

**REPORT AND ACCOUNTS**  
for the year ended 31 March 1996

USSS

UNIVERSITIES SUPERANNUATION SCHEME

*Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets exceeding £12 billion.*

*It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.*

*The head office is at Royal Liver Building, Liverpool and the investment office is at Angel Court, London.*

# USS

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The year to 31 March 1996 was a period of continued growth for the fund. The scheme membership increased from 70,200 to 74,700 and there was a comparable growth in the numbers of pensioners and those entitled to deferred benefits to 24,200 and 26,200 respectively. Substantial investment returns contributed to an increase in the size of the fund during the year of over £2.2 billion and at 31 March 1996 the fund had total assets of over £12 billion.

It was also a year of considerable change in the Liverpool office.

The trustee company relocated to the Royal Liver Building in December 1995. One of the principal reasons for this move was the need to acquire premises suitable for the introduction of the state-of-the-art technology which now supports the company's administration. The use of paper files has been replaced by a document imaging system enabling membership records to be retrieved instantaneously when needed. This has produced a number of efficiencies and builds upon the company's quality policy following its British Standards Institution ISO9002 registration for both pensions and investment administration.

The Pensions Bill introduced by the government in November 1994 became the Pensions Act on receiving the royal assent on 19 July 1995. The predominant theme of the act and the regulations made under it is to require pension schemes to operate what many, including USS, already regard as best practice.

Graeme J Davies  
Chairman

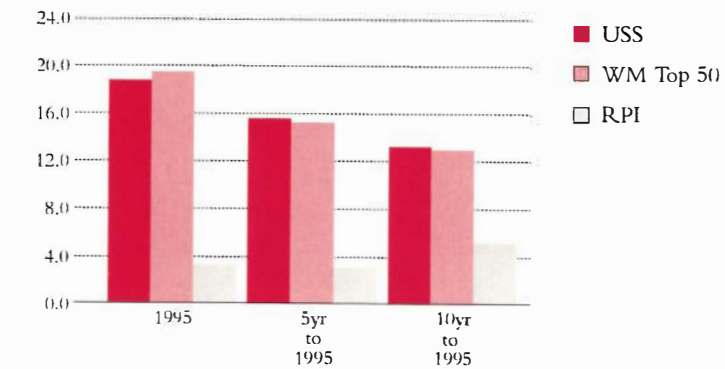
David B Chynoweth  
Chief Executive

**FUND**



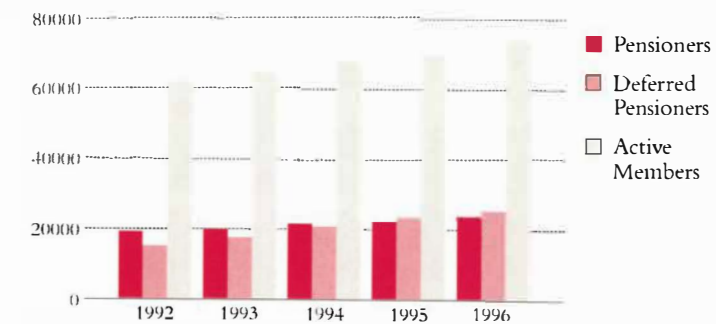
The fund has almost doubled in size in the last five years, having grown from £6.2 billion in 1992 to over £12 billion as at 31 March 1996. More details are given in the investment sub-committee report on page 14 and in the five year summary of the fund accounts on page 55.

**PERFORMANCE**



The fund's investment return of 18.4% in 1995 was slightly below that of the average of the 50 funds of over £1 billion in the WM survey but well ahead of the retail price index. Over both 5 years and 10 years the fund has outperformed the WM Top 50 average and comfortably exceeded the RPI. More details are given in the report of the investment sub-committee on page 14.

**MEMBERSHIP**



The membership of the scheme has continued to grow steadily. As at 31 March 1996 the total membership was 125,100, an increase of 7.6% from last year and 26% from five years ago. More details are given in the five year summary of the fund accounts on page 55.

**PRINCIPAL OFFICERS AND ADVISERS**

**The principal officers and advisers of the trustee company at 1 August 1996 are:-**

Chief Executive	D B Chynoweth BA IPFA FCCA FIMgt
Chief Investment Officer	P G Moon
Chief Pensions Manager	R E Heywood BA
Chief Accountant	C S Hunter BSc CA
Company Secretary	J P Williams BA ACIS MIPD MIMgt
Surveyor	R G Walden BSc FRICS
Actuary	M B Reid BSc FIA FAPSA of William M Mercer Limited 30 Exchange Street East, Liverpool L2 3QB
Solicitors	Alsop Wilkinson India Buildings, Liverpool L2 0NH
Auditors	Coopers & Lybrand Richmond House, Rumford Place Liverpool L3 9QS
Bankers:	Barclays Bank Plc 4 Water Street, Liverpool L69 2DU
Property Consultants	Jones Lang Wootton 22 Hanover Square, London W1A 2BN

**The principal other organisations acting for and retained by the trustee company are as follows:**

Solicitors	Clifford Chance, Dundas & Wilson, Mitchells Robertson Fried Frank Harris Shriver & Jacobson, Lawrence Graham
Investment managers	Baillie Gifford & Co. PDFM Limited, Schroder Investment Management Limited
Custodians	Bankers Trust Company, Chase Manhattan Bank NA
Investment performance management	Investment Property Databank Ltd, The WM Company
Property valuers	Colliers Erdman Lewis
Computer software	Claybrook Computing Ltd, Image Systems Europe Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Computer Disaster Recovery Limited
Insurers	Royal Insurance (UK) Ltd

The trustee of Universities Superannuation Scheme is the trustee company, Universities Superannuation Scheme Limited, which is appointed under USS Rule 20.1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed or removed without the approval of the joint negotiating committee. The trustee company is also the administrator of the scheme for the purposes of the Income and Corporation Taxes Act 1988. The registered office of the trustee company to which enquiries about the scheme generally or about an individual's entitlement should be sent is:

Universities Superannuation Scheme Limited,  
Royal Liver Building,  
Liverpool L3 1PY

**The membership at 31 March 1996 of the principal committees was as follows:**

**Management Committee**

*Appointed by the Committee of Vice-Chancellors and Principals*

Sir John Sparrow (Chairman), K F Dibben, Dr K J R Edwards, Professor Martin Harris

*Appointed by the Association of University Teachers*

Dr G R Talbot, J W D Trythall

*Appointed by the Higher Education Funding Councils*

Professor Brian Fender

*Co-opted*

Dr Christine Challis, L Collinson, C D Donald, Lord Mark Fitzalan Howard,  
E B O Sherlock (Deputy Chairman)

**Finance & General Purposes Committee**

*Appointed by the management committee*

E B O Sherlock (Chairman), L Collinson, C D Donald, Professor Martin Harris,  
Sir John Sparrow, J W D Trythall

**Investment Sub-Committee**

*Appointed by the management committee*

Lord Mark Fitzalan Howard (Chairman), C D Donald, C E Hughes, P V S Manduca,  
Dr D Nicholls, Sir John Sparrow

**Audit Committee**

*Appointed by the management committee*

K F Dibben (Chairman), Dr Christine Challis, E B O Sherlock, Sir John Sparrow,  
Dr G R Talbot

**Salaries Sub-Committee**

*Appointed by the management committee*

L Collinson (Chairman), E B O Sherlock, Sir John Sparrow, J W D Trythall

**Advisory Committee**

*Appointed by the Committee of Vice-Chancellors and Principals*

D Anderson-Evans (Chairman), A D Linfoot, D W Sims,

*Appointed by the Association of University Teachers*

M W Hughes, J C Duffy, Dr D J Wright

**Joint Negotiating Committee**

*Independent Chairman*

Sir Kenneth Berrill

*Appointed by the Committee of Vice-Chancellors and Principals*

D Anderson-Evans, Dr S G Fleet, A D Linfoot, I G Thompson, A D Weir

*Appointed by the Association of University Teachers*

Dr J M Goldstrom, Dr G R Talbot, J W D Trythall, Dr E Wade, A Waton

## MANAGEMENT COMMITTEE

The management committee submits its twenty-first annual report on the progress of USS. Separate reports on the activities of the investment sub-committee, the joint negotiating committee and the advisory committee are printed following this report.

### Committee Members

Professor Brian Fender succeeded Professor Sir Graeme Davies on 1 October 1995 as the director appointed by the Higher Education Funding Councils. Sir John Sparrow retired from the board on 31 March 1996 after eight years as chairman. During that time he played a significant role in leading USS Ltd through a period of major change and rapid growth in both the membership and in the assets of the fund. His wise counsel was of immense value and we wish him a long and happy retirement. His successor from 1 April 1996 is Professor Sir Graeme Davies.

### Institutions



At 31 March 1996 there were 271 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, all the colleges of the universities of Oxford and Cambridge and 124 other institutions.

Changes in institutions participating occurred as follows:

### New participating institutions

- Gyosei International College in the United Kingdom
- Gray Laboratory Cancer Research Company
- Council for Advancement and Support of Education (CASE)
- Associated Examining Board
- Nuffield Provincial Hospitals Trust
- Regulatory Policy Institute
- Higher Education Careers Services Unit
- Royal Academy of Music
- Huddersfield University
- De Montfort University
- Plymouth University
- denotes institutions admitted only for employees who had been members of USS whilst in a previous employment.

### Institutions which ceased to participate

- Science Policy Support Group

The following constituent institutions of the British Postgraduate Medical Federation were admitted as separate participating institutions:

- Institute of Cancer Research
- Institute of Neurology
- Institute of Ophthalmology (subsequently merged with University College, London)

Other changes:

- London Hospital Medical College and St Bartholomew's Medical College merged with Queen Mary & Westfield College
- National Heart & Lung Institute (formerly part of British Postgraduate Medical Federation) merged with Imperial College, London
- Marie Curie Memorial Foundation became Marie Curie Cancer Care
- Manchester College Oxford became Harris Manchester College Oxford

### Scheme membership

During the year 11,877 new members joined the scheme and at 31 March 1996 the total membership, including pensioners and those entitled to deferred benefits, was 125,093 compared with 116,276 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 30 and over the five years ended 31 March 1996 in the Summary on page 55.



The proportion of eligible new employees choosing not to join USS reduced to 22%. While there may be valid reasons for the decisions of some employees not to join USS, the figure is of concern to the committee. Similarly, the extent of the variation between individual institutions is very considerable but this may in part reflect the composition of their staff. The committee has attempted to give widespread publicity to the serious disadvantages that may be experienced if employees make the wrong choice. Of particular concern is the position of the dependants of an employee who has chosen not to join thereby foregoing the important death benefits available to dependants under USS. The alternative of SERPS provides little and most personal pensions provide only a modest benefit. The committee recognises that some employees may wish to change their original decision not to join USS, possibly because their circumstances have changed. Where an eligible employee has chosen not to join, possibly because of having no dependants or of being employed on a short-term contract, an option to join at a later date is available. During the year, the management committee agreed to the suspension of the previous requirement that all eligible employees wishing to join or rejoin USS after a period of membership of SERPS or a personal pension must submit a satisfactory medical declaration. It also agreed that the payment of all additional contributions following membership of alternative pension schemes should be suspended subject to review at each actuarial valuation and that eligible employees could be permitted to rejoin USS provided that their employer could confirm that they had a good health record. Recent membership statistics continue to show that a significant number of members are now taking advantage of this option to join, or rejoin, USS after having opted out for a period.

### Rule amendments

The current USS rules are represented by the Supplemental Declaration of Trust which was executed on 7 February 1994 and five Deeds of Amendment. No amendments were made to the rules during the year.

### Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971. As reported last year, USS pensions were increased by 2.2% on 21 April 1995.

On 21 April 1996 pensions which satisfied certain qualifying conditions and began before 22 April 1995 were increased by 3.9% with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rates.

That part of the pension payable from the main section of USS which represents the Guaranteed Minimum Pension is generally not increased in accordance with the above as increases are paid by the Department of Social Security. This is explained in detail in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.

Rule 15 also provides that pensions payable from the supplementary section shall be increased to the extent that the trustee company, acting on actuarial advice, decides. As a result, pensions arising from the supplementary section were increased at the same rates as those that applied to the main section.

### Contribution rates

The rates of contributions payable by members and institutions between 1 April 1995 and 31 March 1996 were as follows:

USS Main Section	Member	6% of salary
	Institution	18.55% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

### Actuarial matters

A statement by the actuary is shown on page 52. It reports that the last full actuarial valuation was carried out as at 31 March 1993, that actuarial reviews were completed as at 31 March 1994 and 31 March 1995, and that a further full actuarial valuation is being carried out as at 31 March 1996.

The results of the 1996 valuation will be available later this year. Meanwhile, the actuary has recommended that no change be made in the institutions' contribution rate.

### Accounting matters

The accounts for Universities Superannuation Scheme and for Universities Superannuation Scheme Limited (the trustee company) are set out later in this booklet.

The operating costs for the year amounted to £11.8 million (1995 : £9.8 million), this amount being recoverable from USS. Administration costs amounted to £5.8 million (1994 £4.1 million). Investment costs amounted to £6 million (1995 : £5.7 million). The increase in costs compared to the previous year is primarily due to three main factors: the introduction of an early retirement scheme; the relocation of the Liverpool office and the refurbishment of the new premises; and the continuation of the information technology strategy which commenced in 1994. In total these factors resulted in an increase of approximately £1.4 million compared to the previous year. Excluding these, the increase was 6% which was spread across a number of areas including increased premises costs in both Liverpool and London and a reduction in the costs met by third parties. Further details are given in the Directors' Report and Accounts on page 56.

### Trustees' responsibilities

The Pensions Bill introduced by the government in November 1994 became the Pensions Act on receiving the royal assent on 19 July 1995. The detailed provisions stemming from the act will be contained in about 35 sets of regulations which are being produced by the Department of Social Security and will be laid before Parliament before April 1997 when the majority of the provisions will come into force.



The predominant theme of the act and the regulations made under it is to require pension schemes to operate what many, including USS, already regard as best practice. One of the aspects of primary concern to USS, because of the university-wide nature of the scheme in meeting the particular circumstances of university academic employment, is that of pension fund trusteeship. The Pensions Act

1995 contains certain requirements for the appointment of member-nominated trustees (or in the case of a corporate trustee) of member-nominated directors. USS has been concerned to ensure that in the detailed regulations relating to the operation of these provisions, there was acknowledgement of the fact that USS Ltd has on its board directors appointed by CVCP, the AUT, the HEFC, and up to five co-opted directors, with the aim of ensuring a balanced and independent trustee board with appropriate member representation. The board of USS Ltd was also mindful that this system of board representation had the approval of institutions when USS was first established in 1975 and is considered to have worked well ever since. The government accordingly accepted that an exception should be made for schemes which could meet certain stringent criteria and the regulations which have now been made as regards member-nominated directors have been framed in such a way that USS Ltd, as its board of directors is currently constituted, will be exempt from the requirement to have one-third of its directors directly nominated by the membership of USS provided that the composition of the board continues to satisfy certain detailed independence conditions.

### Investment policy

During the year two changes to the arrangements for investment management of securities were made.

After a review, the appointment of Legal & General as managers of the fund designed to track the FT-SE-A All Share Index of UK equities was terminated on 30 June 1995. This fund is now administered in-house with the internal managers acting solely on the advice of HSBC James Capel Quantitative Techniques.

In addition after a review early in 1996 it was decided to terminate the contract of Cursitor Management Limited and this portfolio was integrated with the internally managed fund.

The arrangements for management of the assets and custody together with the approximate proportion managed or held by each as at 31 March 1996, were as follows:

- (a) 23% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FT-SE-A All Share Index of UK equities (with Chase Manhattan Bank as custodian);
- (b) 49% is actively managed in-house by USS Ltd, London Investment Office (with Chase Manhattan Bank as custodian). 7% of this is property assets.
- (c) 8% is managed by Baillie Gifford (with Bankers Trust Company as custodian);  
8% is managed by PDFM (with Bankers Trust Company as custodian);  
9% is managed by Schroder Investment Management (with Bankers Trust Company as custodian);
- (d) 3% of the fund is represented by insurance policies and a small managed fund of UK equities.

The managers in (b) and (c) above each manage their share of USS securities on the basis of a balanced brief taking into account the fact that approximately 23% of the USS fund is invested in line with an index of UK equities.

The year to 31 December 1995 was a good year for pension fund performance, although the fund underperformed its target return. Over three years the fund outperformed the average fund yet underperformed the very demanding targets set.

Further details of the investment targets, investment performance and the amounts being managed by each manager are given in the report of the investment sub-committee.

The proper corporate governance of companies in which the fund invests is of importance to USS Ltd. The trustee has adopted guidelines based on the Cadbury Committee's and the Greenbury Committee's recommendations. Votes are cast on resolutions at the AGMs of all UK companies and where appropriate at the AGMs of all overseas companies in which the fund has investments on the basis of the guidelines.

The trustee's duty is to ensure that the assets are invested to secure the benefits under the scheme. The managers are therefore instructed to give primary consideration to the financial prospects of any asset they hold or consider holding. The trustee cannot instruct the managers to invest on ethical or environmental considerations alone and has not done so. However, the trustee expects that the boards of companies in which it invests should pay due regard to environmental matters and thereby further the long term financial interests of their shareholders. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The trustee cannot become involved in these decisions and therefore looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long term interests.

### Administration

The introduction of an early retirement scheme within the trustee company facilitated a restructuring of the staff in the Liverpool office in parallel with the introduction of new technology and of a number of system improvements. This resulted in a reduction in the number of staff, particularly at senior level, provided greater opportunities for career progression for younger staff and gave management greater flexibility in working towards the most efficient staffing structures required to respond to the company's future needs.

The Liverpool office successfully relocated on 4 December 1995 to the Royal Liver Building. It had become apparent that the previous offices at Richmond House would be unsuitable for the computer systems planned and the new offices have provided a significantly enhanced working environment. As well as raising the profile of USS Ltd within Liverpool the move had a very positive effect on staff morale.



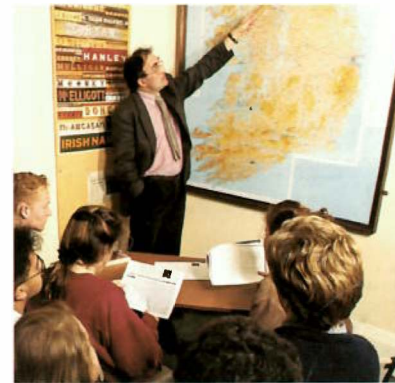
Considerable progress was made during the year on the implementation of an information technology strategy which commenced in 1994. The pensions administration system was integrated with an electronic document management system in time for the office relocation in December 1995 and all files for active members and leavers were scanned and indexed. In total, 5.3 million images have been stored on optical disc and all pensions staff now work with electronic images on computer screens instead of with paper files. Further increases in efficiency can be expected to follow the introduction of enhanced case management software and the development of the reporting functionality will provide the facility for accurately monitoring individual and departmental performance.

The service provided to members and institutions was monitored each quarter and in the areas of highest priority, which include the prompt payment of benefits, the prescribed standards were consistently achieved. Transfers from and to other pension schemes continued to be slow to bring to completion mainly because of the number of steps to be taken by the transferring and receiving schemes to enable the member to obtain all the information needed to decide whether or not to authorise the transfer. Reports showing achievements compared with targets

are reviewed regularly and are discussed at meetings of the finance officers' group which is a liaison committee with representative finance officers from the institutions serving on it.

Because of the work demands arising from the high level of pensions activity generated in particular by the Pensions Act and by the office relocation and associated restructuring of staff, it was not possible to hold as many seminars as in recent years. It does, however, remain our intention to continue the programme of activities designed to foster good communication between USS Ltd and the members of the staff at institutions who are involved with the administration of the scheme. One meeting of the finance officers' group was held and the annual meeting with institutions' representatives took place in London in November 1995 with a full report of the proceedings being circulated subsequently to all institutions.

Since the introduction in 1988 of voluntary membership of occupational pension schemes about one-quarter of new employees eligible to join USS have elected not to do so, which means that they will either have a personal pension or be participating in SERPS. This suggests, as mentioned earlier in the section relating to scheme membership, that a significant number of university employees continue to take decisions about their pension arrangements which might not be in their best interests.



#### Disclosure requirements

The general rights which members and beneficiaries have always had to request information under trust law were supplemented in great detail in the Social Security Act 1985 and the regulations made under it. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a *Disclosure Kit* containing the required documents. Other information, for example *A guide for members*, must be provided to every new member and supplies are available from Liverpool to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the happening of certain events such as leaving service, retirement or death and these are provided by our Liverpool office as part of the processing of such benefits.

The disclosure regulations require that a number of statements are made in a document which accompanies the audited accounts and actuarial statement and, insofar as they do not appear elsewhere in the *Report and Accounts*, they are given below.

A copy of the statement on pension trust principles issued by the Occupational Pensions Board has been issued to each member of the management committee; a copy is held at the trustee company's registered office and is available for inspection by those persons.

Enquiries about the scheme generally or about an individual's entitlement should be sent to the trustee company's registered office.

Transfer values paid during the year were determined in accordance with the Pension Schemes Act 1993 and appropriate regulations. No transfer values paid represented less than their full cash equivalent.

USS has no employer-related investments other than the contributions due from institutions disclosed in note 15 of the USS accounts. The scheme's assets are invested in accordance with the Occupational Pension Schemes (Investment of Scheme's Resources) Regulations 1992.

#### Acknowledgements

The management committee wishes to record its appreciation of the service given by all those who are concerned in the administration and management of USS, including the staff of the trustee company in Liverpool and London and the officers of the institutions which participate in the scheme. It wishes also to thank the various consultants and advisers who, by their specialist knowledge and experience, make a valuable contribution to the work of the trustee company.

Signed on behalf of the management committee

Graeme J Davies  
Chairman



### INVESTMENT SUB-COMMITTEE

The investment sub-committee advises the trustee company on all matters relating to the investment of the fund's assets.

#### HIGHLIGHTS OF 1995/96

- Investment returns were substantial in the year to 31 December 1995. Investment returns for the total fund were 18.4%, far in excess of wage and price inflation of 3.8% and 3.2% respectively.
- The 10 year return for the fund was 13.2% per annum, just ahead of the average fund and, again, well ahead of growth in average earnings of 6.5% and retail prices of 4.6% over the same period.
- Including cash flow and capital appreciation, the assets of the fund reached £12.0 billion on 31 March 1996 from £9.7 billion a year earlier.
- HSBC James Capel Quantitative Techniques were appointed to advise on the composition of the FTSE-A-All-Share Index portion of the fund which is now administered in-house with effect from 1 July 1995.
- Cursitor Management's contract was terminated on 31 March 1996. This fund of £186 million is now managed by the in-house investment team.
- Chase Manhattan Bank was appointed as custodian for the internally managed portion of the fund from 1 July 1995 to replace National Westminster Bank and Royal Bank of Scotland.
- Barclays Bank was appointed as the fund's banker from 7 March 1996 replacing National Westminster Bank.

#### INVESTMENT MANAGEMENT

The fund's investments are divided between those under the direct control of USS Ltd and those managed externally. The internal investment team at the London Investment Office manages the majority of the assets.

The external managers at the commencement of the year to March 1996 were Legal & General Investment Management Limited, who were responsible for the Financial Times Stock Exchange Actuaries All Share Index (FT-SE-A All-Share Index) matching fund, PDFM Limited, Schroder Investment Management Limited and Baillie Gifford & Co, all of whom have a balanced fund remit and Cursitor Management Limited who ran a specialist high performance fund.

During the year these managers were remunerated on the following bases - Legal & General, Schroder Investment Management and Baillie Gifford & Co through a fixed fee, PDFM through a performance-related fee and Cursitor Management on an ad valorem basis.

Legal & General ceased to run the index fund from 30 June 1995 and the index fund is now administered in-house acting on advice provided by HSBC James Capel Quantitative Techniques. Cursitor Management's contract was also terminated on 31 March 1996.

Jones Lang Wootton administers the properties within the portfolio and advise on its composition. For these services they charge both management and transaction-related fees.

An analysis of the total investments of the fund at 31 March 1996, along with the comparative figures for the preceding year, is set out in the following table. The investments are stated at market value and details of the changes in value are summarised in Note 8 to the USS accounts on page 46.

**TOTAL INVESTMENTS OF THE FUND**

Type of Investment	Fixed Interest £m	Index Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	Total		Total	
						31 March 1996 £m	31 March 1996 %	31 March 1995 £m	31 March 1995 %
<b>Investments under the direct control of USS Ltd</b>									
Quoted securities									
UK	217.5	142.5	2,401.0	-	-	2,761.0	23.1	2,136.3	22.0
Overseas	362.1	-	1,857.8	-	-	2,219.9	18.5	1,687.0	17.4
Unquoted securities									
UK	-	-	5.3	-	-	5.3	0.0	11.3	0.1
Overseas	-	-	0.1	-	-	0.1	0.0	0.3	-
Property									
UK	-	-	-	782.6	-	782.6	6.5	840.0	8.6
Cash/stockbroker balances									
UK	-	-	-	-	45.1	45.1	0.4	57.0	0.6
Overseas	-	-	-	-	125.3	125.3	1.0	251.7	2.6
Sub-total	579.6	142.5	4,264.2	782.6	170.4	5,939.3	49.5	4,983.6	51.3
<b>Investments managed internally on the basis of external advice</b>									
Index fund									
UK	-	-	2,761.8	-	(21.5)	2,740.3	22.9	-	-
Overseas	-	-	0.4	-	-	0.4	0.0	-	-
Sub-total	-	-	2,762.2	-	(21.5)	2,740.7	22.9	-	-
<b>Investments managed externally</b>									
Legal & General									
UK	-	-	-	-	-	-	-	2,058.0	21.1
Overseas	-	-	-	-	-	-	-	6.2	-
Baillie Gifford									
UK	79.7	-	607.7	-	41.6	729.0	6.1	582.4	6.0
Overseas	30.2	-	160.9	-	45.7	236.8	2.0	164.1	1.7
PDFM									
UK	156.0	127.8	202.2	-	195.8	681.8	5.7	488.9	5.0
Overseas	69.1	-	213.2	-	(9.8)	272.5	2.3	293.4	3.0
Schroder									
UK	68.7	-	452.3	-	70.3	591.3	4.9	478.2	4.9
Overseas	79.3	-	348.9	-	(0.6)	427.6	3.6	306.6	3.2
Managed fund									
-	-	-	69.4	-	9.0	78.4	0.7	95.3	1.0
Life assurance policies									
UK	64.4	2.8	124.0	22.1	13.5	226.8	1.9	219.0	2.3
Overseas	-	-	49.9	-	-	49.9	0.4	45.9	0.5
Sub-total	547.4	130.6	2,228.5	22.1	365.5	3,294.1	27.6	4,738.0	48.7
<b>Total investments</b>									
UK	586.3	273.1	6,623.7	804.7	353.8	8,641.6	72.2	6,966.4	71.7
Overseas	540.7	-	2,631.2	-	160.6	3,332.5	27.8	2,755.2	28.3
<b>Total</b>	<b>1,127.0</b>	<b>273.1</b>	<b>9,254.9</b>	<b>804.7</b>	<b>514.4</b>	<b>11,974.1</b>	<b>100.0</b>	<b>9,721.6</b>	<b>100.0</b>
<b>Percentage at 31 March 1996</b>									
UK	4.9	2.3	55.3	6.7	3.0		72.2		
Overseas	4.5	-	22.0	-	1.3		27.8		
<b>Total percentage</b>	<b>9.4</b>	<b>2.3</b>	<b>77.3</b>	<b>6.7</b>	<b>4.3</b>		<b>100.0</b>		
<b>Total percentage at 31 March 1995</b>									
	11.5	2.4	72.2	8.9	5.0				100.0

**WM PENSION FUND SURVEY FOR 1995**

The fund participates in the above survey of pension fund performance. In 1995 the survey covered 1,455 funds with a combined value of £375 billion representing over 80% of total UK pension funds by value.

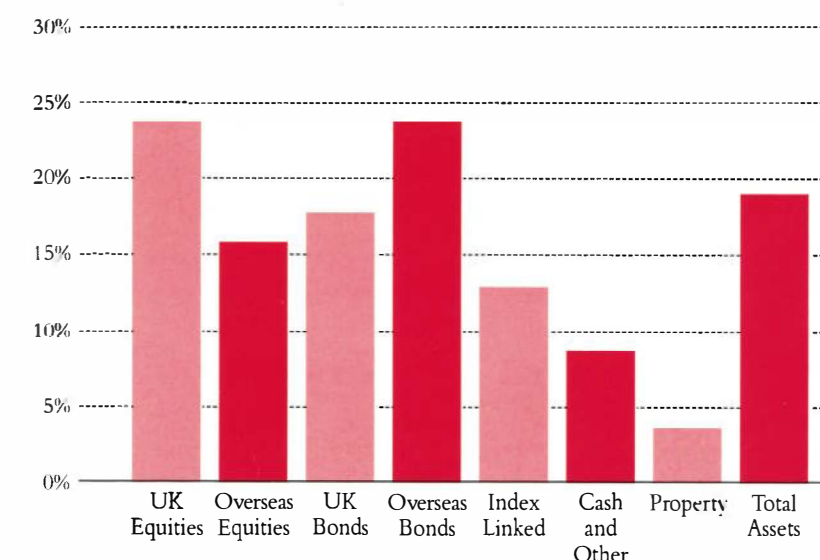
**Average pension fund results for 1995**

Compared with the negative performance of 1994, pension funds did very well in 1995.

Investment returns in 1995 reported in the survey showed that the average pension fund performed well with most asset classes showing strong returns.

Property performed poorly as did Japan among the equity markets.

**Investment returns 1995**



**USS RESULTS**

The previous section showed the average pension fund results. This section analyses the performance of USS itself.

The fund adopted the following dual performance target from 1 January 1994:-

*To exceed the return on the FT-SE-A All-Share Index by 1% per annum and the 40th percentile of the WM ex-property universe of all funds over a rolling five-year period.*

The first element of this target is extremely demanding with less than 5% of pension funds having achieved this over the past five years. It has been chosen to encourage the managers to adopt an equity based portfolio which is most likely to enable the fund to meet its liabilities.

The dual target is likely to result in the performance of the fund differing significantly year by year from the average fund in the WM survey. However, it should result in superior returns over the longer (5-10 years) period on which an immature fund like USS should be concentrating.

#### Longer term results

Over the 10 years to 31 December 1995, the total fund returned 13.2% per annum against an average of 13.1%. This compares with average earnings increases of 6.5% per annum and retail price index growth of 4.6% per annum. Over this period the fund comfortably met its actuarial target.

Against the 50 funds of over £1 billion which represent 58% of assets in the WM survey, USS performed better than the average fund, on the 32nd percentile.

These fund returns include the cost of transferring funds to the external managers in 1992 calculated at 0.6%.

#### Performance over the three years to 31 December 1995

The present method of investment management has been in place since late 1992 with performance being measured from the beginning of 1993. Taking the three years 1993 to 1995 together, the following annualised returns were achieved:-

	%	Percentile Rank
Schroder Investment Management	14.8	24
London Investment Office	14.5	31
Baillie Gifford	13.4	64
PDFM	13.3	68

Over this period, the 40th percentile is calculated to be 14.2% and Schrodgers and the London Investment Office achieved this. None of the managers beat the FT-SE-A All-Share index +1%, namely 15.4%. Over the three year period the total fund including property returned 14.2% against the average fund performance of 13.7%.

#### Performance in 1995

In 1995, the total fund underperformed its dual targets. By returning 18.4%, the fund was at the 79th percentile and 5.5% behind the FT-SE-A All-Share Index. The fund's overweight position in cash, property and the Pacific markets and its underweight position in North American equities contributed to this result.

The returns achieved for USS by the external balanced managers and the London Investment Office, after apportioning the UK indexed fund, are shown below:-

	%	Percentile Rank
Baillie Gifford	21.3	32
London Investment Office	20.2	52
Schroder Investment Management	19.9	59
PDFM	16.7	94

The FT-SE-A All-Share Index returned 23.9%, making the target return 24.9% for the individual managers. The best returns were achieved by Baillie Gifford and the London Investment Office in 1995, although both managers failed to reach this demanding target which was achieved by only 3% of managers in the WM Universe.

#### INVESTMENT REPORT

World economic growth continued but at a slower pace during 1995, although it remained healthily positive in most economies.

Although economies slowed as 1995 progressed, they recovered in the first quarter of 1996. This recovery is likely to accelerate throughout 1996.

Japan and the core economies of Europe have been the slowest to improve. However, evidence grew during 1995 that Japan should show respectable growth into 1996. Core European growth on the other hand remains weak.

Last year's fall in interest rates and a reduced rate of destocking should lead to a further improvement in the US economy after last year's slowdown. Similarly, in the UK faster consumer expenditure and higher levels of investment will possibly reverse the slowdown seen in 1995.

The Pacific region continues to show steady rapid growth. The region now has the critical mass for it to function along with Japan as an autonomous trading bloc.

The evidence of synchronisation in world economic growth increased during 1995 and is likely to be reinforced in 1996 and 1997. The move towards more uniform growth rates is unlikely to create significant inflationary pressures, although it could temporarily increase inflationary expectations.

Commodity prices remained relatively steady over the year. The need to cut costs and job insecurity continued to put downward pressure on wage inflation. Capacity constraints were not a problem in 1995 with most major economies operating well below productive potential and growing at or below trend levels. Cost pressures appear to be well under control for the medium term.

Short term interest rates fell during the year in all the major economies. This has been in response to the weakening economic growth referred to above. It is unlikely that aggressive tightening will occur given the modest growth, low inflationary environment which we expect.

Long term interest rates rose sharply at the end of the period under review to 31 March 1996. From April to December 1995 however, long term rates fell significantly. This is reflected in the bond returns achieved by pension funds in calendar 1995. The pick up in economic activity is likely to prevent a significant recovery in bonds, as will rising inflationary expectations, caused by concerns over crop failures and potential supply constraints in both hard and soft commodities. Additionally, high real yields are likely to prevent a significant fall in bond prices.

Sterling performed relatively well against the yen, held its own versus the deutschemark but fell against the US dollar. We expect it to outperform both the yen and the deutschemark in 1996 but to lag behind the US dollar. Political worries are likely to be offset by assurances from New Labour that they will take any action necessary on interest rates to support sterling.

Liquidity provided major support for markets during 1995/96 and this is forecast to continue in 1996/97. Corporations have seen a significant improvement in their positions. Individuals, especially in the USA, have committed large amounts of funds to equity and bond markets. Additionally, the Japanese government's attempts to refinance that economy has led to large purchases of US bonds which, in turn, has tended to support most equity markets. This liquidity position is likely to be less positive during 1996/97 which will make it difficult for markets to perform as well over the coming year as they did in 1995/96.

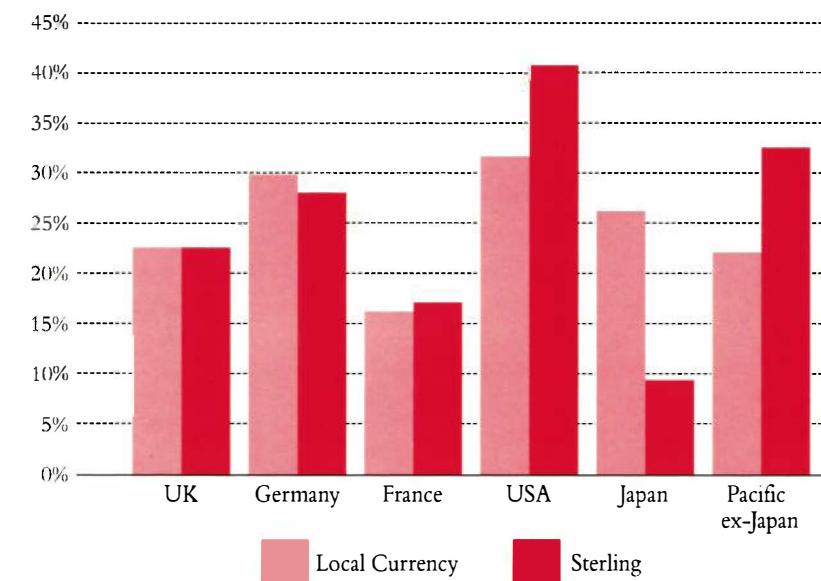
The performance of the major markets to 31 March 1996 is shown below:-

**EQUITY AND FIXED INTEREST MARKET TOTAL RETURNS FOR THE YEAR TO 31 MARCH 1996**

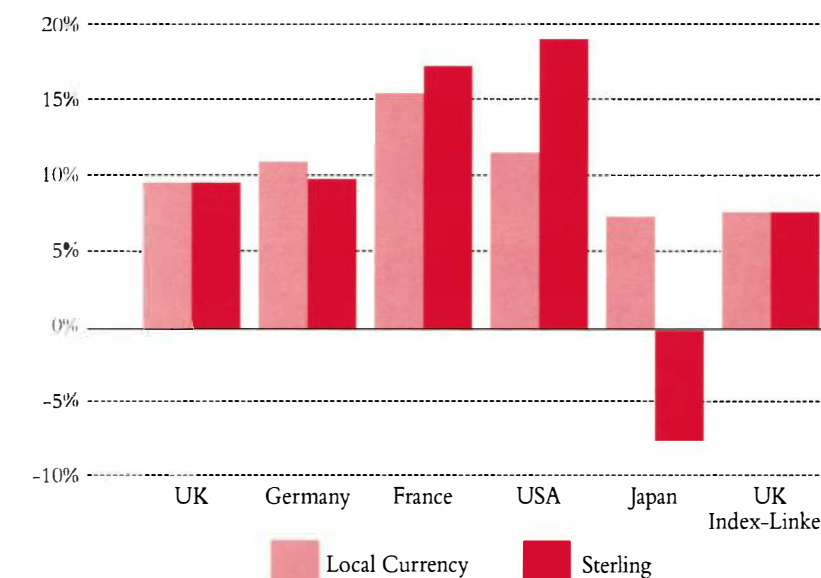
	Equities		Fixed Interest	
	Local Currency %	Sterling %	Local Currency %	Sterling %
UK	22.9	22.9	9.9	9.9
Germany	29.8	28.4	11.0	9.8
France	16.0	17.9	15.1	17.0
USA	32.1	40.9	11.4	18.8
Japan	26.6	9.3	6.9	(7.7)
Pacific ex-Japan	22.8	33.4	-	-
UK Index-linked	-	-	7.6	7.6

Source: FT Actuaries World Indices  
LOC Bond Indices

Equities



Fixed Interest



**PROPERTY**

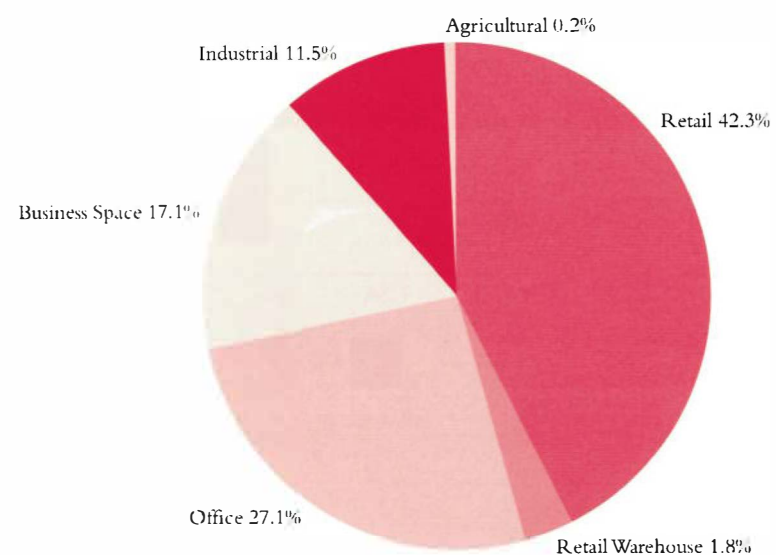
Expectations that rental values would slowly but surely rise during 1995 proved to be premature and the assumed consequent fall in yields did not materialise. In the event, rental values did improve slightly but yields continued the upward trend of the previous year and total returns in 1995 fell to 4.1% (as measured by the Investment Property Databank). However by the early part of 1996 yields had appeared to stabilise and a number of funds had declared an intention to increase weightings in the sector as tenant demand continued to improve. The market remains cautious but optimistic for the medium term.

The fund's completed property portfolio was valued by our independent valuers, Colliers Erdman Lewis at £775.5 million as at 31 March 1996.

A breakdown of the valuation by type and geographic location of the completed properties is shown below:

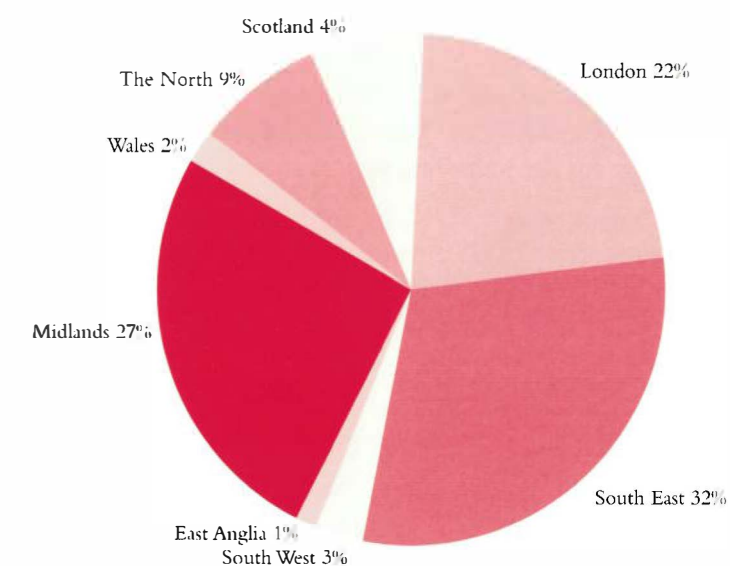
**Type of Investment**

	Freehold £m	Leasehold £m	Total £m	%
Retail	293.2	35.0	328.2	42.3
Retail warehouse	8.4	5.2	13.6	1.8
Office	162.9	47.4	210.3	27.1
Business space	127.4	5.5	132.9	17.1
Industrial	72.7	16.3	89.0	11.5
Agricultural	1.5	0	1.5	0.2
<b>TOTAL</b>	<b>666.1</b>	<b>109.4</b>	<b>775.5</b>	<b>100</b>



**Geographical location**

	£m	%
London	172.0	22.2
South East	244.2	31.5
South West	24.9	3.2
East Anglia	8.2	1.1
Midlands	209.9	27.0
Wales	12.5	1.6
The North	70.6	9.1
Scotland	33.2	4.3
<b>TOTAL</b>	<b>775.5</b>	<b>100.0</b>



Net income for the year rose from £62.2 million to £62.5 million and good progress in letting vacant space was achieved, particularly at the recently acquired Beechwood Shopping Centre in Cheltenham. At 31 March 1996, the value of rental voids was less than 3% of the total rental income.

**New investment and sales**

Two major transactions, namely the sale of the Marco Polo Building, London SW 8 and the sale of 30/31 Princes Street, Edinburgh for a total of £46.3 million were successfully completed during the year. In addition, the fund added to its existing retail holdings at Telford, Cheltenham and Aldershot by investing a further £7.95 million in purchasing adjacent properties and purchased a small retail warehouse development at Sheffield for £3.62 million.

In line with our strategy to improve the quality of the portfolio by acquiring new buildings, agreements were exchanged to finance prime office buildings in Manchester and Reading for completion in 1997 with a total maximum investment of £25.5 million.

The fund is adopting a more optimistic view of property but with emphasis continuing to be on improving the existing portfolio and acquiring first class retail investments where potential returns are considered attractive.

**CASH AVAILABLE FOR INVESTMENT**

Cash available for investment for the year ended 31 March 1996 amounted to £615.9 million. An analysis of the net new investment undertaken during the year to 31 March 1996, along with the comparative figures for the preceding year, is set out in the table below:-

	1996		1995	
	£m	%	£m	%
Securities	710.6	115.4	354.2	66.2
Property	(12.8)	(2.1)	15.3	2.8
Life assurance policies	(51.7)	(8.4)	(40.3)	(7.5)
Managed fund	(36.9)	(6.0)	(30.6)	(5.7)
Cash deposits	55.6	9.0	117.6	22.0
Stockbroker balances	(48.9)	(7.9)	118.9	22.2
	<u>615.9</u>	<u>100.0</u>	<u>535.1</u>	<u>100.0</u>

**INVESTMENT ACTIVITY**

An analysis of the net new investment in securities and property for the year to 31 March 1996, along with comparative figures for the preceding year is set out in the table below:-

	1996		1995	
	£m	%	£	%
UK equities	427.8	61.3	150.2	40.7
Overseas equities	251.0	36.0	(325.2)	(88.0)
Index-linked	27.6	4.0	(10.1)	(2.7)
UK fixed interest	96.5	13.8	203.5	55.0
Overseas fixed interest	(92.3)	(13.2)	335.8	90.9
Property	(12.8)	(1.9)	15.3	4.1
	<u>697.8</u>	<u>100.0</u>	<u>369.5</u>	<u>100.0</u>

**INVESTMENT IN LIFE ASSURANCE POLICIES**

The fund continued to hold policies with the Equitable Life Assurance Society (ELAS) assigned to it in respect of former FSSU members.

During the year to 31 March 1996 approximately 4,900 ELAS policies matured and the proceeds were paid to USS.

The portfolio distribution of the underlying assets of the remaining 39,100 policies as at 31 March 1996, along with the comparative figures for the preceding year, is set out below:-

	1996		1995	
	£m	%	£m	%
UK equities	124.0	44.8	115.4	43.6
Overseas equities	49.9	18.0	45.9	17.3
Index-linked	2.8	1.0	2.6	1.0
UK fixed interest	64.4	23.3	64.4	24.3
Property	22.1	8.0	26.3	9.9
Cash	13.5	4.9	10.3	3.9
	<u>276.7</u>	<u>100.0</u>	<u>264.9</u>	<u>100.0</u>

Of the managed fund created from the University Life Assurance Society policies, £36.9 million was paid over on 1 October 1995. The final tranche will be paid over in October 1996.

**DISTRIBUTION OF ASSETS**

The composition of the investments (excluding life assurance policies) as at 31 March 1996 and the comparative figures for the preceding year, are set out in the table below:-

	£m	1996 £m	%	£m	1995 £m	%
<b>UK fixed interest</b>						
British Government						
Conventional	501.8			457.8		
Index-linked	270.3			229.1		
Other debentures & loan stocks	20.1			0.0		
		792.2	6.8		686.9	7.3
<b>Overseas fixed interest</b>						
North America	239.5			257.7		
Europe	189.0			208.1		
Japan	0.0			0.0		
Pacific	112.2			124.1		
		540.7	4.6		589.9	6.2
<b>Total fixed interest</b>		<u>1,332.9</u>	<u>11.4</u>		<u>1,276.8</u>	<u>13.5</u>
<b>UK equities</b>						
Mineral extraction	612.1			452.9		
General manufacturers	1,212.3			962.1		
Consumer goods	1,048.7			928.3		
Services	1,500.5			957.9		
Utilities	721.9			609.5		
Financials	1,071.3			758.8		
Investment trusts	172.6			118.7		
Unit trusts	82.8			66.8		
Futures & options	2.8			43.3		
Unquoted	5.3			11.3		
		6,430.3	54.9		4,909.6	51.9
<b>Overseas equities</b>						
America	320.4			194.1		
Japan	534.2			375.6		
Europe	779.0			573.8		
Pacific	858.7			660.6		
Other	88.9			60.2		
Unquoted	0.1			0.3		
		2,581.3	22.1		1,864.6	19.7
<b>Total equities</b>		<u>9,011.6</u>	<u>77.0</u>		<u>6,774.2</u>	<u>71.6</u>
<b>Total securities</b>	10,344.5		88.4	8,051.0		85.1
<b>Property</b>	782.6		6.7	840.0		8.9
<b>Managed fund</b>	78.4		0.7	95.3		1.0
<b>Cash deposits</b>	465.4		4.0	395.0		4.2
<b>Stockbroker balances</b>	26.5		0.2	75.4		0.8
<b>Total investments (excluding life assurance policies)</b>	<u>11,697.4</u>		<u>100.0</u>	<u>9,456.7</u>		<u>100.0</u>

**LARGEST EQUITY HOLDINGS**

A list of the fund's largest twenty equity holdings together with their percentage of the total fund (excluding life assurance policies) is shown below:-

	Value £m	%
Shell Transport & Trading	234	2.0
British Petroleum	227	1.9
Glaxo Wellcome	220	1.9
British Telecom	172	1.5
HSBC Holdings	152	1.3
Lloyds TSB Group	140	1.2
SmithKline Beecham	113	1.0
BAT Industries	112	1.0
BTR	111	0.9
National Westminster Bank	96	0.8
Zeneca	95	0.8
Reuters Holdings	89	0.8
Grand Metropolitan	86	0.7
Prudential Corp	86	0.7
Marks & Spencer	84	0.7
Cable & Wireless	83	0.7
British Gas	82	0.7
RTZ Corp	75	0.6
General Electric	72	0.6
Unilever	71	0.6
	<u>2,400</u>	<u>20.4</u>

Signed on behalf of the investment sub-committee

Mark Fitzalan Howard  
Chairman

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### JOINT NEGOTIATING COMMITTEE

The functions of the joint negotiating committee are to approve amendments to the rules proposed by the trustee company, to initiate or consider alterations to the rules and to consider any alterations proposed by the advisory committee arising out of the operation of the rules. The joint negotiating committee also has powers under the Articles of Association of the trustee company in connection with the appointment and remuneration of directors.

The membership of the committee remained unchanged during the year.

Although the committee did not meet, and no rule changes were approved, during the year ended 31 March 1996, a meeting of the committee was held on 11 April 1996 at which a number of rule changes were approved, the most significant being:

- (a) to deal with those circumstances in which the earnings cap introduced by the Finance Act 1989 would apply, having regard to the continued rights of certain members to the provisions of the previous tax regime;
- (b) to align the definition of "dependant" in the USS rules with that contained in the Inland Revenue requirements; and
- (c) to correct an inaccuracy inadvertently introduced into the rules when they were last revised in 1994 relating to the calculation of benefits paid following death after retirement.

Signed on behalf of the joint negotiating committee.

Kenneth Berrill  
Chairman

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### ADVISORY COMMITTEE

The functions of the advisory committee are to advise the trustee company on the exercise of its powers and discretions (other than those relating to investment matters), on difficulties in the implementation or application of the rules and on any complaints received from members or participating institutions, and any other matters on which the trustee company requires advice.

Three meetings were held during the year. With effect from 1 August 1995 Dr D J Wright replaced Mr C L Rice as a committee member appointed by the AUT.

During the year the committee considered a number of general issues and individual cases where the circumstances did not fall clearly within the trustee company's guidelines, and made recommendations to the management committee. The committee considered the general principles of pension provision for unmarried partners and reviewed the contractual nature of allocation of part of a member's pension on the grounds of serious ill-health and made recommendations in two cases. The committee also investigated the incidence of cases brought to it by each institution.

The committee made recommendations in three cases relating to the definition of eligible children, three relating to the reduction in a spouse's pension where the spouse was more than 10 years younger than the deceased member, four relating to the continuation of a spouse's pension following remarriage, one relating to the reduction in a member's pensionable service as a result of a transfer back to the National Health Service Pension Scheme, one relating to the calculation of pensionable salary following a non-standard increase in salary and one relating to a complaint that a member's SERPS pension was being deducted from her USS benefits.

Signed on behalf of the advisory committee

D Anderson-Evans  
Chairman



UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	1,211	394	73
4100	Aston	401	272	67
4300	Bath	812	232	41
6600	Belfast	1,390	318	84
1000	Birmingham	1,917	706	156
4200	Bradford	684	296	62
1100	Bristol	1,873	403	92
4400	Brunel	539	210	34
7035	Buckingham	102	16	7
1200	Cambridge (University)	3,040	602	167
1202	Christ's	6	4	2
1204	Churchill	24	4	1
1206	Clare	11	2	1
1208	Clare Hall	5	-	2
1210	Corpus Christi	11	2	2
1212	Darwin	2	4	-
1214	Downing	9	6	2
1216	Emmanuel	14	3	2
1218	Fitzwilliam	10	3	1
1220	Girton	27	9	2
1222	Gonville & Caius	20	7	1
1224	Hughes Hall	-	1	1
1226	Jesus	17	3	1
1228	King's	25	5	1
1230	Lucy Cavendish	17	3	-
1232	Magdalene	9	4	2
1234	New Hall	18	8	-
1236	Newnham	23	17	1
1238	Pembroke	21	5	-
1240	Peterhouse	12	3	-
1242	Queens'	8	-	1
1245	Robinson	12	4	-
1246	St Catharine's	11	2	-
1255	St Edmund's	1	-	-
1250	St John's	27	4	2
1252	Selwyn	9	1	-
1254	Sidney Sussex	15	1	-

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
1258	Trinity	33	6	1
1260	Trinity Hall	12	1	2
1268	Wolfson	4	2	-
4700	City	663	214	55
7016	Cranfield	843	247	56
0700	Dundee	846	213	48
1300	Durham (University)	1,031	255	46
1301	St Chad's	1	-	-
1500	East Anglia	843	183	23
0200	Edinburgh	2,474	637	159
1700	Essex	548	109	25
1600	Exeter	813	268	44
0300	Glasgow	2,082	531	102
0800	Heriot-Watt	637	139	28
1800	Hull	786	243	50
3100	Keele	560	158	39
1900	Kent at Canterbury	804	155	31
2100	Lancaster	896	191	48
2000	Leeds	2,199	635	143
2200	Leicester	1,128	230	51
2300	Liverpool	1,615	419	99
2497	London (University)	454	337	60
2408	Birkbeck	392	103	18
2433	British Postgraduate Medical Federation	48	206	65
2420	Charing Cross & Westminster Medical School	195	53	13
2466	Eastman Dental Institute	37	-	1
2401	Goldsmiths' College	342	54	2
2480	Heythrop	10	2	-
2409	Imperial Coll of Science, Technology & Medicine	1,774	438	101
2440	Institute of Cancer Research	165	4	-
2465	Institute of Child Health	150	3	-
2403	Institute of Education	283	155	27
2470	Institute of Neurology	89	1	-
2474	Institute of Psychiatry	184	1	-
2410	King's College London	1,231	434	77

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
2412	London School of Economics & Political Science	514	151	34
2434	London School of Hygiene & Tropical Medicine	286	52	20
2413	Queen Mary & Westfield College	966	372	66
2426	Royal Free Hospital School of Medicine	173	39	6
2447	Royal Holloway and Bedford New College	468	181	21
2461	Royal Postgraduate Medical School	187	63	7
2436	Royal Veterinary College	126	41	15
2428	St George's Hospital Medical School	242	36	8
2415	School of Oriental & African Studies	287	120	31
2416	School of Pharmacy	68	25	3
2430	United Medical & Dental Schools	558	152	41
2417	University College	2,289	586	103
2419	Wye College	120	46	10
2484	London Business School	145	22	2
4600	Loughborough	994	270	71
2500	Manchester	2,455	694	156
5100	UMIST	932	263	43
1400	Newcastle-upon-Tyne	1,602	471	114
2600	Nottingham	1,857	365	86
8900	Open	1,785	230	72
2700	Oxford (University)	3,157	704	202
2701	All Souls	23	9	2
2702	Balliol	22	4	-
2703	Brasenose	7	3	2
2704	Christ Church	38	6	1
2705	Corpus Christi	16	4	2
2706	Exeter	12	2	2
2707	Hertford	9	3	1
2708	Jesus	15	3	-
2709	Keble	7	3	-
2710	Lady Margaret Hall	17	8	-

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
2734	Linacre	6	1	-
2711	Lincoln	12	4	1
2712	Magdalen	21	12	2
2735	Harris Manchester	8	-	-
2732	Mansfield	15	3	4
2713	Merton	21	8	1
2714	New College	32	7	1
2715	Nuffield	34	8	2
2716	Oriel	19	5	-
2717	Pembroke	8	3	1
2718	Queen's	18	7	-
2719	St Anne's	21	6	-
2720	St Antony's	14	6	1
2721	St Catherine's	12	6	1
2722	St Edmund Hall	8	1	1
2723	St Hilda's	18	7	-
2724	St Hugh's	15	5	-
2725	St John's	26	5	-
2726	St Peter's	12	4	1
2727	Somerville	15	5	-
2728	Trinity	10	3	-
2729	University	12	5	1
2730	Wadham	13	5	-
2733	Wolfson	13	3	-
2731	Worcester	13	6	-
2800	Reading	1,186	330	80
0400	St Andrews	622	171	36
4800	Salford	588	349	55
2900	Sheffield	2,092	435	91
3000	Southampton	1,807	354	68
0500	Stirling	527	107	30
0600	Strathclyde	1,234	396	97
4000	Surrey	866	236	35
3200	Sussex	892	234	37
6800	Ulster	1,264	183	43
3900	Wales (University)	59	10	2
3300	Aberystwyth	514	172	52
3400	Bangor	605	183	47

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
3500	College of Cardiff	1,169	481	117
3800	Lampeter (St David's)	104	21	7
3600	Swansea	821	224	57
3700	University of Wales College of Medicine	434	70	19
5000	Warwick	1,271	177	36
5200	York	871	118	21
<b>Old university institutions total</b>		73,204	19,485	4,290
<b>New universities admitted for limited membership only</b>				
8060	De Montfort	3	-	-
8010	Glamorgan	3	-	-
8040	Hertfordshire	1	-	-
8050	Huddersfield	1	-	-
8020	South Bank	2	-	-
8030	Thames Valley	1	-	-
8070	Plymouth	3	-	-
<b>New university institutions total</b>		14	-	-
<b>All university institutions total</b>		73,218	19,485	4,290

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
7113	Aberdeen Univ Research & Ind Services Ltd	5	-	-
7010	Animal Health Trust	27	2	-
7040	Arthritis & Rheumatism Council	1	1	-
7154	Associated Examining Board	8	-	-
7011	Association of Commonwealth Universities	25	27	4
7108	Aston Techn Planning & Management Services Ltd	-	-	-
7067	Beatson Institute for Cancer Research	30	1	-
7084	BLCMP (Library Services) Ltd	6	1	-
7037	BRF International	55	6	1
7012	British Glass Manufacturers' Confederation	4	5	1
7110	British Inst at Amman for Archaeology & History	1	-	-
7030	British Institute in Eastern Africa	2	-	-
7091	British Institute of Archaeology at Ankara	1	1	-
7112	British Institute of International & Comp Law	1	1	-
7061	British Institute of Persian Studies	-	-	-
7081	British Paediatric Association	2	-	-
7097	British Psychological Society	4	-	-
7087	British School at Athens	2	1	1
7092	British School at Rome	-	-	-
7033	British School of Archaeology in Iraq	1	-	-
7034	British School of Archaeology in Jerusalem	4	1	-
7050	British University Sports Federation	-	-	-
7133	Brunel Institute of Organisation & Social Studies	3	-	-
7122	Burden Neurological Institute	3	-	-
7116	Cambridge Crystallographic Data Centre	12	1	-
7060	Cancer Research Campaign	33	8	1

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS		PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children	
7153	CASE	2	-	-	
7015	College of Estate Management	29	11	12	
7121	Committee of Vice-Chancellors and Principals	27	4	-	
7100	Company of Biologists Ltd	-	-	-	
7098	Culham College Inst for Church Related Education	1	-	-	
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	2	1	-	
7032	Edinburgh University Students' Association	8	-	-	
7089	Ewing Foundation	2	1	-	
7120	Family Policy Studies Centre	-	-	-	
7051	FSSU Secretariat	-	-	1	
7041	Geographical Association	4	1	1	
7152	Gray Laboratory	1	-	-	
7148	Gyosei International College in the UK	1	-	-	
7025	Henley Management College	50	23	1	
7157	Higher Education Careers Service Unit	-	-	-	
7136	Higher Education Quality Council	27	-	-	
7135	Higher Education Statistics Agency Ltd	8	-	1	
7053	History of Parliament Trust	22	4	-	
7143	Homerton College	6	-	-	
7036	Inns of Court School of Law	52	6	4	
7079	Institute for Community Studies	13	4	-	
7137	Inst of Contemporary History & Wiener Library Ltd	-	-	-	
7017	Institute of Development Studies	58	19	2	
7056	Institute of Food Science & Technology	1	-	-	
7029	Institute for Employment Studies	11	6	-	
7124	International Institute of Biotechnology	1	-	-	
7132	International Society (Manchester)	1	-	-	
7149	International Students House	3	-	-	

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS		PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children	
7054	Joint Library of Hellenic & Roman Societies	-	2	-	
7147	JNT Association	23	-	-	
7066	Journal of Endocrinology Ltd	1	-	-	
2482	Lister Institute of Preventive Medicine	1	7	2	
7107	Liver Research Unit Trust	-	-	-	
7117	Ludwig Inst for Cancer Research - Middlesex Branch	23	-	-	
7039	Ludwig Inst for Cancer Research - St Mary's Branch	11	4	-	
7090	Marie Curie Cancer Care	28	1	5	
7125	Marine Biological Association of the United Kingdom	15	-	-	
7026	Mathilda & Terence Kennedy Inst of Rheumatology	31	7	1	
7096	Modern Humanities Research Association	1	1	-	
7094	Motor Industry Research Association	82	26	3	
7059	Museum Documentation Association	2	-	-	
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	-	
7018	National Inst of Economic & Social Research	18	7	1	
7080	Norfolk Agricultural Station (Morley Res Centre)	16	1	-	
7073	Northern College for Residential Adult Education	27	3	1	
7024	Northern Examinations and Assessment Board	41	19	3	
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	5	-	-	
7115	Northern Ireland Economic Research Centre	14	-	-	
7048	Numerical Algorithms Group Ltd	56	1	-	
7155	Nuffield Provincial Hospital Trust	1	-	-	
7058	Open University Educational Enterprises Ltd	4	1	-	
7023	Overseas Development Institute	22	2	-	

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
7118	Oxford Centre for Islamic Studies	2	-	-
7031	Oxford Centre for Postgraduate Hebrew Studies	9	1	-
7104	Pain Relief Foundation	2	-	-
7075	Policy Studies Institute	41	10	2
7139	Preformation of Undergraduate Engineers	9	-	-
7134	Prince of Wales's Institute of Architecture	7	-	-
7052	Reading University Students' Union	-	-	-
7156	Regulatory Policy Institute	-	-	-
7123	Richmond College	33	-	-
7160	Royal Academy of Music	-	-	-
7020	Royal College of Surgeons of England	49	22	3
7088	Royal Commission for the Exhibition of 1851	-	1	-
7021	Royal Geographical Society	2	2	1
7082	Royal Institute of International Affairs	3	-	-
7077	Royal Institution	17	3	-
7064	Royal Society	-	-	1
7070	Royal Society of Edinburgh	4	1	-
7022	Ruskin College	22	11	2
7144	SAUL Trustee Company	6	-	-
7105	School Mathematics Project	6	2	-
7130	Scottish Association for Marine Science	12	-	-
7128	Southampton University Management School	-	-	-
7131	Southern Universities Management Services	5	2	-
7042	Strangeways Research Laboratory	15	5	3
7049	Students' Union University of Leicester	2	-	1
7028	Templeton College	21	9	3
7138	Thrombosis Research Institute	23	-	-
7109	Trade Union Research Unit Ltd	3	-	-

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
7141	TUIREG	2	-	-
7106	Universities and Colleges Admissions Service	26	8	3
7150	Universities and Colleges Employers Association	4	-	-
7151	Universities and Colleges Staff Development Agency	5	-	-
7140	University of Leeds Innovations Ltd	9	-	-
7129	University of Swansea Students' Union	1	-	-
7083	University of York Students' Union	-	-	-
9999	USS Ltd	86	13	2
7065	Wildfowl & Wetlands Trust	3	8	-
7142	WP Management Ltd	2	-	-
7027	York Archaeological Trust	3	-	-
7076	Zoological Society of London	23	8	-
-	Withdrawn institutions	-	41	4
Non-university institutions total		1,442	368	71
<b>All institutions total</b>		74,660 *	19,853	4,361

\* Included in this figure (but counted once only) are 1,599 members who have more than one appointment.

UNIVERSITIES SUPERANNUATION SCHEME  
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

**SUMMARY OF MOVEMENTS** during the year ended 31 March 1996

Members

	University Institutions	Non- University Institutions	Totals
Total members at 1 April 1995	68,804	1,428	70,232
New members	11,711	166	11,877
Retirements			
- Ill-health	109	5	114
- Other	1,322	21	1,343
Deaths	91	2	93
Leavers			
- Refunds	529	8	537
- Transfers	326	2	328
- Deferred benefits and undecided	4,353	110	4,463
Withdrawals			
- Refunds	301	1	302
- Transfers	1	-	1
- Deferred benefits	30	2	32
- Retrospective*	235	1	236
Total members at 31 March 1996	<u>73,218</u>	<u>1,442</u>	<u>74,660</u>

\* Retrospective withdrawals are members who withdrew from USS within three months of the date of joining the scheme with retrospective effect to the date of commencing employment at a USS institution.

In addition USS Ltd was notified during the year of 2,925 employees who became eligible to join the scheme but who elected not to do so.

Pensioner Members

	University Institutions	Non- University Institutions	Totals
Total pensioners at 1 April 1995	18,340	345	18,685
New pensioners	1,548	32	1,580
Deaths	<u>403</u>	<u>9</u>	<u>412</u>
Total pensioners at 31 March 1996	<u>19,485</u>	<u>368</u>	<u>19,853</u>

In addition at 31 March 1996, there were 3,704 pensions being paid to spouses and dependants and 657 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 26,219.

UNIVERSITIES SUPERANNUATION SCHEME  
USS ACCOUNTS

**UNIVERSITIES SUPERANNUATION SCHEME  
FUND ACCOUNT** for the year ended 31 March 1996

	Note	1996 £m	1995 £m
<b>Income</b>			
Contributions	3	489.0	450.6
Investment income	4	448.9	374.3
Premature retirement scheme receipts		39.8	23.5
Net transfers	5	10.7	14.9
		<u>988.4</u>	<u>863.3</u>
<b>Outgoings</b>			
Benefits payable	6	(355.0)	(317.3)
Administration costs	7	(5.8)	(4.1)
		<u>(360.8)</u>	<u>(321.4)</u>
<b>Net income</b>		627.6	541.9
<b>Changes in value of investments during the year</b>	8	<u>1,636.6</u>	<u>(231.1)</u>
<b>Net increase in the fund for the year</b>		2,264.2	310.8
<b>Fund at start of year</b>		<u>9,822.5</u>	<u>9,511.7</u>
<b>Fund at end of year</b>		<u>12,086.7</u>	<u>9,822.5</u>

**UNIVERSITIES SUPERANNUATION SCHEME**  
**STATEMENT OF NET ASSETS** as at 31 March 1996

	Note	1996 £m	1995 £m
<b>Investments</b>			
Securities	10	10,344.5	8,051.0
Property	11	782.6	840.0
Life assurance policies	12	276.7	264.9
Managed fund	13	78.4	95.3
Cash deposits		465.4	395.0
Stockbroker balances	14	26.5	75.4
		<u>11,974.1</u>	<u>9,721.6</u>
<b>Net current assets</b>	15	112.6	100.9
<b>Total net assets, representing the fund balance</b>		<u>12,086.7</u>	<u>9,822.5</u>

The financial statements on pages 41 to 49 and the Statement of Trustee's Responsibilities on page 50 were approved by the Trustee, Universities Superannuation Scheme Limited, on 25 July 1996 and were signed on its behalf by:

Graeme J Davies *Chairman*

D B Chynoweth *Chief Executive*

**NOTES TO THE ACCOUNTS** for the year ended 31 March 1996

**Accounting policies**

A summary of the significant accounting policies which have been applied consistently by the scheme is set out below.

**Accounting convention**

The accounts have been prepared under the historic cost convention, with the exception of the investments which are stated at current value in accordance with parts 2 to 4 of the Statement of Recommended Practice No 1 (Pension Scheme Accounts), and comply with applicable accounting standards in the United Kingdom.

**Contributions**

Contributions represent the amounts returned by the participating institutions as being those due to the scheme in respect of the year of account. The responsibility for ensuring the accuracy of contributions rests with institutions which, under the terms of the Trust Deed regulating USS, are ultimately responsible for ensuring the solvency of the scheme. Receipts under the premature retirement scheme are accounted for in the period in which they fall due.

**Investment income**

Investment income is brought into account on the following bases:

- dividends and interest from quoted and unquoted securities, on the date that the scheme becomes entitled to the income;
- interest on cash deposits, as it accrues;
- property rental income, as it accrues;
- interest on advances for property developments, which is credited to the fund account and forms part of the cost of the relevant development, as it accrues until the earlier of the development becoming a completed property or the contracted purchase price being reached.

**Property**

A completed property is one that has received an architect's certificate of practical completion and which is either substantially let or, although not substantially let, is neither within the period of contractors' defects nor is expected to be the subject of further building works. Developments in progress include any property which is not a completed property.

**Life assurance policies**

Policy proceeds and premiums paid are not treated as income and outgoings but are accounted for within the value at which the life assurance policies are included in the statement of net assets.

**Rates of exchange**

Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account.

### Net transfers

Transfers to and from the fund are accounted for on the basis of amounts received and paid during the year.

### Benefits payable

Benefits payable are accounted for as they fall due.

### Investments

Investments are included at current value in the statement of net assets.

The current values are as follows:

(a) Quoted securities	-	at mid market value;
(b) Unquoted securities	-	at trustee company's valuation;
(c) Property	-	on the basis of open market value except for developments in progress which are stated at the lower of cost and estimated market value;
(d) Life assurance policies	-	at the amount disclosed by an annual actuarial valuation;
(e) Managed fund	-	at mid market value.

Changes in current values are shown as movements in the fund account in the year in which they arise.

## 2 Actuarial report

The accounts on pages 41 to 49 summarise the financial transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the scheme, which does take account of such liabilities, is dealt with in the statements by the actuary on pages 52 to 54 and the accounts should be read in conjunction therewith.

## 3 Contributions

	1996 £m	1995 £m
<b>Main Section</b>		
Employers' contributions	357.0	328.9
Members' basic contributions	115.4	106.3
Members' additional voluntary contributions	9.9	9.2
	<u>482.3</u>	<u>444.4</u>
<b>Supplementary Section</b>		
Members' contributions	6.7	6.2
	<u>489.0</u>	<u>450.6</u>

Additional voluntary contributions referred to above represent contributions made to purchase additional pensionable service under the rules of the scheme.

### Money Purchase additional voluntary contributions

A money purchase additional voluntary contribution facility is administered by the Prudential Assurance Company Limited.

Individual members' contributions are deducted from their salaries and paid direct to the Prudential by the institutions. The contributions are invested through the Prudential on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by the Inland Revenue. The contributions paid and the investments purchased are not included in the accounts.

The value of the accumulated additional voluntary contributions at 31 March 1996 was £9.3 million. Contributions from members during the year amounted to £5.5 million from which administration expenses of £55,000 were deducted by the Prudential.

## 4 Investment Income

	1996 £m	1995 £m
Dividends from UK equities	257.4	209.0
Net property income	62.5	62.2
Dividends from overseas equities	44.6	41.4
Income from UK fixed interest securities	32.2	24.1
Income from overseas fixed interest securities	25.7	15.5
Income from index-linked securities	7.7	7.2
Interest on cash deposits	24.5	19.6
Underwriting commissions	1.0	1.0
Investment management costs	(6.0)	(5.7)
Translation differences	(0.7)	-
	<u>448.9</u>	<u>374.3</u>

Investment management costs are shown as a deduction from investment income and comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office, the costs of management and agency services rendered by third parties.

## 5 Net transfers

	1996 £m	1995 £m
Transfers from other pension schemes	23.5	30.7
Transfers to other pension schemes	(12.8)	(15.8)
	<u>10.7</u>	<u>14.9</u>



6 Benefits payable

	1996 £m	1995 £m
<b>Main section</b>		
Pensions	278.4	256.8
Lump sums on or after retirement	64.1	51.3
Lump sums on death in service	7.2	3.8
Refunds of contributions	1.1	1.1
	<u>350.8</u>	<u>313.0</u>
<b>Supplementary section</b>		
Pensions	3.0	2.8
Lump sums on or after retirement	0.9	1.1
Lump sums on death in service	0.3	0.4
	<u>4.2</u>	<u>4.3</u>
	<u>355.0</u>	<u>317.3</u>

7 Administration costs

In accordance with the Trust Deed, the costs of managing and administering the scheme, incurred by the trustee, are chargeable to USS. Details are given in the financial statements of the trustee (Universities Superannuation Scheme Limited : Registered No. 1167127).

8 Changes in value of investments

The changes in the value of investments are shown below:

	Current value 1995 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Current value 1996 £m
Securities	8,051.0	4,566.3	(3,855.7)	1,582.9	10,344.5
Property	840.0	33.5	(46.3)	(44.6)	782.6
Life assurance policies	264.9	2.6	(54.3)	63.5	276.7
Managed fund	95.3	-	(36.9)	20.0	78.4
Cash deposits	395.0	55.6	-	14.8	465.4
	<u>9,646.2</u>	<u>4,658.0</u>	<u>(3,993.2)</u>	<u>1,636.6</u>	<u>11,947.6</u>
Stockbroker balances	75.4				26.5
	<u>9,721.6</u>				<u>11,974.1</u>

Changes in the value of investments comprise both realised gains (losses) on investments sold during the year and unrealised gains (losses) on investments held at the year end.

9 Taxation

**UK tax**

USS is an exempt approved scheme under the Income & Corporation Taxes Act 1988 and is therefore not normally liable to UK income tax on income from investments directly held nor to capital gains tax arising from the disposal of such investments.

**Overseas tax**

Investment income from overseas investments may be subject to deduction of local withholding taxes. Where no double taxation agreement exists between the UK and the country in which the income arises, the tax suffered is deducted from the income to which it relates.

Investment income arising from stocks and securities in the United States of America is exempt from US tax under the Internal Revenue Code.

10 Securities

	1996 £m	1995 £m
<b>Quoted</b>		
UK equities	6,425.0	4,898.3
Overseas equities	2,581.2	1,864.3
UK fixed interest	521.9	457.8
Overseas fixed interest	540.7	589.9
Index-linked	270.3	229.1
	<u>10,339.1</u>	<u>8,039.4</u>
<b>Unquoted</b>		
UK equities	5.3	11.3
Overseas equities	0.1	0.3
	<u>5.4</u>	<u>11.6</u>
	<u>10,344.5</u>	<u>8,051.0</u>

Unquoted securities were valued by the trustee based upon independent advice.

11 Property

	1996 £m	1995 £m
UK completed properties	775.5	840.0
UK developments in progress	7.1	-
	<u>782.6</u>	<u>840.0</u>
Properties analysed by type:		
Freehold	673.2	731.0
Leasehold	109.4	109.0
	<u>782.6</u>	<u>840.0</u>

The completed properties were valued independently by Colliers Erdman Lewis Ltd, Chartered Surveyors as at 31 March 1996 and 1995.

12 Life assurance policies

The scheme continues to hold policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members, the majority of the policies being "with profits".

The basis of valuation is stated in Note 1.

13 Managed fund

A managed fund was set up at 1 January 1993 with University Life Assurance Society on transfer of £128.1 million, being the value of the cancelled life assurance policies previously held with the University Life Assurance Society at that date. The underlying assets are being transferred to USS in instalments in October each year with the last instalment due to be transferred in October 1996.

The basis of valuation is stated in Note 1.

14 Stockbroker balances

	1996 £m	1995 £m
Amount due to stockbrokers	(62.4)	(152.0)
Amount due from stockbrokers	88.9	227.4
	<u>26.5</u>	<u>75.4</u>

15 Net current assets

	1996 £m	1995 £m
<b>Current assets</b>		
Dividends receivable	75.5	73.7
Contributions due from institutions	47.3	36.6
Life assurance policy proceeds due	2.2	2.1
Other debtors	2.2	2.1
Cash at bank and in hand	7.3	7.0
Due from USS Ltd	2.1	0.3
	<u>136.6</u>	<u>121.8</u>
<b>Current liabilities</b>		
Property creditors	11.6	11.4
Benefits payable	2.6	0.9
Other creditors	9.8	8.6
	<u>24.0</u>	<u>20.9</u>
	<u>112.6</u>	<u>100.9</u>

16 Financial commitments

	1996 £m	1995 £m
<b>Property</b>		
Authorised but not contracted for	-	14.2
	<u>          </u>	<u>          </u>
Contracts placed but not provided for	26.2	4.6
	<u>          </u>	<u>          </u>
<b>Securities</b>		
Forward commitments for unpaid calls on securities and underwriting contracts	14.8	9.9
	<u>          </u>	<u>          </u>

### STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Occupational Pension Schemes (Disclosure of Information) Regulations 1986 (the Regulations) require that the trustee (Universities Superannuation Scheme Limited) obtains financial statements for each scheme year which give a true and fair view of the financial transactions of the scheme during the year and of the disposition at the end of the year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, and which contain the information specified in Regulation 7 of, and Schedule 3 to, the regulations. The trustee is responsible for ensuring that:

- suitable accounting policies are selected and applied;
- judgements and estimates that are reasonable and prudent are made;
- the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the scheme will continue in operation.

The trustee is responsible for ensuring that adequate accounting records exist which disclose with reasonable accuracy at any time the financial position of the scheme and which enable it to ensure that the financial statements comply with the Occupational Pension Schemes (Disclosure of Information) Regulations 1986. It is also responsible for safeguarding the assets of the scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### REPORT OF THE AUDITORS to the trustee and members of the Universities Superannuation Scheme

We have audited the financial statements on pages 41 to 49.

#### Respective responsibilities of the trustee and auditors

As described on page 50 the scheme's trustee (Universities Superannuation Scheme Limited) is responsible for obtaining audited financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements which have been prepared by the scheme administrators and to report our opinion to you.

#### Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

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 1996 and of the disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, and contain the information specified in Regulation 7 of, and Schedule 3 to, the Occupational Pension Schemes (Disclosure of Information) Regulations 1986.

In our opinion the contributions payable to the scheme during the year ended 31 March 1996 have been paid in accordance with the scheme rules and with the recommendation of the actuary.

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Liverpool  
29 July 1996

**STATEMENT BY THE ACTUARY** for the year ended 31 March 1996

- 1 On the instructions of the management committee, we carried out an actuarial valuation of the Universities Superannuation Scheme (USS) as at 31 March 1993, with the results set out in our report dated 25 November 1993.
- 2 The results of the valuation showed an excess of liabilities over assets. It was agreed to continue the employers' contribution rate at 18.55%. Of this, 13.78% is required for future service and 4.77% will, on the valuation assumptions, eliminate the past service shortfall over five years.
- 3 The formal actuarial statement on the scheme as required under Regulation 8 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1986 is shown separately.
- 4 I also carried out actuarial reviews of USS as at 31 March 1994 and 31 March 1995 which compared the actual experience during the period since 31 March 1993 with the assumptions made for the 1993 actuarial valuation.
- 5 I concluded that overall the financial position of the scheme had improved since the 1993 valuation and I recommended that no change should be made in the rate of contribution being paid by the institutions.
- 6 I am now carrying out a full actuarial valuation of USS as at 31 March 1996 and I shall be reporting to the management committee later this year. In the meantime I consider it appropriate that the management committee should maintain the present rate of contribution.

William M Mercer Ltd  
Liverpool  
May 1996

M B Reid  
Fellow of the Institute of Actuaries

**ACTUARIAL STATEMENT** made for the purposes of regulation 8 of the occupational pension schemes (disclosure of information) regulations 1986.

Name of scheme	:	Universities Superannuation Scheme
Effective date of valuation	:	31 March 1993

**1 Security of accrued rights**

In my opinion the scheme's assets existing on the effective date fully cover its liabilities as at that date, including liabilities arising in respect of the service of pensioners and deferred pensioners prior to the effective date and on the basis that the service of active members terminates on that date.

**2 Security of prospective rights**

In my opinion, the resources of the scheme are likely, in the normal course of events, to meet in full the liabilities of the scheme as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the scheme:-

From 31 March 1993 until 1 April 1995

By the members : 6.35% of salary less £100 as specified in the rules.

By the employing institutions : 18.55% of salary less £100 for each member.

From 1 April 1995 onwards

By the members : 6.35% of salary as specified in the rules.

By the employing institutions : 18.55% of salary for each member until 31 March 1998.  
: 13.78% of salary for each member thereafter.

Subject to review at future valuations

**3 Summary of methods and assumptions used**

In expressing the opinion given in paragraph 1 above, the assets have been taken at market value at the valuation date and the liabilities for active members and deferred pensioners calculated using the basis for determining "cash equivalents" as defined in Section 97 of the Pension Schemes Act 1993 ie the basis for calculating transfer payments for these members. The liabilities for pensioners have been calculated as an estimate of the cost of securing their pensions with an insurance company.

In expressing the opinion given in paragraph 2, I have adopted the actuarial methods and assumptions described in detail in our formal report dated 25 November 1993 on the actuarial valuation of the scheme as at 31 March 1993. The principal actuarial assumptions are as follows:-

- (a) The long term yield which may be expected to be earned on new investments over a considerable period in the future, allowing for both income and capital appreciation, will exceed the general rate of salary increases as a result of inflation by 2 per cent per annum, and the general rate of price increases by 3.5 per cent per annum.
- (b) An allowance has been made for salary increases which are granted in excess of general increases as a result of inflation.
- (c) Allowance has been made for withdrawals from the scheme prior to normal pension age through ill-health, death or retirement in good health.

The valuation method used was the projected unit method.

William M Mercer Ltd  
Liverpool  
25 July 1996

M B Reid  
Fellow of the Institute of Actuaries

**FIVE YEAR SUMMARY - FUND ACCOUNTS** for years ended 31 March

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
<b>Income</b>					
Contributions	489	451	422	403	371
Investment income	449	374	318	322	306
PRS receipts	40	23	33	18	13
Net transfers	10	15	13	7	9
	<u>988</u>	<u>863</u>	<u>786</u>	<u>750</u>	<u>699</u>
<b>Benefits payable</b>					
Pensions	282	260	240	219	201
Lump sums	72	56	62	44	38
Refunds	1	1	1	1	1
	<u>355</u>	<u>317</u>	<u>303</u>	<u>264</u>	<u>240</u>
<b>Administration costs</b> of the trustee (excluding investment management costs)	5.8	4.1	3.6	3.4	3.0
<b>Changes in value of investments</b>	<u>1,636.6</u>	<u>(231.1)</u>	<u>1,148</u>	<u>1,120</u>	<u>(71)</u>
<b>Investments of the fund (at current values) at 31 March</b>					
Securities	10,344	8,051	7,902	6,400	4,810
Property	783	840	849	695	753
Life assurance policies	277	265	299	301	412
Managed fund	78	95	121	132	-
Cash deposits	465	395	290	311	255
Stockbroker balances	27	75	(43)	(34)	(5)
	<u>11,974</u>	<u>9,721</u>	<u>9,418</u>	<u>7,805</u>	<u>6,225</u>
<b>Membership numbers at 31 March</b>					
Contributing members	74,700	70,200	67,000	65,300	63,100
Pensioners	24,200	22,700	21,500	20,200	19,200
Deferred pensioners	26,200	23,300	20,800	18,500	16,700
	<u>125,100</u>	<u>116,200</u>	<u>109,300</u>	<u>104,000</u>	<u>99,000</u>

The 1993 and prior year comparative figures for stockbroker balances have been restated to reflect the change in presentation of amounts due to and from stockbrokers introduced in 1994.

The 1993 figure for investment income has been restated to reflect the change in accounting policy in respect of income from securities introduced in 1994. The 1992 investment income figures are presented as previously reported because restated figures are not readily available.

**UNIVERSITIES SUPERANNUATION SCHEME LIMITED.**  
**REPORT OF THE DIRECTORS** for the year ended 31 March 1996

The directors submit their report and the accounts for the year ended 31 March 1996.

**Principal activity**

The company, which is limited by guarantee and does not have a share capital, was established to undertake and discharge the office of trustee of any superannuation scheme but in particular to act as the trustee of the Universities Superannuation Scheme (USS).

**Operating costs and review of activities**

The operating costs for the year amounted to £11,773,000 this amount being recoverable from USS. This compares with £9,752,000 for the year ended 31 March 1995.

The increase in costs compared to the previous year is due to three main factors: the introduction of an early retirement scheme; the relocation of the Liverpool office and the refurbishment of the new premises; and the continuation of the IT strategy.

The introduction of the early retirement scheme has facilitated a restructuring of staff in Liverpool office arising from the introduction of new technology and the introduction of a number of system improvements. This has resulted in a reduction in the number of staff particularly at senior level. It has also provided greater opportunities for career progression for younger staff and given management greater flexibility in working towards the most efficient staffing structures to meet the company's future needs. Total costs incurred during the year in respect of the scheme amounted to £362,000.

The Liverpool office successfully relocated on 4 December 1995 to the Royal Liver Building. The previous offices at Richmond House were unsuitable for the computer systems planned and the new offices provide a significantly improved working environment. As well as raising the profile of USS Ltd within Liverpool the move has had a very positive effect on staff morale. The costs charged to the accounts during the year which are attributable to the move, including depreciation of the capital costs and increased rent and rates, amounted to approximately £500,000.

Considerable progress has been made during the year on the implementation of the IT strategy which began in 1994. The integration of the pensions administration system with the document management system was achieved in time for the office relocation in December 1995 and all active member and leaver files have been scanned and indexed. In total, 5.3 million images are now stored on optical disk and all pensions staff now work on electronic images instead of paper files. Further increases in efficiency will follow the introduction of enhanced case management software and the development of reporting functionality will provide the facility to accurately monitor individual and departmental performance. The increase in costs charged to the accounts during the year compared to the previous year was approximately £540,000.

**Fixed assets**

The details of movements in fixed assets are set out in Note 12 to the accounts.

**Directors**

The directors of the company during the year were as follows:

Sir John Sparrow (chairman)	Dr Kenneth Edwards
E B O Sherlock (deputy chairman)	Professor Brian Fender (from 1.10.95)
Dr Christine Challis	Professor Martin Harris
L Collinson	Lord Mark Fitzalan Howard
Professor Sir Graeme Davies (to 30.9.95)	Dr G R Talbot
K F Dibben	J W D Trythall
C D Donald	

On 31 March 1996 Sir John Sparrow retired and on 1 April 1996 Professor Sir Graeme Davies was reappointed as a director and appointed as chairman.

**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the operating costs of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

**Auditors**

In accordance with section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Coopers & Lybrand will be submitted at the Annual General Meeting.

By order of the board  
J P Williams *Secretary*

25 July 1996

**STATEMENT OF OPERATING COSTS** for the year ended 31 March 1996

	Note	1996 £000	1995 £000
<b>Personnel costs</b>			
Employees' emoluments	4	4,029	3,274
Directors' emoluments and expenses	5	198	196
Recruitment, training and welfare		130	113
		<u>4,357</u>	<u>3,583</u>
<b>Premises costs</b>			
Rent, rates, service charges and utilities		778	406
Depreciation and maintenance		237	111
		<u>1,015</u>	<u>517</u>
<b>Investment costs</b>			
Securities management and custodian services		3,537	3,711
Securities management rebates	6	(1,238)	(1,130)
Property management		1,237	1,169
Legal costs - special investigation		6	22
- property management		162	120
- securities management		26	45
Property valuation		112	116
Investment performance measurement		54	55
Consultancy		8	6
Costs met by third parties	7	(25)	(83)
		<u>3,879</u>	<u>4,031</u>
<b>Other costs</b>			
Computer and information services costs	8	1,250	936
Professional fees	9	613	509
Travel and car costs		260	179
Telephones and postage		98	81
Office equipment		230	92
Institution liaison		58	99
Printing and stationery		125	88
IMRO membership		82	71
Auditors' remuneration	10	34	33
Insurances		39	37
Loss/(profit) on disposal of fixed assets		92	(19)
Sundry expenditure		18	14
Costs met by third parties	7	(377)	(499)
		<u>2,522</u>	<u>1,621</u>
<b>Total operating costs - recoverable from USS</b>	11	<u>11,773</u>	<u>9,752</u>

**BALANCE SHEET** as at 31 March 1996

	Note	1996 £000	1995 £000
<b>Assets</b>			
<b>Fixed assets</b>			
Tangible fixed assets	12	<u>2,982</u>	<u>835</u>
<b>Current assets</b>			
Debtors	13	600	441
Cash at bank and in hand		692	767
		<u>1,292</u>	<u>1,208</u>
<b>Total assets</b>		<u>4,274</u>	<u>2,043</u>
<b>Liabilities</b>			
Creditors - amounts falling due within one year	14	<u>4,274</u>	<u>2,043</u>
<b>Total liabilities</b>		<u>4,274</u>	<u>2,043</u>

The financial statements on pages 58 to 66 were approved by the board of directors on 25 July 1996 and were signed on its behalf by:

Graeme J Davies *Director*

E B O Sherlock *Director*

**CASH FLOW STATEMENT** for the year ended 31 March 1996

	Note	1996 £000	1995 £000
<b>Operating activities</b>			
Cash received from USS		13,585	10,813
Operating costs paid	15	(10,667)	(10,110)
<b>Net cash inflow from operating activities</b>		<u>2,918</u>	<u>703</u>
<b>Investing activities</b>			
Purchase of tangible fixed assets		(3,037)	(413)
Sale of tangible fixed assets		44	38
<b>Net cash outflow from investing activities</b>		<u>(2,993)</u>	<u>(375)</u>
<b>(Decrease)/increase in cash</b>		<u>(75)</u>	<u>328</u>

**NOTES TO THE ACCOUNTS** for the year ended 31 March 1996

1 The company, which is limited by guarantee and does not have a share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as the trustee of USS.

**2 Format of accounts**

A profit and loss account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the statement of operating costs.

A separate statement of total recognised gains and losses has not been presented as all gains and losses are included in the statement of operating costs.

A separate note of historical cost profits and losses is not required as the accounts are prepared under the historic cost convention.

**3 Accounting policies**

**Accounting convention**

The accounts are prepared under the historic cost convention and on the accruals basis and comply with applicable accounting standards in the United Kingdom which have been consistently applied.

**Depreciation of fixed assets**

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33%
Motor cars	25
Computer software	33%

**Pensions**

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee company on the advice of the actuary. In the intervening years the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from the employees' services.



4 Employees' emoluments

	1996	1995
The average weekly number of persons employed by the company during the year (excluding directors) was	118	104
Staff costs for the above persons were:	£000	£000
Wages and salaries	3,000	2,683
Social security costs (national insurance contributions)	254	213
Pension costs (superannuation contributions)	413	378
Restructuring costs	362	-
	<u>4,029</u>	<u>3,274</u>

The increase in the number of persons employed by the company during the year was due primarily to the recruitment of a number of staff on a temporary basis in order to scan all the members' paper files into computer images.

The restructuring costs represent the cost of payments under the voluntary early retirement scheme introduced during the year.

5 Directors' emoluments and expenses

	1996	1995
	£000	£000
Fees	168	167
Employer's costs - national insurance contributions	17	16
- VAT	5	5
Expenses	8	8
	<u>198</u>	<u>196</u>

Directors are remunerated on a basis which is approved by the joint negotiating committee and is in accordance with the contribution which they make to the work of USS Ltd and their legal responsibilities.

No pension contributions are made on behalf of directors.

The emoluments of the chairman, who was also the highest paid director, amounted to:

	1996	1995
	£000	£000
The number of other directors whose annual emoluments fell into the following bands was:		
Nil - £5,000	1	2
£ 5,001 - £10,000	4	2
£10,001 - £15,000	4	5
£15,001 - £20,000	1	1
£20,001 - £25,000	2	2

6 Securities management rebates

Management fees and other charges incurred by securities managers on investment in their own in-house funds are rebated from the fees chargeable to USS Ltd. These costs are included within the book cost of the investments held by USS.

7 Costs met by third parties

Costs met by third parties represent the amount of the commission paid by USS to certain stockbrokers which is directed by the stockbrokers to the purchase of equipment and services for USS Ltd for investment management purposes.

8 Computer and information services costs

	1996	1995
	£000	£000
Investment information services	436	390
Investment accounting services	193	172
Computer running costs	189	149
Software depreciation	249	127
Hardware depreciation	148	82
Computer bureau fees	35	16
	<u>1,250</u>	<u>936</u>

9 Professional fees

	1996	1995
	£000	£000
Legal	245	225
Actuarial	136	116
Information technology consultancy	124	37
Relocation of Liverpool Office	-	45
Committee members (other than directors)	30	30
Taxation	34	-
Salary surveys	-	21
Public relations	20	-
Other	24	35
	<u>613</u>	<u>509</u>

10 Auditors' remuneration

	1996 £000	1995 £000
USS	30	29
USS Ltd	4	4
	<u>34</u>	<u>33</u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £34,000 for taxation advice (1995: £2,500 for investment advice).

11 Total operating costs - recoverable from USS

	1996 £000	1995 £000
Investment management costs	6,016	5,651
Other administration costs	5,757	4,101
	<u>11,773</u>	<u>9,752</u>

Investment management costs are those costs which are directly attributable to investment activities and include relevant personnel, premises and other costs.

Included in operating costs is a charge for depreciation of £754,000 (1995: £370,000).

12 Tangible fixed assets

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor cars £000	Total £000
<b>Cost</b>						
At 1 April 1995	602	552	897	274	233	2,558
Additions	1,237	343	442	867	148	3,037
Disposals	(264)	(20)	(26)	(92)	(99)	(501)
At 31 March 1996	<u>1,575</u>	<u>875</u>	<u>1,313</u>	<u>1,049</u>	<u>282</u>	<u>5,094</u>
<b>Accumulated Depreciation</b>						
At 1 April 1995	338	363	729	202	91	1,723
Charge for year	212	148	249	76	69	754
Disposals	(222)		(2)	(80)	(61)	(365)
At 31 March 1996	<u>328</u>	<u>511</u>	<u>976</u>	<u>198</u>	<u>99</u>	<u>2,112</u>
<b>Net Book Value</b>						
31 March 1996	<u>1,247</u>	<u>364</u>	<u>337</u>	<u>851</u>	<u>183</u>	<u>2,982</u>
<b>Net Book Value</b>						
31 March 1995	<u>264</u>	<u>189</u>	<u>168</u>	<u>72</u>	<u>142</u>	<u>835</u>

13 Debtors

	1996 £000	1995 £000
Prepayments and accrued income	507	403
Other debtors	93	38
	<u>600</u>	<u>441</u>

14 Creditors - amounts falling due within one year

	1996 £000	1995 £000
Due to USS	2,110	298
Accrued expenditure	934	1,320
Taxation and social security	102	90
Other creditors	1,128	335
	<u>4,274</u>	<u>2,043</u>

15 Reconciliation of operating costs paid

	1996 £000	1995 £000
Operating costs - recoverable from USS	11,773	9,752
Depreciation	(754)	(370)
(Loss)/Profit on sale of tangible fixed assets	(92)	19
Increase in debtors (excluding USS)	159	43
(Increase)/decrease in creditors (excluding USS)	(419)	666
Operating costs paid	<u>10,667</u>	<u>10,110</u>

16 Value added tax

USS Ltd is registered for value added tax activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment activities.

17 Pension costs

USS Ltd participates in the Universities Superannuation Scheme, a pension scheme which provides benefits based on final pensionable salary for employees of all the 'old' UK universities and some other employers. The assets of the scheme are held in a separate fund administered by the company.

The total pension cost for the company was £413,000 (1995 : £378,000). The pension cost is assessed using the projected unit method.

The latest actuarial valuation of the scheme was at 31 March 1993. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. It was assumed that the investment return would be 8½% per annum, that salary scale increases would be 6½% per annum and that pensions would increase by 5% per annum.

At the date of the last actuarial valuation, which was carried out using the projected unit method, the market value of the assets of the scheme was £7,838 million and the actuarial value of the assets was sufficient to cover 97% of the benefits which had accrued to members after allowing for expected future increases in earnings. The level of contributions paid by the employers takes into account this actuarial deficiency.

18 Capital commitments

	1996 £000	1995 £000
Authorised but not contracted	-	-
Authorised and contracted but not provided for	-	-

**REPORT OF THE AUDITORS** to the members of Universities Superannuation Scheme Limited

We have audited the financial statements on pages 58 to 66.

**Respective responsibilities of directors and auditors**

As described on page 57 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1996 and of its results and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand  
Chartered Accountants  
and Registered Auditors

Liverpool  
29 July 1996



**Professor  
Sir Graeme Davies**  
Chairman



**Barry Sherlock CBE**  
Chairman  
Finance & General  
Purposes Committee



**Lord Mark Fitzalan  
Howard OBE**  
Chairman  
Investment Sub-Committee



**Kenneth Dibben**  
Chairman  
Audit Committee



**Len Collinson**  
Chairman  
Salaries  
Sub-Committee



**David  
Anderson-Evans**  
Chairman  
Advisory Committee



**Sir Kenneth Berrill**  
Chairman  
Joint Negotiating  
Committee



**David Chynoweth**  
Chief Executive



**Peter Moon**  
Chief Investment  
Officer



**Robbie Heywood**  
Chief Pensions  
Manager



**Colin Hunter**  
Chief Accountant



**John P Williams**  
Company Secretary



**Robert Walden**  
Surveyor

# USS