USS

UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED

Report & Accounts

for the year ended 31 March 2008

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets at 31 March 2008 of around £28 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 London Investment Office is at 99 Bishopsgate, London

The registered number of the Trustee Company (Universities Superannuation Scheme Limited) at Companies House is 1167127

The reference number of the scheme (Universities Superannuation Scheme) at the Pensions Registry Office is 100201003

USS

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The year to 31 March 2008 was another year of continued growth for the scheme with total membership increasing by 5.7% to 252,700 at 31 March 2008. This is an increase of 35% in the last five years. In the past year the scheme's active membership increased by 4.3% from 121,200 to 126,400, the number of pensioners by 5.7% from 47,200 to 49,900 and the number of deferred pensioners by 8.1% from 70,700 to 76,400.

The fund's assets are measured on a calendar year basis with the year to 31 December 2007 being another good year for pension fund performance generally, with positive returns for the average fund for the fifth consecutive year. It was also a good year for USS and for the internally managed team in particular, with the fund's return of 7.5% exceeding its benchmark return of 6.3%. The ten-year return of the fund of 6.8% per annum comfortably exceeds both earnings growth and retail price inflation over the same period, although it is behind its benchmark return of 7.7% per annum. Adverse market movements in the first quarter of 2008 saw the value of the fund fall back by 31 March 2008 at which date the total value of the fund, including money purchase AVC assets of £255 million invested with the Prudential, stood at £29.1 billion.

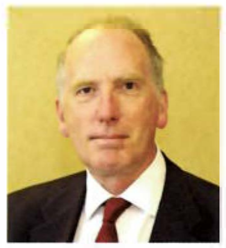
The triennial actuarial valuation of the scheme as at 31 March 2008 is currently underway and the results will be available towards the end of the year. In the period between triennial valuations the scheme actuary provides quarterly estimates of the funding level of the scheme to the trustee company. These estimates of the funding level are based on the same member data as was used in the last triennial actuarial valuation, but take account of changes in the interest rates and actual investment performance since the date of the last triennial valuation.

The actuary's estimate of the funding level of the scheme has undergone considerable volatility during the year. At the end of June 2007, the actuary had estimated that the funding level had increased to 98% but that at 31 March 2008 it had fallen back to roughly the same level that it had been at 31 March 2005, the date of the last valuation. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets compared with the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. However, on the FRS17 basis, using a conservative estimate of the AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

During the year staff from across the company have worked with Civica, the administration software provider, to configure the new processes and calculations and develop the new functionality for the upgrade of our systems to the new UPM2 application. Implementation took place at the end of January 2008 without any undue disruption. A post implementation project was launched to develop a number of additional processes and to make refinements to the new system. The upgrade to UPM2 provides an opportunity to enhance our website to include functionality for processes to be carried out on-line. We have also been working with institution users to understand how we can maximise use of the technology available to improve service levels and data quality. A great deal of work has been carried out on a new website and we plan to release the initial phases towards the end of 2008.

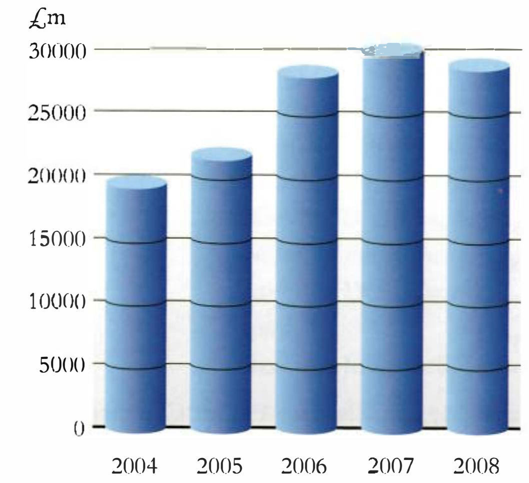
During the year the fund has continued with its policy of diversification into alternative assets. Its continuing strong cash flow and levels of liquidity have enabled it to take advantage of investment opportunities arising out of the credit crisis to accelerate this programme. The alternative assets portfolio now accounts for 4% of the fund (with amounts committed taking this to 11.6% of the fund) with the aim of increasing this to 20% over the medium term, embracing a wide spectrum of alternative assets including private equity, absolute returns and commodities amongst other classes.

Martin Harris
Chairman



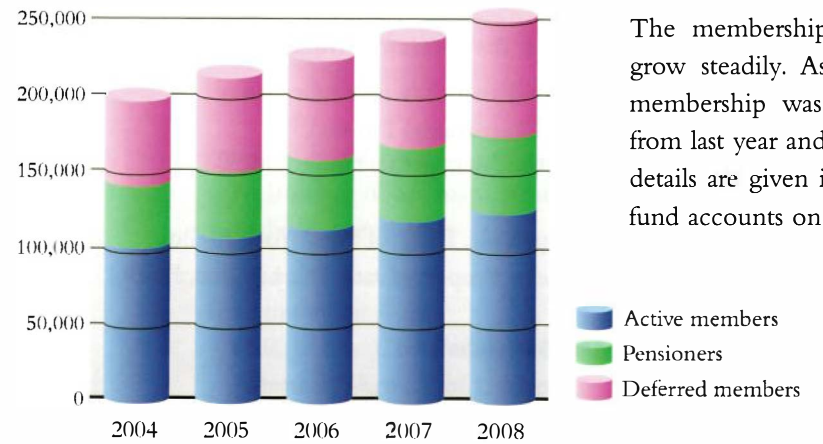
Tom Merchant
Chief Executive

FUND



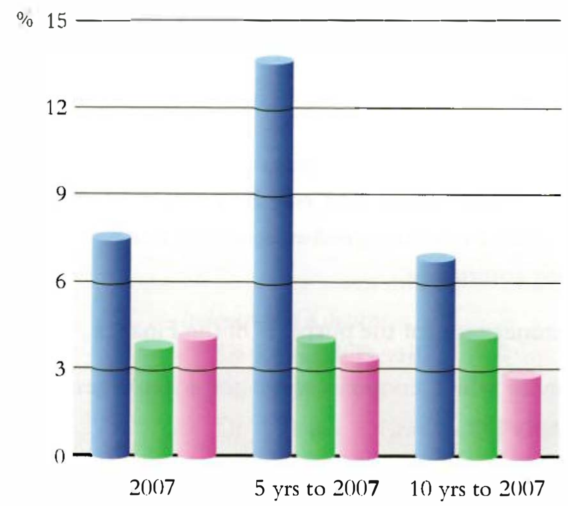
The fund's investments stood at £29 billion as at 31 March 2008 up from £19.6 billion in 2004 but down from the peak in 2007. More details are given in the investment committee report on page 20 and in the five year summary of the fund accounts on page 75.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2008 the total membership was 252,700 an increase of 5.7% from last year and 27% from four years ago. More details are given in the five year summary of the fund accounts on page 75.

PERFORMANCE



Strong investment returns from 2003 to 2007 have seen the fund's position improve, resulting in the 5 year and 10 year returns to 31 December 2007 comfortably exceeding both RPI and average earnings. However, adverse market movements in the first quarter of 2008 saw the value of the fund fall back by 31 March 2008.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2008 are:

Chief Executive	T H Merchant
Chief Investment Officer	P G Moon
Chief Financial Officer	C S Hunter
Pensions Policy Manager	B J Mulkern
Pensions Operations Manager	B Steventon
Company Secretary	I M Sherlock
Head of IT	I J Hall
Communications Manager	C G Busby
Head of Business Services	A R Little
Actuary	E S Topper of Mercer, Clarence House, Clarence Street, Manchester M2 4DW
Solicitors	DLA Piper, India Buildings, Liverpool L2 0NH
Auditors	KPMG LLP, St James' Square, Manchester M2 6DS
Bankers	Barclays Bank plc, 7th Floor, 1 Marsden Street, Manchester, M2 1HW

The principal other organisations acting for the trustee company during the year were:

Solicitors	Clifford Chance, Lawrence Graham
Investment managers	Capital International Limited, Wellington Management International
Investment consultants	Mercer
Custodians	JP Morgan plc, Bank of New York Mellon
Investment performance measurement	Investment Property Databank Limited, HSBC
Retail property investment adviser and property manager	Jones Lang LaSalle
Commercial property investment adviser and property manager	DTZ Debenham Tie Leung
Property valuers	Drivas Jonas
Computer software	Civica plc, Civica Connect, Azlan Limited, Morse Limited, GSL Limited, Strategic Systems Solutions (SSS)
Website design	Anthony Hodges Consulting Ltd, Transmedia Gateway Limited (tmg)
Computer hardware	Hewlett-Packard PLC
Data recovery	Hewlett-Packard PLC
Insurers	AIG, AXA, Zurich, Norwich Union, Allianz

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 co-opted trustee may not be appointed without the approval of the joint negotiating committee.

The trustee company is also the Scheme administrator for the purposes of the Finance Act 2004.

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 2008 of the principal committees was as follows:

Board

Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), D McDonnell, Sir Muir Russell, Baroness Warwick of Undercliffe

Appointed by the University and College Union (UCU)
J Devlin, D Guppy, Lady Merrison

Appointed by the Higher Education Funding Councils (HEFCs)
Professor D Eastwood

Co-opted
Professor John Bull, M Butcher, V Holmes, H R Jacobs

Finance & General Purposes Committee

Appointed by the board
Professor John Bull (Chairman), D Guppy, V Holmes, H R Jacobs, Lady Merrison, Baroness Warwick of Undercliffe

Investment Committee

Appointed by the board
V Holmes (Chairman), G Allen, Professor John Bull, A Gulliford, Sir Martin Harris, H R Jacobs, Lady Merrison, D Robins

Audit Committee

Appointed by the board
M Butcher (Chairman), Professor John Bull, D McDonnell, Lady Merrison

Remuneration Committee

Appointed by the board
H R Jacobs (Chairman), M Butcher, Lady Merrison, D McDonnell, Baroness Warwick of Undercliffe

Rules Committee

Appointed by the board
H R Jacobs (Chairman), A D Linfoot, J W D Trythall

Advisory Committee

Appointed by UUK
A D Linfoot (Chairman), Dr A Bruce, C Vidgeon

Appointed by UCU
J Guild, Dr A Roger, Dr S Wharton

Nominations Committee

Appointed by the board
Professor John Bull (Chairman), Sir Martin Harris, Baroness Warwick

Joint Negotiating Committee

Independent Chairman
Sir Kenneth Berrill

Appointed by UUK
Dr A Bruce, I Crawford, J Gordon, A D Linfoot, C Vidgeon

Appointed by UCU
A Carr, G Egan, L Newman, Dr T McKnight, Dr A Roger

BOARD MEMBERS as at 1 August 2008

Sir Martin Harris, Chairman

Martin Harris (64) is deputy chair of the North West Development Agency and Director of the Office for Fair Access. He has been a director of Universities Superannuation Scheme Limited since 1 April 1991 deputy chairman from 1 July 2004 and chairman from 1 April 2006. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He served as chairman of the Committee of Vice-Chancellors and Principals (now UUK) from 1997 to 1999. He becomes President of Clare Hall, Cambridge on 1 October 2008.

DIRECTORS

Professor John Bull CBE

Professor Bull (68) was Vice-Chancellor of the University of Plymouth from 1989 until his retirement in 2002. An economist and accountant by discipline, he had a particular interest in the finance and management of higher education. He became a co-opted member of the USS board in 2004 and deputy chairman on 1 April 2006. Since 2002 he has been chairman of the Devon and Cornwall Learning and Skills Council and of Dartington College of Arts and is currently chairman of the Plymouth Hospitals NHS Trust..

Michael Butcher

Michael Butcher (61) became a co-opted member of the board on 1st November 2004 having retired from IBM where he held a variety of technical, sales and marketing positions in UK and Europe, latterly as Tivoli EMEA Marketing Director. He is a member of the audit committee at Loughborough University and continues to take an active interest in the effective use of IT.

Lady Merrison

Lady Merrison (69) was appointed the second pensioner director of USS in October 2003 succeeding Angela Crum Ewing. She was formerly a lecturer in medieval history at the University of Bristol. Following early retirement she served as a non-executive director in the fields of banking, media and insurance. She is currently chairman of The HTV Pension Scheme and director of two other pension schemes. She is also president of the Guild of Friends of the Bristol Royal Hospital for Sick Children and sits on several trusts.

Professor David Eastwood

Professor David Eastwood (49) became Chief Executive of HEFCE on 1 September 2006. He was previously Vice-Chancellor of the University of East Anglia (UEA). Before taking up his position at UEA, Professor Eastwood was Chief Executive of the Arts and Humanities Research Board. Previously he held a Chair in Modern History at the University of Wales Swansea, where he was also head of department, dean and pro-vice-chancellor. He was fellow and senior tutor of Pembroke College (1988-95), and is an Honorary Fellow of St Peter's College, Oxford, from where he graduated in 1980, and of Keble College, Oxford from 2006. Professor Eastwood was made an Honorary D. Litt of the University of the West of England in 2002 and the University of East Anglia in 2006. From April 2009 Professor Eastwood will become Vice-Chancellor of the University of Birmingham.

Baroness Warwick of Undercliffe

Diana Warwick (63) was appointed chief executive of Universities UK (formerly the Committee of Vice-Chancellors and Principals) in 1995. Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983-1993 she was the General Secretary of the Association of University Teachers, representing some 30,000 academic and senior staff in UK universities. She was a member of the Employment Appeals Tribunal from 1984 to 1999 and the Standing Committee on Standards in Public Life from 1994 to 2000. From 1985 to 1995 she served as a board member of the British Council, was a governor of the Commonwealth Institute until 1995, and a member of the TUC General Council between 1989 and 1992. She has honorary degrees from Bradford, Open and London universities.

Howard Jacobs

Howard Jacobs (55) became a co-opted member of the board on 1 October 2002 upon his retirement from the solicitors, Slaughter and May, where he specialised in employment law and pensions law. He remains a consultant with that firm. He is also chairman of the Woolworths Group Pension Scheme and a vice-president of ICAN the national educational charity for children with communication difficulties.

David McDonnell

David McDonnell (65) has been Chief Executive Officer of Grant Thornton International since 2001. He is currently President of the University of Liverpool, Honorary Fellow of Liverpool John Moores University, Deputy Lieutenant of the County of Merseyside and a committee memeber on various charities. He was Chairman of the Trustees of the National Museums Liverpool for ten years and was awarded the CBE in June 2005 Queen's Birthday Honours. He was appointed Director of USS in April 2007.

Virginia Holmes

Virginia Holmes (48) was formerly chief executive of AXA Investment Managers in the UK, and managing director of Barclays Bank Trust Company. She is currently non-executive director and chair of the audit committee of JP Morgan Fleming Claverhouse Investment Trust and non-executive director of the Alberta Investment Management Corporation in Canada. She became a director of USS in September 2005.

D Guppy

Dave Guppy (64) has worked in the computing service at University College London since 1979. Prior to that he worked in similar roles at the London Hospital Medical College, a software co-operative and IBM. He was President of University College London Association of University Teachers (2002/04) and served as Vice-Chair of the national AUT computer staffs committee (1998/2003). He is a member of the national executive committee of the University and College Union. He was appointed a director of USS in 2005.

Joseph Devlin

Joe (48) has been the Open University's Pensions Manager since 1998, having previously worked over a number of years in the private sector in the areas of actuarial, pension consultancy and administration. Joe has tutored for the Pensions Management Institute and International Employee Benefits Examinations. He was appointed a UCU nominated director of USS in September 2007.

Sir Muir Russell

Sir Muir Russell (59) became Principal of the University of Glasgow in October 2003. Prior to his appointment he was Permanent Secretary to the Scottish Executive since its establishment in July 1999. He joined The Scottish Office in 1970. He was Secretary of the Scottish Development Agency on its establishment in Glasgow in 1975, and was Principal Private Secretary to The Secretary of State for Scotland (then George Younger) from 1981 to 1983. He was seconded to the Cabinet Office in 1990. He was appointed Permanent Under Secretary of State at The Scottish Office in May 1998. He was elected as a fellow of the Royal Society of Edinburgh in 2000 and holds honorary degrees from the University of Strathclyde and the University of Glasgow. He was appointed a Deputy Lieutenant of the City of Glasgow in 2004 and became an Honorary Fellow of the Royal College of Physicians and Surgeons of Glasgow in 2005.

BOARD

The board submits its thirty-third annual report on the progress of USS. Separate reports on the activities of the other main committees of USS follow this report.

Committee members

There were two changes in membership of the board during the year. Professor Charles Sutcliffe retired on 31 August 2007 and was succeeded as a University and College Union (UCU) appointed director by Mr Joseph Devlin on 1 September 2007. Professor Sir Ivor Crewe retired on 30 September 2007 and was succeeded as a Universities UK (UUK) appointed director by Sir Muir Russell on 1 October 2007.

Four of the directors on the board of the trustee company are appointed by UUK; three are appointed by the UCU, of whom at least one must be a USS pensioner member; one is appointed by the Funding Councils; and a minimum of two and a maximum of four directors are co-opted directors appointed by the board. UUK, UCU and the Funding Councils have the power to remove their respective appointed directors. The articles of association also provide for the removal of any director where (in relevant circumstances) he or she is prohibited from acting as a director.

The co-opted directors are appointed with the prior approval of the joint negotiating committee. The approval of that committee is not, however, required for the reappointment of a co-opted director on the expiry of his or her period of office. The trustee company's directors normally serve a three-year term but are eligible for reappointment. The board has decided that co-opted directors should serve for a maximum of three three-year terms, with the option of it considering a further three-year term in exceptional circumstances (which would then be recorded in this report).

Rachel Wilde, Steve Golden and Sean Greene of the Pensions Policy team

On appointment, all directors receive detailed information from the company secretary relating to the trustee company, the scheme and their duties. Copies of all scheme documents are held at the trustee company's registered office and are available for inspection by the directors. They visit the registered office in Liverpool and the investment office in London where they take part in an induction programme and receive information on the company and the role they are expected to undertake. They meet key members of the management teams in their respective offices. Directors are invited to attend an appropriate trustee training course initially and a follow-up course approximately 18 months later, and receive periodic updates on their responsibilities and current developments, legal or otherwise, from the trustee company's advisers. They are also encouraged to attend appropriate conferences, seminars and professional presentations.

Performance evaluation

The board appointed Independent Audit Ltd to carry out an evaluation of the structure, role and processes of the board and its principal sub-committees and to make recommendations. The review was extensive and included interviewing all directors and members of the senior management team.

Independent Audit Ltd presented its initial report to the board in September 2007, following which the board asked that further work be undertaken in a number of areas. Its final report, which included a number of recommendations and an implementation plan, was considered and agreed by the board at its meeting in November 2007. The majority of the recommendations have now been implemented and the remainder will be implemented during 2008, in accordance with the agreed implementation plan.

Trustee training

The chairman of each principal committee produced a skills requirement profile for their committee and each committee member has used a self-assessment questionnaire to identify their level of relevant knowledge and understanding. The results of the questionnaires were assessed against the skills requirement profile for each committee and each committee chairman has been provided with an analysis of the level of knowledge and understanding of members of their committee. Where appropriate, training sessions have been (and will continue to be) arranged for individuals or groups of committee members to bridge any identified gaps.

Each director completes an annual training record, listing all training undertaken in the year, and these are reviewed by the nominations committee which makes recommendations on training for both committees and individual directors.

The board has scheduled a number of education sessions throughout the year for the board. During 2008 the majority of the education sessions will cover topics relating to the actuarial valuation.

Responsibilities of the management and the executive

The trustee company and the scheme are governed through the trustee company's board of directors, which meets at least five times a year. The board's primary roles are to ensure that the scheme is adequately funded, that its standards of administration are at a level with which the members and participating employers are content, that the scheme's investment policy is appropriate for the scheme's liabilities and that the scheme continues to meet the developing needs of the UK higher education sector.

The specific responsibilities reserved to the board include:

- setting the contribution rate;
- determining the investment policy and investment management structure of the fund;
- setting long term strategy and approving an annual budget for the trustee company;
- reviewing investment, operational and financial performance;
- approving scheme mergers and major capital expenditure;
- reviewing the organisation's systems of financial control and risk management;
- ensuring that appropriate management development and succession plans are in place;
- approving the appointment of independent directors (subject, on initial appointment, also to the approval of the joint negotiating committee), members of sub-committees of the board and senior management: approving staff remuneration policy;
- approving amendments to the scheme rules (subject also to the approval of the joint

negotiating committee);
- the admission of new institutions and removal of existing institutions;
- determining policy on the treatment of participating employers which leave the scheme;
- determining the schedule of contributions;
- determining interest rates to be charged or paid in specific circumstances;
- the appointment of professional advisers and compromising claims in excess of £50,000 (up to £200,000, above which funding council approval would also be required).

The board has delegated the following responsibilities to the chief executive and the trustee company's executive:

- managing the trustee company against plans and budgets;
- the development and recommendation of strategic plans for consideration by the board;
- implementation of strategies and policies established by the board and exercise of trustee company discretion in the determination and payment of benefits;
- day-to-day investment decisions, including stock selection and asset allocation decisions (within bands approved by the board) are the responsibility of the chief investment officer, reporting to the investment committee.

The roles of the chairman, the chief executive and the chief investment officer

The chairman leads the board in the determination of its strategy and in the achievement of its objectives. The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda. The chairman has no executive involvement in the day-to-day business of the organisation. The chairman facilitates the effective contribution of each of the directors and promotes constructive relations between the directors and the executive to ensure that directors receive accurate, timely and clear information and that there is adequate communication with the scheme's stakeholders.

The chief executive has direct charge of the organisation on a day-to-day basis and is accountable to the board for the effective running of the trustee company and the provision of services to the institutions and membership of USS.

The chief investment officer is responsible for the investment performance of the internally managed fund and for monitoring the performance of those investment managers who have external mandates which are not included in the portfolios managed by the London Investment Office. He reports on these matters to the investment committee.

Board and committee meetings

The number of full board meetings and other committee meetings attended by each director during the year are shown below. Figures in brackets indicate the maximum number of meetings in the period in which the individual was a member of the relevant committee.

	Board	Investment	F&GPC	Audit	Remuneration	Rules	Nominations*
Sir Martin Harris	5 (5)	4 (5)	–	–	–	–	–
Professor John Bull	5 (5)	5 (5)	4 (4)	5 (5)	–	–	–
Michael Butcher	5 (5)	–	–	5 (5)	4 (4)	–	–
Professor Sir Ivor Crewe (to 30.9.07)	1 (3)	–	–	–	–	–	–
David Eastwood	4 (5)	–	–	–	–	–	–
Dave Guppy	5 (5)	–	4 (4)	–	–	–	–
David McDonnell (from 1.4.07)	3 (5)	–	–	2 (4)	2 (3)	–	–
Virginia Holmes	5 (5)	5 (5)	4 (4)	–	–	–	–
Howard Jacobs	4 (5)	5 (5)	4 (4)	–	4 (4)	5 (5)	–
Lady Merrison	5 (5)	3 (3)	4 (4)	5 (5)	4 (4)	–	–
Sir Muir Russell (from 1.10.07)	1 (2)	–	–	–	–	–	–
Joe Devlin (from 1.9.07)	3 (3)	–	–	–	–	–	–
Professor Charles Sutcliffe (to 31.8.07)	1 (2)	2 (2)	–	2 (2)	–	–	–
Baroness Warwick	5 (5)	–	2 (4)	–	3 (4)	–	–

*The nominations committee did not meet during the year.

Regular reports and papers are circulated to committee members in a timely manner in preparation for all committee meetings. These papers are supplemented by information specifically requested by committee members from time to time. The board papers include the minutes of the meetings of all the principal committees of USS.

Institutions

At 31 March 2008 there were 391 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, colleges of the universities of Oxford and Cambridge and 251 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions:

Advanced Procurement for Universities & Colleges
GU Heritage Retail Limited
Leeds Metropolitan University*
Oxford University Asset Management Ltd

Scottish Institute for Excellence in Social Work Education
The Health & Europe Centre
The Nuffield Trust for Research & Policy Studies in Health Services (formerly Nuffield Health & Social Services Fund)
Trinity College, Carmarthen*
University of Chichester*
University of Essex Students Union

* restricted membership.

Institutions which ceased to participate:

Cranfield Impact Centre
Horticulture Research International
INNOS Ltd
National Centre for Business and Sustainability
Northern Ireland Economic Research Council
Reading University Students Union
The Nuffield Trust
UK Socrates-Erasmus Council
Witan College Limited

Scheme membership

During the year 19,862 new members joined the scheme and at 31 March 2008 the total membership, including pensioners and those entitled to deferred benefits, was 252,700 compared with 239,100 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 46 and over the five years ended 31 March 2008 in the Summary on page 75.

The proportion of eligible new employees of participating institutions choosing not to join USS was 16% compared with 15% last year.

The wider review of pensions in the higher education sector

During the year the board has continued to monitor the ongoing progress of the review, undertaken by the Employers' Pensions Forum (which has been established by Universities UK, the Universities and Colleges Employers' Association and Guild HE). Hewitt (a pensions consultancy) was commissioned by the Forum to carry out a survey of institutions, seeking their views on pension provision in the future, the costs of such provision, and their preferences on acting individually or collectively. The Forum has considered the responses and the details were set out in the Hewitt report entitled 'A strategic enquiry into pension arrangements for the HE sector', published in October 2007. A further consultation with sector employers is planned during 2008.

The emergence of the Employers' Pensions Forum is welcomed by the board, and it looks forward to continuing its liaison with the Forum as it addresses both current and longer-term pensions issues with its aim of commenting, exchanging views and establishing common ground amongst institutions. With regard to the current review exercise, the Board has stated its willingness to assist wherever it is helpful and appropriate to do so, so that USS funding and benefit issues can be understood, and importantly to provide input on the costs and implications for USS of adopting any of the options put forward for consideration.

Employer debt and approved withdrawal arrangements

There has been a significant increase in activity in the area of employer debt, especially given that USS has a large number of relatively small institutions (many of which employ less than 10 active USS members). Regulations have been in place since 2005 which place greater demands upon employers that wish to cease their participation in USS, or who simply cease to employ their last active USS member, and activation of the regulations now results in the requirement to pay a section 75 debt (which is the shortfall between the USS funding level and the amount of funding required notionally to buy-out, with an insurance company, the benefits for the members of the departing institution).

The section 75 debt can be deferred under an approved withdrawal arrangement (AWA), and during the year the board has considered a number of applications from leaving institutions to enter into an AWA, has made assessments of the financial strength of proposed guarantors and entered into correspondence with the Pensions Regulator where appropriate (as it is a party to any AWA). For many leaving institutions there is no prospect of an AWA as there is no suitable financial guarantor, and the board has overseen the progress of these cases, where there is often prolonged liaison to ensure that the pension commitments are fully taken into account in any winding-up proposals.

Expansion and flexibility

The board has overseen a number of expansion enquiries during the year from institutions interested in merging their support-staff pension scheme with USS. The review of the scheme's expansion policy, which was completed in March 2006, standardised the type of benefit provisions that would be acceptable for the pensioner and deferred members' benefits from candidate schemes, and all applications during the year have been considered on the revised basis.


Rhian Lewis, Julie Abraham and Carla Coventry
Pensions Payroll section

The financial requirements necessary for completion of a merger with USS are significant (although there is some incentive compared with the USS ongoing funding basis), and as a result not all enquiries made are converted into completed mergers. The greater standardisation of the acceptable benefit variations for pensioner and deferred members has strengthened the requirements even further. Nevertheless, a merger was completed in 2007/08 with the Henley Management College Pension Scheme, and all the former members of that scheme are now within USS.

The amount of the supplementary fee required to be paid by candidate institutions to cover the costs of merging has been revised during the year in the light of experience gained from earlier merger exercises. The costs have reduced, and a letter has been sent to institutions to advise them of the new scale of fees.

During the year the trustee company has continued to offer flexibility to institutions that are completing their implementation of the Framework Agreement for the Modernisation of Pay Structures. Where employees are re-designated into USS-eligible posts – where formerly they were in employment subject to the institution's support staff pension arrangements – they can be given the opportunity of remaining in their former scheme. The Board continues to believe that this flexibility is helpful to institutions during the implementation of the framework agreement, and supports institutions as they assess the pension implications of the re-designation of posts.

The government's pensions reform and other legislative changes

The government introduced landmark changes to the tax regime governing pension schemes in April 2006, and whilst the trustee company has adopted a number of the flexibilities available in the new arrangements – for example in providing tax-free cash up to 25% of the capitalised value of benefits – there are some details that remain to be decided upon.

The outstanding issues are those where the trustee company has been awaiting decisions – and in some cases further regulations – from government, the first of which relates to trivial pensions. After some lobbying from the pensions industry (led by the National Association of Pension Funds (NAPF)), the government has confirmed its intention to give wider powers to schemes to commute trivial pensions, and the trustee company will decide its approach once the statutory regulations have been amended. The second major issue relates to children who continue in full-time education beyond the age of 23, and during the year the trustee company has been lobbying the Revenue (again with the NAPF's assistance) to try to gain continuity for those in longer courses of study, so that they avoid any penal tax charges where such study extends beyond age 23.

The most significant piece of legislation implemented during the year within USS related to anti-age discrimination, following the government's new regulations that were issued in December 2006. Following consideration by the board, the trustee company implemented changes to deal with all of the key features of the regulations in its thirteenth amending deed (see the details in the report of the Joint Negotiating Committee (JNC) on page 30). There are some second-order issues that remain to be addressed relating to those members who joined USS on or after 1 December 2006, and it is expected that the board will complete its consideration of these matters during 2008.

During the year the government continued to develop its proposals for the introduction of a new National Pensions Savings Scheme based around Personal Accounts, a new provision to encourage pension saving (planned for 2012). The trustee company will continue to monitor developments closely, but it would seem that there will be an exemption for employers that provide 'good' occupational pension schemes, and USS satisfies the proposed test to secure an exemption.

The trustee company has continued to monitor – and make representations regarding – the amount of its levy to the Pension Protection Fund (PPF). USS institutions have very much played their part by reducing their Dun and Bradstreet 'failure scores', which helps to ensure that the risk-based levy payable by USS is kept as low as possible. However, the scheme does continue to be liable for a significant scheme-based levy, which is calculated as a percentage of the scheme's overall liabilities, and the trustee company continues to lobby the board of the PPF on this issue.

Rule amendments

During the year rule changes were considered by the board which resulted in three amending deeds being executed (the twelfth to the fourteenth supplemental amending deeds). Details of the rule amendments are given in the report of the joint negotiating committee on page 30.

Working parties

The Regular and Irregular Employment Working Party

The Regular and Irregular Employment Working Party has continued to operate during the year, and its primary objective has been to finalise draft rule amendments that sweep up a number of minor changes relating to employees in variable time employment (and in particular those who hold a variable time employment in addition to a regular appointment). A draft amending deed is set to be considered by the board and the JNC in the coming year.

Pension increases

Section 15 of the USS rules 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). USS pensions were increased by 3.6 % on 21 April 2007.

On 21 April 2008 USS pensions that satisfied certain qualifying conditions and began before 23 April 2007 were increased by 3.9% with smaller increases applying for pensions that began after that date. Deferred pensions and deferred lump sums were increased by the same rate.

That part of the pension payable from the main section of USS which represents the pre-1988 GMP is generally not increased by USS as increases are paid by the Department for Work and Pensions, as are increases in excess of 3% on that part of the pension which represents the post-1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet 'Payment of Retirement Benefits' which is issued to all USS pensioners and can be found on the USS website at **www.usshq.co.uk**.

Section 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 rate as those that applied to the main section.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2007 and 31 March 2008 were as follows, unchanged from the previous year:

USS Main Section	Member	6% of salary
	Institution	14% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

Actuarial matters

The actuary carries out a full actuarial valuation of the scheme every three years, with the next such valuation to take place as at 31 March 2008. In the period between the triennial valuations he provides quarterly estimates of the funding level of the scheme to the trustee company. These estimates of the funding level of the scheme are based on the same member data as is used in the triennial actuarial valuations, but take account of changes in the interest rates and actual investment performance since the date of the last triennial valuation.

As at 31 March 2007, the actuary estimated that the funding level was 91%, ie the assets in the fund amounted to 91% of the estimated liabilities. This was an improvement in the funding level

of 77% reported at the last triennial valuation as at 31 March 2005. The improvement in the position was mainly due to the investment return on the scheme's assets since 31 March 2005 being higher than that specified in the funding assumptions.

Since 31 March 2007 the funding level of the scheme has undergone considerable volatility. At the end of June 2007, the actuary had estimated that the funding level had increased to 98% but that at 31 March 2008 it had fallen back to roughly the same level that it had been at 31 March 2005. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. However, on the FRS17 basis, using a conservative estimate of the AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%, while an estimate of the funding level measured on a buy-out basis at that date was approximately 78%.

These funding levels at 31 March 2008 are very much estimates, being based on the data used for the valuation at 31 March 2005 and adjusted only for changes in the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). The actuary is in the process of carrying out the 2008 valuation and will be reporting on it towards the end of the year. It has been our practice over the last four years to publish a more detailed statement on the scheme's funding position within the report and accounts (referred to as "the trustee's funding statement"), but since the results of the 2008 valuation will not be known until after the document is published we have decided not to update the statement in the Report & Accounts this year. An updated statement will be published in January 2009 following the completion of the actuarial valuation. We have also agreed with the Pensions Regulator that publication of the summary funding statement, which is normally sent to all members in September each year, will be deferred until January 2009 so that it can incorporate a fuller statement about the results of the 2008 valuation.

Accounting matters

Scheme financial statements and summary of contributions

The financial statements of the scheme for the year ended 31 March 2008 are set out on pages 59 to 60 and the auditors' statement about contributions and trustee's summary of contributions are set out on pages 72 and 69. The financial statements have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The accounts of Universities Superannuation Scheme Limited (the trustee company) are set out in pages 79 to 80 and show an increase in operating costs from £38.1 million in 2006/2007 to £40.6 million in 2007/2008. This represents an 11% increase in administration costs and a 4% increase in investment management costs.

As last year, a significant portion of the increase in administration costs arises from the increase in the levies payable to the Pension Protection Fund. Excluding these, administration costs increased by 7%, much of this due to increased staff costs relating to work on computer developments.

Within investment costs, there has been a decrease in the cost of external management which has been offset by a corresponding increase in staff costs for the internally managed team. The increase in staff costs reflects the need to increase resources in London in line with the increased assets under management and also the increasing allocation to alternative investments which require higher staff levels. A year of excellent investment performance by the internally managed team was also reflected in higher performance related bonus payments.

Further details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 76.

Investment policy

The arrangements for management and custody of the assets, together with the approximate proportion managed by each manager at 31 March 2008, were as follows:

(a) 78.3% was managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 72.6% were securities (or alternative investments or cash) and 5.7% were property assets. The internally managed fund has a balanced mandate;

(b) 9.0% was managed by Capital International Limited (with Bank of New York Mellon as custodian) with a global equity mandate;

(c) 12.7% was administered internally on the advice of HSBC James Capel Quantitative Techniques with a mandate to track the FTSE All-Share Index of UK equities (with JP Morgan as custodian);

The year to 31 December 2007 was another good year for pension fund performance generally, with positive returns for the average fund for the fifth consecutive year. It was also a good year for the fund and for the internally managed team in particular, with the fund's return of 7.5% exceeding its benchmark return of 6.3%. Further details of the investment targets, investment performance and amounts managed by each manager are given in the report of the investment committee.

Corporate governance

The directors of the trustee company continue to acknowledge their responsibility for ensuring that the company has in place appropriate systems of internal control which are designed to give reasonable assurance that:

- financial information used within the scheme or for publication is reliable and that proper accounting records are maintained;
- assets are safeguarded against unauthorised use or disposition;
- the trustee company and the scheme are being operated efficiently and effectively;
- relevant legislation is complied with;
- appropriate risk management systems are in place.

However, any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss and cannot eliminate business risk.

The board receives reports, generally on a quarterly basis, from the other main committees: the finance & policy committee (formerly the finance & general purposes committee), the investment committee, the audit committee, the remuneration committee, the rules committee, the joint negotiating committee, the nominations committee and the advisory committee. The functions of these committees are set out in the reports which follow this report.

Internal audit within the trustee company comprises the head of internal audit and two full-

time assistants. It reviews the operation of the internal control systems affecting the trustee company and the scheme and where relevant at external suppliers. Each year the head of internal audit, in conjunction with senior management, carries out a formal evaluation of the risks facing the organisation and the audit programme is determined in the light of this evaluation. The chief executive's senior management team considers regular reports from the head of internal audit and reviews the risk management and control process to consider whether any changes to internal controls, or responses to changes in the levels of risk, are required. Any weaknesses identified in these reviews are discussed with management and an action plan is agreed to address them. Through regular reports by the head of internal audit, the audit committee assisted by the external auditor monitors the operation of the internal controls in force and any perceived gaps in the control environment.

The directors confirm that they have established internal control procedures such that they comply with the Turnbull Guidance in the Combined Code on Corporate Governance where relevant.

The board, through its audit committee, has reviewed the effectiveness of the process for identifying, evaluating and managing the key risks affecting the scheme.

Administration

The service provided to members and institutions continues to be monitored each quarter. All statutory and internal targets have been met satisfactorily.

The annual meeting with institutions' representatives took place in London in December 2007 with a report of the proceedings available on the USS website.

The trustee company reviews its activities regularly in conjunction with its advisers to ensure that the scheme remains fully compliant with all relevant legislation and other requirements.

During the year there were no late payments of contributions.

Member AVC contributions to the Prudential are no longer included in the schedule of contributions. However, the trustee company has stated that it will report institutions to the Pensions Regulator where their payments of AVCs to the Prudential are consistently late. No such reports were made during the year.

Wesley Hughes, Frances Campbell and Angela Lea
Administration Accounts section

Dispute resolution procedures within the trustee company provide for the pensions operations manager, on the application of a complainant, to give a decision on a dispute and for the trustees or managers, on the application of the complainant if they are unhappy about that decision, to review the matter in question and either confirm or alter the decision. The review is undertaken by the advisory committee, augmented for this purpose alone by two members of the board (one nominated by UUK and the other by UCU). The augmented advisory committee met on four occasions to consider the decisions given by the pensions operations manager at stage one of the internal dispute resolution procedure. Eight cases were considered and the stage one decisions taken by the pensions operations manager were upheld in seven cases. In the remaining case the augmented advisory committee did not uphold the stage one decision and used its wider powers to make a recommendation for an award to be granted.

Since the statutory prohibition of compulsory membership of occupational pension schemes as a condition of employment in April 1988, now contained in Section 160 of the Pension Schemes Act 1993, around one sixth of employees eligible to join USS have elected not to do so, which means that they will either be participating in State Second Pension or have a personal or stakeholder pension, or a combination of these arrangements. It should be noted that the rules of USS prevent an institution from paying contributions (in respect of an "eligible employee" under the rules) to a pension arrangement other than USS.

During the year staff from across the company have worked with Civica, the administration software provider, to configure the new processes and calculations and develop the new functionality for the upgrade of our systems to the new UPM2 application. Implementation took place at the end of January 2008 without any undue disruption. A post implementation project was launched to develop a number of additional processes and to make refinements to the new system. The upgrade to UPM2 provides an opportunity to enhance our website to include functionality for processes to be carried out on-line. We have also been working with institution users to understand how we can maximise use of the technology available to improve service levels and data quality. A great deal of work has been carried out on the new website and we plan to release the initial phases towards the end of 2008.

Communications

The programme of presentations to members included 35 institution visits, addressing approximately 3,500 members. Feedback from attendees continues to be very positive with many members interested in the increased flexibilities available for paying additional voluntary contributions.

The website has been maintained throughout the year and two further Pensions TV programmes have been included covering maternity leave and absence.

The institution advisory panels continued to meet during the year. There are currently 23 institutions represented on the panels, which provide very valuable feedback on proposed changes and new procedures.

Seminars for institution staff continue with positive feedback received during the year. Future seminar dates have been issued with interest already running high. Workshops were also held during the year for the institution contacts as part of the consultation exercise for the ePensions project.

In April 2007 USS issued its first newsletter for retired members and editions will be issued annually with the distribution of pensioner payslips in April.

Prudential are our provider for the money purchase AVC facility and we continue to work closely with them to ensure our members receive unbiased information on both added years and money purchase AVCs. During the year we have reviewed taped recordings of individual meetings held between members and Prudential representatives, provided training to Prudential staff regarding scheme developments. Additionally, Prudential representatives often attend the USS member presentations.

Disclosure requirements

The general rights which members and beneficiaries have always enjoyed to request information under trust law have been greatly supplemented by statutory disclosure requirements which apply under the Occupational Pension 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 providing each institution with access to a complete library of publications via the scheme's website. Other information, for example A Guide for USS Members, must be provided to every new member and supplies are available from our Liverpool office to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the occurrence 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.

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 had no employer-related investments during the year.

Acknowledgements

The chairman would like to thank Professor Charles Sutcliffe and Professor Sir Ivor Crewe for their contribution to USS matters during their terms of office on the committee. He would like to thank the officers and staff of USS for their continued enthusiastic commitment to the success of the scheme.

The board also wishes to record once again its appreciation of the services given by all those who are concerned with 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 board.

Sir Martin Harris
Chairman

INVESTMENT COMMITTEE

The investment committee advises the trustee company on all matters relating to the investment of the fund's assets. Throughout the report performance returns relate to calendar years which is the investment industry standard.

Highlights

- Stock markets were strong for the fifth year running in 2007 with the fund returning 7.5% compared with 9.9% in 2006 and 24% in 2005. This was a pleasing return against the fund's benchmark of 6.3%. However, the ten year returns on the fund stand at 6.8% per annum compared with a benchmark return of 7.9% per annum. Including net cash flow and capital movements the value of the investments in the fund (excluding the Prudential AVC fund) rose from £29.3 billion at 31 December 2006 to £32.6 billion at 31 December 2007. Adverse market movements in the first quarter of 2008 reduced the fund value to £28.8 billion by 31 March 2008.

- The fund continues to diversify into alternative assets. Its continuing high cash flow and levels of liquidity have enabled it to take advantage of investment opportunities arising out of the credit crisis to accelerate this programme. The alternative assets portfolio now accounts for 4% of the portfolio (11.6% committed) with the aim of increasing this to 20% over the medium term, embracing a wide spectrum of alternative assets including private equity, absolute returns and commodities amongst other classes.

Fitzwilliam House

- Annual investment costs are set to increase as a result of the fund's move into alternative assets and strong governance is needed to ensure value for money. We are seeking to achieve this through the growth of our in-house investment management expertise and focussing strongly on holding our external managers and suppliers to account for any cost spiral. For example, the move into unbundling which was mentioned in last year's report, where the fund now pays directly for the majority of its research and pays separately for execution on share transactions, has brought further benefits in 2007. The estimated savings from this move are now running at some £8 million per annum in total compared to savings of £5 million a year ago. USS is unique in taking the approach it has and the committee is investigating ways in which further savings can be made.

- The fund continues to play a leading role in responsible investing in the UK and overseas and has been involved in a number of collaborative projects involving the UN and climate change projects under the auspices of the Prince of Wales as well as other industry wide initiatives aimed at bringing about better corporate governance and an assessment of environmental and sustainability issues.

Investment management

The fund's investments are divided among those under the direct control of Universities Superannuation Scheme Limited and those managed externally. The in-house investment team at the London Investment Office (LIO) manages the majority of the assets. In alternative assets the fund employs a number of external managers and funds who are selected and monitored by the LIO. A separate fund designed to match the performance of the FTSE All Share Index is run in-house on advice provided by HSBC Quantitative Techniques. The balance of the fund in 2007 was managed by Capital International and Wellington under specialist global equity mandates, and rewarded on an ad valorem and performance fee basis.

Eden walk, Kingston

Jones Lang La Salle and DTZ advise on investment and property management, covering the retail and commercial portions of the property portfolio respectively. For these services they are remunerated primarily through a management fee and, in some cases, they may benefit from transaction fees.

USS investment performance results

Over the year to 31 December 2007 the performance of the total fund was 1.2 percentage points ahead of its benchmark. The majority of this outperformance, 1.1 percentage points, came from asset allocation with the main contributions from an overweight position in the Pacific and an underweight position in property. Selection contributed 0.1 percentage points of outperformance with a majority of that coming from UK equities and, to a lesser extent, US equities. Pacific and Japanese equities had a negative impact on performance.

Over the 10 year period to 31 December 2007 the fund has underperformed its benchmark by about 1 percentage point with the majority of this underperformance coming from asset allocation, although over this period there have been a number of changes in benchmark and re-organisation and transition costs which have also inevitably impacted negatively on the fund.

The performance of the various fund managers for the year to 31 December 2007 is shown below. At a total fund level the LIO including property contributed 1.6 percentage points to excess performance whilst Capital International and Wellington both impacted negatively on performance by 0.3 and 0.1 percentage points respectively.

	% Fund Return	% Benchmark Return
LIO (including property)	7.7	5.3
UK Index	5.2	5.3
Capital International	7.7	10.9
Wellington	9.1	10.9
Total Fund	7.5	6.3

The individual managers had mixed results against their given benchmarks. LIO outperformed its benchmark by 2.4 percentage points. This return is particularly pleasing as it includes the positive impact of the restructuring of the property portfolio during 2006/2007 and mentioned in last year's report. Major sales included the fund's units in Gyle Shopping Centre Unit Trust and Telford Shopping Centre Unit Trust, together with Trinity Quarter Leeds. These have proved to be particularly well-timed given the price correction that has since taken place in the UK property market and a positive return against benchmark is now being achieved.

Capital International underperformed its benchmark by 3.2 percentage points in 2007 but since inception of its mandate has outperformed by 0.3 percentage points per annum. The 2007 underperformance resulted almost entirely from poor sector and stock selection.

Wellington International underperformed by 1.8 percentage points in 2007 mainly as a result of stock selection. Since inception, Wellington International has underperformed its benchmark by about 1.5 percentage points per annum, again mainly as a result of stock selection. Due to continuing disappointing performance, the mandate with Wellington was terminated at the end of November 2007 and the assets put under the management of the LIO.

The committee has also reviewed the AVC products managed by the Prudential. Their performance to date has been satisfactory and the committee is considering whether the range of investment options should be expanded.

As at 31 March 2008 the fund's asset allocation against benchmark was the following:

	Actual %	**Benchmark** %
UK equities	36	38
Overseas equities	42	38
Alternative assets	4	4
Fixed interest	9	10
Property	6	10
Cash and other	3	–
Total	**100**	**100**

TOTAL INVESTMENTS OF THE FUND

The investments are stated at market value. Details of the values and changes are summarised in note 9 of the USS accounts on page 64.

	Internally managed			**Externally managed**				
Fund or Fund manager	Main Fund	Alternatives Fund	Index Fund	Capital International	Wellington	Prudential	**Total 31 March 2008**	Total 31 March 2007 (restated)
	Active £m	Active £m	Passive £m	Active £m	Active £m	Active £m	**£m**	£m
UK equities	6,279.5	76.2	3,616.6	329.9	–	–	**10,302.2**	11,243.1
Overseas equities	9,950.0	69.9	–	2,083.5	–	–	**12,103.4**	13,591.8
UK fixed interest	128.3	–	–	–	–	–	**128.3**	253.1
Overseas fixed interest	2,499.3	48.1	–	–	–	–	**2,547.4**	1,931.7
Pooled investments – securities	11.1	963.2	0.1	136.3	–	–	**1,110.7**	332.1
Pooled investments – property	768.7	–	–	–	–	–	**768.7**	1,011.0
Direct property	877.8	–	–	–	–	–	**877.8**	1,162.6
Cash and equivalent	741.9	9.8	0.4	41.1	–	–	**793.2**	259.6
Money purchase AVC Investments	–	–	–	–	–	255.5	**255.5**	220.3
Other investment balances	142.6	(54.4)	37.0	17.8	–	–	**143.0**	279.2
Total 2008	**21,399.2**	**1,112.8**	**3,654.1**	**2,608.6**	**–**	**255.5**	**29,030.2**	
Total 2007	19,813.6	584.8	4,127.0	2,786.5	2,752.3	220.3		30,284.5

Alternative investments

Alternative assets are further analysed below:

	31 March 2008 **£m**	31 March 2007 £m
Infrastructure	591.7	428.6
Private equity – funds	322.2	59.8
Private equity – direct	26.5	47.7
Absolute return strategies	151.8	–
Commodities	10.0	–
Other	10.6	48.7
Total	**1,112.8**	**584.8**

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2008, along with the comparative figures for the preceding year, is set out below:

	2008			2007		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	47.9			250.4		
Other debentures & loan stocks	80.4			2.7		
		128.3	0.4		253.1	0.8
Overseas fixed interest						
North America	1,102.3			489.7		
Europe	892.3			851.8		
Japan	377.8			490.1		
Far East	175.0			100.1		
		2,547.4	8.8		1,931.7	6.4
Total fixed interest		2,675.7	9.2		2,184.8	7.2
UK equities						
Resources	1,697.8			1,487.8		
Basic industries	1,182.1			973.7		
General industrials	757.0			844.7		
Consumer goods	1,170.7			1,053.1		
Services	2,419.4			3,049.9		
Utilities	453.0			487.6		
Information technology	97.9			159.6		
Financials	2,524.3			3,186.7		
Collective investment schemes	–			5.7		
Managed funds	42.8			35.1		
		10,345.0	35.6		11,283.9	37.3
Overseas equities						
America	3,972.8			3,426.0		
Japan	1,512.1			2,548.4		
Europe	4,389.7			4,815.5		
Far East	2,575.8			2,700.5		
Other	720.9			392.7		
		13,171.3	45.4		13,883.1	45.8
Total equities		23,516.3	81.0		25,167.0	83.1
Total securities		26,192.0	90.2		27,351.8	90.3
Property (incl. indirect property)		1,646.5	5.7		2,173.6	7.2
Cash deposits		793.2	2.7		259.6	0.9
Money purchase AVC investments		255.5	0.9		220.3	0.7
Other investment balances		143.0	0.5		279.2	0.9
Total investments		29,030.2	100.0		30,284.5	100.0

Responsible investment

The Directors of USS continue to believe that the fund has a responsibility to take account of governance, environmental and social factors in the implementation of its investment strategies.

A key focus of the fund's RI activities over the last year has been to act on the recommendations that came out of the review of investment policy, reported in last year's annual report. The main areas on which we have therefore focussed are more in-depth engagement with companies and the integration of extra-financial issues into the investment decision-making processes within the fund. The integration process has not only focussed on public equities but increasing attention has been paid to alternative assets and in particular private equity, and the fund's property portfolio. On the former, a process has been formulated to ensure that RI issues are considered as part of the due diligence process prior to investment in a private equity manager. On the latter, the fund's Property team has led on obtaining baseline data on the environmental performance at the majority of the fund's properties, and in setting targets for reductions in energy use, water consumption, and waste production.

The fund has also continued to play a leading role in a number of key projects which aim to maximise the potential impact of RI activities in creating long-term value for the fund. These include the second stage of the successful PharmaFutures project, co-convened by USS. The project brought together investors and pharmaceutical executives to explore the key value drivers for the pharmaceutical sector and the current challenges, risks and opportunities that it is facing.

USS CIO Peter Moon (left) and Director Howard Jacobs (centre) discuss the weather with HRH Prince Charles at the P8 meeting in November 2007

The fund continues to play a central role in the implementation of the Principles for Responsible Investment, actively participating in a number of the work programmes as well as providing a Board member.

Climate change remains a focus, with the fund investing in a number of renewable energy and clean technology funds via its alternative asset allocation. In addition to ongoing membership of the Institutional Investors Group on Climate Change, USS was invited to participate in P8. P8 was a meeting of large global pension funds (akin to G8), convened under the auspices of the Prince of Wales, to discuss the role that large asset owners can play in addressing climate change.

In recognition of the leading role USS plays in its Responsible Investment activities, the Fund was presented with a number of accolades in 2007, including two awards by Professional Pensions for Corporate Governance and Responsible Investment.

For more information on USS's RI activities, please see:
http://www.usshq.co.uk/special_interest_groups_index.php?name=SPECIAL_INTEREST_GROUPS_INVESTMENT

LARGEST EQUITY HOLDINGS

A list of the fund's largest twenty equity holdings together with the percentage of the fund which they represent, is shown below:

	Value £m	%
Royal Dutch Shell	705.8	2.4
HSBC HDG	628.0	2.2
BP	625.2	2.2
Vodafone Group	565.8	2.0
Rio Tinto	461.9	1.6
BHP Billiton	351.7	1.2
Glaxosmithkline	351.0	1.2
BG Group	268.9	0.9
Anglo American	248.6	0.8
Tesco	220.4	0.8
Nestle R	197.4	0.7
RBS	195.4	0.7
British American Tobacco	194.0	0.7
Xstrata	193.5	0.7
Astrazeneca	182.0	0.6
Barclays	176.3	0.6
Unilever	174.7	0.6
Lloyds TSB Group	169.4	0.6
BAE Systems	164.4	0.6
Diageo	162.6	0.6
	6,237.0	21.7

A list of all the fund's holdings along with corporate governance issues is available on our website: **www.usshq.co.uk**

Signed on behalf of the investment committee

V Holmes
Chairman

FINANCE & GENERAL PURPOSES COMMITTEE

The finance & general purposes committee was established under the authority of the board in January 1984.

Its purpose is to consider and report to board on any matters relating to the structure and management of Universities Superannuation Scheme Ltd as the corporate trustee of USS, other than those which have been allocated to the investment, audit, remuneration, nominations and rules committees.

In essence, inter alia, it:

- undertakes detailed work on behalf of the board and makes recommendations to it on major policy issues;
- gives preliminary consideration to major issues, which it is intended should be brought to board;
- oversees the detail of revisions to the company's risk management profile and policy and submits annual reports to the board;
- gives detailed consideration to business and strategic plans and performance against plans;
- gives detailed consideration to financial estimates and performance against estimates;
- monitors communication with, and levels and quality of service provided to, member institutions and individual members;
- monitors compliance with the requirements of appropriate regulatory bodies.

The committee members are appointed by the board and at 31 March 2008, comprised six members. Of the committee's six members, one is a UUK appointee to the board, two are UCU appointees and three are co-opted appointees of whom one, Professor John Bull, is the chairman.

During the year, the committee met on four occasions and considered matters such as the results of the scheme funding consultation, the employer covenant, expansion of USS, insolvency and withdrawal of institutions from USS, the government's pensions reform, salary sacrifice, the ePensions initiative, the Prudential AVC scheme, corporate performance of the trustee company and the business plan.

Signed on behalf of the finance and general purposes committee.

Professor John Bull
Chairman

AUDIT COMMITTEE

The audit committee was established under the authority of the board in March 1982.

Its purpose is to consider and report on any matters relating to internal control systems, financial reporting arrangements and corporate governance.

In essence, it examines management's processes for ensuring the appropriateness and effectiveness of systems and controls and arrangements to ensure compliance with standards and arrangements under appropriate regulatory systems.

In addition it:

- Reviews the scope, planned programmes of work and findings of both the internal and external auditors and the compliance officer.
- Ensures that the accounting and reporting policies are in line with legal requirements, Financial Services Authority and other appropriate regulatory body requirements and best practice.

The committee members are appointed by the board and at 31 March 2008 comprised four members; one is a UUK appointee to the board, one is a UCU appointee and two are co-opted appointees of whom one, Mr Butcher is its chairman. Professor Sutcliffe retired on 31 August 2007. We thank him for his significant contribution as a committee member. More than one member of the committee possesses what the Smith Report describes as recent and relevant experience. During the year, the committee met on five occasions. It has also met with the external auditor, the internal auditor and the compliance officer privately each on one occasion without any officers being present. During the year, the committee has, inter alia:

- reviewed the accounts of both the trustee company and the scheme prior to approval by the board;
- reviewed its terms of reference;
- reviewed the external auditor's strategy for the audit of the accounts of the trustee company and the scheme;
- reviewed the objectives, effectiveness, structure and future direction of the internal audit function to ensure that it meets the assurance needs of the trustee company;
- reviewed the internal audit function's terms of reference, its work programme and quarterly reports on its work during the year;
- received regular reports from the compliance officer;
- expressed its continued satisfaction with the trustee company's approach to identifying and dealing with risks to its business. This includes strengthening its approach by embedding risk management processes in its operational functions.

Signed on behalf of the audit committee.

M Butcher
Chairman

REMUNERATION COMMITTEE

The remuneration committee considers and reports on matters relating to the employment, remuneration and termination of contracts for employees within the trustee company. It sets salaries, pay levels and performance criteria by which all staff are rewarded, with the exception of the chief executive and the chief investment officer, whose salaries are determined at board level.

The committee's members are appointed by and from the board and at 31 March 2008 comprised five members; two are UUK appointees to the board, one is a UCU appointee and two are co-opted appointees of whom one, Mr Jacobs, is the chairman. Mr Potts retired on 31 March 2007 and we thank him for his significant contribution as a committee member. Mr McDonnell was appointed to the committee with effect from 1 July 2007.

The committee met on three occasions during the year. Matters which have been considered include:

- salary awards to employees at the Liverpool and London offices;
- the remuneration and pay scales at the London office;
- London office bonus scheme;
- employment statistics within both the Liverpool and London offices;
- reviewing corporate risk profile document;
- review of salaries and benefits at the Liverpool office.

Signed on behalf of the remuneration committee.

H R Jacobs
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 modifications to the rules in conjunction with the rules committee 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 and under the scheme rules in connection with the appointment of co-opted directors and with the remuneration of directors.

The committee met on four occasions during the year. Rule changes were considered by the committee which resulted in three amending deeds being executed (the twelfth to the fourteenth supplemental amending deeds). These amending deeds introduced the following changes to the USS rules:

- The twelfth supplemental amending deed, which was executed on 6 June 2007, introduced provisions to enable salary sacrifice for ordinary pension contributions, as well as clarifying the treatment of other forms of non-cash salary sacrifice.

- The thirteenth supplemental amending deed, which was also executed on 6 June 2007, ensures compliance of the USS rules with the requirements of the Employment Equality (Age) Regulations 2006.

- The fourteenth supplemental amending deed, executed on 20 August 2007, brings the provisions of the Work and Families Act 2006 into effect in USS. The amendments deal with the entitlements of USS members who enter a period of maternity, paternity or adoption leave.

During the year the committee completed its consideration of the major issues relating to the government's tax simplification reforms, subject to a small number of third-order changes that still need to be finalised (on which further legislative changes are awaited). It is anticipated that these will proceed to a completion in the coming year.

The committee has also given detailed consideration to some of the USS funding issues during the year, and in particular to the way that the scheme might develop to address some of the specific cost pressures that it faces. The JNC has noted the creation of the Employers' Pensions Forum during the year, with its general remit to review pensions in the higher education sector and, as part of that remit, to review the specific provisions and status of USS. The committee looks forward to progressing discussions in the coming year.

The major legislative work during the year was to look at some of the remaining issues relating to anti-age discrimination, and in particular the effect of provisions that relate to new entrants to the scheme on or after 1 December 2006 (the commencement date of the age regulations). Consideration has been given to the effect of the regulations in relation to those who retire early in certain circumstances, and a number of options have been produced and given detailed

analysis. Once again, the committee's deliberations are expected to be concluded in the coming year.

The issue of salary sacrifice is one that has been actively considered during the year, and changes to enable institutions to implement such arrangements for the scheme's ordinary contributions (and for certain non-cash benefits) were finalised in the twelfth supplemental amending deed. Consideration has since turned to the issue of salary sacrifice for additional voluntary contributions (AVCs), and the committee is in the process of considering some of the implications of extending salary sacrifice in this manner before any draft rule amendments can be finalised.

The board decided during the year, upon a recommendation from the rules committee, to undertake a re-write of the scheme rules. Such an exercise has not been completed for many years, and in the later part of the year the committee provided input on the proposed scope of the project (for example, the extent to which the re-write should review the present substance of the rules rather than just being a re-write of form only), and commented upon the proposed approach to be adopted to deliver the project, for example the key control documentation. The re-write exercise will be completed during the year 2008/09.

Finally, the working party of the JNC dealing with employees who hold regular and variable time employments continued its development of solutions to deal effectively with members who have more than one employment (and in particular where one of those employments is variable time). The working party's activities in finalising the arrangements for concurrent employees are expected to be concluded during 2008.

Signed on behalf of the joint negotiating committee

Sir 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 full meetings were held during the year. Mr A D Linfoot fulfilled the role of chairperson.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. There were 17 cases which required detailed consideration by the advisory committee during the year.

Nine cases were related to members requesting full commutation of their benefits on the grounds of serious incapacity and in each case the full commutation was granted.

The remaining eight cases were considered at stage two of the internal dispute resolution procedure. Four cases related to retirement benefits, two related to the transfer in of benefits and one in respect of an incapacity application. Of these eight cases, the officers' decision at stage one of the internal dispute resolution procedure was upheld in seven instances. One retirement case involving a multiple appointment member required a recalculation of benefits and following this case the committee has commented that it would be appropriate for rule 12.4 concerning multiple appointments to be reviewed by the joint negotiating committee.

It was necessary for the committee to meet on one additional occasion during the year to consider one of the aforementioned cases relating to retirement benefits where a decision given by the pensions operations manager which was challenged following stage one of the internal dispute resolution procedure. The committee agreed that the stage one decision should stand and the member's complaint should be rejected.

In addition to making adjudications on these individual cases the committee reviewed a number of other areas of the scheme, including correspondence issued in cases of full commutation and during the full commutation application procedure, the incapacity retirement arrangements and cases submitted to the Pensions Ombudsman.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

RULES COMMITTEE

In conjunction with the executive and the scheme's professional advisers, the rules committee's primary function is to supervise the rule amendment process within USS.

During its fifth year the committee has overseen the twelfth to the fourteenth supplemental amending deeds, further details of which are included in the report from the Joint Negotiating Committee. The committee has also been involved in the following activities:

(i) Overseeing the formulation of any remaining rule amendments that are appropriate in relation to the Revenue's A-day tax simplification reforms, which has involved consideration of the technical aspects of these reforms, and the monitoring of relevant government legislation (for example, in relation to the commutation of trivial pensions).

(ii) Reviewing the implications for the trustee company of the anti-age discrimination legislation (specifically the Employment Equality (Age) Regulations 2006), and finalising the second phase of changes that are necessary in compliance with these regulations, which mainly relate to those who became members of USS on or after 1 December 2006.

(iii) Finalising the rule amendments to implement salary sacrifice, and beginning to consider the technical issues that need to be taken into account if and when salary sacrifice is extended to include additional voluntary contributions.

(iv) Completing the outstanding work on administrative problem areas, and concluding these activities (at least for the time being) with the finalisation of the form of the fifteenth supplemental amending deed.

(v) Overseeing the re-write of the schemes rules.

The committee met on five occasions during the year.

Signed on behalf of the rules committee

H R Jacobs
Chairman

TRUSTEE'S FUNDING STATEMENT to members for the year ended 31 March 2007

1. Introduction

1.1 This funding statement gives some of the background and detail surrounding the nature of USS and its financial position.

1.2 It is not designed to give all the details or implications of the funding of the scheme nor is it a communication which covers the particular circumstances of individual members. It is aimed at giving background information regarding the scheme, such as:

- the general funding of the scheme;
- the investment strategy of the scheme; and
- the contribution strategy of the scheme.

1.3 This information should help members to understand better how the trustee company, with its advisers, is looking after the scheme and seeking to deliver members' benefits over the long-term. A number of different circumstances are considered (for example if circumstances continue exactly as they are, if all the members were to leave and transfer their benefits to other arrangements immediately and if the scheme were to be wound-up).

1.4 A summary funding statement is sent to every member of the scheme each September. This trustee's funding statement gives a little more detail on the matters covered in the summary statement.

2. Overview

The key points in the statement are:

2.1 USS aims to deliver a defined set of benefits based on service and salary. The financing of these benefits is provided by the sponsoring institutions and the scheme members.

2.2 There are always uncertainties inherent in the funding of a final salary scheme. In view of this the finances of the scheme are checked regularly to see how well the fund is shaping up. The key driver is how well the investments have performed relative to the growth of the liabilities (the liabilities being the benefits payable by the scheme).

2.3 If investments perform very well then it may be possible to improve benefits or reduce the contribution rate; more likely, unless performance is exceptional and sustained, improved returns would be used to protect the current level of contribution rates; if investments perform badly then there may be a need for institutions to contribute more to deliver the benefits.

2.4 The actuary carries out a full actuarial valuation of the scheme every three years. In the period between these valuations he provides quarterly estimates of the funding level of the scheme to the trustee company.

2.5 The current financial position of the scheme is simply a 'snapshot' as at the valuation date and can vary in the future depending on the actual experience of the scheme.

2.6 At the date of the last actuarial valuation of the scheme, at 31 March 2005, the actuary advised that on the scheme funding basis, the assets in the fund amounted to £21,739.7 million and this covered 77% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement.

2.7 Since 31 March 2005, the financial security of the scheme has improved and the actuary has

estimated that the funding level at 31 March 2007 had increased to 91%. This improvement in the scheme's financial security is largely due to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions.

2.8 The actuary has advised the trustee company that, in determining the scheme funding basis used in the actuarial valuation at 31 March 2005, a cautious approach had been adopted. If the investment return assumption used in the valuation had been increased by 2% to 6½% (a relatively mainstream actuarial assumption and one which would still contain an element of prudence) the fund would have been in surplus at that date.

2.9 In addition to the scheme funding basis, the actuary also calculates the USS funding position on a number of other methods, including the PPF (Pension Protection Fund) basis and the FRS17 basis. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was 109%.

2.10 Acting on actuarial advice, the trustee company agreed to leave the shortfall at the last valuation to be addressed by investment performance rather than increasing contributions, but undertook a review, in consultation with the participating employers, of the funding of the scheme to determine whether an increase in contributions should be made in advance of the next valuation at 31 March 2008.

2.11 As a result of the review of the funding of the scheme, the trustee company introduced a charge, payable by the employers, to cover the cost of providing unreduced benefits on early retirements below the age of 60. The actuary has estimated that this charge should have the effect of improving the scheme funding level by approximately 3% and will be broadly equivalent to an increase in the contribution rate of just under 2%. Acting on actuarial advice, the trustee company decided not to increase contributions in advance of the 2008 valuation but will review the contribution rate again following consideration of the results of the valuation.

2.12 Shown below is a summary of the scheme funding level under the various different valuation bases at 31 March 2005 and 2007:

Funding basis	**31 March 2005 %**	**31 March 2007 %**
Ongoing basis	77*	91
FRS 17	90	109
PPF	110*	137
MFR	126*	N/A
Solvency	74*	84

Funding levels marked with an * have been certified by the scheme actuary. All other figures have been provided by the scheme actuary on an estimated basis. The MFR basis will no longer be applicable after 31 March 2008 and has not been recalculated at 31 March 2007.

3. Benefits provided by the scheme

3.1 USS is a final salary scheme. Under this type of arrangement benefits are payable on the death, early leaving or retirement of a member and are generally dependent upon how long the member has been in the scheme at the time the benefit becomes due and the member's salary at that time.

3.2 An active member may choose to opt out of the scheme and become a deferred pensioner, becoming entitled to a cash equivalent transfer value calculated on the advice of the actuary.

This is designed to be equal to a sum of money which could reasonably be expected to be sufficient to provide the benefits given up in the scheme.

3.3 There are provisions for providing discretionary benefits, for example, in the circumstances of early and ill-health retirements. Individual cases are considered by the trustee company on their merits on a case by case basis. Many members will have their benefits enhanced by additional voluntary contributions and/or by the transfer into the scheme of pension rights acquired under other arrangements. In some cases, usually cases of premature retirement, employers may purchase additional benefits for a member, to be paid for through the scheme.

3.4 Members pay a fixed contribution (currently 6.35% of pensionable salary) towards the provision of these benefits and the sponsoring institutions meet the 'balance of the cost'. There are no provisions for contributions to be made from other sources and in particular the scheme is not government backed.

4. Assessing the required contributions

4.1 There are always uncertainties inherent in the funding of a final salary scheme. The cost of the scheme will depend on how well the investments perform, what salary increases members receive each year and on a whole host of other matters such as how long people live, how many people leave service early, or take early or ill-heath early retirement. When advising on the financial health of the scheme and contribution rates the actuary has to make assumptions about these sorts of things.

4.2 Member and employer contributions are invested in USS, a trust fund which is held separately from the assets of any of the institutions, and the contributions are managed by investment managers on behalf of the trustee company. Valuations are carried out periodically by the actuary to the scheme. Typically this is once every three years but valuations can be obtained more frequently by the trustee company. Quarterly updates to the valuation are provided by the actuary on an approximate basis. These estimates of the funding level of the scheme are based on the same member data as used in the triennial actuarial valuations, but take account of changes in the interest rates and actual investment performance since the date of the last triennial valuation. If these raise particular concerns, which require a more accurate assessment of the position, then the trustee company would consider carrying out a full valuation. In the regular three yearly valuations the actuary checks that the assets built up and levels of contribution payable mean that the fund is still on course to pay the benefits expected under the arrangement.

4.3 If investments have performed poorly then there may be a need to increase contributions. If investments have performed better than expected then there may be scope for benefits to be improved or contributions to be reduced. Changes in members' ordinary contribution rates would require an amendment to the rules.

5. Funding position as at 31 March 2005

5.1 The last actuarial valuation of the scheme was carried out as at 31 March 2005. The actuary reported that the contributions required to meet each extra year's accrual of pension amounted to 20.65% of pensionable salary (6.35% of which is contributed by the members and the balance by the sponsoring institutions). This rate of contribution can be adjusted to reflect any surplus or deficit currently in the scheme. At the valuation date the actuary reported a deficit of £6,568.4 million. The assets in the fund amounted to £21,739.7 million and this covered 77% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement. It is this measure of coverage of assets against liabilities that the trustee company has adopted as the scheme long term funding target. The long-term funding

and contribution strategy is aimed at delivering 100% coverage on this basis.

5.2 At the previous valuation, which was carried out on 31 March 2002, the scheme was 101% funded with a surplus of £162 million. The worsening in the scheme's financial security was due to the investment return on the scheme's assets being lower than expected and to changes to the financial assumptions resulting from the fall in gilt yields.

6. Funding position as at 31 March 2007

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109%.

7. The actuarial assumptions

7.1 The on-going funding level has been determined using a range of actuarial assumptions, the key ones of which as at 31 March 2005, were:

- An investment return of 4.5% for determining past liabilities;
- An investment return of 6.2% for determining the cost of future accruals;
- Salary growth of 3.9% plus an allowance for promotional increases;
- An inflation assumption of 2.9%;
- Assets taken at market value.

7.2 An additional allowance by way of a promotional salary scale was also made for increases in salaries over and above the general allowance of 1% in excess of price inflation. Analysis of salary data from 2002 to 2004 has shown that there has been a more rapid progression of salary increases from that allowed for in the previous valuation's salary scale. The actuary made a cautionary reserve of £800 million in the active members' past service liabilities to take account of this, but maintained the previous salary scale for projecting future service accrual costs. Further analysis of the promotional salary scale is being carried out to determine whether the 2002-2004 experience has been a temporary phenomenon or represents a genuine long-term trend.

7.3 The actuary has advised the trustee company that a cautious approach has been adopted in determining these assumptions. For example, when assessing the current surplus or deficit the actuary has assumed that equity investments will not out-perform fixed interest securities in the future, even though they have generally done so in the past.

7.4 The trustee company, is also mindful of the need to review continually the investment policies of the fund to provide assurance to members that all reasonable strategies are considered to protect their future security. A full asset/liability modelling exercise was carried out following the last actuarial valuation with the assistance of Mercer Investment Consulting and this broadly supported the trustee company's asset allocation policy, whilst recommending some changes to the investment strategy to be gradually implemented over a period of years. This is referred to in the report of the investment committee which is published elsewhere in the report and accounts. The investment performance of the scheme is monitored regularly by the trustee company and this is also reported on in the report of the investment committee.

7.5 To help the trustee company assess the sensitivities of the funding level to changes in the actuarial assumptions the actuary has further advised that if the investment return assumption were increased by 1% to 5½% then the reported deficit would have reduced by approximately £4 billion, while if the investment return assumption were increased by 2% to 6½% then the fund would have been in surplus. Whilst the future investment return cannot be guaranteed or predicted with certainty, an assumption at March 2005 that assets would out-perform gilt-edged returns by 1% or 2% per annum would have been within mainstream actuarial practice and would have still contained an element of prudence.

7.6 A further feature of the 31 March 2005 valuation was that the demographic actuarial assumptions (relating to matters such as mortality rates, ill-health and early retirement rates, etc) were generally pitched on the conservative side compared with the actual past experience of the USS membership in these areas.

7.7 Allowance was made for generally improving mortality trends with the up to date mortality table, PA92 (projected forward to 2020 to allow future expected increased longevity), being used. The assumed life expectations on retirement at age 65 are 19.8 years for males and 22.8 years for females. Analysis of experience for the last nine years shows that these tables remain appropriate.

7.8 All assumptions will be reviewed by the trustee company on a regular basis and in particular at the next formal actuarial valuation of the scheme, but the strategy will be to maintain a large degree of prudence in the overall long-term funding assumptions.

8. Alternative funding bases

8.1 It should be appreciated that there is a range of measures that can be used to determine the funding level of the scheme and the measure used for the USS valuation on an ongoing basis is a conservative one. Using the set of assumptions specified by the government under the Minimum Funding Requirement (MFR) regulations as laid down in the Pensions Act 1995, at 31 March 2005 USS was 126% funded with a surplus of £4,507 million over the regulatory minimum.

8.2 Most schemes also carry out a valuation on a set of assumptions specified by Financial Reporting Standard 17 (FRS17). While it is not a requirement for USS to comply with this standard (as a multi-employer scheme in which the participating employers share the costs and benefits of scheme membership, USS is exempt from this requirement), the actuary has estimated that at 31 March 2005 the scheme was approximately 90% funded under the FRS17 formula. At 31 March 2007 the actuary estimated that the scheme was approximately 109% funded under FRS17.

8.3 All schemes in the UK which are eligible to participate in the Pension Protection Fund (PPF) are also required to complete a valuation on the PPF basis. The PPF was introduced by the Pensions Act 2004 and provides compensation for members of eligible occupational pension schemes that wind-up with an insolvent employer who cannot afford to make good the funding deficit. The purpose of this valuation is to assess each scheme's risk of underfunding (and hence its likelihood to make a call on the PPF). A scheme's PPF level of funding is calculated by comparing the value of its assets with its PPF liabilities. In the case of USS, the actuary calculated that at 31 March 2005 the scheme was 110% funded in terms of the PPF regulations, while at 31 March 2007 the scheme was 137% funded.

8.4 The new requirements for scheme funding (which will impact USS following the 2008 actuarial valuation) require an assessment of a scheme's 'technical provisions' to be made. These are the

amount of assets judged sufficient to provide accrued liabilities with the assessment being based on "prudent" assumptions. If there is a shortfall on this measure then additional contributions have to be paid to clear this shortfall. The basis that USS might adopt for setting the assumptions for this purpose has not yet been determined but will ultimately have to be agreed by the trustee company acting on the advice of the actuary.

8.5 A further valuation measure that the actuary is required to calculate is the 'solvency position'. Our aim is for there to be enough money in the scheme to pay pensions now and in the future, but this depends on the institutions carrying on in business and continuing to pay for the scheme. If an institution goes out of business or decides to stop paying for the scheme, it must pay the scheme enough money to buy all the benefits built up by members from an insurance company. If this happens for all institutions, this is known as the scheme being 'wound-up'. The comparison of the scheme's assets to the cost of buying the benefits from an insurance company is known as the 'solvency position'. As at 31 March 2005, the actuary calculated that the value of the scheme's assets represented 74% of the cost of the liabilities calculated on a solvency basis. At 31 March 2007 the actuary estimated that the scheme was 84% funded on a solvency basis.

8.6 The fact that we have shown the solvency position does not mean that consideration is being given to winding up the scheme. It is just another piece of information that we hope will help you understand the financial security of your benefits.

9. What does the valuation shortfall really mean?

9.1 The valuation shortfall was estimated without taking any advance credit for investment returns in excess of gilt rates available on Government fixed interest stocks. In reality, USS invests largely in equities in the belief that, in the long-term, equities will deliver superior returns. Acting on actuarial advice, following the valuation at 31 March 2005 the trustee company agreed to leave the shortfall to be addressed by investment performance rather than increasing contributions, but undertook a review during 2006, in consultation with the participating employers, of the funding of the scheme to determine whether an increase in contributions should be made in advance of the next valuation at 31 March 2008. As a result of this review, the trustee company introduced a charge, payable by the employers, to cover the cost of providing unreduced benefits on early retirement below the age of 60. The actuary has estimated that this charge should have the effect of improving the scheme funding level by approximately 3% and will be broadly equivalent to an increase in the contribution rate of just under 2%. The consultation exercise with the employers also indicated broad support for an increase in the retirement age for future entrants to the scheme to 65 (so that for future entrants, after a date to be determined, there would be a charge, payable by the employers, for the actuarial cost of providing unreduced benefits on early retirement below the age of 65). A rule change to put this into effect is being considered by the USS joint negotiating committee. Following the review, and acting on actuarial advice, the trustee company decided not to increase contributions in advance of the 2008 valuation but will review the contribution rate again following consideration of the results of the valuation.

9.2 Equity markets have proven to be particularly volatile in the recent past but the trustee company does not intend to attempt to 'call the markets'; it is investing, over the long term, on the basis that equities will indeed provide out-performance over gilts over long periods. The USS fund is well placed to ride any short-term volatilities as it has a positive cash flow, with contribution income and dividend receipts well in excess of the level of benefits to be paid out of the scheme each year, for the foreseeable future. As it does not have to sell investments in order to pay out benefits, temporary falls in market values are of less concern than would be the case for a mature scheme. The scheme also covers all its statutory and regulatory requirements regarding funding and one might view the covenant of the employing institutions as strong. Taking these factors into account it is the trustee company's view that the funds held are likely to be sufficient to meet existing accrued liabilities.

10. Legislative requirements

10.1 On 6 April 1997 a method designed to provide protection for members of final salary (also known as defined benefit) pension schemes was created called the Minimum Funding Requirement (MFR). The MFR set a benchmark for the acceptable level of a pension scheme's assets. It was designed to ensure that, in the event of a scheme winding-up, retired members could expect their pensions to be paid in full, and other members would have a reasonable expectation (but not a guarantee) of receiving the value of their pension rights by investment elsewhere. It was not designed to be a stretching benchmark, albeit many schemes have struggled to meet it.

10.2 The MFR test compares scheme assets and liabilities in a way that links the liabilities to the current market value of certain investments; gilt-edged stocks for pensions in payment and for older scheme members, and UK equities for younger scheme members.

10.3 MFR has not worked well and new scheme funding requirements for UK final salary pension schemes were introduced by the Pensions Act 2004 and came into force in October 2005. The new requirements applied to any scheme valuation that was based on an effective date of 22 September 2005 or later. They therefore did not apply to the last USS valuation as at 31 March 2005 but will apply to the next USS valuation at 31 March 2008.

10.4 As part of the new requirements, USS will be required to publish a statement of funding principles in addition to the summary statement to members referred to above, with the first such statement being published after the 2008 valuation. In advance of that, whilst not obliged to do so, the trustee company intends to continue to publish this funding statement to enable members to understand more about the funding of the scheme.

11. Agreed contributions

Following the review of the funding of the scheme carried out during 2006, and acting on actuarial advice, the trustee company has agreed to maintain the institutions' contribution rate at 14% of pensionable payroll, but will review the contribution rate again following consideration of the results of the actuarial valuation at 31 March 2008.

The above statement is unchanged from the statement that was published in the report and accounts for the year ended 31 March 2007. An updated statement will be published in January 2009 following the completion of the actuarial valuation as at 31 March 2008.

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

1.1 This statement has been prepared by Universities Superannuation Scheme Limited, the trustee company of Universities Superannuation Scheme. Its purpose is to outline the broad principles governing the investment policy of the trustee company and to satisfy the requirements of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005). It also provides information on various other aspects of the investment of the fund's assets.

1.2 The statement has been agreed by the board of the trustee company on written advice from the investment committee (a sub-committee of the board), the scheme's external investment consultants and the scheme actuary and has followed consultation with the participating employers.

1.3 The board reviews the statement at least every three years and without delay if there are any significant changes in investment policy or where the trustee company considers that a review is needed for other reasons. The investment committee monitors compliance with this statement at least annually and obtains 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.

1.4 The fund's investment arrangements, based on the principles set out in this statement, are detailed in the Investment Policy Implementation Document ("IPID"). This is a working document which is updated on a regular basis and which is available to participating employers and scheme members on request.

2. Investment principles

2.1 *The trustee company will act in the best financial interests of all classes of scheme member, seeking to ensure that the assets are invested in a way most likely to secure the benefits offered by the scheme.* The managers are instructed to give primary consideration to the financial prospects of any investment they hold or consider holding.

2.2 *The trustee company's investment objective is to achieve returns over the long-term that will meet the liabilities with a stable contribution rate.* Regard is had to the scheme's relative immaturity, strong positive cash flow, the scheme's statutory funding objective, the covenant of the employer, the wishes of the employers and the board to minimise the risk of higher contributions at some time in the future and the need to ensure that the risk of deterioration of the funding level, to such an extent as to lead to the need to implement a recovery plan under The Occupational Pensions Schemes (Scheme Funding) Regulations 2005, is acceptable.

2.3 *The trustee company takes a long-term view on investment given the scheme's strong positive cash flow and ongoing flow of new entrants, and the strength of covenant of the employers.* Short-term volatility of returns can be tolerated, as the scheme does not need to realise investments to meet liabilities, and this need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

2.4 *The trustee company seeks to manage investment risk through a diversified portfolio and with regard to the risk appetite of its stakeholders.* Further information on risk is given in sections 3 and 4 below.

2.5 *The trustee company believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes.* Further information on the trustee company's beliefs about investment returns and its investment benchmark and management structure are given in section 5 below.

2.6 *The trustee company seeks to be an active and responsible long-term investor believing that this will protect and enhance the value of the fund's investments in the long-term.* Further information on responsible investment is given in section 6 below.

3. Risk

3.1 The trustee company recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. With a fund of this size, this is impractical. Therefore, in order to meet the long-term funding objective to pay the scheme benefits as they fall due whilst managing the level of contributions, the trustee company has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the liability matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities.

3.2 Before deciding to take investment risk relative to the liabilities, the trustee company receives advice from the investment consultant and the scheme actuary, and considers the views of the employers. In particular, it considers carefully the following possible consequences:

- The assets might not achieve the excess return relative to the liabilities expected over the long-term. If the value of assets increased at a lower rate than the value of the liabilities, this would result in deterioration in the fund's financial position and consequently the need for higher contributions from the employers than currently expected.
- The relative value of the assets versus the liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the potential size of any shortfall of assets relative to the liabilities in the event of discontinuance of the fund.

3.3 The trustee company's willingness to take investment risk is dependent on the continuing financial strength of the employers and their willingness to contribute appropriately to the fund, the financial health of the fund and the fund's liability profile. The trustee company monitors these factors regularly with a view to altering the investment objectives, risk tolerance and/or return target should there be any significant change in any of the factors.

3.4 Having regard to the above, and after taking advice from the investment consultant and scheme actuary, the trustee company has adopted investment arrangements that it believes offer an acceptable trade-off between risk and return.

4. Diversification of risk

4.1 The overall investment risk to the fund is diversified across a range of different investment types, which are expected to provide excess return over time, commensurate with risk.

4.2 The fund invests in, among other assets, bonds, equities, property and alternative assets such as private equity, commodities, currencies, absolute return strategies, derivatives and infrastructure.

4.3 The trustee company also monitors, analyses and responds to other risks such as regulatory risk, administrative risk, custody risk, concentration, liquidity and counterparty risk and political and country risk.

4.4 The investment portfolio has been constructed to be consistent with the investment objective, risk tolerance and excess return target of the trustee company.

5. Strategic investment benchmark and investment management structure

5.1 The trustee company believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee company also believes that a portfolio of alternative assets can provide similar returns to equities whilst reducing risk through greater diversification.

5.2 The fund's strategic investment benchmark is a dynamic asset class distribution for the fund's investments. Full details of the fund's current benchmark and divergence limits are set out in the IPID, but the following table provides a summary in broad terms both as at 31 March 2008 and as projected over the medium term:

	31 March 2008	Projected %
Equities	76	60
Alternative assets	4	20
Fixed interest (including index-linked)	10	10
Property	10	10

5.3 This distribution has been agreed on the recommendation of the investment committee based on its belief that, over the long-term, the real rates of return of each asset class will be of the order of:

Equities	4.5%
Alternative assets	4.5%
Property	3.0%
Fixed interest	2.5%
Index-linked	1.5%

5.4 The trustee company's policy is that the majority of foreign currency exposure is hedged back to sterling.

5.5 The securities investments of the fund are currently managed where appropriate by a number of discretionary managers and an index tracking manager although the majority are managed in-house. The appointment of more than one manager diversifies risk by fund management organisation and investment style and is also aimed at achieving greater returns. The appointment of the index tracking manager is intended to reduce investment risk and investment management costs. The IPID gives details of each investment manager's mandate as set out in their respective investment management agreements.

5.6 The alternative asset portfolio is managed in-house, either through sub-contracting the management function to specialists or through direct investment.

5.7 The property portfolio is managed in-house with advice received from external specialists.

5.8 The assumptions and beliefs concerning investment risk and returns, on which the trustee company's benchmark and management structure are based, are reviewed regularly by the investment committee and the board.

5.9 The external managers are remunerated through a combination of ad valorem fees and performance-related fees. The fee arrangements in each case are considered by the trustee company to be the best way of encouraging outperformance while ensuring value for money.

5.10 The investment management structure is subject to a formal review at least every five years. The appointment of any manager can be reviewed at any time if, for example, changes to its investment management process, personnel or business management lead to a loss of confidence in the manager's ability to outperform its benchmark over a full market cycle or result in the manager no longer being suitable for the mandate for which it was appointed.

6. Responsible investment

6.1 As an institutional investor that takes its fiduciary obligations to its members seriously, the trustee company aims to be an active and responsible long-term investor in the assets and markets in which it invests. By encouraging responsible corporate behaviour, the trustee company expects to protect and enhance the value of the fund's investments in the long-term.

6.2 The trustee company therefore requires its fund managers to pay appropriate regard to relevant extra-financial factors including corporate governance, social, ethical and environmental considerations in the selection, retention and realisation of all fund investments. The trustee company expects this to be done in a manner which is consistent with the trustee company's investment objectives and legal duties.

6.3 Specifically, the trustee company has instructed its internal fund managers and called on its external managers to use influence as major institutional investors to promote good practice by investee companies and by markets to which the fund is particularly exposed.

6.4 The trustee company also expects the scheme's fund managers, both internal and external, to undertake appropriate monitoring of the policies and practices on material corporate governance and social, ethical and environmental issues of current and potential investee companies so that these extra-financial factors can, where material, be taken into account when making investment decisions.

6.5 The aim of such monitoring should be to identify problems at an early stage, and enable engagement with management to see appropriate resolution of such problems. The trustee company uses voting rights as part of its engagement work to ensure that voting is undertaken in a prioritised, value-adding and informed manner. Where collaboration is likely to be the most effective mechanism for encouraging company management to address these issues appropriately, the trustee company expects its fund managers to participate in joint action with other institutional investors.

6.6 The investment committee monitors this engagement on an on-going basis with the aim of maximising its impact and effectiveness. The trustee company's governance, social, ethical and environmental policies are also reviewed regularly by the board and updated as appropriate to ensure that they are in line with good practice.

7. Additional Voluntary Contribution assets

Additional voluntary contributions (AVCs) from members to purchase additional benefits on a money purchase basis are invested separately from the other assets of the fund and are managed and administered externally. They, do, however form part of the fund. The appointment of AVC providers is subject to review by the board and their investment performance is monitored by the investment committee.

8. Governance

8.1 The board, as the governing body of the trustee company, retains the overall power over investment of the fund's assets. It delegates some aspects of the fund's investment arrangements to the investment committee but retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the fund's strategic benchmark and investment manager structure. It makes decisions on these matters after considering recommendations from the investment committee.

8.2 The trustee company established the investment committee under its articles of association, and under the rules of the scheme, to advise it 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 board and up to five may be persons other than directors whom the board may decide to appoint because of their knowledge of and expertise in investment matters. In making its recommendations to the board, the investment committee receives advice from its external investment consultants whenever it considers it appropriate. The investment committee implements the board's decisions under delegated powers by retaining and monitoring investment managers, performance measurers, custodians and other service providers.

8.3 The investment managers (internal and external) are responsible for day-to-day management of the fund's assets in accordance with guidelines agreed with the trustee company. The investment managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The chief investment officer monitors and reports on the performance and activities of the managers to the investment committee each quarter. The investment managers also report direct to the investment committee from time to time.

8.4 The internal fund managers make recommendations for the continuance or amendment of their fund's asset allocation policy for the approval of the investment committee. The investment committee also determines the appropriate allocation of cash (new money) between the different managers on a quarterly basis.

8.5 The trustee company has appointed performance measurers independent of the investment managers to calculate and analyse the performance of each investment manager's portfolio and of the total fund.

8.6 The trustee company has appointed external custodians who are responsible for the safekeeping of the fund's assets and for performing the associated administrative duties such as trade settlements, dividend collection, corporate actions, tax reclamation and proxy voting. The custodians also act as agents for the fund's stock lending programme (although third party agents can also be appointed).

8.7 The scheme actuary performs a valuation of the fund at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy.

8.8 An asset liability modelling study was carried out in 2005 and will be carried out regularly to seek to ensure that the fund's asset distribution remains appropriate given the liability profile of the fund and the trustee company's risk tolerance.

8.9 The fund's governance arrangements are described in more detail in the IPID.

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	1,765	648	161
4100	Aston	651	384	128
4300	Bath	1,430	424	79
6600	Belfast	2,227	703	160
1000	Birmingham	3,085	1,118	266
4200	Bradford	900	533	112
1100	Bristol	2,869	856	181
4400	Brunel	1,025	342	78
7035	Buckingham	86	53	5
1200	Cambridge (University)	5,191	1,153	331
1202	Christ's	19	7	7
1204	Churchill	109	10	–
1206	Clare	12	4	1
1208	Clare Hall	12	1	1
1210	Corpus Christi	43	9	3
1212	Darwin	4	2	2
1214	Downing	45	10	4
1216	Emmanuel	15	6	1
1218	Fitzwilliam	72	11	2
1220	Girton	31	17	3
1222	Gonville & Caius	53	11	4
1224	Hughes Hall	7	2	–
1226	Jesus	12	7	2
1228	King's	65	16	2
1230	Lucy Cavendish	37	7	–
1232	Magdalene	20	9	2
1234	New Hall	65	10	3
1236	Newnham	35	19	4
1238	Pembroke	47	11	–
1240	Peterhouse	17	4	1
1242	Queens'	13	2	2
1245	Robinson	16	10	–
1246	St Catharine's	23	8	1
1255	St Edmund's	19	1	1
1250	St John's	37	10	5

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
1252	Selwyn	15	1	2
1254	Sidney Sussex	43	2	2
1258	Trinity	46	17	7
1260	Trinity Hall	20	7	5
1268	Wolfson	10	4	1
4700	City	1,305	452	119
7016	Cranfield	911	565	116
0700	Dundee	1,645	458	99
1300	Durham (University)	1,803	534	108
1301	St Chad's	8	–	–
1302	St John's	2	1	–
1303	Ushaw College	4	1	–
1500	East Anglia	1,395	512	70
0200	Edinburgh	4,093	1,140	272
1700	Essex	1,205	269	52
1600	Exeter	1,478	599	98
0300	Glasgow	2,896	1,003	211
0800	Heriot–Watt	869	301	54
1800	Hull	1,109	523	130
3100	Keele	1,153	300	62
1900	Kent	1,216	435	65
2100	Lancaster	1,248	417	88
2000	Leeds	3,586	1,270	283
2200	Leicester	1,641	458	99
2300	Liverpool	2,373	876	214
2497	London (University)	516	663	198
2408	Birkbeck	785	190	32
2401	Goldsmiths College	689	174	15
2480	Heythrop	27	7	–
2409	Imperial Coll of Science, Technology & Medicine	3,061	1,173	290
2440	Institute of Cancer Research	255	26	4
2403	Institute of Education	500	243	51
2410	King's College London	2,964	1,046	218
2412	London School of Economics & Political Science	1,048	279	66
2434	London School of Hygiene & Tropical Medicine	654	122	35

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
2413	Queen Mary & Westfield College	1,648	587	152
2447	Royal Holloway and Bedford New College	802	283	56
2436	Royal Veterinary College	316	61	20
2428	St George's Hospital Medical School	509	105	21
2415	School of Oriental & African Studies	507	206	53
2416	School of Pharmacy	125	34	13
2417	University College	4,487	1,275	257
2484	London Business School	346	47	12
4600	Loughborough	1,594	553	147
2500	Manchester	5,090	1,996	386
1400	Newcastle-upon-Tyne	2,382	867	196
2600	Nottingham	3,216	785	184
8900	Open	6,184	1,965	251
2700	Oxford (University)	5,054	1,350	402
2701	All Souls	29	13	3
2702	Balliol	37	6	5
2703	Brasenose	28	5	3
2704	Christ Church	55	11	5
2705	Corpus Christi	22	6	2
2706	Exeter	29	5	3
2735	Harris Manchester	11	3	–
2707	Hertford	24	10	2
2708	Jesus	30	10	1
2709	Keble	33	6	–
2710	Lady Margaret Hall	32	11	4
2734	Linacre	7	4	–
2711	Lincoln	16	6	3
2712	Magdalen	36	11	6
2732	Mansfield	16	5	1
2713	Merton	40	8	3
2714	New College	45	15	5
2715	Nuffield	33	10	2
2716	Oriel	36	12	–
2717	Pembroke	24	5	3
2718	Queen's	31	9	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:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
2736	Regent's Park	4	–	–
2727	Somerville	49	10	–
2719	St Anne's	37	12	1
2720	St Antony's	19	14	1
2737	St Benet's Hall	18	–	–
2721	St Catherine's	40	11	3
2722	St Edmund Hall	25	4	1
2723	St Hilda's	45	18	1
2724	St Hugh's	36	9	1
2725	St John's	47	11	1
2726	St Peter's	30	6	2
7028	Templeton	6	21	4
2728	Trinity	19	5	1
2729	University	38	9	5
2730	Wadham	36	7	5
2733	Wolfson	12	4	5
2731	Worcester	36	10	1
2800	Reading	1,701	668	150
0400	St Andrews	1,028	314	62
4800	Salford	1,139	604	128
2900	Sheffield	2,831	889	186
3000	Southampton	2,863	825	149
0500	Stirling	844	290	55
0600	Strathclyde	2,037	675	179
4000	Surrey	1,439	582	99
3200	Sussex	1,110	494	111
6800	Ulster	1,835	515	108
3900	Wales (University)	49	27	3
3300	Aberystwyth	774	320	79
3400	Bangor	840	429	92
3500	Cardiff	2,932	872	218
3800	Lampeter	138	54	15
3600	Swansea	1,421	464	120
5000	Warwick	2,362	500	104
5200	York	1,727	369	65
	Old University Institutions Total	**121,071**	**39,813**	**8,776**

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
	New universities admitted for limited membership only			
8160	Abertay	3	1	–
8280	Bedfordshire	14	–	–
8350	Birmingham City	24	–	–
8420	Bolton	11	–	–
8100	Bournemouth	11	3	–
8080	Brighton	52	1	–
8430	Canterbury Christ Church	10	–	–
8150	Central Lancashire	27	4	2
8470	Chichester	2	–	–
8110	Coventry	58	1	1
8060	De Montfort	19	4	–
8010	Glamorgan	17	3	–
8400	Glasgow Caledonian	31	–	–
8440	Gloucestershire	10	–	–
8210	Greenwich	3	–	–
8040	Hertfordshire	2	–	–
8050	Huddersfield	36	1	–
8170	Kingston	17	–	–
8480	Leeds Metropolitan	9	–	–
8190	Lincoln	40	2	–
8300	Liverpool Hope	9	–	–
8270	Liverpool John Moores	20	–	–
8240	London Metropolitan	36	1	–
8140	Manchester Metropolitan	34	2	–
8460	Northampton	7	–	–
8090	Nottingham Trent	37	6	–
8120	Oxford Brookes	59	2	–
8070	Plymouth	51	6	–
8290	Queen Margaret University	18	–	–
8370	Roehampton	36	–	–
8220	Sheffield Hallam	175	2	–
8020	South Bank	38	6	–
8320	Sunderland	15	–	–
8340	Swansea Institute of Higher Education	18	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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
8330	Teeside	1	–	–
8030	Thames Valley	10	5	–
8490	Trinity College	5	–	–
8380	University College Falmouth	4	–	–
8180	University of Wales Institute, Cardiff	31	–	–
8410	West of England	33	–	–
8250	West of Scotland	2	1	–
8130	Westminster	39	–	–
8450	Winchester	15	1	–
8390	Wolverhampton	8	–	–
8360	Worcester	9	–	–
	New Universities admitted for limited membership only total	**1,106**	**53**	**3**
	All University institution total	**122,177**	**39,866**	**8,779**

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
7224	AGCAS	13	–	–
7309	Advanced Procurement for Universities and Colleges	10	–	–
7221	Al-Maktoum Institute	3	–	–
7252	Amaethon Ltd	–	–	–
7010	Animal Health Trust	43	10	1
7080	Arable Group	5	4	2
7040	Arthritis Research Campaign	1	4	–
7275	Arts and Humanities Research Council	1	–	–
7190	Ashridge (Bonar Law Memorial) Trust	221	5	–
7178	Assessment and Qualifications Alliance	17	35	9
7011	Association of Commonwealth Universities	33	32	8
7255	Aston Academy of Life Sciences	5	–	–
7108	Aston Techn Planning & Management Services Ltd	–	–	1
7067	Beatson Institute for Cancer Research	81	5	4
7273	Biochemical Society	1	–	–
7084	BLCMP (Library Services) Ltd	–	5	1
7037	Brewing Research International	34	15	4
7206	Bristol Zoo Gardens	1	–	–
7012	British Glass Manufacturing Confederation	–	7	–
7033	British Institute for the Study of Iraq	1	–	–
7030	British Institute in Eastern Africa	3	1	–
7091	British Institute of Archaeology at Ankara	3	3	–
7112	British Institute of International & Comparative Law	1	1	–
7097	British Psychological Society	1	3	–
7087	British School at Athens	3	2	1
7092	British School at Rome	1	–	–
7050	British Universities Sports Association	2	2	–
7122	Burden Neurological Institute	1	2	–
7116	Cambridge Crystallographic Data Centre	35	8	–
7296	Cambridge University Technical Services	23	–	–
7060	Cancer Research UK	5	9	2
7279	Care Coordination Network UK	1	–	–
7153	CASE (Europe)	5	1	–
7291	Centre for Advanced Software Technology Ltd	4	–	–
7197	Centre for Migration Studies	1	–	–
7286	Challenge Fund Trading Company Ltd	2	–	–

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7015	College of Estate Management	23	30	7
7191	Connect - The Communications Disability Network	11	–	–
7110	Council for British Research in the Levant	1	–	–
7265	Council for Christian Colleges and Universities UK	4	–	–
7216	Courtauld Institute of Art	63	8	2
7188	Cranfield Aerospace Limited	11	9	–
7219	Cranfield Innovative Manufacturing Ltd	5	1	1
7288	Crescent Purchasing Ltd	9	–	–
7098	Culham Institute	1	–	–
7145	Dartington Hall Trust	2	2	–
7217	Duke Corporate Education Ltd	6	–	–
7253	East Malling Research	86	5	–
7241	Economic Research Institute of Northern Ireland Ltd	6	–	–
7164	Edinburgh Business School	25	4	–
7032	Edinburgh University Students' Association	47	34	3
7282	Educational Competences Consortium Ltd	3	–	–
7182	EDUSERV	54	4	–
7266	EDUSERV Technologies Ltd	3	–	1
7229	Energy Consortium (Education)	4	2	–
7139	Engineering Development Trust	16	10	–
7290	Equality Challenge Unit	11	–	–
7257	ESCP-EAP European School of Management	15	1	–
7212	EUSPEN Ltd	2	–	–
7089	Ewing Foundation	3	2	–
7239	Facial Surgery Research Foundation	3	–	–
7283	Florida State University IPA UK	1	–	–
7214	Forum for European Philosophy	–	–	–
7175	Freshwater Biological Association	11	1	–
7041	Geographical Association	6	3	–
7246	Graduate Prospects	3	–	–
7152	Gray Laboratory	12	3	–
7303	GU Heritage Retail Ltd	2	–	–
7180	GuildHE Ltd	3	–	–
7304	Health and Europe Centre	3	–	–
7176	HEFCE	2	–	–
7025	Henley Management College	182	156	14

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 continued

No.	Name	MEMBERS	PENSIONERS: Pensioner Members	PENSIONERS: Spouses, Dependants and Dependent Children
7237	Henley Management College (Trading) Ltd	2	–	–
7230	Heriot-Watt University Students Association	3	–	–
7258	Higher Education Academy	91	–	–
7157	Higher Education Careers Service Unit	2	6	–
7186	Higher Education South East	7	–	–
7135	Higher Education Statistics Agency Ltd	17	2	2
7053	History of Parliament Trust	26	6	–
7143	Homerton College	17	3	–
7254	Horticulture Research International Ltd	–	7	–
7170	Hull University Union	14	2	–
7236	Institute for Criminal Policy Research	7	–	–
7029	Institute for Employment Studies	5	11	1
7017	Institute of Development Studies	139	34	7
7056	Institute of Food Science & Technology	3	–	–
7231	Interactive University	–	2	–
7207	International Extension College	–	1	–
7124	International Institute of Biotechnology	1	1	–
7132	International Society (Manchester)	2	1	–
7149	International Students House	3	1	–
7298	JBS Executive Education Ltd	8	–	–
7289	JISC Content Procurement Company	8	–	–
7147	JNT Association	94	9	1
7054	Joint Library of Hellenic & Roman Societies	–	1	–
7066	Journal of Endocrinology Ltd	–	1	–
7189	Kelvin Nanotechnology Ltd	4	–	–
7226	Kidscan Ltd	3	–	–
7240	Leadership Foundation for Higher Education	10	1	–
7177	Learning from Experience Trust	–	–	–
7208	LeNSE Ltd	2	–	–
7271	LHASA Limited	41	–	–
2482	Lister Institute of Preventive Medicine	–	4	4
7247	Liverpool Associates in Tropical Health	–	–	–
7277	Liverpool University Press 2004 Ltd	5	–	–
7168	London Mathematical Society	9	–	–
7179	London School of Jewish Studies	1	2	–
7235	London Universities Purchasing Consortium	3	–	–

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 continued

No.	Name	MEMBERS	PENSIONERS: Pensioner Members	PENSIONERS: Spouses, Dependants and Dependent Children
7117	Ludwig Inst for Cancer Research - Middlesex Branch	2	7	–
7215	Manchester Medical Society	2	–	–
7090	Marie Curie Cancer Care	33	4	4
7125	Marine Biological Association of the United Kingdom	33	–	–
7094	MIRA Ltd	351	57	10
7096	Modern Humanities Research Association	5	–	–
7268	Myscience.co Ltd	30	–	–
7018	National Institute of Economic & Social Research	16	8	4
7272	Ner Yisrael Educational Trust	2	–	–
7205	North East Wales Institute	12	–	–
7073	Northern College	27	12	2
7270	Northern Consortium	5	–	–
7269	Northern Consortium UK Ltd	6	–	–
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	4	1	–
7292	Nuffield Trust for Research & Policy Studies in Health Services	–	–	–
7301	NUINTO Ltd	12	–	–
7048	Numerical Algorithms Group Ltd	46	11	2
7183	NYU in London	10	–	–
7242	Office for the Independent Adjudicator for Higher Education	16	–	–
7209	Open College Network Anglia	3	1	–
7284	Open College Network Eastern Region	15	–	–
7260	Open University Children's Centre	14	–	–
7261	Open University Student's Association	13	3	–
7058	Open University Worldwide	33	11	–
7023	Overseas Development Institute	65	12	–
7174	Oxford Cambridge & RSA Examinations	173	25	2
7031	Oxford Centre for Hebrew & Jewish Studies	12	2	1
7118	Oxford Centre for Islamic Studies	7	1	–
7297	Oxford Colleges Admissions Office	7	–	–
7163	Oxford Policy Institute	1	–	–
7287	Oxford Said Business School	13	–	–
7305	Oxford University Asset Management Ltd	2	–	–
7104	Pain Relief Foundation	1	–	–
7243	Picker Institute Europe	–	–	–

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7075	Policy Studies Institute	35	15	4
7162	Quality Assurance Agency	58	13	3
7264	Queen Victoria Blond McIndoe Research Foundation	3	1	–
7234	Rambert School of Ballet and Contemporary Dance	4	1	–
7203	Regional Studies Association	3	–	–
7156	Regulatory Policy Institute	1	–	–
7238	Rhodes Trust	4	–	–
7123	Richmond University	41	9	1
7185	Royal Academy of Dance	1	–	–
7160	Royal Academy of Music	4	–	–
7218	Royal Agricultural College	1	1	–
7181	Royal College of Music	73	–	–
7081	Royal College of Paediatrics and Child Health	3	2	–
7020	Royal College of Surgeons of England	142	31	15
7021	Royal Geographical Society	2	4	1
7077	Royal Institution	5	4	2
7158	Royal Northern College of Music	4	–	–
7064	Royal Society	2	–	–
7070	Royal Society of Edinburgh	2	2	–
7022	Ruskin College	41	26	5
7294	Sainsbury Centre for Mental Health	16	–	–
7300	Sarah Lawrence at Oxford	3	–	–
7105	School Mathematics Project	2	5	–
7130	Scottish Association for Marine Science	90	2	2
7232	Scottish Further Education	1	–	–
7306	Scottish Institute for Excellence in Social Work Education	10	–	–
7262	Shared Care Network	8	–	–
7196	Sheffield University Enterprises Ltd	6	–	–
7199	Smith Institute	8	–	–
7274	Society for Experimental Biology	3	–	–
7169	Society of Antiquaries of London	8	3	–
7131	Southern Universities Management Services	11	4	–
7220	Stockholm Environment Institute	8	–	–
7042	Strangeways Research Laboratory	8	12	2
7187	Technology Innovation Centre	3	–	–
7134	The Prince's Foundation	2	2	–

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 continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7138	Thrombosis Research Institute	9	3	–
7109	Trade Union Research Unit Ltd	–	2	–
7173	Trinity Laban	58	4	2
7263	UC (Suffolk) Ltd	206	–	–
7293	UCL Business Plc	15	1	–
7204	UHI Millenium Institute	8	1	–
7250	UK Biobank Ltd	19	–	–
7210	UK Council for International Student Affairs	13	1	–
7166	UMIST Ventures Ltd	3	–	–
7106	Universities and Colleges Admissions Service	17	15	6
7150	Universities and Colleges Employers Association	10	1	–
9999	Universities Superannuation Scheme Ltd	174	40	5
7121	Universities UK	43	10	2
7295	University and College Union	174	4	–
7184	University Council for the Education of Teachers	4	1	–
7302	University of Essex Students Union	23	–	–
7049	University of Leicester Student's Union	1	3	1
7256	University of Sheffield Union of Students	7	–	–
7171	University of the Arts, London	17	2	–
7202	University of Wales, Newport	4	–	–
7227	Warren House Group at Dartington	12	–	–
7065	Wildfowl & Wetlands Trust	2	9	2
7142	WP Management Ltd	5	1	–
7027	York Archaeological Trust	3	2	–
7223	York Health Economics Consortium Ltd	6	–	–
7195	Yorkshire Universities	17	1	–
7280	Young Foundation	13	8	–
7076	Zoological Society of London	32	10	1
–	Withdrawn institutions	–	128	35
	Non-University Institutions Total	**4,209**	**1,063**	**190**
	All Institutions Total	**126,386**	**40,929**	**8,969**

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

SUMMARY OF MOVEMENTS (active members only) or the period 01 April 2007 to 31 March 2008

Details		University Institutions	Non-University Institutions	Totals
Total members at 1 April 2007		117,427	3,790	121,217
New members		18,869	993	19,862
Retirements	- Ill-health	94	1	95
	- Other	2,420	78	2,498
Deaths		85	4	89
Leavers and withdrawals	- Refunds	1,573	85	1,658
	- Deferred/undecided	9,660	403	10,063
	- Retrospective*	287	3	290
Total members at 31 March 2008		122,177	4,209	126,386

*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 was notified during the year of 3,741 employees who became eligible to join the scheme but elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 2007	37,730	936	38,666
Mergers	–	–	–
New pensioners	2,962	153	3,115
Deaths	826	26	852
Total pensioners at 31 March 2008	39,866	1,063	40,929

In addition at 31 March 2008, there were 8,095 pensions being paid to spouses and dependants and 874 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 76,355.

Ex-spouse participants

At 31 March 2008, 338 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom 69 are now in receipt of their pension and are included in the pensioner member summary above.

Number of members with multiple appointments as at 01 April 2008	2,515

FUND ACCOUNT for the year ended 31 March 2008

	Note	2008 £m	2007 £m (restated)
Contributions and Benefits			
Contributions receivable	3	1,092.6	975.7
Premature retirement scheme receipts		19.7	28.2
Transfers in	4	130.6	144.2
		1,242.9	1,148.1
Benefits payable	5	989.5	915.0
Payments on account of leavers	6	37.1	45.3
Administration costs	7	14.3	12.9
		1,040.9	973.2
Net additions from dealings with members		202.0	174.9
Returns on investments			
Investment income	8	952.9	814.1
Change in market value of investments	9	(2,388.6)	896.9
Investment management expenses	10	(26.3)	(25.2)
Net returns on investments		(1,462.0)	1,685.8
Net (decrease)/increase in the fund during the year		(1,260.0)	1,860.7
Fund at start of year		30,358.1	28,497.4
Fund at end of year		29,098.1	30,358.1

The notes on pages 61 to 67 form part of these financial statements.

STATEMENT OF NET ASSETS as at 31 March 2008

	Note	2008 £m	2007 £m (restated)
Investments			
Securities	12	25,081.3	27,019.7
Pooled investment vehicles securities	13	1,110.7	332.1
Pooled investment vehicles property	13	768.7	1,011.0
Property	14	877.8	1,162.6
Cash deposits		793.2	259.6
Money purchase AVC investments		255.5	220.3
Other investment balances	15	143.0	279.2
		29,030.2	30,284.5
Net current assets	16	67.9	73.6
Total net assets, representing the fund balance		29,098.1	30,358.1

The money purchase AVC investments included within net assets represent additional voluntary contributions invested with the Prudential. These assets are specifically allocated to secure extra benefits for those members that have made these additional voluntary contributions.

The financial statements on pages 59 to 60 were approved by the trustee, Universities Superannuation Scheme Limited, on 29 July 2008 and were signed on its behalf by:

Martin Harris
Chairman

T H Merchant
Chief Executive

The notes on pages 61 to 67 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2008

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice (SORP) "Financial Reports of Pension Schemes".

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statements by the actuary on pages 73 to 74 and these financial statements should be read in conjunction with them.

The fund account and net assets statement have been restated to include transactions and fund values in respect of money purchase additional voluntary contributions. This is in accordance with the guidelines set out in the Statement of Recommended Practice (SORP) "Financial Reports of Pension Schemes". In previous years, details of money purchase AVC transactions were separately disclosed in note 3 to the financial statements on the grounds that the amounts involved are not material when compared to the scheme as a whole. The effect of this change has been to increase total net assets by £255.5m (2007: £220.3m).

2. Accounting Policies

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

Contributions & Benefits

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 and benefits payable are accounted for in the period in which they fall due.

The principal scheme benefits are provided under the main section. The supplementary section, which is funded by a contribution of 0.35% of salary from the members, provides additional benefits payable when a member retires on the grounds of ill-health or incapacity or dies in service.

Investment income

Investment income is brought into account on the following bases:

(a) Dividends, tax and interest from securities, on the date that the scheme becomes entitled to the income;

(b) Interest on cash deposits, as it accrues;

(c) Property rental income, as it accrues;

(d) Interest on advances for property developments, which is treated as investment income in 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 substantially let. If a property has a certificate of completion but is not substantially let, it is included as a completed property, provided it is outside the period of contractors' liability for defects and no further building works are expected. Developments in progress include any property which is not a completed property.

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 as part of the change in market value of investments.

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

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 closing prices; these prices may be last trade prices or mid market prices depending on the convention of the stock exchange on which they are quoted;

(b) Property – on the basis of open market value;

(c) Pooled investment vehicles – at unit prices or values based on the market valuation of the underlying assets; private equity partnerships are valued by JP Morgan Private Equity Fund Services based on audited and updated management accounts of the individual partnerships;

(d) Money purchase AVC investments – at unit prices

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

3. Contributions

	2008 £m	2007 £m (restated)
Main section		
Employers' contributions	668.5	611.6
Employers' salary sacrifice contributions	13.6	–
Members' basic contributions	283.0	263.2
Members' additional voluntary contributions	64.7	52.8
	1,029.8	927.6
Supplementary section		
Members' contributions	16.6	15.3
Money purchase AVCs		
Members' additional voluntary contributions	46.2	32.8
	1,092.6	975.7

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

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 HMRC.

4. Transfers in

	2008 £m	2007 £m (restated)
Individual transfers in	123.3	124.3
Group transfers in	7.3	19.9
	130.6	144.2

5. Benefits payable

	2008 £m	2007 £m (restated)
Main section		
Pensions	747.2	694.6
Lump sums on or after retirement	196.0	180.3
Lump sums on death in service	11.9	12.1
	955.1	887.0
Supplementary section		
Pensions	9.4	8.9
Lump sums on or after retirement	0.3	0.5
Lump sums on death in service	0.7	–
	10.4	9.4
Money purchase AVCs		
Pensions	23.6	18.2
Lump sum death benefits	0.4	0.4
	24.0	18.6
	989.5	915.0

6. Payments on account of leavers

	2008 £m	2007 £m (restated)
Individual transfers to other schemes	32.8	40.8
Payments for members joining state scheme	1.7	1.6
Refunds to members leaving service	2.6	2.9
	37.1	45.3

7. Administration costs

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

8. Investment income

	2008 £m	2007 £m (restated)
Dividends from UK equities	396.9	373.0
Net property income	51.5	44.2
Income from pooled investment vehicles	18.1	33.9
Dividends from overseas equities	304.6	257.2
Income from UK fixed interest securities	11.0	7.9
Income from overseas fixed interest securities	97.0	73.1
Interest on cash deposits	48.8	12.2
Interest from money purchase AVCs	0.7	0.2
Other income	24.3	12.4
	952.9	814.1

9. Change in market value of investments

The changes in the market value of investments are shown below.

	Market value 2007 (restated) £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2008 £m
Securities	27,019.7	22,732.8	(23,393.0)	(1,278.2)	25,081.3
Pooled investment vehicles - securities	332.1	899.6	(167.8)	46.8	1,110.7
Pooled investment vehicles - property	1,011.0	247.5	(440.6)	(49.2)	768.7
Property	1,162.6	28.2	(181.7)	(131.3)	877.8
Money purchase AVC investments	220.3	49.5	(24.4)	10.1	255.5
Cash deposits and currency hedging	259.6	1,520.4	–	(986.8)	793.2
	30,005.3	25,478.0	(24,207.5)	(2,388.6)	28,887.2
Other investment balances	279.2				143.0
Total	30,284.5				29,030.2

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.

Within cash deposits at 31 March 2008 are £12,173.0m (2007: £4,892.7m) of forward currency assets together with related liabilities of £12,510.8m (2007: £4,923.5m), representing an unrealised loss of £337.8m (2007: £30.8m). The forward currency contracts are to implement a strategic decision by the trustee company to hedge the currency risk relating to overseas investments. This is to achieve a better match between the fund's assets and its future liabilities.

10. Investment management expenses

Investment management expenses comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office and the

costs of management and agency services rendered by third parties. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited: Registered No. 1167127).

11. Taxation

UK tax - USS is a registered pension scheme for tax purposes and is therefore not normally liable to 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.

12. Securities

	2008 £m	2007 £m
Quoted		
UK equities	10,302.2	11,243.1
Overseas equities	12,103.4	13,591.8
UK fixed interest - public sector quoted	47.9	250.4
UK fixed interest - other	80.4	2.7
Overseas fixed interest - public sector quoted	2,335.0	1,907.2
Overseas fixed interest - other	212.4	24.5
	25,081.3	27,019.7

13. Pooled investment vehicles

	2008 £m	2007 £m
Securities		
Managed funds and Limited Partnerships	1,098.4	318.0
Unit trusts	12.3	14.1
	1,110.7	332.1
Property		
Unit trusts	475.8	807.4
Property companies	4.5	2.7
Limited partnerships	288.4	200.9
	768.7	1,011.0
	1,879.4	1,343.1

14. Property

	2008 £m	2007 £m
UK completed properties	873.2	1,093.0
UK developments in progress	4.6	69.6
	877.8	1,162.6
Properties analysed by type:		
Freehold	782.1	1,022.2
Leasehold	95.7	140.4
	877.8	1,162.6

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2008 and 31 March 2007 for accounts purposes by Drivers Jonas acting as independent valuers. The valuations have been undertaken in accordance with the RICS Valuation Standards (6th edition).

15. Other investment balances

	2008 £m	2007 £m
Amount due to stockbrokers	(143.2)	(164.4)
Amount due from stockbrokers	101.0	296.9
Dividends and accrued interest	185.2	146.7
	143.0	279.2

16. Net current assets

	2008 £m	2007 £m
Current assets		
Contributions due from institutions:		
- employers' contributions	64.0	60.3
- members' basic contributions	25.9	23.6
- members' additional voluntary contributions	3.2	2.9
Other debtors	18.1	14.7
Cash at bank and in hand	8.8	22.4
	120.0	123.9
Current liabilities		
Rents & service charges received in advance	5.0	10.8
Property revenue expenses payable	0.1	1.5
Amount due on property purchases	3.0	3.0
Benefits payable	26.7	22.2
Taxation creditor	1.7	0.1
Other creditors	5.6	2.8
Due to trustee company	10.0	9.9
	52.1	50.3
	67.9	73.6

Contributions due at the year end have been paid to the scheme subsequent to the year end in accordance with the Schedule of Contributions

Benefits payable include £0.2m (2007: £1.4m) in respect of certain benefits for early leavers which have been underpaid. These had been calculated based on the scheme's normal retirement age but, following a ruling by the High Court, it has now been established that they should have been calculated based on each individual's contracted retirement age.

17. Securities on loan

Securities have been lent to the counterparties in return for fee income earned by the scheme. Security for these loans is obtained by holding collateral in the form of cash, equities, government bonds and letters of credit.

	2008 £m	2007 £m
Value of stock on loan at 31 March	5,558.5	3,549.4
Value of collateral held at 31 March	6,063.6	4,633.4

18. Financial commitments

	2008 £m	2007 £m
Property		
Contracts placed but not provided for	33.1	76.2
Pooled investment vehicles - securities		
Outstanding commitments to private equity partnerships	2,206.7	505.9

19. Self investment

The scheme had no employer related investments during the year.

20. Related party transactions

The only related party transactions are between the scheme and its trustee company and certain employees of the trustee company through their membership of the scheme. 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 £14.3 million and £26.3 million respectively, with a balance due from the scheme of £10.0 million as at 31 March 2008.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the trustee. Pension scheme regulations require the trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The trustee is also responsible for making available each year, commonly in the form of a trustee's annual report, information about the scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The trustee also has certain responsibilities in respect of contributions which are set out in the statement of trustee's responsibilities accompanying the trustee's summary of contributions.

The trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Signed on behalf of the trustee on 29 July 2008

Martin Harris
Chairman

T H Merchant
Chief Executive

STATEMENT OF TRUSTEE'S RESPONSIBILITIES in respect of contributions

The trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records of contributions received in respect of any active member of the scheme, and for ensuring that contributions are made to the scheme in accordance with the schedule of contributions.

Trustee's summary of contributions payable under the schedule in respect of the scheme year ended 31 March 2008

This summary of contributions has been prepared by and is the responsibility of the trustee. It sets out the employer and member contributions payable to the scheme from 1 April 2007 to 31 March 2008 under the schedule of contributions certified by the actuary on 31 January 2006. The scheme auditor reports on contributions payable under the schedule in their auditors' statement about contributions.

Contributions payable under the schedule in respect of the scheme year

	£m
Employer	
Normal contributions	661.1
Salary sacrifice contributions	13.6
Special contributions	0.6
Additional contributions	26.5
Member	
Normal contributions	298.2
Additional contributions	1.4
Contributions payable under the schedule (as reported on by the scheme auditor)	1,001.4

Reconciliation of contributions payable under the schedule to total contributions payable to the scheme in respect of the scheme year

	£m
Contributions payable under the schedule	1,001.4
Contributions payable in addition to those payable under the schedule (and not reported on by the scheme auditor): Member additional voluntary contributions (including those paid to the Prudential)	110.9
Total contributions (including premature retirement scheme receipts) reported in the financial statements	1,112.3

Signed on behalf of the trustee on 29 July 2008

Martin Harris
Chairman

T H Merchant
Chief Executive

INDEPENDENT AUDITORS' REPORT

to the trustee of the Universities Superannuation Scheme

We have audited the financial statements of the Universities Superannuation Scheme for the year ended 31 March 2008 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therin.

This report is made solely to the scheme trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme trustee those matters we are required to state to it an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustee and auditors

As described in the Statement of trustee's responsibilities on page 68, the scheme trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the trustee's report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by or on behalf of 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:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the scheme during the scheme year ended 31 March 2008 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

KPMG LLP
Chartered Accountants
Registered Auditor
Manchester

29 July 2008

INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS

made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the trustee of the Universities Superannuation Scheme.

We have examined the summary of contributions payable under the schedule of contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2008 which is set out on page 69.

This statement is made solely to the scheme's trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the scheme's trustee those matters we are required to state to them in an auditors' statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of trustee and auditors

As described on page 68, the scheme's trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustee has a general responsibility for procuring that contributions are made to the scheme in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the scheme and to report our opinion to you.

We read the trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

Statement about contributions payable under the schedule

In our opinion contributions for the scheme year ended 31 March 2008 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 31 January 2006.

KPMG LLP
Chartered Accountants
Manchester

29 July 2008

ACTUARIAL STATEMENT

made for the purposes of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

Name of scheme: **Universities Superannuation Scheme**
Effective date of valuation: **31 March 2005**

1. Compliance with minimum funding requirement

In my opinion, on the effective date the value of the assets of the scheme exceeds 120% of the amount of the liabilities of the scheme.

2. Valuation principles

The scheme's assets and liabilities are valued in accordance with section 56(3) of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries.

Mercer Human Resource Consulting Limited
Manchester M2 4DW
December 2005

E S Topper
Fellow of the Institute of Actuaries

Note:
The valuation of the amount of the liabilities of the scheme does not reflect the cost of securing those liabilities by the purchase of annuities, if the scheme were to have been wound up on the effective date of the valuation.

ACTUARIAL STATEMENT made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

Name of scheme: **Universities Superannuation Scheme**
Effective date of valuation: **31 March 2005**

1. 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. This statement assumes the scheme continues and does not mean that should the scheme wind up there would be sufficient assets to provide the full accrued benefits.

I have made assumptions consistent with market values, prospective investment returns and economic conditions at the effective date. Variations in markets may mean divergence from those assumptions and changes in values of assets such that this statement would no longer be true unless different assumptions are made or contributions increased at or before the next valuation. The institutions' abilities to meet future contribution requirements are outside the scope of my investigation. In giving this opinion, I have assumed that the following amounts will be paid to the scheme:

Description of contributions

Employer contributions: 14% of salaries per annum
Member contributions: 6.35% of salary per annum

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

Valuation method		**Projected unit**
Investment return	- past service	4.5% per annum
	- future service	6.2% per annum
Salary growth		3.9% per annum
Pension increases		2.9% per annum

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee dated December 2005.

Mercer Human Resource Consulting Limited
Manchester M2 4DW
December 2005

E S Topper
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March (restated)

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Contributions and benefits					
Contributions	1,092	976	862	804	717
PRS receipts	20	28	26	32	36
Transfers in	131	144	148	232	111
	1,243	1,148	1,036	1,068	864
Benefits payable					
Pensions	780	722	672	624	569
Lump sums	209	193	128	127	122
Transfers out	35	42	36	56	43
Refunds	3	3	2	2	2
	1,027	960	838	809	736
Investment income (net of investment management costs)	927	789	666	572	542
Administration costs of the trustee (excluding investment management costs)	14.3	12.9	11.8	9.1	9.3
Changes in value of investments	(2,389)	897	5,730	1,494	3,220
Investments of the fund (at current values) at 31 March					
Securities	25,081	27,020	25,163	19,037	16,876
Pooled investment vehicles	1,879	1,343	1,624	559	539
Property	878	1,163	1,043	1,702	1,553
Life assurance policies	–	–	–	–	4
Money purchase AVC investments	256	220	195	175	153
Cash deposits	793	260	300	281	350
Other investment balances	143	279	116	105	88
	29,030	30,285	28,441	21,859	19,563

Membership numbers at 31 March	2008	2007	2006	2005	2004
Contributing members	126,400	121,200	115,600	110,000	103,100
Pensioners	49,900	47,200	44,700	42,200	39,200
Deferred pensioners	76,400	70,700	66,100	62,700	56,700
	252,700	239,100	226,400	214,900	199,000

Note: The prior year comparative figures for 2007 and earlier years have been restated to include the money purchase AVC transactions and assets to reflect their inclusion in the fund account and net assets statements from 2008.

REPORT OF THE DIRECTORS for the year ended 31 March 2008

The directors submit their report and the accounts for the year ended 31 March 2008.

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 £40,624,000 this amount being recoverable from USS. This compares with £38,066,000 for the year ended 31 March 2007 and represents an 11% increase in administration costs and a 4% increase in investment costs.

As last year, a significant portion of the increase in administration costs arises from the increase in the levies payable to the Pension Protection Fund. Excluding these, administration costs increased by 7%, much of this due to increased staff costs relating to work on computer developments.

Within investment costs, there has been a decrease in the cost of external management which has been offset by a corresponding increase in staff numbers and costs for the internally managed team. The increase in staff costs reflects the need to increase resources in the London investment office in line with the increased assets under management and also the increasing allocation to alternative investments which require higher staffing levels. A year of excellent investment performance by the internally managed team was also reflected in higher performance-related bonus payments.

Research costs are included within investment costs and show an increase of £1.2 million from the previous year. Prior to June 2006 these costs were included in brokers' commissions and included in the book cost of the fund's assets in the USS accounts. The prior year figures do not therefore represent costs for a full year. While the costs appear to increase the trustee company's investment costs, the board believes that by separating research costs from brokers' commissions, total overall costs to the fund are significantly reduced.

During the year there has been a considerable amount of work on systems initiatives in both Liverpool and London offices. In Liverpool, the new pensions administration system, UPM2, went live in January 2008 on all major pensions administration processes, and the pensions administration system and the pensions payroll systems were successfully integrated into one database. While there remains work to be done to finalise the implementation, the board believes that the project went extremely smoothly with minimal disruption to work in the office.

Work on UPM2 was the priority in Liverpool, but we were also able to progress the ePensions initiative during the year with a view to implementing a new interactive website during 2008/09. This initiative will change the way that both we and our participating employers work, with employers able to access the USS systems and initiate or run certain processes themselves, while members will also be able to access their own data in due course.

In London office, work began during the year on the implementation of an automated pre-trade analysis and order management system. This is intended to give fund managers greater capability to analyse the expected market impact of potential trades, determine the effect on the existing portfolio and ensure compliance, as well as linking in the back office settlement functions. The first phase is expected to be implemented in the summer of 2008.

The fund continued to pursue its strategy of expanding its investments in alternative assets and, by the end of the year, 4% of the fund was invested in these assets. Alternative assets are less regulated than traditional asset classes and take up relatively more staff time, both at the outset and once investments have been made. Headcount at the London office increased by almost 30% during the year and with the office likely to outgrow its current premises during 2009, the task of finding bigger office space has been put in hand with a move likely to take place during late 2009.

Fixed assets

The details of movements in fixed assets are set out in Note 14 to the accounts.

Directors

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

Sir Martin Harris, *chairman*	Virginia Holmes
Professor John Bull, *deputy chairman*	Howard Jacobs
Michael G Butcher	David McDonnell
Professor Sir Ivor Crewe (to 30.9.07)	Lady Merrison
Joseph Devlin (from 1.9.07)	Sir Muir Russell (from 1.10.07)
Professor David Eastwood	Professor Charles Sutcliffe (to 31.8.07)
D Guppy	Baroness Warwick of Undercliffe

Statement of Directors' Responsibilities

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

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

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

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, KPMG LLP, have indicated their willingness to continue in office and will be deemed to be re-appointed in accordance with section 487 (2) of the Companies Act 2006.

By order of the board

I M Sherlock
Company Secretary

29 July 2008

STATEMENT OF OPERATING COSTS for the year ended 31 March 2008

	Note	2008 £000	2007 £000
Personnel costs			
Employees' emoluments	4	10,543	8,794
Directors' emoluments and expenses	5	517	455
Recruitment, training and welfare		600	585
		11,660	9,834
Premises costs			
Rent, rates, service charges and utilities		1,709	1,745
Depreciation and maintenance		210	292
		1,919	2,037
Investment costs			
Securities management	6	6,642	7,834
Securities research costs	7	6,385	5,261
Property management		1,067	1,800
Custodial services		1,018	1,423
Legal costs - securities management		476	209
- property management		446	425
Property valuation		135	128
Investment performance measurement		112	90
Costs met by third parties	8	–	(22)
		16,281	17,148
Other costs			
Pension Protection Fund Levy		3,800	3,142
Computer and information services costs	9	2,829	2,545
Professional fees	10	1,744	1,647
Travel and car costs		604	596
Institution liason and member communication		362	213
Office equipment		285	285
Telephones and postage		241	229
Pension Protection Fund - general levy		245	137
Printing and stationery		184	169
Pension Protection Fund - admin levy		168	133
Sundry expenditure		114	67
Insurances		109	133
FSA membership		58	63
Auditors' remuneration	11	57	55
Costs met by third parties	8	–	(371)
(Profit)/loss on disposal of fixed assets		(36)	4
		10,764	9,047
Total operating costs	13	40,624	38,066

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.

The notes on pages 82 to 91 form part of these financial statements.

BALANCE SHEET as at 31 March 2008

	Note	2008 £000	2007 £000
Assets			
Fixed assets			
Tangible fixed assets	14	1,149	980
Current assets			
Debtors	15	11,895	12,339
Cash at bank and in hand		2	2
		11,897	12,341
Total assets		13,046	13,321
Liabilities			
Creditors - amounts falling due within one year	16	13,046	13,321
Total liabilities		13,046	13,321

The notes on pages 82 to 91 form part of these financial statements.

The financial statements on pages 79 to 80 were approved by the board of directors on 29 July 2008 and were signed on its behalf by:

Martin Harris
Chairman

John Bull
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 2008

	Note	2008 £000	2007 £000
Operating activities			
Cash received from USS		40,500	35,333
Operating costs paid	17	(39,745)	(34,901)
Net cash inflow from operating activities		755	432
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(854)	(465)
Sale of tangible fixed assets		99	32
		(755)	(433)
Increase/(Decrease) in cash		–	(1)

The notes on pages 82 to 91 form part of these financial statements.

NOTES TO THE ACCOUNTS for the year ended 31 March 2008

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 trustee of USS.

2. Format of the 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 note of historical cost profits and losses is not required as the accounts are prepared under the historical cost convention.

3. Accounting policies

Accounting convention

The accounts are prepared under the historical 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 33⅓
Motor cars	25
Computer software	33⅓

Operating leases

Rental costs under operating leases are charged on a straight line basis over the lease term in the Statement of Operating Costs.

Pensions

The company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

4. Employees' emoluments

	2008	2007
The average weekly number of persons employed by the company during the year (excluding directors) was	198	178
Staff costs for the above persons were:	£000	£000
Wages and salaries	8,760	7,234
Pension costs (superannuation contributions)	958	823
Social security costs (national insurance contributions)	820	720
Restructuring costs	5	17
	10,543	8,794

Emoluments of the chief executive	2008 £000	2007 £000
T H Merchant	240	229

In September 2007 the company implemented a salary sacrifice scheme in respect of pension contributions. Since that date employees who are members of USS have been able to forgo salary and reduce their pension contributions. The company makes additional pension contributions to ensure the overall level of contributions to the fund is maintained.

The emoluments of the chief executive are shown on the same basis as for higher paid staff. The company's pension contributions for the chief executive amounted to £42,235 (2007: £31,853).

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

	2008	2007
£70,001 - £80,000	1	1
£80,001 - £90,000	2	4
£90,001 - £100,000	5	5
£100,001 - £110,000	2	3
£110,001 - £120,000	1	4
£120,001 - £130,000	3	1
£130,001 - £140,000	3	3
£140,001 - £150,000	5	1
£160,001 - £170,000	1	1
£170,001 - £180,000	2	1
£180,001 - £190,000	1	–
£190,001 - £200,000	1	1
£200,001 - £210,000	1	–
£210,001 - £220,000	–	1
£240,001 - £250,000	2	–
£250,001 - £260,000	–	1
£440,001 - £450,000	–	1
£650,001 - £660,000	1	–

The salary figures include bonus payments for the investment staff, totalling £1,730,744 (2007 : £1,097,165). Both the bonus scheme and the annual outcome are reviewed by the remuneration committee.

5. Directors' emoluments and expenses

	2008 £000	2007 £000
Fees	434	382
Employer's costs - national insurance contributions	43	40
- VAT	5	–
Expenses	35	33
	517	455

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 the company and their legal responsibilities.

No pension contributions are made on behalf of directors. As at 31 March 2008 six of the directors are members of USS either as pensioners or through their employment with the institutions.

Directors' fees charged to the accounts reflect small differences between the amounts accrued in the accounts at year end and the amounts paid. Actual emoluments paid to each director in respect of each of the last two years were as follows:

	2008 £000	2007 £000
Sir Martin Harris *(chairman)*	58	53
Virginia Holmes	74	45
Howard Jacobs	60	57
Professor John Bull *(deputy chairman)*	50	46
Michael G Butcher	44	27
Lady Merrison	37	30
Baroness Warwick of Undercliffe	25	24
David McDonnell	21	–
D Guppy	20	19
Professor David Eastwood	13	3
Professor Charles Sutcliffe	11	27
Joseph Devlin	8	–
Sir Muir Russell	7	–
Professor Sir Ivor Crewe	6	12
M S Potts	–	30
S Egan	–	9
	434	382

6. Securities management

	2008 £000	2007 £000
External manager base fees	6,285	7,817
External manager performance fees	161	(149)
Professional fees	196	166
	6,642	7,834

7. Securities research costs

Securities research costs represent the costs paid by the internally managed fund to its brokers for research. Prior to 1 June 2006, the cost of research by brokers was included in the commissions paid to them and was included in the accounts of USS. Since that date the majority of commissions paid to brokers have been solely for execution.

8. Costs met by third parties

Costs met by third parties represent the amount paid by certain stockbrokers for the purchase of equipment and services for the company for investment management purposes out of the commission paid to them by USS.

9. Computer and information services costs

	2008 £000	2007 £000
Investment information services	1,312	1,279
Computer running costs	812	667
Investment accounting services	319	278
Software depreciation	254	233
Hardware depreciation	114	73
Computer bureau fees	18	15
	2,829	2,545

10. Professional fees

	2008 £000	2007 £000
Actuarial	647	797
Legal	475	516
Strategic planning	106	–
Committee members (other than directors)	104	113
Taxation	100	95
Public relations	67	18
Salary surveys and job evaluation	65	1
Member medicals	51	43
Governance review	45	–
Other	84	64
	1,744	1,647

11. Auditors' remuneration

	2008 £000	2007 £000
USS	52	50
Universities Superannuation Scheme Ltd	5	5
	57	55

Remuneration of the company's auditors (KPMG LLP) for provision of services other than for the audit of the scheme and the company was £26,250 for advice on taxation (2007: £2,500 for tracing pensioner members).

12. Value Added Tax

The company 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.

13. Total operating costs – recoverable from USS

	2008 £000	2007 £000
Investment management costs		
Investment costs	16,281	17,148
Personnel costs	5,969	4,655
Premises costs	1,079	1,188
Other costs	2,951	2,167
	26,280	25,158
Other administration costs		
Personnel costs	5,691	5,179
Pensions Protection Fund levies	4,213	3,412
Premises costs	840	849
Other costs	3,600	3,468
	14,344	12,908
	40,624	38,066

Investment management costs are those costs which are directly attributable to investment activities.

Included in operating costs is a charge for depreciation of £622,000 (2007: £653,000) as set out in note 14.

All of the operating costs are recoverable from USS, which at 31 March 2008 had total assets in excess of £28 billion.

14. Tangible fixed assets

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor cars £000	Total £000
Cost						
At 1 April 2007	2,126	1,860	2,427	1,588	330	8,331
Additions	2	139	350	87	276	854
Disposals	–	–	–	–	(239)	(239)
At 31 March 2008	2,128	1,999	2,777	1,675	367	8.946
Accumulated Depreciation						
At 1 April 2007	2,035	1,744	2,080	1,310	182	7,351
Charge for year	69	100	257	108	88	622
Disposals	–	–	–	–	(176)	(176)
At 31 March 2008	2,104	1,844	2,337	1,418	94	7,797
Net Book Value						
31 March 2008	24	155	440	257	273	1,149
Net Book Value						
31 March 2007	91	116	347	278	148	980

15. Debtors

	2008 £000	2007 £000
Due from USS	10,034	9,910
Prepayments	1,824	2,402
Other debtors	37	27
	11,895	12,339

16. Creditors – amounts falling due within one year

	2008 £000	2007 £000
Accrued expenditure	8,552	7,023
Other creditors	3,328	5,531
Taxation and social security	1,166	767
	13,046	13,321

17. Reconciliation of operating costs paid

	2008 £000	2007 £000
Operating costs – recoverable from USS	40,624	38,066
Decrease/(increase) in creditors	275	(3,988)
Profit/(loss) on sale of tangible fixed assets	36	(4)
Depreciation	(622)	(653)
(Decrease)/increase in debtors (excluding USS)	(568)	1,480
Operating costs paid	39,745	34,901

18. Operating lease commitments

The company is committed to making future annual payments under operating leases which expire as follows:

	2008 £000	2007 £000
Less than one year	–	5
Between two and five years	28	18
Over five years	1,255	1,253

The payments relate to ongoing rent, rates and equipment leasing commitments in respect of the company's offices in Liverpool and London.

19. Contingent Liability

A long term incentive plan (LTIP) for investment staff was introduced from 1 January 2007 to ensure that a significant portion of the rewards available to key members of staff is tied to the long-term performance of the fund with the objective of promoting a balance between long-term and short-term objectives. The LTIP operates as a series of individual five-year plans. The board decides each year whether a plan is to be rolled out or not. If approved, a new plan commences each January and is unique in respect of participants, funding and hurdle rate for payment.

A second plan was introduced from 1 January 2008, and the targets for the two plans, for the five years to 31 December 2011 and 2012 respectively, are for the internally managed fund to outperform its benchmark over each of those periods by 0.6% per annum. For the year-end 31 December 2007, the internally managed fund outperformed its benchmark by 2.4%. The first payments are not anticipated to arise before March 2012, and would depend on continuing out-performance.

It is currently considered that the likelihood that payments will be made from either of these plans is low, because the target set for out-performance will be difficult to achieve. No provision has therefore been made in the accounts, although this will need to be reviewed annually in the light of actual performance. The maximum amounts that could be paid are £630,000 in 2012 and £825,000 in 2013.

20. Pension costs

The company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Council; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore,

as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c = 2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males 19.8 years
Females 22.8 years

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the company's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the company was £958,000 (2007: £823,000). The contribution rate

payable by the company was 14% of pensionable salaries.

21. Related party transactions

There are no related party transactions other than transactions between the company and the scheme. The company provides administration and investment management services to the scheme charging £14.3 million and £26.3 million respectively, with a balance due from the scheme of £10.0 million at 31 March 2008.

22. Special purpose companies

The company owns the share capital of a number of special purpose companies to aid the efficient administration of fund investments. Their results have not been consolidated with the company's because they are considered to be assets of the fund. Full details of these companies may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, Mr I M Sherlock, at Royal Liver Building, Liverpool L3 1PY.

INDEPENDENT AUDITORS' REPORT

to the members of Universities Superannuation Scheme Limited

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2008 which comprise the Statement of Operating Costs, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 76, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditor

29 July 2008

NOTES

Sir Martin Harris
Chairman

CHAIRMEN OF PRINCIPAL SUB-COMMITTEES

Virginia Holmes
Investment Committee

Professor John Bull
Chairman
Finance & Policy Committee

Michael Butcher
Audit Committee

Howard Jacobs
Remuneration and Rules Committees

Sir Kenneth Berrill
Joint Negotiating Committee

Denis Linfoot
Advisory Committee

PRINCIPAL OFFICERS

Peter Moon
Chief Investment Officer

Andrew Little
Head of Business Services

Tom Merchant
Chief Executive

Brendan Mulkern
Pensions Policy Manager

Bernadine Steventon
Pensions Operations Manager

Colin Hunter
Chief Financial Officer

Ian Sherlock
Company Secretary

Iain Hall
Head of IT

Colin Busby
Communications Manager

USS