**Consultation Questions, University of Edinburgh Response, 1 May 2020**

**1.What are your comments on the proposed new methodology?**

The approach seems sensible however we believe USS must be mindful of the strength of the employer covenant across the sector, particularly in relation to the current economic crisis. In reality covenant strength will vary between Institutions and this should be borne in mind.

**2. Do you support the measures to ensure the covenant is "Strong" agreed as part of the 2018 valuation on: i) the permanent rule change on employers exiting the Scheme to underpin a 30-year covenant horizon; ii) debt monitoring arrangements; and iii) pari passu security on new secured debt? (See Section 3)**

We do support the measures agreed as part of the 2018 valuation however the current crisis will have a profound negative financial impact for Institutions, at least in the short to medium term and it is therefore imperative that the scheme's long-term financial sustainability is also addressed to reduce and develop certainty around the future cost basis.

Furthermore, for us to agree to a permanent rule change on employer scheme exit there would need to be a commitment from the sector to address benefit reform and its impact on future costs.

**3. Do you wish to consider additional tangible covenant support measures to further strengthen the covenant and potentially support additional risk (above that outlined in the scenarios presented in the above)?**

It would be difficult to come up with additional covenant support measures that would be affordable and acceptable to all Institutions if triggered. In the current climate we do not believe additional tangible support measures are attainable. Institutions would also need to consider this alongside their obligations to other lenders.

**4. Do you have initial views on whether you would be comfortable with an investment strategy that took a moderately larger amount of risk in the long term?**

We believe the level of risk should be proportionate to the long term funding strategy of the scheme however a margin for outperformance of growth assets is acceptable. We must also be mindful of tPR's attitude to risk and ensure the amount of risk is proportionate.

**5. Based on the example approach to managing risk, as set out in this document, what is your risk appetite? In other words, do you have initial views as to how much of your risk capacity you are comfortable for us to rely on in supporting the Scheme, in the knowledge that there are adverse scenarios in which this may be called? (You may wish to express this as a contribution of x% of salary, or a monetary amount, paid over y years.) (See Section 4)What are your comments on the proposed new methodology?**

The examples given in the document for a strong employer covenant are at the very upper-limit of our risk appetite. The ability to continue to grow our business relies heavily on continuance of available funds and a potential 10% cost to fund the past service deficit over a 30 year period, as referred to in Section 4 of the document would seriously inhibit both future growth and employment opportunities. If we were to agree to this it would need to be conditional that future service costs were reduced (through benefit reform) and therefore future risk reduced/removed. The University believes that increases to current contribution levels cannot be sustained unless short term increases are agreed as part of package of measures to reduce overall costs in the longer term.