

**REPORT AND ACCOUNTS**

for the year ended 31 March 1997

**USS**

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 £13.5 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

Management statement	2
Summary of year	3
Trustee company	4
Officers and advisers	4
Membership of committees	5
Committee reports	6
Management committee	6
Investment committee	15
Joint negotiating committee	29
Advisory committee	31
Statement of investment principles	32
Membership statistics	38
University institutions	38
Non-university institutions	43
Summary of movements	48
USS accounts	49
Fund account	49
Statement of net assets	50
Notes to the accounts	51
Statement of trustee's responsibilities	58
Report of the auditors	59
Statements by the actuary	60
Five year summary	64
USS Ltd accounts	65
Report of the directors including the statement of directors' responsibilities	65
Statement of operating costs	67
Balance sheet	68
Cash flow statement	69
Notes to the accounts	70
Report of the auditors	77

The year to 31 March 1997 was again a period of continued growth for the fund. The scheme's active membership increased from 74,700 to 76,900 and there was a comparable growth in the numbers of pensioners and those entitled to deferred benefits to 26,100 and 30,200 respectively. Substantial investment returns contributed to an increase in the size of the fund during the year of over £1.5 billion and at 31 March 1997 the fund had total assets of over £13.5 billion.

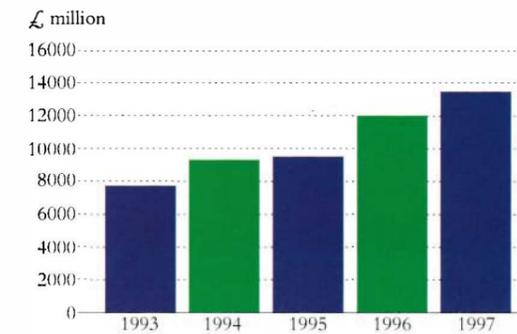
It was also a very significant year both for pension funds generally and for USS. Most of the detailed provisions of the Pensions Act 1995 came into force on 6 April 1997 and the trustee company has taken steps during the past year to ensure that the scheme complies in full with the legislation.

The triennial actuarial valuation of USS, which was carried out as at 31 March 1996, saw the scheme move into surplus for the first time since it was established in 1975. The contribution rate payable by institutions was reduced to 14% from 1 January 1997 and a number of benefit improvements, including an increase in excess of inflation to pensions in payment, were introduced subsequently.

Graeme J Davies  
Chairman

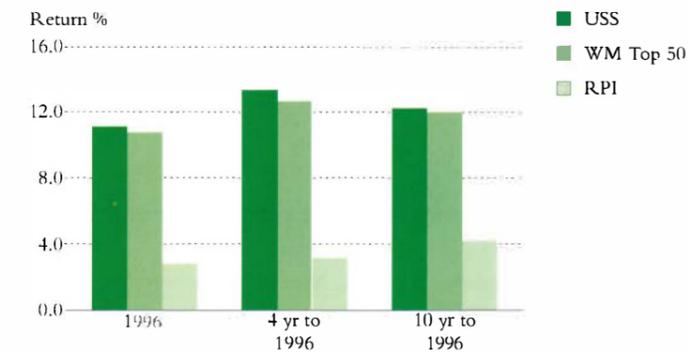
David B Chynoweth  
Chief Executive

### FUND



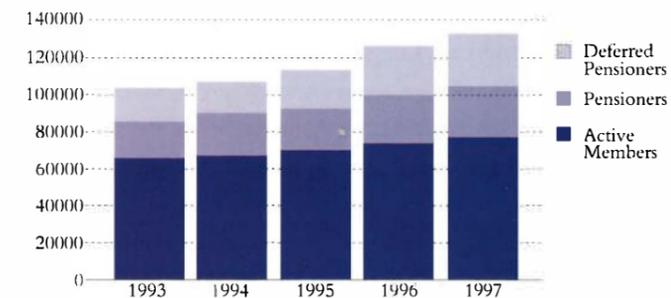
The fund continues to increase, having grown from £7.8 billion in 1993 to over £13.5 billion as at 31 March 1997. More details are given in the investment committee report on page 15 and in the five year summary of the fund accounts on page 64.

### PERFORMANCE



The fund's investment return of 10.8% in 1996 was 0.3% ahead of the largest funds in the WM survey and well ahead of the retail price index. Over both 4 years and 10 years the fund outperformed the WM50 (the largest funds in the WM survey) and comfortably exceeded the retail price index. More details on performance are given in the report of the investment committee on page 15.

### MEMBERSHIP



The membership of the scheme has continued to grow steadily. As at 31 March 1997 the total membership was 133,200, an increase of 6.5% from last year and 28% from 31 March 1993. More details are given in the five year summary of the fund accounts on page 64.

**PRINCIPAL OFFICERS AND ADVISERS**

**The principal officers and advisers of the trustee company at 1 August 1997 are:-**

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

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

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

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 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 1997 of the principal committees was as follows:**

**Management Committee**

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

Professor Sir Graeme Davies (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*

C D Donald (Deputy Chairman), A S Bell, Dr Christine Challis, L Collinson,  
Lord Mark Fitzalan Howard

**Finance & General Purposes Committee**

*Appointed by the management committee*

C D Donald (Chairman), L Collinson, Professor Martin Harris, J W D Trythall

**Investment Committee**

*Appointed by the management committee*

Lord Mark Fitzalan Howard (Chairman), A S Bell, C D Donald, C E Hughes,  
P V S Manduca, Dr D Nicholls, J W D Trythall

**Audit Committee**

*Appointed by the management committee*

K F Dibben (Chairman), Dr Christine Challis, C D Donald, Dr G R Talbot

**Remuneration Committee**

*Appointed by the management committee*

L Collinson (Chairman), Professor Martin Harris, J W D Trythall

**Advisory Committee**

*Appointed by the Association of University Teachers*

C L Rice (Chairman), Ms J McAdoo, Dr D J Wright

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

D Anderson-Evans, A D Linfoot, D W Sims

**Joint Negotiating Committee**

*Independent Chairman*

Sir Kenneth Berrill

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

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

*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-second annual report on the progress of USS. Separate reports on the activities of the investment committee, the joint negotiating committee and the advisory committee are printed following this report.

### Committee members



Professor Sir Graeme Davies succeeded Sir John Sparrow as chairman from 1 April 1996. Mr E B O Sherlock retired from the board as deputy chairman on 31 July 1996. His contribution to the board during 18 years' service on the management and other committees was both significant and substantial and we thank him for his unfailingly sound advice and wish him a long and happy retirement. Mr Sherlock's successor

as a co-opted director from 1 August 1996 was Mr A Scott Bell. From the same date, Mr Colin Donald assumed the role of deputy chairman. Dr K J R Edwards left the board on 31 March 1997. His successor from 1 April 1997 as a director appointed by the Committee of Vice-Chancellors and Principals is Professor Sir Gareth Roberts.

### Institutions



At 31 March 1997 there were 270 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

Edexcel Foundation

Royal Northern College of Music

- Brighton University
- Nottingham Trent University
- denotes institution admitted only for employees who had been members of USS whilst in a previous employment.

#### Institutions which ceased to participate

British Postgraduate Medical Federation

University of York Students' Union

Liver Research Unit Trust

Southampton University Management School

### Other changes:

Institute of Child Health merged with University College London (but retained its original code number)

St David's University College Lampeter became University of Wales, Lampeter

Loughborough University of Technology became Loughborough University

Templeton College Oxford became a full Oxford University college

### Scheme membership



During the year 10,417 new members joined the scheme and at 31 March 1997 the total membership, including pensioners and those entitled to deferred benefits, was 133,166 compared with 125,093 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 38 and over the five years ended 31 March 1997 in the Summary on page 64.

The proportion of eligible new employees choosing not to join USS remained stable at 22%. While there may be valid reasons for the decisions of some employees not to join USS, the figure continues to be 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 do not decide to join USS. 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 the State Earnings-Related Pension Scheme (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.

### Rule amendments

The current USS rules are represented by the Supplemental Declaration of Trust which was executed on 7 February 1994 and, as at 31 March 1997, nine deeds of amendment. The sixth, seventh, eighth and ninth deeds of amendment were executed during the year. The principal reasons for the changes introduced into the rules by these deeds were as follows:

- 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;
- to widen the definition of "dependant" in the USS rules to provide increased flexibility consistent with Inland Revenue requirements;
- to correct an anomaly inadvertently introduced into the rules when they were last revised in 1994 relating to the calculation of benefits paid following death after retirement;

- to introduce a new procedure to enable USS to comply with the requirement that the trustee company must put in place arrangements for the resolution of internal disputes in accordance with section 50 of the Pensions Act 1995;
- to enable USS Ltd as a participating employer in USS to act on behalf of all the participating institutions in the scheme for the purposes of the new contracting-out provisions only; and
- to ensure that a period of absence for employment with an institution due to industrial action does not cause an immediate reversion from active membership to deferred pensioner status, so enabling death in service cover to be maintained.

Two further deeds of amendment - the tenth and eleventh - were executed shortly after the close of the period covered by this report. The latter introduced a number of benefit improvements which:

- abolished the provision to suspend surviving spouses' pensions on remarriage or cohabitation;
- extended from 10 to 15 years the age gap between a deceased member and their surviving spouse/dependant at which the survivor's pension falls to be reduced, for active members only;
- increased the death in service lump sum to two-and-a-half times salary; and
- provided a special one-off enhancement of 0.9% to the pension increases on the USS element of pensions payable and deferred pensions at 1 April 1997.

#### 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 (although increases on the amount of pension which represents the Guaranteed Minimum Pension (GMP) are treated differently - see below). As reported last year, USS pensions were increased by 3.9% on 21 April 1996.

On 21 April 1997 pensions which satisfied certain qualifying conditions and began before 23 April 1996 were increased by 3%, with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rates. The increase provided under the Pensions (Increase) Act would have been 2.1% for a full year increase. On this occasion, however, the management committee decided that USS pensions would be increased by an amount greater than the figure provided under the Act.

That part of the pension payable from the main section of USS which represents the post 1988 GMP was increased by 2.1%. That part which represents the pre 1988 GMP is generally not increased by USS as increases are paid by the Department of Social Security (DSS). More detail on the way in which increases are applied to the GMP is given 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. Pensioners were advised that pension increases above the rate specified in the Pensions (Increase)

Act are likely to be considered only in the year which follows an actuarial valuation and in which the increase provided under the Act is less than the Inland Revenue restriction which is currently 3%.

#### Contribution rates

The rates of contributions payable by members and institutions between 1 April 1996 and 31 March 1997 were as follows:

USS Main Section	Member	6% of salary
	Institution	18.55% of salary to 31 December 1996 14% of salary from 1 January 1997
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

#### Actuarial matters

A triennial actuarial valuation of USS was carried out as at 31 March 1996. The principal results are that the scheme has moved into surplus for the first time since USS was established in 1975 and the contribution rate payable to USS by institutions was reduced to 14% from 1 January 1997.

The main features of the actuarial valuation were discussed at the meeting for representatives of USS institutions which was held in London on 5 December 1996. The full text of the actuary's report to the management committee has been printed and copies were sent to all institutions in March 1997.

No changes were made to the funding objective or the method of valuation. The only change in the financial assumptions was to reduce the assumed rate of future increases in property rents from 4.5% pa to 1.5% pa. In considering the other assumptions the actuary reduced the assumed age of retirement from 61 to 60, increased the allowance for ill-health retirement to reflect the experience since the last valuation and introduced an allowance for a proportion of the scheme's withdrawal experience.

The result of the actuarial calculations is that the scheme has moved from having a past service shortfall at 31 March 1993 of £273 million to a past service surplus of assets above liabilities at 31 March 1996 of £855 million. This surplus represents 8% of the past service liabilities of the scheme. There is a surplus of £58.2 million attributable to the supplementary section leaving a past service surplus of £796 million in the main section.

The institution contribution rate required for the future service benefits alone is 14.6% of salaries. Based on the method and assumptions used it was agreed that the institutions' contribution rate would be 14% of salaries with effect from 1 January 1997. Applying this reduction in contribution rate over the average remaining working lifetime of the current active members will utilise £165 million of the past service surplus leaving a residual past service surplus of £689.6 million to be carried forward. Of this amount a further £153 million has been utilised in providing the benefit improvements outlined elsewhere in this report.

Additionally the actuary has carried out an actuarial review as at 31 March 1997 which examines the progress of the scheme since the last valuation. A statement by the actuary on the review is shown on page 60. It draws the conclusion that the overall financial position of the scheme has improved since the 1996 valuation and recommends that no change should be made in the institutions' contribution rate.

#### 1997 budget - abolition of tax credits

In the budget in July 1997 the chancellor abolished the tax rebate on UK equity dividends available to pension schemes. The effect of this is to reduce the fund's future investment return, although the extent of this reduction will depend on a number of factors such as market reaction, the reduction to corporation tax announced in the budget and changes in future levels of net dividends payable.

Whilst the strength of the scheme's funding suggests there is no immediate need to change the contribution rate, we shall in due course be reviewing the overall assumptions which determine the contribution rate in order to assess the combined effect of the budget proposals on the performance of the fund.

#### Accounting matters



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

The accounts of the trustee company show a fall in operating costs from £11.8 million in 1995/96 to £10.6 million in 1996/97, a fall of 10.2%. The

reduction in costs is largely due to a reduction in investment management costs with other administration costs being held at the same level as in the previous year. Details of the reduction in the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 65.

#### Trustees' responsibilities

Most of the detailed provisions of the Pensions Act 1995 came into force on 6 April 1997 by virtue of a large number of detailed regulations produced by the DSS. The trustee company has taken steps during the past year to ensure that the scheme complies in full with the legislation. These steps include:

- the formal appointment of the scheme's professional advisers;
- the introduction of a two-stage dispute resolution procedure to resolve complaints by members, potential members and beneficiaries. This provides for a nominated person (the chief pensions manager) to examine the issue and give a ruling. The member can then ask the trustee, acting through the advisory committee for this purpose, to look at the issue afresh and give a revised ruling if appropriate; and
- the production of a statement of investment principles, which has been the subject of consultation with the employers participating in the scheme.

Other aspects which impact on USS include the following:

- It has become a criminal offence under the Pensions Act 1995 for members' contributions to be paid to the scheme more than 19 days after the end of the month in which the amount is deducted from the earnings in question, where there is no reasonable excuse for the failure to meet this timetable. This is also a matter reportable to the Occupational Pensions Regulatory Authority (OPRA).
- The Act requires proper notice and recording of trustee meetings and, for any meeting after 6 April 1997, trustees are required to be given ten business days' notice of meetings at which they will be expected to take decisions. These requirements have been long standing trustee company practices.
- Final salary type occupational pension schemes such as USS are to be subject to a minimum funding requirement which will apply to USS from the next valuation date of 31 March 1999. USS Ltd has however received advice from the scheme actuary that USS would currently satisfy this new minimum funding requirement, comfortably, if it applied now.
- There are changes to the basis on which schemes such as USS contract out of SERPS. USS satisfies the new requirements and the procedural effect of these on institutions which participate in USS will be minimal because USS Ltd may, as under the former contracting-out regime, retain its status as a holding company, thereby enabling it to handle contracting-out issues directly with the Contributions Agency of the DSS.
- There is a general requirement under the Act for schemes to appoint a minimum number (one-third of the total) of member-nominated trustees (or, in the case of a corporate trustee, member-nominated directors). As an industry-wide scheme which satisfies certain stringent criteria relating to the independence of its board of directors, USS is exempt from this requirement. However in the light of the legislation and following its spirit, the management committee has decided to increase to three the number of directors who may be appointed by the Association of University Teachers (AUT) with a corresponding reduction in the number of co-opted directors. This change will be effective from 1 October 1997. The third AUT director will be appointed from among USS pensioners who have been active members of the scheme.

- Penalties are introduced for failure to comply, without reasonable excuse, with the requirement to disclose information about the scheme to members within specified time limits.
- Provisions have been introduced for earmarking of pensions on divorce and courts may make orders against trustees of pension schemes which can, for example, override an expression of wish on a nomination form or the exercise of the trustee's discretion as regards a death benefit.
- The time limit for completion of a transfer has been halved to six months and if a scheme is asked about a transfer it must produce a statement guaranteeing the amount payable within three months of the request.

#### Investment policy

There were no changes made during the year in the arrangements for investment management of securities. The arrangements for management of the assets and custody, together with the approximate proportion managed or held by each as at 31 March 1997, were as follows:

- (a) 25% 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) 48% is actively managed in-house by USS Ltd, London Investment Office (with Chase Manhattan Bank as custodian). Of this 42% are securities and 6% are 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) 2% 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 25% of the USS fund is invested in line with an index of UK equities.

The year to 31 December 1996 was a good year for pension fund performance, although the fund underperformed its target return. Over four years the fund outperformed the average fund but 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 committee.

It is a requirement of the Pensions Act 1995 that the trustees of each pension fund draw up and maintain a statement of investment principles. This statement should lay down the investment objectives of the pension fund and explain why these objectives are suitable for the particular circumstances of the fund. The management committee took the view that for USS this

statement should provide significantly greater information about the management of the scheme's investments than is required under the Act. The full text, which was agreed following consultation with the participating employers, begins on page 32.

#### Administration



It was reported last year that the Liverpool office had relocated in December 1995 to the Royal Liver Building to facilitate the development of an information technology strategy which commenced in 1994. This development has continued during the past year. The electronic document management system has proved extremely beneficial. Within a matter of hours, each day's intake of post is scanned and

electronically filed on optical disks, providing immediate security and instant availability to the staff who will process it. The company regards electronic communication with institutions as a very beneficial area to develop. A USS web site will be created on the internet, with the intention that institutions will be able to avail themselves of templates representing standard USS forms. Other areas which it is hoped to develop are the electronic exchange of contribution and salary data and the bar coding of forms.

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. Reports showing achievements compared with targets are reviewed regularly and are discussed at meetings of the finance officers' group which is a liaison committee containing representative finance officers from the institutions.

Two seminars were held during the year at the Liverpool office as part of the ongoing programme of activities to foster good communication between USS Ltd and the members of staff at institutions who are involved with the administration of the scheme. Two meetings of the finance officers' group were held and the annual meeting with institutions' representatives took place in London in December 1996 with a full report of the proceedings being circulated subsequently to all institutions.



Since the prohibition in April 1988 (under the Social Security Act 1986) of compulsory membership of occupational pension schemes as a condition of employment, 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 have been greatly supplemented by statutory disclosure requirements which now apply under the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996. 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 above 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 (the functions of which were assumed by the new regulatory body, OPRA, in April 1997) 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 1996.

### Acknowledgements

The management committee again wishes to record its appreciation of the services 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 USS 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 COMMITTEE

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

#### HIGHLIGHTS OF 1996/97

- Investment returns in the year to 31 December 1996 for the total fund were 10.8%, far in excess of average earnings growth and price inflation of 4.6% and 2.5% respectively.
- The 10 year return for the fund was 12.2% per annum, just ahead of the average pension fund return of 11.9% and, again, well ahead of growth in average earnings of 6.0% and retail prices of 4.5% over the same period.
- Including cash flow and capital appreciation, the total assets of the fund reached £13.7 billion on 31 March 1997 from £12.1 billion a year earlier.
- The final tranche of the University Life Assurance Society (ULAS) managed fund amounting to £84 million was taken in-house in October 1996 to be managed by the London Investment Office.
- The ongoing cash flow to the fund was reduced during the final quarter of the financial year by the reduction in employer contributions from 18.55% to 14.0% of salary.
- IMRO carried out a routine inspection of the London Investment Office and the Liverpool office in March. The outcome was satisfactory and there were no adverse issues to report.
- A statement of investment principles was drawn up by the committee, the text of which begins on page 32.

#### INVESTMENT MANAGEMENT

The fund's investments are divided between those under the direct control of the trustee company and those managed externally. The internal investment team at the London Investment Office manages the majority of the assets. A fund designed to match the performance of the Financial Times Stock Exchange Actuaries All Share Index (FT-SE-A All-Share Index) is run in-house on advice provided by HSBC James Capel Quantitative Techniques.

The external managers throughout the year to 31 March 1997 were PDFM Limited, Schroder Investment Management Limited and Baillie Gifford & Co, all of whom have a balanced fund remit.

During the year these managers were remunerated on the following bases - PDFM through a performance-related fee and Schroder Investment Management and Baillie Gifford & Co through a fixed fee.

## COMMITTEE REPORTS

There were no significant changes in the way in which these assets were managed during the year to 31 March 1997.

Jones Lang Wootton advise on the composition of the property portfolio and manage the majority of the properties. For these services they charge both management and transaction-related fees.

An analysis of the total investments of the fund at 31 March 1997, 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 54.

## COMMITTEE REPORTS

## TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 1997		31 March 1996	
						Total £m	Total %	Total £m	Total %
<b>Investments under the direct control of USS Ltd</b>									
Quoted securities									
UK	560.5	-	2,670.0	-	-	3,230.5	23.8	2,761.0	23.1
Overseas	249.1	-	2,013.2	-	-	2,262.3	16.7	2,219.9	18.5
Unquoted securities									
UK	-	-	5.1	-	-	5.1	0.0	5.3	0.0
Overseas	-	-	-	-	-	-	-	0.1	0.0
Property									
UK	-	-	-	840.2	-	840.2	6.2	782.6	6.5
Cash/stockbroker balances									
UK	-	-	-	-	116.9	116.9	0.9	45.1	0.4
Overseas	-	-	-	-	66.0	66.0	0.5	125.3	1.1
Sub-total	809.6	-	4,688.3	840.2	182.9	6,521.0	48.1	5,939.3	49.6
<b>Investments managed internally on the basis of external advice</b>									
Index fund									
UK	-	-	3,437.2	-	(11.1)	3,426.1	25.3	2,740.3	22.9
Overseas	-	-	0.8	-	-	0.8	0.0	0.4	0.0
Sub-total	-	-	3,438.0	-	(11.1)	3,426.9	25.3	2,740.7	22.9
<b>Investments managed externally</b>									
Baillie Gifford									
UK	53.5	-	726.8	-	63.7	844.0	6.2	729.0	6.1
Overseas	61.9	-	202.5	-	(12.6)	251.8	1.9	236.8	2.0
PDFM									
UK	177.6	145.4	240.4	-	140.9	704.3	5.2	681.8	5.7
Overseas	145.7	-	227.7	-	0.1	373.5	2.8	272.5	2.3
Schroder									
UK	68.4	-	527.4	-	113.3	709.1	5.2	591.3	4.9
Overseas	79.1	-	365.1	-	(0.4)	443.8	3.3	427.6	3.6
Managed fund									
Life assurance policies									
UK	57.2	3.7	132.7	21.5	15.8	230.9	1.7	226.8	1.9
Overseas	-	-	43.3	-	-	43.3	0.3	49.9	0.4
Sub-total	643.4	149.1	2,465.9	21.5	320.8	3,600.7	26.6	3,294.1	27.5
<b>Total investments</b>									
UK	917.2	149.1	7,739.6	861.7	439.5	10,107.1	74.5	8,641.6	72.1
Overseas	535.8	-	2,852.6	-	53.1	3,441.5	25.5	3,332.5	27.9
Total	1,453.0	149.1	10,592.2	861.7	492.6	13,548.6	100.0	11,974.1	100.0
<b>Percentage at 31 March 1997</b>									
UK	6.7	1.1	57.1	6.4	3.2		74.5		
Overseas	4.0	-	21.1	-	0.4		25.5		
<b>Total percentage</b>	<b>10.7</b>	<b>1.1</b>	<b>78.2</b>	<b>6.4</b>	<b>3.6</b>		<b>100.0</b>		
<b>Total percentage at 31 March 1996</b>									
	9.4	2.3	77.3	6.7	4.3				100.0

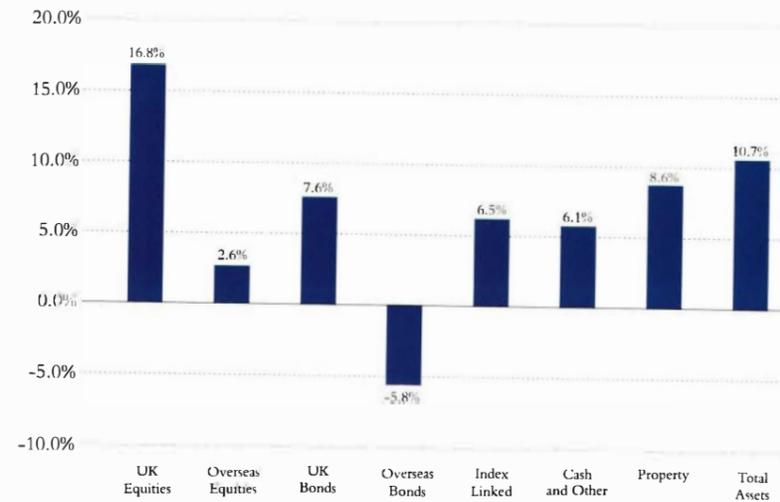
**WM PENSION FUND SURVEY FOR 1996**

The fund participates in the above survey of pension fund performance. In 1996 the survey covered 1,501 funds with a combined value of £400 billion representing over three-quarters of total UK pension funds by value.

**Average pension fund results for 1996**

Investment returns in 1996 reported in the survey showed that the average pension fund performed well with most asset classes showing strong returns.

**Total investment returns for 1996 in sterling**



**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 biased 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 1996, the total fund returned 12.2% per annum against an average of 11.9%. This compares with the average earnings increases of 6.0% per annum and retail price index growth of 4.5% per annum. Over this period the fund comfortably met its actuarial target.

Against the 50 largest funds, each with assets of over £1 billion, which represent 55% of assets in the WM survey, USS performed slightly better than average.

**Performance over the four years to 31 December 1996**

The present method of investment management has been in place since late 1992 with performance being measured from the beginning of 1993. Taking the four years 1993 to 1996 together, the following annualised returns were achieved:-

	%	Percentile Rank
Schroder Investment Management	13.8	32
London Investment Office	13.6	38
Baillie Gifford	13.0	56
PDFM	12.3	80

Over this period, the 40th percentile of the WM All Funds Universe is calculated to be 13.5% and Schroders and the London Investment Office achieved this. None of the managers beat the FT-SE-A All-Share index +1%, namely 16.0%. Over the four year period the total fund including property returned 13.3% against the average fund performance of 12.9%.

**Performance in 1996**

In 1996, the total fund underperformed its dual targets. By returning 10.8%, the fund was at the 60th percentile and 5.9% behind the FT-SE-A All-Share Index. The fund's overweight position in cash 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	11.6	43
London Investment Office	10.9	58
Schroders Investment Management	10.9	58
PDFM	9.4	86

The FT-SE-A All-Share Index returned 16.7%, making the target return 17.7% for the individual managers. The best return was achieved by Baillie Gifford with 11.6% but all managers failed to reach this demanding target which was achieved by none of the managers in the WM Universe.

**INVESTMENT REPORT**

World economic growth continued at a satisfactory pace during 1996, although there are now signs of unsustainable growth rates in some of the economies more advanced in the cycle such as the USA and the UK.

Tighter monetary and fiscal regimes should slow down these economies before inflation becomes a major problem. As the more mature economic cycles slow and 1997 progresses, the Japanese and core European economies should take up the slack as they come out of recession.

Efforts to meet the criteria for the single European currency will reduce the power of the European recovery but the supportive interest rate environment seen in 1996 still persists. The Pacific region continues to show steady strong growth and remains a favoured region of investment for the fund.

Commodity prices remained relatively steady over the year. There are now signs that wage pressures are beginning to increase, albeit modestly, in some economies. Capacity constraints were not a problem in 1996 with most major economies operating well below productive potential. This has been a feature of the prolonged recovery, although the possibility of bottlenecks will increase towards the end of 1997. Cost pressures appear to be well under control for the medium term. We are confident that governments are willing to take the necessary action so that cost pressures remain under control over the medium term.

Short term interest rates were slightly reduced in Europe but generally flat elsewhere with rises coming towards the end of 1996 in the UK and early in 1997 from the USA. Tightening is unlikely to be progressed aggressively from here unless significant inflationary pressures surface. Although we think this is unlikely, the risks of such a happening have increased over the past year.

The upturn in economic activity and increasing inflationary fears will continue to hold back any recovery in long bonds. The acceleration in growth in the US and UK economies will tend to maintain real yields at high levels until economic growth rates revert to more sustainable levels.

Sterling performed relatively well against the yen and deutschemark but fell marginally against the US dollar during 1996 and the first quarter of 1997. We expect its performance to continue to be satisfactory. The Labour government got off to a sound start in economic management by raising interest rates marginally at the beginning of May and granting the Bank of England independence in setting short term interest rates in future. This action reassured currency and bond markets which responded favourably. The impact of the budget changes announced in July 1997 is commented on in the management committee report.

Liquidity continues to provide major support for markets. Corporations are in a sound financial state. Individuals, especially in the USA, are committing 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 unlikely to remain as benign during the coming year, which will make it difficult for markets to perform as well over the coming year as they did in 1996.

The greatest threat to our projections of modest returns in financial markets remains a potential upturn in inflation, leading to a rise in interest rates. Although the environment of low inflation and moderate growth seems intact, such optimism often signals a turning point. However, money markets are already forecasting significant rises in short term interest rates which makes us feel a little more comfortable that a modest increase will be accommodated by the markets.

The fund remains heavily committed to equity investment and we believe that this asset will perform well in the future.

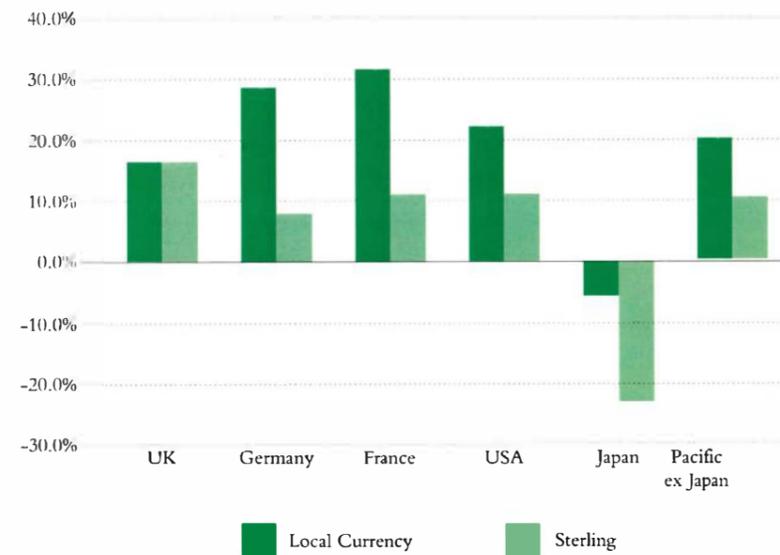
The performance of the major markets for the year to 31 March 1997 is shown below:-

**EQUITY AND FIXED INTEREST MARKET TOTAL RETURNS FOR THE YEAR TO 31 MARCH 1997**

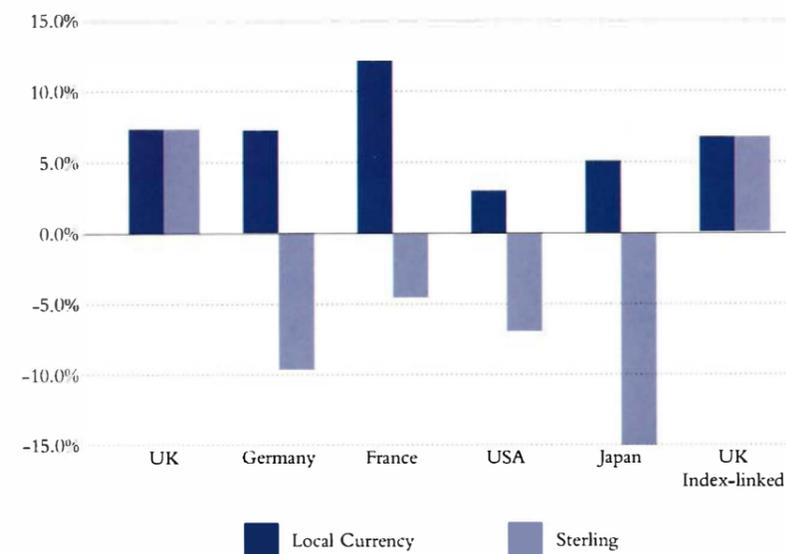
	Equities		Fixed interest	
	Local currency	Sterling	Local currency	Sterling
	%	%	%	%
UK	16.1	16.1	7.3	7.3
Germany	27.3	7.2	7.4	-9.5
France	30.8	11.6	12.0	-4.4
USA	22.8	11.4	2.9	-6.6
Japan	-5.6	-23.8	5.4	-15.0
Pacific ex-Japan	20.2	11.4	-	-
UK Index-linked	-	-	6.4	6.4
UK Property	10.7	10.7	-	-

Source: FT Actuaries World Indices  
LOC Bond Indices  
IPD Monthly Index

Equities



Fixed Interest



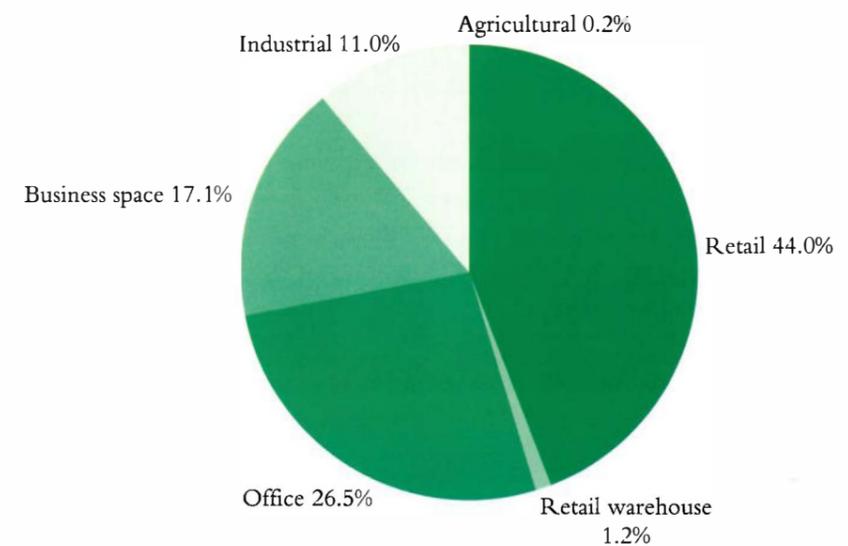
PROPERTY

The long awaited upturn in rental growth finally arrived in 1996 and continued to gather momentum in the early part of 1997. For example, in March 1997, the Investment Property Databank all property monthly index recorded the highest rate of increase in rental value growth for seven years. Lack of new stock in most sectors will help to maintain this momentum and, provided the economy continues to improve, further growth looks certain. Yields were steady in the first half of 1996 but fell in the second half as capital values of prime property were driven up, reflecting the sector's much improved prospects. Total returns in 1996 rose to 10.5% (as measured by the Investment Property Databank). Although there is still room for further rental growth during 1997, caution may need to be exercised in respect of the low yields now attaching to the top quality properties.

A breakdown by type and geographical location of the completed properties in the USS portfolio is shown below:

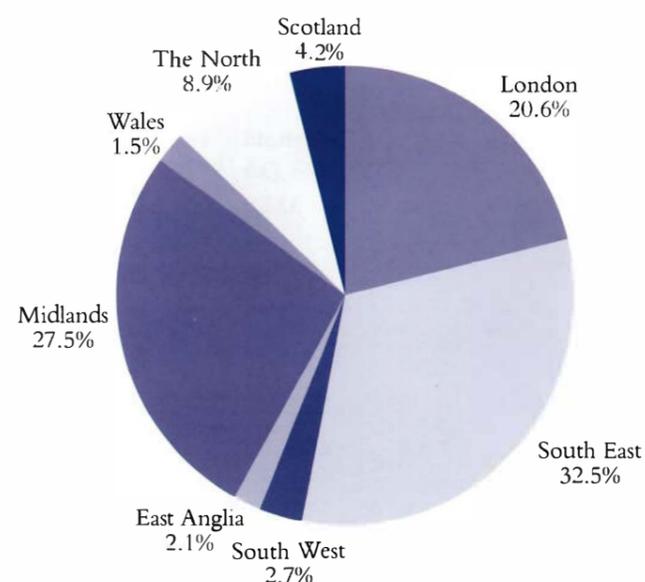
Type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	322.0	40.7	362.7	44.0
Retail warehouse	10.2	-	10.2	1.2
Office	167.6	50.4	218.0	26.5
Business space	135.2	5.5	140.7	17.1
Industrial	67.6	23.3	90.9	11.0
Agricultural	1.5	-	1.5	0.2
	<u>704.1</u>	<u>119.9</u>	<u>824.0</u>	<u>100.0</u>



Geographical location

	£m	%
London	169.6	20.6
South East	267.8	32.5
South West	22.4	2.7
East Anglia	17.2	2.1
Midlands	226.3	27.5
Wales	12.8	1.5
The North	73.2	8.9
Scotland	34.7	4.2
	<u>824.0</u>	<u>100.0</u>



Largely due to the sales achieved, net income for the year to 31 March 1997 fell from £62.5 million to £61.1 million. Further progress in letting vacant space was made however, notably at Deeside Industrial Park where 25% (57,000 sq ft) of the vacant space was let with strong interest in the remainder. At the year end, the value of rental voids in the portfolio was less than 3.2% of the total rental income.

The majority of the properties are subject to upward-only rent reviews every five years.

New investment and sales

The rising market made sales easier to achieve than purchases. The fund was successful in agreeing legal contracts for a major new purchase in respect of The Gyle Shopping Centre in Edinburgh at over £122 million but lost out when Marks & Spencer, a tenant in the Centre, exercised a pre-emptive right to purchase. Purchases were concluded however for a small parade of shops in Fitzroy Street, Cambridge (£2.25 million), a multi-let industrial estate at

Severalls Lane, Colchester (£6.95 million) and a new office development at Chelmsford, let to Royal Insurance (£7.95 million).

Five small secondary properties at Abingdon, Bristol, Enfield, Kettering and Orpington were sold for a total of £10.22 million (1996 Valuation, £10.3 million) and the Four Pools Retail Park at Evesham was sold for £5.265 million (1996 Valuation, £5.25 million).

Further sales are in hand although the fund is likely to continue its pursuit of suitable new investments throughout 1997, with the intention of reducing further its weighting in over-rented properties, where rents are likely to fall on lease expiry, in favour of rack-rented property where better growth prospects are perceived.

TOTAL CASH AVAILABLE FOR INVESTMENT

Cash available for investment for the year ended 31 March 1997 amounted to £643.9 million. An analysis of the net new investment undertaken during the year to 31 March 1997, along with the comparative figures for the preceding year, is set out in the table below:-

	1997		1996	
	£m	%	£m	%
Securities	776.4	120.6	710.6	115.4
Property	18.1	2.8	(12.8)	(2.1)
Life assurance policies	(58.4)	(9.1)	(51.7)	(8.4)
Managed fund	(84.1)	(13.0)	(36.9)	(6.0)
Cash deposits	15.0	2.3	55.6	9.0
Stockbroker balances	(23.1)	(3.6)	(48.9)	(7.9)
	<u>643.9</u>	<u>100.0</u>	<u>615.9</u>	<u>100.0</u>

INVESTMENT ACTIVITY

An analysis of the net new investment in securities and property for the year to 31 March 1997, along with comparative figures for the preceding year, is set out in the table below:-

	1997		1996	
	£m	%	£m	%
UK equities	286.6	36.0	427.8	61.3
Overseas equities	189.7	23.9	251.0	36.0
Index-linked	(134.4)	(16.9)	27.6	4.0
UK fixed interest	338.4	42.6	96.5	13.8
Overseas fixed interest	96.1	12.1	(92.3)	(13.2)
Property	18.1	2.3	(12.8)	(1.9)
	<u>794.5</u>	<u>100.0</u>	<u>697.8</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 1997 approximately 5,200 ELAS policies matured and the proceeds were paid to USS.

The portfolio distribution of the underlying assets of the remaining 33,900 policies as at 31 March 1997, along with the comparative figures for the preceding year, is set out below:-

	1997		1996	
	£m	%	£m	%
UK equities	132.7	48.4	124.0	44.8
Overseas equities	43.3	15.8	49.9	18.0
Index-linked	3.7	1.3	2.8	1.0
UK fixed interest	57.2	20.9	64.4	23.3
Property	21.5	7.8	22.1	8.0
Cash	15.8	5.8	13.5	4.9
	<u>274.2</u>	<u>100.0</u>	<u>276.7</u>	<u>100.0</u>

The final tranche of the managed fund created from the ULAS policies (£84 million) was paid over on 1 October 1996.

**DISTRIBUTION OF ASSETS**

The portfolio distribution as at 31 March 1997, along with the comparative figures for the preceding year, is set out below:-

	1997		1996	
	£m	%	£m	%
<b>UK fixed interest</b>				
British Government				
Conventional	858.8		501.8	
Index-linked	145.4		270.3	
Other debentures & loan stocks	<u>1.2</u>		<u>20.1</u>	
	1,005.4	7.6	792.2	6.8
<b>Overseas fixed interest</b>				
North America	331.4		239.5	
Europe	186.8		189.0	
Japan	0.0		0.0	
Pacific	<u>17.6</u>		<u>112.2</u>	
	535.8	4.0	540.7	4.6
<b>Total fixed interest</b>	<u>1,541.2</u>	<u>11.6</u>	<u>1,332.9</u>	<u>11.4</u>
<b>UK equities</b>				
Mineral extraction	796.8		612.1	
General manufacturers	1,183.6		1,212.3	
Consumer goods	1,336.8		1,048.7	
Services	1,690.8		1,500.5	
Utilities	813.7		721.9	
Financials	1,480.5		1,071.3	
Investment trusts	199.1		172.6	
Unit trusts	100.5		82.8	
Futures & options	0.0		2.8	
Unquoted	<u>5.1</u>		<u>5.3</u>	
	7,606.9	57.3	6,430.3	55.0
<b>Overseas equities</b>				
America	390.5		320.4	
Japan	443.6		534.2	
Europe	1,063.3		779.0	
Pacific	826.4		858.7	
Other	85.5		88.9	
Unquoted	<u>0.0</u>		<u>0.1</u>	
	2,809.3	21.2	2,581.3	22.0
<b>Total equities</b>	<u>10,416.2</u>	<u>78.5</u>	<u>9,011.6</u>	<u>77.0</u>
<b>Total securities</b>	11,957.4	90.1	10,344.5	88.4
<b>Property</b>	840.2	6.3	782.6	6.7
<b>Managed fund</b>	0.0	0.0	78.4	0.7
<b>Cash deposits</b>	473.4	3.6	465.4	4.0
<b>Stockbroker balances</b>	<u>3.4</u>	<u>0.0</u>	<u>26.5</u>	<u>0.2</u>
<b>Total investments (excluding life assurance policies)</b>	<u>13,274.4</u>	<u>100.0</u>	<u>11,697.4</u>	<u>100.0</u>

**LARGEST EQUITY HOLDINGS**

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

	Value	
	£m	%
Glaxo Wellcome	312	2.3
British Petroleum	311	2.3
HSBC Holdings	304	2.3
Shell Transport & Trading	300	2.3
Lloyds TSB Group	222	1.7
British Telecom	217	1.6
Smithkline Beecham	138	1.0
BAT Industries	125	0.9
Zeneca	117	0.9
Prudential Corp	113	0.9
BTR	110	0.8
Grand Metropolitan	108	0.8
Marks & Spencer	105	0.8
Cable & Wireless	104	0.8
Barclays	104	0.8
Unilever	94	0.7
National Westminster	91	0.7
Vodafone	88	0.7
RTZ Corp	83	0.6
Reuters Holdings	81	0.6
	<u>3,127</u>	<u>23.5</u>

Signed on behalf of the investment committee

Mark Fitzalan Howard  
Chairman

**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.

With effect from 1 November 1996 Mr B Lillis replaced Mr A D Weir as a committee member appointed by the CVCP.

The committee met on four occasions during the year. 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 widen the definition of "dependant" in the USS rules to ensure increased flexibility consistent with Inland Revenue requirements;
- (c) to correct an anomaly inadvertently introduced into the rules when they were last revised in 1994 relating to the calculation of benefits paid following death after retirement;
- (d) to facilitate the introduction of profit-related pay (PRP) into the USS rules by enabling institutions to protect the level of pension benefits following the introduction of a PRP scheme;
- (e) to introduce a new procedure to enable USS to comply with the requirement on the part of the trustee company to put in place arrangements for internal dispute resolution in accordance with section 50 of the Pensions Act 1995;
- (f) to enable USS Ltd as a participating employer in USS to act on behalf of all the participating institutions in the scheme for the purposes of the new contracting-out provisions only;
- (g) to ensure that a period of absence from employment with an institution due to industrial action does not cause an immediate reversion from active membership to deferred pensioner status;
- (h) to clarify Inland Revenue limits as they apply to the scheme;
- (i) to make minor amendments requested by the Occupational Pensions Board which would cause the USS rules to comply fully with the preservation requirements;
- (j) to enable the trustee company to decide whether or not stock lending should proceed on the basis of the delegated programme run by the custodian or some other approved body;
- (k) to abolish the right of the trustee company to suspend surviving spouses' pensions on remarriage or cohabitation in respect of active members, pensioners and spouses;
- (l) to continue full member's benefits to a dependant for three months following the death of an unmarried member;
- (m) to abolish the reduction in spouses' and dependants' pensions where the age gap exceeds 10, but is less than 15 years, for active members only;

- (n) to increase the death in service lump sum to two-and-a-half times salary; and
- (o) to provide a special one-off enhancement of 0.9% to the pension increases on the USS element of pensions payable at 1 April 1997 and deferred pensions at that date.

Signed on behalf of the joint negotiating committee

Kenneth Berrill  
Chairman

#### **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 1996 and 1 November 1996 respectively, Mr M Hughes and Mr J C Duffy were replaced by Mr C L Rice and Ms J McAdoo as committee members appointed by the AUT. Mr Rice was appointed chairman of the committee with effect from 1 January 1997 for a period of two years.

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 relating to commutation of pension on the grounds of serious ill-health and produced suggested guidelines for dealing with such cases which were endorsed by the management committee.

The majority of questions raised on the application or interpretation of the rules of USS are dealt with by the senior officers. The remainder requiring detailed consideration by the advisory committee during the year comprised four cases relating to the reduction in a spouse's pension where the spouse was more than 10 years younger than the deceased member, three relating to the definition of eligible children, two relating to the lump sums payable on death, two relating to complaints on the application of the facility (now withdrawn) to repay previous refunds of contributions, one relating to an application for retirement on the grounds of permanent ill-health and one relating to loss of tax relief on deduction from USS benefits under the provisions of rule 14.

The Pensions Act 1995 requires the trustees or managers of an occupational pension scheme to make arrangements with effect from 6 April 1997 for the resolution of disputes with members about matters in relation to the scheme. These arrangements must provide for a specified officer of the scheme, on the application of a complainant, to give a decision on such a dispute and for the trustees or managers, on the application of such a complainant following such a decision, to review the matter in question and confirm the decision or give a new decision in its place. The management committee decided that the first stage decision would be taken by the chief pensions manager and that the role of the advisory committee would be extended to confer upon it an executive decision-making power limited to the resolution of second stage disputes. Two members of the management committee have been appointed to the advisory committee to assist the advisory committee, so enlarged, to act in that capacity. The directors appointed by the CVCP together have the power to nominate one of their number to serve on the advisory committee for this limited purpose and the AUT have exactly the same power to appoint an AUT director to the committee for that purpose. The CVCP and AUT directors have respectively appointed Professor Sir Gareth Roberts and Dr G R Talbot.

Signed on behalf of the advisory committee

C L Rice  
Chairman

## STATEMENT OF INVESTMENT PRINCIPLES

### Introduction

The Pensions Act 1995 requires trustees to prepare and keep up-to-date a written statement recording the investment policy of the scheme. The purpose of this document is not only to satisfy the requirements of the Act but also to outline the broad investment principles governing the investment policy of the scheme.

The statement has been agreed by the management committee of Universities Superannuation Scheme (USS) on written advice from the investment committee, a sub-committee of the management committee, and William M Mercer Ltd, the scheme actuary, and following consultation with the participating employers or their appointed representatives.

Changes to this statement require the agreement of the management committee following receipt of written advice from the investment committee and the scheme actuary and following consultation with the participating employers or their appointed representatives.

The management committee will review the statement at least every three years in the light of each triennial actuarial valuation. The investment committee will monitor compliance with this statement at least annually and will obtain written confirmation from the investment managers that they have exercised their powers of investment with a view to giving effect to the principles contained herein as far as reasonably practicable.

The investment committee of the management committee is established under the articles of association of the trustee company, USS Ltd, and under the rules of the scheme to advise the trustee company on all questions relating to the investment of the assets of the fund. It consists of between three and eight people of whom at least one must be a member of the management committee and not more than five shall be persons other than directors whom the management committee may decide to appoint because they have special skills or are able to give competent advice to the trustee company on the policy to be adopted from time to time for investment of the fund.

The management committee, as the governing body of the trustee company, retains the overall power of investment in relation to the fund but may from time to time delegate to the investment committee on such terms as it may impose the power of the trustee company to decide the investment policy of the fund. The investment committee is required to notify to the management committee its decisions concerning the investment policy of the fund. Any changes in the investment policy will be notified to the management committee on a quarterly basis.

### Investment objective

The trustee's duty is to act in the best financial interests of all classes of scheme member and accordingly 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 investment they hold or consider holding.

The fund's investment objective is to meet its investment performance target. This objective is consistent with the scheme's relative immaturity and with funding the scheme's benefits at the lowest cost over the long term, having regard to the minimum funding requirement of the Pensions Act 1995 and having regard to the attitude of the Committee of Vice-Chancellors and Principals and of the management committee towards the risk of higher contributions at some time in the future. At the last triennial valuation as at 31 March 1996 the scheme's funding level comfortably exceeded its minimum funding requirement level. The aim is to seek to maintain an adequate funding cushion such that the risk of deterioration to the MFR ratio to below 100% is at an acceptable level.

The investment performance target for the global securities under the direct control of USS Ltd and its balanced managers is 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 rolling five-year periods.

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 (five to ten years) period on which an immature fund like USS should be concentrating.

Property investments similarly have a dual performance target to exceed the return on the FT-SE-A All-Share Index by 1% per annum and the 40th percentile of the Investment Property Databank (IPD) universe of all funds over rolling five-year periods.

### Corporate governance

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 recommendations of the Cadbury and Greenbury Committees. Votes are cast on the basis of these guidelines on resolutions at the general meetings of all UK companies and where appropriate at the general meetings of all overseas companies in which the fund has investments.

### Ethical and environmental considerations

With regard to ethical investment the trustee company is bound by the following legal principles which are based on recent decisions in the courts and which apply to all pension schemes:

- (a) trustees are free to adopt a policy of ethical investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law;
- (b) trustees are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make 'ethical' investments provided these are otherwise justifiable on investment grounds;

- (c) trustees are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the fund, consistent with proper diversification and prudence, is paramount.

In practice the size of the USS fund and the legal obligation imposed on the trustee company to ensure proper diversification and suitability of investments having regard to its liabilities, taken with the scheme's relative immaturity, mean that the fund should be properly represented in a wide range of quoted equity market sectors so as to maximise the financial return on fund investments.

Accordingly, the trustee company is legally prevented from instructing the managers to invest wholly or primarily 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.

The trustee company is also mindful of the desirability of maintaining a stable long term employer contribution rate and the pursuit of an investment policy with a significant ethical element could (because of its potentially adverse impact on fund returns) be inconsistent with that objective.

#### Investment manager structure

The securities investments of the fund are currently managed by a number of discretionary balanced managers and one index tracking manager. The reason for using a number of different managers is to spread the investment risk of the scheme. The management structure is subject to review by the investment committee and the management committee.

The balanced managers have as their performance target the performance target of the fund (as set out above). In measuring their performance their portfolios are assumed to include their proportion of the index tracking fund.

The objective of the index tracking fund is to match the return on the FT-SE-A All-Share Index. This fund is managed by the internal manager acting on the advice of HSBC James Capel Quantitative Techniques.

At 31 December 1996 the securities assets of the fund were allocated between the managers in an approximate ratio of :

	%
Internally managed balanced fund	46
Index tracking fund	27
Baillie Gifford	9
PDFM	9
Schroders	9

This can fluctuate due to market forces.

Cash flow is allocated between the managers in order to maintain the desired split. The allocation of cash is reviewed and approved by the investment committee on a quarterly basis.

#### Investment strategy and asset mix

The investment committee sets guidelines for asset allocation for the combined fund. These guidelines are reviewed quarterly by the investment committee and the investment managers taken as a whole are required to operate within the global guidelines. The guidelines set for asset allocation between different investment classes are consistent with the investment committee's views on the appropriate balance between risk and return and have due regard to the long term liabilities of the scheme.

The investment managers are aware of the investment objective of the fund and set their individual investment strategy to meet the objective within the guidelines imposed. The monitoring guideline at 31 December 1996 was:-

	%
UK equities	56.3
Overseas equities	20.4
Index-linked	1.1
Bonds	9.7
Property	6.3
Cash	6.2

If there is a departure of more than 5% either side of this asset distribution the investment specialists on the investment committee will be notified. In this way market movements and asset allocation shifts are monitored and any changes, if desired, approved by the chairman of the investment committee after consultation with the investment specialists.

Investment policy is determined by the belief that over the longer term equity investment will provide superior returns to other investment classes and will more closely match the liabilities of the scheme. The fund has a high exposure to equities through a geographically and industrially diversified portfolio.

The total investment in each broad asset class is determined by the fund's investment managers under their delegated authorities within the above monitoring guidelines set by the investment committee after consideration of the minimum funding requirements of the Pensions Act 1995, long term funding solvency and investment management risk. No more than 4% of the

total fund by market value can be invested in one security and no more than 10% of the market capitalisation of any one company can be held without prior authority from the chairman of the investment committee, both constraints to apply as at the date of purchase.

Managers may not invest in securities not quoted on a recognised or designated investment exchange and not currently held by the fund. Further investment in such unquoted securities which are currently held in the internally managed fund requires the approval of the chairman of the investment committee.

#### Additional assets

The fund continues to hold life assurance policies with the Equitable Life Assurance Society (ELAS) assigned to it in respect of former FSSU members. The value of policies held as at 31 December 1996 was less than 2.5% of the fund. It is the intention of the trustee to convert these policies to a managed fund and ultimately to bring the assets under the investment control of the discretionary balanced managers within a timescale agreed by ELAS.

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately and managed by Prudential Assurance.

#### Monitoring performance

The performance of each investment manager is measured quarterly by the WM Company. The performance is measured against the fund's dual targets of the FT-SE-A All-Share Index and the WM Universe. The performance of the investment managers and the fund is reported quarterly to the investment committee.

The performance of the property portfolio is also separately measured against the IPD universe. The IPD performance data is incorporated within the WM Universe data for measurement of the performance of the whole fund.

The internal auditor and chief investment officer visit the external investment managers to check the quality and effectiveness of procedures on a regular basis. The internal auditor monitors the internal management to check the quality and effectiveness of procedures on a regular basis.

#### Level of scheme maturity

An exercise carried out in conjunction with the actuary in 1995 confirmed the trustee's view of the scheme's relative immaturity and this is kept under review by the trustee company.

The scheme is cash flow positive and does not need to realise investments to meet liabilities.

#### Stock lending

USS is authorised by the scheme rules to participate in stock lending and has decided to exercise those powers, restricted however to the overseas equity portion of the internal manager's portfolio under a stock lending programme managed by the internal manager's custodian bank.

Securities lending, which in fact involves the transfer of ownership in the securities concerned to approved borrowers against a secured contractual obligation to return to USS securities of the same type and nominal value, takes place when an investor loans securities from its portfolio (in the above sense) to meet the temporary needs of counterparties, such as broker-dealers, who use the securities to support their market activity. The lender receives collateral from the borrower for the duration of the loan in return for the lent securities and the borrower pays the lender a fee. Legal documentation ensures the lender in effect remains entitled to the dividends that relate to the lent securities.

USS has concluded that the risks associated with stock lending in accordance with the above stock lending programme are not intrinsically different from those of other market operations and are justified in the light of the return to the scheme in terms of the annual stock lending fees capable of generation. The securities lending programme focuses on risk mitigation. All loans are pre-collateralised (ie no stock is released to a borrower until the custodian receives collateral in excess of the value of the loaned stock). If the stock loaned increases to a value greater than the collateral held for USS' account, to secure the promise to return equivalent securities, further collateral must be provided to USS by the borrower. The custodian indemnifies USS if insufficient collateral is held in the event of borrower default. The custodian assesses the credit worthiness of all borrowers and only lends to those on its approved borrowers list. The banks used to hold collateral by way of cash deposits and provide letters of credit must have an acceptable credit rating and are restricted to those currently approved by USS for cash deposit placings.

#### Derivatives

Each of the discretionary balanced managers is permitted to use derivatives within limitations specified by the investment committee. The current limit is 5% of funds under their management, including their share of the index fund, and the use of derivatives is solely for the efficient management of the portfolio.

#### Underwriting

The balanced managers are permitted to underwrite issues provided they are prepared to hold all the stock to be underwritten.

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	1,193	409	77
4100	Aston	415	289	73
4300	Bath	787	253	43
6600	Belfast	1,394	338	83
1000	Birmingham	1,918	760	161
4200	Bradford	735	298	68
1100	Bristol	1,898	459	88
4400	Brunel	563	218	34
7035	Buckingham	93	24	7
1200	Cambridge (University)	3,221	625	186
1202	Christ's	10	4	2
1204	Churchill	24	4	1
1206	Clare	10	3	1
1208	Clare Hall	4	-	2
1210	Corpus Christi	10	2	2
1212	Darwin	2	3	1
1214	Downing	14	7	2
1216	Emmanuel	12	3	2
1218	Fitzwilliam	8	5	1
1220	Girton	28	9	1
1222	Gonville & Caius	20	7	5
1224	Hughes Hall	-	1	1
1226	Jesus	19	5	1
1228	King's	27	5	1
1230	Lucy Cavendish	15	4	-
1232	Magdalene	10	4	2
1234	New Hall	20	8	-
1236	Newnham	23	19	1
1238	Pembroke	21	5	-
1240	Peterhouse	15	3	-
1242	Queens'	12	-	1
1245	Robinson	15	4	-
1246	St Catharine's	12	2	-
1255	St Edmund's	1	1	-
1250	St John's	32	4	2
1252	Selwyn	9	1	-
1254	Sidney Sussex	14	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	7	1
1260	Trinity Hall	12	1	2
1268	Wolfson	4	2	-
4700	City	678	225	54
7016	Cranfield	850	269	57
0700	Dundee	1,003	229	50
1300	Durham (University)	1,031	281	52
1301	St Chad's	1	-	-
1500	East Anglia	882	197	25
0200	Edinburgh	2,532	673	167
1700	Essex	582	120	28
1600	Exeter	851	288	54
0300	Glasgow	2,135	560	114
0800	Heriot-Watt	672	148	28
1800	Hull	845	269	58
3100	Keele	543	178	39
1900	Kent at Canterbury	739	184	28
2100	Lancaster	835	239	45
2000	Leeds	2,355	665	159
2200	Leicester	1,155	244	53
2300	Liverpool	1,568	495	110
2497	London (University)	454	551	128
2408	Birkbeck	378	110	20
2420	Charing Cross & Westminster Medical School	207	55	12
2466	Eastman Dental Institute	37	2	1
2401	Goldsmiths' College	337	66	2
2480	Heythrop	12	1	-
2409	Imperial Coll of Science, Technology & Medicine	1,851	455	112
2440	Institute of Cancer Research	176	5	-
2465	Institute of Child Health (part of University College)	167	4	-
2403	Institute of Education	286	155	31
2470	Institute of Neurology	96	2	-
2474	Institute of Psychiatry	173	2	-
2410	King's College London	1,274	463	81

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
2412	London School of Economics & Political Science	549	150	39
2434	London School of Hygiene & Tropical Medicine	297	54	19
2413	Queen Mary & Westfield College	969	388	76
2426	Royal Free Hospital School of Medicine	192	43	6
2447	Royal Holloway and Bedford New College	472	185	24
2461	Royal Postgraduate Medical School	207	67	7
2436	Royal Veterinary College	136	43	15
2428	St George's Hospital Medical School	263	40	8
2415	School of Oriental & African Studies	304	124	33
2416	School of Pharmacy	71	24	4
2430	United Medical & Dental Schools	604	154	45
2417	University College	2,436	618	108
2419	Wye College	122	50	12
2484	London Business School	173	22	5
4600	Loughborough	971	291	80
2500	Manchester	2,613	755	166
5100	UMIST	931	306	44
1400	Newcastle-upon-Tyne	1,640	508	115
2600	Nottingham	1,857	440	95
8900	Open	1,877	266	76
2700	Oxford (University)	3,186	767	218
2701	All Souls	27	8	3
2702	Balliol	22	4	-
2703	Brasenose	9	3	2
2704	Christ Church	43	5	3
2705	Corpus Christi	18	4	2
2706	Exeter	13	2	2
2707	Hertford	11	3	1
2708	Jesus	16	4	-
2709	Keble	12	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:

**UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
2710	Lady Margaret Hall	17	7	1
2734	Linacre	5	2	-
2711	Lincoln	15	5	1
2712	Magdalen	24	11	3
2735	Harris Manchester	8	1	-
2732	Mansfield	16	3	3
2713	Merton	21	8	1
2714	New College	34	7	2
2715	Nuffield	35	8	2
2716	Oriel	21	5	-
2717	Pembroke	8	3	1
2718	Queen's	20	7	-
2719	St Anne's	17	8	-
2720	St Antony's	16	6	1
2721	St Catherine's	16	7	1
2722	St Edmund Hall	6	2	1
2723	St Hilda's	21	7	-
2724	St Hugh's	15	5	-
2725	St John's	29	5	-
2726	St Peter's	16	4	2
2727	Somerville	17	7	-
7028	Templeton	26	10	2
2728	Trinity	12	3	1
2729	University	14	6	1
2730	Wadham	15	5	-
2733	Wolfson	13	4	-
2731	Worcester	13	7	1
2800	Reading	1,199	355	92
0400	St Andrews	630	186	38
4800	Salford	701	361	58
2900	Sheffield	2,038	511	96
3000	Southampton	1,838	385	74
0500	Stirling	611	121	32
0600	Strathclyde	1,228	419	103
4000	Surrey	919	252	36
3200	Sussex	852	259	41
6800	Ulster	1,293	204	50
3900	Wales (University)	63	15	2
3300	Aberystwyth	549	188	52

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
3400	Bangor	630	206	54
3500	College of Cardiff	1,231	498	120
3800	Lampeter	116	24	8
3600	Swansea	860	251	58
3700	University of Wales College of Medicine	463	75	24
5000	Warwick	1,314	193	40
5200	York	963	131	23
<b>Old university institutions total</b>		75,367	21,050	4,593
<b>New universities admitted for limited membership only</b>				
8080	Brighton	1	-	-
8060	De Montfort	3	-	-
8010	Glamorgan	2	-	-
8040	Hertfordshire	1	-	-
8050	Huddersfield	1	-	-
8090	Nottingham Trent	6	-	-
8070	Plymouth	3	-	-
8020	South Bank	2	-	-
8030	Thames Valley	2	-	-
<b>New university institutions total</b>		21		
<b>All university institutions total</b>		75,388	21,050	4,593

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	2	-	-
7010	Animal Health Trust	27	4	-
7040	Arthritis & Rheumatism Council	1	1	-
7154	Associated Examining Board	4	2	-
7011	Association of Commonwealth Universities	20	32	4
7108	Aston Techn Planning & Management Services Ltd	-	-	-
7067	Beatson Institute for Cancer Research	36	1	-
7084	BLCMP (Library Services) Ltd	6	1	-
7037	BRF International	45	8	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	2	1	-
7061	British Institute of Persian Studies	-	1	-
7097	British Psychological Society	4	-	-
7087	British School at Athens	2	1	1
7092	British School at Rome	3	-	-
7033	British School of Archaeology in Iraq	-	-	-
7034	British School of Archaeology in Jerusalem	3	1	-
7050	British University Sports Federation	-	-	-
7133	Brunel Institute of Organisation & Social Studies	3	1	-
7122	Burden Neurological Institute	4	-	-
7116	Cambridge Crystallographic Data Centre	12	1	-
7060	Cancer Research Campaign	13	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:

**NON-UNIVERSITY INSTITUTIONS**

No	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7153	CASE	2	-	-
7015	College of Estate Management	26	14	12
7121	Committee of Vice-Chancellors and Principals	25	5	-
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	-
7159	Edexcel Foundation	47	1	-
7032	Edinburgh University Students' Association	9	-	-
7089	Ewing Foundation	2	1	-
7120	Family Policy Studies Centre	-	-	-
7051	FSSU Secretariat	-	-	1
7041	Geographical Association	4	1	1
7152	Gray Laboratory	22	-	-
7148	Gyosei International College in the UK	26	-	-
7025	Henley Management College	52	24	1
7157	Higher Education Careers Service Unit	2	-	-
7136	Higher Education Quality Council	26	1	1
7135	Higher Education Statistics Agency Ltd	10	-	2
7053	History of Parliament Trust	21	4	-
7143	Homerton College	7	-	-
7036	Inns of Court School of Law	50	7	4
7079	Institute of Community Studies	9	4	1
7137	Inst of Contemporary History & Wiener Library Ltd	-	-	-
7017	Institute of Development Studies	57	22	3
7056	Institute of Food Science & Technology	2	-	-
7029	Institute for Employment Studies	8	7	-
7124	International Institute of Biotechnology	1	-	-
7132	International Society (Manchester)	1	-	-
7149	International Students House	4	-	-

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	25	1	2
7066	Journal of Endocrinology Ltd	1	-	-
2482	Lister Institute of Preventive Medicine	1	7	2
7117	Ludwig Inst for Cancer Research - Middlesex Branch	26	-	-
7039	Ludwig Inst for Cancer Research - St Mary's Branch	11	4	-
7090	Marie Curie Cancer Care	30	1	5
7125	Marine Biological Association of the United Kingdom	11	-	-
7026	Mathilda & Terence Kennedy Inst of Rheumatology	20	8	1
7096	Modern Humanities Research Association	1	1	-
7094	Motor Industry Research Association	80	27	4
7059	Museum Documentation Association	1	-	-
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	-
7018	National Inst of Economic & Social Research	15	8	1
7080	Norfolk Agricultural Station (Morley Res Centre)	15	1	-
7073	Northern College for Residential Adult Education	24	4	1
7024	Northern Examinations and Assessment Board	41	19	3
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	4	1	-
7115	Northern Ireland Economic Research Centre	9	-	-
7048	Numerical Algorithms Group Ltd	59	1	-
7155	Nuffield Provincial Hospital Trust	3	-	-
7058	Open University Educational Enterprises Ltd	6	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		
		Pensioner Members	PENSIONERS Spouses, Dependants and Dependent Children	
7023	Overseas Development Institute	24	2	-
7118	Oxford Centre for Islamic Studies	2	-	-
7031	Oxford Centre for Postgraduate Hebrew Studies	10	1	-
7104	Pain Relief Foundation	2	-	-
7075	Policy Studies Institute	44	11	2
7139	Preformation of Undergraduate Engineers	10	-	-
7134	Prince of Wales's Institute of Architecture	7	-	-
7052	Reading University Students' Union	-	-	-
7156	Regulatory Policy Institute	3	-	-
7123	Richmond College	37	-	-
7160	Royal Academy of Music	1	-	-
7081	Royal College of Paediatrics and Child Health	2	1	-
7020	Royal College of Surgeons of England	52	22	7
7088	Royal Commission for the Exhibition of 1851	-	-	-
7021	Royal Geographical Society	3	3	1
7082	Royal Institute of International Affairs	3	-	-
7077	Royal Institution	16	6	-
7158	Royal Northern College of Music	1	-	-
7064	Royal Society	-	-	1
7070	Royal Society of Edinburgh	5	1	-
7022	Ruskin College	23	12	3
7144	SAUL Trustee Company	5	1	-
7105	School Mathematics Project	5	2	-
7130	Scottish Association for Marine Science	14	-	-
7131	Southern Universities Management Services	4	2	-
7042	Strangeways Research Laboratory	15	6	3
7049	Students' Union University of Leicester	2	1	1
7138	Thrombosis Research Institute	26	-	-
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		
		Pensioner Members	PENSIONERS Spouses, Dependants and Dependent Children	
7141	TUIREG	2	-	-
7106	Universities and Colleges Admissions Service	24	9	3
7150	Universities and Colleges Employers Association	4	-	-
7151	Universities and Colleges Staff Development Agency	6	-	-
7140	University of Leeds Innovations Ltd	6	-	-
7129	University of Swansea Students' Union	1	-	-
9999	USS Ltd	103	16	3
7065	Wildfowl & Wetlands Trust	2	8	1
7142	WP Management Ltd	1	-	-
7027	York Archaeological Trust	2	1	-
7076	Zoological Society of London	24	9	-
-	Withdrawn institutions	-	41	4
<b>Non-university institutions total</b>		<b>1,491</b>	<b>406</b>	<b>81</b>
<b>All institutions total</b>		<b>76,879*</b>	<b>21,456</b>	<b>4,674</b>

\* Included in this figure (but counted once only) are 1,393 members who have more than one appointment.

**SUMMARY OF MOVEMENTS** during the year ended 31 March 1997

**Members**

	University Institutions	Non- University Institutions	Totals
Total members at 1 April 1996	73,218	1,442	74,660
New members	10,175	242	10,417
Transfers between non-universities and universities	26	(26)	-
Retirements			
- Ill-health	(157)	(7)	(164)
- Other	(1,664)	(38)	(1,702)
Deaths	(74)	(3)	(77)
Leavers			
- Refunds	(651)	(12)	(663)
- Transfers	(238)	(7)	(245)
- Deferred benefits and undecided	(4,696)	(96)	(4,792)
Withdrawals			
- Refunds	(315)	(4)	(319)
- Transfers	-	-	-
- Deferred benefits	(31)	-	(31)
- Retrospective*	(205)	-	(205)
Total members at 31 March 1997	<u>75,388</u>	<u>1,491</u>	<u>76,879</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 2,624 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 1996	19,485	368	19,853
Transfers between non-universities and universities	10	(10)	-
New pensioners	1,956	57	2,013
Deaths	(401)	(9)	(410)
Total pensioners at 31 March 1997	<u>21,050</u>	<u>406</u>	<u>21,456</u>

In addition at 31 March 1997, there were 3,952 pensions being paid to spouses and dependants and 722 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 30,157.

**FUND ACCOUNT** for the year ended 31 March 1997

	Note	1997 £m	1996 £m
<b>Income</b>			
Contributions	3	501.3	489.0
Investment income	4	504.5	448.9
Premature retirement scheme receipts		46.2	39.8
Net transfers	5	9.0	10.7
		<u>1,061.0</u>	<u>988.4</u>
<b>Outgoings</b>			
Benefits payable	6	(404.0)	(355.0)
Administration costs	7	(5.8)	(5.8)
		<u>(409.8)</u>	<u>(360.8)</u>
<b>Net Income</b>		651.2	627.6
<b>Changes in value of investments during the year</b>	8	930.6	1,636.6
<b>Net increase in the fund for the year</b>		1,581.8	2,264.2
<b>Fund at start of year</b>		12,086.7	9,822.5
<b>Fund at end of year</b>		<u>13,668.5</u>	<u>12,086.7</u>

**STATEMENT OF NET ASSETS** as at 31 March 1997

	Note	1997 £m	1996 £m
<b>Investments</b>			
Securities	10	11,957.4	10,344.5
Property	11	840.2	782.6
Life assurance policies	12	274.2	276.7
Managed fund	13	-	78.4
Cash deposits		473.4	465.4
Stockbroker balances	14	3.4	26.5
		<u>13,548.6</u>	<u>11,974.1</u>
<b>Net current assets</b>	15	<u>119.9</u>	<u>112.6</u>
<b>Total net assets, representing the fund balance</b>		<u>13,668.5</u>	<u>12,086.7</u>

The financial statements on pages 49 to 57 and the statement of trustee's responsibilities on page 58 were approved by the trustee, Universities Superannuation Scheme Limited, on 24 July 1997 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 1997

**1 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 in the statement of net assets at current value at the year end.

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 49 to 57 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 60 to 63 and the accounts should be read in conjunction therewith.

## 3 Contributions

	1997 £m	1996 £m
<b>Main section</b>		
Employers' contributions	358.7	357.0
Members' basic contributions	124.2	115.4
Members' additional voluntary contributions	11.1	9.9
	<u>494.0</u>	<u>482.3</u>
<b>Supplementary section</b>		
Members' contributions	7.3	6.7
	<u>501.3</u>	<u>489.0</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 1997 was £16.7 million. Contributions from members during the year amounted to £7.1 million from which administration expenses of £71,000 were deducted by the Prudential.

## 4 Investment income

	1997 £m	1996 £m
Dividends from UK equities	293.5	257.4
Net property income	61.1	62.5
Dividends from overseas equities	45.5	44.6
Income from UK fixed interest securities	38.1	32.2
Income from overseas fixed interest securities	30.4	25.7
Income from index-linked securities	5.0	7.7
Interest on cash deposits	34.4	24.5
Underwriting commissions	0.8	1.0
Investment management costs	(4.8)	(6.0)
Translation differences	0.5	(0.7)
	<u>504.5</u>	<u>448.9</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

	1997 £m	1996 £m
Transfers from other pension schemes	30.8	23.5
Transfers to other pension schemes	(21.8)	(12.8)
	<u>9.0</u>	<u>10.7</u>

6 Benefits payable

	1997 £m	1996 £m
<b>Main section</b>	309.4	278.4
Pensions	83.8	65.6
Lump sums on or after retirement	4.6	5.7
Lump sums on death in service	1.5	1.1
Refunds of contributions	399.3	350.8
<b>Supplementary section</b>	3.5	3.0
Pensions	0.9	0.9
Lump sums on or after retirement	0.3	0.3
Lump sums on death in service	4.7	4.2
	404.0	355.0

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 1996 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Current value 1997 £m
Securities	10,344.5	4,647.5	(3,871.1)	836.5	11,957.4
Property	782.6	33.7	(15.6)	39.5	840.2
Life assurance policies	276.7	2.4	(60.8)	55.9	274.2
Managed fund	78.4	-	(84.1)	5.7	-
Cash deposits	465.4	15.0	-	(7.0)	473.4
	11,947.6	4,698.6	(4,031.6)	930.6	13,545.2
					3.4
Stockbroker balances	26.5				13,548.6
	11,974.1				

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

	1997 £m	1996 £m
<b>Quoted</b>		
UK equities	7,601.8	6,425.0
Overseas equities	2,809.3	2,581.2
UK fixed interest	860.0	521.9
Overseas fixed interest	535.8	540.7
Index-linked	145.4	270.3
	11,952.3	10,339.1
<b>Unquoted</b>		
UK equities	5.1	5.3
Overseas equities	-	0.1
	5.1	5.4
	11,957.4	10,344.5

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

11 Property

	1997 £m	1996 £m
UK completed properties	824.0	775.5
UK developments in progress	16.2	7.1
	840.2	782.6
Properties analysed by type:		
Freehold	720.3	673.2
Leasehold	119.9	109.4
	840.2	782.6

The completed properties were valued independently by Colliers Erdman Lewis Ltd, chartered surveyors, as at 31 March 1997 and 1996.

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 have been transferred to USS in instalments in October each year with the last instalment having been transferred in October 1996.

The basis of valuation is stated in note 1.

14 Stockbroker balances

	1997 £m	1996 £m
Amount due to stockbrokers	(57.8)	(62.4)
Amount due from stockbrokers	61.2	88.9
	<u>3.4</u>	<u>26.5</u>

15 Net current assets

	1997 £m	1996 £m
<b>Current assets</b>		
Dividends receivable	80.8	75.5
Contributions due from institutions	52.7	47.3
Life assurance policy proceeds due	2.9	2.2
Other debtors	2.1	2.2
Cash at bank and in hand	6.5	7.3
Due from USS Ltd	0.4	2.1
	<u>145.4</u>	<u>136.6</u>
<b>Current liabilities</b>		
Property creditors	12.5	11.6
Benefits payable	3.3	2.6
Other creditors	9.7	9.8
	<u>25.5</u>	<u>24.0</u>
	<u>119.9</u>	<u>112.6</u>

16 Financial commitments

	1997 £m	1996 £m
<b>Property</b>		
Contracts placed but not provided for	11.1	26.2
<b>Securities</b>		
Forward commitments for unpaid calls on securities and underwriting contracts	0.7	14.8

17 Self investment

The scheme has no employer related investments other than contributions due from institutions, as disclosed in note 15, which represent less than 1% of the scheme's net assets as at 31 March 1997.

18 Related party transactions

There are no related party transactions other than transactions between the scheme and its trustee company. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £5.8 million and £4.8 million respectively, with a balance due to the scheme of £0.4 million at 31 March 1997.

---

**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 49 to 57.

**Respective responsibilities of the trustee and auditors**

As described on page 58 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 1997 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 1997 have been paid in accordance with the scheme rules and with the recommendation of the actuary.

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Liverpool  
24 July 1997

**STATEMENT BY THE ACTUARY** for the year ended 31 March 1997

- 1 An actuarial valuation of the Universities Superannuation Scheme (the scheme) was carried out as at 31 March 1996, with the results set out in our report dated March 1997.
- 2 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.
- 3 The conclusions from the 1996 valuation were that part of the past service surplus should be used to reduce the institutions' contribution rate below that required for future service benefits alone. It was agreed that with effect from 1 January 1997 the institutions would contribute at the rate of 14.0% of salaries, subject to review at the next valuation at 31 March 1999.
- 4 On the instructions of the management committee an actuarial review of the scheme has been completed at 31 March 1997.
- 5 The purpose of the actuarial review is to compare the experience of the scheme since the last valuation with the assumptions then made. This is to determine whether the scheme has been progressing satisfactorily or whether any deterioration has taken place which requires remedial action.
- 6 The items which have affected the scheme during the year under review and the effect of each are described below:-
  - (a) The overall investment performance measured in terms of dividends, rents and interest received has been more favourable than the assumptions made at the 1996 valuation and this has resulted in an increase in the value of the scheme's assets.
  - (b) Salary increases since the 1996 valuation have been lower than assumed in the valuation thereby reducing the anticipated liabilities of the scheme.
  - (c) The pension increase in April 1997 was lower than that assumed in the 1996 valuation and has therefore had the effect of reducing the anticipated liabilities of the scheme.
  - (d) Benefit improvements granted since the valuation have reduced the past service surplus.
- 7 During the year under review the actual mortality of pensioners and active members has been assumed to be in line with the mortality assumptions at the 1996 valuation. The assumption that retirements, other than those arising because of ill-health, will on average be at age 60 has also been retained.
- 8 The conclusion to be drawn from the review is that overall the financial position of the scheme has improved since the 1996 valuation.

- 9 In accordance with the conclusions arising from the 1996 valuation, described in paragraph 3 above, the rate of contribution currently being paid by the institutions is subject to review at the next actuarial valuation at 31 March 1999. At this stage I do not recommend any amendments to the rate of contribution currently being paid by the institutions.

William M Mercer Limited  
Liverpool  
16 June 1997

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 1996

**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:-

**Description of contributions**

From 31 March 1996 until 31 December 1996

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

By the employing institutions : 18.55% of salary for each member

From 1 January 1997 onwards

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

By the employing institutions : 14.0% of salary for each member

Subject to review at future actuarial valuations

**3 Summary of methods and assumptions used**

In giving the opinion in section 1, 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 section 2, I have adopted the actuarial methods and assumptions described in detail in my formal report dated March 1997 on the actuarial valuation of the scheme as at 31 March 1996. The principal actuarial assumptions are as follows:-

3.1 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 annum, and the general rate of price increases by 3.5% per annum.

3.2 An allowance has been made for salary increases which are granted in excess of general increases as a result of inflation.

3.3 Allowance has been made for withdrawals from the scheme prior to normal pension age through leaving employment, ill-health, death or retirement in good health.

The valuation method used was the projected unit method.

William M Mercer Limited  
Liverpool  
28 May 1997

M B Reid  
Fellow of the Institute of Actuaries

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

	1997	1996	1995	1994	1993
	£m	£m	£m	£m	£m
<b>Income</b>					
Contributions	501	489	451	422	403
Investment income	505	449	374	318	322
PRS receipts	46	40	23	33	18
Net transfers	9	10	15	13	7
	<u>1,061</u>	<u>988</u>	<u>863</u>	<u>786</u>	<u>750</u>
<b>Benefits payable</b>					
Pensions	313	282	260	240	219
Lump sums	90	72	56	62	44
Refunds	1	1	1	1	1
	<u>404</u>	<u>355</u>	<u>317</u>	<u>303</u>	<u>264</u>
<b>Administration costs</b> of the trustee (excluding investment management costs)	<u>5.8</u>	<u>5.8</u>	<u>4.1</u>	<u>3.6</u>	<u>3.4</u>
<b>Changes in value of investments</b>	<u>931</u>	<u>1,637</u>	<u>(231)</u>	<u>1,148</u>	<u>1,120</u>
<b>Investments of the fund (at current values) at 31 March</b>					
Securities	11,958	10,344	8,051	7,902	6,400
Property	840	783	840	849	695
Life assurance policies	274	277	265	299	301
Managed fund	-	78	95	121	132
Cash deposits	474	465	395	290	311
Stockbroker balances	3	27	75	(43)	(34)
	<u>13,549</u>	<u>11,974</u>	<u>9,721</u>	<u>9,418</u>	<u>7,805</u>
<b>Membership numbers at 31 March</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
Contributing members	76,900	74,700	70,200	67,000	65,300
Pensioners	26,100	24,200	22,700	21,500	20,200
Deferred pensioners	30,200	26,200	23,300	20,800	18,500
	<u>133,200</u>	<u>125,100</u>	<u>116,200</u>	<u>109,300</u>	<u>104,000</u>

The 1993 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.

**REPORT OF THE DIRECTORS** for the year ended 31 March 1997

The directors submit their report and the accounts for the year ended 31 March 1997.

**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 £10,601,000 this amount being recoverable from USS. This compares with £11,773,000 for the year ended 31 March 1996.

The reduction in costs is largely due to a reduction in investment management costs. The main reason for this reduction was the termination of the contract of the specialist investment manager, Cursitor Management Limited, on 31 March 1996. Increased rebates from two of the other investment managers, as a result of their increased use of their pooled funds, and an increase in the costs met by stockbrokers also contributed to the reduction.

Other administration costs were held at the same level as in the previous year. Increased premises costs, reflecting a full year's occupation of the Royal Liver Building compared to only four months in the previous year, were balanced by reduced staff costs. The reduction in staff costs resulted mainly from the cost of restructuring which was incurred in the year to 31 March 1996. However, there were also reductions which arose as a consequence of the restructuring, from decreased overtime and as a result of the completion of the exercise begun in 1996 to convert all of the company's paper files to optical disc.

The year has been a period of consolidation for the new IT systems with additional expenditure having been incurred on hardware to ensure the systems' robustness. The benefits of the new systems are now becoming evident with the pensions department processing an increasing workload with reduced staff numbers. Further efficiencies are anticipated as the case management software is further enhanced into company wide workflows.

The London office has also increased its investment in new technology during the year. An office wide network, linked to the Liverpool office, has been introduced and investment managers are using the internet to obtain greater detail and up to date information on companies in which USS proposes to invest.

**Fixed assets**

The details of movements in fixed assets are set out in note 13 to the accounts.

**Directors**

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

Professor Sir Graeme Davies (chairman)	Dr Kenneth Edwards
E B O Sherlock (deputy chairman) (to 31.7.96)	Professor Brian Fender
C D Donald (deputy chairman from 1.8.96)	Professor Martin Harris
A S Bell (from 1.8.96)	Lord Mark Fitzalan Howard
Dr Christine Challis	Dr G R Talbot
L Collinson	J W D Trythall
K F Dibben	

**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 being 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*

24 July 1997

**STATEMENT OF OPERATING COSTS** for the year ended 31 March 1997

	Note	1997 £000	1996 £000
<b>Personnel costs</b>			
Employees' emoluments	4	3,668	4,029
Directors' emoluments and expenses	5	225	198
Recruitment, training and welfare		131	130
		<u>4,024</u>	<u>4,357</u>
<b>Premises costs</b>			
Rent, rates, service charges and utilities		1,024	778
Depreciation and maintenance		363	237
		<u>1,387</u>	<u>1,015</u>
<b>Investment costs</b>			
Securities management and custodian services		2,847	3,537
Securities management rebates	6	(1,624)	(1,238)
Property management		1,134	1,237
Legal costs - special investigation		39	6
- property management		162	162
- securities management		43	26
Property valuation		63	112
Investment performance measurement		60	54
Consultancy		2	8
Costs met by third parties	7	(51)	(25)
		<u>2,675</u>	<u>3,879</u>
<b>Other costs</b>			
Computer and information services costs	8	1,389	1,250
Professional fees	9	577	613
Travel and car costs		232	260
Telephones and postage		120	98
Office equipment		301	230
Institution liaison and member communication	10	128	58
Printing and stationery		151	125
IMRO membership		90	82
Auditors' remuneration	11	37	34
Insurances		53	39
(Profit)/loss on disposal of fixed assets		(16)	92
Sundry expenditure		15	18
Costs met by third parties	7	(562)	(377)
		<u>2,515</u>	<u>2,522</u>
<b>Total operating costs - recoverable from USS</b>	12	<u>10,601</u>	<u>11,773</u>

**BALANCE SHEET** as at 31 March 1997

	Note	1997 £000	1996 £000
<b>Assets</b>			
<b>Fixed assets</b>			
Tangible fixed assets	13	2,455	2,982
<b>Current assets</b>			
Debtors	14	731	600
Cash at bank and in hand		1	692
		732	1,292
<b>Total assets</b>		<u>3,187</u>	<u>4,274</u>
<b>Liabilities</b>			
Creditors - amounts falling due within one year	15	3,187	4,274
<b>Total liabilities</b>		<u>3,187</u>	<u>4,274</u>

The financial statements on pages 65 to 76 were approved by the board of directors on 24 July 1997 and were signed on its behalf by:

Graeme J Davies      *Director*

C D Donald            *Director*

**CASH FLOW STATEMENT** for the year ended 31 March 1997

	Note	1997 £000	1996 £000	
<b>Operating activities</b>				
Cash received from USS		8,747	13,585	
Operating costs paid	16	(8,984)	(10,667)	
<b>Net cash (outflow)/inflow from operating activities</b>		<u>(237)</u>	<u>2,918</u>	
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		(501)	(3,037)	
Sale of tangible fixed assets		47	44	
<b>Net cash outflow from investing activities</b>		<u>(454)</u>	<u>(2,993)</u>	
<b>Decrease in cash</b>		<u>(691)</u>	<u>(75)</u>	
<b>Analysis of changes in net funds</b>				
		At 1 April 1996 £000	Cash flows £000	At 31 March 1997 £000
<b>Net funds</b>				
Cash at bank and in hand		<u>692</u>	<u>(691)</u>	<u>1</u>

**NOTES TO THE ACCOUNTS** for the year ended 31 March 1997

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 33½
Motor cars	25
Computer software	33½

**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**

	1997	1996
The average weekly number of persons employed by the company during the year (excluding directors) was	122	131
Staff costs for the above persons were:		
Wages and salaries	£000 3,003	£000 3,000
Social security costs (national insurance contributions)	254	254
Pension costs (superannuation contributions)	399	413
Restructuring costs	12	362
	3,668	4,029
Emoluments of the chief executive	127	114

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions to USS, which are paid at the same rate as for other higher paid staff except for an additional payment in respect of life assurance, amounted to £15,100 (1996: £15,300).

Remuneration of other higher paid staff, excluding employer's pension contributions but including benefits in kind:

	1997	1996
	£000	£000
£ 50,001 - £ 60,000	6	6
£ 60,001 - £ 70,000	3	2
£ 70,001 - £ 80,000	2	-
£ 80,001 - £ 90,000	1	1
£100,001 - £110,000	-	1
£110,001 - £120,000	-	1
£130,001 - £140,000	1	-
£190,001 - £200,000	-	1
£220,001 - £230,000	1	-

**5 Directors' emoluments and expenses**

	1997	1996
	£000	£000
Fees	192	168
Employer's costs - national insurance contributions	18	17
- VAT	5	5
Expenses	10	8
	225	198

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.

The charge for the year includes an amount of £4,000 in respect of the previous year. Fees were increased by 4% with effect from October 1996. An increase in the number of directors serving on the investment committee has further increased the total fees for the year compared to the previous year.

No pension contributions are made on behalf of directors. Five of the directors are members of USS through their employment with the institutions.

	1997	1996
	£000	£000
The emoluments of the chairman, who was also the highest paid director, amounted to:	31	28

The number of other directors whose annual emoluments fell into the following bands was:

	1997	1996
Nil - £ 5,000	-	1
£ 5,001 - £10,000	6	4
£10,001 - £15,000	3	4
£15,001 - £20,000	1	1
£20,001 - £25,000	1	2
£25,001 - £30,000	1	-

#### 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

	1997	1996
	£000	£000
Investment information services	462	436
Investment accounting services	187	193
Computer running costs	261	189
Software depreciation	265	249
Hardware depreciation	193	148
Computer bureau fees	21	35
	<u>1,389</u>	<u>1,250</u>

#### 9 Professional fees

	1997	1996
	£000	£000
Legal	203	245
Actuarial	240	136
Information technology consultancy	22	124
Committee members (other than directors)	36	30
Taxation	24	34
Salary surveys	17	-
Public relations	18	20
Other	17	24
	<u>577</u>	<u>613</u>

#### 10 Institution liaison and member communication

The increase in institution liaison and member communication costs reflects the increase in the number of publications printed during the year compared to the previous year. These include a number of new publications, reprints of existing publications and addenda to existing publications. The increased volume of reprints reflects an increase in requests from members for scheme publications.

#### 11 Auditors' remuneration

	1997	1996
	£000	£000
USS	33	30
USS Ltd	4	4
	<u>37</u>	<u>34</u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £24,000 for taxation advice (1996: £34,000).

#### 12 Total operating costs - recoverable from USS

	1997	1996
	£000	£000
Investment management costs	4,841	6,016
Other administration costs	5,760	5,757
	<u>10,601</u>	<u>11,773</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 £997,000 (1996: £754,000).

13 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 1996	1,575	875	1,313	1,049	282	5,094
Additions	50	118	217	22	94	501
Disposals	-	(4)	-	(1)	(92)	(97)
At 31 March 1997	<u>1,625</u>	<u>989</u>	<u>1,530</u>	<u>1,070</u>	<u>284</u>	<u>5,498</u>
<b>Accumulated Depreciation</b>						
At 1 April 1996	328	511	976	198	99	2,112
Charge for year	326	192	265	144	70	997
Disposals	-	(3)	-	-	(63)	(66)
At 31 March 1997	<u>654</u>	<u>700</u>	<u>1,241</u>	<u>342</u>	<u>106</u>	<u>3,043</u>
<b>Net Book Value</b>						
31 March 1997	<u>971</u>	<u>289</u>	<u>289</u>	<u>728</u>	<u>178</u>	<u>2,455</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>

14 Debtors

	1997 £000	1996 £000
Prepayments and accrued income	603	507
Other debtors	128	93
	<u>731</u>	<u>600</u>

15 Creditors - amounts falling due within one year

	1997 £000	1996 £000
Due to USS	427	2,110
Accrued expenditure	1,016	934
Taxation and social security	90	102
Other creditors	1,654	1,128
	<u>3,187</u>	<u>4,274</u>

16 Reconciliation of operating costs paid

	1997 £000	1996 £000
Operating costs - recoverable from USS	10,601	11,773
Depreciation	(997)	(754)
(Loss)/Profit on sale of tangible fixed assets	16	(92)
Increase in debtors (excluding USS)	131	159
(Increase)/decrease in creditors (excluding USS)	(767)	(419)
Operating costs paid	<u>8,984</u>	<u>10,667</u>

17 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.

18 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 latest actuarial valuation of the scheme was at 31 March 1996. 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 £12,087 million and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the company was £399,000 (1996: £413,000). The contribution rate payable by the company was 18.55% of pensionable salaries to 31 December 1996, and 14% thereafter. The actuary to the Universities Superannuation Scheme has confirmed that it is appropriate to take the pensions cost in the company's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 1996 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

19 Capital commitments

	1997 £000	1996 £000
Authorised and contracted but not provided for	-	-

**20) Related party transactions**

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £5.8 million and £4.8 million respectively, with a balance due to the scheme of £0.4 million at 31 March 1997.

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

We have audited the financial statements on pages 65 to 76.

**Respective responsibilities of directors and auditors**

As described on page 66 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 1997 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  
24 July 1997





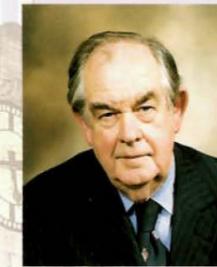
**Professor  
Sir Graeme Davies**  
Chairman



**Colin Donald**  
Chairman  
Finance & General  
Purposes Committee



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



**Kenneth Dibben**  
Chairman  
Audit Committee



**Len Collinson**  
Chairman  
Remuneration  
Committee



**Colin Rice**  
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**

