USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Report and Accounts

for the year ended 31 March 1999

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets exceeding £18.6 billion. It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.

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

USS

CONTENTS

MANAGEMENT STATEMENT

The year to 31 March 1999 was again a period of continued growth for the fund. The scheme's active membership increased by 3.7% from 78,700 to 81,600 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 29,900 (up by 6%) and 37,600 (up by 11.6%) respectively. At 31 March 1999 the fund had total assets of over £18.6 billion.

The trustee company has been heavily involved with two major tasks during the year - the review and implementation of revised investment management arrangements and the completion of a project to assess the impact of the Year 2000 date change on USS Ltd's systems and to ensure that all the systems are able to operate up to and beyond the millennium.

The basic tenet underlying the investment policy of the fund has been and continues to be that equities have tended to outperform other asset classes over the longer term and are well suited to a growing fund such as USS. It was considered that the existing dual investment performance target had not achieved its aim of substantially increasing the equity exposure of the fund. The structure was therefore revised to use the separate UK equity indexed fund specifically to tilt the fund towards UK equities. A simpler, single target was chosen from 1 January 1999 replacing the previous dual target. The review also covered the managers themselves and Phillips and Drew were replaced as an external manager by Capital International.

We were aware that the pensions payroll system and part of the pensions administration system were not Year 2000 compliant and significant effort has gone into replacing both these systems during the year. In addition, Year 2000 testing of all other systems was carried out during October 1998 and June 1999. These results proved very satisfactory with only relatively few software amendments required.

Further work is now being carried out with the intention next year of replacing the entire pensions administration software with a more modern system, the Universal Pensions Management system from Image Systems Europe, which will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll systems.

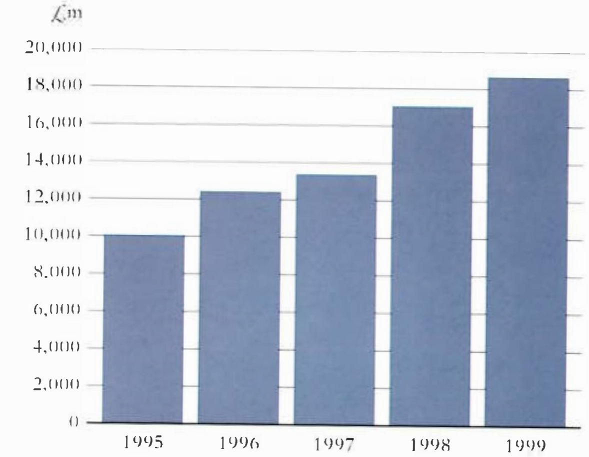
We reported last year on plans to implement the recommendation of the Dearing Committee that all new entrants to universities should be directed to USS and that the management committee would be investigating the possibility of including further groups of non-academic staff within the scheme. During 1999/2000 we will be proceeding with proposals to change the rules to enable this to happen.

Graeme J Davies
Chairman

David B Chynoweth
Chief Executive

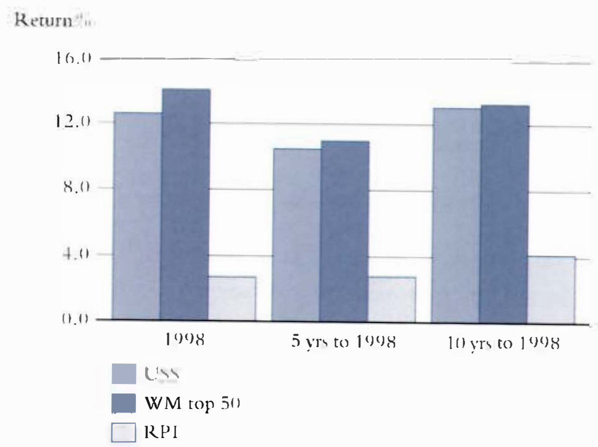
SUMMARY OF YEAR

FUND



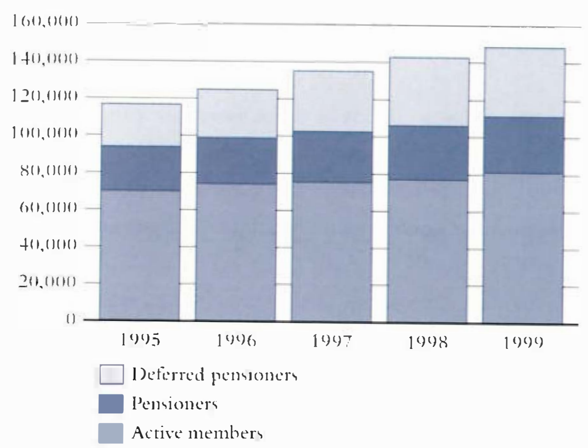
The fund continues to increase, having grown from £9.7 billion in 1995 to over £18.6 billion as at 31 March 1999. More details are given in the investment committee report on page 14 and in the five year summary of the fund accounts on page 60.

PERFORMANCE



In a year in which the fund's investment returns were affected by the restructuring exercise the fund's investment return of 12.6% in 1998 was below that of the average of the 50 funds of over £1.5 billion in the WM Survey but well ahead of the retail price index. Over both five years and ten years the fund has slightly underperformed the WM Top 50 average but comfortably exceeded the RPI. More details are given in the report of the investment committee on page 14.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 1999 the total membership was 149,100, an increase of 6% from last year and 28% from four years ago. More details are given in the five year summary of the fund accounts on page 60.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 1999 are:

Chief Executive	D B Chynoweth BA CPFA FCCA FIMgt
Chief Investment Officer	P G Moon
Chief Pensions Manager	S M Neil BSc FFA
Chief Accountant	C S Hunter BSc CA
Company Secretary	J P Williams BA ACIS MIPD MIMgt
Surveyor	R G Walden BSc FRICS
Actuary	M B Reid BSc FIA FAPSA of William M Mercer Limited 30 Exchange Street East, Liverpool L2 3QB
Solicitors	Dibb Lupton Alsop India Buildings, Liverpool L2 0NH
Auditors	PricewaterhouseCoopers 8 Princes Parade, St Nicholas Place, Liverpool L3 1QJ
Bankers	Barclays Bank Plc 4 Water Street, Liverpool L69 2DU
Property Consultants	LaSalle Investment Management 33 Cavendish Square, PO Box 2326, London W1A 2NF

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

Solicitors	Clifford Chance, Dundas & Wilson, Lawrence Graham Mitchells Roberton, Fried Frank Harris Shriver & Jacobson
Investment managers	Baillie Gifford & Co, Capital International Limited Phillips & Drew, Schroder Investment Management Limited
Custodians	Bankers Trust Company, Chase Manhattan Bank NA
Investment performance measurement	Investment Property Databank Ltd, The WM Company
Property valuers	Colliers Erdman Lewis
Computer software	Claybrook Computing Ltd, Image Systems Europe Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Synstar Business Continuity Limited
Insurers	Royal & Sun Alliance

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

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

UNIVERSITIES SUPERANNUATION SCHEME
TRUSTEE COMPANY

The membership at 31 March 1999 of the principal committees was as follows:

Management Committee

Appointed by the Committee of Vice-Chancellors and Principals

Professor Sir Graeme Davies (Chairman), K F Dibben, Professor Martin Harris, Professor Sir Gareth Roberts

Appointed by the Association of University Teachers

Mrs Angela Crum Ewing, Dr J M Goldstrom, J W D Trythall

Appointed by the Higher Education Funding Councils

Professor Sir Brian Fender

Co-opted

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

Finance & General Purposes Committee

Appointed by the management committee

C D Donald (Chairman), L Collinson, Mrs Angela Crum Ewing, Professor Martin Harris, J W D Trythall

Investment Committee

Appointed by the management committee

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

Audit Committee

Appointed by the management committee

K F Dibben (Chairman), Dr Christine Challis, C D Donald, Dr J M Goldstrom

Remuneration Committee

Appointed by the management committee

L Collinson (Chairman), Professor Sir Gareth Roberts, J W D Trythall

Advisory Committee

Appointed by the Committee of Vice-Chancellors and Principals

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

Appointed by the Association of University Teachers

Dr D Green, Dr P Hudson, Ms J McAdoo

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by the Committee of Vice-Chancellors and Principals

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

Appointed by the Association of University Teachers

Ms C Cheesman, Dr J M Goldstrom, Ms P Holloway, J W D Trythall, A Waton

MANAGEMENT COMMITTEE

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

Committee members

Dr Max Goldstrom succeeded Dr Geoffrey Talbot as a director appointed by the Association of University Teachers on 1 June 1998. Dr Talbot had been a member of the board since 1 April 1993 and had served on the audit committee since 1 May 1993. The committee wishes to place on record its appreciation of his services.

On 1 April 1999 Mr Kenneth Dibben retired as a director appointed by the Committee of Vice-Chancellors and Principals and was succeeded by Mr Michael Potts. Mr Dibben had been a member of the board since 1 April 1985 and chairman of the audit committee since 1 June 1988. The committee also wishes to place on record its appreciation of his services.

Dr Christine Challis a member of the audit committee since 1 June 1989 was appointed its chairman with effect from 1 April 1999 succeeding Mr Dibben, and from the same date Mrs Angela Crum Ewing was also appointed to the audit committee to fill the vacancy caused by Mr Dibben's retirement.

Robbie Heywood our chief pensions manager for six years retired on 31 December 1998 and has been succeeded by Stewart Neil. Stewart has embarked on a programme of visiting most of the larger university institutions by the end of 1999 and it is hoped that institutions will welcome the opportunity to meet him.

Under the Articles of Association (constitution) of the trustee company the management committee comprises the trustee company's board of directors. As indicated earlier in this report, four of the directors on the board of the trustee company are appointed by the CVCP. Three directors are appointed by the AUT of whom at least one must be a USS pensioner member. One director is appointed by the HEFCs. The CVCP, AUT and the HEFCs have the power to remove their respective appointed directors. A minimum of two and a maximum of four directors are co-opted directors, appointed by the management committee itself 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. USS directors normally serve a three year term but are eligible for reappointment in the above manner. The Articles of Association also provide for the removal of any director where (in various circumstances) he or she is prohibited from acting as a director.

The management committee in session in the Royal Liver Building, Liverpool.

Institutions

At 31 March 1999 there were 277 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, all the colleges of the universities of Oxford and Cambridge and 134 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

London Institute*
Manchester Metropolitan University*
Society of Antiquaries of London
Trinity College of Music*
UMIST Ventures Ltd
University of Central Lancashire*
University of Wales Institute, Cardiff*

*denotes institution admitted only for employees who had been members of USS whilst in a previous employment.

Institutions which ceased to participate

British Institute of Persian Studies
British School of Archaeology in Jerusalem
SAUL Trustee Company
United Medical & Dental Schools

Other changes:

British Institute at Amman for Archaeology & History became
Council for British Research in the Levant
British Universities Sports Federation became
British Universities Sports Association
Royal Free Hospital School of Medicine became
University College London - Royal Free Campus

Dearing Committee

Recommendation 51 of the Dearing Committee stated:

"We recommend to the Government, institutions, and the representative bodies of higher education, that, over the long term, the superannuation arrangements for academic staff should be harmonised by directing all new entrants to the Universities Superannuation Scheme."

We reported last year that the management committee welcomed this recommendation and had made proposals for its implementation and the admission to the scheme of academic staff in the post-1992 institutions. In addition, the management committee would be investigating the possibility of including further groups of non-academic staff within the scheme.

The annual meeting of institution representatives held in London on 12 November 1998 devoted a considerable amount of time to a discussion concerning the expansion of USS and a copy of the transcript can be obtained by institutions upon request from the Liverpool office. Institutions were asked to forward their views on the proposals, but no responses have been received.

USS Ltd will during 1999/2000 be proceeding with proposals to change the rules to allow institutions to admit further categories of staff to USS.

Scheme membership

During the year 11,224 new members joined the scheme and at 31 March 1999 the total membership, including pensioners and those entitled to deferred benefits, was 149,160 compared with 140,620 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 36 and over the five years ended 31 March 1999 in the Summary on page 60.

The proportion of eligible new employees choosing not to join USS was 21%. While there may be valid reasons for the decisions of some employees not to join USS, the figure continues to be of concern to the committee. Similarly, the extent of the variation between individual institutions is very considerable although this may in part reflect the composition of their staff. The committee has attempted to give widespread publicity to the serious disadvantages that may be experienced if employees do not decide to join USS. Of particular concern remains the position of the dependants of an employee who has chosen not to join thereby foregoing the important death benefits available to dependants under USS. The alternative of the State Earnings Related Pension Scheme (SERPS) continues to provide little death benefit and most personal pensions provide only a modest benefit. The committee recognises that some employees may wish to change their original decision not to join USS, possibly because their circumstances have changed. Where an eligible employee has chosen not to join, possibly because of having no dependants or of being employed on a short-term contract, an option to join at a later date is available.

Rule amendments

The current USS rules are represented by the Supplemental Declaration of Trust which was executed on 7 February 1994 and, as at 31 March 1999, fourteen deeds of amendment. The thirteenth and fourteenth deeds of amendment were executed during the year. The thirteenth deed was executed on 25 June 1998 and provided primarily for the pensioning of benefits in kind. The fourteenth deed was executed on 5 January 1999 and provided primarily for members retiring on or after that date to have greater flexibility of pension or cash in choosing their retirement benefits.

Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971. As reported last year, USS pensions were increased by 3.6% on 21 April 1998.

On 21 April 1999 pensions which satisfied certain qualifying conditions and began before 28 April 1998 were increased by 3.2% with smaller increases applying for pensions which 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 Guaranteed Minimum Pension is generally not increased in accordance with the above as increases are paid by the Department of Social Security. This is explained in detail in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.

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

Contribution rates

The rates of contributions payable by members and institutions between 1 April 1998 and 31 March 1999 were as follows:

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

Actuarial matters

A statement by the actuary is shown on page 58. It reports that the last full actuarial valuation was carried out as at 31 March 1996, that actuarial reviews were completed as at 31 March 1997 and 31 March 1998, and that a further full actuarial valuation is being carried out as at 31 March 1999.

This valuation will be concluded before the end of 1999 and the results will have been communicated to all interested parties prior to the meeting of the institutions' representatives on Friday, 10 December 1999 when it will be an item on the agenda. Meanwhile, the actuary has recommended to the management committee that no change be made in the institutions' contribution rate.

Accounting matters

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

The accounts of the trustee company show an increase in operating costs from £11.2 million in 1997/98 to £15.1 million in 1998/99. The increase in costs is due mainly to two factors - increases in investment management fees and the need to replace computer systems which are not Year 2000 compliant.

The increase in investment management fees arose following the review of the fund's investment management structure referred to below. The total increase in fees compared to the previous year was £2.9 million.

The Year 2000 costs amounted to £494,000 and related mainly to pensions administration systems in Liverpool. Excluding these costs, administration costs remained at approximately the same level as the previous year.

Further details regarding the operating costs and a review of the activities for the year are given in the Directors' Report and Accounts on page 61.

Investment policy

A full review of our investment management arrangements was carried out during 1998 and some significant changes were made. The fund adopted a UK equity tilt and a new investment performance target was introduced from 1 January 1999 replacing the previous dual target. Philips & Drew were replaced as an external manager by Capital International.

These changes resulted in a significant number of transactions as portfolios were re-organised during the third quarter of 1998.

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 1999, are as follows:

(a) 28% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FT-SE-A All-Share Index of UK equities (with Chase Manhattan Bank as custodian);

(b) 47% is actively managed in-house by the trustee company's London Investment Office (with Chase Manhattan Bank as custodian). Of this 41% are securities and 6% are property assets;

(c) 8% is managed by Baillie Gifford (with Bankers Trust Company as custodian);
8% is managed by Capital International (with Bankers Trust Company as custodian);
8% is managed by Schroder Investment Management (with Bankers Trust Company as custodian);

(d) 1% of the fund is represented by insurance policies.

The managers in (b) and (c) above each manage their share of USS securities on the basis of a balanced brief.

The year to 31 December 1998 was another good year for pension fund performance. The fund's performance for the year was however adversely impacted by the introduction of the new investment management arrangements and this led to the fund's performance for this year being behind that of the average pension fund in the WM Universe. However, as a result of the new investment arrangements the fund is now better placed to perform more strongly in future. It is therefore not appropriate to compare the fund's performance during 1998 with the previous dual benchmark or against the new benchmark introduced on 1 January 1999 as performance was distorted by transaction costs and by the transition to a new investment performance target.

Liz Fernando, European Equities Manager, in our London Investment Office.

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

As was reported in previous years it is a requirement of the Pensions Act 1995 that the trustees of each pension fund draw up and maintain a statement of investment principles. This statement should lay down the investment objectives of the pension fund and explain why these objectives are suitable for the particular circumstances of the fund. The management committee took the view that for USS this statement should provide significantly greater information about the management of the scheme's investments than is required under the Act. The full text, which was agreed following consultation with the participating employers, appears on pages 31 to 35. The statement has been amended from last year to reflect the new fund management arrangements.

The statement of investment principles also sets out the company's policy on corporate governance and ethical and environmental considerations. During the year custodians have again been instructed to cast votes on the basis of its guidelines on all resolutions at the general meetings of UK companies in the USS portfolio. Meetings continue to be held with company managements on a regular basis. The committee has considered a number of representations on ethical and environmental issues of concern to some members of the scheme. The committee has determined that the policy outlined in the statement of investment principles is the best way to protect members' and employers' interests for the foreseeable future.

UNIVERSITIES SUPERANNUATION SCHEME
COMMITTEE REPORTS

Administration

The service provided to members and institutions continues to be monitored each quarter and in the areas of highest priority, which include the prompt payment of benefits, the prescribed standards were consistently achieved. Reports showing achievements compared with targets are reviewed at each meeting of the finance & general purposes committee and are discussed at meetings of the institutions' finance officers' group, a liaison committee which met twice during the year.

Joyce Kenwright and Sharon Davidson, two of our Liverpool office secretaries.

Two administration seminars were held during the year at the Liverpool office and three pension workshops at Glasgow, London and Liverpool as part of the ongoing programme of activities to foster good communication between the trustee company and the members of staff at institutions who are involved with the administration of the scheme. The two institutions' advisory panels, comprising administrators who regularly deal with USS issues with the purpose of providing feedback and comments on proposed changes to procedures, met three times during the year. They discussed a wide range of topics providing the trustee company with helpful advice and comments about benefit statements, new forms and the new guide for members. The annual meeting with institutions' representatives took place in London in November 1998 and a full report of the proceedings was circulated subsequently to all institutions.

The trustee company reviews its activities regularly in conjunction with its advisers in order to ensure that the scheme remains fully compliant with all relevant legislation and other requirements. During the year it was necessary for the trustee company, the actuary and the auditor jointly to inform the Occupational Pensions Regulatory Authority (OPRA) of late payment of contributions to the scheme by institutions on two occasions. Each late payment occurred as a result of an administrative problem or oversight. In one case contributions were remitted in full within a few days of the due date and in the other the contributions were remitted in full the following month. In the first of these cases OPRA has confirmed that it will be taking no action and its response is awaited in respect of the other.

Pensions department staff at work in the Liverpool office.

The Pensions Act 1995 required the trustees or managers of an occupational pension scheme to have introduced by 6 April 1997 formal arrangements for the resolution of disputes with members about matters relating to the scheme. These arrangements must provide for a specified officer of the scheme, on the application of a complainant, to give a decision on such a dispute and for the trustees or managers, on the application of the complainant following that decision, to review the matter in question and either confirm the decision or give a new decision in its place. As reported last year the management committee decided that the first decision in this process should be taken by the chief pensions manager and that the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by the CVCP and the other by the AUT) should take the second decision. This internal dispute resolution procedure was used three times during the year in respect of complaints launched against the trustee company. Two of these were subsequently considered by the advisory committee, in its enlarged second-stage dispute resolution capacity and the stage one decision taken by the chief pensions manager was upheld.

Since the prohibition in April 1988 (under the Social Security Act 1986) of compulsory membership of occupational pension schemes as a condition of employment, about one-fifth of employees eligible to join USS have elected not to do so, which means that they will either have a personal pension or be participating in SERPS. This suggests, as mentioned earlier in the section relating to scheme membership, that a significant number of university employees continue to take decisions about their pension arrangements which might not be in their best interests.

Disclosure requirements

The general rights which members and beneficiaries have always had to request information under trust law have been greatly supplemented by statutory disclosure requirements which now apply under the Occupational Pensions Schemes (Disclosure of Information) Regulations 1996. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a *Disclosure Kit* containing the required documents. Other information, for example *A guide for members*, must be provided to every new member and supplies are available from Liverpool to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the 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.

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

A copy of the statement on pension trust principles issued by the Occupational Pensions Board (the functions of which were assumed by OPRA in April 1997) has been issued to each member of the management committee. A copy is held at the trustee company's registered office and is available for inspection by those persons.

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

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

USS has had no employer-related investments during the year other than the contributions received late from institutions which are disclosed in note 18 of the USS accounts. The scheme's assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996.

The accounts have been prepared and audited in accordance with regulations made under section 41(1) and (6) of the Pensions Act 1995.

Year 2000

A project to assess the impact of the Year 2000 date change and to ensure that all USS Ltd systems are able to operate up to and beyond the millennium was set up in 1998. Work on this project has been given a high priority throughout the year and during October 1998 and June 1999 major Year 2000 testing of all systems was carried out. Test results proved very satisfactory with only relatively few software amendments required.

The current pensions payroll system is not Year 2000 compliant and this is being replaced by the Oracle payroll package. The project is progressing according to plan and the system is anticipated to go live in August 1999.

The Year 2000 tests proved that, apart from the front end software, the pensions administration system supplied by Claybrook Computing Ltd will operate satisfactorily into the year 2000. However the system is over 15 years old and is incompatible with modern technology. It is therefore being replaced by a new product developed by Image Systems Europe (ISE). The Universal Pensions Management system (UPM) from ISE will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll packages. Prior to implementing the UPM package, it has been necessary to create a Year 2000 compliant platform for pensions administration to be used up to the implementation of the UPM and beyond the Year 2000 if necessary and major effort has gone into replacing the Claybrook front end with ISE software which links to the current systems.

Senior management continue to monitor the project and progress the programme of events to ensure that all key tasks are fully completed. We do not anticipate that there will be any disruption to the payment of benefits up to and beyond the millennium.

In addition to the above work LaSalle Investment Management (formerly Jones Lang Wootton) continue to progress a plan to address the impact of the year 2000 on embedded systems, particularly within equipment in properties within the USS investment portfolio.

Acknowledgements

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

Signed on behalf of the management committee

Graeme J Davies
Chairman

INVESTMENT COMMITTEE

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

HIGHLIGHTS OF 1998/99

- Investment returns continued to be strongly positive in the year to 31 December 1998. The return for the total fund was 12.6%, far in excess of average earnings growth and price inflation of 4.5% and 2.8% respectively.
- The continuation of an exceptionally positive investment climate is reflected in the longer terms results. The 10 year return for the fund was 13.1% per annum, just behind the average pension fund return of 13.3% per annum but, again, well ahead of growth in average earnings of 5.3% per annum and retail prices of 4.1% per annum over the same period.
- Including net cash inflow and capital appreciation, the assets of the fund reached £18.7 billion on 31 March 1999 compared with £17.2 billion a year earlier.
- During 1998, the investment committee reviewed how the fund should be managed in the future and a number of changes were made. The previous arrangements had been in place for five years. The major changes adopted were in the choice of benchmark, the amount of equity content of the fund, and the investment managers. These changes required a significant alteration to the shape of the assets in the fund and this was facilitated by using a transition manager.
- Direct contact was made with about 1,500 companies in the year to 31 March 1999 to assess their financial and environmental performance.
- The statement of investment principles, which determines the way in which the investments are managed, was amended on 1 January 1999 and the up to date text is set out on pages 31 to 35.

INVESTMENT MANAGEMENT

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

The Investment Committee in session in the London Investment Office.

The external managers at the commencement of the year to 31 March 1999 were Schroder Investment Management, Baillie Gifford & Co and Phillips & Drew. During the year, Phillips & Drew were replaced by Capital International. All these managers have a balanced fund remit. During the year these managers were remunerated on the following bases – Schroder Investment Management and Baillie Gifford through fixed fees and Capital International and Phillips & Drew through performance-related fees.

LaSalle Investment Management (formerly Jones Lang Wootton) administers the properties within the portfolio and advises on their selection. For these services they charge both management and transaction-related fees.

An analysis of the total investments of the fund at 31 March 1999, along with the comparative figures for the preceding year, is set out in the table on page 17. The investments are stated at market value and details of the changes in value are summarised in Note 8 to the USS accounts on page 53.

CORPORATE GOVERNANCE

The committee attaches great importance to the maintenance of good standards of corporate governance and environmental responsibility by companies in which investments are held. The London Investment Office makes arrangements for USS voting rights to be exercised on every occasion as regards UK companies and is active in monitoring the performance of companies' standards. Members of the London Investment Office made about 1,500 direct company contacts during 1998 to enable them to understand those companies more fully from a number of angles, including financial and environmental. It is through these meetings that we aim to influence company managements on issues of corporate governance. It is time consuming but, in the long run, we believe it will be beneficial for the fund and therefore for the members and pensioners of USS.

INVESTMENT MANAGEMENT REVIEW

The investment committee continuously monitors the investment managers and, every five years, reviews the investment management arrangements. As we reported last year, a review fell due on 31 December 1997. The working party appointed to carry out this review addressed the following main issues:

- the equity content of the fund
- whether to use balanced or specialist managers
- what the benchmarks, and therefore targets, of the individual fund managers and the total fund should be
- how the cash flow should be allocated among the managers
- to review the investment managers and decide if any changes were appropriate

The basic tenet underlying the investment policy of the fund has been and continues to be that equities have tended to outperform other asset classes over the longer term and are well suited to a growing fund such as ours. The investment committee considered that the existing dual benchmark was not only too complicated but also had not achieved its aim of substantially increasing the equity exposure of the fund. The working party therefore decided to use the separate UK equity indexed fund specifically to tilt the fund towards UK equities. The effect of this has been to increase the UK equity content of the fund by approximately 8%.

The working party reviewed whether balanced or specialist managers should be used to run the assets of the fund and decided that specialist managers would not necessarily guarantee superior performance, were more expensive to hire and necessitated more administration. Therefore, balanced managers with all round global investment expertise have been chosen.

A simpler, single benchmark and target were chosen for each group of investment managers. For the individual balanced managers the target is "to exceed the 40th percentile of the WM 50 ex Property Universe"; for property it is "to exceed the average return of a customised Investment Property Databank (IPD) universe of 100 property funds by 0.5% per annum"; and for the total fund it is "to exceed the 40th percentile of the WM 50 cum Property Universe". All the targets are to be measured over a five year period starting 1 January 1999. The WM 50 Universe covers the 50 largest pension funds in the UK with total assets of £260 billion, 53% of the WM All Pension Funds Universe, which itself represents over 75% of the UK segregated pension fund industry by value. The IPD customised universe consists of their 100 largest property portfolios, excluding those of specialist trusts and property companies.

Peter Moon our Chief Investment Officer.

A decision was also made on the allocation of the cash flow within the fund; 25% is to go to the indexed UK equity fund, 20% to the external managers and 55% to the London Investment Office, which is also responsible for direct property investment.

Finally, the balanced managers themselves were assessed and the working party considered that three external managers in conjunction with the London Investment Office had worked well and provided prudent diversification. The existing managers, Baillie Gifford, Phillips & Drew and Schroder Investment Management were reviewed, along with four other managers chosen from a list of thirteen managers. As a result of this review, Baillie Gifford and Schroder Investment Management were retained and Phillips & Drew were replaced by Capital International. The whole review process took about seven months and by the time the transition to the new management methods had been completed, the entire process had taken ten months. It was completed smoothly and efficiently and at minimal dealing cost to the overall fund. However, the introduction of the UK equity tilt in July 1998 resulted in a significant portfolio loss of £135 million as financial markets fell during the third quarter of 1998. This short term cost to the fund should be made good over the medium term from the expected superior return on equities.

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 1999 Total £m	31 March 1999 Total %	31 March 1998 Total £m	31 March 1998 Total %
Investments under the direct control of USS Ltd									
Quoted securities									
UK	286.0	–	4,054.2	–	–	**4,340.2**	**23.2**	3,893.5	22.6
Overseas	451.6	–	2,437.7	–	–	**2,889.3**	**15.5**	2,821.3	16.4
Unquoted securities									
UK	–	–	0.3	–	–	**0.3**	**–**	1.8	–
Overseas	–	–	–	–	–	**–**	**–**	–	–
Property									
UK	–	–	–	1,174.5	–	**1,174.5**	**6.3**	909.6	5.3
Cash/stockbroker balances									
UK	–	–	–	–	246.4	**246.4**	**1.3**	338.7	1.9
Overseas	–	–	–	–	113.6	**113.6**	**0.6**	79.6	0.5
Sub-total	737.6	–	6,492.2	1,174.5	360.0	**8,764.3**	**46.9**	8,044.5	46.7
Investments managed internally on the basis of external advice									
Index fund									
UK	–	–	5,180.0	–	14.8	**5,194.8**	**27.8**	4,756.3	27.6
Overseas	–	–	–	–	–	**–**	**–**	0.8	–
Sub-total	–	–	5,180.0	–	14.8	**5,194.8**	**27.8**	4,757.1	27.6
Investments managed externally									
Baillie Gifford									
UK	121.1	73.9	857.0	–	33.7	**1,085.7**	**5.8**	1,077.9	6.3
Overseas	102.4	–	336.3	–	1.2	**439.9**	**2.3**	375.7	2.1
Capital International									
UK	161.6	44.8	830.1	–	29.3	**1,065.8**	**5.7**	–	–
Overseas	95.7	–	304.7	–	(10.0)	**390.4**	**2.1**	–	–
Schroder									
UK	122.1	97.5	781.8	–	90.4	**1,091.8**	**5.8**	972.5	5.6
Overseas	92.9	–	295.0	–	(0.1)	**387.8**	**2.1**	460.7	2.7
Phillips & Drew									
UK	–	–	–	–	–	**–**	**–**	791.7	4.6
Overseas	–	–	–	–	–	**–**	**–**	478.3	2.8
Transition portfolios									
UK	–	–	–	–	0.1	**0.1**	**–**	–	–
Overseas	–	–	3.0	–	(1.0)	**2.0**	**–**	–	–
Life assurance policies									
UK	65.9	2.4	130.6	16.1	18.7	**233.7**	**1.3**	244.7	1.4
Overseas	–	–	30.1	–	–	**30.1**	**0.2**	37.7	0.2
Sub-total	761.7	218.6	3,568.6	16.1	162.3	**4,727.3**	**25.3**	4,439.2	25.7
Total investments									
UK	756.7	218.6	11,834.0	1,190.6	433.4	**14,433.3**	**77.2**	12,986.7	75.3
Overseas	742.6	–	3,406.8	–	103.7	**4,253.1**	**22.8**	4,254.1	24.7
Total	1,499.3	218.6	15,240.8	1,190.6	537.1	**18,686.4**	**100.0**	17,240.8	100.0
Percentage at 31 March 1999									
UK	**4.0**	**1.2**	**63.3**	**6.4**	**2.3**		**77.2**		
Overseas	**4.0**	**–**	**18.2**	**–**	**0.6**		**22.8**		
Total percentage	**8.0**	**1.2**	**81.5**	**6.4**	**2.9**		**100.0**		
Total percentage at 31 March 1998	9.5	1.1	79.6	5.4	4.4				100.0

WM PENSION FUND SURVEY FOR THE YEAR TO 31 DECEMBER 1998

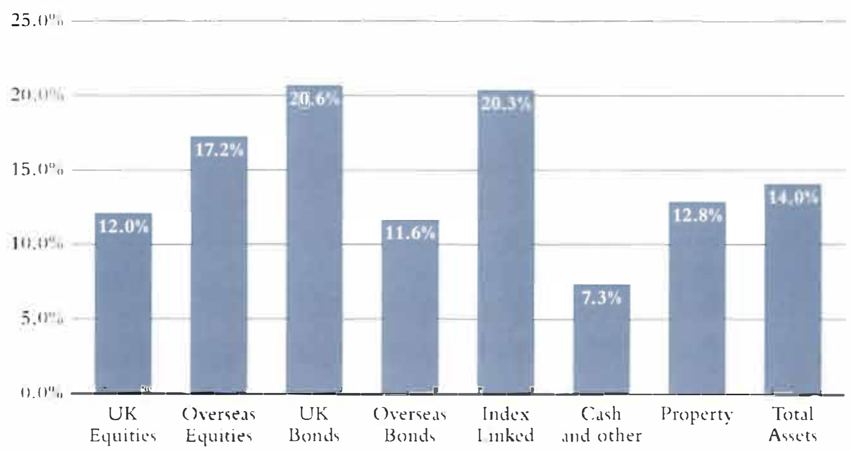
The fund participates in the above survey of pension fund performance. In 1998 the survey covered over 1,500 funds with a combined value of £489 billion representing over three-quarters of total UK pension funds by value.

Average pension fund results for 1998

Investment returns reported in the 1998 survey showed that the average pension fund performed well with most asset classes showing strong returns.

Total investment returns for 1998 in sterling

WM All Pension Funds Survey



USS RESULTS

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

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

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

The dual target was adopted to encourage the managers to invest more heavily in equities than the average pension fund. This should result in superior returns over the longer period (5-10 years) on which a relatively immature fund like USS should be concentrating.

The investment committee felt that the dual performance target had failed to bring about a significant enough shift towards equities and introduced a new single target for the total fund from 1 January 1999:

To exceed the 40th percentile of the WM 50 cum Property Universe over a rolling five-year period.

This, coupled with the target given to the individual balanced managers and the tilt given by the index portion of the fund, should give a consistent tilt towards UK equities and therefore the total equity content of the fund.

The new target, as with the old, may result in the performances of the fund differing significantly year by year from the average fund performance in the WM50 survey.

Longer term results

Over the ten years to 31 December 1998, the total fund returned 13.1% per annum against the

average for the WM All Pension Funds Survey of 13.3%. These figures compare with the average earnings increase of 5.3% per annum and retail price index growth of 4.1% per annum. Over this period therefore the fund's real return comfortably exceeded the assumptions used in the actuarial valuation of the scheme.

Against the WM 50 USS slightly underperformed the average fund return of 13.2%.

Performance over the five years to 31 December 1998

The performance figures over this period for the three balanced managers in place during the five year period have been distorted by the transition of the fund to reflect its new benchmark in the middle of 1998. Although the performance figures for the total fund are correct, the fact that the benchmark effectively changed during 1998 makes any comparison with the percentile rank of little value.

As stated, the investment management arrangements had been in place since late 1992 with performance being measured from the beginning of 1993. Taking the five years 1994 to 1998 together, the following annualised returns were achieved:

	Annualised Return %
London Investment Office	11.4
Schroder Investment Management	10.9
Baillie Gifford	11.8

Although no accurate performance figures are available for Phillips & Drew for this period, it is clear that they substantially underperformed the average fund to the detriment of the total fund.

Over the five year period the total fund including property returned 10.6% against the average fund performance of 11.0%. During the same period the average fund excluding property returned 11.1%.

Performance in 1998

The key event this year was the strategic restructuring of the fund by introducing a greater UK equity tilt, replacing Phillips & Drew with Capital International and establishing new benchmarks and performance targets.

The impact of these changes was significant. The fund returned 12.6% compared to the average fund performance of 14.0%. Clearly, in a year which eventually favoured UK bond investment over UK equities, these changes did not produce immediate benefits. Although the execution of the transition cost relatively little, the increased UK equity exposure cost the fund 1.0% in performance. In addition, the continuing poor performance of Phillips & Drew cost a further 0.3%.

The total returns achieved for USS by the external balanced managers in place for the entirety of 1998 and the London Investment Office, are shown below:

	Annualised Return %
Baillie Gifford	17.4
London Investment Office	16.4
Schroder Investment Management	13.5

Capital International and Phillips & Drew are excluded as they were not in position for the entire year.

Excluding property, the average fund returned 14.0%.

It was agreed in advance of the transition that for the individual managers it would be appropriate to substitute in the returns set out above the WM 50 average performance in the third quarter of 1998 for that actually achieved in that period. During that third quarter the fund was undergoing the transition to its new benchmarks and the fund managers were in consequence unusually constrained in how they dealt with their portfolios.

INVESTMENT REPORT

The majority of the world's economies have continued to grow at a satisfactory rate into 1999. Strong growth in the industrialised world was offset, to some extent, by subdued growth rates in eastern Europe, Asia and Latin America. World economic growth slowed from 4% in 1996/1997 to about 2% in 1998. Of the industrialised countries, Japan stood out with Gross Domestic Product (GDP) actually contracting by about 3% in 1998, with little signs of a significant recovery into 1999. This was surprising given the degree of monetary and fiscal policy support given to that economy. The smaller Asian economies, despite returning negative GDP growth in 1998, were on a strongly positive path in the second half of the year and this recovery is expected to continue during 1999. The rehabilitation of these economies has been much faster than we thought possible at the beginning of the crisis.

The central exchange rates for those European economies entering European Monetary Union were set during 1998 and the Euro introduced to cover financial transactions at the beginning of 1999. Since its inception, the Euro has been a weak currency and this has been warranted by the deteriorating economic performance of some of the major European economies. The different demands on monetary policy are clearly demonstrated by the differing experiences of countries such as Spain, Portugal and Ireland compared to the core European economies. The political will to make the European Monetary Union a success should not be under-estimated; on the other hand, there will be extreme economic stresses acting to pull the union apart.

Price pressures remain subdued across all areas. Commodity prices appear to have stabilised at lower levels although oil prices have started to recover and this will eventually put some pressures on retail prices. However, excess capacity still exists within most economies and this will tend to limit the pricing power of most corporations.

Wage pressures, probably as a result of low consumer price increases, have remained relatively modest and show no signs of being reflected in higher consumer prices. Partly as a consequence of this lack of pricing power, profits growth has been pedestrian across the industrialised world and profit margins have come increasingly under pressure as the business cycle becomes more extended.

The policy response to the economic problems in the Asian economies has tended to prolong the world economic cycle and fuelled further stock market performance. It is of some concern, though, that the US economy in particular is tending to accelerate once again and this may require a policy response in terms of an increase in interest rates. With no sign of an increase in inflation, any policy response is likely to be modest. The subdued inflationary pressures should continue to support bond markets and it is our opinion that consumer prices are somewhat over-stated and real yields of 3% or so will support bond markets generally, but especially within the US and the UK. Index linked securities in the UK however have moved well ahead of fair value, partly as a result of minimum funding requirement adjustments by pension funds leading to purchases of them, and on a yield of below 2% they represent very poor value.

The economic situation in Japan continues to give cause for concern and, if the Japanese economy is unable to return to a sustained growth path, it will have a debilitating effect on Asian economies, including China and, to a lesser extent, on the more developed economies of western Europe and

the United States. Without some radical policy responses, it is difficult to see the Japanese economy moving on to a sustained growth path in the medium term. This could well mean that the recovery we are seeing in other Asian economies will be truncated and reversed at some stage in the near future, especially should the momentum seen in the United States begin to falter.

World liquidity is less supportive to the markets than it was at this time last year. However, in the longer term the continuing favourable demographics of an ageing population, increasing pension provision and a move towards funded pensions will lead to an increase in demand for equity investment, especially in western Europe and in the more developed and industrialised countries. Ample liquidity in most economies, especially Japan, and low consumer prices, as well as the demographic changes we have touched upon, will continue to be a major source of strength for world equity markets in 1999. Against this, it is difficult to see stock markets making much progress in the face of declining profit margins and potentially higher inflation. It is higher inflation that remains the major threat to financial markets and these inflationary pressures were delayed by events in Asia last year. That situation has now been reversed and stronger industrial production in Asian economies is likely to put pressure on commodity prices and therefore inflation. We have noted that commodity prices appear to have stabilised and if that trend begins to move upwards, albeit it at a slow rate, financial markets will find it very difficult to make any progress at all during 1999.

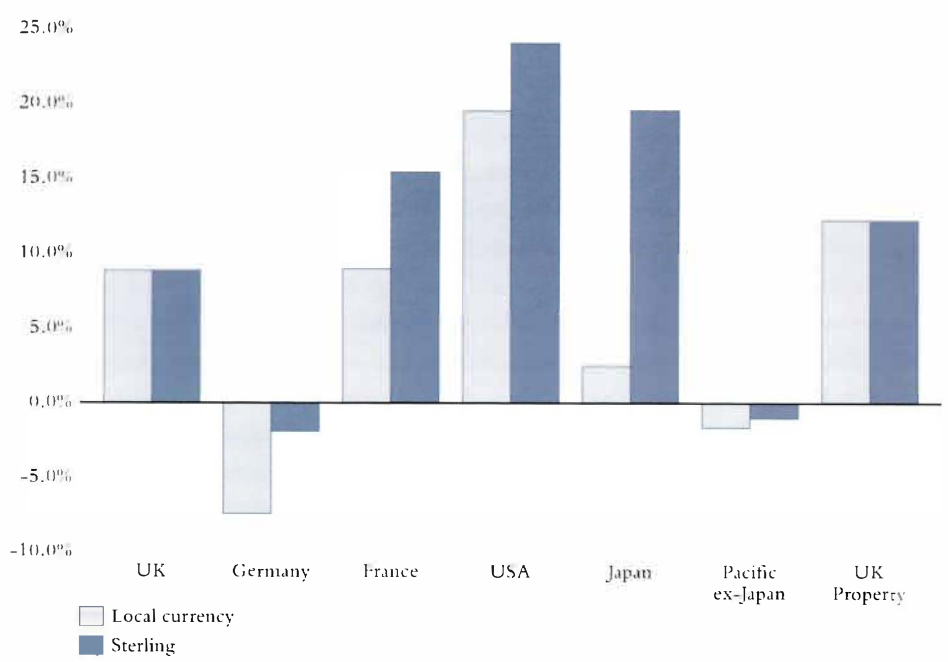
The performance of the major markets for the year to 31 March 1999 is shown below:

EQUITY AND FIXED INTEREST MARKET TOTAL RETURNS FOR THE YEAR TO 31 MARCH 1999

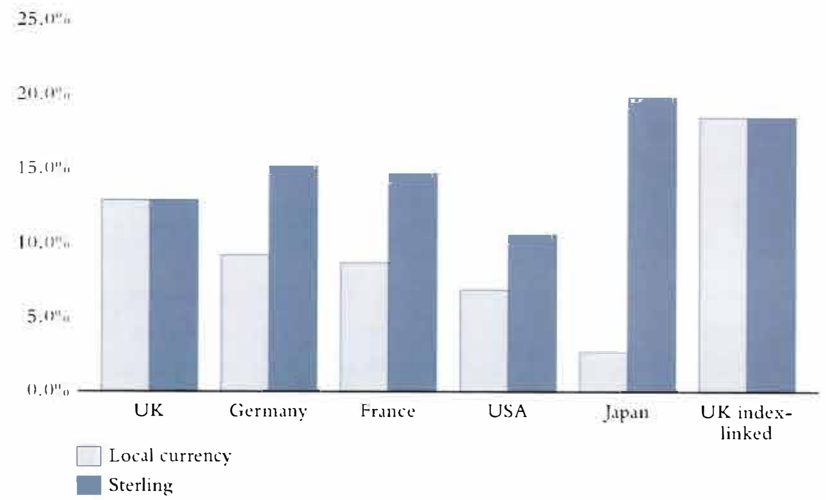
	Equities		Fixed Interest	
	Local Currency %	Sterling %	Local Currency %	Sterling %
UK	8.8	8.8	12.9	12.9
Germany	(7.3)	(1.9)	9.3	15.1
France	8.9	15.2	9.2	14.7
USA	19.6	24.0	6.9	10.6
Japan	2.4	19.6	2.7	19.9
Pacific ex-Japan	(1.6)	(1.0)	–	–
UK Index-linked	–	–	18.5	18.5
UK Property	12.2	12.2	–	–

Source:
FT Actuaries World Indices
Lombard Odier Company Bond Indices
Investment Property Databank Monthly Index

Equities



Fixed Interest



PROPERTY

Property maintained a high level of performance throughout 1998 and, although rental growth slowed during the first quarter of 1999, the sector remains robust. Institutions remain cautious of undertaking speculative development and, against a background of steady, if low, demand, an oversupply of new properties is unlikely to occur for the foreseeable future. From an investment perspective, property yields have continued to look attractive.

Property yields reduced in the first half of the year but rose slightly in the last half to cancel out capital gains from yield movement. The 0.5% increase in stamp duty in March 1999 also cut capital values by approximately the same amount. However, rental growth remained positive throughout to produce an annual total return of 10.9%. The IPD All Fund Universe produced a total return

of 12.2% for the year to December 1998 confirming a gradual but significant decline in returns during the latter part of the year. Consequently, property still underperformed the WM ex Property Universe return although it reversed its relative performance of the previous year by outperforming UK equities but underperforming gilts.

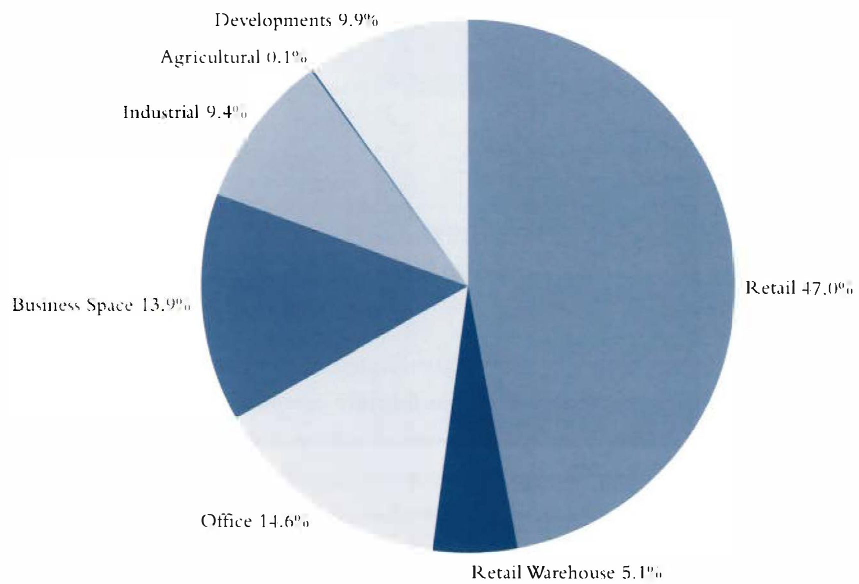
The USS property portfolio performed well in 1998 relative to its benchmark of the 100 largest funds in the IPD universe which reinforced its good 10 year record.

Relative to gilts, property yields still remain high and following the reductions in interest rates during the past twelve months the sector is expected to benefit from a downward shift in yields during 1999. It is likely, however, that total returns will be driven more by yield than by rental or capital growth factors.

The fund's property portfolio was independently valued by Colliers Erdman Lewis at 31 March 1999 at £1,174.5 million and a breakdown by type and geographical location is shown below :

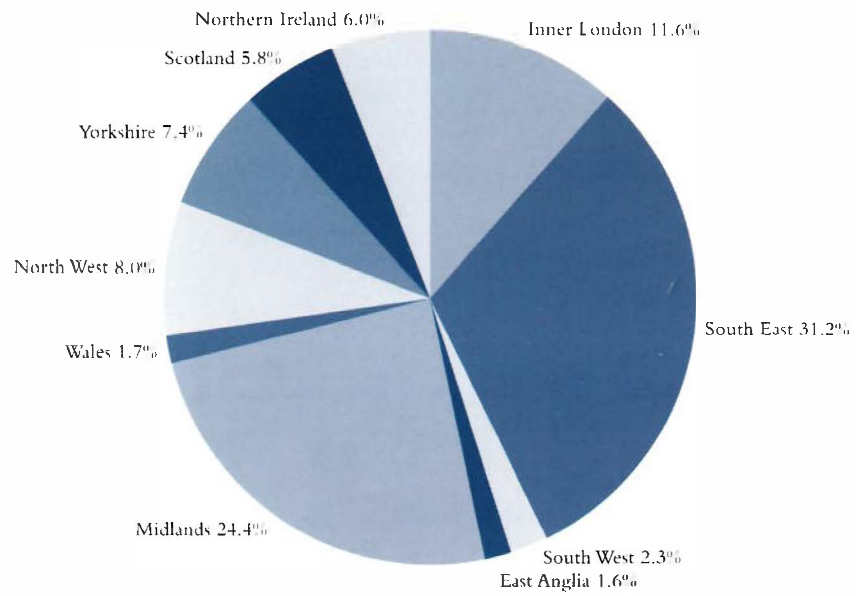
USS property portfolio - type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	508.5	43.2	551.7	47.0
Retail Warehouse	60.1	–	60.1	5.1
Office	156.1	15.7	171.8	14.6
Business space	155.6	7.0	162.6	13.9
Industrial	85.3	25.4	110.7	9.4
Agricultural	1.4	–	1.4	0.1
Developments	97.6	18.6	116.2	9.9
TOTAL	1,064.6	109.9	1,174.5	100.0



USS property portfolio - geographical location (including development commitments)

	£m	%
Inner London	136.2	11.6
South East	366.5	31.2
South West	26.8	2.3
East Anglia	18.2	1.6
Midlands	287.0	24.4
Wales	20.0	1.7
North West	94.4	8.0
Yorkshire	86.7	7.4
Scotland	68.7	5.8
Northern Ireland	70.0	6.0
TOTAL	1,174.5	100.0



Net income for the year to 31 March 1999 rose from £60.1 million to £60.5 million as sales totalling nearly £45 million were exceeded by new investment of over £80 million.

New investment and sales

During an active year, the fund's policy of assembling large sites was continued and the purchase of the Forestside Shopping Centre, Belfast, was formally completed at £50.5 million. A 7.4 hectare leisure park adjoining the fund's 5.5 hectare retail park at Bromborough was acquired for £10.6 million. Subject to planning consent, the combined sites offer scope for considerable improvement. A small retail parade adjoining the fund's Beechwood Shopping Centre in Cheltenham was also acquired for £2.4 million.

A large holding to the west of Briggate in central Leeds was acquired for £35 million in two separate purchases. The property is well let but holds considerable potential for refurbishment or redevelopment. Additionally two prime shops on Princes Street, Edinburgh, were purchased for a total of £32 million.

The fund also entered into a number of development agreements for major schemes. At Milton Keynes, the fund is financing a speculative industrial development at an estimated cost of £21 million and additionally, the £170 million Midsummer Place extension to the existing shopping centre. This development is partly pre-let to major tenants Debenhams, Virgin and Ottakers and is due for completion in September 2000.

Robert Walden, our Surveyor, discusses a project with Max Johnson, our Investment Surveyor, in the London Investment Office.

At Cambridge, the fund is financing a city centre retail scheme to be known as the Grand Arcade at an estimated cost of £120 million. A planning application has been submitted for the scheme, which will provide a major new store for the John Lewis Partnership, and which has the full support of the city council.

A prime office site at Colmore Row, Birmingham, has been purchased for £20 million and the development, which is pre-let in its entirety to Lloyds Bank, will be purchased on completion for an additional estimated cost of £35 million.

Three sales made in the year to March 1999 slightly exceeded valuation: a secondary office building in Harrow (£16.8 million); a small, open shopping centre at Caterham, (£11.5 million, completion in April) and a City office building which was sold to an adjoining owner for redevelopment (£16.5 million).

NET NEW INVESTMENT

An analysis of the net new investment undertaken during the year to 31 March 1999, along with the comparative figures for the preceding year, is set out in the table below:

	1999		1998	
	£m	%	£m	%
Securities	661.9	117.4	418.6	66.5
Property	190.9	33.9	(10.4)	(1.7)
Life assurance policies	(52.6)	(9.3)	(59.2)	(9.4)
Cash deposits	(183.5)	(32.6)	204.7	32.5
Stockbroker balances	(53.1)	(9.4)	76.1	12.1
	563.6	100.0	629.8	100.0

An analysis of the net new investment in securities for the year to 31 March 1999, along with comparative figures for the preceding year, is set out in the table below:

	1999		1998	
	£m	%	£m	%
UK Equities	881.7	133.2	74.2	17.7
Overseas Equities	(171.4)	(25.9)	214.1	51.2
Index-linked	(22.0)	(3.3)	27.8	6.7
UK Fixed Interest	(8.2)	(1.2)	(69.0)	(16.5)
Overseas Fixed Interest	(18.2)	(2.8)	171.5	40.9
	661.9	100.0	418.6	100.0

INVESTMENT IN LIFE ASSURANCE POLICIES

The portfolio distribution as at 31 March 1999, along with the comparative figures for the preceding year, is set out below:

	1999		1998	
	£m	%	£m	%
UK Equities	130.6	49.5	139.6	49.4
Overseas Equities	30.1	11.4	37.4	13.2
Index-linked	2.4	0.9	3.1	1.1
UK Fixed Interest	65.9	25.0	65.7	23.2
Property	16.1	6.1	17.8	6.3
Cash	18.7	7.1	19.2	6.8
	263.8	100.0	282.8	100.0

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 1999 and the comparative figures for the preceding year are set out below:

	1999			1998		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	599.8			843.5		
Index-linked	216.2			195.3		
Other debentures & loan stocks	91.1			8.1		
		907.1	4.9		1,046.9	6.2
Overseas fixed interest						
North America	364.0			560.6		
Europe	135.1			146.0		
Japan	147.8			16.0		
Pacific	95.7			–		
		742.6	4.0		722.6	4.2
Total fixed interest		1,649.7	8.9		1,769.5	10.4
UK equities						
Resources	1,140.3			869.2		
General industrials	1,053.9			1,185.7		
Consumer goods	1,985.3			1,789.3		
Services	3,828.4			2,922.1		
Utilities	490.8			490.3		
Financials	2,887.7			2,644.0		
Investment trusts	231.2			233.3		
Unit trusts	85.5			95.1		
Futures & options	–			(81.1)		
Unquoted	0.3			2.7		
		11,703.4	63.5		10,150.6	59.9
Overseas equities						
America	850.2			701.1		
Japan	466.4			342.2		
Europe	1,596.2			1,620.8		
Pacific	393.7			609.3		
Other	70.2			113.5		
Unquoted	–			–		
		3,376.7	18.4		3,386.9	20.0
Total equities		15,080.1	81.9		13,537.5	79.9
Total securities	16,729.8		90.8	15,307.0		90.3
Property	1,174.5		6.4	909.6		5.3
Cash deposits	492.0		2.7	662.3		3.9
Stockbroker balances	26.4		0.1	79.5		0.5
Total investments (excluding life assurance policies)	18,422.7		100.0	16,958.4		100.0

LARGEST EQUITY HOLDINGS

A list of the fund's largest twenty equity holdings as at 31 March 1999, together with the percentage of the total fund (excluding life assurance policies), is shown below:

	Value £m	%
BP Amoco	666	3.6
Glaxo Wellcome	613	3.3
British Telecom	539	2.9
Lloyds TSB Group	412	2.2
HSBC Holdings	386	2.1
SmithKline Beecham	352	1.9
Vodafone	351	1.9
Shell Transport & Trading	323	1.8
AstraZeneca	248	1.3
Barclays	216	1.2
National Westminister	201	1.1
Diageo	186	1.0
Reuters Group	167	0.9
Prudential Corp	157	0.9
Cable & Wireless	152	0.8
Halifax	131	0.7
BG	131	0.7
CGU	125	0.7
Unilever	124	0.7
Abbey National	110	0.6
	5,590	30.3

The fund's top hundred equity holdings are shown on the USS website: **http://www.usshq.co.uk**

Signed on behalf of the investment committee

Mark Fitzalan Howard
Chairman

JOINT NEGOTIATING COMMITTEE

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

With effect from July 1998, Dr G R Talbot unfortunately had to retire for health reasons after more than 20 years valued service to the committee on behalf of the AUT. Mr T Wilson acted as alternate until Ms C Cheesman was appointed with effect from 1 October 1998. Ms P Holloway also replaced Dr J de Groot as AUT representative on the committee with effect from 1 September 1998.

The committee met on four occasions during the year. Rule changes were considered by the committee during the year which resulted in two amending deeds being executed, the thirteenth (on 25 June 1998) and fourteenth (on 5 January 1999) deeds of amendment. The most significant changes which these deeds introduced were:

- the ability to include "benefits in kind" in members' pensionable remuneration;
- the option at retirement for members to exchange cash for pension, or vice versa, on a basis which incurred no extra cost to the fund.

A major issue which was included in the committee report last year was the pensionability of part-time employees who have previously not been considered to be in 'regular' employment. The initial research which had been conducted on behalf of a steering group was not as conclusive as had been envisaged and further work is in hand.

In the meantime, the Pension Provision Group had been commissioned by the government to prepare a report which ultimately led to the government's Green Paper and its associated consultation documents on pensions reform. As reported widely in the press, this has potentially far reaching implications for the pensions industry but it also proposes a strategy to give more assistance to the lower paid from the state. Such lower paid employees would include a significant proportion of the part-time employees within the institutions that are being considered by the USS steering group. Progress will depend partly upon the Green Paper, the responses the government have received to the Green Paper and how it is then taken forward into legislation.

Signed on behalf of the joint negotiating committee

Kenneth Berrill
Chairman

ADVISORY COMMITTEE

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

Three meetings were held during the year. With effect from the meeting on 14 September 1998 Mr A D Linfoot replaced Mr C L Rice as chairman and Dr Paul Hudson was appointed from 1 September 1998 to take Mr Rice's place on the committee.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. The remainder, in which the circumstances did not fall clearly within the trustee company's guidelines and which required detailed consideration by the advisory committee during the year comprised:

- 11 cases relating to the reduction in a spouse's pension as a result of the age difference between the spouse and the deceased member;
- one case relating to full commutation of pension on the grounds of serious ill-health; and
- one case relating to the payment of a spouse's pension following the disappearance of the member, presumed dead.

It was necessary for the committee, enlarged by two members of the management committee, to meet on two occasions during the year to consider the decisions given by the chief pensions manager at stage one of the internal dispute resolution procedure. These second stage considerations:

(a) upheld the previous decision in a case relating to the reduction of pension to a young spouse (more than 15 years younger than the member); and

(b) resulted in a recommendation being accepted by the management committee in a case of misleading information having been provided by the trustee company to a beneficiary.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

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

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

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

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

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

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

Investment objective

The trustee's duty is to act in the best financial interests of all classes of scheme member and accordingly to ensure that the assets are invested to secure the benefits under the scheme. The managers are therefore instructed to give primary consideration to the financial prospects of any investment they hold or consider holding.

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

The investment performance target for the total fund is to exceed the 40th percentile of the WM50 (the largest pension funds in the WM universe) cum property universe over rolling five-year periods.

The investment performance target for property investments is to exceed the weighted average return of a customised Investment Property Databank (IPD) universe of the largest 100 property funds by 0.5% pa over rolling five-year periods.

Investment manager structure

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

The investment performance target for each of the balanced managers is to exceed the 40th percentile of the WM50 ex property universe.

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

At 31 March 1998 the securities assets of the fund were allocated between the managers in an approximate ratio of :

	%
Internally managed balanced fund	44
Index tracking fund	30
Externally managed balanced funds	26

This can fluctuate due to market forces.

Cash flow is normally allocated between the managers as follows:
(a) 25% to the index tracking fund;
(b) 20% to the external managers; and
(c) 55% to the internally managed fund in respect of both securities and property.

The allocation of cash is reviewed and approved by the investment committee on a quarterly basis.

Investment strategy and asset mix

Investment policy is determined by the belief that over the longer term equity investment will provide superior returns to other investment classes and will more closely match the liabilities of the scheme. The management structure and targets set are designed to create a bias so that the USS fund has a greater than average weighting in UK equities compared to its peer group. This is achieved by retaining the FT-SE-A All-Share Index tracking fund as a discrete fund and by the targets which have been set for the balanced managers. The fund has a high exposure to equities through a geographically and industrially diversified portfolio.

The investment committee sets guidelines for asset allocation for the combined fund. These guidelines are reviewed quarterly by the investment committee and the investment managers taken as a whole are required to operate within the global guidelines. The guidelines set for asset allocation between different investment classes are consistent with the investment committee's

views on the appropriate balance between risk and return and have due regard to the long term liabilities of the scheme.

The balanced investment managers are aware of their investment objective and set their individual investment strategy to meet that objective within the overall fund guidelines imposed. The monitoring guideline at 30 September 1998 was:

	%
UK equities	61
Overseas equities	18
Index linked gilts	1
Bonds	9
Property	7
Cash	4

If there are significant departures from the asset distribution recommended each quarter by the investment committee, the investment specialists on the investment committee will be notified. In this way, market movements and asset allocation shifts are monitored and any changes, if desired, approved by the chairman of the investment committee after consultation with the investment specialists.

The total investment in each broad asset class is determined by the fund's investment managers under their delegated authorities within the above monitoring guidelines set by the investment committee after consideration of the minimum funding requirements of the Pensions Act 1995, long term funding solvency and investment management risk. No more than 4% of the total fund by market value can be invested in one security except for very large UK companies in which managers are allowed a maximum overweight position of 50% of the FT-SE-A All-Share Index weighting with an overall cap of 10% of the fund. No more than 10% of the market capitalisation of any one company may be held without prior authority from the chairman of the investment committee. In both cases, the constraints apply as at the date of purchase.

Managers may not, as a rule, invest in securities not quoted on a recognised or designated investment exchange. Investment in unquoted securities requires the approval of the chairman of the investment committee.

Additional assets

The fund continues to hold life assurance policies with the Equitable Life Assurance Society (ELAS) assigned to it in respect of former FSSU members. The value of policies held as at 31 March 1998 was less than 2% of the fund. It is the intention of the trustee to convert these policies to a managed fund and ultimately to bring the assets under the investment control of the discretionary balanced managers within a timescale agreed by ELAS.

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately, managed and administered externally. The appointment of AVC providers is subject to review by the management committee.

Monitoring performance

The performance of the fund and of each investment manager is measured quarterly by the WM Company against the relevant targets. The performance of the investment managers and the fund is reported quarterly to the investment committee.

The performance of the property portfolio is also separately measured against the customised IPD universe. The IPD performance data is incorporated within the WM50 data for measurement of the performance of the whole fund.

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

Level of scheme maturity

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

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

Stock lending

USS is authorised by the scheme rules to participate in stock lending and has decided to exercise those powers, restricted however to the overseas equity portion of the internal manager's portfolio under a stock lending programme managed by the internal manager's custodian bank. Stock lending commenced in May 1998.

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

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

Corporate governance

The proper corporate governance of companies in which the fund invests is of importance to USS Ltd. The trustee has adopted the recommendations set out in the Combined Code issued by the Committee on Corporate Governance. Votes are cast where appropriate on the basis of these recommendations on resolutions at the general meetings of all UK companies and where appropriate at the general meetings of all overseas companies in which the fund has investments.

Ethical and environmental considerations

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

(a) Trustees are free to adopt a policy of ethical investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

(b) Trustees are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make 'ethical' investments provided these are otherwise justifiable on investment grounds.

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

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

Accordingly, the trustee company is legally prevented from instructing the managers to invest wholly or primarily on ethical or environmental considerations alone and has not done so. However, the trustee expects that the boards of companies in which it invests should pay due regard to environmental matters and thereby further the long term financial interests of their shareholders. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The trustee cannot become involved in these decisions and therefore looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long term interests.

Derivatives

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

Underwriting

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

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 Dependant Children
0100	Aberdeen	1,261	436	87
4100	Aston	444	304	84
4300	Bath	866	287	42
6600	Belfast	1,558	416	97
1000	Birmingham	2,030	816	170
4200	Bradford	758	323	77
1100	Bristol	2,002	517	103
4400	Brunel	570	248	47
7035	Buckingham	91	28	6
1200	Cambridge (University)	3,550	690	219
1202	Christ's	15	4	2
1204	Churchill	25	5	1
1206	Clare	8	3	–
1208	Clare Hall	6	–	2
1210	Corpus Christi	13	3	2
1212	Darwin	3	3	1
1214	Downing	15	10	2
1216	Emmanuel	19	3	2
1218	Fitzwilliam	9	5	1
1220	Girton	27	9	1
1222	Gonville & Caius	24	8	4
1224	Hughes Hall	–	1	1
1226	Jesus	16	5	1
1228	King's	30	5	1
1230	Lucy Cavendish	16	6	–
1232	Magdalene	12	4	2
1234	New Hall	25	10	–
1236	Newnham	22	18	3
1238	Pembroke	23	4	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 Dependant Children
1240	Peterhouse	16	3	–
1242	Queens'	15	–	1
1245	Robinson	11	4	–
1246	St Catharine's	13	2	–
1255	St Edmund's	2	1	–
1250	St John's	33	4	2
1252	Selwyn	13	1	–
1254	Sidney Sussex	10	1	–
1258	Trinity	33	8	2
1260	Trinity Hall	12	2	2
1268	Wolfson	5	2	–
4700	City	706	250	66
7016	Cranfield	885	322	65
0700	Dundee	1,173	266	56
1300	Durham (University)	1,123	313	55
1301	St Chad's	1	–	–
1500	East Anglia	868	251	43
0200	Edinburgh	2,771	726	186
1700	Essex	624	137	30
1600	Exeter	789	389	59
0300	Glasgow	2,324	660	135
0800	Heriot-Watt	728	180	29
1800	Hull	834	311	72
3100	Keele	542	198	40
1900	Kent at Canterbury	689	239	29
2100	Lancaster	834	290	47
2000	Leeds	2,520	766	184
2200	Leicester	1,211	280	64
2300	Liverpool	1,732	524	127

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 Dependant Children
2497	London (University)	477	561	141
2408	Birkbeck	380	117	26
2466	Eastman Dental Institute	49	5	1
2401	Goldsmiths' College	387	82	5
2480	Heythrop	12	1	–
2409	Imperial Coll of Science, Technology & Medicine	2,499	654	143
2440	Institute of Cancer Research	177	13	–
2465	Institute of Child Health (part of University College)	182	7	3
2403	Institute of Education	324	161	36
2474	Institute of Psychiatry (part of King's College)	237	7	6
2410	King's College London	1,982	640	146
2412	London School of Economics & Political Science	614	171	46
2434	London School of Hygiene & Tropical Medicine	349	59	23
2413	Queen Mary & Westfield College	1,043	431	85
2447	Royal Holloway and Bedford New College	533	192	29
2436	Royal Veterinary College	138	49	12
2428	St George's Hospital Medical School	283	53	12
2415	School of Oriental & African Studies	312	138	40
2416	School of Pharmacy	79	26	5
2417	University College	2,811	735	137
2426	University College London - Royal Free Campus	205	45	8
2419	Wye College	115	56	17
2484	London Business School	180	26	5
4600	Loughborough	1,082	320	98
2500	Manchester	2,678	906	183
5100	UMIST	948	347	49
1400	Newcastle-upon-Tyne	1,702	614	132
2600	Nottingham	1,956	511	105
8900	Open	1,902	398	84

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 Dependant Children
2700	Oxford (University)	3,354	825	239
2701	All Souls	26	10	3
2702	Balliol	23	4	–
2703	Brasenose	10	4	2
2704	Christ Church	44	6	3
2705	Corpus Christi	14	6	2
2706	Exeter	14	2	3
2707	Hertford	14	3	1
2708	Jesus	19	5	–
2709	Keble	16	3	–
2710	Lady Margaret Hall	17	6	1
2734	Linacre	6	2	–
2711	Lincoln	11	4	2
2712	Magdalen	26	10	3
2735	Harris Manchester	10	2	–
2732	Mansfield	21	3	3
2713	Merton	23	7	2
2714	New College	39	7	2
2715	Nuffield	35	8	2
2716	Oriel	19	6	–
2717	Pembroke	12	5	1
2718	Queen's	21	6	–
2736	Regent's Park	–	–	–
2719	St Anne's	13	9	–
2720	St Antony's	16	7	1
2721	St Catherine's	20	8	1
2722	St Edmund Hall	9	2	1
2723	St Hilda's	23	7	–
2724	St Hugh's	19	6	–

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 Dependant Children
2725	St John's	33	7	–
2726	St Peter's	16	4	1
2727	Somerville	16	7	–
7028	Templeton	32	12	2
2728	Trinity	9	3	–
2729	University	18	6	1
2730	Wadham	15	6	–
2733	Wolfson	12	5	–
2731	Worcester	12	7	1
2800	Reading	1,240	397	103
0400	St Andrews	653	193	48
4800	Salford	746	414	64
2900	Sheffield	2,090	587	111
3000	Southampton	1,971	444	94
0500	Stirling	663	147	31
0600	Strathclyde	1,313	440	118
4000	Surrey	1,073	290	51
3200	Sussex	848	312	44
6800	Ulster	1,322	257	58
3900	Wales (University)	56	19	4
3300	Aberystwyth	536	242	58
3400	Bangor	666	254	62
3500	College of Cardiff	1,308	529	129
3800	Lampeter	109	36	8
3600	Swansea	844	296	71
3700	University of Wales College of Medicine	520	88	29
5000	Warwick	1,363	259	49
5200	York	1,019	157	28
	Old university institutions total	**79,968**	**24,017**	**5,267**

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 Dependant Children
	New universities admitted for limited membership only			
8100	Bournemouth	1	–	–
8080	Brighton	2	–	–
8150	Central Lancashire	1	–	–
8110	Coventry	3	–	–
8060	De Montfort	8	–	–
8010	Glamorgan	4	–	–
8040	Hertfordshire	4	–	–
8050	Huddersfield	1	–	–
8140	Manchester Metropolitan	3	–	–
8090	Nottingham Trent	11	1	–
8120	Oxford Brookes	3	–	–
8070	Plymouth	5	1	–
8020	South Bank	19	–	–
8030	Thames Valley	2	1	–
8130	Westminster	2	–	–
	New university institutions total	**69**	**3**	–
	All university institutions total	**80,037**	**24,020**	**5,267**

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 Dependant Children
7113	Aberdeen Univ Research & Ind Services Ltd	2	–	–
7010	Animal Health Trust	40	4	–
7040	Arthritis Research Campaign	1	2	–
7154	Associated Examining Board	2	4	–
7011	Association of Commonwealth Universities	26	35	4
7108	Aston Techn Planning & Management Services Ltd	–	–	–
7067	Beatson Institute for Cancer Research	36	3	–
7084	BLCMP (Library Services) Ltd	3	3	–
7037	Brewing Research International	44	10	1
7012	British Glass Manufacturers' Confederation	2	5	–
7030	British Institute in Eastern Africa	2	1	–
7091	British Institute of Archaeology at Ankara	1	1	–
7112	British Institute of International & Comp Law	1	1	–
7097	British Psychological Society	4	–	–
7087	British School at Athens	3	1	1
7092	British School at Rome	2	–	–
7033	British School of Archaeology in Iraq	–	–	–
7050	British Universities Sports Association	–	–	–
7133	Brunel Institute of Organisation & Social Studies	3	1	–
7122	Burden Neurological Institute	4	–	–
7116	Cambridge Crystallographic Data Centre	29	1	–
7060	Cancer Research Campaign	10	8	–
7153	CASE	3	–	–
7015	College of Estate Management	26	17	11
7121	Committee of Vice-Chancellors and Principals	25	7	2
7100	Company of Biologists Ltd	–	–	–
7110	Council for British Research in the Levant	3	–	–
7098	Culham College Inst for Church Related Education	1	–	–
7145	Dartington Hall Trust	8	–	–

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 Dependant Children
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	2	1	–
7159	Edexcel Foundation	36	11	–
7164	Edinburgh Business School	8	–	–
7032	Edinburgh University Students' Association	8	1	–
7089	Ewing Foundation	2	1	–
7120	Family Policy Studies Centre	–	–	–
7051	FSSU Secretariat	–	–	1
7041	Geographical Association	5	1	1
7152	Gray Laboratory	29	2	–
7148	Gyosei International College in the UK	27	–	–
7025	Henley Management College	50	29	2
7157	Higher Education Careers Service Unit	7	1	–
7135	Higher Education Statistics Agency Ltd	16	–	2
7053	History of Parliament Trust	27	4	–
7143	Homerton College	8	1	–
7036	Inns of Court School of Law	58	13	3
7079	Institute of Community Studies	7	4	2
7137	Inst of Contemporary History & Wiener Library Ltd	–	–	–
7017	Institute of Development Studies	72	30	4
7056	Institute of Food Science & Technology	2	–	–
7029	Institute for Employment Studies	7	8	–
7124	International Institute of Biotechnology	1	–	–
7132	International Society (Manchester)	1	–	–
7149	International Students House	3	–	–
7054	Joint Library of Hellenic & Roman Societies	–	2	–
7147	JNT Association	29	2	2
7066	Journal of Endocrinology Ltd	–	1	–
2482	Lister Institute of Preventive Medicine	1	5	3
7171	London Institute	1	–	–

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 Dependant Children
7117	Ludwig Inst for Cancer Research - Middlesex Branch	26	–	–
7039	Ludwig Inst for Cancer Research - St Mary's Branch	14	4	–
7090	Marie Curie Cancer Care	30	2	5
7125	Marine Biological Association of the United Kingdom	20	–	–
7026	Mathilda & Terence Kennedy Inst of Rheumatology	22	7	2
7096	Modern Humanities Research Association	1	1	–
7094	Motor Industry Research Association	65	35	7
7059	Museum Documentation Association	–	–	–
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	–
7018	National Inst of Economic & Social Research	21	9	1
7080	Norfolk Agricultural Station (Morley Res Centre)	12	2	–
7073	Northern College for Residential Adult Education	24	3	2
7024	Northern Examinations and Assessment Board	40	18	3
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	4	1	–
7115	Northern Ireland Economic Research Centre	11	–	3
7048	Numerical Algorithms Group Ltd	68	1	1
7155	Nuffield Trust	3	–	–
7161	OMCRG	–	–	–
7058	Open University Worldwide	12	3	–
7023	Overseas Development Institute	33	3	–
7118	Oxford Centre for Islamic Studies	3	–	–
7031	Oxford Centre for Postgraduate Hebrew Studies	11	2	–
7163	Oxford Policy Institute	1	–	–
7104	Pain Relief Foundation	2	–	–
7075	Policy Studies Institute	13	11	2
7139	Preformation of Undergraduate Engineers	12	2	–
7134	Prince of Wales's Institute of Architecture	5	1	–
7162	Quality Assurance Agency	33	5	3
7052	Reading University Students' Union	–	–	–

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 Dependant Children
7156	Regulatory Policy Institute	2	–	–
7123	Richmond College	38	1	–
7160	Royal Academy of Music	2	–	–
7081	Royal College of Paediatrics and Child Health	2	1	–
7020	Royal College of Surgeons of England	74	25	9
7021	Royal Geographical Society	4	3	1
7082	Royal Institute of International Affairs	4	–	–
7077	Royal Institution	15	7	–
7158	Royal Northern College of Music	1	–	–
7064	Royal Society	–	–	1
7070	Royal Society of Edinburgh	3	1	–
7022	Ruskin College	28	15	5
7105	School Mathematics Project	4	2	–
7130	Scottish Association for Marine Science	23	–	–
7169	Society of Antiquaries of London	–	–	–
7131	Southern Universities Management Services	4	2	–
7042	Strangeways Research Laboratory	5	7	3
7049	Students' Union University of Leicester	1	2	1
7138	Thrombosis Research Institute	24	1	–
7109	Trade Union Research Unit Ltd	1	–	–
7141	TUIREG	2	–	–
7106	Universities and Colleges Admissions Service	26	9	3
7166	UMIST Ventures Ltd	–	–	–
7150	Universities and Colleges Employers Association	3	1	–
7151	Universities and Colleges Staff Development Agency	2	4	–
7140	University of Leeds Innovations Ltd	9	–	–
7129	University of Swansea Students' Union	1	–	–
9999	USS Ltd	103	18	4
7165	Westhill College of Higher Education	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 Dependant Children
7065	Wildfowl & Wetlands Trust	1	8	–
7142	WP Management Ltd	1	–	–
7027	York Archaeological Trust	2	1	–
7076	Zoological Society of London	26	11	–
–	Withdrawn institutions	–	41	8
	Non-university institutions total	**1,590**	**494**	**103**
	All institutions total	**81,627***	**24,514**	**5,370**

*Included in this figure (but counted once only) are 1,568 members who have more than one appointment.

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

SUMMARY OF MOVEMENTS during the year ended 31 March 1999

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 1998	77,186	1,520	78,706
New members	11,003	221	11,224
Retirements - Ill-health	145	5	150
- Other	1,474	32	1,506
Deaths	76	1	77
Leavers - Refunds	565	7	572
- Transfers	215	4	219
- Deferred benefits and undecided	5,192	101	5,293
Withdrawals - Refunds	267	–	267
- Transfers	–	–	–
- Deferred benefits	35	–	35
- Retrospective*	183	1	184
Total members at 31 March 1999	80,037	1,590	81,627

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

In addition USS Ltd was notified during the year of 2,723 employees who became eligible to join the scheme but who elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 1998	22,677	476	23,153
New pensioners	1,830	37	1,867
Deaths	487	19	506
Total pensioners at 31 March 1999	24,020	494	24,514

In addition at 31 March 1999, there were 4,662 pensions being paid to spouses and dependants and 708 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 37,649.

Total ~~158 800~~
149 160

FUND ACCOUNT for the year ended 31 March 1999

	Note	1999 £m	1998 £m
Contributions and Benefits			
Contributions receivable	3	481.1	456.5
Premature retirement scheme receipts		41.4	55.5
Individual transfers in		67.9	90.7
		590.4	602.7
Benefits payable	4	474.7	451.3
Leavers	5	23.3	19.6
Administration costs	6	6.4	5.9
		504.4	476.8
Net additions from dealings with members		86.0	125.9
Returns on Investments			
Investment income	7	505.2	499.3
Change in market value of investments	8	882.0	3,062.4
Investment management expenses	9	(8.7)	(5.3)
Net returns on investments		1,378.5	3,556.4
Net increase in the fund during the year		1,464.5	3,682.3
Fund at start of year		17,350.8	13,668.5
Fund at end of year		18,815.3	17,350.8

STATEMENT OF NET ASSETS as at 31 March 1999

	Note	1999 £m	1998 £m
Investments			
Securities	11	16,729.7	15,307.0
Property	12	1,174.5	909.6
Life assurance policies	13	263.8	282.4
Cash deposits		492.0	662.3
Stockbroker balances	14	26.4	79.5
		18,686.4	17,240.8
Net current assets	15	128.9	110.0
Total net assets, representing the fund balance		18,815.3	17,350.8

The financial statements on pages 48 to 55 and the statement of trustee's responsibilities on page 56 were approved by the trustee, Universities Superannuation Scheme Limited, on 29 July 1999 and were signed on its behalf by:

C D Donald
Deputy Chairman

D B Chynoweth
Chief Executive

NOTES TO THE ACCOUNTS for the year ended 31 March 1999

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" except that transactions and fund values in respect of money purchase AVCs have not been disclosed in the fund account and the net assets statement, on the grounds that the amounts involved are not material.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. 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 58 and 59 of the annual report and these financial statements should be read in conjunction with it.

2. Accounting policies

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

Contributions

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

Investment income

Investment income is brought into account on the following bases:

(a) Dividends, tax and interest from quoted and unquoted 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 credited to the fund account and forms part of the cost of the relevant development, as it accrues until the earlier of the development becoming a completed property or the contracted purchase price being reached.

Property

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

Life assurance policies

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

Rates of exchange

Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of

exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account.

Net transfers

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

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) Unquoted securities – at trustee company's valuation;

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

(d) Life assurance policies – at the amount disclosed by an annual actuarial valuation.

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

3. Contributions

	1999 £m	1998 £m
Main section		
Employers' contributions	321.7	305.7
Members' basic contributions	137.9	130.8
Members' additional voluntary contributions	13.5	12.4
	473.1	448.9
Supplementary section		
Members' contributions	8.0	7.6
	481.1	456.5

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

Money purchase additional voluntary contributions

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

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

The value of the accumulated additional voluntary contributions at 31 March 1999 together with a summary of the movements during the year is as follows:

	1999 £m	1998 £m
Value at the start of the year	30.0	16.7
Contributions from members	17.5	13.1
Transfers in	0.3	0.2
Income from interest and bonuses	1.9	1.1
Payouts to members	(1.8)	(1.0)
Administration expenses	(0.2)	(0.1)
Value at the end of the year	47.7	30.0

4. Benefits payable

	1999 £m	1998 £m
Main section		
Pensions	379.4	343.7
Lump sums on or after retirement	82.5	96.0
Lump sums on death in service	6.9	6.0
	468.8	445.7
Supplementary section		
Pensions	4.8	4.2
Lump sums on or after retirement	0.9	1.1
Lump sums on death in service	0.2	0.3
	5.9	5.6
	474.7	451.3

5. Payments on account of leavers

	1999 £m	1998 £m
Individual transfers to other schemes	21.8	18.1
Payments for members joining state scheme	0.4	0.5
Refunds to members leaving service	1.1	1.0
	23.3	19.6

6. 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).

7. Investment income

	1999 £m	1998 £m
Dividends from UK equities	253.4	257.9
Net property income	60.5	60.1
Dividends from overseas equities	46.2	49.7
Income from UK fixed interest securities	55.7	64.7
Income from overseas fixed interest securities	44.6	29.0
Income from index-linked securities	9.6	4.2
Interest on cash deposits	34.2	33.7
Other income	1.0	-
	505.2	499.3

8. Changes in value of investments

The changes in the value of investments are shown below:

	Current value 1998 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Current value 1999 £m
Securities	15,307.0	7,518.5	(6,856.6)	760.8	16,729.7
Property	909.6	223.8	(32.9)	74.0	1,174.5
Life assurance policies	282.4	1.9	(54.5)	34.0	263.8
Cash deposits	662.3	–	(183.5)	13.2	492.0
	17,161.3	7,744.2	(7,127.5)	882.0	18,660.0
Stockbroker balances	79.5				26.4
	17,240.8				18,686.4

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

9. 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.

10. Taxation

UK tax

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

Overseas tax

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

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

11. Securities

	1999 £m	1998 £m
Quoted		
UK equities	11,703.1	10,147.9
Overseas equities	3,376.7	3,386.9
UK fixed interest	690.8	851.6
Overseas fixed interest	742.6	722.6
Index-linked	216.2	195.3
	16,729.4	15,304.3
Unquoted		
UK equities	0.3	2.7
	16,729.7	15,307.0

12. Property

	1999 £m	1998 £m
UK completed properties	1,058.3	866.0
UK developments in progress	116.2	43.6
	1,174.5	909.6
Properties analysed by type:		
Freehold	1,064.6	800.0
Leasehold	109.9	109.6
	1,174.5	909.6

The completed properties and developments in progress were valued independently by Colliers Erdman Lewis Ltd, chartered surveyors, as at 31 March 1999 and 31 March 1998.

13. Life assurance policies

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

The basis of valuation is stated in Note 2.

14. Stockbroker balances

	1999 £m	1998 £m
Amount due to stockbrokers	(11.8)	(3.7)
Amount due from stockbrokers	38.2	83.2
	26.4	79.5

15. Net current assets

	1999 £m	1998 £m
Current assets		
Dividends receivable	91.8	73.7
Contributions due from institutions	57.8	52.9
Life assurance policy proceeds due	1.3	1.7
Other debtors	5.3	3.0
Cash at bank and in hand	8.9	4.9
	165.1	136.2
Current liabilities		
Property creditors	12.3	11.4
Benefits payable	10.7	10.0
Other creditors	11.5	4.5
Due to USS Ltd	1.7	0.3
	36.2	26.2
	128.9	110.0

16. 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, government bonds and letters of credit.

	1999 £m	1998 £m
Value of stock on loan at 31 March	291.1	–
Value of collateral held at 31 March	310.1	–

17. Financial commitments

	1999 £m	1998 £m
Property		
Contracts placed but not provided for	199.9	56.6
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	1.4	2.5

18. Self investment

The scheme has no employer related investments as at 31 March 1999. Employer related investment occurred during the year from the late receipt of contributions due from institutions. At any time this was less than 0.01% of the scheme's net assets as at 31 March 1999.

19. Related party transactions

There are no related party transactions other than transactions between the scheme and its trustee company. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £6.4 million and £8.7 million respectively, with a balance due from the scheme of £1.7 million at 31 March 1999.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements 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 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 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 financial statements 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 any estimates and judgements on a prudent and reasonable basis.

The trustee is also responsible under pensions legislation 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 scheme rules and the recommendations of the actuary.

The trustee also 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.

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

We have audited the financial statements on pages 48 to 55 which have been prepared under the accounting policies set out on pages 50 and 51.

Respective responsibilities of the trustee and auditors

As described on page 56 the scheme's trustee (Universities Superannuation Scheme Limited) is responsible for obtaining audited financial statements. The trustee is also responsible for ensuring that contributions are made to the scheme in accordance with the scheme rules and the recommendations of the actuary. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and on contributions to the scheme, and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by 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. Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and timing of those payments.

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, and that contributions have been paid in accordance with the scheme rules and the recommendations of the actuary. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the financial transactions of the scheme during the year ended 31 March 1999 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 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.

In our opinion the contributions payable to the scheme during the year ended 31 March 1999 have been paid in accordance with the scheme rules and with the recommendations of the actuary.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
29 July 1999

STATEMENT BY THE ACTUARY for the year ended 31 March 1999

1 An actuarial valuation of the Universities Superannuation Scheme (the Scheme) was carried out as at 31 March 1996, with the results set out in our report dated March 1997.

2 The conclusions from the 1996 valuation were that part of the past service surplus should be used to reduce the institutions' contribution rate below that required for future service benefits alone. It was agreed that with effect from 1 January 1997 the institutions would contribute at the rate of 14.0% of salaries, subject to review at the next valuation at 31 March 1999.

3 The formal actuarial statement on the scheme as required under Regulation 8 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1986 is shown separately.

4 I also carried out actuarial reviews of USS as at 31 March 1997 and 31 March 1998 which compared the actual experience during the period since 31 March 1996 with the assumptions made for the 1996 actuarial valuation.

5 The 1998 review showed that, although the overall financial position of the scheme had deteriorated since the 1996 valuation (primarily as a result of the loss of tax credits), the assets of the scheme remained sufficient to cover the accrued liabilities as at 31 March 1998. I recommended that no change be made in the rate of contribution being paid by the institutions.

6 I am now carrying out a full actuarial valuation of USS as at 31 March 1999 and I shall be reporting to the management committee later this year. In the meantime I consider it appropriate that the management committee should maintain the present rate of contribution.

M B Reid
Fellow of the Institute of Actuaries

William M Mercer Ltd
Liverpool L2 3QB
9 June 1999

ACTUARIAL STATEMENT made for the purposes of Regulation 8 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1986.

Name of scheme:	**Universities Superannuation Scheme**
Effective date of valuation:	**31 March 1996**

1. Security of accrued rights

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

2. Security of prospective rights

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

Description of contributions

From 31 March 1996 until 31 December 1996

By the members:	6.35% of salary as specified in the rules
By the employing institutions:	18.55% of salary for each member

From 1 January 1997 onwards

By the members:	6.35% of salary as specified in the rules
By the employing institutions:	14.0% of salary for each member

Subject to review at future actuarial valuations.

3. Summary of methods and assumptions used

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

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

3.1 The long term yield which may be expected to be earned on new investments over a considerable period in the future, allowing for both income and capital appreciation, will exceed the general rate of salary increases as a result of inflation by 2% per annum, and the general rate of price increases by 3.5% per annum.

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

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

The valuation method used was the projected unit method.

William M Mercer Limited
Liverpool
9 June 1999

M B Reid
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Contributions and benefits					
Contributions	481	457	501	489	451
PRS receipts	41	56	46	40	23
Transfers in	68	90	31	24	31
	590	603	578	553	505
Benefits payable					
Pensions	384	348	313	282	260
Lump sums	91	103	90	72	56
Transfers out	22	18	22	14	16
Refunds	1	1	1	1	1
	498	470	426	369	333
Returns on investments (net of investment management costs)	497	494	505	449	374
Administration costs of the trustee (excluding investment management costs)	6.4	5.9	5.8	5.8	4.1
Changes in value of investments	882	3,062	931	1,637	(231)
Investments of the fund (at current values) at 31 March					
Securities	16,730	15,307	11,958	10,344	8,051
Property	1,175	910	840	783	840
Life assurance policies	264	282	274	277	265
Managed fund	–	–	–	78	95
Cash deposits	492	662	474	465	395
Stockbroker balances	26	80	3	27	75
	18,687	17,241	13,549	11,974	9,721

Membership numbers at 31 March	1999	1998	1997	1996	1995
Contributing members	81,600	78,700	76,900	74,700	70,200
Pensioners	29,900	28,200	26,100	24,200	22,700
Deferred pensioners	37,600	33,700	30,200	26,200	23,300
	149,100	140,600	133,200	125,100	116,200

REPORT OF THE DIRECTORS for the year ended 31 March 1999

The directors submit their report and the accounts for the year ended 31 March 1999.

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 £15,135,000 this amount being recoverable from USS. This compares with £11,242,000 for the year ended 31 March 1998.

The increase in operating costs is due to two factors: increases in investment management fees and costs incurred in replacing computer systems which are not Year 2000 compliant.

The fund's investment management structure was reviewed during the year. This resulted in the replacement of one of the fund's external investment managers and in a change in the asset mix of the fund. In order to minimise the fund's dealing costs a specialist manager was appointed to manage the transition to the new structure which took place from July 1998 to September 1998. The fees of the transition manager were £1.6 million. In addition, the investment management fees of the two retained external managers were increased (backdated to January 1998) which, together with the fee increase arising from the change of manager, resulted in an increase in investment management fees of £2,855,000 compared to the previous year.

Costs incurred during the year in testing computer systems for Year 2000 compliance and in replacing non-compliant systems amounted to £494,000, excluding staff costs.

Apart from the increases in investment management fees and the Year 2000 costs the total operating costs of the company increased by £544,000, an increase of 4.8 % compared to the previous year, while administration costs remained at the same level as the previous year.

Year 2000 work has been given a high priority throughout the year and during October 1998 a major Year 2000 test of all systems was carried out. Test results proved very satisfactory with only relatively few software amendments required.

The pensions administration system supplied by Claybrook Computing Ltd is over 15 years old and is incompatible with modern technology. This system is being replaced by a new product developed by Image Systems Europe (ISE). The Universal Pensions Management system (UPM) from ISE will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll packages. Prior to implementing the UPM package, it has been necessary to create a Year 2000 compliant platform for pensions administration to be used up to the implementation of the UPM and beyond the Year 2000 if necessary and major effort has gone into replacing the Claybrook front-end with ISE software which links to the legacy systems.

The current pensions payroll system is not Year 2000 compliant and is being replaced by the Oracle payroll package. The project is progressing according to plan and the system is anticipated to go live in August 1999.

A system to produce and distribute benefit statements has been completed during the year and following a pilot phase, statements are being issued to members throughout 1999.

Fixed assets

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

Directors

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

Professor Sir Graeme Davies (chairman)
C D Donald (deputy chairman)
A S Bell
L Collinson
Angela Crum Ewing
K F Dibben
Professor Sir Brian Fender
Dr J M Goldstrom (from 1 June 1998)
Professor Martin Harris
Lord Mark Fitzalan Howard
Professor Sir Gareth Roberts
Dr G R Talbot (to 31 May 1998)
J W D Trythall

Statement of directors' responsibilities

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

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

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

Auditors

In accordance with section 384 of the Companies Act a resolution proposing the reappointment of PricewaterhouseCoopers will be submitted at the annual general meeting.

By order of the board

J P Williams
Secretary
29 July 1999

STATEMENT OF OPERATING COSTS for the year ended 31 March 1999

	Note	1999 £000	1998 £000
Personnel costs			
Employees' emoluments	4	4,211	4,119
Directors' emoluments and expenses	5	282	233
Recruitment, training and welfare		147	166
		4,640	4,518
Premises costs			
Rent, rates, service charges and utilities		1,286	1,137
Depreciation and maintenance		333	383
		1,619	1,520
Investment costs			
Securities management		4,702	1,847
Securities management rebates	6	(1,255)	(1,544)
Custodial services		1,166	1,105
Property management		725	744
Legal costs - property management		247	167
- securities management		8	34
- special investigation		(11)	88
Property valuation		128	84
Investment performance measurement		60	60
Consultancy		1	5
Costs met by third parties	7	(37)	(40)
		5,734	2,550
Other costs			
Computer and information services costs	8	1,337	1,404
Year 2000 costs	9	494	–
Professional fees	10	620	563
Office equipment		363	344
Travel and car costs		289	254
Telephones and postage		149	141
Institution liaison and member communication		117	165
Printing and stationery		116	130
IMRO membership		94	98
Pensions Act Levy		45	68
Insurances		43	51
Auditors' remuneration	11	38	36
Sundry expenditure		5	17
(Profit) on disposal of fixed assets		(15)	(12)
Costs met by third parties	7	(553)	(605)
		3,142	2,654
Total operating costs - recoverable from USS	12	15,135	11,242

BALANCE SHEET as at 31 March 1999

	Note	1999 £000	1998 £000
Assets			
Fixed assets			
Tangible fixed assets	13	1,342	1,874
Current assets			
Debtors	14	2,500	966
Cash at bank and in hand		2	1
		2,502	967
Total assets		3,844	2,841
Liabilities			
Creditors - amounts falling due within one year	15	3,844	2,841
Total liabilities		3,844	2,841

The financial statements on pages 63 to 71 were approved by the board of directors on 29 July 1999 and were signed on its behalf by:

C D Donald
Deputy Chairman

L Collinson
Director

CASH FLOW STATEMENT for the year ended 31 March 1999

	Note	1999 £000	1998 £000
Operating activities			
Cash received from USS		13,698	10,518
Operating costs paid	16	(13,410)	(10,116)
Net cash inflow from operating activities		288	402
Capital expenditure			
Purchase of tangible fixed assets		(343)	(436)
Sale of tangible fixed assets		56	34
Net cash outflow from investing activities		(287)	(402)
Increase in cash		1	–

NOTES TO THE ACCOUNTS for the year ended 31 March 1999

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

2. Format of accounts

A Profit and Loss Account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the Statement of Operating Costs.

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

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

3. Accounting policies

Accounting convention

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

Depreciation of fixed assets

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

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33⅓
Motor cars	25
Computer software	33⅓

Year 2000

Costs incurred in testing computer systems for Year 2000 compliance and in replacing computer software and hardware which is not Year 2000 compliant, and where the replacement system does not introduce significant improvements over the previous system, are written off in the year the costs are incurred.

Pensions

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

4. Employees' emoluments

	1999	1998
The average weekly number of persons employed by the company during the year (excluding directors) was	117	112
Staff costs for the above persons were:	£000	£000
Wages and salaries	3,523	3,426
Social security costs (national insurance contributions)	304	269
Pension costs (superannuation contributions)	384	354
Restructuring costs	–	70
	4,211	4,119

The above costs include £112,000 which is directly attributable to Year 2000 projects.

	1999 £000	1998 £000
Emoluments of the chief executive	148	133

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions for him to USS amounted to £13,300 (1998: £12,600). These were paid at the standard rate for the scheme to December 1998, at which point they ceased except for an additional payment in respect of life assurance.

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

	1999	1998
£50,001 - £60,000	5	3
£60,001 - £70,000	4	4
£70,001 - £80,000	2	2
£80,001 - £90,000	–	1
£90,001 - £100,000	–	2
£100,001 - £110,000	2	–
£110,001 - £120,000	1	–
£130,001 - £140,000	–	1
£140,001 - £150,000	1	–
£190,001 - £200,000	–	1
£200,001 - £210,000	1	–
£270,001 - £280,000	–	1
£310,001 - £320,000	1	–

5. Directors' emoluments and expenses

	1999 £000	1998 £000
Fees	224	198
Employer's costs - national insurance contributions	22	18
- VAT	7	5
Expenses	29	12
	282	233

13. 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 1998	1,628	1,074	1,759	1,080	325	5,866
Additions	21	106	40	31	145	343
Disposals	–	(5)	(1)	–	(121)	(127)
At 31 March 1999	1,649	1,175	1,798	1,111	349	6,082
Accumulated Depreciation						
At 1 April 1998	978	884	1,506	487	137	3,992
Charge for year	266	153	180	147	88	834
Disposals	–	(4)	–	–	(82)	(86)
At 31 March 1999	1,244	1,033	1,686	634	143	4,740
Net Book Value 31 March 1999	405	142	112	477	206	1,342
Net Book Value 31 March 1998	650	190	253	593	188	1,874

14. Debtors

	1999 £000	1998 £000
Due from USS	1,734	297
Prepayments	721	612
Other debtors	45	57
	2,500	966

15. Creditors - amounts falling due within one year

	1999 £000	1998 £000
Accrued expenditure	2,054	1,583
Taxation and social security	107	100
Other creditors	1,683	1,158
	3,844	2,841

16. Reconciliation of operating costs paid

	1999 £000	1998 £000
Operating costs - recoverable from USS	15,135	11,242
Depreciation	(834)	(995)
Profit on sale of tangible fixed assets	15	12
Increase/(decrease) in debtors (excluding USS)	97	(62)
Increase in creditors (excluding USS)	(1,003)	(81)
Operating costs paid	13,410	10,116

17. Value added tax

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

18. Pension costs

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

The latest actuarial valuation of the scheme was at 31 March 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. It was assumed that the investment return would be 8½% per annum, that salary scale increases would be 6½% per annum and that pensions would increase by 5% per annum. At the date of the last actuarial valuation, which was carried out using the projected unit method, the market value of the assets of the Scheme was £12,087 million and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the company was £384,000 (1998: £354,000). The contribution rate payable by the company was 14% of pensionable salaries. The actuary to the Universities Superannuation Scheme has confirmed that it is appropriate to take the pensions cost in the company's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 1996 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

19. Capital commitments

	1999 £000	1998 £000
Authorised and contracted but not provided for	–	–

20. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £6.4 million and £8.7 million respectively, with a balance due from the scheme of £1.7 million at 31 March 1999.

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

We have audited the financial statements on pages 63 to 71 which have been prepared under the historical cost convention and the accounting policies set out on page 66.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 62 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1999 and of its results and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
29 July 1999

From left to right

Lord Mark Fitzalan Howard OBE, Chairman, Investment Committee
Colin Donald, Chairman, Finance & General Purposes Committee
Professor **Sir Graeme Davies**, Chairman, Management Committee
Len Collinson, Chairman, Remuneration Committee

Inset from the top

Kenneth Dibben, Chairman, Audit Committee
Sir Kenneth Berrill, Chairman, Joint Negotiating Committee
Denis Linfoot, Chairman, Advisory Committee

John P Williams, Company Secretary
Colin Hunter, Chief Accountant
David Chynoweth, Chief Executive
Peter Moon, Chief Investment Officer
Stewart Neil, Chief Pensions Manager
Robert Walden, Surveyor

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