

USS

UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED



Report and Accounts

for the year ended 31 March 2002

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets at 31 March 2002 of around £20 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.

The registered number of the Trustee Company (USS Ltd) at Companies House is 1167127

The reference number of the Scheme (USS) at the Pension Schemes Registry is 100201003

USS

Management statement	2
Summary of year	3
Trustee company	4
Officers and advisers	4
Membership of committees	5
Committee reports	7
Management committee	7
Investment committee	19
Joint negotiating committee	32
Advisory committee	33
Statement of investment principles	34
Membership statistics	38
University institutions	38
Non-university institutions	44
Summary of movements	49
USS accounts	50
Fund account	50
Statement of net assets	51
Notes to the financial statements	52
Statement of trustee's responsibilities	58
Report of the auditors	59
Statements by the actuary	61
Five year summary	64
USS Ltd accounts	65
Report of the directors including the statement of directors' responsibilities	65
Statement of operating costs	67
Balance sheet	68
Cash flow statement	69
Notes to the accounts	70
Report of the auditors	77

FRONT COVER

Centre: USS Ltd's registered office in the Royal Liver Building, Liverpool.

Properties within the USS fund:

1 - Telford Shopping Centre, Telford. 2 - Stockley Park, Heathrow.

3 and 7 - The Gyle Shopping Centre, Edinburgh.

4 and 6 - Woolgate Centre, Witney, Oxon.

5 - Whiteley Village Designer Outlet Centre, Southampton.

In the year to 31 March 2002 the scheme's membership continued to grow, although poor investment returns generally saw the value of the fund fall over the year for the second year running. The scheme's active membership increased by 4.8% from 91,300 to 95,700 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 49,500 (up by 9%) and 35,100 (up by 6%) respectively. At 31 March 2002 the fund had total assets of around £20 billion.

It was another poor year for pension fund performance generally and for the fund. The fund's return of -10.1% was well below both price inflation and below its peer group average although over the longer term the fund's performance remains ahead of its target and comfortably exceeds the assumptions used in the 1999 actuarial valuation of the scheme.

We reported last year on certain operational difficulties which we experienced following the implementation of the trustee company's new pensions administration software, the Universal Pensions Management System, in August 2000. We are pleased to report that during the year these difficulties were largely overcome and that the levels of service being provided to member institutions and individual members were reinstated to a satisfactory standard.

A consultation process took place during the year with both employers and members to ascertain the level of support for a possible improvement in the USS accrual rate to 60ths. In addition to discussions which took place during the UUK conference in September 2001 and at the USS institutions' meeting at BAFTA in November 2001 letters were sent to all institutions and to all members of USS seeking their response to the proposals. No decision on any change in the accrual rate will be made until the results of the triennial actuarial valuation as at 31 March 2002 are known. However, the results of the consultation process, the prospect of reduced investment returns in the future and, quite likely, a reduced surplus at the valuation make a decision to improve the accrual rate to 60ths for both past service and future service look more unlikely now than when we first began to consider the matter in 1997.

There have been many reports recently in the media of employers closing the doors of their final salary schemes to new members and in some cases winding-up

schemes. Providing pension benefits for employees is a long-term commitment and that determination has been evident in USS since it was set up in April 1975. We want to reassure members that in our opinion the institutions that participate in USS remain fully supportive of providing a final salary scheme.

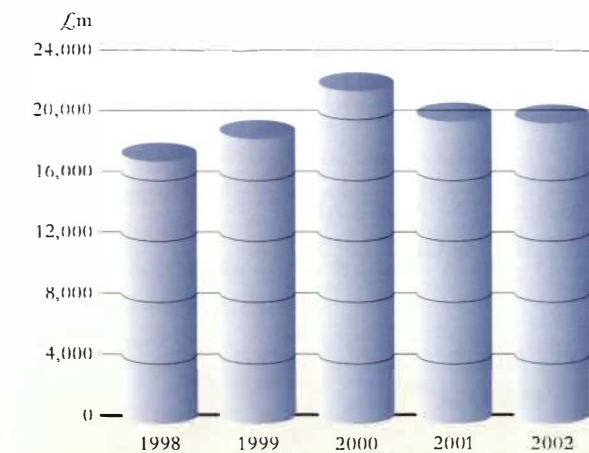


Graeme J Davies
Chairman



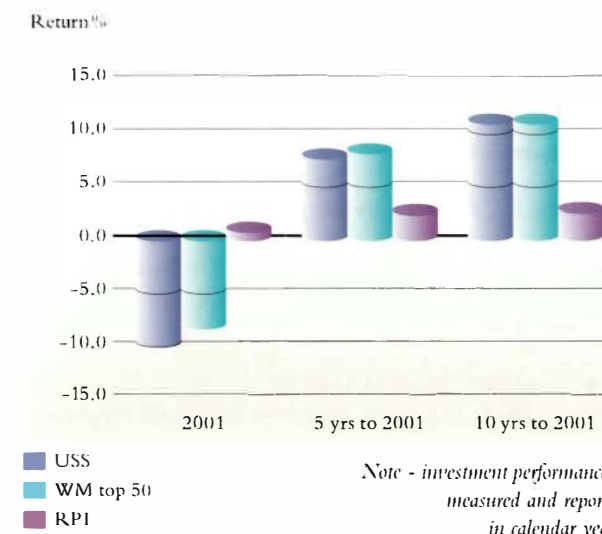
David B Chynoweth
Chief Executive

FUND



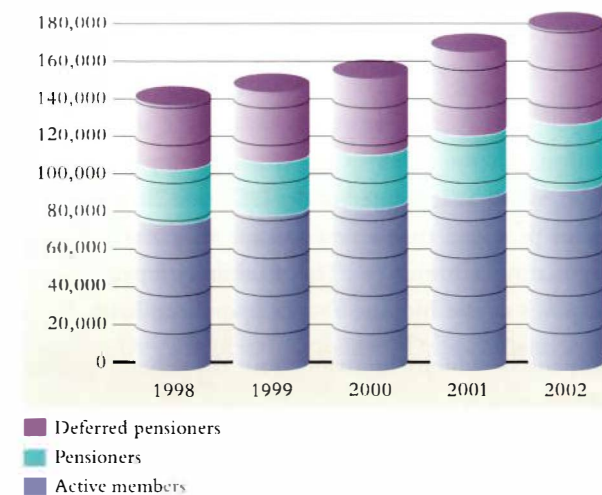
The fund's investments have increased from £17.2 billion in 1998 to £19.8 billion as at 31 March 2002. Poor investment returns generally have seen a decrease in the value of the fund's investments for the second year running. More details are given in the investment committee report on page 19 and in the five year summary of the fund accounts on page 64.

PERFORMANCE



After the fund's exceptional investment returns in 1999, both 2000 and 2001 were poor years for the fund. The total return for the fund in 2001 was -10.1%, behind both price inflation and the WM50 benchmark return. Over five years the fund has underperformed the WM50 average while over ten years it has performed in line with the WM50 average. Over both five and ten years the fund return has comfortably exceeded RPI. More details are given in the report of the investment committee on page 19.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2002 the total membership was 180,300 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 64.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2002 are:

<i>Chief Executive</i>	D B Chynoweth BA CPFA FCCA FCMI
<i>Chief Investment Officer</i>	P G Moon
<i>Chief Accountant</i>	C S Hunter BSc CA
<i>Chief Pensions Manager</i>	Rosemary A Mounce BSc ARCS AIA
<i>Company Secretary</i>	J P Williams BA ACIS MCIPD MCM1
<i>IT Manager</i>	D S Andrews
<i>Communications Manager</i>	C G Busby
<i>Surveyor</i>	R G Walden BSc FRICS
<i>Actuary</i>	E S Topper MA FIA FPMI of Mercer Human Resource Consulting Limited Clarence House, Clarence Street, Manchester M2 4DW
<i>Solicitors</i>	DLA India Buildings, Liverpool L2 0NH
<i>Auditors</i>	PricewaterhouseCoopers 8 Princes Parade, St Nicholas Place, Liverpool L3 1QJ
<i>Bankers</i>	Barclays Bank Plc 4 Water Street, Liverpool L69 2DU
<i>Property Consultants</i>	LaSalle Investment Management 33 Cavendish Square, London W1A 2NF

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

<i>Solicitors</i>	Clifford Chance, Dundas & Wilson, Lawrence Graham, Hammond Suddards Edge, Mitchells Robertson, Fried Frank Harris Shriver & Jacobson
<i>Investment managers</i>	Baillie Gifford & Co, Capital International Limited, Schroder Investment Management Limited, Merrill Lynch Investment Managers, Henderson Global Investors Limited
<i>Investment consultants</i>	Mercer Investment Consulting
<i>Custodians</i>	Deutsche Bank, JP Morgan Plc
<i>Investment performance measurement</i>	Investment Property Databank Limited, The WM Company
<i>Property valuers</i>	Colliers Conrad Ritblat Erdman
<i>Computer software</i>	Comino plc, Azlan Limited, Oracle Corporation UK Limited, Morse Limited
<i>Computer hardware</i>	Hewlett-Packard Limited
<i>Data recovery</i>	Synstar Business Continuity Limited
<i>Insurers</i>	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

The membership at 31 March 2002 of the principal committees was as follows:

Management Committee

Appointed by Universities UK (UUK)

Professor Sir Graeme Davies (Chairman), Professor Sir Martin Harris, M S Potts,
Baroness Warwick of Undercliffe

Appointed by the Association of University Teachers (AUT)

Mrs Angela Crum Ewing, Professor Charles Sutcliffe, J W D Trythall

Appointed by the Higher Education Funding Councils (HEFCs)

Sir Howard Newby

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 Sir Martin Harris, M S Potts, J W D Trythall, Baroness Warwick of Undercliffe

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, Professor Charles Sutcliffe, J W D Trythall

Audit Committee

Appointed by the management committee

Dr Christine Challis (Chairman), Mrs Angela Crum Ewing, C D Donald,
M S Potts, Professor Charles Sutcliffe

Remuneration Committee

Appointed by the management committee

L Collinson (Chairman), Mrs Angela Crum Ewing, C D Donald, M S Potts,
J W D Trythall, Baroness Warwick of Undercliffe

Advisory Committee

Appointed by UUK

Dr A Bruce, A D Linfoot, D W Sims

Appointed by AUT

Ms J McAdoo (Chairperson), A Carr, Dr J de Groot

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by UUK

Dr A Bruce, I Crawford, Dr S G Fleet, A D Linfoot, C Morland

Appointed by AUT

Ms L Barker, Ms C Cheesman, Dr J M Goldstrom, Dr T McKnight, A Waton

MANAGEMENT COMMITTEE MEMBERS as at 1 August 2002



Professor Sir Graeme Davies, Chairman

Graeme Davies (65) is currently Principal and Vice-Chancellor of the University of Glasgow. He was educated in the School of Engineering of the University of Auckland, New Zealand. He was until September 1995 Chief Executive of the Higher Education Funding Council for England (and previously the Universities Funding Council and the Polytechnics and Colleges Funding Council). He was vice-chancellor of the University of Liverpool from 1986 to 1991 and holds honorary degrees from Liverpool, Sheffield, Nottingham, Manchester Metropolitan, Strathclyde and Auckland universities. He sits on the Scottish Science Trust and the board of Universities UK. He was appointed chairman of USS Ltd in 1996.



Colin D Donald

Colin Donald (67) has been a director of USS Ltd as a co-opted member of the board since 1 July 1990 and deputy chairman since 1996. Until 1994 he was a partner and latterly a consultant with the firm of McGrigor Donald, solicitors in Glasgow specialising in private client, trust and charity work. He was a lay member of the Court of the University of Glasgow from 1980 to 1997 and chairman of the university's non-academic staff pension scheme from 1984 to 1997.



A S Bell CBE

Scott Bell (60) retired in March 2002 after 14 years as group managing director of Standard Life. He is a member of the Financial Reporting Council and has been the Honorary Canadian Consul in Scotland since 1994. He has been a director of USS Ltd since August 1996.



Sir Howard Newby

Howard Newby (54) joined the Higher Education Funding Council for England as chief executive in October 2001. Prior to that he was the vice-chancellor of the University of Southampton from 1994 to 2001. His earlier posts include chairman (1988-94) and chief executive of the Economic and Social Research Council, Professor of Sociology at the University of Essex (1983-88) and Professor of Sociology and Rural Sociology at the University of Wisconsin, Madison (1980-83). He became a director of USS Ltd in October 2001.



Professor Charles Sutcliffe

Charles Sutcliffe (54) has taught finance at the University of Southampton since 1990, and previously worked at the universities of Newcastle and Reading. From 1981 to 1985 he was an elected member of Berkshire County Council and a trustee of the Berkshire Local Authorities Superannuation Fund. Between 1973 and 1985 he was auditor of the Reading Association of University Teachers. Since 1985 he has been a member of the Research Board and the Research and Development Group of the Chartered Institute of Management Accountants, and vice-chairman of the Research Board since 1997. He was appointed as an AUT nominated director of USS Ltd in 2001.



Baroness Warwick of Undercliffe

Diana Warwick (57) was appointed chief executive of Universities UK (formerly the Committee of Vice-Chancellors and Principals) in 1995. Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983-1993 she was the General Secretary of the Association of University Teachers, representing some 30,000 academic and senior staff in UK universities. She was a member of the Employment Appeals Tribunal from 1984 to 1999 and the Standing Committee on Standards in Public Life from 1994 to 2000. From 1985 to 1995 she served as a board member of the British Council, was a governor of the Commonwealth Institute until 1995, and a member of the TUC General Council between 1989 and 1992.

Leonard Collinson

Leonard Collinson (68) is the founder and a director of Collinson Grant Group and chairman of The Campaign Company, Central Plastics and the publisher, Industry Northwest. Also, he is chairman of the Forum of Private Business and the Small Business Research Trust. He is a Deputy Lieutenant for the County of Merseyside and has been a director of USS Ltd since February 1989.



Professor Sir Martin Harris

Martin Harris (58) has been the vice-chancellor of the University of Manchester since 1992. He was previously vice-chancellor of the University of Essex from 1987 to 1992 and a member of the University Grants Committee from 1984 to 1987. He was chairman of the Committee of Vice-Chancellors and Principals (now Universities UK) from 1997 to 1999. He is a member of the North West Development Agency and he has been a director of USS Ltd since 1 April 1991.



Michael Potts

Michael Potts (63) is President of the Council of the University of Liverpool, having served as Treasurer to the university between 1993 and 1999. He is a chartered accountant and retired from Coopers & Lybrand in 1993 after 20 years as senior partner in the Liverpool office. He is currently President of the North West Cancer Research Fund, having served as Chairman for nine years and is a non-executive director of a number of private companies. He was appointed a Deputy Lieutenant for the county of Merseyside in 2000 and has been a director of USS Ltd since 1999.



Angela Crum Ewing

Angela Crum Ewing (72) was formerly Deputy Registrar of the University of Reading from which she retired in 1995. From 1995 to 1998 she was a consultant to the Moscow School of Social and Economic Sciences. Before her retirement she chaired the national Administrative Staff Committee of the Association of University Teachers (AUT) from 1986 to 1991 and was national president of the AUT in 1991-92. She has been a trustee of the AUT pension fund since 1994. She was appointed the first pensioner director of USS Ltd in 1997 having previously served as a member of the Joint Negotiating Committee from 1989 to 1990 and of the Advisory Committee from 1990 to 1994.



J W D Trythall

Mr J W D Trythall (Bill), 57, has taught 20th century history at the University of York since 1969. He has been active in the labour movement in York. For 14 years he was a member of the national executive committee of the Association of University Teachers and served as its President in 1989-90. He is at present a trustee of the association. He has a broad interest in pensions provision and serves on the advisory committee of the Pension Trustees' Circle and on the advisory group for the Just Pensions project. He has been a director of USS Ltd since 1988.



MANAGEMENT COMMITTEE

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

Committee members

There have been two changes in membership of the committee during the year. Dr J M Goldstrom ceased to be an Association of University Teachers (AUT) appointed director of the trustee company on 31 August 2001 and was succeeded by Professor Charles Sutcliffe. Sir Brian Fender ceased to be the Funding Councils' appointed director of the trustee company on 30 September



A management committee meeting in Liverpool.

2001 and was succeeded by Sir Howard Newby. We are most grateful to both Dr Goldstrom and Sir Brian for their contributions to USS matters during their terms of office.

Lord Mark Fitzalan Howard retired as a co-opted director of the trustee company with effect from 1 April 2002. Lord Mark had been a director and chairman of the investment committee since April 1993 and we are most grateful to him for his wide ranging and valued contribution during his

nine years in office. He has been succeeded as chairman of the investment committee by Scott Bell. The management committee is currently seeking to fill the co-opted vacancy caused by Lord Mark's retirement.

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 Universities UK (UUK) (formerly 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 Funding Councils. UUK, AUT and the Funding Councils 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 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 Ltd directors normally serve a three year term but are eligible for reappointment in the above manner. In keeping with corporate governance principles the management committee has decided that co-opted director appointments will normally be for a maximum of three terms. 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.

Institutions

At 31 March 2002 there were 309 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 167 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

Ashridge (Bonar Law Memorial) Trust*
Bristol, Clifton and West of England Zoological Society*
Centre for Migration Studies
Connect - The Communications Disability Network
Cranfield Aerospace Limited
International Research Foundation for Open Learning
Kelvin Nanotechnology
King Alfred's College of Higher Education, Winchester*
Regional Studies Association
Sheffield University Enterprises Ltd
Smith Institute
University of Cambridge Challenge Fund
University College Northampton*
YHUA Ltd

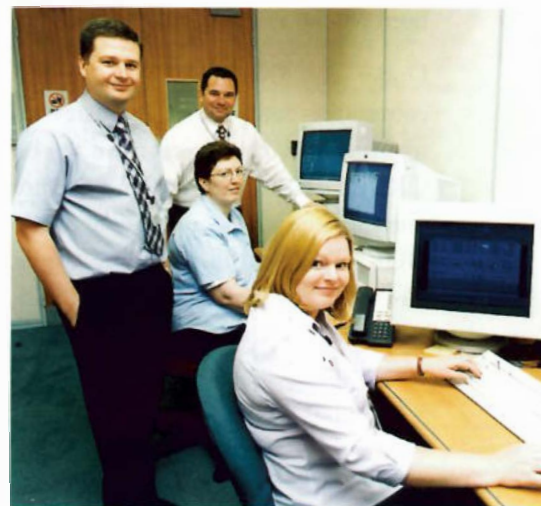
*denotes an institution admitted only for employees who had been members of USS whilst in a previous employment.

Institutions which ceased to participate:

Associated Examining Board (merged with Assessment and Qualifications Alliance)
Northern Examinations and Assessment Board (merged with Assessment and Qualifications Alliance)
Inns of Court School of Law (merged with City University)

Expansion of USS

As reported in previous years, the rules were amended on 10 December 1999 to extend the eligibility for new institutions to include those that are majority owned by one or more existing institution. Several of the new institutions that have joined this year have taken advantage of this rule change. The rules were also amended to allow current institutions to admit further categories of staff to USS. There has been a significant increase this year in the number of enquiries from institutions wishing to merge their non-academic staff schemes into USS and discussions are ongoing with these institutions. A small number of institutions have decided to offer USS membership to other groups of staff but only in respect of new recruits.



Philip Moss, Russ Thomas,
Alison Campbell and Suzanne Haycock;
members of the IT department.

In seeking to promote USS the committee continues to set no expectations or targets for increased membership numbers. The only objective that has been set is to make the benefits of participation in USS known to all organisations that are eligible to join USS, and to those that can expand the membership of USS within their organisation, encouraging them to do so where appropriate. The officers continue to keep representatives of the British Universities Finance Directors Group (BUFDG) informed of developments.

Scheme membership

During the year 17,858 new members joined the scheme and at 31 March 2002 the total membership, including pensioners and those entitled to deferred benefits, was 180,316 compared with 169,808 a year earlier. Further details of the change^s in membership during the year are contained in the section "Membership Statistics" on page 38 and over the five years ended 31 March 2002 in the Summary on page 64.

The proportion of eligible new employees choosing not to join USS was 15% compared with 17% last year.



Pensions department managers
Bernie Steventon and Brendan Mulkern

Stakeholder pensions

Stakeholder pensions legislation became effective on 6 April 2001 and employers had until October 2001 to comply with the requirements. Certain circumstances exempted employers from the legislation. One of the main exemptions arising when membership of an occupational pension scheme is offered as an alternative to a stakeholder pension.

Many of the institutions would have been obliged to provide access to a stakeholder pension in respect of significant numbers of academics employed on irregular contracts (although not all such employees would be subject to the legislation). However, the trustee company extended the eligibility conditions by means of the twenty-third amending deed such that employees on irregular contracts can now join USS if their employing institution so decides.

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 2002, twenty six deeds of amendment. Two deeds of amendment were executed during the year. Details on the rule amendments are given in the report of the joint negotiating committee on page 32.

Pensions sharing on divorce

Members are now able to share pension scheme benefits with their ex-spouse in the event of their divorce. A comprehensive fact sheet has been produced for members and their advisers providing detailed information. A charge, in line with National Association of Pension Fund's recommendation, is made for the implementation of a court order for pension sharing. There were more than 300 requests for information up to 31 March 2002 although only one court order was received for implementation.

Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971 (although increases on the amount of pension which represents the Guaranteed Minimum Pension (GMP) are treated differently - see below). As reported last year, USS pensions were increased by 3.3% on 21 April 2001.

On 21 April 2002 pensions which satisfied certain qualifying conditions and began before 24 April 2001 were increased by 1.7% 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 pre-1988 GMP is generally not increased by USS as increases are paid by the Department of Social Security, as are increases in excess of 3% on that part of the pension which represents the post-



Pensions Department supervisors
(back row) Dave Caldwell, Martin Gains, Jeanette Stevens,
Julie Upton, Eifion Morris and
(seated) Carol Bradshaw, Linda Saunders and Pat Ross.

1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.

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

Pension increases in 1997 and 2000

In April 1997 and April 2000, the years following the last two actuarial valuations, USS Ltd paid discretionary increases to pensioners of 0.9% and 1.0% respectively. These increases were paid in addition to the normal increases that were paid in line with the Retail Price Index (RPI). As for the normal annual RPI increase, the discretionary increases were paid only on the USS pension in excess of the GMP so that the GMP component of the original member's pension did not receive any discretionary increase.

It was subsequently identified that the rule change introducing these increases in each year had been misinterpreted and that the discretionary increase should, in fact, have been applied to the full pension including the GMP.

An exercise was carried out to identify all USS pensioners, widows, widowers and dependants whose benefits had been underpaid. Corrections for existing pensioners were processed in the February 2002 payroll. Payments to widows, widowers and dependants were included in the July 2002 payroll. An exercise is currently ongoing to make payments to the estates of beneficiaries who were entitled to these payments but who died before the corrections were made.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2001 and 31 March 2002 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 61. It reports that the last full actuarial valuation was carried out as at 31 March 1999, that actuarial reviews were completed as at 31 March 2000 and 31 March 2001, and that a further full actuarial valuation is being carried out as at 31 March 2002.

The actuary also carried out a limited review of the financial position of the scheme as at 30 September 2001 in the light of the events of 11 September and the general deterioration in equity markets during the year. His conclusion was that, although the funding position of the scheme had fallen from its level at the last valuation, the scheme nevertheless remained in surplus.

The valuation as at 31 March 2002 will be completed before the end of 2002 and the results will have been communicated to all interested parties prior to the meeting of the institutions' representatives on Thursday 5 December 2002 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 principal financial statements for Universities Superannuation Scheme and Universities Superannuation Scheme Limited (the trustee company) are set out later in this report.

The accounts of the trustee company show a decrease in operating costs from £21.9 million in 2000/2001 to £21.4 million in 2001/2002, a decrease of 2.6%.

However, included within these figures are amounts recovered during the year in respect of costs charged to the accounts in previous years in three specific areas - VAT, legal costs relating to USS Ltd's claims against its former general manager investments and its fidelity guarantee insurers and extraordinary service charges in respect of USS Ltd's former premises in Liverpool.

Excluding these items, total operating costs increased by 2.6%, consisting of an increase in investment management costs of 2.3% and in administration costs of 3.5%.

For the second year running the fund's investments produced a negative return, with the total fund underperforming its benchmark for the year 2001. However, Capital International, the external manager whose fee is performance related, continued to outperform its benchmark so that investment management costs remain high.



Accounts Department supervisors Mike McGreal,
Shelagh O'Grady, Elaine Matthews and Allison Tarleton.

In the Liverpool office considerable effort during the year focussed on successfully reducing backlogs and returning to a satisfactory level of service. While much of the credit for this achievement was due to efficiencies introduced by the Universal Pensions Management system implemented in 2000, an increase in staff numbers was also necessary and this is the main reason for the increase in administration costs.

Full details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 65.

Legal action

For over 10 years USS Ltd has been seeking recompense from its former general manager investments, Mr Spink, and from its fidelity guarantee insurers, the Royal & Sun Alliance, in connection with USS Ltd's investment in Jeffrey S Levitt Ltd, an unquoted investment of the fund which went into receivership in May 1991. The matter came to court in January 2002 and after four days in court an out of court settlement was agreed. The exact terms of the settlement are subject to a confidentiality provision and cannot be disclosed but the overall settlement to USS Ltd from both its insurers and from Mr Spink is considered acceptable by the directors. Part of the amount received is in respect of the recovery of the legal costs of this particular action in this and in previous years and is included in the financial statements of USS Ltd while the balance is included in the financial statements of the fund.

Investment policy

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 2002, are as follows:

- (a) 49.6% is managed internally by the trustee company's London Investment Office (with JP Morgan as custodian). Of this 41.2% are securities and 8.4% are property assets;
- (b) 8% is managed by Baillie Gifford (with Deutsche Bank as custodian); 8.4% is managed by Capital International (with Deutsche Bank as custodian); 7.9% is managed by Schroder Investment Management (with Deutsche Bank as custodian);
- (c) 22.9% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FTSE All-Share Index of UK equities (with J P Morgan as custodian);
- (d) 1.1% is managed by Merrill Lynch Investment Managers on the basis of providing an enhanced return to that of the FTSE All-Share Index of UK equities (with Bank of New York as custodian);
- (e) 1.2% is managed by Henderson Global Investors Limited on the basis of providing an enhanced return to that of the FTSE All-Share Index of UK equities (with JP Morgan as custodian);
- (f) 0.9% of the fund is represented by insurance policies.

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

The year to 31 December 2001 was another poor year for pension fund performance generally with negative returns for the average fund for the second successive year. It was also a poor year for the fund. The fund's performance for the year failed to meet its target, ranking in the 72nd percentile of the WM 50. The fund has also underperformed its peer group over the last five years while over ten years its performance is exactly in line with the peer group average.

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 scheme draw up and maintain a statement of investment principles. This statement must lay down the investment objectives of the pension scheme and explain why these objectives are suitable for the particular circumstances of the scheme. 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, commences on page 34 and is unchanged from the statement which was included in the Report & Accounts last year.

The paragraphs on socially responsible and sustainable investment have been simplified from those which were included in the original statement which was published in 1997.

A more detailed briefing on this issue, which may be amended from time to time, and USS's policy statements on corporate governance are published on the USS Ltd website.

Myners Review

The *Myners Review of Institutional Investment* published its final report in March 2001. The report concluded that there were a number of areas where change would result in a clearer investment decision making process. The report made a number of recommendations and proposed two sets of principles of investment for pension funds, one for defined benefit schemes and the other for

defined contribution schemes. The report led to widespread debate in the pensions industry and following a period of consultation the government published its response to the Myners Review proposals in September 2001. The government largely accepted the report's proposals but restated the principles of investment in a slightly amended format.

The management committee considers that USS Ltd largely complies with the government's recommendations but recognises that some changes will be necessary in order to comply fully with all the recommendations. It has therefore set up a working party under the chairmanship of the chairman of the investment committee, Scott Bell, to consider the changes that should be made



Clive Edwards and Peter Moon
of the London Investment Office.

to ensure USS Ltd complies with the government's recommendations. The government intends to carry out a public assessment of the effectiveness of the principles in bringing about change beginning in March 2003. The working party will be reporting to the management committee by the end of 2002 and it is the intention that USS Ltd will comply fully with all the government's recommendations as soon as possible.

One of the principles concerns the effectiveness of the investment decision making process and the management committee believes it would be helpful if the way in which investment decisions at USS Ltd are taken was made clearer. Much of this is set out in rule 20.5 of the

scheme rules. The management committee retains the overall power of investment in relation to the fund but can delegate to the investment committee the power to decide the investment policy of the fund (rule 20.5(g)). In practice, the investment committee will generally make recommendations to the management committee, rather than decisions, on matters of strategy. This would encompass, for example, changes in the fund's investment objective, its investment target, the appointment and remit of external managers, investment in new asset classes (such as private equity) and decisions on whether to participate in new investment activities (such as securities lending). In making its recommendations, the investment committee receives advice from its external investment consultants, Mercer Investment Consulting. All stock selection decisions are made by the individual investment managers (either internal or external) within constraints recommended by the investment committee and agreed by the management committee. The external balanced managers have full discretion over asset allocation although the chief investment officer and the investment committee monitor their activity. The internally managed fund recommends changes to its asset allocation policy on a half yearly basis for the approval of the investment committee. The investment committee also determines the appropriate allocation of cash (new money) between the different managers on a quarterly basis. The management committee believes that this structure, together with the range of expertise of its in-house staff, committee members and external managers and advisers, enables the trustee company to make effective investment decisions.

Corporate governance

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

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

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

The management committee of USS, which comprises the board of directors of the trustee company, meets at least four times a year and receives reports on a quarterly basis from its main sub-committees: the finance & general purposes committee, the investment committee, the audit committee, the joint negotiating committee and the advisory committee. It also receives reports as required from the remuneration committee. The functions of the investment committee, the joint negotiating committee and the advisory committee are set out in the reports which follow this report.

The finance & general purposes committee reviews the financial estimates and cash flow forecasts produced annually by the officers and monitors progress each quarter against them. It also receives an annual report on corporate performance which reviews the productivity of the office during the year.

The audit committee reviews the scheme's annual financial statements and accounting policies. It also considers reports from the internal audit manager, the compliance officer, the external auditors and regulatory bodies such as the FSA. The chairman of the committee has regular meetings with the compliance officer. At least once a year the committee meets with the external auditors without the officers being present.

The remuneration committee makes recommendations to the management committee on terms and conditions of employment for all officers and staff of USS Ltd.

Internal audit within the trustee company consists of an internal audit manager, one full-time assistant and one part-time assistant. It reviews the operation of the internal control systems affecting the trustee company and the scheme and where relevant at external suppliers. Each year the internal audit manager, in conjunction with senior management, carries out a formal evaluation



Terry Raby, Philip Brayne and Collette Curry
of Internal Audit

of the risks facing the organisation and the audit programme is tailored in the light of this evaluation. The chief executive's management group considers reports each month from the internal audit manager and reviews the risk management and control process to consider whether any changes to internal controls, or responses to changes in the levels of risk, are required. Any weaknesses identified in these reviews are discussed with management and an action plan is agreed to address them. Through regular reports by

the internal audit manager, the audit committee monitors the operation of the internal controls in force and any perceived gaps in the control environment.

The directors confirm that they have established procedures such that they fully comply with the Turnbull Working Party's guidance for directors on internal control for the year ended 31 March 2002.

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

Administration

The service provided to members and institutions continues to be monitored each quarter. Reports showing achievements compared with targets are reviewed by 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.

Development and enhancement of the new pensions administration software, the Universal Pensions Management system, has continued since its implementation in August 2000 and increased productivity has been achieved following the implementation. Operational difficulties mentioned last year were largely overcome during the year and the levels of service being provided to member institutions and individual members were reinstated to a satisfactory standard.

Two administration seminars were held during the year at the Liverpool office and two pension workshops, one at King's College and one at University College, London, 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 institution advisory panels each met three times during the year. The advisory panels which comprise administrators who regularly deal with USS discuss a wide range of topics which

provides the trustee company with helpful advice and comments. One major topic of discussion is the provision of annual benefit statements. The annual meeting with institutions' representatives took place in London in November 2001 and a full report of the proceedings is available on our website.

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

During the year there were 42 instances of late payment of contributions by institutions. Of these 24 related to late payment of member AVC contributions to the Prudential, 14 related to late payment of premature retirement scheme contributions and four were late payment of employee and employer contributions. Of these 14 were reported to OPRA jointly by the trustee company and the scheme actuary. The auditor, PricewaterhouseCoopers, however, still has a requirement to report all late payments of contributions to OPRA and reported on all instances during the year. Each late payment occurred as a result of an administrative problem or oversight and in each case contributions were subsequently remitted in full.

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. USS Ltd's arrangements provide for a specified officer of the scheme, (the chief pensions manager) on the application of a complainant, to give



Di Brown, Joyce Kenwright,
Sharon Cadwallader and Julie Roberts;
the Liverpool secretarial team.

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. The first decision in this process is taken by the chief pensions manager but the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by UUK and the other by the AUT) takes the second decision. This internal dispute resolution procedure was used 10

times during the year in respect of complaints brought against the trustee company. Six cases were considered during the year 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 in three cases. In the three other cases the enlarged advisory committee did not uphold the stage one decision and instead made a recommendation for compensation.

Since the statutory prohibition in April 1988 of compulsory membership of occupational pension schemes as a condition of employment, now contained in Section 160 of the Pension Schemes Act 1993, about one sixth 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 or with effect from October 2001 have a stakeholder pension. 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 may not be in their best interests.

Equitable Life Assurance Society

A small proportion of the fund continued to be held during the year in the form of life assurance policies which were assigned to it in respect of former Federated Superannuation System for Universities (FSSU) members. All the policies were held with the Equitable Life Assurance Society (ELAS).

Despite having been successful in reaching a compromise agreement with its members, which was approved by the High Court in February, ELAS had another difficult year which saw further reductions applied to policy values. USS Ltd formally requested a surrender value of its policies in August 2001 but it was 24 May 2002 before ELAS was able to provide a figure. According to ELAS the delay was due to difficulties in calculating a surrender value for some 19,000 policies. The actuary was asked to review the options that were available and to provide advice to the trustee company to assist it in determining whether or not to surrender the policies. Some of the policies contained certain guarantees and it was important for the trustee company to consider all possible options before deciding whether or not to surrender some or all of the policies.

After due consideration of the advice received from the actuary, the decision was taken at the end of July to surrender all the policies.

USS accrual rate

A consultation process took place during the year with both employers and members to ascertain the level of support for a possible improvement in the USS accrual rate to 60ths.

A meeting on the subject was held at the University of Southampton with vice-chancellors during the UUK conference in September 2001 and there was a further discussion at the USS institutions' meeting at BAFTA on 14 November 2001.

A letter was sent to all institutions in August 2001 from Professor Sir Martin Harris on behalf of the UUK directors of USS Ltd seeking their response to the proposals. A similar letter was issued in October 2001 by the AUT directors of USS Ltd to all members of USS seeking their responses.

About two thirds of those institutions that responded (measured in terms of membership numbers) were generally not in favour of a change in the accrual rate. The response from the membership was very much in favour of a change although only a small number of members responded.

No decision on any change in the accrual rate will be made until the results of the triennial actuarial valuation as at 31 March 2002 are known. The results of the consultation process, the prospect of reduced investment returns in the future and, quite likely, a reduced surplus at the next valuation make a decision to improve the accrual rate to 60ths for both past service and future service look considerably less likely now than when the working party was first set up in 1997 to consider the matter. Preliminary results of the valuation are likely to be available in September 2002 and the trustee company should then be in a position to indicate to members and institutions whether or not it will be taking the proposals further or considering other options.

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 Pension Schemes (Disclosure of Information) Regulations 1996. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a Disclosure Kit containing the required documents. Other information, for example *An Introductory Guide for New Members*, must be provided to every new member and supplies are available from our Liverpool office to

enable institutions to issue them as part of their appointment procedures. Individual statements are required on the occurrence of certain events such as leaving service, retirement or death and these are provided by our Liverpool office as part of the processing of such benefits.

The above disclosure regulations require that a number of statements are made in a document which accompanies the audited accounts and actuarial statements 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, as has a copy of the *Guide to Pension Scheme Trustees* issued by OPRA. 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 19 of the USS accounts. The scheme's assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996.

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

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

Sir Graeme 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 2001/2002

- 2001 was a poor year for investment returns generally with the average fund in the WM 50, the survey of the performance of the largest pension funds, returning -8.3%. This trend has continued into 2002. The return for USS was -10.1% giving a relative return of -1.8% against the WM 50 universe.
- Despite the poor results in 2000 and 2001, the positive longer term investment climate is reflected in results. The ten year return for the fund was 10.9% pa placing it in the 48th percentile of comparable funds. Over the same ten year period, average earnings growth has been 4% pa and retail price inflation 2.5% pa.
- Including net cash flow and capital movements, the value of the investments in the fund fell to £19.8 billion on 31 March 2002, compared to £19.9 billion a year earlier.
- A working party has been set up to consider the implications of the Myners review and will report to the management committee in November of this year.
- USS Ltd organised a seminar on climate change, which was attended by about 200 people. A document setting out USS Ltd's corporate governance policy was circulated to all companies in which it invests.
- The attacks in the US on 11 September have served to heighten uncertainty in financial markets and this has been compounded by accounting scandals uncovered in a number of large US corporations.
- During the year £450 million, about 10% of the portfolio which tracks the FTSE All-Share Index, was taken out of that fund and placed with enhanced index products managed by Merrill Lynch Investment Managers and Henderson Global Investors Limited.

INVESTMENT MANAGEMENT

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

The external managers throughout the year to 31 March 2002 were Schroder Investment Management, Baillie Gifford & Company and Capital International. All these managers have a balanced fund remit. Schroder Investment Management and Baillie Gifford were remunerated through fixed annual fees and Capital International through a performance-related fee.



Thomas Philip; Head of Business Services
at the London Investment Office.



Marie Wardell and Wendy Lewis;
London Investment Office receptionists.

Merrill Lynch Investment Managers and Henderson Global Investors Limited were appointed to run part of the All-Share Index fund on an enhanced performance basis. Merrill Lynch were remunerated through an ad valorem fee and Henderson through a performance-related fee.

LaSalle Investment Management administer the properties within the portfolio and advise on their selection. For these services they charge both management and transaction-related fees.

The fee arrangements in each case are considered by the trustee company to be the most cost efficient way of remunerating the managers.

An analysis of the total investments of the fund at 31 March 2002, along with the comparative figures for the preceding year, is set out in the table on page 21. The investments are stated at market value and details of the changes in value are summarised in Note 9 of the USS accounts on page 55.

CORPORATE GOVERNANCE

The committee attaches great importance to the maintenance of good standards of corporate governance and social and environmental responsibility by companies in which the investments are held. Three specialist advisers have been recruited with expertise in corporate governance, environmental and social issues and they are active in monitoring the performance of companies against relevant international or benchmark standards. Through meetings with companies and other activities, USS Ltd aims to influence management on these governance and related issues, thereby helping to ensure their good standing with customers and investors. This active engagement approach is time consuming but, in the long term, it will benefit the fund. The London Investment Office also seeks to ensure that USS Ltd's voting rights as regards UK companies are exercised on every occasion. Mechanisms are being developed whereby these additional resources can be utilised and made accessible to fund managers so that they can make informed decisions on these aspects of the investment process.



Graham Burnett - Fund Manager Commercial Property
and Robert Walden - Fund Surveyor.

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2002 Total £m	Total %	31 March 2001 Total £m	Total %
Investments under the direct control of USS Ltd									
Quoted securities									
UK	—	21.9	4,014.4	—	—	4,036.3	20.4	3,938.2	19.8
Overseas	688.7	—	3,092.4	—	—	3,781.1	19.1	3,827.1	19.3
Property									
UK	—	—	—	1,666.9	—	1,666.9	8.4	1,592.1	8.0
Cash/stockbroker balances									
UK	—	—	—	—	376.0	376.0	1.9	261.3	1.3
Overseas	—	—	—	—	(63.6)	(63.6)	(0.3)	205.3	1.0
Sub-total	688.7	21.9	7,106.9	1,666.9	312.4	9,796.7	49.5	9,824.0	49.4
Investments managed internally on the basis of external advice									
Index fund									
UK	—	—	4,529.5	—	6.1	4,535.6	23.0	5,059.8	25.5
Investments managed externally (passive)									
Merrill Lynch									
UK	—	—	221.6	—	—	221.6	1.1	—	—
Henderson									
UK	—	—	235.9	—	—	235.9	1.2	—	—
Overseas	—	—	—	—	0.2	0.2	—	—	—
Sub-total	—	—	4,987.0	—	6.3	4,993.3	25.3	5,059.8	25.5
Investments managed externally									
Baillie Gifford									
UK	127.6	124.4	757.6	—	64.3	1,073.9	5.4	1,065.8	5.4
Overseas	79.5	—	425.6	—	1.0	506.1	2.5	495.3	2.5
Capital International									
UK	185.4	146.0	742.2	—	50.3	1,123.9	5.7	1,104.1	5.6
Overseas	75.2	—	476.2	—	(19.8)	531.6	2.7	540.6	2.7
Schroder									
UK	141.5	105.3	750.8	—	82.6	1,080.2	5.5	1,114.8	5.6
Overseas	89.8	—	424.8	—	(33.4)	481.2	2.4	459.9	2.3
Life assurance policies									
UK	92.0	—	40.3	24.3	14.1	170.7	0.9	183.8	0.9
Overseas	—	—	12.7	—	—	12.7	0.1	28.3	0.1
Sub-total	791.0	375.7	3,630.2	24.3	159.1	4,980.3	25.2	4,992.6	25.1
Total investments									
UK	546.5	397.6	11,292.3	1,691.2	593.4	14,521.0	73.5	14,319.9	72.0
Overseas	933.2	—	4,431.7	—	(115.6)	5,249.3	26.5	5,556.5	28.0
Total	1,479.7	397.6	15,724.0	1,691.2	477.8	19,770.3	100.0	19,876.4	100.0
Percentage at 31 March 2002									
UK	2.8	2.0	57.1	8.6	3.0		73.5		
Overseas	4.7	—	22.4	—	(0.6)		26.5		
Total percentage	7.5	2.0	79.5	8.6	2.4		100.0		
Total percentage at 31 March 2001									
	7.7	1.4	79.6	8.1	3.2				100.0

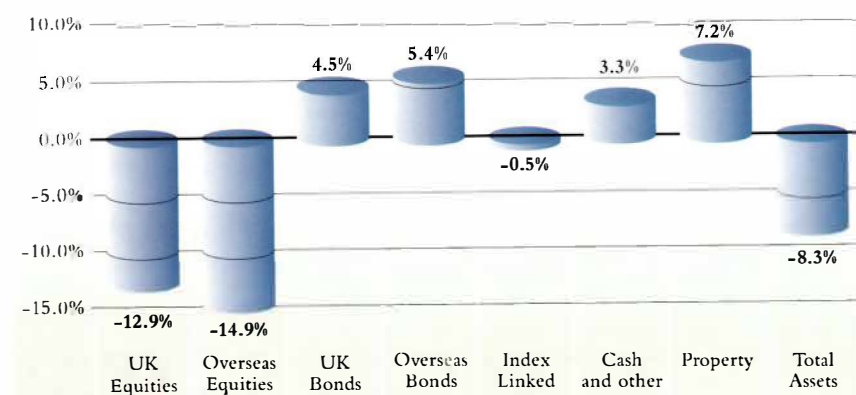
WM50 PENSION FUND SURVEY FOR 2001

The fund participates in the above survey of pension fund performance. In 2001 the survey covered the largest pension funds with a combined value of £277 billion. These funds represent about 60% of assets in the WM All Funds Universe.

Average pension fund results for 2001

Investment returns reported in the 2001 survey showed that the average WM 50 pension fund performed poorly with equities falling in value but property and bonds increasing in value.

Total investment returns for 2001 in sterling (WM50 Pension Fund Survey)



USS RESULTS

The previous section showed the results of the average pension fund in the WM 50. This section analyses the performance of USS itself

The fund adopted the following performance target from 1 January 1999:

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

The investment in the indexed portion of the fund gives a consistent tilt towards UK equities by increasing the total equity content of the fund. This may result in the performance of the fund differing significantly year by year from the average fund performance within the WM Survey but the committee believes that, over the longer term, equities are likely to provide the best return from available asset classes.

Longer term results

Over the ten years to 31 December 2001, the total fund returned 10.9% pa, very much in line with the average for all funds in the WM 50 Universe survey. Average earnings increased by 4.0% pa and the retail price index grew by 2.5% pa. Over this period therefore the fund's real return comfortably exceeded the assumptions used in the actuarial valuation of the scheme.

Performance over the five years to 31 December 2001

Taking the five years 1997 to 2001 together, the following annualised returns were achieved:

	Annualised Return %	WM50 Survey ex Property Percentile
Baillie Gifford	8.5	21
London Investment Office	8.3	24
Schroder Investment Management	7.5	52

(Capital International only became a manager of USS funds in 1998)

Over the five-year period the total fund including property returned 7.6% pa, about 0.5% behind the average fund performance, ranking it in the 69th percentile in the WM 50 survey.

Performance over the three years to 31 December 2001

	Annualised Return %	WM50 Survey ex Property Percentile
Capital International	6.7	5
Schroder Investment Management	2.8	50
London Investment Office	2.8	50
Baillie Gifford	2.6	52

Over the three-year period the total fund including property returned 3.0% pa, about 0.3% behind the average fund, ranking it in the 59th percentile in the WM 50 survey.

Performance in 2001

The total returns achieved during 2001 are shown below:

	Annualised Return %	WM50 Survey ex Property Percentile
Capital International	(6.6)	24
Baillie Gifford	(7.1)	26
Schroder Investment Management	(8.8)	39
London Investment Office	(11.7)	83

Excluding property, the average fund in the WM 50 Universe returned a negative 9.3%.

The total fund including property returned -10.1% against the WM 50 average fund performance of -8.3%, ranking it in the 72nd percentile.

INVESTMENT REPORT

The world economic slow-down which started at the beginning of 2000 has continued through to the first quarter of 2002, but there are tentative signs that the economy is now strengthening. Aggressive fiscal action and substantial monetary easing after the terrorist attacks in the US in September 2001 assisted the recovery in the world economy.

This fiscal and monetary stance has remained loose into 2002 and, given the present fragile state of investor and corporate confidence, this is likely to continue for some time yet. Against this background we believe that corporate profitability, which is the key to market performance, will start to improve later in 2002.

Last year's report outlined concerns that if consumer prices started to rise coupled with a continued weak corporate profit performance then equity markets could fall substantially. In the event, consumer prices did not rise but markets still performed poorly. This was partly due to the terrorist attacks but it also reflects more recently the increasing concern over US and international accounting practices.

We expect equity markets generally to recover at some stage during 2002 as equities look relatively cheap versus bonds. The difficulty is in predicting at which level markets will bottom out and therefore from which point the recovery of equity markets will begin. The internally managed portion of the fund has been gradually committing cash to the markets and reducing its liquidity position.

The performance of the major markets for the year to 31 March 2002 is shown below:

Equity and fixed interest market total returns for the year to 31 March 2002

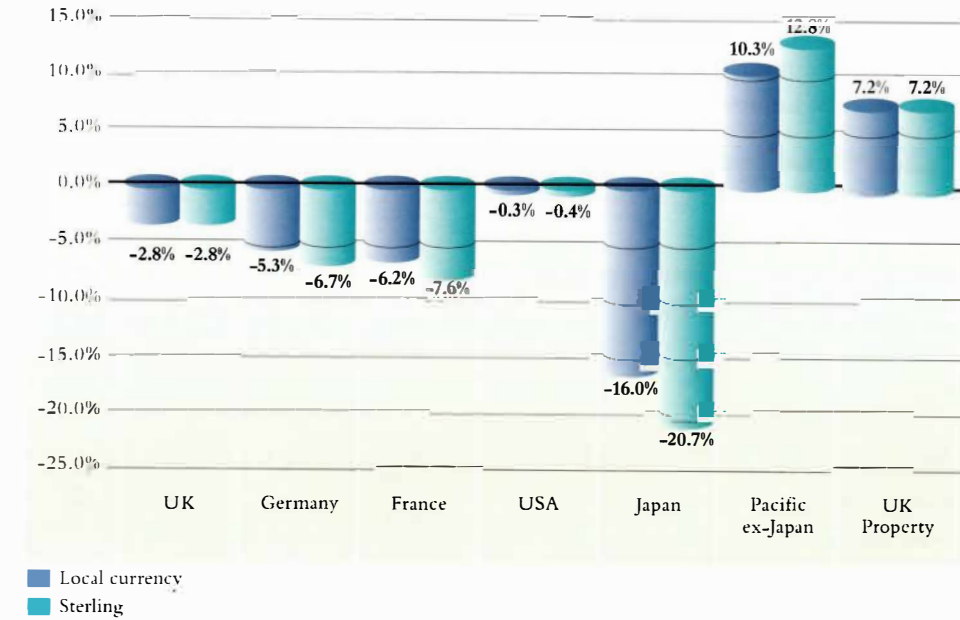
	Equities		Fixed Interest	
	Local Currency %	Sterling %	Local Currency %	Sterling %
UK	(2.8)	(2.8)	1.6	1.6
Germany	(5.3)	(6.7)	2.6	1.1
France	(6.2)	(7.6)	3.1	1.6
USA	(0.3)	(0.4)	3.2	3.1
Japan	(16.0)	(20.7)	1.0	(4.7)
Pacific ex-Japan	10.3	12.8	-	-
UK Property	7.2	7.2	-	-

Source:

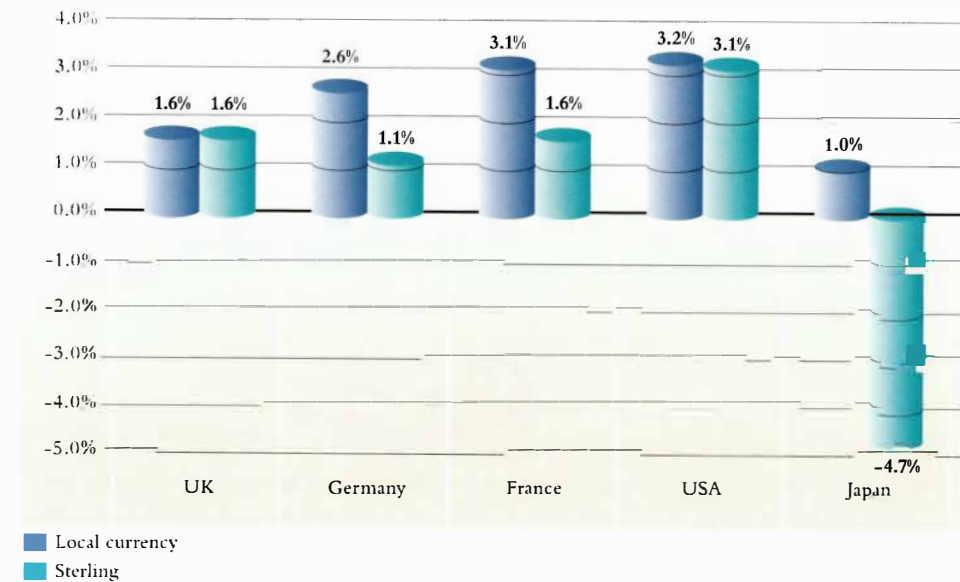
- FT Actuaries World Indices
- J P Morgan Government Bond Indices
- Investment Property Databank

Equity and fixed interest market total returns for the year to 31 March 2002

Equities



Fixed Interest



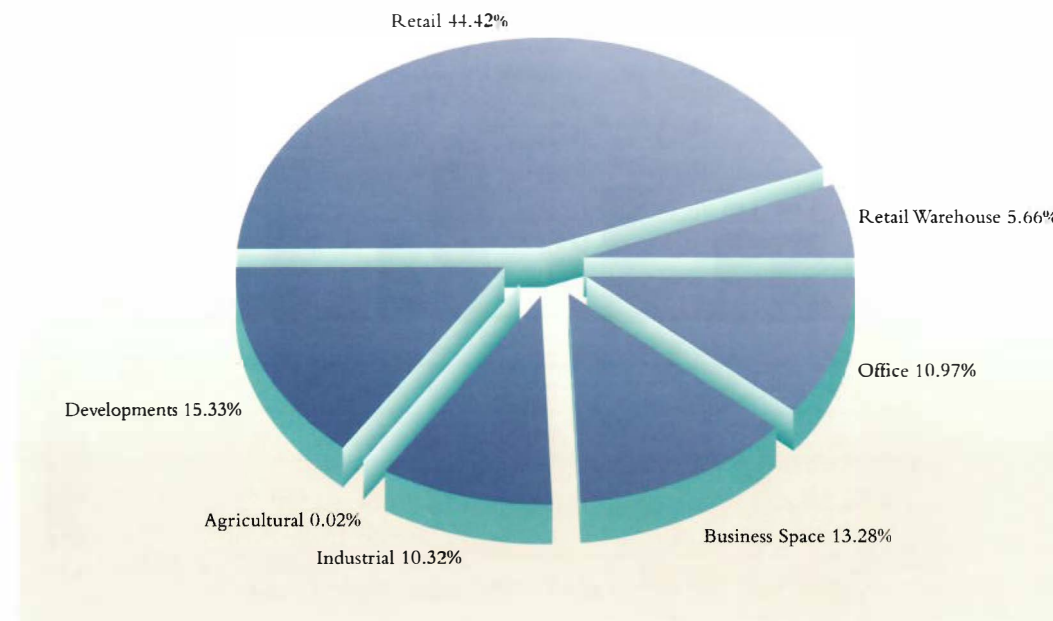
PROPERTY

Property investment remained out of favour during 2001 and the retail market and the high tech occupier market in particular suffered very poor performance. The fund has a heavy exposure to both markets and consequently the fund's property portfolio significantly underperformed its investment benchmark return of 7.0% by returning just 1.1% for the year to December. However, the retail market has recovered strongly in the early part of this year and investor sentiment has improved significantly.

Colliers Conrad Ritblat Erdman independently valued the portfolio as at 31 March 2002 at £1,666.9 million and a breakdown by type and location is shown below:

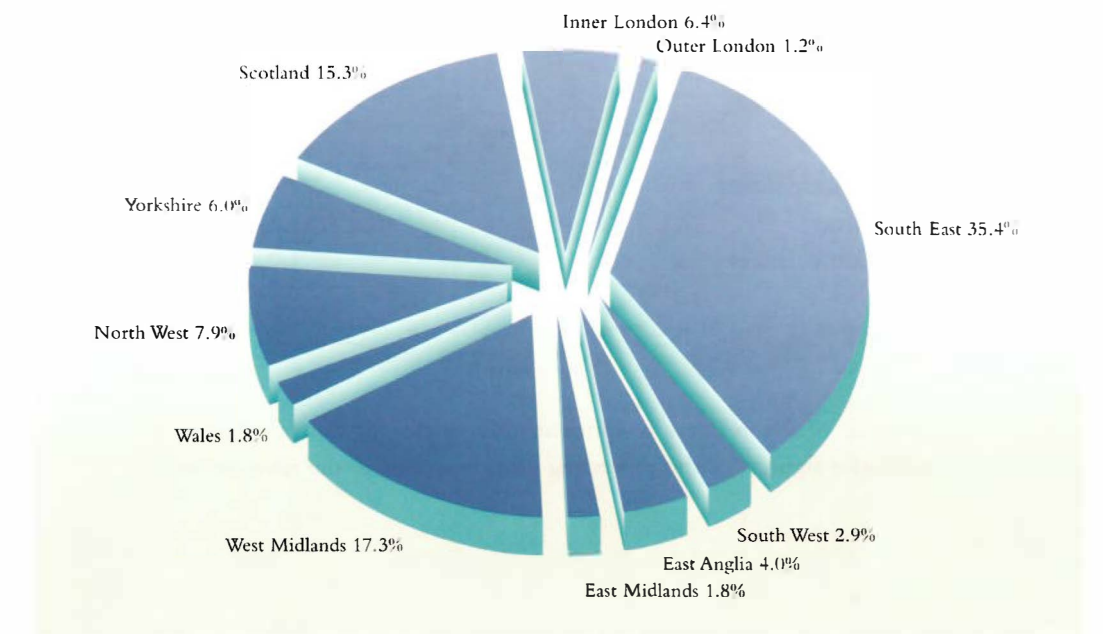
USS property portfolio - type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	717.2	23.2	740.4	44.42
Retail Warehouse	94.3	—	94.3	5.66
Office	148.1	34.8	182.9	10.97
Business space	214.2	7.1	221.3	13.28
Industrial	144.1	28.0	172.1	10.32
Agricultural	0.4	—	0.4	0.02
Developments	245.2	10.3	255.5	15.33
TOTAL	1,563.5	103.4	1,666.9	100.0



USS property portfolio - geographical location

	£m	%
Inner London	106.0	6.4
Outer London	20.0	1.2
South East	590.2	35.4
South West	49.1	2.9
East Anglia	67.0	4.0
East Midlands	30.8	1.8
West Midlands	288.7	17.3
Wales	30.0	1.8
North West	131.0	7.9
Yorkshire	99.3	6.0
Scotland	254.8	15.3
TOTAL	1,666.9	100.0



Net income for the year to 31 March 2002 rose from £73.4 million in the previous year to £92.4 million, mainly as a result of completed rent reviews, lettings and acquisition activities.

New Investment

The fund agreed to fund a speculative industrial development at Birmingham, adjacent to the M6 and purchased office buildings at Temple Quay, Bristol and at Marylebone Lane, London, W1. A retail warehouse park at Sixfields, Northampton was also purchased.

The fund has invited Grosvenor to act as development and project manager for the Grand Arcade shopping scheme proposed in central Cambridge. The scheme will be partly prelet to the John Lewis Partnership and Grosvenor will co-invest 20% of the scheme's cost.

At Leeds, the City Council has resolved to seek compulsory powers to facilitate the fund's Trinity Quarter central area redevelopment.

Disposals

The fund sold 125 Colmore Row, Birmingham, a substantial office investment let to Lloyds Bank, for a price significantly above valuation and book cost.

NET NEW INVESTMENT

An analysis of the net new investment undertaken during the year to 31 March 2002, along with the comparative figures for the preceding year, is set out in the table below:

	2002		2001	
	£m	%	£m	%
Securities	636.8	121.8	409.0	68.7
Property	94.3	18.0	36.4	6.1
Life assurance policies	(27.8)	(5.3)	(44.9)	(7.5)
Cash deposits	(181.3)	(34.7)	176.5	29.7
Stockbroker balances	1.2	0.2	17.8	3.0
	<u>523.2</u>	<u>100.0</u>	<u>594.8</u>	<u>100.0</u>

An analysis of the net new investment in securities for the year to 31 March 2002, along with comparative figures for the preceding year, is set out in the table below:

	2002		2001	
	£m	%	£m	%
UK Equities	491.0	77.1	97.9	23.9
Overseas Equities	58.7	9.2	299.4	73.2
Index-linked	55.8	8.7	52.9	12.9
UK Fixed Interest	48.8	7.7	61.2	15.0
Overseas Fixed Interest	(17.5)	(2.7)	(102.4)	(25.0)
	<u>636.8</u>	<u>100.0</u>	<u>409.0</u>	<u>100.0</u>

INVESTMENT IN LIFE ASSURANCE POLICIES

A small proportion of the fund continued to be held during the year in the form of life assurance policies which were assigned to it in respect of former FSSU members. All the policies were held with the Equitable Life Assurance Society (ELAS). The distribution of the assets deemed attributable to USS policies as at 31 March 2002, along with the comparative figures for the preceding year, is set out below:

	2002		2001	
	£m	%	£m	%
UK Equities	40.3	22.0	81.0	38.2
Overseas Equities	12.7	6.9	28.3	13.3
Index-linked	—	—	2.0	1.0
Fixed Interest	92.0	50.1	69.8	32.9
Property	24.3	13.2	21.5	10.1
Cash	14.1	7.8	9.5	4.5
	<u>183.4</u>	<u>100.0</u>	<u>212.1</u>	<u>100.0</u>

Further comment on the life assurance policies held with ELAS, which were surrendered after the year end, is included in the report of the management committee.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2002, along with the comparative figures for the preceding year, is set out below:

	2002			2001		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	322.8			354.5		
Index-linked	397.6			281.1		
Other debentures & loan stocks	131.7			141.5		
		852.1	4.4		777.1	4.0
Overseas fixed interest						
North America	375.5			496.6		
Europe	103.3			65.2		
Japan	44.7			227.0		
Pacific	105.0			98.2		
International	304.7			80.0		
		933.2	4.8		967.0	4.9
Total fixed interest		1,785.3	9.2		1,744.1	8.9
UK equities						
Resources	1,843.4			1,722.0		
Basic industries	374.0			307.7		
General industries	253.1			280.5		
Cyclical consumer goods	26.6			60.4		
Non cyclical consumer goods	2,205.2			2,064.6		
Cyclical services	1,733.1			1,780.5		
Non cyclical services	1,140.8			1,493.1		
Utilities	389.1			420.3		
Information technology	154.6			346.6		
Financials	2,833.6			2,773.2		
Collective investment schemes	298.5			81.9		
Investment funds	–			13.2		
Derivatives	–			3.9		
		11,252.0	57.4		11,347.9	57.7
Overseas equities						
America	1,305.0			1,142.4		
Japan	448.0			597.0		
Europe	1,611.2			1,751.8		
Pacific	821.6			719.1		
Other	233.2			149.4		
		4,419.0	22.6		4,359.7	22.2
Total equities		15,671.0	80.0		15,707.6	79.9
Total securities		17,456.3	89.2		17,451.7	88.8
Property		1,666.9	8.5		1,592.1	8.1
Cash deposits		485.8	2.4		643.8	3.2
Stockbroker balances		(22.1)	(0.1)		(23.3)	(0.1)
Total investments (excluding life assurance policies)		19,586.9	100.0		19,664.3	100.0

LARGEST EQUITY HOLDINGS

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

		Value £m	%
1	BP	943.0	4.8
2	Glaxosmithkline	749.8	3.8
3	Vodafone Group	651.1	3.3
4	Astrazeneca	479.2	2.4
5	HSBC Holdings	478.3	2.4
6	Royal Bank of Scotland Group	425.1	2.2
7	Shell Trans & Trading Reg	404.3	2.1
8	Lloyds TSB Group	286.1	1.5
9	Barclays	285.9	1.5
10	Diageo	268.6	1.4
11	HBOS	215.4	1.1
12	BT Group	187.3	0.9
13	CGNU	130.6	0.7
14	Tesco	125.5	0.6
15	BG Group	123.7	0.6
16	Prudential Plc	117.8	0.6
17	Unilever	113.7	0.6
18	Centrica	94.7	0.5
19	Rio Tinto	93.8	0.5
20	Compass Group	91.1	0.5
		6,265.0	32.0

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

Signed on behalf of the investment committee

A S Bell
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.

Mr C Morland replaced Mr B Lillis who resigned on 31 March 2001. Dr T McKnight replaced Mr J W D Tryhall with effect from 1 September 2001. Mr Tryhall's long and valuable contribution to the committee was noted and the committee's appreciation was recorded. In January 2002 Mr I G Thompson and Ms P Holloway resigned and were replaced by Mr I Crawford and Ms L Barker respectively.

The committee met on four occasions during the year and rule changes were considered by the committee which resulted in two amending deeds being executed, the twenty-fifth and the twenty-sixth deeds of amendment.

- The twenty-fifth deed of amendment gave effect to amendments relating to:
 - (a) Personal dealing in investments - this empowered the management committee to adopt a code of conduct in connection with personal dealings by employees and directors of USS Ltd; and
 - (b) the correction of typographical errors in the twenty-first deed of amendment in connection with the rule governing absence from employment.
- The twenty-sixth deed of amendment gave effect to amendments relating to powers to invest in property. This change was made so that the trustee company could invest in property investment partnerships. There was also a change to modernise the definition of "land". The rule amendment was designed specifically to permit the trustee company to acquire land through an investment limited partnership and to transfer any existing scheme property investments regarded as appropriate for this purpose into such a partnership.

Signed on behalf of the joint negotiating committee

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

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

Four meetings were held during the year. Ms J McAdoo fulfilled the role of chairperson throughout the year. Ms J de Groot replaced Mr R Brown and Mr A Carr replaced Mr C Banister 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:

- one case relating to the continuation of an eligible child's pension;
- three cases relating to applications for ill-health retirement where the application had been turned down by the trustee company and appeals were made against these rejections;
- one case relating to the distribution of a lump sum death benefit after the death of a member;
- one case relating to the full commutation of a member's pension due to serious ill-health; and
- two cases relating to the payment of a dependant's pension on the death of a member.

It was necessary for the committee, enlarged by two members of the management committee, to meet on four 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 three cases; and
- (b) resulted in a recommendation being accepted by the management committee to grant an award in two cases and to approve an ill-health retirement in a third case.

Signed on behalf of the advisory committee

Ms J McAdoo
Chairperson

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 the scheme actuary following consultation with the participating employers or their appointed representatives.

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

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 1999 the scheme's funding level exceeded its minimum funding requirement level. The aim is to seek to maintain an adequate funding cushion so that the risk of deterioration of 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 direct property investments is to exceed the weighted average return of a customised Investment Property Databank (IPD) universe of the largest 100 comparable 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 over rolling five-year periods.

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 2000 the securities assets of the fund were allocated between the managers in an approximate ratio of:

	%
Internally managed balanced fund	47
Index tracking fund	28
Externally managed balanced funds	25

This ratio will fluctuate due to stock market movements and cash allocation.

Cash flow is normally allocated between the managers as follows:

- 25% to the index tracking manager;
- 20% to the external managers, and
- 55% to the internal manager in respect of both securities and direct investment in 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. 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. Thus, the fund has a relatively high exposure to equities through a geographically and industrially diversified portfolio.

The investment committee sets guidelines for asset allocation for the combined fund within which the investment managers, taken as a whole, are required to operate. These guidelines are reviewed quarterly by the investment committee. 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 31 March 2000 was:

	%
UK equities	60
Overseas equities	24
Index linked gilts	1
Bonds	6
Property	7
Cash	2

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 desired changes are 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 company 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 their part of the fund. No more than 10% of the market capitalisation of any one company (excluding collective investment schemes and companies established by the trustee company to aid the efficient administration of fund investments subject to appropriate controls) 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 December 1999 was less than 1.5% of the fund. It is the intention of the trustee to convert these policies to a managed fund and ultimately to bring the assets under the investment control of the discretionary balanced managers within a timescale agreed by ELAS.

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately and managed 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 manager 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

The trustee company is authorised by the scheme rules to participate in stock lending and has done so since 1998. It has concluded that the risks associated with stock lending in accordance with those lending programmes in which it participates, which incorporate a high level of risk mitigation, 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.

Any stock lending programme in which the fund participates must provide for all loans to be fully pre-collateralized and be approved by the investment committee on legal advice.

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 appended to the London Stock Exchange Listing Rules. 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.

Socially responsible investment

The trustee company pays regard to social, ethical and environmental considerations in the selection, retention and realisation of fund investments to the extent that it is consistent with its legal duties to do so. To this end, having consulted with the participating employers, it has adopted a policy of active engagement with those companies in which the fund is invested concerning the ethical, environmental and social policies pursued by those companies. The trustee company will accordingly aim to use its influence as a major institutional investor to promote within those companies those policies which will meet best practice in those areas. The trustee company pursues this policy with a view to protecting and enhancing the value of the fund's investments in those companies.

Further information on the company's stance on socially responsible investment is published from time to time.

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 to be 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.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
0100	Aberdeen	1,525	487	117
4100	Aston	483	326	104
4300	Bath	1,076	324	56
6600	Belfast	1,809	503	118
1000	Birmingham	2,342	968	183
4200	Bradford	837	382	87
1100	Bristol	2,325	597	126
4400	Brunel	679	272	53
7035	Buckingham	83	36	5
1200	Cambridge (University)	4,210	852	259
1202	Christ's	21	4	3
1204	Churchill	41	8	1
1206	Clare	13	4	—
1208	Clare Hall	7	—	1
1210	Corpus Christi	14	5	2
1212	Darwin	5	3	1
1214	Downing	17	9	3
1216	Emmanuel	19	3	1
1218	Fitzwilliam	9	4	2
1220	Girton	32	9	3
1222	Gonville & Caius	36	10	4
1224	Hughes Hall	—	2	1
1226	Jesus	17	4	3
1228	King's	21	9	1
1230	Lucy Cavendish	29	5	—
1232	Magdalene	13	5	2
1234	New Hall	25	8	1
1236	Newnham	30	17	3
1238	Pembroke	36	4	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
1240	Peterhouse	16	2	1
1242	Queens'	13	2	1
1245	Robinson	17	6	—
1246	St Catharine's	22	3	—
1255	St Edmund's	3	1	—
1250	St John's	43	5	1
1252	Selwyn	13	1	—
1254	Sidney Sussex	13	1	1
1258	Trinity	49	10	5
1260	Trinity Hall	17	3	2
1268	Wolfson	11	2	1
4700	City	935	311	83
7016	Cranfield	913	375	87
0700	Dundee	1,409	327	65
1300	Durham (University)	1,352	396	71
1301	St Chad's	—	—	—
1302	St John's	—	—	—
1500	East Anglia	1,077	301	46
0200	Edinburgh	3,115	854	222
1700	Essex	750	164	43
1600	Exeter	1,011	419	80
0300	Glasgow	2,677	766	157
0800	Heriot-Watt	815	214	35
1800	Hull	940	390	96
3100	Keele	667	219	43
1900	Kent at Canterbury	835	299	46
2100	Lancaster	989	324	67
2000	Leeds	2,936	920	215
2200	Leicester	1,348	325	68

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, Dependents and Dependent Children
2300	Liverpool	1,974	612	155
2497	London (University)	502	573	169
2408	Birkbeck	527	133	27
2401	Goldsmiths' College	489	108	8
2480	Heythrop	13	4	—
2409	Imperial Coll of Science, Technology & Medicine	2,963	840	208
2440	Institute of Cancer Research	209	18	1
2465	Institute of Child Health (part of University College)	217	12	4
2403	Institute of Education	355	179	42
2474	Institute of Psychiatry (part of King's College)	7	12	6
2410	King's College London	2,563	756	179
2412	London School of Economics & Political Science	789	183	51
2434	London School of Hygiene & Tropical Medicine	478	77	31
2413	Queen Mary & Westfield College	1,181	514	106
2447	Royal Holloway and Bedford New College	631	234	39
2436	Royal Veterinary College	187	51	17
2428	St George's Hospital Medical School	416	62	17
2415	School of Oriental & African Studies	384	166	42
2416	School of Pharmacy	91	31	6
2417	University College	3,515	885	169
2484	London Business School	224	32	10
4600	Loughborough	1,228	380	108
2500	Manchester	3,094	1,035	228
5100	UMIST	1,087	394	78
1400	Newcastle-upon-Tyne	2,014	642	153
2600	Nottingham	2,524	577	132
8900	Open	2,548	505	103
2700	Oxford (University)	3,410	953	295
2701	All Souls	32	10	4

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
2702	Balliol	27	3	1
2703	Brasenose	16	4	3
2704	Christ Church	55	6	3
2705	Corpus Christi	16	7	2
2706	Exeter	20	3	4
2707	Hertford	22	3	1
2708	Jesus	21	5	—
2709	Keble	26	5	—
2710	Lady Margaret Hall	17	6	1
2734	Linacre	3	3	—
2711	Lincoln	17	5	2
2712	Magdalen	32	11	3
2735	Harris Manchester	12	3	—
2732	Mansfield	31	4	1
2713	Merton	27	8	2
2714	New College	39	9	5
2715	Nuffield	39	10	2
2716	Oriel	24	9	—
2717	Pembroke	11	5	4
2718	Queen's	25	7	1
2736	Regent's Park	3	—	—
2719	St Anne's	29	8	—
2720	St Antony's	17	8	1
2721	St Catherine's	22	9	1
2722	St Edmund Hall	7	1	1
2723	St Hilda's	26	9	1
2724	St Hugh's	23	8	—
2725	St John's	40	8	1
2726	St Peter's	20	2	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
2727	Somerville	13	9	—
7028	Templeton	27	15	1
2728	Trinity	7	3	1
2729	University	22	8	—
2730	Wadham	15	6	2
2733	Wolfson	17	5	—
2731	Worcester	19	8	1
2800	Reading	1,514	476	126
0400	St Andrews	731	225	54
4800	Salford	886	477	81
2900	Sheffield	2,409	651	129
3000	Southampton	2,382	565	112
0500	Stirling	759	183	39
0600	Strathclyde	1,549	506	142
4000	Surrey	1,184	367	63
3200	Sussex	947	368	64
6800	Ulster	1,452	318	78
3900	Wales (University)	58	23	4
3300	Aberystwyth	610	282	62
3400	Bangor	734	292	66
3500	College of Cardiff	1,740	566	150
3800	Lampeter	115	42	9
3600	Swansea	1,002	325	88
3700	University of Wales College of Medicine	551	113	30
5000	Warwick	1,507	324	62
5200	York	1,190	225	47
Old university institutions total		93,499	28,029	6,419

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, Dependents and Dependent Children
New universities admitted for limited membership only				
8160	Abertay	3	—	—
8100	Bournemouth	4	1	—
8080	Brighton	15	—	—
8150	Central Lancashire	6	—	—
8110	Coventry	25	—	—
8060	De Montfort	13	—	—
8010	Glamorgan	8	—	—
8210	Greenwich	1	—	—
8040	Hertfordshire	2	—	—
8050	Huddersfield	2	—	—
8170	Kingston	2	—	—
8190	Lincolnshire & Humberside	2	—	—
8140	Manchester Metropolitan	12	—	—
8240	North London	2	—	—
8090	Nottingham Trent	15	1	—
8120	Oxford Brookes	9	—	—
8070	Plymouth	16	1	—
8220	Sheffield Hallam	—	—	—
8020	South Bank	28	3	—
8030	Thames Valley	2	2	—
8180	University of Wales Institute, Cardiff	2	—	—
8130	Westminster	10	—	—
New university institutions total		179	8	—
All university institutions total		93,678	28,037	6,419

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
✓ 7113	Aberdeen Univ Research & Ind Services Ltd	1	—	—
✓ 7010	Animal Health Trust	41	5	—
✓ 7040	Arthritis Research Campaign	1	2	—
✓ 7190	Ashridge (Boner Law Memorial) Trust	2	—	—
✓ 7178	Assessment and Qualifications Alliance	36	26	7
✓ 7011	Association of Commonwealth Universities	30	32	8
✓ 7067	Beatson Institute for Cancer Research	45	3	1
✓ 7084	BLCMP (Library Services) Ltd	2	4	—
✓ 7037	Brewing Research International	37	13	2
✓ 7206	Bristol, Clifton and West of England Zoological Society	—	—	—
✓ 7012	British Glass Manufacturers' Confederation	—	8	—
✓ 7030	British Institute in Eastern Africa	2	1	—
✓ 7091	British Institute of Archaeology at Ankara	1	2	—
✓ 7112	British Institute of International & Comp Law	2	1	—
✓ 7097	British Psychological Society	2	2	—
✓ 7087	British School at Athens	3	1	1
✓ 7092	British School at Rome	4	—	—
✓ 7033	British School of Archaeology in Iraq	1	—	—
✓ 7050	British Universities Sports Association	1	—	—
✓ 7133	Brunel Institute of Organisation & Social Studies	1	1	—
7122	Burden Neurological Institute	7	—	—
✓ 7116	Cambridge Crystallographic Data Centre	35	3	—
✓ 7060	Cancer Research UK	6	9	1
✓ 7153	CASE	2	1	—
✓ 7197	Centre for Migration Studies	—	—	—
✓ 7015	College of Estate Management	21	19	11
✓ 7191	Connect - The Communications Disability Network	5	—	—
✓ 7188	Cranfield Aerospace Limited	10	—	—
✓ 7121	Universities UK * order	36	7	1

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
✓ 7100	Company of Biologists Ltd	—	1	—
✓ 7110	Council for British Research in the Levant	3	—	—
✓ 7098	Culham College Inst for Church Related Education	1	—	—
✓ 7145	Dartington Hall Trust	8	—	—
✓ 7055	East Grinstead Med Research Trust (Blond Labs Ltd)	4	1	1
✓ 7159	Edexcel Foundation	29	21	—
✓ 7164	Edinburgh Business School	13	1	—
7032	Edinburgh University Students' Association	72	4	—
7182	EDUSERV	33	—	—
✓ 7089	Ewing Foundation	1	2	—
✓ 7175	Freshwater Biological Association	5	—	—
7051	FSSU Secretariat	—	—	1
✓ 7041	Geographical Association	4	2	—
✓ 7152	Gray Laboratory	29	2	—
✓ 7148	Gyosei International College in the UK	27	—	—
✓ 7025	Henley Management College	58	33	3
✓ 7157	Higher Education Careers Service Unit	6	4	—
✓ 7176	HEFCE	1	—	—
✓ 7186	Higher Education South East	2	—	—
✓ 7135	Higher Education Statistics Agency Ltd	17	1	2
✓ 7053	History of Parliament Trust	25	5	—
✓ 7143	Homerton College	8	3	1
7170	Hull University Union	6	—	—
✓ 7079	Institute of Community Studies	10	6	—
✓ 7017	Institute of Development Studies	93	33	4
✓ 7056	Institute of Food Science & Technology	2	—	—
✓ 7029	Institute for Employment Studies * order	6	9	—
✓ 7124	International Institute of Biotechnology	1	—	—
✓ 7200	International Research Foundation for Open Learning	—	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
✓ 7132	International Society (Manchester)	1	1	—
✓ 7149	International Students House	3	—	—
✓✓ 7054	Joint Library of Hellenic & Roman Societies	—	1	—
✓ 7147	JNT Association	31	5	1
✓ 7066	Journal of Endocrinology Ltd	—	1	—
✓ 7189	Kelvin Nanotechnology	—	—	—
✓ 7192	King Alfred's College of Higher Education, Winchester	1	—	—
✓ 7177	Learning from Experience Trust	2	—	—
✓ 2482	Lister Institute of Preventive Medicine	1	5	4
✓ 7171	London Institute	1	—	—
✓ 7168	London Mathematical Society	1	—	—
✓ 7179	London School of Jewish Studies	3	—	—
✓ 7117	Ludwig Inst for Cancer Research - Middlesex Branch	26	—	—
✓ 7039	Ludwig Inst for Cancer Research - St Mary's Branch	10	3	—
7090	Marie Curie Cancer Care	39	2	5
7125	Marine Biological Association of the United Kingdom	31	—	—
7096	Modern Humanities Research Association	5	1	—
✓ 7094	Motor Industry Research Association	53	39	7
7114	Nat Collections of Ind & Marine Bacteria Ltd	—	3	—
✓ 7018	National Inst of Economic & Social Research	15	8	3
✓ 7080	Norfolk Agricultural Station (Morley Res Centre)	9	3	1
✓ 7073	Northern College for Residential Adult Education	29	4	2
✓ 7146	Northern Ireland Council for Postgraduate Med & Dental Educ	5	1	—
✓ 7115	Northern Ireland Economic Research Centre	10	1	5
✓ 7048	Numerical Algorithms Group Ltd	50	1	2
✓ 7155	Nuffield Trust	9	1	—
✓ 7183	NYU in London	4	—	—
✓ 7058	Open University Worldwide	23	4	—
✓ 7023	Overseas Development Institute	44	6	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
✓ 7174	Oxford Cambridge & RSA Examinations	160	—	—
✓ 7118	Oxford Centre for Islamic Studies	3	—	—
7031	Oxford Centre for Hebrew & Jewish Studies	12	2	—
✓ 7163	Oxford Policy Institute	1	—	—
✓ 7104	Pain Relief Foundation	2	—	—
✓ 7075	Policy Studies Institute	23	11	3
✓ 7139	Engineering Development Trust	18	6	—
✓ 7134	The Prince's Foundation	3	2	—
7162	Quality Assurance Agency	35	8	3
7052	Reading University Students' Union	—	1	—
✓ 7203	Regional Studies Association	1	—	—
✓ 7123	Richmond College	34	6	—
✓ 7185	Royal Academy of Dancing	1	—	—
✓ 7160	Royal Academy of Music	3	—	—
✓ 7081	Royal College of Paediatrics and Child Health	2	1	—
✓ 7181	Royal College of Music	1	—	—
7020	Royal College of Surgeons of England	104	28	10
✓ 7021	Royal Geographical Society	4	3	1
✓ 7082	Royal Institute of International Affairs	3	—	—
✓ 7077	Royal Institution	17	6	—
✓ 7158	Royal Northern College of Music	3	—	—
✓✓ 7064	Royal Society	—	—	1
✓ 7070	Royal Society of Edinburgh	2	2	—
✓ 7022	Ruskin College	41	15	7
✓ 7105	School Mathematics Project	4	2	—
✓ 7130	Scottish Association for Marine Science	38	2	—
✓ 7169	Society of Antiquaries of London	10	—	—
✓ 7196	Sheffield University Enterprises Ltd	3	—	—
✓ 7199	Smith Institute	—	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7131	Southern Universities Management Services	9	3	—
7180	Standing Conference of Principals Ltd	4	—	—
7042	Strangeways Research Laboratory	5	8	2
7049	Students' Union University of Leicester	1	2	1
7138	Thrombosis Research Institute	18	2	—
7109	Trade Union Research Unit Ltd	1	—	—
7141	TUIREG	—	1	—
7173	Trinity College of Music	40	—	—
7106	Universities and Colleges Admissions Service	24	11	4
7166	UMIST Ventures Ltd	5	—	—
7150	Universities and Colleges Employers Association	6	1	—
7151	HESDA	6	5	—
7194	University College Northampton	1	—	—
7184	University Council for the Education of Teachers	3	—	—
7198	University of Cambridge Challenge Fund	—	—	—
7140	University of Leeds Innovations Ltd	1	—	—
9999	USS Ltd	122	22	4
7065	Wildfowl & Wetlands Trust	1	8	—
7142	WP Management Ltd	1	—	—
7195	YHUA Ltd	2	—	—
7027	York Archaeological Trust	2	1	—
7076	Zoological Society of London	31	11	—
—	Withdrawn institutions	—	43	5
Non-university institutions total		2,015	571	115
All institutions total		95,693*	28,608	6,534

*Included in this figure (but counted once only) are 1,153 members who have more than one appointment.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

SUMMARY OF MOVEMENTS during the year ended 31 March 2002

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2001	89,433	1,828	91,261
New members	17,462	396	17,858
Retirements			
- Ill-health	44	—	44
- Other	1,758	36	1,794
Deaths	116	2	118
Leavers and withdrawals - Refunds	1,765	34	1,799
- Deferred/undecided	8,279	134	8,413
- Retrospective*	1,255	3	1,258
Total members at 31 March 2002	<u>93,678</u>	<u>2,015</u>	<u>95,693</u>

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

In addition USS Ltd was notified during the year of 3,539 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 2001	26,402	558	26,960
New pensioners	2,216	27	2,243
Deaths	(581)	(14)	(595)
Total pensioners at 31 March 2002	<u>28,037</u>	<u>571</u>	<u>28,608</u>

In addition at 31 March 2002, there were 5,764 pensions being paid to spouses and dependants and 770 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 49,481.

FUND ACCOUNT for the year ended 31 March 2002

	Note	2002 £m	2001 £m
Contributions and Benefits			
Contributions receivable	3	611.4	564.5
Premature retirement scheme receipts		38.2	34.9
Transfers in	4	106.1	92.5
		<u>755.7</u>	<u>691.9</u>
Benefits payable	5	610.3	537.6
Payment on account of leavers	6	55.9	27.8
Administration costs	7	5.8	6.3
		<u>672.0</u>	<u>571.7</u>
Net additions from dealings with members		<u>83.7</u>	<u>120.2</u>
Returns on investments			
Investment income	8	478.9	522.4
Change in market value of investments	9	(629.3)	(2,561.9)
Investment management expenses	10	(15.5)	(15.6)
Net returns on investments		<u>(165.9)</u>	<u>(2,055.1)</u>
Net decrease in the fund during the year		<u>(82.2)</u>	<u>(1,934.9)</u>
Fund at start of year		<u>20,038.2</u>	<u>21,973.1</u>
Fund at end of year		<u>19,956.0</u>	<u>20,038.2</u>

STATEMENT OF NET ASSETS as at 31 March 2002

	Note	2002 £m	2001 £m
Investments			
Securities	12	17,456.3	17,451.7
Property	13	1,666.9	1,592.1
Life assurance policies	14	183.4	212.1
Cash deposits		485.8	643.8
Stockbroker balances	15	(22.1)	(23.3)
		<u>19,770.3</u>	<u>19,876.4</u>
Net current assets	16	<u>185.7</u>	<u>161.8</u>
Total net assets, representing the fund balance		<u>19,956.0</u>	<u>20,038.2</u>

The financial statements on pages 50 to 57 and the statement of trustee's responsibilities on page 58 were approved by the trustee, Universities Superannuation Scheme Limited, on 24 July 2002 and were signed on its behalf by:

G J Davies
Chairman

D B Chynoweth
Chief Executive

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2002

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. However, details of AVC transactions are included in note 3 to the financial statements.

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 61 to 63 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) Property – on the basis of open market value;
- (c) 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

	2002 £m	2001 £m
Main section		
Employers' contributions	408.4	377.5
Members' basic contributions	174.9	161.7
Members' additional voluntary contributions	17.9	15.9
	601.2	555.1
Supplementary section		
Members' contributions	10.2	9.4
	611.4	564.5

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 the end of the year together with a summary of the movements during the year is as follows:

	2002 £m	2001 £m
Value at the start of the year	92.1	68.7
Contributions from members	21.6	21.6
Transfers in	0.7	0.5
Income from interest and bonuses	5.2	4.0
Payouts to members	(4.7)	(2.5)
Administration expenses	–	(0.2)
Value at the end of the year	114.9	92.1

4. Transfers in

	2002 £m	2001 £m
Individual transfers in	105.2	67.3
Group transfers in	0.9	25.2
	106.1	92.5

5. Benefits payable

	2002 £m	2001 £m
Main section		
Pensions	482.0	440.4
Lump sums on or after retirement	109.4	82.8
Lump sums on death in service	12.4	7.9
	603.8	531.1
Supplementary section		
Pensions	6.4	5.9
Lump sums on or after retirement	0.1	0.4
Lump sums on death in service	–	0.2
	6.5	6.5
	610.3	537.6

6. Payments on account of leavers

	2002 £m	2001 £m
Individual transfers to other schemes	52.7	25.8
Payments for members joining state scheme	1.4	0.7
Refunds to members leaving service	1.8	1.3
	55.9	27.8

7. Administration costs

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

8. Investment income

	2002 £m	2001 £m
Dividends from UK equities	235.6	283.7
Net property income	92.4	73.4
Dividends from overseas equities	59.9	49.9
Income from UK fixed interest securities	25.1	30.5
Income from overseas fixed interest securities	35.8	48.6
Income from index-linked securities	8.6	6.7
Interest on cash deposits	19.8	28.6
Other income	1.7	1.0
	478.9	522.4

9. Changes in market value of investments

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

	Market value 2001 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2002 £m
Securities	17,451.7	7,126.6	6,489.8	(632.2)	17,456.3
Property	1,592.1	149.1	54.8	(19.5)	1,666.9
Life assurance policies	212.1	0.1	27.9	(0.9)	183.4
Cash deposits	643.8	–	181.3	23.3	485.8
	19,899.7	7,275.8	6,753.8	(629.3)	19,792.4
Stockbroker balances	(23.3)				(22.1)
	19,876.4				19,770.3

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.

10. Investment management expenses

Investment management expenses comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office and the costs of management and agency services rendered by third parties.

11. 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.

12. Securities

	2002 £m	2001 £m
Quoted		
UK equities	11,252.0	11,347.9
Overseas equities	4,419.0	4,359.7
UK fixed interest - public sector quoted	322.8	354.5
UK fixed interest - other	131.7	141.5
Overseas fixed interest - public sector quoted	830.3	626.1
Overseas fixed interest - other	102.9	340.9
Index-linked	397.6	281.1
	<u>17,456.3</u>	<u>17,451.7</u>

13. Property

	2002 £m	2001 £m
UK completed properties	1,411.4	1,321.5
UK developments in progress	255.5	270.6
	<u>1,666.9</u>	<u>1,592.1</u>
Properties analysed by type:		
Freehold	1,563.5	1,490.8
Leasehold	103.4	101.3
	<u>1,666.9</u>	<u>1,592.1</u>

The completed properties and developments in progress were valued independently by Colliers Conrad Ritblat Erdman, chartered surveyors, as at 31 March 2002 and 31 March 2001.

14. 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.

15. Stockbroker balances

	2002 £m	2001 £m
Amount due to stockbrokers	(83.5)	(23.3)
Amount due from stockbrokers	61.4	-
	<u>(22.1)</u>	<u>(23.3)</u>

16. Net current assets

	2002 £m	2001 £m
Current assets		
Dividends receivable	119.0	118.7
Contributions due from institutions	66.4	63.6
Cash at bank and in hand	25.3	16.9
Other debtors	8.3	4.8
Taxation debtor	6.9	-
Life assurance policy proceeds due	-	0.6
	<u>225.9</u>	<u>204.6</u>
Current liabilities		
Property creditors	16.8	14.9
Benefits payable	14.2	14.1
Other creditors	2.9	6.9
Due to USS Ltd	6.3	6.9
	<u>40.2</u>	<u>42.8</u>
	<u>185.7</u>	<u>161.8</u>

17. Securities on loan

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

	2002 £m	2001 £m
Value of stock on loan at 31 March	1,609.2	333.5
Value of collateral held at 31 March	<u>1,649.8</u>	<u>351.4</u>

18. Financial commitments

	2002 £m	2001 £m
Property		
Contracts placed but not provided for	64.5	49.1
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	5.7	129.0

19. Self investment

The scheme has no employer related investments as at 31 March 2002. Employer related investment occurred during the year from the late receipt of contributions due from institutions. At any time this was less than 0.020% of the scheme's net assets as at 31 March 2002.

20. Related party transactions

There are no related party transactions other than transactions between the scheme and its trustee company. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £5.8 million and £15.5 million respectively, with a balance due from the scheme of £6.3 million at 31 March 2002.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements are the responsibility of the trustee, Universities Superannuation Scheme Limited. 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 ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records of contributions received in respect of any active member of the scheme, and for ensuring that contributions are made to the scheme in accordance with the schedule of contributions for the period from 22 May 2000 and, prior to this date, in accordance with the scheme rules and with 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.

INDEPENDENT AUDITORS' REPORT to the trustee of the Universities Superannuation Scheme

We have audited the financial statements that comprise the fund account, the statement of net assets and the related notes, which have been prepared under the accounting policies set out in the related notes.

Respective responsibilities of trustee and auditors

The trustee's responsibilities for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, are set out in the statement of trustee's responsibilities. The trustee is also responsible for ensuring that contributions are made to the scheme in accordance with the schedule of contributions.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and contain the information required by the relevant legislation and our opinion on contributions to the scheme. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the 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. The other information comprises the management statement, the summary of financial information for the year, details of the trustee company, all the committee reports, the statement of investment principles, membership statistics, the statements by the actuary and the five year summary.

Basis of audit opinion and statement about contributions

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.

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.

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the schedule of contributions dated 22 May 2000.

Statement about contributions to the scheme

Except for the matter of the late receipt of contributions disclosed in the management committee report, in our opinion, the contributions payable to the scheme during the year ended 31 March 2002 have been paid in accordance with the schedule of contributions dated 22 May 2000.

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 2002, and of the amount and disposition at that date of its assets and liabilities, other than the 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.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
29 July 2002

STATEMENT BY THE ACTUARY for the year ended 31 March 2002

- 1 An actuarial valuation of the Universities Superannuation Scheme (the Scheme) was carried out as at 31 March 1999 with the results set out in our report dated 23 March 2000.
- 2 The 1999 valuation showed that the scheme was in a healthy financial position. Part of the past service surplus was allocated to provide for certain benefit improvements. No change to the institutions' contribution rate was proposed which therefore remained at the rate of 14% of salaries, subject to review at the next valuation at 31 March 2002.
- 3 On the instructions of the management committee actuarial reviews of the scheme have been completed at 31 March 2000 and 31 March 2001. A review was also completed at 30 September 2001 in the light of the events of 11 September and the general deterioration in equity markets during the year. The actuarial reviews compare the experience of the scheme with the assumptions made at the 1999 valuation to determine whether the scheme has been progressing satisfactorily or whether any deterioration has taken place which might require remedial action.
- 4 The results of the 31 March 2001 review showed that the overall funding level of the scheme was at a level similar to that revealed at the 1999 valuation. The conclusion from the review as at 30 September 2001 was that, although the funding position of the scheme had fallen from its level at the last valuation, the scheme nevertheless remained in surplus.
- 5 A full valuation of the scheme as at 31 March 2002 is now underway with results to be reported to the management committee later this year. Pending the results of the valuation I consider it appropriate that the management committee maintain the present rate of contribution.

Mercer Human Resource Consulting
June 2002

E S Topper
Fellow of the Institute of Actuaries

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

Name of scheme: Universities Superannuation Scheme
Effective date of valuation: 31 March 1999

1. Compliance with minimum funding requirement

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

2. Valuation principles

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

William M Mercer Limited
Liverpool L2 3QB
March 2000

M B Reid
Fellow of the Institute of Actuaries

Note:

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

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

Name of scheme: Universities Superannuation Scheme
Effective date of valuation: 31 March 1999

1. Security of prospective rights

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

Description of contributions:

By the employer: 14% of salary
By the members: 6.35% of salary

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee Company dated 23 March 2000.

William M Mercer Limited
Liverpool L2 3QB
March 2000

M B Reid
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	2002	2001	2000	1999	1998
	£m	£m	£m	£m	£m
Contributions and benefits					
Contributions	611	565	523	481	457
PRS receipts	38	35	37	41	56
Transfers in	106	92	92	68	90
	<u>755</u>	<u>692</u>	<u>652</u>	<u>590</u>	<u>603</u>
Benefits payable					
Pensions	488	446	417	384	348
Lump sums	122	91	88	91	103
Transfers out	54	27	20	22	18
Refunds	2	1	1	1	1
	<u>666</u>	<u>565</u>	<u>526</u>	<u>498</u>	<u>470</u>
Investment income (net of investment management costs)	<u>463</u>	<u>507</u>	<u>480</u>	<u>497</u>	<u>494</u>
Administration costs of the trustee (excluding investment management costs)	<u>5.8</u>	<u>6.3</u>	<u>6.5</u>	<u>6.4</u>	<u>5.9</u>
Changes in value of investments	<u>(629)</u>	<u>(2,562)</u>	<u>2,559</u>	<u>882</u>	<u>3,062</u>
Investments of the fund (at current values) at 31 March					
Securities	17,456	17,452	19,664	16,730	15,307
Property	1,667	1,592	1,516	1,175	910
Life assurance policies	183	212	250	264	282
Cash deposits	486	644	454	492	662
Stockbroker balances	(22)	(23)	(41)	26	80
	<u>19,770</u>	<u>19,877</u>	<u>21,843</u>	<u>18,687</u>	<u>17,241</u>
Membership numbers at 31 March	2002	2001	2000	1999	1998
Contributing members	95,700	91,300	85,100	81,600	78,700
Pensioners	35,100	33,100	31,400	29,900	28,200
Deferred pensioners	49,500	45,400	42,000	37,600	33,700
	<u>180,300</u>	<u>169,800</u>	<u>158,500</u>	<u>149,100</u>	<u>140,600</u>

REPORT OF THE DIRECTORS for the year ended 31 March 2002

The directors submit their report and the accounts for the year ended 31 March 2002.

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 £21,369,000 this amount being recoverable from USS. This compares with £21,941,000 for the year ended 31 March 2001.

Included in these totals for both years were recoveries of costs incurred in prior years. Excluding these recoveries the total operating costs were £22,905,000 for the year ended 31 March 2002 and £22,314,000 for the year ended 31 March 2001.

Ignoring prior year recoveries, this represents a 2.3% increase in investment management costs and a 3.5% increase in other administration costs.

Investment management costs remain higher than has historically been the case as a result of a third successive year of excellent performance from one of the external managers, Capital International, whose fee is performance related.

It was reported last year that incoming work and work in hand in the Liverpool office had increased to unexpectedly high levels and that action was being taken to ensure the return to a satisfactory level of service. Much of the effort of the Liverpool office during the year has focused on this objective and the levels of work in progress at the end of the year indicated that it had been achieved. While the efficiencies introduced by the Universal Pensions Management system implemented in 2000 played a major part in enabling staff to eliminate the backlog, it was also recognised that an increase in staffing numbers was necessary to deal with the ever increasing workload and this is the main reason for the increase in costs compared to the previous year.

During the year two long standing issues were finally resolved. For over 10 years USS Ltd has been seeking recompense from its former general manager investments, Mr Spink, and from its fidelity guarantee insurers, the Royal & Sun Alliance, in connection with USS Ltd's investment in Jeffrey S Levitt Ltd, an unquoted investment of the fund which went into receivership in May 1991. The matter came to court in January 2002 and after four days in court an out of court settlement was agreed. The exact terms of the settlement are subject to a confidentiality provision and cannot be disclosed but the overall settlement to USS Ltd from both its insurers and from Mr Spink is considered acceptable by the directors. Part of the amount received is in respect of the recovery of the legal costs of this particular action in this and in previous years and is included in these financial statements while the balance is included in the financial statements of the fund.

USS Ltd's lease at its former premises in Liverpool, Richmond House, ran until 31 January 2004. Release from the lease has been negotiated with the landlord and the premises were vacated on 25 March 2002. USS Ltd has no liability for further costs in relation to Richmond House from that date. A significant portion of the service charges for the premises since 1996 has been disputed and has not been paid although the full amount has been included in premises costs in the accounts each year. Negotiations with the landlord on this issue are continuing but

the directors are confident that the amount payable will be significantly less than has been charged to the accounts. This has been recognised by a write back of costs of £1,089,000 charged to the accounts in previous years.

Fixed assets

The details of movements in fixed assets are set out in Note 16 to the accounts.

Directors

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

Professor Sir Graeme Davies (chairman)	Professor Sir Martin Harris
C D Donald (deputy chairman)	Lord Mark Fitzalan Howard
A S Bell	Sir Howard Newby (from 1.10.2001)
L Collinson	Michael S Potts
Angela Crum Ewing	Professor Charles Sutcliffe (from 1.9.2001)
Professor Sir Brian Fender (to 30.9.2001)	J W D Trythall
Dr J M Goldstrom (to 31.8.2001)	Baroness Warwick of Undercliffe (from 20.6.2001)

Statement of Directors' Responsibilities

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

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

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

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

By order of the board

J P Williams
Secretary

24 July 2002

STATEMENT OF OPERATING COSTS for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Personnel costs			
Employees' emoluments	4	6,085	5,490
Directors' emoluments and expenses	5	337	336
Recruitment, training and welfare		355	213
		<u>6,777</u>	<u>6,039</u>
Premises costs			
Rent, rates, service charges and utilities		1,277	1,385
Depreciation and maintenance		89	197
		<u>1,366</u>	<u>1,582</u>
Investment costs			
Securities management		10,659	10,254
Securities management rebates	6	(1,486)	(2,066)
Custodial services		913	1,336
Property management		1,441	1,835
Legal costs - property management		307	327
- securities management		9	33
- special investigation		779	50
- recovery of special investigation costs	13	(779)	-
Property valuation		151	198
Investment performance measurement		77	69
Costs met by third parties	7	(62)	(64)
		<u>12,009</u>	<u>11,972</u>
Other costs			
Computer and information services costs	8	1,937	1,515
Professional fees	9	764	785
Office equipment		325	356
Travel and car costs		358	348
Telephones and postage		194	170
Institution liaison and member communication		151	134
Printing and stationery		146	121
FSA/IMRO membership		48	104
Pensions Act Levy		58	53
Insurances		47	40
Auditors' remuneration	10	36	38
Sundry (Income)/Expenditure		(3)	-
Profit on disposal of fixed assets		(6)	(4)
Costs met by third parties	7	(1,302)	(939)
		<u>2,753</u>	<u>2,721</u>
Total operating costs before prior year items		<u>22,905</u>	<u>22,314</u>
Recovery of costs incurred in prior years			
VAT		-	(373)
Legal costs - special investigation	13	(447)	-
Service charges - Liverpool premises	14	(963)	-
VAT on service charges - Liverpool premises	14	(126)	-
		<u>(1,536)</u>	<u>(373)</u>
Total operating costs recoverable from USS	15	<u>21,369</u>	<u>21,941</u>

BALANCE SHEET as at 31 March 2002

	Note	2002 £000	2001 £000
Assets			
Fixed assets			
Tangible fixed assets	16	736	832
Current assets			
Debtors	17	6,695	7,160
Cash at bank and in hand		3	1
		<u>6,698</u>	<u>7,161</u>
Total assets		<u>7,434</u>	<u>7,993</u>
Liabilities			
Creditors - amounts falling due within one year	18	7,434	7,993
Total liabilities		<u>7,434</u>	<u>7,993</u>

The financial statements on pages 67 to 76 were approved by the board of directors on 24 July 2002 and were signed on its behalf by:

G J Davies
Chairman

C D Donald
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 2002

	Note	2002 £000	2001 £000
Operating activities			
Cash received from USS		21,939	23,730
Operating costs paid	19	(21,638)	(23,326)
Net cash inflow from operating activities		<u>301</u>	<u>404</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(315)	(443)
Sale of tangible fixed assets		16	39
		<u>(299)</u>	<u>(404)</u>
Increase in cash		<u>2</u>	<u>-</u>

NOTES TO THE ACCOUNTS for the year ended 31 March 2002

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 historical cost convention.

3. Accounting policies

Accounting convention

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

Depreciation of fixed assets

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

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33 1/3
Motor cars	25
Computer software	33 1/3

Operating leases

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

Pensions

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	2002	2001
The average weekly number of persons employed by the company during the year (excluding directors) was	138	127
Staff costs for the above persons were:	£000	£000
Wages and salaries	5,063	4,554
Pension costs (superannuation contributions)	501	467
Social security costs (national insurance contributions)	447	431
Restructuring costs	78	38
	6,089	5,490
Less recovery (see note 11)	(4)	–
	6,085	5,490
	2002	2001
	£000	£000
Emoluments of the chief executive	178	171

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 nil (2001: nil).

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

	2002	2001
£50,001 – £60,000	3	1
£60,001 – £70,000	4	2
£70,001 – £80,000	–	2
£80,001 – £90,000	4	3
£90,001 – £100,000	2	–
£100,001 – £110,000	–	1
£110,001 – £120,000	2	3
£120,001 – £130,000	3	1
£130,001 – £140,000	1	2
£140,001 – £150,000	2	–
£150,001 – £160,000	–	1
£170,001 – £180,000	1	1
£260,001 – £270,000	–	1
£280,001 – £290,000	1	–
£410,001 – £420,000	–	1
£430,001 – £440,000	1	–

5. Directors' emoluments and expenses

	2002 £000	2001 £000
Fees	283	275
Employer's costs - national insurance contributions	27	27
- VAT	4	4
Expenses	23	30
	<u>337</u>	<u>336</u>

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

No pension contributions are made on behalf of directors. As at 31 March 2002 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

Directors' fees charged to the accounts in the years ended 31 March 2002 and 2001 reflect payments made in each year which related to the previous year and small differences between the amounts accrued in the accounts at each year end and the amount paid. Actual emoluments paid to each director in respect of each of the last two years were as follows:

	2002 £000	2001 £000
Professor Sir Graeme Davies (chairman)	40	39
C D Donald (deputy chairman)	42	39
Lord Mark Fitzalan Howard	33	33
J W D Trythall	25	24
Mrs A Crum Ewing	24	23
L Collinson	21	21
M S Potts	21	18
A S Bell	17	17
Professor Sir Martin Harris	16	16
Professor Charles Sutcliffe	12	-
Baroness Warwick of Undercliffe	11	-
Dr J M Goldstrom	7	16
Professor Sir Brian Fender	5	10
Sir Howard Newby	5	-
Professor Sir Gareth Roberts	-	12
	<u>279</u>	<u>268</u>

6. Securities management rebates

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

7. Costs met by third parties

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

8. Computer and information services costs

	2002 £000	2001 £000
Investment information services	1,175	732
Computer running costs	334	430
Investment accounting services	242	220
Hardware depreciation	99	78
Software depreciation	65	34
Computer bureau fees	22	21
	<u>1,937</u>	<u>1,515</u>

9. Professional fees

	2002 £000	2001 £000
Legal	302	307
Actuarial	289	279
Committee members (other than directors)	88	87
Taxation	21	36
Public relations	21	26
Member medicals	22	13
Salary surveys	9	8
Information technology consultancy	-	5
Other	12	24
	<u>764</u>	<u>785</u>

10. Auditors' remuneration

	2002 £000	2001 £000
USS	33	34
USS Ltd	3	4
	<u>36</u>	<u>38</u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £20,939 for taxation advice (2001: £79,281).

11. Correction of prior year pension increase

	2002 £000	2001 £000
Actuarial costs	18	-
Consultancy costs	111	-
Employees' emoluments	4	-
Other costs	67	-
	<u>200</u>	<u>-</u>

The above costs were incurred in processing a correction to the increase paid to a number of USS pensioners in 1997. These costs have been recovered from our solicitors and are not included in the statement of operating costs.

12. 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.

13. Recovery of legal costs

The amount recovered relates to legal costs incurred since 1993 in pursuing our insurers and the former general manager - investments for losses suffered in 1991 in connection with an investment in an unquoted company.

14. Service charges - Liverpool premises

This represents a write back of costs charged to the accounts in previous years in respect of extraordinary service charges for USS Ltd's former premises in Liverpool. These charges were not paid and the landlord has confirmed that the charges are no longer payable.

15. Total operating costs - recoverable from USS

	2002 £000	2001 £000
Investment management costs	15,549	15,636
Other administration costs	5,820	6,305
	<u>21,369</u>	<u>21,941</u>

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

Included in operating costs is a charge for depreciation of £401,000 (2001: £471,000).

16. 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 2001	1,649	1,348	1,601	1,135	357	6,090
Additions	6	117	112	24	56	315
Disposals	-	-	-	-	(28)	(28)
At 31 March 2002	<u>1,655</u>	<u>1,465</u>	<u>1,713</u>	<u>1,159</u>	<u>385</u>	<u>6,377</u>
Accumulated Depreciation						
At 1 April 2001	1,638	1,205	1,319	927	169	5,258
Charge for year	7	99	65	145	85	401
Disposals	-	-	-	-	(18)	(18)
At 31 March 2002	<u>1,645</u>	<u>1,304</u>	<u>1,384</u>	<u>1,072</u>	<u>236</u>	<u>5,641</u>
Net Book Value						
31 March 2002	<u>10</u>	<u>161</u>	<u>329</u>	<u>87</u>	<u>149</u>	<u>736</u>
Net Book Value						
31 March 2001	<u>11</u>	<u>143</u>	<u>282</u>	<u>208</u>	<u>188</u>	<u>832</u>

17. Debtors - amounts falling due within one year

	2002 £000	2001 £000
Due from USS	6,278	6,848
Prepayments	373	296
Other debtors	44	16
	<u>6,695</u>	<u>7,160</u>

18. Creditors - amounts falling due within one year

	2002 £000	2001 £000
Accrued expenditure	4,158	4,358
Other creditors	3,132	3,505
Taxation and social security	144	130
	<u>7,434</u>	<u>7,993</u>

19. Reconciliation of operating costs paid

	2002 £000	2001 £000
Operating costs - recoverable from USS	21,369	21,941
Decrease in creditors (excluding USS)	559	2,148
Profit on sale of tangible fixed assets	6	4
Depreciation	(401)	(471)
Increase/(decrease) in debtors (excluding USS)	105	(296)
Operating costs paid	<u>21,638</u>	<u>23,326</u>

20. Operating lease commitments

USS Ltd is committed to making future annual payments under operating leases which expire as follows:

	2002 £000	2001 £000
Less than one year	1	1
Between two and five years	317	465
Over five years	398	396

The payments relate to ongoing rent, rate and equipment leasing commitments in respect of USS Ltd's offices in Liverpool and London.

21. Pension costs

The company 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 assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme, the cost recognised within the statement of operating costs for the year being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 1999. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on

investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.6% per annum and pensions would increase by 2.6% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £18,870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681m (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the company's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2002 when the above rates will be reviewed.

The total pension cost for the company was £501,000 (2001: £467,000). The contribution rate payable by the company was 14% of pensionable salaries.

22. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £5.8 million and £15.5 million respectively, with a balance due from the scheme of £6.3 million at 31 March 2002.

INDEPENDENT AUDITORS' REPORT

to the members of Universities Superannuation Scheme Limited

We have audited the financial statements which comprise the statement of operating costs, the balance sheet, the cash flow statement, the related notes and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of trustee and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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. The other information comprises only the directors' report.

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 2002 and of its result and cash flows 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 2002

