Price Index
CPIH	Consumer Price Index including owner occupiers' housing costs
defined benefit (DB)	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 (DC)	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
emissions intensity	tonnes of CO_2 equivalent emitted per million pounds of investments. This is a method of apportioning carbon emissions to the amount invested
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 provider'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 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 (£41,004 for the 2023/24 financial year increasing to £70,296 from 1 April 2024), made additional contributions, or transferred funds into the scheme
Investment Management and Advisory Agreement (IMAA)	the document which details the terms under which USSL has appointed USSIM to invest the assets of the scheme and to provide advice to USSL in respect of scheme investments
investment management cost ratio	a measure of investment management costs relative to the value of the scheme's assets, expressed in basis points calculated using a basis designed to be consistent with that used by CEM Benchmarking
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
Material Risk Taker (MRT)	an employee whose professional activities have a material impact on the risk profile of the relevant entity or of the assets that it manages on behalf of the scheme
members	individuals who are members of the Universities Superannuation Scheme who have accrued benefits and/or on whose behalf contributions have been made during their current or previous employment by a scheme employer.

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 per member	a measure of the cost of administering USS pensions per member, calculated using a basis designed to be consistent with that used by CEM Benchmarking
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
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
stagflation	the simultaneous occurrence of stagnant economic growth, high unemployment, and high inflation
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 2023, the CPI rate was 6.7% and therefore the increase applied to USS pensions in payment and deferment accrued prior to 1 October 2011 was 6.7% effective from April 2024. This CPI rate exceeds the limit previously introduced for benefits accrued from 1 October 2011 however, and therefore the increase applicable to these benefits effective from April 2024 was 5.85%.

Enquiries about the scheme

Enquiries should be addressed to the Company Secretary, Mr Michael Burt, Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY.

Principal 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

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH

Investment adviser

USS Investment Management Ltd, 60 Threadneedle Street, London, EC2R 8HP

supported by:

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

Mercer Ltd, 1 Tower Place West, Tower Place, London, EC3R 5BU

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 Regulator is 10020100.

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