



USS

Role for Real and Illiquid Assets in DC Schemes – Case Study

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USS Investment Management Ltd
[Non-restricted]



Universities Superannuation Scheme

- ✓ UK's largest private pension scheme by way of assets - **Hybrid DB and DC** scheme, with over £1.5 billion in DC assets
- ✓ DC historically invested in externally managed **equities, bonds and property**
- ✓ USS have an Investment Belief that private markets provides **investment opportunities and structures not available in public markets**
- ✓ Desire to **add private markets to DC**, so Default fund members (significant majority) can also benefit from these opportunities in the DC section as well as DB- took us two years, but it can be done
- ✓ Around **75,000 DC members now have an allocation to private markets**

84%

Wholly invested in
Default option

USS: Why Private Markets?



Risk Adjusted Returns

Higher risk adjusted returns- challenge set by Board was same or better return for lower risk, i.e. better Sharpe ratio, illiquidity premium

Mandate	12 Month Performance	5 Year Performance
Stable Private Equity	+27.2%	+12.5%
Alternative Income	+23.4%	+11.9%
Secure Credit	+7.1%	+5.9%

Diversification

Private assets enable schemes to invest in areas not covered by typical 'DC' funds and in different asset classes. Alternative risk premia provided by private assets provide **significant diversification benefits**

Alignment - we invest in assets that are focused on **sustainable value creation and long-term relationships** in line with our members' needs, providing a real differentiator to listed market equivalents



USS: Why Private Markets?

ESG

Greater degrees of influence over a company when you have control

Ability to access specific assets / areas to reflect your ESG views, for example emerging sustainable technologies. USS has invested **£1.2bn in renewable energy projects**

Communications

Very good engagement tool with members, far easier to explain owning an asset that members can understand, i.e. Moto service stations, versus an Equity, Bond or even Tracker fund

Ability to demonstrate how a **pension scheme can support the UK economy**, members can be proud that their pension is investing in UK infrastructure for example



USS: Why Private Markets?

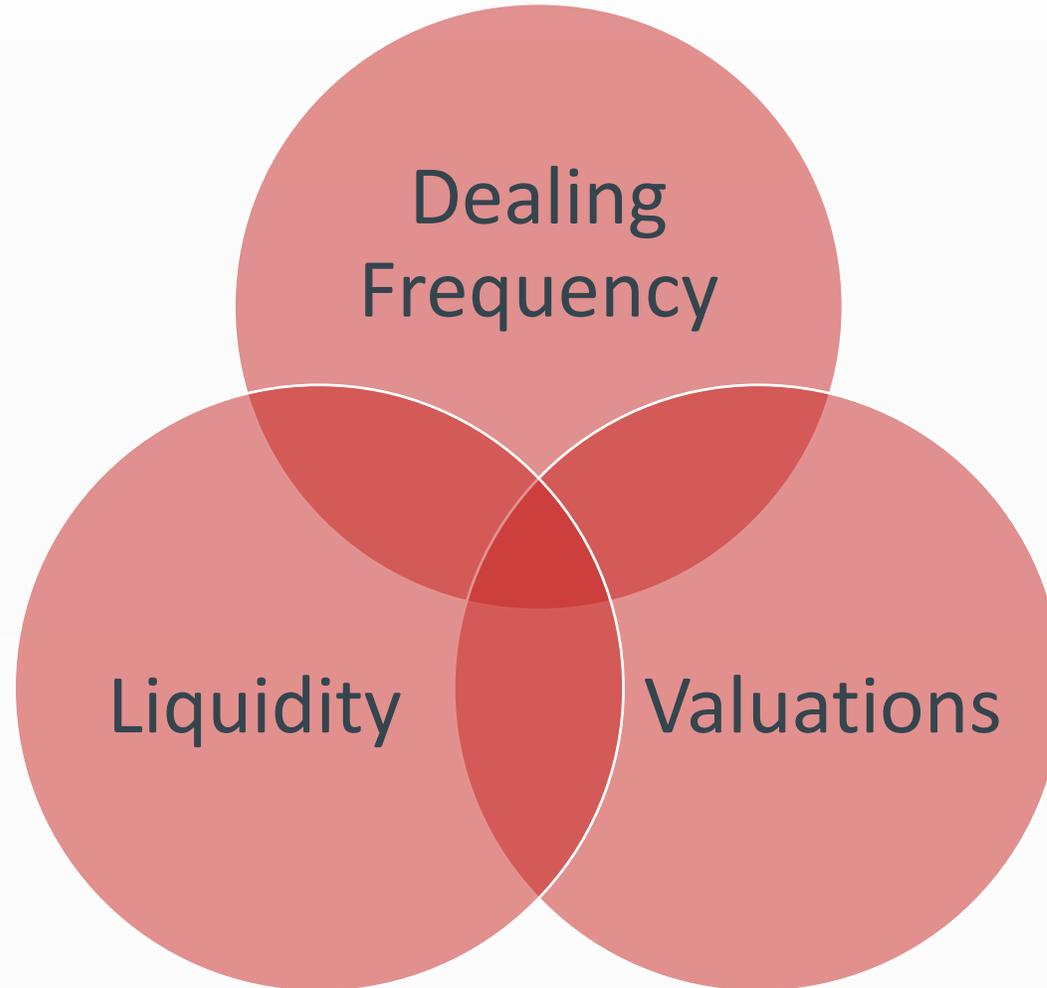


Private Markets are not homogenous

Mandate	Growth Phase	At Retirement
Stable Private Equity	4.2%	1.3%
Inflation Linked Equity	5.9%	4.1%
UK Property	4.0%	2.4%
Secure Credit	6.1%	7.1%
Inflation Linked Credit	-	1.6%
Total	20.2%	16.4%

USS: The challenges

For USS the three key challenges were inter-related



USS: Dealing Frequency and Liquidity

- ✓ USS **Default funds are daily priced and dealt**, whereas the **underlying illiquid funds are monthly dealing**, following the update of the funds' prices
- ✓ Cash will pool awaiting investment on non-dealing days, with the dealing point occurring shortly after the receipt of the majority of member contributions, this helps to **minimise cash drag on the portfolio**
- ✓ Significant effort into **modelling and understanding our cashflows** in order to help liquidity management, cash inflows significantly outweigh cash outflows for young, open DC schemes
- ✓ **Concentration limits apply** at both the mandate level and default fund level to prevent overt reliance on any one asset or fund
- ✓ **Swing pricing and gating can be used to ensure fairness** in the event of a significant event

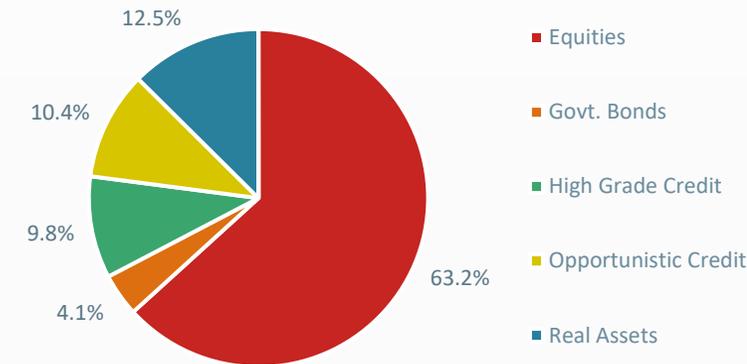


USS: Valuations



- ✓ **Aim for default funds to have 20% private markets.** Default funds are diversified, with a significant allocation to liquid markets (daily priced and daily dealt)
- ✓ **Valuation of illiquid assets are performed on a regular basis** such that no material illiquid assets will reflect 'stale' valuations that are greater than three months old, with further adjustments in those months between quarters to ensure that all asset valuations are appropriate and reliable on each trading date.
- ✓ Asset values are appraised by both **internal and external valuation teams**
- ✓ Quarterly values are subject to **scrutiny and approval by the Fair Value Committee** whose membership comprises both internal and external experts

Growth Fund Asset Allocation



18.7%

In private markets as at
October 2021

USS: Dealing with Covid-19

Covid-19 hit less than a month after we had started to transition into illiquid assets

- ✗ As with listed assets, **some private market assets were affected** by the supply and demand dynamics of the global pandemic
- ✗ **We had concerns about price uncertainty for some assets** for e.g. Heathrow airport
- ✓ **Diversification is key**, with investments in equities, bonds and across many private market assets, **no one asset can dominate a portfolio**, this gave us a great deal of protection in the crisis
- ✓ Did **not need to gate** the default fund at any point during the pandemic
- ✓ We had a **process for dealing with these conditions**, including a Valuation and Swing Pricing Committee
- ✓ **Ensuring all members pay a fair price** for accessing the private market assets is paramount- this was our focus during the pandemic



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That's all, thanks.