

To: Vice-Chancellors, Heads of Institutions
Cc: Finance Directors and pensions contacts

31 March 2022

Dear Vice-Chancellor/Head of Institution,

Consultation on changes to the USS Statement of Investment Principles

I am writing to you to begin a formal consultation with sponsoring employers on the revised Statement of Investment Principles (“**SIP**”), which the Trustee (Universities Superannuation Scheme Limited or “**USSL**”) has prepared following the completion of the 31 March 2020 Actuarial Valuation. This letter summarises the context and details of the changes made, and a copy of the SIP is attached with tracked changes. If you wish to provide a response to the consultation, please do so by emailing SIPConsultation@uss.co.uk **no later than 3 May 2022**.

Under the Pensions Act 1995, as amended by the Pensions Act 2004, and other relevant regulations, the Trustee is required to prepare and maintain a written SIP, governing decisions about investments for the purposes of the Universities Superannuation Scheme (“**USS**” or the “**Scheme**”). This SIP can only be finalised by the Trustee following consultation with the sponsoring employers.

The draft SIP, as prepared for this consultation (and other related documents discussed below), has benefited from the feedback received from employers as part of the informal engagement on investment strategy that the Trustee has undertaken between November 2021 and early March this year. In response to the most significant feedback received from employers during this engagement, the Trustee has prepared a ‘Questions and Answers’ document to explain the context and rationale for the “in-principle” decisions made to date by the Trustee. This ‘Questions and Answers’ document is enclosed with this letter and I hope it proves useful in formulating your consultation response.

The draft SIP makes reference to a number of related documents which can be found in the “How we invest” area of the USS website, (www.uss.co.uk) and may be helpful to refer to when reviewing the SIP (for instance an investment glossary can be found there).

One such document referred to in the SIP and available on the website is the Trustee’s Investment Beliefs, which form the basis of the Trustee’s investment principles as set out in the SIP. The Trustee has reviewed these Investment Beliefs and plans to make minor changes to them. These beliefs (and proposed amendments) are enclosed for your information.

There is in addition the SIP Implementation Statement, which details how the Investment Principles have been applied and this can be found in the Annual Report and Accounts.

Overall approach

The Trustee’s primary objective in relation to the DB Section of the Scheme is unchanged. It is to ensure that the existing benefits to members can be paid (i.e., to ensure that the Scheme is sufficiently well funded to secure benefits due under the rules of the Scheme and to make these payments now and in the future). The approach to investment strategy continues to support this objective by balancing the requirements to generate returns and manage risks, within the constraints of the Integrated Risk Management Framework (“**IRMF**”) and the Trustee’s risk appetite. Note that the Trustee’s secondary objective relating to the ongoing sustainability of the Scheme (provided this does not conflict with the primary objective) is also unchanged and has been taken account in the updating of the SIP and development of the investment strategy.

Proposed changes to the SIP (for consultation)

The SIP was last updated in September 2019 following the 31 March 2017 and 31 March 2018 Actuarial Valuations and in advance of the new regulatory requirements for SIPs, which came into force from October 2019. Since there have been no new regulatory requirements for SIPs since this time, and the principles underpinning the Trustee's investment strategy and approach remain largely unchanged, much of the information contained within the current version of the SIP remains appropriate.

With the support of its investment advisers USSIM, Mercer and LCP, the Trustee has reviewed its SIP and the following paragraphs outline the main updates that are proposed:

- Changes to the description of the investment strategy in respect of the retirement income builder (DB section of the Scheme) to reflect the 2020 actuarial valuation. The concept of the Valuation Investment Strategy ("VIS") (which replaces the concept of the Reference Portfolio), its role in the investment process and how it differs from the implemented portfolio is set out in the SIP. In this context, the investment approach has been reformulated in terms of three broad components or building blocks: an allocation to growth assets, an allocation to liability-hedging assets and leverage.
- Whilst the Trustee's objectives in relation to the DC Section remain unchanged, references to "Reference Portfolios" have been removed from the DC section of the SIP as the Trustee seeks to more explicitly focus its monitoring on longer-term member outcomes rather than monitoring performance of funds relative to a detailed composite benchmark.

Further, but less fundamental changes to the SIP include:

- Changes to provide better clarification or description of the Trustee's approach or view on certain matters (some examples include changing the explanation of UK Gilts returns from "risk free" to "lower end of the risk spectrum" and changing the word "realisation" to "purchase or sale" of investments).
- Reference to the Trustee's ambition to be net zero by 2050 (in section 1.4.3).
- Better alignment of the Trustee's ESG policy with the most recent legal advice it has received (see section 1.4.7).
- Removal of some operational detail from the SIP to keep the document at an "investment principles" level, particularly since the Trustee provides a comprehensive report on how the Trustee's investment strategy and principles are implemented and overseen by the Trustee through its SIP Implementation Statement (for example, see section 1.4.12 of the SIP).
- Provision of more detail on the Trustee's approach to leverage (section 2.2.1) as this becomes a larger component of the Trustee's investment strategy and the way that the Trustee manages risk.

Investment Beliefs (for information purposes only, not for consultation)

As part of the SIP review, the Trustee has also reviewed its Investment Beliefs which it believes remain appropriate, other than to update:

- DB investment belief No. 2 to make reference to the VIS (see the explanation in the "Proposed Changes to the SIP" section above in this letter with regards to the VIS).
- DB investment belief No. 3 and DC Investment belief No. 7 - to reflect the Trustee's latest thinking on the main sources of return for bearing risk ('risk premia').
- some wording for clarificatory purposes, for instance DC investment belief No. 9 to change the explanation of cash and gilts from "risk-free" to "lower risk" assets.

Whilst not part of the consultation process, we have enclosed the Trustee's Investment Beliefs with the changes tracked for your information. The Investment Beliefs document is available in the "How we invest" area of the USS website www.uss.co.uk.

Other useful documents (for information purposes only, not for consultation)

In addition to the list of USS Investment Beliefs and description of the VIS discussed above, the SIP makes explicit reference to other documents that provide additional detail related to the investment principles, which are available on the USS website. These documents cover many of the most important topics considered in the SIP, including investment strategy, ESG policy etc.

SIP consultation responses

In preparing this SIP for consultation, the Trustee has considered the written advice of independent investment advisers, Mercer (for DB) and LCP (for DC). The Trustee believes that the proposed amendments are beneficial to the Scheme and members and welcomes the views of employers in this regard. If you wish to provide a response to the consultation, please do so by emailing SIPConsultation@uss.co.uk **no later than 3 May 2022**.

As part of your response, we request that you specify the basis on which you are responding, specifically, the governance forums that have been involved in formulating and approving the response.

The Trustee's goal remains to deliver a high quality, value-for-money and sustainable pension scheme, tailored to employers' requirements and members' needs.

I am aware that a number of consultations with employers (either directly or through Universities UK) have been undertaken over the last few months and once again I thank you for your continued engagement and support for what is legally required and necessary to the sound governance of the Scheme.

Yours faithfully

B Galvin
Group Chief Executive Officer

Enc.

1. DRAFT USS Statement of Investment Principles (clean)
2. DRAFT USS Statement of Investment Principles (tracked changes)
3. DRAFT USS Investment Beliefs (clean)
4. DRAFT USS Investment Beliefs (tracked changes)
5. Questions and Answers following recent engagement on investment strategy