Investing in your future
A guide to investing in the USS Investment Builder
Investing in your future

USS has two sections that work together to provide you with benefits at retirement:

The USS Retirement Income Builder, providing you with the security of a regular income in retirement. You can find more information about the USS Retirement Income Builder in the member area at [www.uss.co.uk](http://www.uss.co.uk).

and

The USS Investment Builder, giving you flexibility to increase your pension savings for retirement and the opportunity to enhance those savings through investment returns. This guide will help you to understand this section of the scheme.

As a member of the USS Investment Builder, you have choices as to how your pension contributions are invested. It’s an important choice – one of the key ways to enhance your pension savings between now and your retirement is the return on your investments. The better your investments perform, the more money will be in your retirement fund to provide you with benefits when you retire. Your employer has made a commitment to subsidise the majority of the fund investment management charges for the foreseeable future, so you won’t have these charges deducted from your contributions.

Making investment decisions about your pension savings might sound overwhelming – but it doesn’t have to be. USS has selected a range of investment options within the USS Investment Builder so some of the selection work has already been done for you. This guide is designed to help you understand the investment options available and to give you an overview of the points you should consider before you decide how to invest your pension savings.

Inside this guide we have:

- more details about the investment choices available to you, including the “Do It For Me” options and the “Let Me Do It” range of funds;
- information about how to select or change your investment choices, and what happens if you don’t make a selection;
- things to think about as you approach retirement; and
- additional information, if you want to learn more about investing your money.

Take the time to read this guide carefully, and don’t forget to review your investments regularly to ensure they remain appropriate for your own retirement plans.

Keep in mind that neither USS nor your employer can give you financial advice about how to invest in the USS Investment Builder. If you are not sure what is best for you, we strongly recommend that you speak to an independent financial adviser (IFA) before making a decision. You can find an IFA through the following website: [www.unbiased.co.uk](http://www.unbiased.co.uk). Please be aware that you may be charged a fee for any advice.
Do you want to make your own investment decisions as you approach retirement, or have USS do it?
Do you want to make your own investment decisions as you approach retirement, or have USS do it?

Okay – then there are three questions:

1. Do you want to be invested in the trustee’s default strategy, designed to be suitable for most members, or do you prefer to select an ethical investment approach?

   Consider the USS Default Lifestyle Option
   Consider the USS Ethical Lifestyle Option

2. At what age do you expect to retire?
   (You’ll need to select this so we can switch your investments at the right time – see page 20)

   Go to My USS to set your target retirement age

3. How will you use your money in the USS Investment Builder when you retire?
   (This helps you know if you need to make changes to your investments as you approach retirement – see page 21)

   We’ll write to you ten and five years before your target retirement age with additional information and considerations
Do you want to make your own investment decisions as you approach retirement, or have USS do it?

Okay – then you can pick from amongst 10 funds

Things to think about:
- Consider diversifying by picking more than one asset class (see page 24)
- Investment changes are in your hands – so consider how you may change your choices as you approach retirement (see page 19)

Close to retirement?
These options may offer less risk
- USS Cash Fund
- USS Bond Fund

Still have some time?
These funds may offer better opportunities for long term return, along with higher risk
- USS Cautious Growth Fund
- USS Moderate Growth Fund
- USS Growth Fund
- USS UK Equity Fund
- USS Global Equity Fund
- USS Emerging Markets Equity Fund

Willing to take a little more risk?
Think about adding some of the equity funds to your choices

Have some specific beliefs?
There are special funds available that avoid certain sectors and invest according to Islamic principles
- USS Ethical Equity Fund
- USS Sharia Fund
“Do It For Me” – the lifestyle options

The lifestyle options are suitable for anyone who would prefer to let the Trustee manage their investments.
Do It For Me – the lifestyle options

Who it is for

There are two lifestyle options: the USS Default Lifestyle Option and the USS Ethical Lifestyle Option. (USS’s guidelines for ethical investment are detailed in Learn more.)

You should also note that the USS Default Lifestyle Option is the default investment option for the USS Investment Builder. This means that if you do not make an investment selection, then any pension contributions you and your employer make to the USS Investment Builder will be invested in the USS Default Lifestyle Option, targeting your USS Target Retirement Age.

Keep in mind that your investment selections don’t need to be a one-time choice. For example, you could choose to invest in a lifestyle option now, and later switch to the self-select funds.

Risk and the USS Ethical Lifestyle Option

The USS Ethical Lifestyle Option invests in ethical investment funds. Because these funds’ investments are limited by the USS ethical investment guidelines, the USS Ethical Lifestyle Option is less diversified, and therefore has a higher level of risk, than the USS Default Lifestyle Option.

How it works

With the “Do It For Me” lifestyle options, your pension savings are invested for you in a mix of investment types which will change over time as you get closer to retirement. The lifestyle options will gradually move from “growth” investments, to “moderate growth” and then to “cautious” investments as you get closer to your planned retirement age. Why? Growth investments offer the opportunity for the highest possible return on your pension savings, but also have a higher level of risk, so the default invests in these types of investments at a time when there are many years left over which your savings can recover from any possible losses.

As you approach your USS Target Retirement Age, the mix of investments will become more balanced as they move towards a more cautious approach. The investment returns will probably be less than the growth funds over the long run with the aim of providing greater certainty about the value of your pension savings as you get nearer to retirement.

The USS Default Lifestyle Option is designed to be most appropriate for people who would like to use the pension savings they have built up in the USS Investment Builder to fund part or all of their tax-free cash lump sum, and for those who wish to leave some of their USS Investment Builder invested to be accessed later than their Target Retirement Age.
Do It For Me – the lifestyle options

The pros and the cons
To help you decide which option is right for you, we have set out below some of the general advantages and disadvantages to investing in one of the lifestyle options. However, please note that this is not a comprehensive list. Whether these advantages and disadvantages apply to you will depend on your individual circumstances:

Advantages
- Your investments will change automatically over time, so you don’t need to make the changes yourself as you approach your retirement age.
- Your investments automatically become more diversified and more cautious as you approach your retirement age. This is designed to provide you with greater certainty over the value of your money in the USS Investment Builder as you approach retirement age.
- The USS Default Lifestyle Option is designed specifically for USS members, to take account that for many members the USS Investment Builder will supplement their pension from the USS Retirement Income Builder.
- If you change your Target Retirement Age, your investments will automatically adjust to either speed up or slow down the de-risking process, as appropriate.

Disadvantages
- The lifestyle options switch to a 50/50 split between a cautious growth fund and a cash fund at your retirement age. This may not be the most suitable option for members who wish to do something else with their savings in the USS Investment Builder (for example, purchasing an annuity at retirement).
- Your investments will switch automatically, regardless of the market conditions. Depending on how different investments perform, it may turn out that you would have been better off switching at a different time (or not switching at all).
Do It For Me – the lifestyle options

Details of the investments

If you select a lifestyle option, here’s how your contributions will be invested:

**The USS Default Lifestyle Option**
- **Until 10 years before your Target Retirement Age**: You’ll be invested in the USS Growth Fund
- **Between 10 and five years before your Target Retirement Age**: You’ll gradually switch from the USS Growth Fund to the USS Moderate Growth Fund
- **From five years before your retirement age to your Target Retirement Age**: You’ll gradually switch from the USS Growth Fund into an equal split of the USS Cautious Growth Fund and the USS Cash Fund
- **At your Target Retirement Age (and onwards)**: You’ll be invested 50% in the USS Cautious Growth Fund and 50% in the USS Cash Fund

**The USS Ethical Lifestyle Option**
- **Until 10 years before your Target Retirement Age**: You’ll be invested in the USS Ethical Growth Fund
- **Between 10 and five years before your Target Retirement Age**: You’ll gradually switch from the USS Ethical Growth Fund to the USS Ethical Moderate Growth Fund
- **From five years before your retirement age to your Target Retirement Age**: You’ll gradually switch from the USS Ethical Growth Fund into an equal split of the USS Ethical Cautious Growth Fund and the USS Ethical Cash Fund
- **At your Target Retirement Age (and onwards)**: You’ll be invested 50% in the USS Ethical Cautious Growth Fund and 50% in the USS Ethical Cash Fund

*At present you can keep your money in the USS Investment Builder after your retirement age – and withdraw money up to four times per year (as allowed under the current legislation and USS rules, which are subject to change) – but there won’t be any further automatic switches in the investments after your USS Target Retirement Age.*
Do It For Me – the lifestyle options

Details of the investments

Key

The USS Default Lifestyle Option
- USS Growth Fund
- USS Moderate Growth Fund
- USS Cautious Growth Fund
- USS Cash Fund

The USS Ethical Lifestyle Option
- USS Ethical Growth Fund
- USS Ethical Moderate Growth Fund
- USS Ethical Cautious Growth Fund
- USS Ethical Cash Fund

All the individual funds used to create the USS Default Lifestyle Option are also available in the “Let Me Do It” self-select range of funds. Only one of the USS Ethical Lifestyle Option individual funds, the USS Ethical Equity Fund, is available in the “Let Me Do It” self-select range at this time.

You can find more information about each of the individual funds in the fund factsheets available on My USS.
Do It For Me – the lifestyle options

When will you retire?
If you select one of the lifestyle options, you’ll need to select your “Target Retirement Age”. This is important so that your investments can automatically be switched at the right time. If you don’t pick a Target Retirement Age, the default Target Retirement Age will be your normal pension age (usually age 65, but there are exceptions – please refer to the retirement factsheet to check your circumstances).

It’s important that you carefully consider the age you intend to retire and take your benefits from the scheme. You should check that USS has the right Target Retirement Age for you. If not, the switching may start too early, in which case you might miss out on potential investment gains. Or, it could start too late, so you’re not in the right investments when you’re ready to take your money. You can choose a different Target Retirement Age at any time through My USS.
“Let Me Do It” – the self-select options

The self-select options are suitable for anyone who would prefer to be actively involved in making investment decisions.
Let Me Do It – the self-select options

Who it is for

The self-select funds are designed for members who would prefer to be actively involved in making investment decisions or who want to follow a different approach to the “Do It For Me” lifestyle options for specific reasons. It may also be appropriate for members who don’t want to use their money in the USS Investment Builder in the way that the lifestyle options target (for example, if you wish to use your USS Investment Builder money to purchase an annuity at retirement, or if you plan to leave your entire savings invested for several years after your Target Retirement Age).

Keep in mind that your investment selections don’t need to be a one-time choice. For example, you could choose to invest in the self-select funds now, and later switch to a lifestyle option, or vice versa.

How it works

With the “Let Me Do It” fund options, you have the option to invest your pension savings in the USS Investment Builder in one or more of the funds offered. With this option comes responsibility. It is your responsibility to check in on your investments regularly and keep track of how the funds are doing. You will also be responsible for making any necessary adjustments to keep you on track with your retirement plans.
Let Me Do It – the self-select options

The pros and the cons
To help you decide, we have set out below some of the general advantages and disadvantages to investing in the self-select funds. However, please note that this is not a comprehensive list. Whether these advantages and disadvantages apply to you will depend on your individual circumstances:

Advantages

- You can invest as you see fit, picking from amongst a variety of funds to align the level of risk and return you are comfortable with.
- You have a variety of options, including some higher risk and some more cautious fund options if you are willing to take more risk for a potentially higher return or wish to take less risk for a potentially lower return.
- As you approach retirement, your investments should take account of how you want to use your money once you retire. From the available funds, you can choose the investments that are most appropriate for how you wish to take your pension savings at retirement.

Disadvantages

- You are responsible for selecting your funds, so you’ll need to:
  - understand the objectives and strategies of the available funds; and
  - monitor your investments and make any adjustments to help you meet your retirement needs.
- Your investments won’t automatically become more cautious over time, so you may need to regularly consider making switches to protect the value you’ve built up for your retirement.
- If you change when you want to retire, you will be responsible for making any changes to your investments to keep your investment strategy aligned to your plans.
Let Me Do It – the self-select options

Details of investments

The self-select investment fund options are shown in this table, along with a brief description of each of the funds.

<table>
<thead>
<tr>
<th>Type</th>
<th>Fund name</th>
<th>Description</th>
<th>Risk Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash fund</td>
<td>USS Cash Fund</td>
<td>All money is held as cash, deposits or money market instruments</td>
<td>Low</td>
</tr>
<tr>
<td>Bond fund</td>
<td>USS Bond Fund</td>
<td>A mixture of investments which includes Government bonds and other forms of credit investments</td>
<td>Low</td>
</tr>
<tr>
<td>Diversified growth funds (mixture of risk levels)</td>
<td>USS Cautious Growth Fund</td>
<td>A mixture of investments which includes a majority of moderate risk / moderate potential return and lower risk/lower potential return investments</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>USS Moderate Growth Fund</td>
<td>A mixture of investments which includes a balance between higher risk/higher potential return investments, moderate risk / moderate potential return investments and lower risk/lower potential return investments</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>USS Growth Fund</td>
<td>A mixture of investments which includes a majority of higher risk/higher potential return investments</td>
<td>High</td>
</tr>
<tr>
<td>Equity funds</td>
<td>USS UK Equity Fund</td>
<td>A mixture of investments made up from UK publicly traded stocks and shares</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>USS Global Equity Fund</td>
<td>A mixture of investments made up from global publicly traded stocks and shares</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>USS Emerging Markets Equity Fund</td>
<td>A mixture of investments made up from global publicly traded stocks and shares from developing countries</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>USS Ethical Equity Fund</td>
<td>A mixture of investments, made up from global publicly traded stocks and shares which avoid certain types of assets (USS's guidelines for ethical investment are detailed in Learn more)</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>USS Sharia Fund</td>
<td>A mixture of investments, made up from global publicly traded stocks and shares which are compliant with Islamic financial law</td>
<td>High</td>
</tr>
</tbody>
</table>

The fund factsheets (available on My USS) have more information about these funds and, as far as possible, their performance. Please read the relevant fund factsheet carefully before making any investment selections.
Selecting and making changes

Once you have considered your options and decided how you want to invest, you can make your selections through My USS.

If you wish to invest in the USS Default Lifestyle Option, you should visit My USS to select your Target Retirement Age (see page 20 for more details).

It’s not a one-time decision!

It’s important to regularly review your investments and your retirement plans, to check they are still appropriate for your personal circumstances. You’ll receive annual benefit statements to show you the value of your pension savings and the fund factsheets will be updated quarterly on My USS.
Selecting and making changes

Investing your different contributions

Within the USS Investment Builder, you may have up to three different types of contributions.

Within each type of contribution, you can select one of the lifestyle options (either the USS Default Lifestyle Option or the USS Ethical Lifestyle Option) or pick from any combination of the self-select funds, but you can’t do both.

**Normal contributions** – these are the contributions from you and your employer in relation to your salary above the salary threshold.

**Additional contributions** – these are the contributions you choose to make plus the match from your employer if you elect to receive it via My USS.

**Transfer contributions** – these are the contributions that you may have made through transferring benefits from other schemes into the USS Investment Builder.

The USS Default Lifestyle Option

The USS Ethical Lifestyle Option

Self-select funds

You can select one option.

The USS Default Lifestyle Option

The USS Ethical Lifestyle Option

Self-select funds

You can select one option.

The USS Default Lifestyle Option

The USS Ethical Lifestyle Option

Self-select funds

You can select one option.
Selecting and making changes

Making changes

You can make changes to your investments at any time through My USS. You can also change your Target Retirement Age at any time, which is important if you are invested in a lifestyle option.

You do not need to commit to “Do It For Me” or “Let Me Do It” forever. For example, you could choose to start by investing in a lifestyle option, and later switch to self-select options to have more control, or vice versa.

It’s important to keep in mind that there are costs and risks involved with switching your investments. This includes changes to investments in the lifestyle options that happen if you change your Target Retirement Age in a way that causes your investments to change (for example, if you change to and / or from a Target Retirement Age that is less than 10 years away). The trustee will not generally charge an administration fee for switches, but reserves the right to charge where frequent switching is occurring.

When considering switching investments, the primary risk you should consider is related to timing. Both the ‘sell’ and ‘buy’ parts of the transaction will be processed on the next available trade date, but during this time the value of your investments can change and could go down. If, for example, you request a switch and the fund you’re selling falls in value before the switch is made, there will be less money to switch to the new fund.

Additionally, transaction costs may be incurred when you switch between funds. These are the costs associated with buying and selling funds, such as fees to market traders. The chart on the right shows potential transaction costs for selling or buying a specific fund. Keep in mind that these vary over time and with market conditions, so actual costs to you may be higher or lower. The more switches you make, the more transaction costs you may incur. These charges are deducted automatically from your pension savings in USS Investment Builder.

<table>
<thead>
<tr>
<th>Self-select options and the funds in the USS Default Lifestyle Option</th>
<th>Transaction cost when buying</th>
<th>Transaction cost when selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>USS Cash Fund</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>USS Bond Fund</td>
<td>Up to 0.25%</td>
<td>Up to 0.25%</td>
</tr>
<tr>
<td>USS Cautious Growth Fund</td>
<td>Up to 0.55%</td>
<td>Up to 0.30%</td>
</tr>
<tr>
<td>USS Moderate Growth Fund</td>
<td>Up to 0.70%</td>
<td>Up to 0.30%</td>
</tr>
<tr>
<td>USS Growth Fund</td>
<td>Up to 0.85%</td>
<td>Up to 0.35%</td>
</tr>
<tr>
<td>USS UK Equity Fund</td>
<td>Up to 0.65%</td>
<td>Up to 0.15%</td>
</tr>
<tr>
<td>USS Global Equity Fund</td>
<td>Up to 0.20%</td>
<td>Up to 0.15%</td>
</tr>
<tr>
<td>USS Emerging Markets Equity Fund</td>
<td>Up to 0.35%</td>
<td>Up to 0.35%</td>
</tr>
<tr>
<td>USS Ethical Equity Fund</td>
<td>Up to 0.20%</td>
<td>Up to 0.20%</td>
</tr>
<tr>
<td>USS Sharia Fund</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funds in the USS Ethical Lifestyle Option</th>
<th>Transaction cost when buying</th>
<th>Transaction cost when selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>USS Ethical Growth Fund</td>
<td>Up to 0.85%</td>
<td>Up to 0.40%</td>
</tr>
<tr>
<td>USS Ethical Moderate Growth Fund</td>
<td>Up to 0.75%</td>
<td>Up to 0.40%</td>
</tr>
<tr>
<td>USS Ethical Cautious Growth Fund</td>
<td>Up to 0.60%</td>
<td>Up to 0.35%</td>
</tr>
<tr>
<td>USS Ethical Cash Fund</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

As at 1 July 2016
Taking your money

You can take your money from the USS Investment Builder – alongside benefits from the USS Retirement Income Builder – if you retire upon reaching your normal pension age. Alternatively, these benefits may be accessed at an earlier point if you opt for a form of early or flexible retirement.

As you approach that time, it’s important to consider:
• at what age you plan to start taking your money from the USS Investment Builder; and
• how you plan to use that money.
Approaching retirement

When will you take your money?

It’s important to consider at what age you’ll begin to take your money, and review that regularly to make sure it’s realistic for your circumstances. This is called your “Target Retirement Age”, and may be different from your normal pension age (although, depending on the Target Retirement Age you select and how you wish to access your benefits, they may be the same age).

It is important to understand your overall benefits from the USS Retirement Income Builder and USS Investment Builder as the way in which you access your money at retirement may impact on how much tax you will pay at and during retirement, and the size of your available tax-free lump sum. In the run up to your retirement we will provide you with standard options around the amount of pension and lump sum that you may draw from the USS Retirement Income Builder and the USS Investment Builder. However, you may wish to consider other ways in which you can take your USS Investment Builder benefits on retirement.

It’s especially important to consider when you’ll begin taking your money from the USS Investment Builder because, often, members will wish to switch their investments to less risky options as they approach that age. (If you’re in a lifestyle option, this switching happens automatically.) So if you haven’t considered or don’t regularly review your Target Retirement Age:

- your investments may be switched too early, in which case you could lose out on investment growth; or
- your investments may be switched too late, leaving your money exposed to sudden changes in investment markets just before your retirement, which could reduce your retirement savings.

If you’re in one of the lifestyle options, you can review and change your Target Retirement Age at any time; if you don’t make a selection, the default will be your normal pension age (usually age 65 but there are exceptions – please refer to the retirement factsheet to check your circumstances).
Approaching retirement

How will you take your benefits?

The USS Investment Builder gives you control over how you take your money in retirement. The options available can be one or a combination of the following:

A single cash lump sum

Withdraw all of your pension savings in the USS Investment Builder as a single cash lump sum at retirement, to use as you see fit.

AND / OR

Leaving your money invested, taking cash as and when you need it

Leave your money invested in the USS Investment Builder or take some of your pension savings in the USS Investment Builder as cash at retirement, while leaving the remainder invested. You can then withdraw cash lump sums from time to time, as you wish. You can make four withdrawals per year; the Trustee may apply an administration charge for each withdrawal.

AND / OR

Income in retirement

Use your pension savings in the USS Investment Builder to convert to pension within the scheme, or to buy an annuity or flexi-access drawdown product from another provider.

In general, based on the current tax legislation, 25% of your combined USS retirement benefits will be tax free, with the remainder taxed at your marginal rate.

In the 5-10 years before you retire it’s important to consider how you’ll take your benefits. That’s because you may want to switch your investments into funds that align with how you plan to use your money at retirement.

If you are in one of the lifestyle options, your investments automatically switch over time to be suitable for most members who, at retirement, wish to take a cash sum or leave some cash invested for the future. If you have different plans for how you’ll use your money in USS Investment Builder at retirement, you should consider switching to one or more of the self-select funds as you approach retirement, to better align your investments with your future plans.
Approaching retirement

Other ways of taking your benefits

**Accessing after normal pension age**
You may decide to take your USS Retirement Income Builder benefits from your normal pension age but leave some or all of your money invested in the USS Investment Builder until a later point. Alternatively, you may wish to take all of your benefits after your normal pension age – this is referred to as ‘late retirement’.

**Accessing before normal pension age**
You may do this through flexible retirement and take part of your benefits from the USS Retirement Income Builder and USS Investment Builder whilst remaining in employment. There are certain conditions that must be met before you can flexibly retire.

**Accessing before retirement by transferring out**
At any point you may transfer out your money invested in the USS Investment Builder to another pension arrangement. The employer subsidy of investment management charges will not apply for any funds once they have been transferred out.

Further information on late retirement, flexible retirement and transfers out can be found at [www.uss.co.uk](http://www.uss.co.uk).
Learn more

Making investment choices is an important financial decision – so we encourage you to take some time to understand more about the things to consider when deciding how to invest in the USS Investment Builder.
Learn more

Types of investment funds

The Trustee has selected the range of investment options to make available. All options and the performance of the funds are monitored and reviewed on a regular basis to ensure they are performing at satisfactory levels and in accordance with both the Investment Objectives the Trustee has set and the USS Statement of Investment Principles (SIP). Funds may be added, removed or replaced at any time.

The funds available through the USS Investment Builder are combinations of equities, property, bonds/gilts or cash. You might find it useful to understand more about each of these types of investment and we have provided a summary below. You should be aware that these summaries describe expected characteristics based on generalised historical performance of each type of investment and do not provide any guarantee that a type of investment will continue to display those characteristics in the future.

The fund factsheets contain information about the funds available and, as far as known, their performance. These are available on My USS. Please read the relevant fund factsheet carefully before making any investment selections.

**Equities**

Generally, equity funds:

- are made up of shares in companies traded on stock markets in the UK or overseas;
- are affected by rises and falls in their markets – their value can go down or up;
- have the potential to experience the highest short-term changes in value (either up or down) when compared with diversified growth funds, bonds/gilts or cash. Please note, both diversified growth funds and bonds/gilts may include higher risk/higher potential return investments that can also have high short-term changes in value;
- offer the potential for higher long-term returns than bonds/gilts or cash; and
- are normally suitable for members who are not planning to retire for several years (say five to ten years) and so do not need to sell their investments to convert to income in retirement or take a tax-free cash lump sum for several years.

*Equity funds are generally expected to have the highest short-term risk but also offer the potential to produce the highest future investment returns over the long-term.*

**Diversified growth fund**

Generally, diversified growth funds:

- are made up of investments in a wide range of different assets, e.g. equities, property, bonds, with the aim of reducing the impact on the fund of poor performance by one asset or a particular class of assets;
- typically aim to deliver growth over the medium to longer term, rather than offering potential for high growth in the short term;
- are considered to be lower risk than equities due to being invested in a range of different assets;
- are affected by rises and falls in the value of the different assets that they invest in; and
- are suitable for members who are not planning to retire for at least several years, but are not comfortable with the potential volatility of investing in equities.

*Diversified growth funds are generally expected to experience less variability than equities, but more volatility than bond (gilt) funds or cash. Typically they offer the potential for higher growth than bond (gilt) funds and cash but less than equities.*
Learn more

**Types of investment funds continued.**

**Bonds (gilts)**

Generally, bond (gilt) funds:

- are a loan to a company (or the Government in the case of gilts) for a fixed period;
- pay interest on the amount borrowed and repay the capital (i.e. the amount borrowed) at the end of the fixed period;
- pay interest at a fixed rate (fixed interest) or a rate linked to inflation (index-linked);
- rise and fall in value over their lifetime – and may be particularly affected by certain higher risk/higher potential return bonds – but in general returns are not expected to be as volatile as returns from equities or diversified growth funds; and
- are more suitable for those nearing retirement who will soon need to buy a pension. The price of pensions which do not increase in payment or which increase by a fixed amount each year (say 3% p.a.) is linked to the price of fixed interest gilts. The price of inflation-protected pensions is linked to the price of index-linked gilts.

*Bond (gilt) funds are generally expected to produce a lower investment return than equities over the long term, but are also expected to have lower variability of investment returns than equities.*

**Cash**

Generally, cash funds:

- are expected to provide lower returns over the long-term than equities, diversified growth funds or bonds/gilts;
- offer some protection against capital risk (i.e. the risk that your pension savings may fall in value), although inflation may reduce the real value of the investment and few cash funds, including that offered by the USS Investment Builder, are guaranteed never to fall in value;
- help protect the value of any tax-free cash sum amount you plan to take on retirement; and
- are less suitable for members with several years until they retire.

*Cash funds are generally expected to provide a lower investment return in the long-term than either gilts or equity funds but with much lower variability.*
Introduction and Approach
The USS ethical investment options are governed by a strict set of ethical investment guidelines that USS has developed. These guidelines are used in the portfolio construction and manager selection of those products.

These guidelines have been developed to take into account the views we’ve heard from our members, what we’ve seen in other UK pension schemes and advice from our investment consultants. Specifically, we have considered:

- Feedback from members through:
  - Our member engagement survey results;
  - Additional comments in relation to ethical investments that we’ve received from members in recent years;
- A review of market practices within our peer group;
- Input from two independent investment consultants.

It’s important to keep in mind that the definition of ethical investment is neither clear-cut nor universal. Indeed, most of the standard “ethical” investment funds available in the open market today follow a less strict set of principles than the USS guidelines. In developing our guidelines, we have aimed to reflect the beliefs of our members while still enabling us to offer quality investment options.

These guidelines are reviewed from time to time, to ensure they continue to reflect the views of our membership and take account of the latest developments in the market.

These ethical investment guidelines are in addition to the USS Statement of Investment Principles (SIP), which set the expectation that managers of the entire USS Investment Builder fund range and the USS Retirement Income Builder investments will act responsibly as stewards of the assets and actively engage with the companies they invest in.

For more information, you can see the the full ethical investment guidelines on My USS.
Learn more

Types of investment management

The managers of the funds available through the USS Investment Builder take different approaches to managing the investments. Some of the managers follow a passive management approach, while others follow an active management approach.

USS has considered the management approaches as part of the criteria for selecting each of the fund managers. The fund factsheets (available on My USS) have information about the management approach for each of the available funds.

Passive management

Passive investment management (sometimes known as index-tracking) is the process of buying and selling investments with the intention of matching the performance of a chosen investment market index (before making allowances for investment management fees). For example, for a UK equity fund this could be the Financial Times Stock Exchange (FTSE) All-Share Index in the UK.

A passive manager is attempting to match the index and so will hold almost all the different shares or bonds/gilts making up the index. This means passive investments should closely follow the market index returns whether the index goes up or down.

Importantly, whilst investing in index funds should allow an investor to enjoy the majority of the return in a particular market, it does remove the potential for outperformance of a particular market (or index) that otherwise might be achieved by an active manager (see the next column). As an active investment manager can also underperform an index, passive investment has the effect of removing active investment manager risk for an investor. Charges for passive management tend to be lower than for active management.

Active management

Active investment management is the process of buying and selling investments with the intention of outperforming a specific investment market index, a benchmark (a standard the fund is measured against), other investment managers, or a combination of these.

If successful, active management can generate significant extra returns over the long-term when compared with passive investment management. However, if the investment manager’s decisions prove unsuccessful, the opposite can also be true. Charges tend to be higher than for passive management due to transaction costs incurred by regularly buying and selling investments. However, the potential returns from active investment (if successful) can be higher than passive investment over the long-term and significantly higher than the saving in transaction costs that could be achieved by investing in passive funds.
Three of the main types of investment risk to consider when deciding where to invest your money are capital, inflation and benefit conversion risk.

**Capital risk**
This risk relates to the possibility of a fall in the value of your investments in the USS Investment Builder. This is what is meant by the phrase “the value of investments can go down as well as up”. This is particularly important for members close to retirement, when it should be considered in conjunction with the risk of selling assets to convert into a cash lump sum or an income stream at a certain point in time in the market (see “purchasing benefits risk” on the right). Cash generally represents the lowest capital risk of the investment types.

**Inflation risk**
This is the risk that inflation will be greater than the investment growth of your money in the USS Investment Builder over time. If this is the case then your “purchasing power” (how much you can buy with your money) will reduce over time as the cost of living increases. This type of risk may be overcome by choosing investments that have the potential to match or beat price inflation over the long-term, such as equities.

**Purchasing benefits risk**
The risk that the value of your investments in the USS Investment Builder does not move in line with the cost of purchasing the benefits you would like at retirement. This is particularly relevant if you are considering a regular income in retirement from an annuity, in which case the conversion risk of movements in annuity rates can potentially be reduced if you are already invested in bonds. It is also relevant if you plan to take a cash lump sum at retirement, in which case the risk can be reduced by investing in cash.
Learn more

Glossary

You can find the definitions of terms related to the USS Investment Builder in the Glossary section of www.uss.co.uk.
Important points to remember

This investment guide and the fund factsheets have been produced by Universities Superannuation Scheme Limited (the “Trustee”) and should be read in conjunction with the USS member guide (available in the member area at www.uss.co.uk) and the further information (including fund factsheets and modellers) on the USS Investment Builder available at My USS.

As you review this information, please keep in mind that past performance is not necessarily a guide to future performance. The value of investments may go down as well as up and the return on your investments is not guaranteed. This includes equities, Government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Investments in developing or emerging markets may be more volatile and less marketable than in more established markets such as Europe or North America.

Exchange rates may also affect the value of an overseas investment. As a result, you may not get back the amount originally invested.

The USS fund objectives and benchmarks have been determined by the Trustee, who is responsible for selecting funds in the USS range, which may be added to, removed or replaced from time to time. Member selections are linked to the particular USS fund selected and are not to or made in respect of any underlying fund manager. The underlying fund manager can be changed at any time. The information and data contained in this investment guide and in the fund factsheets have been obtained from Northern Trust and the underlying fund managers and are not verified by USS. USS does not represent that such information is accurate or complete and it should not be relied on as such. Neither USS nor the third party sources accept responsibility for any loss caused to any recipient of this document as a result of any error, inaccuracy or incompleteness of this publication or the fund factsheets or as a result of any third party error. Any opinions expressed in this investment guide or in the fund factsheets are the Trustee’s own views and may change.

This publication, the fund factsheets and the data contained therein is for information only and is valid as at the date of publication. They do not take into account your personal circumstances and do not constitute financial advice or a recommendation to make (or refrain from making) any kind of investment decision.

If you are not sure what’s best for you, we strongly recommend that you speak to an independent financial adviser (IFA) before making a decision in relation to your investments or any change to them. You can find an IFA through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

The scheme is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter will prevail. Members are advised to check with their employer contact for the latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.
Learn more

Get free help and guidance

Pension Wise
If you need impartial guidance about the options you have with the USS Investment Builder and how to access your funds you could contact Pension Wise. Pension Wise is a free and impartial government service available for anyone over the age of 50. Visit the website [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) for further information. Alternatively, you can call 0800 138 3944 to arrange a face-to-face telephone appointment with their team.

Money Advice Service
You may also find the Money Advice Service website helpful in guiding you through your options. This is a free and impartial government service that provides money advice, tools and calculators for financial planning and telephone support. Visit the website [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk) or call 0800 138 7777.